

## 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								
	<b>1,373</b>	<b>1,070</b>	<b>4,987</b>	<b>5,189</b>	<b>10,176</b>	<b>1,976</b>	<b>1,657</b>	<b>5,583</b>	<b>4,204</b>	<b>9,787</b>

### 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)
<b>Euro Medium Term Notes (EMTN)</b>							
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
			<b>8.027</b>	<b>31</b>	<b>8.058</b>		
<b>Convertible bonds</b>							
Snam S.p.A.	2017	€	400	(12)	388		2022
			<b>8,427</b>	<b>19</b>	<b>8,446</b>		

(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 euro<sup>26</sup>, inclusive of commission paid to intermediaries (2 million euro)<sup>27</sup> and interest accrued (7 million euro). These effects were partially offset by the issue of: (i) a variable-rate bond<sup>28</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.

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%<sup>29</sup> (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 euro<sup>30</sup> (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						
<b>C. Cash (A + B)</b>	<b>719</b>		<b>719</b>	<b>1,872</b>		<b>1,872</b>
<b>D. Short-term financial receivables</b>	<b>350</b>		<b>350</b>			
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			
<b>N. Gross financial debt (E + F + G + H + I + L + M)</b>	<b>2,443</b>	<b>10,176</b>	<b>12,619</b>	<b>3,633</b>	<b>9,787</b>	<b>13,420</b>
<b>O. Net financial debt (N - C - D)</b>	<b>1,374</b>	<b>10,176</b>	<b>11,550</b>	<b>1,761</b>	<b>9,787</b>	<b>11,548</b>

## 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)				
<b>Liquidity and financial receivables</b>	<b>1,069</b>	<b>803</b>				<b>1,872</b>
Short-term financial liabilities	1,373	597			6	1,976
Long-term financial liabilities (**)	11,246	202	(10)	6		11,444
<b>Gross financial debt</b>	<b>12,619</b>	<b>799</b>	<b>(10)</b>	<b>6</b>	<b>6</b>	<b>13,420</b>
<b>Net financial debt</b>	<b>11,550</b>	<b>(4)</b>	<b>(10)</b>	<b>6</b>	<b>6</b>	<b>11,548</b>

(\*) 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
	<b>1,673</b>	<b>1,768</b>

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 transmission<sup>31</sup> (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 sensitivity<sup>32</sup> 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%
<b>Effect on the net obligation at 31.12.2018</b>		
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
	<b>58</b>	<b>64</b>

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 current<sup>33</sup> and retired executives.

FISDE provides financial supplementary healthcare benefits to Eni Group<sup>34</sup> 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)<sup>35</sup>, the scope of addressees of such was extended in 2018.

<sup>33</sup> For executives in service, contributions are calculated from the year in which the employee retires and refer to the years of service provided.

<sup>34</sup> The fund provides the same benefits for Snam Group executives.

<sup>35</sup> 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 follows<sup>36</sup>:

(€ 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
<b>Current value of the obligation at the start of the year</b>	<b>29</b>	<b>3</b>		<b>12</b>	<b>44</b>	<b>30</b>	<b>3</b>	<b>13</b>	<b>12</b>	<b>58</b>
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					
<b>Current value of the obligation at the end of the year</b>	<b>30</b>	<b>3</b>	<b>13</b>	<b>12</b>	<b>58</b>	<b>26</b>	<b>3</b>	<b>25</b>	<b>10</b>	<b>64</b>

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
	<b>1</b>	<b>1</b>	<b>(1)</b>	<b>1</b>

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 change<sup>37</sup> 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	
	Reduction of 0.5%	Increase of 0.5%
<b>Effect on the net obligation at 31.12.2018</b>		
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
	<b>30</b>	<b>3</b>	<b>13</b>	<b>12</b>	<b>58</b>	<b>26</b>	<b>3</b>	<b>25</b>	<b>10</b>	<b>64</b>

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)
	<b>165</b>	<b>(37)</b>	<b>5</b>	<b>(5)</b>	<b>6</b>	<b>134</b>

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
<b>Deferred tax liabilities</b>	<b>549</b>		<b>(16)</b>		<b>2</b>	<b>6</b>	<b>541</b>	<b>527</b>	<b>14</b>
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	
<b>Prepaid tax assets</b>	<b>(384)</b>	<b>(37)</b>	<b>21</b>	<b>(6)</b>	<b>(1)</b>		<b>(407)</b>	<b>(370)</b>	<b>(37)</b>
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)
<b>Net deferred tax liabilities</b>	<b>165</b>	<b>(37)</b>	<b>5</b>	<b>(6)</b>	<b>1</b>	<b>6</b>	<b>134</b>	<b>157</b>	<b>(23)</b>

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	<b>2,736</b>
Legal reserve	547	<b>547</b>
Share premium reserve	1,140	<b>1,021</b>
Reserve for fair value of cash flow hedging derivatives net of tax effect	(8)	<b>(28)</b>
Reserve for defined-benefit plans for employees net of tax effect	(8)	<b>(8)</b>
Reserve for fair value of minority equity investments		<b>1</b>
Retained earnings	2,112	<b>2,286</b>
Consolidation reserve	(674)	<b>(674)</b>
Net profit	897	<b>960</b>
Other reserves	58	<b>67</b>
Less:		
- Negative reserve for treasury shares in the portfolio	(318)	<b>(625)</b>
- Interim dividend	(294)	<b>(298)</b>
<b>Snam shareholders' equity</b>	<b>6,188</b>	<b>5,985</b>

