

Annual report 2018



Snam Company profile

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

First in Europe by transport network size (about 32,600 km in Italy, more than 41,000 with international subsidiaries) and natural gas storage capacity (16.9 billion cubic meters in Italy, more than 20 billion with international subsidiaries), Snam manages the first liquefied natural gas (LNG) plant built in Italy and is a shareholder of Adriatic LNG, the country's main terminal and one of the most strategic in the Mediterranean, and - via DESFA - the Greek terminal in Revithoussa, with a total pro rata regasification capacity of around 6 billion cubic metres per year.

Snam's business model is based on sustainable growth, transparency, nurturing talent, and development of local areas by constantly listening to and exchanging dialogues with local communities, also thanks to the social initiatives of the Snam Foundation. Through the "Snamtec" project, launched under the scope of the 2018-2022 business plan, Snam has given a great boost to investments for energy transition, focused on technology initiatives, innovation and R&D supporting large national and international networks and green economy businesses, like sustainable mobility, renewable gas, hydrogen and energy efficiency.

Annual report 2018

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

Corporate bodies

BOARD OF DIRECTORS ^(*)

Chairman

Carlo Malacarne ⁽¹⁾

Chief Executive Officer

Marco Alverà ⁽¹⁾

Directors

Sabrina Bruno ^{(2) (3)}

Monica De Virgiliis ^{(1) (2)}

Francesco Gori ^{(2) (3)}

Yunpeng He ⁽¹⁾

Lucia Morselli ^{(1) (2)}

Elisabetta Oliveri ^{(2) (3)}

Alessandro Tonetti ⁽¹⁾

BOARD OF STATUTORY AUDITORS ^(*)

Chairman

Leo Amato ⁽⁴⁾

Statutory auditors

Massimo Gatto ⁽⁵⁾

Maria Luisa Mosconi ⁽⁴⁾

Alternate auditors

Sonia Ferrero ⁽⁵⁾

Maria Gimigliano ⁽⁴⁾

CONTROL, RISK AND RELATED-PARTY TRANSACTIONS COMMITTEE

Elisabetta Oliveri - Chairman

Sabrina Bruno

Lucia Morselli

APPOINTMENTS COMMITTEE

Francesco Gori - Chairman

Monica De Virgiliis

Alessandro Tonetti

REMUNERATION COMMITTEE

Monica De Virgiliis - Chairman

Elisabetta Oliveri

Alessandro Tonetti

SUSTAINABILITY COMMITTEE ^(**)

Sabrina Bruno - Chairman

Yunpeng He

Lucia Morselli

INDEPENDENT AUDITING FIRM ^(***)

PricewaterhouseCoopers S.p.A.

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

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

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

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

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

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

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

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

Group structure as at 31 December 2018

The changes in the consolidation area of the Snam Group as at 31 December 2018, as compared with that in place as at 31 December 2017, regarded the entrance into the consolidation scope of the Companies¹: (i) Snam International B.V. (GasBridge 2 B.V. until 31 July 2018), following the share swap transaction with Fluxys, completed on 26 April 2018, after which Snam became the sole shareholder of GasBridge 2 B.V. and Fluxys, sole shareholder of GasBridge 1 B.V.; (ii) Asset Company 4 S.r.l., a newly established company held 100% by Snam S.p.A.; (iii) Tep Energy Solution S.r.l., held 82% by Asset Company 4 S.r.l. and operating in the energy efficiency sector as Energy Service Company (ESCO) following the acquisition of 82% of the company's share capital effective as of 30 May 2018; (iv) IES Biogas, operating in the design, development and management of biogas and biomethane production plants, following the acquisition on 05 July 2018 of 70% of the company's share capital; (v) Cubogas S.r.l., a newly established company following the acquisition on 25 July 2018, from M.T.M., a company of the Westport Fuel Systems group, of the business unit dedicated to technological solutions for natural gas vehicle refuelling stations; (vi) Enersi Sicilia S.r.l., a company authorised to develop infrastructure to produce biomethane from the organic fraction of municipal solid waste ("OFMSW") in the province of Caltanissetta, following the acquisition of 100% of the company's share capital with effect as from 29 November 2018.

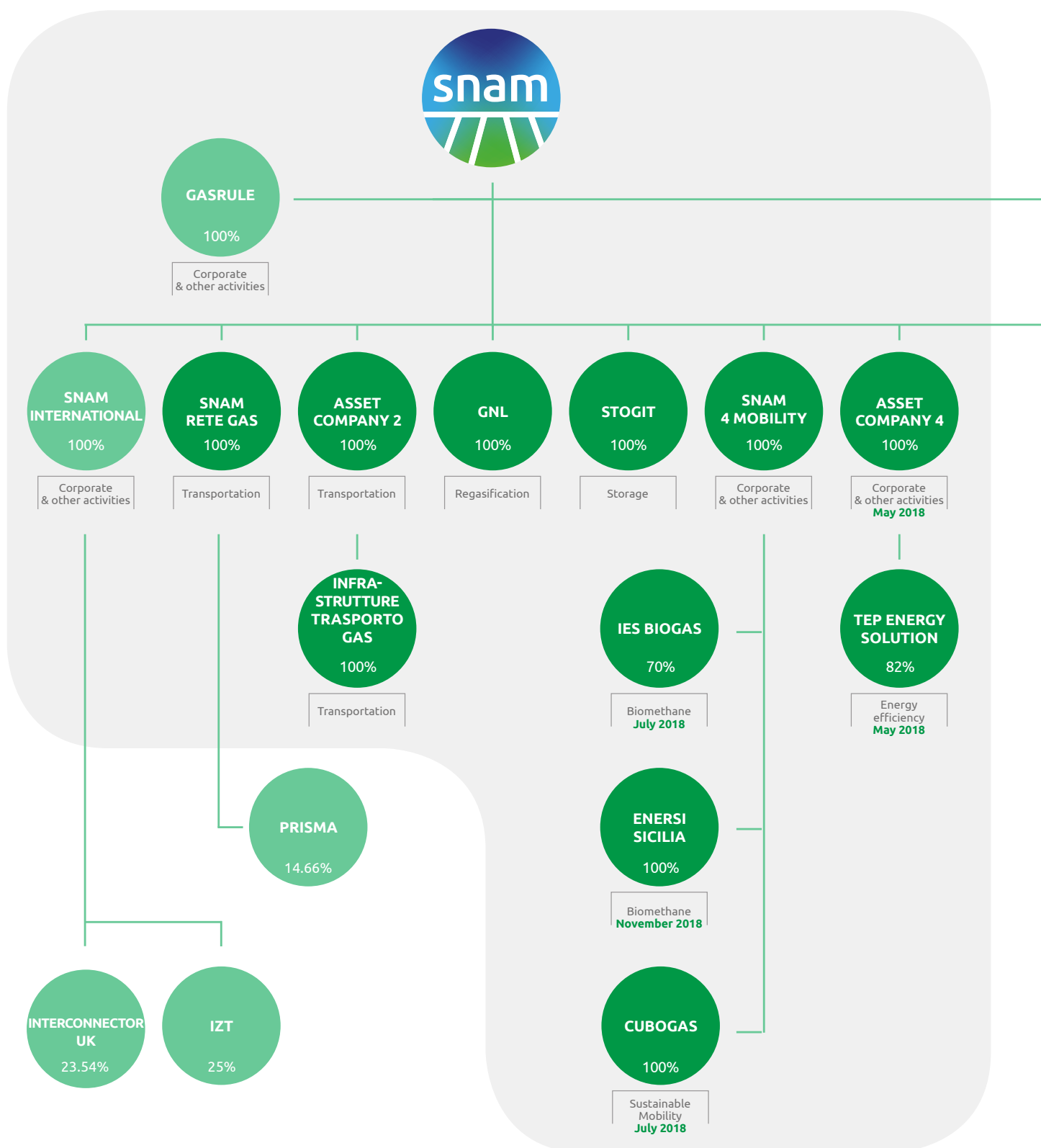
The aforementioned companies were consolidated, under the "Corporate and other activities"² sector.

¹ For more information, refer to the section "Summary data and information – Main events" of this Report.

² In compliance with IFRS 8 "Operating segments", the "Corporate and other activities" sector is not an operating segment, which is defined on the basis of the internal reporting used by the Company's management for allocating resources to the different segments and for analysing the respective performances.

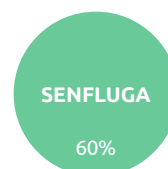
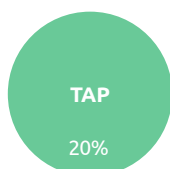
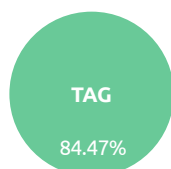
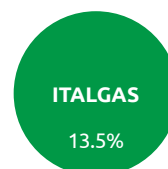
NFS Group structure as at 31 December 2018

The structure of the Snam Group as at 31 December 2018³ is shown below:



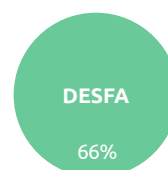
- Italian investments
- Overseas investments
- Scope of consolidation
- 2018 new entry

³ More information can be found in the Appendix "Snam S.p.A. equity investments at 31 December 2018" to the Notes to the consolidated financial statements.

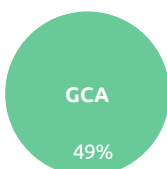


February 2018

December 2018



December 2018



General contents



General contents

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200	CONSOLIDATED FINANCIAL STATEMENTS

Disclaimer

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

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

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

Directors' report - Integrated Report



Directors' report summary

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Reading guide

The contents of the Report on operations, which constitutes the **Integrated Report of Snam** (hereinafter also Report on Integrated Management), are presented following the indications of the Framework proposed by the IIRC (International Integrated Reporting Council). The objective of the document is to represent, in addition to annual operating results, Snam's model for the creation of value and the sustainability of the business over the medium and long term, thereby indicating and demonstrating the interconnections between strategy, governance, business and financial performance, and the social, environmental and economic environment in which the enterprise operates. The aspects covered by the Report represent the principal factors that have a potential impact on business and financial performance and material sustainability issues. The following schedules facilitate reconciliation of the various keys to reading and interpretation recommended by the IIRC Framework and the content of the Report. The management report also contains information referred to in the **Consolidated Non-Financial Statement (NFS)** which constitutes a specific section thereof, in compliance with the provisions of Legislative Decree no. 254/2016.



NFS contents are integrated, where deemed necessary and appropriate, by the information reported in the Report on operations, which can be identified and consulted by following the specific references: Infographics and grey background / character, associated with the paragraph title (if entirely referring to aspects described in the NFS) or to the specific text content

References in the integrated report to value creation

Time frames and dynamics	Value-creation methods	Main operating activities	Report references
<p>In the short-term, Snam creates value by pursuing its business in the manner established by the rules and procedures, with particular focus on risk management and operational efficiency. The main point of reference is the annual budget</p>	Maintaining the efficiency and availability of the network and providing a quality service without interruptions	<ul style="list-style-type: none"> - Executing the scheduled works - Maintenance - Controls and inspections - Compliance with the network codes 	<p>Snam in 2018 - Summary data and information</p> <p>Snam in 2018 - Summary data and information</p> <p>Snam in 2018 - Summary data and information</p> <p>Business segment operating performance</p>
	Preventing and mitigating risks and detrimental outside forces	<ul style="list-style-type: none"> - Managing financial risks - Managing operating risks - Managing foreign partnership portfolios - Managing crises - Preventing accidents - Mitigating environmental impact - Reorganising processes and activities 	<p>Elements of risk and uncertainty</p> <p>Elements of risk and uncertainty</p> <p>Snam in 2018 - Summary data and information</p> <p>Snam in 2018 - Summary data and information</p> <p>Other operating impacts and results</p> <p>Other operating impacts and results</p> <p>Business model and sustainable development</p>
<p>In the medium term, the ability to carry out investment programmes, thereby ensuring a flow of resources and that favourable economic conditions are maintained, is also important. The main point of reference is the Business Plan, which covers a period of up to 5 years</p>	Maintaining the flow of investments	<ul style="list-style-type: none"> - Investment planning - Obtaining financial resources on the market - Permissions - Implementation of CNG, biomethane projects 	<p>Snam in 2018 - Summary data and information</p> <p>Snam in 2018 - Summary data and information</p> <p>Business segment operating performance</p> <p>Business model and sustainable development</p>
	Maintain, develop and transform human and relational capital to develop the business	<ul style="list-style-type: none"> - Relationships with Authorities - Managing the supply chain in relation to the development of construction sites - Developing roles and capabilities - Managing relations with local communities - Partnerships related to new business 	<p>Business segment operating performance</p> <p>Snam in 2018 - Summary data and information</p> <p>Other operating impacts and results</p> <p>Other operating impacts and results</p> <p>Business model and sustainable development</p>
<p>In the long term, it is vital that the investment decisions and strategic choices made have interpreted trends in the best way possible. The main point of reference is the infrastructure development plan submitted to the Authority, which covers a period of 10 years.</p>	Develop strategic directions and business development plans consistent with the reference scenarios	<ul style="list-style-type: none"> - Planning infrastructure development - The 2019-2022 Business Plan - Creating sustainable value: the Snam business model 	<p>Snam in 2018 - Summary data and information</p> <p>Business model and sustainable development</p> <p>Business model and sustainable development</p>

Letter to shareholders and stakeholders



Carlo Malacarne
Chairman



Marco Alverà
Chief Executive Officer

To our Shareholders and Stakeholders,

2018 was a particularly good year for Snam, not only in terms of the results obtained, which went beyond expectations, but also for the new initiatives launched that take the company into an increasingly innovative zone, leading the energy transition and paying close attention to the people and communities in which it operates.

In March 2018, we launched the new brand identity. “Energy to inspire the world” is the message around which Snam’s strategic repositioning is hinged, in an increasingly global market that is characterised by the transformation of energy and environmental scenarios.

In this context, the central role played by our energy infrastructures is confirmed, also in terms of the greater imports into Europe, the new uses of natural gas and the growing awareness of the essential role played by gas infrastructures within the energy transition.

In 2018, we consolidated our regulated business, also through the completion of the acquisition, through a European consortium, of DESFA, the Greek national natural gas infrastructures operator. This operation is strategic to the development of the southern corridor, for the diversification of gas sources and routes.

In 2018, we also launched new businesses aimed at fostering decarbonisation, allowing Snam to play a key role in the energy transition.

Snam has acquired control over IES Biogas, a leading Italian company in the development of biogas and biomethane plants, and of Enersi Sicilia, the company authorised to develop an infrastructure for the production of biomethane from municipal solid waste in the province of Caltanissetta, which will supply the surrounding municipalities with an all-renewable solution

to the disposal problem. Biomethane will be increasingly important in Italy and Europe, as a renewable source that is highly sustainable in economic terms, able to use existing transmission and storage infrastructures.

The investment in the biomethane segment adds to those made in sustainable mobility, in particular, with the acquisition of Cubogas, leader in technological solutions for natural gas vehicle refuelling stations. In total, as at 31 December 2018, 50 CNG/L-CNG, biomethane and bio LNG refuelling stations had been contracted (of which 34 with ENI). A framework agreement has been stipulated with the API Group, for the development of around 200 new natural gas and biomethane refuelling plants. The promotion of natural gas and renewable sources in the automotive segment also underlies the strategic agreement stipulated with SEAT in November.

We have invested in the energy efficiency segment with the acquisition of control over TEP Energy Solution, one of the main Italian ESCOs, whose mission is to make its clients more competitive through the reduction of energy spending.

Studies on power-to-gas technology and hydrogen, including the HYREADY project, supplement and enhance the development of new businesses.

This is the Snam of the future - Snamtec - Tomorrow’s energy company - high-tech leader in renewable sources, which is increasingly inter-connected with the territory. Snamtec includes investments dedicated to these matters worth more than 850 million euro during the 2019-2022 plan.

To become leaders in a rapidly changing world, we seek to operate in an increasingly agile and efficient manner,

to optimise transversal processes whilst enhancing specific skills. It is in these terms that we have focussed on an agile organisational model that, thanks to a shorter decision-making chain, with one less hierarchical level, guarantees quicker decision-making.

The Snam Institute has also been established, with three key goals: to cultivate the technical know-how of Snam, accrued in almost 80 years of experience, causing it to grow over time, to develop managerial skills and to foster an organisational culture that is open to change and business innovation.

As part of the efficiency plan launched during the second half of 2016, we have simplified the processes and organisation, for example through the integration of maintenance, transmission and storage activities. This plan has made it possible to improve quality and time-to-market and to cut costs by around 17 million euro (36 million euro cumulatively for the period 2016-2018). Overall, the efficiency plans' target has been raised further to more than 60 million euro in 2022.

As regards the services dedicated to international operators in the gas segment, Snam Global Solutions is gradually expanding its contracts portfolio, supporting the group development strategy and capitalising on our know-how abroad.

In July, upon completion of an international tender called by Albgaz, the Albanian gas market infrastructural operator, for the selection of a qualified partner, an equity investment was established that will provide the services connected with the operation and maintenance (O&M) of the Albanian stretch of the TAP gas pipeline and which opens up the future to further potential technical collaborations for the development of the local gas market.

In the second half of 2018, a Memorandum of Understanding was signed with State Grid International Development, a 100% subsidiary of SGCC, and with the Beijing Gas Group, to investigate collaboration opportunities in China in the biogas and biomethane segments, for R&D and plants development, sustainable mobility and storage.

In a context of rising gas consumption (net of climate effects and the availability of the French nuclear power stations), and a general stability of the regulatory environment, with the extension of the fourth regulatory period up to 2019 for the transport, regasification and storage businesses, we have achieved very positive results that surpass our expectations. The operating profit in the adjusted configuration comes to 1,405 million euro, up 42 million euro (+3.1%) on the corresponding figure of 2017, also thanks to savings obtained with the Efficiency Plan, which made it partly possible to absorb the increase in operating costs, mainly due to the change in the consolidation scope. The adjusted net profit totalled 1,010 million euro, up by 70 million euro (+7.4%) compared to the adjusted net profit of 2017. The net cash flow from operations (1,826 million euro) allowed us to entirely finance net investments for the period, including equity investments. This flow and the collection deriving from the repayment by TAP of the shareholders' loan (371 million euro, net of the portions disbursed by Snam during the year), have made it possible to generate free cash flow of 1,161 million euro. Net financial debt, after payment to shareholders of the 2017 dividend (731 million euro in balance and interim), and cash flow deriving from the purchase of treasury shares (426 million euro) stands at 11,548 million euro, in line with the figure recorded as at 31 December 2017 (11,550 million euro).

As confirmation of the importance attributed to sustainability, we have finalised the transformation into a sustainable loan of the 3.2 billion euro in syndicate credit facilities with a bonus/malus mechanism on margins paid, linked to the achievement of specific ESG - Environment, Social and Governance - KPIs and published the Climate Action Bond Framework, which defines the criteria for the future issue of bonds aimed at financing investments in environmental sustainability. In December 2018, we successfully completed the buy-back on the bond market, for a total nominal value of approximately 538 million euro, partly financed through a new bond issue at more advantageous conditions.

This transaction shall enable Snam to continue along the virtuous path of optimisation of its debt structure in terms of reducing the cost, extending average maturity and reducing refinancing risk. In addition to this, with the aim of further optimising and supporting the total remuneration of shareholders, as part of the share buy-back programme, in 2018 we bought back a total of 113,881,762 treasury shares, equal to 3.28% of the share capital.

In line with the provisions of the strategic plan, and with a view to improving the competitiveness and security of gas procurement, in 2018 we invested 882 million euro in infrastructures in Italy and 205 million euro in equity investments, including the acquisition of the stake in DESFA and investments in TAP, the company that will be carrying the natural gas from the Caspian Sea into Europe.

The commitment to ESG topics, now integrated for some years into the strategic decision-making process, also continues. The validity of the actions set and the performance that followed, have enabled us to be included in numerous sustainability indices, including some of the most prestigious, like the Dow Jones Sustainability World Index and the FTSE4Good, as well as to come in high up in the ESG ratings of MSCI, Sustainalytics and Vigeo.

Snam's governance aims to guarantee efficiency and transparency in its business operations. With the 2018 renewal of the partnership with Transparency International, Snam sought to confirm its commitment to the fight against corruption and also re-confirm, both nationally and internationally, its best practices in terms of business ethics and transparency.

In terms of the safety of employees and contract workers, a reduction has been recorded in both the frequency and severity accident index, as further evidence of Snam's constant commitment toward developing and promoting the protection of health and safety at work, not only within the company but also in respect of its suppliers.

We continue to operate paying close attention to the environment and the territory and with increasing awareness of climate change aspects. The Company has set itself a target of reducing its natural gas emissions by 25% by 2025, with reference to 2016 values. In line with this objective, this year's results recorded a reduction in natural gas emissions of 7.9% on 2016.

In these terms, September 2018 saw Snam also adhere to the Task Force on Climate Related Financial Disclosure (TCFD). 2018 was also an important year for the Snam Foundation, which celebrated its first birthday. With new projects and initiatives, the Foundation is now entering full operation. This represents another lever to cultivate closer relations with the territory and better respond to the needs of the communities that host our infrastructures.

In looking to the future, the new strategic plan announced last November marks out a route that will allow Snam to continue to grow and create significant value for shareholders, making the most and staying one step ahead of market evolutions and helping reduce CO₂ emissions, improve air quality and limit energy costs. More specifically, we aim to promote the development in Italy and elsewhere, not only of biomethane but also of all other activities involved in the energy transition.

With the new investments made in the network, the focus on new technologies, the development of new businesses and sustainable finance initiatives, 2022 Snam will be increasingly innovative, efficient and take a leading role in the energy transition in Italy and throughout Europe.

On the basis of the results achieved and the Company's prospects, the Board of Directors intends to propose that the Shareholders' Meeting approve the distribution of a dividend of 0.2263 euros per share, of which 0.0905 euros per share has already been distributed as an advance in January 2019, to confirm Snam's commitment to ensuring attractive and sustainable compensation for shareholders over time.

18 February 2019
for the Board of Directors

The Chairman

The Chief Executive Officer

Highlights

Financial



Total revenue

2,528 million euro

+87 million euro (+3.6%)

Free cash flow

+1,161 million euro

Adjusted results

Adjusted EBIT

+42 million euro (+3.1%)

Adjusted net profit

+70 million euro (+7.4%)

Reported net profit

960 million euro

+63 million euro (+7.0%)

Supported the strategy with Technical investments

for **882** million euro

and equity investments

for **205** million euro

Acquired in 2018

113,881,762 Snam shares

for a total cost

of 426 million euro

Proposed dividend

0.2263 euro per share

Operating



Gas injected in the national network

72.82 billion cubic metres

Gas Demand

72.66 billion cubic metres

Storage capacity conferred

12.4 billion cubic metres (+0.2 billion)

99.7% of available capacity

Sustainability



New natural gas emissions target

-25% in 2025 vs 2016

Natural gas emissions

-7.9% on 2016

Number of employee and contract worker injuries

-36% on 2017

Hours of training provided

107,771

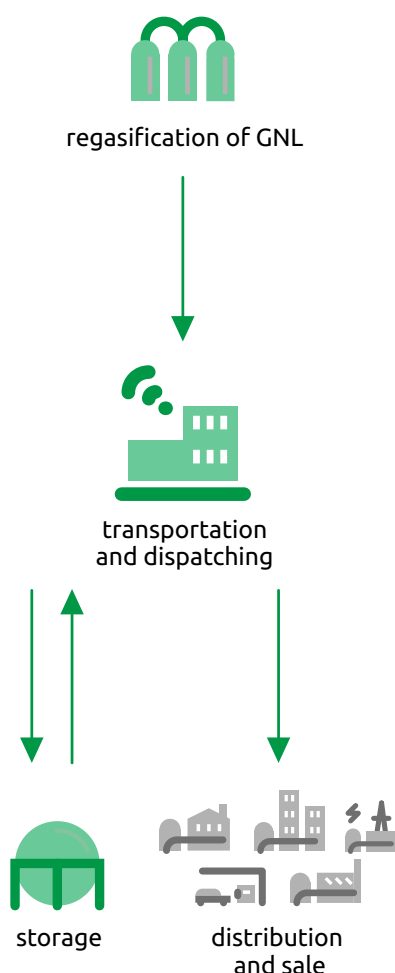
+26% on 2017

Snam Profile



NFS Summary

Snam: integrated network to drive the energy sector evolution



Snam is Europe's top operator in the implementation and integrated management of natural gas infrastructure. With approximately 3,000 employees, it conducts regulated gas segment activities in Italy and is a leading European operator in terms of regulatory asset base (RAB). Snam operates in and assures the integrated, efficient management of the transmission, dispatch and storage of natural gas, as well as the regasification of liquefied natural gas (LNG).

Snam operates in Europe's major markets through agreements with the leading industry players and direct equity investments in the share capital of various companies. Snam also offers engineering and technical-operational services for gas operators in national and international markets.

Snam's business is mainly focused on regulated activities and is capital intensive. Regulation makes provision for tariff systems that cover the costs incurred by the operator and for a fair return on invested capital. Snam is therefore able to maintain a **limited risk profile** and to **provide its shareholders with attractive and sustainable returns**, while ensuring that it provides its services to all operators in a non-discriminatory manner and with the **highest standards of quality and safety**.

The company actively promotes **the use of natural gas as a flexible, low environmental-impact energy source** in the classic industrial and residential sectors, as well as in generation and transport. In recent years, Snam has launched numerous projects aimed at assuring the promotion of a more sustainable, efficient energy system, developing initiatives and interventions under the scope of energy efficiency, compressed natural gas (CNG), biomethane and liquefied natural gas (LNG).

To fulfil its role as an integrated gas player in an effective, efficient manner, Snam has redesigned its organisational structure towards a "One company" divided into business units and staff functions, renewed with a view to simplifying processes, efficiency and continuous improvement. The four business units respectively supervise: the management of transmission, storage and regasification activities carried out by **Italian subsidiaries**, the coordination of **foreign holdings**, the **development and commercial** activities, and the **development of services dedicated to operators in the gas sector**.

The company has been listed on the Italian Stock Exchange since 2001. The Snam security is included not only on the Italian FTSE Mib stock exchange, but also on some of the most important international indices (Stoxx Europe 600 and Stoxx Europe 600 Utilities) and on numerous sustainability indices, including some of the most prestigious, like the Dow Jones Sustainability World Index and the FTSE4Good; it is also high up in the ESG ratings of MSCI, Sustainalytics and Vigeo.

In the current context of change to the energy balances and increasing awareness of the impacts of our actions on the climate, Snam's role is increasingly central toward achieving the national and European commitments to mitigate the effects of climate change and develop decarbonised economies at accessible costs.

In November 2018, Snam launched its new **Strategic Plan** for the period **2019-2022**, marking out the route that would allow the company to generate sustainable growth and value for its stakeholders over the next few years, as well as to rise to the challenges connected with climate change.

The targets set in the new Strategic Plan, all of which are improvements on the previous one, aim to create continuous value from regulated activities and ensure a growing presence in the energy transition sector in which biomethane may play an increasingly important role. Snam's desire to make a commitment to reduce the environmental impact of its activities and help develop the energy transition, is confirmed by a dedicated investment plan called Snamtec and by the 2018 **acquisitions** aimed at expanding upon the company's know-how with regards to decarbonisation technology.

Over the next few years, the company will continue its efficient development of the core business and to expand its business into the segments of **energy efficiency**, **sustainable mobility**, **biomethane** and innovative

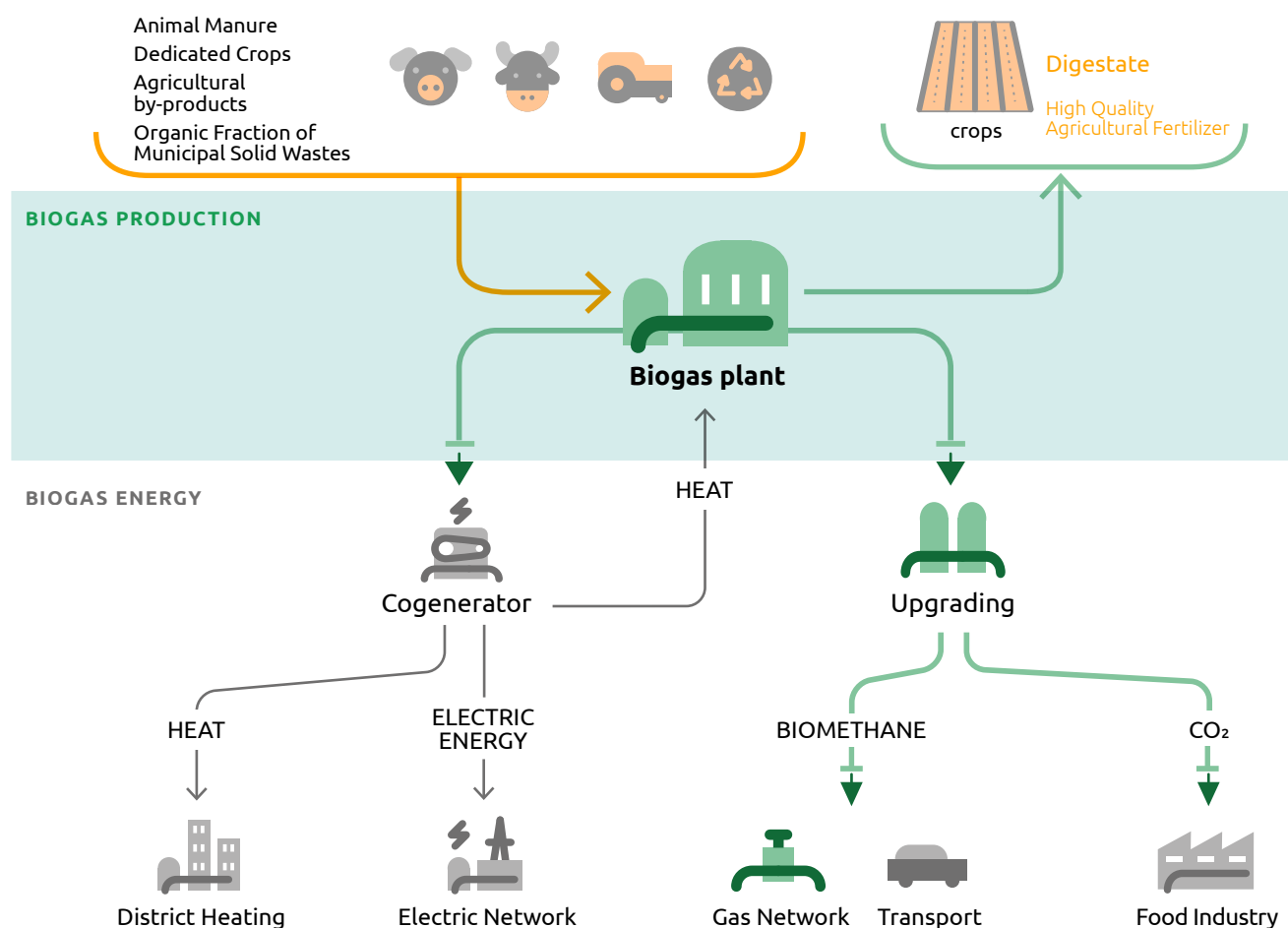
technologies in support of the use of renewable gas, a key resource for the development of the green economy of the national green economy.

The ease of transmission and storage of natural gas makes it possible to develop multiple projects linked to the promotion of **compressed natural gas (CNG)** for vehicles and **liquefied natural gas (LNG)** in heavy goods transport both overland and by sea. In this context, the next few years will see Snam committed to **strengthening the existing infrastructure** with a view to extending the network of **natural gas refuelling stations**.

The Company offers a point of reference in the integration into the Italian energy mix of **biomethane**, a renewable, programmable source that optimises existing transmission and storage infrastructures and allows for an increase in national production and reduction of Italian energy dependency, at the same time also helping reduce waste and greenhouse gas emissions in the Italian agricultural-food sector.

Snam: the biomethane network

FEEDING



2018 - Snam and the new brand identity

In March 2018, Snam re-launched its brand identity, renewing the logo and values that will accompany the group in its future challenges, from the development of infrastructures to guarantee stable, secure energy supplies, through to the development of gas as a renewable source.

“**Energy to inspire the world**” is the message around which Snam’s strategic repositioning is hinged, in an increasingly global market that is characterised by changes and innovations that are transforming energy and environmental scenarios.

In 2018, growth in the core business of regulated activities continued, also involving the December acquisition, through a European consortium, of **DESFA**, the Greek national natural gas infrastructures operator. With reference to the energy transition, Snam has completed investments in the development of new businesses aimed at fostering decarbonisation and a better use of energy, in particular in the **biomethane** segment (IES Biogas and Enersi Sicilia), **sustainable mobility** (Cubogas) and **energy efficiency** (TEP Energy Solution).

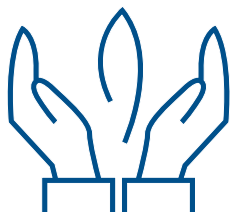
We have stipulated important agreements for the development of sustainable mobility, including through the possible development, as part of a partnership, of certain micro-liquefaction plants and agreements in China for the supply of services and evaluation of possible collaborations, in biomethane, in the research and development of renewable gas, in sustainable mobility and in storage. More specifically, as at 31 December 2018, a total of 50 CNG/L-CNG, biomethane and bio LNG refuelling stations had been contracted, of which 34 with Eni.

With the aim of globally optimising the consolidated experience of Snam, under the scope of the activities carried out by the **Snam Global Solution** business unit, we have established a joint venture with the Albanian infrastructure operator Albgaz, aimed at supplying services connected with the operation and maintenance (O&M) of gas pipelines in Albania.

During the year, moreover, the non-recourse financing of TAP was completed, the largest project finance operation for a European greenfield infrastructural project in 2018. Named “Project Finance deal of the year” for the Oil & Gas sector by Project Finance International (PFI), the project refers to a total amount financed of 3.9 billion euro, in which Snam played a role in supporting and coordinating the project, together with the other sponsors, and which involved institutional lenders like the EIB (which individually financed the project with 700 million euro), BERS and various export credit agencies, such as SACE, BPI France and Euler Hermes, as well as 17 international commercial banks.

2017

75 YEARS OF SNAM



In 2017 Snam celebrated its first **75 years of activity**, proving that the ability to put its commitment and skills to the service of the community and to keep a constant dialogue with the territories are and will be the key to its success. With the acquisition from Edison of 100% of the share capital of **Infrastrutture Trasporto Gas** and a **7.3% share in Adriatic LNG**, Snam has notably further strengthened its infrastructures in Italy and managed to build further synergies in the integrated management of the entire gas system, connecting to the national transport network a strategic entry point for the Italian natural gas market.

Concerning the commitment to sustainable development, in December 2017 Snam entered into the first executive contract for the development of methane supply stations in Italy starting the activities of Snam 4 Mobility S.p.A. (wholly owned by Snam).

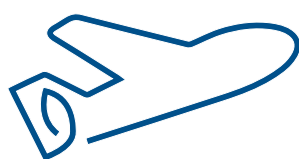
2016



In 2016, Snam completed the separation of its distribution business, acquired a new organisation and continued its path toward development

As at 7 November 2016, a corporate transaction was successfully completed that resulted in the separation of Snam from the national gas distribution business in Italy, whereby the Snam Group sought to strengthen and enhance its leadership in Europe in its core business: natural gas transportation, storage and regasification. Also in connection with the aforementioned transaction, in October Snam defined a new organisational structure, designed to be an instrument that enables focused management and control of the strategic guidelines of the plan and more efficient and effective operational management, including through the simplification of decision-making processes. Pursuant to the strategy of strengthening and enhancing leadership on the European gas market, on 16 December 2016 Snam, in a joint venture with Allianz, completed the acquisition from OMV of 49% of Gas Connect Austria GmbH (GCA), with an indirect equity investment of 19.6% in the company share capital for Snam.

2012/ 2015

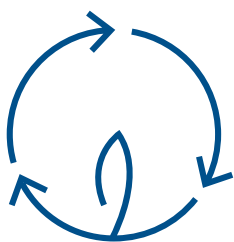


Snam separates from Eni and expands its scope of activity to cover Europe

On 1 January 2012, the Company changed its name from Snam Rete Gas to Snam and transferred the gas transportation business to a new company, which inherited the respected Snam Rete Gas name. The ownership unbundling from Eni was completed on 15 October 2012 through the sale of approximately 30% of Snam's capital to CDP Reti S.r.l., and Snam began its path toward growth in Europe. Having acquired 31.5% of Interconnector UK in 2012 as part of a joint venture with Fluxys, Snam (45%; 40.5% as at 31 December 2018 following the entry of Credit Agricole Assurances (CAA) in the corporate structure of TIGF Holding), alongside the Singapore sovereign wealth fund GIC (35%) and EDF (20%), successfully completed the acquisition of TIGF (renamed Terêga) from Total in July 2013, active in gas transportation and storage in south-west France, with a gas transportation network over 5,000 km and two storage fields. On 19 December 2014, the Company acquired from CDP Gas S.r.l. 84.47% (equivalent to 89.22% of the economic rights) of Trans Austria Gasleitung GmbH (TAG), the

company that owns the Austrian section of the gas pipeline linking Russia and Italy. The objective of those transactions was to increase and enhance Snam's industrial capacity in the integrated management of natural gas transportation and storage infrastructure. Snam's international development continued with the acquisition of a 20% stake in Trans Adriatic Pipeline AG (TAP), the company responsible for developing the pipeline that will run from the Turkey-Greece border to Italy along the Southern corridor, enabling gas produced in Azerbaijan to reach European markets. Our investment in the project will consolidate the primary position of Snam and Italian infrastructure in improving competition between energy sources and securing gas supplies for Europe.

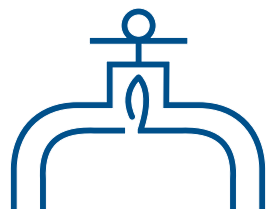
**2009/
2011**



The integration of all regulated gas activities

In 2009, the Company acquired 100% of Stogit, Italy's largest natural gas storage field operator, and 100% of Italgas, the country's biggest gas distributor. This added the other two regulated gas activities in Italy to Snam's offering: storage and distribution. The June 2009 transaction turned Snam into a key integrated regulated gas activities operator, and the largest by regulatory asset base (RAB) in mainland Europe

**1941/
2008**



Methanisation in Italy and expansion of the gas infrastructure, up to listing on Borsa Italiana

Snam (Società Nazionale Metanodotti) has provided integrated natural gas supply, transportation and sale services in Italy since 1941. It gradually put together an intricate system of methane pipelines, covering the whole of Italy, and built important pipelines that today allow the country to import from different areas: from Russia, the Netherlands, Algeria, the North Sea, and Libya. In 1971, Snam designed and built Italy's first liquefied natural gas (LNG) regasification plant at Panigaglia, in the Gulf of La Spezia. Snam Rete Gas was incorporated on 15 November 2000 to house all Snam's Italian transportation, dispatching and LNG regasification activities. The unbundling of these activities was decided pursuant to the Letta Decree (164/2000), which transposed the European Directive on the liberalisation of the European gas market. On 6 December 2001, after the Electricity and Gas Authority (today the Energy Grid and Environment Regulation Authority - ARERA) issued a resolution establishing the criteria for defining transportation tariffs, Snam Rete Gas was listed on the stock exchange.

Snam presence in Italy and in the international infrastructure system



2012

1 Interconnector (23.54%)

235 km undersea pipeline between Bacton (UK) and Zeebrugge (Belgium)

1 terminal and 1 compression station at Bacton, and 1 terminal and 1 compression station at Zeebrugge (totalling 260 MW)



2013

2 Terëga (40.5%)

5,050 km of network; 6 compression stations (114 MW)

About 15% of French totale gas volume

5.8 bn m³ of storage capacity (2.8 bn m³ working gas): around 25% of national capacity



2014

3 TAG (84.47%)

3 parallel pipelines of about 380 km each

5 compression stations (421 MW)





2015

4 TAP (20%)

Assets under development: final section of the South gas Corridor from Azerbaijan to Europe.

878 km long (773 km on-shore and 105 km off-shore) through Greece, Albania, Adriatic sea and Italy.

Initial capacity of 10 bn m³/year, which can be increased to 20 bn m³/year.

Expected to come into service in 2020



2016

5 GCA (49% via AS Gasinfrastructure)

554 km of transportation network

315 km of distribution network

5 compression stations (totalling 145 MW)



2018

6 DESFA (66% via Senfluga)

1,450 km of transportation network:

- 2 entry point (Bulgaria and Turkey)

- 1 exit point (Bulgaria)

1 LNG terminal (5 bn m³/year)

1 compression station

INFRASTRUCTURE IN ITALY

NATURAL GAS TRANSPORTATION

→ ENTRY POINT 8

⇄ REVERSE FLOW

COMPRESSOR STATION 13

PIPELINES UNDER OPERATIONS

NATURAL GAS STORAGE

OPERATING CONCESSIONS 9

LNG REGASIFICATION

REGASIFICATION PLANT 1

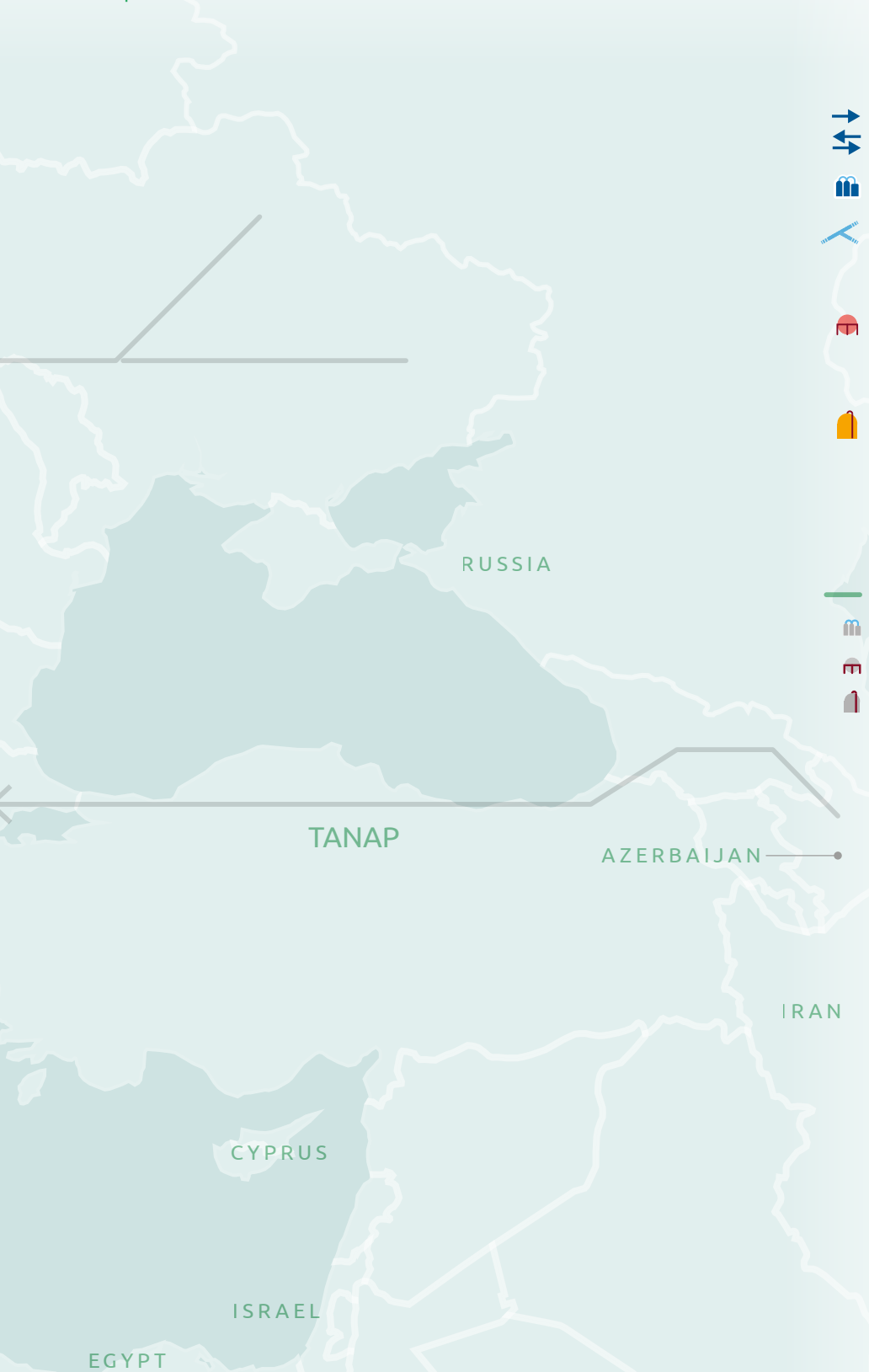
INVESTMENTS OVERSEAS

INTERNATIONAL PIPELINES

COMPRESSOR STATION

STORAGE FIELDS

REGASIFICATION PLANT



Business model and sustainable development



The global energy context: the key role played by Snam in decarbonisation

The year just ended was characterised by the increasing awareness of companies and institutions worldwide of climate change and the effects caused by the rise in temperature.

A great many studies and reports have been published during the year, which analyse the actions needed in order to reduce the emissions originating from human activities and therefore slow the rise in the average temperature with respect to the pre-industrial period.

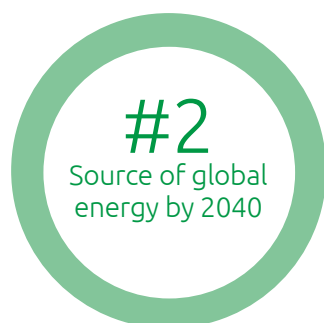
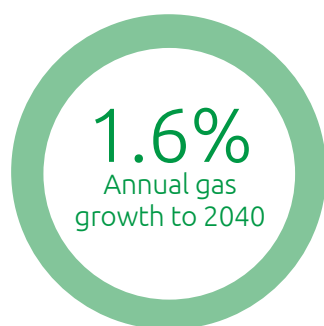
Of these, Snam helped analyse the future energy scenarios, examining the crucial role that natural gas may play in the global energy mix in the 2018 edition of the **"Global Gas Report"**. The study, which **Snam, International Gas Union (IGU)** and **The Boston Consulting Group (BCG)** unveiled at the June World Gas Conference of Washington DC (USA), analyses the scenarios for the use of natural gas, a flexible, programmable energy source that will give increasing support over the next few years to economic growth and the fight against climate change, in a process of world decarbonisation and rapid changes to global energy balances.

According to the main energy scenarios developed by the **International Energy Agency (IEA)** and analysed in the study, natural gas consumption is set to grow significantly: the **"Global Gas Report"** highlights a strong rise in the global demand for gas in 2017 and the main forecasts suggest that by 2035, gas may exceed coal as the world's second most important source of energy, after oil, increasing its share in the total energy mix from the current 22% to more than 24%.

In this historic period of changes to global energy balances, Snam intends to play a guiding role in the country's transition towards a decarbonised economic model.

The activities of the company, which already leads the national natural gas transmission, storage and regasification market, put Snam in a key position to achieve the national and European commitments to mitigate the effects of climate change. This is why, in accordance with the **targets set in the Strategic Plan** for the next few years, Snam will be supporting the use of its infrastructures to promote innovative businesses in the energy efficiency, biomethane and sustainable mobility sectors.

Gas is projected to be the fastest growing fossil fuel



Enabled by key market developments



Economic
development/
growth



Increasing
global gas
supply



Supportive
government
policies

Source: The future of gas to 2040 del "Global Gas Report 2018".

The 2019-2022 Strategic Plan

In an energy sector that is undergoing major changes, gas infrastructures will therefore continue to play a key role in decarbonisation.

Late November 2018, Snam launched the new **2019-2022 Strategic Plan**, which maps out the route that will allow the Group to rise to the challenges connected with climate change and help reduce emissions, minimising the rise in global temperature and limiting the costs of natural gas to end users.

In the new Plan, Snam expects to increase its investments up to **5.7 billion euro**, approximately 10% more than the 5.2 billion envisaged by the previous Plan. The growth can be traced to the development of new businesses in the energy transition sector, to the continuous attention to reducing emissions and the increase in investments in maintenance and replacement works for the existing network. In particular, **4.8 billion** of investments will regard the transmission network, **0.7 billion** storage and regasification and **0.2 billion** the new businesses linked to the energy transition. A quarter of investments in the **transmission** segment will be dedicated to development initiatives like the TAP interconnection, the north-west connections, methanisation and development projects of cross-border flows.

Investments in **storage and LNG** will instead mainly go towards strengthening the Fiume Treste storage plant. In addition to this, 200 million will instead be used to **develop new businesses for decarbonisation**: the biomethane segment, energy efficiency and sustainable mobility.

The continuous improvement of the results of the regulated core business, the new initiatives, the solid performance of international activities, the focus on technological innovation and the creation of value through the financial structure allow Snam to envisage sustainable growth in the main indicators throughout the Plan period. As compared with 2017, EBITDA is expected to rise by an average of 3.5% per year during the Plan time frame, net profit by more than 4% per year and net earnings per share (EPS) by an annual average of more than 5%.

In order to diversify the sources of finance and bring the financial strategy as closely into line as possible with the Group's general objective of making its business more sustainable in the medium/long-term, Snam has decided to look to **sustainable finance** initiatives.

These operations will allow the company to invest in specific projects in environmental sustainability and the development of technological infrastructures, thereby making an active contribution towards the fight against climate change. In this regard, in 2018, Snam finalised the transformation of the 3.2 billion euro in syndicate credit facilities, into a **sustainable loan**, the third largest sustainable loan to ever have been stipulated worldwide and the largest by a gas utility company. This loan envisages bonus/malus mechanisms according to the achievement of certain ESG (Environment, Social, Governance) KPIs. In addition, in November 2018, Snam published the **Climate Action Bond Framework**, which defines the criteria for the future issue of debenture loans aimed at financing investments in environmental sustainability.

The new Strategic Plan in fact integrates the **ESG values**, making them an integral part of Snam's growth strategy. As regards environmental protection, the new Plan sets more challenging targets in respect of the reduction of methane emissions, envisaging a 25% reduction in methane emissions by 2025 (with an interim target of -15% in 2022), as compared with the previous target of 10% by 2021.

Of the investments envisaged, 850 million will go to the **Snam - TEC (Tomorrow's Energy Company) project** for the integration of new technology to monitor the network and control and reduce natural gas emissions and consumption, as well as for initiatives regarding biomethane, renewables, energy efficiency and sustainable mobility. Additionally, in 2018, Snam adhered to the **Task Force on Climate-Related Financial Disclosures** (TCFD), undertaking to provide clear, structured reports on its activities in connection with climate change. The result of this commitment is the document "**Snam in Change – Financial Disclosure on Climate Change**", which shows Snam's activities using the climate change lens.

Snam's **attention to safety** is confirmed by the launch of the new Snam4Safety programme, created to increase the safety at work culture of employees and suppliers. ESG values are also integrated into Snam's **corporate governance**, with it today being the only Italian company, and one of just four worldwide, to have arranged for a global partnership with Transparency International for the fight against corruption.

Creating sustainable value: the Snam business model

Financial capital



The financial capital available to the Group is the essential input for making all the investments necessary to the correct function of the natural gas infrastructures. Snam's financial capacity comprises its own resources and debt capital obtained either on the financial markets or through its own operating income.

Infrastructural capital



The transmission network and storage and regasification plants for natural gas represent the essential infrastructural capital that allow Snam to provide operators and users with its services.

Gas pipelines, storage plants and regasification plants are the regulatory asset based (RAB) needed to obtain recognition of the reference revenues for the regulated business, as calculated on the basis of the rules defined by the Autorità di regolazione per energia reti e ambiente (ARERA).

In addition to this, in the coming years Snam's infrastructure will be enriched with plants for the production and introduction of biomethane and natural gas distribution plants for motor vehicles

Intellectual capital



The intellectual capital is Snam's distinctive heritage that comprises the computer systems and internal processes and procedures for the efficient management of its business activities. These practices have been developed and consolidated over time, based on company know-how and aimed at guaranteeing the safety of the networks and infrastructures for employees, suppliers and users.

Human capital



Snam's human capital are the people making up the Group – the employees and the capillary network of Italian and international suppliers – with their wealth of knowledge and experience.

Snam supports the promotion of a business culture hinged on certain distinctive values: the optimisation and development of people, the culture of safety, the maintenance and growth of the know-how necessary for the continuous technological update and modernisation of the Group's assets.

Relational capital



The Group's relational capital is the "licence-to-operate" that stakeholders recognise to Snam.

The trust afforded by stakeholders in the Group's capacity to create value is the direct consequence of more than 75 years of history that link Snam's activities with its stakeholders and the companies in the territories hosting the infrastructures. Also in consideration of the expansion of Snam's business into the non-regulated market, over the next few years, the contribution made towards the enhancement of the Group's relational capital will become increasingly important, through participation in national and international working parties and ratified agreements and understandings aiming to develop collaborations and partnerships with companies operating on the international and non-European energy markets.

Natural capital



The territory in which the infrastructures stand, the air and biodiversity are Snam's natural capital, just like the energy resources (the natural gas) necessary to allow Snam to provide operators and users with its services.

INPUT

Financial capital

- Funding comprising own resources and debt capital
- Constant investments in upgrading and the function of company assets

Infrastructural capital

- Network of gas pipelines for the transmission of natural gas in Italy
- Storage plants and regasification plants
- Plants for the production and injection into the network of biomethane
- Distribution network of gas for vehicles

Intellectual capital

- Information systems, company processes and procedures aimed at assuring safety in infrastructures and efficient business management
- Know-how and technological innovation

Human capital

- Optimisation and development of people
- Safety culture

Relational capital

- Partnerships and long-term relations with the main stakeholders (clients, suppliers, shareholders and lenders, regulatory authority, local associations)
- Collaboration with institutions, regulatory entities, local and territorial administrations
- Commercial agreements with companies operating on the national and foreign energy markets
- National and supranational working parties

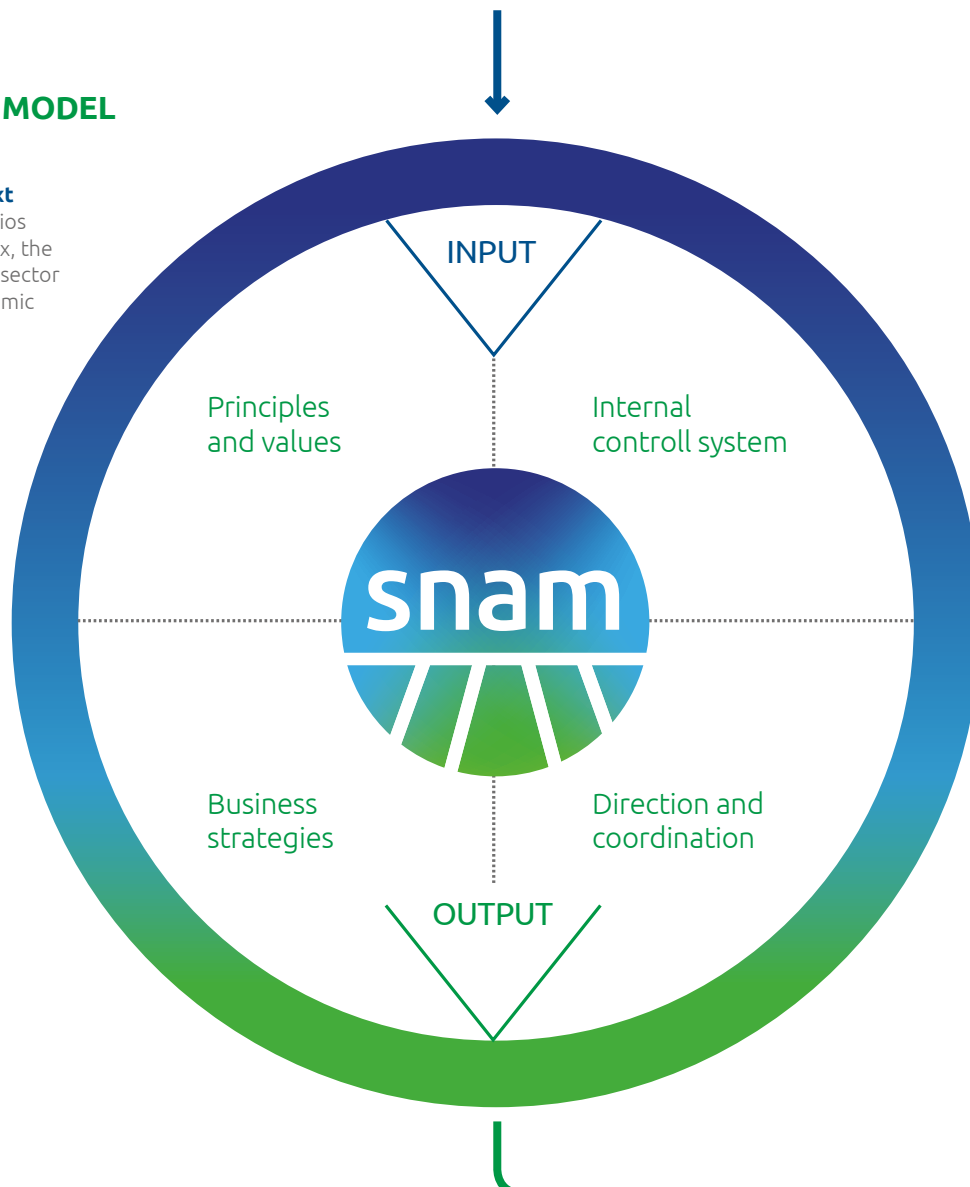
Natural capital

- Energy resource (natural gas)
- Natural areas involved by the passage of gas pipelines and on which the plants stand

BUSINESS MODEL

External context

Evolution scenarios of the energy mix, the evolution of the sector and social-economic dynamics



OUTPUT

Financial capital

- 2,532 million euro in economic value generated
- 1,634 million euro in economic value distributed

Infrastructural capital

- 32,625 km of gas pipelines
- Target: to develop 250 refuelling stations for methane gas-powered cars
- 14 biomethane connection contracts

Intellectual capital

- Management and certification systems obtained by Snam and subsidiaries - extended certifications ISO 9001, ISO 14001 and OHSAS 18001 to include Snam4Mobility and Cubogas

Human capital

- 107,771 hours of training provided
- 7 injuries involving employees and contract workers - "Zero injuries" prize, 1550 employees rewarded

Relational capital

- Partnerships with SEAT, ENI, API, State Grid International Development and Beijing Gas
- Relations with ARERA - 12 responses to consultation documents
- Acquisition of IES biogas, Enersi Sicilia, TEP and CuboGas

Natural capital

- 7.9 % reduction in natural gas emissions on 2016
- 227 km environmental restoration performed
- 445 km environmental monitoring
- 1,651 km of network inspected with smart pigs

OUTCOME

- Distribution of economic value to Group stakeholders
- Financing dedicated to environmental sustainability projects

- Increased value of company assets
- Diversification and innovation in the Group infrastructures
- Diversification of the source of natural gas consumed within national borders
- Diversification of the national energy mix
- Secure procurement

- Quality of service supplied in compliance with the standards
- Greater efficiency of processes and control throughout the entire value creation chain

- People motivation and increase in their competences
- Consolidation of the safety culture for all employees and in all operative contexts

- Maintenance of a good company reputation, in line with the company vision, values and mission
- Consolidation of relations with the main Group stakeholders and regulatory entities in the natural gas sector

- Mitigation of negative environmental impacts
- Sustainability of the business activities and attention paid to the community and territory

The objectives of Snam's 2019-2022 Strategic Plan include the creation of value in all intangible capital characterising the company.

The investment programme outlined in the Strategic Plan, which envisages a total of 5.7 billion euro for the development and modernisation of the existing network and the development of new businesses connected with biomethane production and, in general, the energy transition, will have a positive impact on Snam's financial capital.

The objectives included in the Strategic Plan shall also affect the infrastructural capital: with the aim of guaranteeing the quality and continuity of service, over the next few years, development will continue of the infrastructural and network of gas pipelines, new connections to the north-west will be completed, methanisation projects, the TAP interconnection and potential storage plants.

The energy resource is the pillar on which the Snam Group's activity is based, acknowledging the importance of safeguarding the natural environment. As confirmation of the attention paid by the company to protecting climate, the Strategic Plan envisages a new target reduction of methane emissions.

The activities included in the TEC project will also allow Snam to enrich its natural capital, implementing actions to monitor the network and measure the territorial structure in real time, along with gas consumption and the energy efficiency of the infrastructures, thereby achieving the twofold objective of optimising operating costs and minimising the impact of its activities.



2019-2022 Strategic Plan

Impact on capitals

Investments in the development of the Italian gas system and new business activities connected with decarbonisation

- 4.8 billion euro in investments envisaged for the transmission network (TAP, north-west connections, Sardinia), 0.7 billion euro for storage investment (Fiume Trieste) and regasification
- 100 million euro in investments envisaged for the development of biomethane production infrastructures, 50 million euro in investments to extend the network of methane refuelling stations, 50 million euro in investment to develop small liquefaction plants



TEC project

- Greater operative effectiveness and smart gas project
- Reduction of methane emissions
- Continuous interest in innovation and the regular update and upgrade of distinctive competences



ESG values

- Environment: target methane emissions reduction
- Social: Snam4Safety, Snam Institute, Snam Foundation
- Corporate governance: partnership with Transparency International



Sustainable finance

- 3.2 million euro in syndicated credit facilities
- Framework setting the rules for the future issue of debenture loans aimed at financing investments in environmental sustainability



FINANCIAL CAPITAL



INFRASTRUCTURAL CAPITAL



INTELLECTUAL CAPITAL



HUMAN CAPITAL



RELATIONAL CAPITAL



NATURAL CAPITAL

Impacts of Snam's activities on the gas system and on the energy scenario

IMPACTS ON THE GAS SYSTEM

Market facilitation

With the new "Network Balancing Code" regime, which has been in effect since October 2016, the balancing service is conducted in accordance with common and harmonised European rules, which are aimed at promoting trading and market liquidity. In a new system, Users are the primary parties responsible for system equilibrium and they can balance their own trading positions (injections and withdrawals from the system) through an hourly reprogramming of their own requirements, and/or by executing gas transactions on both the organised and over-the-counter markets.

Snam also performs the role of Default Transportation Supplier, namely supplies gas to Sales Companies and Final Customers for which the Balancing User responsible for the related withdrawals is not identifiable. The same service is also carried out for the Sales Companies and Final Customers at third-party transporters who explicitly requested it.

Impact of the Default Shipping Service

The service in the 2017-2018 thermal year involved 192 parties amongst Final Customers and Sales Companies, for a total volume of approximately 263,300 MWh.

New transmission capacity products

In 2017, Snam introduced greater flexibility in offering transmission capacity at the re-delivery points that power the thermoelectric plants and the withdrawal areas through the provision of short-term capacity products (daily and monthly). In 2018, new flexibility services were also introduced, like infra-day storage auctions.

Gas access and cost

The cost of transmission, distribution and metering (meter reading) services, which allow the delivery of gas to end users, is one of the three main items of the gas bill.

Incidence of the transmission service on the cost of gas

The cost of the transmission service in 2018 is estimated as accounting for approximately 5% of the total costs of a typical domestic client (family with individual heating and annual consumption of 1,400 scm) as compared with 18% of the total cost of infrastructural services.

New connections

In 2018, 88 connection contracts were signed for the construction of new delivery/re-delivery points (of which 14 were for biomethane inputs and 43 for CNG) or the upgrading of existing points, up approximately 13% over 2017.

Creation of a european gas market

Snam is one of the founders of PRISMA, the international project established to promote the harmonisation of rules for accessing and providing services in implementation of the European Codes, by offering services through a single shared digital platform. Approximately 40 European operators active in the transmission and storage of gas from 17 countries participate in the development of PRISMA.

The numbers of the PRISMA platform

In 2018, the PRISMA platform further increased the number of auctions for the sale of capacity products, which in fact went from 4.5 million in 2017 to 6.5 million in 2018. The number of shippers and users registered respectively come to approximately 650 and 2,500.

Impacts of Snam's activities on the gas system and on the energy scenario

IMPACTS ON THE ENERGY SCENARIO

Security of supplies

The constant, structural reduction in national production leaves Italy very much dependent on foreign gas, the import of which has recorded a 2.4% increase in the 3rd quarter of 2018 as compared with the same period of the previous year, accentuating the role played by Russia as the top supplier of Italian gas, with a share that has virtually reached 50% of the total. (Source: ENEA)

Diversification of sources

Thanks to the interconnection of Snam's network, Italy is the current European country that can rely on the greatest number of supply sources. Besides domestic production, the Italian system can receive gas through four methane import pipelines (Algeria, Libya, Russia and Norway) and 3 regasification terminals. It is also planned in the future to add the importation of gas from the Caspian Sea by constructing the TAP methane pipeline. The development of bidirectional capacity in the north of our country along the North-South corridor (reverse flow) may also make Italian supply sources accessible to other European countries.

In the instance of Italy, if any of the supply sources should fail, the remaining sources of supply are capable of satisfying more than 120% of the area's total gas demand, calculated during a day of particularly high gas demand.

Use of storage capacity

In 2018, Snam took action to promote the replenishment of national storage facilities for the purpose of being able to manage seasonal peaks in demand. The replenishment level at the end of the injection campaign was 98% as opposed to a European average of 88%.

Contribution to decarbonisation

Gas in its various forms guarantees lower carbon dioxide emissions, by 25% to 40% compared to other fossil fuels, as well as reduced nitrogen oxides and fine particle levels.

Gas in the national energy mix

The quarterly analysis of the Italian energy system performed by ENEA highlights how, considering all the first nine months of 2018, natural gas consumption has reduced by around one percentage point on the same period of the previous year. In particular, a major reduction has been seen in consumption in the 2nd quarter (-7% in trend terms, due to the lesser thermal production linked to the resumed hydroelectric generation) and a slight increase in consumption in the 3rd quarter 2018 (+1.2% on the same quarter of 2017). Renewable energy sources (excluding biomass for thermal uses) are slightly up on the levels recorded in the 3rd quarter 2017, by approximately half a percentage point.



NFS Governance and organisation

Snam operates within the framework of the Universal Declaration of Human Rights, the fundamental conventions of the ILO and the OECD Guidelines for Multinational Enterprises, and in compliance with its own Code of Ethics, which is also a key element of the Organisational Model of Legislative Decree 231/2001.

Snam's governance plays a crucial role in value creation dynamics. It helps to determine the conditions for the **Company to interact properly and adequately with its reference environment**, in particular by putting into practice the principles of **integrity, transparency and compliance with** internal and external **rules**, with the ultimate aim of reconciling the interests of our various stakeholders.

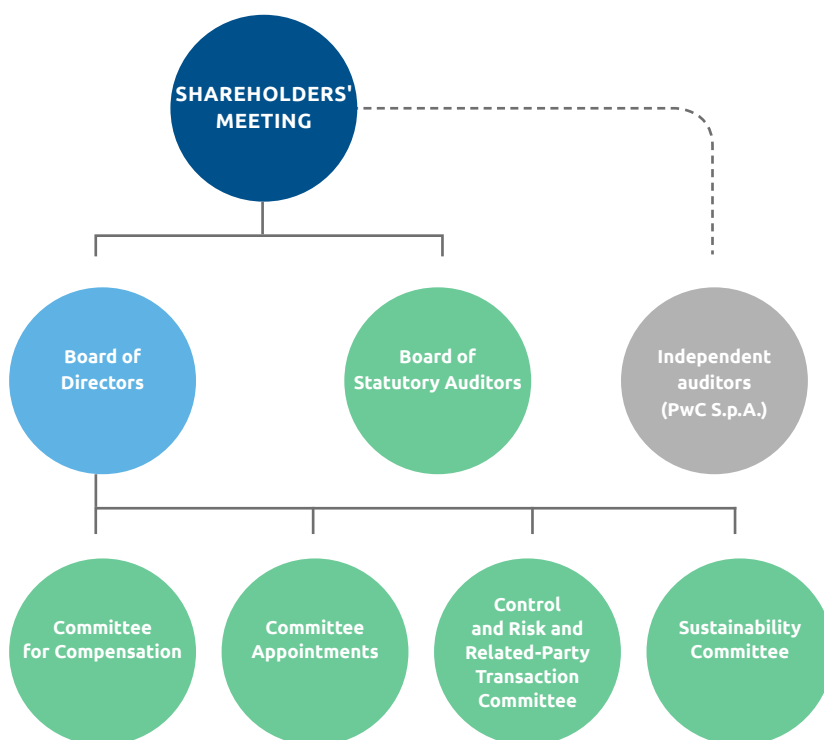
The **governance system** reflects the 'traditional' model and is developed in accordance with the applicable industry regulations (laws governing unbundling and listed companies), while also taking into account **national and international best practice**.

Snam's Board of Directors

56% of the BoD is made up of independent directors

All the BoD committees are chaired by **independent** directors

44% of the BoD is made up of women



More detailed information on governance can be found in the document "2018 Report on corporate governance and ownership structure", which was published online at www.snam.it at the same time as the Annual Report.

More detailed information on remuneration can be found in the document "2019 Remuneration Report", which was published online at www.snam.it at the same as the Annual Report.



Snam's new challenge is to support national and international development through the **optimisation** of internal processes, the redefinition of the organisational structures and the **simplification** of the regulations.

The context that evolves and the consequent adjustment and evolution of the businesses provide the drive for change. In order to cope with these external stimuli and stay one step ahead, in accordance with the strategic plan, the last two years have seen the Snam group develop a long series of change programmes with the aim of making the organisation of the internal structures and processes more streamlined and efficient:

- optimisation and redesign of the processes with a view to assuring greater efficiency and continuous improvement;
- simplification and streamlining of the company regulations in order to streamline the actions in response to an ever more dynamic business;
- organisational structures that are more in line with purely organisational logics, with simpler, more flexible decision-making processes.

With reference to this latter point, in 2018 the TURN project was promoted on all Snam Corporate Staff departments and on the operating companies' office departments. The TURN project worked to create a simpler organisation and quicker decision-making processes, thereby rationalising the number of units, eliminating 1 organisational level and 150 units.

Snam's top priorities include supporting international development and new businesses. The company's constant commitment to these matters has given rise to the integration of the following contexts:

- Infrastrutture Trasporto Gas - ITG, an investment that allows Snam to strengthen its infrastructures in Italy and put additional synergies to good use in the integrated management of the whole gas system;
- CuboGas and IES Biogas, respectively operators in vehicle methane gas refuelling and in the design, development and operation of biogas and biomethane production plants;
- TEP Energy Solution, an energy efficiency company whose mission is to foster decarbonisation and ensure the better use of energy.

It also increases the group's international presence through the acquisition of DESFA, the Greek national gas transmission operator and the joint venture with Albgaz for the development of the gas market in Albania.

The Snam Organisational Model



* Dependent on the Chief Executive Officer, he carries out the audits entirely independently, according to the indications of the Board of Directors.

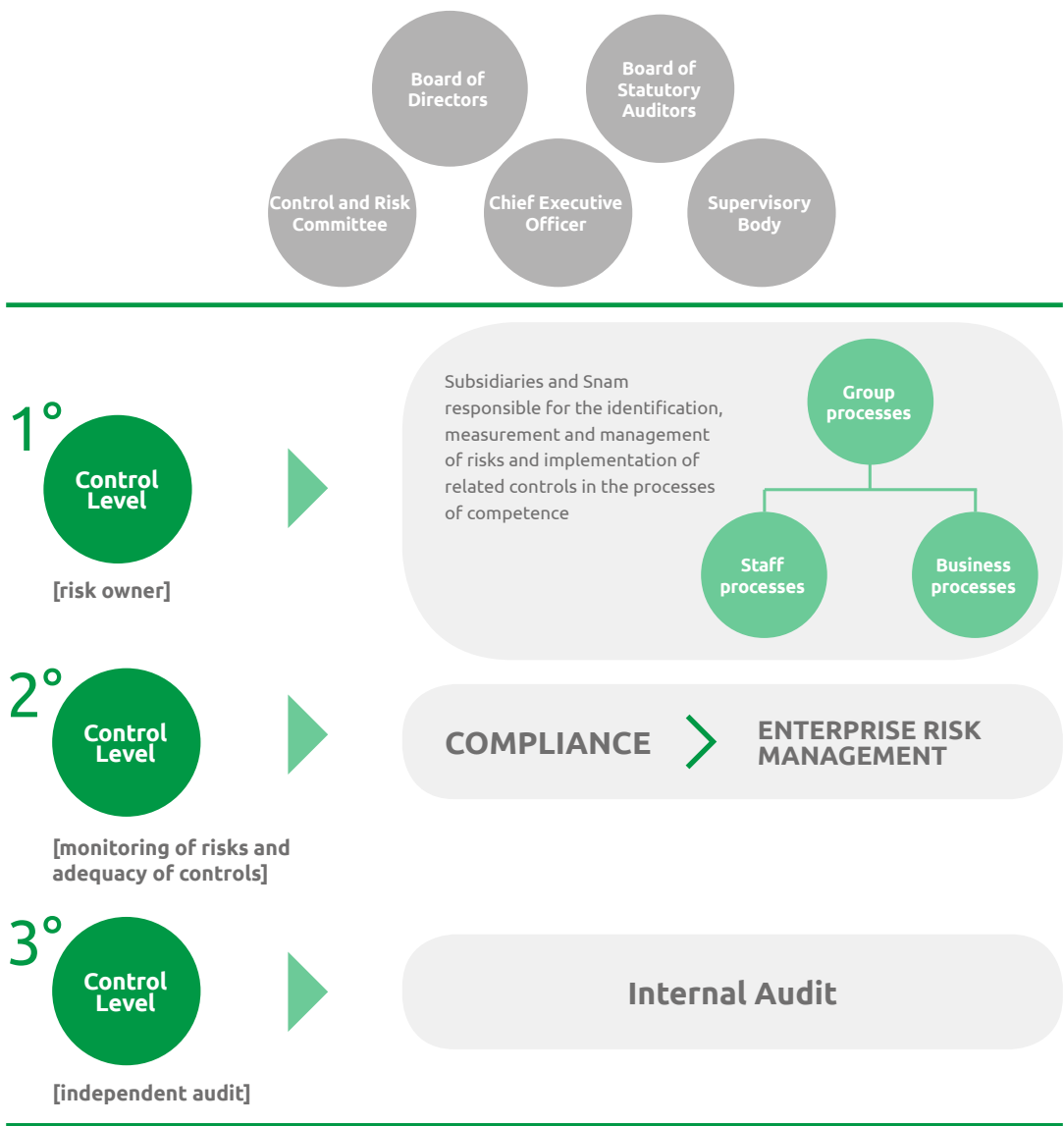
Management of risks and the control system

Although it has a limited economic and financial risk profile because most of its operations are in regulated business segments, Snam adopts a structured and systemic approach to governing all risks that could affect value creation.

The system we use across the Group to identify, assess, manage and control risk has three levels, each with different objectives and associated responsibilities. The Board of Directors charges the CEO with giving structure to and maintaining the entire system. We use an integrated, dynamic and group-wide method of assessing risk that evaluates the existing management systems in the

individual corporate processes, starting with those relating to the **prevention of fraud and corruption and health, safety, environment and quality.**

These same controls form an integral part of the managerial processes. Management must therefore foster an environment that encourages controls, and must specifically manage “line controls”, consisting of all the control activities that individual operating units or companies perform over their own processes. Independent controls are performed by the Internal Audit department, which is responsible for checking that the system is functioning and adequate.



In 2018, audit activities were performed by a dedicated team of an average of 10 auditors.

Activities performed by Internal Audit

(no.)	2016	2017	2018
Total number of audits performed (*)	42	42	22
- of which relative to planned and/or spot audit activities	8	8	14
- of which relative to independent monitoring activities (Law - 262/05) (**)	34	34	8
Reports received	5	5	4
- of which related to the internal control system	1	-	-
- of which concerning accountancy, audit, fraud, etc..	-	-	-
- of which concerning administrative liability pursuant to Legislative Decree 231/2001	1	-	-
- of which concerning breaches of anticorruption law	1	1	-
- of which concerning other matters (Code of Ethics, mobbing, theft, security, etc.)	-	4	4
Reports archived due to absence of elements or found to be untrue	2	1	2
Reports resulting in disciplinary or managerial interventions, and/or submitted to judicial authorities	-	3	2
Reports pending	3	3	-

(*) The figure relating to 2017 has been amended to take into account the audits carried out in the reference calendar year.

(**) The number of audits relating to independent monitoring activities has reduced on 2017 for the following reasons: (i) part of the control activities was carried out by the Independent Auditing Firm and (ii) reports on control activities of the 2018 Independent Monitoring Programme will be produced in calendar year 2019.

In 2018, the Internal Audit activities were carried out by ensuring that the conditions of complete independence and autonomy are preserved, as well as the due professional diligence, objectivity, and competence, as provided for by the Mission of the Internal Audit and by the Mandatory Guidance of the Institute of Internal Auditors and by the principles contained in the Code of Ethics.

Internal Audit regularly carried out the programmed activities, which regarded: (i) the execution of the Audit Plan, approved by the Snam Board of Directors on 13 March 2018, after obtaining the favourable opinion of the Control, Risk and Related Party Transactions Committee and spot audits not envisaged on the plan; (ii) the carrying out of the independent monitoring programme defined with the Chief Financial Officer as part of the Snam Control System on the Corporate Disclose; (iii) named or anonymous reports of problems relating to the internal control and risk management system, to the Company's administrative liability, irregularities or fraudulent acts (whistleblowing); (iv) the activities involving relations with the Independent Auditing Firm and those relating to the monitoring of the activities for the conferral of additional appointments on such.

Please also note the main activities carried out in methodology:

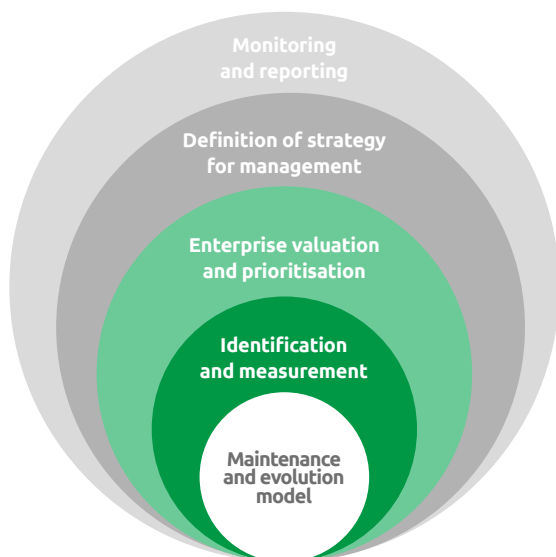
- the implementation of an Internal Audit Manual, which, with a view to ensuring continuous improvement, aimed to update the methodologies and identify standard formats so as to increase the efficiency and simplify the internal audit process;
- the development of a new tool to manage audit activities from the planning of interventions through to the follow-up of corrective action following the implementation of the Integrated Risk Assurance and Compliance Project;
- the update of the Key Risk Indicators, as well as the implementation of new ones, as part of the continuous monitoring of the expenditure cycle with the desire to structure, in 2019, dedicated reports for the functions of the first and second level control;
- the Internal Quality Review with the aim of monitoring the effectiveness and efficiency of the activities, the conformity, in going about operations, with the regulatory and operative tools of the Department and with respect to best practices and reference international standards for the profession.

NFS THE ENTERPRISE RISK MANAGEMENT (ERM) PROCESS

The Snam group, in line with the indications of the Code of Corporate Governance and international best practices, has instituted, under the direct supervision of the General Counsel, the Enterprise Risk Management (ERM) unit, which operates within the wider Internal Control and Risk Management System, in order to manage the integrated management process of corporate risks for all Group companies.

The main objectives of ERM are to define a risk assessment model that allows risks to be identified, using standardised, group-wide policies, and then prioritised, to provide consolidated measures to manage these risks and to draw up a reporting system.

