NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Introduction

Following the operation of separating the natural gas business in Italy from Snam, which led to the transfer, with effect from 7 November 2016, of the entire equity investment held by Snam S.p.A. in Italgas Reti S.p.A. (formerly Italgas S.p.A.) to Italgas S.p.A. (formerly ITG Holding S.p.A.)[1], in the 2016 consolidated financial statements the natural gas distribution business segment is represented as a "Discontinued operation" based on the provisions of IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations"[2].

Based on these provisions, the economic results of the natural gas distribution sector for the period 1 January - 6 November 2016 are reported separately in a single line of the income statement[3] and limited to relations with third parties, with inter-company transaction eliminations continuing to be conducted until the effective date of the transactions, a date until which Italgas and its subsidiaries were entities controlled by Snam and, consequently, included in the scope of consolidation. The financial years used for comparison were reclassified in a consistent manner.

In this representation method, if there are significant transactions between the discontinued operations (distribution activity) and the continuing operations, the results of the continuing operations, (transportation, regasification, storage, as well as corporate activities) do not represent the performance as if there were standalone activities by way of the elimination of inter-company transactions. Specifically, revenue for the provision of services and financial income, respectively, with regard to services rendered and loans supplied centrally by Snam S.p.A. to Italgas Reti S.p.A., are subject to elimination, with the costs that generated these chargebacks remaining under continuing operations.

As laid down by the provisions of IFRS 10 "Consolidated financial statements", assets and liabilities attributable to the natural gas distribution sector were eliminated from the Group Consolidated statement of financial position at the date of the loss of control against the corresponding portion of shareholders' equity[4].

The economic information on the cash flows of discontinued operations is given in Note 21 "Discontinued operations".

For the sake of completeness, note that the operation of separating the natural gas distribution business from Snam qualifies as a "Business combination involving entities under common control" and, as such, is excluded from the scope of application of IFRS 3 "Business combinations" and IFRIC 17 "Distribution to shareholders of assets not represented by cash". Specifically, there is the situation in which the companies participating in the business consolidation are ultimately controlled, pursuant to IFRS 10, by the same party, i.e. by CDP, both before and after the combination and such control is not transitory. As a result, for the purpose of the Snam Group consolidated financial statements, the transaction in its entirety was recorded applying the principle of continuity of values.

Company information

The Snam Group, consisting of Snam S.p.A., the consolidating company, and its subsidiaries (hereafter referred to as "Snam", the "Snam Group" or the "Group"), is an integrated group at the forefront of the regulated gas sector and a major player in terms of its regulatory asset base (RAB) in the sector. Since 7

1 To complete this operation, which spans several stages that are unitary and simultaneous, Snam S.p.A. has a significant interest in Italgas S.p.A. owning a 13.5% stake in the company's share capital. The operation is illustrated in detail in Note 21 "Discontinued operations".

2 The evaluation criteria in accordance with the provisions of IFRS 5 are illustrated in Note 3, "Evaluation criteria - Non-current assets held for sale and discontinued operations".

3 These results also include the contribution to the income statement of Italgas S.p.A. because the company, controlled by Snam until the effective date of the transaction, was established, on 1 June 2016, exclusively under the scope of the operation in question as the future beneficiary holding company of the transfer of the entire equity investment of Snam S.p.A. in Italgas Reti S.p.A.

4 With reference to the tables of the change in amounts on the balance sheet reported in the later notes, in order to allow the reconciliation between the mandatory income statement items and those in the above tables, the effects relating to discontinued operations for 2016 and for 2015 were presented separately.

November 2016, after the separation of the natural gas distribution business in Italy from Snam S.p.A. took effect, Snam has had a presence nationally, through three wholly-owned operating companies, in the natural gas transportation and dispatching business, regasification of liquefied natural gas and natural gas storage. Snam operates in Europe's major energy corridors through agreements with and equity investments in the leading industry players.
Snam S.p.A. is a joint-stock company incorporated under Italian law and listed on the Milan Stock Exchange, with registered offices at 7, Piazza Santa Barbara, San Donato Milanese (MI).
The Shareholder CDP S.p.A. declared, with effect from the financial statements as at 31 December 2014, that it had control over Snam S.p.A. within the meaning of accounting standard IFRS 10 - "Consolidated Financial Statements". No management and coordination activity has been formalised or exercised.
At 31 December 2016 CDP S.p.A. owns, via CDP Reti S.p.A. and CDP GAS S.r.l., respectively, 28.98% and 1.12% of the share capital of Snam S.p.A.

1. Basis of presentation

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and adopted by the European Commission according to the procedure pursuant to Article 6 of (EC) Regulation No. 1606/2002 of the European Parliament and Council of 19 July 2002 and pursuant to Article 9 of Legislative Decree 38/2005. The IFRS also include the International Accounting Standards (IAS) as well as the interpretation documents currently in force issued by the IFRS Interpretation Committee (IFRS IC), including those previously issued by the International Financial Reporting Interpretations Committee (IFRIC) and, even earlier, by the Standing Interpretations Committee (SIC). For simplicity, all the aforementioned standards and interpretations will hereafter be referred to as "IFRS" or "International Accounting Standards".
The consolidated financial statements are prepared in consideration of future continuing business using the historical cost method, taking into account value adjustments where appropriate, with the exception of the items which, according to IFRS, must be measured at fair value, as described in the measurement criteria.
The consolidated financial statements as at 31 December 2016, approved by the Board of Directors of Snam S.p.A. at the meeting of 6 March 2017 were subjected to an audit by EY S.p.A. EY S.p.A., as the main auditor, is entirely responsible for the auditing of the Snam Group consolidated financial statements; in the limited cases in which other auditors also take part, it assumes responsibility for the work performed by the latter.
The consolidated financial statements are presented in Euro. Given their size, amounts in the financial statements and respective notes are expressed in millions of Euros, unless otherwise specified.

Accounting standards and interpretations applicable from 2016

In the financial year ended 31 December 2016, the Company applied accounting standards in line with those of the previous year, with the exception of the accounting standards and interpretations which came into force in the year starting on 1 January 2016, which are described below.
On 9 January 2015, Commission Regulations (EU) 2015/28 and 2015/29 of 17 December 2014, were published in the Official Journal of the European Union. The Regulations approved, respectively: (i) the regulatory provisions contained in the document "Annual Improvements to International Financial Reporting Standards 2010-2012 Cycle"; and (ii) the amendments to IAS 19 in the provisions in the document "Defined-Benefit Plans: Employee Contributions (Amendments to IAS 19)".
The provisions contained in the document "Annual Improvements to International Financial Reporting Standards 2010-2012 Cycle" introduced amendments to: (i) IFRS 2, by clarifying the definition of

"vesting condition" and adding definitions of service conditions and vesting conditions; (ii) IFRS 3, by clarifying that obligations to pay contingent considerations, other than those defined as equity instruments, are measured at fair value through profit or loss at each reporting date; (iii) IFRS 8, by requiring disclosure of the judgements made by management, describing the segments that have been aggregated and the economic indicators that have been assessed in determining the existence of the economic characteristics that are similar in the aggregated segments; (iv) IAS 16 and IAS 38, by clarifying the way in which the gross carrying amount is calculated when revaluation takes place; and (v) IAS 24, by establishing the information to be provided when a third party that provides key management personnel services to the reporting entity (or the parent company).

The amendments to IAS 19 allow contributions paid by employees or third parties that are independent of the number of years of service to be recognised as a reduction in the current service cost for the period, instead of attributing these contributions across the entire time period in which the service is rendered (i) not related to the number of years of service of the employee (ii) indicated in the formal conditions of the plan (iii) connected to the service performed by the employee.

Through regulation no. 2015/2173, issued by the European Commission on 24 November 2015, the regulatory provisions of the document "Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)", issued by the IASB on 6 May 2014, were approved. The document governs the accounting treatment for acquisitions of initial or additional interests in joint operations (that do not alter the categorisation of the interest as such), falling within the definition of business pursuant to IFRS 3, which involve the adoption of the provisions for business combination operations applicable to this case.

