

Financial review

INCOME STATEMENT

(€ million)	First half		Change	% Change
	2017	2018		
Regulated revenue	1,219	1,241	22	1.8
Non-regulated revenue	49	30	(19)	(38.8)
Total revenue	1,268	1,271	3	0.2
- Total revenue net of pass-through items	1,214	1,242	28	2.3
Operating costs	(233)	(207)	26	(11.2)
- Operating costs net of pass-through items	(179)	(178)	1	(0.6)
EBITDA	1,035	1,064	29	2.8
Amortisation, depreciation and impairment losses	(321)	(335)	(14)	4.4
EBIT	714	729	15	2.1
Net financial expenses	(115)	(98)	17	(14.8)
Net income from equity investments	88	85	(3)	(3.4)
Pre-tax profit	687	716	29	4.2
Income taxes	(183)	(193)	(10)	5.5
Net profit (*)	504	523	19	3.8

(*) Entirely held by Snam shareholders.

Net profit in the first half of 2018 amounted to €523 million, an increase of €19 million or 3.8% compared with the net profit achieved in the first half of 2017 (€504 million). The higher operating profit (+€15 million; +2.1%) along with lower net financial expenses (+€17 million, or 14.8%), which benefitted from a reduction in the average cost of debt, only in part absorbed by the higher average debt for the period, was absorbed in part by higher income taxes (-€10 million, or 5.5%), linked primarily to the higher pre-tax profit.

Analysis of income statement items

Total revenue

(€ million)	First half		Change	% Change
	2017	2018		
Business segments				
Transportation	1,008	1,059	51	5.1
Regasification	12	11	(1)	(8.3)
Storage	297	296	(1)	(0.3)
Corporate and other activities	110	101	(9)	(8.2)
Consolidation eliminations	(159)	(196)	(37)	23.3
	1,268	1,271	3	0.2

Regulated and non-regulated revenue

(€ million)	First half		Change	% Change
	2017	2018		
Regulated revenue	1,219	1,241	22	1.8
Business segments				
Transportation	939	982	43	4.6
Regasification	10	9	(1)	(10.0)
Storage	216	221	5	2.3
Revenue items offset in costs (*)	54	29	(25)	(46.3)
Non-regulated revenue	49	30	(19)	(38.8)
	1,268	1,271	3	0.2

(*) The main revenue items offset in costs relate to interconnection.

Revenue from regulated activities (€1,241 million, net of consolidation adjustments) rose by €22 million on the first half of 2017 (+1.8%). Regulated revenue, net of components that are offset in costs, amounted to €1,212 million, up by €47 million, or 4.0%, thanks to continuous investments and the contribution of companies that have entered the consolidation scope (€9 million).

Revenue from non-regulated activities (€30 million, net of consolidation adjustments) related mainly to technical/specialist services to investee companies (€14 million, of which €6 million to foreign investees) and income from the leasing and maintenance of fibre-optic telecommunications cables (€6 million). The reduction of €19 million, equal to 38.8%, compared with the first half of 2017, was due essentially to lower revenue for services provided to the Italgas Group, settled by means of several contracts entered into as at 31 December 2017¹⁷.

Operating costs

(€ million)	First half		Change	% Change
	2017	2018		
Business segments				
Transportation	206	211	5	2.4
Regasification	7	7		
Storage	75	77	2	2.7
Corporate and other activities	104	108	4	3.8
Consolidation eliminations	(159)	(196)	(37)	23.3
	233	207	(26)	(11.2)

¹⁷ This revenue is offset in costs incurred for the provision of the relative services.

Operating costs - Regulated and non-regulated activities

(€ million)	First half		Change	% Change
	2017	2018		
Costs of regulated activities	192	175	(17)	(8.9)
Controllable fixed costs	125	129	4	3.2
Variable costs	5	3	(2)	(40.0)
Other costs	8	14	6	75.0
Cost items offset in revenue (*)	54	29	(25)	(46.3)
Costs of non-regulated activities	41	32	(9)	(22.0)
	233	207	(26)	(11.2)

(*) The main cost items offset in revenue relate to interconnection.