The risk is defined as a result of the uncertainty over the objectives, and may be negative or positive (opportunity).



1. Identification and measurement:

of risk events relating to corporate processes and external risk factors that could influence the achievement of corporate goals, either through direct impacts on results and corporate finances (lower revenue or higher costs) or through intangible negative effects on other types of capital, especially the licence to operate.

2. Enterprise and prioritisation assessment:

each event is assigned an 'enterprise measurement', which summarises, for each risk, the different measurements carried out by the risk owner and by centralised units with specialist expertise. The prioritisation of risks is defined by combining the measurements of impact and probability.

3. Definition of the management strategy:

for all risks, management measures are identified, together with any specific interventions and the relevant implementation time frames, associated with a type of risk management from among those that have been codified. Management plans for the main risks are presented to the Control and Risk Committee.

4. Monitoring and reporting:

the risk mapping is periodically updated according to the enterprise measurement, and at least once a year, including for low-priority risks. The periodic reporting activity ensures, at the various corporate levels, the availability and representation of the information on the activities concerning the management and monitoring of the relevant risks.

Cross-organisational nature

One of the best features of Snam's ERM model is the wide-ranging nature of its impact measurement.

Any risk event may have eight different types of impact, some determined by the risk owners (operational impacts) and others by specialist departments (e.g. legal and financial impacts). This means risk measurement from different perspectives and team risk prioritisation.

The most common operational impact is industrial impact, consistent with the fact that risk identification begins with process analysis. The most prevalent specialist impacts include reputational and legal impacts, confirming the existence of an increasingly globalised external context subject to ever more complex regulations.

During 2018, the risk assessment cycles were completed and the first mapping of corporate opportunities performed, according to the model described above and the "Enterprise Risk Management" guidelines approved in March by the Board of Directors, which involved the whole of the Snam Group. As at the end of 2018 approximately 138 enterprise risks appeared to be mapped, distributed across all corporate processes. Moreover, the 2018 mapping of risks and opportunities considered the new activities under the scope of new unregulated businesses, as a result of acquisitions made during the year.

Opportunities (approximately 25) were identified using a similar method to that employed for the risks. In this case too, suitable metrics were used to measure the operative impacts (industrial/business and economic) by each owner and to have the specialised departments measure the other impacts (market, reputational, environment, financial).

In 2018, the Integrated Risk Assurance and Compliance project was trialled, with the aim of defining and implementing an integrated risk assessment model that, through a single IT tool and a single database, rationalises and integrates information flows of second-level controls with a synergistic approach aimed at maximum overall efficiency.

The main enterprise risks identified and monitored were classified as financial and non-financial (strategic risks, legal and non-compliance risk and operational risks).



The table below shows the mitigation and monitoring measures implemented for each type of risk.































- OPERATIONAL IMPACT
- SPECIALIST IMPACT





 More information on the main risk and uncertainty factors is given in the chapter entitled “Elements of risk and uncertainty” in this Report.

Classification	Description	Management actions	Impact on capitals
STRATEGIC RISKS	Macroeconomic and geo-political risk		
	Risks associated with political, social and economic instability in natural gas supplier countries	■ Continuous monitoring of the political, social and macroeconomic framework	
		■ Maintenance of constant relations with Authorities and Institutions responsible for managing possible crises in high-risk scenarios	
	Regulatory and legislative risk		
	Definition and updating of a regulatory framework in Italy and in the countries of interest that presents penalising parameters, in particular with regard to criteria for determining tariffs	■ Maintenance of ongoing constructive dialogue with the regulator that can contribute to the definition of a clear, transparent and stable framework in order to incentivise the sustainable development of the gas system	
	Significant change in regulations and/or case law	■ Ongoing regulatory oversight through the monitoring of changes in laws and rulings, analysis of changes, and the dissemination of information and further details to business and commercial departments	
	Risks related to climate change		
	<ul style="list-style-type: none"> ■ Reinforcement of the regulatory framework for greenhouse gas emissions ■ Change of scenarios with impact on the demand for natural gas and transported volumes 	■ Ongoing regulatory supervision with monitoring of the development of the greenhouse gas emissions authorisation system	
		■ Target of -10% natural gas emissions from 2016 to 2021, with same scope	
		■ Target of -15% natural gas emissions from 2016 to 2022, with same scope	
		■ Target of -25% natural gas emissions from 2016 to 2025, with same scope	
		■ Recovery of 33% of potential emissions deriving from maintenance activities, each year from 2017 to 2022	
	Increase in the severity of extreme atmospheric phenomena, with impacts on continuity and quality of service	■ Development of new business related to alternative uses of gas and implementation of the use of gas to support the energy transition (biomethane and other renewable gases, small scale LNG, CNG, gas heat-pumps and micro-cogeneration)	
		■ Adaptation of the recovery plan and business continuity management system to international best practices	
		■ Technologically advanced tools for monitoring/controlling the status of infrastructure/plants and the areas affected	
		■ Elaboration of corporate energy scenarios consistent with the national and European decarbonisation objectives developed for the containment of temperatures increase envisaged by the Paris agreements	
		■ Ongoing, systematic maintenance and monitoring measures	

Classification	Description	Management actions	Impact on capitals
STRATEGIC RISKS	 Growth in the sensitivity of public opinion on matters related to climate change	<ul style="list-style-type: none"> ■ Adhesion to national and international initiatives aimed at strengthening the commitment to reduce methane emissions 	 
		<ul style="list-style-type: none"> ■ Adhesion to the TCFD "Task Force on Climate Related Financial Disclosure" 	 
		<ul style="list-style-type: none"> ■ Disclosure of multi-year targets defined to fight climate change 	 
LEGAL AND NON-COMPLIANCE RISK	 Possible violation of rules and regulations, with particular reference to Legislative Decree 231/2001 which provides for the company's liability for malfeasances committed by management or by third parties in relation to certain cases (corruption, fraud, health and safety of workers, environment)	<ul style="list-style-type: none"> ■ Updating and monitoring protocols of Model 231 	   
		<ul style="list-style-type: none"> ■ Awareness-raising initiatives and training on the prevention of corruption 	
		<ul style="list-style-type: none"> ■ Analysis and evaluation of reports received through the channels provided for by the reporting procedure 	
		<ul style="list-style-type: none"> ■ Adoption and maintenance of Health, Safety and Environment management systems certified according to ISO14001 and OSHAS18001 standards 	
		<ul style="list-style-type: none"> ■ Awareness-raising and training initiatives on accident prevention for employees and contractors 	
	 Maintaining an adequate reputational profile for suppliers and subcontractors	<ul style="list-style-type: none"> ■ Introduction of additional measures to prevent corruption and criminal infiltration 	
		<ul style="list-style-type: none"> ■ Obligation of suppliers and contractors to subscribe the Ethical and integrity Agreement 	
		<ul style="list-style-type: none"> ■ Reputational checks on suppliers and subcontractors 	
	Non-alignment of corporate governance and/or the internal control and risk system with regulations and/or best practices	<ul style="list-style-type: none"> ■ Periodic revision of employer model 	
		<ul style="list-style-type: none"> ■ Updating of Model 231 and the Code of Ethics 	
		<ul style="list-style-type: none"> ■ Analysis of updates to the latest version (July 2015) of the Borsa Italiana Code of Corporate Governance and to corporate governance best practices 	

Classification	Description	Management actions	Impact on capitals
OPERATING RISKS	Retaining gas storage concessions	<ul style="list-style-type: none"> Development of storage carried out in line with the most up-to-date technical and economic criteria and best practices in science and technology so as not to damage the deposit, not to cause harm to third parties or the environment and to guarantee the optimisation of capacity in compliance with the security of the national gas system 	 
	 Delays in the progress of infrastructure implementation programmes	<ul style="list-style-type: none"> Application of the strictest national and international environmental and safety standards during planning, with particular attention to safeguarding the natural value of the area and biodiversity 	 
		<ul style="list-style-type: none"> Communication policy on the planned work, with a view to sharing projects with the local community and stakeholders from the outset 	
		<ul style="list-style-type: none"> Use of innovative construction technologies with low environmental impacts (e.g. trenchless technologies, use of turbo gas with low atmospheric emissions) 	
		<ul style="list-style-type: none"> Strict, structured system for selecting contractors and monitoring their performance 	
	 Breakages or damages to pipelines/ installations also upon exogenous events, which can cause malfunction and unexpected service interruption	<ul style="list-style-type: none"> Application of management systems and procedures that take into account the specific nature of Snam's activities 	
		<ul style="list-style-type: none"> Recovery plan system and business continuity management in line with international best practices 	
		<ul style="list-style-type: none"> Communication initiatives aimed at providing information about the presence of infrastructure and behaviours to avoid/implement by third parties so as not to damage it 	
		<ul style="list-style-type: none"> Technologically advanced tools for monitoring/controlling the status of infrastructure/plants and the areas affected 	
		<ul style="list-style-type: none"> Continuous verification of insurance coverage in relation to the type of business and related risks 	
		<ul style="list-style-type: none"> Ongoing, systematic maintenance and monitoring measures 	
	 Computer threats (Cybersecurity)	<ul style="list-style-type: none"> Adaptation of IT security and business continuity systems to the ISO/IEC 27001 and ISO22013 standards respectively, with provision for related certification 	
		<ul style="list-style-type: none"> Definition of a model of <i>security incident management team</i> to respond promptly to events that may damage the integrity of the information and IT systems used 	

(cont'd)

Classification	Description	Management actions	Impact on capitals
FINANCIAL RISKS	Medium- and long-term debt rating down grade	■ Constant monitoring of rating indicators and availability of long-term credit lines	
	Changes in the interest rate	■ Monitoring cash-flow-at-risk using an asset and liability management (ALM) model	
	Exchange rate changes	■ Minimisation of transaction risk, through measures such as the use of derivatives	
	Inability to raise new funds (funding liquidity risk) or to liquidate assets on the market	■ Minimisation of opportunity cost and maintaining a balance in terms of debt duration and composition	
	Default	■ Monitoring of the contractual protection clauses in loan agreements	
	Receivables	■ Periodic monitoring of the situation of receivables and systematic management at set deadlines of reminders and any action necessary to collect on overdue debt	
		■ Evaluation of the authenticity and validity of guarantees	
		■ Reporting of any issues with the regulatory system that may lead to opportunistic/fraudulent behaviour by operators	

 FINANCIAL CAPITAL

 INFRASTRUCTURAL CAPITAL

 INTELLECTUAL CAPITAL

 HUMAN CAPITAL

 RELATIONAL CAPITAL

 NATURAL CAPITAL

Snam in 2018

- Summary Data and Information



Applicable regulatory framework and principal developments

TARIFF REGULATION IN ITALY

By means of Resolutions 514/2013/R/gas, 438/2013/R/gas and 531/2014/R/gas, the Energy Grid and Environment Regulatory Authority (ARERA) defined the tariff criteria for the fourth regulatory period, in force from 1 January 2014, for transportation and regasification activities and from 1 January 2015 for storage activities. Furthermore, with resolutions 575/2017/R/gas, 653/2017/R/gas and 68/2018/R/gas, the Authority defined tariff criteria for the transition period, respectively for the transmission and regasification businesses (period 01 January 2018-31 December 2019) and for storage (period 01 January 2019-31 December 2019).

Fourth regulatory period

Transportation	4 years + 2 years (transitional)	January 2014	December 2019
Regasification	4 years + 2 years (transitional)	January 2014	December 2019
Storage	4 years + 2 years (transitional)	January 2015	December 2019

With reference to the transmission business, in 2018 the Authority published two consultation documents relative to criteria for determining the revenues recognised for the fifth regulatory period, starting 2020 (DCO no. 347/2018/R/gas and DCO no. 512/2018/R/gas), confirming the stability and continuity of the regulatory principles with respect to current regulations. More specifically, the Authority proposed confirming a 4-year regulatory period (2020-2023), the revalued historic cost methodology and the inclusion of works in progress (LIC) for the determination of the RAB, the recognition of a flat amount of Net Working Capital, the excess charge of $\pm 4\%$ of revenues correlated with the volumes transported, the useful lives of assets of the current regulatory period and the update of operating costs on the basis of the price cap mechanism. Moreover, the application is proposed of an increase in the WACC of +1% for 10 years for investments that will come into operation in 2020-2021 and with a ratio of benefits/costs of more than 1.5, deferring application of the cost coverage mechanism based on total spending ("Totex") to the following regulatory period.

The following graphic shows the primary tariff components for each of the regulated activities carried out by Snam, based on the regulatory framework in force as at 31 December 2018. Further information regarding major new rate developments occurred, with respect to each business sector, is provided in the chapter “Business segment operating performance – Tariff regulations” of this Report.

	Transportation	Regasification	Storage
Period end of regulation (Tariffs)	<i>Transitional period:</i> ■ 1 January 2018 – 31 December 2019	<i>Transitional period:</i> ■ 1 January 2018 – 31 December 2019	<i>Current period:</i> ■ 31 December 2018 <i>Transitional period:</i> ■ 1 January 2018 – 31 December 2019
Calculation of capital net invested recognised for the purpose of regulation (RAB)	Revalued historical cost	Revalued historical cost	■ Revalued historical cost ■ Deduction of restoration costs recognised
Remuneration of invested capital net recognised for regulatory purposes (pre-tax WACC) (*)	■ 5.4% years 2016 ■ 5.7% year 2019	■ 6.6% years 2016 ■ 6.8% year 2019	■ 6.5% years 2016 ■ 6.7% year 2019
Incentives on new investments	<i>Transitional period:</i> (investments in FY 2018-2019): ■ +1% for 12 years + (investments in new capacity of transmission and with an analysis of benefits positive) ■ Remuneration investments t-1 (starting from 2017 investments) to offset the time-lag regulatory	<i>Transitional period:</i> (investments in FY 2018-2019): ■ +1.5% for 12 years (investments in new capacity of regasification) ■ Remuneration investments t-1 (starting from investments 2017) to offset time-lag regulatory	<i>Current and transitional period:</i> ■ Withholding for 8 years of 20% of the greater revenue with respect to recognised revenue deriving from the procedures insolvency ■ Remuneration investments t-1 to offset the time-lag regulatory (from 2014)
Efficiency factor (X Factor)	<i>Transitional period:</i> ■ 1.3% - on operating costs	<i>Transitional period:</i> ■ 0%	<i>Current period:</i> ■ 1.4% - on operating costs <i>Transitional period:</i> ■ To be defined with 2019 tariffs

(*) The rate of return on net invested capital (WACC) in force from 1 January 2016 was set by the Authority by means of Resolution 583/2015/R/com of 2 December 2015, “Rate of return on invested capital for infrastructural services in the electricity and gas sectors: calculation and updating criteria”. The duration of the WACC regulatory period for infrastructural regulations in the gas sector is set at six years (2016-2021), and a mechanism is provided to update the rate halfway through the period according to the economic situation. By Resolution 639/2018/R/COM of 06 December 2018, the Authority updated the rate of remuneration of the invested capital for the infrastructural services of the electricity and gas segments for the years 2019-2021.

Regulation in European countries of interest to Snam: main features

		2016	2017	2018	2019	2020	2021	2022	2023
TAG GCA Transmission	System regulated		3° Regulatory period						
Terēga Transmission	System regulated		ATRT6						
Storage	System regulated		ATS1						
IUK Transmission	System of exemption				Introduction of the regulated system				
TAP Transmission	System of exemption					Long-term contract			
DESFA Transmission/ LNG	System regulated	Regulatory period 1			Regulatory period 2				

TAG GCA Transmission

- RAB differentiated between the portion financed with equity (revalued historical cost) and portion financed with debt (book value). Moreover, different treatment is envisaged between old assets (pre-2012) and new investments;
- Different rates of remuneration are envisaged for the share of RAB financed with equity (*Cost of Equity (*) 8.92% actual pre-tax*) and for the share financed with debt (*Cost of Debt 2.7% nominal pre-tax*).

Terēga Transmission

- RAB value adjusted annually using the inflation rate (Consumer Price Index), considering new investments and amortisation/depreciation (Current economic cost method);
- Rate of remuneration of WACC equal to 5.25% *actual pre-tax*.

Terēga Storage

- Storage in regulated starting January 2018;
- Rate of remuneration of WACC equal to 5.75% *actual pre-tax*; RAB approximately 1.2 billion euro.

IUK Transmission

- Under exemption until October 2018;
- Transfer from an exemption system to a regulated system at expiry of the long-term contracts (October 2018).

TAP Transmission

- Third Part Access exemption on initial capacity (10bcm/y);
- Exemption from the tariff regulation on the initial and expansion capacity.

DESFA Transmission/LNG

- RAB based on historic cost, work in progress remunerated by WACC;
- Nominal pre-tax rate of remuneration of 9.22% for 2017 and 2018;
- The parameters for the new regulatory period are currently being reviewed;
- RAB of approximately 0.8 billion euro (Transmission + LNG);
- Socialisation of the cost of LNG in the transmission tariffs (75%);
- Recovery of the cumulative OLD recoverable differences 2006-2016 of approximately 326 million euro, spread out over 16 years, from 2017 to 2032.

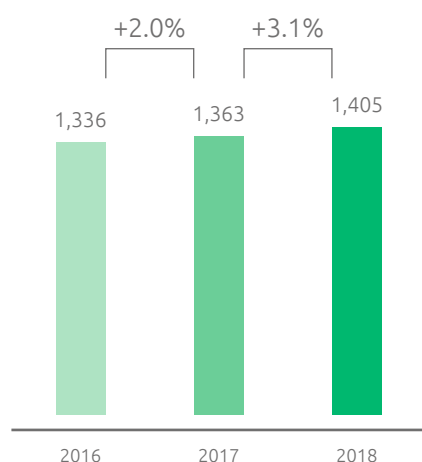
Results

In order to allow for a better assessment of the performance of economic-financial operations, this Report includes the reclassified financial statements and some alternative performance indicators (non-GAAP measures), mainly represented by the results in the adjusted configuration¹. More specifically, the operating profit and the adjusted net profit are obtained by excluding the special items (respectively gross and net of the related taxes) from the operating profit and the reported net profit, as per the scheme of the Income Statement.

Income entries classified as special items for FY 2018 refer to: (i) the financial expenses deriving from the buy-back of bonds on the market as part of the Liability Management transaction (35 million euro, net of the related tax effect); (ii) the expenses for incentives to take voluntary redundancy in application of the early pension tool regulated by Art. 4, paragraphs 1-7 of Italian Law no. 92/2012, the "Fornero Law", together with the introduction of the "quota 100", envisaged by the 2019 Budget Law (15 million euro, net of the related tax effect).

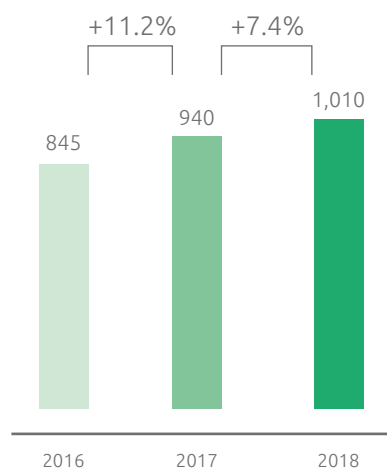
ADJUSTED RESULTS²

EBIT adjusted (million euro)



Due to soundness and efficiency of operational management and rigorous financial discipline, Snam achieved very positive results, beyond expectations, in 2018. **Adjusted EBIT³** totalled 1,405 million euro, up 42 million euro (3.1%) compared with the same value from the 2017 financial year. The greater revenues (+87 million euro; +3.6%), mainly due to the contribution made by the natural gas transmission sector and the change in the consolidation scope, deriving from company mergers regarding the new businesses of CNG and biomethane, were partially offset by the increase in amortisation, depreciation and impairment (-31 million euro; 4.7%) recorded in all business segments and the increase in operating costs (-14 million euro; 3.3%). This increase is mainly due not only to the change in the consolidation scope, but also to the expenses stemming from the greater use of unaccounted-for-gas (UFG) with respect to the quantities conferred in kind by transmission users, the effects of which were partly absorbed by the efficiency actions implemented, with savings achieved in 2018 of 17 million euro.

Adjusted net profit (million euro)



As regards business sectors, the increase in adjusted EBIT essentially reflects the positive performance recorded by the transport sector (+33 million euro; +3.1%).

The **adjusted net profit** totalled 1,010 million euro, up by 70 million euro (+7.4%) compared to the adjusted net profit of 2017. The increase, in addition to greater operating profit (+42 million euro; +3.1%) is due to the lesser net financial expenses (+32 million euro; 14.1%), thanks to the reduction in the average cost of debt, which goes from 2.0% in 2017 to 1.5% in 2018, also due to the benefits

¹ For the definition of these indicators and the reconciliation of the economic ones with the related reported results, in line with the guidelines of the 2015/ESMA1415 document "ESMA Guidelines on Alternative Performance Measures" of 05 October 2015, please refer to the chapter "Financial review and other information - Non-GAAP measures".

² Unless specified, the FY 2016 results refer to continuing operations. These results, due to the discontinuity factors that characterised 2016 not only exclude the special items but also reflect the Italgas Group's contribution to continuing operations, by applying the relative portion of shares, amounting to 13.5%, to Italgas Group's net profit for the entire year (pro-forma adjusted configuration).

³ EBIT was analysed by isolating only the elements that resulted in a change to that figure. To this end, applying gas sector tariff regulations generates revenue components that are offset in costs, mainly due to interconnection.

deriving from the optimisation action taken in 2016 and 2017, in particular, liability management and the increase in net income from equity investments (+9 million euro; +6.0%). These effects were partly offset by greater income taxes (-13 million euro; 3.8%), due mainly to the rise in pre-tax profit.

Net financial debt was 11,548 million euro as at 31 December 2018, compared with 11,550 million euro as at 31 December 2017. The net cash flow from operations (1,826 million euro) allowed us to entirely finance net investments (1,036 million euro, including equity investments of 176 million euro). This flow and the collection deriving from the repayment by TAP of the shareholders' loan (519 million euro; 371 million euro, net of the portions disbursed by Snam during the year), have made it possible to generate free cash flow of 1,161 million euro. Net financial debt, after the payment to shareholders of the 2017 dividend (731 million euro, of which 294 million euro by way of interim dividend and 437 million euro for the balance) and the cash flow deriving from the purchase of treasury shares (426 million euro), shows a reduction of 2 million euro compared to 31 December 2017.

Free cash flow

+1,161 million euro

DIVIDENDS

Our healthy results and solid business fundamentals allow us to propose a **dividend of 0.2263 euro** per share to the Shareholders' Meeting, of which 0.0905 per share was paid in January 2019 as an interim dividend (298 million euro) and the balance of 0.1358 per share will be paid from 26 June 2019 with warrant date 24 June 2019 (record date 25 June 2019). The dividend proposed, up 5% on 2017, in line with the dividends policy announced in the Business Plan, confirms Snam's commitment to an attractive and sustainable remuneration of its shareholders over time.

Dividend

0.2263 euro per share

Main income statement data ^(a)

	Adjusted		
(€ million)	2016 ^(b)	2017	2018
Total revenue	2,560	2,533	2,586
Total revenue net of pass-through items	2,444	2,441	2,528
Operating costs	573	511	491
Operating costs net of pass-through items	428	419	433
EBITDA	1,987	2,022	2,095
Operating profit (EBIT)	1,336	1,363	1,405
Net profit ^(c)	845	940	1,010

(a) Changes in the income statement results shown in the table, as well as in those later in this Report, unless otherwise indicated, must be understood as changes in the results for the 2018 financial year compared to the 2017 adjusted year. Percentage changes, unless otherwise specified, are calculated in relation to the data indicated in the related tables.

(b) These results, due to the discontinuity factors that characterised 2016 not only exclude the special items but also reflect the Italgas Group's contribution to continuing operations, by applying the relative portion of shares, amounting to 13.5%, to Italgas Group's net profit for the entire year (pro-forma adjusted configuration).

(c) Entirely held by Snam shareholders.

Reported results

(€ million)	2016	2017	2018
Operating profit (EBIT)	1,293	1,348	1,384
Net profit (*)	861	897	960

(*) Entirely held by Snam shareholders.

Key balance sheet and cash flow figures

		2016	2017	2018
Net earnings per share (a)	(€)	0.169	0.262	0.286
Adjusted net earnings per share (a) (b) (c)	(€)	0.242	0.275	0.301
Group shareholders' equity per share (a)	(€)	1.86	1.81	1.78
Pay-out (Dividends for the period/Group net profit) (d) (e)	%	83.86	81.61	77.71
Dividend yield (Dividend for the period/Year-end official share price) (d)	%	5.4	5.3	5.9
Price/Book value (Average official price per share/Group shareholders' equity per share)	(€)	2.21	2.24	2.10

(a) Calculated considering the average number of shares outstanding during the year.

(b) The FY 2016 figure is calculated with reference to the pro-forma adjusted result.

(c) 2018 adjusted net earnings per share, calculated considering the number of shares outstanding at the year-end, is at 30.6 euro cents per share (+8.8% vs the correspond 2017 amount).

(d) The 2018 amount (relating to the dividends) is estimated based on the outstanding number of shares as at 15 February 2019.

(e) The figure for FY 2016 was calculated with reference to the Group's net income (continuing and discontinued operations) of 861 million euro,

Key balance sheet and cash flow figures

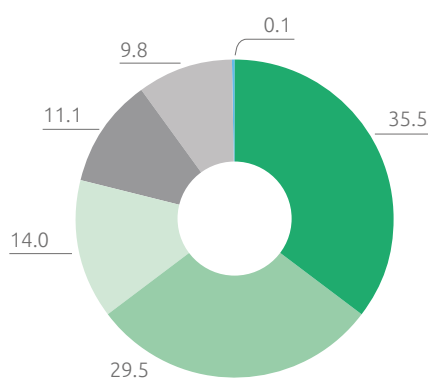
(€ million)	2016	2017	2018
Technical investments	906	1,034	882
Net invested capital at 31 December	17,553	17,738	17,533
Group shareholders' equity at 31 December	6,497	6,188	5,985
Net financial debt at 31 December	11,056	11,550	11,548
Free cash flow	1,707	423	1,161

Key share figures

		2016	2017	2018
Number of shares of share capital	(million)	3,501	3,501	3,469
Number of shares outstanding at 31 December	(million)	3,471	3,415	3,301
Average number of shares outstanding during the year	(million)	3,497	3,422	3,358
Year-end official share price	(€)	3.923	4.086	3.820
Average official share price during the period	(€)	4.101	4.043	3.747
Market capitalisation	(million)	13,612	13,953	12,606
Dividend per share	(€ per share)	0.2100	0.2155	0.2263
Dividends for the period (*)	(million)	718	732	746
Dividends paid in the period	(million)	875	718	731

(*) The 2018 amount (relating to the dividends) is estimated based on the outstanding number of shares as at 15 February 2019.

Breakdown of value added



- Snam Group
- Shareholders
- Public Administration
- Lenders
- Employees
- Local communities

Breakdown of added value

At Snam, sustainability and the creation of value are strongly connected concepts. Sustainability creates value for the Company and stakeholders, and establishes a connection between the business and corporate social responsibility. The Company produces wealth by contributing to the economic growth of the society and environment in which it operates, and it measures this wealth in terms of added value produced and distributed to its key stakeholders.

Snam calculates the added value on the basis of the standard prepared by the Gruppo di Studio per il Bilancio Sociale (GBS) and the GRI Standards.

The table below is useful for understanding the Group's economic impact and makes it possible to read the consolidated financial statements from the standpoint of stakeholders.

To this end, it should be noted that the calculation of the Value Added was made on the basis of the values drawn from the legal scheme of the Income Statement. In 2018, the gross global added value produced by Snam was 2,532 million euro: up 85 million euro (3.5%) compared to 2017 (2,447 million euro).

A total of 35.5% of the gross global added value produced by Snam was **reinvested within the Group** (an increase on 2017: +1.7 percentage points), of which approximately 77% was allocated to the amortisation and depreciation of the infrastructures used in the production process (80% in 2017). As regards the main reference stakeholders, 2018 shows a greater incidence of Value Added distributed to **employees** (11.1%; +0.9 percentage points on 2017) through direct compensation comprised of wages, salaries and severance pay and indirect compensation comprised of social safety charges and costs for staff-related services (canteen services, travel cost reimbursement). The value allocated to the **Public Administration** through payment of direct and indirect tax records substantial stability (14.0%; no change on 2017). With reference to **lenders**, there was a reduction in the value distributed of 2.1 percentage points (9.8%; 11.9% in 2017) also against the benefits deriving from the optimisation actions implemented in 2016 and 2017, in particular the operations of liability management, despite the greater period average debt. The value distributed to **shareholders** through the distribution of dividends records a stable incidence (29.5%; 29.9% in 2017). In the presence of growth of a unitary dividend (+5% on 2017), as confirmation of the commitment to guarantee shareholders an attractive, sustainable remuneration, a reduction is recorded in the number of shares in issue against the buy-back of treasury shares performed by Snam as part of the share buy-back programme. Lastly, an amount of approximately 3 million euro was designated for **local communities** (0.1% of the value generated) through donations and sponsorship initiatives and environmental compensation pursuant to the law.

With regard to the environmental protection, Snam spent approximately 105.7 million euro (92.1 million euro for investments and 13.6 million euro for operating costs).

Main events

Acquisitions in the core business

DESFA

On **20 December 2018**, the European consortium made up of Snam (60%), Enagás (20%) and Fluxys (20%) completed, through the new company Senfluga Energy Infrastructure Holding, the acquisition by the Greek privatisation company HRADF and Hellenic Petroleum of a 66% stake in DESFA, the national operator in the natural gas infrastructure sector, for an equivalent value of 535 million euro. The Consortium has acquired a non-recourse loan with a duration of over 10 years, corresponding to around 65% of the enterprise value. DESFA has and manages, in a regulated system, a high pressure transmission network of approximately 1,500 km, as well as a regasification terminal in Revithoussa. Greece, an important crossways for the diversification of procurement and the opening of new natural gas routes in Europe, has further potential development as a hub for south-east Europe.

Thanks to the support offered by Snam, Enagás and Fluxys, the three European infrastructural companies most involved in the development of the Energy Union, DESFA may fully optimise its strategic position in the Mediterranean. The consortium will also be promoting innovation in the natural gas sector in Greece, fostering the introduction of renewable gases like biomethane so as to create a sustainable energy system and actively contribute towards the reduction of greenhouse gases and polluting emissions in the country.

Acquisitions in new businesses

TEP Energy Solution (TEP) - Energy efficiency

On **30 May 2018**, after obtaining antitrust clearance, through the subsidiary Asset Company 4 S.r.l., a controlling stake of 82% of the capital was acquired in TEP Energy Solution (TEP) for a total value of approximately 21 million euro. There is a contractual price adjustment mechanism in place, based on the results of FYs 2018-2020 and crossover put and call options on the interests of minority shareholders, maturing in 2020.

TEP is one of Italy's most important companies in the energy efficiency sector, as an Energy Service Company (ESCO) with more than 200 leading national and international businesses as clients and 950 thousand energy efficiency certificates. The acquisition of TEP comes under the scope of Snam's strategic plans aimed at fostering decarbonisation and a better use of energy in the territories in which it operates. The aim is to speed up the TEP growth process, with the support of the company's management team, facilitating the transfer of energy efficiency competences and technologies from major industry to small and medium enterprises and local entities.

IES Biogas and ENERSI Sicilia - Biomethane

On **05 July 2018**, Snam acquired, for a value of approximately 4 million euro, 70% of IES Biogas, one of the most important Italian businesses involved in the design, development and management of biogas and biomethane production plants with a market share in excess of 10%. Contractual put and call options are envisaged on minority shareholders' interests, maturing in 2022.

With 2017 turnover exceeding 20 million euro, IES Biogas has to date developed more than 200 plants throughout national territory. In recent years, the company has also developed projects outside Italy.

On **29 November 2018**, Snam also completed the acquisition, for a value of around 2 million euro, of 100% of Enersi Sicilia S.r.l., a company authorised to develop infrastructure to produce biomethane from the organic fraction of municipal solid waste ("OFMSW") in the province of Caltanissetta.

This acquisition will allow Snam to create its first biomethane plant which will be capable of handling 36,000 tonnes of municipal waste per year, providing the bordering municipalities with a totally renewable solution to the problem of disposal.

The plant will be set up leveraging the managerial expertise and know-how of the subsidiary IES Biogas which will oversee its development and construction.

Said acquisitions have been carried out through the subsidiary Snam4Mobility, the company through which Snam is developing the compressed natural gas (CNG) and liquefied natural gas (LNG) engine refuelling infrastructures. The growing interest shown by the market in respect of methane and biomethane sustainable mobility shows the great potential of alternative uses of gas.

Biomethane is a source of renewable energy that derives from the biogas purification process obtained from the optimisation of the products and by-products of the agricultural and agricultural-industrial chain and the organic fraction of municipal waste. Biomethane can be released into the natural gas transmission infrastructure.

The acquisition is a first step for Snam into renewable energy, in support of its role in the energy transition.

Cubogas - Compressed natural gas (CNG)

On **25 July 2018**, through the newly-established company Cubogas S.r.l., a 100% subsidiary of Snam4Mobility, after the meeting of several conditions precedent including the completion of the union procedures, the business unit was acquired as operating in the design, development and production of technological solutions for natural gas vehicle refuelling stations of M.T.M., a company of the Westport Fuel Systems Group.

The transaction has a value of 12.6 million euro, including price adjustments applied during closing.

The acquisition, which includes the Cubogas brand, will allow Snam to insource and fully consolidate the value created throughout the chain, taking a leadership position in the development of “turnkey” solutions for natural gas sustainable mobility. Snam will operate in such a way as to further develop the strengths of Cubogas, such as the brand value, customer focus and service level. The use of compressed natural gas (CNG) in the transport sector is one of the best technologies available to eliminate polluting emissions, to the benefit of air quality in cities.

New business opportunities

Snam and BHGE: agreement to develop micro-liquefaction plants for sustainable mobility

On **28 May 2018**, Snam and Baker Hughes, a GE company (NYSE: BHGE) signed a Head of Agreement for the development of micro-liquefaction infrastructures to boost sustainable mobility in heavy goods transport by road and to promote the launch of shipping in Italy.

Snam and BHGE are evaluating the possibility of developing four micro-liquefaction plants throughout national territory. The total annual production of the four plants will come to approximately 140,000 tonnes of liquefied natural gas (LNG) or bio-LNG (liquid biomethane, obtained from the organic fraction of municipal waste or agricultural and agricultural-industrial biomass) and will strengthen the Italian production of zero CO₂ emissions renewable gas for the transport sector.

The potential investment expected for the four plants, if the study should be successful, is around 50-80 million euro in the next few years. The agreement also envisages the opportunity of developing further micro-liquefaction infrastructures in Italy and abroad.

Agricultural biomethane - Memorandum of Understanding: Coldiretti, Bonifiche Ferraresi, A2A, Snam and Gestore dei servizi energetici (GSE)

On **19 June 2018**, a memorandum of understanding was stipulated by Coldiretti, Bonifiche Ferraresi, A2A, Snam and Gestore dei servizi energetici (GSE), with the involvement of agricultural and industrial businesses, the Italian councils and, more generally, all players involved in the production of biomethane and the related use in the transport sector. The ultimate aim is to aggregate the chain players, so as to speed up the energy transition in transport, allowing all operators to access the services offered by the various subjects operating in biomethane and agriculture. Snam intends to promote the development and dissemination of processes and technologies for biomethane production in Italy and support the circular economy, as well as making its compressed and liquefied natural gas distribution plants and transmission network available for sustainable mobility.

Sustainable Mobility

In the more extensive scenario of initiatives for the promotion of sustainable mobility, Snam:

- on **31 July 2018**, stipulated a framework agreement with the api Group for the creation, within IP-branded fuel sales outlets, of around 200 new natural gas and biomethane refuelling stations throughout the country. The agreement is part of the undertaking made by the two companies to promote sustainable mobility and aims to extend the natural gas distribution network for vehicles in Italy. Based on the agreement, Snam and the api Group will jointly identify the IP-branded fuel refuelling stations of the ordinary and motorway networks where the plants supplying methane for vehicles (CNG, compressed natural gas) will be installed. LNG (liquefied methane) distributors for heavy goods vehicles are also being studied;
- following on from the framework agreement signed in May 2017, by means of the subsidiary Snam4Mobility, on **3 August 2018**, stipulated with Eni the second implementation contract on the development of 20 methane refuelling stations in Italy (which follow on from the 14 contracted in 2017). The contract concerns the design, development and maintenance by Snam of 20 new CNG plants within the national Eni distributor network. The investment for these activities is expected to be approximately 10 million euro. As at 31 December 2018, a total of 50 agreements had been contracted with Eni and other operators for refuelling stations (34 with Eni in 2017 and 2018), of which 6 stations have already been developed;
- also signed, on **26 November 2018**, a strategic agreement with SEAT for the promotion of the use of natural gas (CNG - compressed natural gas) and renewable gas (biomethane) for sustainable mobility, as well as research and development projects in this area. According to the agreement signed, Snam and SEAT will be exploring business development opportunities and initiatives involving resellers, commercial clients and drivers, to promote the system of natural gas refuelling stations and the identification of new technological projects.

Collaboration opportunities in China

Signed on:

- **28 August 2018**, with State Grid International Development (SGID), a 100% subsidiary of State Grid Corporation of China, a Memorandum of Understanding (MOU) to assess a series of possible collaboration opportunities in China and internationally, in particular in connection with uses of new technologies to reduce CO₂ emissions. The initiatives being examined include: (i) the development of biogas and biomethane plants to produce electricity from renewable sources in the rural areas of China; (ii) any partnership opportunities in research and development involving renewable gas,

sustainable mobility and joint electricity-gas projects. A first service contract was also signed with Petrochina Pipeline Company for the training of around 80 resources of the Chinese company;

- **25 October 2018**, an MOU with Beijing Gas, China's most important distributor and supplier of natural gas, with a network of 22 thousand kilometres and more than 6 million customers in the area of Beijing. The understanding envisages the evaluation of possible collaborations in China, in particular in biomethane and the storage of natural gas.

Sardinia Newco

Snam and Società Gasdotti Italia (SGI) have finalised an agreement for the possible joint development of the transmission infrastructure in Sardinia, after obtaining the authorisations necessary following the procedure in progress with the competent national and regional authorities.

On **30 October 2018**, the Directorate-General for Competition of the European Commission issued its antitrust clearance (authorisation) for the establishment by Snam and Società Gasdotti Italiani-SGI of a newco for the development of the gas transmission infrastructure in Sardinia.

Snam Global Solution - Joint venture with Albanian Gas Service Company (Albgaz)

Established in **November 2018**, a joint venture for the supply of operation and maintenance (O&M) services on the Albanian section of the TAP gas pipeline. The joint venture is owned 75% by Albgaz and 25% by Snam.

The agreement is part of the activities started by Snam's Global Solutions business unit to enhance and make Snam's consolidated experience in the market development and creation and management of gas infrastructure in Italy and Europe available to other operators at global level.

Financing

New share buy-back plan and cancellation of treasury shares without reducing the share capital

On **24 April 2018**, Snam's Shareholders' Meeting authorised, after revoking the part that had not been executed of the resolution to authorise the purchase of treasury shares passed by the Shareholders' Meeting on 11 April 2017, the purchase of treasury shares on one or more occasions, for the maximum duration of 18 months starting from the date of the meeting resolution. The maximum outlay authorised is 500 million euro and in any case up to a maximum of 134,564,883 shares, without exceeding 6.50% of the share capital subscribed and freed-up (regarding the treasury shares already held by the Company). The shareholders' meeting resolution sets out the terms and conditions of the price for the purchase of treasury shares to be made under the authorisation conferred. The Shareholders' Meeting has also authorised the disposal, in one or more tranches, without any time limits and even before having completed the purchases, of all or part of the Company's treasury shares purchased under the shareholders' meeting resolution, and also of the treasury shares already held.

In an extraordinary session, the same Shareholders' Meeting, again held on the same date, approved the cancellation of 31,599,715 treasury shares with no nominal value, without reducing the share capital, and the consequent amendment of Art. 5.1 of the Company's Articles of Association. The shares were cancelled on 07 May 2018 following the deposit with Companies House of the amended Articles of Association. By virtue of this operation, the share capital consists of 3,469,038,579 shares with no nominal value, with a total value of 2,736 million euro.

In execution of that resolved, the new buy-back programme was launched on **18 June 2018**.

In 2018, a total of 113,881,762 Snam shares were purchased, equal to 3.28% of the share capital, for a cost of 426 million euro (56,010,436 shares, equal to 1.60% of the share capital, for a cost of 210 million euro in 2017). Purchases were made of 36,606,724 shares as part of the share buy-back programme resolved by Snam's Shareholders' Meeting held on 11 April 2017 and of 77,275,038 shares as part of the new share buy-back programme.

As at 31 December 2018, Snam had a total of 168,197,663 treasury shares, equivalent to 4.85% of its share capital.

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

On **02 October 2018**, the Board of Directors of Snam S.p.A. resolved to renew the Euro Medium Term Note (EMTN) programme launched in 2012, for a maximum value of 10 billion euro.

As a result, the Board has decided to issue one or more additional bonds to be executed by 02 October 2019, for a maximum amount of 1.74 billion euro, increased by the

amount corresponding to the bonds repaid during the same period, to be placed with institutional investors, mainly operating in Europe. The total nominal value of issued bonds in circulation in each instance may not exceed the maximum limit of 10 billion euro. The securities issued may be listed on one or more regulated markets.

The EMTN Programme represents an effective tool to obtain significant financial resources from the market in a rapid and flexible way, at competitive costs, coherent with the expected evolution of the target financial structure of the company. As at 31 December 2018, bonds for approximately 8.0 billion euro have been issued under the EMTN Programme⁴.

The Board of Directors has also resolved to approve a Euro Commercial Paper programme (the "ECP Programme") for the issue of one or more Euro Commercial Papers within 2 years of 02 October 2018, for a total maximum equivalent value of 1 billion euro, increased by the amount corresponding to the Euro Commercial Papers redeemed each time during the same period, to be placed with institutional investors, as per the terms and conditions of the ECP Programme. The total nominal value of the Euro Commercial Papers issued under the ECP Programme may not exceed the maximum limit of 1 billion euro. As at 31 December 2018, the ECP Programme is used for a total nominal value of 225 million euro.

The ECP Programme enables Snam to diversify the short-term financial instruments with a view to ever greater flexibility in the process of optimising the treasury.

Bond buyback

On **10 December 2018**, Snam successfully completed a buyback on the market of its own bonds with a total nominal value of about 538 million euro, with an average coupon of approximately 2.6% and a remaining maturity of approximately 3.7 years.

The effects of this transaction on the 2018 income statement (47 million euro, 35 million euro gross of the tax effect) are essentially represented by the charges deriving from the difference between the outlay deriving from the repurchase of the bonds on the market and the amortised cost valuation of the bonds themselves.

Through this operation, Snam continues to optimise its debt structure and continuously improve the cost of capital, in line with its objectives. The year just ended is the last of four liability management years that, from 2015 to date, have helped reduce Snam's cost of debt from 2.4% in 2016 to 1.5% in 2018.

Other

GasBridges share swap

On **26 April 2018**, Snam S.p.A. and Fluxys Europe B.V. completed the share swap transaction through which Fluxys Europe transferred to Snam the shares held in GasBridge 2 B.V., equal to 50% of the share capital and, at the same time, Snam transferred to Fluxys Europe, the shares held in GasBridge 1 B.V., equal to 50% of the share capital. Upon completion of the share swap, Snam held the entire capital of GasBridge 2 B.V. and Fluxys owned the entire capital of GasBridge 1 B.V. On 31 July 2018, Gasbridge 2 B.V. was renamed Snam International B.V.

Exit incentive agreement - ISOPENZIONE

On **26 September 2018**, Snam stipulated an implementing agreement with some of the most representative trade unions, covering tools for the management of employment policies.

Under this agreement, which follows on from the preliminary agreement signed by the parties on 26 July 2017, measures were agreed in relation to the instrument for early retirement for employees, regulated by Art. 4, paragraphs 1-7 of Italian Law no. 92/2012 (the "Fornero Law").

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

After verification of pension requirements by INPS, a total of 110 resources are involved.

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

In relation to the aforementioned agreement, the income statement recorded expenses of 15 million euro for cost of labour, including the costs for early retirement incentives granted to employees taking part.

⁴ The convertible bond loan with a nominal value of 400 million euro is not part of the EMTN Programme.

Operating review

Technical investments

Technical investments totalling 882 million euro (1,034 million euro in 2017) referred mainly to the natural gas transportation (764 million euro) and storage (99 million euro) business segments.

Infrastructure development and integration

The main investments for the development of new infrastructure mainly involved work for **the reversal of physical transportation flows at interconnection points with northern Europe** (150 million euro), the **upgrade of the transportation network from entry points in southern Italy** (8 million euro) and the upgrade of the network and connection of new regional and national redelivery points (106 million euro). A total of 26 million euro was invested in 2018 for the **development of new storage fields and upgrading capacity**.

Considering the works completed and decommissioning that took place during the year, **the network of operating gas pipelines** increased by 41 km on 31 December 2017, whilst **installed power in compression plants came to 961 megawatts**, up 59 megawatts thanks to the commissioning of the new Minerbio and Sergnano plants. Available **storage capacity** rose by 0.2 billion cubic metres, made available by the new Bordolano deposit, to a level of 12.4 billion cubic metres.

Maintenance of plant security and quality

Investments in projects aimed at maintaining plant security and quality totalled 366 million euro for transmission and 57 million euro for storage.

Throughout the year, the plants in the network are monitored 24 hours a day. With the help of simulation and optimisation programmes, their best asset is guaranteed with the aim of reducing the consumption of gas boosting fuels and thus containing the level of emissions.

The section of lines is inspected regularly by vehicles, using helicopters and personnel on foot in order to detect potentially hazardous situations caused, for example, by the works of third parties in the area of the pipelines. Geological inspections of the pipeline section are also carried out to identify potential instabilities along the sections. Similarly, any land slippage at specific points along the route is also kept under surveillance, using appropriate sophisticated equipment, if needed. Pipeline integrity is also monitored by passing a smart pig inside them to detect of any material defects or anomalies.

Control and inspection of transportation activities

(km)	2016	2017	2018
Network inspected using smart pigs	1,660	1,632	1,651
Network inspected by helicopter	16,218	16,274	18,462
Network subjected to geological inspection	1,478	4,080	4,209

In terms of storage, particular attention is paid to the safety plants and people. Regular maintenance and plant improvement interventions are performed on a continuous and targeted basis, in order to always apply the best available technologies. In addition to the drills required by the Seveso Directive, in 2018, at the Panigaglia regasification terminals, Snam conducted monthly safety drills simulating accidental leaks of LNG. A joint Security and Safety exercise was also carried out with the Port Authority, the Fire Department, the police, and the emergency medical services.

72.82

Bn m³ gas injected into the network (-2.4%)

Interconnected transportation-storage capacity and network utilisation

The average transportation capacity provided in 2018 was 360.8 million cubic metres/day on average, which was in line with 2017 (-0.9%), while transferred capacity totalled 287.0 million cubic metres/day on average. Network saturation⁵ was 79.5%, a rise compared with 2017 (71.0%).

The number of active transport users in 2018 was 136, compared to 128 users active in 2017. During the year, 88 connection agreements were entered into for the creation of new delivery/redelivery points, including 14 biomethane points and 43 CNG.

Overall storage capacity, including strategic storage, was 16.9 billion cubic metres at 31 December 2018, an increase of 0.2 billion cubic metres over 2017, following the Bordolano site's gradual entry into service, of which 12.4 was available capacity that was fully transferred for the 2018-2019 thermal year (99.7%), and the remaining 4.5 billion cubic metres was for strategic storage.

There were 91 active storage customers (89 in 2017).

72.66

Bn m³ gas demand (-3.3%)

Business volume

In 2018, a total of 72.82 billion cubic metres of gas was injected into the network, a reduction of 1.77 billion cubic metres (-2.4%) compared with 2017. The reduction can mainly be attributed to the lower consumption recorded in the thermoelectric business segment (-2.08 billion cubic metres; -8.2%) following the return to the normal flows of electricity imports, which reduced in 2017 due to the downtime of some French nuclear plants in the first two months of the year and the increase in hydroelectric production, which has returned to normal levels after the water shortage that characterised 2017.

Volumes of gas moved through the storage system in FY 2018 amounted to 21.07 billion cubic metres, an increase of 1.15 billion cubic metres, or 5.8%, compared with FY 2017.

The increase can be attributed to both greater injections for filling storage (+0.84 billion cubic metres; + 8.6%) and to greater deliveries from storage (+0.31 billion cubic metres; +3.1%), mainly following the climatic conditions in the first few months of 2018.

During 2018, 0.91 billion cubic metres of LNG were regasified at the Panigaglia (SP) LNG terminal (0.63 billion cubic metres in 2017; +0.28 billion cubic metres, or 44.4%). In 2018, 21 methane tanker loads were unloaded (15 in 2017; +40%).

+5.8%

volumes moved

+44.4%

m³ regasified

⁵ Ratio of capacity transferred to available capacity.

Key operating figures

In conformity with IFRS 8 "Operating segments", the operating segments were defined on the basis of the internal reporting used by the Company's management for allocating resources to the different segments and for

analysing the respective performances. To this end, please note that the companies that joined the consolidation scope in FY 2018 have been consolidated within the Corporate and other businesses segment.

	2016	2017	2018	Change	% change
Natural gas transportation (a)					
Natural gas injected into the National Gas Transportation Network (billions of cubic metres) (b)	70.64	74.59	72.82	(1.77)	(2.4)
Transportation network (km in use)	32,508	32,584	32,625	41	0.1
Installed power in the compression stations (MW)	922	902	961	59	6.5
Liquefied natural gas (LNG) regasification (a)					
LNG regasification (billions of cubic metres)	0.21	0.63	0.91	0.28	44.4
Natural gas storage (a)					
Available storage capacity (billions of cubic metres) (c)	12.0	12.2	12.4	0.2	1.6
Natural gas moved through the storage system (billions of cubic metres)	20.00	19.92	21.07	1.15	5.8
Employees in service at period end (number) (d)	2,883	2,919	3,016	97	3.3
<i>of which business segments:</i>					
- Transportation	1,726	1,972	1,915	(57)	(2.9)
- Regasification	71	63	64	1	1.6
- Storage	301	60	59	(1)	(1.7)
- Corporate and other activities (e)	785	824	978	154	18.7

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

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

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

(d) Fully consolidated companies.

(e) The figure for 2018 includes resources obtained respectively: (i) from the entry of TEP (22 resources) and (ii) of IES Biogas (34 resources) into the consolidation area, (iii) as well as the acquisition of the Cubogas business unit (61 resources).

Personel trend

The number of employees in service as at 31 December 2018 was 3,016 (n. 2,919 employees as at 31 December 2017), an increase of 97 (+3.3%) over the previous year. The average number of payroll employees for entities included in the scope of consolidation as at 31 December 2017 was 2,949 (2,860 employees in 2017).

During the year, 2018 recorded the following performance:

- 321 new resources, of whom 195 hired from the market, 126 other new employees, including 61 resources due to a change in the consolidation of the company Cubogas S.r.l. as from 25 July 2018, 22 resources for the acquisition of TEP Energy Solution from June 2018, 34 resources for the acquisition of IES Biogas in July 2018, 9 returns to service from leave;
- 189 employees left the company, including 49 as a result of the termination of employment, 41 were terminated unilaterally (comprising both dismissals and redundancies) and 99 departures under Isopensione. Another 10 employees left on leave and 25 were transferred to companies that are not consolidated.

With respect to the Group's national distribution, 2,302 people are employed in the northern regions of Italy, 220 in the central regions and 490 in the south. Furthermore, 4 individuals are permanently employed abroad.

Industrial relations

In 2018, the relationship with the trade union organisations at a national and local levels was characterised by numerous meetings (109) regarding plans for business evolution and new organisational structures, also following the acquisition of Cubogas.

As regards to transmission and storage, the integration deriving from the "Integra" project continued, which calls for integrating side activities of the operational companies to develop and exploit the specific skills.

For the transportation business, the Smart Gas technical committee's work continued, seeking for a more rational scheduling of the operations with the objective of analysing the technical aspects of the project. Moreover, a technical commission has been set up for the "Smart Gas Plants" project, with the aim of analysing the technical matters relating to this further technical organisational evolution. In the regasification area, meetings were held with the trade unions, at national and local level, aimed at sharing and comparing the issues concerning the evolution of the business.

The bargaining dynamics, consistent with the provisions of the 2013 Industrial Relations Protocol, whose reasoning were imbued with the concept of strengthening second-level negotiations, led the Parties to define productivity and profitability indicators for the 2018 Participation Bonus for all Snam group companies.

Furthermore, all the Snam group companies signed the implementation agreement pursuant to the Article 4 of the Italian Law 92/2012 for an early exit of a further 110 workers who meet the requirements prescribed by the law.

By trade union agreement, the electronic ticket has been introduced group-wide in all territorial operative contexts.

Supply chain management

Snam adopts an 'extended' management model that, going beyond the boundaries of its company perimeter, involves and takes on the responsibility of supply chain operators (suppliers and subcontractors): everyone is encouraged to achieve increasingly sustainable performance in terms of risk mitigation, innovation of management processes, increase in operational efficiency and promotion of responsible governance procedures.

In 2018, Snam directly provided work for around 540 companies, 399 of which belong to the small-medium business sector (SME), concluding 753 procurement contracts worth a total of approximately 1.5 billion euro. Among the goods purchased the most important material is steel (piping, connectors, etc.) which, in 2018, amounted to a supply of approximately 46,400 tonnes.

The increase in procurement on 2017 (approximately + 80%) was determined by the multi-year planning of purchases, the cyclical nature of the procurement process by virtue of the stipulation of contracts signed during previous years and new business activities.

More than 92% of the procurement concerns Italy (distributed in all Italian regions in line with the territorial belonging of each company), and about 8% concerns Europe. As regards business abroad, in 2018 Snam stipulated approximately 20 contracts for new activities (for a value of 6.5 million euro), thereby strongly boosting its globalisation. By virtue of its consolidated know-how in the management of complex orders, Snam operated for the first time in the United Kingdom as EPC contractor, simultaneously managing the procurement of materials, engineering and construction of plants (gas turbines). Activities will continue into 2019, further bearing out Snam's role as industry leader in Europe. During the year, important activities were also launched ahead of the imminent entrance of the Chinese market, scheduled for 2019.

In order to guarantee the adequacy of the suppliers with respect to procurement needs, Snam constantly carries out market intelligence and scouts out new suppliers: in 2018, more than 500 businesses were contacted in relation to around sixty different product categories, and approximately 200 new candidates started qualification proceedings. The number of spontaneous applications received from prospective suppliers amounted to circa 1,300. As at 31 December 2018, the vendor list included 1,465 qualified suppliers, and 611 suppliers were in the process of being renewed or obtaining new qualifications. Snam exercises control of its supply chain by monitoring supplier performance during the execution phase of contracts through audits, inspections and evaluation processes. During the year, 815 feedback reports were collected on the services rendered by 157 suppliers. Additionally, 1,831 suppliers and sub-contractors were checked with regard to the regularity of contributions, through 3,980 inspections which led to the interception of 2.2% of irregularities.

With regard to the fight against corruption, all suppliers and subcontractors are required to accept the Integrity Ethics Pact and are subject to reputational checks. A total of 2,074 reputational checks were performed in 2018.

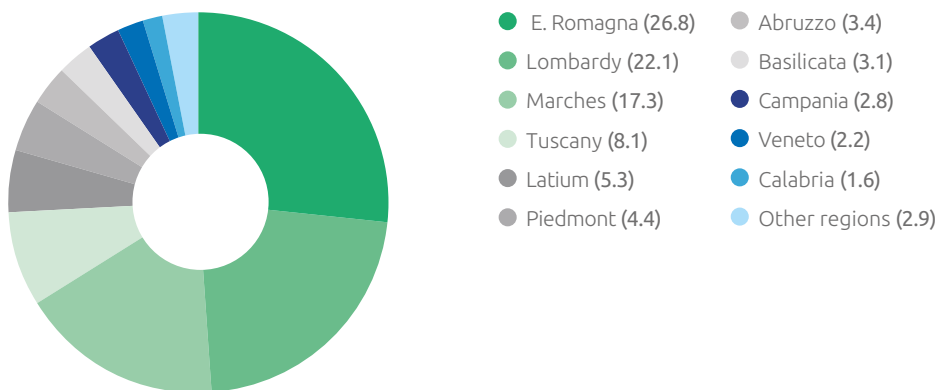
In the procurement of works, which is the most important category because it is related to core activities, the suppliers considered critical (critical levels A and B) were all in possession of quality and environment management systems certified with ISO 9001, ISO 14001 and ISO 18001 standards. The objective to have at least 65% of the suppliers of goods (critical level A) who possess environmental management systems certified according to ISO 14001, set in 2017, was achieved in 2018.

Figures for the 2018 procurement procedure do not include the newly acquired companies TEP, IES Biogas and Cubogas.

Purchases

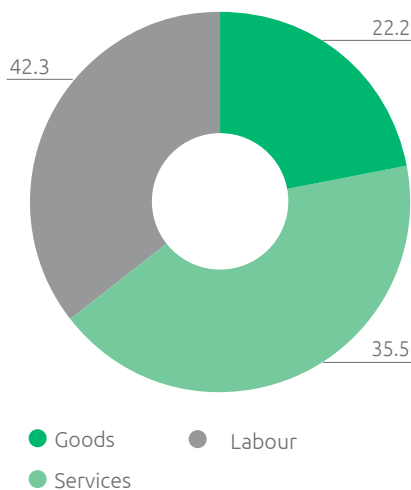
(€ million)	2016	2017	2018	2016-2018
Amount of purchases	1,359	844	1,520	3,723

Geographic breakdown of procurement in Italy (%) (*)

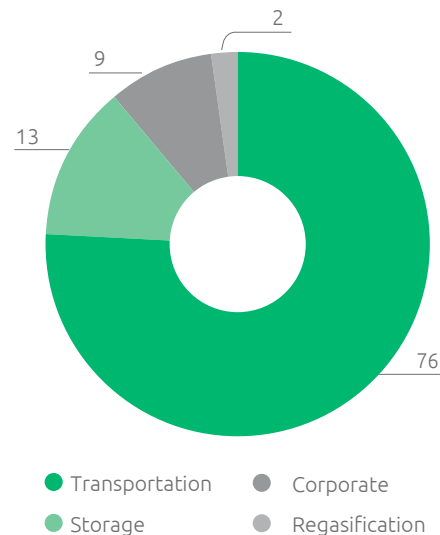


(*) Representation of the geographical distribution refers to the registered offices of suppliers.

Procurement by goods type



Procurement by business segment



Accidents

Snam is constantly committed to developing and promoting health and safety in the workplace. Research into and the adoption of good business practices is subject to a gradual promotion not only within the company, but also vis-à-vis the suppliers, to extend and improve collaboration to achieve the best performance.

In 2018, there were a total of 7 accidents (11 in 2017), of which 4 occurred to employees (6 in 2017) and 3 to contracting suppliers (5 in 2017); no accidents had a fatal outcome.

Accidents at work

(no.)	2016	2017	2018
Total employee accidents	4	6	4
Total contract worker accidents	5	5	3

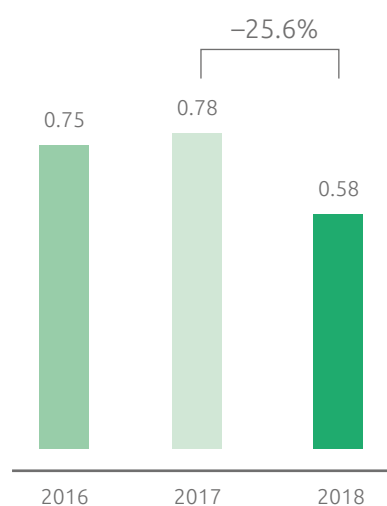
Accident indices

	2016	2017	2018
Employees and contract workers			
Frequency index	0.75	0.78	0.58
Severity index	0.05	0.56	0.02
Employees			
Frequency index	0.81	1.24	0.84
Severity index	0.04	0.05	0.02
Contract workers			
Frequency index	0.71	0.54	0.41
Severity index	0.05	0.83	0.03

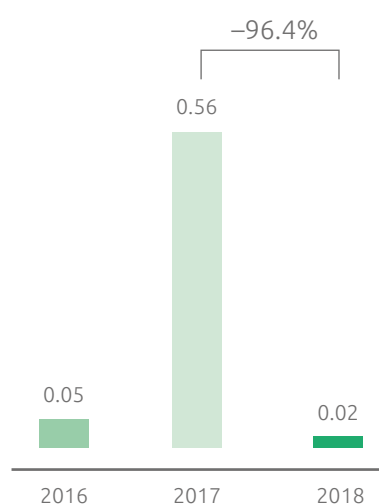
Frequency index: number of accidents at work resulting in absence of at least one day, per million hours worked.

Severity index: number of working days lost (calendar days) due to accidents at work resulting in absence of at least one day per thousand hours worked. These data have been calculated taking fatal accidents into consideration.

Accidents at work - Employee and contract worker frequency index (*)



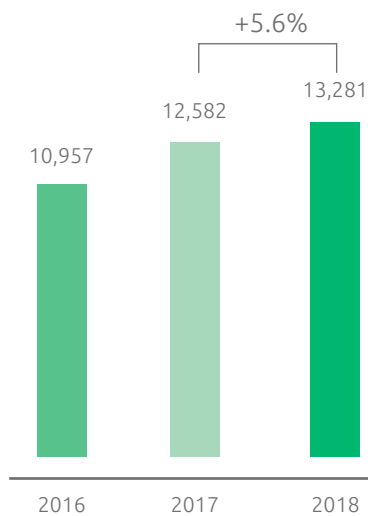
Accidents at work - Employee and contract worker severity index (*)



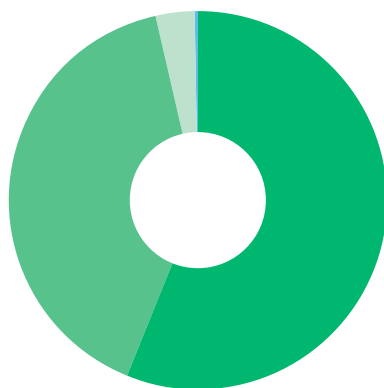
(*) Number of accidents at work resulting in an absence of at least one day, per million hours worked.

(*) Number of working days lost in relation to accidents at work resulting in absence of at least one day, per thousand hours worked. Data includes fatal accidents.

Energy consumption (TJ)



Energy consumption by business segment (%)



- 56.2% Transportation
- 40.2% Storage
- 3.5% Regasification
- 0.1% Corporate

(*) CO_{2eq} emissions were calculated based on a methane GWP of 28, as indicated in the scientific study carried out by the Intergovernmental Panel on Climate Change (IPCC), "Fifth Assessment Report IPCC".

Energy consumption

Most of Snam's energy consumption is attributed to gas turbines used in compression systems that provide the pressure required for gas transportation (thrust consumption) and in storage concessions (storage consumption) that, overall, represent 88% of total consumption.

In 2018, energy consumption totalled around 13,281 TJ (+5.6% compared with 2017). This increase is mainly due to greater natural gas consumptions brought about by the increase in the quantity of gas stored in deposits (+9%) and the commissioning of new compression plants (Minerbio and Sergnano), which have required significant fuel consumptions to commission the plants.

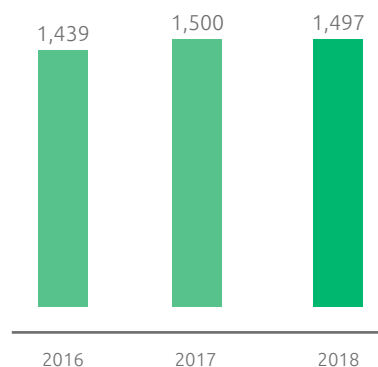
In addition to natural gas, the other energy sources are electricity (2.8%) and other fuels (diesel fuel, gasoline, LPG and heat), which together amount to 0.8% of the total consumption.

Greenhouse gas emissions

In 2018, the direct CO_{2eq} emissions amounted to approximately 1.5 million tonnes (stable on 2017). CO₂ emissions from combustion amounted to approx. 0.727 million tonnes (+5.2% compared with 2017), whereas the CO_{2eq} emissions deriving from the methane emissions amounted to approximately 0.77 million tonnes (-4.8% compared with 2017). Natural gas emissions came in at 44.4 million of m³, down on the 46.8 million of m³ booked for 2017. The increase in CO₂ emissions from combustion is mainly due to the greater natural gas consumptions brought about by the increase in the quantity of gas stored in deposits (+9%) and the increase in plants (two new compression plants), which have required significant fuel consumptions to commission the plants.

The company has set targets for the reduction of its natural gas emissions by 2022 and 2025 respectively as 15 and 25%, net of emergencies, with respect to 2016 values. In 2018, the emission into the atmosphere was avoided of 8.2 million cubic metres of natural gas, equal to approximately 142,200 tonnes of CO_{2eq} (+99% on the 71,500 tonnes of CO_{2eq} in 2017). This performance was made possible thanks to gas recompression interventions in the line (13 interventions carried out as compared with the 8 in 2017) and interventions with tapping machines, a technology that can detach methane pipelines operating for new connections without interrupting service. These results led to a reduction in 2018 emissions of 7.9% on 2016, a trend that is entirely in line with the general objective.

Total direct GHG emissions - Scope 1 (kt CO_{2eq}) (*)



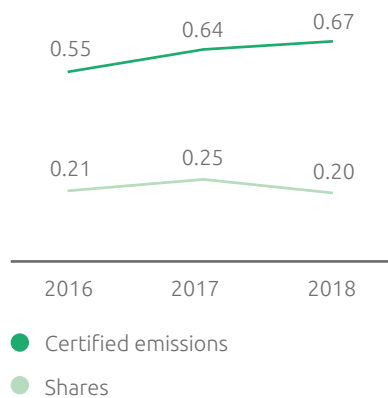
In 2018, the Snam Group's total CO₂ emissions from ETS plants, certified by an accredited body according to the provisions of the competent national authority, amounted to approximately 0.67 million tonnes, out of total annual allowances of approximately 0.20 million issued by the Ministry for the Environment, Land and Sea (negative balance of 0.47 million allowances). This deficit is partly offset by the quotas already present in the Snam Rete Gas plant registers, accumulated thanks to the surplus of previous years, and with the further purchase of approximately 0.20 million tonnes on the European quotas market.

With consultation document 512/2018/R/gas, published on 18 October 2018 and relating to the criteria applied to determine the revenues recognised for the fifth regulatory period for the transmission of natural gas (2020-2023), the Regulatory authority (ARERA) proposed introducing a variable price applied to the values transported, also intended to cover the costs relating to the Emission Trading system.

Snam Emission Trading Plants

Activity	No. of plants	Name of plants
Transportation	13	Gas compression stations in Enna, Gallese, Istrana, Malborghetto, Masera, Melizzano, Messina, Montesano, Poggio Renatico, Tarsia, Terranuova Bracciolini, Minerbio, Sergnano
Storage	8	Storage gas compression stations in Cortemaggiore, Fiume Treste, Minerbio, Ripalta, Sabbioncello, Sergnano, Settala and Bordolano
Regasification	1	Liquefied natural gas plant in Panigaglia

CO₂ emissions from ETS plants (10⁶ t)



Snam and the financial markets

Snam share performance

The Snam share price ended 2018 at a close price of 3.7354 euro, slightly lower than the one recorded at the end of the previous year, adjusted for the detachment of dividends, equal to € 3,7661. The change recorded led to a Total Shareholders Return (TSR) equal to -0.8%.

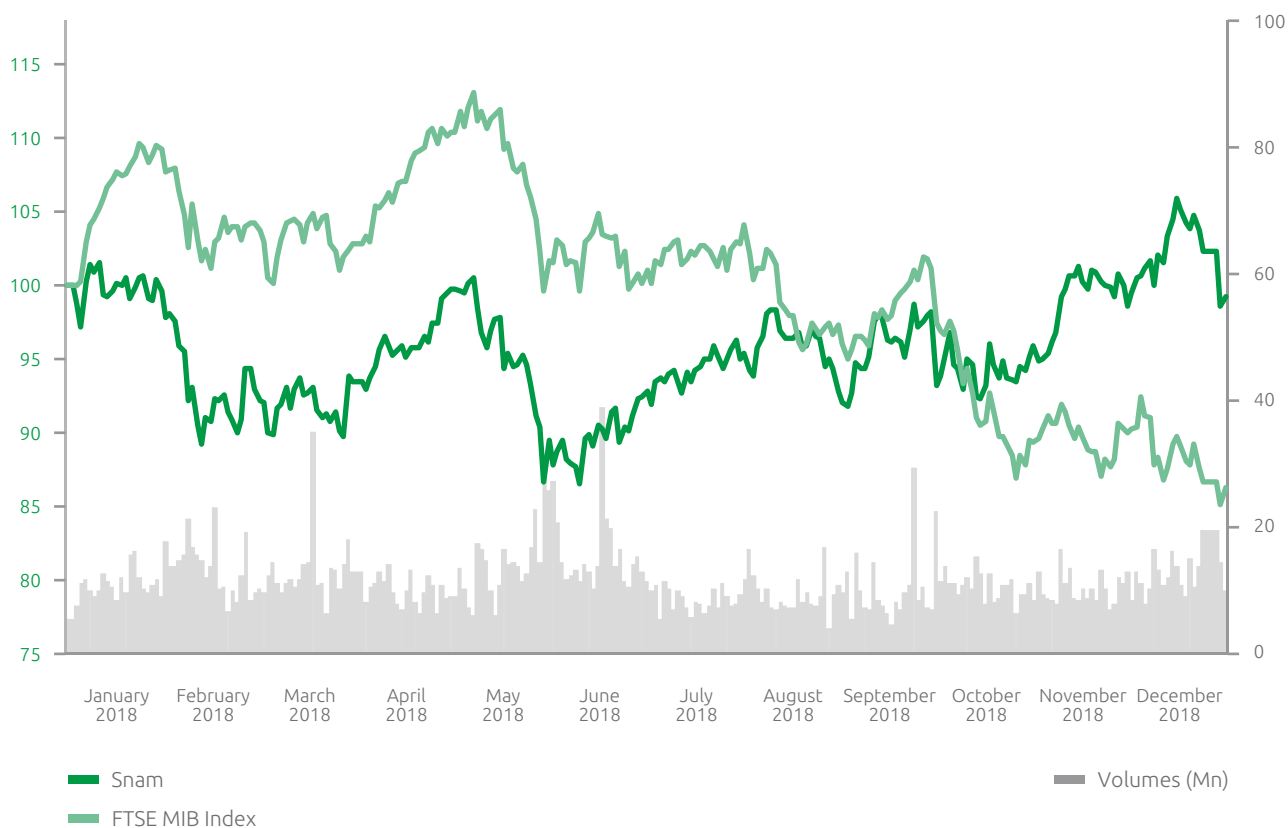
In 2018, the share suffered the rise in rates in Italy and, in particular, the spread, one of the main financial indicators used to determine the country risk, which reached 327 basis points in October, as well as the expectations for growth in interest rates and inflation.

After the announcement of the intention to present a new business plan in November, the share performed better than its peers and benchmarks.

After the plan was unveiled, also thanks to greater visibility of growth prospects of all financial and economic indicators, as well as the clear regulatory framework, it continued to perform well in the market context.

During the year, the company continued its usual investments, with the aim of improving the competitiveness and security of gas procurement, together with its commitment to guarantee shareholders profitable, remunerative growth.

Total Shareholders Return (TSR) - Comparison of Snam prices and FTSE MIB (01 January 2018 - 31 December 2018)



Snam Shareholding at 31 December 2018

Consolidated company	Shareholders	% Ownership
Snam S.p.A.	CDP Reti S.p.A. ^(a)	30.37
	Romano Minozzi	5.91
	Snam S.p.A.	4.85
	Other shareholders	58.87
		100.00

(a) CDP S.p.A. owns 59.10% of CDP Reti S.p.A..

Cassa Depositi e Prestiti (CDP), a financial institution controlled by the Ministry of Economy and Finance, whose mission is to promote the growth and development of the Italian economic and industrial system, is a major shareholder in Snam S.p.A.

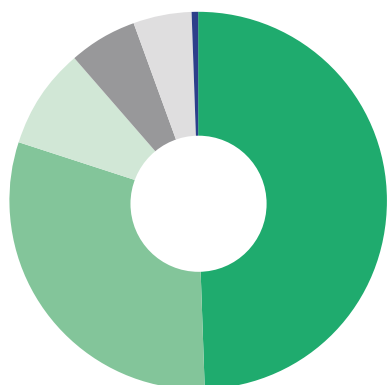
At end 2018, based on entries in the Shareholders' Register and other information gathered, CDP Reti S.p.A. held 30.37% of share capital, Snam S.p.A. held 4.85% in the form of treasury shares, and the remaining 64.78% was in the hands of other shareholders.

The share capital as at 31 December 2018 consisted of 3,469,038,579 shares with no nominal value (3,500,638,294

shares as at 31 December 2017), with a total value of 2,735,670,475.56 euro (unchanged from 31 December 2017).

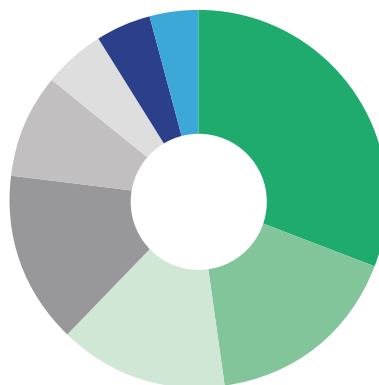
As at 31 December 2018, Snam held 168,197,663 treasury shares (85,915,616 as at 31 December 2017), equal to 4.85% of its share capital, with a book value of about 626 million euro (2.45% for a book value equal to 318 million euro as at 31 December 2017). More information on changes to treasury shares held in the portfolio in 2018 is given in the chapter entitled "More information - Treasury shares" of this Report.

Composition of Snam shareholders



- 49.7% Institutional investors
- 30.4% CDP Reti
- 8.7% Retail investors
- 5.9% Minozzi
- 4.8% Treasury shares
- 0.5% Bank of Italy

Snam ownership structure by geographic area



- 30.9% Italy - Strategic investors (*)
- 17.0% USA & Canada
- 14.5% Continental Europe
- 14.6% Italy - Retails (**)
- 9.0% UK & Ireland
- 5.2% Rest of the world
- 4.8% Treasury shares
- 4.0% Italy - Institutional

(*) Italian Strategic Investors include Bank of Italy and CDP Reti.

(**) Italian Retail Investors include the shares held by Romano Minozzi (5.9%).

Relations with the financial community and investor relations policy

Snam believes that maintaining constant relations with investors and the entire financial community is of strategic importance for its reputation. In this respect, it endeavours to disseminate comprehensive and timely information, capable of effectively representing the business's strategy and performance, particularly enhancing the dynamics that ensure the creation of value over time.

2018 Engagement Activity

In presenting the Strategic Plan and conference calls upon the publication of the Company's results (annual, semi-annual and quarterly) during 2018, the following were carried out:

- 11 road shows to meet shareholders and institutional investors in the major financial centres of Europe, North America and Asia;
- 15 industry conferences allowing investors specialising in the utilities and infrastructure sectors to meet senior management;
- 117 one-to-one meetings between Snam's management and investors, in addition to numerous group meetings (for a total of 161 meetings).

Inclusion of Snam stock in sustainability indices and ESG recognition

The number of investors including intangible elements, such as environmental, social and governance topics, in their investment choices, is growing significantly from year to year. With it, therefore, the demand also increases for disclosures towards companies, called to provide their financial stakeholders with ever clearer and more complete data and information, necessary to their investment choices. Again in 2018, the Snam share was included in the main international SRI stock market indices, an essential tool in terms of transparency towards the market and comparability with peers. This result helps improve the company's visibility vis-à-vis investors, as well as the entire financial market.

The overall share of Snam's institutional investors as at 31 December 2018 that include Corporate Social Responsibility criteria in their investment decisions stood at 9.7% of all institutional investors.

Snam's presence in sustainability indices



For the tenth year in a row, Snam's stock is listed in the Dow Jones Sustainability World Index, the world's most important stock market index assessing corporate social responsibility.



Snam's is once again present in the FTSE4Good, where it has been listed since 2002, an index created by the FTSE Group to encourage investment in companies that meet globally recognised social responsibility standards and is an important point of reference to establish benchmarks and ethical portfolios.



Snam listing is confirmed in the Ethibel Sustainability Index (ESI) Excellence Europe and in the Ethibel Sustainability Index (ESI) Excellence Global. Also reconfirmed in the Ethibel PIONEER and in the Ethibel EXCELLENCE Investment Registers: the Forum Ethibel decision indicates that the company can be characterised as an industry leader in terms of CSR.



Snam's listing has been confirmed for the fourth year running in the two sustainability indexes MSCI ACWI SRI Index and MSCI ACWI ESG Leaders, by MSCI, an international leader providing IT tools to support the investment decisions of global investors. The MSCI Global Sustainability indices include companies having high sustainability ratings in their affiliated sectors.



The Snam stock, for the ninth year in the row, is included in the STOXX Global ESG Leaders Indices, a group of indexes based on a transparent process of selection of performances, in terms of sustainability, of 1800 companies listed worldwide.



Snam is included in five of the main ECPI sustainability indexes. Snam's inclusion in the family of ECPI indices dates back to 2008. The ECPI methodology consists in screening based on testing more than 100 ESG (Environmental, Social and Governance) indicators.

ESG Awards



Included, for the sixth year running, among the top scoring companies of CDP, one of the leading international non-profit organizations dealing with climate change, from whom it was also recorded in the "A List".



Snam was also listed, in 2018, for the fifth year running, in the United Nations Global Compact 100 index (GC 100), developed by the United Nations Global Compact with the research firm Sustainalytics, which includes the 100 companies that have distinguished themselves at the global level both for attention to sustainability issues and to financial performance, and that adhere to the ten fundamental principles of the United Nations on the human rights, labour, environment and anti-corruption issues.



Again in 2018, Snam is confirmed as included in the (Europe, Eurozone, World) NYSE Euronext Vigeo 120 indices, managed by Vigeo, a leading company on a European level in rating companies with regard to CSR issues.



In 2018, Snam was confirmed at "PRIME" level (with rating B-) by Oekom research, a leading international agency rating socially responsible investments, which operates on behalf of institutional investors and financial services companies.



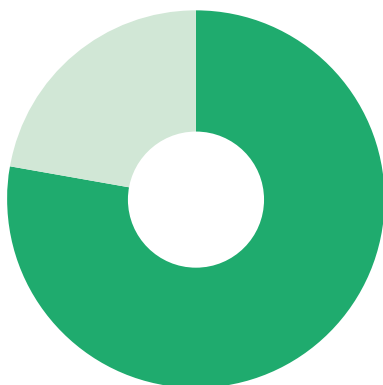
Snam is also confirmed on the Sustainalytics index, a leading ratings agency in evaluating companies in terms of ESG, to which the company has belonged since 2013.

Breakdown by maturity (%)



- 73% Short term
- 22% Long term

Breakdown by type of rate (%)



- 78% Fixed rate
- 22% Variable rate

Debt management and credit rating

Snam's goal is to achieve a debt structure consistent with business requirements in terms of loan term and interest rate exposure.

As at 31 December 2018, the Group's net financial position was 11,548 million euro, resulting from a gross financial debt of 13,420 million euro and liquid funds and equivalents of 1,872 million euro.

