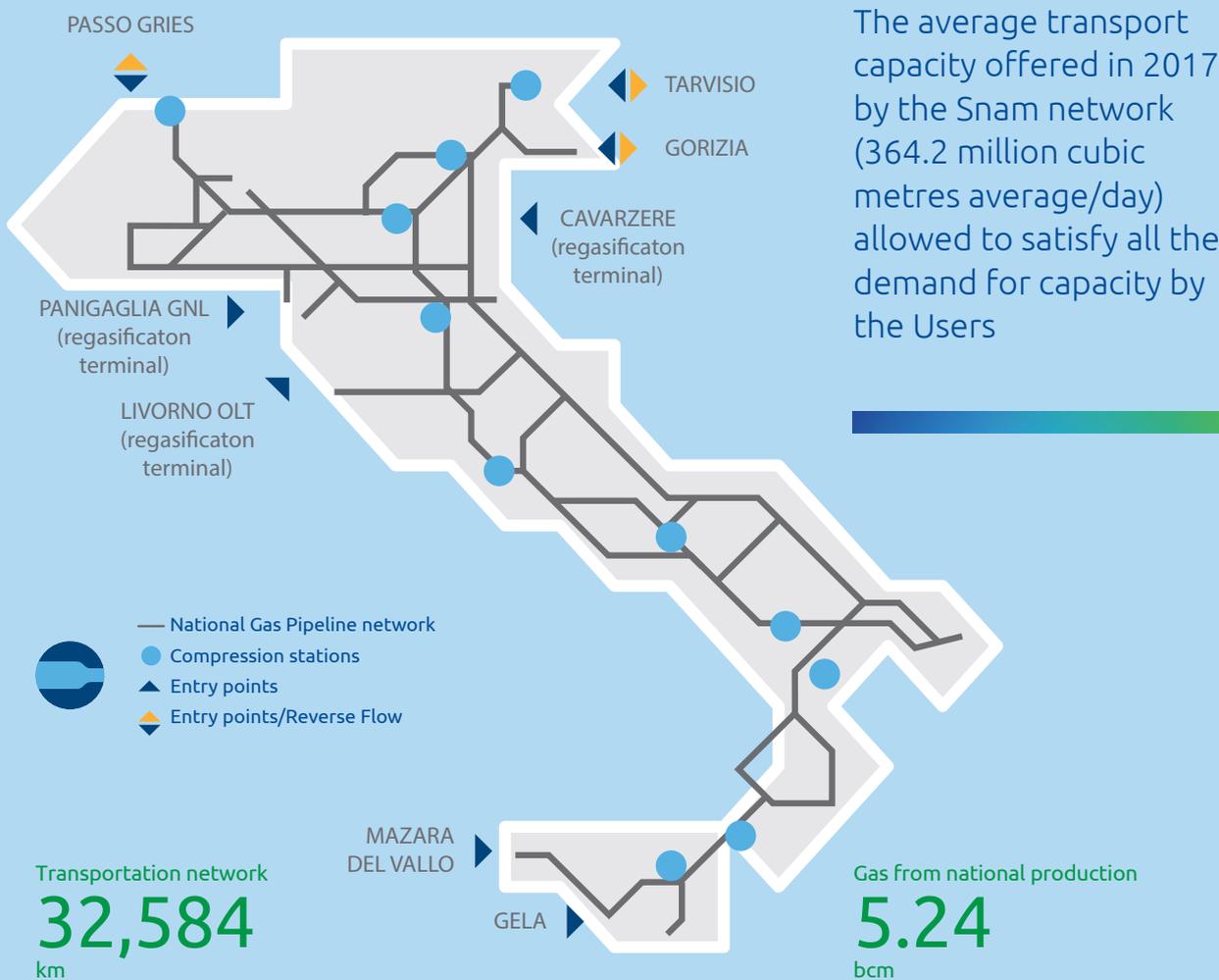


Business segment operating performance

Natural gas transportation

SNAM PRESENCE IN TRANSPORT IN ITALY



Transportation network
32,584
 km

Gas from national production
5.24
 bcm

National network
9,704
 km

Gas injected into the national network
74.59
 bcm

11
 Compression stations

Regional network
22,880
 km

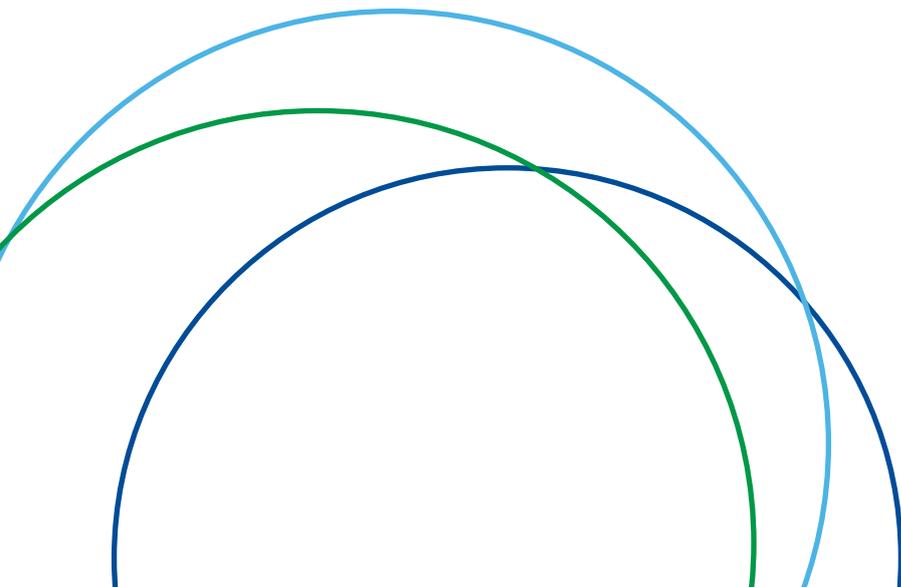
Imported gas
69.35
 bcm

8
 Entry points from national production

Snam is the leading Italian natural gas transportation and dispatching operator, and owns almost all of the transportation infrastructure in Italy, with 32,584 km of high- and medium-pressure gas pipelines (approximately 97% of the entire transportation system). Snam manages the gas pipeline network via 8 districts, 48 maintenance centres throughout Italy, 11 compression stations and a new dispatching unit that has been extensively renovated in terms of structure and technology. The gas coming from abroad is fed into the network at the seven entry points, corresponding to the interconnections with the import pipelines and LNG regasification terminals. Once it has been imported or regasified, the gas is transported to the local distribution networks, the regional network redelivery points or large end users such as thermoelectric power stations or manufacturing plants. Snam awards transportation capacity

to applicant shippers. In this way, users acquire the right to feed or withdraw, on any day of the thermal year, a quantity of gas not exceeding the daily flow rate. The conditions for access to the service are contained in the Network Code. The shippers have the possibility to make sales and gas exchanges at a Virtual Trading Point (PSV) of the National Network, thanks to the dedicated IT platform. In 2017, the average transport capacity offered at entry points interconnected with foreign countries and with LNG terminals was 364.2 million cubic metres/day; in addition to this capacity, Snam has made transport capacities available at entry points interconnected with national producers for a total of 25.2 million cubic metres average/day and with the production of biomethane for a total of 0.1 million of cubic metres average/day. During the last 14 years, transport operators have grown steadily,

going from 30 in 2003 to around 200 subjects in 2017 (between shippers and traders), with 128 customers (-6% compared to 2016). In 2017, 78 connection contracts were signed for the construction of new delivery/redelivery points (of which 13 were for biomethane injection) or the upgrading of existing points.



Key performance indicators

The information in the Natural Gas Transportation sector, starting from October 2017, includes the values deriving from the company Infrastrutture Trasporto Gas S.p.A., which entered the consolidation scope as of that date.

(millions of €)	2015	2016	2017	Change	Change %
Total revenue (a)	2,145	2,035	2,039	4	0.2
Regulated revenue (a)	2,094	1,999	1,981	(18)	(0.9)
- revenue items offset in costs	182	220	165	(55)	(25.0)
Operating costs (a)	485	469	452	(17)	(3.6)
- of which special items			11	11	
Adjusted operating costs (a) (b)	485	469	441	(28)	(6.0)
EBIT	1,165	1,021	1,037	16	1.6
Adjusted EBIT (b)	1,165	1,021	1,048	27	2.6
Technical investments	693	776	917	141	18.2
- of which with a greater return	328	345	383	38	11.0
- of which with a basic return (c)	365	431	534	103	23.9
Net invested capital at 31 December	12,011	12,263	12,542	279	2.3
Natural gas injected in the National Gas Transportation Network (billions of cubic metres) (d)	67.25	70.64	74.59	3.95	5.6
Transportation network (kilometres in use) (e)	32,534	32,508	32,584	76	0.2
- of which national network	9,630	9,590	9,704	114	1.2
- of which regional network	22,904	22,918	22,880	(38)	(0.2)
Installed power in the compression stations (MW)	876.5	922.2	922.2		
Employees in service at 31 December (number) (f)	1,918	1,726	1,972	246	14.3

- (a) Before consolidation adjustments.
 (b) More information concerning the adjusted result measures and related special items that are recognised at the consolidated level are provided in the chapter "Comment on the financial results - Non-GAAP measures".
 (c) Compared with an actual pre-tax basic WACC equal, respectively, to 6.3% for 2015 and 5.4% for 2016 and 2017, to which the 1% for offsetting the regulatory lag must be added for 2015 and 2016.
 (d) The data for 2018 were updated at 11 January 2018. The update of 2016 figures has been finalised, and the figures are consistent with those published by the Ministry of Economic Development. With reference to 2017, gas volumes are expressed in standard cubic metres (Smc) with an average traditional higher heating value (HHV) conventionally of 38.1 Mj/Smc (10.572 Kwh/Smc).
 (e) Of which 84 Km of network deriving from the consolidation of Infrastrutture Trasporto Gas S.p.A.
 (f) The variation includes: (i) the transfer of 227 staff members, effective from 1 July 2017, mainly due to the sale of the "Plant and Technical Services" business unit by Stogit S.p.A.; (ii) the entry of 27 new staff deriving from the consolidation of Infrastrutture Trasporto Gas S.p.A.

Results

Total revenue amounted to Euro 2,039 million, up by Euro 4 million, or 0.2%, compared with 2016 (Euro 2,035 million). Net of components offset in costs¹⁶, total revenue amounted to Euro 1,874 million, up by Euro 59 million, or 3.3%, compared with the previous year.