Operating costs of regulated activities

Operating costs from regulated activities amounted to €175 million, down €17 million, or 8.9%, compared with the first half of 2017. Net of components that are offset in revenue, operating costs from regulated activities amounted to €146 million, up by €8 million, or 5.8%, on the first half of 2017 (€138 million).

The increase was due to higher controllable fixed costs (+€4 million; +3.2%), consisting of the sum of personnel expenses and recurring external costs, following higher external costs and the effects of the consolidation of ITG (+€2 million), as well as the increase in other costs (+€6 million) mainly as a result of higher capital losses from the elimination of assets (€4 million).

Operating costs of non-regulated activities

The operating costs for non-regulated activities (€32 million) declined by €9 million, equal to 22.0%, compared with the same period in 2017. The reduction was due essentially to lower costs for services provided to the Italgas Group, settled by means of several contracts entered into as at 31 December 2017.

Net of components offset in revenue, operating costs totalled €178 million, in line with the corresponding value in the first half of 2017 (€179 million; -0.6%), thanks to the efficiency actions taken.

The number of employees as at 30 June 2018 (2,884 people) is broken down below by professional status:

Professional status	First half		Change	% Change
	2017	2018		
Executives	89	95	6	6.7
Managers	436	461	25	5.7
Office workers	1,681	1,618	(63)	(3.7)
Manual workers	720	710	(10)	(1.4)

The reduction of 42 resources compared with the first half of 2017 was due primarily to the exit of 90 resources in relation to the "Isopensione" pension advance plan governed by the Fornero Law, offset in part by the consolidation of Infrastrutture Trasporto Gas (27 resources) and TEP (22 resources).

Amortisation, depreciation and impairment losses

(€ million)	First half		Change	% Change
	2017	2018		
Amortisation and depreciation	319	335	16	5.0
Business segments				
Transportation	266	279	13	4.9
Regasification	2	2		
Storage	47	50	3	6.4
Corporate and other activities	4	4		
Impairment losses (Reversals)	2		(2)	(100.0)
	321	335	14	4.4

Amortisation, depreciation and impairment losses (€335 million) increased by €14 million, or 4.4%, compared with the first half of 2017, primarily as a result of higher amortisation and depreciation (+€16 million, or 5.0%), recorded across all the main business segments. This increase was due mainly to the entry into operation of new assets.

EBIT

(€ million)	First half		Change	% Change
	2017	2018		
Business segments				
Transportation	536	569	33	6.2
Regasification	3	2	(1)	(33.3)
Storage	173	169	(4)	(2.3)
Corporate and other activities	2	(11)	(13)	
	714	729	15	2.1

EBIT¹⁸ stood at €729 million in the first half of 2018, up €15 million, or 2.1%, compared with the same period of 2017. The increase was primarily attributable to higher revenue (+€28 million; +2.3%), thanks to the contribution of the transportation (+€44 million; +4.7%) and storage (+€3 million; +1.4%) segments, offset in part by higher amortisation, depreciation and write-downs for the period (-€14 million, or 4.4%).

Net of components offset in revenue, operating costs totalled €178 million (€179 million; -0.6% compared with the first half of 2017), aided by efficiency actions taken during the period. The impact from the conclusion of some service contracts with Italgas at the end of December 2017, was absorbed primarily by higher costs for new business and M&A activities.