With reference to the capital market, in January 2018, Snam issued a two-year bond for 350 million euro, at a variable rate (Euribor 3m +15bps), converted into fixed-rate bonds with an overall negative return, as part of the company's short/medium-term funding strategy. In September, Snam issued a fixed-rate bond, maturing on 18 September 2023, of an amount of 600 million euro, coupon of 1%. In December 2018, Snam had successfully completed the buy-back on the bond market, for a total par value of 538 million euro with an average coupon of around 2.6% and a residual maturity of around 3.7 years. The buy-back price, including commission paid to intermediaries and interest accrued (7 million euro), equal to a total of 580 million euro, was partly financed through a reopening of an operation for 300 million euro of the September fixed-rate bond issue with the same maturity and same coupon as the original issue.

With reference to the banking market, in July and October, Snam increased the net amount of its bilateral banking facilities for an additional 450 million euro, at very competitive conditions and below the prevalent conditions available at that time on the market, at the same time also extending the average term (previously set to November 2019) by approximately two years.

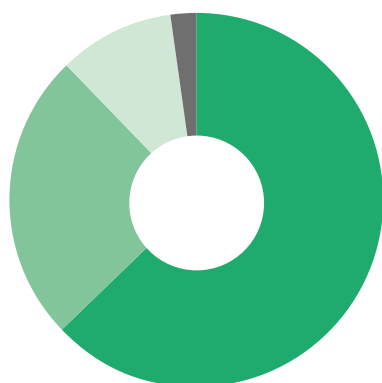
As at 31 December 2018, Snam has unused committed long-term credit facilities for an amount of approximately 3.2 billion euro. During the year, as part of the process to optimise the financial structure of group, their duration was extended, without increasing margins, and the transformation into a sustainable loan was completed. This is the third largest sustainable loan stipulated in the world and the first by a gas utility company. This loan envisages bonus/malus mechanisms according to the achievement of certain ESG (Environment, Social, Governance) KPIs.

Following the renegotiation, the two syndicated lines, amounting to 2.0 billion euro and 1.2 billion euro, will expire in July 2022 and December 2023, respectively, with an extension of one year with respect to the previous duration. In addition, on the same date, Snam has a Euro Medium Term Notes (EMTN) programme for a total maximum nominal value of 10 billion euro⁶, of which around 8.0 billion euro are being used⁷.

⁶ On 02 October 2018, the Board of Directors of Snam resolved to renew the EMTN Programme for a maximum value of 10 billion euro. The renewal of the programme allows for the issue, by 02 October 2019, of bonds worth up to 1.74 billion euro, to be placed with institutional investors operating mainly in Europe.

⁷ It should be noted that the convertible bond issued in March 2017, for a value of 400 million euro, is not part of the EMTN Programme.

Breakdown by type of funding (%)



- 63% Bonds
- 25% EIB loans
- 10% Bank loans
- 2% Euro Commercial Paper - ECP

Snam also has a Euro Commercial Paper (ECP) Programme for a maximum total nominal value of 1 billion euro. As at 31 December 2018, the ECP Programme was used for a total nominal value of 225 million euro, as part of the company's short/medium-term funding strategy.

These transactions on both the banking and bond market made it possible to optimise medium- and long-term debt maturities by extending their average term and creating conditions for a reduction in average borrowing costs in 2019.

At the same time, the communication activity continued with the rating agencies Moody's, Fitch and Standard & Poor's, with the maintenance of the creditworthiness rating at the solid investment grade level by Moody's (Baa2 with stable outlook), Fitch (BBB+ with stable outlook), and Standard & Poor's (BBB+ with negative outlook).

The October downgrade by one notch (from Baa1 to Baa2) by Moody's followed a similar deterioration by one notch in the rating of the Italian Republic. Moreover, during Snam's launch of the Commercial Paper programme, the agencies assigned the company a short-term rating of P-2 for Moody's, A-2 for S&P and F-2 for Fitch.

Snam's long-term rating by Moody's, Fitch and Standard & Poor's is a notch higher than that of Italian sovereign debt.

	MOODY'S	STANDARD & POOR'S	FitchRatings
Last update	29 October 2018	27 November 2018	12 December 2018
Rating on long-term debt	Baa2	BBB +	BBB +
Rating on short-term debt	P2	A-2	F2
Outlook	Stable	Negative	Stable

Business segment operating performance

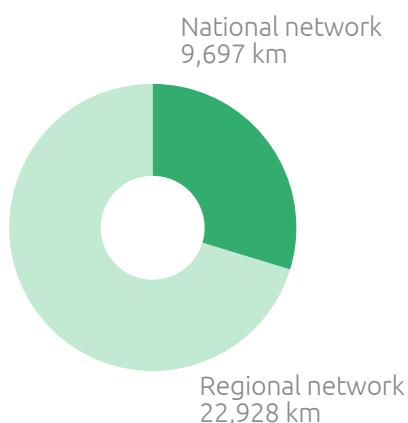


SNAM INFRASTRUCTURE IN ITALY



Natural gas transportation

32,625 km Operating gas pipeline network

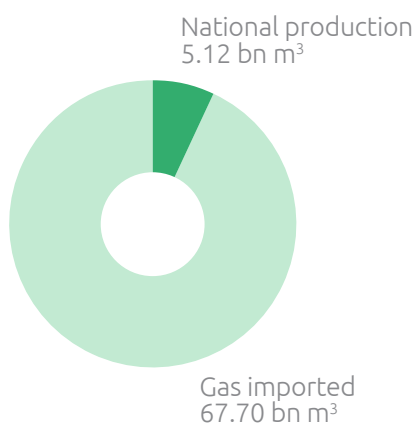


SNAM'S PRESENCE IN TRANSMISSION IN ITALY

Through the subsidiaries Snam Rete Gas and Infrastrutture Trasporto Gas, Snam is the leading Italian natural gas transportation and dispatching operator, and owns almost all of the transportation infrastructure in Italy, with 32,625 kilometres of high- and medium-pressure gas pipelines (approximately 93% of the entire transmission system). Snam manages the gas pipeline network via 8 districts, 48 maintenance centres throughout Italy, 13 compression stations, including the two new plants of Minerbio and Sergnano that were commissioned in 2018, and a new dispatching unit that has been recently renovated in terms of structure and technology. The gas coming from abroad is fed into the network at the seven import channel, corresponding to the interconnections with the import pipelines and LNG regasification terminals. Once it has been imported or regasified, the gas is transported to the local distribution networks, the regional network redelivery points or large end users such as thermoelectric power stations or manufacturing plants.

Snam awards transportation capacity to applicant shippers. In this way, users acquire the right to feed or withdraw, on any day of the thermal year, a quantity of gas not exceeding the daily flow rate. The conditions for access to the service are contained in the Network Code. The shippers have the possibility to make sales and gas exchanges at a Virtual Trading Point (PSV) of the National Network, thanks to the dedicated IT platform.

72.82 bn m³ Gas injected in the national network



In 2018, the average transport capacity offered at entry points interconnected with foreign countries and with LNG terminals was 360.8 million cubic metres/day; in addition to this capacity, Snam has made transport capacities available at entry points interconnected with national producers for a total of 19.2 million cubic metres average/day and with the production of biomethane for a total of 0.1 million of cubic metres average/day.

During the last 15 years, transport operators have grown steadily, going from 30 operators in 2003 to around 200 operators in 2018 (between shippers and traders), with 136 customers (+6.7% compared to 2017).

In 2018, 88 connection contracts were signed for the construction of new delivery/redelivery points or the upgrading of existing points, of which 14 were for biomethane injection and 43 for CNG.

KEY PERFORMANCE INDICATORS

The segment disclosure Natural gas transmission includes the values of the companies Snam Gas Network and Infrastrutture Trasporto.

(€ million)	2016	2017	2018	Change	% change
Total revenue ^(a)	2,035	2,039	2,118	79	3.9
- of which regulated revenue ^(a)	1,999	1,981	2,041	60	3.0
Total revenue net of pass-through items ^(a)	1,815	1,874	1,984	110	5.9
Operating costs ^(a)	469	452	479	27	6.0
Adjusted operating costs ^{(a) (b)}	469	441	462	21	4.8
Adjusted operating costs net of pass-through items ^(a)	249	276	328	52	18.8
EBIT	1,021	1,037	1,064	27	2.6
Adjusted EBIT ^(b)	1,021	1,048	1,081	33	3.1
Technical investments	776	917	764	(153)	(16.7)
- of which with a greater return	345	383	280	(103)	(26.9)
- of which with a basic return ^(c)	431	534	485	(49)	(9.2)
Net invested capital at 31 December	12,263	12,542	12,551	9	0.1
Natural gas injected in the National Gas Transportation Network (billions of cubic metres) ^(d)	70.64	74.59	72.82	(1.77)	(2.4)
Transportation network (kilometres in use) ^(e)	32,508	32,584	32,625	41	0.1
- of which national network ^(e)	9,590	9,704	9,697	(7)	(0.1)
- of which regional network	22,918	22,880	22,928	48	0.2
Installed capacity in the compression stations (MW) ^(f)	922	902	961	59	6.5
Employees in service at year end (number)	1,726	1,972	1,915	(57)	(2.9)

(a) Before consolidation adjustments.

(b) More information concerning the adjusted result measures and related special items that are recognised at the consolidated level are provided in the chapter "Comment on the financial results - Non-GAAP measures".

(c) At an actual basic pre-tax WACC of 5.4%, both for 2017 and 2018.

(d) The data for 2018 were updated on 11 January 2019. The update of 2017 figures has been finalised, and figures are consistent with those published by the Ministry of Economic Development. With reference to 2018, gas volumes are expressed in standard cubic metres (SCM) with an average traditional higher heating value (HHV) conventionally of 38.1 MJ/SCM (10,572 Kwh/SCM).

(e) For 2017 and 2018, the figure includes 84 km of network referring to the company Infrastrutture Trasporto Gas.

(f) For 2017, the figure excludes the units "being conserved" in relation to the Gallese plant.

RESULTS

Total revenue amounted to 2,118 million euro, up by 79 million euro, or 3.9%, compared with 2017 (2,039 million euro). Net of components offset in costs⁸, total revenue amounted to 1,984 million euro, up by 110 million euro, or 5.9%, compared with the previous year.

The **regulated revenues** (2,041 million euro) essentially refer to the fees for the natural gas transportation service (2,023 million euro) and to the incentives granted to the Balancing Operator (RdB) (15 million euro) following the actions implemented, as required by Resolution 554/2016/R/gas. Regulated revenue, net of components that are offset in costs, amounted to Euro 1,907 million, up by Euro 91 million, or 5.0%, compared with 2017. The increase is essentially due to greater revenues from transmission (+81 million euro)⁹ in view of the update of the invested capital recognised for regulatory-RAB purposes (+64 million euro), the greater contribution of ITG (whole year 2018 as compared with 3 months in 2017; +15 million euro) and greater incentives recognised to the Balancing Operator (+7 million euro).

Non-regulated revenue (77 million euro) increased by 19 million euro, or 32.8%, compared with 2017. The increase is due to the services provided to other Group companies (+16 million euro) essentially following the transfer from Stogit to Snam Rete Gas, as part of the Integra Project completed on 01 July 2017, of the business unit "Technical plants and services". The increase is matched by higher labour costs associated with the staff members transferred.

Adjusted operating profit, which excludes the special items represented by the charges relating to the incentives to take voluntary redundancy in application of the early pension mechanism regulated by Art. 4, paragraphs 1-7 of Italian Law no. 92/2012 (the "Fornero Law"), together with the introduction of the "quota 100" envisaged by the 2019 Budget Law (a total of 17 million euro), comes to 1,081 million euro, up 33 million euro, equal to 3.1% on FY 2017. The increase is due to the greater revenues (+94 million euro, net of the charge-back of services provided to other Group companies), partly offset by the greater amortisation, depreciation and impairment (-25 million euro, equal to 4.5%), essentially due to the commissioning of new assets and the rise in operating costs (-36 million euro, equal to 14.5%, net of components with equivalent entries in revenues, the effects of the corporate reorganisation as part of the Integra Project and special items). This increase is mainly due to expenses deriving from the greater use of Unaccounted-For-Gas (UFG)¹⁰ with respect to the quantities conferred in kind by the users (-22 million euro, net of uses of the provision made during previous years) and greater costs for services, mainly IT in nature, charged back by the parent company Snam S.p.A., only partly offset by actions to optimise IT infrastructure management.

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

9 The change includes the adjustment of revenues recognised for natural gas transmission and dispatching for 2018, in order to take into account the final values for 2017, as ordered by the Authority in resolution 390/2018/R/gas of 18 July 2018.

10 With reference to the petition presented by the Company to the regulatory Authority - ARERA, for the recognition of the greater charges related to the purchase of gas for the coverage of the UFG for the years 2018-2019, it is specified that the Authority itself with communication of 13 February 2019, while positively assessing the Company's request, however, deemed it necessary to acquire additional information elements preliminary to the completion of the preliminary investigation. The Company is collaborating with the Authority in providing the requested information.

Technical investments

Type of investment	2016		2017		2018		
	Greater return (%) (*)	Million €	Greater return (%) (*)	Million €	Type of investment	Greater return (%) (**)	Million €
Development of new import capacity	2.0%	226	2.0%	276	Development	1.0%	279
Development of the national network	1.0%	1	1.0%	10			
Development of the regional network	1.0%	118	1.0%	97			
Replacement and other		431		534	Replacement and other		485
		776		917			764

(*) With respect to an actual pre-tax basic WACC of 5.4%. For 2016 only, the actual basic pre-tax WACC is plus 1% to offset the regulatory lag.

(**) With respect to an actual basic pre-tax WACC of 5.4%, applied to investments in new transmission capacity and with a cost-benefits analysis of more than 1.5 in accordance with Resolution 575/2017/R/Gas.

Technical investments in 2018 amounted to 764 million euro, a decrease of 153 million euro, or 16.7%, compared with 2017 (917 million euro).

Investments have been classified consistently respectively with resolutions 575/2017/R/gas with reference to FY 2018 and 514/2013/R/gas for 2017 investments where by the Autorità di Regolazione per Energia, Reti e Ambiente ("ARERA" or the "Authority") identified different categories of projects with which a different level of remuneration is associated.

The main investments made in **developing** new transmission capacity, for which a greater remuneration of 1% is envisaged (279 million euro), mainly concern:

- investments in **developing new transmission capacity on the national network functional to import and export capacity** (174 million euro) as part of the initiative to support the market in the country's north-west, and to allow for the reversal of physical transmission flows at the interconnection points with northern Europe in the area of the Po Valley, projects to upgrade the transmission network from the entry points in southern Italy, the Cervignano-Mortara methane pipeline and the compression plants of Sergnano and Minerbio, which were commissioned starting October 2018;

- investments in **developing new transmission capacity on the regional and national networks** (106 million euro), including: (i) the continuation of works relating to the Cornigliano Laudense Italgas Storage S.r.l. connection; (ii) the continuation of construction works and connections relating to the methanisation of the region of Calabria, including the Montebello Jonico derivation.

Investments in **replacement and other investments with basic remuneration**¹¹ (485 million euro) mainly concern:

- (i) works aimed at maintaining plant safety levels, also in terms of function and quality (366 million euro) including the continuation of works for the design and acquisition of permits and start to delivery of materials for the rebuilding of the Ravenna-Chieti methane pipeline, stretch Ravenna-Recanati (27 million euro); (ii) projects relating to the development of new information systems, as well as the implementation of the existing ones (65 million euro); (iii) upgrading projects for the redelivery plants (24 million euro); (iv) reclamation works for third parties (10 million euro); and (v) the purchase of assets instrumental to operating activities (18 million euro).

¹¹ For the investments of 2018, the basic rate of return includes the rate of return on net invested capital (real pre-tax WACC) of 5.4%.

Progress of work to obtain permits

For the development of new sites, in addition to the technical-economic feasibility criteria, Snam adopts procedures that meet strict environmental compatibility and safety assessments.

The assessments of the environmental effects involve all the phases of the work life cycle, site selection, planning, construction, operation and decommissioning. These assessments are made within the purview of the Environmental Impact Assessment (EIA) procedures, and in the Integrated Environmental Authorisation (IEA) procedures, at the end of which the central and local administrations issue the permits required under current law.

EIA decrees obtained during the year

Name	Length (km)	Regions involved	Competent agencies	Date of decree
Pipelines				
Redoing of the Rimini-Sansepolcro methane pipeline and related works	81.915	Emilia-Romagna and Tuscany	Tuscany	18/06/18

Integrated Environmental Authorisation (IEA) Decrees obtained during the year

Name	No. compression units	Regions involved	Competent agencies	Date of decree
Gas compression plant				
Gallese (review for substantial change)	3	Lazio	Ministry of the Environment and Protection of Land and Sea	11/05/2018

Provisions for verification of whether subject to EIA obtained during the year

Name	Length (km)	Regions involved	Competent agencies	Date of provision
Pipelines				
Mornico al Serio - Travagliato Tratto Chia ri - Travagliato	24.94	Lombardy	Province of Brescia	03/05/2018
Asti-Cuneo Variants for the development of PIG receipt/launch plants	3.941	Piedmont	Ministry for the Environment	26/09/2018

EIA applications submitted to Ministry of the Environment and Ministry of Cultural Heritage

Name	Length (km)	Regions involved	Date of submission
Pipelines			
Redoing Ravenna - Chieti Tratto Ravenna - Jesi	142.6	Emilia-Romagna - Marche	30/04/2018

Applications submitted to the Ministry of the Environment to check EIA requirements

Name	Length (km)	Regions – Provinces involved	Date of submission
Pipelines			
Re-connection of Torino di Sangro (CH)	1.132	Abruzzo	22/06/2018
Variant for the inclusion of PIDI no. 18.2 on Chieti - San Salvo (CH)	0.113	Abruzzo	22/06/2018
Tortona - Alessandria - Asti - Turin redoing Attr. FR 39.1	3.68	Piedmont	26/07/2018
Variants S. Eufemia - Crotona Ref. Crossing of River S. Anna (KR)	0.64	Calabria	01/08/2018
Derivation for Altino 2nd section real variant Hydraulic works on the river Rio Secco	0.07	Abruzzo	21/12/2018
Asti-Cuneo Variants for the development of PIG receipt/launch plants	3.941	Piedmont	28/03/2018
Plants			
Plant HPRS IS64/24 bar of Castellana Grotte		Apulia	17/07/2018

Applications for Integrated Environmental Authorisation (IEA) review submitted to the Ministry of the Environment

Name	No. compression units	Regions – Provinces involved	Date of submission
Gas compression plants			
Melizzano (review)	4	Campania-Benevento	24/12/2018
Montesano sulla Marcellana (review)	4	Campania-Salerno	24/12/2018
Tarsia (review)	4	Calabria-Cosenza	24/12/2018
Istrana (review, renewal and substantial change)	4	Veneto-Treviso	27/11/2018

OPERATING REVIEW

Gas distribution on the National Transportation Network

Gas volumes are expressed in standard cubic metres (SCM) with a traditional higher heating value (HHV) of 38.1

MJ/SCM (10.572 Kwh/SCM). The basic figure is measured in energy (MJ) and obtained by multiplying the physical cubic metres actually measured by the relative heating value.

Gas demand in Italy

(billions of m ³)	2016	2017 (a)	2018	Change	% change (b)
Residential and tertiary	28.86	29.48	29.17	(0.31)	(1.1)
Thermoelectric	23.43	25.36	23.28	(2.08)	(8.2)
Industrial (c)	16.58	17.80	17.87	0.07	0.4
Other (d)	2.04	2.51	2.34	(0.17)	(6.8)
Total	70.91	75.15	72.66	(2.49)	(3.3)

(a) The update of 2017 figures has been finalised, and figures are consistent with those published by the Ministry of Economic Development.

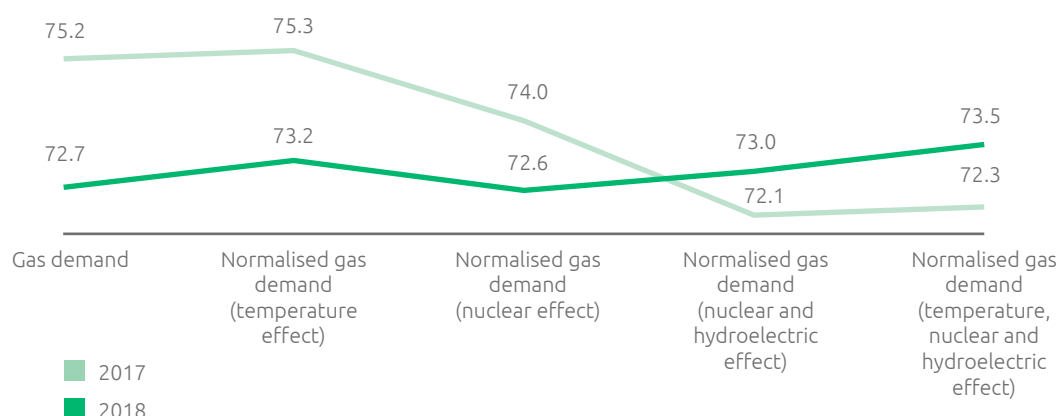
(b) The percentage changes were calculated with reference to the figures in cubic metres.

(c) Includes the consumption of the Industrial, Agricultural and Fishing, Chemical Synthesis and Automotive sectors.

(d) Consumption and losses relating mainly to the natural gas transportation system, the energy system, the upstream sector, storage and LNG plants.

The **gas demand in Italy** in 2018 was **72.66 billion cubic metres**, down 2.49 billion cubic metres (3.3%) compared with 2017. The reduction can mainly be attributed to the lower consumption recorded in the thermoelectric industry (-2.08 billion cubic metres; -8.2%) following the return to the normal flows of electricity imports, which reduced in 2017 due to the downtime of some French nuclear plants in the first two months of the year and the increase in hydroelectric production, which has returned to normal levels after the water shortage that characterised 2017. The reduction in the demand for gas was also due to the lesser consumption in the residential and tertiary sector (-0.31 billion cubic metres; -1.1%) due to the climate trends.

Adjusted for temperature, gas demand was estimated at 73.2 billion cubic metres, down by 2.1 billion cubic metres (-2.8%) compared with 2017 (75.3 billion cubic metres). Adjusted not only for temperature but also for effects deriving from a return to normal hydroelectric production levels and nuclear production, normalised gas demand is estimated as 73.5 billion cubic metres, increasing by 1.2 billion cubic metres (1.7%) compared to the corresponding value for 2017 (72.3 billion cubic metres).



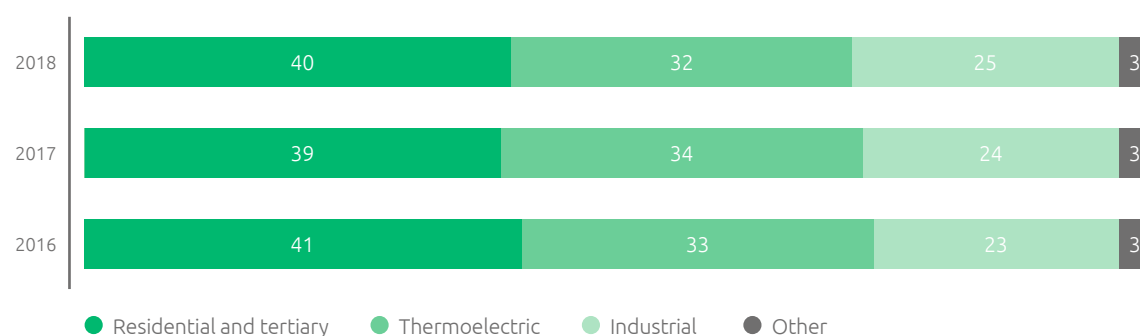
Availability of natural gas

(billions of m ³)	2016	2017 (*)	2018	Change	% change
Gas injected into the network by entry point	65.07	69.35	67.70	(1.65)	(2.4)
Domestic output	5.57	5.24	5.12	(0.12)	(2.3)
Total gas injected into the network	70.64	74.59	72.82	(1.77)	(2.4)
Net balance of withdrawals from/injections into storage (**)	(0.20)	0.23	(0.43)	(0.66)	
Total availability of natural gas	70.44	74.82	72.39	(2.43)	(3.2)

(*) The update of 2017 figures has been finalised, and figures are consistent with those published by the Ministry of Economic Development.

(**) Understood as the balance between the withdrawals from (+) and injections into (-) the storage system expressed gross of consumption for injection/withdrawal.

Gas demand by sector (% of total gas demand)



The **availability of natural gas in Italy** (72.39 billion cubic metres) is equal to the sum of gas injected into the National Transportation Network and the net balance of withdrawals from and injections into the storage system, and was down by 2.43 billion cubic metres (-3.2%) compared with 2017. The decrease was due to lesser volumes of gas injected into the network by entry point (-1.65 billion cubic metres; -2.4%) and a reduction in national production (-0.12 billion cubic metres; -2.3%), with greater net injections in storage system, associated with net withdrawals in the previous period (-0.66 billion cubic metres).

Gas injected into the network (*)

(billions of m ³)	2016	2017	2018 (*)	Change	% change
Domestic output	5.57	5.24	5.12	(0.12)	(2.3)
Entry points (**)	65.07	69.35	67.70	(1.65)	(2.4)
Tarvisio	28.27	30.18	29.69	(0.49)	(1.6)
Mazara del Vallo	18.87	18.88	17.09	(1.79)	(9.5)
Gries Pass	6.70	7.25	7.76	0.51	7.0
Gela	4.81	4.64	4.47	(0.17)	(3.7)
Cavarzere (LNG)	5.72	6.85	6.71	(0.14)	(2.0)
Panigaglia (LNG)	0.22	0.62	0.88	0.26	41.9
Livorno (LNG)	0.48	0.91	1.07	0.16	17.6
Gorizia		0.02	0.03	0.01	50.0
Total	70.64	74.59	72.82	(1.77)	(2.4)

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

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

Injections into and withdrawals from the transportation network

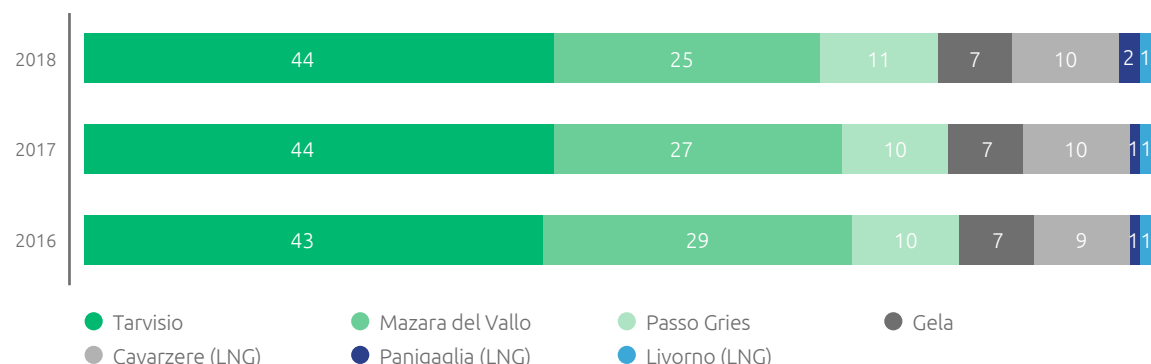
In 2018, a total of 72.82 billion cubic metres of gas was injected into the network, a decrease of 1.77 billion cubic metres (-2.4%) compared with 2017.

Injections into the network from domestic production fields or collection and treatment centres totalled 5.12 billion cubic metres, down by 0.12 billion cubic metres (-2.3%) compared to 2017.

The volumes injected at entry points connected with other countries and with regasification plants, equalled 67.70 billion cubic metres overall, a drop of 1.35 billion cubic metres (+ -2.4%) compared to 2017.

This change is due to the reduction in the volumes of gas injected at the Mazara del Vallo entry point (-1.79 billion cubic metres; -9.5%), the Tarvisio entry point (-0.49 billion cubic metres; -1.6%) and Gela (-0.17 billion cubic metres; -3.7%), the effects of which were partly offset by higher volumes injected at the entry points of Passo Gries (+0.51 billion cubic metres; +7.0%) and the LNG regasification terminals (+0.28 billion cubic metres; +3.3%).

Natural gas injected into the network by import point (% of total gas injected)



Withdrawals of natural gas

(billions of m³)	2016	2017	2018	Change	% change
Redelivery to the domestic market	69.91	73.97	71.48	(2.49)	(3.4)
Exports and transit (*)	0.27	0.33	0.45	0.12	36.4
Consumption and emissions attributable to Snam Rete Gas	0.23	0.28	0.27	(0.01)	(3.6)
Gas not accounted for and other changes (**)	0.03	0.24	0.19	(0.05)	(20.8)
Total withdrawals of natural gas	70.44	74.82	72.39	(2.43)	(3.2)

(*) Includes exports to the Republic of San Marino.

(**) Includes variations in network capacity. In the energy report compiled by Snam Rete Gas, the natural difference between the quantity of gas metered at the entrance to the network and the quantity of gas metered at the exit, due to the technical tolerance of the metering devices, is traditionally defined as unaccounted-for gas (UFG).

The natural gas withdrawn from the National Transportation Network in 2018 (72.39 billion cubic metres) is mainly: (i) redelivery to users at network exit points (71.48 billion cubic metres; -3.4%); (ii) exports

and transit (0.45 billion cubic metres; +36.4%); and (iii) consumption by the compression plants and gas emissions from the network and from Snam Rete Gas plants (0.27 billion cubic metres; -3.6%).

Reconciliation of the gas injected and Italian gas demand

(billions of m³)	2016	2017 (a)	2018	Change	% change (b)
Total gas injected into the network	70.64	74.59	72.82	(1.77)	(2.4)
Net balance of withdrawals from/injections into storage (c)	(0.20)	0.23	(0.43)	(0.66)	(287.0)
Total withdrawals of natural gas	70.44	74.82	72.39	(2.43)	(3.2)
Exports (-) (d)	(0.27)	(0.33)	(0.45)	(0.12)	36.4
Gas injected into the regional networks of other operators	0.04	0.03	0.03	-	-
Other consumption (e)	0.70	0.63	0.69	0.06	9.5
Total Italian demand	70.91	75.15	72.66	(2.49)	(3.3)

(a) The update of 2017 figures has been finalised, and figures are consistent with those published by the Ministry of Economic Development.

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

(c) Understood as the balance between the withdrawals from (+) and injections into (-) the storage system expressed gross of consumption for injection/withdrawal.

(d) Includes transit and exports to the Republic of San Marino.

(e) Includes the consumption of the LNG regasification terminals, the consumption of the compression stations for storage and the production treatment stations.

Transport capacity

(millions of m ³ average/day)	Calendar year 2016			Calendar year 2017			Calendar year 2018		
Entry points	Transmission capacity	Transferred capacity	Saturation (%)	Transmission capacity	Transferred capacity	Saturation (%)	Transmission capacity	Transferred capacity	Saturation (%)
Tarvisio	111.6	93.4	83.7	111.4	94.6	84.9	111.1	107.4	96.7
Mazara del Vallo (*) (**)	91.5	84.9	92.8	84.4	78.3	92.8	82.0	81.2	99.0
Gries Pass	64.4	22.1	34.3	64.4	22.4	34.7	64.4	34.8	54.0
Gela (*)	30.8	26.0	84.4	23.8	22.0	92.4	20.3	20.1	99.0
Cavarzere (LNG)	26.4	24.4	92.4	26.4	24.4	92.5	26.4	24.4	92.4
Livorno (LNG)	15.0	15.0	100.0	15.0	15.0	100.0	15.0	15.0	100.0
Panigaglia (LNG)	13.0	0.6	4.6	13.0	2.0	15.5	13.0	4.0	30.8
Gorizia	4.6			4.6	0.1	2.2	4.2	0.1	2.4
Competing capacity (*)	9.7			21.2			24.4		
Total	367.0	266.4	72.6	364.2	258.8	71.0	360.8	287.0	79.5

(*) The capacities at the Mazara del Vallo and Gela entry points do not include competing capacity. This capacity, pursuant to Regulation (EU) No. 984/2013 in force as of 01 November 2015, represents the transportation capacity available at one point, the allocation of which fully or partly reduces the capacity available for allocation at another point in the transportation system.

(**) Capacity values at the Entry points of Mazara del Vallo and Tarvisio include the capacity quotas pursuant to ARERA Resolution 666/2017/R/GAS.

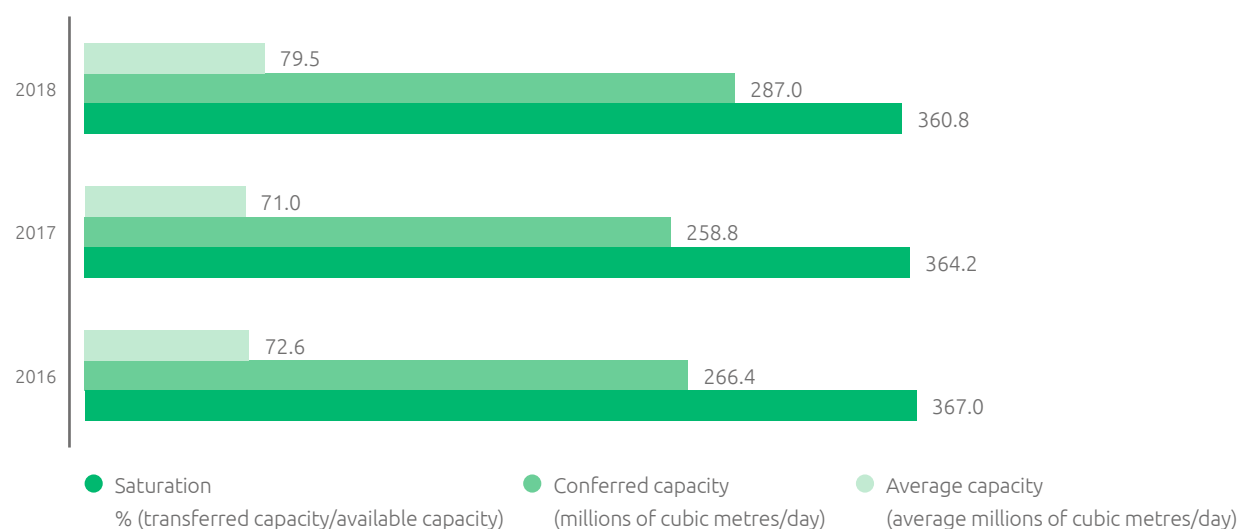
The transportation capacity of the network again covered all user demand in 2018. Average transportation capacity provided at the entry points interconnected with foreign methane pipelines and at regasification plants in 2018 was 360.8 million cubic metres per day, 24.4 of which were offered as competing capacities between the Mazara del Vallo and Gela entry points. In addition to the aforementioned capacities that concern the entry points interconnected with other countries and the LNG terminals, a transmission capacity to the entry points interconnected with national productions, for a total of 19.2 million cubic metres/day and biomethane productions, totalling 0.1 million cubic metres/day is available at the domestic production entry points.

Snam Rete Gas has prepared a long-term plan for available transportation capacity, which was sent to the Ministry of Economic Development on 26 June 2018 and published on the on-line services/capacity section of the Snam website: www.snam.it/it/trasporto.

The document shows data about capacity at all entry points interconnected with foreign countries and with LNG terminals for the thermal year 2017-2018 and subsequent years up to 30 September 2033.

Also shown for the thermal year 2017-2018 are the transport capacities of the interconnected exit points with the foreign countries of Passo Gries, Gorizia, Bizzarone and San Marino at a total of 10 million cubic metres/day. On the Tarvisio exit point, 18 million cubic metres/day of interruptible transport capacity is available, subject to the presence of an incoming physical flow or a null physical flow at the Passo Gries entry point. For the exit point from Passo Gries, there is currently a transport capacity equal, physically, to 5 million cubic metres/day, and works have been completed to build a physical transport capacity of up to 40 million cubic metres/day, offered starting 01 October 2018.

Transmission capacity and saturation



Provision and development of transportation services

	2016	2017	2018
Active customers (shippers)	136	128	136
New connection agreements for delivery/redelivery points	45	78	88

In 2018, 88 connection contracts were signed for the construction of new delivery/redelivery points or upgrading of existing points, of which 14 were for biomethane injection and 43 for CNG (of which 17 from Snam 4 Mobility). Thanks to the development of the Snam services over the last ten years, the Italian gas market has seen constant growth in the transportation operators, passing from 30 in 2003 to almost 200. Via the PRISMA platform, with the new balancing regime (EU Regulation 312/2014), in operation since October 2016, operators can operate gas exchanges and transmission capacity transactions on an infra-daily, daily, monthly, quarterly or annual basis, for up to a maximum of 15 years.

In 2018, the integration process continued, as had begun in July 2017, which caused the commercial management activities of the three businesses regarding transmission, storage and regasification, to flow into a single organisation. In this regard, a project has been developed that integrates know-how and improves performance: a single Commercial Control Room, which works 24 hours a day, overseeing the Italian gas system, a commitment that envisages specific information obligations envisaged by the Network Balancing Code, such as the hourly publication, on the Snam website, of information on the system balancing status, and the publication, twice a day for each shipper, of information on gas withdrawals, with the main aim of improving the quality of service offered to the client, reducing handling time.

To promote even greater flexibility of the system, in compliance with the Authority's Resolutions no. 336/2016/R/gas and 512/2017/R/gas, the Italian gas system has the possibility of booking monthly and daily transport capacity at the redelivery points, and related withdrawal areas that feed electricity generation plants.

This new mode of access to the gas transport system is combined with the needs of the electricity system to have more flexible assignment methods, so it can respond in a timely and efficient way to changes in the operating conditions of the electricity system.

To manage customer relations, Snam currently uses numerous software applications and web portals that have been developed over time, represent a distinguishing capital for the company and are continuously updated. In particular, Snam provides the Myg@sview Portal, a tool aimed at supporting timely and flexible communications, that allows a set of "smart" data to be personalised according to individual needs, as well as direct communications with them, and inform them via SRG ("chat" mode).

In 2018, this instrument was further implemented, increasing its potential use, also thanks to operator suggestions, with the release to production of new widgets that, for example, with the possibility of extracting the data displayed, indicate the number and details of the points concerned by the reduction and/or interruption of transmission capacity, report the lack of a declaration adhering to the alternative transmission service, indicate the total amount of invoices for Transmission and Balancing, with a list of overdue invoices, those due in the first 15 days of the month and in the next 15 days, showing the situation of the gas held in deposit, space and gas under warranty, divided up by type of service, indicate the gas daily imbalance price. The comprehensive overhaul of the Snam website was completed, redefining the sections relating to the gas transmission, storage and regasification businesses with

the aim of improving use of the information by clients and introducing graphic forms of representation. In 2018, the Company also embarked on a project (Jarvis) aimed at improving the entire commercial platform. During the study phase, workshops were held, dedicated to clients, so as to jointly design the new computer system. In this regard, clients very much appreciated their involvement, as shown by the annual customer satisfaction survey.

Network codes list a number of indicators for monitoring the quality of service offered by the companies. When compared against these indicators, the Snam companies maintained a high level of performance, even in 2018. One part of these indicators, which refers to specific levels of business quality, gives rise to automatic indemnification of customers in the event of a failure to comply with service quality standards.

(%)	2016	2017	2018
Contracted transport capacity/Available transport capacity (foreign entry/interconnection points)	72	71	79
Compliance with deadlines for issuing offers for connection	100	100	100
Compliance with deadlines for performing services subject to specific business quality standards	100	100	100

Organisational changes

During the course of 2018, the number of personnel in service fell by a total of 57, going from 1,972 resources as at 31 December 2017, to 1,915 resources as at 31 December 2018.

In September 2018, the Dispatching and Metering Department was reorganised, with the simplification of the organisational structure, with a view to maximising synergies between the various operating processes.

As part of the SmartGas project, optimisation continued of the various processes in the Operations area, with specific reference to the review of legislation and gas pipeline and compression plants maintenance standards, the activation of new professional roles operating on the territory, the development and implementation of the most advanced IT and digital solutions for the management of operative processes. More specifically, in 2018 the roll-out was completed of SmartGas on all compression plants and the training of all labourers completed towards the move to the new figures of Advanced Maintenance Skill (AMS) and Basic Maintenance Skill (BMS). Finally, the first Specialised Technicians (TECS) were also introduced.

With a view to enhancing and organising the synergic integration of Italian assets and, after the transfer process of the Stogit business unit "Plants and Technical Services" in 2018, the competent departments of Snam Rete Gas in the context of Plant Management, Dispatching & Measurements, Engineering and Construction and Supply Chain, have strengthened and made concrete action aimed at assuring direct control of the operations, maintenance and control activities for storage facilities, storage dispatching operations and engineering activities, and implementation of investment projects related to surface facilities, improvements to plant engineering and the procurement of goods, works and services, in accordance with that defined by the service contracts. More specifically, two mixed storage and transmission poles have been developed for the operation and maintenance of two new compression plants, Minerbio and Sergnano. Additionally, in 2018 the integrated (transmission-storage) dispatch management project was completed.

In October 2018, the General Manager of Engineering and Constructions was appointed, responsible for supervising the development and management of investment projects, along with the General Manager for Gas Operations, responsible for supervising the operation and maintenance of the relevant transmission and storage infrastructures and the dispatch, transmission and storage and metering of gas, with a view to better allocating responsibilities within the specific purviews.

Additionally, 2018 also was the conclusion of the process of integrating the company Infrastrutture Trasporto Gas (ITG) into the Snam Group. The acquisition of Infrastrutture Trasporto Gas made it possible to achieve a better, more synergic management of the Cavarzere-Minerbio methane pipeline, through a specific service contract stipulated by

Snam Rete Gas and ITG. In 2018, integration of ITG business and staff into the other group companies' structures, continued. With a view to obtaining greater efficiency and synergy, most of the people were allocated to cover needs in other group companies, after training, where necessary. The activity has now been completed, apart from one person who will be integrated in the first part of 2019.

Finally, as part of the project to rationalise and simplify the current Snam regulations, 6 new rules were issued, which will simplify and standardise the operative processes.

As compared with 2017, the management actions linked to the generational mix change have made it possible to fight the normal "ageing" of the population by one year and further rejuvenate the overall average age, which goes from 46.8 in 2017 to 46.1 in December 2018.

Accidents

In 2018, the number of accidents was booked as 4 for employees and 3 for contract workers.

Accidents at work

(no.)	2016	2017	2018
Total employee accidents	1	2	4
Total contract worker accidents	4	4	3

Accident indices

	2016	2017	2018
Employees			
Frequency index (*)	0.32	0.66	1.29
Severity index (**)	0.004	0.03	0.03
Contract workers			
Frequency index (*)	0.65	0.47	0.46
Severity index (**)	0.05	0.90	0.03

(*) Number of accidents at work resulting in an absence of at least one day, per million hours worked.

(**) Number of working days lost (calendar days) in relation to accidents at work resulting in absence of at least one day, per thousand hours worked. These data have been calculated taking fatal accidents into consideration.

Energy consumption and emissions

In accordance with its sustainable growth model, the company has set voluntary targets for the reduction of its natural gas emissions by 2022 and 2025 respectively as 15% and 25%, net of emergencies, with respect to 2016 values; this objective is valid for all Snam's businesses (transmission, storage, regasification).

In 2018, the emission into the atmosphere was avoided of 8.2 million cubic metres of natural gas, equal to approximately 142,200 tonnes of CO_{2eq} (+ 99% on the 71,500 tonnes of CO_{2eq} in 2017). This performance was made possible thanks to gas recompression interventions in the line (13 interventions carried out as compared with the 8 in 2017) and interventions with tapping machines, a technology that can detach methane pipelines operating for new connections without interrupting service. These results led to a reduction in 2018 natural gas emissions of 7.9% on 2016, a trend that is entirely in line with the general objective.

Total avoided CO₂ emissions in 2018 deriving from the various initiatives adopted by the company (lack of natural gas emissions, electricity production by photovoltaic plants, purchase of green electricity, installation of LED lamps in lieu of other lighting bodies, smart working) have made it possible, globally, to avoid the release into the atmosphere of a total of 154,800 tonnes of CO₂.

Energy consumption for transport, which depends on a series of factors, some of which are beyond the control of the transporter, insofar as they are determined by the commercial decisions made by the user (e.g. gas injection points and backbones used) are basically unchanged on 2017. In 2018, nitrous oxide emissions totalled approximately 305 tonnes (+ -10.7% compared to 2017). To limit polluting emissions, a programme that calls for modifying certain turbines already in operation and the installation of new units with low emission combustion systems (Dry Low Emissions) has been in progress for years. In 2018, 5 new turbines were introduced to DLE at thrust plants (TC1-2-3 in Sergnano and TC1-2 in Minerbio).

Energy consumption

	2016	2017	2018
Energy consumption (TJ)	5,824	7,459	7,463
Emissions of CO _{2eq} - scope1 (ton) (*)	921,954	1,008,051	981,866
Natural gas emissions (106 m ³)	34.6	34.4	32.8
Natural gas recovered (106 m ³)	4.5	4.1	8.2
NO _x emissions (tonnes)	228	342	305

(*) CO_{2eq} emissions were calculated based on a Global Warming Potential (GWP) for methane of 28, as indicated in the scientific study carried out by the Intergovernmental Panel on Climate Change (IPCC), "IPCC Fifth Assessment Report".

REGULATIONS CONCERNING THE BUSINESS SEGMENT

Relations with the regulatory authority

(no.)	2016	2017	2018
Responses to consultation documents (*)	10	8	10
Tariff proposals	5	4	3
Data collections	112	129	143
Preliminary investigations (**)	1	3	2
Proposal to amend/update contractual documents and codes (***)	12	14	12
Proposal to amend/update contractual documents and codes (approved)	12	12	10

(*) In 2018, a similar number of responses to consultation documents was supplied through trade associations.

(**) Information sent to the Authority during 2018 with reference to investigations in the context of the sector. This includes exploratory investigations.

(***) Also includes proposals still being evaluated by the Authority, including contractual documents and agreements with operators in the context of regulated services.

Regulation transition period 2018-2019

Criteria for adjusting the tariffs for natural gas transport services for the transition period in the years 2018 and 2019

By means of Resolution 575/2017/R/gas, which was issued on 04 August 2017, the Authority approved the tariffs for the transport, dispatch and metering service for 2018-2019. The resolution confirmed the main criteria of the regulation currently in force, with some modifications:

- the asset β parameter was confirmed for the Transitional Period 2018-2019. the WACC value of 5.4% in real pre-tax terms is therefore confirmed for 2018, and will be determined for the year 2019 by updating the basic parameters;
- from 2018 the investments made in the year $t-1$ will be included in the investment capital for the purpose of determining the tariffs for year t , replacing the 1% increase in the WACC to cover the regulatory time-lag. The 1% increase in the WACC covering the regulatory time-lag has been applied to investments made in the period 1 January 2014-31 December 2016;
- the input-based incentive scheme (1-2% for 7/10 years for regional and national networks respectively) will be applied to new development investments that have entered into service by 31 December 2017;
- an input-based incentive scheme (1% for 12 years for regional and national networks) will be applied to investments for the construction of new transportation capacity, launched as of 31 December 2017, which will start operating in the years 2018 and 2019. The incentive will also be recognised for investments that start operating during the transition period after 1 January 2018, included in the Development Plan and with a benefit-cost ratio higher than 1.5;

- the operating costs recognised in the fourth regulatory period will be updated according to inflation, and a productivity recovery factor (X-factor). The variable unit price (CV) will be calculated for the years 2018 and 2019 using a reference volume of 67.2 billion cubic metres.

Tariff regulations for 2018

By means of Resolution 757/2017/R/gas, published on 17 November 2017, the Authority approved the revenue recognised for the natural gas transportation and dispatching service for 2018. Revenue recognised for the natural gas storage service for 2018 amounted to 1,947 million euro. The RAB used to calculate 2018 revenues for transport, dispatching and measurement activities was 16 billion euros, and included the investments made in 2017.

The tariffs proposed for the natural gas dispatch and transmission service for 2018 were published by the Authority with resolution 795/2017/R/gas of 5 December 2017.

By means of subsequent Resolution 390/2018/R/gas, published on 19 July 2018, the Authority determined the revenue recognised for the natural gas transmission and dispatching service for 2018, in order to take into account the final values booked for 2017.

Tariff regulations for 2019

By means of Resolution 280/2018/R/gas, published on 10 May 2018, the Authority approved the revenue recognised for the natural gas transportation and dispatching service for 2019, which came to 1,964 million euro. The RAB used to calculate 2019 revenues for transport, dispatching and

measurement activities was 16.2 billion euro, and included the investments estimated for 2018.

By means of Resolution 306/2018/R/gas, published on 01 June 2018, the Authority approved the proposed revenue for the natural gas transportation and dispatching service for 2019.

Regulation for the fifth regulatory period 2020-2023

Consultations no. 347/2018/R/gas and no. 512/2018/R/gas relative to the “Criteria for the tariff regulation for the natural gas transmission and metering service for the fifth regulatory period”

With consultation documents no. 347/2018/R/Gas and no. 512/2018/R/gas, published respectively on 22 June 2018 and 18 October 2018, the Authority gave guidelines on the criteria for tariff regulation for the natural gas transmission and metering service for the fifth tariff regulatory period.

More specifically, the Authority proposed:

- confirmation of a 4-year regulation period (2020-2023);
- revision of the value of the β asset parameter in order to determine the rate of remuneration (WACC);
- confirmation of the revalued historic cost method to determine the RAB and the use of the gross fixed investments deflator recorded by ISTAT for value adjustment confirmation of a 4-year regulation period (2020-2023);
- confirmation of the recognition of flat net working capital of 0.8%;
- the inclusion of work in progress (LIC) in calculating the RAB, recognising remuneration equal to the WACC calculated with a D/E ratio of 4;
- confirmation of the useful lives of assets of the current regulatory period;
- determination of operating costs recognised on the basis of the costs of the last year available at the time of presentation of tariff proposals for 2020, i.e. costs relating to 2017, increased by the greater efficiencies achieved in the current period (profit-sharing 50% measured over 2017), envisaging subsequent balance calculations due to any differences, with the efficiency factor (X-factor) sized so as to return the greater efficiencies realised in the fourth regulatory period to users in 4 years;
- the annual update of the variable price (CV) on the basis of the volumes recorded in the year $t-2$;
- confirmation of the excess of $\pm 4\%$ of revenues correlated to volumes transported;
- limited to investments that will come into operation in the years 2020-2021, with a costs/benefits ratio of more than 1.5, application of an increase in the WACC of $+1\%$ for 10 years;
- introduction of a variable price applied to volumes carried intended to cover recognised operating costs,

costs relating to the Emission Trading system and costs for the procurement of quantities to cover self-consumption, losses and CNG with a price risk hedging mechanism;

- the experimentation of some cost covering mechanisms based on total spending (“Totex”), deferring to the next regulatory period for a more complete application of the mechanism;
- the definition of regulatory criteria for the metering service in a subsequent consultation document.

The sending of observations for the second and last consultation document no. 512/2018/R/gas was concluded on 17 December 2018, so as to allow for the adoption of the final provision by end February 2019.

Update of the rate of remuneration of the invested capital for regulatory purposes (WACC) for 2019

By resolution 639/2018/R/gas published on 06 December 2018, the Authority performed the infra-period update of the basic parameters of the WACC, common to all regulated infrastructural services of the gas and electricity sectors, in accordance with the provisions of Article 5 of the TIWACC and the gearing level, according to the provisions of Article 6 of the TIWACC.

In the resolution, the Authority confirmed the level of the risk free rate (rf) parameter as 0.5% (floor) insofar as the average rates of return in real terms of government securities in EU countries with a rating of at least AA recorded in the period 01 October 2017-30 September 2018 fell below said value.

The Authority also set the other parameters as follows:

- Country Risk Premium (CRP), 1.4%;
- Tax shield, 24% and tax level 31%;
- Prospective inflation of 1.7%.

For infrastructural services other than gas distribution and metering, the Authority has arranged for a gearing level D/E of 1, whilst the Beta parameter will be determined during the rate regulation of the individual businesses, starting 2020.

On the basis of the values of the above parameters, for 2019 the Authority has set the rate of return on invested capital for the natural gas transmission service as 5.7% in actual pre-tax terms (5.4% for 2016-2018). The WACC for the years 2020 and 2021 will be determined after the beta parameter has been set for the 5 regulatory period.

Integrated Text on Balancing (TIB)

Resolution no. 480/2018/R/gas - "Definition of incentive parameters pursuant to Article 9 of the TIB (Integrated Text on Balancing), valid starting 01 October 2018"

By means of Resolution 480/2018/R/gas, which was published on 28 September 2018, the Authority defined the economic incentive parameters for the Balancing Operator with reference to the period 01 October 2018-31 December 2019. The resolution confirmed the general layout of the current incentive mechanism, modifying some parameters. More specifically, the performance objective p3 (residual balancing) was strengthened, envisaging an increase to the maximum value with respect to performance p2 (market TSO intervention price), the basic value of which is reduced from 3% to 2%.

The Authority has reduced the overall incentive by a fixed amount of 5,500 euro/day (approximately 2 mln euro/year), recognising the Balancing Operator an equal amount upon achieving additional improvement objectives (also with reference to the new "Settlement" system as set out below), in connection with which Snam Rete Gas will send a proposal to the Authority.

During thermal year 2017/18, a significant improvement was recorded to the overall performance of Snam Rete Gas with respect to the previous thermal year, in the pursuit of balancing consistently with the efficient function of the transmission network. This improvement has allowed for an increase in the total economic amount of incentives recognised to Snam Rete Gas (from approximately 3.9 to approximately 14.8 million euro).

Settlement

Resolution 676/2018/R/gas - Provisions on the terms and conditions for the disbursement of balances relative to the price differences determined upon completion of settlement sessions

By resolution 676/2018/R/gas, published on 21 December 2018, the Authority established that the management of balances of price differences, determined upon completion of previous adjustment sessions for the period 2013-2019, in accordance with Resolution 223/2018/R/gas, shall take place as part of the neutrality mechanism in relation to price differences. More specifically, it is established that, in order to determine the transmission tariffs relative respectively to the years 2020 and 2021, the revenues deriving from the application of price differences (RSCN and RSCR) relative to the years 2018 and 2019 shall be considered net of the amounts of the balance calculated upon completion of the adjustment sessions, the results of which are produced that same year.

Other provisions

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

By means of Ruling 2888/2015, the State Council rejected the appeal filed by ARERA for a review of the ruling of the Regional Administrative Court of Milan no. 995/2013, which had annulled the provisions contained in Resolutions ARG/gas/184/09, 192/09, 198/09 and 218/10 regarding natural gas transportation and dispatch tariffs for the period 2010-2013 relating, specifically, to the commodity/capacity distribution, reform of the entry/exit model and gas intended for consumption by the compression plants (self-consumption).

By means of Resolution 428/2015/C/gas, ARERA decided to file an appeal for the aforementioned ruling to be overturned on the grounds of factual errors; this was subsequently waived on 29 March 2018, given the onset lack of interest in proceeding. At the same time, the Authority complied with the aforementioned rulings under Resolution 550/2016/R/gas, with which, having reformed the rules for self-consumption, it justifiably confirmed the pricing criteria for the rest, in the light of consultations carried out.

Given the confirmatory nature of the aforementioned resolution, the original applicant filed an appeal for compliance with the aforementioned rulings and a declaration of the nullity of resolution 550/2016/R/gas. With ruling no. 494/2017, the Regional Administrative Court of Milan partially heard the appeal with specific reference to the issues of commodity/capacity distribution, believing that the Resolution challenged had inexactly and partially complied with ruling 995/2013 and that, therefore, the Authority should carry out an additional assessment of the effects of the decisions made.

The ruling no. 494/2017 was contested by the appellant, as well as, incidentally, by the ARERA. By recent ruling no. 1840/2018 of 23 March 2018, the Council of State, in partially upholding the incidental appeal brought by the Authority, rejected the claim for nullity due to violation of the ruling submitted by the appellant in the first instance and ordered the conversion of the rite into ordinary proceedings for annulment. The appellant consequently resumed the proceedings before the Regional Administrative Court of Milan.

Regasification of Liquefied Natural Gas (LNG)

17,500 m³

Daily regasification capacity maximum of LNG of the plant in Panigaglia

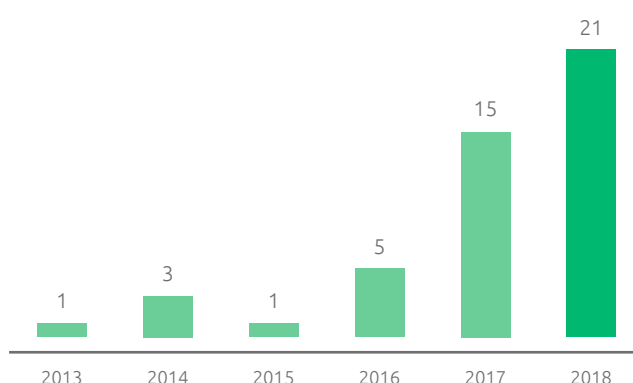
The Panigaglia plant, built in 1971 and owned by GNL Italia, is able to regasify 17,500 cubic metres of LNG every day; under conditions of maximum efficiency, it can supply more than 3.5 billion cubic metres of natural gas into the transport network every year. Total gas regasified at the Panigaglia plant in 2018 came to 0.91 billion m³ (0.63 billion m³ in 2017; +44.4%).

In 2018, 21 methane tanker loads were unloaded (15 in 2017; +40%).

Methane tanker trend

3.5 bn m³

Maximum annual quantity of natural gas that can be released into the network for transmission



0.91 bn m³
(+44.4%)

Quantity of LNG regasified in 2018 in Panigaglia

The regasification service includes unloading the LNG from the vessel, operating storage for the time required for vaporising the LNG, regasifying it and injecting it into the national network at the Panigaglia entry point. Moreover, starting October 2018, GNL Italia has made a service available to terminal users, called the "Flexibility service", which enables the user so requesting to alter its daily delivery profile.

The regasification service can be continual for the entire thermal year or work on a spot basis and starting October 2018, the regasification capacity is conferred by means of suitable auction procedures; it also includes the auxiliary service, which consists of correcting the calorific power of natural gas to respect the quality specifications required for its release to the transmission network (correction of the Wobbe index).

The new capacity allocation mechanisms through auction, as well as the new businesses in the sector of SSLNG linked, in particular, to possible future uses in heavy good transport and shipping, lead us to hypothesise further growth in LNG consumption over the next few years.

In 2018, GNL Italia supplied 2 active clients (4 in 2017) with the regasification service.

21 (+40%)

Methane tanker loads

Key performance indicators

(€ million)	2016	2017	2018	Var. ass.	Var. %
Total revenue (a)	19	22	24	2	9.1
- of which regulated revenue (a)	18	21	20	(1)	(4.8)
Total revenue net of pass-through items (a)	19	19	21	2	10.5
Operating costs (a)	12	15	17	2	13.3
Operating costs net of pass-through items (a)	12	12	14	2	16.7
EBIT	(5)	2	2		
Technical investments (b)	7	5	9	4	80.0
Net invested capital at 31 December	93	89	86	(3)	(3.4)
Volumes of regasified LNG (billions of cubic metres) (c) (d)	0.21	0.63	0.90	0.27	42.9
Tanker loads (number)	5	15	21	6	40.0
Employees in service at 31 December (number)	71	63	64	1	1.6

(a) Before consolidation adjustments.

(b) Investments remunerated at the pre-tax real base WACC, amounting to 6.6% for 2016, 2017 and 2018. For 2016 only, the pre-tax real base WACC is plus 1% lump sum surcharge to offset the regulatory lag.

(c) With reference to 2018, gas volumes are expressed in standard cubic metres (SCM) with an average traditional higher heating value (HHV) conventionally of 38.1 MJ/SCM (10,572 Kwh/SCM).

(d) The regasified quantities are shown gross of self-consumption and losses (QCP component), equal to 1.7% for the Panigaglia terminal.

RESULTS

Total revenue amounted to 24 million euro, an increase of 2 million euro, or 9.1%, compared with FY 2017. Net of components offset in costs ¹², total revenue amounted to 21 million euro, up by 2 million euro, or 10.5%, compared with FY 2017. The increase is mainly due to the greater unregulated revenues from sales of natural gas made on the balancing platform.

The **regulated revenues**, amounting to 20 million euro, include the fees for the regasification service (17 million euro; -1 million euro on 2017) essentially relating to the share of the guarantee factor for the year 2018, provided for in art. 18 of Annex A to Resolution 438/2013/R/gas, and the chargeback to users of charges relating to the natural gas transportation service provided by Snam Rete Gas S.p.A. (3 million euro; no change on 2017).¹³

EBIT amounted to 2 million euro, unchanged compared with FY 2017. The greater revenue obtained from natural gas sales was offset by the greater operating costs against the related picking from the warehouse.

¹² Revenues offset in costs refer to the costs that GNL charges back to its own customers for using the transportation service provided by Snam Rete Gas.

¹³ For the purposes of the consolidated financial statements, this revenue is eliminated, along with transportation costs, by GNL Italia S.p.A. in order to represent the substance of operations.

TECHNICAL INVESTMENTS

Technical investments in FY 2018 totalled 9 million euro (5 million euro in 2017) and involved maintenance projects aimed at assuring the modernisation, technological adjustment and safety of the plant systems. These include: (i) engineering interventions on tanks (2 million euro); (ii) interventions on the pier (approximately 1 million euro); (iii) revamping of plants (1 million euro); (iv) miscellaneous IT and property interventions (1 million euro).

OPERATING REVIEW

During 2018, 0.91 billion cubic metres of LNG were regasified at the Panigaglia (SP) LNG terminal (0.63 billion cubic metres in 2017; +0.28 billion cubic metres; +44.4%).

In 2018, 21 methane tanker loads were unloaded (15 in 2017; + 40%).

Provision and development of regasification services

	2016	2017	2018
Active customers (shippers)	4	4	2
Compliance with the maximum period of interruption/reduction in capacity at the terminal due to maintenance works (%)	100	100	100

Organisational changes

As part of the integration of Snam's Italian assets, which began on 01 July 2017, the LNG operational departments strengthened their direct overseeing of the core business of regasification and strengthened the processes whose activities have been centralised with Snam and Snam Rete Gas.

In 2018, as part of the rationalisation and simplification project of Snam's current regulations, 6 new rules were issued, which will simplify and standardise the operative processes.

At end 2018, staff in service were basically in line with 31 December 2017.

Accidents

In 2018, there were 0 accidents involving both employees and contract workers.

Accidents at work

(no.)	2016	2017	2018
Total employee accidents	1	1	0
Total contract worker accidents	0	0	0

Accident indices

	2016	2017	2018
Employees			
Frequency index (*)	8.65	9.31	0
Severity index (**)	0.660	0.17	0
Contract workers			
Frequency index (*)	0	0	0
Severity index (**)	0	0	0

(*) Number of accidents at work resulting in an absence of at least one day, per million hours worked.

(**) Number of working days lost (calendar days) in relation to accidents at work resulting in absence of at least one day, per thousand hours worked. These data have been calculated taking fatal accidents into consideration.

Energy consumption and emissions

	2016	2017	2018
Energy consumption (TJ)	128	325	462
Emissions of CO _{2eq} – scope1 (ton) (*)	54,298	44,421	41,407
Natural gas emissions (106 m ³)	2.9	1.7	1.2
NO _x emissions (tonnes)	5.5	14.8	22.4

(*) CO_{2eq} emissions were calculated based on a Global Warming Potential (GWP) for methane of 28, as indicated in the scientific study carried out by the Intergovernmental Panel on Climate Change (IPCC), "IPCC Fifth Assessment Report".

In 2018, energy consumption for gas regasification increased by 42%, a rise that is entirely in line with the quantity of gas regasified (+42%). Total nitrogen oxide emissions in 2018 came to 22 tonnes with respect to the 15 in 2017, with a performance in line with the growth of the gas treated. Finally, natural gas emissions have dropped drastically on 2017, going from 1.7 to 1.2 million of m³, due to the greater continuity in the use of the terminal as compared with previous years.

Regulations concerning the business segment

Relations with the regulatory authority

(no.)	2016	2017	2018
Responses to consultation documents (*)	1	2	1
Tariff proposals	1	1	2
Data collections	25	28	34
Proposals to amend/update contractual documents and codes (**)	3	0	3
Proposal to amend/update contractual documents and codes (approved)	0	0	3

(*) In 2018, a similar number of responses to consultation documents was supplied through trade associations.

(**) Also includes proposals still being evaluated by the Authority, including contractual documents and agreements with operators in the context of regulated services.

Regulation transition period 2018-2019

Criteria for adjusting the tariffs for the natural gas transport service for the transition period in the years 2018 and 2019

By means of Resolution 653/2017/R/gas, published on 02 October 2017, the Authority approved tariffs for the LNG regasification service for the transitional period 2018-2019. The resolution confirmed the main criteria of the regulation currently in force, with some modifications:

- the asset β parameter was confirmed for the Transitional Period 2018-2019. The WACC value of 6.6% in real pre-tax terms is therefore confirmed for 2018, and will be determined for the year 2019 by updating the basic parameters;
- the investments made in the year $t-1$ will be included in the investment capital for the purpose of determining the tariffs for year t , replacing the 1% increase in the WACC to cover the regulatory time-lag. The 1% increase in the WACC covering the regulatory time-lag has been applied to investments made in the period 01 January 2014-31 December 2016;

- the input-based incentive scheme (2% for 16 years for the upgrading of regasification capacity) will be applied to new development investments that come into service by 31 December 2017;
- an input-based incentive scheme (1.5% for 12 years) will be applied to investments for constructing new regasification capacities that will become operational in the years 2018 and 2019;
- the operating costs recognised in the fourth regulatory period will be updated according to inflation, and a productivity recovery factor (X-factor);
- the current provisions relating to the revenue coverage factor are confirmed.

Tariff regulations for 2018

With Resolution 878/2017/R/gas, "Determination of the tariffs for the LNG regasification service of the company GNL Italia S.p.A., for the year 2018", the Authority approved the recognised revenues for the regasification service for the year 2018 on the basis of the proposal presented by GNL Italia. The tariffs were set on the basis of a reference revenue of €26.9 million. The revenue coverage factor has been set at 64% of the reference revenue. As at 31 December 2017, the RAB for regasification activities was €107.9 million.

Update of the rate of remuneration of the invested capital for regulatory purposes (WACC) for 2019

With Resolution 639/2018/R/gas, published on 06 December 2018, the Authority performed the infra-period update of the basic parameters of the WACC common to all regulated infrastructural services of the electricity sector, for the three years 2019-2021 and for the regulated infrastructural services of the gas sector, for 2019, fixing for the regasification business, this value at 6.8% (6.6% for the years 2016-2018).

For infrastructural services other than gas distribution and metering, the Authority has arranged for a gearing level D/E of 1, whilst the Beta parameter will be determined during the rate regulation of the individual businesses, starting 2020. The WACC for the years 2020 and 2021 will be determined after the beta parameter has been set for regulatory period 5.

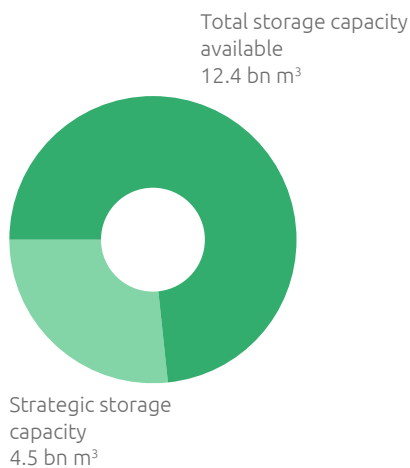
For more information on the values of the parameters used by the authority to determine the above value, please see the section entitled "Regulation concerning the business segment - Natural gas transmission" of this Report.

Tariff regulations for 2019

With Resolution 695/2018/R/gas, "Approval of the tariffs for the LNG regasification service for the year 2019 and amendments and supplements to the RTRG", published on 20 December 2018, the Authority approved the recognised revenues for the regasification service for the year 2019 on the basis of the proposal presented by GNL Italia. The tariffs were set on the basis of base revenue of 26.7 million euro. The revenue coverage factor has been set at 64% of the reference revenue. The RAB for regasification activities was 108.7 million euro. At the same time, the Authority has published the definitive 2018 revenues, based on the final 2017 equity data, which totalled 26.7 million euro.

Natural gas storage

16.9 bn m³
Total storage
capacity



The total storage capacity in 2018, including strategic storage, amounts to 16.9 billion cubic metres: the largest capacity at the European level.

Through its subsidiary company Stogit, Snam is the largest storage operator in Italy, with a 98% share of total available storage capacity, and one of the largest operators in Europe.

The storage system makes it possible to compensate for the different requirements for gas supply and consumption: whilst supply has a substantially constant flow throughout the year, the demand for gas is concentrated mainly in the winter period. Storage also ensures that quantities of strategic gas are available to compensate for any lack of or reduction in non-EU supply or crises in the gas system.

The storage business makes use of integrated infrastructure comprising deposits, wells, gas treatment plants, compression stations and the operational dispatching system. Snam has nine storage concessions located in Lombardy (five), Emilia-Romagna (three) and Abruzzo (one). In 2015, the new Bordolano site started operating, gradually increasing the capacity offered by a total of 950 million scm.

Stogit supplies its storage services (peak modulation, uniform modulation, strategic, transporter balancing, mining, short-term conferral services and, as from 2018, the new Fast Cycle service¹⁴) to 91 operators on the basis of a Storage Code approved by the Autorità di Regolazione per Energia Reti e Ambiente (the Italian Environment and Networks Energy Regulatory Authority, or "ARERA").

Thanks to the investments made into developing new fields and strengthen existing ones, the total storage capacity at the end of 2018, considering equal strategic storage, reached 16.9 billion cubic metres (+ 0.2 billion cubic metres compared to 2017), following the gradual commissioning of the Bordolano field.

In 2018, 21.07 billion cubic metres of natural gas was moved through the storage system, an increase of 1.15 billion cubic metres, or 5.7%, compared with 2017, following both the greater storage injections (+8.6%) and the greater deliveries from storage (3.1%).

On 28 October 2018, Stogit reached a modulation volume in stock held at the storage system of 11,874 million standard cubic metres of gas (MSm³), thereby booking a new all-time high, exceeding the previous level of 11,835 MSm³, reached on 31 October 2017. A result that attests to Stogit's ability to respond to both the needs of the national market as well as the contingent dynamics linked to international markets and policies, which can significantly modify demand by increasing the value of business with policies to support the security of supplies.

21.7 bn m³

Gas moved through the storage
system

9 Operating concessions

¹⁴ Storage service that envisages a willingness to provide constant injection and delivery during the Thermal Year.

Key performance indicators

(€ million)	2016	2017	2018	Change	% change (**) %
Total revenue (a)	584	601	603	2	0.3
- of which regulated revenue (a)	583	598	599	1	0.2
Total revenue net of pass-through items (a)	503	511	507	(4)	(0.8)
Operating costs (a)	151	165	168	3	1.8
Adjusted operating costs net of pass-through items (a)	70	75	72	(3)	(4.0)
EBIT	346	339	335	(4)	(1.2)
Technical investments (b)	117	101	99	(2)	(2.0)
Net invested capital at 31 December	3,421	3,429	3,397	(32)	(0.9)
Concessions (number)	10	10	10		
- of which operational (c)	9	9	9		
Natural gas moved through the storage system (billions of cubic metres) (d)	20.00	19.92	21.07	1.15	5.8
- of which injected	9.96	9.80	10.64	0.84	8.6
- of which withdrawn	10.04	10.12	10.43	0.31	3.1
Total storage capacity (billions of cubic metres)	16.5	16.7	16.9	0.2	0.9
- of which available (e)	12.0	12.2	12.4	0.2	1.2
- of which strategic	4.5	4.5	4.5		
Employees in service at 31 December (number)	301	60	59	(1)	(1.7)

(a) Before consolidation adjustments.

(b) Investments remunerated at the pre-tax real base WACC of 6.5%.

(c) Working gas capacity for modulation services.

(d) The volumes of gas are expressed in Standard cubic metres (SCM) with an average higher heating value (HHV) conventionally equal to 39.29 MJ/Smc (10.914 Kwh/SCM) for natural gas storage activities for the thermal year 2018-2019 (39.4 MJ/SCM, 10.930 Kwh/SCM, for the thermal year 2017-2018).

(e) Working gas capacity for modulation, mining and balancing services. The figure indicated represents the maximum available capacity, which was allocated in full for the 2018-2019 thermal year.

RESULTS

Total revenue amounted to 603 million euro, an increase of 2 million euro, or 0.3%, compared with FY 2017. Total revenue net of items offset in costs¹⁵ was 507 million euro, representing a decrease of 4 million euro or 0.8% compared with FY 2017.

Regulated revenue (599 million euro) mainly comprised fees for the natural gas storage service (510 million euro) and the fees charged back to users relating to the natural gas transmission service provided by Snam Rete Gas S.p.A. (87 million euro)¹⁶. Regulated revenue, net of components offset in costs, total 503 million euro, down 5 million euro or 1.0% on FY 2017. This is mainly due to the tariff update mechanisms and the lesser recognition by the Authority of contribution costs for compensation to Regions pursuant to Italian Law no. 244 of 24 December 2007¹⁷ (-2 million euro). The **non-regulated revenues** equal to 4 million euro (3 million euro in 2017) mainly refer to income derived from insurance reimbursements.

Operating profit achieved in 2017 amounted to 335 million euro, down by 4 million euro or 1.2%, compared to FY 2017. The reduction can be attributed to lower storage revenue (-3 million euro, net of components offset in costs) and higher amortisation, depreciation and impairment (-3 million euro), due to the entry into service of new infrastructures, referring, in particular, to the Bordolano site.

TECHNICAL INVESTMENTS

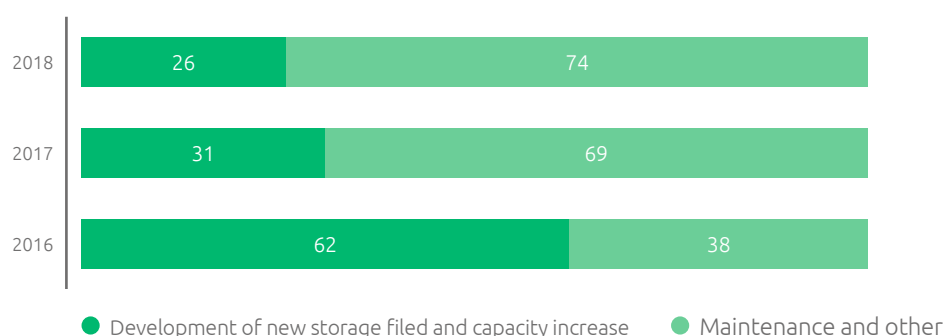
Technical investments in 2018 totalled 99 million euro, a decrease of 2 million euro (-2.0%) compared with the previous year (101 million euro), and refer to the development of new fields and upgrading of capacity (26 million euro) and maintenance and other investments (73 million euro).

The main investments in the development of new fields and upgrading of capacity (26 million euro) primarily concerned the following initiatives:

- Minerbio (16 million euro) for activities related to installing the new TC7 compression unit;
- Cortemaggiore (6 million euro) for the start-up of drilling, with the development of the station and supply of materials;
- Sabbioncello (1 million euro), for the purchase of material related to the installation of the new ESD/PSD safety system.

Investments in maintenance and other (73 million euro) mainly relate to the rationalisation of the Cortemaggiore plants (10 million euro), the work over of the Sabbioncello shaft (6 million euro) and IT and property activities (totalling 16 million euro).

Investment breakdown by type (% of total investments)



¹⁵ These components refer mainly to revenue from the redebiting to storage users of charges relating to the natural gas transportation service provided by Snam Rete Gas S.p.A. For the purposes of the consolidated financial statements, this revenue is eliminated in relation to Stogit S.p.A., together with transportation costs, in order to represent the substance of the operation.

¹⁶ Resolution 64/2017/R/gas of 16 February 2017 established that almost all expenses relating to the natural gas transmission service, starting 01 April 2017, shall no longer be debited to storage service users, but rather liquidated directly by the CSEA.

¹⁷ With Resolution 855/2017/R/ gas published on 15 December 2017, the Regulatory Authority has established that these costs are allocated to the storage company by applying the revenue restriction (the so-called SG Factor), thus ensuring neutrality.

Thanks to the significant investments made to develop new deposits and upgrade existing ones, Stogit exceeded the previous maximum quantity of gas deposits in its storage systems, thereby increasing its volume and peak capacity. Total storage capacity as at 31 December 2018, including strategic storage, was 16.9 billion cubic metres (+0.2 billion cubic metres compared with 2017, made available by the new Bordolano deposit), of which 12.4 billion cubic metres related to available capacity almost fully allocated for the thermal year 2018-2019 (equal to 99.7% of the available capacity) and 4.5 billion cubic metres related to strategic storage (unchanged compared with thermal year 2017-2018, as established by the Ministry of Economic Development by means of the notice dated 06 February 2018)¹⁸.

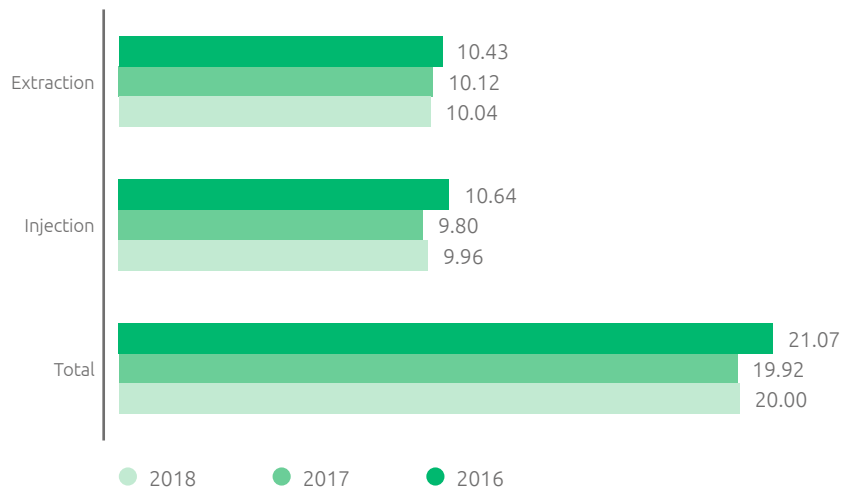
OPERATING REVIEW

Gas moved through the storage system

Volumes of gas moved through the storage system in FY 2018 amounted to 21.07 billion cubic metres, an increase of 1.15 billion cubic metres, or 5.8%, compared with FY 2017.

The increase can be attributed to both greater injections for filling storage (+0.84 billion cubic metres; + 8.6%) and to greater deliveries from storage (+0.31 billion cubic metres; +3.1%), mainly following the climatic conditions in the first few months of 2018.

Natural gas moved through the storage system (billions of cubic metres)



¹⁸ On 06 February 2018, the Ministry confirmed the total volume of strategic storage for the contractual year 2018-2019 (01 April 2018-31 March 2019) at 4.62 billion cubic metres, unchanged on thermal year 2017-2018 (01 April 2017-31 March 2018). The Stogit share was unchanged at 4.5 billion cubic metres. By circular letter of 08 January 2019, the same Ministry confirmed for storage thermal year 2019-2020 (01 April 2019-31 March 2020), the strategic gas storage volume of 4.62 billion standard cubic metres, of which 4.5 billion cubic metres are the competence of Stogit.

Provision and development of storage services

	2016	2017	2018
Active customers (shippers)	91	89	91

In 2018, the integration process continued, as had begun in July 2017, which caused the commercial management activities of the three businesses regarding transmission, storage and regasification, to flow into a single organisation. In order to manage exchanges among operators and relationships with them, over time Snam has developed IT systems and web portals that now represent a unique feature of the Company that is upgraded regularly. In this regard, the comprehensive overhaul of the Snam website was completed, redefining the sections relating to

the gas transmission, storage and regasification businesses with the aim of improving use of the information by clients and introducing graphic forms of representation. Network codes list a number of indicators for monitoring the quality of service offered by the companies. Snam companies continued to maintain excellent performance with respect to these indicators in 2018. One part of these indicators, which refers to specific levels of business quality, gives rise to automatic indemnification of customers in the event of a failure to comply with service quality standards.

