

# 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
<b>2,560</b>	<b>Total revenue</b>	<b>2,533</b>	<b>2,533</b>	<b>2,586</b>	<b>2,586</b>	<b>53</b>	<b>2.1</b>
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
<b>1,987</b>	<b>EBITDA</b>	<b>2,007</b>	<b>2,022</b>	<b>2,074</b>	<b>2,095</b>	<b>73</b>	<b>3.6</b>
(651)	Amortisation, depreciation and impairment	(659)	(659)	(690)	(690)	(31)	4.7
<b>1,336</b>	<b>EBIT</b>	<b>1,348</b>	<b>1,363</b>	<b>1,384</b>	<b>1,405</b>	<b>42</b>	<b>3.1</b>
(263)	Net financial expenses	(283)	(227)	(242)	(195)	32	(14.1)
135	Net income from equity investments	161	150	159	159	9	6.0
<b>1,208</b>	<b>Pre-tax profit</b>	<b>1,226</b>	<b>1,286</b>	<b>1,301</b>	<b>1,369</b>	<b>83</b>	<b>6.5</b>
(363)	Income tax	(329)	(346)	(341)	(359)	(13)	3.8
<b>845</b>	<b>Net profit (***)</b>	<b>897</b>	<b>940</b>	<b>960</b>	<b>1,010</b>	<b>70</b>	<b>7.4</b>

(\*) 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
<b>Operating profit (EBIT)</b>	<b>1,348</b>	<b>1,384</b>	<b>36</b>	<b>2.7</b>
Excluding special items	15	21	6	40.0
<b>Adjusted EBIT</b>	<b>1,363</b>	<b>1,405</b>	<b>42</b>	<b>3.1</b>
<b>Net profit (**)</b>	<b>897</b>	<b>960</b>	<b>63</b>	<b>7.0</b>
Excluding special items	43	50	7	16.3
<b>Adjusted net profit</b>	<b>940</b>	<b>1,010</b>	<b>70</b>	<b>7.4</b>

(\*) 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 profit**<sup>19</sup> 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.

<sup>19</sup> 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
<b>Business segments</b>					
2,035	Transportation	2,039	<b>2,118</b>	79	3.9
19	Regasification	22	<b>24</b>	2	9.1
584	Storage	601	<b>603</b>	2	0.3
226	Corporate and other activities	233	<b>268</b>	35	15.0
(304)	Consolidation eliminations	(362)	<b>(427)</b>	(65)	18.0
<b>2,560</b>		<b>2,533</b>	<b>2,586</b>	<b>53</b>	<b>2.1</b>

### Regulated and non-regulated revenue

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

(\*) 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 2017<sup>20</sup> (-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)<sup>21</sup>; (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
<b>Business segments</b>					
469	Transportation	441	<b>462</b>	21	4.8
12	Regasification	15	<b>17</b>	2	13.3
151	Storage	165	<b>168</b>	3	1.8
245	Corporate and other activities	252	<b>271</b>	19	7.5
(304)	Consolidation eliminations	(362)	<b>(427)</b>	(65)	18.0
<b>573</b>		<b>511</b>	<b>491</b>	<b>(20)</b>	<b>(3.9)</b>

## Operating costs - Regulated and non-regulated activities

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

(\*) 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 costs<sup>22</sup> 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.

<sup>22</sup> 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
<b>2,883</b>		<b>2,919</b>	<b>3,016</b>	<b>97</b>	<b>3.3</b>

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
<b>616</b>	<b>Total amortisation and depreciation</b>	<b>646</b>	<b>682</b>	<b>36</b>	<b>5.6</b>
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
<b>35</b>	<b>Impairment losses (Reversals)</b>	<b>13</b>	<b>8</b>	<b>(5)</b>	<b>(38.5)</b>
<b>651</b>		<b>659</b>	<b>690</b>	<b>31</b>	<b>4.7</b>

**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
<b>Business segments</b>					
1,021	Transportation	1,048	<b>1,081</b>	33	3.1
(5)	Regasification	2	<b>2</b>		
346	Storage	339	<b>335</b>	(4)	(1.2)
(26)	Corporate and other activities	(26)	<b>(13)</b>	13	(50.0)
1,336		1,363	<b>1,405</b>	42	3.1

#### Net financial expenses

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

(\*) 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 indicators<sup>23</sup> and compliant with international accounting standards<sup>24</sup>.

### 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.

<sup>23</sup> 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.

<sup>24</sup> 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
<b>Total revenue</b>	<b>2,533</b>		<b>2,533</b>	<b>2,586</b>		<b>2,586</b>
- 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)
<b>EBITDA</b>	<b>2,007</b>	<b>15</b>	<b>2,022</b>	<b>2,074</b>	<b>21</b>	<b>2,095</b>
Amortisation, depreciation and impairment	(659)		(659)	(690)		(690)
<b>EBIT</b>	<b>1,348</b>	<b>15</b>	<b>1,363</b>	<b>1,384</b>	<b>21</b>	<b>1,405</b>
Net financial expenses	(283)	56	(227)	(242)	47	(195)
Net income from equity investments	161	(11)	150	159		159
<b>Pre-tax profit</b>	<b>1,226</b>	<b>60</b>	<b>1,286</b>	<b>1,301</b>	<b>68</b>	<b>1,369</b>
Income tax	(329)	(17)	(346)	(341)	(18)	(359)
<b>Net profit (*)</b>	<b>897</b>	<b>43</b>	<b>940</b>	<b>960</b>	<b>50</b>	<b>1,010</b>

(\*) Entirely held by Snam shareholders.