Net financial expenses

(€ million)	First half		Change	% Change
	2017	2018		
Financial expense related to net financial debt	119	102	(17)	(14.3)
- Interest and other expense on short- and long-term financial debt	119	103	(16)	(13.4)
- Bank interest income		(1)	(1)	
Other net financial expense (income)	2	2		
- Accretion discount	5	5		
- Other net financial expense (income)	(3)	(3)		
Losses on hedging derivatives – ineffective portion	1		(1)	(100.0)
Financial expense capitalised	(7)	(6)	1	(14.3)
	115	98	(17)	(14.8)

Net financial expense totalled €98 million, a decrease of €17 million, or 14.8%, compared with the first half of 2017. This reduction was basically due to the lower financial expenses correlated with net financial debt (-€17 million; -14.3%) following the reduction in the average cost of debt, also against the benefits deriving from the optimisation actions

¹⁸ An analysis of EBIT by business segment is provided in the "Business segment operating performance" section.

taken and funding transactions, carried out in the first half of the year, only partially offset by the higher average debt for the period.

Income from equity investments

(€ million)	First half		Change	% Change
	2017	2018		
Equity method valuation effect	88	83	(5)	(5.7)
Dividends		2	2	
	88	85	(3)	(3.4)

The **net revenue on shares** (€85 million) concerns the shares in the net results for the period of companies evaluated with the equity method (€83 million), referring primarily to the companies Trans Austria Gasleitung GmbH – TAG (+€39 million; -€4 million), Italgas S.p.A. (€20 million; +€1 million), Teréga Holding S.A.S.¹⁹ (€15 million; -€4 million) and Interconnector UK (€6 million; +€2 million) as well as the dividends collected from the minority interests in the company Terminale GNL Adriatico S.r.l.

Income taxes

(€ million)	First half		Change	% Change
	2017	2018		
Current taxes	199	207	8	4.0
(Deferred) prepaid taxes				
Deferred taxes	(9)	(8)	1	(11.1)
Prepaid taxes	(7)	(6)	1	(14.3)
	(16)	(14)	2	(12.5)
	183	193	10	5.5
Tax rate (%)	26.6	27.0	0.4	

In the first half of 2018, **income taxes** (€193 million) were up €10 million, or 5.5%, compared with the same period of the previous year, attributable primarily to the higher pre-tax profit.

The tax rate was 27.0% (26.6% in the first half of 2017).

¹⁹ Teréga has been the new name of TIGF since 30 March 2018.

Reclassified statement of financial position

The reclassified balance sheet combines the assets and liabilities of the compulsory format included in the Annual Report and the Half-Year Report based on how the business operates, usually split into the three basic functions of investment, operations and financing.

Management believes that this format presents useful information for investors as it allows the identification of the sources of financing (equity and third-party funds) and the investment of financial resources in fixed and working capital. Management uses the reclassified balance sheet to calculate the key profitability ratios (ROI and ROE).

RECLASSIFIED STATEMENT OF FINANCIAL POSITION (*)

(€ million)	31.12.2017	30.06.2018	Change
Fixed capital	18,875	19,020	145
Property, plant and equipment	16,033	16,044	11
Compulsory inventories	363	363	
Intangible assets	850	873	23
Equity investments	1,591	1,561	(30)
Financial receivables held for operations	373	483	110
Net payables for investments	(335)	(304)	31
Net working capital	(1,079)	(1,443)	(364)
Provisions for employee benefits	(58)	(60)	(2)
NET INVESTED CAPITAL	17,738	17,517	(221)
Shareholders' equity	6,188	6,096	(92)
- entirely held by Snam shareholders.	6,188	6,096	(92)
Net financial debt	11,550	11,421	(129)
COVERAGE	17,738	17,517	(221)

(*) For the reconciliation of the reclassified balance sheets with the compulsory format, please see the paragraph "Reconciliation of the reclassified financial statements with the compulsory formats" below.

The **fixed capital** (€19,020 million) rose by €145 million with respect to 31 December 2017 essentially as a result in the increase in financial receivables held for operations (+€110 million), relating to Snam's share of the Shareholders' Loan issued in favour of the affiliate Trans Adriatic Pipeline AG (TAP) and the increase in intangible assets (+€23 million) as a result of the change in the consolidation scope (+€24 million).