(%)	2016	2017	2018
Storage capacity allocated under contract/Available storage capacity	100	99.9	99.7
Compliance with deadlines for performing services subject to specific business quality standards	100	100	100
Connection flow lines subject to supervision	100	100	100
Total capacity not made available following interruptions/reductions to the service	0	0	0

Organisational changes

At end 2018, staff in service numbered 59 resources, in line with 31 December 2017 (60 resources).

In 2018, under the Operations area, the roll-out was completed of SmartGas, also in the compression plants. With a view to enhancing and organisation of the synergic integration of Italian assets and, after the transfer process of the Stogit business unit "Plants and Technical Services" in 2018, the skilled roles of Snam Rete Gas in the context of Plant Management, Dispatching & Measurements, Engineering and Construction and Supply Chain, as defined by the service contracts, have strengthened and made concrete action aimed at assuring direct control of the operations, maintenance and control activities for storage facilities, storage dispatching operations and engineering

activities, and implementation of investment projects related to surface facilities, improvements to plant engineering and the procurement of goods, works and services. More specifically, two mixed storage and transmission poles have been developed for the operation and maintenance of two new compression plants, Minerbio and Sergnano. Additionally, in 2018 the integrated (transmission-storage) dispatch management project was completed. In 2018, as part of the project to rationalise and simplify the current Snam regulations, 6 new rules were issued, which will simplify and standardise the operative processes.

Accidents

In 2018, there were 0 accidents involving both employees and contract workers.

Accidents at work

(no.)	2016	2017	2018
Total employee accidents	1	2	0
Total contract worker accidents	1	0	0

Accident indices

	2016	2017	2018
Employees			
Frequency index (*)	2.00	6.71	0
Severity index (**)	0.110	0.43	0
Contract workers			
Frequency index (*)	1.27	0	0
Severity index (**)	0.07	0	0

(*) Number of accidents at work resulting in an absence of at least one day, per million hours worked.

(**) Number of working days lost (calendar days) in relation to accidents at work resulting in absence of at least one day, per thousand hours worked. These data have been calculated taking fatal accidents into consideration.

Energy consumption and emissions

In 2018, energy consumption for storage rose by 11%, an increase that is in line with the quantity of gas stored in the deposits (+9%). Total nitrogen oxide emissions in 2018 came to 236 tonnes (+34% on 2017), which are due both

to the increase in gas storage and the need to use non-DLE Minerbio turbo compressors due to the temporary unavailability of the low-emissions ones. To reduce these emissions, starting 2019 the Minerbio compression plant will only have low-emissions turbo compressors (DLE).

Energy consumption

	2016	2017	2018
Energy consumption (TJ)	4,985	4,787	5,337
Emissions of CO _{2eq} – scope1 (t) (*)	461,976	447,662	475,752
Emissions of natural gas (10 ⁶ m ³)	10.7	10.7	10.5
NO _x emissions (t)	201	175	235.7

(*) CO_{2eq} emissions were calculated based on a Global Warming Potential (GWP) for methane of 28, as indicated in the scientific study carried out by the Intergovernmental Panel on Climate Change (IPCC), "IPCC Fifth Assessment Report".

REGULATIONS CONCERNING THE BUSINESS SEGMENT

Relations with the regulatory authority

(no.)	2016	2017	2018
Responses to consultation documents (*)	2	0	1
Tariff proposals	3	5	3
Data collections	89	91	122
Preliminary investigations (**)	1	2	0
Proposal to amend/update contractual documents and codes (***)	4	4	3
Proposal to amend/update contractual documents and codes (approved)	1	2	2

(*) In 2018, a similar number of responses to consultation documents was supplied through trade associations.

(**) Information sent to the Authority during 2018 with reference to investigations in the context of the sector. This includes exploratory investigations.

(***) Also includes proposals still being evaluated by the Authority, including contractual documents and agreements with operators in the context of regulated services.

Tariff regulations for 2018

By means of Resolution 360/2018/R/gas “Final approval of the business revenue for the storage service relative to 2018, for the companies Stogit S.p.A. and Edison Stoccaggio S.p.A.”, published on 29 June 2018, the Authority gave final approval of the reference revenue for the storage service for 2018 for the company Stogit, which considers the annual final equity increases relative to 2017. The recognised revenues amounted to 500.5 million euro. The RAB for storage activities was €4.0 billion.

By means of Resolution 855/2017/R/gas, published on 15 December 2017, the Authority provisionally approved the revenue for the storage service for 2018, as per the proposal presented by Stogit. This is aimed at providing a reference figure for calculating the fees for the allocation of storage capacity.

Temporary period regulations for 2019

By means of Resolution 68/2018/R/gas “Start of proceedings for the formation of provision on tariffs and quality of the natural gas storage service for the fifth regulatory period (5PRS) and extension of the criteria in force to 2019”, published on 09 February 2018, the Authority extended for 2019 the tariff criteria of the Storage service in force in the period 2015-2018, confirming the value of the β asset parameter. The procedure was also launched for the review of the criteria for regulatory period 5, which will start from 2020, similarly to the transmission and regasification business, and during which the possibility of implementing a “totex” type regulatory approach, will be considered.

For 2019, the Authority has also extended regulation on the quality of the natural gas storage service for the period 2015-2018.

Update of the rate of remuneration of the invested capital for regulatory purposes (WACC) for 2019

With Resolution 639/2018/R/gas, published on 06 December 2018, the Authority performed the infra-period update of the basic parameters of the WACC common to all regulated infrastructural services of the electricity sector, for the three years 2019-2021 and for the regulated infrastructural services of the gas sector, for 2019, fixing for the storage business, this value at 6.7% from the previous 6.5% (6.5% for the years 2016-2018).

For infrastructural services other than gas distribution and metering, the Authority has arranged for a gearing level D/E of 1, whilst the Beta parameter will be determined during the rate regulation of the individual businesses, starting 2020. The WACC for the years 2020 and 2021 will be determined after the beta parameter has been set for the 5 regulatory period.

For more information on the values of the parameters used by the authority to determine the above value, please see the section entitled “Regulation concerning the business segment - Natural gas transmission” of this Report.

Tariff regulations for 2019

By means of Resolution 696/2018/R/gas, published on 20 December 2018, the Authority provisionally approved the corporate base revenue for the storage service for 2019, as per the tariff proposal presented by Stogit. These revenues came to 499.5 million euro and will be updated upon approval of the definitive revenues, determined using the final equity increases for 2018. The RAB for storage activities was 4.0 billion euro.

Other provisions

Storage service incentive mechanisms

With consultation document 155/2018/R/gas “Introduction of incentive mechanisms for the supply of storage services”, published on 19 March 2018, the Authority considered the introduction of a mechanism that would encourage storage companies to make additional flexibility available with respect to that envisaged in the “basic” storage services. These products will supplement those currently supplied on a monthly, weekly and daily basis and will enable completion of the range of “forward” storage services available, allowing users to benefit from additional services within a prefixed term or to transfer part of their provisions over time.

The premium for the storage company, in addition to the revenue recognised, will be equal to a percentage of the proceeds deriving from the conferral of such products, with an average value expected to be around 40% of these proceeds. The submission of observations was concluded last 20 April 2018.

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

With Resolution 350/2018/R/gas published on 22 June 2018, the Authority envisaged, in continuity with the 2017-2018 thermal year, provisions for the issue of sterilising 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. The resolution envisages the offsetting through the Cassa per i servizi energetici e ambientali (Energy and Environmental Services Fund or “CESA”) of the difference in price between the storage tariff and the price of assignment by auction applied to the capacity conferred, as well as the offsetting of costs for the purchase of transmission capacity, incurred by the storage company.

Moreover, with reference to the proceeds deriving from the sale of capacity released on a day-ahead basis by the transmission operators, the resolution establishes that starting 01 April 2018, storage companies shall pay these proceeds to CSEA (at present, they are rebated to the TSOs) and that the TSOs will pay CSEA the proceeds collected in connection with thermal year 2017-2018.

Resolution 614/2018/R/gas - “Short-term storage services - definition of incentive parameters for the delivery phase”

By this resolution, published on 30 November 2018, the Authority introduced for the delivery phase of Thermal Year 2018-2019, a system of incentives for the supply by Stogit of additional storage capacity with respect to that envisaged in the “basic” storage services.

The incentive mechanism envisages the withholding of a premium by Stogit, in addition to the revenues recognised, equal to a percentage of the proceeds deriving from the conferrals of additional capacity (profit sharing).

The profit sharing is fixed:

- at 100% of the cost function for the purchase and sale of fortnight delivery capacity (advances/postponements of capacity);
- at 30% for the sale of capacity on a monthly, weekly, daily and infra-daily basis.

An increase to 50% is envisaged of the profit sharing pursuant to point (b) when Stogit makes available additional functions relative to the daily and infra-daily capacity conferral process; these functions were activated by Stogit starting 07 January 2019, with the consequent increase to 50% of profit sharing.

Comments on financial review and other information



Comments on the financial review

INCOME STATEMENT

2016		2017		2018		2018 adjusted vs 2017 adjusted	
Pro-forma adjusted (**)	(€ million)	Reported	Adjusted (*)	Reported	Adjusted (*)	Change	% change
2,444	Regulated revenue	2,434	2,434	2,485	2,485	51	2.1
116	Non-regulated revenue	99	99	101	101	2	2.0
2,560	Total revenue	2,533	2,533	2,586	2,586	53	2.1
2,415	- Total revenues net of pass-through items	2,441	2,441	2,528	2,528	87	3.6
(573)	Operating costs	(526)	(511)	(512)	(491)	20	(3.9)
(428)	- Operating costs net of pass-through items	(434)	(419)	(454)	(433)	(14)	3.3
1,987	EBITDA	2,007	2,022	2,074	2,095	73	3.6
(651)	Amortisation, depreciation and impairment	(659)	(659)	(690)	(690)	(31)	4.7
1,336	EBIT	1,348	1,363	1,384	1,405	42	3.1
(263)	Net financial expenses	(283)	(227)	(242)	(195)	32	(14.1)
135	Net income from equity investments	161	150	159	159	9	6.0
1,208	Pre-tax profit	1,226	1,286	1,301	1,369	83	6.5
(363)	Income tax	(329)	(346)	(341)	(359)	(13)	3.8
845	Net profit (***)	897	940	960	1,010	70	7.4

(*) The values exclude special items.

(**) Details on adjustments made are given in the chapter "Comments on the economic and financial results" of the 2017 Annual Financial Report.

(***) Entirely held by Snam shareholders.

Reconciled summary of adjusted results (*)

(€ million)	2017	2018	Change	% change
Operating profit (EBIT)	1,348	1,384	36	2.7
Excluding special items	15	21	6	40.0
Adjusted EBIT	1,363	1,405	42	3.1
Net profit (**)	897	960	63	7.0
Excluding special items	43	50	7	16.3
Adjusted net profit	940	1,010	70	7.4

(*) For the nature and detailed reconciliation of the individual adjustments, read the paragraph: "Non-GAAP measures" of this Report.

(**) Entirely held by Snam shareholders.

Adjusted operating profit¹⁹ for FY 2018, which excludes special items (21 million euro), comes to 1,405 million euro, up 42 million euro (or 3.1%) on the adjusted operating profit of 2017. The greater revenues (+87 million euro; 3.6%), mainly due to the contribution made by the transmission segment and the change in the consolidation scope, deriving from company mergers regarding the new businesses of CNG and biomethane, were partially offset by the increase in period amortisation, depreciation and impairment (-31 million euro; 4.7%), mainly due to the amortisation deriving from the commissioning of new infrastructures and the greater operating costs (-14 million euro; 3.3%).

In particular, the rise in operating costs is mainly due to: (i) the change in the consolidation scope (34 million euro); (ii) expenses deriving from the greater use of Unaccounted-For-Gas (UFG) with respect to the quantities conferred in kind by the users (22 million euro, net of uses of the provision made during previous years); (iii) costs incurred by the Global Solution Business Unit in exchange for services provided (3 million euro), in addition to impacts of employment policies. These factors were partly offset by: (i) the trend of the provisions for risks and charges and the provision for doubtful debt (totalling 25 million euro); (ii) the effects of efficiency drives implemented starting 2016, which in 2018 made it possible to cut costs by around 17 million euro (36 million euro cumulatively for the period 2016-2018).

The **net adjusted profit** for FY 2018, which excludes special items (50 million euro, net of the related tax effect), comes to 1,010 million euro, up 70 million euro (or +7.4%) on the adjusted net profit of FY 2017.

The increase, in addition to greater operating profit (+42 million euro; +3.1%) is due: (i) to the lesser net financial expenses (+32 million euro; 14.1%) that benefit from a reduction in the average cost of debt, also in view of the benefits deriving from the optimisation action taken in 2016 and 2017; (ii) the greater net income from equity investments (+9 million euro; +6.0%). These effects were partly absorbed by greater income taxes (+13 million euro; 3.8%), due mainly to the rise in pre-tax profit.

¹⁹ EBIT was analysed by isolating only the elements that resulted in a change to that figure. To this end, applying gas sector tariff regulations generates revenue components that are offset in costs. These components refer essentially to interconnection.

Analysis of the entries on the adjusted financial statement

The “Corporate and other activities” sector includes the new companies acquired in 2018, responsible for activities related to the Energy Transition.

Total revenue

2016	(€ million)	2017	2018	Change	% change
Business segments					
2,035	Transportation	2,039	2,118	79	3.9
19	Regasification	22	24	2	9.1
584	Storage	601	603	2	0.3
226	Corporate and other activities	233	268	35	15.0
(304)	Consolidation eliminations	(362)	(427)	(65)	18.0
2,560		2,533	2,586	53	2.1

Regulated and non-regulated revenue

2016	(€ million)	2017	2018	Change	% change
2,444	Regulated revenue	2,434	2,485	51	2.1
Business segments					
1,855	Transportation	1,889	1,975	86	4.6
18	Regasification	18	17	(1)	(5.6)
426	Storage	435	435		
145	Revenue items offset in costs (*)	92	58	(34)	(37.0)
116	Non-regulated revenue	99	101	2	2.0
2,560		2,533	2,586	53	2.1

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

Regulated revenues (2,485 million euro) rose by 51 million euro in respect to the fiscal year 2017 (+2.1%). Net the components that have a counterpart in costs, the regulated revenue totals 2,427 million euro, an increase of 85 million euro or 3.6%, thanks to the continuous investment and greater volumes of ITG (the whole year 2018 vs the 3 months in 2017; +15 million euro). Regulated revenues relate to transmission (1,975 million euro), storage (435 million euro) and regasification (17 million euro).

Non-regulated revenues (101 million euro, net of consolidation eliminations) are basically in line with FY 2017 (+2 million euro or 2.0%). The greater revenues deriving from the contribution made by companies that joined the consolidation scope (+34 million euro) and services provided

by the Global Solution Business Unit (+5 million euro) were to a large extent absorbed by the lesser revenues from services provided to the Italgas Group, regulated by means of various contracts stipulated as at 31 December 2017²⁰ (-46 million euro).

Non-regulated revenues mainly regard: (i) prices for the development of biogas and biomethane plants (23 million euro); (ii) technical-specialised services for foreign companies not consolidated (16 million euro); (iii) proceeds deriving from the rental and maintenance of optic fibre telecommunication cables (13 million euro); (iv) revenues for provisions of services to the Italgas Group (14 million euro)²¹; (v) sale of compressors for vehicles - CNG (7 million euro).

20 These revenues have counter-entries in costs incurred for the provision of the related services.

21 Please note that as at 31 December 2018, the contracts for services provided to the Italgas Group were concluded.

Operating costs

2016	(€ million)	2017	2018	Change	% change
Business segments					
469	Transportation	441	462	21	4.8
12	Regasification	15	17	2	13.3
151	Storage	165	168	3	1.8
245	Corporate and other activities	252	271	19	7.5
(304)	Consolidation eliminations	(362)	(427)	(65)	18.0
573		511	491	(20)	(3.9)

Operating costs - Regulated and non-regulated activities

2016	(€ million)	2017	2018	Change	% change
456	Costs of regulated activities	404	397	(7)	(1.7)
271	Controllable fixed costs	267	274	7	2.6
9	Variable costs	7	6	(1)	(14.3)
31	Other costs (*)	38	59	21	55.3
145	Cost items offset in revenue (**)	92	58	(34)	(37.0)
117	Costs of non-regulated activities	107	94	(13)	(12.1)
573		511	491	(20)	(3.9)

(*) Net special items.

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

Operating costs of regulated activities

Operating costs of regulated activities (397 million euro) decreased by 7 million euro, or 1.7% compared to FY 2017. Net of components offset in revenues, operating costs for regulated activities rose by 27 million euro or 8.7% on FY 2017.

Controllable fixed costs (274 million euro), which comprise the sum of personnel expenses and recurring external costs, rose by 7 million euro, or 2.6%, compared with 2017 (267 million euro). The increase is due to emerging costs²² in ICT, mainly deriving from the separation of Italgas, and the greater contribution of ITG, the effects of which have been partially absorbed by the efficiency drives implemented.

Other costs (59 million euro, net of the special items) increased by 21 million euro, or 55.3% compared to FY 2017. The increase is essentially due to expenses deriving from the greater use of Unaccounted-For-Gas (UFG) with respect to the quantities conferred in kind by the transmission users, in accordance with resolution 514/2013/R/Gas of the Regulatory Authority (22 million euro, net of uses of the provision made during previous years) and greater capital losses from the elimination of assets (+8 million euro). These effects have been partially offset by net uses of the provisions for risks and charges (-7 million euro) in view of net provisions made in 2017, mainly for tax litigation.

²² Please note that in consideration of the closure of the service contracts with the Italgas Group, the effects on the income statement will conclude in FY 2019.

Operating costs of non-regulated activities

Operating costs of non-regulated activities (94 million euro) are down by 13 million euro or 12.1% on FY 2017, mainly due to the lesser costs for services, mainly ICT in nature, charged back to the Italgas Group (-43 million euro), settled by means of contracts concluded as at 31 December 2017 and net uses of provisions for risks and charges and the provision for doubtful debt (-18 million euro in total). These effects were partly offset by the greater costs deriving from the new businesses that joined the consolidation scope (34 million euro), relating essentially to the development of biomethane plants and turbo compressors for vehicles, as well as greater costs connected with the development of new businesses and specific projects (6 million euro).

The number of employees as at 31 December 2018 (3,016 resources) is analysed below by professional status.

2016	(no.)	2017	2018	Change	% change
Professional status					
87	Executives	93	107	14	15.1
421	Middle Managers	456	480	24	5.3
1,651	Office workers	1,655	1,682	27	1.6
724	Manual workers	715	747	32	4.5
2,883		2,919	3,016	97	3.3

The increase of 97 resources with respect to FY 2017 is mainly due to the inclusion of new companies in the consolidation scope (117 resources). Personnel who left the Group, mainly exploiting the instrument of Isopensione (99 resources) were replaced by new employees hired from the market, in line with the Group's employment policies.

Amortisation, depreciation and impairment

2016	(€ million)	2017	2018	Change	% change
616	Total amortisation and depreciation	646	682	36	5.6
Business segments					
517	Transportation	539	567	28	5.2
5	Regasification	5	5		
87	Storage	95	100	5	5.3
7	Corporate and other activities	7	10	3	42.9
35	Impairment losses (Reversals)	13	8	(5)	(38.5)
651		659	690	31	4.7

Amortisation and Depreciation (690 million euro) increased by 31 million euro, equal to 4.7%, in respect to the fiscal year 2017. The increase was principally due to higher depreciation (+36 million euro; +5.6%) recorded in all sectors of activities, essentially as a result of the effective date of new infrastructure, partly offset by lower devaluation (-5 million euro; -38.5%).

Below is a breakdown of adjusted EBIT by business segment:

Adjusted EBIT

2016	(€ million)	2017	2018	Change	% change
Business segments					
1,021	Transportation	1,048	1,081	33	3.1
(5)	Regasification	2	2		
346	Storage	339	335	(4)	(1.2)
(26)	Corporate and other activities	(26)	(13)	13	(50.0)
1,336		1,363	1,405	42	3.1

Net financial expenses

2016	(€ million)	2017	2018	Change	% change
281	Financial expense related to net financial debt	235	199	(36)	(15.3)
281	- Interest and other expense on short- and long-term financial debt (*)	236	202	(34)	(14.4)
	- Bank interest income	(1)	(3)	(2)	
4	Other net financial expense (income)	4	6	2	50.0
10	- Accretion discount	11	11		
(6)	- Other net financial expense (income)	(7)	(5)	2	(28.6)
1	Losses on derivatives – ineffective portion	1	2	1	100.0
(23)	Financial expense capitalised	(13)	(12)	1	(7.7)
263		227	195	(32)	(14.1)

(*) Net special items.

The **net financial charges** (195 million euro, net of the special items related to the liability management operation implemented in December 2018) show a reduction of 32 million euro, or 14.1%, compared to 2017. The reduction is due to lower finance charges correlated to the net financial debt (-34 million euro; -14.4%) principally connected to the lower average cost of the debt, also thanks to benefits deriving from optimisation interventions in the group's financial structure put into effect by Snam in 2016 and 2017, in particular liability management operations.

The finance charges capitalised in the fiscal year 2018 total 12 million euro, basically in line with the previous year.

Income from equity investments

2016	(€ million)	2017	2018	Change	% change
135	Equity method valuation effect	150	157	7	4.7
	Dividends		2	2	
135		150	159	9	6.0

The **net income from equity investments** (159 million euro) concern the shares in the net results for the period of companies evaluated with the equity method, in particular the joint ventures TAG (74 million euro), Terēga (28 million euro) and AS Gasinfrastruktur Beteiligung GmbH (11 million euro) and the associate Italgas (43 million euro).

Income tax paid

2016	(€ million)	2017	2018	Change	% change
403	Current taxes (*)	373	385	12	3.2
	(Deferred) prepaid taxes (*)				
(22)	Deferred taxes	(16)	(16)		
(18)	Prepaid taxes	(11)	(10)	1	(9.1)
(40)		(27)	(26)	1	(3.7)
363		346	359	13	3.8

(*) Net special items.

Income taxes total 359 million euro, a 13 million euro rise, equal to 3.8%, in respect to the fiscal year 2017. The increase was attributable mainly to greater pre-tax profit, the effects of which were partly absorbed by the benefits deriving from the Super Amortisation (years 2015, 2016 and 2017) and Hyper Amortisation (year 2018) introduced by the 2016 and 2017 Stability Law.

NON-GAAP MEASURES

Snam presents in the management report, in addition to the financial results envisaged by the IFRS, certain variables deriving from the latter, even if not envisaged by the IFRS or by other standard setters (Non-GAAP measures).

Snam's management believes that these measures facilitate the analysis of the Group's performance and of the business sectors, ensuring better comparability of results over time. Non-GAAP financial information must be considered as complementary and does not replace the information prepared in accordance with IFRS.

In accordance with the Consob Communication DEM/6064293 of 28 July 2006 and subsequent amendments and additions (Consob Communications no. 0092543 of 03 December 2015 which incorporates the ESMA/2015/1415 guidelines on alternative performance indicators), the following paragraphs provide indications relating to the composition of the main alternative performance indicators used in this document, not directly deducible from reclassifications or algebraic sums of conventional indicators²³ and compliant with international accounting standards²⁴.

Operating profit and adjusted net profit

The operating profit and the adjusted net profit are obtained by excluding the special items (respectively gross and net of the related taxes) from the operating profit and the reported net profit, as per the legal scheme of the Income Statement. Income entries classified as special items for FY 2018 refer to: (i) the financial expenses deriving from the buy-back of bonds on the market as part of the Liability Management transaction (47 million euro; 35 million euro net of the related tax effect), implemented by Snam in December 2018; (ii) the expenses for incentives to take voluntary redundancy in application of the early pension tool regulated by Art. 4, paragraphs 1-7 of Italian Law no. 92/2012, the "Fornero Law", together with the introduction of the new calculation logics for retirement age, termed the "quota 100", envisaged by the 2019 Budget Law (21 million euro in total; 15 million euro net of the related tax effect).

Special items

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

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

Any income components deriving from non-recurring transactions in accordance with Consob Resolution no.

15519 of 27 July 2006 are also shown separately in the IFRS financial report.

Free cash flow

Free cash flow is the measure that allows the connection between the obligatory financial statement, which expresses the change in liquidity between the beginning and end of the period, and the change in net financial debt between the beginning and end of the reclassified cash flow statement. "Free cash flow" represents the surplus or cash deficit remaining after the investment financing and closes alternatively: (i) on the cash change for the period, after the cash flows related to the financial payables/assets (credit/debit repayments/financial payables) have been added/subtracted, to the equity capital (payment of dividends/net acquisition of own shares/capital injections), as well as the effects on cash and cash equivalents of changes in the scope of consolidation and exchange differences arising from conversion; (ii) on the change in net financial debt for the period, after the flows relating to own capital have been added/subtracted, as well as the effects on net financial debt of changes in the scope of consolidation and exchange differences arising on conversion.

²³ According to the CESR/05-178b recommendation of October 2005, all the data included in the financial statements audited in accordance with IFRS or in the balance sheet, the income statement, the statement of changes in equity and the cash flow statement are conventional indicators or in the commentary notes.

²⁴ For the definition of these quantities refer to the Glossary.

Net financial debt

Net financial debt is calculated as financial debt net of liquid funds and equivalents, securities available for sale and to be held to maturity and short-term financial receivables.

The tables below show the reconciliation between the reported Income Statement and the adjusted Income Statement, as well as a table summarizing the special items:

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

(*) Entirely held by Snam shareholders.

Details of special items

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

Reclassified statement of financial position

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

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

Reclassified statement of financial position (*)

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

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

Fixed capital (18,856 million euro) was down by 19 million euro on 31 December 2017. The reduction is mainly due to the lesser long-term financial receivables (-362 million euro) mainly in view of the repayment, by TAP, of the shareholders' loan, to a large extent absorbed by the increase in tangible and intangible fixed assets (+177 million euro) and the increase in equity investments (+159 million euro), mainly due to the purchase of DESFA.

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

(€ million)	Property, plant and equipment	Activity assets	Total
Balance at 31 December 2017	16,033	850	16,883
Technical investments	805	77	882
Amortisation, depreciation and impairment	(630)	(60)	(690)
Transfers, eliminations and divestments	(14)		(14)
Change in scope of consolidation	1	30	31
Other changes	(42)	10	(32)
Balance at 31 December 2018	16,153	907	17,060

The technical investments of 2018 of the continuing operations total 882 million euro²⁵ (1,034 million euro in 2017) and principally refer to the sectors of transmission (764 million euro) and storage (99 million euro). The change in the consolidation area (+31 million euro) refers to the assets recorded in view of acquisitions of 82% of the capital of TEP Energy Solution (24 million euro) and 70% of the share capital of IES Biogas (4 million euro)²⁶. Other changes (-32 million euro) relate essentially to: (i) contributions on works for interference with third parties (so-called recalls; -22 million euro); (ii) the change in inventory of piping and related accessory materials used in plant construction (-11 million euro); and (iii) the effects of adjusting the current value of expenditure relating to the charges for storage site dismantling and restoration (-8 million euro)²⁷.

Compulsory inventories

The fixed warehouse stock – compulsory inventories – equal to 363 million euro (equal as at 31 December 2017), comprise a minimum degree of natural gas that the storage company is required to withhold in accordance with Italian Presidential Decree no. 22 of 31 January 2001. The quantities of natural gas in stock, equal to around 4.5 billion standard cubic metres, are determined annually by the Ministry of Economic Development²⁸.

Equity investments

The equity investments item (1,750 million euro) included: (i) the valuation of equity investments using the equity method and referred mainly to Trans Austria Gasleitung GmbH - TAG (509 million euro), Terēga Holding S.A.S. (466 million euro), Trans Adriatic Pipeline AG – TAP (258 million euro), Italgas S.p.A. (180 million euro), AS Gasinfrastruktur Beteiligung GmbH (124 million euro), and Senfluga (117 million euro); (ii) the fair value measurement of the minority stake held in the company Terminale GNL Adriatico S.r.l. (40 million euro).

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

26 For both company mergers, crossover contractual put and call options are envisaged over the interests of minority shareholders, respectively 18% and 30% for TEP and IES Biogas. As at the date of acquisition, in accordance with the terms of the contract regulating the exercise of options, the transactions were booked as though Snam had acquired control over 100% of the companies, without, therefore, noting the interests of minority shareholders. The main company mergers performed in 2018 are described under note 24 "Business combinations" of the consolidated financial statements, to which reference is made.

27 Further information is provided in Note 20 "Provision for risks and charges" of the Notes to the consolidated financial statements.

28 On 06 February 2018, the Ministry confirmed the total volume of strategic storage for the contractual year 2018-2019 (01 April 2018-31 March 2019) at 4.62 billion cubic metres, unchanged on thermal year 2017-2018 (01 April 2017-31 March 2018). The Stogit share was unchanged at 4.5 billion cubic metres.

Long-term financial receivables

Long-term financial receivables (11 million euro) show a reduction of 362 million euro. The reduction is mainly due to the repayment by TAP, through a true-up mechanism, of the shareholders' loan (519 million euro, in view of the 373 million euro relative to outstanding receivables as at 31 December 2017 and 156 million euro relative to receivables accrued in 2018), following the completion, on the banking market, of the project financing for the gas pipeline development project²⁹.

Net working capital

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

Net working capital (1,259 million euro) was down by 180 million euro on 31 December 2017. The reduction is mainly due to: (i) the increase in accruals and deferrals from regulated activities (-131 million euro) mainly due to penalties and greater volumes billed to users of the transmission service, with respect to the restriction of revenues established by the Regulatory Authority; (ii) the performance of commercial operations (-112 million euro), which recorded lesser receivables for 27 million euro, mainly following the lesser volumes of gas traded under the scope of balancing and greater trade payables (-85 million euro), primarily due to the transmission sector gas settlement, introduced by the Regulatory Authority by resolutions 670/2017/R/gas and 782/2017/R/gas³⁰. These effects were partially offset by the rise in other net assets (+46 million euro, net of other liabilities), mainly due to the greater receivables of the transmission segment towards the CSEA in reference to the gas settlement.

29 For more information, see Note 25, "Guarantees, commitments and risks", of the consolidated financial statements.

30 By this resolution, the Authority approved the provisions on gas settlement for the determination of physical and economic items of adjustment for the previous period (years 2013-2017). The regulation also envisages that any imbalance in items receivable and payable from and to users, shall be regulated by the CSEA in order to guarantee the neutrality of Snam Rete Gas as major transmission company. In this regard, it is noted that in exchange for the settlement, net working capital as at 31 December 2018 recorded a drop of 25 million euro following the greater collections of items receivable, not yet re-distributed to the system as at that date.

Statement of comprehensive income

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

(*) Entirely held by Snam shareholders.

(**) The amount refers to the change in fair value of the minority share in Adriatic LNG, allocated to shareholders' equity in compliance with IFRS 9. For more information, see Note 16 "Other equity investments" of the Notes to the consolidated financial statements.

Shareholders' equity

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

(*) Entirely held by Snam shareholders.

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

(***) Amount paid on 23 January 2019.

Information about the individual shareholders' equity items and changes therein compared with 31 December 2017 is provided in Note 23 "Shareholders' equity" in the Notes to the consolidated financial statements.

Reconciliation between the separate and consolidated net income and shareholders' equity of Snam S.p.A.

(€ million)	Net income		Shareholders' equity	
	2017	2018	31.12.2017	31.12.2018
Financial statements of Snam S.p.A.	677	721	4,861	4,402
Net income of companies included in the scope of consolidation	799	874		
Difference between book value of equity investments in consolidated companies and shareholders' equity reported in financial statements including net income for the period			1,382	1,618
Consolidation adjustments for:				
- Dividends	(604)	(641)		
- Income from the measurement of equity investments using the equity method and other income from equity investments	25	6	(55)	(21)
	(579)	(635)	(55)	(21)
Minority interests				
Consolidated Financial Statements	897	960	6,188	5,985

Net financial debt

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

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

Net financial debt was 11,548 million euro as at 31 December 2018, compared with 11,550 million euro as at 31 December 2017.

The net cash flow from operations (1,826 million euro) allowed us to entirely finance net investments (1,036 million euro, including equity investments of 176 million euro). This flow and the collection deriving from the repayment by TAP of the shareholders' loan (519 million euro; 371 million euro, net of the portions disbursed by Snam during the year), have

made it possible to generate free cash flow of 1,161 million euro. Net financial debt, after the payment to shareholders of the 2017 dividend (731 million euro, of which 294 million euro by way of interim dividend and 437 million euro for the balance) and the cash flow deriving from the purchase of treasury shares (426 million euro), shows a reduction of 2 million euro compared with 31 December 2017, including non-monetary components relating to net financial debt (2 million euro).

Financial debts and bonds as at 31 December 2018 of 13,420 million euro (12,619 million euro as at 31 December 2017) are as follows:

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

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

(**) Entirely short-term.

Financial and bond debts are denominated in euros ³¹ and refer mainly to bond loans (8,446 million euro, or 62.9%) and bank loans (4,749 million euro, or 35.4%, including 1,448 million euro provided by the European Investment Bank - EIB).

The bonds decreased by 226 million euro (8,446 million euro) compared to 31 December 2017. The reduction is mainly due to: (i) the repayment of a fixed-rate bond loan maturing on 19 March 2018, for a nominal amount of 851 million euro; (ii) the repayment of a fixed-rate bond maturing on 10 September 2018, for a nominal amount of 70 million euro; (iii) the repurchase on the market of fixed-rate bonds for a total nominal value of 538 million euro with an average coupon of 2.6% and a residual duration of approximately 3.7 years. These effects were partially offset by the issue of: (i) a variable-rate bond³², on 22 January 2018, for a nominal value of 350 million euro; (ii) a fixed-rate bond, on 11 September 2018, for a nominal value of 600 million euro; (iii) a fixed-rate equity linked bond, on 27 November 2018, for a nominal value of 300 million euro.

Funding for bank loans (4,749 million euro) increased by 818 million euro mainly following the underwriting of three bank term loans for a total nominal value of 700 million euro, and of a greater net use of uncommitted credit facilities for a value of approximately 393 million euro. This effect is partially offset by the early repayment of a bank term loan for a nominal value of 250 million euro.

Long-term financial liabilities (9.787 million euros) made up approximately 73% of gross financial debt (around 81% as at 31 December 2017). Fixed-rate financial debts amounted to around 78% of gross financial debt.

The Euro Commercial Papers (225 million euro) regard unsecured short-term securities issued on the money market and placed with institutional investors.

Cash and cash equivalents (1,872 million euro) 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).

As at 31 December 2018, Snam had unused committed long-term credit facilities worth 3.2 billion euro. In terms of sustainable finance, November 2018 saw the completion of the transformation of these pooled credit facilities into a sustainable loan with 19 national and international banks of primary standing, with a bonus/malus mechanism on the margins paid connected with the achievement of specific ESG (Environment, Social and Governance) KPIs: this is the third largest sustainable loan stipulated in the world and the absolute largest by a gas utility company.

Information on financial covenants can be found in Note 17 "Short-term financial liabilities, long-term financial liabilities and short-term portions of long-term liabilities" of the Notes to the consolidated financial statements.

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

32 The above-mentioned interest bond is converted at a fixed rate through a derivative Interest Rate Swap (IRS).

Reclassified statement of cash flows

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

Reclassified statement of cash flows (*)

2016 (**)	(€ million)	2017	2018
861	Net profit (***)	897	960
	<i>Adjusted for:</i>		
757	- Amortisation, depreciation and other non-monetary components	511	543
36	- Net capital losses (capital gains) on asset sales and eliminations	4	12
884	- Dividends, interest and income taxes	585	557
(176)	Change in working capital due to operating activities	334	185
(735)	Dividends, interest and income taxes collected (paid)	(467)	(431)
1,627	Net cash flow from operating activities	1,864	1,826
(1,145)	Technical investments	(1,016)	(849)
2	Technical disinvestments	3	2
1,502	Companies (entering) leaving the scope of consolidation and business units	(166)	(32)
(168)	Equity investments	(75)	(144)
(133)	Change in long-term financial receivables	(154)	371
22	Other changes relating to investment activities	(33)	(13)
1,707	Free cash flow	423	1,161
1,585	Financial credits in companies leaving the scope of consolidation		
	Change in short-term financial receivables	(350)	350
(2,297)	Change in short- and long-term financial debt	1,540	799
(978)	Equity cash flow (a)	(928)	(1,157)
17	Net cash flow for the period	685	1,153

Change in net financial debt

2016 (**)	(€ million)	2017	2018
1,707	Free cash flow	423	1,161
	Effect of the first time adoption of the provisions of IFRS 9		10
2,009	Financial debts and credits from companies entering the area of consolidation		(6)
(978)	Equity cash flow (a)	(928)	(1,157)
(15)	Other changes (b)	11	(6)
2,723	Change in net financial debt	(494)	2

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

(**) With reference to FY 2016, the flows indicated refer to the Snam Group and therefore include cash flow relating to discontinued operations (natural gas distribution). More specifically, the net cash flow from operating activities, investments and financing activities attributable to discontinued operations total respectively +413 million euro, -298 million euro and -116 million euro.

(***) With reference to FY 2016, net income is attributable for 591 million euro to continuing operations and 270 million euro to discontinuing operations.

(a) Includes cash flow deriving from the purchase of treasury shares and payment to shareholders of the dividend.

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

Reconciliation of the reclassified financial statement with the compulsory formats

Reclassified statement of financial position

(€ million)	31.12.2017			31.12.2018	
Reclassified balance sheet items (Where not expressly stated, the component is taken directly from the legally required format)	Reference in Notes to the consolidated financial statements	Partial amount from legally required format	Amount from reclassified format	Partial amount from legally required format	Amount from reclassified format
Fixed capital					
Property, plant and equipment			16,033		16,153
Compulsory inventories			363		363
Intangible assets			850		907
<i>Equity investments comprising:</i>			<i>1,591</i>		<i>1,750</i>
- Equity investments measured using the equity method		1,547		1,710	
- Other equity investments		44		40	
Long-term financial receivables	(note 9)		373		11
<i>Net payables for investments, consisting of:</i>			<i>(335)</i>		<i>(328)</i>
Payables for investment activities	(note 18)	(347)		(337)	
- Receivables from investment/divestment activities	(note 9)	12		9	
Total fixed capital			18,875		18,856
Net working capital					
Trade receivables	(note 9)		1,274		1,247
Inventories			86		109
<i>Tax receivables, consisting of:</i>			<i>46</i>		<i>26</i>
- Current income tax assets and other current tax assets		37		17	
IRES receivables for the national tax consolidation scheme	(note 9)	9		9	
Trade payables	(note 18)		(406)		(491)
<i>Tax liabilities, consisting of:</i>			<i>(11)</i>		<i>(23)</i>
- Current income tax liabilities and other current tax liabilities		(11)		(23)	
Deferred tax liabilities			(165)		(134)
Provisions for risks and charges			(677)		(665)
Derivative hedging instruments	(note 12 and 19)		(12)		(29)

(€ million)	31.12.2017			31.12.2018	
Reclassified balance sheet items (Where not expressly stated, the component is taken directly from the legally required format)	Reference in Notes to the consolidated financial statements	Partial amount from legally required format	Amount from reclassified format	Partial amount from legally required format	Amount from reclassified format
<i>Other assets, consisting of:</i>			50		105
- Other receivables	(note 9)	13		72	
- Other current and non-current assets	(note 12)	37		33	
<i>Assets and liabilities from regulated activities, consisting of:</i>			(231)		(362)
- Regulated assets	(note 12)	68		26	
- Regulated liabilities	(note 19)	(299)		(388)	
<i>Other liabilities, consisting of:</i>			(1,033)		(1,042)
- Other payables	(note 18)	(920)		(940)	
- Other current and non-current liabilities	(note 19)	(113)		(102)	
Total net working capital			(1,079)		(1,259)
Provisions for employee benefits			(58)		(64)
NET INVESTED CAPITAL			17,738		17,533
Shareholders' equity (entirely attributable to Snam's shareholders)			6,188		5,985
Net financial debt					
<i>Financial liabilities, consisting of:</i>			12,619		13,420
- Long-term financial liabilities		10,176		9,787	
- Short-term portion of long-term financial liabilities		1,070		1,657	
- Short-term financial liabilities		1,373		1,976	
<i>Financial receivables and cash and cash equivalents, consisting of:</i>			(1,069)		(1,872)
- Short-term financial receivables		(350)			
- Cash and cash equivalents	(note 8)	(719)		(1,872)	
Total net financial debt			11,550		11,548
COVERAGE			17,738		17,533

Reclassified statement of cash flows

(€ million)	2017		2018	
Items from the reclassified statement of cash flows and reconciliation with the legally required format	Partial amount from legally required format	Amount from reclassified format	Partial amount from legally required format	Amount from reclassified format
Net profit		897		960
<i>Adjusted for:</i>				
Amortisation, depreciation and other non-monetary components:		511		543
- Amortisation and depreciation	646		682	
- Impairment losses	13		8	
- Equity method valuation effect	(161)		(157)	
- Change in provisions for employee benefits	13		7	
- Other changes			3	
Net capital losses (capital gains) on asset sales and eliminations		4		12
Interest and income taxes:		585		557
- Dividends			(2)	
- Interest income	(9)		(12)	
- Interest expense	265		230	
- Income taxes	329		341	
Change in working capital due to operating activities:		334		185
- Inventories	(42)		(33)	
- Trade receivables	1		41	
- Trade payables	(26)		76	
- Change in provisions for risks and charges	16		9	
- Other assets and liabilities	385		92	
Dividends, interest and income taxes collected (paid):		(467)		(431)
- Dividends collected	149		151	
- Interest collected	2		4	
- Interest paid	(265)		(230)	
- Income taxes (paid) received	(353)		(356)	
Net cash flow from operating activities		1,864		1,826

(€) million)	2017		2018	
Items from the reclassified statement of cash flows and reconciliation with the legally required format	Partial amount from legally required format	Amount from reclassified format	Partial amount from legally required format	Amount from reclassified format
Technical investments:		(1,016)		(849)
Property, plant and equipment	(950)		(772)	
- Intangible assets	(66)		(77)	
Technical disinvestments:		3		2
Property, plant and equipment	3		2	
Companies (entering) leaving the scope of consolidation and business units		(166)		(32)
- Change in scope of consolidation and business units	(166)		(38)	
- Change in net payables relating to investments			6	
Equity investments		(75)		(144)
- Investments in shares	(111)		(165)	
- Disinvestments in shares	36		21	
- Change in net debts relating to investments				
Short-term financial receivables		(154)		371
- Stipulation of short-term financial receivables	(154)		(148)	
- Repayment of short-term financial receivables			519	
Other changes relating to investment activities:		(33)		(13)
- Change in net payables relating to technical investments	(33)		(13)	
Free cash flow		423		1,161
Change in long-term financial receivables		(350)		350
Change in financial payables:		1,540		799
- Taking on long-term financial debt	3,129		1,810	
- Repaying long-term financial debt	(1,465)		(1,608)	
- Increase (decrease) in short-term financial debt	(124)		597	
Equity cash flow		(928)		(1,157)
- Dividends paid	(718)		(731)	
- Acquisition of self-owned shares	(210)		(426)	
Net cash flow for the period		685		1,153

Snam S.p.A.

financial review

COMPANY INFORMATION

Snam S.p.A. is an industrial holding company listed on the Milan stock exchange. In Italy, through the full operative subsidiaries Snam Rete Gas S.p.A. and Infrastrutture Trasporto Gas S.p.A. (ITG), GNL Italia S.p.A. and Stogit S.p.A., respectively oversee the business of natural gas transmission, regasification and storage. Through newcos and acquired companies, it is also present in the sustainable mobility and energy efficiency businesses.

Snam S.p.A. operates in Europe through agreements with the leading industry players and direct equity investments in the share capital of companies, in the main continental energy corridors. Through its subsidiaries, it operates in Austria (TAG and GCA), France (Terëga), Greece (Senfluga) and the United Kingdom (Interconnector UK) and is amongst the main shareholders of TAP (Trans Adriatic Pipeline).

Snam S.p.A. is also responsible for the strategic planning, management, coordination and control of its subsidiaries.

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 accounting standard IFRS 10 - Consolidated Financial Statements]. No management and coordination activity has been formalised or exercised.

As at 31 December 2018, CDP S.p.A. holds, through CDP Reti S.p.A.³³ 30.37% of the share capital of Snam S.p.A.

RECLASSIFIED INCOME STATEMENT

In order to facilitate the understanding of the Income Statement, in consideration of the nature of Snam S.p.A. as an industrial holding company, the reclassified draft income statement has been prepared, presenting first the items relating to financial operations, insofar as this is the most significant component of the income³⁴. With reference to other operating expenses, the item includes not only non-financial costs but also the amortisation, depreciation and impairment of assets.

³³ Company in which CDP S.p.A. holds a share of 59.10%.

³⁴ This is prepared on the basis of the suggestions given in Consob Communication no. 94001437 of 23 February 1994.

Reclassified income statement

Pro-forma 2016	(€ million)	2017	2018	Change	% change
Financial income and expense					
568	Income from equity investments	740	775	35	4.7
642	Interest income and other financial income	262	213	(49)	(18.7)
(647)	Interest expense and other financial expense	(292)	(249)	43	(14.7)
(1)	Losses on derivatives	(1)	(2)	(1)	100.0
562	Total financial income and expense	709	737	28	3.9
203	Income from services rendered	210	213	3	1.4
12	Other income	13	14		
215	Other operating income	223	227	4	1.8
(79)	For personnel	(81)	(94)	(13)	16.0
(162)	For non-financial services and other costs	(173)	(146)	27	(15.6)
(241)	Other operating expenses	(254)	(240)	14	(5.5)
536	Pre-tax profit	678	724	46	6.8
(13)	Income taxes	(1)	(3)	(2)	
523	Net profit	677	721	44	6.5

Net profit achieved in 2018 amounted to 721 million euro, up by 44 million euro (6.5%), compared to the 2017 financial year. The increase is mainly due to the greater financial income and charges (+28 million euro; +3.9%), primarily following the greater income from equity investments (+35 million euro; +4.7%) and the reduction of other operating expenses (+14 million euro; +5.5%), mainly due to the lesser costs for the provision of non-financial services and other costs (+27 million euro). These effects have been partly offset by the increased personnel expenses (-13 million euro), mainly relating to expenses for incentives to take redundancy and Isopensione.

Analysis of income statement items

Financial income and expense

2016	(€ million)	2017	2018	Change	% change
593	Income from equity investments	753	775	22	2.9
(25)	Expenses from shares	(13)		13	(100.0)
642	Interest income and other financial income	262	213	(49)	(18.7)
(647)	Interest expense and other financial expense	(292)	(249)	43	(14.7)
(1)	Losses on derivatives	(1)	(2)	(1)	100.0
562		709	737	28	3.9

Financial income and charges booked for 2018 (737 million euro) increased by 28 million euro, equal to 3.9%, in respect to the previous financial year.

Income from equity investments (775 million euro) consist mainly of the dividends distributed by the subsidiaries Snam Rete S.p.A. (479 million euro), and Stogit S.p.A. (157 million euro), by the joint venture Trans Austria Gasleitung GmbH - TAG (73 million euro), Terēga Holding (19 million euro) and the associate Italgas S.p.A. (23 million euro)³⁵.

The asset interest and other financial revenue (213 million euro) essentially concern: (i) interest income deriving from infra-group loans granted by Snam S.p.A. to the subsidiaries Snam Rete Gas S.p.A. and Stogit S.p.A. (180 million euro in total); (ii) the financial revenue deriving from the recharge to the companies Snam Rete Gas S.p.A. and Stogit S.p.A. of the charges connected to the buyback operation put into effect by Snam in the month of December 2018 (25 million euro in total); (iii) the proceeds connected with the shareholders' loan granted to TAP (8 million euro).

The Liability Interest and other financial expenses (249 million euro) principally refer: (i) to the expenses connected to the bond buyback operation (47 million euro), equal to the difference between the reacquisition price for the bonds on the market and the relative value to the depreciated cost; (ii) to expenses on bond loans³⁶ (185 million euro) and on loans issued by Banks and other Financial Institutions (17 million euro).

Other operating income

2016	(€ million)	2017	2018	Change	% change
203	Income from services rendered	210	213	3	1.4
12	Other income	13	14	1	7.7
215		223	227	4	1.8

Income from services provided (213 million euro) mainly refers to charge-backs for services provided by Snam to subsidiaries and other investees (totalling 192 million euro). The services provided by Snam S.p.A. are regulated by means of service contracts covering the following areas: ICT, Personnel and Organisation, Planning and Control, Administration, Tax and Corporate Strategy, General and Property Services, Security, Legal and Corporate Affairs, Compliance and ERM, HSEQ, Institutional Relations and Communication, Internal Audit, Commercial, Finance, Technical, Regulation and Procurement. The services also include revenues on projects of the Global Solution Business Unit (16 million euro).

Other income (14 million euro) essentially refers to income from leasing and maintaining fibre-optic telecommunications cables for third parties (13 million euro).

³⁵ More information is provided in the appendix to the Notes to the separate financial statements, "Notes on companies controlled through a direct equity investment of Snam S.p.A."

³⁶ Details of the bond issues that took place during the year and their conditions are provided in Note 17, "Short-term financial liabilities, long-term financial liabilities and short-term portions of long-term liabilities" in the Notes to the separate financial statements.

Other operating expenses

2016	(€ million)	2017	2018	Change	% change
162	For non-financial services and other costs	173	146	(27)	(15.6)
79	For personnel	81	94	13	16.0
241		254	240	(14)	(5.5)

Costs for non-financial services and other costs consist of operating costs (138 million euro) and amortisation/depreciation (8 million euro). The 27 million euro reduction is mainly due to the lesser costs for IT services charged back to the Italgas Group, regulated by means of various contracts stipulated as at 31 December 2017 and the performance of the provision for doubtful debt.

Personnel costs total 94 million euro and record a rise on the same period of last year (13 million euro), mainly due to the greater expenses for incentive to take redundancy and Isopensione (totalling 11 million euro).

The number of employees as at 31 December 2018 (838 people), basically in line with 31 December 2017, is analysed below according to professional status.

Employees by professional status

31.12.2016	(no.)	31.12.2017	31.12.2018	Change	% change
	Professional status				
54	Executives	63	71	8	12.7
215	Managers	239	259	20	8.4
510	Office workers	517	505	(12)	(2.3)
4	Manual workers	3	3		
783		822	838	16	1.9

Income tax

Income tax amounted to 3 million euro and is substantially in line with the same period of the previous year.

RECLASSIFIED STATEMENT OF FINANCIAL POSITION

The reclassified statement of financial position combines the assets and liabilities of the condensed statement based on how the business operates, conventionally split into the three basic functions: investment, operations and financing. Management believes that this format presents useful additional information for investors as it allows identification of the sources of financing (equity and third-party funds) and the application of such funds for fixed and working capital. The reclassified consolidated statement of financial position format is used by management to calculate the key leverage and profitability ratios.

Reclassified balance sheet (*)

(€ million)	31.12.2017	31.12.2018	Change
Fixed capital	13,125	11,981	(1,144)
Property, plant and equipment	6	5	(1)
Intangible assets	16	14	(2)
Equity investments	6,327	6,534	207
Long-term financial receivables	6,780	5,431	(1,349)
Net receivables (payables) for investments	(4)	(3)	1
Net working capital	(271)	(308)	(37)
Provisions for employee benefits	(16)	(19)	(3)
NET INVESTED CAPITAL	12,838	11,654	(1,184)
Shareholders' equity	4,861	4,402	(459)
Net financial debt	7,977	7,252	(725)
COVERAGE	12,838	11,654	(1,184)

(*) Please refer to the paragraph "Non-GAAP measures" for the methodological illustration of the reclassified statements.

Fixed capital (11,981 million euro) is down by 1,144 million euro on 31 December 2017, mainly due to the lesser long-term financial receivables (-1,349 million euro) following the repayment of loans disbursed to the subsidiaries and the associate TAP, partly offset by the increase in equity investments (+207 million euro).

Equity investments

The item totals 6,534 million euro and consists of the equity investments held in the following companies:

(€ million)	% ownership	Balance at 31.12.2017	Acquisitions and subscriptions	Sales and repayments	Other changes	Balance at 31.12.2018
Equity investments in subsidiaries		4,681	61		62	4,804
Snam Rete Gas S.p.A.	100%	2,849			1	2,850
Stogit S.p.A.	100%	1,597				1,597
Asset company 2 S.r.l.	100%	172				172
Snam International B.V. (ex GasBridge 2)	100%				61	61
GNL Italia S.p.A.	100%	43				43
Snam 4 Mobility S.p.A.	100%		38			38
Asset company 4 S.r.l.	100%		23			23
Gasrule Insurance D.A.C.	100%	20				20
Investments in joint ventures		1,126	5	(16)	(61)	1,054
Trans Austria Gasleitung GmbH	84.47%	500				500
Terēga Holding S.A.S.	40.50%	452				452
AS Gasinfrastruktur Beteiligung GmbH	40%	118		(16)		102
Gasbridge 1 B.V. and Gasbridge 2 B.V.	50%	56	5		(61)	
Investments in associates		476	160			636
Trans Adriatic Pipeline AG	20%	232	39			271
Italgas S.p.A.	13.50%	244				244
Senfluga Energy Infrastructure Holding S.A.	60.00%		121			121
Other investments		44		(5)	1	40
Terminale GNL Adriatico S.r.l.	7.30%	44		(5)	1	40
Total		6,327	226	(21)	2	6,534

Long-term financial receivables

Long-term financial receivables, including the relative short-term portions, amount to 5,431 million euro and refer to receivables for loans disbursed to the subsidiaries Snam Rete Gas (4,435 million euro) and Stogit (987million euro), and the associate TAP (10 million euro). The reduction of 1,349 million euro on 31 December 2017 is mainly due to the closure and simultaneous repayment of loans in place with Snam Rete Gas S.p.A. and Stogit S.p.A. (-972 million euro in total, of which 362 million euro consequent to the liability management operation completed in December 2018) and the repayment³⁷ by TAP, through a true-up mechanism, of 519 million euro, in exchange for 373 million euro for outstanding receivables as at 31 December 2017 and 156 million euro for receivables accrued in 2018.

37 Including interest accrued.

Net working capital

(€ million)	31.12.2017	31.12.2018	Change
Trade receivables	94	95	1
Other assets	32	38	6
Tax receivables	44	27	(17)
Net prepaid tax assets	12	19	7
Provisions for risks and charges	(7)	(11)	(4)
Tax liabilities	(15)	(27)	(12)
Derivatives	(12)	(29)	(17)
Trade payables	(68)	(62)	6
Other liabilities	(351)	(358)	(7)
Total	(271)	(308)	(37)

Net working capital was down by 37 million euro on 31 December 2017. The reduction is mainly due to the reduction in the fair value of the derivative financial instruments (-17 million euro) and the lesser tax receivables (-17 million euro), mainly due to lesser Group VAT receivables.

Shareholders' equity

(€ million)	
Shareholders' equity at 31 December 2017	4,861
Effect of the first time adoption of the provisions of IFRS 9 (*)	(3)
Balance at 01 January 2018	4,858
<i>Increases owing to:</i>	
- Comprehensive income for 2018 (**)	702
- Other changes	3
	705
<i>Decreases owing to:</i>	
- 2017 dividend balance	(437)
- 2018 interim dividend	(298)
- Purchase of treasury shares	(426)
	(1,161)
Shareholders' equity at 31 December 2018	4,402

(*) Net of tax effect. More information is supplied in note no. 2 "Accounting standards and interpretations applicable from 2018" of the Notes to the annual financial statements.

(**) For further details, please refer to the Statement of comprehensive income of the Snam SpA Financial Statement.

Net financial debt

(€ million)	31.12.2017	31.12.2018	Change
Financial and bond debt	12,634	13,462	828
Short-term financial debt (*)	2,458	3,675	1,217
Long-term financial debt	10,176	9,787	(389)
Financial receivables and cash and cash equivalents	(4,657)	(6,210)	(1,553)
Short-term financial receivables	(3,962)	(4,369)	(407)
Cash and cash equivalents	(695)	(1,841)	(1,146)
Total	7,977	7,252	(725)

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

At 31 December 2018, net financial debt was 7,252 million euro, a reduction of 725 million euro compared with 31 December 2017.

Financial and bond debts are denominated in euros ³⁸ and refer mainly to bond loans (8,446 million euro, or 62.7%) and bank loans (4,749 million euro, or 35.3%, including 1,448 million euro provided by the European Investment Bank - EIB). Long-term financial liabilities (9.787 million euros) made up approximately 73% of gross financial debt (around 81% as at 31 December 2017).

The breakdown of debt by type of interest rate at 31 December 2018 is as follows:

(€ million)	31.12.2017	%	31.12.2018	%	Change
Fixed rate	9,834	78	10,531	78	697
Floating rate	2,800	22	2,931	22	131
Total	12,634	100	13,462	100	828

Variable rate financial liabilities (2,931 million euro) rise by 131 million euro on 31 December 2017, mainly due to the greater use of uncommitted credit facilities (+393 million euro), partially offset by the early repayment of the variable-rate term loan for a nominal value of 250 million euro.

Fixed-rate financial liabilities (10,531 million euro) increased by 697 million euro, mainly due to: (i) the 22 January 2018 issue of a variable-rate private placement³⁹ worth a nominal 350 million euro; (ii) the stipulation of a variable-rate term loan⁴⁰ for a nominal 150 million euro; (iii) the stipulation of a variable-rate term loan⁴¹ for a nominal value of 500 million euro; (iv) the 11 September 2018 issue of a fixed-rate private placement worth a nominal 600 million; (v) the stipulation of a variable-rate term loan⁴² for a nominal 50 million euro; (vi) the 27 November 2018 issue of a fixed-rate private placement worth a nominal 300 million; (vii) the 30

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

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

40 The above-mentioned floating interest bond is converted at a fixed rate through a derivative Interest Rate Swap (IRS).

41 The above-mentioned floating interest bond is converted at a fixed rate through a derivative Interest Rate Swap (IRS).

42 The above-mentioned floating interest bond is converted at a fixed rate through a derivative Interest Rate Swap (IRS).

November 2018 issue of unsecured short-term securities (Euro Commercial Paper) on the money market and placed with institutional investors, for a nominal value of 225 million euro. This variation was partly offset: (i) by the repayment of a fixed-rate bond loan maturing on 19 March 2018, for a nominal amount of 851 million euro; (ii) by the repayment of a fixed-rate bond maturing on 10 September 2018, for a nominal amount of 70 million euro; (iii) by the repurchase on the market of fixed-rate bonds for a total nominal value of 538 million euro with an average coupon of 2.6% and a residual duration of approximately 3.7 years; (iv) by the performance of interest rates.

As at 31 December 2018, Snam had unused committed long-term credit facilities worth 3.2 billion euro. In terms of sustainable finance, November 2018 saw the completion of the transformation of these pooled credit facilities into a sustainable loan with 19 national and international banks of primary standing, with a bonus/malus mechanism on the margins paid connected with the achievement of specific ESG (Environment, Social and Governance) KPIs: this is the third largest sustainable loan stipulated in the world and the absolute largest by a gas utility company.

Short-term financial receivables (4,369 million euro) show an increase of 407 million euro compared to 31 December 2017. The increase is mainly due to the greater net use of the intercompany current account by the subsidiaries Snam Rete Gas and Stogit (+413 million euro in total), partially offset by the lesser use of short-term liquidity, due within six months, with the counterparty being a bank of high credit standing (-350 million euro).

Cash and cash equivalents of 1,841 million euro (695 million euro as at 31 December 2017) essentially refer to a short-term liquidity facilities, with a maturity of less than three months, with a bank with a high credit standing (1,000 million euro) as counterparty, and to demand bank deposits (810 million euro).

The reduction in net financial debt of 725 million euro is mainly due: (i) to the net cash flow from operations (747 million euro); (ii) to the repayment of long-term financial receivables (1,342 million euro) by the subsidiaries Snam Rete Gas and Stogit and the associated TAP. These effects were partly offset by: (i) payment of the 2017 dividend (731 million euro, of which 294 million euro on deposit and 437 million euro as balance); (ii) equity investments (205 million euro, net of principal repayments) relative, in particular, to the share capital increase of the associate Senfluga Energy Infrastructure Holding S.A. (121 million euro) for the acquisition of DESFA.

RECLASSIFIED STATEMENT OF CASH FLOWS AND CHANGE IN NET FINANCIAL DEBT

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

Reclassified statement of cash flows

2016	(€ million)	2017	2018
761	Net profit	677	721
	<i>Adjusted for:</i>		
30	- Amortisation, depreciation and other non-monetary components	24	11
(822)	- Dividends, interest and income taxes	(736)	(748)
6	Change in working capital due to operating activities	45	9
833	Dividends, interest and income taxes collected (paid)	736	754
808	Net cash flow from operating activities	746	747
(6)	Technical investments	(9)	(5)
1,335	Equity investments	(247)	(205)
2,353	Change in long-term financial receivables	416	1,342
(4)	Other changes relating to investment activities	(1)	(1)
4,486	Free cash flow	905	1,878
(1,197)	Change in short-term financial receivables	(853)	(407)
(2,300)	Change in current and non-current financial debt	1,559	832
(978)	Equity cash flow	(928)	(1,157)
11	Net cash flow for the period	683	1,146

Change in net financial debt

2016	(€ million)	2017	2018
4,486	Free cash flow	905	1,878
	Effect of the first time adoption of the provisions of IFRS 9		10
(6)	Exchange rate differences on financial debt	7	(6)
(12)	Adjustment to fair value of financial debt	4	
424	Financial debt taken over by Italgas		
(978)	Equity cash flow	(928)	(1,157)
3,914	Change in net financial debt	(12)	725

Other information

TREASURY SHARES

In compliance with the provisions of Article 2428 of the Italian Civil Code, the treasury shares held by the Company as at 31 December 2018 are analysed in the table below:

Period	Number of shares	Average cost (€) (*)	Total cost (€ millions)	Share capital (%) (**)
Purchases				
Year 2005	800,000	4.399	3	0.04
Year 2006	121,731,297	3.738	455	6.22
Year 2007	73,006,653	4.607	336	3.73
Year 2016	28,777,930	3.583	103	0.82
Year 2017	56,010,436	3.748	210	1.60
Year 2018	113,881,762	3.743	426	3.28
	394,208,078	3.889	1,533	
Less treasury shares allocated/sold/cancelled:				
- granted under the 2005 stock grant plans	(39,100)			
- sold under the 2005 stock option plans	(69,000)			
- sold under the 2006 stock option plans	(1,872,050)			
- sold under the 2007 stock option plans	(1,366,850)			
- sold under the 2008 stock option plans	(1,514,000)			
- cancelled in 2012 following resolution by the Extraordinary Shareholders' Meeting of Snam S.p.A.	(189,549,700)			
- cancelled in 2018 following resolution by the Extraordinary Shareholders' Meeting of Snam S.p.A.	(31,599,715)			
Treasury shares as at 31 december 2018	168,197,663			

(*) Calculated on the basis of historic prices.

(**) Refers to the share capital in existence at the date of the last repurchase of the year

In 2018, a total of 113,881,762 Snam shares were purchased, equal to 3.28% of the share capital, for a cost of 426 million euro (56,010,436 shares, equal to 1.60% of the share capital, for a cost of 210 million euro in 2017). Purchases were made of 36,606,724 shares as part of the share buyback programme resolved by Snam's Shareholders' Meeting held on 11 April 2017 and of 77,275,038 shares as part of the new approved share buyback programme, after revocation for the part not yet executed of the previous programme, by the Snam Shareholders' Meeting of 24 April 2018⁴³.

43 For more information, refer to the chapter "Summary data and information - Main events" of this Report.

The same Shareholders' Meeting held on 24 April 2018 in an extraordinary session, also approved the cancellation of 31,599,715 treasury shares in the portfolio, with no nominal value, without reducing the share capital.

As at 31 December 2018, Snam held 168,197,663 treasury shares, equal to 4.85% of the share capital (85,915,616 as at 31 December 2017, equal to 2.45% of its share capital), with a book value of about 625 million euro (318 million euro as at 31 December 2017) recorded on shareholders' equity. The market value of the treasury shares as at 31 December 2018 was around 642 million euro⁴⁴.

The share capital as at 31 December 2018 consisted of 3,469,038,579 shares with no nominal value, with a total value of 2,736 million euro.

In addition, it is confirmed that the subsidiaries of Snam S.p.A. do not hold, and have not been authorised by their Shareholders' Meetings to acquire, shares in Snam S.p.A.

Incentive plans for executives with Snam shares

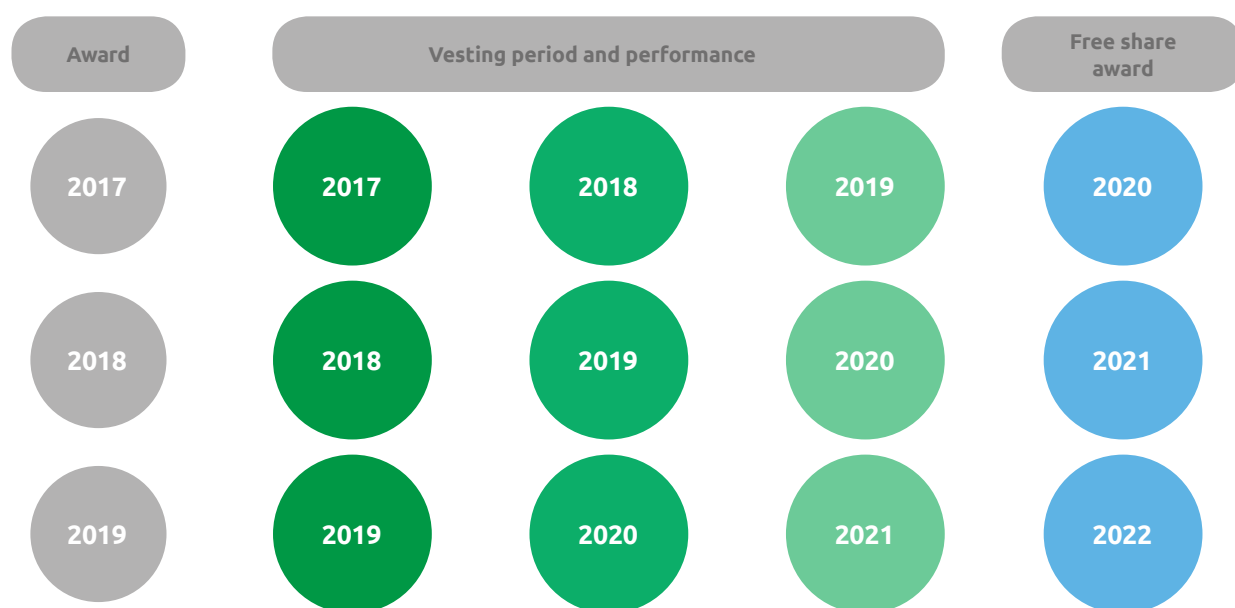
2017-2019 long-term stock incentive plan

On 11 April 2017, the Shareholders' Meeting approved the 2017-2019 long-term stock incentive plan, conferring to the Board of Directors, every necessary power for the implementation of the Plan.

The plan, intended for the Chief Executive Officer and managers of Snam, identified as those with positions of major impact on the business results or of strategic relevance in terms of achieving Snam's multi-year objectives, envisages three annual assignment cycles of three-year objectives (the "Rolling Plan") for the years 2017, 2018 and 2019. At the end of the three-year performance period, if the Plan conditions are met, the beneficiary will be entitled to receive Company shares free of charge.

The maximum number of shares serving the plan is 3,500,000 shares for each fiscal year of the Plan. The Plan will be concluded in 2022, upon expiration of the Vesting Period for the last attribution made in 2019.

The number of shares accrued is subject to the achievement of performance conditions, calculated as the average of the annual performance of the parameters identified in the three-year vesting period, which affect EBITDA, adjusted net profit and sustainability.



⁴⁴ Calculated by multiplying the number of treasury shares by the period-end official price of 3.8198 euro per share.

The Plan also provides that beneficiaries receive, at the end of the vesting period, a Dividend Equivalent, or an additional number of shares equal to the ordinary and extraordinary dividends distributed by Snam during the vesting period which would be due to the number of shares effectively assigned to beneficiaries based on the levels of performance achieved under the terms and conditions set out in the Plan. In addition, a two-year lock-up period for 20% of the beneficiaries' shares, as recommended by the Corporate Governance Code, is envisaged for the Chief Executive Officer and for the other beneficiary managers.

Under this Plan, a total of 3,692,810 shares were assigned, of which 1,368,397 shares against the 2017 assignment and 2,324,413 shares against the 2018 assignment. The unit fair value of the share, determined by the value of the Snam security as at the grant date, is 3.8548 and 3.5463 euro per share, respectively for the 2017 and 2018 assignments. The cost relating to the long-term incentive plan, recorded as a component of the cost of labour, comes to 3 million euro (1 million euro in 2017), with an equivalent entry in the shareholders' equity reserves.

Compensation paid to directors and statutory auditors, general managers and managers with strategic responsibilities, and investments held by each of these

Information on the compensation paid to directors and statutory auditors, general managers and managers with strategic responsibilities, and the equity investments held by each of these, can be found in the Remuneration Report, which is prepared in accordance with Article 123-ter of Legislative Decree 58/1998 (TUF). The Remuneration Report is available on the Snam website (www.snam.it) in the Governance section.

Relationships with related parties

Considering the de facto control of CDP S.p.A. over Snam S.p.A., pursuant to the international accounting standard IFRS 10 - Consolidated Financial Statements, based on the current Group ownership structure the related parties of Snam are represented by Snam's associates and joint ventures as well as by the parent company CDP S.p.A. and its subsidiaries and associates, and direct or indirect subsidiaries, associates and joint ventures of the Ministry of Economy and Finance. Operations with these parties mainly involve the exchange of goods and the provision of regulated services in the gas sector.

These transactions are part of ordinary business operations and are generally settled at market conditions, i.e. the conditions which would be applied for two independent parties. All the transactions carried out were in the interest of the companies of the Snam Group.

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

Directors and auditors declare their interests affecting the company and the group every six months, and/or when changes in said interests occur; they also inform the CEO (or the Chairman, in the case of the CEO), who in turns informs the other directors and the Board of Statutory Auditors, of individual transactions that the company intends to carry out and in which they have an interest.

No management or coordination activity of CDP S.p.A. has been formalised or exercised.

As at 31 December 2018, Snam manages and coordinates its subsidiaries, pursuant to Article 2497 et seq. of the Italian Civil Code.

The amounts involved in commercial, miscellaneous and financial relations with related parties, descriptions of the key transactions and the impact of these on the balance sheet, income statement and cash flows, are provided in Note 34 "Relationships with related parties" of the Notes to the consolidated financial statements.

Relations with managers with strategic responsibilities ("Key Managers") are shown in Note 27 "Operating costs" of the Notes to the consolidated financial statements.

Performance of subsidiaries

For performance information concerning the segments in which the Company operates wholly or in part through subsidiaries, please refer to the sections "Business segment operating performance" and "Financial review" within this Report.

Branch offices

As required by Article 2428, paragraph five of the Italian Civil Code, it is noted that Snam does not have branch offices.

Research and Development

Research and development activities performed by Snam are described in the section "Other operating information and results - Innovation for business development" of this Report.

Other operating information and results



This section of the report deals with activities and initiatives that have an impact on aspects that do not relate directly to core business processes, but contribute to the creation of value for the Company and its stakeholders.

In Snam's business model, the stakeholders "interpret" the industry environment and can influence, sometimes decisively, the conditions which determine the availability of the different capitals which the business needs in order to be able to operate. These close ties with the capitals, which develop around material issues of mutual interest, enable the stakeholders to benefit from the value that the business creates through its activities.

Development of human, social and relationship, and intellectual capital

Employment in times of change

To continue to play a key role within an ever-changing environment while continuing to lead in an international market abundant in opportunities, it is necessary to become capable of enhancing know-how and meeting new challenges in the regulated and free market alike.

People are called to effectively share experiences and skills and through teamwork to reach a single objective: a decisive factor to create innovation and bring value to the business. The strong sense of belonging to the Group makes it possible to actively engage all employees in continuous improvement, which is increasingly driven by an entrepreneurial spirit, simplification and implementation capacity. In this way, Snam continues to generate "good employment", characterised by stable and continuous work relationships for qualified and specialised activities. Moreover, through the Snam Institute, the Company sets itself the goal of enhancing the skills not only within the company but also outside.

As at 31 December 2018, out of a total of 3,016 employees, 93% were on permanent contracts of employment. Of these, 41 had a part-time contract. The average age of Snam Group employees is 44.9, while the average length of employment is around 19.5 years.

Breakdown of Staff as at 31 December

(no.)	2016	2017	2018
Executives	87	93	107
Middle Managers	421	456	480
Office workers	1,651	1,655	1,682
Manual workers	724	715	747
Total employees	2,883	2,919	3,016

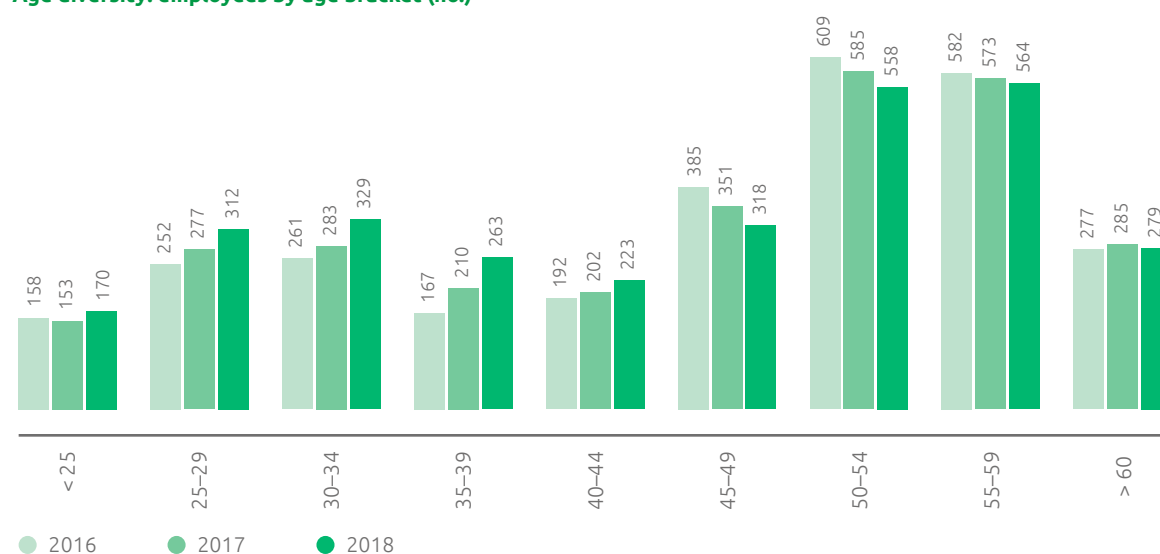
Personnel broken down by type of contract

(no.)	2016	2017	2018
Permanent contract	2,631	2,755	2,812
- Of whom on part-time contracts	45	42	41
Apprenticeship or internship contract	206	150	185
Fixed-term contract	1	14	19

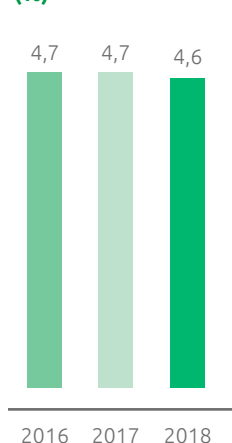
Personnel hired during the year

(no.)	2016	2017	2018
Hired from the market (total)	141	148	195
- of which university graduates	73	100	108
- of which school graduates	66	48	86
- of whom other	2	-	1
- of which women	35	53	42
Other new employees (non-consolidated companies, tender acquisitions, etc.)	36	36	126

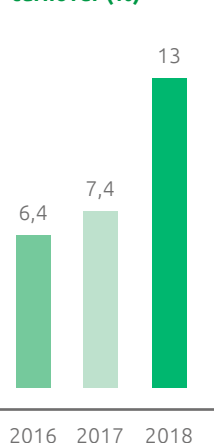
Age diversity: employees by age bracket (no.)



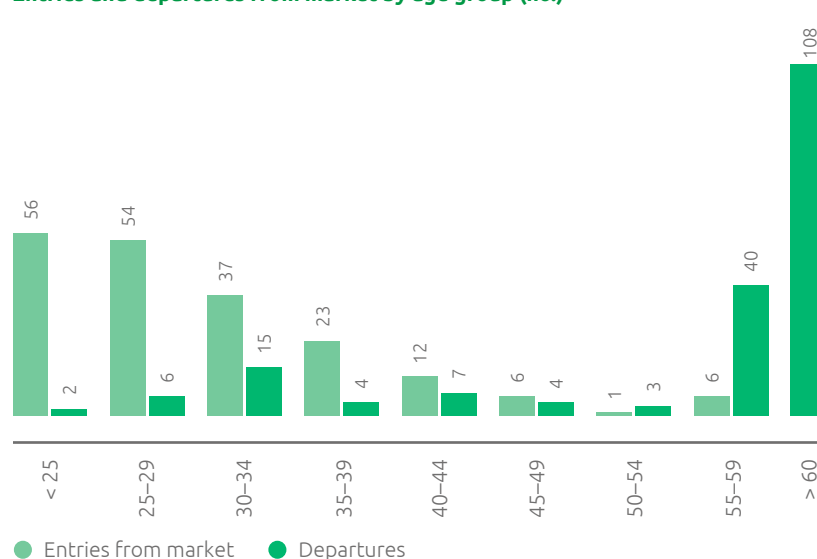
Absenteeism rate (%)



Personnel turnover (%)



Entries and departures from market by age group (no.)



Under 35s (811) account for 27% of the company population and have increased by 98 units on 2017. The absenteeism rate does not include senior managers and it was calculated taking into consideration all hours not worked (paid and

not paid) excluding holidays and catch up leaves. In 2018, the female absenteeism rate was 4.8% and the male absenteeism rate was 4.6%.

Development of roles and skills

In 2018, the development of the roles and skills of Snam focussed on improving the leadership model, on the implementation of a model of skills, on the identification and optimisation of talent throughout the organisation, on the maintenance of solid, structured succession plans guaranteeing a sustainable line of succession and the intensification of the level of engagement. In particular, 2018 saw the launch of the new Performance Management System, a decisive part of the Talent Review Discussion and the realisation of the Succession Plans. All assessment processes are formalised and include a feedback interview, which constitutes an institutional moment for exchange and communication between the manager and the employee, also in order to gather information that can be used to define new actions for the development and enhancement of people.

All jobs within Snam, Snam Rete Gas, GNL Italia and Stogit are subject to an analytical and overall evaluation of Complexity, Responsibility, Experience and Autonomy (C.R.E.A.) factors. In 2018, 198 CREA assessments were approved. Compensation systems are updated periodically based on a benchmark to the reference markets and taking into account the instructions received from the external stakeholders. In particular, these systems are meant to ensure recognition of the results achieved, the quality of the professional contribution provided and individual development potential of the person. In 2018, the scope of possible Long-Term Incentive Plan (ILT) beneficiaries was expanded to include all managers, with the aim of creating greater alignment of long-term variable remuneration with the primary goal of creating value for shareholders.