## Details of special items

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

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

(\*) 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
<b>Balance at 31 December 2017</b>	<b>16,033</b>	<b>850</b>	<b>16,883</b>
Technical investments	805	77	<b>882</b>
Amortisation, depreciation and impairment	(630)	(60)	<b>(690)</b>
Transfers, eliminations and divestments	(14)		<b>(14)</b>
Change in scope of consolidation	1	30	<b>31</b>
Other changes	(42)	10	<b>(32)</b>
<b>Balance at 31 December 2018</b>	<b>16,153</b>	<b>907</b>	<b>17,060</b>

The technical investments of 2018 of the continuing operations total 882 million euro<sup>25</sup> (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)<sup>26</sup>. 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)<sup>27</sup>.

### 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 Development<sup>28</sup>.

### 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 project<sup>29</sup>.

### Net working capital

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

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/gas<sup>30</sup>. 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
<b>Net profit (*)</b>	<b>897</b>	<b>960</b>
<b>Other components of comprehensive income</b>		
<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
<b>Total other components of comprehensive income, net of tax effect</b>	<b>(9)</b>	<b>(20)</b>
<b>Total comprehensive income (*)</b>	<b>888</b>	<b>940</b>

(\*) 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

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

(\*) 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.**

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

**Net financial debt**

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

(\*) 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)
	<b>12,619</b>	<b>13,420</b>	<b>801</b>

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

(\*\*) Entirely short-term.

Financial and bond debts are denominated in euros<sup>31</sup> 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 bond<sup>32</sup>, 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)
<b>1,627</b>	<b>Net cash flow from operating activities</b>	<b>1,864</b>	<b>1,826</b>
(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)
<b>1,707</b>	<b>Free cash flow</b>	<b>423</b>	<b>1,161</b>
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)
<b>17</b>	<b>Net cash flow for the period</b>	<b>685</b>	<b>1,153</b>

## 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
<b>Fixed capital</b>					
Property, plant and equipment			16,033		<b>16,153</b>
Compulsory inventories			363		<b>363</b>
Intangible assets			850		<b>907</b>
<i>Equity investments comprising:</i>			<i>1,591</i>		<i><b>1,750</b></i>
- Equity investments measured using the equity method		1,547		<b>1,710</b>	
- Other equity investments		44		<b>40</b>	
Long-term financial receivables	(note 9)		373		<b>11</b>
<i>Net payables for investments, consisting of:</i>			<i>(335)</i>		<i><b>(328)</b></i>
Payables for investment activities	(note 18)	(347)		<b>(337)</b>	
- Receivables from investment/divestment activities	(note 9)	12		<b>9</b>	
<b>Total fixed capital</b>			<b>18,875</b>		<b>18,856</b>
<b>Net working capital</b>					
Trade receivables	(note 9)		1,274		<b>1,247</b>
Inventories			86		<b>109</b>
<i>Tax receivables, consisting of:</i>			<i>46</i>		<i><b>26</b></i>
- Current income tax assets and other current tax assets		37		<b>17</b>	
IRES receivables for the national tax consolidation scheme	(note 9)	9		<b>9</b>	
Trade payables	(note 18)		(406)		<b>(491)</b>
<i>Tax liabilities, consisting of:</i>			<i>(11)</i>		<i><b>(23)</b></i>
- Current income tax liabilities and other current tax liabilities		(11)		<b>(23)</b>	
Deferred tax liabilities			(165)		<b>(134)</b>
Provisions for risks and charges			(677)		<b>(665)</b>
Derivative hedging instruments	(note 12 and 19)		(12)		<b>(29)</b>

(€ 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)	
<b>Total net working capital</b>			<b>(1,079)</b>		<b>(1,259)</b>
Provisions for employee benefits			(58)		(64)
<b>NET INVESTED CAPITAL</b>			<b>17,738</b>		<b>17,533</b>
Shareholders' equity (entirely attributable to Snam's shareholders)			6,188		5,985
<b>Net financial debt</b>					
<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)	
<b>Total net financial debt</b>			<b>11,550</b>		<b>11,548</b>
<b>COVERAGE</b>			<b>17,738</b>		<b>17,533</b>

## 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
<b>Net profit</b>		<b>897</b>		<b>960</b>
<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)	
<b>Net cash flow from operating activities</b>		<b>1,864</b>		<b>1,826</b>

(€) 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)	
<b>Free cash flow</b>		<b>423</b>		<b>1,161</b>
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)	
<b>Net cash flow for the period</b>		<b>685</b>		<b>1,153</b>