Commission Regulation (EU) 2015/2231 of 2 December 2015 approved the regulatory provisions contained in the document "Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)", issued by the IASB on 12 May 2014 with the aim of clarifying that an amortisation method based on revenue generated by the asset (the revenue-based method) is not regarded as appropriate as it exclusively reflects the revenue flows generated by this asset, rather than the way in which the economic benefits incorporated in the asset are consumed. In the case of intangible assets, this presumption may be overcome if: (i) the right to use the asset is related to the achievement of a predetermined revenue threshold to be produced; or (ii) it can be shown that the achievement of revenue and use of the economic benefits generated by the assets are closely correlated.

Commission Regulation (EU) 2015/2343 of 15 December 2015 approved the regulatory provisions contained in the "Annual Improvements to International Financial Reporting Standards 2012-2014 Cycle", issued by the IASB on 25 September 2014. The document: (i) in relation to IFRS 5, clarifies that any change in the classification of an asset (or disposal group) from held for sale to held for distribution to shareholders (or vice-versa) should be considered as a continuation of the original disposal plan rather than as a new plan; (ii) in relation to IFRS 7 – "Financial Instruments: Disclosures", provides additional guidance on determining whether there is continued involvement in transferred financial assets, in the case where there is a related servicing contract, in order to establish the level of disclosure required. In relation to the same standard, it also clarifies the applicability of disclosure required on the offsetting of financial assets and liabilities in interim financial statements; (iii) in relation to IAS 19, clarifies that the rate used to discount bonds must be determined using the market yields on leading corporate bonds denominated in the same currency used to pay benefits rather than at country level; and (iv) in relation to IAS 34, clarifies that the information required by IAS 34 on the transactions and significant facts can be provided within the interim financial statements or through other documents, to which the users of the interim financial statements have access in the same conditions and the same time frames as the actual financial statements, otherwise the latter is incomplete.

Through regulation no. 2015/2406, issued by the European Commission on 18 December 2015, the

regulatory provisions of the document "Disclosure Initiative (Amendments to IAS 1)", issued by the IASB on 18 December 2014, were approved. The document includes a number of clarifications relating to materiality, any disaggregation of items, the structure of the explanatory notes, information on the accounting policies used and the presentation of other components of comprehensive income arising from the valuation of equity investments using the equity method.
On the same date, the European Commission issued Regulation (EU) 2015/2441, approving the regulatory provisions contained in the document "Equity Method in Separate Financial Statements" (Amendments to IAS 27, issued by the IASB on 12 August 2014, which permits the recognition in the separate financial statements of investments in subsidiaries, joint ventures and associates using the equity method, as well as at cost or pursuant to IAS 39 (the two methods already permitted). The selected accounting option must be applied consistently for each category of equity investment. The same amendment consequently modified the definition of separate financial statements.
Through regulation no. 2016/1703, issued by the European Commission on 22 September 2016, the regulatory provisions of the document "Investment entities: applying the consolidation exception (Amendments to IRFS 10, IFRS 12 and IAS 28)", issued by the IASB on 18 December 2014, were approved. The document aims to clarify the cases in which the consolidation exception can be applied for investment entities.
The above changes did not have an impact on the Group's operations, results, balance sheet and cash flow.

2. Consolidation principles

The consolidated financial statements comprise the financial statements of Snam S.p.A. and of the companies over which the Company has the right to exercise direct or indirect control, as defined by IFRS 10 – "Consolidated Financial Statements". Specifically, control exists where the controlling entity simultaneously:

- has the power to make decisions concerning the investee entity;
- is entitled to receive a share of or is exposed to the variable profits and losses of the investee entity;
- is able to exercise power over the investee entity in such a way as to affect the amount of its economic returns.

The proof of control must be verified on an ongoing basis by the Company, with a view to identifying all the facts or circumstances that may imply a change in one or more of the elements on which the existence of control over an investee entity depends.
The exclusion from the scope of consolidation of some subsidiaries, which are not significant either individually or collectively, had no material effect[5] for the purposes of correctly representing the results, balance sheet and cash flow of the Snam Group. These investments are valued at cost.
Consolidated companies, joint ventures, associates and other significant equity investments are indicated separately in the appendix "Subsidiaries, associates and equity investments of Snam S.p.A. at 31 December 2016", which is an integral part of these notes. The same appendix lists the changes that took place in the scope of consolidation between 31 December 2015 and 31 December 2016.
All financial statements of consolidated companies close at 31 December and are presented in Euro.

Companies included in the scope of consolidation

Figures relating to subsidiaries are included in the consolidated financial statements from the date on which the Company assumes direct or indirect control over them until the date on which said control ceases to exist.

5 Pursuant to IAS 1 - "Presentation of the Financial Statements", information is significant if its omission or incorrect presentation may influence the economic decisions of users based on the figures in the financial statements.

The assets, liabilities, income and expenses of the consolidated companies are consolidated line-by-line in the consolidated financial statements (full consolidation); the book value of the equity investments in each of the subsidiaries is derecognised against the corresponding portion of shareholders' equity of each of the investee entities, inclusive of any adjustments to the fair value of the assets and liabilities on the date of acquisition of control.
The portions of equity and profit or loss attributable to minority interests are recorded separately in the appropriate items of shareholders' equity, the income statement and the statement of comprehensive income.
Changes in the equity investments held directly or indirectly by the Company in subsidiaries that do not result in a change in the qualification of the investment as a subsidiary are recorded as equity transactions. The book value of the shareholders' equity pertaining to shareholders of the parent company and minority interests are adjusted to reflect the change in the equity investment. The difference between the book value of minority interests and the fair value of the consideration paid or received is recorded directly under equity pertaining to shareholders of the parent company.
Otherwise, the selling of interests entailing loss of control requires the posting to the income statement of: (i) any capital gains or losses calculated as the difference between the consideration received and the corresponding portion of consolidated shareholders' equity transferred; (ii) the effect of the alignment to the relative fair value of any residual equity investment maintained; and (iii) any amounts posted to other components of comprehensive income relating to the former subsidiary which will be reversed to the income statement. The fair value of any equity investment maintained at the date of loss of control represents the new book value of the equity investment, and therefore the reference value for the successive valuation of the equity investment according to the applicable valuation criteria.

Equity investments in associates and joint ventures

An associate is an investee company in relation to which the investor holds significant influence or the power to participate in determining financial and operating policies, but does not have control or joint control[6]. It is assumed that the investor has significant influence (unless there is proof to the contrary) if it holds, directly or indirectly through subsidiaries, at least 20% of the exercisable voting rights.
A joint venture is a joint arrangement in which the parties that hold joint control have rights to the net assets subject to the arrangement and, therefore, have an interest in the jointly controlled corporate vehicle.
Equity investments in associates and joint ventures are measured using the equity method, as described under "Equity-accounted investments".

Business combinations

Business combinations are recorded using the acquisition method in accordance with IFRS 3 - "Business Combinations". Based on this standard, the consideration transferred in a business combination is determined at the date on which control is assumed, and equals the fair value of the assets transferred, the liabilities incurred or assumed, and any equity instruments issued by the acquirer. Costs directly attributable to the transaction are posted to the income statement when they are incurred.
The shareholders' equity of these investee companies is determined by attributing to each asset and liability its fair value at the date of acquisition of control. If positive, any difference from the acquisition or transfer cost is posted to the asset item "Goodwill"; if negative, it is posted to the income statement.
Where total control is not acquired, the share of equity attributable to minority interests is determined based on the share of the current values attributed to assets and liabilities at the date of acquisition

6 Joint control is the contractual sharing of control pursuant to an agreement, which exists only where the unanimous consent of all the parties that share power is required for decisions relating to significant activities.

of control, net of any goodwill (the "partial goodwill method"). Alternatively, the full amount of the goodwill generated by the acquisition is recognised, therefore also taking into account the portion attributable to minority interests (the "full goodwill method"). In this case, minority interests are expressed at their total fair value, including the attributable share of goodwill. The choice of how to determine goodwill (partial goodwill method or full goodwill method) is made based on each individual business combination transaction.

