

Snam S.p.A. financial review

Company information

Snam S.p.A. is an industrial holding company listed on the Milan stock exchange. The Company is at the top of the Snam Group and holds 100% of the share capital of the operating companies Snam Rete Gas S.p.A. and Infrastrutture Trasporto Gas S.p.A. (ITG)³⁶, GNL Italia S.p.A., Stogit S.p.A. as well as Gasrule Insurance D.A.C., which respectively manage and develop the transportation, regasification, storage of natural gas and insurance activities.

During 2017, the company Snam 4 Mobility S.p.A. became operational, with the main activity being the construction, acquisition, development and maintenance of compressed natural gas (CNG) and liquefied natural gas (LNG) filling plants, the study and design of filling stations.

Snam operates in Europe's major markets through agreements with the leading industry players and direct equity investments in the share capital of companies.

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

Shareholder CDP S.p.A. declared, with effect from the financial statements as at 31 December 2014, that it had de facto control over Snam S.p.A. [pursuant to accounting standard IFRS 10 - Consolidated Financial Statements]. No management and coordination activity has been formalised or exercised.

At 31 December 2017, CDP S.p.A. holds, through CDP Reti S.p.A.³⁷ 30.10% of the share capital of Snam S.p.A.

Reclassified income statement

To facilitate the reading of the income statement, in view of the fact that Snam S.p.A. is an industrial holding company, the following reclassified income statement has been prepared, which *"inverts the order of the income statement items pursuant to Italian Legislative Decree 127/1991, presenting first those which relate to the financial operations, as this is the most significant component of income for those companies"* (see Consob Communication no. 94001437 of 23 February 1994).

Furthermore, in order to allow greater comparability of the economic results for 2017 with the corresponding period of the previous year, the 2016 Pro-forma and 2015 Pro-forma accounts were prepared, which take over the shareholding of Snam S.p.A. in Italgas S.p.A. equal to 13.5%. Therefore the dividends for 2015 and 2014 have been adjusted to reflect this interest.

³⁶ Acquired on 13 October 2017 through the vehicle company Asset Company 2 S.r.l.

³⁷ CDP S.p.A. holds 59.10%. On 19 May 2017, CDP S.p.A. sold CDP Reti S.p.A. the entire investment held in Snam S.p.A. represented by 39,200,638 shares, equal to 1.12% of the share capital. At 31 December 2017, CDP Reti S.p.A. holds a stake in Snam S.p.A. represented by a total of 1,053,692,127 shares, equal to 30.10% of the share capital.

Reclassified income statement

(millions of €)	Pro-forma 2015	Pro-forma 2016	2017	Change	Change %
Financial income and expense					
Net income from equity investments	690	568	740	172	30.3
Interest income and other financial income	355	642	262	(380)	(59.2)
Interest expense and other financial expense	(395)	(647)	(292)	355	(54.9)
Losses from derivative contracts		(1)	(1)		
Total financial income and expense	650	562	709	147	26.2
Income from services rendered	186	203	210	7	3.4
Other income	12	12	13	1	8.3
Other operating income	198	215	223	8	3.7
For personnel	(68)	(79)	(81)	(2)	2.5
For non-financial services and other costs	(134)	(162)	(173)	(11)	6.8
Other operating expenses	(202)	(241)	(254)	(13)	5.4
Pre-tax	646	536	678	142	26.5
Income tax	(6)	(13)	(1)	12	(92.3)
Net profit	640	523	677	154	29.4

The **Net Profit** for 2017 totals €677 million, a €154 million euro increase, equal to 29.4%, in respect to the fiscal year 2016. The increase is mainly due to the higher net income from investments (+€172 million), essentially due to the higher dividends distributed by the subsidiaries Snam Rete Gas S.p.A. (+€106 million), and Stogit S.p.A. (+€77 million).