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:

<b>(€ million)</b>	<b>Values after assignment of fair value</b>
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
<b>Goodwill</b>	<b>3</b>

The main values of the assets and liabilities of TEP at the acquisition date are summarised below:

<b>(€ million)</b>	<b>Values after assignment of fair value</b>
Liquid funds	8
Current assets	7
Intangible assets (*)	21
Goodwill	3
<b>Assets acquired</b>	<b>39</b>
Current liabilities	5
Short-term financial liabilities	1
Long-term financial liabilities	1
Deferred tax liabilities	6
<b>Liabilities acquired</b>	<b>13</b>
<b>Shareholders' equity acquired</b>	<b>26</b>

(\*) 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:

<b>(€ million)</b>	<b>Values after assignment of fair value</b>
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
<b>Goodwill</b>	<b>4</b>

The main values of the assets and liabilities of IES at the acquisition date are summarised below:

<b>(€ million)</b>	<b>Values after assignment of fair value</b>
Current assets	10
Inventories	2
Intangible assets	1
Goodwill	4
<b>Assets acquired</b>	<b>17</b>
Current liabilities	6
Short-term financial liabilities	4
Long-term financial liabilities	1
Current tax liabilities	1
<b>Liabilities acquired</b>	<b>12</b>
<b>Shareholders' equity acquired</b>	<b>5</b>

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
<b>Goodwill</b>	<b>7</b>

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
<b>Assets acquired</b>	<b>15</b>
Current liabilities	1
Deferred tax liabilities	1
<b>Liabilities acquired</b>	<b>2</b>
<b>Shareholders' equity acquired</b>	<b>13</b>

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
<b>Guarantees given in the interest of:</b>	<b>130</b>	<b>1,262</b>
- subsidiaries	44	<b>69</b>
- associates	86	<b>1,193</b>
- of which TAP		<b>1,129</b>
<b>Financial commitments and risks:</b>		
<b>Commitments</b>	<b>1,872</b>	<b>2,021</b>
Commitments for the purchase of goods and services	1,428	<b>1,691</b>
Commitments in associates (*)	419	<b>324</b>
- of which TAP	419	<b>324</b>
Other	25	<b>6</b>
<b>Risks</b>	<b>1,916</b>	<b>2,667</b>
- third-party assets on deposit	1,879	<b>2,609</b>
- compensation and litigation	37	<b>58</b>
	<b>3,918</b>	<b>5,950</b>

(\*) 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 Greece<sup>38</sup> (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.

<sup>38</sup> 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 cost<sup>39</sup> 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.

<sup>39</sup> 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
<b>Floating-rate loans</b>				
Effect of interest rate change	(4)	4		
<b>Floating-rate loans converted by IRSs into fixed-rate loans</b>				
Effect of interest rate change on the fair value of hedging derivatives pursuant to IAS 39 – effective portion (*)			10	(10)
<b>Effect on pre-tax profit</b>	(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 euro<sup>40</sup> 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.

<sup>40</sup> 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
<b>Financial liabilities</b>	<b>13,485</b>	<b>14,148</b>	<b>3,696</b>	<b>10,452</b>	<b>1,707</b>	<b>963</b>	<b>1,501</b>	<b>1,880</b>	<b>4,401</b>
Forward start derivative instruments (**)	9	47		47	14	33			
<b>Derivative liabilities</b>	<b>9</b>	<b>47</b>		<b>47</b>	<b>14</b>	<b>33</b>			
	<b>13,494</b>	<b>14,195</b>	<b>3,696</b>	<b>10,499</b>	<b>1,721</b>	<b>996</b>	<b>1,501</b>	<b>1,880</b>	<b>4,401</b>

(\*) 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
<b>Financial instruments measured at amortised cost</b>						
- Trade and other receivables (b)	1,661	<b>1,341</b>	(7)	<b>5</b>		
- Financial receivables (c)	373	<b>11</b>	6	<b>8</b>		
- Trade and other payables (b)	1,740	<b>1,814</b>				
- Financial payables (c)	12,619	<b>13,420</b>	(279)	<b>(237)</b>		
<b>Financial instruments measured at fair value</b>						
Net assets (liabilities) for hedging derivatives (c)	(12)	<b>(29)</b>	(1)	<b>(2)</b>	(6)	<b>(20)</b>
<b>Financial assets measured at FVOCI</b>						
Minority equity investments	44	<b>40</b>		<b>2</b>		<b>1</b>

(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/gas<sup>41</sup>, 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 2012<sup>42</sup>.

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 service<sup>43</sup>. 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 arrangement<sup>44</sup>.

### 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 CO<sub>2</sub> 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
	<b>2,533</b>	<b>2,586</b>

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
	<b>2,493</b>	<b>2,555</b>

### 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)<sup>45</sup>. 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/gas<sup>46</sup>. 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.