The **regulated revenues** (Euro 1,981 million) essentially refer to the fees for the natural gas transportation service (Euro 1,951 million), income from natural gas sales carried out for the purpose of balancing the gas system (Euro 22 million)¹⁷ and to the incentives granted to the Balancing Manager (RdB) (Euro 8 million) following the actions implemented, as required by Resolution 554/2016/R/gas. Regulated revenue, net of components that are offset in costs, amounted to Euro 1,816 million, up by Euro 37 million, or 2.1%, compared with 2016. The increase is mainly due to higher transportation revenues (+ Euro 30 million) essentially deriving from the contribution of investments made in 2015 (+ Euro 85 million) and higher volumes of natural gas introduced into the network (+ Euro 4 million), partly offset by the effects of the updated capital invested recognized for RAB regulatory purposes (- Euro 60 million).

Non-regulated revenue (Euro 58 million) increased by Euro 22 million, or 61.1%, compared with 2016. The increase is essentially attributable to the recharging of services provided to the Stogit subsidiary (+ Euro 27

million) following the transfer of the "Plants and technical services" business segment from Stogit to Snam Rete Gas with effect from 1 July 2017, as part of the Integra Project. The increase is matched by higher labour costs associated with the staff members transferred.

The **adjusted operating profit**, which excludes the special items represented by the charges related to the application of the pension advance instrument regulated by Art. 4 paragraphs 1-7 of Italian Law No. 92/2012, the so-called "Fornero Law" (Euro 11 million, including exit incentive costs), amounts to Euro 1,048 million, up by Euro 27 million, or 2.6% compared to 2016. The increase is attributable to higher regulated revenues (+ Euro 37 million) and lower amortisation, depreciation and write-downs (+ Euro 5 million, or 0.9%), following lower impairment of tangible assets (+ Euro 22 million) partly offset by higher amortisation due to the entry into service of new infrastructures (- Euro 17 million).

Operating costs, net of components that are offset in revenues and the effects of the company reorganisation related, in particular, to the Integra Project, are substantially in line with the previous year (- Euro 1 million, equal to 0.4%), thanks also to the results brought from the efficiency initiatives adopted. The effects connected to the dynamics of provisions for risks and charges, mainly due to higher net provisions for tax disputes, were absorbed by lower losses.

¹⁶ The main revenue items offset in costs relate to sales of natural gas carried out for the purposes of balancing the gas system, modulation and interconnection.

¹⁷ Revenues refer to the Operational Balancing Account (OBA) contracts signed with infrastructure operators interconnected to the transportation network and are offset in the operating costs associated with withdrawals of gas from storage.

Technical investments

Fourth regulatory period		Financial year 2015	Financial year 2016	Financial year 2017
Type of investment	Higher compensation in fourth regulatory period (%) (*)	€/million	€/million	€/million
New import and/or export capacity	2.0%	249	226	276
New National Network transportation capacity	1.0%		1	10
New Regional Network transportation capacity	1.0%	79	118	97
Replacement and other		365	431	534
		693	776	917

(*) Compared with the base WACC of 6.3% for 2015 and 5.4% for 2016 and 2017, in addition to 1% to offset the regulatory lag for 2015 and 2016.

Technical investments in 2017 amounted to Euro 917 million, an increase of Euro 141 million, or 18.2%, compared with 2016 (Euro 776 million).

Investments were classified in accordance with Resolution 514/2013/R/gas of the Electricity, Gas and Water Authority, which identified various categories of projects with different rates of return. The main investments for the **development of new transportation capacity on the National Network to bolster import and export capacity**, for which a **higher return of 2.0%** (Euro 276 million) is projected, concern the following:

- as part of the initiative to support the market in the north-west of the country, and to make it possible to reverse the physical transportation flows at the interconnection points with northern Europe in the Pianura Padana area (Euro 249 million):(i) the continuation of activities related to the supply of turbochargers relating to the new plants at Sergnano and Minerbio; (ii) the continuation of the construction of the Cervignano-Mortara pipeline.
- as part of the projects to upgrade the transportation network from the entry points in southern Italy

(Euro 20 million):(i) completion of the main construction works on the Biccari-Campochiaro pipeline; and (ii) continuation of construction works on the Massafra-Biccari pipeline connection points.

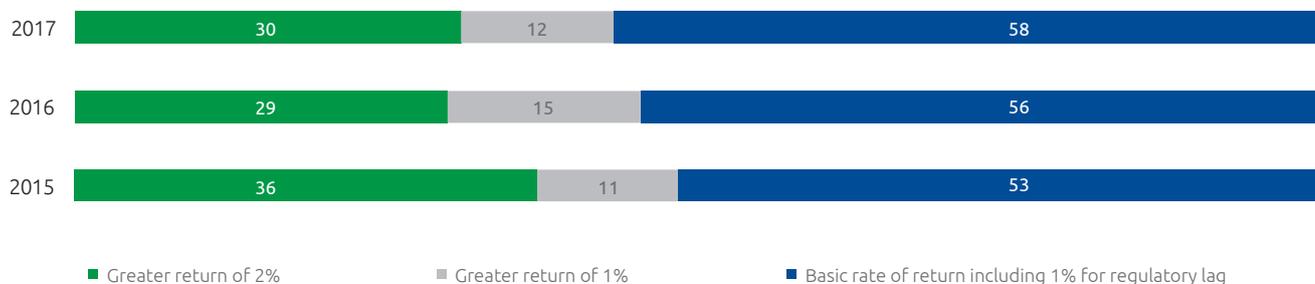
The main development investments have an envisaged **greater return of 1.0%** (Euro 107 million) relate to a number of works to upgrade the network and to connect to new regional and national redelivery points, including:(i) the continuation of the construction of pipelines and connections connected to the methanisation initiative of the Calabria Region (Euro 40 million) including the bypass for Montebello J. and the delivery of materials for the Sant' Andrea Apostolo dello Jonio-Caulonia methane pipeline; (ii) the continuation of the complementary construction works related to the upgrading of the Gavi-Pietralavezzara methane pipeline in Piedmont-Liguria (Euro 10 million); (iii) the start of the delivery of materials related to the Italgas Storage s.r.l. connection in Cornegliano Laudense (Euro 10 million); (iv) the continuation of construction works related to the upgrading of Varese bypass (Euro 7 million); (v) the continuation of the complementary construction works of

the Lainate - Olgiate Olona methane pipeline relating to the upgrading of the Lombardy network (Euro 4 million).

Investments with **basic remuneration**¹⁸ (Euro 534 million), concerning:(i) works aimed at maintaining the safety and quality levels of the plants (Euro 432 million) including the continuation of construction works for the rebuilding of the Pontremoli - Cortemaggiore methane pipeline (Euro 29 million); (ii) projects relating to the development of new information systems, as well as the implementation of the existing ones (Euro 42 million); (iii) upgrading projects for the redelivery plants (Euro 34 million); (iv) reclamation works for third parties (Euro 10 million); and (v) the purchase of assets instrumental to operating activities (Euro 16 million).

¹⁸ For the investments of 2017, the basic rate of return includes the rate of return on net invested capital (real pre-tax WACC) of 5.4%.

Investment proportions by type of return (%)



NFS Progress of work to obtain permits

To develop new settlements, in addition to the technical-economic feasibility criteria, Snam adopts procedures that respond to stringent environmental and safety compatibility assessments.

Environmental impact assessments cover all phases of the life cycle of the work, location, design, construction,

operation and disposal. These assessments are carried out as part of the Environmental Impact Assessment (EIA) procedures, at the end of which the administrations in charge, both at central and local level, issue the authorisations required by current legislation.

EIA decrees obtained during the year

Name	Length (km)	Regions affected	Authority	Date of decree
Gas Pipelines				
Bussero - Osnago enhancement	26.00	Lombardy	Lombardy Region	11/01/2017
TAP interconnection	55.43	Puglia	Ministry of the Environment and Protection of Land and Sea	22/09/2017
Trieste - Grado - Villesse Sealine	46.00	Friuli-Venezia Giulia	MATTM - MiBACT	12/06/2017
Concessions				
Fiume Treste for overpressure and development of new level F		Abruzzo and Molise	MATTM	18/05/2017
--	Abruzzo and Molise	Ministry of the Environment and Protection of Land and Sea	18/05/2017	07/04/2017
Ripalta - for overpressure and treatment plant relocation	--	Lombardy	Ministry of the Environment and Protection of Land and Sea	07/04/2017
Minerbio for overpressure exercise	--	Emilia Romagna	Ministry of the Environment and Protection of Land and Sea	14/03/2017

Orders received during the year to check EIA requirements

Name	Length (km)	Regions affected	Authority	Date of order	
Gas Pipelines					
Cortemaggiore - Genoa modification in the Municipality of Rottofreno	5.275	Emilia-Romagna	Region	30/01/2017	
Emilia-Romagna	30/01/2017	Campania	Regione Campania	12/07/2017	
Modifications "Derivazione per Salerno"	2.08	Campania	Region Campania	12/07/2017	
Pietravairano - Pignataro M. connection	25.10	Campania	Region Campania	12/10/2017	
Modifications Benevento-Cisterna	3.38	Campania	Region Campania	10/05/2017	
Modifications Castrovillari-Melizzano	3.1	Campania	Ministry of the Environment and Protection of Land and Sea	22/06/2017	
EDISON Garaguso and Masseria Monaco connection	4.599	Basilicata	Basilicata Region	30/03/2017	
Modifications Pisticci - Sant'Eufemia	4.925	Calabria	Calabria Region	19/04/2017	
Modification S. Eufemia - Crotone Loc. Calderaio and Loc. Marcellinara	3.4	Calabria	Calabria Region	30/06/2017	
Plants					
Adjustment of the Istrana compression system	Power	75 MW	Veneto	Province of Treviso	30/06/2017

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

Name	Length (km)	Regions affected	Submission date
Gas Pipelines			
Reconstruction Campodarsego - Castelfranco Veneto	33.459	Veneto	15/12/2017
Reconstruction Pieve di Soligo - S. Polo - Salgareda	33.56	Veneto	15/12/2017
Reconstruction Mestre - Trieste Section Casale sul Sile - Gonars	117.486	Veneto - Friuli Venezia Giulia	15/12/2017
Declassification Mestre - Trieste			
Reconstruction Ravenna - Chieti section Recanati - San Benedetto del Tronto	93.61	Marche	30/11/2017
Reconstruction Ravenna - Chieti section San Benedetto del Tronto - Chieti	90.74	Marche - Abruzzo	30/11/2017
Reconstruction Ravenna Mare - Ravenna Terra	33.696	Emilia Romagna	21/12/2017
Reconstruction San Salvo - Biccari	87	Puglia - Molise - Abruzzo	15/12/2017
Reconstruction Gagliano - Termini Imerese	45.99	Sicily	12/12/2017
Methanisation Sardinia - North section and Connected Works	230.98/110.00	Sardinia	26/07/2017
Methanisation Sardinia - South Section and Connected Works	150.57/80.06	Sardinia	21/06/2017

EIA applications submitted to regions or provinces

Name	Length (km)	Regions - Provinces concerned	Submission date
Gas Pipelines			
Reconstruction Rimini - Sansepolcro	81.92	Emilia-Romagna - Tuscany	04/05/2017

Applications submitted to regions or provinces to check EIA requirements

Name	Length (km)	Regions - Provinces concerned	Submission date
Gas Pipelines			
Modifications Pisticci - Sant'Eufemia	4.925	Calabria	26/01/2017
Modification S. Eufemia - Crotona Loc.Calderaio and Loc.Marcellinara	3.4	Calabria	01/02/2017
Plants			
	Power		
Adjustment of the Istrana compression system	75 MW	Treviso	01/03/2017

Operating review

Gas distribution on the National Transportation Network

Gas volumes are expressed in standard cubic metres (Smc) with a traditional higher heating value (HHV) of 38.1 Mj/Smc (10.572 Kwh/Smc). The basic figure is measured in energy (MJ) and obtained by multiplying the physical cubic metres actually measured by the relative heating value.

