HIGHLIGHTS

Preliminary remarks

On 11 July 2014 the Court of Palermo served the measure for asset protection on the subsidiary Italgas by court-appointed administration, pursuant to Article 34(2) of Legislative Decree 159/2011 (Code of Anti-Mafia Laws and Prevention Measures, as well as New Provisions Concerning Anti-Mafia Documentation, in accordance with Articles 1 and 2 of Law no. 136 of 13 August 2010). Pursuant to the law, the measure is intended to protect the assets of Italgas from any infiltration and/or collusion.

Accordingly, the powers to manage Italgas' assets and economic and business activities were conferred upon an administrative board composed of four members[1], appointed by the Court. For six months, the appointed directors will individually exercise all powers concerning acts of ordinary administration, according to the organizational model and the allocation of duties that they will promptly submit for approval to the delegated judge. They will also exercise all powers concerning acts of extraordinary administration, which are also subject to the authorization of the delegated judge. Italgas' Board of Directors has been suspended for the duration of the measure.

Snam retains full ownership of the entire share capital of Italgas with the associated rights. The measure is temporary and has a maximum fixed duration of 6 months, and may be extended for an additional 6 months at most, pursuant to Legislative Decree 159/2011. It is worth mentioning that the purpose of the court-appointed administration is to preserve the company's assets and economic activity with a view to ensuring business continuity, "*and also to increase profitability, if possible*"[2].

The measure served on Italgas is intended to verify the persistence and magnitude of a set of evidence concerning contractual relationships with specific suppliers. To this end, based on the information currently available, we stress that Italgas S.p.A.'s relationship with these suppliers began in the first half of 2009 and has a limited dimension. Currently, their cumulative value does not exceed 1% of the Italgas S.p.A.'s overall spending on third party suppliers in the same period.

Snam is actively cooperating with the court-appointed administration of Italgas in order to preserve its business continuity, consistent with the Group's strategic guidelines.

Based on the current available information, the potential impact of the measure on consolidated Shareholders' equity and consolidated net financial position as well as on the business continuity of Snam and the Group as a whole is considered not to be significant, also with respect to the covenants relating to part of the debt.

For the purposes of the accounting treatment of the 2014 Interim Financial Report, it is important to note that the measure was served on Italgas on 11 July 2014, after the end of the first half of the year and before approval of the Interim Financial Report as of 30 June 2014. As a result, Snam exercised control over Italgas S.p.A. for the entire first half of 2014. Furthermore, the administrative board authorized the transmission of Italgas' Interim Financial Report as of 30 June 2014 to Snam, to allow for the consolidation of its accounts, accompanied by the pertinent representation of the Management, as provided for in the existing Group procedures following the prior examination by the Board of Statutory Auditors of Italgas S.p.A.. Thus Snam, by virtue of the control it exercised over Italgas S.p.A. for the entire first half of 2014 and its full access to the company's flow of information as of 30 June 2014, maintained the procedures for Italgas' consolidation within the Group, in accordance with the provisions of the international accounting principle IFRS 10 "Consolidated Financial Statements".

The above information, as well as the additional indications concerning the potential effects of the measure, with specific reference to the contractual protection clauses contained in the loan agreements[3], is provided also at Consob's request. We note that Consob informed the company that in-depth inquiries are underway concerning the repercussions that the Italgas matter may have on the procedures for entering the subsidiary in the accounts pertaining to the period during which the preventive measure is in effect.