Incentive systems for the various brackets of the corporate population

Executives	<p>Along with any annual adjustment to fixed remuneration for merit or progression of roles/ responsibilities, Snam provides a variable incentive system designed to enhance the value of the professional contribution in the short term (IMA), through the allocation of an annual monetary incentive, and the medium-long-term, if necessary through the allocation of a long-term stock incentive (ILT).</p> <p>Claw-back mechanisms are provided, aimed at recovering the variable portion if the resulting compensation is not due because it was earned based on targets that were attained as a result of malicious or grossly negligent behaviour or that were proven to be manifestly incorrect.</p> <p>The Total Reward Statement, the informational packet regarding the breakdown of individual remuneration, ensures the valorisation and transparency of the remuneration system.</p>
Non-executive population	<p>Snam adopts a short-term variable incentive plan intended to reward best performance and the young resources with potential for development.</p> <p>What is more, all the companies in the group anticipate a "Participation Bonus", instituted by the National Collective Labour Agreement, based on the performance of profitability and productivity parameters, measured in relation to the targets agreed upon every year between the company and the trade-union representatives.</p>

Professional enhancement

The People Strategy developed by Snam focuses on three main pillars: enhancing the value of human resources, increasing productivity and the level of engagement, disseminating a culture of innovation and renewal. In this context, training plays a fundamental role in supporting management and the whole corporate population in paths to develop managerial capacity, technical skills, know how and innovation. Snam's commitment for 2018 was to increase the average number of training hours up to at least 32 per employee and to involve the 80% of the corporate population in at least one training session. The objective was achieved during the year with an average of approximately 36 hours of training per employee, whilst the involvement of the company population was 93%.

Extensive effort went into the worker training programmes, on sensitive matters such as health, safety and the environment. Numerous refresher, information and awareness-raising meetings were organised for all professional figures in relation to the implementation of safety measures. To favour accurate information and the application of the principles set forth in the Model 231, the Code of Ethics and Anti-corruption legislation, specific training activities were carried out for specific segments of the corporate population. As regards training on business ethics and anti-corruption, a total of 321 hours of training were provided to 112 participants in 2018.

Staff training broken down by position

(no hours.)	2016	2017	2018
Executives	2,940	1,908	4,392
Middle Managers	10,021	8,600	19,072
Office workers	31,072	39,316	49,650
Manual workers	38,151	35,522	34,657
Total	82,184	85,346	107,771

Key training initiatives

Description	Hours provided (no.)	Participants (no.)
Technical training	58,120	4,454
Health, safety, environment and quality	28,345	4,953
Managerial training	19,257	3,822

NFS Corporate welfare and work-life balance

Corporate welfare is a powerful tool that is integrated with the public welfare system and which attempts to protect people from new social risks. Corporate welfare refers to a multiplicity of interventions, both monetary and in the form of services, which on the one hand generate benefits for employees who see increasing social protection and purchasing power, on the other they become a lever fundamental for companies, which benefit from a better working and productive climate.

With the aim of fostering a positive working environment, over the years, Snam has created a welfare system based on a long tradition of attention to people, that can grow and modify over time and meet with the emerging needs and demands of the various categories of employees. The in-depth analysis of the company population, different needs and sensitivities, periodically updated, allows Snam to develop a shared, functional and effective welfare system.

Digital culture and personal well-being are the drivers of the new 2018 Welfare Plan, reorganised into five areas of intervention: Family, Education, Life-work balance, Well-being and free time, Health. The five areas are then further divided up into 28 services (company and contractual), which allow Snam to meet the most current needs of the society in which we live. Some of the most innovative activities include the dediCARE service (Family area), created to help Snam employees solve minor and major family issues like assistance to the elderly, help with schooling and babysitting. In a time that is dominated by digital communication, the Education area prepares children, teenagers and adults to a correct use of the web and social media, with coding generation

courses and digital education. Within the projects of the Well-being and free time area, the workshops have been planned dedicated to food education, financial education and mindfulness, i.e. self-awareness and of the context in which we live. Alongside the services for health, home-work mobility and the concession of micro loans, the agreements have been renewed with the trade unions, with the "Welfare Premium" and Smart Working projects, designed to better meet the needs to conciliate life and work, striking an appropriate balance. Thanks to the "Welfare Premium", the choice can be made voluntarily as to whether or not to convert a percentage of the Participation Premium into Welfare Credits that can be used to purchase services for themselves or their families. All the news and active projects are available for consultation on the website snammy.it, which has been reorganised and given a new look to be even more user-friendly for ease of browsing.

NFS Diversity

Snam respects the dignity of everyone, and offers equal opportunities in every step and aspect of the employment relationship, avoiding all forms of discrimination based on sex, age, health, nationality, political opinion or religious views.

For Snam, diversity is a value and, in particular, gender diversity and equal opportunities: this is proven by the fact that the female component in 2018 grew compared with the previous year (+6.6%) notwithstanding a large portion of the business activities, in particular the operational ones, requires a technical training which on the market is owned by candidates which are mostly male.

The company's female population, at the end of the year, numbered 419 resources, 13.9% of the total number of employees (13.5% in 2017). 37 women have part-time contracts, out of the 41 working in the company. In order to make the most of diversity, in 2018 Snam continued to collaborate with Valore D, which Snam has supported since 2017, the first association of companies promoting diversity, talent and female leadership for the growth of companies and the country. This collaboration

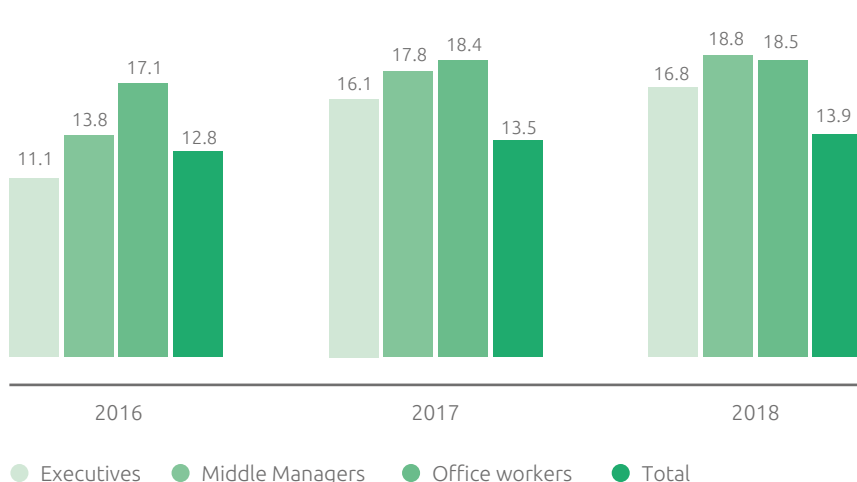
provided the employees with the chance to attend classes to enhance gender diversity, the differences that characterise different generations and cultures, for the development of an inclusive culture, a factor of innovation, competitiveness and growth for people and businesses.

125 people with disabilities work at Snam and their career path promotes inclusion and integration in company processes.

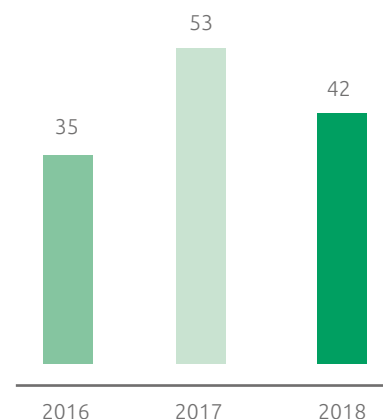
Staff training broken down by position (no. hours)

	2016	2017	2018
Average hours of training provided to men (hours/year)	30.2	31.3	36.9
Average hours of training provided to women (hours/year)	17.0	15.8	28.7

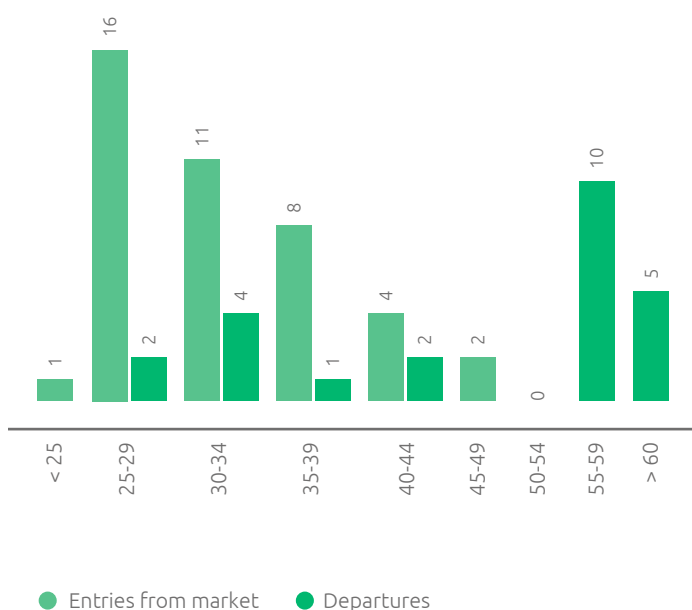
Total female presence and by qualification (%)



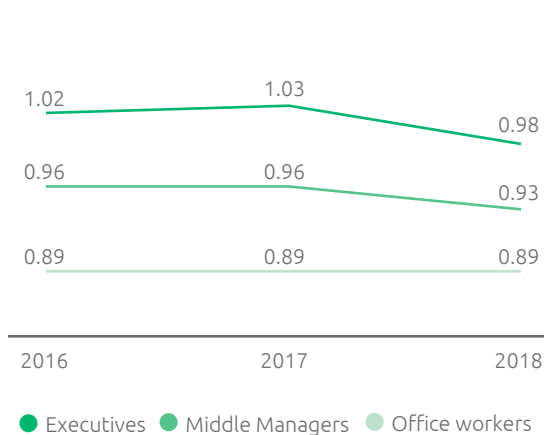
Women hired by the market (no.)



Entries from the market and exits by female



Gender and the pay gap (women/men)



The decrease in the pay gap between men and women in 2018 is mainly due to new hiring of executives and managers in entry level, which had a greater impact on the average AGR of women.

Stakeholders and relationship capital

In Snam's business model, the stakeholders "interpret" the industry environment and can influence, sometimes decisively, the conditions which determine the availability of the different capitals which the business needs in order to be able to operate. These close ties with the capitals, which develop around material issues of mutual interest, enable the stakeholders to benefit from the value that the business creates through its activities.

In order to develop our business activities, internal cohesion, image and reputation are also important. As a result, it is essential to manage our long-term relations with stakeholders (social and relationship capital) by focusing on trust, listening, being universally open and transparent, and attempting to maintain and develop constructive dialogue both within and outside the Company.

As evidence of this, again in 2018, Snam met with its stakeholders at the Partners' Day, held late November at Officine del Volo in Milan, witnessed by more than 500 suppliers, clients, employees, institutions, financial communities and media. The initiative was characterised by the attendance of the Chairman of the Board, Giuseppe Conte, and numerous speakers from the company's senior management and representatives of institutions. For the occasion, three new initiatives were presented on matters of innovation and the energy transition and social business: the Snamtec project, under the scope of which the company will invest 850 million euro by 2022 to construct the energy business of the future, the "Social Supply Chain", a policy that will facilitate the direct involvement of social businesses in the supply chain and foster the inclusion, also as subcontractors, and the new open innovation platform, "Snam Up". During the course of the day, discussions were held on the territories' social development policies, on the role played by companies as a driver of sustainable growth and on the future of energy, as well as on themed tables dedicated to matters of interest to the business,

ranging from innovations in the supply chain to the digital transformation, network and site safety to open innovation and energy efficiency to the new lean working methods adopted in the company. A strategic agreement has also been stipulated with SEAT for natural gas and renewable gas sustainable mobility in Europe.

Engagement of people

Through internal communication, Snam promotes the involvement of people with regard to events and activities which affect the company, with the aim of stimulating participation in the processes of change, especially from a cultural point of view.

The 2018 internal communication plan focussed on the enriching of contents and the increase in the frequency of update of all channels currently in place, as well as on the introduction of new initiatives, activities and information formats and the involvement of people, also thanks to the collaboration with the Snam Foundation and Snam Institute. The collaboration with the Snam Foundation has made it possible to launch two initiatives in support of the company's social commitment and foster the strengthening of team-building and relations between people: in addition to the Snam Volunteer Day, which was held throughout Italy, this year eleven sites of the company also organised the Christmas with the Family initiative, involving employees, their children and local charities. As regards the information format, the dissemination of streaming methods and events webinars has enabled the Snam Institute to finalise a plan of training initiatives accessible via the company intranet. This will make it possible to expand participation by the company population in courses organised with a view to spreading new working philosophies and the digital culture (such as lean speech and digital journeys).

Tools	Description
"Easy" the Intranet portal	A place for information and awareness, addressed to all the Snam employees, but also a place to share knowledge, exchange working documents and share views through the "let's collaborate" section, designed to facilitate teamwork.
Main printed tools	The "Energies" magazine represents Snam's corporate identity and is the voice that tells of the main company events. The "Energy Specials" - attached to the editorial, with a focus on specific topics. The "Observations on Gas Demand" newsletter with news, analysis and comments on gas demand, also available on mobile devices to all employees.
Management meetings	Meeting of executives and managers to deepen the corporate strategic plan, also shown via streaming. On-line webinar presenting the Strategic Plan, during which the CEO explained the pillars of the new plan, answering live the questions asked by employees of the whole organisation. During the year, around twenty roadshow stops were also held, organised by the HR and Digital Innovation Departments, to tell the local populations all about the activities included in the Strategic Plan. Event at the end of the year shown by video conference in the territorial offices, to exchange seasonal greetings.

Market reputation

Though in regulated sectors Snam has a natural monopoly, when dealing with its customers it adopts an approach based on a competitive market, in which it is essential to understand how the customer perceives value.

In November 2018, a new online survey was conducted, involving all Shippers and Traders with whom Snam collaborated in the recently concluded Thermal Year 2017-2018.

The analysis was extended to include transmission, storage and regasification. The survey covered customer satisfaction over the quality of services offered, customer engagement activities carried out by the Company and the additional functions and services introduced in 2018, also in view of the needs emerging from the clients themselves during previous meetings and regulatory evolutions.

The participation rate was 55% and about 93% of the results showed great satisfaction with the Customer Engagement activities which were developed by Snam to improve the services offered and consolidate a proactive collaboration with its contacts. All observations received provide a starting point from which to identify specific action to increase the efficiency of Snam's work yet further. In 2018, four workshops were held aimed at discussing the function of the balancing and market. In particular, the meetings provided an opportunity to discuss innovations and the progress of balancing and transmission, storage and regasification activities, as well as providing feedback on the process of updating IT systems.

Commercial stakeholders were also met during the Partners' Day, during which, for the matters of interest, a debate was held on the digital transformation in the gas sector, in particular with reference to the blockchain and new technologies.

Relations with the Supply Chain

Snam carries out intense engagement activities with its suppliers to encourage growth and improvement of the supply chain and to create a common vision, sharing values, ideas, know-how, best practices and information.

In the context of the 2018 Partners' Day, Snam met its suppliers during a technical session divided up into ten areas connected with the business activities that strengthened the dialogue, exchange of views and experiences.

Continuous communication with suppliers takes place through the Supplier Portal, the web platform through which existing and potential suppliers come into contact with Snam. On-line since 2013, the portal contains documents, insights, best practices, and updates on processes and procedures that govern the procurement status and activities. Registered suppliers also have a special reserved area, containing information regarding them directly (commodity sectors for which they are qualified, the contracts running, and their performance in terms of

workplace safety, notifications for the invoicing of services provided). The Supplier Portal is a tool that is undergoing continuous evolution and constant growth: the new functions introduced year after year improve its efficiency and stimulate the frequency of use in interactions with Snam. Late 2018, more than 2,000 suppliers were registered with the portal (+5% on 2017), with a number of one-time users that accessed at least once during the year, of 1,410 (+38%). The more than 470 thousand pages read during the year and the contents inserted both by Snam and suppliers (1,033, +83% on 2017) show that the website is lively and frequented.

RELATIONS WITH LOCAL COMMUNITIES

Snam is present, through its infrastructure, in almost all the Country's regions, in areas and communities that vary in terms of culture, traditions and economic, social and environmental conditions.

In creating new infrastructure and in managing existing infrastructure, Snam takes a strict, transparent, collaborative and constructive approach to ensure the environmental compatibility of the sites and to facilitate their acceptance on the part of stakeholders.

The assessments of the environmental effects involve all the phases of the work life cycle, site selection, planning, construction, operation and decommissioning. These assessments are made within the purview of the Environmental Impact Assessment (EIA) procedure, at the end of which the central and local administrations issue the permits required under current law.

Snam also evaluates, in relation to the performance of the most important works (compression systems or large natural gas pipelines), the direct and indirect economic and social impact on the territory and on the local communities with "Social Impact Assessment" tools and methods. In particular, in 2018, in collaboration with the Department of Economy and Management of the University of Brescia, the method used was revised and a regional input-output model adopted. This model makes it possible to assess the impact of a project, calculating the value added generated by the investment starting from the total value of production. Over time Snam has built a network of relationships with regional branches of Confindustria and other local associations to discuss issues of energy, economic and environmental policy affecting the territory. At a local level, the Company cooperates with authorities and participates to the works of numerous associations and committees, offering its commitment, skills and know how to participate to the social innovation and sustainable development processes.

To that end, the Company continues to collaborate with local and national authorities to best lay out its plans for carrying out the work to both the authorities and the affected communities. During the course of the year and in the transmission sector alone, 127 meetings were held with local

government authorities and regional associations to present projects involving the construction of works. Together with the latter, 3 agreements concerning easements were stipulated.

In 2018, local communities were assigned donations and sponsorships for environmental compensations carried out in accordance with the law for a total of around 3 million euro.

Performance of the main initiatives in the territory

Young Energy from Snam, to bring young people closer to work

Snam's commitment continues with the schools (through Young Energy), giving rise to the School-Work Alternation programme for the school year 2018/19. From last year's project, in 2018 we hired 13 young men and women. This year, continuing on with the 2017/18 Young Energy, it will be carried out in 6 regions and 9 schools (7 technical institutes/2 secondary schools) and will involve around 800 students.

"Fare scuola" project

"Fare scuola" aims to contribute towards a virtuous collaboration between the companies and school system of Italy, in the field of training and beyond. The initiative is based on the intention of establishing a permanent round table of dialogue between institutions, companies and representatives of the school, through the creation of a permanent laboratory of dialogue, with the aim of delivering intervention programmes in schools. From training dedicated to school heads and teachers, through to social initiatives in infrastructure, which range from the requalification of buildings, including in energy terms, to the reorganisation of spaces as necessary. In 2018, the project was launched in a pilot phase in 30 institutes throughout Italy, intended for 30 school heads, 30 reference teachers for training and 10 class councils (approximately 70 people). In 2020, it should be extended to 100 institutes.

The Snam Foundation is the company's volunteer work.

In 2018, the Volunteer Day was organised, during which Snam employees carried out a day's work, volunteering in charities chosen by the Snam Foundation. The day involved three hundred Snam employees (more than 10% of the company population), choosing from the alternatives proposed by the Foundation and distributing over 23 non-profit organisations, 49 different activities in 28 places throughout Italy.

Snam Foundation, the TESORI notice

The initiative "Tesori - Terre Solidali in Reti Inclusive" was launched in 2017, in collaboration with Confagricoltura, making available to local communities some of the lands adjacent to the Snam plants, with a view to optimising the company assets, local experience and skills and reinforcing relations with the territory for the promotion, development and creation of social agriculture projects.

In 2018, two notices were published for social workers, mainly in the agricultural sector, focused on awarding projects capable of connecting aspects of inclusion, social impact on local communities, and sustainability, with innovation and experimentation. At present, also thanks to the support of Snam people in the territory, detailed planning is underway of selected interventions on the areas of Camerino, Ronco all'Adige and Messina. The ten-year free use of the land, together with economic support and the financing of the participation in the on-line masters course in social agriculture, organised by Tor Vergata University, constitute the reward for the winning projects.

Snam re-launched its brand identity, renewing the logo and values that will accompany it in its future challenges, from the development of infrastructures to guarantee stable, secure energy supplies, through to the development of gas as a renewable source. The logo, which has been renewed and is in line with the purpose “Energy to inspire the world”, remains intrinsically linked to Snam’s tradition, stressing the characteristics of the sustainability of natural gas with the inclusion of the colour green.

At the same time as the brand restyling, the new function and look of www.snam.it has also been unveiled. The website, which has evolved in a “One Company” approach, integrates the contents of the web pages of the operating companies and offers a space for information, interaction with clients and dialogue with the company’s multiple stakeholders. Snam.it does not take the form of a simple institutional website, but rather a platform filled with contents, able to offer a concrete response to the company needs. Within the website, specific tools have been developed for a better interaction with stakeholders, such as, for example, the redesigning of the areas dedicated to shippers of transmission, storage and regasification and the preparation of specific contents, such as the section dedicated to gas advocacy. During the year, the Global Solutions business unit website was developed, as well as the web areas dedicated to Snam4Mobility, Snam for Abruzzo and Snam for Minerbio. The quality of the work carried out on the web by Snam has been acknowledged a third place in the Italian and European Webranking classifications by Comprend. With 91.3 points out of 100, for the fifth year running, Snam has reached the podium of the best European companies for the care and transparency of financial and non-financial information presented on its website and the main social platforms.

In 2018, a significant increase was seen in Snam’s exposure on the main Italian and international media, with a marked increase in articles dedicated in particular to matters of sustainable mobility, decarbonisation, the social commitment and technological innovation. Press office activities also sought to present the company’s positions and its openness to dialogue in the territories. In a parallel fashion, continuous growth has been recorded in the production of both text (news) and video contents on the proprietary platforms, from the website to social media. On the digital channels, Snam has created storytelling aimed at showcasing the company, its values, its people and new businesses; this activity has made it possible to significantly increase the Company’s follower base. Through a description of the aspects of excellence of its activities not strictly linked to the business and thanks to the use of an immediate language, Snam’s social channels engage the community considerably and are a tool for the exchange of notes with its followers. Finally, they are a tool involving employees on all levels, which have become real “brand ambassadors” of the company’s values and vision. As evidence of such, Snam has been recognised by Lundquist as the best Italian company for the use of Facebook and mentioned as best practice by LinkedIn for the use of the professional platform.



Innovation for business development

The Group's strategic evolution in an increasingly complex and challenging context will require it to rely more heavily on developing innovation and on the good use of technological assets to ensure that it makes the most of what has already been achieved, as well as developing innovative solutions, as a support for and source of business development.

As part of the Strategic Plan through to 2022, the Snamtec (Tomorrow's Energy Company) project has been launched, which aims to speed up the innovative capacity of Snam and its assets to make the most of the opportunities offered by

the evolution of the energy system. The project is focussed on four areas:

- greater operating effectiveness;
- reduction of methane emissions;
- investments in the energy transition;
- growing attention to innovation and the strengthening of distinctive skills.

Below is a report on the research and development activities launched during previous years, which have continued or concluded during the year and the new projects with potential impact on various areas of the company's operations.

Gas metering	<p>Alternative tools – During the course of 2018 the gradual introduction to the transmission network of instruments to measure the quality of gas alternative to the gas chromatograph, in order to measure the higher calorific value, relative density and carbon dioxide content of natural gas, was continued. In particular, as part of this initiative, a project for the technological adaptation of the fuel gas measurement at the storage plants was started, which involves the installation of quality analysers and the automation and remote reading of the main measurement and reserve measurement. In 2018, activities continued on the adjustment of the measures used for the quality parameters of the gas installed on the network, with the aim of guaranteeing the monitoring and remote management of the devices.</p> <p>Forecast demand – With the start of the thermal year (01 October 2018), new models have begun applying for forecasting the gas demand, based on the use of machine learning methods that, by improving the neural network algorithms used previously, allow for the suitable management of the large quantity of information available. The objective is to improve the quality of the forecast, subject to an incentive scheme by the ARERA.</p> <p>Estimation of natural gas emissions – Collaboration continued within the European research group GERG (European Gas Research Group, www.gerg.eu), involving other European natural gas transporters and distributors, with particular reference to the project for the evaluation of two methods for estimating the natural gas emissions expected at an international level and to the project for the study of potential impacts, along the entire gas supply chain, of the trace chemical components in the biomethane in order to create the conditions for the safe development of biomethane as a source of gas in the transport network. In 2018, a study was launched dedicated to the analysis of potential impacts, on the whole of the gas chain, of the chemical components present in traces in biomethane, with the aim of verifying and effectively coping with any operative problems for all operators involved.</p>
Governance and monitoring of the network and plants	<p>Remote control – In 2018, the study of the Smart Tel project continued, with the aim of analysing the requirements of the acquisition processes and the management of data relating to the control and operation of the network, of increasing its effectiveness levels and identifying the best supporting technologies of the whole remote-controlled process.</p> <p>Safety – In gas storage, following a trial conducted on site, in 2018, installation was completed of phonometric systems to record any accidental leaks at plants and to enable quick and effective blocking measures.</p> <p>During the year, initiatives were taken for fire protection of the control rooms, panels rooms and technical rooms of the plants, so as to install suitable fire detection and extinguishing systems. The project will be completed in 2019.</p> <p>The project has also been launched to replace the plant safety management systems and new SIL (Safety Integrity Level) certified electronic systems that will involve the installation of the new systems at the compression plants of Brugherio and Settala in 2019.</p> <p>Monitoring of the compression units – A system has been developed for the acquisition and display of the main operating and monitoring data of the compression units. This interface will enable various operators to better manage activities, so as to improve the reliability of plants and reduce the consumption of fuel gas and gas emissions into the atmosphere.</p> <p>Electrocompressors – In 2018, a preliminary feasibility study was started for the introduction of electrocompressors into the storage sites, with the aim of improving plant management, guaranteeing greater flexibility and reducing greenhouse gas emissions.</p> <p>Cogeneration – During the year, works were started for the installation of a trigeneration plant in the Gallese plant. The innovative system will allow for the production of heat, electricity and cooling for internal use.</p>

Physical integrity of infrastructures	<p>Collaboration with EPRG – Collaboration continued with the EPRG (European Pipeline Research Group, www.eprg.net). The EPRG is an association which researches pipeline-related topics and counts Europe's biggest gas transportation and pipeline manufacturing companies among its members, and of which Snam is a member. This group manages projects (broken down into three major areas: Design, Material and Corrosion) with the aim of constantly improving the knowledge and management of the integrity of gas pipelines throughout their life cycle (pipe manufacturing, pipeline construction and operation).</p> <p>Electrical protection – In 2018, the project for innovating the electrical protection system continued, aimed at experimenting in the field of equipment and operational solutions based on the results of the study conducted in 2016.</p> <p>Geochemical and micro seismic monitoring – As regards storage, with regard to the new projects for the operation of deposits in conditions of overpressure and the strengthening of monitoring systems, work continues on the construction and installation of geochemical and micro seismic monitoring prototypes.</p> <p>In 2018, Stogit focused its attention on activities aimed at monitoring microseismicity, by upgrading its networks to standards of technological excellence. Among the operations aimed at guaranteeing high-quality performance, the development of a new automatic data management and processing system, active since October 2017, is worthy of mention; in 2018, this will be rolled out to six concessions. The automatic analysis system has also been integrated with the national seismic network, reducing uncertainty in events location. In addition to these, in the concessions of Settala and Ripalta, two surface micro seismic networks have been developed, to integrate the works for the installation of micro seismic detection equipment completed in 2011.</p>
Maintenance and checking of networks	<p>Revision of maintenance processes – The execution phase of the “Gas Transportation Network Asset Maintenance System” was continued, which is aimed specifically at completely overhauling work processes and regulations related to the transportation network, compression stations, metering and remote control plants. This through identifying of the needs for the evolution of the professional model of the resources and of the technological and ICT tools used to carry out the maintenance activities. In particular, in 2017 the Roll Out of the Asset Implementation and Management systems for the network was completed and in 2018, the Pilot of the Asset Implementation and Management Systems of the compression plants continued.</p> <p>Experimentation with leak detection – The trial of a system aimed at identifying and locating gas leaks along the transport network, based on the analysis of the pressure waves and the detection of possible perturbations and their propagation time, continued.</p> <p>Experimentation on air flyover checks – For the purpose of evaluating the existence of technologies which are useful for the improvement of air flyover controls, trial operations were begun on two themes: assessment of the current satellite detection technologies available and participation in the trial operations carried out by ENAV and ENAC on the development of the flight infrastructure in the BVLOS mode of drones.</p>
New businesses	<p>Innovative use of existing infrastructures – In 2018, a working party was launched dedicated to the sharing of information and experience on the matter of the innovative use of existing infrastructures in connection with their capacity to transport (and potentially store) gases other than natural gas, with the ultimate aim of assessing the impacts in the various business areas and identifying practical solutions to the problems encountered.</p> <p>The Hydrogen working party was structured into various task forces, including the metering task force, for which, amongst others, the following specific areas of investigation/competence have been identified:</p> <ul style="list-style-type: none"> ■ identification of the impacts of hydrogen on the equipment used to measure volume (meters) and quality of gas (gas chromatographs, quality analysers); ■ verification of the conformity of the natural gas and hydrogen mixture with the technical specifications of the quality of gas, where the source of natural gas considered and the percentage of hydrogen mixed vary.

Mitigation of environmental and health and safety effects

Accident prevention and environmental protection are areas of management in which the creation of value is linked to the ability to mitigate the most significant impacts caused by the Company's business activities. Safeguarding the physical integrity of staff and natural capital is an integral part of the definition of Snam's corporate policies and investment decisions.

On these issues, Snam adopts specific certified management systems, with the aim of overseeing the corporate processes and activities which have the biggest impacts, linked to the fight against climate change, the reduction of energy consumption and the protection of nature and biodiversity.

With regard to the environmental protection, Snam spent approximately 105.7 million euro (92.1 million euro for investments and 13.6 million euro for operating costs).

On the health and safety of workers, Snam spent approximately 31.6 million euro.

MANAGEMENT SYSTEMS

Snam also continued its commitment to expanding and maintaining management systems that cover certain specific issues such as health and safety at work, the environment and the quality of services provided. To this end, in 2018, the new HSEQ Integrated Management System Manual was published, which, in line with the previous versions, defines the function and application of the HSEQ Management System and applies to all Group companies. In addition to this, as part of the "Lean Simplify" project, all the company HSEQ procedures have been updated and revised.

Snam took all steps necessary to maintain its existing certifications and extend the scope to new companies, including the audits performed in-house and by external personnel. 27 auditors, also qualified for external audits also, work within Snam. 237 audits were conducted in 2018 (95 of which by an external team). In order to verify the effectiveness of the management systems adopted, 54 health, safety and environment audits were also carried out on contractors working on sites. Please note that during the year, the certifications ISO 9001, ISO 14001 and OHSAS 18001 were extended to cover the companies Snam4Mobility and Cubogas.

Management systems

Company	Certification scope	Type of certification and accreditation	Year of first certification
Snam	Business continuity management for the design, development, centralised management of process systems and remote control for the dispatch of natural gas transmission	ISO 22301	2018
	Processes overseen by the Snam units for both the transmission of natural gas via methane pipelines, auxiliary and central compression plants (Administration, Business Development, Service Marketing, Asset Development, Asset Management, HSEQ, Planning and control, Supply Chain) and storage in geological units of natural gas (Service marketing)	ISO 9001	2016
	Company	ISO 14001	2015
	Information security management for the design, development, centralised management of process systems and remote control for the dispatch of natural gas transmission	ISO 27001	2014
	Company	BS OHSAS 18001	2012
Snam Rete Gas	Company	ISO 9001	2016
	Natural gas transmission dispatching activities	ISO 22301	2015
	Company	ISO 14001	2013
	Company	BS OHSAS 18001	2010
	Testing laboratory (LAB 764 Piped gaseous flows)	ISO 17025	2007
	Calibration laboratory (LAT 155 Natural gas mixtures)	ISO 17025	2002
GNL Italia	Company	BS OHSAS 18001	2012
		ISO 14001	2000
Stogit	Company	BS OHSAS 18001	2012
	Design and delivery of natural gas metering and accounting	ISO 9001	2008
	Company	ISO 14001	2002
ITG	Company	ISO 9001	2018
		ISO 14001	2010
		BS OHSAS 18001	2009
Snam 4 Mobility	Company	BS OHSAS 18001	2018
		ISO 9001	2018
		ISO 14001	2018
TEP	Company	UNI 11352:2014	2013
		ISO 9001:2015	2010
Cubogas	Company	BS OHSAS 18001	2018
		ISO 9001	2018
		ISO 14001	2018
IES Biogas	Company	ISO 9001:2015	2018

Prevention of accidents and protection of health

The Snam Group has a long-term commitment to developing and promoting the protection of health and safety at its workplaces, as part of an ongoing process to improve its HSE performance in accordance with its Health, Safety, Environment and Quality Policy.

When managing health and safety issues, it is essential to implement standardised management systems developed and maintained in accordance with the OHSAS 18001 standard. Specifically, Snam's Worker Health and Safety Management System aims to carry out strategic guidance, coordination and monitoring for the Group's operating companies.

Accident prevention, the main Snam health and safety objective, is carried out through the adoption of targeted actions aimed at eliminating or reducing risk factors inherent in work.

In-depth analysis of the causes of accidents aims to identify any measures that can be taken to eliminate, mitigate or correct risk factors, implementing organisational, technical and managerial solutions on equipment, plants and workplaces, as well as evaluating operational and behavioural procedures of employees and suppliers.

With a view to assuring the continuous improvement of performance, during the first few months of 2018, Snam launched the new "Snam4Safety" project aimed at further strengthening the culture of awareness of all employees and contractors regarding matters of health and safety.

The initial results of the analysis have revealed, on the one hand confirmation that Snam's accident rates are amongst the world's best, and on the other a cultural maturity gap, essentially due to a more scrupulous observation of rules and procedures than real awareness. Over the next few months, initiatives will therefore be taken to remedy this gap.

In order to raise awareness among employees on the safety issue, in 2011, the initiative called the "Zero Accident Award" was established, which rewards employees who go 365 consecutive days without an accident in the workplace. Staff taking part in the initiative was divided up into homogeneous teams identified by the employer line/safety officer. In 2018, 13 homogeneous teams were rewarded, for a total of 1,550 employees.

An awareness-raising initiative, the "Contractor Safety Trophy" is dedicated to contractors with the aim of increasing suppliers' attention to such matters. In particular, the performance of the companies is assessed through the collection and analysis of specific indicators (such as accident rates and negative feedback on the relevant topics). In 2018, the trophy, for the 2017 results, was awarded for the second year running to Max Streicher, a company specialised in the building of energy infrastructure and construction of gas pipelines.

Health and safety training

(hours)	2016	2017	2018
Hours provided	19,288	8,193	25,219
Equity investments	3,484	1,508	4,515

The protection of workers' health is based on ongoing monitoring of risk elements analysed in corporate processes and the implementation of adequate prevention and protection measures. Work environment inspections are periodically carried out by the Competent Physician and the Prevention and Protection Department in order to evaluate adequate and appropriate working and environmental conditions and to identify possible measures for prevention or improvement.

Snam's workers are not exposed to a high risk for contracting occupational diseases (no cases have been recorded in the last three years). Personnel exposed to specific risk factors undergo a periodic medical health surveillance by the Company Physicians. These employees come under specific health protocols defined according to the risk, in addition to any supplementary specialised visits. Personnel whose work requires them to travel to non-European countries receive specific preventive care.

The various initiatives run by Snam to promote workers' health include: a flu vaccine campaign, an early-diagnosis plan to prevent cancer, agreements with specialist institutions, a ban on smoking in the workplace (which also includes e-cigarettes), and a ban on drinking alcohol in company canteens.

Health monitoring

(no.)	2016	2017	2018
Medical visits	1,561	1,914	1,350
Periodical medical visits	1,337	1,688	1,061
Environmental surveys	172	279	247

Climate change and energy efficiency

Snam contributes towards the fight against climate change starting from its energy choices: in 2018, 96.4% of the Company's energy needs were covered by the use of natural gas.

The main greenhouse gases (GHG) emitted in the atmosphere by the Snam's activities are methane (CH₄), the main component of natural gas, and carbon dioxide (CO₂). Methane emissions arise from the release of natural gas into the atmosphere and are generated by the normal plant operation, by operations to connect new gas pipelines and the maintenance thereof, or by accidental events occurring on infrastructure, whereas the CO₂ produced is directly correlated with fuel consumption. In 2018, the contribution deriving from the use of hydrofluorocarbons (HFCs) in cooling plants was also assessed.

Snam intends to develop projects to strengthen its operational excellence and thus contribute to the containment of climate-altering emissions. The company has in fact set targets to reduce its emissions of natural gas and methane from the transmission, storage and regasification of LNG. The targets set involve the reduction, as compared with 2016 values, respectively of 15% by 2022 and 25% by 2025. In order to achieve these objectives, an investment plan has been implemented that will allow the Company to maintain and develop various projects, including the 33% annual recovery programme of natural gas through to at least 2022, with respect to all potential emissions deriving from maintenance activities.

To pursue these objectives the investment plan includes:

- gas recompression interventions in the transport network and compression plants;
- replacement of pneumatic actuators powered by natural gas in transport and storage infrastructures;
- operations to improve the energy efficiency of the gas turbine and reduction cabins;
- installation of more efficient heat generators;
- installation of LED lamps for network lighting systems.

In the gas compression stations, works have begun on installing the trigeneration plant in Gallese; this system will allow for the self-production of electricity of plants with heat recovery to support the plant's heating and cooling utilities. The systems are listed as high-efficiency cogeneration plants.

A further contribution is made to reducing the carbon footprint by the use of electricity produced from renewable sources and photovoltaic plants owned by the Company, which in 2018 accounted for 37% of total electricity consumed. Snam4Mobility, again with a view to limiting emissions, only planned on using electricity produced from renewable sources for the function of the CNG plants envisaged in the development plan.

Various initiatives taken by the company in 2018, such as the reduction of natural gas emissions, the production of electricity by photovoltaic plants, the purchase of green electricity, the installation of LED lamps in lieu of other lighting bodies, smart working, have made it possible, globally, to avoid the release into the atmosphere of a total of 154,800 tonnes of CO₂.

Renewable source plants

Type	2016			2017			2018		
	(no.)	Total capacity (kW)	Energy produced (kWh)	(no.)	Total capacity (kW)	Energy produced (kWh)	(no.)	Total capacity (kW)	Energy produced (kWh)
Wind generators	1	1.7		1	1.7		1	1.7	
Photovoltaic plants	1,153	938.2	844,608	1,366	984.4	1,044,309	1,534 (*)	1,052.7	1,128,383
Total	1,154	940		1,367	986		1,535 (*)	1,054	

(*) Including 1,497 back-up plants.

NFS Environmental monitoring and restoration in the development of the gas pipeline network

Snam considers the protection of the natural value of the territories affected by its activities to be particularly important. This is why when developing its works, it implements the most appropriate design choices to minimise impacts on biodiversity. Once the infrastructures have been completed, the Company restores the environmental and monitors as per the collaboration with the entities appointed to this end.

The objective of the vegetation restoration, in particular reforestation, is not merely to reconstitute forest areas but to reconstitute the landscape in general and to revive the biological functionality of vegetated areas, understood especially in their role of habitats for the fauna with specific biodiversity characteristics. Restoration and reforestation is followed by the implementation of "cultivation treatments", i.e. the care and maintenance, for a period of at least five years, of the plants which have been planted.

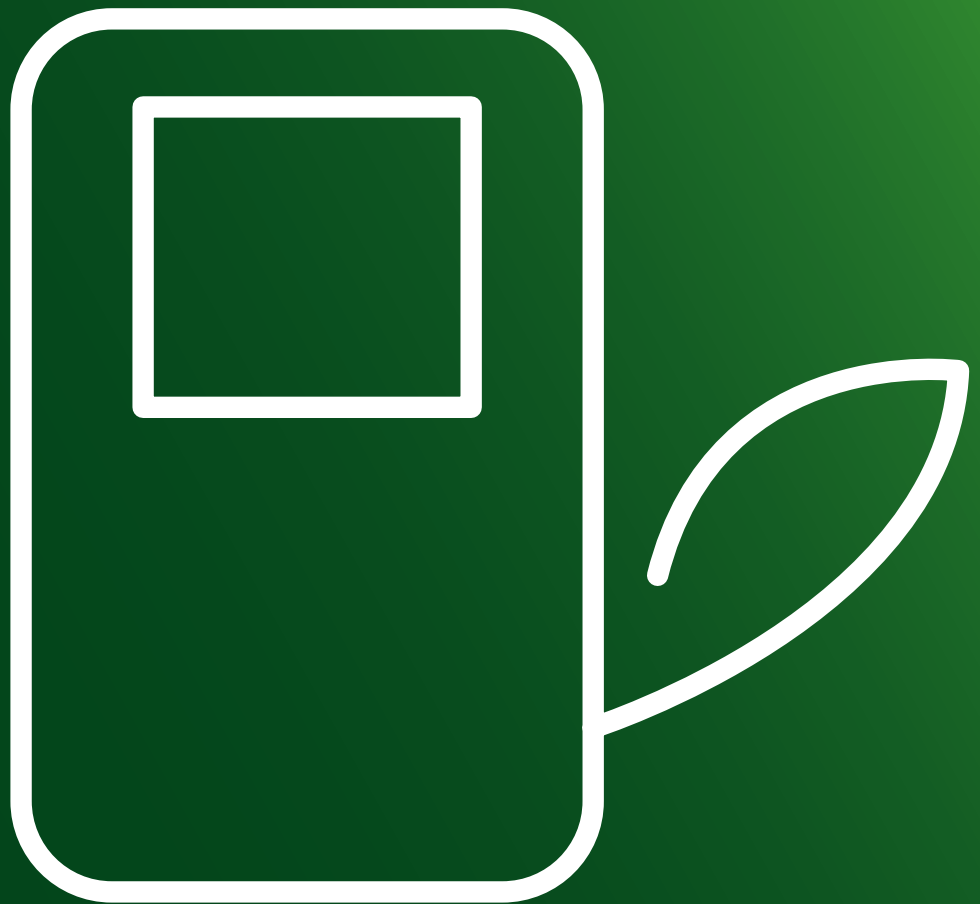
Environmental monitoring projects regard the paths of a number of pipelines that affect, albeit only marginally, natural areas of high value in terms of wildlife and ecology. These projects are intended to verify the renaturalisation process of the area affected by work, based on a comparison of the conditions after the restoration ("post operam") and the original conditions ("ante operam"). Monitoring is normally performed for the most significant habitats identified in the design phase.

Environmental restoration and monitoring

(network km)	2016	2017	2018
Restoration	227	203	227
New reforestation (*)	4	21	21
Plant care	98	59	74
Environmental monitoring	565	388	445

(*) Surface area covered by new reforestation: 410,500 m².

Elements of risk and uncertainty



Introduction

This chapter presents the main elements of uncertainty characterising Snam's core business.

The risks identified by Snam are divided up into financial and non-financial risks. The latter are then further classified as follows:

- strategic;
- legal and non-compliance;
- operating.

Financial risks are described in Note 25, "Guarantees, commitments and risks – financial risk management", of the Notes to the consolidated financial statements.

STRATEGIC RISKS

Regulatory and legislative risk

Regulatory and legislative risk for Snam is closely linked to the regulation of activities in the gas sector. The decisions made by the Autorità di Regolazione per Energia Reti e Ambiente (ARERA) and National Regulatory Authority in the countries in which the foreign associates operate, the directives and regulatory provisions issued on the matter by the European Union and the Italian Government and, more generally, a change to the reference regulatory framework, may significantly impact the Company's operations, economic results and financial balance. It is not possible to foresee the effect that future changes in legislative and fiscal policies could have on Snam's business and on the industrial sector in which it operates. Considering the specific nature of its business and the context in which Snam operates, changes to the regulatory context with regard to criteria for determining reference tariffs are particularly significant.

Macroeconomic and geo-political risk

Because of the specific nature of the business in which Snam operates, there are also **risks associated with political, social and economic instability in natural gas supplier countries**, mainly related to the gas transportation sector. A large part of the natural gas transported in the Italian national transport network is imported from or passes through countries included in the MENA area (Middle East and North Africa, in particular Algeria, Tunisia, Libya and, in TANAP-TAP perspective, Turkey together with States bordering the Eastern Mediterranean) and in the former Soviet bloc (Russian Federation, Ukraine, and in the future, Azerbaijan and Georgia), national situations which are subject to political, social and economic instability and which could constitute potential future crisis scenarios.

In particular, the importation and transit of natural gas from/through these countries are subject to a wide range of risks, including: terrorism and common crime, alteration of the political-institutional balance; armed conflicts, socio-economic and ethno-sectarian tensions; unrest and disturbances; deficient legislation on insolvency and protection of creditors; limits on investment and on the import and export of goods and services; introduction of and increases in taxes and excise duties; forced imposition of contract renegotiations; nationalisation of assets; changes in trade policies and monetary restrictions.

If a Shipper using the transportation service via Snam's networks cannot procure or transport natural gas from/through the aforementioned countries because of said adverse conditions, or in any way suffers from said adverse conditions, or to an extent so as to make it impossible or discourage the fulfilment of contractual obligations towards Snam, this could have negative effects on the Snam Group's operations, results, balance sheet and cash flow.

Commodity risk linked to changes in the price of gas

With reference to the **risk connected with changes in the price of natural gas**, however, pursuant to the regulatory framework currently in force, changes in the price of natural gas to cover Fuel Gas and network leakages do not represent a significant risk factor for Snam, since all gas for its core activities is provided by Shippers in kind. Similar hedges of risks are guaranteed by the regulations of countries where the foreign associates operate or by the related transmission contracts. However, in relation to transportation activities, the Autorità di Regolazione per Energia Reti e Ambiente (ARERA) has defined, starting with the third regulatory period (2010-2013), procedures for payment in kind, by users of the service to the leading transportation company, of quantities of gas to cover unaccounted-for gas (UFG), due as a percentage of the quantities respectively injected into and withdrawn from the transportation network. Specifically, the Authority, by means of Resolution 514/2013/R/gas, defined the permitted level of the UFG given the average value registered over the last two years, and decided to keep this amount fixed for the entire regulatory period in order to incentivise the main transmission system operator to deliver further efficiency improvements. For the relevant regulatory period, amounts of UFG higher than the permitted level would not be compensated. This criterion also was subsequently confirmed for the years 2018 and 2019 of the transition tariff period. In view of the aforementioned mechanism for the payment in kind of UFG, there is still uncertainty about the quantities of UFG withdrawn over and above the quantities paid in kind by the users of the service.

In general, the change in the regulatory framework currently in force on the payment in kind of natural gas could have negative effects on the Snam Group's operations, results, balance sheet and cash flow.

As part of the process of reviewing the criteria for determining the revenues recognised for the natural gas transmission service for the fifth regulatory period (starting 2020), criteria will also be defined for the recognition of UFG. The resolution to approve the new regulatory criteria is expected for end February 2019.

Market risk

With reference to the **risk connected with demand for gas**, based on the tariff system currently applied by the Authority to natural gas transportation activities, Snam's revenue, via the directly controlled transport companies, is partly correlated to volumes transported. ARERA, however, introduced a guarantee mechanism with respect to the share of revenues related to the volumes transported. This mechanism provides for the reconciliation of major or minor revenues, exceeding $\pm 4\%$ of the reference revenues related to the volumes transported. Under this mechanism, approximately 99.5% of total revenue from transportation activities is guaranteed. Based on the tariff system currently applied by the Authority to natural gas storage activities, Snam's revenue, via Stogit, correlates to infrastructure usage. However, the Authority has introduced a mechanism to guarantee reference revenue that allows companies to cover a significant portion of revenues recorded. For 2018 and 2019, the minimum guaranteed level of revenue recorded was approximately 97%. ARERA is reviewing an integration of such mechanisms which, for subsequent years, will result in reliance on the guaranteed minimum level of revenue, as well as the storage company's efficiency in terms of managing capacity allocation procedures and service provision procedures, following a procedure launched by ARERA. In general, the change to the regulatory framework in force could have negative effects on the Snam Group's operations, results, balance sheet and cash flow. Abroad, market risk protection is afforded by French and Greek regulation, long-term TAP contracts and Austria (different scheduling for TAG and Gas Connect as from 2023). In Austria and the United Kingdom (in relation to Interconnector UK), the regulation does not guarantee cover of the volume risk.

Risk of climate change

Compliance with regulations on greenhouse gas emissions may require, in the future, that Snam adapts its plants, and that it controls or limits greenhouse gas emissions or takes other action that may increase the costs for compliance with current regulations and therefore negatively impact the Snam Group business and economic, equity and financial position.

The **risks connected with** the emissions market fall within the scope of the European Union Directives on the sale of permits relating to carbon dioxide emissions and the rules on controlling emissions of certain atmospheric pollutants. With the start of the third period of the European Emissions Trading System (EU - ETS) and of regulation (2013-2020), the updating of the sector regulations has had as its main objective the authorisations for emitting greenhouse gases and a constant reduction of the quotas on emissions released free of charge. The allowances will be assigned to each plant on a gradually decreasing basis, and will no longer be constant, and will also depend on the actual functionality of the plants. To date, Snam has managed to comply with regulatory obligations relative to ETS mechanisms thanks to the use of quotas assigned freely to the Group's plants. The ongoing further development of European legislation could lead to identifying new ways of managing the necessary quotas, in particular through possible reward mechanisms, to be agreed with ARERA, for the reduction of emissions from owned plants. More specifically, in consultation document no. 512/2018/R/gas on the criteria for determining the revenues recognised for the fifth regulatory period of the natural gas transmission service, ARERA expressed the value of introducing specific regulatory criteria to encourage the transporter to adopt virtuous conduct in seeking to reduce CO₂ emissions, which involves the recognition of a standard quantity of CO₂ quotas and the cover of the price risk associated with the related procurement.

Climate change scenarios could lead to a change in population behaviour and could have an impact on natural gas demand and transport volumes, just as they could affect the development of alternative uses of gas and the promotion of new business.

Climate change could also increase the severity of extreme weather events (floods, droughts, extreme temperature fluctuations) causing worsening of the natural and hydrogeological conditions of the territory with a possible impact both on the quality and continuity of the service provided by Snam, and on the demand for Italian and European gas. With reference to the effects of the change in the gas demand on the balance sheet, income statement and financial position of the Snam Group, see the previous paragraph "Market risk".

Matters connected with climate change may also heighten the awareness of public opinion and the various stakeholders, altering the perception of Snam with possible impacts on Group results and investor behaviour.



LEGAL AND NON-COMPLIANCE RISK

Legal and non-compliance risk concerns the failure to comply, in full or in part, with the European, national, regional and local rules and regulations with which Snam must comply in relation to the activities it carries out. The violation of such rules and regulations may result in criminal, civil, tax and/or administrative sanctions, as well as damage to Snam's balance sheet, financial position and/or reputation. With reference to specific cases, *inter alia*, infringement of regulations protecting the health and safety of workers and the environment, and violation of the laws established to fight corruption, may also lead to sanctions, even substantial, against the company based on the administrative liability of the entities (Legislative Decree no. 231 of 08 June 2001). With regard to the **Risk of Fraud and Corruption**, Snam believes it is of vital importance to ensure a climate of fairness and transparency in corporate operations and repudiates corruption in all its forms in the widest context of its commitment to abiding by ethical principles. Snam's top management is strongly committed to pursuing an anti-corruption policy, trying to identify possible areas of vulnerability and eliminating them, strengthening its controls and constantly working to increase employees' awareness of how to identify and prevent corruption in various business situations.

Reputational verification and acceptance and stipulation of the Integrity Ethical Pact are the pillars of the system of controls aimed at preventing the risks associated with illegal behaviour and criminal infiltrations concerning our suppliers and subcontractors, with the aim of ensuring transparent relations and professional morality requirements in the whole chain of enterprises and for the whole duration of the relationship.

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

As part of this collaboration, in October Snam renewed its partnership with Transparency International, the Secretary General of Berlin, during the 18th International Anti-Corruption Conference of Transparency International held in Copenhagen. On this occasion, Snam took part in a restricted round table that saw, for the first time, the participation of 4 private companies too, including Snam as the only Italian representative.

Moreover, in 2018, in collaboration with Transparency International Italy and the OECD, Snam took part in a series of events on transparency and integrity as well as best practices in good governance and the prevention of corruption on a global level, such as the 27th Session of the Commission on Crime Prevention and Criminal Justice of the United Nations, organised by MAECI at the United Nations office of Vienna and the seminars organised by the OECD in St Petersburg and Moscow, intervening in matters of integrity and the fight against corruption.

Finally, following the 2018 International Anti-Corruption Day held in Farnesina, Snam was asked by the Ministry of Foreign Affairs and International Cooperation to take part in the assessment and review of the first draft of the G20 High-Level Principles, on the prevention of corruption and promotion of integrity in public companies or SOEs, draft circulated by the Argentinian presidency and which should be finalised in 2019, during Japan's term.

OPERATING RISKS

Ownership of storage concessions

The risk linked to **maintenance of the ownership of the storage concessions** is attributable by Snam to the business in which the subsidiary Stogit operates on the basis of concessions issued by the Ministry of Economic Development. Eight of the ten concessions (Alfonsine, Brugherio, Cortemaggiore, Minerbio, Ripalta, Sabbioncello, Sergnano and Settala) expired on 31 December 2016 and can be renewed no more than twice for a duration of ten years each time. With regard to these concessions, Stogit submitted – within the statutory terms – the extension request to the Ministry of Economic Development and the proceedings are currently pending before the Ministry. Pending said proceedings, the Company's activities, as provided for by the reference regulations, will continue until the completion of the authorisation procedures in progress envisaged by the original authorisation, which will be extended automatically on expiry until said completion. One concession (Fiume Treste) will expire in June 2022 and has already been renewed for the first ten-year extension period in 2011, and another concession (Bordolano) will expire in November 2031 and can be extended for a further ten years⁴⁵.

⁴⁵ The Stogit concessions issued before the coming into force of Italian Legislative Decree no. 164/2000 can be extended by the Ministry of Economic Development up to twice for a term of ten years each time, in accordance with Art. 1, paragraph 61 of Italian Law no. 239/2004. Pursuant to art. 34, paragraph 18 of Italian Decree Law no. 179/2012, converted by Italian Law no. 221/2012, the duration of the only Stogit concession issued after the coming into force of Italian Legislative Decree no. 164/2000 (Bordolano) is thirty years with the possibility of an extension for another ten years.

If Snam is unable to retain ownership of one or more of its concessions or if, at the time of the renewal, the concessions are awarded under terms less favourable than the current ones, there may be negative effects on the Company's operations, results, balance sheet and cash flow.

NFS Malfunction and unexpected service interruption

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

NFS Delays in the progress of infrastructure implementation programs

There is also the concrete possibility that Snam could incur **delays in the progress of infrastructure construction** programmes as a result of several unknowns linked to operating, economic, regulatory, authorisation and competition factors, regardless of its intentions. Snam is therefore unable to guarantee that the projects to upgrade and extend its network will be started, be completed or lead to the expected benefits in terms of tariffs. Additionally, the development projects may require greater investments or longer timeframes than those originally planned, affecting Snam's financial position and results.

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

NFS Environmental risks

Snam and the sites in which it operates are subject to laws and regulations relating to pollution, environmental protection, and the use and disposal of hazardous substances and waste. These laws and regulations expose Snam to potential costs and liabilities related to the operation and its assets. The costs of possible environmental remediation obligations are subject to uncertainty regarding the extent of contamination, appropriate corrective actions and shared responsibility and are therefore difficult to estimate. In relation to the new global climate agreements (COP21 in Paris 2015, COP22 in Marrakech in 2017), aimed at encouraging the transition towards a more sustainable economy that favours zero emission energy sources, it may envisage regulatory and legislative risk related to the possible implementation of increasingly stringent regulations at European and national level.

Snam cannot predict if and how environmental regulations and laws may over time become more binding and cannot provide assurance that future costs to ensure compliance with environmental legislation will not increase or that these costs can be recovered within the mechanisms tariffs or the applicable regulation. Substantial increases in costs related to environmental compliance and other aspects related to it and the costs of possible sanctions could negatively impact the business, operating results and financial and reputational aspects.

NFS Employees and staff in key roles

Snam's ability to operate its business effectively depends on the skills and performance of its personnel. Loss of "key" personnel or inability to attract, train or retain qualified personnel (in particular for technical positions where the availability of appropriately qualified personnel may be limited), or situations in which the ability to implement long-term business strategy is negatively influenced due to significant disputes with employees, could have an adverse effect on the business, financial conditions and operating results.

Risk linked to foreign holdings

The foreign companies owned by Snam may be subject to regulatory/legislative risk, under conditions of social and economic political instability, to a market risk, cyber security, credit and financial risk and other risks typical of the business of the transmission and storage of natural gas highlighted for Snam, such as to adversely affect their activities, economic results and the equity and financial situation. This can have negative impacts for Snam on the contribution towards the profits generated by such investments.

Risks connected with future acquisitions/equity investments

Each investment made as part of joint ventures and each future investment in Italian or foreign companies may entail an increase in the complexity of Snam Group operations and there can be no guarantee that such investments will correctly integrate in terms of quality standards, policies and procedures, consistently with the rest of Snam's operations. The integration process can be costly and require additional investment.

Failure to integrate the investment made can have a negative impact on business, operating results and financial aspects.

Cyber security

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

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

Alongside this and in accordance with technological developments, solutions aimed at protecting the Company from cyber threats and malware are assessed and, where deemed appropriate, implemented. More specifically, Snam has defined a model of cybersecurity incident management aimed at preventing and, when necessary, ensuring timely remediation in the event of events that could damage the confidentiality and integrity of the information processed and the IT systems used. At the base of the activity is a Security Incident Response Team which, using technologies that allow collecting and correlating all the security events recorded on the entire perimeter of the company's IT infrastructure, has the task of monitoring all the anomalous situations from which negative impacts may result for the company and to activate, where necessary, escalation plans suitable to guarantee the involvement of the various operating structures.

With reference to the management of information in support of the business processes, it is considered appropriate to stress that the company owns the asset (fibre) used for the transmission of data to and from the territory; this results in intrinsically greater security thanks to the lack of dependency on the service provided by third parties and the possibility of making exclusive use of the communication channel.

Lastly, as part of cyber incident management (preventive and reactive), information-sharing with national and European institutions and peers is used in order to improve the capacity and speed of response following various possible negative events.

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

Outlook



Over the next few years, the global gas market will see a significant rise in demand, driven by the Americas and China, where the growth in the need for energy will go hand-in-hand with an increasingly important role played by renewable energies, more efficient technologies and the progressive transition away from other fossil sources and towards natural gas.

In Europe too, gas will continue to play a central role in the decarbonisation process, in line with the objectives defined (2020 Climate-Energy Package) or being defined on a European Community level (Clean Energy Package), in particular making a considerable contribution to the transmission and thermoelectric sector, in view of the progressive move away from coal production and the rise in intermittent renewable sources. Use of the latter, which are difficult to programme, will require greater support by natural gas, which is instead a programmable source. In Italy, volumes will remain basically stable. The European natural gas demand trend, supported in particular by the reduction in the use of coal, coupled with the decline in domestic production, will require the development of new import routes.

In this context, Snam envisages speeding up its investment plans (5.7 billion in the five years 2018-2022), with a confirmed focus on replacements and maintenance, so as to continue to guarantee maximum resilience, flexibility and efficiency of the existing infrastructures.

One quarter of the investments made in the next few years will also involve development initiatives, such as the strengthening of the network to the south, the connections in the north-west, the service of the local market and cross-border flows, the network in Sardinia and the strengthening of the Fiume Treste storage plant.

As part of the investments plan, 850 million euro will go towards the Snamtec (Tomorrow's Energy Company) project, the aim of which will be to speed up Snam's capacity to innovate and its assets to make the most of the opportunities offered by the evolution of the energy system. The Snamtec project will focus in particular on four areas:

- greater operating effectiveness;
- reduction of methane emissions (-25% in 2025);
- energy transition;
- innovation and strengthening of distinctive competences.

The project will also give a further boost to the programme to reduce operating costs that was launched in 2017, increasing the already ambitious **efficiency** target up to 60 million euro when fully operative.

The development of the investment plan, the consequent expansion of the RAB and the cost cutting plan, will be key elements in assuring the growth of results. Snam also believes that it can benefit from a growing contribution towards its revenues through the introduction of additional performance-based incentives envisaged for the fifth regulatory period. These, in addition to the contribution made by Italian and international associates, and that by new businesses in the energy transition, in which Snam intends to play a leading role, will, in 2022, contribute to approximately one quarter of the Group's Net Profit.

As part of the **energy transition business**, the Company plans to invest, directly and as part of a partnership with other operators, in the development of infrastructures to produce biomethane from waste or agricultural waste. Investment in the sector is in addition to that envisaged in sustainable mobility. To this end, investments are expected in the development of methane and biomethane refuelling stations for cars and buses, exploiting the technological excellence and leadership position of Cubogas, a subsidiary of Snam4Mobility, and the development of small liquefaction plants (SSLNG) for heavy goods transport, industry and residential.

Snam Global Solutions, which is the division offering services dedicated to international gas sector operators, will gradually expand its contracts portfolio, assisting its clients in the integrated management of transmission and storage networks and the regasification of LNG, offering cutting-edge technology in infrastructure management services. The activity will help foster the development of the globalisation strategy, launched with the acquisition of foreign associates and which record a growing contribution towards the economic results.

As regards the **financial structure**, the optimisation carried out in the last three years has led to a significant reduction in the average cost of debt. The action taken will also make it possible to reduce the risks connected with a potential change to the global macroeconomic scenario. The Company's management will, finally, be focussed on guaranteeing an appealing, sustainable remuneration of its shareholders, whilst maintaining a balanced financial structure.

2018 Consolidated Non-Financial Statement

(Legislative Decree No. 254 of 30 December 2016)

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INTRODUCTION AND GUIDE TO READING THE DOCUMENT

The Consolidated Non-Financial Statement (hereinafter also the "Non-Financial Statement", "Declaration", "Statement" or "NFS") of the Snam Group constitutes a specific section of the Directors' Report-Integrated Report (hereinafter also Report on Integrated Management) and is drafted in compliance with the provisions of the Legislative Decree of 30 December 2016, no. 254 as subsequently supplemented (hereinafter also the "Decree")⁴⁶.

The NFS contains relevant data and information in relation to environmental, social and personnel-related issues, respect for human rights, and the fight against active and passive corruption. The relevance of the individual themes is defined taking into account the activities carried out and the characteristics of Snam⁴⁷.

The reference scope of the information given in the NFS coincides with the scope of consolidation of the consolidated financial statements and includes:

- **Corporate and other** (Snam S.p.A. with the subsidiaries Gasrule Insurance Limited and Snam International BV);
- **Transmission** (Snam Rete Gas S.p.A., Asset Company 2, Infrastrutture Trasporto Gas S.p.A.);
- **Liquefied natural gas regasification** (GNL Italia S.p.A.);
- **Storage** (Stogit S.p.A.);
- **Sustainable mobility and Biomethane** (Snam4Mobility S.p.A., Cubogas, IES Biogas S.r.l. and Enersi Sicilia S.r.l.);
- **Energy efficiency** (Asset Company 4 S.r.l. and TEP Energy Solution S.r.l.).

Within the NFS, the data relating to the companies operating in the new businesses of sustainable mobility, biomethane and energy efficiency are aggregated into the business segment "Corporate and other activities", in line with the information given in the consolidated financial statements. The structure of the Snam Group, including foreign equity investments, is set out on page 3 of the Integrated Report on operations⁴⁸.

The content of the NFS is integrated, where necessary or appropriate, with other information included in the Report on Integrated Operations, in the Report on Corporate Governance and Ownership Structures, and on the Company's Website (www.snam.it), which are identifiable and available for consultation following specific references⁴⁹.

In order to standardise the reporting of data and information, as well as to facilitate the connection with each issue envisaged by the Decree, each area listed above has been divided into specific paragraphs divided into three sections dedicated respectively to:

- relevance of the theme and related risks generated or suffered;
- company policies and commitments and their implementation in management operations;
- relevant performance indicators to understand the results obtained in pursuing these commitments.

More specifically, this report has been prepared in accordance with GRI Standards⁵⁰, the standard for non-financial reporting most used internationally, according to the core option. The results are reported with reference to the financial year ending 31 December 2018. The two previous years are also shown for comparison.

The Report on Integrated Operations, of which NFS is a specific section, is published in the 2018 Annual Financial Report available on the Company's website at www.snam.it/en/Investor_Relations/Reports/.

⁴⁶ See Art. 5, paragraph 1 of Italian Legislative Decree no. 254 of 30 December 2016; Italian Law no. 145 of 30 December 2018, Art. 1073.

⁴⁷ See article 3, paragraph 1 of the Decree no. 254 of 30 December 2016.

⁴⁸ See article 4, paragraph 1 of the Decree no. 254 of 30 December 2016.

⁴⁹ See article 5, paragraph 4 of the Decree no. 254 of 30 December 2016.

⁵⁰ See article 3, paragraph 5 of the Decree no. 254 of 30 December 2016.

SNAM PROFILE AND ACTIVITIES

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

With the longest transmission network in Europe (approximately 32,600 km in Italy, in addition to 41,000 with the international subsidiaries) and the largest capacity for storing natural gas (16.9 billion cubic metres in Italy, in addition to 20 with international subsidiaries), it manages the first liquefied natural gas (LNG) plant developed in Italy and is a shareholder of Adriatic LNG, the country's main terminal and one of the most strategic in the whole of the Mediterranean.

Its business model is based on sustainable growth, transparency, the optimisation of talent and territorial development, whilst listening to and maintaining open dialogue constantly with the local communities, also thanks to the social initiatives pursued by Fondazione Snam. With the new "Snamtec" project launched as part of the 2018-2022 Strategic Plan, Snam has speeded up investments in the energy transition, focussing on technology, innovation and R&D initiatives in support of the major national and international networks and the businesses of the green economy, such as sustainable mobility, renewable gas, hydrogen and energy efficiency.

Snam has been listed on the Italian Stock Exchange since 2001. Its share price features not only on the Italian FTSE MIB index but also on leading international indices (Stoxx Europe 600 and Stoxx Europe 600 Utilities) and the major sustainability indices.

For more information on the size of the national infrastructure network and the scope of Snam's activities, please refer to the paragraph "Snam presence in Italy and in international infrastructure system" of the Integrated Report on operations.

STAKEHOLDER RELATIONS

Positive and consistent relations over time with stakeholders is a fundamental part of Snam's management model.

Relations with stakeholders are carried out with the aim of increasing trust and reputation and reducing potential conflicts.

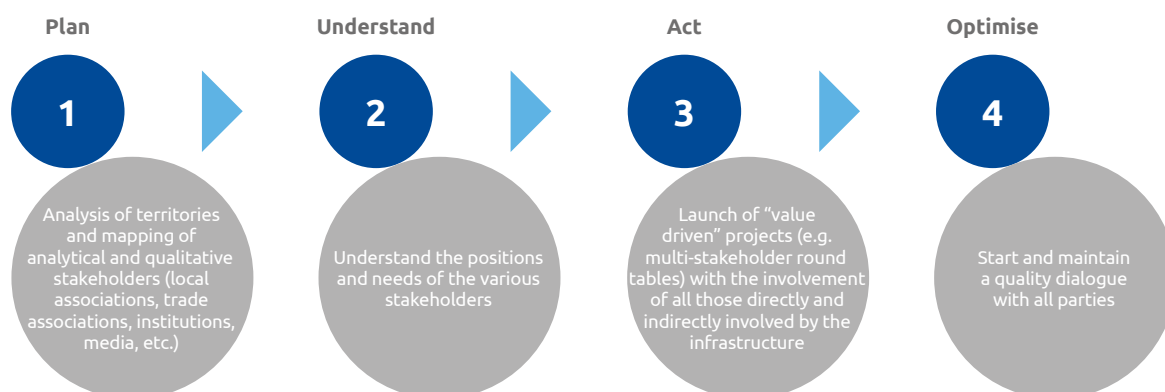
All corporate structures contribute to the various activities involving stakeholders, each within their own prerogatives, roles and responsibilities with centralised coordination.

Snam's approach to stakeholder engagement, explained in the Stakeholder Engagement Policy, is aimed at:

- through mapping, identifying the various categories of stakeholders with whom the Company deals, following the evolution of the context and development of company activities;
- analyse and understand stakeholders' profiles and the company's position with respect thereto;
- deepening the interests and issues relevant to each category of stakeholder, also through regularly updating the material analysis;
- reporting and regularly communicating management results to stakeholders in relation to the material issues of mutual interest through the report on social responsibility and all the other reporting and communication tools of the Company.

The stakeholder groups identified through mapping fall into the following categories: Community and territory, Investors and financiers, Other operators, Media, Suppliers, Customers, People, Authorities and Institutions.

Stakeholder engagement



MATERIAL ISSUES ACCORDING TO THE ACTIVITIES CARRIED OUT

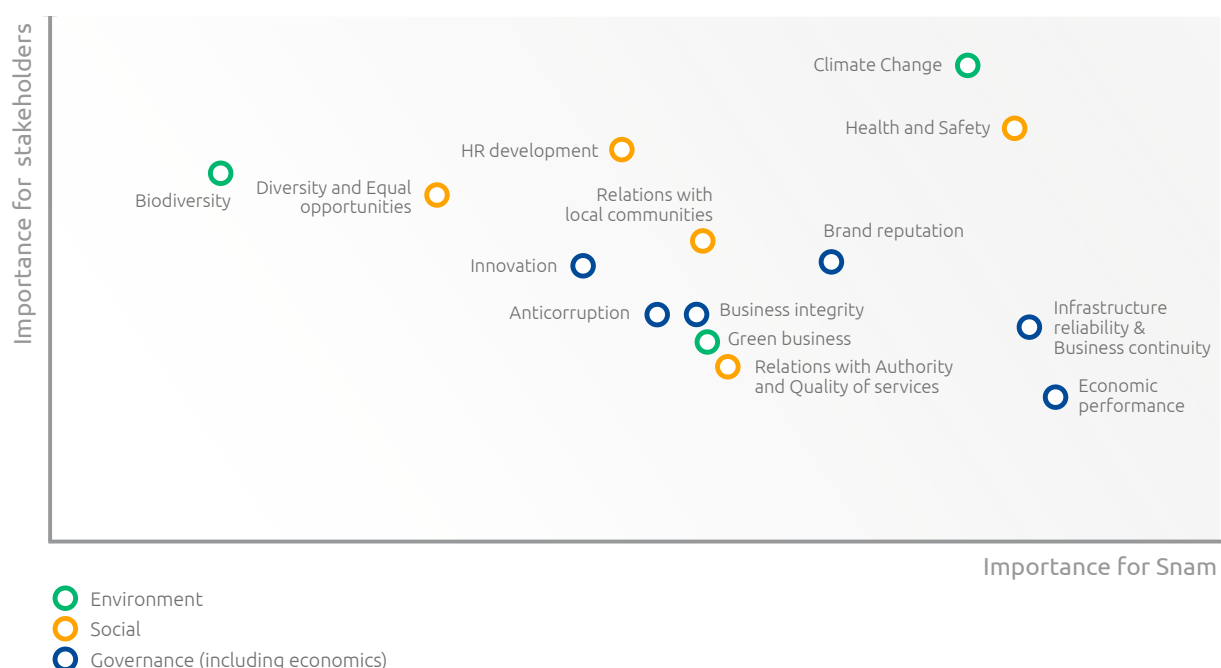
Materiality analysis

In order to identify the environmental and social matters, personnel-related issues, respect for human rights, and the fight against bribery and corruption, which are relevant taking into account the company's activities and characteristics, the Company conducted a materiality analysis to identify the most significant topics for the Group and Stakeholders in the spheres specified in Legislative Decree 254/2016 to the extent necessary to ensure the activities of the Snam Group, its performance, results and the impact it produces are understood.

Materiality is the principle of reference to better focus the reporting of activities on sustainability issues that best reflect the organization's economic, environmental and social impacts or that influence stakeholders' decisions. At the end of 2018, Snam launched the update of topics that have historically fallen within the scope of its sustainability activities. More specifically, the analysis started out by identifying the matters reported in the main sustainability trends and media, considered as representative of the contexts of multi-stakeholder debate and discussion. These issues were subsequently given some context with respect to the Snam's main businesses, benchmarking with the main peer companies at a national and international level, and through the most important market publications. In order to define the externally most significant topics, their perception by stakeholders was analysed (including employees) through the above-described analyses and taking into account the latest on-line survey performed. The categories of stakeholders considered were: Community and territory, Investors and financiers, Other operators, Media, Suppliers, Customers, People (Employees), Authorities and Institutions. Instead, to define the topics of greatest internal significance, the perception of the topics from the company's viewpoint was analysed, through a specific survey involving the heads of each department.

The joint consideration of internal and external significance led to identifying areas of priority and materiality.

2018 materiality matrix



Results of the materiality analysis for the purposes of the Decree

The material topics within the scopes envisaged by Italian Legislative Decree no. 254/2016 as subsequently supplemented, are those relating to health and safety, climate change, protection of the territory and biodiversity,

green business, economic performance and creation of value, reliability of infrastructures and business continuity, brand reputation, innovation, relations with the authorities and quality of service, relations with local communities, development and protection of the human capital, fight against corruption, business integrity, diversity and equal opportunities.

Scopes of the decree	2018 Material topics	Reference GRI standards
Environment, health and safety	Climate change, health and safety, protection of the territory and biodiversity, green business	GRI 302 Energy GRI 304 Biodiversity GRI 305 Emissions GRI 403 Occupational Health & Safety
Social aspects	Economic performance, reliability of infrastructures and business continuity, brand reputation, innovation, relations with the authorities and quality of service, relations with local communities	GRI 201 Economic Performance GRI 203 Indirect economic impact GRI 413 Local communities
Aspects relating to staff management	Developing and protecting human capital Diversity and equal opportunities	GRI 401 Employment GRI 404 Training and Education GRI 405 Diversity and Equal opportunities
Protecting Human Rights	Diversity and equal opportunities	GRI 406 Non discrimination
Anticorruption and bribery	Fight against corruption, business integrity	GRI 205 Anti-corruption GRI 419 Socio-economic compliance

ORGANISATIONAL MODEL AND MANAGEMENT OF ACTIVITIES

Corporate and organisational structure

Snam's corporate governance system – a set of planning, management and control rules and methodologies necessary for the Company to function – was identified by the Board of Directors:

- in compliance with the regulations to which the Company is subject as a listed issuer;
- in accordance with the Corporate Governance Code;
- in line with the national and international best practices against which the Company compares itself.

This system is based on some key principles, such as a correct and transparent choice of management of business operations ensured also through the identification of information flows between the corporate bodies and an efficient definition of the system for internal control and risk management.

Snam manages and coordinates its subsidiaries and has adopted Corporate Governance Guidelines that define, amongst others, the principles, contents, tools and operating procedures of strategic guidelines given by Snam in line with its corporate governance system and the characteristics of its organisational structure, at the same time taking due account of the legal autonomy and principles of correct corporate and entrepreneurial management of the subsidiaries.

The organisation of Snam is divided into four business units and staff functions, designed with a view to simplifying processes, efficiency and continuous improvement. The business units are focused respectively:

- on development, regulatory and commercial activities;
- on the management of Italian subsidiaries;
- on the management of foreign holdings;
- on the development of technical services focused on distinctive skills and know-how aimed at operators in the gas sector.

Manner of conducting activities

We manage our business in accordance with the Corporate System Framework, the organisational and procedural system applied across all Group companies in Italy and abroad, created to ensure that the system of rules governing the business is clear, simple and organic. The system is inspired by the Code of Ethics⁵¹ and is based on management policies, described in the following chapters, based on the principles enunciated by the United Nations Universal Declaration of Human Rights, the fundamental ILO Conventions and the OECD Guidelines for Multinational Enterprises. The main policies⁵² referred to in the document are:

- the Sustainable Development Policy;
- the Health, Safety, Environment and Quality Policy;
- the Stakeholder Engagement Policy;
- the Human Rights Policy;
- the Policy for the management of philanthropic activities and social initiatives;
- the Social Supply Chain Policy;
- the Enterprise Risk Management Guidelines;
- the Policy statement contained in the Anti-Corruption Guidelines.

Furthermore, Snam adheres to the UN Global Compact, the most important international sustainable development initiative, which aims to promote and disseminate ten global ethical principles concerning human rights, environmental protection, workers' rights and anti-corruption. In order to successfully implement this system, managerial actions need to be based on the allocation of specific objectives to each position of responsibility and on the transparent assessment of results. This would enable continual improvements in the effectiveness and efficiency of corporate processes.

Internal Control and Risk Management System

The Internal Control and Risk Management System ("ICRMS") consists of the rules, procedures and organisational structures aimed at allowing for the identification, measurement, management and monitoring of the main risks, including those of the topics pursuant to Art. 3, paragraph 1 of Italian Legislative Decree 254/2016 (environmental, social and staff-related topics, as well as respect for human rights and the fight against active and passive corruption).

⁵¹ The Snam Code of Ethics can be consulted on the Company's website at the address www.snam.it/export/sites/snam-rp/repository/file/Governance/codice-etico/codice_etico.pdf.

⁵² See Article 3, paragraph 1, lett. b of Italian Legislative Decree no. 254 of 30 December 2016. Snam's policies may be consulted on the company website at www.snam.it/en/Sustainability/strategy_and_commitments/index.html. The anti-corruption guideline may be consulted on the company website at www.snam.it/export/sites/snam/repository/file/Governance/lineaguida/anticorruzione/snam_anticorruzione_01.pdf.

Snam adopted and undertakes to promote and maintain an adequate Internal Control and Risk Management System. This system is integrated into the organisational, management and accounting structure and, in general, into the corporate governance of Snam and is based on the Corporate Governance Code which Snam complies with, taking as references the national and international models and best practices.