Gas demand in Italy

(billions of m ³)	2015	2016 (*)	2017	Change	Change % (**)
Residential and tertiary	28.97	28.86	29.48	0.62	2.1
Thermoelectric	20.62	23.43	25.36	1.93	8.2
Industrial (***)	15.97	16.58	17.80	1.22	7.3
Other (****)	1.96	2.04	2.50	0.46	22.9
	67.52	70.91	75.14	4.23	6.0

(*) The update of 2016 figures has been finalised, and figures are consistent with those published by the Ministry of Economic Development.

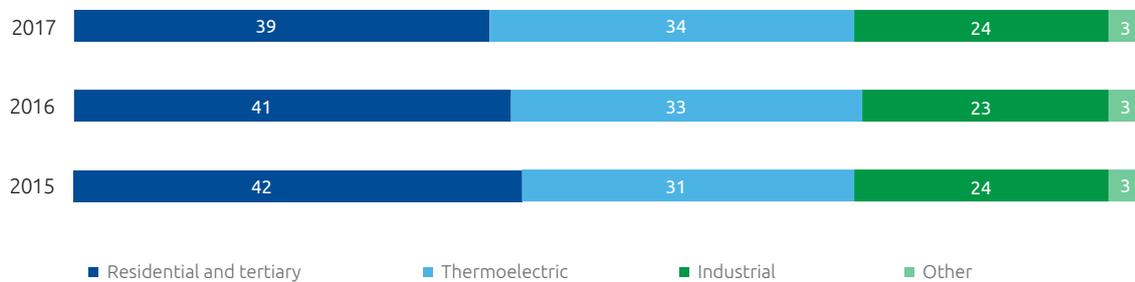
(**) The percentage changes were calculated with reference to the figures in cubic metres.

(***) Includes the consumption of the industrial, agricultural and fishing, chemical synthesis and automotive sectors.

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

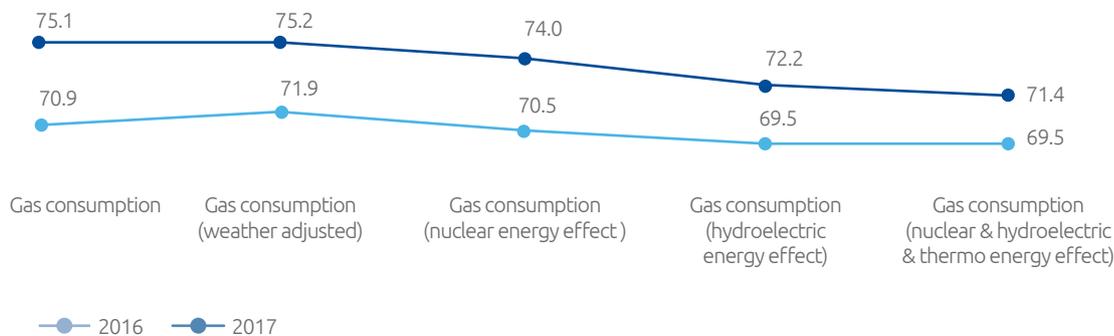
The **gas demand in Italy** in 2017 was **75.14 billion cubic metres**, up 4.23 billion cubic metres (**+6.0% for the twelfth consecutive quarter**) compared with 2016. Recorded in all sectors, the increase is attributable to higher consumption of the thermoelectric sector (+1.93 billion cubic metres, +8.2%), driven by a particularly strong summer demand, by the reduction of hydroelectricity production due to water scarcity and by the continued shutdown of some French nuclear plants in the first two months of the year, the industrial sector (+1.22 billion cubic metres, +7.3%) thanks to the recovery in industrial, residential and tertiary production (+0.62 billion cubic metres, +2.1%) attributable to climate trends.

Gas demand by sector (% of total gas demand)



Adjusted for the weather effect, gas demand has been estimated as equal to 75.2 billion cubic metres, increasing by 3.3 billion cubic metres (+4.6%) compared to the corresponding value for 2016 (71.9 billion cubic metres). Starting from October 2016 and continuing into the first two months of 2017, the normalised demand for gas, not only in terms of the temperature, but also normalised for effects caused by the reduction of hydroelectric production and the unavailability of the French nuclear power, was estimated at 71.4 billion cubic metres, an increase of 1.9 billion cubic metres (or 2.7%) compared to the corresponding value for 2016 (69.5 billion cubic metres).

Normalised gas demand (billions of m³)



Availability of natural gas

(billions of m ³)	2015	2016 (*)	2017	Change	Change%
Gas injected into the network by entry point	60.82	65.07	69.35	4.28	6.6
Domestic output	6.43	5.57	5.24	(0.33)	(5.9)
Total gas injected into the network	67.25	70.64	74.59	3.95	5.6
Net balance of withdrawals from/injections into storage (**)	(0.31)	(0.20)	0.22	0.42	
Total availability of natural gas	66.94	70.44	74.81	4.37	6.2

(*) The update of 2016 figures has been finalised, and the figures are consistent with those published by the Ministry of Economic Development.

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

The **availability of natural gas in Italy** (74.81 billion cubic metres) is equal to the sum of the gas injected into the National Transportation Network and the net balance of withdrawals from and injections into the storage system, and has increased by 4.37 billion cubic metres (+6.2%) when compared to 2016. This increase has been due to higher volumes of gas injected into the network at entry points (+3.95 billion cubic metres; +5.6%) and higher net withdrawals from the storage system (+0.42 billion cubic metres), the effects of which were partially offset by lower national production levels (-0.33 billion cubic metres; -5.9%).

Gas injected into the network

(billions of m ³)	2015	2016 (*)	2017	Change	Change%
Domestic output	6.43	5.57	5.24	(0.33)	(5.9)
Entry points (**)	60.82	65.07	69.35	4.28	6.6
Tarvisio	29.92	28.27	30.18	1.91	6.8
Mazara del Vallo	7.24	18.87	18.88	0.01	0.1
Gries Pass	10.63	6.70	7.25	0.55	8.2
Gela	7.11	4.81	4.64	(0.17)	(3.5)
Cavarzere (LNG)	5.80	5.72	6.85	1.13	19.8
Panigaglia (LNG)	0.05	0.22	0.62	0.40	
Livorno (LNG)	0.04	0.48	0.91	0.43	89.6
Gorizia	0.03		0.02	0.02	
	67.25	70.64	74.59	3.95	5.6

(*) The data for 2016 were updated on 12 January 2017. The update of 2015 figures has been finalised, and the figures are consistent with those published by the Ministry of Economic Development.

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

Injections into and withdrawals from the transportation network

In 2017, a total of 74.59 billion cubic metres of gas was injected into the network, an increase of 3.95 billion cubic metres (+ 5.6%) compared with 2016.

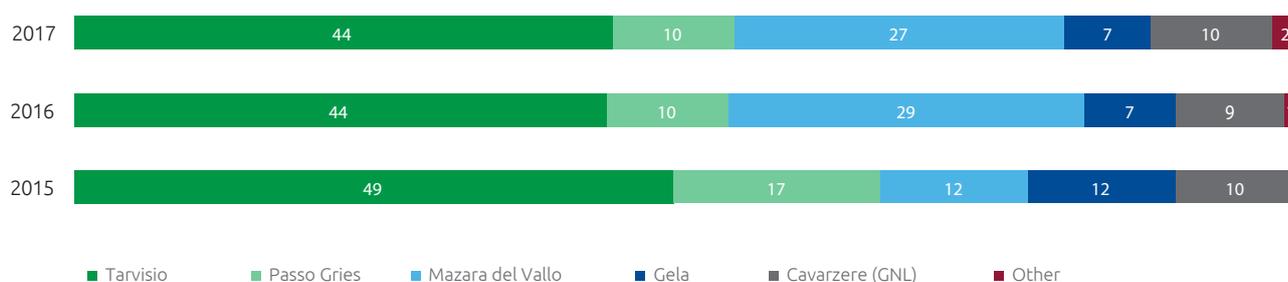
Injections into the network from domestic production fields or collection

and treatment centres totalled 5.24 billion cubic metres, down by 0.33 billion cubic metres (-5.9%) compared to 2016.

The volumes injected at entry points connected with other countries and with regasification plants, equalled 69.35 billion cubic metres overall, a rise of 4.28 billion cubic metres (+ 6.6%) compared to 2016. This change

is attributable to the higher volumes introduced by LNG regasification plants (+1.96 billion cubic metres, + 30.5%) and the Tarvisio entry point (+1.91 billion cubic metres; + 6.8%) and Passo Gries (+0.55 billion cubic metres, + 8.2%), the effects of which were partly offset by lower volumes introduced via the Gela entry points (-0.17 billion cubic metres; -3.5%)

Natural gas injected into the network per importation point (% of total gas injected into the network)



Withdrawals of natural gas

(billions of m ³)	2015	2016	2017	Change	Change%
Redelivery to the domestic market	66.46	69.91	73.98	4.07	5.8
Exports and transits (*)	0.27	0.27	0.33	0.06	22.2
Consumption and emissions attributable to Snam Rete Gas	0.18	0.23	0.27	0.04	17.4
Unaccounted-for gas (UFG) and other changes (**)	0.03	0.03	0.23	0.20	
Total withdrawals of natural gas	66.94	70.44	74.81	4.37	6.2

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

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

The natural gas withdrawn from the National Transportation Network in 2017 (74.81 billion cubic metres) was mainly: (i) for re-supply to users at network exit points (73.98 billion cubic metres; + 5.8%); (ii) exports

and transit (0.33 billion cubic metres, +22.2%); and (iii) for consumption by compression stations and gas emissions from the network and Snam Rete Gas plants (0.27 billion cubic metres; + 17.4%).