Analysis of income statement items

Financial income and expense

(millions of €)	2015	2016	2017	Change	Change %
Income from equity investments (a)	690	593	753	160	27.0
Expenses from shares		(25)	(13)	12	(48.0)
Interest income and other financial income	355	642	262	(380)	(59.2)
Interest expense and other financial expense	(395)	(647)	(292)	355	(54.9)
Losses from derivative contracts		(1)	(1)		
	650	562	709	147	26.2

(a) The 2016 figure includes the pro-forma adjustment.

Income from equity investments (€753 million) consist of the dividends distributed by the subsidiaries Snam Rete S.p.A.(€435 million), and Stogit S.p.A.(€169 million) as well as companies under joint control Trans Austria Gasleitung GmbH (€88 million), TIGF Holding S.A.S. (€39 million) and the associated company Italgas S.p.A.(€22 million)³⁸.

The expenses from shares refer to the devaluation of shares in GasBridge 1 B.V. and GasBridge 2 B.V. (€13 million total)³⁹.

The asset interest and other financial revenue (€262 million) essentially concern: (i) interest income deriving from intragroup loans granted by Snam S.p.A. to the subsidiaries Snam Rete Gas S.p.A. and Stogit S.p.A. (€205 million total); (ii) the financial revenue deriving from the recharge to the companies Snam Rete Gas S.p.A. and Stogit S.p.A. of the charges connected to the buyback operation put into effect by Snam in the month of October 2017 (€50 million total); (iii) the revenue connected to the Shareholders' Loan granted in favour of TAP (€6 million).

The Liability Interest and other financial expenses (€292 million) principally refer:(i) to the expenses connected to the bond buyback operation (€56 million), equal to the difference between the reacquisition price for the bonds on the market and the relative value to the depreciated cost; (ii) to expenses on short-long term financial debts and concern expenses on bond loans⁴⁰ (€219 million) and on loans issued by Banks and other Financial Institutions (€17 million).

38 More information is provided in the appendix to the Notes to the separate financial statements, "Notes on companies controlled through a direct equity investment of Snam S.p.A."

39 The devaluation refers to the share held by Gasbridge 1 B.V. and GasBridge 2 B.V. in Interconnector UK, whose recuperable value, determined for the purpose of the consolidated financial statement with the net worth method of the Notes to the Consolidated Financial Statement of Snam S.p.A. For further information, see Note no. 14 "Shares evaluated with the net worth method" of the Notes to the consolidated Financial Statement.

40 Details of the bond issues that took place during the year and their conditions are provided in Note 14, "Short-term financial liabilities, long-term financial liabilities and short-term portions of long-term liabilities" in the Notes to the separate financial statements.

Other operating income

(millions of €)	2015	2016	2017	Change	Change %
Income from services rendered	186	203	210	7	3.4
Other income	12	12	13	1	8.3
Total other operating income	198	215	223	8	3.7

Revenues from services (€210 million) mainly refer to the recharges to subsidiaries and to the Italgas Group of the costs for the provision of services performed by Snam S.p.A. (respectively €140 and €60 million). The services provided by Snam S.p.A. to the subsidiaries are regulated by service contracts which concern the following areas: ICT, personnel and organisation, planning, administration, finance and control, general services, property services, legal and corporate affairs and compliance, health, safety and environment, external relations and communication, internal audits, commercial services, regulation and development, security, technical services and procurement. The services provided by Snam S.p.A. to the Italgas Group are settled by means of certain contracts for a transitional period, as provided for in the contract for the spin-off transaction, finalised in November last year.

Other income (€13 million) essentially refers to revenue from leasing and maintaining fibre-optic telecommunications cables for third parties.

Other operating expenses

(millions of €)	2015	2016	2017	Change	Change %
For personnel	68	79	81	2	2.5
For non-financial services and other costs	134	162	173	11	6.8
Total other operating expenses	202	241	254	13	5.4

Personnel costs increased by €2 million compared to the previous year, mainly due to higher charges for the Isopensione fund.