1 Attorney Andrea Aiello, Dr. Luigi Saporito, Engineer Sergio Caramazza and Prof. Marco Frey.

2 Art. 35 of Legislative Decree 159/2011.

3 See the section "Elements of risk and uncertainty" in this Report.

Financial highlights

- The total revenue[4] generated by Snam in the first half of 2014 amounted to €1,782 million, up by €7 million, or 0.4%, compared with the first half of 2013. This increase was due to higher revenue from non-regulated activities (+€14 million) relating mainly to storage activities. Net of components offset in costs, total revenue amounted to €1,715 million, up by €19 million, or 1.1%, compared with the first half of 2013.
  Regulated revenue (€1,681 million, net of components offset in costs) rose by €5 million, or 0.3%, compared with the first half of the previous year. The increase was due essentially to greater revenue from natural gas transportation (+€13 million; +1.4%) and storage activities (+€3 million; +1.4%), partly offset by the fall in revenue from natural gas distribution activities (-€9 million; -1.8%) resulting from a change in tariff criteria.
- In the first half of 2014, Snam generated EBIT[5] of €1,044 million, up by €24 million, or 2.4%, compared with the first half of 2013. Higher revenue (+€19 million), together with a reduction in operating costs (+€13 million), was partly offset by the increase in amortisation and depreciation for the period (-€8 million), attributable mainly to the entry into service of new infrastructure. The positive performances of the natural gas storage segment (+€25 million; +14.5%) and the distribution segment (+€5 million; +2.0%), were partly offset by the slight fall recorded by the transportation segment (-€2 million; -0.3%) and the regasification segment (-€2 million; -66.7%).
- Net profit in the first half of 2014 amounted to €561 million, up by €99 million, or 21.4%, compared with the first half of 2013. The increase was due mainly to the reduction in net financial expense (+€58 million), due mainly to the decrease in the average cost of debt, due partly to measures implemented by Snam in order to improve the Group's financial structure, and to the increase in EBIT (+€24 million). The increase in net profit was also partly attributable to higher net income from equity investments (+€14 million).
- The net cash flow from operating activities (€647 million) allowed us to fully cover the financial requirements associated with net investments for the period (€543 million) and to generate a free cash flow of €104 million. Net financial debt of €13,730 million, after the payment to shareholders of the balance of the 2013 dividend of €507 million, increased by €404 million compared with 31 December 2013.
- Technical investments for the first half of 2014 totalled €526 million (€490 million in the first half of 2013). Around 74% of these investments have returns above the basic rate.
- Since the beginning of 2014, Snam shares have enjoyed a strong performance (+9.2%), closing the first half of the year with an official price of €4.41. A context of low interest rates, thanks partly to the recent monetary policies implemented by the ECB, together with expected improvements on the macroeconomic front, provided a stimulus for widespread growth in European stock markets in the first half of 2014; the Italian stock market (the FTSE MIB index) closed up 12.2%, while the European utilities sector (the Stoxx Europe Utilities index) climbed 15.4% over the period.
  After a phase of stable prices in the first few months of the year, following the significant growth recorded in late 2013, Snam shares benefited from both the positive response of the financial community to the Group's 2014-2017 business plan and the current macroeconomic situation, which is characterised by low interest rates.

4 As of 1 January 2014 and purely for the purposes of the reclassified income statement, total revenue is shown net of revenue relating to building and upgrading distribution infrastructures recorded pursuant to IFRIC 12, which is recorded in equal measure alongside the relevant costs incurred (€130 and €140 million respectively in the first half of 2013 and of 2014), and stated as a direct reduction in the respective cost items. The corresponding amounts for the first half of 2013 were reclassified accordingly.

5 EBIT was analysed by isolating only the elements that determined a change therein. To this end, applying gas segment tariff regulations generates revenue components that are offset in costs.

Operating highlights

- In the first half of 2014, 32.78 billion cubic metres of natural gas were injected into the national transportation network, a reduction of 1.71 billion cubic metres, or 5.0%, compared with the first half of 2013. This fall was due mainly to the drop in demand for natural gas in Italy (-14.2% compared with the first half of 2013), attributable mainly to lower consumption in the residential and tertiary sectors (-19.9%) and the thermoelectric sector (-15.5%), which was partly offset by lower net withdrawals from storage (+3.78 billion cubic metres).
- During the first half of 2014, the Panigaglia LNG terminal regasified 0.002 billion cubic metres of natural gas (0.049 billion cubic metres in the first half of 2013). The reduction in volumes regasified was due mainly to the global trend in demand for LNG, which reflected particularly strong demand in the markets of the Far East and weak demand in the European market.
- The storage capacity available for shippers as at 30 June 2014 was around 11.4 billion cubic metres, unchanged compared with 30 June 2013.
- As at 30 June 2014, the number of active meters located at end-user gas redelivery points stood at 5.911 million units (5.915 million units at 30 June 2013).