Reconciliation between gas withdrawn from the network and gas demand in Italy

(billions of m ³)	2015	2016 (*)	2017	Change	Change %(**)
Quantities withdrawn	66.94	70.44	74.81	4.37	6.2
Exports (-) (***)	(0.27)	(0.27)	(0.33)	(0.06)	22.2
Gas injected into the regional networks of other operators	0.05	0.04	0.03	(0.01)	(25.0)
Other consumption (****)	0.80	0.70	0.63	(0.07)	(10.0)
Total Italian demand	67.52	70.91	75.14	4.23	6.0

(*) The update of 2016 figures has been finalised, and the figures are consistent with those published by the Ministry of Economic Development.

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

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

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

Transport capacity

(millions of m ³ average/day)	Calendar year 2015			Calendar year 2016			Calendar year 2017		
Entry points	Transport capacity	Transferred capacity	Saturation (%)	Transport capacity	Transferred capacity	Saturation (%)	Transport capacity	Transferred capacity	Saturation (%)
Tarvisio	111.8	97.9	87.6	111.6	93.4	83.7	111.4	94.6	84.9
Mazara del Vallo (*)	101.1	85.9	85.0	91.5	84.9	92.8	84.4	78.3	92.8
Gries Pass	64.4	36.6	56.8	64.4	22.1	34.3	64.4	22.4	34.7
Gela (*)	35.3	29.3	83.0	30.8	26.0	84.4	23.8	22.0	92.4
Cavarzere (LNG)	26.4	24.4	92.4	26.4	24.4	92.4	26.4	24.4	92.5
Livorno (LNG)	15.0	15.0	100.0	15.0	15.0	100.0	15.0	15.0	100.0
Panigaglia (LNG)	13.0	4.6	35.4	13.0	0.6	4.6	13.0	2.0	15.5
Gorizia	4.6	0.1	2.2	4.6			4.6	0.1	
Competing capacity (*)				9.7			21.2		
	371.6	293.8	79.1	367.0	266.4	72.6	364.2	258.8	71.0

(*) The capacities at the Mazara del Vallo and Gela entry points do not include competing capacity. This capacity, pursuant to Regulation (EU) No. 984/2013 in force as of 1 November 2015, represents the transportation capacity available at one point, the allocation of which fully or partly reduces the capacity available for allocation at another point in the transportation system.

The transportation capacity of the network again covered all user demand in 2017. Average transportation capacity provided in 2017 was 364.2 million cubic metres on average per day, 21.2 million cubic metres of which were offered as competing capacities between the Mazara del Vallo and Gela entry points. In addition to the aforementioned capacities which concern the entry points interconnected with foreign countries and the LNG terminals, a transportation capacity is available at the domestic production entry points:

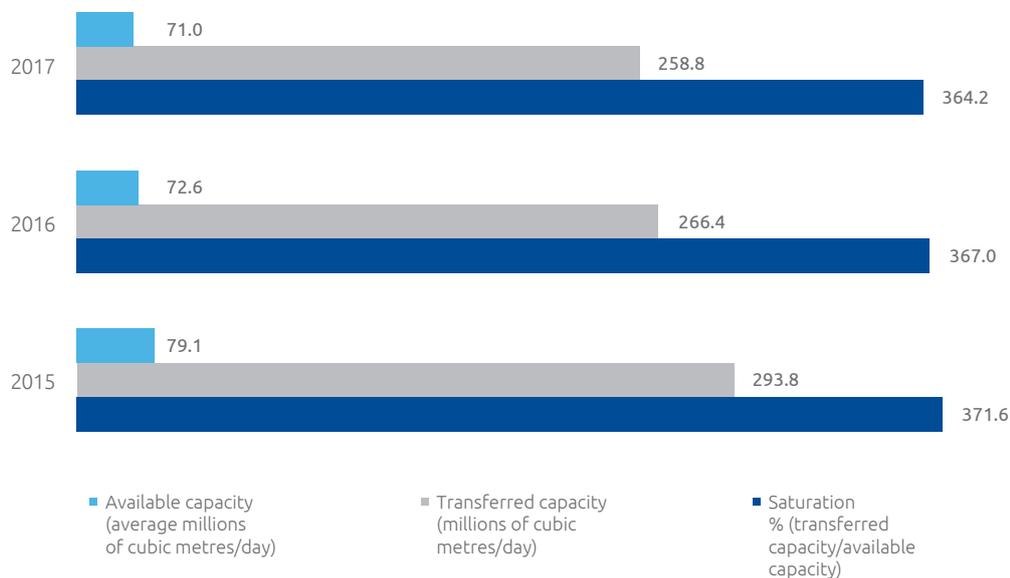
- national production at a total of 25.2 million cubic metres/day;
- the production of biomethane at a total of 0.1 million cubic metres/day.

Snam Rete Gas has prepared a long-term plan for available transportation capacity, which was sent to the Ministry of Economic Development on 30 June 2017 and published on the Business & Services section www.snam.it.

The document shows data about capacity at all entry points interconnected with foreign countries and with LNG terminals for the thermal year 2017-2018 and subsequent years up to 30 September 2032. Also shown for the thermal year 2017-2018 are the transport capacities of the interconnected exit points with the foreign countries of Passo Gries, Gorizia, Bizzarone and

San Marino at a total of 11.0 million cubic metres/day. On the Tarvisio exit point, 18 million cubic metres/day of interruptible transport capacity is available, subject to the presence of an incoming physical flow or a null physical flow at the Passo Gries entry point. For the exit point from Passo Gries, there is currently a transport capacity equal, physically, to 5 million cubic metres/day, and projects are underway to build a physical transport capacity of up to 40 million cubic metres/day by the end of 2018.

Transport capacity and saturation



Provisions and development of transport services

	2015	2016	2017
Active customers (shippers)	139	136	128
New connection agreements for delivery/redelivery points	65	45	78

Since the start of July 2017, commercial management of the 3 businesses concerned with transport, storage and regasification, respectively headed by Snam Rete Gas, Stogit and GNL Italia, have been merged into Snam within a single organisation.

In 2017, 78 connection contracts were signed for the construction of new delivery/redelivery points (of which 13 were for biomethane injection) or the upgrading of existing points. Via the PRISMA platform, with the new balancing regime that's been in operation since October 2016, operators can respectively operate gas exchanges and carry out transport capacity transactions on an infra-daily, daily, monthly, quarterly or annual basis, for up to a maximum of 15 years. To promote even greater flexibility of the system, in compliance with the Authority's Resolutions no. 336/2016/R/gas and 512/2017/R/gas, the Italian gas system has the possibility of booking monthly and daily transport capacity at the redelivery points, and related withdrawal areas that feed electricity generation plants.

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

conditions of the electricity system. To manage customer relations, Snam currently uses numerous software applications and web portals that have been developed over time, represent a distinguishing capital for the company and are continuously updated. In particular, Snam provides the Myg@sview Portal, a tool aimed at supporting timely and flexible communications, that allows a set of "smart" data to be personalised according to individual needs, as well as direct communications with them, and inform them via SRG ("chat" mode). This tool has been improved and expanded over time by incorporating suggestions from operators, particularly in reference to needs related to the new balancing regime. In 2017, this tool was integrated further by increasing its usability, through the in production release of a new version of the extended Help-online section, with simple training "tablets" that provide immediate, intuitive support to users about using the myg@sview portal and individual Widgets, a quick guide for printing, and a video about the creation and development of the myg@sview portal.

In addition, the project to revise the information content in the "Business & Services" area of the Snam Rete Gas website was started and has been completed following the launch

of the new balancing model. The objective was to improve the usability of information for customers, and introduce the use of graphic forms of representation.

Within the network codes are lists of a series of indicators for monitoring the quality of services offered by the companies. When compared against these indicators, the Snam companies maintained a high level of performance, even in 2016. One part of these indicators, which refers to specific levels of business quality, gives rise to automatic indemnification of customers in the event of a failure to comply with service quality standards.

	2015	2016	2017
Contracted transport capacity/Available transport capacity (foreign entry/interconnection points) (%)	86	72	71
Compliance with deadlines for issuing offers for connection (%)	100	100	100
Compliance with deadlines for performing services subject to specific business quality standards (%)	100	100	100
Interruptions carried out with adequate advance notice (%)	92	98	98

Organisational changes related to operational activities

During the course of 2017, the recorded number of personnel in service fell by a total of 220, from 1,726 on 31 December 2016 to 1,946 at 31 December 2017. The increase was due to implementation of the Integra Project and, in particular, to the transfer of the "Plants and technical services" business unit from Stogit to Snam Rete Gas, which entailed transferring 221 staff members to the Snam Rete Gas company.

During 2017, the operational mechanisms needed to optimise the diverse processes in the Operations area were strengthened, particularly with regard to continuation of SmartGas project activities, which were aimed at revising the regulations and maintenance standards for gas pipelines and power plants, activating new professional roles operating in the territory, developing and implementing more advanced digital and IT solutions for managing operational processes and consolidating and developing procurement activities, particularly by creating a dedicated unit for procuring goods, works and services specifically for the compressed natural gas business, for activities

upstream of the storage business as well as for international activities and strengthening the centralised coordinating role of materials management activity.

In addition, with a view to enhancing and organisation of the synergic integration of Italian assets and, after the transfer process starting from 1 July 2017, of the Stogit business units "Plants and Technical Services", the skilled roles of Snam Rete Gas in the context of Plant Management, Dispatching & Measurements, Engineering and Construction and Supply Chain have taken direct control of the operations, maintenance and control activities for storage facilities, storage dispatching operations and engineering activities, and implementation of investment projects related to surface facilities, improvements to plant engineering and the procurement of goods, works and services related to the business of storage.

On 1 October, the assets of the facility forming the subject of integration were optimised with a view to maximising synergies between the various operating processes and promoting total integration, which will have to be finalised during 2018 with specific projects of a design nature. In the second half of the year, the

project to streamline and simplify the current regulatory framework for Snam Rete Gas was launched, and the implementation phase for this will be developed in 2018.

Accidents

During the course of 2017, the number of accidents, involving both employees and contractors, remained in line with the previous year. It should be noted that as regards contractors, one fatal accident occurred.

Accidents at work (no.)

	2015	2016	2017
Total employee accidents	3	1	2
Total contract worker accidents	7	4	4

Indexes - Accidents

	2015	2016	2017
Employees			
Frequency index (*)	0.97	0.32	0.66
Severity index (**)	2.48	0.004	0.03
Contract workers			
Frequency index (*)	1.13	0.65	0.47
Severity index (**)	0.05	0.05	0.9

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

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

Energy consumption and emissions

In order to limit natural gas emissions from the transport network, measures were taken to recover gas through on-line re-compression interventions and at compression stations (4.1 million cubic

metres of natural gas was recovered, equal to 71,500 tonnes of CO_{2eq}). In 2017, nitrous oxide emissions totalled 341.9 tonnes (+ 49.9% compared to 2016). The increase was mainly attributable to the higher

volumes of gas transported. To reduce emissions, a program has been underway for several years to modify some of the existing turbines and to install new units with low-emission combustion systems (DLE).