The number of employees at 31 December 2017 (822 people) is broken down below by professional status:

(no.)	31.12.2015	31.12.2016	31.12.2017	Change	Change %
Professional status					
Executives	55	54	63	9	16.7
Managers	200	215	239	24	11.2
Skilled workers	453	510	517	7	1.4
Manual workers	5	4	3	(1)	(25.0)
	713	783	822	39	5.0

The increase of 39 persons is mainly attributable to the adjustment of the organisational structures, started on 1 November 2016, to which some staff services are assigned, which involved the centralisation of certain functions previously performed by the operating companies on Snam.

Costs for the provision of non-financial services and other costs increased (€11 million) mainly due to higher provisions for risks and charges (€11 million). Further information is provided in Note 17 "Provision for risks and charges" of the Notes to the financial statements.

Income tax

Income taxes (€1 million) recorded a reduction of €12 million compared to the corresponding period of the previous year. The effects deriving from the higher pre-tax profit were more than offset by the reduction of the IRES rate starting from 1 January 2017, from 27.5% to 24.0%⁴¹.

Reclassified statement of financial position⁴²

(millions of €)	31.12.2016	31.12.2017	Change
Fixed capital	13,298	13,125	(173)
Property, plants and equipment	3	6	3
Intangible assets	17	16	(1)
Equity investments	6,093	6,327	234
Financial receivables held for operations	7,190	6,780	(410)
Net payables for investments	(5)	(4)	1
Net working capital	73	(271)	(344)
Provisions for employee benefits	(12)	(16)	(4)
NET INVESTED CAPITAL	13,359	12,838	(521)
Shareholders' equity	5,394	4,861	(533)
Net financial debt	7,965	7,977	12
COVERAGE	13,359	12,838	(521)

The fixed capital (€13,125 million) decreased by €173 million in respect to 31 December 2016 principally as a result of lower financial credits in operating activities (-€410 million). These effects were partly offset by the increase in equity investments (+€234 million), mainly due to increases in the share capital of Asset Company 2 S.r.l. (+€172 million) and Trans Adriatic Pipeline AG - TAP (+€66 million).

41 Introduced by Italian Law no. 208/2015 (Stability Law 2016) containing "Provisions for the preparation of the annual and multi-annual State budget", published in the Official Gazette of 30 December 2015 and effective as of 1 January 2016.

42 Please refer to the paragraph "Non-GAAP measures" for the methodological illustration of the reclassified statements.

Equity investments

Equity investments of €6,327 million break down as follows:

(millions of €)	% ownership	Opening balance	Acquisitions and subscriptions	Repayments and transfers	Recovery of value	Final balance at 31.12.2017
Equity investments in subsidiaries						
Snam Rete Gas S.p.A.	100%	2,849				2,849
GNL Italia S.p.A.	100%	43				43
Stogit S.p.A.	100%	1,597				1,597
Gasrule Insurance D.A.C.	100%	20				20
Asset Company 2 S.r.l.	100%		172			172
Investments in joint ventures						
TIGF Holding SAS	40.50%	452				452
Gasbridge 1 B.V. and Gasbridge 2 B.V.	50%	87		(18)	(13)	56
Trans Austria Gasleitung GmbH	84.47%	500				500
AS Gasinfrastruktur Beteiligung GmbH	40%	135		(17)		118
Investments in associates						
Italgas S.p.A.	13.50%	244				244
Trans Adriatic Pipeline AG	20%	166	66			232
Other investments						
Terminale GNL Adriatico S.r.l.	7.30%		45	(1)		44
		6,093	283	(36)	(13)	6,327

Acquisitions and subscriptions (€283 million) relate to:(i) the capital increase of Asset Company 2 S.r.l.(€172 million) for the acquisition transaction of Infrastrutture Trasporto Gas S.p.A. (ITG); (ii) the capital increase of TAP paid in 2017 (€66 million); (iii) the acquisition of an amount equal to 7.3% of the capital of Terminale GNL Adriatico S.r.l. from Edison(€45 million). The disposals and redemptions (€36 million) mainly refer to the reduction in the cost of registration of the investments in the companies GasBridge 1 BV, GasBridge 2 BV(€18 million) and AS Gasinfrastruktur Beteiligung GmbH (€ 17 million), against the distribution of part of the share premium reserve generated

at the time the companies were established.