If control is assumed in successive stages, the acquisition cost is determined by adding together the fair value of the equity investment previously held in the acquired company and the amount paid for the remaining portion. The difference between the fair value of the previously held equity investment (redetermined at the time of acquisition of control) and the relative book value is posted to the income statement. Upon acquisition of control, any components previously recorded under other components of comprehensive income are posted to the income statement or to another item of shareholders' equity, if no provisions are made for reversal to the income statement.

When the values of the assets and liabilities of the acquired entity are determined provisionally in the financial year in which the business combination is concluded, the figures recorded are adjusted, with retroactive effect, no later than 12 months after the acquisition date, to take into account new information about facts and circumstances in existence at the acquisition date.

Business combinations involving entities under joint control

Business combinations involving companies that are definitively controlled by the same company or companies before and after the transaction, and where such control is not temporary, are classed as "business combinations of entities under common control". Such transactions do not fall within the scope of application of IFRS 3, and are not governed by any other IFRS. In the absence of a reference accounting standard, the selection of an accounting standard for such transactions, for which a significant influence on future cash flows cannot be established, is guided by the principle of prudence, which dictates that the principle of continuity be applied to the values of the net assets acquired.

The assets are measured at the book values from the financial statements of the companies being acquired (or the vendor company) pre-dating the transaction or, alternatively, at the values from the consolidated financial statements of the common ultimate parent.

With special reference to the above transactions, with regard to the sale of a business, the treatment of the difference between the contractually-defined consideration and the book values of the business transferred is differentiated according to the parties involved in the transfer transaction.

With regard to business transfers under common control, on the other hand, irrespective of the pre-existing investment relationship, the transferee entity should record the business transferred at its historical book value increasing its shareholders' equity by this amount; the transferring entity will record the investment in the transferee entity for the same amount as the increase in the shareholders' equity of the latter.

This accounting treatment refers to the proposal by Assirevi in the Preliminary Guidelines on IFRS (OPI No. 1 Revised) - "Accounting treatment of business combinations of entities under common control in the separate and consolidated financial statements" issued in October 2016.

Intragroup transactions that are eliminated in the consolidation process

Unrealised gains from transactions between consolidated companies are derecognised, as are receivables, payables, income, expenses, guarantees, commitments and risks between consolidated companies. The portion pertaining to the Group of unrealised gains with companies valued using the equity method is derecognised. In both cases, intragroup losses are not derecognised because they effectively represent impairment of the asset transferred.

3. Measurement criteria

The most significant measurement criteria adopted when preparing the consolidated financial statements are described below.

Property, plant and equipment

Property, plant and equipment is recognised at cost and recorded at the purchase, transfer or production cost, including directly allocable ancillary costs needed to make the assets available for use. When a significant period of time is needed to make the asset ready for use, the purchase, transfer or production cost includes the financial expense which theoretically would have been saved during the period needed to make the asset ready for use, if the investment had not been made.

If there are current obligations to dismantle and remove the assets and restore the sites, the book value includes the estimated (discounted) costs to be incurred at the time that the structures are abandoned, recognised as a contra-entry to a specific provision. The accounting treatment for revisions in these cost estimates, the passage of time and the discount rate are indicated in the paragraph "Provisions for risks and charges".

Property, plant and equipment may not be revalued, even through the application of specific laws.

The costs of incremental improvements, upgrades and transformations to/of property, plant and equipment are posted to assets when it is likely that they will increase the future economic benefits expected. The balance sheet assets also contain items purchased for security or environmental reasons which, although not directly improving the future economic benefits of the existing assets, are necessary to obtain benefits for the other tangible fixed assets.

The costs of replacing identifiable components of complex assets are allocated to balance sheet assets and depreciated over their useful life. The remaining book value of the component being replaced is allocated to the income statement. Ordinary maintenance and repair expenses, unlike replacements of identifiable components, which restore and do not improve the performance of the assets, are posted in the income statement of the year in which they are incurred.

Property, plant and equipment includes: (i) with regard to natural gas transportation, the value relating to the quantities of natural gas injected to bring natural gas pipelines into service. The valuation is carried out using the weighted average purchase price method. Specifically, the component of this quantity that can no longer be extracted (the "initial line pack") is depreciated over the useful life of the plant to which it refers. On the contrary, the commercial component, which may be sold on the market or employed for alternative uses (the "operating line pack"), is not depreciated, since it is not, by its nature, subject to depreciation; and (ii) with regard to natural gas storage, the quantity of gas that is reinjected into the storage wells to form cushion gas.

Property, plant and equipment are eliminated at the time they are decommissioned, or when no future economic benefit is expected from their use or decommissioning; the related profit or loss is posted in the income statement.

Depreciation of property, plant and equipment

Starting when the asset is available and ready for use, property, plant and equipment is systematically depreciated on a straight-line basis over its useful life, defined as the period of time in which it is expected that the company may use the asset.

The amount to be depreciated is the book value, reduced by the projected net realisable value at the end of the asset's useful life, if this is significant and can be reasonably determined.

The table below shows the annual depreciation rates used for the year in question, broken down into homogeneous categories, together with the relevant period of application:

	Annual depreciation rate (%)
Buildings	
- Buildings	2-2.5 or greater, depending on residual life
Plant and equipment - Transportation	
- Pipelines	2 or greater, depending on residual life
- Compression stations	5 or greater, depending on residual life
- Gas reduction/regulation plants	5 or greater, depending on residual life
- Metering and control instruments and systems	5 or greater, depending on residual life
Plant and equipment - Storage	
- Pipes	2
- Treatment stations	4 or greater, depending on residual life
- Compression stations	5 or greater, depending on residual life
- Storage wells	1.66 or greater, depending on residual life
- Monitoring and control instruments and systems	4 or greater, depending on residual life
Plant and equipment - Regasification	
- Regasification plants	4 or greater, depending on residual life
- Reservoirs and pipelines	4 or greater, depending on residual life
Other plant and equipment	2.5.-12.5
Metering equipment	5 or greater, depending on residual life
Industrial and commercial equipment	10-35
Other assets	10-33

When an item recorded under property, plant and equipment consists of several significant components with different useful lives, a component approach is adopted, whereby each individual component depreciates separately.
Land is not depreciated, even if purchased in conjunction with a building; neither is property, plant and equipment held for sale (see the "Non-current assets held for sale and discontinued operations" section).
Depreciation rates are reviewed each year and are altered if the current estimated useful life of an asset differs from the previous estimate. Any changes to the depreciation plan arising from revision of the useful life of an asset, its residual value or ways of obtaining economic benefit from it are recognised prospectively.
Freely transferable assets are depreciated during the period of the concession or of the useful life of the asset, if lower.

Assets under finance leases

Assets under finance leases, or under agreements which may not take the specific form of a finance lease, but call for the essential transfer of the benefits and risks of ownership, are recorded at the lower of fair value less fees payable by the lessee and the present value of minimum lease payments, including any sum payable to exercise a call option, under property, plant and equipment as a contra-entry to the financial debt to the lessor. The assets are depreciated using the criteria and rates adopted for owned property, plant and equipment. When there is no reasonable certainty that the right of redemption can be exercised, depreciation takes place during the shorter of the term of the lease and

the useful life of the asset.
Leases under which the lessee maintains nearly all of the risks and benefits associated with ownership of the assets are classified as operating leases. In this case, the lessee incurs only costs for the period in the amount of the lease expenses set out in the contract, and does not record fixed assets. Improvements to assets under leases are amortised over the useful life of the actual improvements or the lower residual period of the lease taking into account any renewal period if it depends exclusively on the lessee and is virtually definite.

