

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.