	2015	2016	2017
Energy consumption (TJ)	4,278	5,824	7,459
Emissions of CO _{2eq} - scope1 (ton) (*)	883,826	921,954	1,008,051
Emissions of natural gas (10 ⁶ m ³)	37.0	34.6	34.4
Natural gas recovered (10 ⁶ m ³)	3.6	4.5	4.1
NO _x emissions (tonnes)	225	228	342

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

Regulations for business sectors

Relationships with the regulatory Authority

(no.)	2015	2016	2017
Responses to consultation documents	7	10	8
Responses to consultations/observations through associations (*)	11	14	16
Tariff proposals	3	5	4
Data collections	87	112	129
Preliminary investigations (**)	3	1	3
Proposal to amend/update contractual documents and codes (***)	16	12	14
Proposal to amend/update contractual documents and codes (approved)	9	12	12

(*) Responses to consultations (the Authority, Ministry of Economic Development and Energy Market Operator) through trade associations.

(**) Information sent to the Authority during 2017 with reference to investigations in the context of the sector. Including preliminary inquiries.

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

Tariff regulations for 2017

By means of Resolution 669/2016/R/gas, published on 17 November 2016, the Authority approved the revenue recognised for the natural gas transportation and dispatching service for 2017. Revenue recognised for the natural gas transportation, dispatching and metering service for 2017 amounted to €1,880 million. The RAB as at 31 December 2015 for transportation, dispatching and metering activities amounted to €15 billion. By means of the subsequent Resolution 776/2016/R/gas, published on 28 December 2016, the Authority definitively approved the transportation, dispatching and metering tariffs for 2017, as calculated based on the recognised revenue approved by Resolution 669/2016/R/gas.

Regulation transition period 2018-2019

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

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

- The current asset β parameter was confirmed for the Transitional Period 2018-2019. The WACC value of 5.4% in real pre-tax terms was therefore confirmed for 2018, and will be determined for the year 2019 by updating the basic parameters;
- From 2018 the investments made in the year $t-1$ will be included in the investment capital for the purpose of determining the tariffs for year t , replacing the 1% increase in the WACC to cover the regulatory time-lag. The 1% increase in the WACC covering the regulatory time-lag has been applied to investments

made in the period 1 January 2014 - 31 December 2016;

- The current input-based incentive scheme (1-2% for 7/10 years for regional and national networks respectively) will be applied to new development investments that have entered into service by 31 December 2017;
- An input-based incentive scheme (1% for 12 years for regional and national networks) will be applied to investments for the construction of new transportation capacity, launched as of 31 December 2017, which will start operating in the years 2018 and 2019. The incentive will also be recognised for investments that start operating during the transition period after 1 January 2018, included in the Development Plan and with a benefit-cost ratio higher than 1.5;
- The operating costs recognised in the fourth regulatory period will be updated according to inflation, and a productivity recovery factor (X-factor). The variable unit price (CV) will be calculated for the years 2018 and 2019 using a reference volume of 67.2 billion cubic metres.

Tariff regulations for 2018

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

By means of Resolution 795/2017/R/gas, published on 05 December 2017, the Authority approved the proposed revenue for the natural gas transportation and dispatching service for 2018.

Other provisions

Snam Rete Gas - Regulation criteria for natural gas transportation and despatch tariffs for the 2014-2017 period

Under ruling no. 3735/2015 the State Council confirmed sentence 1729/2014 of the TAR of Milan regarding the partial annulment of the resolutions of the Regulatory Authority (then AEEGSI, ARERA since 1 January 2018) no. 514/2013/R/gas, and of subsequent Resolutions 603/2013/R/gas and 641/2013/R/com, due to the lack of any provision in the relevant rules for a decreasing-scale mechanism for the benefit of end-users with high levels of gas consumption.

By means of Resolution 429/2015/R/gas, the AEEGSI launched a procedure, which should have been completed by 31 December 2015, to comply with the aforementioned ruling. In the meantime, the original appellants submitted an application for compliance with the aforementioned ruling before the competent judicial authority. With non-definitive ruling no. 883/2017, the TAR Milan upheld the

appeal by ordering the Authority to provide, within sixty days, conclusion of the procedure initiated by Resolution 429/2015/R/gas. In order to verify fulfilment of the provisions in the non-definitive ruling, continuation of proceedings was therefore postponed until 13 July 2017 during which the applicants - after the approval of AEEGSI Resolution 512/2017/R/GAS - formally withdrew the appeal. As a result, in a later ruling 1648/2017, the TAR declared the appeal inadmissible due to the lack of interest.

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

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

By means of Resolution 428/2015/C/gas, the Authority decided to file an appeal for the aforementioned ruling to be overturned on the grounds of factual errors, which will be discussed at the hearing of 29 March 2018.

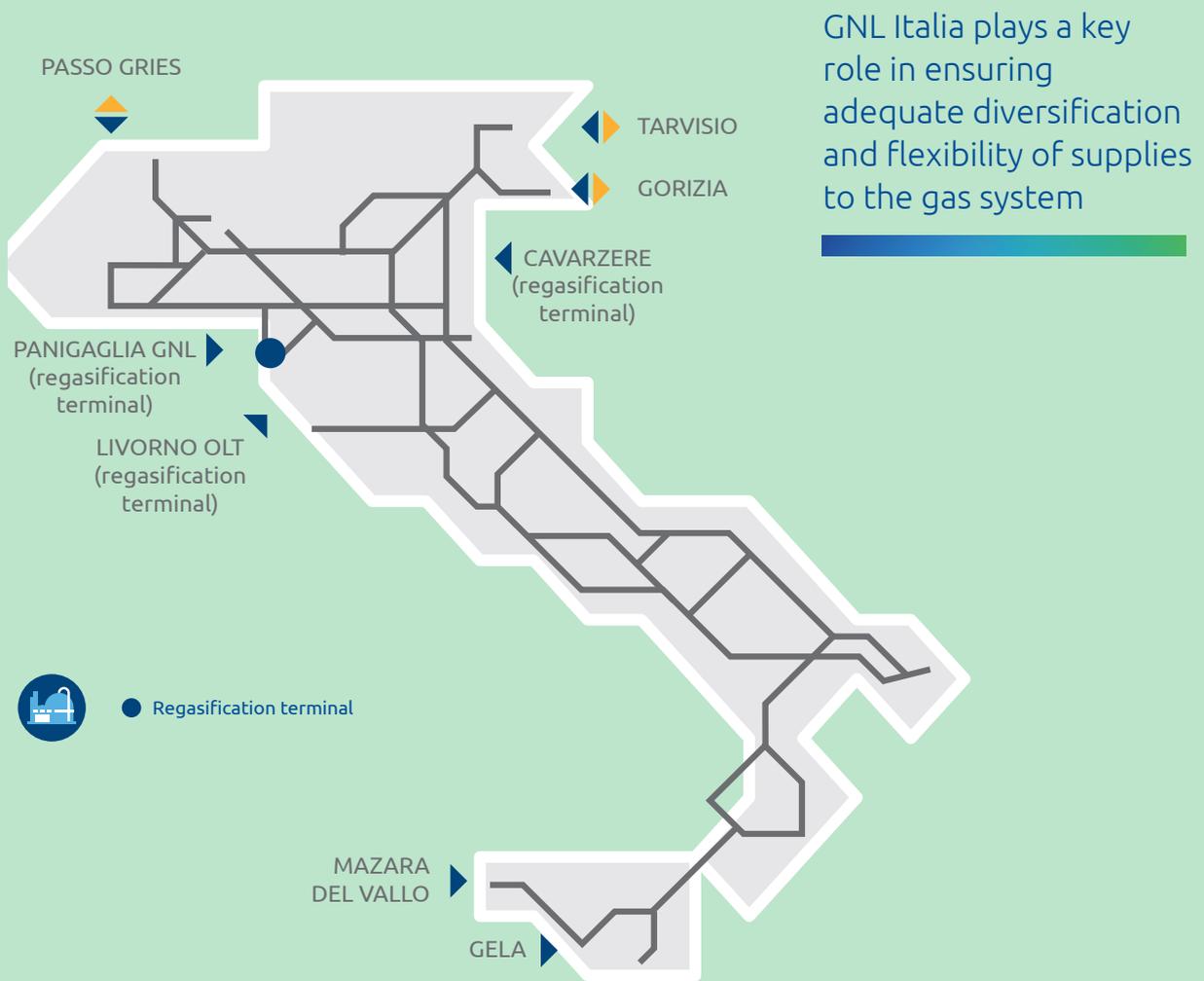
At the same time, the Authority - as a result of the proceedings brought by Resolution 430/2015/R/gas - complied with the aforementioned rulings under Resolution 550/2016/R/gas, with which the Authority, having reformed the rules for self-consumption, justifiably confirmed the pricing criteria for the rest, in the light of consultations carried out.

Given the confirmatory nature of the aforementioned resolution, the original applicant filed an appeal for compliance with the aforementioned rulings and a declaration of the nullity of 550/2016/R/gas. With ruling no. 494/2017, the T.A.R. Milan partially heard the appeal with specific reference to the issues of commodity/capacity distribution, believing that with Resolution 550/2016/R/Gas, there has been an inaccurate and partial compliance with ruling 995/2013 and that, therefore, the Authority should carry out an additional assessment of the effects of the decisions made.

The ruling no. 494/2017 was contested by the appellant, as well as, incidentally, by the AEEGSI. The appeals were discussed before the Council of State at the hearing on 30 November 2017. We are awaiting the ruling.

Regasification of Liquefied Natural Gas (LNG)

SNAM PRESENCE IN REGASIFICATION IN ITALY



GNL Italia plays a key role in ensuring adequate diversification and flexibility of supplies to the gas system

Maximum daily regasification capacity of the Panigaglia terminal

17,500
cubic metres

Maximum annual quantity of natural gas injectable into the transport network

3.5
bcm

LNG quantity regasified in 2017 at Panigaglia

0.63
bcm

The Panigaglia plant, built in 1971 and owned by GNL Italia, is able to regasify 17,500 cubic metres of LNG every day; under conditions of maximum efficiency, it can supply more than 3.5 billion cubic metres of natural gas into the transport network every year. In 2017, the total gas regasified at the Panigaglia plant amounted to 0.63 billion cubic metres (0.21 billion cubic metres in 2016), of which 0.084 billion cubic metres were regasified in the context of integrated regasification service and storage. In 2017, 15 landfills from methane tankers were performed (5 landfills in 2016), of which 2 were landfills in the context of the integrated service.

Throughout 2017, GNL Italia had 4 active customers, (the same as in 2016).