Value adjustments refer to the effects of the impairment loss (€13 million) on the equity investments in GasBridge 1 B.V. and GasBridge 2 B.V.

Financial receivables held for operations

Financial receivables held for operating activities, including the relative short-term portions, amount to €6,780 million and refer to receivables for loans disbursed to the subsidiaries Snam Rete Gas (€4,983 million) and Stogit (€1,424million), and the associate TAP (€373 million). The reduction of 411 million euros compared to 31 December 2016

is mainly due to the closure and simultaneous repayment of loans in place with Snam Rete Gas S.p.A. and Stogit S.p.A.(-€889 million of total nominal value, of which -€424 million as part of the Liability Management operation).This change was partially offset by the loan to Snam Rete Gas S.p.A.(+€310 million) on funding from the European Investment Bank - EIB and higher receivables in favour of TAP (+€154 million) against cash calls received during the year.

Net working capital

(millions of €)	31.12.2016	31.12.2017	Change
Trade receivables	100	94	(6)
Tax receivables	67	44	(23)
Other assets	31	32	1
Net prepaid tax assets	7	12	5
Derivative liabilities/(assets)	24	(12)	(36)
Provisions for risks and charges	(6)	(7)	(1)
Tax liabilities	(5)	(15)	(10)
Trade payables	(78)	(68)	10
Other liabilities	(67)	(351)	(284)
	73	(271)	(344)

Net working capital (-€271 million) decreased by €344 million compared with 31 December 2016 due primarily to: (i) the increase in other liabilities (-€284 million) mainly due to the distribution of the interim dividend (-€294 million); (ii) the reduction in the market value of derivative financial instruments (-€36 million); (iii) the reduction in tax receivables (-€23 million) mainly due to lower Group VAT credits.

Statement of comprehensive income

(millions of €)	2016	2017
Net profit	761	677
Other components of comprehensive income		
<i>Components that can be reclassified to the income statement:</i>		
Change in fair value of cash flow hedge derivatives	1	(8)
Tax effect		2
	1	(6)
Total other components of comprehensive income, net of tax effect	1	(6)
Total comprehensive income	762	671

Shareholders' equity

(millions of €)

Shareholders' equity as at 31 December 2016	5,394
Increases owing to:	
- Comprehensive income for 2017 (*)	671
- Other changes (**)	18
	689
Decreases owing to:	
- 2016 dividend	(718)
- 2017 interim dividend	(294)
- Acquisition of treasury shares	(210)
	(1,222)
Shareholders' equity as at 31 December 2017	4,861

(*) For further details, please refer to the Statement of comprehensive income of the Snam SpA Financial Statement.

(**) The item includes the equity component of the convertible bond loan (€17 million).

Net financial debt

(millions of €)	31.12.2016	31.12.2017	Change
Financial and bond debt	11,086	12,634	1,548
Short-term financial debt (*)	2,349	2,458	109
Long-term financial debt	8,737	10,176	1,439
Financial receivables and cash and cash equivalents	(3,121)	(4,657)	(1,536)
Financial receivables not held for operations	(3,109)	(3,962)	(853)
Cash and cash equivalents	(12)	(695)	(683)
	7,965	7,977	12

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

The breakdown of debt by type of interest rate at 31 December 2017 is as follows:

(millions of €)	31.12.2016	%	31.12.2017	%	Change
Fixed rate	7,092	64	9,834	78	2,742
Floating rate	3,994	36	2,800	22	(1,194)
	11,086	100	12,634	100	1,548