The change in property, plant and equipment and in intangible assets can be broken down as follows:

(€ million)	Property, plant and equipment	Intangible assets	Total
Balance as at 31 December 2017	16,033	850	16,883
Technical investments	321	28	349
Amortisation, depreciation and impairment	(306)	(29)	(335)
Transfers, eliminations and divestments	(7)		(7)
Change in scope of consolidation		24	24
Other changes	3		3
Balance as at 30 June 2018	16,044	873	16,917

Technical investments in the first half of 2018, totalling €349 million²⁰ (€425 million in the first half of 2017), related mainly to the transportation (€314 million) and storage (€31 million) business segments.

²⁰ An analysis of the technical investments made by each business segment is provided in the "Business segment operating performance" section of this Report.

Equity investments

The item equity investments (€1,561 million) includes essentially: (i) the valuation of equity investments using the equity method referring to the companies Teréga Holding S.A.S.²¹ (€479 million), Trans Austria Gasleitung GmbH-TAG (€474 million), Trans Adriatic Pipeline AG-TAP (€230 million)²², Italgas S.p.A. (€157 million), AS Gasinfrastruktur Beteiligung GmbH (€117 million) and Interconnector UK (€61 million)²³; (ii) the fair value measurement²⁴ of the minority interests in the company Terminale GNL Adriatico S.r.l. (€42 million).

Financial receivables held for operations

The financial receivables held for operations (€483 million) refer to Snam's share of the Shareholders' Loan issued in favour of the affiliate Trans Adriatic Pipeline AG (TAP). The increase of €110 million compared with 31 December 2017²⁵ was basically due to the cash calls received in the first half of 2018.

Net working capital

(€ million)	31.12.2017	30.06.2018	Change
Trade receivables	1,274	990	(284)
- of which balancing	251	164	(87)
Inventories	86	89	3
Tax receivables	46	24	(22)
Other assets	50	215	165
Provisions for risks and charges	(677)	(688)	(11)
Trade payables	(406)	(598)	(192)
- of which balancing	(207)	(165)	42
Accruals and deferrals from regulated activities	(231)	(352)	(121)
Tax payables	(11)	(212)	(201)
Deferred tax liabilities	(165)	(156)	9
Hedging derivative (liabilities) assets	(12)	(18)	(6)
Other liabilities	(1,033)	(737)	296
	(1,079)	(1,443)	(364)

Net working capital (-€1,443 million) declined by €364 million compared with 31 December 2017. The reduction is principally due: (i) to lower trade receivables (-€284 million) mainly as a result of the reduction in receivables for additional tariff components relating to additional transportation sector costs (-€223 million) referring, in particular, to the CVOS component²⁶, the application of which is suspended for the months from April to September; (ii) to higher tax payables (-€201 million) mainly against the deferment of the deadline for the payment of IRES and IRAP tax payables (2017 balance and 2018 advance) to 2 July 2018; (iii) to higher accrued liabilities and deferred income from regulated activities (-€121 million) relating to over-invoicing and penalties in the transportation business.

These effects were absorbed only in part by the reduction of other liabilities (+€296 million), primarily attributable to the payment to Snam shareholders of the 2017 interim dividend of €0.0862 per share (+€294 million).

²¹ Teréga has been the new name of TIGF since 30 March 2018.

²² This includes roughly €8 million (equal to CHF 9.4 million) relating to the future share capital increase of TAP, in which Snam is required to participate to an extent proportionate to its equity stake held, on the basis of agreements entered into upon acquisition of the equity investment. Snam made the relative payment on 10 July 2018.

²³ Following the share swap between Snam and Fluxys on 26 April 2018, following which Snam became the sole shareholder of GasBridge 2 and Fluxys became the holder of the entire share capital of GasBridge 1, the equity investment in the associated company Interconnector UK, held by GasBridge 2, has been valued in Snam's consolidated financial statements with the equity method pursuant to IAS 28.

²⁴ Further information is provided in Note 12 "Other equity investments" of the notes to the condensed interim consolidated financial statements.