Intangible assets
Intangible assets are those assets without identifiable physical form which are controlled by the company and capable of producing future economic benefits, as well as goodwill, when purchased for consideration. The ability to identify these assets rests in the ability to distinguish intangible assets purchased from goodwill. Normally this requirement is satisfied when: (i) the intangible assets are related to a legal or contractual right, or (ii) the asset is separable, i.e. it can be sold, transferred, leased or exchanged independently, or as an integral part of other assets. The company's control consists of the power to utilise future economic benefits deriving from the asset and the ability to limit access to it by others. Intangible assets are recorded at cost, which is determined using the criteria indicated for property, plant and equipment. They may not be revalued, even through the application of specific laws.
Technical development costs are allocated to the balance sheet assets when: (i) the cost attributable to the intangible asset can be reliably determined; (ii) there is the intent, availability of financial resources and technical capability to make the asset available for use or sale; and (iii) it can be shown that the asset is capable of producing future economic benefits.
Alternatively, costs for the acquisition of new knowledge or discoveries, investigations into products or alternative processes, new techniques or models, or the design and construction of prototypes, or incurred for other scientific research or technological developments, which do not meet the conditions for disclosure under balance sheet assets are considered current costs and charged to the income statement for the period in which they are incurred.
Intangible fixed assets are eliminated at the time they are decommissioned, or when no future economic benefit is expected from their use or decommissioning; the related profit or loss is posted in the income statement.

Storage concessions
The value of storage concessions, which consists of the natural gas reserves present in deposits ("cushion gas"), is recorded under "Concessions, licences, trademarks and similar rights" and is not subject to amortisation, since: (i) the volume of said gas is not modified by storage activities; and (ii) the economic value of the gas that can be recovered at the end of the concession, pursuant to the provisions of the Ministerial Decree of 3 November 2005, "Criteria for determining an adequate consideration for the return of assets intended for a concession-holder for natural gas storage" of the Ministry of Productive Activities, is not lower than the value recorded in the financial statements.

Amortisation of intangible assets
Intangible assets with a finite useful life are amortised systematically over their useful life, which is understood to be the period of time in which it is expected that the company may use the asset.
The amount to be depreciated is the book value, reduced by the projected net realisable value at the end of the asset's useful life, if this is significant and can be reasonably determined.

The table below shows the annual depreciation rates used for the year in question, broken down into homogeneous categories, together with the relevant period of application:

	Annual depreciation rate (%)
Other intangible fixed assets	
- Industrial patent rights and intellectual property rights	20-33
- Other intangible assets	20, or according to the duration of the contract

Goodwill and intangible assets with an indefinite useful life are not subject to amortisation.

Grants

Capital grants given by public authorities are recognised when there is reasonable certainty that the conditions imposed by the granting government agencies for their allocation will be met, and they are recognised as a reduction to the purchase, transfer or production cost of their related assets. Similarly, capital grants received from private entities are recognised in accordance with the same regulatory provisions. Operating grants are recognised in the income statement on an accruals basis, consistent with the relative costs incurred.

Impairment of non-financial fixed assets

Impairment of property, plant and equipment and intangible assets with a finite useful life

When events occur leading to the assumption of impairment of property, plant and equipment or intangible assets with a finite useful life, their recoverability is tested by comparing the book value with the related recoverable value, which is the fair value adjusted for disposal costs (see "Measurement at fair value") or the value in use, whichever is greater.

Value in use is determined by discounting projected cash flows resulting from the use of the asset and, if they are significant and can be reasonably determined, from its sale at the end of its useful life, net of any disposal costs. Cash flows are determined based on reasonable, documentable assumptions representing the best estimate of future economic conditions which will occur during the remaining useful life of the asset, with a greater emphasis on outside information. Discounting is done at a rate reflecting current market conditions for the time value of money and specific risks of the asset not reflected in the estimated cash flows. The valuation is done for individual assets or for the smallest identifiable group of assets which, through ongoing use, generates incoming cash flow that is largely independent of those of other assets or groups of assets ("cash-generating units" or CGUs).

The recoverable value of property, plant and equipment classed under regulated assets is determined by taking into consideration: (i) the amount quantified by the Authority based on the rules used to define the tariffs for provision of the services for which they are intended; and (ii) any value that the group expects to recover from their sale or at the end of the concession governing the service for which they are intended. As with the quantification of tariffs, the quantification of the recoverable value of property, plant and equipment classed under regulated assets is done on the basis of the regulatory provisions in force.

If the reasons for impairment losses no longer apply, the assets are revalued and the adjustment is posted to the income statement as a revaluation (recovery of value). The recovery of value is applied to the lower of the recoverable value and the book value before any impairment losses previously carried out, less any depreciation that would have been recorded if an impairment loss had not been recorded for the asset.

Impairment of goodwill, intangible assets with an indefinite useful life and intangible assets not yet available for use

The recoverability of the book value of goodwill, intangible assets with an indefinite useful life and intangible assets not yet available for use is tested at least annually, and in any case when events occur leading to an assumption of impairment. Goodwill is tested at the level of the smallest aggregate, on the basis of which the Company's management directly or indirectly assesses the return on investment, including goodwill. When the book value of the CGU, including the goodwill attributed to it, exceeds the recoverable value, the difference is subject to impairment, which is attributed by priority to the goodwill up to its amount; any surplus in the impairment with respect to the goodwill is attributed pro rata to the book value of the assets which constitute the CGU. Goodwill impairment losses cannot be reversed.

Investments valued using the equity method

Equity investments in joint ventures and associates are valued using the equity method.
In applying the equity method, investments are initially recognised at cost and subsequently adjusted to take into account: (i) the participant's share of the results of operations of the investee after the date of acquisition, and (ii) the share of the equity investment of the other components of comprehensive income of the investee. Dividends paid out by the investee are recognised net of the book value of the equity investment. For the purposes of applying the equity method, the adjustments provided for the consolidation process are taken into account (see also the "Consolidation principles" section).
In the case of assumption of an association (joint control) in successive phases, the cost of the equity investment is measured as the sum of the fair value of the interests previously held and the fair value of the consideration transferred on the date on which the investment is classed as associated (or under joint control). The effect of revaluing the book value of the investments previously held at assumption of association is posted to the income statement, including any components recognised under other components of comprehensive income. When the transferral of equity investments entails loss of joint control or significant influence over the investee company, the following are recognised in the income statement: (i) any capital gains or losses calculated as the difference between the consideration received and the corresponding portion of the book value transferred; (ii) the effect of the alignment to the relative fair value of any residual equity investment maintained; and (iii) any amounts posted to other components of comprehensive income relating to the investee company which will be reversed to the income statement. The value of any equity investment maintained, aligned with the relative fair value at the date of loss of joint control or significant influence, represents the new book value, and therefore the reference value for the successive valuation according to the applicable valuation criteria.
If there is objective evidence of impairment, the recoverability of the amount recognised is tested by comparing the book value with the related recoverable value determined using the criteria indicated in the section "Impairment of non-financial fixed assets".
When the reasons for the impairment losses entered no longer apply, equity investments are revalued up to the amount of the impairment losses entered with the effect posted to the income statement under "Income (expense) from equity investments".
The parent company's share of any losses of the investee company, greater than the investment's book value, is recognised in a special provision to the extent that the parent company is committed to fulfilling its legal or implied obligations to the subsidiary/associate, or, in any event, to covering its losses.

Inventories

Inventories, including compulsory inventories, are recorded at the lower of purchase or production cost and net realisation value, which is the amount that the company expects to receive from their sale in the normal course of business.

The cost of natural gas inventories is determined using the weighted average cost method.

The sale and purchase of strategic gas do not involve the effective transfer of risks and benefits associated with ownership, and thus do not result in a change in inventories.