The Decree from the Ministry for Economic Development on 25 February 2016 determined that a storage capacity of 1 billion m3 should be reserved for the integrated storage and re-gasification service, and that the regasification companies and the main storage companies should collaborate to enable the redelivery of regasified LNG to the users directly for storage, by the end of the month following its unloading from methane tankers. With regard to the contractual period from 1 April 2017 - 31 March 2018, the Ministerial Decree of 7 December 2016, subsequently integrated into Ministerial Decree of 13 February 2017, established that a storage space equal to 1.5 billion metres 3 should be set aside for an integrated regasification and storage

service, in order to allow industrial companies to purchase LNG directly from other countries. The service involves the injection of amounts of regasified gas into storage, minus consumption and losses, by the end of the month after the same amount of LNG has been unloaded.

Key performance indicators

(millions of €)	2015	2016	2017	Change	Change %
Total revenue (a)	25	19	22	3	15.8
Regulated revenue (a)	19	18	21	3	16.7
- revenue items offset in costs	1		3	3	
Operating costs (a)	19	12	15	3	25.0
EBIT	1	(5)	2	7	
Net invested capital at 31 December	89	93	89	(4)	(4.3)
Technical investments (b)	7	7	5	(2)	(28.6)
Volumes of regasified LNG (billions of cubic metres) (c) (d)	0.03	0.21	0.63	0.42	
Tanker loads (number)	1	5	15	10	
Employees in service at 31 December (number)	73	71	63	(8)	(11.3)

(a) Before consolidation adjustments.

(b) Investments remunerated at the pre-tax real base WACC, amounting to 7.3% for 2015 and 2015 and 6.6% for 2017, in addition to the flat-rate increase of 1% to offset the regulatory lag.

(c) For the year 2017, gas volumes are expressed in standard cubic metres (SCM) with an average traditional higher heating value (HHV) of 38.1 MJ/SCM (10.572 kWh/SCM).

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

Results

Total revenue amounted to €22 million, down by €3 million (15.8%) compared with 2016. Excluding components that are offset in costs¹⁹, total revenues amounted to 19 million euros, which was unchanged when compared to 2016.

The **regulated revenues**, amounting to € 21 million, include the fees for the regasification service (€ 18 million, in line with 2016) essentially relating to the share of the guarantee factor for the year 2017, provided for in art. 18 of Annex A to Resolution 438/2013/R/gas, and the chargeback to users of charges relating to the natural gas transportation service provided by Snam Rete Gas S.p.A. (3 million euro).²⁰

The **operating profit** amounts to € 2 million, against an operating loss of € 5 million recorded in 2016. The positive change of € 7 million was mainly due to lower amortisation and depreciation, following the effects of the write-down made on tangible assets in 2016 (€ 7 million).

Technical investments

Technical investments in 2017 totalled €5 million (€7 million in 2016) and involved maintenance projects aimed at guaranteeing plant system safety.

Of these, we highlight: (i) engineering interventions on tanks (€ 2 million); (ii) interventions involved in the installation of cryogenic pumps (about € 1 million); (iii) plant revamping interventions (€1 million).

Operating review

During 2017, 0.63 billion cubic metres of LNG were regasified at the Panigaglia (SP) LNG terminal (0.21 billion cubic metres in 2016; +0.42 billion cubic metres), of which 0.084 billion cubic metres within the integrated natural gas regasification and storage service.

In 2017, 15 tanker ships were unloaded, 2 of which as part of the integrated regasification and storage service (5 unloaded in 2016, including 1 relating to the integrated service).

Provision and development of regasification services

	2015	2016	2017
Active customers (shippers)	3	4	4
Compliance with the maximum period of interruption/reduction in capacity at the terminal due to maintenance works (%)	100	100	100

Organisational changes related to operational activities

At the end of 2017, the number of personnel in service totalled 63, a decrease of 8 compared with 31 December 2016 (71).

As part of the process for integrating Snam's Italian assets, with effect from 1 July 2017, the responsibility for procurement activities has been attributed to the competent department at Snam Rete Gas, which will operate on the basis of a specific service contract. Similarly, some coordination and specialist activities in the field of health, safety and the environment have been centralised at Snam (e.g.: regulatory system development, support for certification systems). The unit dedicated to the Prevention and Protection Service has been established at GNL Italia. In the second half of the year, the project to streamline and simplify the current regulatory framework for the Snam Rete Gas was launched, and the implementation phase for this will be developed in 2018.

Accidents

Accidents at work (No.)

	2015	2016	2017
Total employee accidents	0	1	1
Total contract worker accidents	0	0	0

¹⁹ Revenues offset in costs refer to the costs that GNL charges back to its own customers for using the transportation service provided by Snam Rete Gas.

²⁰ For the purposes of the consolidated financial statements, this revenue is eliminated, along with transportation costs, by GNL Italia S.p.A. in order to represent the substance of operations.

Indexes - Accidents

	2015	2016	2017
Employees			
Frequency index (*)	0	8.65	9.31
Severity index (**)	0	0.66	0.17
Contract workers			
Frequency index (*)	0	0	0
Severity index (**)	0	0	0

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

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

Energy consumption and emissions

	2015	2016	2017
Energy consumption (TJ)	52	127.8	325
Emissions of CO _{2eq} – scope1 (ton) (*)	38,659	54,298	44,421
Emissions of natural gas (10 ⁶ m ³)	2	2.9	1.7
NO _x emissions (tonnes)	1.1	5.5	14.8

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

Regulations for business sectors

Relationships with the regulatory Authority

(no.)	2015	2016	2017
Responses to consultation documents	4	1	2
Responses to consultations/observations through associations (*)	6	1	5
Tariff proposals	2	1	1
Data collections	25	25	28
Proposals to amend/update contractual documents and codes (**)	3	3	0
Proposal to amend/update contractual documents and codes (approved)	2	0	0

(*) Responses to consultations (the Authority, Ministry of Economic Development and Energy Market Operator) through trade associations.

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

Tariff regulations for 2016

Coverage factors for revenues pertaining to the company GNL Italia SpA for the year 2016

With the ruling DIEU 7/2017, published on 7 June 2017, the Authority set the amount of the revenue coverage factor for the company GNL Italia for the year 2016 to € 15.6 million.

Tariff regulations for 2017

By means of Resolution 392/2016/R/gas, published on 14 July 2016, the Authority approved tariffs for the LNG regasification service for 2017.

The tariffs were set on the basis of the base revenue of €27.9 million. Effective revenue must take account of capacity actually allocated. The net capital invested as at 31 December 2015 (RAB) was around €0.1 billion. The Authority also recognised the amount of roughly €0.34 million to GNL Italia to cover the increase in the IMU tax rate for the years 2013-2014.

Regulation transition period 2018-2019

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

By means of Resolution 653/2017/R/gas, published on 2 October 2017, the Authority approved tariffs for the LNG regasification service for 2018-2019. The resolution confirmed the main criteria of the regulation currently in force, with some modifications:

- The current asset β parameter was confirmed for the Transitional Period 2018-2019. The WACC value of 6.6% in real pre-tax terms is therefore confirmed for 2018, and will be determined for the year 2019 by updating the basic parameters;
- The investments made in the year t-1 will be included in the investment capital for the purpose

of determining the tariffs for year t, replacing the 1% increase in the WACC to cover the regulatory time-lag. The 1% increase in the WACC covering the regulatory time-lag has been applied to investments made in the period 1 January 2014 - 31 December 2016;

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

Tariff regulations for 2018

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

Other provisions

Integrated storage and regasification service

With regard to the contractual period from 1 April 2017 to 31 March 2018, the Ministry of Economic Development established, by the Decree of 7 December 2016 (Official Gazette, General Series, No. 295 of 19 December 2016), that a storage space equal to 1.5 billion cubic metres should be set aside for an integrated regasification and storage service, in order to allow industrial companies to procure LNG directly from other countries. The service involves the injection of amounts of regasified gas into storage, minus consumption and losses, by the end of the month after the same amount of LNG has been unloaded.

For the purposes of providing the service, Stogit will make a storage space available, equivalent to the assigned regasification capacity, and an injection capacity that allows quantities of the LNG delivered to be injected into storage and fed into the network by regasification terminals. Where necessary, physical management of the gas flows to be injected and stored will take place by acquiring additional injection capacity through the procedure for selling short-term capacity. The decree has also established that the Authority will define the competitive auction procedure for allocating capacities related to the integrated service, a reserve price that takes product value as well as market developments and the criteria for splitting the proceeds between the regasification companies and Stogit into account.

Ministerial Decree 13/02/2017 (Official Gazette, General Series No.46 of 24 February 2017) integrated Ministerial Decree 7/12/2016 by specifying the type of industrial companies to which the integrated regasification and storage service is aimed, and

introduced a priority in the allocation of available injection capacity for transfer on a daily basis by the owners of this service, within the limits of the quantities needed to allow injection for storage of the quantities to be regasified.

Finally, the Decree provides that the Regulatory Authority for Energy Networks and the Environment (ARERA), when determining the reserve price for the purposes of assigning the service, can evaluate alternative ways of covering the transportation fees for entry and exit from storage facilities.

Regulatory reform regarding the allocation of LNG regasification capacity on the basis of market mechanisms (Auctions)

With Resolution 660/2017/R/gas, which was published on 2 October 2017, the Authority introduced market mechanisms for assigning regasification capacity, and integrated it into a Consolidated Law (Integrated text on the adoption of free access assurances to the "TIRG" liquefied natural gas regasification service - Annex A to Resolution 660/2017) the provisions concern the methods of access and provision of regasification services. In particular, for the assignment of capacity for annual/long-term duration, the TIRG introduced an open-ended type auction mechanism, similar to the provisions of the CAM Regulation for interconnection points with foreign countries, and for the assignment of infra - annual duration capacity for pay as bid auctions. The criteria for defining reserve prices for auction contributions will be defined by the Authority by a later provision.

Emergency Plan for the natural gas system

With Ministerial Decree 18/10/2017, the Ministry of Economic Development updated the Preventive Action Plan and the Emergency Plan for the natural gas system, taking into account the new European Regulation on the security of natural gas supplies (Regulation EU 2017/1938).

The Preventive Action Plan contains a description of the risk scenarios inherent to the safety of gas supplies in Italy, an analysis of the compliance of the gas system's infrastructure, compliance with supplies to protected customers and the measures for improving the overall safety of the Italian gas system that can be developed over the short and medium term.

The Emergency Plan contains conditions for activating crisis levels (early warning, warning and emergency) by the Ministry of Economic Development, provides for non-market measures that can be activated in the event of a state of emergency (such as by way of example, maximising imports, reducing consumption by interruptible customers, using strategic storage, etc) and introduces solidarity measures in favour of the other states with which bilateral agreements have been signed.

With reference to regasification activity, among the non-market measures, the use of LNG warehouses with "peak shaving" functions was confirmed; this measure envisages that the Balancing Manager can use the LNG previously stored in the regasification terminal tanks to compensate for critical situations to cover the requirements of the gas system.