²⁵ On the basis of the contractual agreements entered into, the shareholders are responsible for financing the project, based on the stake held, until the entry into operation of the gas pipeline. Any expansion of capacity is subject to an economic feasibility assessment and therefore the verification of benefits for TAP, also in compliance with the decision on exemption by the regulatory Authorities.

²⁶ The CVOS variable unit fee, expressed in €/SCM, is additional to the Variable Fee intended to cover costs deriving from the application of the revenue guarantee factor for the storage service pursuant to art. 10 bis of Resolution 29/2011 and costs incurred by the Energy Services Operator for the provision of the measures pursuant to arts. 9 and 10 of Legislative Decree 130/10.

Statement of comprehensive income

(€ million)	First half	
	2017	2018
Net profit (*)	504	523
Other components of comprehensive income		
<i>Components that can be reclassified to the income statement:</i>		
Change in fair value of cash flow hedging derivatives (effective portion)		(10)
Portion of equity investments valued using the equity method pertaining to "other components of comprehensive income"	(2)	
Tax effect		2
	(2)	(8)
Total other components of comprehensive income, net of tax effect	(2)	(8)
Total comprehensive income (*)	502	515

(*) Entirely held by Snam shareholders.

Shareholders' equity

(€ million)	
Shareholders' equity as at 31 December 2017 (*)	6,188
<i>Effect of initial application of IFRS 9 (**)</i>	8
Shareholders' equity at 1 January 2018 (*)	6,196
<i>Increases owing to:</i>	
- Comprehensive income for the first half of 2018	515
- Other changes	5
	520
<i>Decreases owing to:</i>	
- 2017 dividend balance	(437)
Acquisition of treasury shares	(183)
	(620)
Shareholders' equity including minority interests as at 30 June 2018 (*)	6,096

(*) Entirely held by Snam shareholders.

(**) Net of tax effect. Further information is provided in Note 1 - "Preparation and evaluation criteria" of the Notes to the condensed interim consolidated financial statements.

Information about the individual shareholders' equity items and changes therein compared with 31 December 2017 is provided in Note 18 "Shareholders' equity" in the Notes to the condensed interim consolidated financial statements.

As at 30 June 2018, Snam held 102,655,338 treasury shares (85,915,616 as at 31 December 2017), equal to 2.96% of its share capital, with a total book value of €382 million (€318 million as at 31 December 2017). Their market value as at 30 June 2018 was around €367 million²⁷. For more information on treasury shares, please refer to the "Other information - Treasury shares" section below.

²⁷ Calculated by multiplying the number of treasury shares by the period-end official price of €3.5805 per share.

Net financial debt

(€ million)	31.12.2017	30.06.2018	Change
Financial and bond debt	12,619	12,764	145
Short-term financial debt (*)	2,443	3,500	1,057
Long-term financial debt	10,176	9,264	(912)
Financial receivables and cash and cash equivalents	(1,069)	(1,343)	(274)
Cash and cash equivalents	(719)	(1,343)	(624)
Financial receivables not held for operations	(350)	350	350
	11,550	11,421	(129)

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

The positive net cash flow from operating activities (€1,525 million) allowed us to fully cover the financial requirements associated with net investments for the period (€488 million, including equity investments), and to generate a free cash flow of €1,037 million. The net financial debt, after cash flows from self-owned capital (€914 million), deriving from the payment to shareholders of the 2017 dividend (€731 million, of which an interim dividend of €294 million and €437 million for the balance) and the acquisition of treasury shares (€183 million), recorded a reduction of €129 million compared with 31 December 2017, including non-monetary components²⁸ correlated with financial debt (€6 million).

Financial and bond debts as at 30 June 2018, amounting to €12,764 million (€12,619 million as at 31 December 2017), comprised the following:

(€ million)	Total at 31.12.2017	Total at 30.06.2018	Change
Bonds	8,672	8,134	(538)
Bank loans	3,931	4,629	698
Other financing	16	1	(15)
	12,619	12,764	145

Financial and bond debts are denominated in euros²⁹ and refer mainly to bond loans (€8,134 million, or 63.7%) and bank loans (€4,629 million, or 36.3%, including €1,462 million provided by the European Investment Bank - EIB).