Fixed-rate financial liabilities (€9,834 million) increased by €2,742 million mainly as a result of: (i) the issue of a bond on 25 January 2017, for a nominal value of €500 million; (ii) the classification of a bond with a nominal value of €338 million at a fixed rate following the aforementioned early repayment of the Interest Rate Swap (IRS) derivative hedging contract; (iii) the issue of a variable rate bond loan⁴³ on 21 February 2017 for a nominal amount of €300 million; (iv) the issue of a convertible bond loan⁴⁴ without interest accrued on 20 March 2017, for a nominal value of €400 million; (v) the issue of a variable rate bond⁴⁵ on 2 August 2017, for a nominal value of €350 million; (vi) the subscription of an EIB bank loan issued on 24 August 2017 for a nominal amount of €310 million; (vii) the issue of a bond on 25 October 2017, for a nominal value of €650 million; (viii) the subscription of a Term Loan bank loan for a nominal value of €500 million. These effects were partially offset by the repayment of a bond maturing on 30 June 2017, for a nominal amount of €506 million and by the repurchase on the market of fixed-rate bonds for a total nominal value of €607 million with average coupon of 2.5% and a residual term of around 4.4 years, for a total outlay of approximately €656 million⁴⁶, carried out as part of the Liability Management operation completed in October 2017.

Variable-rate financial liabilities (€2,800 million) show a reduction of €1,194 million compared to

31 December 2016 attributable essentially to: (i) the classification of a bond with a nominal value of €500 million at a fixed rate, following the early termination, on 27 January 2017, of the Interest Rate Swap (IRS) derivative hedging contract used up to that date to convert the fixed rate debt into an equivalent variable rate liability (-€518 million); (ii) lower net utilisation of uncommitted lines of credit (-€108 million); (iii) repayment of a Term Loan bank loan with a nominal value of €200 million.

At 31 December 2017, Snam had unused committed long-term credit lines worth €3.2 billion.

Non-operating financial receivables (€3,962 million) show an increase of €853 million compared to 31 December 2016. The increase is mainly attributable to a short-term liquidity-use transaction, with a maturity of less than six months, with a bank with a high credit standing (€350 million) as counterparty, and greater net use of account balances current of the subsidiaries Snam Rete Gas and Stogit (€502 million overall).

Cash and cash equivalents (€695 million) essentially refer to a short-term liquidity facility, with a maturity of less than three months, with a bank with a high credit standing (€300 million) as counterparty, and to a bank deposit (€395 million).

Reclassified statement of cash flows

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

⁴³ The variable rate bond is converted into a fixed rate bond loan through an interest rate swap (IRS) derivative hedging contract.

⁴⁴ The bond loan has become convertible following the resolution of the Shareholders' Meeting of 11 April 2017.

⁴⁵ The variable rate bond is converted into a fixed rate bond loan through an interest rate swap (IRS) derivative hedging contract.

⁴⁶ For more information on the transaction, refer to the section "Snam in 2017 - Summary data and information - Main events" of this Report.

Reclassified statement of cash flows

(millions of €)	2016	2017
Net profit	761	677
<i>Adjusted for:</i>		
- Amortisation, depreciation and other non-monetary components	30	24
- Dividends, interest and income taxes	(822)	(736)
Change in working capital due to operating activities	6	45
Dividends, interest and income taxes collected (paid)	833	736
Net cash flow from operating activities	808	746
Technical investments	(6)	(9)
Equity investments	1,335	(247)
Financial receivables held for operating activities	2,353	416
Other changes relating to investment activities	(4)	(1)
Free cash flow	4,486	905
Change in financial receivables not held for operating activities	(1,197)	(853)
Change in current and non-current financial debt	(2,300)	1,559
Equity cash flow (*)	(978)	(928)
Net cash flow for the period	11	683

Change in net financial debt

(millions of €)	2016	2017
Free cash flow	4,486	905
Exchange rate differences on financial debt	(6)	7
Adjustment to fair value of financial debt	(12)	4
Financial debt taken over by Italgas	424	
Equity cash flow (*)	(978)	(928)
Change in net financial debt	3,914	(12)

(*) The value includes the payment of the dividend to shareholders as well as the cost incurred to purchase treasury shares (respectively €103 million and €210 million in 2016 and 2017).