Financial instruments

The financial instruments held by Snam are included in the following balance sheet items:

Cash and cash equivalents

Cash and cash equivalents include cash amounts, on demand deposits, and other short-term financial investments with a term of less than three months, which are readily convertible into cash and for which the risk of a change in value is negligible.

They are recorded at their nominal value, which corresponds to the fair value.

Trade and other receivables and other assets

Trade and other receivables and other assets are valued when the comprehensive fair value of the costs of the transaction (e.g. commission, consultancy fees, etc.) are first recognised. The initial book value is then adjusted to account for repayments of principal, any impairment losses and the amortisation of the difference between the repayment amount and the initial book value.

Amortisation is carried out using the effective internal interest rate, which represents the rate that would make the present value of projected cash flows and the initial book value equal at the time of the initial recording (the amortised cost method).

Where there is actual evidence of impairment, the impairment loss is calculated by comparing the book value with the current value of anticipated cash flows discounted at the effective interest rate defined at the time of the initial recognition, or at the time of its updating to reflect the contractually defined repricing. There is objective evidence of impairment when, among other things, there are significant breaches of contract, major financial difficulties or the risk of the counterparty's insolvency.

Receivables are shown net of provisions for impairment losses; this provision, which is previously created, may be used if there is an assessed reduction in the asset's value or due to a surplus. If the reasons for a previous write-down cease to be valid, the value of the asset is restored up to the value of applying the amortised cost if the write-down had not been made.

The economic effects of measuring at amortised cost are recorded in the "Financial income (expense)" item.

Financial assets that are disposed of are derecognised in the balance sheet when the contractual rights connected to obtaining the cash flows associated with the financial instrument are realised, expire or are transferred to third parties.

Financial liabilities

Financial liabilities, including financial debt, trade payables, other payables and other liabilities, are initially recorded at fair value less any transaction-related costs; they are subsequently recognised at amortised cost using the effective interest rate for discounting, as demonstrated in "Trade and other receivables and other assets" above.

Financial liabilities are derecognised upon extinguishment or upon fulfilment, cancellation or maturity of the contractual obligation.

Offsetting of financial assets and liabilities

Financial assets and liabilities are offset in the balance sheet when there is a legal right for offsetting, which can currently be exercised, and there is the intention of settlement on a net basis (or realising the assets and, at the same time, extinguishing the liabilities).

Derivative financial instruments

Derivatives are assets and liabilities recognised at fair value using the criteria set out under "Fair-value measurement" below.

Derivatives are classified as hedging instruments when the relationship between the derivative and the hedged item is formally documented and the effectiveness of the hedge, verified periodically, is high.

When hedging derivatives hedge the risk of changes in the fair value of the hedged instruments ("fair value hedge"; e.g. hedge of the risk of fluctuations in the fair value of fixed-rate assets/liabilities), the derivatives are recognised at fair value with attribution of the effects on the income statement; by the same token, the hedged instruments are adjusted to reflect in the income statement the changes in fair value associated with the hedged risk, regardless of the provision of a different valuation criterion generally applicable to the instrument type.

When derivatives hedge the risk of changes in cash flows from the hedged instruments ("cash flow hedge"; e.g. hedge of changes in cash flows from assets/liabilities due to fluctuations in interest rates or exchange rates), the changes in the fair value of the effective derivatives are initially recognised in the shareholders' equity reserve for other components of comprehensive income and subsequently reported in the income statement in the same way as the economic effects produced by the hedged transaction.

The ineffective portion of the hedge is recorded under "(Expense) income from derivatives" in the income statement.

Changes in the fair value of derivatives which do not satisfy the requirements to be classed as hedging instruments are recognised in the income statement. Specifically, changes in the fair value of non-hedging interest rate and currency derivatives are recognised in the income statement item "(Expense) income from derivatives".

Derivatives embedded in hybrid instruments are separate from the main contract and recorded separately if the hybrid instrument in its entirety is not measured at fair value and posted to the income statement and if the characteristics and risks of the derivative are not closely connected to those of the main contract. Verifying the existence of embedded derivatives to separate and measure separately takes place at the time when the company becomes part of the contract and, later on, when there are amendments to the contract conditions which result in significant changes to the cash flows generated.

Fair-value measurements

The fair value is the amount that may be received for the sale of an asset or that may be paid for the transfer of a liability in a regular transaction between market operators as at the valuation date (i.e. exit price).

The fair value of an asset or liability is determined by adopting the valuations that market operators would use to determine the price of the asset or liability. A fair value measurement also assumes that the asset or liability would be traded on the main market or, failing that, on the most advantageous market to which the Company has access.

The fair value of a non-financial asset is determined by considering the capacity of market operators to generate economic benefits by putting the asset to its maximum and best use or by selling it to another market participant capable of using it in such a way as to maximise its value. The maximum and best use of an asset is determined from the perspective of market operators, also hypothesising

that the company intends to put it to a different use; the current use by the company of a non-financial asset is assumed to be the maximum and best use of this asset, unless the market or other factors suggest that a different use by market operators would maximise its value.
The fair-value measurement of a financial or non-financial liability, or of an equity instrument, takes into account the quoted price for the transfer of an identical or similar liability or equity instrument; if this quoted price is not available, the valuation of a corresponding asset held by a market operator as at the valuation date is taken into account. The fair value of financial instruments is measured taking into consideration the credit risk of the counterparty of a financial asset ("Credit Valuation Adjustment" - CVA) and the default risk of the actual entity, with reference to a financial liability ("Debit Valuation Adjustment" - DVA).
When determining fair value, a hierarchy is set out consisting of criteria based on the origin, type and quality of the information used in the calculation. This classification aims to establish a hierarchy in terms of the reliability of the fair value, giving precedence to the use of parameters that can be observed on the market and that reflect the assumptions that market participants would use when valuing the asset/liability. The fair value hierarchy includes the following levels:

- level 1: inputs represented by (unmodified) quoted prices on active markets for assets or liabilities identical to those that can be accessed as at the valuation date;
- level 2: inputs, other than the quoted prices included in Level 1, that can be directly or indirectly observed for the assets or liabilities to be valued;
- level 3: inputs that cannot be observed for the asset or liability.

In the absence of available market quotations, the fair value is determined by using valuation techniques suitable for each individual case that maximise the use of significant observable inputs, whilst minimising the use of non-observable inputs.

Non-current assets held for sale and discontinued operations
Non-current assets and current and non-current assets of disposal groups are classified as held for sale if the relative book value will be recovered mainly by their sale rather than through their continued use. This condition is regarded as fulfilled when the sale is highly probable and the asset or discontinued operations are available for immediate sale in their current condition. In the case of a programme for the sale of a subsidiary that results in loss of control, all assets and liabilities of that subsidiary are classified as held for sale, regardless of whether an investment is maintained following the sale. The verification of the compliance with the conditions for the classification of an item held for sale requires management to make subjective valuations formulating reasonable and realistic theories based on the available information.
Non-current assets held for sale, current and non-current assets related to disposal groups and directly related liabilities are recognised in the balance sheet separately from the Company's other assets and liabilities.
Immediately before the classification as held for sale, the assets and liabilities coming under discontinued operations are valued in accordance with the accounting principles applicable to them. Later, non-current assets held for sale are not depreciated, and are accounted for at the lower of book value and the related fair value, less any sales costs (see "Measurement at fair value" above).
The classification as "held for sale" of equity investments valued using the equity method implies suspended application of this measurement criterion. Therefore, in this case, the book value is equal to the value resulting from the application of the equity method at the date of reclassification.
Any negative difference between the book value of the non-current assets and the fair value less selling costs is posted to the income statement as an impairment loss; any subsequent recoveries in

value are recognised up to the amount of the previously recognised impairment losses, including those recognised prior to the asset being classified as held for sale.
Non-current assets and current and non-current assets (and any related liabilities) of disposal groups, classified as held for sale, constitute discontinued operations if, alternatively: (i) they represent a significant independent business unit or a significant geographical area of business; (ii) they are part of a programme to dispose of a significant independent business unit or a significant geographical area of business; or (iii) they pertain to a subsidiary acquired exclusively for the purpose of resale. The results of discontinued operations, as well as any capital gains/losses realised on the disposal, are disclosed separately in the income statement as a separate item, net of related tax effects, including for the periods under comparison.