Bonds (€8,134 million) declined by €538 million compared with 31 December 2017. The was attributable primarily to the repayment of a fixed-rate bond maturing on 19 March 2018, with a nominal amount of €851 million, offset in part by the issue of a floating-rate private placement³⁰ on 22 January 2018 with a nominal amount of €350 million.

Bank loans (€4,629 million) rose by €698 million following the increased net use of uncommitted credit lines.

Long-term financial debt (€9,264 million) represented around 73% of gross financial debt (around 81% as at 31 December 2017). Fixed-rate financial debts amounted to around 73% of gross financial debt (around 78% as at 31 December 2017).

Cash and cash equivalents, amounting to €1,343 million refer primarily to transactions for the use of short-term liquidity, with maturity in less than three months, with banking institutions with high credit standing as the counterparty (€1,000 million), sight bank deposits (€278 million) and cash and cash equivalents at the company Gasrule Insurance D.A.C. for the exercise of group insurance activities (€31 million).

As at 30 June 2018, Snam had unused committed long-term credit lines worth €3.2 billion.

²⁸ These components are primarily connected to the effects of the first-time application of the provisions of IFRS 9 "Financial instruments". Further information is provided in Note 1 - "Drafting criteria" of the Notes to the condensed interim consolidated financial statements.

²⁹ Except for a fixed-rate bond loan for ¥10 billion, fully converted into euros through a cross-currency swap (CCS) financial derivative.

³⁰ The floating-rate bond is converted into a fixed-rate bond through an Interest Rate Swap (IRS) hedging derivative.

Covenants

As at 30 June 2018, Snam has unsecured bilateral and syndicated loan agreements in place with banks and other financial institutions. Part of such contracts envisages, inter alia, compliance with commitments typical of international practice, of which some are subject to specific materiality thresholds, such as: (i) negative pledge commitments pursuant to which Snam and its subsidiaries are subject to limitations concerning the pledging of real property rights or other restrictions on all or part of the respective assets, shares or merchandise; (ii) pari passu and change-of-control clauses; (iii) limitations on certain extraordinary transactions that the Company and its subsidiaries may carry out; and (iv) limits on the debt of subsidiaries.

Failure to comply with these covenants, and the occurrence of other events such as cross-default events could result in Snam's failure to comply and, possibly, trigger the early repayment of the related loan. Exclusively for the EIB loans, the lender has the option to request additional guarantees, if Snam's rating is lower than BBB (Standard & Poor's/Fitch Ratings Limited) or Baa2 (Moody's) for at least two of the three rating agencies.

The occurrence of one or more of the aforementioned scenarios could have negative effects on Snam Group's operations, results, balance sheet and cash flow, resulting in additional costs and/or liquidity issues.

As at 30 June 2018, the financial liabilities subject to these restrictive clauses amounted to approximately €2.6 billion.

The bonds issued by Snam as at 30 June 2018, with a nominal value of €8.1 billion, mainly refer to securities issued under the Euro Medium Term Notes programme³¹. The covenants set for the programme's securities reflect international market practices and relate, inter alia, to negative pledge and pari passu clauses. Specifically, under the negative pledge clause, Snam and its significant subsidiaries are subject to limitations in relation to the creation or maintenance of restrictions on all or part of their own assets or inflows to guarantee present or future debt, unless this is explicitly permitted.

Failure to comply with these covenants – in some cases only when this non-compliance is not remedied within a set time period – and the occurrence of other events, such as cross-default events, some of which are subject to specific threshold values, may result in Snam's failure to comply and could trigger the early repayment of the relative loan.

As confirmation of Snam's credit standing, its loan agreements contain no covenants requiring compliance with economic and/or financial ratios.