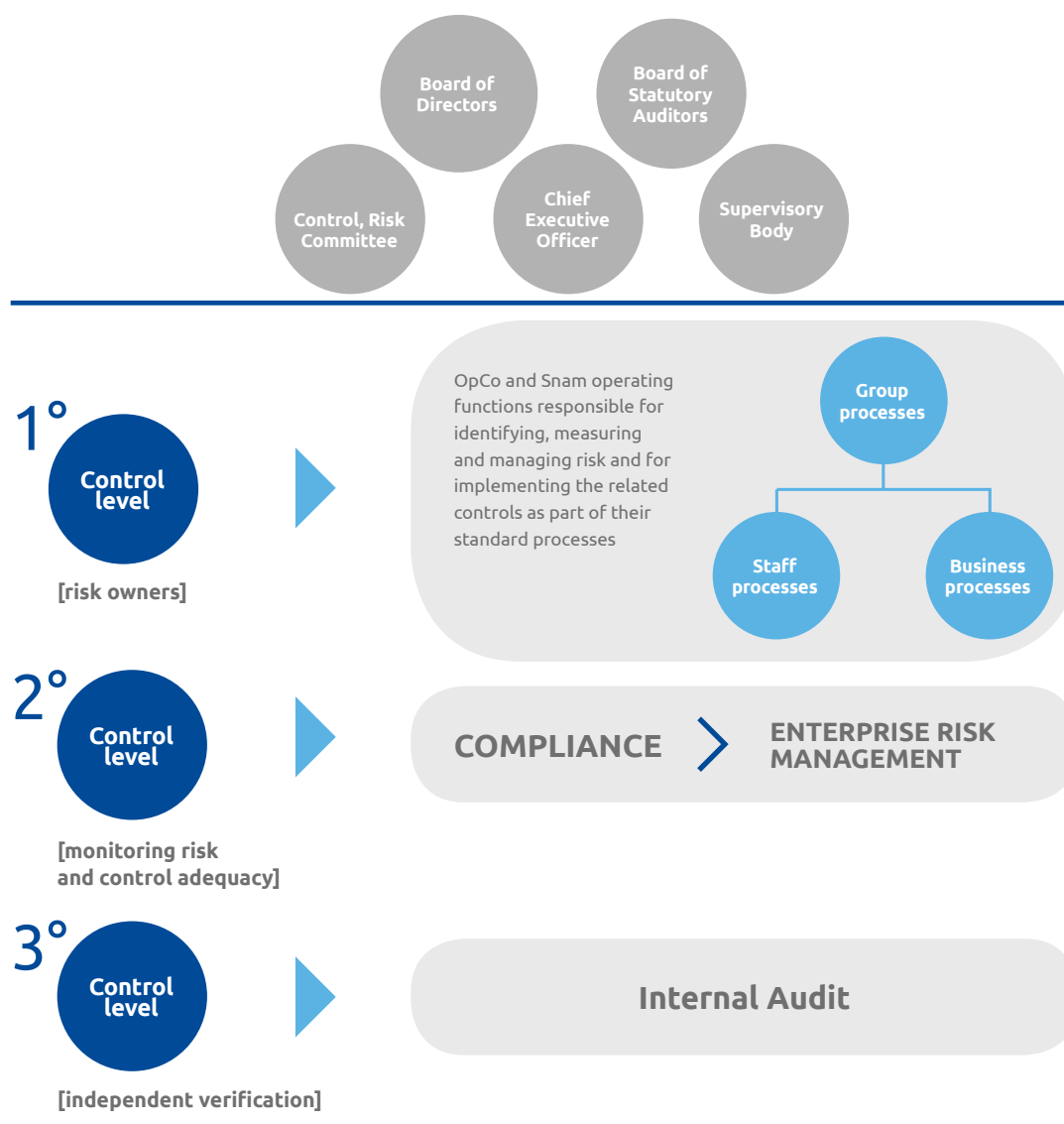
The guiding principles on which the SCIGR is based are defined in the Code of Ethics:

- the separation of activities between persons responsible for authorisation, executive or control procedures;
- the existence of suitable corporate provisions for providing the general reference principles for the regulation of corporate processes and activities;
- the existence of formal rules for the exercise of signatory powers and internal authorisation powers;

- traceability (guaranteed through the adoption of information systems that can identify and reconstruct sources, information and checks carried out in support of the formation and implementation of the Company's decisions and financial resource management procedures).

The ICRMS is made subject to verification and update over time, so as to ensure that it is always suitable for monitoring the main risk areas of the business. In this context, and also in order to execute the provisions of the Code of Corporate Governance, Snam has adopted an ERM (Enterprise Risk Management) system.

The Board of Directors charges the CEO with giving structure to and maintaining the entire system. The system is divided into three levels, each with different objectives and associated responsibilities.



First Level:	Identification, assessment and monitoring of the relevant risks within the individual Group processes. This level includes the functions of the Snam Group owners of the individual risks, responsible for their identification, measurement and management, and for the implementation of the necessary controls in the processes pertaining to them.
Second Level:	Monitoring the main risks to ensure they are effectively and efficiently managed and processed, and monitoring the adequacy and functioning of the controls in place to protect against these risks; support for Level One in defining and implementing adequate management systems for the main risks and related controls. The Group's staff departments responsible for coordinating and managing the main control systems (e.g. Corporate Administrative Responsibility, Corporate Reporting, Anti-Corruption, Antitrust) operate at this level.
Third Level:	Independent and objective assurance of the adequacy and actual operation of the first and second control levels and in general of the overall risk management procedures. Internal Audit operates on the basis of the "Internal audit guidelines".

The ERM Model, in particular, provides suitable tools for identifying, measuring, managing and monitoring the main risks that could affect the achievement of strategic objectives. The main objectives of ERM are to define a risk assessment model that allows risks to be identified, using standardised, group-wide policies, and then prioritised, to provide consolidated measures to mitigate these risks and to draw up a reporting system.

We use an integrated, dynamic and group-wide method of assessing risk that evaluates the existing management systems in the individual corporate processes, starting with those relating to the prevention of fraud and corruption and health, safety, environment and quality.

In a similar fashion, the ERM model allows for the mapping of opportunities, thereby intending the positive effects of uncertainty on company objectives.

The results of the risk and opportunity assessment and monitoring activities and the related mitigation measures are regularly presented to the Control and Risk and Related Party Transactions Committee, the Board of Statutory Auditors and the Supervisory Body of Snam and its subsidiaries. They are also used by the Internal Audit department to draw up the audit schedules.

Integrated Risk Assurance & Compliance

The Board of Directors has approved the "Integrated Risk Assurance & Compliance" Guidelines, which aim to: (i) integrate into the scope of the ICRMS the level 2 control models and (ii) promote and support conformity with reference legislation and the prevention of crime through a specific Compliance Programme for the prevention of offences (CPPI), in complete compliance with the Code of Ethics.

The Guidelines define the content of the CPPI aligned with the standards of best practice, in full compliance with the Code of Ethics, which defines the values, the standards of conduct and the guiding principles on which the entire ICRMS is based, which Snam recognises, accepts, shares and to which it commits, internally and externally.

The CPPI is implemented and made operative through:

- the Regulatory system;
- the provisions on corporate governance, adopted in compliance with applicable legislation and international best practices;
- the provisions, methods and activities of the models applied by the appointed departments;
- an integrated risk assurance & compliance process.

The following are relevant to the implementation of the CPPI:

- the integrated risk assurance & compliance model;
- the systems: reporting⁵³, rewarding and disciplinary;
- training and communication.

The integrated risk assurance & compliance model aims to improve the perception of the controls by the various owners involved and further enhance the efficiency of the ICRMS through a better coordination and integration of the related flows and interactions between the three control lines, optimising the respective contributions.

⁵³ The CPPI is made effective also thanks to the contribution provided by the adoption of a whistleblowing system. The "Anonymous and non-anonymous reports received by Snam and its subsidiaries" Guidelines regulate the process associated with the receipt, analysis and processing of the reports made by any party, including those that are confidential or anonymous.

This model envisages the use of a computerised Integrated – Risk Assurance & Compliance (RACI) platform, which allows for the coordination of risk management activities implemented under the scope of the level 2 control models, maintaining the specific aspects of the methods used in each model ⁵⁴ and the development of an integrated database (the Risk & Control Register), where the models involved in the Integrated Risk Assurance & Compliance process share a single catalogue of risks and controls. This repository allows for the integrated collection of consistent, complete data and information in support of the decision-making processes of senior management and corporate bodies to whom dedicated reporting flows are addressed.

Organisation, management and auditing model according to Legislative Decree no. 231/2001 (the “Model 231”)

Snam S.p.A.’s Model 231 consists of a set of principles, rules and provisions on, amongst others, the management and control of each business process, the aim of which is to protect the company from any conduct that may entail administrative liability, in accordance with Italian Legislative Decree no. 231 of 2001 in connection with crimes committed or attempted in the interests or to the benefit of the company, by subjects in senior positions within the structure or subjects under their supervision and control.

The Board of Directors adopted the 231 Model to prevent the offences referred to in the legislation on corporate administrative liability for the offences committed in the interests or for the benefit of the company, and appointed a Supervisory Body having autonomous initiative and control powers, in compliance with the laws and regulations. The analysis of corporate processes and the comparative analysis of the existing control environment and of the control systems are carried out according to the COSO Framework (last published in May 2013), which is the international reference model for the establishment, update, analysis and assessment of the internal control system. The subsidiaries have also adopted their own Model 231 commensurate with their own characteristics, appointing their own Watch Structures charged with monitoring that Model 231 is implemented and applied effectively.

In May and June 2018, the documents of the Special Part of the 231 Model of Snam and Subsidiaries were updated in light of:

- legislative changes, which amended and expanded the range of predicate offences mentioned in Legislative Decree 231/2001 and case law developments on this matter, and notably:
 - the new formulation of the corruption offences between individuals (article 2635 of the Italian Civil Code);

“caporalato” (unauthorised gangmaster system) offence, introduced in art. 25 – sexies of Legislative Decree 231/2001;

- the offence of “racism and xenophobia”, introduced by the new article 25 - terdecies of Italian Legislative Decree 231/2001;
- the organisational developments that affected Snam.

Snam developed a specific training programme for all Snam’s staff. This training activity is an important tool to make the Management and the other members of the company aware of the issues concerning corporate ethics, crime prevention pursuant to Legislative Decree 231, and the fight against corruption; it also allowed for a widespread participation of all employees in Snam’s ethics and values system.

Model 231 is available on the Company’s website (www.snam.it/export/sites/snam/repository/file/Governance/modello231/modello_231_Snam.pdf).

Finally, some time ago, as part of its whistleblowing management process⁵⁵, Snam prepared specific communication channels to which not only Snam, but also its subsidiaries, refer.

In order to guarantee levels of excellence and independence, Snam has entrusted the management of the aforementioned communication channels to an external subject (Ombudsman), which ensures the receipt and analysis of each report applying criteria of maximum confidentiality suitable, among other things, for the protection of the integrity of the persons reported and the effectiveness of the investigations.

Detailed information on the topics discussed in this section can be found in the “Report on Corporate Governance and Ownership Structure 2018”, available on the Company’s website at www.snam.it/en/governance-conduct/reports-and-documentation/.

As regards the ERM Model in particular and the synthetic representation of the main risks Snam generates or is subjected to⁵⁶ in relation to its activities and related mitigation actions carried out, please refer to the paragraph on “Management of risks and the control system - The Enterprise Risk Management (ERM) process” of the Integrated Report on operations.

The risks generated or suffered are also described in detail in the chapter entitled Risk factors and uncertainty, in the Integrated Report on operations.

⁵⁴ The prerogatives due to the Officer Responsible are in any case preserved, by virtue of Art. 154-bis of the TUF, with reference, amongst others, to the preparation of suitable administrative and accounting procedures for the preparation of the financial statements for the year and of the consolidated financial statements as well as all other financial communications.

⁵⁵ The Guideline may be consulted on the company website at www.snam.it/en/governance-conduct/business-conduct/whistleblowing/index.html/.

⁵⁶ See Article 3, paragraph 1, lett. C of the Decree no. 254 of 30 December 2016.

ENVIRONMENTAL, HEALTH AND SAFETY ASPECTS

Relevance and related risks

The material topics that Snam considers linked to the aspects related to health, safety and the environment are as follows:

- **Health and safety:** the safety of its people is essential to Snam's day-to-day activities, as it actively monitors the current and potential risks so as to mitigate and prevent accidents in the workplace and the impacts on people's health.
- **Climate change:** as a company operating in the energy sector, Snam is aware of its role in the fight against climate change. Indeed, Snam includes challenging targets in its strategy for the reduction of emissions and energy efficiency drives, which guarantee an ever smaller environmental impact. Snam promotes the sustainable conduct of business through the use and production of energy from renewable sources (e.g. installation of photovoltaic equipment plants, biomethane).
- **Protection of the territory and biodiversity:** Through efficient, responsible environmental management, in particular when developing infrastructures, Snam is committed to preserving biodiversity in the territory in which it operates. Snam safeguards the landscape and territories in which Group plants or sites are present through surveys and monitoring aimed at minimising impacts on biodiversity and the most important habitats and minimises its environmental impacts by integrating policies to protect the soil, subsoil and ground water in its operations.
- **Green business:** Snam integrates new green businesses into its operations, such as biogas, power-to-gas technologies and attention to sustainable mobility aimed at encouraging decarbonisation and a better use of energy, as described in the new 2019-2022 Strategic Plan. For more information, see the paragraph "Snam in short" and "The 2019-2022 Strategic Plan" of the Integrated Report on operations.

The protection of the air and management of waste and water as a resource are topics that were not found to be material following the materiality analysis but which are in any case monitored by Snam. As far as air protection is concerned, the only significant emissions are those of nitrogen oxides that derive mainly from the combustion of natural gas in the gas turbines installed in the compression plants (thrust and storage). To reduce emissions, a programme has been underway for years to modify some of the existing turbines and to install new units with low-emission combustion systems (DLE). As regards

water management, this is not a material topic because water resources are used in limited quantities, mainly in the operations of the LNG Italia regasification plant and for sanitary and green care use. By the same token, waste management is also not a material topic considering the limited quantity of waste produced by the Company's operations.

The main operational risk with an impact on health, safety and the environment is represented by breakages or injuries to pipelines and plants, also as a result of extraordinary events such as fires, landslides or extreme weather phenomena due to climate change. These events could cause significant damage in addition to a reduction in revenues.

The complete list of risks to the environment, health and safety is as follows:

- Climate change risk within strategic risks;
- Possible violation of rules and regulations risk in relation to the health and safety of workers and the environment within the legal and non-compliance risks;
- Breakage or damage to the pipeline risk with damage to the environment/people within operational risks;
- Environmental risks within operational risks.

These risks are described in detail in the chapter entitled Risk factors and uncertainty, in the Integrated Report on operations.

Policies, commitments and management model

In relation to these issues, through the HSEQ Policy and the Sustainable Development Policy, Snam undertakes to:

- Guarantee respect for the protection of worker health and safety through the prevention of accidents, injuries, occupational diseases; Promote actions that combat climate change, implementing operational and management interventions to reduce the emission of greenhouse gases;
- Promote energy efficiency and ensure the sustainable use of natural resources;
- Prevent pollution and ensure the protection of ecosystems and biodiversity;
- Set up procedures to identify and respond to emergency situations and monitor the consequences of accidents.

The management of the aspects mentioned in the policies and the consequent actions for their implementation are mainly implemented within the management systems developed in compliance with the international standards ISO 14001 and OHSAS 18001, regularly verified and certified systems by a third party, of which all the companies of the Group are equipped. These actions are detailed in the Report on Integrated Management:

- for the development and maintenance aspects of the management systems, in the paragraph “Mitigation of environmental impacts, health and safety - Management systems”, you can find the certifications of the Company and its subsidiaries and details on audits conducted and the team of auditors employed;
- for aspects of health protection and accident prevention, in the paragraph “Mitigation of environmental impacts, health and safety - Accident prevention and the protection of health”, you can find the company involvement initiatives for the prevention of accidents and the company's health and health surveillance of employees;
- for aspects of greenhouse gas emissions, energy efficiency, production and use of energy from renewable sources, the paragraphs “Summary data and information - Operating performance” and “Mitigation of environmental impacts, health and safety - Climate change and energy efficiency”, details are given on the direct emissions from the Company, its initiatives to limit emissions and energy consumption and the type and power and energy produced by renewable energy plants owned by Snam;
- for actions on the mitigation of environmental impacts and the protection of biodiversity, in the paragraph on “Mitigation of environmental impacts, health and safety - Monitoring and environmental reclamation in the development of the gas pipeline network”, details are given on environmental reclamation works connected with the installation of new infrastructures.

The preventive assessments of the effects on the environment and on the safety of new settlements are carried out in the context of the Environmental Impact Assessment (EIA) procedures, at the end of which the administrations responsible, both at central and local level, issue the authorisations required by current legislation. Progress made on permitting activities is described in the paragraph “Natural gas transmission - Progress of work to obtain permits” of the Integrated Report on operations.

Snam particularly oversees the maintenance of plant safety and quality levels and carries out a regular inspection of the lines on foot, with vehicles and helicopter overflights to detect any situations at risk, and the pipe conditions with smart devices which pass through them and allow for the detection of the presence of possible damages. These actions are detailed in the paragraph on “Summary data and information - Maintenance of plant safety and quality levels” of the Integrated Report on operations.

Environmental and safety requirements in the workplace are considered in the qualification and selection of suppliers.

The highly critical suppliers operating in the procurement of works, the most significant category for core activities, in particular for health and safety and environmental aspects, are all in possession of certified quality, environmental and safety management systems according to ISO 9001, ISO 14001 and OHSAS 18001 standards.

The aspects of health and safety and environmental management are also part of the evaluation phase of the services rendered.

The fight against climate change not only takes the form of actions to reduce emissions and energy efficiency projects, but it is also expressed on a strategic level through increasing the use of natural gas as a key factor in the decarbonisation process. The Company is committed to integrating new green businesses into its operations, with particular reference to biomethane, sustainable mobility and the use of natural gas in the transport sector.

Performance Indicators

The following are representative indicators of the results of the environmental, health and safety management aspects, with indication of the GRI reference standard. 2018 results include, with respect to 2017, a reduction in the number of injuries involving employees and contract workers, none of which had a fatal outcome.

The increase in energy consumption is mainly due to greater natural gas consumptions brought about by the increase in the quantity of gas stored in deposits and the commissioning of new two compression plants (Minerbio and Sergnano), which have required an increase in fuel gas consumption to commission the plants. Emissions of scope 1 CO_{2eq} remain stable, also thanks to the reduction initiatives that impacted the part deriving from natural gas.

Indicator	GRI Standard	Unit Metering	2016	2017	2018
Employee accident frequency index		Accidents per 10 ⁶ hours worked	0.81	1.24	0.84
Contractor accident frequency index			0.71	0.54	0.41
Severity rate for employee accidents (a)		Days of work lost per 10 ³ hours worked	0.04	0.05	0.02
Contractor accident severity index (a)		Days of work lost per 10 ³ hours worked	0.05	0.83	0.03
Employee accidents (of which fatal)	403-2	no.	4 (0)	6 (0)	4 (0)
of which due to a traffic accident		no.	0	1	2
of which due to a professional accident (maintenance, inspection, checks)		no.	1	1	1
of which due to a general accident (slipping, bumping, tripping)		no.	3	4	1
Contractor accidents (of which fatal)		no.	5 (0)	5 (1)	3 (0)
Recognised cases of professional diseases		no.	0	0	0
Employee absenteeism (b)		%	4.7	4.7	4.6
Employee absenteeism (women)		%	-	-	4.8
Employee absenteeism (men)		%	-	-	4.6
CO _{2eq} emissions (Scope 1) (c)	305-1	10 ³ t CO _{2eq}	1,439	1,500	1,497
Energy consumption.			10,957.4	12,582.3	13,281.0
of which natural gas			10,541.7	12,153.2	12,801.4
of which diesel			84.4	77.9	91.0
of which gasoline	302-1	TJ	2.2	2.3	2.8
of which LPG			0.4	0.4	0.4
of which electricity purchased on the network (d)			311.7	335.3	372.8
of which thermal energy purchased			14.5	10.8	8.5
of which electricity from renewable sources			2.5	2.4	4.1
Transmission network within Natura 2000 sites (e)	304-1	km	8.7	12.6	1.4

(a) Number of working days lost (calendar days) due to accidents at work resulting in an absence of at least one day per thousand hours worked. Data is calculated including the contribution of fatal accidents, for each of which 7,500 days of absence were considered.

(b) For the purposes of calculating the employee absenteeism rate, all hours worked (paid and unpaid) were excluded, excluding holidays and recoveries. The absenteeism rate does not include Managers and periods of abstention from work for compulsory and optional maternity leave.

(c) CO_{2eq} emissions have been consolidated according to the operational control approach. The GHGs included in the calculation are CO₂ and CH₄ and the emissions are calculated with a GWP of methane equal to 28, as indicated in the scientific study by the Intergovernmental Panel on Climate Change (IPCC) "Fifth Assessment Report IPCC".

(d) The percentage of electricity produced from renewable sources and consumed by the Group depends on the individual national electricity mixes. For Italy, there is also a self-consumption of electricity from renewable sources, as better specified in the lines below.

(e) Natura 2000 sites are special protection areas/sites of Community interest. The indicator gives the km of line laid in these sites in the year. For 2018, just one Natura 2000 site was affected by the laying of infrastructure: the Loppio Lake SCI for the work to reinforce a gas pipeline "Arco-Riva del Garda".

SOCIAL ASPECTS

Relevance and related risks

The material topics linked to social aspects, in relation to Snam's activity, are:

- **Economic performance and creation of value:** economic sustainability and business growth are key objectives and factors that enable the company's operations as a whole. Fostering the creation of shared medium/long-term value for all categories of stakeholders, through operative and financial efficiency and a commitment to the development of business that can generate value for all Group stakeholders are, in fact, essential aspects for Snam.
- **Reliability of infrastructures and business continuity:** Snam operates every day to ensure the reliability of the infrastructures and services so as to prevent and/or mitigate potential situations that may compromise continuity of business and public safety. For more information, see the paragraph "Summary data and information - Maintenance of plant safety and quality levels" of the Integrated Report on operations.
- **Brand reputation:** Snam protects and values its reputation with proactive, diversified communication, seeking dialogue with its reference public and aiming to expand it further. The company communicates through a multimedia strategy integrated between both traditional and digital channels - also involving its employees and partners as brand ambassadors - and through events and campaigns, to confirm Snam's central role in the country system and as player in the energy transition on a national and international level, with special attention paid to the territories and communities in which it operates. For more information, see the paragraph "Stakeholders and the relational capital - The value of brand identity" in the Integrated Report on operations.
- **Innovation:** faced with a more complex, challenging scenario, Snam has paid close attention to research into new technologies with a view to increasing the efficiency of its business conduct yet further and reducing its environmental impacts. For more information, see the paragraph "Innovation in business development" of the Integrated Report on operations.
- **Relations with the Authorities and quality of services:** Snam is committed to supplying a quality service that can meet the demands and expectations of its clients, assuring a secure, reliable service over time, in compliance with principles of competition and equal treatment and access to infrastructures; to this end, Snam performs customer satisfaction surveys to improve its services offered. Snam also promotes constructive relations with the regulatory authorities and institutions, so as to develop services that are satisfactory to clients and, at the same time, focussed on the market needs and demands. For more information, see the

chapter "Business segment operating performance" and the chapter "Other operating information and results - Market reputation" of the Integrated Report on operations.

- **Relations with the local communities:** Through the development and support of projects for local communities, Snam intends to positively impact the social fabric in all territories in which the company operates.

The analysis revealed that the topic of the supply chain is not material, but it is in any case monitored by Snam. Indeed, Snam adopted some time ago policies for the selection of its suppliers, collaborators and commercial partners based on fair, transparent processes that envisage the integration of sustainability criteria.

In connection with material topics relating to the social area, the most significant risks are linked to the possible breakage of conduct and increase in the severity of extreme weather phenomena, which may directly impact the continuity and quality of the service supplied.

Instead, with reference to the development of new infrastructures, the main operational risk is connected with possible delays in the progress made on construction activities. As regards Snam's reputational profile and relations between the Company and the regulatory authorities, the most significant risks are linked to the maintenance of a suitable reputational profile with regards to the main stakeholders and possible breaches of sector rules and regulations.

The complete list of social risks is as follows. These risks are described in full in the chapter "Elements of risk and uncertainty":

- Climate change risk within strategic risks;
- Risk linked to maintaining an adequate reputation profile for suppliers and subcontractors in legal and non-compliance risks;
- Possible violation of rules and regulations in legal and non-compliance risks;
- Risk of delays in the progress of infrastructure implementation programmes in operational risks;
- Risk of breakage or damage to the pipeline in operational risk;
- Cyber security risk in operational risk.

Policies, commitments and management model

Snam, in line with the guidelines of its Stakeholder Engagement Policy, maintains regular and frequent relations with local government bodies and with local stakeholder associations to share new plants projects.

The Snam business development model is based on sustainable growth and the promotion of social and economic development and continuous dialogue with all players in the communities and territories in which the company operates. In line with this commitment, in 2018, the Company published its Social Supply Chain Policy, which facilitates the involvement of social businesses in the supply chain and fosters the inclusion of such, also as subcontractors, through rewarding mechanisms in assessing the offers.

Through the Sustainable Development Policy and the Policy for the management of philanthropic activities and social initiatives, Snam also pledges to promote initiatives in the areas in which the Company operates to promote local development.

The initiatives on the territory integrate the comparison with the institutions and other stakeholders that takes place in the context of authorisation procedures and environmental impact assessment and, for some plants, also socio-economic. Relations with the territory are detailed in the paragraph on "Stakeholders and relational capital - Relations with the territory" of the Integrated Report on operations. These activities are also supported by the work of the Snam Foundation. The foundation pursues innovative "business citizenship" practices to foster civil, cultural and economic development in priority areas of public interest, promoting partnerships and making available project capacities and competences.

Further information on the Snam Foundation can be found on the Company's website at www.snam.it/en/Sustainability/responsibility_towards_everyone/foundation.html.

Over time Snam has built a network of relationships with local associations, Confindustria Energia and the authorities, with which it discusses issues of energy, economic and environmental policy. On a local and national level, the Company collaborates with regulatory entities and takes part in the work of associations and committees for which it makes its know-how and competences available in matters of social innovation and sustainable development. More information is available on relations between Snam and the associations on the Company's website, at www.snam.it/en/Sustainability/responsibility_towards_everyone/innovation_and_technology.html.

Performance Indicators

Below are the representative indicators of the results of the management of the social aspects. In 2018, a total of 35.5% of the gross global added value produced by Snam was **reinvested within the Group** (an increase on 2017: +1.7 percentage points), of which approximately 77% was allocated to the amortisation and depreciation of the infrastructures used in the production process (80% in 2017). As regards the main reference stakeholders, 2018 shows a greater incidence of Value Added distributed to **employees** (11.1%; +0.9 percentage points on 2017) through direct compensation comprised of wages, salaries and severance pay and indirect compensation comprised of social safety charges and costs for staff-related services (canteen services, travel cost reimbursement). The value allocated to the **Public Administration** through payment of direct and indirect tax records substantial stability (14.0%; no change on 2017). With reference to **lenders**, there was a reduction in the value distributed of 2.1 percentage points (9.8%; 11.9% in 2017) also against the benefits deriving from the optimisation actions implemented in 2016 and 2017, in particular the operations of liability management, despite the greater period average debt. The value distributed to **shareholders** through the distribution of dividends records a stable incidence (29.5%; 29.9% in 2017). In the presence of growth of a unitary dividend (+5% on 2017), as confirmation of the commitment to guarantee shareholders an attractive, sustainable remuneration, a reduction is recorded in the number of shares in issue against the buy-back of treasury shares performed by Snam as part of the share buy-back programme. Lastly, an amount of approximately 3 million euro was designated for **local communities** (0.1% of the value generated) through donations and sponsorship initiatives and environmental compensation pursuant to the law.

Indicator	GRI Standard	Unit Metering	2016	2017	2018
Added value produced (A)			2,518	2,447	2,532
Added value distributed (B)			1,913	1,621	1,634
Employees (*)			260	249	280
Local communities			3	5	3
Donations and sponsorships Statutory environmental compensation	201-1	€ millions	610	292	249
Lenders (Bondholders and Banks)			718	732	746
Shareholders (**)			323	343	356
Government			308	329	341
Direct taxes			15	14	15
Indirect taxes			605	826	898
Added value retained by the Company (A)-(B)					

(*) Includes staff-related service costs.

(**) The 2018 figure refers to the dividend proposed by the Board of Directors subject to the approval of the Shareholders' Meeting called for 02 April 2019.

ASPECTS CONCERNING THE MANAGEMENT OF PERSONNEL

Relevance and related risks

The relevant topics related to personnel management, in relation to Snam's activities, are as follows:

- **Developing and protecting human capital:** Snam is constantly committed to developing the competences and potential of its people, encouraging professional growth and attraction and retention policies for talent, promoting the transfer of know-how and experience. Strengthening the technical, managerial and organisational skills of employees, including through training and the activation of systematic listening systems for employees, is therefore essential. Snam is also firmly convinced of the importance of conciliating life and work in its personnel and this is why it has developed numerous welfare initiatives offering support to its employees.
- **Diversity and equal opportunities:** protecting its employees, optimising merits and diversities means, for Snam, actively promoting the creation of an inclusive, effective workplace.

The topic of employment is important to Snam but has not been revealed as material by the analysis performed, in view of the fact that the Company operates in countries that have a well-defined legislative system governing worker protection.

In relation to the relevant issues, the most significant risks, managed by the competent corporate departments, are limited to situations of potential conflict and the risk of litigation, normally present in the management of labour relations.

A more extensive description of the main risks generated or suffered by Snam in relation to the management of persons is shown in the chapter on Risk factors and uncertainty of the Integrated Report on operations, under Employees and staff in key roles (within the Operational risks).

Policies, commitments and management model

Snam guarantees all workers the right to express their thoughts freely, to join associations and to engage in trade union activities. Dialogue with the trade unions⁵⁷ is framed and regulated by the current Protocol for Industrial Relations, signed in 2013.

Through the Sustainable Development Policy, Snam pledges to:

- develop its own system of professional and managerial skills;
- attract and retain qualified resources;
- ensure the involvement of staff to participate actively in the improvement processes;
- adopt work practices based on equal opportunities.

⁵⁷ See Article 3, paragraph 1, lett. d of the Legislative Decree no. 254 of 30 December 2016. At the end of 2018, 27.1% of employees were members of a union.

With particular regard to the commitment to ensure gender diversity⁵⁸, this has been strengthened with the addition of Snam to Valore D, the association of companies that promotes diversity, talent and female leadership for the growth of companies and the country.

The actions and initiatives for the implementation of these policies are reported in detail in the Report on Integrated Management:

- for aspects of performance and quality of employment, the paragraphs “Summary data and information - Personnel trend” and “Development of human capital” give general data on employment trends in terms of staff income and expenses, geographical distribution and type of contract;
- for aspects of human capital development, the paragraph “Development of human capital” shows the corporate actions to increase the development of its employees, such as performance assessment systems and training initiatives;
- for industrial relations, the paragraph “Summary data and information - Industrial relations” gives details on the meetings with the representatives of the trade unions and the content of the issues discussed;
- for aspects of gender diversity, the paragraph “Development of human capital” shows the Company's actions to promote equal opportunities and some data concerning female employment.

The information on diversity applied in relation to the composition of the administrative, management and control bodies pursuant to Article 10 of the Decree, can be found in the “Description of Snam's diversity policy” of the 2018 Corporate governance and ownership structure report.

Performance Indicators

The following are representative indicators of the results of the management of social and personnel-related aspects, with indication of the reference GRI standard. Please note that, as a change in 2018 and 2017 values, there has been a significant increase in the hours of training delivered to employees and a greater number of total exits (189 of whom 99 for Isopensione), in any case balanced out by a higher rate of new employees. The Company's managerial team, comprising executives and managers, numbers 587 people, of whom 18% are women (a rise of 2 percentage points on 2017 and 4 percentage points on 2016).

58 See Article 3, paragraph 1, lett. d of the Decree no. 254 of 30 December 2016.

Indicator	GRI Standard	Unit Metering	2016		2017		2018	
Total number of employees	102-8	no.	2,883		2,919		3,016	
Employees by type of contract								
Permanent contract (of whom women)	102-8	no.	2,676	(348)	2,755	(369)	2,812	(395)
Apprenticeship or internship contract (of whom women)			206	(21)	150	(15)	185	(20)
Fixed-term contract (of whom women)			1	(0)	14	(9)	19	(4)
Employees by type of position								
Full-time (of whom women)	102-8	no.	2,838	(331)	2,877	(357)	2,975	(382)
Part-time (of whom women)			45	(38)	42	(36)	41	(37)
Employees by geographical area								
Employees north	102-8	no.	2,169		2,204		2,302	
Employees centre			204		202		220	
Employees south and Sicily			506		509		490	
Employees abroad			4		4		4	
Entries and departures								
Total entries from market (of whom women)	401-1	no.	141	(35)	148	(53)	195	(42)
Entries from market <30 years		no.	84		57		110	
Entries from market between 30 and 49 years		no.	49		88		78	
Entries from market > 50 years		no.	8		3		7	
Total New hires rate		%	4.9		5.1		6.5	
New hires rate (*) < 30 years		%	20.5		13.3		22.8	
New hires rate (*) between 30 and 49 years		%	4.9		8.4		6.9	
New hires rate (*) > 50 years		%	0.5		0.2		0.5	
Departures (of whom women)		no.	53	(2)	69	(12)	189	(24)
Departures < 30 years		no.	3		10		8	
Departures 30 to 49 years		no.	9		21		30	
Departures > 50 years		no.	41		38		151	
Turnover rate (**)	%	1.8		2.4		6.3		
Voluntary leaving rate (***)	%	0.5		1.0		1.2		
Training								
Total hours of training	404-1	no.	82,184		85,346		107,771	
Average hours of training for men			30.2		31.3		36.9	
Average hours of training for women			17		15.8		28.7	
Average hours of manager training			33.8		20.5		41	
Average hours of training for directors			23.8		18.9		39.7	
Average hours of training for white collars			18.8		23.8		29.5	
Average hours of training for blue collars			52.7		49.7		46.4	

Governance body diversity	GRI Standard	Unit Metering	2016		2017		2018	
BoD members			9		9		9	
Of whom women		no.	4		4		4	
Of whom women		%	44.44		44.44		44.44	
BoD members < 30 years			0		0		0	
BoD members between 30 and 49 years		no.	3		2		2	
BoD members > 50 years			6		7		7	
BoD members < 30 years			0		0		0	
BoD members between 30 and 49 years		%	22.22		22.22		22.22	
BoD members > 50 years			77.78		77.78		77.78	
Employee diversity								
Managers (of whom women)	405-1		87	(11)	93	(14)	107	(18)
Executives (of whom women)		no.	421	(62)	456	(75)	480	(90)
Office workers (of whom women)			1,651	(296)	1,655	(304)	1,682	(311)
Labourers (of whom women)			724	(0)	715	(0)	747	(0)
Female managers			13%		15%		16.8%	
Female executives			15%		16%		18.8%	
Female office workers		%	18%		18%		18.5%	
Female labourers			0%		0%		0%	
Employees < 30 years			14%		15%		16%	
Employees between 30 and 49 years		%	35%		36%		38%	
Employees > 50 years			51%		50%		46%	

(*) New hires rate by age group shows the ratio of employees hired in the age group/total number of employees in the relative age group as at 31/12. The total recruitment rate has been calculated as (total hired from the market/average workforce).

(**) The turnover rate is calculated considering the employees leaving the organization (excluding those due to transfers to unconsolidated companies)/total number of employees as at 31/12.

(***) The voluntary leaving rate is calculated as redundancies/average workforce.

PROTECTING HUMAN RIGHTS

Relevance and related risks

The protection of human rights is a matter that, due to the type and geographic area of Snam's business, is associated with a limited risk profile of possible violation and was therefore not found to be relevant according to the latest update of the materiality analysis.

In any case, Snam recognises that the main human rights connected to its activities are those of the personal sphere, of work and of the protection of the environment, in all the contexts in which it is present, for this reason, the theme is linked to other relevant aspects discussed in this Declaration. Moreover, in connection with the performance indicators, Snam considers the matter of the protection of human rights particularly connected with aspects of diversity and equal opportunities and therefore set out as **non-discrimination**.

Policies, commitments and management model

Snam's Code of Ethics establishes Snam's commitment to the protection and promotion of human rights, inalienable and unavoidable prerogatives of human beings and the basis for building societies founded on the principles of equality, solidarity, repudiation of war and the protection of civil and political rights, social, economic and cultural rights and so-called third generation rights (right of self-determination, peace, development and protection of the environment).

In this respect Snam operates within the reference framework of the United Nations Universal Declaration of Human Rights, the Fundamental Conventions of the ILO – International Labour Organisation – and the OECD Guidelines on Multinational Enterprises.

In relation to these aspects, Snam has also adopted a Human Rights Policy, through which it undertakes to prevent and repudiate:

- all sorts of discrimination and violence, forced or child labour;
- any form of sexual harassment or that referring to the personal and cultural diversity of individuals;
- harassment or attitudes in any way attributable to bullying.

The Human Rights Policy also reiterates the commitment, already stated in the specific policies mentioned in the previous chapters, aimed at promoting personal well-being, both as an individual and as part of social training, based on the following principles and management guidelines:

- safeguarding the dignity, freedom and equality of human beings;
- protecting jobs, working conditions and trade-union freedoms;
- the confidentiality of personal data;

- protection of health and safety;
- guaranteeing professional growth and pay based strictly on merit and skill;
- protection of the system of values and principles in matters of transparency and sustainable development.

As a consequence, the management of human rights in the mentioned aspects is integrated with the related management models.

Performance Indicators

The following are representative indicators of management results regarding the protection of persons from discriminatory practices, with indication of the GRI reference standard. As regards the standard GRI 405-1, reference is made to the information given in the section "Aspects concerning the management of personnel" of this Statement.

Indicator	GRI Standard	Unit Metering	2016	2017	2018
Reports received for accidents related to discriminatory practices	406-1	no.	0	0	0
Reports examined			/	/	/
Reports with corrective actions during implementation			/	/	/
Corrective actions implemented			/	/	/
Archived reports			/	/	/

ANTICORRUPTION AND BRIBERY

Relevance and related risks

Snam considers **business integrity** as essential to its social and economic relations and acknowledges corruption as a major threat to their development. The Company therefore considers these topics as material and promotes business conduct in compliance with legislation and the **fight against corruption** on a national and international level, both in relations with public officials and private parties.

The risk of corruption is present in various areas of business activity, also involving the relationships inherent in the supply chain. The occurrence of illicit actions in these areas could imply sanctions and possible repercussions on the performance of Snam activity, as well as serious damage to reputation.

The complete list of risks in the prevention of active and passive corruption is as follows:

- risk of possible violation of rules and regulations in relation to corruption in legal and non-compliance risks;
- risk of maintaining an adequate reputation profile for suppliers and subcontractors in legal and non-compliance risks.

The more extensive description of the risk of fraud and corruption and, more generally, of the legal and non-compliance risks is reported in the chapter on Elements of risk and uncertainty in the Integrated Report on operations.

Policies, commitments and management model

Anticorruption Compliance Programme

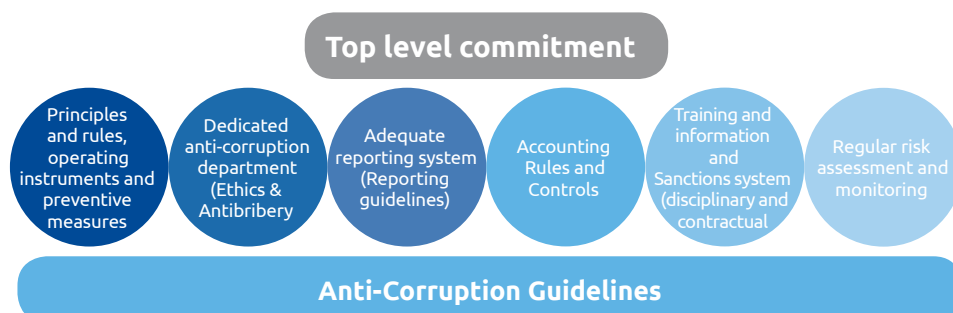
In establishing and maintaining an Anticorruption Compliance Programme, Snam has not limited itself to the adoption of Model 231 (focused on preventing the predicate offences for the criminal administrative liability of the company, including corruption offences) but, in keeping with the provisions of international best practice and guidance, it also implemented the following tools⁵⁹:

- "Top level commitment", that is the senior management's commitment to the fight against corruption;
- adoption of specific anticorruption policies;
- establishment of an Anticorruption Legal Function (Ethics & Antibribery);
- anticorruption due diligence concerning the contractual/business counterparties;
- monitoring by an external and independent adviser to verify the actual knowledge and implementation of the above-mentioned procedures;
- awareness of staff through training and information activities;
- disciplinary measures in the event of breach of the anticorruption rules;
- a periodic risk assessment.

The partnership - through a Memorandum of Understanding - formalised the principles of cooperation of Transparency International with Snam in the management of the anticorruption programmes and of the policy of fight against fraud and irregularities, conflicts of interest and whistleblowing, among the other measures aimed at strengthening the highest anticorruption standards acknowledged by Transparency International.

In 2017, Snam participated in initiatives promoted by the OECD and the Ministry of Foreign Affairs, taking part in the Global Forum on Responsible Business Conduct of the OECD held in Paris on 30 June: it was the first private company in the world to be part of the panel devoted to the discussion of the approaches to due diligence in the context of the fight against corruption and the protection of human rights. Since 2017, Snam has also been a member of the Business and Industry Advisory Committee (BIAC) - the first Italian private company to do so.

In 2018, Snam took part in a series of events, including the 27th Session of the United Nations Commission on Crime Prevention and Criminal Justice organised at the United Nations in Vienna, by the Ministry of Foreign Affairs and International Cooperation (MAECI) in conjunction with Transparency International, the Business Integrity Forum Roadshow 2018, organised by Transparency International



The cooperation with Transparency International and other initiatives

In October 2016, Snam and Transparency International executed an agreement to develop a partnership in the context of the Global Corporate Supporters Forum promoted by the ONG. By virtue of this agreement Snam was the first Italian business to become an international partner of the Forum, which was established to group the undertakings standing out for their integrity in the management of the business, in compliance with the standards of good governance, transparency and responsibility promoted by Transparency International in the context of the global commitment to fight corruption and in favour of an ethical corporate behaviour.

Italy in June and the Working Party on State Ownership and Privatisation Practices organised by the OECD in Paris in November.

In October 2018, at the Transparency International 18th International Anti-Corruption Conference, Snam renewed its partnership with Transparency International for another two years, confirming its zero tolerance policy with regard to corruption and its commitment to uphold the globally recognised best practices in transparency and business ethics.

Lastly, in December Snam took part to the Italian Business Integrity Day (IBID) held at the Italian Embassy in Washington, where the Company intervened in a round table regarding preventive approaches, management of the counterparty risk and new business strategies, aimed at making efficient the internal anticorruption control system.

⁵⁹ In this regard, the Code of Ethics provides, inter alia, that Snam rejects any kind of corruption (in all its forms with reference to any public or private entity) and that practices of corruption, illegitimate favours, collusive behaviour, solicitations, direct and/or through third parties, personal and career advantages for themselves or others, are without exception prohibited.

Highlights of the Anticorruption Procedure

- Prohibition of corruption without exception vis-à-vis any public or private person
- Specific rules and controls concerning the activities identified as being potentially at risk and the activities concerning the actual implementation of anticorruption compliance
- Clear distinction between permitted and prohibited behaviours
- Special attention to the relations with Public Officials and with suppliers and subcontractors and, generally, with business partners
- Establishment of the Ethics & Antibribery dedicated function
- Monitoring activity involving management and training launched in 2016 for 1,442 participants, continued in 2017 and, lastly in 2018, delivered to 112 new hired.
- Preparation of the "Mini Guide to Anti-Corruption" distributed to all Snam People by way of easily-consulted support that aims to reinforce the anti-corruption culture
- Example of "absolute excellence" by Transparency International Italia following its "Assessment on Transparency in Reporting on Anti-Corruption", also confirmed by the presentation of the new "Italian Business Integrity of Transparency"
- 2,074 reputational checks carried out in respect of counterparties (suppliers and subcontractors) in 2018

The Anti-Corruption Guideline is an integral part of a broader system of ethical control of the business aimed at ensuring that Snam complies with both national and international Anti-corruption Laws and the best international standards in the fight against corruption, also in order to protect Snam's reputation. Among other things, the Anti-Corruption Guideline focuses on the selection of suppliers and business partners, on the management of the relations with them and on the relevant contractual protection clauses.

The Anticorruption Guideline applies to Snam and its Subsidiaries and is also notified to the other subsidiaries so as to promote behaviours and information flows consistent with the ones expressed by Snam. Furthermore, Snam uses its influence, to the extent reasonable according to the circumstances, so that the companies and the entities in which Snam owns a non-controlling shareholding and business partners meet the standards specified in the Anticorruption Policy.

The Anticorruption Guideline may be viewed on the Company's Website (www.snam.it/export/sites/snam/repository/file/Governance/lineaguida/anticorruzione/snam_anticorruzione_01.pdf).

Performance Indicators

Below are the representative indicators of the results of the management of the aspects related to the prevention of corruption, with indication of the reference GRI standard. In 2018, the training cycle launched in 2016 continued with the aim of reducing the concept of business ethics, legality and anti-corruption in the daily operating reality, enabling the participants to recognise potential Red Flags and manage them. The training on these issues has in fact a cyclical trend that follows the evolution of the regulations applicable to the Company and the related update of the internal regulatory system.

Indicator	GRI Standard	Unit Metering	2016	2017	2018
Cases of proven corruption			0	0	0
Reports received on corruption and under examination	205-3	no.	0	0	0
Reports received on corruption and archived because unfounded			1	1	0
Hours of training on anti-corruption, code of ethics and model 231	205-2	no.	2,641	327	321
Participations in training on anti-corruption, code of ethics and model 231 (*)		no.	1,596	112	123

(*) Instead of the participants, the number of participations is reported as data aligned with the attendance recording system as far as training is concerned.

GRI STANDARD CORRELATION TABLE

Application of the GRI standards

The content of the report refers to Snam's material topics and the related material GRI topics. The General Disclosures (standard 102) were covered, as required for the application of the GRI standards according to the core option. The Topic Specific Standards of the 200 (Economic), 300 (Environmental) and 400 (Social) were selected in relation to the themes listed in the materiality matrix published in the section "Relevant material topics in connection with the

business carried out" of this Statement.

As regards standard 103 (Management approach), we proceeded as follows:

- For item 103-1 (defining the internal and external scope for each material topic), the following table was compiled;
- for items 103-2 (approach to management), and 103-3 (evaluation of approach to management) the disclosure was made for sub-groups of material GRI topics and for each of Snam's material topics which could not be related to a specific standard topic.

Key:

T = Transmission; S= Storage; R= Regasification; C= Corporate; M = Sustainable mobility; B = Biomethane; E = Energy efficiency; One Company= T, S, R, C

Material issues	GRI aspects	Scope of aspect		Limits in reporting	
		Internal	External	Internal	External
Climate change	GRI 305 Emissions	T, S, R	Suppliers	-	Emissions related to energy consumption of suppliers
	GRI 302 Energy	T, S	Suppliers	-	Energy consumption of suppliers
Health and safety	GRI 403 Occupational Health & Safety	One Company	Suppliers		
Protecting the local area and biodiversity	GRI 304 Biodiversity	T	Suppliers		
Green business	-	One Company			
Economic performance	GRI 201 Economic Performance	One Company			
Reliability of infrastructures and business continuity	-	One Company			
Brand reputation	-	One Company			
Innovation	-	One Company			
Relations with the authorities and quality of services	-	One Company			
Relations with the local communities	GRI 413 Local communities	One Company			
	GRI 203 Indirect economic impact	One Company			
Anti-Corruption	GRI 205 Anti-corruption	One Company	Suppliers		
Business integrity	GRI 205 Anti-corruption	One Company	Suppliers		
	GRI 419 Socio-economic compliance	One Company			
Developing and protecting human capital	GRI 401 Employment	One Company			
	GRI 404 Training and Education	One Company			
Diversity and equal opportunities	GRI 405 Diversity and Equal opportunities	One Company			
	GRI 406 Non discrimination	One Company			

GRI Standard correlation table

The reporting standard adopted by the Snam Group for the preparation of its NFS is the GRI Sustainability Reporting Standards, published in 2016 by the GRI - Global Reporting

Initiative. In particular, according to the provision of the GRI Standard 101: Foundation, paragraph 3, this document makes reference to the Reporting Standards listed in the following table.

RF = Integrated Financial Report - NFS = Non-Financial Statement

GRI Standard	Disclosure	Description	Reference document and page number	Omissions/Notes
GRI 102 – General disclosure 2016				
Organisational profile	102-1	Name of the organisation	Snam S.p.A.	
	102-2	Activities brands, products and services	RF "Summary"	
	102-3	Location of headquarters	Snam S.p.A.	
	102-4	Location of operations	RF "Snam presence in Italy and in international infrastructure system"	
	102-5	Ownership structure	RF "Governance and organisation" (in "Business model and sustainable development")	
	102-6	Markets served	RF "Summary" RF "Snam presence in Italy and in international infrastructure system"	
	102-7	Size of the organisation	NFS "Introduction and guide to reading the document" NFS "Profile and activities of Snam" NFS "Aspects concerning the management of personnel" RF "Allocation of the added value" in "Snam in 2018 - Summary data and information: Results")	
	102-8	Information on employees and other workers	NFS "Aspects concerning the management of personnel"	
	102-9	Supply Chain	RF "Supply chain management" (in "Snam in 2018 - Summary data and information: Operating performance")	
	102-10	Significant changes to the organisation and its supply chain	NFS "Introduction and guide to reading the document" RF "Supply chain management" (in "Snam in 2018 - Summary data and information: Operating performance") RF "Snam and the new brand identity"	
	102-11	Precautionary principle or approach	NFS "Internal Control and Risk Management System" NFS "Environmental aspects, health and safety" RF "Progress of work to obtain permits" (in "Business segment operating performance: Natural gas transportation")	
	102-12	External initiatives	Snam adheres to the Global Compact and the Task Force on Climate Related Financial Disclosure (TCFD)	
	102-13	Membership of associations	NFS "Social aspects"	
Strategy	102-14	Statement from senior decision-maker	RF "Letter to shareholders and stakeholders"	
Ethics and integrity	102-16	Values, principles, standards, and norms of behaviour	NFS "Management of the activities"	

GRI Standard	Disclosure	Description	Reference document and page number	Omissions/Notes
Governance	102-18	Governance structure	RF "Governance and organisation"	
	102-40	List of stakeholder groups	NFS "Stakeholder relations"	
Stakeholder engagement	102-41	Percentage of employees covered by collective bargaining agreements	100%. The CCNL (Energy and Oil contract, Metalworking Contract, Trade Agreement) is applied to non- executive personnel. The National Contract for Managers of Companies producing Goods and Services is applied to executives.	
	102-42	Identifying and selecting stakeholders	NFS "Stakeholder relations"	
	102-43	Approach to stakeholder engagement	NFS "Stakeholder relations" NFS "Material issues according to the activities carried out" RF "Stakeholders and relational capital" (in "Other operating information and results")	
	102-44	Key topics and main critical issues	NFS "Material issues according to the activities carried out"	
	102-45	Entities included in the consolidated financial statements and excluded from the NFS	There are no differences in the scope of consolidation.	
Reporting process	102-46	Definition of the contents of the NFS and limits relating to topics	NFS "Introduction and guide to reading the document" NFS "Material issues according to the activities carried out" NFS "Application of GRI Standards"	
	102-47	List of material topics	NFS "Material issues according to the activities carried out"	
	102-48	Restatements of information	There is no significant data or information that has been changed compared with the previous report	
	102-49	Changes in reporting	NFS "Introduction and guide to reading the document" NFS "Material issues according to the activities carried out"	Regarding the comparison between the materiality matrices of this and last year it hasn't been reported because last year the materiality matrix hasn't been used to draw the NFS since it was performed a relevance analysis
	102-50	Reporting period	NFS "Introduction and guide to reading the document"	
	102-51	Date of most recent report	Last document published: 2017 Consolidated Non-Financial Statement, included in the Report on operations - Integrated Report 2017	
	102-52	Reporting cycle	The NFS is published once a year	

GRI Standard	Disclosure	Description	Reference document and page number	Omissions/Notes
Reporting process	102-53	Contact point for questions regarding the report	Domenico Negrini (domenico.negrini@snam.it), Bruno Andreetto (bruno.andreetto@snam.it)	
	102-54	Statement of compliance with the GRI Standards	NFS "GRI standard correlation table"	
	102-55	GRI content index	NFS "GRI standard correlation table"	
	102-56	External assurance	NFS "Independent Auditors' Report"	
Economic topics (GRI 200)				
GRI 201 2016 economic performance	103-1	Approach to topic management	RF "Breakdown of added value" in "Snam in 2018 - Summary data and information: Results")	
	103-3		NFS "Social aspects"	
	201-1	Direct economic value generated and distributed	NFS "Social aspects" RF "Allocation of the added value" in "Snam in 2018 - Summary data and information: Results")	
GRI 203 Indirect economic impacts 2016	103-1 103-2 103-3	Approach to topic management	NFS "Social aspects"	
	203-2	Significant indirect economic impacts	RF "Supply chain management" (in "Snam in 2018 - Summary data and information: Operating performance") RF "Geographic distribution of procurement and procurement by product category" (in "Snam in 2018 - Summary data and information: Operating performance")	
	103-1 103-2 103-3	Approach to topic management	NFS "Anticorruption and bribery"	
GRI 205 Anti-corruption 2016	205-2	Communication and training about anti-corruption policies and procedures	NFS "Anticorruption and bribery" RF "Professional enhancement" (in "Other operating information and results: Development of human capital")	100% of employees and of members of the BoD have been informed about the policies and procedures adopted by Snam against corruption
	205-3	Confirmed incidents of corruption and actions taken	NFS "Anticorruption and bribery"	
Environmental topics (GRI 300)				
GRI 302 Energy 2016	103-1 103-2 103-3	Approach to topic management	NFS "Environmental, health and safety aspects"	
	302-1	Energy consumption within the organisation	NFS "Environmental, health and safety aspects" RF "Climate change and energy efficiency" (in "Other operating information and results")	

GRI Standard	Disclosure	Description	Reference document and page number	Omissions/Notes
GRI 304 Biodiversity 2016	103-1 103-2 103-3	Approach to topic management	NFS "Environmental, health and safety aspects"	
	304-1	Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	NFS "Environmental, health and safety aspects" RF "Environmental monitoring and restoration in the development of the gas pipeline network" (in "Other operating information and results")	
GRI 305 Emissions 2016	103-1 103-2 103-3	Approach to topic management	NFS "Environmental, health and safety aspects"	
	305-1	Direct (Scope 1) GHG emission	NFS "Environmental, health and safety aspects" RF "Climate change and energy efficiency" (in "Other operating information and results")	
Social topics (GRI 300)				
GRI 401 Employment 2016	103-1 103-2 103-3	Approach to topic management	NFS "Aspects concerning the management of personnel"	
	401-1	New employee hires and employee turnover	NFS "Aspects concerning the management of personnel" RF "Employment in times of change" (in "Other operating information and results": Development of human capital)	The subdivisions of the data by country are not reported as it is not applicable (almost all the employees are located in Italy).
GRI 403 Work health and safety 2016	103-1 103-2 103-3	Approach to topic management	NFS "Environmental, health and safety aspects"	
	403-2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	NFS "Environmental, health and safety aspects" RF "Prevention of accidents and protection of health" (in "Other operating information and results")	The accidents of the employees and contractors have all occurred in Italy (2 in the north, 2 in the center and 3 in the South). The injuries involved only male personnel.
GRI 404 Training and education 2016	103-1 103-2 103-3	Approach to topic management	NFS "Aspects concerning the management of personnel"	
	404-1	Average hours of training per year per employee	NFS "Aspects concerning the management of personnel" RF "Professional enhancement" (in "Other operating information and results": Development of human capital)	
GRI 405 Diversity and equal opportunities 2016	103-1 103-2 103-3	Approach to topic management	NFS "Aspects concerning the management of personnel" NFS "Protection of human rights"	
	405-1	Diversity of governance bodies and employees	NFS "Aspects concerning the management of personnel" NFS "Protection of human rights" RF "Diversity" (in "Other operating information and results")	

GRI Standard	Disclosure	Description	Reference document and page number	Omissions/Notes
GRI 406 Non-discrimination 2016	103-1 103-2 103-3	Approach to topic management	NFS "Protection of human rights"	
	406-1	Incidents of discrimination and corrective actions taken	NFS "Protection of human rights"	
GRI 413 Local communities 2016	103-1 103-2 103-3	Approach to topic management	NFS "Social aspects"	
	413-1	Operations with implemented local community engagement, impact assessments, and development programmes	RF "Progress of work to obtain permits" (in "Business segment operating performance: Natural gas transportation")	
GRI 419 Social-economic compliance 2016	103-1 103-2 103-3	Approach to topic management	NFS "Anticorruption and bribery"	
	419-1	Non-compliance with laws and regulations in the social and economic area	RF "Litigation and other provisions" (in "Notes to the consolidated financial statements") RF "Criminal disputes" (in "Notes to the consolidated financial statements") RF "Autorità di Regolazione per Energia Reti e Ambiente – ARERA" (in "Notes to the consolidated financial statements")	
Snam's Material topics not associated with the GRI material topics				
Green business	103-1 103-2 103-3	Approach to topic management	NFS "Environmental aspects, health and safety" RF "The 2019-2022 Strategic Plan" (in "Business model and sustainable development")	
	103-1 103-2 103-3	Approach to topic management	NFS "Social aspects" RF "Innovation for business development"	
Reliability of infrastructures and business continuity	103-1 103-2 103-3	Approach to topic management	NFS "Social aspects" RF "Innovation for business development"	
Brand reputation	103-1 103-2 103-3	Approach to topic management	NFS "Social aspects"	
Innovation	103-1 103-2 103-3	Approach to topic management	NFS "Social aspects" RF "Innovation for business development"	
Relations with the authorities and quality of services	103-1 103-2 103-3	Approach to topic management	NFS "Social aspects" RF "Regulations concerning the business segment" (in the paragraphs on "Natural gas transportation", "Regasification of Liquefied Natural gas (LNG)" and "Natural gas storage" included in the chapter "Other operating information and results")	

The Consolidated Non-Financial Statement was approved by Board of Directors of Snam S.p.A. as at February 18, 2019.

The Statement was audited by the independent auditors (PwC S.p.A.) in accordance with the principles and indications

of the International Standard on Assurance Engagement (ISAE 3000 Revised) issued by the International Auditing and Assurance Standards Board (IAASB). The results of the audits conducted are given in the Independent Auditors' Report attached below.

Independent auditors' report



Independent auditor's report on the consolidated non-financial statement

pursuant to article 3, paragraph 10, of Legislative Decree No. 254/2016 and article 5 of CONSOB Regulation No. 20267 of January 2018

To the Board of Directors of Snam SpA

Pursuant to article 3, paragraph 10, of Legislative Decree No. 254 of 30 December 2016 (the "Decree") and article 5 of CONSOB Regulation No. 20267/2018, we have performed a limited assurance engagement on the consolidated non-financial statement of Snam SpA and its subsidiaries (hereafter the "Group") for the year ended 31 December 2018 prepared in accordance with article 4 of the Decree and approved by the Board of Directors on 18 February 2019 (hereafter the "NFS").

Responsibility of Management and those charged with Governance for the NFS

Directors are responsible for the preparation of the NFS in accordance with article 3 and 4 of the Decree and with the "GRI-Sustainability Reporting Standards" defined in 2016, hereafter the "GRI Standards", identified as the reporting standards.

Directors are responsible, in the terms prescribed by law, for such internal control as management determines is necessary to enable the preparation of a NFS that is free from material misstatement, whether due to fraud or error.

Directors are responsible for identifying the content of the NFS, within the matters mentioned in article 3, paragraph 1, of the Decree, considering the activities and characteristics of the Group and to the extent necessary to ensure an understanding of the Group's activities, its performance, its results and related impacts.

Directors are responsible for defining the business and organisational model of the Group and, with reference to the matters identified and reported in the NFS, for the policies adopted by the Group and for the identification and management of risks generated and/or faced by the Group.

The Board of Statutory Auditors is responsible for overseeing, in the terms prescribed by law, compliance with the Decree.

PricewaterhouseCoopers SpA

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Auditor's Independence and Quality Control

We are independent in accordance with the principles of ethics and independence set out in the *Code of Ethics for Professional Accountants* published by the *International Ethics Standards Board for Accountants*, which are based on the fundamental principles of integrity, objectivity, competence and professional diligence, confidentiality and professional behaviour. Our audit firm adopts *International Standard on Quality Control 1 (ISQC Italy 1)* and, accordingly, maintains an overall quality control system which includes processes and procedures for compliance with ethical and professional principles and with applicable laws and regulations.

Auditor's responsibilities

We are responsible for expressing a conclusion, on the basis of the work performed, regarding the compliance of the NFS with the Decree and with the GRI Standards. We conducted our engagement in accordance with "*International Standard on Assurance Engagements ISAE 3000 (Revised) – Assurance Engagements Other than Audits or Reviews of Historical Financial Information*" (hereafter "*ISAE 3000 Revised*"), issued by the *International Auditing and Assurance Standards Board (IAASB)* for limited assurance engagements. The standard requires that we plan and apply procedures in order to obtain limited assurance that the NFS is free of material misstatement. The procedures performed in a limited assurance engagement are less in scope than those performed in a reasonable assurance engagement in accordance with *ISAE 3000 Revised* ("*reasonable assurance engagement*") and, therefore, do not provide us with a sufficient level of assurance that we have become aware of all significant facts and circumstances that might be identified in a reasonable assurance engagement.

The procedures performed on the NFS were based on our professional judgement and consisted in interviews, primarily with company personnel responsible for the preparation of the information presented in the NFS, analysis of documents, recalculations and other procedures designed to obtain evidence considered useful.

In particular, we performed the following procedures:

1. analysis of the relevant matters reported in the NFS relating to the activities and characteristics of the Group, in order to assess the reasonableness of the selection process used, in accordance with article 3 of the Decree and the with the reporting standards adopted;
2. analysis and assessment of the criteria used to identify the consolidation area, in order to assess their compliance with the Decree;
3. comparison of the financial information reported in the NFS with those reported in the Group's Consolidated Financial Statements;
4. understanding of the following matters:
 - business and organisational model of the Group, with reference to the management of the matters specified by article 3 of the Decree;
 - policies adopted by the Group with reference to the matters specified in article 3 of the Decree, actual results and related key performance indicators;
 - main risks, generated and/or faced by the Group, with reference to the matters specified in article 3 of the Decree.

With reference to those matters, we compared the information obtained with the information presented in the NFS and carried out the procedures described under point 5 a) below;

5. understanding of the processes underlying the preparation, collection and management of the significant qualitative and quantitative information included in the NFS. In particular, we held meetings and interviews with the management of Snam SpA and with the personnel of GNL Italia SpA and Stogit SpA and we performed limited analysis of documentary evidence, to gather information about the processes and procedures for the collection, consolidation, processing and submission of the non-financial information to the function responsible for the preparation of the NFS.

Moreover, for material information, considering the activities and characteristics of the Group:

- at holding level
 - a) with reference to the qualitative information included in the NFS, and in particular to the business model, the policies adopted and the main risks, we carried out interviews and acquired supporting documentation to verify their consistency with available evidence;
 - b) with reference to quantitative information, we performed analytical procedures as well as limited tests, in order to assess, on a sample basis, the accuracy of consolidation of the information;
- for the regasification plant of Panigaglia (GNL Italia SpA) and storage plant of Cortemaggiore (Stogit SpA), which were selected on the basis of their activities, their contribution to the performance indicators at a consolidated level and their location, we carried out site visits during which we met local management and gathered supporting documentation regarding the correct application of the procedures and calculation methods used for the key performance indicators.

Conclusions

Based on the work performed, nothing has come to our attention that causes us to believe that the NFS of Snam Group as of 31 December 2018 has not been prepared, in all material respects, in compliance with articles 3 and 4 of the Decree and with the GRI Standards.

Other aspects

The NFS for the year ended 31 December 2017, which data are presented for comparative purposes, has been subject to limited assurance procedures from another auditor who, on 29 March 2018, expressed a conclusion without any remarks on that NFS.

Milan, 11 March 2019

PricewaterhouseCoopers SpA

Sign by
Giulio Grandi
(Revisore legale)

Sign by
Paolo Bersani
(Procuratore)

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

Consolidated Financial Statements



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Financial statements

STATEMENT OF FINANCIAL POSITION

		31.12.2017		31.12.2018	
(€ million)	Notes	Total	<i>of which with related parties</i>	Total	<i>of which with related parties</i>
ASSETS					
Current assets					
Cash and cash equivalents	(8)	719		1,872	
Trade and other receivables	(9)	1,658	475	1,347	420
Inventories	(10)	86		109	
Current income tax assets	(11)	16		10	
Other current tax assets	(11)	21		7	
Other current assets	(12)	56		27	
		2,556		3,372	
Non-current assets					
Property, plant and equipment	(13)	16,033		16,153	
Compulsory inventories	(10)	363		363	
Intangible assets	(14)	850		907	
Investments valued using the equity method	(15)	1,547		1,710	
Other investments	(16)	44		40	
Other receivables	(9)	373	373	1	
Other non-current assets	(12)	50	2	36	1
		19,260		19,210	
TOTAL ASSETS		21,816		22,582	

		31.12.2017		31.12.2018	
(€ million)	Notes	Total	<i>of which with related parties</i>	Total	<i>of which with related parties</i>
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities					
Short-term financial liabilities	(17)	1,373	15	1,976	
Short-term portion of long-term financial liabilities	(17)	1,070		1,657	
Trade and other payables	(18)	1,673	202	1,768	274
Current income tax liabilities	(11)			14	
Other current tax liabilities	(11)	11		9	
Other current liabilities	(19)	79	14	86	27
		4,206		5,510	
Non-current liabilities					
Long-term financial liabilities	(17)	10,176		9,787	
Provisions for risks and charges	(20)	677		665	
Provisions for employee benefits	(21)	58		64	
Deferred tax liabilities	(22)	165		134	
Other non-current liabilities	(19)	346		437	
		11,422		11,087	
TOTAL LIABILITIES		15,628		16,597	
SHAREHOLDERS' EQUITY					
(23)					
Snam shareholders' equity					
Share capital		2,736		2,736	
Reserves		3,167		3,212	
Net profit		897		960	
Negative reserve for treasury shares in the portfolio		(318)		(625)	
Interim dividend		(294)		(298)	
Total Snam shareholders' equity		6,188		5,985	
Minority interests					
TOTAL SHAREHOLDERS' EQUITY		6,188		5,985	
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		21,816		22,582	

INCOME STATEMENT

		2017		2018	
(€ million)	Notes	Total	<i>of which with related parties</i>	Total	<i>of which with related parties</i>
Revenue	(26)				
Core business revenue		2,493	1,627	2,555	1,600
Other revenue and income		40	19	31	1
		2,533		2,586	
Operating costs	(27)				
Purchases, services and other costs		(355)	(43)	(311)	(75)
Personnel cost		(171)	(6)	(201)	
		(526)		(512)	
Amortisation, depreciation and impairment losses	(28)	(659)		(690)	
Ebit		1,348		1,384	
Financial income (expenses)	(29)				
Financial expenses		(291)	(1)	(252)	
Financial income		9	6	12	8
Derivatives		(1)		(2)	
		(283)		(242)	
Income and expense from equity investments	(30)				
Equity method valuation effect		161		157	
Other income (expense) from equity investments				2	
		161		159	
Pre-tax profit		1,226		1,301	
Income tax	(31)	(329)		(341)	
Net profit (*)		897		960	
Earnings per share (€ per share) (*)	(32)				
- basic		0.262		0.286	
- diluted		0.258		0.280	

(*) Entirely held by Snam shareholders.

STATEMENT OF COMPREHENSIVE INCOME

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

(*) Entirely held by Snam shareholders.

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Attributable to Snam's shareholders															
(€ million)		Share capital	Negative reserve for treasury shares in the portfolio	Share premium reserve	Legal reserve	Reserve for fair value of cash flow hedging derivatives net of tax effect	Reserve for defined-benefit plans for employees net of tax effect	Consolidation reserve	Other reserves	Retained earnings	Profit for the year	Interim dividend	Total	Minority interests	Total shareholders' equity
Balance at 31 December 2016 (A)	(Note 23)	2,736	(108)	1,140	547	(2)	(7)	(674)	35	1,969	861		6,497		6,497
Profit for 2017											897		897		897
Other components of comprehensive income															
Components that can be reclassified to the income statement:															
Share of "other components of comprehensive income" of investments accounted for using the equity method									(3)				(3)		(3)
Change in fair value of cash flow hedge derivatives						(6)							(6)		(6)
						(6)			(3)				(9)		(9)
Components that cannot be reclassified to the income statement:															
Actuarial gains (losses) on remeasurement of defined-benefit plans for employees							(1)						(1)		(1)
Share of remeasurements of defined benefit plans for employees of investments accounted for using the equity method pertaining to "other components of comprehensive income"									1				1		1
							(1)		1						
Total comprehensive income for 2017 (B)						(6)	(1)		(2)		897		888		888

Attributable to Snam's shareholders																
(€ million)		Share capital	Negative reserve for treasury shares in the portfolio	Share premium reserve	Legal reserve	Reserve for fair value of cash flow hedging derivatives net of tax effect	Reserve for defined-benefit plans for employees net of tax effect	Consolidation reserve	Other reserves	Retained earnings	Profit for the year	Interim dividend	Total	Minority interests	Total shareholders' equity	
Transactions with shareholders:																
Allocation of dividend for 2016 (€ 0.21 per share)											(718)		(718)		(718)	
Allocation of 2016 residual net profit										143	(143)					
Allocation of dividend for 2017 (€ 0.0862 per share)												(294)	(294)		(294)	
2017-2019 Share-based Incentive Plan									1				1		1	
Acquisition of treasury shares			(210)										(210)		(210)	
Total transactions with shareholders (C)			(210)							1	143	(861)	(294)	(1,221)		(1,221)
Other changes in shareholders' equity:																
Equity component of the convertible bond									17				17		17	
Other changes									7				7		7	
Total other changes in shareholders' equity (D)									24				24		24	
Balance at 31 December 2017 (E = A + B + C + D)		(Note 23)	2,736	(318)	1,140	547	(8)	(8)	(674)	58	2,112	897	(294)	6,188	6,188	

		Equity pertaining to Snam shareholders														
(€ million)		Share capital	Negative reserve for treasury shares in the portfolio	Share premium reserve	Legal reserve	Reserve for fair value of cash flow hedging derivatives net of tax effect	Reserve for defined-benefit plans for employees net of tax effect	Reserve for fair value of minority equity investments (FVTOCI)	Consolidation reserve	Other reserves	Retained earnings	Profit for the year	Interim dividend	Total	Minority interests	Total shareholders' equity
Balance at 31 December 2017	(Note 23)	2,736	(318)	1,140	547	(8)	(8)		(674)	58	2,112	897	(294)	6,188		6,188
Effects of the first time adoption of the provisions of IFRS 9											8			8		8
Balance at 1 January 2018 (A)		2,736	(318)	1,140	547	(8)	(8)		(674)	58	2,120	897	(294)	6,196		6,196
Net profit for 2018												960		960		960
Other components of comprehensive income																
Components that can be reclassified to the income statement:																
Share of "other components of comprehensive income" of investments accounted for using the equity method										(1)				(1)		(1)
Change in fair value of cash flow hedge derivatives						(20)								(20)		(20)
						(20)				(1)				(21)		(21)
Components that cannot be reclassified to the income statement:																
Change in fair value of equity investments measured at fair value with effect on OCI								1						1		1
								1						1		1
Total comprehensive income for 2018 (B)						(20)		1		(1)		960		940		940

		Equity pertaining to Snam shareholders														
(€ million)		Share capital	Negative reserve for treasury shares in the portfolio	Share premium reserve	Legal reserve	Reserve for fair value of cash flow hedging derivatives net of tax effect	Reserve for defined-benefit plans for employees net of tax effect	Reserve for fair value of minority equity investments (FVTOCI)	Consolidation reserve	Other reserves	Retained earnings	Profit for the year	Interim dividend	Total	Minority interests	Total shareholders' equity
Transactions with shareholders:																
Allocation of dividend for 2017 (€ 0.0862 per share)												(294)	294			
2017 dividend balance (*)												(437)		(437)		(437)
Allocation of 2017 residual net profit											166	(166)				
Allocation of dividend for 2018 (€ 0.0905 per share)													(298)	(298)		(298)
2017-2019 Share-based Incentive Plan										3				3		3
Acquisition of treasury shares			(426)											(426)		(426)
Total transactions with shareholders (C)			(426)							3	166	(897)	(4)	(1,158)		(1,158)
Other changes in shareholders' equity:																
Other changes			119	(119)						7				7		7
Total other changes in shareholders' equity (D)			119	(119)						7				7		7
Balance at 31 December 2018 (E = A + B + C + D)		(Note 23)	2,736	(625)	1,021	547	(28)	(8)	1	(674)	67	2,286	960	(298)	5,985	5,985

(*) The dividend (interim and final) totals euro 0,2155 per share.

CASH FLOW STATEMENT

(€ million)	Notes	2017	2018
Net profit		897	960
Adjustments for reconciling net profit with cash flows from operating activities:			
Total amortisation and depreciation	(27)	646	682
Impairment losses on tangible and intangible fixed assets	(27)	13	8
Equity method valuation effect	(14)	(161)	(157)
Net capital losses (capital gains) on asset sales, cancellations and eliminations		4	12
Dividends			(2)
Interest income		(9)	(12)
Interest expense		265	230
Income tax paid	(30)	329	341
Other changes			3
Changes in working capital:			
- Inventories		(42)	(33)
- Trade receivables		1	41
- Trade payables		(26)	76
- Provisions for risks and charges		16	9
- Other assets and liabilities		385	92
<i>Working capital cash flow</i>		<i>334</i>	<i>185</i>
Change in provisions for employee benefits		13	7
Dividends collected		149	151
Interest collected		2	4
Interest paid		(265)	(230)
Income taxes paid net of reimbursed tax credits		(353)	(356)
Net cash flow from operating activities		1,864	1,826
<i>- of which with related parties</i>	(33)	<i>1,641</i>	<i>1,683</i>
Investments:			
- Property, plant and equipment	(13)	(950)	(772)
- Intangible assets	(14)	(66)	(77)
- Change in scope of consolidation and business units		(166)	(32)
- Equity investments		(111)	(165)
- Long-term financial receivables		(154)	(148)
- Change in payables and receivables relating to investment activities		(33)	(13)
<i>Cash flow from investments</i>		<i>(1,480)</i>	<i>(1,207)</i>
Divestments:			
- Property, plant and equipment		3	2
- Long-term financial receivables			519
- Equity investments		36	21
<i>Cash flow from divestments</i>		<i>39</i>	<i>542</i>

(€ million)	Notes	2017	2018
Net cash flow from investment activities		(1,441)	(665)
<i>- of which with related parties</i>	(33)	(204)	(188)
Assumption of long-term financial debt		3,129	1,810
Repaying long-term financial debt		(1,465)	(1,608)
Increase (decrease) in short-term financial debt		(124)	597
Change in short-term financial receivables		(350)	350
		1,190	1,149
Acquisition of treasury shares		(210)	(426)
Dividends paid to Snam shareholders		(718)	(731)
Net cash flow from financing activities		262	(8)
<i>- of which with related parties</i>	(33)	(3)	(14)
Net cash flow for the period		685	1,153
Cash and cash equivalents at start of period	(8)	34	719
Cash and cash equivalents at end of period	(8)	719	1,872

(*) For the purposes of the Statement of Cash Flows only, the flow includes : (i) the change in inventories of pipelines and related ancillary materials used in plant construction activities, relating to the natural gas transmission sector (10 million euro and 11 million euro respectively for 2017 and 2018); (ii) private contributions recorded for investment activities involving the transportation segment so-called "rivalse" (reclamation works for third parties), 8 million euro and 22 euro million respectively for 2017 and 2018.

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 (Terèga), 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 2017². 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 control³. 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 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 application⁴:

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 relative 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 illustrate 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 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 segment⁵, 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 ITC, GNL Italia and Stogit, respectively.

5) FINANCIAL STATEMENTS⁶

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 items⁷;
- 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 issued 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 issued 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:

(€ million)	31.12.2017			31.12.2018		
	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 2012⁹ (€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.

Changes in the provision for impairment losses on receivables during the year are shown below:

(€ million)	Provision for impairment losses at 31.12.2017	Provisions	Uses for surplus	change in scope of consolidation	Provision for impairment losses at 31.12.2018
Trade receivables	140	3	(8)	2	137
	140	3	(8)	2	137

Financial receivables (11 million euro; 723 million euro as at 31 December 2017) relate to the residual portion of the Shareholders' Loan granted to the associate Trans Adriatic Pipeline AG (TAP). As compared with 31 December 2017, receivables are down 712 million euro. The reduction is mainly due to: (i) the reimbursement¹⁰, by TAP by means of a true-up mechanism, of 519 million euro, against 373 million euro in relation to receivables in place as at 31 December 2017 and 156 million euro relative to receivables accrued in 2018. The reimbursement follows on from the finalisation, by TAP, in December, of a project financing agreement¹¹; (ii) the closure, due to natural expiry, of the use of short-term liquid funds with a primary bank (350 million euro).

Receivables from investment/divestment activities (9 million euro; 12 million euro as at 31 December 2017) include receivables from private contributions recorded for investment activities involving the transportation segment (reclamation works for third parties).

Other receivables of 81 million euro (22 million euro as at 31 December 2017) comprise:

(€ million)	31.12.2017	31.12.2018
IRES receivables for the national tax consolidation scheme	9	9
Other receivables:	13	72
- Energy and Environmental Services Fund (CSEA)	5	63
- Advances to suppliers	4	4
- Other	4	5
	22	81

IRES receivables for the national tax consolidation scheme (9 million euro; same as at 31 December 2017) related mainly to receivables from the former parent company, Eni, relating to the IRES refund request resulting from the partial IRAP deduction relating to tax years 2007 to 2011 (pursuant to Decree-Law 201/2011). The receivables to the Electricity Equalisation Fund (CSEA) (63 million euro) principally refer to the transport business segment and related mainly to gas settlement, which was introduced by Authority with Resolution 670/2017/R/gas and 782/2017/R/gas, and to the incentives granted to the Balancing Manager. All receivables are in Euros. The fair value measurement of trade and other receivables has no material impact considering the short period of time from when the receivable arises and its due date and the contractual terms and conditions.

¹⁰ Including interest accrued.

¹¹ For more information, including on the guarantees given by shareholders, see Note no. 25 "Guarantees, commitments and risks".

The aging of trade and other receivables is shown below:

(€ million)	31.12.2017			31.12.2018		
	Trade receivables	Other receivables (*)	Total	Trade receivables	Other receivables (*)	Total
Non-overdue and non-impaired receivables	1,173	745	1,918	1,134	97	1,231
Overdue and non-impaired receivables:	101	12	113	113	4	117
- 0-3 months overdue	5	7	12	15		15
- 3-6 months overdue			0	3		3
- 6-12 months overdue		1	1	1		1
- more than 12 months overdue	96	4	100	94	4	98
	1,274	757	2,031	1,247	101	1,348

(*) Including financial receivables, receivables from investment/divestment activities and other receivables.

Overdue and non-impaired receivables (117 million euro; 113 million euro as at 31 December 2017) essentially refer to the storage segment (89 million euro), principally comprising VAT¹² billed to users in previous years for the use of strategic gas which was withdrawn but not replenished by them pursuant to the provisions established in the Storage Code.

Receivables from related parties are described in Note 34, "Related-party transactions".

Specific information on credit risk can be found in Note no. 25 "Guarantees, commitments and risks – Financial risk management – Credit risk".

10) INVENTORIES

Inventories, which amount to 472 million euro (449 million euro as at 31 December 2017) are analysed in the table below:

(€ million)	31.12.2017			31.12.2018		
	Gross amount	Impairment losses	Net value	Gross amount	Impairment losses	Net value
Inventories (current assets)	129	(43)	86	155	(46)	109
- Raw materials, consumables and supplies	79	(11)	68	103	(14)	89
- Finished products and merchandise	50	(32)	18	52	(32)	20
Compulsory inventories (non-current assets)	363		363	363		363
	492	(43)	449	518	(46)	472

12. As provided for under the applicable legislation, notices of VAT changes may be issued at the end of bankruptcy proceedings or unsuccessful enforcement proceedings.

Inventories (current assets)

Inventories of raw materials, consumables and supplies (89 million euro; 68 million euro as at 31 December 2017) primarily include stock materials relating to the pipeline network (39 million euro) and to storage plants (9 million euro), and natural gas used for transportation activities (23 million euro).

Inventories of finished products and merchandise (20 million euro; 18 million euro as at 31 December 2017) refer to the natural gas present in the storage system (619 million standard cubic metres, unchanged from 31 December 2017) and do not include compulsory inventories, recognised under "Non-current assets" in the balance sheet.

Inventories are reported net of the provision for impairment losses of 46 million euro (43 million euro as at 31 December 2017). The provision essentially involves the impairment loss (30 million euro) recorded in 2014 for 0.4 billion cubic metres of natural gas used under the scope of storage activities of strategic gas unduly withdrawn by some service users in 2010 and 2011¹³.