Provisions for risks and charges

Provisions for risks and charges concern costs and charges of a certain nature which are certain or likely to be incurred, but for which the amount or date of occurrence cannot be determined at the end of the year. Provisions are recognised when: (i) the existence of a current legal or implied obligation arising from a past event is probable; (ii) it is probable that the fulfilment of the obligation will involve a cost; and (iii) the amount of the obligation can be reliably determined. Provisions are recorded at a value representing the best estimate of the amount that the company would reasonably pay to fulfil the obligation or to transfer it to third parties at the end of the reporting period. Provisions related to contracts with valuable consideration are recorded at the lower of the cost necessary to fulfil the obligation, less the expected economic benefits deriving from the contract, and the cost to terminate the contract.
When the financial impact of time is significant, and the payment dates of the obligations can be reliably estimated, the provision is calculated by discounting the anticipated cash flows in consideration of the risks associated with the obligation at the Company's average debt rate; the increase in the provision due to the passing of time is posted to the income statement under "Financial income (expense)".
When the liability is related to items of property, plant and equipment (e.g. site dismantlement and restoration), the provision is recognised as a counter-entry to the related asset, and posting to the income statement is accomplished through amortisation. The costs that the Company expects to incur to initiate restructuring programmes are recorded in the period in which the programme is formally defined, and the parties concerned have a valid expectation that the restructuring will take place.
Provisions are periodically updated to reflect changes in cost estimates, selling periods and the discount rate; revisions in provision estimates are allocated to the same item of the income statement where the provision was previously reported or, when the liability is related to property, plant and equipment (e.g. site dismantling and restoration), as a contra-entry to the related asset, up to the book value; any surplus is posted to the income statement.
The notes to the financial statements describe contingent liabilities represented by: (i) possible (but not probable) obligations resulting from past events, the existence of which will be confirmed only if one or more future uncertain events occur which are partially or fully outside the Company's control; and (ii) current obligations resulting from past events, the amount of which cannot be reliably estimated, or the fulfilment of which is not likely to involve costs.

Employee benefits

Post-employment benefits

Post-employment benefits are defined according to programmes, including non-formalised programmes, which, depending on their characteristics, are classed as "defined-benefit" or "defined-contribution" plans.

- *Defined-benefit plans*

The liability associated with defined-benefit plans is determined by estimating the present value of the future benefits accrued by the employees during the current year and in previous years, and by calculating the fair value of any assets servicing the plan. The present value of the obligations is determined based on actuarial assumptions and is recognised on an accruals basis consistent with the employment period necessary to obtain the benefits.

Actuarial gains and losses relating to defined-benefit plans arising from changes in actuarial assumptions or experience adjustments are recognised in other comprehensive income in the period in which they occur, and are not subsequently recognised in the income statement. When a plan is changed, reduced or extinguished, the relative effects are recognised in the income statement.

Net financial expense represents the change that the net liability undergoes during the year due to the passing of time. Net interest is determined by applying the discount rate to the liabilities, net of any assets servicing the plan. The net financial expense of defined-benefit plans is recognised in "Finance expense (income)".

- *Defined-contribution plans*

In defined-contribution plans, the Company's obligation is calculated, limited to the payment of state contributions or to equity or a legally separate entity (fund), based on contributions due.

The costs associated with defined-benefit contributions are recognised in the income statement as and when they are incurred.

Other long-term plans

Obligations relating to other long-term benefits are calculated using actuarial assumptions; the effects arising from the amendments to the actuarial assumptions or the characteristics of the benefits are recognised entirely in the income statement.

Treasury shares

Treasury shares are recognised at cost and entered as a reduction of shareholders' equity. The economic effects arising from any subsequent sales are recognised in shareholders' equity.

Distribution of dividends

The distribution of dividends to the Company's shareholders entails the recording of a payable in the financial statements for the period in which distribution was approved by the Company's shareholders or, in the case of interim dividends, by the Board of Directors.

Foreign currency transactions

The criteria adopted by Snam to convert transactions in currencies other than the functional currency (the Euro) are summarised below:

- revenue and costs relating to transactions in currencies other than the functional currency are recognised at the exchange rate in effect on the day when the transaction was carried out;
- Monetary assets and liabilities in currencies other than the working currency are converted into euros by applying the exchange rate in effect on the reporting date, with attribution of the effect to the income statement.
- non-monetary assets and liabilities in currencies other than the functional currency which are valued at cost are recognised at the initially recorded exchange rate; when the measurement is made at fair value or recoverable or realisable value, the exchange rate used is the one in effect on the valuation date.

Revenue

Revenue from sales and the provision of services is recognised upon the effective transfer of the risks and benefits typically relating to ownership or on the fulfilment of the service when it is likely that the financial benefits deriving from the transaction will be realised by the vendor or the provider of the service.

Revenue is recognised at the fair value of the payment received or to be received.

As regards the activities carried out by the Snam Group, revenue is recognised when the service is provided. The largest share of core revenue relates to regulated revenue, which is governed by the regulatory framework established by the AEEGSI. Therefore, the economic terms and conditions of services provided are defined in accordance with regulations rather than negotiations. In the transportation segment[7], the difference between the revenue recognised by the regulator (the "revenue cap") and the revenue actually accrued is recognised with a contra-entry in the balance sheet under "Other assets", if positive, or "Other liabilities", if negative. This difference will be reversed in the income statement in future years by way of tariff changes. In the regasification and storage segments, however, any difference between the revenue recognised by the regulator and the accrued revenue is recognised in the balance sheet item "Trade and other receivables", if positive, and in the item "Trade and other payables", if negative, inasmuch as it will be subject to cash settlement with the Energy and Environmental Services Fund (CSEA).

Allocations of revenue relating to services partially rendered are recognised by the fee accrued, as long as it is possible to reliably determine the stage of completion and there are no significant uncertainties over the amount and the existence of the revenue and the relative costs; otherwise they are recognised within the limits of the actual recoverable costs.

Items of property, plant and equipment not used in concession services, transferred from customers (or realised with the cash transferred from customers) and depending on their connection to a network for the provision of supply, are recognised at fair value as a contra-entry to revenue in the income statement. When the agreement stipulates the provision of multiple services (e.g. connection and supply of goods), the service for which the asset was transferred from the customer is checked and, accordingly, the disclosure of the revenue is recognised on connection or for the shorter of the term of the supply and the useful life of the asset.

Revenue is recorded net of returns, discounts, allowances and bonuses, as well as directly related taxes.

Revenue is reported net of items involving tariff components, in addition to the tariff, applied to cover gas system expenses of a general nature. Amounts received from Snam are paid in full to the Energy and Environmental Services Fund. Gross and net presentation of revenue is described in more detail in

7 With regard to the capacity portion of revenue, penalties for exceeding committed capacity and balancing fees.

Note 24 - "Revenue" of the Notes to the consolidated financial statements.
Since they do not represent sales transactions, exchanges between goods or services of a similar nature and value are not recognised in revenue and costs.

Dividends received
Dividends are recognised at the date of the resolution passed by the Shareholders' Meeting, unless it is not reasonably certain that the shares will be sold before the ex-dividend date.

Costs
Costs are recognised in the period when they relate to goods and services sold or consumed during the same period or when it is not possible to identify their future use.
Costs relating to emission allowances, calculated on the basis of market prices, are only recognised for the portion of carbon dioxide emissions in excess of the allocated allowances. Earnings relating to emissions allowances are recognised at the point of realising the earnings by transfer.
The monetary receivables assigned in place of the free assignment of emissions allowances are recognised as a contra-entry under the income statement item "Other revenue and income".
Fees relating to operating leases are charged to the income statement for the duration of the contract.
Costs sustained for share capital increases are recorded as a reduction of shareholders' equity, net of taxes.