Information on financial covenants can be found in Note 13 "Short-term financial liabilities, long-term financial liabilities and short-term portions of long-term liabilities" of the Notes to the condensed interim consolidated financial statements.

³¹ The convertible bond with a nominal value of €400 million is not included in the EMTN programme.

Reclassified statement of cash flows

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

RECLASSIFIED STATEMENT OF CASH FLOWS (*)

(€ million)	First half	
	2017	2018
Net profit	504	523
<i>Adjusted for:</i>		
- Amortisation, depreciation and other non-monetary components	235	254
- Net capital losses (capital gains) on asset sales and eliminations	1	5
- Dividends, interest and income taxes	285	277
Change in working capital due to operating activities	495	443
Dividends, interest and income taxes collected (paid)	(119)	23
Net cash flow from operating activities (a)	1,401	1,525
Technical investments	(424)	(340)
Technical disinvestments	1	2
Companies (entering) leaving the area of consolidation (b)		(13)
Equity investments	5	13
Change in financial receivables held for operating activities	(93)	(106)
Other changes relating to investment activities	(97)	(44)
Free cash flow	793	1,037
Change in financial receivables not held for operating activities		350
Change in short- and long-term financial debt	121	151
Equity Cash flow (c)	(920)	(914)
Net cash flow for the period	(6)	624

CHANGE IN NET FINANCIAL DEBT

(€ million)	First half	
	2017	2018
Free cash flow	793	1,037
Effect of initial application of IFRS 9		10
Financial Debts and Credits from companies entering the area of consolidation		(1)
Exchange rate differences on financial debt	3	(3)
Effect of valuation of financial debts at fair value	4	
Equity Cash flow (c)	(920)	(914)
Change in net financial debt	(120)	129

(*) For the reconciliation of the reclassified balance sheets with the compulsory format, please see the paragraph "Reconciliation of the reclassified financial statements with the compulsory formats" below.

(a) The cash flow relating to the first half of 2018 takes into account the different timing for the payment of the 2017 balance and the initial 2018 advance on income taxes (IRES and IRAP), settled on 2 July 2018 for a total of roughly €142 million.

(b) The amount relating to the acquisition of control over TEP Energy Solutions is shown net of cash and cash equivalents acquired.

(c) Includes cash flows deriving from the acquisition of treasury shares and the payment of the dividend to shareholders.

Reconciliation of the reclassified financial statement with the compulsory formats

Reclassified statement of financial position

(€ million)