Changes in the provision for impairment losses during the year are shown below:

(million €)	Provision for impairment losses at 31.12.2017	Other changes	Provision for impairment losses at 31.12.2018
Raw materials, consumables and supplies	11	3	14
Finished products and merchandise	32		32
	43	3	46

The other changes (3 million euro) refer to the purchase of the Cubogas business unit.

Inventories are not collateralised. Inventories do not secure liabilities, nor are they recognised at net realisation value.

Compulsory inventories (non-current assets)

Compulsory inventories (363 million euro, unchanged from 31 December 2017) comprise minimum quantities of natural gas that the storage companies are obliged to hold pursuant to Presidential Decree no. 22 of 31 January 2001. The quantities of natural gas in stock, equal to around 4.5 billion standard cubic metres, are determined annually by the Ministry of Economic Development¹⁴.

¹³ For more information regarding the progress of the lawsuits underway, see Note no. 25 "Guarantees, commitments and risks - Disputes and other measures - Recovering receivables from users of the storage system".

¹⁴ On 06 February 2018, the Ministry confirmed the total volume of strategic storage for the contractual year 2018-2019 (01 April 2018-31 March 2019) at 4.62 billion cubic metres, equal to approximately 48,846 Giga Watthour - GWh, unchanged on thermal year 2017-2018 (01 April 2017-31 March 2018). The Stogit share was unchanged at 4.5 billion cubic metres.

11) CURRENT INCOME TAX ASSETS/LIABILITIES AND OTHER CURRENT TAX ASSETS/LIABILITIES

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

(million €)	31.12.2017	31.12.2018
Current income tax assets	16	10
- IRES	13	9
- IRAP	2	1
- Other assets	1	
Other current tax assets	21	7
- VAT	18	4
- Other taxes	3	3
	37	17
Current income tax liabilities		(14)
- IRES		(13)
- IRAP		(1)
Other current tax liabilities	(11)	(9)
- IRPEF withholdings for employees	(7)	(7)
- IVA		(1)
- Other taxes	(4)	(1)
	(11)	(23)

Current income tax assets of 10 million euro (16 million euro as at 31 December 2017) mainly involve IRES receivables (9 million euro) following the excess amount paid for additional IRES (8 million euro).

Other current tax assets of 7 million euro (21 million euro as at 31 December 2017) mainly refer to VAT receivables (4 million euro).

Current income tax liabilities of 14 million euro mainly refer to IRES payables for the national tax consolidation (13 million euro).

Other current tax liabilities of 9 million euro (11 million euro as at 31 December 2017) mainly relate to IRPEF (personal income tax) withholdings for employees (7 million euro).

Taxes pertaining to the year under review are shown in Note 31 - "Income taxes".

12) OTHER CURRENT AND NON-CURRENT ASSETS

Other current assets, which amount to 27 million euro (56 million euro as at 31 December 2017) and *other non-current assets* of 36 million euro (50 million euro as at 31 December 2017) break down as follows:

(€ million)	31.12.2017			31.12.2018		
	Current	Non-current	Total	Current	Non-current	Total
Regulated activities	46	22	68	16	10	26
Market value of derivative financial instruments		1	1	4		4
Other assets:	10	27	37	7	26	33
- Prepayments	7	15	22	6	13	19
- Security deposits		12	12		13	13
- Other	3		3	1		1
	56	50	106	27	36	63

Regulated assets (26 million euro; 68 million euro as at 31 December 2017) relate to the natural gas transmission service and regard the lesser amounts billed that will be recovered through tariff adjustments in future years¹⁵ (of which 16 million euro for the current share and 10 million euro for the non-current share).

The market value of derivatives at 31 December 2018 is as follows:

(€ million)	31.12.2017			31.12.2018		
	Current	Non-current	Total	Current	Non-current	Total
Other assets		1	1	4		4
Cash flow hedging derivatives:						
- Fair value exchange rate hedging derivatives				4		4
- Fair value interest rate hedging derivatives		1	1			
Other liabilities	(2)	(11)	(13)	(7)	(26)	(33)
Cash flow hedging derivatives:						
- Fair value interest rate hedging derivatives		(9)	(9)	(6)	(26)	(32)
- Fair value exchange rate hedging derivatives	(1)	(2)	(3)			
- Accrued expenses on derivatives	(1)		(1)	(1)		(1)

15 See Note 4 "Measurement criteria - Revenue".

Assets deriving from the market valuation of financial cash flow hedges (4 million euro) refer to a cross currency swap (CCS) stipulated in FY 2013. The CCS is used to hedge against fluctuations in the exchange rate of 10 billion (JPY) long-term bond issue. The six-year bond has a maturity of 25 October 2019 and a half-yearly coupon with an annual fixed rate of 1.115%. The CCS has converted the fixed-rate, foreign-currency liability into an equivalent liability in Euro with a fixed annual rate of 2.717%.

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

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

Cross-currency swap

(€ million)									
Type of derivative	Contract start date	Maturity date	Residual term (years)	JPY/EUR exchange rate Paid	JPY/EUR exchange rate Received	Nominal value (*) 31.12.2017	Nominal value (*) 31.12.2018	Market value 31.12.2017	Market value 31.12.2018
Cross-currency swap	25.10.2013	25.10.2019	0.8	133.98	Spot	75	75	(3)	4

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

The liabilities arising from measurement at market value of the derivative financial instruments used as cash flow hedges (33 million euro) refer to:

- three derivative Interest Rate Swap "Forward Start" contracts with Mandatory Early Termination, stipulated in July 2017 and August 2018 to cover the risk of interest rate fluctuations of long-term bond issues scheduled for 2019, 2020 and 2021, of nominal total value of 750 million euro and a total market value of 22 million euro;
- an Interest Rate Swap derivative, stipulated in August 2017, with a market value of 5 million euro. The IRS is used to hedge against the fluctuation risk of the fair value of a fixed rate liability resulting from a long-term bond issue of €350 million. The 7year bond has a maturity of 2 August 2024 and variable rate linked to 3 month Euribor + 40 bps. Through the derivative contract, the floating rate liability is converted into an equivalent fixed rate liability with a benchmark rate of 0.436%;
- an Interest Rate Swap derivative, stipulated in August 2017, with a market value of 2 million euro. The IRS is used to hedge against the fluctuation risk of the fair value of a fixed rate liability resulting from a long-term bond issue of 300 million euro. The loan, which has a duration of five years and matures on 21 February 2022, pays a variable interest rate linked to 3 month Euribor + 60 bps. The IRS has converted the floating-rate liability into an equivalent fixed-rate liability with reference rate of 0.0408%;

- an Interest Rate Swap derivative, stipulated in July 2018, with a market value of 2 million euro. The IRS is used to hedge against the fluctuation risk of the fair value of a fixed rate liability resulting from a 50% portion of the long-term variable-rate loan of 500 million euro. The 3 year term loan has a maturity of 31 October 2021 and variable rate linked to 3 month Euribor + 45 bps. Through the derivative contract, the variable rate liability is converted into an equivalent fixed rate liability with a benchmark rate of 0.0570%;
- an Interest Rate Swap derivative, stipulated in July 2018, with a market value of one million euro. The IRS is used to hedge against the fluctuation risk of the interest rate on a variable rate term loan of 150 million euro. The 5 year term loan has a maturity of 31 July 2022 and variable rate linked to 3 month Euribor + 58 bps. Through the derivative contract, for four years, the variable rate liability is converted into an equivalent fixed rate liability with a benchmark rate of 0.1250%;
- an Interest Rate Swap derivative, stipulated in December 2018, with a market value of one million euro. The IRS is used to hedge against the fluctuation risk of the fair value of a fixed rate liability resulting from the remaining 50% portion of the long-term variable-rate loan of 500 million euro. The 3 year term loan has a maturity of 31 October 2021 and variable rate linked to 3 month Euribor + 45 bps. Through the derivative contract, the variable rate liability is converted into an equivalent fixed rate liability with a benchmark rate of -0.0440%.

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

Interest Rate Swap - Forward Start

(€ million)										
Type of derivative	Contract start date	Maturity date	Early extinguishment date	Residual term (years)	Snam pays	Snam receives	Nominal value 31.12.2017	Nominal value 31.12.2018	Market value 31.12.2017	Market value 31.12.2018
IRS - Forward start	30.10.2019	30.10.2026	30.01.2020	7.8	1.1805%	Euribor 6 m	250	250	(3)	(9)
IRS - Forward start	29.10.2020	29.10.2027	29.01.2021	8.8	1.4225%	Euribor 6 m	250	250	(3)	(8)
IRS - Forward start	15.04.2021	15.04.2028	15.07.2021	9.3	1.3130%	Euribor 6 m		250		(5)

Interest Rate Swap

(€ million)									
Type of derivative	Contract start date	Maturity date	Residual term (years)	Snam pays	Snam receives	Nominal value 31.12.2017	Nominal value 31.12.2018	Market value 31.12.2017	Market value 31.12.2018
Interest rate swap	02.08.2017	02.08.2024	5.6	0.4360%	Euribor 3 m	350	350	(1)	(5)
Interest rate swap	21.02.2017	21.02.2022	3.1	0.0408%	Euribor 3 m	300	300	1	(2)
Interest rate swap	30.07.2018	31.10.2021	2.8	0.0570%	Euribor 3 m		250		(2)
Interest rate swap	31.07.2018	31.07.2022	3.6	0.1250%	Euribor 3 m		150		(1)
Interest rate swap	31.10.2018	31.10.2021	2.8	-0.0440%	Euribor 3 m		250		(1)
Interest rate swap	29.01.2018	29.01.2020	1.1	-0.1878%	Euribor 3 m		350		

The fair value of hedging derivatives and their classification as a current or non-current asset/liability have been determined using generally accepted financial measurement models and market parameters at the end of the year. Information on the risks being hedged by the derivatives and on policies adopted by the Company to hedge against these risks is provided in Note no. 25 - "Guarantees, commitments and risks - Management of financial risks".

The item "Other assets" (33 million euro; 37 million euro as at 31 December 2017) essentially comprises:

- prepayments (19 million euro), relating mainly to upfront fees and the substitute tax on revolving credit lines (16 million euro) and to insurance premiums (2 million euro). The current and non-current portions amount to 6 and 13 million euro respectively (7 and 15 million euro as at 31 December 2017);
- security deposits of 13 million euro (12 million euro as at 31 December 2017) granted to support operating activities relating mainly to the transport of natural gas.

13) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment, which amounts to 16,153 million euro (16,033 million euro as at 31 December 2017) breaks down as follows:

31.12.2017							
(€ million)	Land	Buildings	Plant and equipment	Industrial and commercial equipment	Other assets	Non-current assets under construction and payments on account	Total
Cost at 31.12.2016	163	427	21,275	90	195	1,061	23,211
Investments	1		8	5		954	968
Disposals		(4)	(29)	(7)	(7)	(7)	(54)
Change in scope of consolidation			182		1		183
Other changes	3	20	769	20	21	(870)	(37)
Cost at 31.12.2017	167	443	22,205	108	210	1,138	24,271
Provisions for amortisation and depreciation at 31.12.2016		(98)	(7,302)	(48)	(140)		(7,588)
Total amortisation and depreciation		(10)	(552)	(10)	(20)		(592)
Disposals		1	23	6	7		37
Change in scope of consolidation			(31)		(1)		(32)
Other changes				(1)	1		
Provisions for amortisation and depreciation at 31.12.2017		(107)	(7,862)	(53)	(153)		(8,175)
Provision for impairment losses at 31.12.2016	(1)	(6)	(23)			(30)	(60)
(Impairment losses)/reversals			(3)			(10)	(13)
Disposals		2	1			7	10
Provision for impairment losses at 31.12.2017	(1)	(4)	(25)			(33)	(63)
Net balance at 31.12.2016	162	323	13,950	42	55	1,031	15,563
Net balance at 31.12.2017	166	332	14,318	55	57	1,105	16,033

	31.12.2018						
(€ million)	Land	Buildings	Plant and equipment	Industrial and commercial equipment	Other assets	Non-current assets under construction and payments on account	Total
Cost at 31.12.2017	167	443	22,205	108	210	1,138	24,271
Investments	2		3	7		793	805
Disposals	(1)	(4)	(17)	(3)	(2)	(4)	(31)
Change in scope of consolidation			1		1		2
Other changes	3	33	1,003	5	26	(1,111)	(41)
Cost at 31.12.2018	171	472	23,195	117	235	816	25,006
Provisions for amortisation and depreciation at 31.12.2017		(107)	(7,862)	(53)	(153)		(8,175)
Total amortisation and depreciation		(11)	(578)	(12)	(21)		(622)
Disposals		2	10	3	1		16
Other changes			(1)				(1)
Change in scope of consolidation			(1)				(1)
Provisions for amortisation and depreciation at 31.12.2018		(116)	(8,432)	(62)	(173)		(8,783)
Provision for impairment losses at 31.12.2017	(1)	(4)	(25)			(33)	(63)
(Impairment losses)/reversals			(2)			(6)	(8)
Disposals			1				1
Provision for impairment losses at 31.12.2018	(1)	(4)	(26)			(39)	(70)
Net balance at 31.12.2017	166	332	14,318	55	57	1,105	16,033
Net balance at 31.12.2018	170	352	14,737	55	62	777	16,153

Property, plant and equipment (16,153 million euro; 16,033 million euro as at 31 December 2017) relates mainly to transmission (13,244 million euro), storage (2,811 million euro) and regasification (87 million euro) infrastructure. Investments¹⁶ (805 million euro) refer mainly to the transmission (702 million euro) and storage (90 million euro) segments. During the year, Snam capitalised 12 million euro of financial expenses (13 million euro in 2017). Depreciation (622 million euro) refers to economic and technical depreciation determined on the basis of the useful life of the assets or their remaining possible use by the Company.

Capital contributions entered as a reduction of the net value of property, plant and equipment come to 385 million euro (372 million euro as at 31 December 2017). Disposals (14 million euro, net of the related provisions for depreciation, amortisation and impairment losses) mainly relate to transmission segment assets. Impairment losses and reversals (8 million euro) refer essentially to the write-down of assets not yet ready for use in the transmission segment. The value of plant and equipment includes site dismantling and restoration costs (237 million euro), relating mainly to the natural gas storage (147 million euro) and transmission (90 million euro) segments.

¹⁶ Investments by business segment are shown in the "Business segment operating performance" section of the Directors' Report.

Other changes (42 million euro) related essentially to: (i) the revision in decrease of estimated costs for site restoration and dismantling refer essentially to the storage segment, which are partially offset by the decrease in the expected discount rates (8 million euro); (ii) the change in stocks of pipes and related accessory materials used in the production of plants in the natural gas transmission segment (11 million euro); and (iii) grants for the period refer to reclamation works for third parties (22 million euro).

Contractual commitments to purchase property, plant and equipment, and to provide services related to the construction thereof, are reported in Note no. 25 "Guarantees, commitments and risks".

Property, plant and equipment by business segment

Property, plant and equipment by operating segment break down as follows:

(€ million)	31.12.2017	31.12.2018
Historical cost	24,271	25,006
Transportation	20,290	20,934
Storage	3,818	3,893
Regasification	150	158
Corporate and other activities	13	21
Provision for amortisation, depreciation and impairment losses	(8,238)	(8,853)
Transportation	(7,176)	(7,690)
Storage	(990)	(1,080)
Regasification	(66)	(72)
Corporate and other activities	(6)	(11)
Net balance	16,033	16,153
Transportation	13,114	13,244
Storage	2,828	2,813
Regasification	84	86
Corporate and other activities	7	10

14) INTANGIBLE ASSETS

Intangible assets, which amount to 907 million euro (850 million euro as at 31 December 2017) break down as follows:

31.12.2017						
(€ million)	Finite useful life			Indefinite useful life		Total
	Industrial patent rights and intellectual property rights	Concessions, licences, trademarks and similar rights	Other intangible assets	Non-current assets under construction and payments on account	Goodwill	
Cost at 31.12.2016	647	755	42	20		1,464
Investments				66		66
Other changes	2				27	29
Change in scope of consolidation	52	8		(59)		1
Cost at 31.12.2017	701	763	42	27	27	1,560
Provisions for amortisation and depreciation at 31.12.2016	(519)	(93)	(42)			(654)
Total amortisation and depreciation	(50)	(4)				(54)
Other changes	(1)					(1)
Change in scope of consolidation	(1)					(1)
Provisions for amortisation and depreciation at 31.12.2017	(571)	(97)	(42)			(710)
Provision for impairment losses at 31.12.2016						
Provision for impairment losses at 31.12.2017						
Net balance at 31.12.2016	128	662		20		810
Net balance at 31.12.2017	130	666		27	27	850

	31.12.2018					
	Finite useful life				Indefinite useful life	
(€ million)	Industrial patent rights and intellectual property rights	Concessions, licences, trademarks and similar rights	Other intangible assets	Non-current assets under construction and payments on account	Goodwill	Total
Cost at 31.12.2017	701	763	42	27	27	1,560
Investments				77		77
Disposals	(1)					(1)
Change in scope of consolidation		2	19		9	30
Other changes	63	4	3	(66)	6	10
Cost at 31.12.2018	763	769	64	38	42	1,676
Provisions for amortisation and depreciation at 31.12.2017	(571)	(97)	(42)			(710)
Total amortisation and depreciation	(54)	(4)	(2)			(60)
Disposals	1					1
Provisions for amortisation and depreciation at 31.12.2018	(624)	(101)	(44)			(769)
Provision for impairment losses at 31.12.2017						
Provision for impairment losses at 31.12.2018						
Net balance at 31.12.2017	130	666		27	27	850
Net balance at 31.12.2018	139	668	20	38	42	907

Industrial patent rights and intellectual property rights of 139 million euro (130 million euro as at 31 December 2017) mainly concern information systems and applications in support of operating activities.

Concessions, licences, trademarks and similar rights (668 million euro; 666 million euro as at 31 December 2017) refer essentially to concessions for natural gas storage activities (656 million euro) and, specifically to the concessions of Settala (226 million euro), Sergnano (126 million euro), Fiume Treste (91 million euro) and Brugherio (56 million euro). The value of the storage concessions is represented by the reserves of natural gas in the fields ("cushion gas"¹⁷).

Changes in the consolidation area (30 million euro) refer to the intangible assets noted after the acquisition of the companies operating in the energy efficiency, CNG and biomethane businesses. The assets mainly refer to the measurement of backlogs on contracts in place with customers and goodwill noted during the allocation of the company acquisition prices¹⁸.

¹⁷ Cushion gas is not depreciated.

¹⁸ For further information, see Note no. 24 - "Business combinations".

The increase in intangible assets with an indefinite useful life (15 million euro) mainly refers to goodwill noted following the July 2018 acquisitions of the Cubogas business unit (7 million euro), 70% of the share capital of IES Biogas (4 million euro) and 82% of the share capital of TEP (3 million euro). This goodwill was allocated to the CGU represented by the company Snam 4 Mobility, the Group company involved in activities connected with sustainable mobility, in particular the activities connected with the Compressed Natural Gas (CNG) business (refuelling stations, hereinafter “stations”, and compressors) and in biomethane.

Investments (77 million euro) refer mainly to the transportation segment (62 million euro)¹⁹.

Amortisation (60 million euro) refers to economic and technical amortisation determined on the basis of the finite useful life of the intangible assets or their remaining possible use by the Company.

Contractual commitments to purchase intangible assets, and to provide services related to the development thereof, are reported in Note no. 25 - “Guarantees, commitments and risks”.

As envisaged by the reference accounting standard (IAS 36), the assets and goodwill have been impairment tested. The impairment test has been carried out for all GCUs, regardless of the presence of impairment indicator or goodwill allocated to the CGUs, regardless of the presence of impairment indicators or goodwill allocated to the CGUs. In particular, the CGUs are represented:

- for the regulated business of transportation, regasification and storage of natural gas, respectively by the companies Snam Rete Gas and ITG, GNL Italia and Stogit;
- for the CNG business, consisting of the following stations and compressors, by Snam 4 Mobility and Cubogas;
- for the biomethane business, by the companies IES Biogas and Enersi;
- for the energy efficiency business, by the company TEP Energy Solutions.

The impairment with reference to the CNG business represented by the stations, the recoverable value of the CGU Snam 4 Mobility has been determined on the basis of the Discounted Cash Flow (DCF) method. In consideration of the start-up phase of the business, the cash flow was determined considering a broader time frame than the forecast data of the 2019-2022 Plan approved by the Board, so as to consider all the effects that may significantly impact cash flow. To discount cash flow, the weighted average cost of capital (WACC) was used.

As regards the other businesses of CNG (compressors) and biomethane, headed respectively by the companies Cubogas and IES biogas, the recoverable value allocated to the CGU Snam 4 Mobility was assumed to be equal to the purchase price of the companies, also considering the timing of the acquisition.

As regards the goodwill already entered as at 31 December 2017 (27 million euro) and allocated to the CGU represented by the company ITG, this has been impairment tested. The recoverable value of the CGU ITG has been determined according to the DCF Method, considering a 2019-2022 Plan time frame. To discount cash flow, the weighted average cost of capital (WACC) was used in reference to the regulated business of natural gas transmission. The terminal value was determined according to the equity value/RAB and equity value/EBITDA multiples of the same business segment. As regards the CGU of Transportation, Regasification and Storage, the recoverable value was defined in keeping with the estimated value of net invested capital recognised for such assets for tariff purposes (Regulatory Asset Base, or RAB) by ARERA, net of flat-fee components²⁰, the provision for employee severance pay (TFR) and grants received. For all CGUs, the recoverable value, as shown above, exceeds the net book value of the CGU, including goodwill recorded at the time of acquisition.

As regards the CGU of Transportation, Regasification and Storage, the recoverable value of property, plant and equipment, including compulsory inventories, and intangible assets is around 20.5 billion euro²¹ and exceeds the corresponding book values of the net invested capital. For CGU Snam 4 Mobility, the recoverable value is around 34 million euro.

¹⁹ Investments by business segment are shown in the “Business segment operating performance” section of the Directors Report.

²⁰ The RAB is used to determine the service tariffs and, therefore, the cash flows generated by the assets. The RAB value is defined using the revalued historical cost method with regard to fixed capital and on a flat-rate basis with regard to working capital, employee severance pay (TFR) and, in relation to the storage sector, the provision for site dismantling and restoration.

²¹ Estimated value as at 31 December 2018.

Intangible assets by business segment

Intangible assets by business segment break down as follows:

(€ million)	31.12.2017	31.12.2018
Historical cost	1,560	1,676
Transportation	659	721
Storage	826	835
Regasification	4	6
Corporate and other activities	71	114
Provision for amortisation, depreciation and impairment losses	(710)	(769)
Transportation	(502)	(544)
Storage	(152)	(159)
Regasification	(3)	(4)
Corporate and other activities	(53)	(62)
Net balance	850	907
Transportation	157	177
Storage	674	676
Regasification	1	2
Corporate and other activities	18	52

15) INVESTMENTS VALUED USING THE EQUITY METHOD

Investments valued using the equity method, amounting to 1,710 million euro (1,547 million euro as at 31 December 2017) break down as follows:

(€ million)	Equity investments in		
	Joint ventures	Associates	Total
Initial value at 01.01.2017	1,195	304	1,499
Acquisitions and subscriptions		66	66
Capital gains from measurement using the equity method	136	39	175
(Capital losses) from measurement using the equity method	(10)	(4)	(14)
Exchange rate conversion differences	(3)		(3)
Sales and repayments	(35)		(35)
Decrease owing to dividends	(127)	(22)	(149)
Other changes	8		8
Final value at 31.12.2017	1,164	383	1,547
Initial value at 01.01.2018	1,164	383	1,547
Acquisitions and subscriptions	5	160	165
Capital gains from measurement using the equity method	117	48	165
(Capital losses) from measurement using the equity method		(8)	(8)
Exchange rate conversion differences		(1)	(1)
Sales and repayments	(16)		(16)
Decrease owing to dividends	(114)	(35)	(149)
Other changes	(57)	64	7
Final value at 31.12.2018	1,099	611	1,710

Acquisitions and subscriptions (165 million euro) relate to: (i) the subscription of the share capital increase of Senfluga (121 million euro) in view of the acquisition of Desfa; (ii) the share capital increase of TAP (39 million euro) in view of the requests for shareholders' loans received during the year; (iii) the share capital increase of the companies GasBridge 1 B.V. and GasBridge 2 B.V (5 million euro cumulatively) in view of the acquisition, by the same companies, by virtue of their respective shares held, of the incremental investment share of 7.93% held by Caisse de dépôt et placement du Québec (CDPQ) in Interconnector UK.

Capital gains arising from valuation using the equity method (165 million euro) refer to the pertinent share of the results of jointly controlled companies TAG (74 million euro), Terēga (28 million euro) and AS Gasinfrastruktur Beteiligung GmbH (11 million euro) and the associated company Italgas (43 million euro) and Interconnector (UK) (9 million euro).

Capital losses arising from valuation using the equity method (8 million euro) refer to the share of the results of the related companies TAP (4 million euro) and Senfluga (4 million euro).

Sales and reimbursements (16 million euro) refer to the reduction in the cost of recording the equity investments AS Gasinfrastruktur Beteiligung GmbH for the distribution of part of the share premium reserve.

The decrease owing to dividends (149 million euro) refers to the jointly controlled companies TAG (73 million euro), Terēga (41 million euro) and the associated companies Italgas (23 million euro) and Interconnector (UK) (12 million euro). The other changes (7 million euro) mainly refer to the jointly controlled company Terēga.

No collateral is established on the equity investments, except for that indicated in reference to the equity investment in TAP²².

As at 31 December 2018 the Group carried out the impairment test for each investments in associates and joint ventures. Test did not reveal any loss in value.

Consolidated companies, joint ventures, associates and other significant equity investments are indicated separately in the Annex "Significant shareholdings, associates and equity investments of Snam S.p.A. as at 31 December 2018", which is an integral part of these Notes.

Other information on equity investments

In accordance with the provisions of IFRS 12 - "Disclosure of interests in other entities", the economic and financial data for joint ventures and associates as at 31 December 2017 and 31 December 2018 are provided below.

22 For more information, refer to Note no. 25 "Guarantees, commitments and risks - Commitments, guarantees and pledges - TAP".

Investments in joint ventures

The IFRS-compliant economic and financial data for each significant joint venture²³ are reported below:

	31.12.2017			
(€ million)	Terēga Holding S.A.S. (formerly TIGF Holding SAS.)	Trans Austria Gasleitung GmbH	AS Gasinfrastruktur Beteiligung GmbH	GasBridge 1 B.V. and 2 B.V.
Current assets	103	53	7	31
- of which cash and cash equivalents	33	9	7	
Non-current assets	2,852	1,048	596	81
Total assets	2,955	1,101	603	112
Current liabilities	(64)	(127)	(3)	
- of which current financial liabilities		(60)		
Non-current liabilities	(1,728)	(405)	(283)	
- of which non-current financial liabilities	(1,462)	(261)		
Total liabilities	(1,792)	(532)	(286)	
Shareholders' equity	1,163	569	317	112
Equity interest held by the Group % (*)	40.50%	89.22%	40.00%	50%
Share attributable to the Group	471	508	127	56
Book value of the equity investment	471	508	129	56
Revenue	454	320		
Operating costs	(148)	(136)	(1)	
Amortisation, depreciation and impairment	(132)	(56)		
EBIT	174	128	(1)	
Financial income		2	1	
Financial expenses	(37)	(3)	(6)	
Income (expense) from equity investments			24	(20)
Income tax paid	(36)	(32)		
Net profit	101	95	18	(20)
Other components of comprehensive income	1		1	(6)
Total comprehensive income	102	95	19	(26)

(*) The investment in Trans Austria Gasleitung GmbH is measured on the basis of the percentage of economic rights held.

23 Unless otherwise indicated, the financial statement figures for joint ventures, reported in full, have been updated to include adjustments made by the Parent Company pursuant to the equity-accounting method. The aforementioned amounts refer to the preliminary and/or approved reporting packages.

	31.12.2018		
(€ million)	Terēga Holding S.A.S.	Trans Austria Gasleitung GmbH	AS Gasinfrastruktur Beteiligung GmbH
Current assets	128	57	2
- of which cash and cash equivalents	34	20	2
Non-current assets	2,891	1,116	582
Total assets	3,019	1,173	584
Current liabilities	(84)	(105)	(3)
- of which current financial liabilities	(18)	(35)	(3)
Non-current liabilities	(1,785)	(497)	(283)
- of which non-current financial liabilities	(1,487)	(353)	(283)
Total liabilities	(1,869)	(602)	(286)
Shareholders' equity	1,150	571	298
Equity interest held by the Group % (*)	40.50%	89.22%	40.00%
Share attributable to the Group	466	509	119
Book value of the equity investment	466	509	124
Revenue	438	308	
Operating costs	(158)	(124)	
Amortisation, depreciation and impairment	(130)	(56)	
EBIT	150	128	
Financial income			2
Financial expenses	(36)	(14)	(7)
Income (expense) from equity investments			28
Income tax paid	(46)	(32)	
Net profit	68	82	23
Other components of comprehensive income			
Total comprehensive income	68	82	23

(*) The investment in Trans Austria Gasleitung GmbH is measured on the basis of the percentage of economic rights held.

Information on Investments in joint ventures

Terêga Holding S.A.S.

Terêga Holding S.A.S. is a company operating under French law, which, through Terêga S.A.S. (a wholly owned subsidiary of Terêga Holding S.A.S.), controls 100% of Terêga S.A.

Terêga S.A. (Transport et Infrastructures Gaz France) operates in the transportation and storage of natural gas in south-west France. Natural gas transmission and storage in France is a regulated activity.

As at 31 December 2018, Terêga Holding S.A.S. is an investee of Snam S.p.A. (40.5%), Singapore sovereign wealth fund GIC (31.5%), EDF (18%, through a fund dedicated to liabilities arising from the disposal of nuclear assets) and Crédit Agricole Assurances (10%, through Prévoyance Dialogue du Crédit Agricole). Terêga Holding S.A.S.'s consolidated financial statements include Terêga Holding S.A.S., Terêga S.A.S and Terêga S.A.

The corporate governance rules stipulate that decisions on significant activities must be taken with the unanimous consent of shareholders Snam and GIC.

Trans Austria Gasleitung GmbH (TAG)

Trans Austria Gasleitung GmbH (TAG) is a company operating under Austrian law that is active in the natural gas transportation segment. It owns the gas pipeline that links the Slovakian-Austrian border to the Tarvisio entry point.

Natural gas transportation in Austria is a regulated activity.

As at 31 December 2018, Snam S.p.A. holds 84.47% of the share capital, entitling it to 89.22% of the economic rights. The remainder of the share capital is held by Gas Connect Austria GmbH (GCA).

The contractual agreements drawn up between Snam, TAG and GCA also stipulate that if TAG is not capable of self-financing, the other companies must finance it according to the equity investment held by each shareholder.

The corporate governance rules stipulate that decisions on significant activities must be taken with the unanimous consent of shareholders Snam and GCA.

AS Gasinfrastruktur Beteiligung GmbH

AS Gasinfrastruktur Beteiligung GmbH is an Austrian company jointly controlled by Snam S.p.A. and the Allianz group, with holdings of 40% and 60% respectively. The company holds 100% of the Austrian company AS Gasinfrastruktur GmbH, which in turn holds 49% of the share capital of Gas Connect Austria GmbH, which is controlled by OMV AG.

The corporate governance rules of AS Gasinfrastruktur Beteiligung GmbH stipulate that decisions on significant activities must be taken with the unanimous consent of shareholders Snam and Allianz.

Significant restrictions

Pursuant to the provisions of IFRS 12, the major significant restrictions on investee companies' ability to transfer funds to Snam in the form of dividends, loan repayments or advances appear below.

Terêga S.A.S.

The payment to the associate of interest on the residual nominal amount of the 670 million euro convertible bond (of which Snam has subscribed 272 million euro) may be deferred at the discretion of the issuer Terêga S.A.S.

Investments in associates

The IFRS-compliant economic and financial data for all investments in associates²⁴ deemed to be significant are reported below:

	31.12.2017	
(€ million)	Trans Adriatic Pipeline (TAP)	Italgas S.p.A.
Current assets	106	684
Non-current assets	3,213	5,164
Total assets	3,320	5,848
Current liabilities	(280)	(624)
Non-current liabilities	(1,925)	(4,038)
Total liabilities	(2,205)	(4,662)
Shareholders' equity	1,115	1,186
Equity interest held by the Group (%)	20%	13.5%
Share attributable to the Group	223	160
Book value of the equity investment	223	160
Revenue		1,621
EBIT	(27)	418
Net profit	(22)	293
Other components of comprehensive income	3	(1)
Total comprehensive income	(19)	292

²⁴ The financial statement figures for associates, reported in full, have been updated to include adjustments made by the Parent Company pursuant to the equity-accounting method. The aforementioned amounts refer to the preliminary and/or approved reporting packages.

	31.12.2018			
(€ million)	Trans Adriatic Pipeline (TAP)	Italgas S.p.A.	Senfluga Energy Infrastructure Holding S.A. (*)	Interconnector UK Ltd
Current assets	108	748	347	37
Non-current assets	4,050	6,011	815	668
Total assets	4,158	6,759	1,162	705
Current liabilities	(257)	(899)	(176)	(108)
Non-current liabilities	(2,619)	(4,531)	(519)	(117)
Total liabilities	(2,876)	(5,430)	(695)	(225)
Shareholders' equity	1,282	1,329	467	480
Equity interest held by the Group (%)	20%	13,50%	60%	23,68%
Share attributable to the Group	256	179	117	114
Book value of the equity investment	258	180	117	55
Revenue		1,641		168
EBIT	(29)	453	(6)	47
Net profit	(18)	314	(6)	37
Other components of comprehensive income		(3)		
Total comprehensive income	(18)	311	(6)	37

(*) The values reflect the recognition, as provisional accounting, of the assets and liabilities assumed by Senfluga when it acquired the controlling interest in DESFA at its fair value. Shareholders' equity includes amounts pertaining to minorities of 272 million euro.

Information on investments in associates

Trans Adriatic Pipeline A.G. (TAP)

Trans Adriatic Pipeline A.G. (TAP) is a Swiss company formed to design, develop and build a new gas pipeline, currently under construction, which will extend from the Greek-Turkish border to Italy (at the new entry point in San Foca-Melendugno), crossing Greece and Albania.

As at 31 December 2018, TAP A.G. was an investee of Snam S.p.A. (20%), Socar (20% through AzTAP GmbH), BP (20% through BP Gas Marketing Ltd), Fluxys (19% through Fluxys Europe B.V.), Enagas (16% through Enagás Internacional S.L.U.) and Axpo (5% through Axpo Trading AG).

In December 2018, TAP finalised a project financing agreement in connection with the project loan for the development of the gas pipeline²⁵.

Under current corporate governance rules, none of TAP's shareholders is able to exercise control over the company, including in a joint capacity.

Italgas S.p.A.

Italgas S.p.A. is an Italian company that controls 100% of Italgas Reti S.p.A., Seaside S.r.l. and Italgas Acqua, companies operating in the distribution of natural gas throughout national territory, in energy efficiency and the management of the water service in five municipalities of Campania.

As at 31 December 2018, following the spin-off of the natural gas distribution business from Snam S.p.A. which took place in 2016, Italgas S.p.A., was a investee of Snam (13.5%), C.D.P. Reti S.r.l. (26.05%), while the remainder is owned by third party shareholders.

On 7 November 2016, the effective date of aforementioned separation, which covered all the shares each company held in Italgas S.p.A., the shareholder agreement signed by Snam S.p.A., CDP Reti S.p.A. and CDP Gas S.r.l., on 20 October 2016 entered into effect. The shareholder agreement establishes a block voting shareholder's agreement, with Snam having the right of early withdrawal if, in the event of Snam opposing the vote of the syndicated shares on

²⁵ For additional information regarding the commitments undertaken by the shareholders with regard to TAP see Note no. 25 "Guarantees, commitments and risks".

reserved subjects of an extraordinary nature, Snam does not sell its equity investment in Italgas within the next 12 months (accelerated exit). Transfers of Snam's equity investment in Italgas S.p.A. (including in the event of an Accelerated Exit) are subject not only to advance approval by CDP Reti, but also to the subrogation of a third party. In addition, Snam may not increase its equity investment. The agreement has a three-year term that is renewable barring notice of termination; in the event that Snam does not renew, CDP Reti shall have an option to purchase at fair market value Snam's equity investment in Italgas.

Senfluga Energy Infrastructure Holding

Senfluga Energy Infrastructure Holding is a newly-established company through which the European consortium made up of Snam (60%), Enagás (20%) and Fluxys (20%) completed, on 20 December 2018, the acquisition by the Greek privatisation company HRADF and Hellenic Petroleum of a 66% stake in DESFA, the national operator in the natural gas infrastructure sector.

DESFA has and manages, in a regulated system, a high pressure transmission network of approximately 1,500 km, as well as a regasification terminal in Revithoussa. Greece, an important crossway for the diversification of procurement and the opening of new natural gas routes in Europe, has further potential development as a hub for south-east Europe.

Under current corporate governance rules, none of Senfluga's shareholders is able to exercise control over the company, including in a joint capacity.

Interconnector UK Ltd

Interconnector UK Ltd is an English company that owns the two-way gas pipeline that joins the United Kingdom with Belgium and the rest of Europe.

As at 31 December 2018, the company Interconnector UK Ltd is an investee of Snam International B.V. (23.68%) and Fluxys through the companies: Gasbridge 1 B.V. (23.68%), Fluxys Interconnector Ltd (15.04%) and Fluxys UK Ltd (37.59%).

The company directly holds 48% of the Dutch company Interconnector Zeebrugge Terminal S.C./C.V. Scrl and 1% indirectly through Interconnector Leasing company Ltd.

16) OTHER INVESTMENTS

Other investments (40 million euro) regard only the minority share of 7.3% held by Snam S.p.A. in the capital of Terminale GNL Adriatico S.r.l. (Adriatic LNG), as follows:

(€ million)	
Value at 31.12.2017	44
Income from valuation at FVTOCI	1
Sales and repayments	(5)
Value at 31.12.2018	40

The gain from measurement at Fair Value Through Other Comprehensive Income (FVTOCI) of 1 million euro refers to the change in fair value of the equity investment as at 31 December 2018.

17) SHORT-TERM FINANCIAL LIABILITIES, LONG-TERM FINANCIAL LIABILITIES AND SHORT-TERM PORTIONS OF LONG-TERM FINANCIAL LIABILITIES

Short-term financial liabilities, amounting to 1,976 million euro (1,373 million euro as at 31 December 2017), and long-term financial liabilities, including the short-term portion of long-term liabilities, totalling 11,444 million euro (11,246 million euro as at 31 December 2017), break down as follows:

(€ million)	31.12.2017					31.12.2018				
	Long-term financial liabilities					Long-term financial liabilities				
	Short-term financial liabilities	Short-term portion	Long-term portion maturing within 5 years	Long-term portion maturing in more than 5 years	Total long-term portion	Short-term financial liabilities	Short-term portion	Long-term portion maturing within 5 years	Long-term portion maturing in more than 5 years	Total long-term portion
Bonds		1,042	3,621	4,009	7,630		913	4,408	3,125	7,533
Bank loans	1,358	27	1,366	1,180	2,546	1,751	744	1,175	1,079	2,254
Euro Commercial Paper - ECP						225				
Other lenders	15	1								
	1,373	1,070	4,987	5,189	10,176	1,976	1,657	5,583	4,204	9,787

Short-term financial liabilities

Short-term financial liabilities of 1,976 million euro (1,373 million euro as at 31 December 2017) relate to the use of uncommitted variable rate bank credit facilities (1,751 million euro) and the issue of unsecured short-term securities - Euro Commercial Papers - issued on the money market and placed with institutional investors (225 million euro). The performance with respect to 31 December 2017 of 603 million euro is mainly due to the greater net use of credit facilities (393 million euro) and the issue of the Euro Commercial Papers. There are no short-term financial liabilities denominated in currencies other than the euro.

The weighted average interest rate on short-term financial liabilities was almost nil (same as for 2017).

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

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

Long-term financial liabilities, including the short-term portion of long-term liabilities, amounted to 11,444 million euro (11,246 million euro as at 31 December 2017).

The breakdown of bond loans (8,446 million euro), indicating the issuing company, the year of issue, the currency, the average interest rate and the maturity, is provided in the following table.

(€ million)							
Issuing company	Issued (year)	Currency	Nominal amount	Adjustments (a)	Balance at 31.12.2018	Rate (%)	Maturity (year)
Euro Medium Term Notes (EMTN)							
SNAM S.p.A. (b) (c) (d)	2012	€	609	6	615	5,25	2022
SNAM S.p.A. (b) (c) (d) (e)	2012	€	526	15	541	3,5	2020
SNAM S.p.A. (b) (c) (f)	2012	€	519	25	544	5	2019
SNAM S.p.A. (c) (d)	2013	€	267	7	274	3,375	2021
SNAM S.p.A. (g)	2013	Yen	80		80	2,717	2019
SNAM S.p.A. (c) (d)	2014	€	394	9	403	3,25	2024
SNAM S.p.A. (c) (d) (h)	2014	€	344	7	351	1,5	2023
SNAM S.p.A. (c)	2014	€	225	3	228	1,5	2019
SNAM S.p.A. (c) (d) (f)	2015	€	263	(28)	235	1,375	2023
SNAM S.p.A.	2016	€	1.250	(6)	1.244	0,875	2026
SNAM S.p.A.	2016	€	500	(1)	499		2020
SNAM S.p.A.	2017	€	500	3	503	1,25	2025
SNAM S.p.A. (i)	2017	€	300	(1)	299	0,641	2022
SNAM S.p.A. (i)	2017	€	350	(1)	349	0,836	2024
SNAM S.p.A.	2017	€	650	(2)	648	1,375	2027
SNAM S.p.A. (i)	2018	€	350	1	351	0,212	2020
SNAM S.p.A. (l)	2018	€	900	(6)	894	1	2023
			8.027	31	8.058		
Convertible bonds							
Snam S.p.A.	2017	€	400	(12)	388		2022
			8,427	19	8,446		

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

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

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

(d) Bond loans subject to the 2018 liability management operation.

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

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

(g) Bond with a nominal value of 10 billion Japanese yen, converted into euro through a cross-currency swap (CCS).

The indicated nominal value is obtained by converting into euro at the year-end spot exchange rate."

(h) Bond tapped for an incremental amount of 250 million euro, with the same interest rate and maturity as the original placement.

(i) Floating-rate bond, converted into fixed-rate through an IRS hedging derivative.

(l) Bond tapped for an incremental amount of 300 million euro, with the same interest rate and maturity as the original placement.

The 226 million euro reduction in financial and bond debt compared with 31 December 2017 was mainly due to: (i) the repayment of a fixed-rate bond loan maturing on 19 March 2018, for a nominal amount of 851 million euro; (ii) the repayment of a fixed-rate bond maturing on 10 September 2018, for a nominal amount of 70 million euro; (iii) the repurchase on the market of fixed-rate bonds for a total nominal value of 538 million euro with an average coupon of 2.6% and a residual duration of approximately 3.7 years. The total outlay deriving from the buy-back of securities was made as part of the Liability Management operation concluded in December 2018 and comes to a total of 580 million euro²⁶, inclusive of commission paid to intermediaries (2 million euro)²⁷ and interest accrued (7 million euro). These effects were partially offset by the issue of: (i) a variable-rate bond²⁸, on 22 January 2018, for a nominal value of 350 million euro, (ii) a fixed-rate bond, on 11 September 2018, for a nominal value of 600 million euro; (iii) a fixed-rate equity linked bond, on 27 November 2018, for a nominal value of 300 million euro.

Payables for bank loans (2,998 million euro) relate to term loans, of which 1,448 million euro concern European Investment Bank (EIB) funding.

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

The weighted average interest rate on bank loans used (excluding loan contracts with the EIB) was 0.3%²⁹ (unchanged on 2017).

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

The market value of long term financial debts, including the short term portion totals 11,564 million euro³⁰ (11,913 million euro as at 31 December 2017).

Snam also has unused committed credit facilities of a total of 3.2 billion euro.

Financial covenants and negative pledge commitments

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

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

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

As at 31 December 2018, the financial debt subject to these restrictive clauses amounted to approximately 3 billion euro.

Bonds, issued by Snam as at 31 December 2018, with a nominal value of 8.4 billion euro, refer mainly to securities issued under the Euro Medium Term Notes programme.

The covenants set for the programme's securities reflect international market practices and relate, inter alia, to negative pledge and pari passu clauses. Specifically, under the negative pledge clause, Snam and its significant subsidiaries are subject to limitations in relation to the creation or maintenance of restrictions on all or part of their own assets or inflows to guarantee present or future debt, unless this is explicitly permitted.

26 For more information about the acquisition, see the section "Snam in 2018 - Summary Data and Information - Main Events" in the Report on operations.

27 This commission was paid in January 2019.

28 The above-mentioned interest bond is converted at a fixed rate through a derivative Interest Rate Swap (IRS).

29 This does not include amortization of the Up-Front fee.

30 Includes bonds, whose value is estimated on the basis of the market listings as at 31 December 2018, and financial liabilities to banks, all at floating rate, whose corresponding market value is taken as the nominal repayment value.

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

In confirmation of Snam's credit standing, the loan agreements do not contain covenants which require compliance with an economic and/or financial ratio.

Breakdown of net financial debt

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

(€ million)	31.12.2017			31.12.2018		
	Current	Non-current	Total	Current	Non-current	Total
A. Cash and cash equivalents	719		719	1,872		1,872
B. Securities available for sale and held to maturity						
C. Cash (A + B)	719		719	1,872		1,872
D. Short-term financial receivables	350		350			
E. Short-term financial liabilities to banks	1,358		1,358	1,751		1,751
F. Long-term financial liabilities to banks	27	2,546	2,573	744	2,254	2,998
G. Bonds	1,042	7,630	8,672	913	7,533	8,446
H. Short-term financial liabilities to related parties	15		15			
I. Long-term financial liabilities to related parties						
L. Other short-term financial liabilities				225		225
M. Other long-term financial liabilities	1		1			
N. Gross financial debt (E + F + G + H + I + L + M)	2,443	10,176	12,619	3,633	9,787	13,420
O. Net financial debt (N - C - D)	1,374	10,176	11,550	1,761	9,787	11,548

Reconciliation of net financial debt

In compliance with the provisions of IAS 7 "Statement of Cash Flows", effective from 01 January 2017, we provide below the cash and non-cash changes to liabilities arising from financing activities and to assets included in net financial debt.

(€ million)	31.12.2017	Cash flow changes	Changes without effects on cash flows			31.12.2018
			Impact IFRS 9	Foreign exchange	Change in scope of consolidation	
Cash and cash equivalents (*)	719	1,153				1,872
Short-term financial receivables	350	(350)				
Liquidity and financial receivables	1,069	803				1,872
Short-term financial liabilities	1,373	597			6	1,976
Long-term financial liabilities (**)	11,246	202	(10)	6		11,444
Gross financial debt	12,619	799	(10)	6	6	13,420
Net financial debt	11,550	(4)	(10)	6	6	11,548

(*) Includes liquid funds from change to consolidation scope.

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

18) TRADE AND OTHER PAYABLES

Trade and other payables, which amount to 1,768 million euro (1,673 million euro as at 31 December 2017), comprise the following:

(€ million)	31.12.2017	31.12.2018
Trade payables	406	491
Payables for investment activities	347	337
Other payables	920	940
	1,673	1,768

Trade payables of 491 million euro (406 million euro as at 31 December 2017) relate mainly to the natural gas transmission (390 million euro, including 230 million euro relating to gas balancing activities), storage (24 million euro) and regasification (5 million euro) business segments.

Payables for investment activities of 337 million euro (347 million euro as at 31 December 2017) relate mainly to the natural gas transmission (271 million euro) and storage (50 million euro) business segments.

Other payables of 940 million euro (920 million euro as at 31 December 2017) break down as follows:

(€ million)	31.12.2017	31.12.2018
Other payables		
- Payables to the Energy and Environmental Services Fund (CSEA)	564	570
- Interim dividend	294	298
- Payables to employees	26	32
- Payables to pension and social security institutions	16	19
- Consultants and professionals	5	8
- Other	15	13
	920	940

Payables to the CSEA (570 million euro) concern accessory tariff components that mainly relate to the transmission segment.

The interim dividend (298 million euro) refers to the payable due to shareholders for the 2018 dividend, of 0.0905 euro per share, resolved on 06 November 2018.

The interim dividend was made available for payment from 23 January 2019.

Note 34 "Related-party transactions" contains information about payables due to related parties.

The fair value measurement of trade and other payables has no material impact given the short period of time between when the payable arises and its due date and the contractual terms and conditions.

19) OTHER CURRENT AND NON-CURRENT LIABILITIES

Other current liabilities, amounting to 86 million euro (79 million euro as at 31 December 2017), and *other non-current liabilities*, amounting to 437 million euro (346 million euro as at 31 December 2017), break down as follows:

(€ million)	31.12.2017			31.12.2018		
	Current	Non-current	Total	Current	Non-current	Total
Regulated liabilities	45	254	299	38	351	389
Market value of derivative financial instruments	2	11	13	7	26	33
Other liabilities	32	81	113	41	60	101
- Security deposits		67	67		46	46
- Prepaid revenue and income	16	8	24	29	6	35
- Prepaid contributions for connecting to the transportation network		3	3		6	6
- Other	16	3	19	12	2	14
	79	346	425	86	437	523

Liabilities from regulated activities, amounting to 389 million euro (299 million euro as at 31 December 2017), relate to:

- the transmission segment (359 million euro) due to the transmission revenue invoiced in excess of the restriction established by the regulator and penalties charged to users who exceeded the committed capacity; this amount is to be returned through tariff adjustments pursuant to Resolution 575/2017/R/gas of ARERA. The current and non-current portions amount to 37 and 322 million euro respectively (44 and 224 million euro as at 31 December 2017);
- the storage segment (€30 million) due to payments for balancing and stock replenishment, to be returned to service users pursuant to Resolution 50/06 of the Authority. The current and non-current portions amount to 1 and 29 million euro respectively (no change from 31 December 2017).

The market value of the derivatives outstanding as at 31 December 2018 is broken down in Note no. 12 "Other current and non-current assets".

Other liabilities of 101 million euro (113 million euro as at 31 December 2017) include: (i) deposits (46 million euro; 67 million euro as at 31 December 2017) paid by way of guarantee to users of the balancing service, in accordance with Resolution ARG/gas 45/11; (ii) liabilities for revenues and prepaid income (35 million euro), essentially regarding revenues anticipated to TAP for the provision of the design services (26 million euro corresponding entirely to the current portion) and the prepaid charges for the concession to use optic fibre cable to a telecommunications operator (8 million, of which 2 million euro current portion and 6 million euro non-current portion).

20) PROVISIONS FOR RISKS AND CHARGES

Provisions for risks and charges, which amount to 655 million euro (677 million euro as at 31 December 2017) are analysed in the table below:

31.12.2017							
(€ million)	Opening balance	Provisions	Increases due to passing of time	Utilisations		Other changes	Final balance
				Against charges	For excess		
Provision for site dismantling and restoration	628		11	(10)		(19)	610
Provision for litigation	14	2					16
Provision for tax litigation	1	9					10
Other provisions	64	11		(34)			41
	707	22	11	(44)		(19)	677

31.12.2018							
(€ million)	Opening balance	Provisions	Increases due to passing of time	Utilisations		Other changes	Final balance
				Against charges	For excess		
Provision for site dismantling and restoration	610		11	(6)		(8)	607
Provision for litigation	16	6		(1)	(2)		19
Provision for tax litigation	10			(3)	(1)		6
Other provisions	41	20		(26)	(2)		33
	677	26	11	(36)	(5)	(8)	665

The provision of 607 million euro for site dismantling and restoration (610 million euro as at 31 December 2017) includes the discounted estimate of costs expected to be incurred for the removal of facilities and the restoration of sites in the natural gas storage (493 million euro) and transmission³¹ (109 million euro) business segments. Discounting of the provision for site dismantlement and restoration was carried out using the rate corresponding to the returns of the Eurozone corporate bonds with "AA" rating. The rate thus determined was between 1.48% and 1.68%. The outlay connected with the dismantling and restoration interventions will be paid in a time frame that covers the next 43 years. Other changes (-8 million euro) regard the reduction of the estimated costs of dismantling and restoration of sites referring to the storage segment, the effects of which have been partly absorbed by the reduction of expected discounting rates.

The provision for litigation (19 million euro; 16 million euro as at 31 December 2017) included costs which the Company has estimated it will incur for existing lawsuits.

The risk provision for tax disputes (6 million euro; 10 million euro as at 31 December 2017) contains the estimate of the probable expenses in the event of levying of assessments and pursuant to tax disputes.

Other provisions for risks and charges (33 million euro; 41 million euro as at 31 December 2017) mainly regard the expenses that the insurance company of the Gasrule Insurance DAC Group expects to incur in view of insured claims (14 million euro) and the provision for incentives to take early retirement (14 million euro). In accordance with ESMA Recommendation 2015/1608 of 27 October 2015, the effects on provisions of risks and charges arising from a reasonably possible change to the discount rate used at year-end are shown below.

The sensitivity³² of the discount rate represents the change in the value of the actuarial liability obtained using the end-of-year valuation data, changing the discount rate without any change in the other assumptions.

(€ million)	Change in discount rate	
	Reduction of 10%	Increase of 10%
Effect on the net obligation at 31.12.2018		
Provision for site dismantling and restoration	22	(21)

21) PROVISIONS FOR EMPLOYEE BENEFITS

Provisions for employee benefits, amounting to 64 million euro (58 million euro as at 31 December 2017), can be broken down as follows:

(€ million)	31.12.2017	31.12.2018
Employee severance pay (TFR)	30	26
Supplemental healthcare provision for company executives of Eni (FISDE)	3	3
Isopensione provision	13	25
Other employee benefit provisions	12	10
	58	64

31 The costs refer to the expenses estimated for the removal of the works for connecting to the LNG regasification terminal of Livorno - OLT Offshore LNG Toscana.

32 For the purposes of sensitivity, only provisions for risks and charges showing a significant accretion discount were taken into account.

The provision for employee severance pay (TFR), governed by Article 2120 of the Italian Civil Code, represents the estimated liability determined on the basis of actuarial procedures for the amount to be paid to employees at the time that the employment is terminated. The principal amount of the benefit is equal to the sum of portions of the allocation calculated on compensation items paid during the employment and revalued until the time such relationship is terminated. Due to the legislative changes introduced from 1 January 2007 for companies with more than 50 employees, a significant part of severance pay to be accrued is classified as a defined-contribution plan since the company's only obligation is to pay the contributions to the pension funds or to INPS. Liabilities related to severance pay pre-dating 1 January 2007 remain a defined-benefit plan to be valued using actuarial methods (26 million euro; 30 million euro as at 31 December 2017). The supplementary healthcare provision for Company executives of Eni (FISDE) of 3 million euro (also as at 31 December 2017) includes the estimate of costs (determined on an actuarial basis) related to contributions benefiting current³³ and retired executives.

FISDE provides financial supplementary healthcare benefits to Eni Group³⁴ executives and retired executives whose most recent contract of employment was as an executive with the Eni Group. FISDE is funded through the payment of: (i) contributions from member companies; (ii) contributions from individual members for themselves and their immediate family; and (iii) ad hoc contributions for specific benefits. The amount of the liability and the healthcare cost are determined on the basis, as an approximation of the estimated healthcare expenses paid by the fund, of the contributions paid by the company in favour of pensioners.

The Isopensione pre-retirement fund (25 million euro) refers to expenses incumbent upon the employer from application of the implementation agreement (hereinafter the "Plan"), relatively to the pre-retirement instrument for employees regulated pursuant to Article 4 paragraphs 1-7 of Law 92/2012 (the so called "Fornero Law").

Other employee benefit provisions (10 million euro; 12 million euro as at 31 December 2017) concern long-term benefits connected with deferred monetary incentive plans (IMD), long-term monetary incentive plans (ILT) (7 million euro in total) and seniority bonuses (3 million euro).

Deferred cash incentive plans are allocated to executives who have met the goals set out in the year preceding the allocation year, and allocate a basic incentive that is disbursed after three years and varies according to the performance achieved by the Company during the course of the three-year period following the time of the allocation. The benefit is recognized when Snam's obligation to the employee arises. The estimate is subject to revision in future periods, based on the final accounting and updates to profit forecasts (above or below target).

The long-term incentive plans involve the payment, three years after allocation, of a variable cash bonus tied to a measure of company performance. Obtaining the benefit depends on the achievement of certain future performance levels and is conditional on the beneficiary remaining with the Company for the three-year period following the allocation (the "vesting period"). This benefit is allocated pro rata over the three-year period depending on the final performance parameters. Starting 2017, in lieu of the long-term monetary incentive plans (IMD and ILT), the new long-term, share-based variable incentive plan was introduced (ILT share)³⁵, the scope of addressees of such was extended in 2018.

³³ For executives in service, contributions are calculated from the year in which the employee retires and refer to the years of service provided.

³⁴ The fund provides the same benefits for Snam Group executives.

³⁵ For more information on the characteristics of the plan, please refer to the "Other information" section of this Report on operations.

Seniority bonuses are benefits paid upon reaching a minimum service period at the company, and are paid in kind, in the form of goods and/or services.

The composition of and changes in employee benefit provisions, determined by applying actuarial methods, are as follows³⁶:

(€ million)	31.12.2017					31.12.2018				
	TFR	FISDE	Isopen- sione pro- vision	Other provi- sions	Total	TFR	FISDE	Isopen- sione provi- sion	Other provi- sions	Total
Current value of the obligation at the start of the year	29	3		12	44	30	3	13	12	58
Current cost			13	4	17			15	2	17
Cost in interest										
Revaluations/ (Impairment losses):	1				1	(1)		1		
- Actuarial (gains)/ losses resulting from changes in the financial assumptions	1				1					
- Effect of past experience						(1)		1		
Benefits paid	(1)			(4)	(5)	(3)		(4)	(4)	(11)
Change in scope of consolidation	1				1					
Current value of the obligation at the end of the year	30	3	13	12	58	26	3	25	10	64

Costs for defined-benefit plans recognised under other components of comprehensive income are broken down in the following table:

(€ million)	31.12.2017		31.12.2018	
	TFR	Total	TFR	Total
- Actuarial (gains)/losses resulting from changes in the financial assumptions	1	1		
- Effect of past experience			(1)	1
	1	1	(1)	1

36 The table also provides a reconciliation of liabilities recorded for employee benefit provisions.

The main actuarial assumptions used to determine liabilities at the end of the year and to calculate the cost for the following year are indicated in the table below:

	31.12.2017			31.12.2018		
	TFR	FISDE	Other	TFR	FISDE	Other
Discount rate (%)	1.5	1.5	0-1.5	1.6	1.6	0.1-1.6
Inflation rate (%) (*)	1.5	1.5	1.5	1.5	1.5	1.5

(*) With regard to the other provisions, the rate relates only to seniority bonuses.

The discount rate adopted was determined by considering the yields on bonds issued by Eurozone companies with AA ratings.

The employee benefit plans recognised by Snam are subject, in particular, to interest rate risk, in the sense that a change in the discount rate could result in a significant change in the liability.

The table below illustrates the effects of a reasonably possible change³⁷ in the discount rate at the end of the year.

The sensitivity of the discount rate represents the change in the value of the actuarial liability obtained using the end-of-year valuation data, changing the discount rate by a certain number of basis points, without any change in the other assumptions.

(€ million)	Change in discount rate	
Effect on the net obligation at 31.12.2018	Reduction of 0.5%	Increase of 0.5%
Employee severance pay (TFR)	1	(1)
FISDE	1	(1)

The maturity profile of the obligations for employee benefit plans is shown in the following table:

(€ million)	31.12.2017					31.12.2018				
	Provision for employee severance pay (TFR)	FISDE	Isopen-sione provision	Other	Total	Provision for employee severance pay (TFR)	FISDE	Isopen-sione provision	Other	Total
Within the next year	1		3	4	8	1		8	5	14
Within five years	5		10	6	21	5		17	3	25
Between five and ten years	10			1	11	9			1	10
Beyond 10 years	14	3		1	18	11	3		1	15
	30	3	13	12	58	26	3	25	10	64

37 Any changes relating to mortality do not have a significant effect on the liability.

The weighted average maturity of obligations for employee benefit plans is shown below:

	31.12.2017				31.12.2018			
	Provision for employee severance pay (TFR)	FISDE	Isopen-sione provision	Other provisions	Provision for employee severance pay (TFR)	FISDE	Isopen-sione provision	Other provisions
Weighted average maturity (years)	10	22	2	3	10	22	2	4

22) DEFERRED TAX LIABILITIES

Deferred tax liabilities of 541 million euro (549 million euro as at 31 December 2017) are stated net of offsettable prepaid tax assets of 407 million euro (384 million euro as at 31 December 2017).

There are no prepaid tax assets which cannot be offset.

(€ million)	31.12.2017	Provisions	Utilisations	Other changes	Change in scope of consolidation	31.12.2018
Deferred tax liabilities	549		(16)	2	6	541
Prepaid tax assets	(384)	(37)	21	(7)		(407)
	165	(37)	5	(5)	6	134

Deferred tax liabilities and prepaid tax assets break down as follows, based on the most significant temporary differences:

31.12.2018									
(€ million)	Opening balance	Provisions	Utilisations	Significant impacts on shareholders' equity	Other changes	Change in scope of consolidation	Final balance	Of which: IRES	Of which: IRAP
Deferred tax liabilities	549		(16)		2	6	541	527	14
Depreciation and amortisation exclusively for tax purposes	437		(15)				422	422	
Site dismantling and restoration	84				(4)		80	68	12
Revaluation of property, plant and equipment	13					6	19	18	1
Capitalisation of financial expenses	7						7	6	1
Impairment losses on receivables in excess of tax deductibility	3						3	3	
Other temporary differences	5		(1)		6		10	10	
Prepaid tax assets	(384)	(37)	21	(6)	(1)		(407)	(370)	(37)
Site dismantling and restoration	(171)	(3)	1		4		(169)	(144)	(25)
Non-deductible amortisation and depreciation	(105)	(20)	4		(8)		(129)	(128)	(1)
Provision for risks and charges and other non-deductible provisions	(68)	(7)	10		8		(57)	(53)	(4)
Non-repayable and contractual grants	(21)		1				(20)	(17)	(3)
Employee benefits	(12)	(6)	4		(1)		(15)	(13)	(2)
Other temporary differences	(7)	(1)	1	(6)	(4)		(17)	(15)	(2)
Net deferred tax liabilities	165	(37)	5	(6)	1	6	134	157	(23)

Prepaid tax assets and deferred tax liabilities are considered to be long term. Note no. 31 "Income taxes" provides information about taxes for the year.

23) SHAREHOLDERS' EQUITY

Shareholders' equity, which amounts to 5,985 million euro (6,188 million euro as at 31 December 2017), breaks down as follows:

(€ million)	31.12.2017	31.12.2018
Share capital	2,736	2,736
Legal reserve	547	547
Share premium reserve	1,140	1,021
Reserve for fair value of cash flow hedging derivatives net of tax effect	(8)	(28)
Reserve for defined-benefit plans for employees net of tax effect	(8)	(8)
Reserve for fair value of minority equity investments		1
Retained earnings	2,112	2,286
Consolidation reserve	(674)	(674)
Net profit	897	960
Other reserves	58	67
Less:		
- Negative reserve for treasury shares in the portfolio	(318)	(625)
- Interim dividend	(294)	(298)
Snam shareholders' equity	6,188	5,985

Below is a breakdown of the shareholders' equity of Snam as at 31 December 2018.

Share capital

The share capital as at 31 December 2018 consisted of 3,469,038,579 shares without nominal value (3,500,638,294 as at 31 December 2017), with a total value of 2,735,670,475.56 (unchanged from 31 December 2017). The reduction is due to the cancellation of 31,599,715 treasury shares with no nominal value, without reducing the share capital, resolved by the Shareholders' Meeting on 24 April 2018.

Legal reserve

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

Share premium reserve

The share premium reserve as at 31 December 2018 totalled 1,021 million euro (1,140 million euro as at 31 December 2017). The reduction of 119 million euro is due to the cancellation of 31,599,715 treasury shares with no nominal value, without reducing the share capital, resolved by the Shareholders' Meeting on 24 April 2018.

Reserve for fair value of cash flow hedging derivatives net of tax effect

The reserve for fair value of cash flow hedging derivatives (-28 million euro as at 31 December 2018, -8 million euro as at 31 December 2017, net of the related tax effects) includes the fair value measurement of cash flow hedges relative to a cross currency swap contract, 6 interest rate swaps (IRS) and 3 "forward start" interest rate swaps, explained under Note no. 12 "Other current and non-current assets".

The changes in the reserve during the course of the year are shown below:

(€ million)	Gross reserve	Tax effect	Net reserve
Reserve at 31.12.2017	(11)	3	(8)
Changes in 2018	(26)	6	(20)
Reserve at 31.12.2018	(37)	9	(28)

Reserve for defined-benefit plans for employees net of tax effect

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

Retained earnings

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

Consolidation reserve

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

Other reserves

Other reserves of 67 million euro (58 million euro as at 31 December 2017) mainly refer to the effects deriving from the measurement of equity investments using the equity method.

Negative reserve for treasury shares in the portfolio

The negative reserve for treasury shares in the portfolio includes the cost of

purchase, net of use, of 168,197,663 treasury shares (85,915,616 shares as at 31 December 2017), as a total amount of 626 million euro (318 million euro as at 31 December 2017).

Detailed information on treasury shares and on the long-term share-based incentive plans are shown in the “Other information” section of the Report on operations, to which reference should be made.

Interim dividend

The interim dividend 2018 of 298 million euro of 0.0905 euro per share, resolved on 6 November 2018 by the Board of Directors in its meeting on 06 November 2018 pursuant to Article 2433-bis, paragraphs 5 of the Italian civil code. The interim dividend was paid out as of 23 January 2019, with an ex-coupon date of 21 January 2019 and a record date of 22 January 2019.

Dividends

The ordinary shareholders’ meeting of Snam S.p.A. resolved on 24 April 2018 to distribute the 2017 ordinary dividend of 0.2155 euro per share, of which 0.0862 euro per share, for an amount of 294 million euro, already distributed by way of interim dividend. The balancing dividend of 0.1293 euro per share, for an amount of 437 million euro, will be paid from 20 June 2018, with an ex-coupon date of 18 June 2018 and a record date of 19 June 2018.

In its meeting of 18 February 2019, the Board of Directors proposed to the Shareholders’ Meeting convened for 2 April 2019 the distribution of an ordinary dividend of 0,2263 euro per share, of which 0.0905 per share, for a total of 298 million euro, already distributed as interim dividend. The balancing dividend of 0,1358 euro per share will be paid out as of 26 June 2019, with an ex-coupon date of 24 June 2019 and a record date of 25 June 2019.

24) BUSINESS COMBINATIONS

Below is the information in accordance with accounting standard IFRS 3 “Business combinations” with reference to the main acquisitions made in 2018.

TEP Energy Solution (TEP)

On 30 May 2018, after obtaining antitrust clearance, through the subsidiary Asset Company 4 S.r.l., a controlling stake of 82% of the capital was acquired in TEP Energy Solution (TEP) for a total value of approximately 21 million euro. There is a contractual price adjustment mechanism in place, based on the results of FYs 2018-2020 and crossover put and call options on the interests of minority shareholders, maturing in 2020. TEP is one of Italy’s most important companies in the energy efficiency sector, as an Energy Service Company (ESCO) with more than 200 leading national and international businesses as clients and 950 thousand energy efficiency certificates.

The transaction is a “business combination” recorded in compliance with IFRS 3 “Business combinations”. To this end, on the date that control was acquired, the individual assets acquired, as provisional accounting separately from goodwill, and the liabilities assumed were recognised at the relative fair values.

As at the date of acquisition, in accordance with the terms of the contract regulating the exercise of crossover put and call options over minority shareholdings (equal to 18%), the transaction was booked as though Snam had acquired control over 100% of TEP, without, therefore, noting the interests of minority shareholders.

The current value of payments envisaged in the event of the exercise of the options has been included in the determination of the price of the business combination (approximately 5 million euro).

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

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

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

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

(*) Mainly measurement of backlogs on contracts with customers, performed when allocating acquisition price..

Goodwill (3 million euro) was determined as the difference between the fair value of the price, including the financial component relative to the purchase option over minority interests and the fair value of the net assets acquired. Beginning from the acquisition date, the TEP contribution to consolidated net profits is approximately -1 million euro. With reference to revenues, the contribution came to 4 million euro.

If the business combination had been effective as from 1 January 2018, the contribution made by TEP to the net result would have been of a non-significant amount.

IES Biogas (IES)

On 5 July 2018 Snam acquired, for a value of approximately 4 million euro, 70% of IES Biogas, one of the most important Italian businesses involved in the design, development and management of biogas and biomethane production plants with a market share in excess of 10%. Contractual put and call options are envisaged on minority shareholders' interests, maturing in 2022.

With 2017 turnover exceeding 20 million euro, IES Biogas has to date developed more than 200 plants throughout national territory. In recent years, the company has also developed projects outside Italy.

This acquisition was completed through the subsidiary Snam4Mobility.

The transaction is a “business combination” recorded in compliance with IFRS 3 “Business combinations”. To this end, on the date that control was acquired, the individual assets acquired, as provisional accounting separately from goodwill, and the liabilities assumed were recognised at the relative fair values.

As at the date of acquisition, in accordance with the terms of the contract regulating the exercise of crossover put and call options over minority shareholdings (equal to 30%), the transaction was booked as though Snam had acquired control over 100% of IES, without, therefore, noting the interests of minority shareholders.

The current value of payments envisaged in the event of the exercise of the options has been included in the determination of the price of the business combination (approximately 1 million euro).

Goodwill (4 million euro) includes the value of the operating and financial synergies. The goodwill is not expected to be tax deductible.

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

(€ million)	Values after assignment of fair value
Fair value of the consideration	4
Fair value of put/call option on minority interests (30%)	1
Total net identifiable assets at fair value	1
Goodwill	4

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

(€ million)	Values after assignment of fair value
Current assets	10
Inventories	2
Intangible assets	1
Goodwill	4
Assets acquired	17
Current liabilities	6
Short-term financial liabilities	4
Long-term financial liabilities	1
Current tax liabilities	1
Liabilities acquired	12
Shareholders' equity acquired	5

Goodwill (4 million euro) was determined as the difference between the fair value of the price, including the financial component relative to the purchase option over minority interests and the fair value of the net assets acquired.

Beginning from the acquisition date, the IES contribution to consolidated net profits is null. With reference to revenues, the contribution came to 23 million euro.

If the business combination had been effective as from 01 January 2018, the contribution made by IES would have been of a non-significant amount.

Cubogas

On 25 July 2018, through the newly-established company Cubogas S.r.l., a 100% subsidiary of Snam4Mobility, after the meeting of several conditions precedent including the completion of the union procedures, the business unit was acquired as operating in the design, development and production of technological solutions for natural gas vehicle refuelling stations of M.T.M., a company of the Westport Fuel Systems Group. The transaction has a value of 12.6 million euro, including price adjustments applied during closing.

The transaction is a “business combination” recorded in compliance with IFRS 3 “Business combinations”. To this end, on the date that control was acquired, the individual assets acquired, as provisional accounting separately from goodwill, and the liabilities assumed were recognised at the relative fair values.

Goodwill (7 million euro) includes the value of the operating and financial synergies. The goodwill is not expected to be tax deductible.

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

(€ million)	Values after assignment of fair value
Fair value of the consideration	13
Total net identifiable assets at fair value	6
Goodwill	7

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

(€ million)	Values after assignment of fair value
Current assets	6
Non current assets	2
Goodwill	7
Assets acquired	15
Current liabilities	1
Deferred tax liabilities	1
Liabilities acquired	2
Shareholders' equity acquired	13

Goodwill (7 million euro) was determined as the difference between the fair value of the price and the fair value of the net assets acquired.

Beginning from the acquisition date, the Cubogas contribution to consolidated net profits is approximately -1 million euro. With reference to revenues, the contribution came to 7 million euro.

25) GUARANTEES, COMMITMENTS AND RISKS

Guarantees, commitments and risks, amounting to 5,961 million euro (3,918 million euro as at 31 December 2017) comprise:

(€ million)	31.12.2017	31.12.2018
Guarantees given in the interest of:	130	1,262
- subsidiaries	44	69
- associates	86	1,193
- of which TAP		1,129
Financial commitments and risks:		
Commitments	1,872	2,021
Commitments for the purchase of goods and services	1,428	1,691
Commitments in associates (*)	419	324
- of which TAP	419	324
Other	25	6
Risks	1,916	2,667
- third-party assets on deposit	1,879	2,609
- compensation and litigation	37	58
	3,918	5,950

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

Guarantees

Guarantees given in the interests of subsidiaries (69 million euro; 44 million euro as at 31 December 2017) essentially relate to: (i) waivers issued in the favour of third parties as a performance guarantee (40 million euro); (ii) bank surety in the favour of INPS as a guarantee of the fulfilment of obligations accepted with regards to the same institute under the scope of the provisions connected with early retirement, regulated by Art. 4, paragraph 1-7 of Italian Law 92/2012 - the Fornero Law (15 million euro); (iii) guarantees given in the favour of the Revenue Agency in the interests of the subsidiaries Stogit and Gnl (14 million euro). Other personal guarantees given in the interests of associates (1,193 million euro; 86 million euro as at 31 December 2017) essentially relate to: (i) the guarantee given in the interests of TAP (1,129 million euro) in connection with the project finance for the development of the gas pipeline (for more information, see the paragraph "Commitments, guarantee and pledges - TAP" below); (ii) the on-demand guarantee given in the favour of the Greek privatisation agency (TAIPED) during the tender for the purchase of 66% of DESFA, the national operator in the natural gas

infrastructures sector in Greece³⁸ (64 million euro).

Commitments

The commitments for the purchase of goods and services (1,691 million euro; 1,428 million euro as at 31 December 2017) regard the commitments made with suppliers for the purchase of tangible assets and the supply of services relative to the investments being made. Commitments in associates (324 million euro; 419 million euro as at 31 December 2017) refer to the commitment made by Snam S.p.A. to the company TAP by virtue of the share held (for more information, see the paragraph "Commitments, guarantees and pledges - TAP" below). The other commitments (6 million euro; 25 million euro as at 31 December 2017) refer to minimum future payments relative to non-cancellable operating leases, all maturing within the next year.

³⁸ The guarantee was released on 9 January 2019.

Commitments, guarantees and pledges - TAP

Commitments in associates (324 million euro) refer to the residual commitment of Snam S.p.A., as shareholder and in connection with the project finance for the development of the gas pipeline by virtue of the share held, of 20%, with regards to the company Trans Adriatic Pipeline AG (TAP). The commitment relates to the total project costs, including the financial expenses envisaged during the development of the work deriving from the loan agreement stipulated by TAP in December 2018. It is specified that, following the finalisation of the TAP Project Financing, the cost of the project will be financed for approximately 75% by the lenders. On the basis of the project financing concluded, Snam S.p.A.'s commitment toward TAP will progressively decline due to the disbursement to TAP of the financing by the lenders. During the construction and commissioning of the plant, the loan contract of the associate TAP will be, amongst others, accompanied by a first-demand guarantee (the "Debt Service Guarantee") up to a maximum pro-quota amount of Snam of 1,129 million euro. As at 31 December 2018, the value of the debt guaranteed by Snam is approximately 566 million euro. The guarantee will be released when certain requirements are met, as agreed with the lenders, including, in particular, the completion and commissioning of the plant. Once the project has been developed, during operation, a mechanism is instead envisaged in support of the repayment of the financial debt issued by shareholders (the "Debt Payment Undertaking"), which will activate where certain, specific conditions should arise. The project financing structure stipulated for TAP envisages some limits for shareholders typical of transactions of this type, including: (i) the restriction of the possibility of freely disposing of the shares in TAP according to certain timing; (ii) the establishment in pledge of the shares held by Snam in TAP in the favour of the lenders for the entire duration of the loan.

Risks

Risks related to third-party assets on deposit, equal to 2,609 million euro (1,879 million euro as at 31 December 2017) relate to approximately 8 billion cubic metres of natural gas deposited in the storage plants by customers of the service. This amount was determined by applying the estimated unit repurchase cost³⁹ of approximately 0.32 euro per standard cubic metre (0.24 euro per standard cubic metre as at 31 December 2017) to the quantities of gas deposited. Risks concerning compensation and litigation (58 million euro) relate to possible (but not probable) claims for compensation arising from ongoing litigation, with a low probability that the pertinent economic risk will arise.

³⁹ The value is calculated based on the CCI tariff, i.e. the wholesale price established every quarter by ARERA.

FINANCIAL RISKS MANAGEMENT

Introduction

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

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

There follows a description of Snam's policies and principles for the management and control of the financial risks. In accordance with IFRS 7 - "Financial instruments: additional information", there are also descriptions of the nature and size of the risks resulting from financial instruments. Information on other risks affecting the company's business (natural gas price risk, operational risk and risks specific to the segment in which Snam operates) can be found in the "Elements of risk and uncertainty" chapter of the Report on operations.

Interest rate risk

Interest rate risk is associated with fluctuations in interest rates affecting the market value of the Company's financial assets and liabilities and its net financial expense. Snam aims to optimise interest rate risk while pursuing its financial objectives. The Snam Group has adopted a centralised organisational model. In accordance with this model, Snam's various departments access the financial markets and use funds to cover financial requirements, in compliance with approved objectives, ensuring that the risk profile stays within defined limits. As at 31 December 2018, the Snam Group used external financial resources in the form of bonds and bilateral and syndicated loans with banks and other lenders, in the form of medium- to long-term loans and bank credit lines at interest rates indexed to benchmark market rates, in particular the Europe Interbank Offered Rate (Euribor), and at fixed rates.

The exposure to interest rate risk as at 31 December 2018 is about 22% of the total exposure of the Group (unchanged from 31 December 2017). As at 31 December 2018, Snam has six interest rate swaps (IRS) in place for a total amount of 1,650 million euro, referring to the hedge of the entire notional amount of three variable-rate bond loans for a total value of 1,000 million euro, maturing in 2020, 2022 and 2024 and two bilateral variable-rate loans for a total value of 650 million euro, maturing in 2021 and 2023. The IRS derivative contracts are used to convert floating rate loans to fixed rate loans.

Moreover, as at 31 December 2018, Snam has IRS Forward Starting derivatives in place of a notional amount totalling 750 million euro, maturing in the medium to long-term, for highly probable future financial liabilities to be undertaken up to 2021, for coverage of financial requirements.

The effects on shareholders' equity and net profit as at 31 December 2018 are shown below, assuming a hypothetical change in the interest rate basis points of +/-10% (bps) actually applied during the course of the year:

(€ million)	31.12.2018			
	Profit for the period		Shareholders' equity	
	Interest +10 bps	Interest -10 bps	Interest +10 bps	Interest -10 bps
Floating-rate loans				
Effect of interest rate change	(4)	4		
Floating-rate loans converted by IRSs into fixed-rate loans				
Effect of interest rate change on the fair value of hedging derivatives pursuant to IAS 39 – effective portion (*)			10	(10)
Effect on pre-tax profit	(4)	4	10	(10)
Tax effect	1	(1)	(2)	2
	(3)	3	8	(8)

(*) The change in interest rates has no effect on the income statement. Therefore, the change in the fair value of the derivative contracts following the decrease in the interest rate has an effect exclusively on shareholders' equity.