Income tax
Current income taxes are calculated by estimating the taxable income. Receivables and payables for current income taxes are recognised based on the amount which is expected to be paid/ recovered to/ from the tax authorities under the prevailing tax regulations and rates or those essentially approved at the reporting date.
Regarding corporation tax (IRES)[8], Snam has exercised the option to join the national tax consolidation scheme, to which all the consolidated companies have officially signed up. The projected payable is recognised under "Current income tax liabilities".
The regulations governing Snam Group companies' participation in the national tax consolidation scheme stipulates that:

- subsidiaries with positive taxable income pay the amount due to Snam. The taxable income of the subsidiary, used to determine the tax, is adjusted to account for the recovery of negative components that would have been non-deductible without the consolidation scheme (e.g. interest expense), the so-called ACE (help for economic growth) effect and any negative taxable income relating to the subsidiary's equity investments in consolidated companies;
- subsidiaries with negative taxable income, if and insofar as they have prospective profitability which, without the national tax consolidation scheme, would have enabled them to recognise deferred tax assets related to the negative taxable income on the separate balance sheet, receive from their shareholders – in the event that these are companies with a positive taxable income or a negative taxable income with prospective profitability – or from Snam in other cases, compensation amounting to the lower of the tax saving realised by the Group and the aforementioned deferred tax assets.

8 On November 7 2016, by reason of the separation of Italgas Reti S.p.A. (formerly Italgas S.p.A.) by Snam S.p.A, has failed the requirement of control in order to be part of the Group's of the National Tax Consolidation regime Snam for Italgas Reti S.p.A. and Napoletanagas S.p.A. With regard to companies controlled by Snam S.p.A., Snam Rete Gas S.p.A., Stogit S.p.A. and GNL Italia S.p.A. the separation does not change the effects arising from the taxation of group and, therefore, for the above company continues on consolidating the National tax consolidation regime Snam S.p.A.

Regional production tax (IRAP) is recognised under the item "Current income tax liabilities"/"Current income tax assets".
Deferred and prepaid income taxes are calculated on the timing differences between the values of the assets and liabilities entered in the balance sheet and the corresponding values recognised for tax purposes, based on the prevailing tax regulations and rates or those essentially approved for future years. Prepaid tax assets are recognised when their recovery is considered probable; specifically, the recoverability of prepaid tax assets is considered probable when taxable income is expected to be available in the period in which the temporary difference is cancelled, allowing the activation of the tax deduction. Similarly, unused tax receivables and prepaid taxes on tax losses are recognised up to the limit of recoverability.
Prepaid tax assets and deferred tax liabilities are classified under non-current assets and liabilities and are offset at individual company level if they refer to taxes which can be offset. The balance of the offsetting, if it results in an asset, is recognised under the item "Prepaid tax assets"; if it results in a liability, it is recognised under the item "Deferred tax liabilities". When the results of transactions are recognised directly in equity, prepaid and deferred current taxes are also posted to equity.

Income tax assets with elements of uncertainty are recognised when they are regarded as likely to be obtained.

Information by operating segment
Disclosure on business segments has been prepared pursuant to IFRS 8 – "Operating Segments": consequently, the identification of the operating segments and the information presented are defined on the basis of the internal reporting used by the Company's management to allocate resources to the different segments and to analyse the respective performances.
An operating segment is defined by IFRS 8 as a component of an entity: (i) that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity); (ii) whose operating results are regularly reviewed by the entity's most senior decision-makers for purposes of making decisions about resources to be allocated to the segment and assessing its performance; and (iii) for which separate financial information is available.
Specifically, the declared operating segments are as follows: (i) natural gas transportation (the "transportation segment"); (ii) liquefied natural gas regasification (the "regasification segment"); (iii) natural gas storage (the "storage segment"). They relate to activities carried out predominantly by Snam Rete Gas, GNL Italia and Stogit, respectively.
With reference to the natural gas distribution segment, on 7 November 2016 the separation of the natural gas distribution activities from Snam, which had, until then, been conducted by Italgas Reti S.p.A. (formerly Italgas) and by its subsidiaries, took place, involving the transfer of Snam S.p.A.'s entire equity investment. (100%) in Italgas Reti S.p.A. to Italgas S.p.A. (formerly ITG Holding S.p.A.). For the purpose of Snam's 2016 consolidated financial statements, the distribution segment is no longer represented as an operating segment.

4. Financial statements[9]

The formats adopted for the preparation of the financial statements are consistent with the provisions of IAS 1 - "Presentation of financial statements" (hereinafter "IAS 1"). In particular:

- the balance sheet items are broken down into assets and liabilities, and then further into current or non-current items[10];
- the income statement classifies costs by type, since this is deemed to be the best way of representing the Group's operations and is in line with international best practice;
- the statement of comprehensive income shows the profit or loss in addition to the income and expense recognised directly in shareholders' equity as expressly provided for by the IFRS;
- the statement of changes in shareholders' equity reports the total income (expense) for the financial year, shareholder transactions and the other changes in shareholders' equity;
- the cash flow statement is prepared using the "indirect" method, adjusting the profit for the year of non-monetary components.

It is believed that these statements adequately represent the Group's situation with regard to its balance sheet, income statement and financial position.
Moreover, pursuant to Consob Resolution No. 15519 of 28 July 2006, any income and expense from non-recurring operations is shown separately in the income statement.
With regard to the same Consob Resolution, the balances of receivables/payables and transactions with related parties, described in more detail in Note 33 – "Related-party transactions", are shown separately in the financial statements.
In compliance with IAS 1, unless otherwise stated, comparative data refer to the previous year.

5. Use of estimates

The application of generally accepted accounting principles for the preparation of financial statements involves management making accounting estimates based on complex and/or subjective judgements, estimates based on past experience and assumptions regarded as reasonable and realistic on the basis of the information known at the time of the estimate. The use of these accounting estimates has an influence on the book value of the assets and liabilities and on the information about potential assets and liabilities at the reporting date, as well as the amount of revenue and costs in the reference period. The actual results may differ from the estimated results owing to the uncertainty that characterises the assumptions and the conditions on which the estimates are based.
Details are given below about the critical accounting estimates involved in the process of preparing the financial statements and interim reports, since they involve a high degree of recourse to subjective judgements, assumptions and estimates regarding matters that are by nature uncertain. Any change in the conditions forming the basis of the judgements, assumptions and estimates used could have a significant impact on subsequent results.

9 The financial statements are the same as those adopted in the 2015 Annual Report except for the representation of the Italgas Group as discontinued operations. The effects of the representation as discontinued operations are illustrated in Note 21 "Discontinued operations".

10 The assets and liabilities are classified as current if: (i) their realisation is expected in the normal corporate operating cycle or in the twelve months after the financial year-end; (ii) they are composed of cash or cash equivalents which do not have restrictions on their use over the twelve months following the year-end date; or (iii) they are mainly held for trading purposes. Derivative instruments established for trading purposes are classified under current components, irrespective of the maturity date. Derivative instruments are classified as current when their realisation is expected within the twelve months after the year-end date; otherwise they are classified under non-current components.

Impairment of assets

Assets are impaired when events or changes in circumstances give cause to believe that the book value is not recoverable. The events which may give rise to an impairment of assets include changes in business plans, changes in market prices or reduced use of plants. The decision on whether to apply an impairment and the quantification of any such impairment depend on the Company's management assessment of complex and highly uncertain factors, such as future price trends, the impact of inflation and technological improvements on production costs, production profiles and conditions of supply and demand.
The impairment is determined by comparing the book value with the related recoverable value, represented by the greater of the fair value, net of disposal costs, and the value in use, determined by discounting the expected cash flows deriving from the use of the asset. The expected cash flows are quantified in the light of the information available at the time of the estimate, on the basis of subjective judgements regarding future trends in variables – such as prices, costs, the rate of growth of demand and production profiles – and are updated using a rate that takes account of the risk inherent to the asset concerned.
More information on the impairment test carried out by the Company's management on property, plant and equipment and on intangible assets can be found in the "Impairment of non-financial fixed assets" section.