Significant events

Equity investment in Trans Austria Gasleitung GmbH (TAG)

On 18 March 2014, Snam signed a memorandum of understanding with Cassa Depositi e Prestiti S.p.A. which defines the negotiation process for the purchase of CDP's stake in TAG GmbH (owned by CDP GAS S.r.l.), the company holding transport rights for the pipeline connecting the Slovakian-Austrian border with the entry-point of Tarvisio in Italy. The system is made up of 3 pipelines, each 380 km long (for an overall length of 1,140 km) and 5 compression stations, with a transport capacity of around 48 billion cubic meters of gas.

Development of the strategic partnership with Fluxys begun in 2012

At the end of March 2014, Snam signed a memorandum of understanding with Fluxys to further develop the strategic partnership signed between the two companies in 2012. The agreement intends to pursue opportunities for growth via projects aimed at improving the flexibility and security of gas supplies using infrastructure in Europe. The project is aimed at the creation of a jointly owned company that combines the international assets of Fluxys and Snam situated in the South-North and East-West European energy corridors, with the exception of the respective domestic markets of the two companies (Belgium and Italy), so as to be able to play a key role as a facilitator of greater flexibility and liquidity in the market thanks to the better interconnection of European gas networks.

Renewal of Euro Medium Term Notes (EMTN) programme to issue bonds

On 23 June 2014, the Board of Directors of Snam resolved to renew the EMTN programme for a maximum value of €12 billion[6]. The renewal of the programme allows for the issue, by 30 June 2015, of bonds worth up to €2 billion, to be placed with institutional investors operating mainly in Europe.

Renegotiation of syndicated credit lines

With effect from 25 July 2014, Snam has signed agreements with its creditor banks in order to negotiate new and better conditions, in terms of both pricing and term, for the syndicated loan taken out in July 2012. The syndicated loan, worth €3.2 billion in total, consists of a floating-rate revolving credit line worth €2 billion, with a term of three years maturing in 2017, and a floating-rate liquidity line worth €1.2 billion, with a term of five years maturing in 2019.

6 On 11 June 2013, as part of the previous renewal of the EMTN programme, the Board of Directors of Snam resolved to issue bonds worth up to €10 billion in total, to be issued in one or more tranches by 30 June 2014. As at that date, bonds worth a total of around €9.95 billion had been issued.

Group captive insurance – Gasrule Insurance Ltd

With a view to ensuring more effective and efficient risk management for the Group, following the authorisation from the Central Bank of Ireland, the captive insurance company Gasrule Insurance Ltd has been in operation since July 2014. The company is headquartered in Dublin and is wholly owned by Snam. The corporate purpose of Gasrule Insurance Ltd is to cover the Group's industrial risks.

On 10 July 2014, Snam paid a total of €20 million by way of a capital increase. As at that date, the Company's share capital consisted of 20,000,000 shares, each with a par value of €1.

Significant events relating directly to the operating segments are described in the "Business segment operating performance" section.

KEY FIGURES

To improve the economic and financial review, in addition to convention¬al IAS/IFRS indicators and financial statements, the interim directors' report also contains reclassified financial statements and several alternative performance indicators such as EBITDA, EBIT and net financial debt. The following tables, the explanatory notes thereto and the reclassified financial statements report these amounts; see the glossary for a definition of the terms used, where these are not specified.

KEY FINANCIAL FIGURES

Financial year		First half			
2013	(€ million)	**2013**	**2014**	**Change**	**% change**
3,529	Total revenue (a)	1,775	**1,782**	7	0.4
3,491	*- of which revenue from regulated activities*	*1,755*	***1,748***	*(7)*	*(0.4)*
726	Operating costs (a)	379	**354**	(25)	(6.6)
2,803	EBITDA	1,396	**1,428**	32	2.3
2,034	EBIT	1,020	**1,044**	24	2.4
917	Net profit (b)	462	**561**	99	21.4

(a) As of 1 January 2014 and purely for the purposes of the reclassified income statement, revenue relating to building and upgrading distribution infrastructures recorded pursuant to IFRIC 12, which is recorded in equal measure alongside the relevant costs incurred (€130 and €140 million respectively in the first half of 2013 and of 2014), is stated as a direct reduction in the respective cost items. The corresponding amounts for 2013 were reclassified accordingly.

(b) Net profit is attributable to Snam.