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

Exchange rate risk

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

As at 31 December 2018, Snam's foreign-currency items essentially refer to a 10 billion Yen bond maturing in 2019 and with an issue-date value of approximately 75 million euro. The bond has been fully converted into euros by a cross currency swap, with the same notional amount and maturity as the hedged component. This swap is considered to be a cash flow hedge derivative. Snam does not take out currency derivatives for speculative purposes.

The effects on shareholders' equity and net profit as at 31 December 2018 of a hypothetical change of +/-10% in euro/Japanese yen exchange rates actually applied over the course of the year is insignificant. The exchange rate change has no effect on the profit for the period since the effects of such a change are offset by the effects of the hedging derivative.

As regards Snam's investment in the associate IUK Interconnector, there is a euro/sterling exchange rate risk. Snam believes, however, that this risk should be considered limited, given the low historic volatility of the euro/sterling exchange rate, also considering the recent increase in volatility following the Brexit. With reference to Snam's investment in the associate TAP, there is a euro/CHF exchange rate risk on the equity cash call on the basis of the contractual commitments made by shareholders with the company, moreover the latter are limited in amount following the positive conclusion of the project financing. This risk is suitably hedged through the use of derivatives (e.g. forward contracts).

Credit risk

Credit risk is the Company's exposure to potential losses arising from counterparties failing to fulfil their obligations. Default or delayed payment of fees may have a negative impact on the economic results and the financial position of Snam. For the risk of non-compliance by the counterparty concerning contracts of a commercial nature, the credit management for credit recovery and any possible disputes is handled by the business units and the centralised Snam departments. Snam provides its business services to almost 200 operators in the gas sector, with 10 operators representing approximately 70% of the entire market (Eni, Edison and Enel hold the top three spots). The rules for client access to the services offered are established by the Authorities and set out in the Network Codes. For each type of service, these documents explain the rules regulating the rights and obligations of the parties involved in selling and providing said services and contain contractual conditions, which significantly reduce the risk of non-compliance by the clients. The Codes require guarantees in coverage of the commitments assumed. In specific cases, if the customer has a credit rating issued by major international organizations, the issue of these guarantees may be mitigated. The regulations also contain specific clauses which guarantee the neutrality of the entity in charge of balancing, an activity carried out from 1 December 2011 by Snam Rete Gas as the major transportation company. In particular, the current balancing discipline requires that based on financial merit criteria, Snam shall make its purchases and sales on the GME balancing platform to ensure availability of the resources required for secure and efficient movement of the gas from the entry points to

the withdrawal points and therefore constant balancing of the network. The aforementioned discipline also requires additional usage by Snam of the storage resources of the users to cover system imbalances and ensure the relative financial settlement.

Snam's maximum exposure to credit risk as at 31 December 2018 is represented by the book value of the financial assets recorded in the consolidated financial statements of the Snam Group as at 31 December 2018.

As shown in Note no. 9 "Trade and other receivables", overdue and non-impaired receivables as at 31 December 2018 amounted to 119 million euro (113 million euro as at 31 December 2017) and related chiefly to the storage segment (89 million euro), mainly in relation to VAT invoiced to users for the use of strategic gas wrongfully withdrawn in 2010 and 2011.

Approximately 55% of trade receivables (62% as at 31 December 2017) were with extremely reliable clients, including Eni, which represents 22% of total trade receivables (23% as at 31 December 2017).

Snam may, however, incur liabilities and/or losses from the failure of its clients to comply with payment obligations, partly because of the current economic and financial situation, which makes the collection of receivables more difficult and more important. Snam's maximum exposure to credit risk as at 31 December 2018 is the book value of the financial assets on its balance sheet.

Liquidity risk

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

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

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

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

As at 31 December 2018, Snam had unused long-term committed credit lines totalling around €3.2 billion. In addition, as at the same date, Snam has a Euro Medium Term Notes (EMTN) programme in place for a maximum total nominal value of 10 billion, used for approximately 8.0 billion euro⁴⁰ and a Euro Commercial Paper Programme (ECP) for a maximum total nominal value of 1 billion euro, used for 225 million euro as at 31 December 2018.

Cash and cash equivalents related mainly to a short-term liquidity investment with a maturity of less than three months, with a high credit rating and demand deposit with a bank.

Although the Snam Group has relationships with diversified counterparties with high credit standing, based on a policy of continuous monitoring monitoring of credit risk, the default of an active counterparty or the difficulty of liquidating assets in the market could have negative effects on the financial situation of the Snam Group.

Rating risk

With reference to the rating risk, Snam's long-term rating is: (i) Baa2 with stable outlook, confirmed on 29 October 2018 by Moody's Investors Services Ltd ("Moody's"); (ii) BBB+ with negative outlook, confirmed on 27 November 2018 by Standard & Poor's Rating Services ("S&P"); (iii) BBB+ with stable outlook, confirmed on 12 December 2018 by Fitch Ratings ("Fitch"). Snam's long-term rating by Moody's, Standard & Poor's and Fitch is a notch higher than that of Italian sovereign debt. Based on the methodology adopted by Moody's and S&P, the downgrade of one notch from the current rating of the Republic of Italy would lead to a corresponding reduction of Snam's current rating.

The company's short-term rating, used under the scope of the Snam Commercial Paper programme, is P-2 for Moody's, A-2 for S&P and F-2 for Fitch.

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

Risk of default and debt covenants

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

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

The bonds issued by Snam as at 31 December 2018 provide for compliance with covenants that reflect international market practices regarding, inter alia, negative pledge and pari passu clauses.

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

The occurrence of one or more of the aforementioned scenarios could have negative effects on Snam Group's operations, results, balance sheet and cash flow, resulting in additional costs and/or liquidity issues. These commitments do not carry any comments that provide for compliance with ratios of an economic and/or financial nature.

⁴⁰ It should be noted that the convertible bond issued in March 2017, for a value of Euro 400 million, is not part of the EMTN programme.

Future payments for financial liabilities, trade and other payables

The table below shows the repayment plan contractually established in relation to the financial payables, including interest payments and other liabilities connected to derivative instruments:

(€ million)	Future flows				Maturity				
	31.12.2017	31.12.2018	Portion within 12 months	Portion beyond 12 months	2020	2021	2022	2023	Beyond
Bank loans	3,921	4,747	2,493	2,254	200	582	92	302	1,078
Bonds (*)	8,632	8,422	819	7,603	1,376	267	1,309	1,507	3,144
Euro Commercial Paper - ECP		225	225						
Other lenders	16								
Interest on loans (*)	916	754	159	595	131	114	100	71	179
Financial liabilities	13,485	14,148	3,696	10,452	1,707	963	1,501	1,880	4,401
Forward start derivative instruments (**)	9	47		47	14	33			
Derivative liabilities	9	47		47	14	33			
	13,494	14,195	3,696	10,499	1,721	996	1,501	1,880	4,401

(*) Future payments include the cash flow generated by hedging derivatives (CCS and IRS).

(**) The future payments are calculated as at the Mandatory Early Termination Date.

For information on the payment terms for trade and other payables, please see Note no. 18 "Trade and other payables".

Other information on financial instruments

With reference to the categories envisaged by IFRS 9 "Financial instruments", it is specified that, with the exception of the measurement of derivatives and minority shares, financial assets and liabilities, according to the instrument's characteristics and the business model adopted for their management, fall entirely within the category of the financial instruments measured according to the amortised cost method.

The book value of financial instruments and the relative effects on results and the balance sheet can be seen below.

(€ million)	Book value		Income/Expense recognised in the income statement		Other components of comprehensive income (a)	
	Balance at 31.12.2017	Balance at 31.12.2018	Balance at 31.12.2017	Balance at 31.12.2018	Balance at 31.12.2017	Balance at 31.12.2018
Financial instruments measured at amortised cost						
- Trade and other receivables (b)	1,661	1,341	(7)	5		
- Financial receivables (c)	373	11	6	8		
- Trade and other payables (b)	1,740	1,814				
- Financial payables (c)	12,619	13,420	(279)	(237)		
Financial instruments measured at fair value						
Net assets (liabilities) for hedging derivatives (c)	(12)	(29)	(1)	(2)	(6)	(20)
Financial assets measured at FVOCI						
Minority equity investments	44	40		2		1

(a) Net of tax effect.

(b) The effects on the income statement are recorded under "Purchases, services and other costs" and "Financial income/(expense)".

(c) The effects on the income statement are recorded under "Financial income/(expense)".

Market value of financial instruments

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

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

In relation to the foregoing, the classification of the assets and liabilities measured at fair value in the statement of financial position, according to the fair value hierarchy, regarded: (i) derivatives as at 31 December 2018, classified at level 2 and entered under Note no. 12 "Other current and non-current assets" (4 million euro) and Note no. 19 "Other current and non-current liabilities" (33 million euro); (ii) the minority share in Adriatic LNG, measured at FVTOCI, classified as level 3 and explained at Note no. 16 "Other equity investments" (40 million euro).

DISPUTES AND OTHER MEASURES

Snam is involved in civil, administrative and criminal cases and legal actions related to its normal business activities. According to the information currently available and considering the existing risks, Snam believes that these proceedings and actions will not have material adverse effects.

The following is a summary of the most significant proceedings; unless indicated otherwise, no allocation has been made for the litigation described below because the Company believes it improbable that these proceedings will have an unfavourable outcome or because the amount of the allocation cannot be reliably estimated.

Criminal disputes

Snam Rete Gas S.p.A. - Judiciary investigations into gas metering

In 2006, the public prosecutor at the Court of Milan opened a criminal case on the issue of gas metering and the legitimacy and reliability of "Venturi meters". This case involved several companies in the gas sector, including Snam Rete Gas. Some managers and department heads were placed under further investigation with regard to various matters. On 24 January 2012, the preliminary hearing judge ruled that there was insufficient evidence to proceed to a trial of any of those under investigation and simultaneously ordered the release from seizure of the meters. The assistant public prosecutor filed for an appeal before the Court of Cassation at the Court of Milan. The Court of Cassation partially annulled the contested ruling, rejecting the rest of the public prosecutor's appeal. Following the adjournment by the Court of Cassation, on 12 December 2013, a new preliminary hearing was held upon completion of which, the preliminary hearing judge ordered committal to trial only for 2006 and 2007. The hearing began on 18 April 2014. At the hearing of 27 March 2015, the Court of Milan acquitted the defendants for the absolved charges against the defendants due to lack of evidence and because it did not constitute an offence. The public prosecutor has appealed.

Snam Rete Gas S.p.A. - Tresana event

The public prosecutor at the Massa district court initiated criminal proceedings in relation to an incident that occurred on 18 January 2012 in the Municipality of Tresana regarding an explosion that took place during maintenance work carried out by a subcontractor. After committal to trial was ordered by the preliminary hearing judge, the trial began on 23 June 2015. At the hearing of 15 September 2017, the Court of Massa acquitted all the defendants of the offences charged against them due to lack of evidence. On 12 January 2018, the Public Prosecutor filed an appeal. The Genoa Court of Appeal set the hearing for 17 April 2019.

Snam Rete Gas S.p.A. - Pineto event

On 06 March 2015, in the district of Mutignano, a landslide struck the San Benedetto Del Tronto-Chieti segment of the Ravenna-Chieti methane pipeline for about ten metres, causing it to break and consequently leak out gas, resulting in a subsequent fire due to the simultaneous falling of an electricity pylon.

The Public Prosecution of the Court of Teramo immediately opened an investigation into the matter, hypothesising possible culpable conduct in connection with the forest fire. Upon completion, the Prosecution asked that the technicians and technical managers of Snam Rete Gas be summonsed to court. This summons was ordered on 03 October 2018 by the preliminary judge. At the first hearing for discussion held on 10 January 2019, the President of the Panel asked the defence counsel and the Public Prosecutor to agree to transfer the proceedings to a single judge competent on the matter. The parties therefore submitted to the decision of the Court, which, after a brief chamber discussion, transferred the proceedings to a competent single judge, who scheduled the hearing for 08 May 2019.

Snam Rete Gas S.p.A. - Sestino (AR) event

The public prosecutor at the Court of Arezzo initiated criminal proceedings in relation to the incident that took place on 19 November 2015 in the town of Sestino (AR), involving a gas leak on a section of piping. On 26 November 2015, a one-time notice of technical investigation was served which indicated that certain directors and managers, including those who served in the past, are included in the list of parties under investigation. The Public Prosecutor has appointed its own technical consultants. Snam Rete Gas is actively working with the competent authorities, including through appointment of its own technical consultants.

TEP Energy Solution - Formal Report of Findings

On 14 December 2018, TEP Energy Solution S.r.l. was served a Formal Report of Findings limited to the tax period 01 January 2013-31 December 2013. The Formal Report of Findings is the result of a tax audit launched with regards to the company on 27 September 2018, in order to control compliance with the provisions of legislation governing income tax, VAT and other tax. After completion of the tax audit, on 21 January 2019, TEP Energy Solution was served the Formal Report of Findings relative to the tax period 01 January 2014 and 31 December 2014 and TEP REALE ESTATE, the Formal Report of Findings relative to the years 2013 and 2014. It is specified that on 27 December 2018, the Guardia di Finanza sent information of the offence to the Public Prosecution of Rome.

IES Biogas - Criminal sentencing decree

On 02 November 2018, a criminal sentencing decree was notified, issued by the Court of Venice against a Manager of IES Biogas, following the injury at work that took place on 29 September 2016, to a company employee, during maintenance of a silos shaker. On 16 November 2018, a deed was filed opposing the criminal sentencing decree, whereby it was asked that the proceedings be settled in the conditional abridged judgement manner. We are currently awaiting scheduling of the hearing.

Autorità di Regolazione per Energia Reti e Ambiente - ARERA

Snam Rete Gas S.p.A. - Investigation into violations on the subject of natural gas metering with regard to Snam Rete Gas S.p.A and request for information

By resolution VIS 97/11, notified on 15 November 2011, ARERA launched proceedings to assess the existence of violations on the metering of natural gas, in connection with alleged anomalies in the metering of gas with reference to 45 plants; by resolution 431/2012/S/Gas, the proceedings were joined to others, concerning the same events and charges brought against the Company, launched with regards to the distribution company concerned. Snam Rete Gas S.p.A. has submitted proposals in relation to the alleged conduct. By means of Resolution 332/2015/S/gas, the ARERA declared the proposals to be inadmissible, on the grounds that they would not be adequate to restore the alignment of interests existing before the alleged violations or to eliminate any immediate and direct consequences of these violations.

Upon completion of the investigation on 20 October 2017, the ARERA notified the results to Snam Rete Gas, which confirmed the charges made when the proceedings were initiated. The company has requested time for it to formulate its own defence and, to this end, a hearing was called before the board of the Authority on 01 March 2018 during which the defence brief was submitted. Upon conclusion of the proceedings, although upholding part of Company's arguments, which were significant insofar as determining the amount of the fine, by resolution 206/2018/S/gas of 05 April 2018, the Authority sentenced Snam Rete Gas to pay a pecuniary fine of 880 thousand euro. Though it paid the pecuniary fine, the Company has appealed Resolution 206/2018/S/gas before the Regional Administrative Court of Milan. The hearing date remains to be set. An allocation has been made to the provision for risks and charges in relation to the proceedings in question.

Snam Rete Gas S.p.A. - Resolution 608/2015/R/gas - Proceedings to determine the share of costs arising from outstanding receivables owing to the gas balancing supervisor

Upon completion of the proceedings initiated with Resolution 145/2013/R/gas to determine the share of costs arising from outstanding receivables owing to the gas balancing supervisor, relating to the period 01 December 2011-23 October 2012, in relation to three cases which had previously been investigated, with Resolution 608/2015/R/gas, the ARERA closed the proceedings deciding not to pay the share of the outstanding receivables in relation to which the specific case was the object of the investigation, for the total sum of approximately 130 million euro including VAT.

The Company, believing that the conditions existed for paying the share of expenses resulting from receivables not collected and subject to the proceedings in question, challenged resolution 608/2015/R/gas before the Regional Administrative Court of Milan, which with its ruling 942/2017, published on 21 April 2017, partially admitted the appeal submitted by Snam Rete Gas as it ruled in favour of payment of expenses from uncollected receivables totalling approximately 38 million euro in relation to certain of the items in the investigation.

Both parties submitted a partial appeal against said ruling. The appeals were discussed before the Council of State at the hearing on 08 November 2018. We are awaiting the ruling. The Company has made an allocation to the provision for impairment losses on receivables in relation to the costs in question.

Snam Rete Gas S.p.A. - Resolution 9/2014/S/gas – Launch of punitive proceedings against Snam Rete Gas S.p.A. for non-compliance with Resolution 292/2013/R/gas

With Resolution 9/2014/S/gas the ARERA launched punitive proceedings against Snam Rete Gas S.p.A. for non-compliance with Resolution 292/2013/R/gas. The proceedings aim to ascertain whether or not delays exist in provisions relating to the enactment of amendments to the Network Code established by Resolution 292/2013/R/gas, with regard to settlement. Upon conclusion of the proceedings, with its resolution 853/2017/S/gas, the Authority sentenced Snam Rete Gas to pay a pecuniary fine of 95 thousand euro since, although it accepted a part of the Company's arguments which were significant insofar as determining the amount of the fine, it considered that the Company was late in complying with Resolution 292/2013/R/Gas.

Though it paid the pecuniary fine, the Company has appealed Resolution 853/2017/S/gas before the Regional Administrative Court of Milan. The hearing date remains to be set.

Snam Rete Gas S.p.A. - Resolution 250/2015/R/gas, published on 01 June 2015, concerning: “Adoption of measures on the odourisation of gas for domestic and similar uses of end customers directly connected to the natural gas transmission network”

Through Resolution 250/2015/R/gas, following the ruling of the Milan regional administrative court, the ARERA amended Article 5 of Resolution 602/2013/R/gas dealing with the obligation of transmission companies to odourise gas for end users connected directly to the transmission network, which, taking into account the categories of use indicated in the TISG, do not use the gas delivered for merely technological purposes. In this regard, the ARERA had ordered that the transmission companies should complete the implementation of the adaptation plans by 31 January 2017, after carrying out a survey of the redelivery points involved (by 31 July 2015) and sending to ARERA the adaptation plan (by 30 November 2015), to be updated every six months, with the description of the technical solution identified. Snam Rete Gas has appealed against the above resolution believing that the deadline for implementing the plan can only be decided after the survey.

Having carried out the survey, when sending the plan and the subsequent updates Snam Rete Gas once again found that the deadline set by the ARERA with its Resolution 484/2016/E/gas was unreasonable. Consequently, in the appeal with which Snam Rete Gas challenged Resolution 250/2015/R/gas, it also included an appeal for further grounds against Resolution 484/2016/E/gas asking for the resolutions challenged to be suspended.

The request for suspension has been accepted by the Council of State. During discussion of the merits, after the hearing held on 16 January 2019, we are awaiting the decision of the Regional Administrative Court of Milan. Please note that by Ministerial Decree of 18 May 2018, the Ministry for Economic Development assigned the task of guaranteeing safe use of gas to end customers directly connected to the natural gas transmission network, where they should fully or even only partly make domestic or similar use of gas, even if combined with technological uses.

Snam Rete Gas S.p.A. – Determination DSAI/69/2017/gas – Initiation of proceedings for imposition of punitive and prescriptive measures regarding the safety of the natural gas transmission system

With its resolution 58/2017/E/Gas, the Authority closed the additional investigation order pursuant to Resolution 299/2015/E/gas in relation to 69 emergency events that took place on the Snam Rete Gas network. The resolution mentioned certain critical issues that were discovered during the investigation, in relation to which Snam Rete Gas provided the necessary clarifications. By subsequent

Determination, DSAI/69/2017/gas, the Authority expressed the decision to initiate punitive proceedings since, following the clarifications provided by Snam Rete Gas, critical issues remained with regard to the procedures used to record the outcomes of monitoring activities and the verifiability of the information and data recorded. During the investigation process, the Company provided the documents and information requested by the Authority through the Determination above. By resolution 146/2018/E/Gas, the Authority arranged for an inspection audit, subsequently carried out on 25-26 September 2018, during which the information contained in the documentation previously sent in by the Company, was verified.

Tax cases

Snam Rete Gas S.p.A. - ICI/IMU

On 18 July 2017, Tarsia Council served Snam Rete Gas S.p.A. notices of assessment of ICI/IMU with reference to the related compression plan for the years 2011, 2012 and 2013. Snam settled the dispute with the Council, paying the amounts stated in the notices of assessment for an adjustment of approximately 0.7 million euro.

Snam Rete Gas S.p.A. - Excise duty and VAT

The Milan Tax Unit of the Financial Police investigated the annual natural gas consumption declarations and the technical reports for 2003 to 2007. The results were transmitted to the Milan Customs Office for action.

On 15 September 2017, the Agenzia delle Dogane e dei Monopoli (Customs Office) served Snam Rete Gas S.p.A. with a formal report and assessment of administrative offences, with an order to pay excise taxes, VAT and administrative fines relative to 2003 (hereinafter the “2003 Formal Report of Findings”).

On 10 May 2018 the following notices were issued to Snam Rete Gas: (i) a partial annulment of the 2003 Formal Report of Findings, whereby the charges were redetermined following the briefs submitted by the company; (ii) a formal report of findings and assessment of administrative offences with the recovery of excise duty, VAT and administrative fines relative to 2004.

On 24 December 2018, through a voluntary tax correction, the company settled the excise duty for the years running from 2003 to 2007, paying the amount due of approximately 1.8 million euro.

For completeness of information, we note that the investigation conducted by the Financial Police resulted in the initiation of penal proceedings for the failure to report or pay excise taxes on energy products. The accused were acquitted in the first instance, due to lack of evidence and because the fact is not a crime. The public prosecutor has appealed.

Stogit S.p.A. - IMU

The Municipality of Bordolano served Stogit S.p.A. with notices of assessment for IMU property tax for the years 2012, 2013 and 2014.

The assessments total approximately 560 thousand euro (including, for 2015, tax, sanctions and interest). Stogit S.p.A. has submitted an appeal to the Provincial Tax Commission. The Company has made an allocation to the provision for risks and charges.

GNL Italia S.p.A. - Local tax

The Council of Porto Venere served notices of assessment for TARSU/TARI relative to the years from 2012 to 2017, for a total amount of approximately 444 thousand euro and for IMU for 2013 for approximately 134 thousand euro. GNL Italia S.p.A. has submitted an appeal to the Tax Commission. The Company has made an allocation to the provision for risks and charges.

Recovering receivables from certain users of the transportation and balancing system

The balancing service ensures that the network is safe and that costs are correctly allocated between the market operators. Balancing has both a physical and a commercial purpose. The physical balancing of the system consists of the set of operations through which the Dispatching department of Snam Rete Gas controls flow parameters (capacity and pressure) in real time in order to ensure that gas can move safely and efficiently from injection points to withdrawal points at all times. Commercial balancing consists of the activities required to correctly schedule, account for and allocate the transported gas, as well as the fee system that encourages users to maintain a balance between the volumes they inject into and withdraw from the network. Pursuant to the current balancing regime, which was introduced by Resolution ARG/gas 45/11 and came into effect on 1 December 2011, in its role as Balancing Supervisor, Snam Rete Gas must ensure that it procures the quantities of gas required to balance the system and offered on the market by users through a dedicated platform of the Energy Market Operator, and, accordingly, it must financially settle the imbalances of individual users by buying and selling gas on the basis of a benchmark unit price (the "principle of economic merit"). The Company must also ensure that it recovers sums owed for the settlement of imbalances from any defaulting users.

Unpaid receivables relating to the period from 1 December 2011 to 23 October 2012

The initial regulation laid down by the Authority with Resolution ARG/gas 155/11 stated that users had to provide specific guarantees to cover their exposure and, where Snam Rete Gas had performed its duties diligently and had not been able to recover the costs related to provision of the service, these costs would have been recovered through a special fee determined by the Authority.

Through its subsequent Resolution 351/2012/R/gas⁴¹, the Authority ordered the application of the variable unit fee CVBL to cover uncollected receivables, and the payment of the expenses to be recovered in monthly instalments of up to 6 million euro over a minimum of 36 months.

The Authority subsequently opened an exploratory investigation into balancing service provision methods for the period 01 December 2011 - 23 October 2012⁴².

The investigation was closed by Resolution 144/2013/E/gas of 05 April 2013. On that same date, the Authority: (i) opened proceedings to determine the share of costs arising from uncollected receivables owing to the gas balancing supervisor for the period 01 December 2011-23 October 2012; and (ii) opened six proceedings aimed at establishing whether there have been violations regarding the natural gas balancing service.

With regard to the preliminary investigation discussed in point (i) above, the proceedings were closed by means of Resolution 608/2015/R/gas, with which the Authority decided not to pay a share of the uncollected receivables in relation to specific cases analysed in the preliminary investigation, in any case subject to Snam Rete Gas's right to withhold the receivables relating to the income statement entries on balancing, possibly already recuperated. The Company appealed Resolution 608/2015/R/gas, before the Regional Administrative Court of Milan, which partially admitted the appeal submitted by the Company with ruling 942/2017; this was in turn partially appealed by the Company and the Authority.

During the above-mentioned investigation period, Snam Rete Gas, having terminated the transmission contracts of the six users involved in the aforementioned proceedings since they either defaulted on payments or failed to comply with the balancing obligations set forth in the industry regulations and the Network Code, initiated steps to recover the receivables relating to balancing and transmission items.

41 The aforementioned resolution was annulled pursuant to the ruling 1587/2014 of the Regional Administrative Court of Milan insofar as the obligation of Users to pay the CVBL consideration of 0.001 €/Scm with effect from 1 October 2012. Moreover, with the subsequent Resolution 372/2014/R/gas the coefficient was redefined at the same amount of 0.001 €/Scm.

42 The time period set for the preliminary investigation which was initially limited to 1 December 2011-31 May 2012, was subsequently extended to 23 October 2012.

Specifically, the competent judicial authorities issued eleven provisional executive orders, of which six related to receivables arising from the balancing service and five to receivables arising from the transmission service⁴³. Having received these orders, Snam Rete Gas initiated the executive proceedings, which resulted in the recovery of negligible amounts of the overall debt of the Users, partly because of the bankruptcy procedures under way at all of these Users.

In particular, at present:

- Five Users were declared bankrupt. All five Users were declared bankrupt and Snam Rete Gas obtained measures for admission to the list of creditors for the receivable owed, plus interest. As part of these proceedings, a proposal for arrangement with creditors was submitted and approved by the majority of the creditors.
- One User has requested to be admitted to the arrangement with creditors and the Court Authorities have issued a ruling endorsing the arrangement⁴⁴.

Unpaid receivables after 23 October 2012

In 2013, two further transport contracts were terminated and Snam Rete Gas initiated injunction proceedings. It obtained three payment orders, of which two for receivables relating to the balancing service and one for the transport service. Both Users appealed, with the relative rulings rejecting the claims and consolidating the securities acquired by Snam Rete Gas. The executive procedures that were initiated resulted in a negligible recovery of amounts when compared to the overall amounts due from the Users which were then declared bankrupt. Snam Rete Gas regularly submitted its claims in the respective arrangements with creditors. In 2014, a further transport contract was terminated and Snam Rete Gas initiated provisional executive procedures for recovery of the receivables, one relating to balancing services and the other to transmission services. The User, moreover, was declared bankrupt and Snam Rete Gas was admitted to the current list of creditors for the entire debt due, plus interest.

Finally, in 2015 a further transmission contract was terminated and Snam Rete Gas initiated debt recovery measures, securing two provisional executive injunctions against the User, one for the balancing service and the other for the transport service. Moreover, the User was recently declared bankrupt and Snam Rete Gas has regularly submitted its claims for the arrangements with creditors.

Snam Rete Gas, as stated in the provisional executive injunctions issued by the Court, has engaged in proper conduct and complied with the provisions of the transportation contract, the Network Code and, more generally, the applicable legislation.

Lastly, we note that on 12 February 2016 the Public Prosecutor at the Court of Milan ordered the urgent preventive seizure of the moveable and fixed assets belonging to companies and attributable in various guises to the above-mentioned five Users. In May 2017, the investigation was concluded and the investigated parties were charged with the being involved in a criminal association and committing aggravated fraud against Snam Rete Gas. In September 2018, both Snam Rete Gas and Stogit were notified, as offended parties, that the preliminary hearing had been scheduled for 19 December 2018, before the Court of Milan. At this hearing, the Judge admitted the filing of appearance of SRG as civil party and postponed until 11 April 2019.

This criminal proceeding resulted in the formal complaint report (and subsequent supplementary reports) filed by Snam Rete Gas, as offended party, in October 2012 for the crimes of falsehood and aggravated fraud.

Recovering receivables from users of the storage system

Withdrawals made from strategic storage by three users, invoiced by Stogit and not replenished by the user under the terms specified by the Storage Code

Following withdrawals from strategic storage made by a User in November and December 2010, Stogit asked for and obtained an injunction with regard to the sums due that the user failed to pay. The provisional enforceability was confirmed during the opposition launched by the opposing party. Executive actions were then launched. Following the withdrawals and the failure to replenish the strategic gas in the initial months of 2011 as well, Stogit requested and obtained a second provisional executive injunction for the further sums accrued. Urgent proceedings were also launched for the replenishment of all the gas unlawfully withdrawn, concluding with the conviction of the debtor, with the subsequent application for injunctive relief also being rejected.

⁴³ The users in question have appealed against some of these injunctions. Specifically, as well as requesting the suspension of the provisional enforceability and the revocation and/or declaration as null and void of the injunctions themselves, three users have submitted counterclaims requesting that Snam Rete Gas be ordered to compensate them for alleged damage suffered. The opposition proceedings brought were declared to have been annulled, as a result of which the counterclaims were withdrawn and the injunctions were made absolute.

⁴⁴ In respect of the approval provision, a claim was brought before the Court of Appeal of Turin, and – in respect to the confirmation procedure adopted by the same Court – the appeal was brought before the Court of Cassation.

In 2012 the above user together with another two users (who also defaulted with regard to Stogit) were added to the proceedings for an arrangement with creditors, in which Stogit formally transmitted and documented the amounts of its receivables with these users.

Moreover, following the sub-proceedings to dismiss the arrangement, the Court of Asti declared two of the above-mentioned users bankrupt. In both cases, Stogit promptly filed a proof of claim and its receivables were admitted in full.

However, the procedure for an arrangement with creditors is continuing with regard to the third user, which was appealed by one of the creditors. The Court of Appeal of Turin issued a ruling, confirming the approval of the arrangement with creditors. An appeal brought by the aforementioned creditor is currently pending before the Court of Cassation.

Withdrawals made from strategic storage by a user, invoiced by Stogit and not replenished by the User under the terms specified by the Storage Code, ascribable to the 2010-2011 and 2011-2012 thermal years

Stogit filed with the Civil Court of Milan for a payment injunction provisionally enforceable against one User pursuant to Article 186-ter.

At present, following the partial restitution of gas in the wake of legal action brought, Stogit is still owed approximately 23.6 million SCM.

Stogit has therefore taken the appropriate actions.

The Court of Rome then declared the User bankrupt and Stogit submitted its claim, which was accepted.

Withdrawals made from strategic storage by a User, invoiced by Stogit and not replenished by the User under the terms specified by the Storage Code, relating to October and November 2011

Stogit filed with the Civil Court of Milan for a provisionally enforceable payment injunction.

While the proceedings were ongoing, the Court of Rome declared the User bankrupt. Consequently, the Civil Court of Milan declared the case interrupted and Stogit submitted its claim, which was accepted.

At present, following the partial restitution of gas in the wake of legal action brought because of improper withdrawals, Stogit is still owed approximately 56.0 million SCM.

Emissions trading

01 January 2013 was the start of the third regulatory period (2013-2020) of the Emission Trading System (ETS), the greenhouse gas emission allowance system governed by Italian Legislative Decree no. 30 of 13 March 2013, as amended and supplemented, implementing Directive 2009/29/EC. The reduction of CO₂ emissions comes under the objectives set by the European Union in the 2020 Climate and Energy Package, approved in 2009, which involves reducing greenhouse gas emissions by 20% (compared with 1990 levels) by 2020, increasing the share of energy produced from renewable sources by 20% and improving energy efficiency by 20%.

In 2018, the free allocation for the Snam Group was equal to around 200,000 shares, with a reduction of approximately 21 % compared with 2017. The reduction is due to the progressively reducing assignment of the free quotas by the competent national authority, envisaged for the third regulatory period by Art. 10-bis of Directive 2009/29/EC. In 2018, carbon dioxide emissions of the Snam Group facilities covered by the ETS were overall greater than the emission permits allocated. Against approximately 0.671 million tonnes of carbon dioxide emitted into the atmosphere, around 0.200 million quotas were allocated, resulting in a 0.471 million tonne deficit. This deficit was partly offset by the quotas already present in the Snam Rete Gas plant registers, accumulated thanks to the surplus of previous years, and with the further purchase of approximately 0.197 million tonnes on the European quotas market.

Other commitments and risks

The other unevaluated commitments and risks are:

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

As at 31 December 2018, the residual commitments resulting from said agreements concern hedging mechanisms aimed at keeping within Eni the risks and/or benefits that may derive from: (i) an eventual valuation of the gas owned by Stogit at the time of the transfer of the shares which differs from the valuation currently recognised by Autorità di Regolazione per Energia Reti e Ambiente (ARERA) in the event of an even partial transfer thereof when given quantities may no longer be instrumental to the regulated concessions and thus become available for sale; (ii) transfer of storage capacity that may eventually become freely available on a negotiated basis and no longer a regulated basis, or else from a transfer of concessions including those pertaining to Stogit at the time of the transfer of the shares which may eventually be dedicated predominantly to storage business no longer subject to regulation.

Commitments arising from the contract through which Edison acquired Terminale GNL Adriatico S.r.l.

The price determined for the acquisition of Terminale GNL Adriatico S.r.l. is subject to adjustment mechanisms based on commitments made when the transaction was completed, which were also intended to apply after the date of execution. As at 31 December 2018, the commitment arising from the aforementioned agreement refers to the hedging mechanisms established to maintain the risks and/or benefits arising from conclusion of new contracts for usage of the terminal capacity under Edison.

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

The price determined for the acquisition of TEP Energy Solutions S.r.l. is subject to adjustment mechanisms based on contractual commitments made, which were also intended to apply after the date of execution. As at 31 December 2018, the commitment resulting from the agreement regards hedging mechanisms based on the economic results achieved by TEP in the financial years 2018-2020, to be regulated contractually for cash, for an amount that cannot in any case exceed 2.5 million euro.

26) REVENUE

The breakdown of revenue for the period, which totalled 2,586 million euro (2,533 million euro in 2017), is shown in the following table.

(€ million)	2017	2018
Core business revenue	2,493	2,555
Other revenue and income	40	31
	2,533	2,586

The Group generates most of its revenue in Italy. An analysis of revenue by business segment can be found in Note no. 33 - "Information by business segment".

Receivables from related parties are described in Note no. 34 "Related-party transactions".

Core business revenue

Core business revenue, which totalled 2,555 million euro (2,493 million euro in 2017), is analysed in the following table:

(€ million)	2017	2018
Natural gas transportation	1,949	2,010
Regasification of Liquefied Natural Gas (LNG)	18	17
Natural gas storage	442	442
Corporate and other services	84	86
	2,493	2,555

Natural gas transportation

Core business revenue (2,010 million euro) relates mainly to fees for transportation services (2,007 million euro), and mainly concerns Eni S.p.A. (1,170 million euro) and Enel Trade S.p.A. (317 million euro). Transmission revenue includes the chargeback to users of the costs of connecting the Company's network to that of other operators (49 million euro)⁴⁵. Snam provided its transportation service to 136 companies in 2018.

Regasification of Liquefied Natural Gas (LNG)

Core business revenue (17 million euro) refers mainly to the revenue coverage factor recognised by the Authority pursuant to Resolution 653/2017/R/gas⁴⁶. During the course of 2018, Snam provided regasification services to 2 companies.

Natural gas storage

Core business revenue (442 million euro) relates to fees for modulation storage (352 million euro) and strategic storage (90 million euro) services. During the course of 2018 Snam provided its natural gas storage service to 91 companies.

The Group's core business revenue is reported net of the tariff components, mainly relating to the transmission business segment, additional to the tariff, and tariff surcharges applied to cover expenses of a general nature of the gas system (1,162 million euro, 1,153 million euro in 2017). The amounts referring to said components are reversed by Snam to the Energy and Environmental Services Fund (CSEA).

Other revenue and income

Other revenue and income, which amounted to 31 million euro (40 million euro in 2017) relates mainly to the incentives granted to Snam Rete Gas S.p.A. for balancing services, based on technical and economic performance pursuant to Resolution 554/2016 / R / Gas (15 million euro).

45 Where the provision of the transportation service involves the networks of multiple operators, Resolution 166/05 of the Authority, as amended, provides for the principal operator to invoice the users for the service, transferring to the other operators of the transportation networks the portion attributable to them.

46 Art. 19 "Application methods for the revenue coverage factor" of Annex A to Resolution 537/2017/R/gas set the revenue coverage factor at 64% of the revenues in question.

27) OPERATING COSTS

The breakdown of *operating costs* for the period, which totalled 512 million euro (526 million euro in 2017), is shown in the following table:

(€ million)	2017	2018
Purchases, services and other costs	355	311
Personnel cost	171	201
	526	512

Costs from related parties are described in Note no. 34 "Related-party transactions".

Purchases, services and other costs

Purchases, services and other costs, which amounted to 311 million euro (355 million euro in 2017), can be broken down as follows:

(€ million)	2017	2018
Purchase costs for raw materials, consumables, supplies and goods	115	145
Costs for services	317	290
Costs for the use of third-party assets	21	21
Changes in raw materials, consumables, supplies and goods	(32)	(19)
Net accrual to (utilisation of) provisions for risks and charges	18	6
Net accrual to (utilisation of) the provision for impairment losses on receivables	8	(5)
Other expenses	30	37
	477	475
<i>Less:</i>		
Increase on internal work	(122)	(164)
- of which purchase costs for raw materials, consumables, supplies and goods	(49)	(69)
- of which costs for services	(73)	(95)
	355	311

Costs for services, which amounted to 195 million euro (244 million euro in 2017), related to:

(€ million)	2017	2018
IT (Information Technology) services	71	50
Purchase of transportation capacity (interconnection)	61	49
Technical, legal, administrative and professional services	38	42
Ordinary maintenance	31	32
Personnel-related services	19	22
Construction, planning and coordination of work	28	27
Telecommunications services	16	13
Provision of utilities	15	16
Insurance	8	7
Other services	30	32
	317	290
<i>Less:</i>		
Increase on internal work	(73)	(95)
	244	195

Costs for the use of third-party assets, which amounted to 21 million euro (same amount in 2017), can be broken down as follows:

(€ million)	2017	2018
Leases and rentals	17	17
Fees, patents and licences	4	4
	21	21

Leasings and rentals (17 million euro) mainly relate to charges for operating leases of properties for use as offices and long-term rental vehicles.

The positive change in raw materials, ancillary materials, consumables, supplies and goods (19 million euro) is mainly due to the natural gas purchases, mainly for use in transportation activities.

Net provisions for risks and charges, amounting to 6 million euro, net of uses, mainly refer to: (i) charges that the Company has estimated it will incur for litigation in progress in relation to the transmission business segment (+6 million euro); (ii) the provision made for claims in relation to the captive company Gasrule (+5 million euro); (iii) the release of the legal and tax provisions for surplus (-3 million euro).

For more details about the change in provisions for risks and charges, please see Note no. 20 "Provisions for risks and charges".

More information on changes of the provision for impairment losses can be found in Note no. 9 "Trade and other receivables".

Other expenses, which amounted to 37 million euro (30 million euro in 2017), can be broken down as follows:

(€ million)	2017	2018
Direct and indirect taxes	14	15
Capital losses on eliminations of property, plant and equipment and intangible assets	5	12
Emissions rights (CO ₂)		5
Other expenses	11	5
	30	37

Expenses relating to CO₂ emissions rights (5 million euro) relate to the net position recorded in the Group, of approximately 0.197 million tonnes, to be acquired, through certificates, on the European quotas market.

Personnel cost

Personnel cost, which amounted to 201 million euro (171 million euro in 2017), can be broken down as follows:

(€ million)	2017	2018
Wages and salaries	149	163
Social security contributions (pensions and healthcare assistance)	42	46
Employee benefits	17	17
Other expenses	22	32
	230	258
<i>Less:</i>		
Increase on internal work	(59)	(57)
	171	201

Other costs (32 million euro) mainly comprise costs for voluntary redundancy (14 million euro) and costs for defined-contribution plans (11 million euro). A description of employee benefits can be found in Note no. 21 "Provisions for employee benefits".

Average number of employees

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

Professional status	31.12.2017	31.12.2018
Executives	94	104
Middle Managers	432	464
Office workers	1,632	1,650
Manual workers	722	731
	2,880	2,949

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

The number of employees in service as at 31 December 2018 was 3,016 (2,919 employees as at 31 December 2017), an increase of 97 resources (+3.3%) over 31 December 2017. The increase is mainly due to the inclusion of new companies into the consolidation scope.

Incentive plan for executives with Snam shares

On 11 April 2017, the Shareholders' Meeting approved the 2017-2019 long-term stock incentive plan, conferring to the Board of Directors, every necessary power for the implementation of the Plan.

The plan, intended for the Chief Executive Officer and managers of Snam, identified as those with positions of major impact on the business results or of strategic relevance in terms of achieving Snam's multi-year objectives, envisages three annual assignment cycles of three-year objectives (the "Rolling Plan") for the years 2017, 2018 and 2019. At the end of the three-year performance period, if the Plan conditions are met, the beneficiary will be entitled to receive Company shares free of charge.

The maximum number of shares serving the plan is 3,500,000 shares for each fiscal year of the Plan. The Plan will be concluded in 2022, upon expiration of the Vesting Period for the last attribution made in 2019.

Under this Plan, a total of 3,692,810 shares were assigned, of which 1,368,397 shares against the 2017 assignment and 2,324,413 shares against the 2018 assignment. The unit fair value of the share, determined by the value of the Snam security as at the grant date, is 3.8548 and 3.5463 euro per share, respectively for the 2017 and 2018 assignments. The cost relating to the long-term incentive plan, recorded as a component of the cost of labour, comes to 3 million euro (1 million euro in 2017), with an equivalent entry in the shareholders' equity reserves. In consideration of the non-market conditions with which the obtaining of the benefit is connected, the cost reflects the adjustment, throughout the vesting period, of the number of shares expected to be effectively assigned.

For more information on the Plan characteristics, see the Report on operations, chapter "Comments on the economic and financial results and other information".

Remuneration due to key management personnel

The remuneration due to persons with powers and responsibilities for the planning, management and control of the Company, i.e. executive and non-executive directors, general managers and managers with strategic responsibilities⁴⁷ ("key management personnel"), in office during the year amounted (including contributions and ancillary charges) to 9 million euro (7 million euro in 2017) and breaks down as follows:

(€ million)	2017	2018
Wages and salaries	6	7
Other long-term benefits	1	2
	7	9

⁴⁷ Those persons who have the power and the responsibility, both directly and indirectly, for the planning, direction and supervision of Snam. Managers with strategic responsibilities in Snam, other than directors and auditors, have been identified as the following positions: (i) Chief Industrial Assets Officer; (ii) Chief commercial Regulation and Development Officer; (iii) Chief International Assets Officer; (iv) Chief Global Solution Officer; (v) Chief Financial Officer; (vi) General Counsel; (vii) Executive Vice President Human Resources and Organisation.

Remuneration due to directors and statutory auditors

The remuneration due to directors amounted to 4.2 million euro and 3.6 million euro respectively for 2018 and 2017. The remuneration due to statutory auditors amounted to 0.2 million euro (the same as in 2017). This remuneration includes emoluments and any other amounts relating to pay, pensions and healthcare due for the performance of duties as a director or statutory auditor in Snam S.p.A. and in other companies included in the scope of consolidation, giving rise to a cost for Snam, even if not subject to personal income tax.

28) AMORTISATION, DEPRECIATION AND IMPAIRMENT

Amortisation, depreciation and impairment, which amounted to 690 million euro (659 million euro in 2017), can be broken down as follows:

(€ million)	2017	2018
Total amortisation and depreciation	646	682
Property, plant and equipment	592	622
- Intangible assets	54	60
Net impairment losses	13	8
- Impairment of property, plant and equipment	13	8
	659	690

For more details about amortisation, depreciation and impairment losses relating to property, plant and equipment and intangible assets, please see Note no. 13 "Property, plant and equipment", and Note no. 14 "Intangible assets". An analysis of amortisation, depreciation and impairment by business segment can be found in Note no. 33 "Information by business segment".

29) FINANCIAL EXPENSE (INCOME)

Financial expense (income), which amounted to 242 million euro (283 million euro in 2017), can be broken down as follows:

(€ million)	2017	2018
Financial expense (income)	278	234
Financial expenses	279	237
Financial income	(1)	(3)
Other financial expense (income)	4	6
Other financial expense	12	15
Other financial income	(8)	(9)
Losses (Gains) on hedging derivatives – ineffective portion	1	2
Losses on derivatives	1	2
	283	242

(€ million)	2017	2018
Financial expense (income)	278	234
Expense on financial debt:	292	249
- Interest and other expenses on bond loans	275	232
- Fees on loans and bank credit lines	11	7
- Interest expense on credit lines and loans due to banks and other lenders	6	10
Financial expense capitalised	(13)	(12)
Income from financial receivables:	(1)	(3)
- Interest and other income on short-term loans	(1)	(3)
Other financial expense (income):	4	6
- Accretion discount (*)	11	11
- Other expenses	1	4
- Interest income on long-term financial receivables	(6)	(8)
- Other income	(2)	(1)
Losses (Gains) on hedging derivatives – ineffective portion	1	2
	283	242

(*) This item refers to the increase in provisions for risks and charges and provisions for employee benefits, which are reported at discounted value under Note no. 20 "Provisions for risks and charges", and Note no. 21 "Provisions for employee benefits".

Expense on financial debt (249 million euro) related to: (i) interest and other expense on bond loans (232 million euro), referring essentially to expenses from the liability management operation (47 million euro) which led to the repurchase on the market of bonds with a total nominal value of 538 million euro and an average coupon of approximately 2.6% and residual duration of approximately 3.7 years and the interest on 18 bond loans (178 million euro); (ii) the portion attributable to the period of upfront fees on revolving credit lines (4 million euro) and credit line non-usage fees (3 million euro); and (iii) interest payable to banks on revolving credit lines, uncommitted credit lines and maturing loans totalling 10 million euro.

Financial expense capitalised (12 million euro) related to the portion of financial expense capitalised pursuant to investment activities.

Other net financial expense (6 million euro) mainly relate to expenses connected to the accretion discount on the provisions for site dismantling and restoration in the storage and transport business segments (+11 million euro overall), partially offset by the revenue from the Shareholders' Loan granted to TAP (-8 million euro).

30) INCOME AND EXPENSE FROM EQUITY INVESTMENTS

Income and expense from equity investments, which amounted to 159 million euro (161 million euro in 2017), can be broken down as follows:

(€ million)	2017	2018
Equity method valuation effect		
Capital gains from valuation using the equity method	175	165
Capital loss from valuation using the equity method	(14)	(8)
Dividends		2
	161	159

Details of capital gains and capital losses from the valuation of equity investments using the equity method can be found in Note no. 15 "Investments valued using the equity method". Dividends (2 million euro) relate to the minority share held in the company Terminale GNL Adriatico S.r.l., measured at fair value with equivalent entry under shareholders' equity "Fair Value Through Other Comprehensive Income - FVTOCI".

31) INCOME TAX

Income tax for the year, which amounted to 341 million euro (329 million euro in 2017), can be broken down as follows:

	2017			2018		
(€ million)	IRES	IRAP	Total	IRES	IRAP	Total
Current taxes	301	59	360	313	60	373
Current taxes for the year	300	59	359	314	60	374
Adjustments for current taxes relating to previous years	1		1	(1)		(1)
Deferred and prepaid taxes	(31)		(31)	(32)		(32)
Deferred taxes	(16)		(16)	(16)		(16)
Prepaid taxes	(15)		(15)	(16)		(16)
	270	59	329	281	60	341

The reconciliation of the theoretical tax charge (calculated by applying the corporation tax (IRES) and regional production tax (IRAP) rates in force in Italy) with the actual tax charge for the year can be broken down as follows:

(€ million)	2017		2018	
	Tax rate	Balance	Tax rate	Balance
IRES				
Pre-tax profit		1,226		1,301
IRES due, calculated based on the theoretical tax rate	24.0%	294	24.0%	312
Changes to the theoretical rate:				
- Income from equity investments	(2.9%)	(35)	(2.9%)	(38)
- Dividend tax	0.7%	9	1.1%	14
- Other permanent differences	0.1%	2	(0.5%)	(7)
IRES due for the year recorded on the income statement	22.0%	270	21.6%	281

(€ million)	2017		2018	
	Tax rate	Balance	Tax rate	Balance
IRAP				
Difference between value and production costs		1,376		1,399
IRAP due, calculated based on the theoretical tax rate	3.9%	54	3.9%	55
Changes to the theoretical rate				
Regional IRAP rates delta	0.3%	4	0.2%	3
Other permanent differences	0.1%	1	0.1%	2
IRAP due for the year recorded in the income statement	4.3%	59	4.3%	60

An analysis of deferred and prepaid taxes based on the nature of the significant temporary differences that generated them can be found in Note no. 22 "Deferred tax liabilities".

Taxes related to components of comprehensive income

Current and deferred taxes related to other components of comprehensive income can be broken down as follows:

(€ million)	2017			2018		
	Pre-tax value	Tax effect	Post-tax value	Pre-tax value	Tax effect	Post-tax value
Remeasurement of defined-benefit plans for employees	(1)		(1)			
Share of "other components of comprehensive income" of investments accounted for using the equity method	(2)		(2)	(1)		(1)
Change in fair value of cash flow hedge derivatives	(8)	2	(6)	(26)	6	(20)
Other components of comprehensive income	(11)	2	(9)	(27)	6	(21)
Deferred/prepaid taxes		2			6	

32) EARNINGS PER SHARE

Basic earnings per share, at 0.286 euro per share (0.262 euro per share in 2017), are calculated by dividing the net profit attributable to Snam (960 million euro; 897 million euro in 2017) by the weighted average number of Snam shares outstanding during the year, excluding treasury shares (3,357,806,084 shares; 3,422,406,716 shares in 2017).

Diluted earnings per share are calculated by dividing net profit by the weighted average number of outstanding shares during the period, excluding treasury shares, increased by the number of shares which could potentially be added to the outstanding shares. For 2018, the diluted earnings per share takes into account the potential effects from assignment of treasury shares in portfolio against the issuing of the bond convertible into ordinary Snam shares and those from the long-term share-based incentive plans, with reference to 2017 and 2018 assignments.

The weighted average number of outstanding shares used to calculate diluted earnings per share is 3,441,622,458 and 3,482,443,503 for 2018 and 2017, respectively.

Reconciliation of basic and diluted earnings per share

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

	2017	2018
Weighted average number of outstanding shares used to calculate basic earnings	3,422,406,716	3,357,806,084
Number of potential shares for the long-term incentive plans	326,331	1,262,145
Number of potential shares against the issuing of the convertible bond	59,710,455	82,554,228
Weighted average number of outstanding shares used to calculate diluted earnings	3,482,443,503	3,441,622,458
Group net profit (€ million) (a)	897	960
Dilution effect of the convertible bond	3	3
Diluted Group net profit for diluted earnings (€ million) (a)	900	963
Basic earnings per share (€ per share) (a)	0.262	0.286
Diluted earnings per share (€ per share) (a)	0.258	0.280

(a) Entirely held by Snam shareholders.

33) INFORMATION BY BUSINESS SEGMENT

The information about business segments has been prepared in accordance with the provisions of IFRS 8 "Operating segments", which requires the information to be presented in a manner consistent with the procedures adopted by the Company's management when taking operational decisions. Consequently, the identification of the operating segments and the information presented are defined on the basis of the internal reporting for 2018 used by the Company's management for allocating resources to the different segments and for analysing the respective performances.

The business segments for which information is provided are natural gas transmission ("Transmission"), LNG regasification ("Regasification") and natural gas storage ("Storage"). They relate to activities carried out predominantly by Snam Rete Gas and ITG, GNL Italia and Stogit respectively.

The information by business segment as at 31 December 2018 and 31 December 2017 is listed below.

(€ million)	Corporate and other activities	Transmission and dispatching	Storage	Regasification	Consolida- tion adjust- ments and elimina- tions	Total
FY 2017						
Net core business revenue (a)	232	2,000	596	20		2,848
<i>less: intra-segment revenues</i>	<i>(148)</i>	<i>(51)</i>	<i>(154)</i>	<i>(2)</i>		<i>(355)</i>
Revenue from third parties	84	1,949	442	18		2,493
Other revenue and income	1	34	5			40
Net (accruals to)/utilisation of provisions for risks and charges	(7)	(11)				(18)
Amortisation, depreciation and impairment	(7)	(550)	(97)	(5)		(659)
EBIT	(30)	1,037	339	2		1,348
Equity investments measured using the equity method	161					161
Total assets	3,153	14,481	4,078	104		21,816
<i>- of which Equity investments measured using the equity method</i>	<i>1,547</i>					<i>1,547</i>
Total liabilities	13,138	10,250	2,845	45	(10,650)	15,628
Investments in property, plant and equipment and intangible assets	11	917	101	5		1,034
FY 2018						
Net core business revenue (a)	267	2,087	597	21		2,972
<i>less: intra-segment revenues</i>	<i>(181)</i>	<i>(77)</i>	<i>(155)</i>	<i>(4)</i>		<i>(417)</i>
Revenue from third parties	86	2,010	442	17		2,555
Other revenue and income	1	26	3	1		31
Net (accruals to)/utilisation of provisions for risks and charges	(3)	(3)				(6)
Amortisation, depreciation and impairment	(10)	(575)	(100)	(5)		(690)
EBIT	(17)	1,064	335	2		1,384
Equity investments measured using the equity method	157					157
Total assets	4,163	14,570	4,012	107		22,852
<i>- of which Equity investments measured using the equity method</i>	<i>1,710</i>					<i>1,710</i>
Total liabilities	13,997	9,941	2,587	50	(9,978)	16,597
Investments in property, plant and equipment and intangible assets	10	764	99	9		882

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

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

33) RELATIONSHIPS WITH RELATED PARTIES

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

As explained in detail below, related-party transactions mainly concern the exchange of goods and the provision of regulated services in the gas sector. Transactions between Snam and related parties are part of ordinary business operations and are generally settled under market conditions, i.e. the conditions that would be applied between two independent parties. All the transactions carried out were in the interest of the companies of the Snam Group. Pursuant to the provisions of the applicable legislation, the Company has adopted internal guidelines to ensure that transactions carried out by Snam or its subsidiaries with related parties are transparent and correct in their substance and procedure.

Directors and auditors declare their interests affecting the company and the group every six months, and/or when changes in said interests occur; they also inform the CEO (or the Chairman, in the case of the CEO), who in turns informs the other directors and the Board of Statutory Auditors, of individual transactions that the company intends to carry out and in which they have an interest.

Snam is not subject to management and coordination. Snam manages and coordinates its subsidiaries, pursuant to Article 2497 et seq. of the Italian Civil Code.

In terms of related-party transactions, the following should be pointed out pursuant to the disclosure obligations set forth under Consob Regulation No. 17221 of 12 March 2010:

- the stipulation by Snam Rete Gas S.p.A. and Eni S.p.A. of the natural gas transmission contract for Thermal Year 2017-2018. On 02 February 2018, the value of the transport contract exceeded the significance threshold of 140 million as defined in the Snam "Procedure for transactions in which directors and auditors have an interest and transactions with related parties";
- the stipulation by Snam Rete Gas S.p.A. and Enel Global Trading S.p.A. of the natural gas transmission contract for Thermal Year 2017-2018. On 03 October 2018, the value of the transport contract exceeded the significance threshold of 140 million as defined in the Snam "Procedure for transactions in which directors and auditors have an interest and transactions with related parties."

The contracts are defined in accordance with the procedures provided for in the Snam Rete Gas S.p.A. Network Code approved by the Regulatory Authority for Energy Networks and the Environment (ARERA) pursuant to Resolution 75/2003, as amended.

The calculation of a fee for services rendered take place through application of the natural gas transportation and dispatching tariffs approved by Resolution of the Authority. These contracts constitute ordinary transactions concluded at arm's length or standard conditions insofar as, in accordance with paragraph 2 of the Guidelines (published on the website www.snam.it): (i) they are part of the core business and related financial operations; (ii) the conditions applied are based on regulated tariffs.

The amounts involved in commercial, financial and other transactions with the above-mentioned related parties are shown below for the current and prior financial years. The nature of the most significant transactions is also stated.

Commercial and other transactions

Commercial and other transactions can be broken down as follows:

31.12.2017						2017				
(€ million)	Receivables	Other assets	Payables	Other liabilities	Guarantees and commitments	Costs (a)		Revenue (b)		
						Goods	Services	Other	Services	Other
Companies under joint control and associates										
- TAG GmbH	5		5	1		17			4	17
- Terêga S.A.S. (c)	1									
- Trans Adriatic Pipeline AG (TAP)	5			13	419				6	
	11		5	14	419	17			10	17
Snam Foundation								1		
Parent company										
- Cassa depositi e prestiti			91							
			91							
Companies controlled by the parent company Cassa depositi e prestiti										
- Italgas Group	29		6		86		1	7	61	1
- Terna Group							1			
	29		6		86		2	7	61	1
Companies jointly controlled by the parent company Cassa depositi e prestiti										
- Saipem Group			33			1	30			
- Valvitalia Finanziaria S.p.A.						2	1			
			33			3	31			
Companies owned or controlled by the State										
- Gestore dei mercati energetici S.p.A.	6		10			2				
- Anas Group		1	3					3		
- Enel Group (d)	122		14						321	
- Eni Group (d)	306	1	38		1		18	1	1,235	1
- Ferrovie dello Stato Group	1		2					3		
	435	2	67		1	2	18	7	1,556	1
Total	475	2	202	14	506	22	51	15	1,627	19

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

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

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

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

	31.12.2018					2018				
(€ million)	Receivables	Other assets	Payables	Other liabilities	Guarantees and commitments	Costs (a)		Revenue (b)		
						Goods	Services	Other	Services	Other
Companies under joint control and associates										
- Interconnector UK	1			1					1	
- Senfluga	3				64				3	
- TAG GmbH									3	
- Terēga S.A.S. (c)	1									
- Trans Adriatic Pipeline AG (TAP)	6			26	1,453				10	
	11			27	1,517				17	
Snam Foundation								2		
Parent company										
- Cassa depositi e prestiti			96							
			96							
Companies controlled by the parent company Cassa depositi e prestiti										
- Italgas Group	5		1					3	16	
- Terna Group							1			
	5		1				1	3	16	
Companies jointly controlled by the parent company Cassa depositi e prestiti										
- Saipem Group			19				19			
- Valvitalia Finanziaria S.p.A.						5	2			
			19			5	21			
Companies owned or controlled by the State										
- Gestore dei mercati energetici S.p.A.	26		14			47				
- Anas Group	1	1	3							
- Enel Group (d)	81		55						337	
- Eni Group (d)	282		84			1	23	1	1,226	1
- Ferrovie dello Stato Group	4		1						4	
- Finmeccanica Group			1			1				
	394	1	158			48	23	1	1,567	1
Total	410	1	274	27	1,517	53	45	6	1,600	1

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

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

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

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

Companies under joint control and associates

The main commercial relations with jointly controlled and associated companies refer to:

- the purchases and sales of gas by TAG as part of the balancing service, as governed by the Service Balance Agreement, an agreement aimed at ensuring the daily balance between the quantities measured and the quantities expected at the Tarvisio entry point;
- the provision of services to TAG for the realisation of the transport infrastructures governed by the 'Engineering, Procurement and Construction Management (EPCM) Agreement;
- the provision to TAP of services for the construction of transport infrastructures governed by the Engineering and Project Management (EPMS) Agreement;
- the residual commitments, undertaken by Snam to TAP, as the shareholder in charge of financing the project due to the level of the shareholding held, equal to 20% and the Debt Service Guarantee during the construction and commissioning of the first section of the network⁴⁸.
- the "on-demand" guarantee given in the favour of the Greek privatisation agency (TAIPED) during the tender for the purchase of 66% of DESFA, the national operator in the natural gas infrastructures sector in Greece⁴⁹.

Companies controlled by the parent company Cassa depositi e prestiti

The most significant commercial transactions with the subsidiaries of Cassa depositi e prestiti regard the supply to the Italgas Group of services provided by Snam S.p.A., mainly relating to ICT services and staff services. Services are regulated according to costs incurred with a full cost logic. With the year ended as at 31 December 2018, all contracts for services provided to the Italgas Group had been terminated.

Companies jointly controlled by the parent company Cassa depositi e prestiti

Among the main commercial relations with companies that are jointly controlled by Cassa depositi e prestiti we note the purchase from Saipem of design and supervision services for the realisation of natural gas transport and storage infrastructures, regulated by contracts concluded at arm's length.

Companies owned or controlled by the State

The key transactions with State-owned or controlled companies relate to:

- the provision to the Eni Group and the Enel Group of natural gas transport, regasification and storage services, which are settled on the basis of tariffs set by the Authority;
- purchase from the Eni Group of electricity used for operations.

Additionally, as at 31 December 2018, there were assets resulting from transactions with Eni as part of the national tax consolidation scheme in force until 31 July 2012.

⁴⁸ For more information, see the note no 25 "Commitments, guarantees and pledges – TAP".

⁴⁹ The guarantee was released on 09 January 2019.

Financial transactions

Financial transactions can be broken down as follows:

(€ million)	31.12.2017		2017	
	Receivables	Payables	Expense	Income
Companies under joint control and associates				
- GasBridge1 B.V. GasBridge 2 B.V.		15		
- Trans Adriatic Pipeline AG (TAP)	373			6
	373	15		6
Parent company				
- Cassa depositi e prestiti (*)			1	
			1	
	373	15	1	6

(*) This refers to costs incurred for loans granted by the European Investment Bank - EIB.

(€ million)	31.12.2018		2018	
	Receivables	Payables	Expense	Income
Companies under joint control and associates				
- Trans Adriatic Pipeline AG (TAP)	10			8
	10			8

Companies under joint control and associates

Financial transactions involving joint ventures and associates regard financial receivables relative to the residual portion of the shareholders' loan granted to the associate Trans Adriatic Pipeline AG (TAP) and related financial income.

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

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

(€ million)	31.12.2017			31.12.2018		
	Total	Related parties	Share %	Total	Related parties	Share %
Statement of financial position						
Trade receivables and other current receivables	1,658	475	28.6	1,347	420	31.2
Other non-current receivables	373	373	100.0	1		
Other non-current assets	50	2	4.0	36	1	2.8
Short-term financial liabilities	1,373	15	1.1	1,976	27	1.4
Trade and other payables	1,673	202	12.1	1,768	274	15.5
Other current liabilities	79	14	17.7	86	27	31.4

The impact of related-party transactions on the income statement is summarised in the following table:

(€ million)	2017			2018		
	Total	Related parties	Share %	Total	Related parties	Share %
Income statement						
Core business revenue	2,493	1,627	65.3	2,555	1,600	62.6
Other revenue and income	40	19	47.5	31	1	3.2
Purchases, services and other costs	355	43	12.1	311	77	24.8
Personnel cost	171	6	3.5	201		
Financial expenses	291	1	0.3	253		
Financial income	9	6	66.7	13	8	61.5

These transactions are generally settled at arm's length, i.e. the conditions which would be applied for two independent parties.

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

(€ million)	2017	2018
Revenue and income	1,646	1,601
Cost and expense	(49)	(77)
Change in trade receivables and other current receivables	25	64
Change in trade and other payables	8	80
Change in other current liabilities	12	13
Interest received (paid)	(1)	
Net cash flow from operating activities	1,641	1,681
Investments::		
- Tangible and intangible assets	(39)	(27)
- Equity investments		
- Long term financial receivables	(154)	(148)
- Change in payables and receivables relating to investment activities	(11)	(13)
Cash flow from investments	(204)	(188)
Net cash flow from investment activities	(204)	331
Increase (decrease) in short-term financial debt	(3)	(14)
Net cash flow from financing activities	(3)	(14)
Total cash flows with related parties	1,434	1,998

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

(€ million)	31.12.2017			31.12.2018		
	Total	Related parties	Share %	Total	Related parties	Share %
Cash flow from operating activities	1,864	1,641	88.04	1,826	1,681	92.1
Cash flow from investment activities	(1,441)	(204)	14.2	(665)	331	
Cash flow from financing activities	262	(3)	N.A.	(731)	(14)	1.9

35) SIGNIFICANT NON-RECURRING EVENTS AND TRANSACTIONS

Pursuant to Consob Communication DEM/6064293 of 28 July 2006, it should be stated that no significant non-recurring events or transactions took place during the course of the year.

36) POSITIONS OR TRANSACTIONS ARISING FROM ATYPICAL AND/OR UNUSUAL TRANSACTIONS

Pursuant to Consob Communication DEM/6064293 of 28 July 2006, it should be stated that no atypical and/or unusual positions or transactions took place during the course of the year.

37) SIGNIFICANT EVENTS AFTER THE END OF THE FISCAL YEAR

There were no significant events after the end of the financial year.

38) PUBLICATION OF THE FINANCIAL STATEMENTS

The financial statements were authorised for publication by Snam's Board of Directors at its meeting of 18 February 2019, in accordance with the law.

Certification of the consolidated financial statements pursuant to Article 154-*bis*, paragraph 5 of Legislative Decree No. 58/98 (Consolidated Finance Act)

1. The undersigned Marco Alverà and Franco Pruzzi, as the Chief Executive Officer and the Manager responsible for preparing the Company's financial reports of Snam S.p.A., respectively, certify, taking into account Article 154-*bis*, paragraphs 3 and 4 of Legislative Decree No. 58 of 24 February 1998:
 - the adequacy, considering the Company's characteristics, and
 - the effective implementation of the administrative and accounting procedures for the preparation of the consolidated financial statements during the course of 2018.
2. The administrative and accounting procedures for the preparation of the consolidated financial statements as at 31 December 2018 were defined and their adequacy was assessed using the rules and methods in line with the Internal Control – Integrated Framework model issued by the Committee of Sponsoring Organisations of the Treadway Commission, which represents a benchmark framework for the internal control system generally accepted at international level.
3. It is also certified that:
 - 3.1 The consolidated financial statements as at 31 December 2018:
 - a) were prepared in accordance with the applicable international accounting standards recognised in the EU pursuant to Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of 19 July 2002;
 - b) are consistent with the accounting records and ledgers;
 - c) are able to provide a true and fair view of the financial position, results of operations and cash flows of the issuer and of the companies included in the scope of consolidation.
 - 3.2 The Report on operations includes a reliable analysis of the operating performance and results, as well as the position of the issuer and of all the companies included in the scope of consolidation, together with a description of the principal risks and uncertainties to which it is exposed.

18 February 2019

/Signature/Marco Alverà

Marco Alverà
Chief Executive Officer

/Signature/Franco Pruzzi

Franco Pruzzi
Manager responsible for preparing the
Company's financial reports

Independent Auditors' report

Independent auditor's report

in accordance with article 14 of Legislative Decree No. 39 of 27 January 2010 and article 10 of Regulation (EU) No. 537/2014

To the shareholders of Snam SpA

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Snam Group (the Group), which comprise the consolidated statement of financial position as of 31 December 2018, the consolidated [income statement, statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2018, and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of this report. We are independent of ABC SpA (the Company) pursuant to the regulations and standards on ethics and independence applicable to audits of financial statements under Italian law. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

PricewaterhouseCoopers SpA

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Key Audit Matters

Auditing procedures performed in response to key audit matters

First year of the engagement

At the AGM 25 April 2018 the shareholders of Snam SpA engaged PwC to perform the statutory audit of the separate and consolidated financial statements for the years 2018 to 2026.

The complexity of the Company and of its Group as well as of the regulatory environment for the businesses of gas transportation, regasification and storage in which the Snam Group operates were key matters requiring in-depth analysis in the course of our first year on the engagement.

As part of our audit procedures we interviewed the Group's top management in particular to understand the regulatory environment for the businesses of gas transportation, regasification and storage.

We obtained a specific understanding of the key accounting choices made by the Snam Group and obtained documentary evidence and the rationale for the key accounting matters referred to the consolidated financial statements as of 31 December 2017.

We reviewed the working papers of the predecessor auditor on the audit of the 2017 consolidated financial statements and discussed with it the audit method adopted in the previous year, the materiality threshold applied, accounting choices made by the Snam Group in the previous year's financial reporting and the findings from the audit of the 2017 consolidated financial statements.

Investment in property, plant and equipment and intangible assets and related impairment tests

Note 13 "Property, plant and equipment" and Note 14 "Intangible assets" of the Notes to the consolidated financial statements as of 31 December 2018.

Property, plant and equipment and Intangible assets amounted to Euro 17,060 million as of 31 December 2018, accounting for 89% of total non-current assets.

The gas transportation, storage and regasification

As part of our audit procedures we analysed, understood and assessed the Group's internal control system in relation to the business processes "Assets" and "Investments" underlying the correct capitalisation of expenditure and the management of fixed

businesses in which the Snam Group operates are characterised by specific regulations issued by the Italian Regulatory Authority for Energy, Networks and the Environment (“ARERA”). In detail, revenues of the three operating businesses of the Group are determined by ARERA based on a predefined return on capital expenditure (on tangible and intangible assets), depreciation/amortisation charges and certain operating costs.

In consideration of the significant amounts of capital investments, we identified a focus area relating to the appropriate recognition of assets in accordance with international financial reporting standards IAS 16 “Property, plant and equipment” and IAS 38 “Intangible assets”.

During the year the Snam Group invested around Euro 882 million mainly on infrastructure for gas transportation (Euro 764 million), storage (Euro 99 million) and regasification (Euro 9 million).

At the year end, management considered it appropriate to test property, plant and equipment and intangible assets for impairment, regardless of the existence of possible impairment indicators, in consideration of the materiality of the amounts involved. Impairment tests were performed for each of the gas generating units (CGUs) in which the Snam Group operates, which coincide with the individual entities operating in the regulated businesses (transportation, regasification and storage), with the entities Snam 4 Mobility and Cubogas for the business Compressed Natural Gas (CNG), with the entities Ies Biogas and Enersi operating in the bio-methane business and with TEP Energy Solution for the energy efficiency businesses.

The recoverability of the values of fixed assets is tested by comparing the carrying amount with the recoverable amount, which is the higher of fair value and value in use.

assets.

We identified and validated the operation and effectiveness of relevant (manual and automated) controls over those processes, also using the support of experts in IT systems and business process analysis belonging to the PwC network.

We verified the reconciliation of the asset register to the general ledger, recalculated depreciation charges, on a test basis, and verified decreases of the period, on a test basis.

In relation to additions of the period we selected a sample of transactions and verified the correct application of the capitalisation criteria required by the applicable financial reporting standards.

We analysed projects included in assets under construction and discussed with management the key items of expenditure, their nature and, for the oldest projects, the possibility of the assets having become impaired.

We examined the method applied by management to identify and assess possible indicators of impairment of the assets and to perform impairment testing.

We obtained the impairment test performed by the Company and met management to understand the method of its performance. For the regulated businesses, we obtained and tested the estimated RAB used by ARERA for tariff calculations as of 31 December 2018 and verified that the value matched those included in the Tariff Proposals prepared for the year 2019 and approved by ARERA, respectively, with Resolution 280/2018 for the gas transportation business, Resolution 696/2018 for gas storage and Resolution 695/2018 for the regasification business.

We verified that the carrying amounts of assets

In detail, the recoverable amounts of assets included in the regulated businesses is estimated by management by reference to the capital invested used by ARERA to calculate the applicable tariffs (the Regulatory Asset Base, “RAB”), which market operators consider the minimum measurement of fair value for those assets.

used in impairment testing matched those in the consolidated financial statements and we re-performed the impairment tests.

For the CGU Snam 4 Mobility we obtained the value in use used by management in the impairment test; we then analysed the key assumptions underlying the revenues and costs extracted from the forecasts set out in the Business Plan 2019-2022 and verified the mathematical accuracy of the model.

In those analyses we used the support of experts from the PwC network for the examination of the valuation models used and discount rates adopted by management.

Finally, we verified the accuracy and completeness of disclosures presented in note 13 to the consolidated financial statements as of 31 December 2018.

Measurement of equity investments

Note 15 “Investments valued under the equity method” to the consolidated financial statements as of 31 December 2018.

The balance of equity investments in entities measured under the equity method as of 31 December 2018 was Euro 1,710 million and relates mainly to equity investments in foreign joint ventures.

As part of our audit procedures we analysed, understood and evaluated the Group’s internal control system in relation to the business process “Financial reporting” which includes specific controls related to impairment testing.

Equity investments in associates and joint ventures are measured under the equity method, and when indicators of impairment are identified they are tested for impairment by comparing the carrying amount with the recoverable amount, which is the higher of fair value and value in use. Based on the activities performed, management did not identify any impairment loss on equity investments as of 31 December 2018.

We examined the method adopted by management to identify and assess possible indicators of impairment of equity investments. In this connection, we compared the carrying amounts of equity investments in associates and joint ventures with the corresponding equity as of 31 December 2018 and we analysed their performance against the related budgets.

We identified a key audit matter concerning the

We discussed with management and with the auditors of associates and joint ventures the

measurement of equity investments in entities valued under the equity method with regard to the risk of impairment losses, in consideration of the materiality of the balance and the fact that the valuation process involves a high degree of judgement by management in assessing possible impairment indicators and, where necessary, in estimating the recoverable amount.

performance of the investees and the information used in the impairment tests.

We obtained the impairment tests performed by the Company and held meetings with management to understand the method of performance, which was based on stockmarket prices for the listed companies (Italgas) and the Dividend Discount Model (DDM) for the other entities.

We verified the method applied for the preparation of the impairment tests, the accuracy of the valuation models adopted, and the reasonableness of the assumptions used.

In those analyses we used the support of experts from the PwC network for the examination of the valuation models used.

Finally, we verified the accuracy and completeness of disclosures provided in note 15 to the consolidated financial statements as of 31 December 2018.

Revenue recognition

Note 4 “Measurement criteria” and Note 25 “Revenues” to the consolidated financial statements as of 31 December 2018.

Revenue recognition for regulated businesses is governed by the regulatory framework established by ARERA, therefore the rates applied to services rendered are defined by a regulatory scheme rather than by contract. In detail, with regard to the gas transportation business, the difference between the revenues allowed by the regulator (the “revenue cap”) and revenues actually billed/to be billed to customers is recognised on the line ‘Other assets’ if positive or on the line ‘Other liabilities’ if negative. The difference shall be transferred to the income statement in subsequent years in the form of changes to tariffs.

As part of our audit procedures we analysed, understood and evaluated the Group’s internal control system in relation to the business process “Assets” which includes specific controls related to revenue recognition.

We identified and validated the operation and effectiveness of relevant (manual and automated) controls over those processes, also using the support of experts in IT systems and business process analysis belonging to the PwC network.

With regard to the gas regasification and storage businesses, instead, the difference between the revenues allowed by the regulator and revenues billed is recognised on the line 'Trade and other receivables' if positive, and 'Trade and other payables', if negative, because it will be the subject of monetary settlement with Cassa per i Servizi Energetici e Ambientali (CSEA, a public sector entity that manages certain tariff components paid by power, gas and water operators).

In consideration of the significant volume of transactions and the complexity of the regulations applicable to the quantification of revenues, we identified the revenue recognition process as a key audit matter with reference to the correct calculation of revenues.

We verified the reconciliation of revenue figures with the revenue cap identified by ARERA in its resolutions approving revenues for the year 2018 for the gas transportation, storage and regasification businesses.

We verified the correct calculation of the difference between revenues allowed by ARERA and revenues earned, for each business, based on the difference between the revenue caps and amounts billed to customers during the year.

Finally, we carried out balance confirmation procedures with third parties to obtain documentary evidence supporting the trade receivables reported in the consolidated financial statements. For the parties where we did not receive balance confirmations we performed alternative procedures on the balance as of 31 December 2018 to obtain relevant and reliable supporting evidence.

Other aspects

The consolidated financial statements of Snam Group as of and for the year ended 31 December 2017 were audited by another auditor, who issued an unqualified report thereon dated 29 March 2018.

Responsibilities of the Directors and the Board of Statutory Auditors for the Consolidated Financial Statements

The directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05 and, in the terms prescribed by law, for such internal control as they determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the Group's ability to continue as a going concern and, in preparing the consolidated financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern. In preparing the consolidated

financial statements, the directors use the going concern basis of accounting unless they either intend to liquidate Snam SpA or to cease operations, or have no realistic alternative but to do so.

The board of statutory auditors is responsible for overseeing, in the terms prescribed by law, the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

As part of our audit conducted in accordance with International Standards on Auditing (ISA Italia), we exercised professional judgement and maintained professional scepticism throughout the audit. Furthermore:

- We identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error; we designed and performed audit procedures responsive to those risks; we obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- We obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- We evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- We concluded on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- We evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



- We obtained sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion on the consolidated financial statements.

We communicated with those charged with governance, identified at an appropriate level as required by ISA Italia regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identified during our audit.

We also provided those charged with governance with a statement that we complied with the regulations and standards on ethics and independence applicable under Italian law and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determined those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We described these matters in our auditor's report.

Additional Disclosures required by Article 10 of Regulation (EU) No. 537/2014

On 24 April 2018 the shareholders of Snam SpA in general meeting engaged us to perform the statutory audit of the Company's and consolidated financial statements for the years ending 31 December 2018 to 31 December 2026.

We declare that we did not provide any prohibited non-audit services referred to in article 5, paragraph 1, of Regulation (EU) No. 537/2014 and that we remained independent of the Company in conducting the statutory audit.

We confirm that the opinion on the consolidated financial statements expressed in this report is consistent with the additional report to the board of statutory auditors, in its capacity as audit committee, prepared pursuant to article 11 of the aforementioned Regulation.

Report on Compliance with other Laws and Regulations

Opinion in accordance with Article 14, paragraph 2, letter e), of Legislative Decree No. 39/10 and Article 123-bis, paragraph 4, of Legislative Decree No. 58/98

The directors of Snam SpA are responsible for preparing a report on operations and a report on the corporate governance and ownership structure of the Snam Group as of 31 December 2018, including



their consistency with the relevant consolidated financial statements and their compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion on the consistency of the report on operations and of the specific information included in the report on corporate governance and ownership structure referred to in article 123-bis, paragraph 4, of Legislative Decree No. 58/98, with the consolidated financial statements of the Snam Group as of 31 December 2018 and on their compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations and the specific information included in the report on corporate governance and ownership structure mentioned above are consistent with the consolidated financial statements of Snam Group as of 31 December 2018 and are prepared in compliance with the law.

With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree No. 39/10, issued on the basis of our knowledge and understanding of the Company and its environment obtained in the course of the audit, we have nothing to report.

***Statement in accordance with article 4 of Consob's Regulation implementing
Legislative Decree No. 254 of 30 December 2016***

The directors of Snam SpA are responsible for the preparation of the non-financial statement pursuant to Legislative Decree No. 254 of 30 December 2016.

We have verified that the directors approved the non-financial statement.

Pursuant to article 3, paragraph 10, of Legislative Decree No. 254 of 30 December 2016, the non-financial statement is the subject of a separate statement of compliance issued by ourselves

Milan, 11 March 2019

PricewaterhouseCoopers SpA

Signed by

Giulio Grandi
(Partner)

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By
Snam

Concept & Design
Inarea Strategic Design

Layout
Inarea Strategic Design

Printing
Periskop (Italy)
Printed on ecological paper
Fedrigoni Symbol Freelifa

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March 2019