Reclassified balance sheet items		31.12.2017	30.06.2018
(Where not expressly stated, the component is taken directly from the legally required format)	Reference in Notes to the consolidated financial statements	Partial amount from legally required format	Amount from reclassified format
		Partial amount from legally required format	Amount from reclassified format
Fixed capital			
Property, plant and equipment		16,033	16,044
Compulsory inventories		363	363
Intangible assets		850	873
<i>Equity investments, consisting of:</i>		1,591	1,561
- Equity-accounted investments		1,547	1,519
- Other investments		44	42
Financial receivables held for operations	(Note 5)	373	483
<i>Net payables for investments, consisting of:</i>		(335)	(304)
- Payables for investment activities	(Note 14)	(347)	(309)
- Receivables from investment/divestment activities	(Note 5)	12	5
Total fixed capital		18,875	19,020
Net working capital			
Trade receivables	(Note 5)	1,274	990
Inventories		86	89
<i>Tax receivables, consisting of:</i>		46	24
- Current income tax assets and other current tax assets		37	15
- IRES receivables for the national tax consolidation scheme	(Note 5)	9	9
Trade payables	(Note 14)	(406)	(598)
<i>Tax liabilities, consisting of:</i>		(11)	(212)
- Current income tax liabilities and other current tax liabilities		(11)	(212)
- IRES payables for the national tax consolidation scheme	(Note 14)		
Deferred tax liabilities		(165)	(156)
Provisions for risks and charges		(677)	(688)
Hedging derivatives	(Notes 8 and 15)	(12)	(18)
<i>Other assets, consisting of:</i>		50	215
- Other receivables	(Note 5)	13	177
- Other current and non-current assets	(Note 8)	37	38
<i>Assets and liabilities from regulated activities, consisting of:</i>		(231)	(352)
- Regulated assets	(Note 8)	68	49
- Regulated liabilities	(Note 15)	(299)	(401)
<i>Other liabilities, consisting of:</i>		(1,033)	(737)
- Other payables	(Note 14)	(920)	(639)
- Other current and non-current liabilities	(Note 15)	(113)	(98)
Total net working capital		(1,079)	(1,443)
Provisions for employee benefits		(58)	(60)
NET INVESTED CAPITAL		17,738	17,517
Shareholders' equity (entirely held by Snam shareholders)		6,188	6,096
Net financial debt			
<i>Financial liabilities, consisting of:</i>		12,619	12,764
- Long-term financial liabilities		10,176	9,264
- Short-term portion of long-term financial liabilities		1,070	1,435
- Short-term financial liabilities		1,373	2,065
<i>Financial receivables and cash and cash equivalents, consisting of:</i>		(1,069)	(1,343)
Financial receivables not held for operations		(350)	
- Cash and cash equivalents	(Note 4)	(719)	(1,343)
Total net financial debt		11,550	11,421
COVERAGE		17,738	17,517

Reclassified statement of cash flows

Items from the reclassified statement of cash flows and reconciliation with the legally required format	First half			
	2017		2018	
	Partial amount from legally required format	Amount from reclassified format	Partial amount from legally required format	Amount from reclassified format
Net profit			504	523
<i>Adjusted for:</i>				
Amortisation, depreciation and other non-monetary components:			235	254
- Amortisation and depreciation	319		335	
- Impairment losses on tangible and intangible fixed assets	2			
- Equity method valuation effect	(88)		(83)	
- Change in provisions for employee benefits	2		2	
Net capital losses (capital gains) on asset sales and eliminations		1		5
Interest and income taxes:			285	277
- Dividends			(2)	
- Interest income	(3)		(6)	
- Interest expense	105		92	
- Income taxes	183		193	
Change in working capital due to operating activities:			495	443
- Inventories	(39)		(2)	
- Trade receivables	330		289	
- Trade payables	(104)		189	
- Change in provisions for risks and charges	3			
- Other assets and liabilities	305		(33)	
Dividends, interest and income taxes collected (paid):		(119)		23
- Dividends collected	121		114	
- Interest collected			1	
- Interest paid	(105)		(92)	
- Income taxes (paid) received	(135)			
Net cash flow from operating activities			1,401	1,525
Technical investments:			(424)	(340)
Property, plant and equipment	(399)		(312)	
- Intangible assets	(25)		(28)	
Technical disinvestments:		1		2
Property, plant and equipment	1		2	
Companies (entering) leaving the area of consolidation				(13)
- Companies included in the scope of consolidation			(18)	
- Change in net payables relating to investments			5	
Equity investments		5		13
- Investments in shares	(33)		(13)	
- Disinvestments in shares	18		18	
- Change in net payables relating to investments	20		8	
Financial receivables held for operating activities		(93)		(106)
- Accesses of financial credits instrumental to operating activities	(93)		(106)	
Other changes relating to investment activities:		(97)		(44)
- Change in net payables relating to technical investments	(97)		(44)	
Free cash flow			793	1,037
Change in financial receivables not held for operating activities				350
Change in financial payables:		121		151
- Taking on long-term financial debt	1,265		431	
- Repaying long-term financial debt	(832)		(973)	
- Increase (decrease) in short-term financial debt	(312)		693	
Equity cash flow		(920)		(914)
- Dividends paid	(718)		(731)	
- Acquisition of self-owned shares	(202)		(183)	
Net cash flow for the period			(6)	624