With Resolution 739/2017/R/gas, which was published on 6 November 2017, the Authority defined the procedures for managing the peak

shaving service for the winter period of the 2017-2018 thermal year, as well as the measures to cover the charges related to the disbursement of this service by the regasification companies and the Balancing Manager, in continuity with the Thermal Year 2016-2017.

Storage of natural gas

SNAM PRESENCE IN STORAGE IN ITALY



In 2017, Snam took action to promote the replenishment of national storage facilities for the purpose of being able to manage seasonal peaks in demand. The replenishment level at the end of the injection campaign was 98% as opposed to a European average of 89%



Total storage capacity
16.7
bcm

Gas withdraw
10.12
bcm

Gas moved through the storage system

19.92
bcm

Available storage capacity

12.2
bcm

9

Operating concessions

Strategic storage capacity

4.5
bcm

Gas injected into the fields

9.80
bcm

1

Concession not currently in use

Infrastructure and storage service

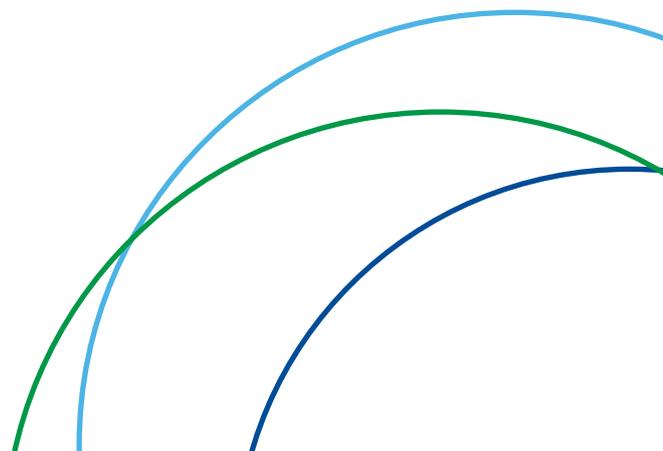
Through its subsidiary company Stogit, Snam is the largest storage operator in Italy, with a 97% share of total available storage capacity, and one of the largest in Europe. It carries out its activity through an integrated system of infrastructures, composed of deposits, gas treatment plants, compression stations and dispatching operations. The storage system makes it possible to compensate for the different requirements for gas supply and consumption: whilst supply has a substantially constant flow throughout the year, the demand for gas is concentrated mainly in the winter period. Storage also ensures that quantities of strategic gas are available to compensate for any lack of or reduction in non-EU supply or crises in the gas system. The storage business makes use of integrated infrastructure comprising deposits, wells, gas treatment plants, compression stations and the operational dispatching system. Snam has nine storage concessions located in Lombardy (five), Emilia-Romagna (three) and Abruzzo (one). The new Bordolano site has been operational since 2015.

Thanks to the investments made into developing new fields and strengthening existing ones, the total storage capacity at the end of 2017, including strategic storage, reached 16.7 billion cubic metres (+ 0.2 billion cubic metres compared to 2016).

In 2017, 19.92 billion cubic metres of natural gas was moved through the storage system, (which was in line with volumes moved in 2016: -0.4%).

In October 2017, Stogit reached a modulation storage volume at the storage system of 11,829 million standard cubic metres of gas, achieving a new historical peak. A result that attests to Stogit's ability to respond to both the needs of the national market as well as the contingent dynamics linked to international markets and policies, which can significantly modify demand by increasing the value of business with policies to support the security of supplies.

The total storage capacity in 2017, including strategic storage, amounts to 16.7 billion cubic metres: the largest capacity at the European level



Key performance indicators

(millions of €)	2015	2016	2017	Change	Change %
Total revenue (a)	535	584	601	17	2.9
Regulated revenue (a)	534	583	598	15	2.6
- revenue items offset in costs	<i>80</i>	<i>81</i>	<i>90</i>	<i>9</i>	<i>11.1</i>
Operating costs (a)	145	151	165	14	9.3
EBIT	319	346	339	(7)	(2.0)
Technical investments (b)	170	117	101	(16)	(13.7)
Net invested capital at 31 December	3,365	3,421	3,429	8	0.2
Concessions (number)	10	10	10		
- of which operational (c)	<i>9</i>	<i>9</i>	<i>9</i>		
Natural gas moved through the storage system (billions of cubic metres) (d)	19.58	20.00	19.92	(0.08)	(0.4)
- of which injected	<i>9.84</i>	<i>9.96</i>	<i>9.80</i>	<i>(0.16)</i>	<i>(1.6)</i>
- of which withdrawn	<i>9.74</i>	<i>10.04</i>	<i>10.12</i>	<i>0.08</i>	<i>0.8</i>
Total storage capacity (billions of cubic metres)	16.0	16.5	16.7	0.2	1.2
- of which available (e)	<i>11.5</i>	<i>12.0</i>	<i>12.2</i>	<i>0.2</i>	<i>1.7</i>
- of which strategic	<i>4.5</i>	<i>4.5</i>	<i>4.5</i>		
Employees in service at 31 December (number) (f)	299	301	60	(241)	(80.1)

(a) Before consolidation adjustments.

(b) Investments remunerated at the pre-tax real base WACC, amounting to 6.0% for 2015, 6.5% for 2016 and for 2017.

(c) Working gas capacity for modulation services.

(d) The volumes of gas are expressed in Standard cubic metres (SCM) with an average higher heating value (HHV) conventionally equal to 39.4 MJ/Smc (10.930 Kwh/SCM) for natural gas storage activities for the thermal year 2017-2018 (39.3 MJ/SCM, 10.906 Kwh/SCM, for the thermal year 2016-2017).

(e) Working gas capacity for modulation, mining and balancing services. The figure indicated represents the maximum available capacity, which was allocated in full for the 2017-2018 thermal year.

(f) The change includes the transfer of no. 247 staff members, effective from 1 July 2017, mainly for the sale of the "Plant and Technical Services" business unit to the subsidiary Snam Rete Gas S.p.A. (No. 221 staff members), as well as transfer to the parent company Snam S.p.A. of resources belonging to staff functions.

Results

Total revenue amounted to €601 million, an increase of €17 million, or 2.9%, compared with 2016. Total revenue net of items offset in costs²¹ was €511 million, representing an increase of €8 million or 1.6% compared with 2016.

Regulated revenue (€598 million) comprised fees for the natural gas storage service (€510 million) and the fees charged back to users relating to the natural gas transportation service provided by Snam Rete Gas S.p.A. (€ 81 million) and recognition by the Authority of the charges for compensatory contributions to the Regions pursuant to Law No. 244 of 24 December 2007²², registered in 2017 (€5 million). Storage revenues, net of items offset in costs, was €508 million, representing an increase of €6 million or 1.2% compared with 2016.

²¹ These components refer mainly to revenue from the redebiting to storage users of charges relating to the natural gas transportation service provided by Snam Rete Gas S.p.A. For the purposes of the consolidated financial statements, this revenue is eliminated in relation to Stogit S.p.A., together with transportation costs, in order to represent the substance of the operation. It should be noted that, starting from the thermal year 2017-2018, resolution 64/2017/R/gas established that most of the costs for the transport service are no longer charged back to the Users, but are liquidated directly by funds for Energy and Environmental Services (CSEA).

²² Pursuant to Article 2, paragraphs 558 and 559 of Italian Law No. 244 of 24 December 2007, starting from 1 January 2008, holders of concessions for natural gas storage activities in fields or deep geological units, or in any case authorised to install and operate new natural gas storage facilities, correspond to those regions in which the respective storage facilities are located, will own, as a compensatory contribution for non-alternative use of the territory, an annual amount equal to 1% of the value of the total authorised natural gas storage capacity. With Resolution 855/2017/R/gas published on 15 December 2017, the Regulatory Authority has established that these costs are allocated to the storage company by applying the revenue restriction (the so-called SG Factor), thus ensuring neutrality.

The **non-regulated revenues** equal to €3 million (€1 million in 2016) mainly refer to income derived from insurance reimbursements relating to the Fiume Treste concession.

The **operating profit** achieved in 2016 amounted to €339 million, down by €7 million, or 2.0% compared to 2016, following higher amortisation and depreciation (-€10 million) due to the entry into service of new infrastructures, in particular, to the Bordolano site.

Technical investments

Technical investments in 2017 totalled €101 million, a decrease of €16 million (-13.7%) compared with the previous year (€117 million), and refer to the **development of new fields and upgrading of capacity** (€31 million) and **maintenance and other** investments (€70 million).

The main investments in the development of new fields and upgrading of capacity (€31 million) primarily concerned the following initiatives:

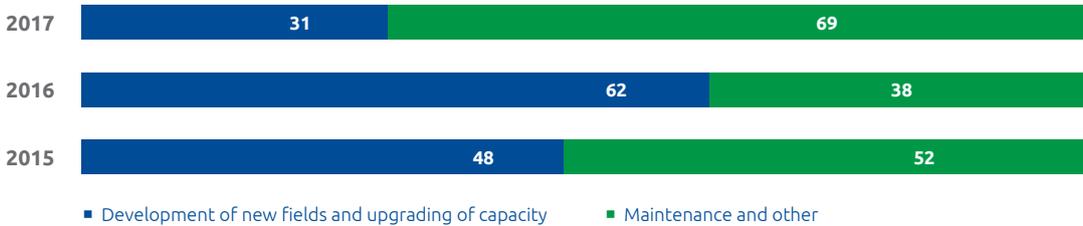
- Minerbio Overpressures (€12 million) for construction activities related to installing the new TC7 compression unit;
- Bordolano (€ 7 million) for environmental restoration and mitigation activities, additional engineering and other charges deriving from the modification of the work program requested by Stogit;
- Sabbioncello Overpressure (€5 million), for completion of repowering of the TC2 compression unit, for the additional engineering activity linked to updating the documentation (relating to electrical systems) following the repowering of the turbo compressors and the regulations, for acquisition of capital spare

parts for the TC2 compression unit and the main activities linked to commissioning it;

- Fiume Treste Sviluppo (€3 million), for the purchase and replacement of two tanks for the collection of water to be treated.

The investments of **maintenance and more** (€ 70 million) mainly related to the reconstruction of wells 109 and 112 at Cortemaggiore (€ 16 million), the revamping project for the Cortemaggiore compression units (€ 6 million) and investments in new information systems (€7 million).

Investment proportions by type (% of total investments)



Thanks to the significant investments made to develop new deposits and upgrade existing ones, Stogit exceeded the previous maximum quantity of gas deposits in its storage systems, thereby increasing its volume and peak capacity. Total storage capacity as at 31 December 2017, including strategic storage, was 16.7 billion cubic metres (+0.2 billion cubic metres compared with 2016, made available by the new Bordolano deposit), of which 12.2 billion cubic metres related to available capacity fully allocated for the thermal year 2017-2018 (12.0 billion cubic metres in thermal year 2016-2017) and 4.5 billion cubic metres related to strategic storage (unchanged compared with thermal year 2016-2017, as established by the Ministry of Economic Development by means of the notice dated 25 January 2017).

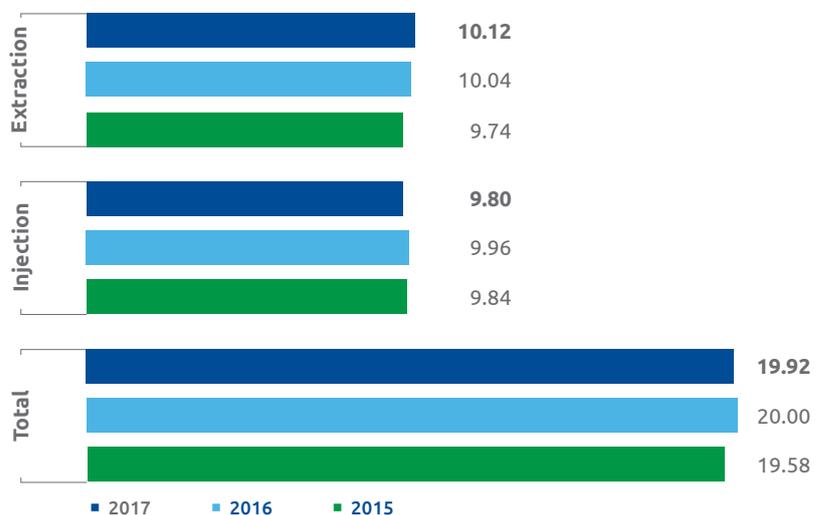
Operating review

Gas moved through the storage system

The volumes of gas handled in the storage system in the financial year 2017 amounted to 19.9 billion cubic metres, substantially unchanged compared to 2016 (-0.08 billion cubic metres, equal to -0.4%) despite the greater presence in the system as of 31 March 2017.

The lower injections for replenishing the storage facilities (-0.16 billion cubic metres), attributable to the shippers' behaviour in relation to various market conditions, were partly offset by higher disbursements (+0.08 billion cubic metres) due to climatic conditions.

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



Provision and development of storage services

	2015	2016	2017
Active customers (shippers) (no.)	118	91	89

Since the start of July 2017, commercial management of the 3 businesses concerned with transport, storage and regasification, respectively headed by Snam Rete Gas, Stogit and GNL Italia, have been merged into Snam within a single organisation.

In order to manage exchanges among operators and relationships with them, over time Snam has developed IT systems and web portals that now represent a unique feature of the Company that is upgraded regularly.

Similar to Snam Rete Gas, work tables have been set up to review the information contained in the area dedicated to the site's business.

Within the network codes are lists of a series of indicators for monitoring the quality of services offered by the companies. Snam companies continued to maintain excellent performance with respect to these indicators in 2017. One part of these indicators, which refers to specific levels of business quality, gives rise to automatic indemnification of customers in the event of a failure to comply with service quality standards.

	2015	2016	2017
Contractual storage capacity/Available storage capacity (%)	100	100	99.9
Compliance with deadlines for performing services subject to specific business quality standards (%)	100	100	100
Connection flow lines subject to supervision (%)	76	100	100
Total capacity not made available following interruptions/reductions to the service (%)	0	0	0

Organisational changes related to operational activities

During 2017, the number of personnel in service rose by 241, from 301 at 31 December 2016 to 542 at 31 December 2017. The increase was due to implementation of the Integra Project and, in particular, transfer of the "Plants and technical services" business unit from Stogit to Snam Rete Gas, which entailed transferring 221 staff members to the Snam Rete Gas company.

In the Operations area during 2017, the second phase of the SmartGas project was completed, an initiative aimed at revising maintenance standards and regulations to ensure the necessary development of professional roles operating at the hubs, and the development and implementation of more highly developed IT solutions to manage operating processes.

With a view to the enhancement and integrated synergic organisation of Snam's Italian assets, with effect from 1 July 2017, the sale of the Stogit "Plant and Technical Services" business unit to Snam Rete Gas was finalised. After this reorganisation, the competent Snam Rete Gas operators in the areas of Plant Management, Dispatching & Measurement, Engineering and Construction, and Supply Chain ensure, on the basis of specific service contracts, management of the operation, maintenance and control of storage facilities, storage dispatching operations, engineering activities and the implementation of investment projects related to surface facilities, improvements to plant engineering and

procurement of goods and works and services related to the business of storage. Correspondingly within Stogit, the Storage Facilities function was established to manage the related service contracts. In addition, some coordination and specialist activities in the field of health, safety and the environment have been centralised at Snam (e.g.: regulatory system development, support for certification systems) whilst Stogit has set up the unit dedicated to the Prevention and Protection Service.

The integration process will continue during 2018 with specific training initiatives dedicated to dispatching and plant management personnel. In the second half of the year, the project to streamline and simplify the current regulatory framework for Stogit was launched, and the implementation phase for this will be developed during 2018

Accidents

The number of accidents increased in 2017 for employees, whereas they remained unchanged for contract workers.

Accidents at work (no.)

	2015	2016	2017
Total employee accidents	0	1	2
Total contract worker accidents	1	1	0

Indexes - Accidents

	2015	2016	2017
Employees			
Frequency index (*)	0	2	6.71
Severity index (**)	0	0.11	0.43
Contract workers			
Frequency index (*)	0.89	1.27	0
Severity index (**)	0.18	0.07	0

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

(**) Number of working days lost (calendar days) due to accidents at work resulting in an absence of at least one day per thousand hours worked. The data are calculated taking the fatal accidents into account.

Energy consumption and emissions

Activities aimed at reducing energy consumption and controlling atmospheric emissions continued.

In 2017, nitrous oxide emissions totalled 175.5 tonnes (-12.7% compared with 2016).

To reduce emissions, a program has been underway for several years to modify some of the existing turbines and to install new units with low-emission combustion systems (DLE). In 2017, 3 turbines were introduced to DLE at storage facilities (TC2 Sabbioncello and TC1 and TC2 at Bordolano).

	2015	2016	2017
Energy consumption (TJ)	4,740	4,985	4,787
Emissions of CO _{2eq} – scope1 (t) (*)	450,162	461,976	447,662
Emissions of natural gas (10 ⁶ m ³)	10.7	10.7	10.7
NOx emissions (tonnes)	175	201	175

(*) In 2015 CO_{2eq} emissions were calculated with a methane GWP of 28, as indicated in the scientific study of the Intergovernmental Panel on Climate Change (IPCC) "Fifth Assessment Report IPCC".

Regulations for business sectors

Relationships with the regulatory Authority

(No.)	2015	2016	2017
Responses to consultation documents	4	2	0
Responses to consultations/observations through associations (*)	6	4	3
Tariff proposals	6	3	5
Data collections	75	89	91
Preliminary investigations (**)		1	2
Proposal to amend/update contractual documents and codes (***)	4	4	4
Proposal to amend/update contractual documents and codes (approved)	2	1	2

(*) Responses to consultations (the Authority, Ministry of Economic Development and Energy Market Operator) through trade associations.

(**) Information sent to the Authority during 2017 with reference to investigations in the context of the sector. Including preliminary inquiries.

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

Tariff regulations for 2017

Subsequently, by means of Resolution 643/2017/R/gas, published on 22 September 2017, the Authority approved the definitive base revenue for the storage service for 2017 for the company Stogit. The recognised revenues amounted to € 503.2 million. The RAB for storage activities was €4.0 billion.

Tariff regulations for 2018

By means of Resolution 855/2017/R/gas, published on 15 December 2017, the Authority provisionally approved the corporate base revenue for the storage service for 2018, as per the tariff proposal presented by Stogit. The provisionally approved revenue is aimed at providing a base figure for calculating the fees for the allocation of storage capacity. By 31 May 2018, storage companies will submit their final base revenue proposals to the Authority, calculated using the total annual increases in assets relating to 2017. These proposals are subject to approval by the Authority.

Temporary period regulations for 2019

Resolution 68/2018/R/gas – “Start of the procedure for the definition of provisions related to the tariffs and the quality of storage services for the fifth regulatory period (SPRS) and extension of the current provisions to year 2019”

The Resolution 68/2018/R/gas extends for the year 2019 the regulatory criteria in force for the period 2015-2018 for the storage service, confirming the β parameter for the year 2019. At the same time, the resolution starts a procedure for the definition of the provisions related to the tariffs and the quality of storage services to be applied in the fifth regulatory period from 2020, during which it will be evaluated the opportunity to implement a regulatory

approach based on total expenditure (so-called “Totex”).

Other provisions

Italian Ministerial Decree MISE of 14/02/2017 (Official Gazette No. 49 of 28 February 2017) - “Determination and allocation of modulation storage capacity for the contractual period 1 April 2017-31 March 2018”

With this decree, the Ministry of Economic Development defined the modulation storage space for the thermal year 2017-2018, to be used primarily for entities supplying domestic customers, at 7,625 million cubic metres plus the mining storage share not requested and allocated by the storage companies. The Decree confirmed that this storage space, together with that reserved for the uniform storage of annual and multi-year duration, would be allocated by competitive auctions, with the reserve price defined by the Authority on the basis of the criteria set forth in Resolution 76/2017/R/gas, “Provisions for storage service for the thermal year 2017-2018”.

Resolution 589/2017/R/gas - “Closure of investigation regarding the status of services provided by the storage fields under concession to the company Stogit S.p.A. Provisions on the regulation of economic items related to the storage service, for the thermal year 2017-2018”

With Resolution 589/2017/R/gas published on 7 August 2017, the Authority envisaged, in continuity with the 2016-17 thermal year, provisions for the issue of sterilising the impact of transferring storage capacity at fees below the regulated tariff, to guarantee the storage companies have a revenue flow that is substantially equivalent to that obtained by applying, to the capacity allocated through auction, of the corresponding tariffs. As part of the same resolution,

the Authority also closed the fact-finding investigation initiated by Resolution 323/2016/R/gas regarding the services provided by Stogit storage fields, and did not find any violations or non-compliance.

Emergency Plan for the natural gas system

With Italian Ministerial Decree 18/10/2017, the Ministry of Economic Development updated the Preventive Action Plan and the Emergency Plan²³ for the natural gas system, by taking into account the new European Regulations on the security of natural gas supplies (Regulation EU 2017/1938).

With reference to the storage activity, the Emergency Plan provides inter alia that Stogit will update the Storage Code in relation to some measures for using storage capacities in the areas of warning and emergency levels. The Stogit proposal is being evaluated by the Authority.

²³ For further information on the Action and Emergency Plans, as well as the measures taken with reference to the regasification activity, see the “Other provisions” section of the chapter “Regasification of Liquefied Natural Gas (LNG)”.