Provision for site dismantling and restoration

The Snam Group incurs significant liabilities associated with obligations to remove and dismantle plants or parts of plants. Estimating future dismantling and restoration costs is a complex process and requires the assessment and judgement of the Company's management in placing a value on the liabilities which will be incurred many years in the future for compliance with dismantling and restoration obligations, which often cannot be fully defined by laws, administrative regulations or contractual clauses. In addition, these obligations are affected by constant changes in technology and in dismantling and restoration costs, as well as the constant growth of political and public awareness regarding matters of health and protection of the environment.
The criticality of estimates of dismantling and restoration costs also depends on the accounting method used for these costs, for which the current value is initially capitalised together with the cost of the asset to which they relate, offset against the provision for risks and charges. Subsequently, the value of the provision for risks and charges is updated to reflect the passing of time and any changes in the estimate as a result of changes in expected cash flows, the timing of their realisation and the discount rates applied. The determination of the discount rate to be used both in the initial valuation of the cost and in subsequent valuations is the result of a complex process which involves subjective judgements on the part of the company' s management.

Business combinations

The reporting of business combination transactions involves the allocation to the assets and liabilities of the acquired company of the difference between the acquisition cost and the net book value. For the majority of assets and liabilities, the allocation of the difference is carried out by recognising the assets and liabilities at their fair value. The unallocated portion, if positive, is recognised as goodwill; if negative, it is allocated to the income statement. In the allocation process, the Snam Group draws on the available information and, for the most significant business combinations, on external valuations.

Environmental liabilities

The Snam Group is subject, in relation to its activities, to numerous laws and regulations on environmental protection at European, national, regional and local level, including the laws which implement international conventions and protocols relating to the activities carried out. With reference to this legislation, when it is probable that the existence and amount of a large liability can be reliably estimated, provisions are made for the associated costs.
The Group does not currently believe that there will be any particularly significant negative effects on its financial statements due to non-compliance with environmental legislation, including taking account of the interventions already made, however it cannot be ruled out that Snam might incur substantial additional costs or responsibilities, since with the current state of knowledge it is impossible to foresee the effects of future developments, in view of factors such as: (i) the possible emergence of contamination; (ii) the results of current and future refurbishment and the other possible effects arising from the application of the laws in force; (iii) the possible effects of new laws and regulations for environmental protection; (iv) the effects of any technological innovations for environmental cleansing; and (v) the possibility of disputes and the difficulty of determining the possible consequences, including in relation to the liability of other parties and to possible compensation payments.

Employee benefits

Defined-benefit plans are valued on the basis of uncertain events and actuarial assumptions which include, inter alia, the discount rates, the expected returns on the assets servicing the plans (where they exist), the level of future remuneration, mortality rates, the retirement age and future trends in the healthcare expenses covered.
The main assumptions used to quantify defined-benefit plans are determined as follows: (i) the discount and inflation rates representing the base rates at which the obligation to employees might actually be fulfilled are based on the rates which mature on high-quality bonds and on inflation expectations; (ii) the level of future remuneration is determined on the basis of elements such as inflation expectations, productivity, career advancement and seniority; (iii) the future cost of healthcare services is determined on the basis of elements such as present and past trends in healthcare costs, including assumptions regarding the inflationary growth of costs, and changes in the health of the participating employees; and (iv) the demographic assumptions reflect the best estimates of trends in variables such as mortality, turnover, invalidity and others in relation to the population of the participating employees.
Differences in the value of net liabilities (assets) in employee benefit plans, arising due to changes in the actuarial assumptions used and the difference between the actuarial assumptions previously adopted and actual events, occur routinely and are called actuarial gains and losses. Actuarial gains and losses relating to defined-benefit plans are recognised in the statement of comprehensive income. Actuarial assumptions are also used to determine obligations relating to other long-term benefits; to this end, the effects arising from changes to the actuarial assumptions or the characteristics of the benefit are fully recognised in the income statement.

Provisions for risks and charges

In addition to recognising environmental liabilities and obligations to remove property, plant and equipment and restore sites, and liabilities relating to employee benefits, Snam makes provisions relating mainly to legal and tax disputes. The estimate of the provisions for these purposes is the result of a complex process involving subjective judgements on the part of the Company's management.

6. Recently issued accounting standards

Accounting standards and interpretations issued by the IASB/IFRIC and approved by the European Commission, but not yet in force

The main accounting standards and interpretations approved by the European Commission in 2016 but not yet in force are listed and described below.
Through regulation no. 2016/1905, issued by the European Commission on 22 September 2016, the regulatory provisions of IFRS 15 "Revenue from Contracts with Customers", issued by the IASB on 28 May 2014, were approved. The document provides a single model for recognising revenue (including that derived from contract work) based on the transfer of control of a good or service to a customer. It provides a more structured approach to measuring and recognising revenue, including a detailed application guide. Specifically, the key principle of IFRS 15 requires that revenues are recognised for an amount which reflects the consideration that the entity has the right to receive with regard to the transfer of the goods and/or services. This principle breaks down into five stages: (i) identification of the contract (contracts) with the customer; the provisions of the principle apply to every single contract except for cases in which the actual principle requires the entity to consider several contracts together and makes provision as a result for the accounting; (ii) identification of the performance obligations (or the contractual promises to transfer goods and/or services) in the contract; (iii) calculating the price of the transaction; if the consideration is variable, this is estimated by the entity, to the extent to which it is highly probably that when the uncertainty associated with the variable consideration is later resolved there will not be a significant downwards adjustment to the amount of cumulated revenues measured; (iv) allocation of the transaction price to the performance obligations identified, usually based on the prices relating to the standalone sale of each of the goods or services; and (v) recording of the revenue when and/or to the extent to which the related performance obligation has not been satisfied. IFRS 15 also includes the request for financial statement information to be provided with regard to the nature, amount, timing and uncertainty of revenues and related cash flows. The Group revenue streams come from regulated activities carried out in the transportation and dispatching, storage and regasification segments, where income is governed by the regulatory framework defined by the Authority, which

defines the revenue cap annually. On the basis of this consideration, and a preliminary analysis conducted into the main existing contracts, it is believed that the application of IFRS 15 will not have significant impacts on the consolidated financial statements of the Snam Group. After the changes introduced by the amendment issued on 11 September 2015, the provisions of IFRS 15 will take effect from financial years starting on or after 1 January 2018; currently Snam is not planning to exercise the right of early adoption granted by the principle. The standard requires mandatory retroactive application and transition can take place in two possible ways: through a full retrospective approach in conformity with IAS 8 or through a modified retrospective approach. If the second approach is chosen, IFRS 15 is only applied retroactively to contracts which have not been concluded at the initial application date (1 January 2018). Snam is evaluating which of the two retroactive options to apply. For the full implementation of IFRS 15, the Group expects its analyses to be completed by the end of 2017, in time for the evaluation of the quantitative aspects of the adoption of the new principle, to be presented in the financial statements at 31 December 2017.
Regulation 2016/2067, issued by the European Commission on 22 November 2016, endorses the regulatory provision in "IFRS 9 Financial Instruments", issued by the IASB on 24 July 2014, together with the Basis for Conclusions and the Implementation Guide, replacing all the previous versions issued for the principle. The new provisions: (i) amend the classification of financial assets and provide for this classification to be based on contractual financial flows of the actual asset as well as the business model of the company; (ii) also eliminate the obligation of separating the embedded derivatives in the financial assets; (iii) identify a new impairment model that uses forward-looking information to bring forward the recognition of credit losses compared with the incurred-loss model, which delays recognition until a loss event takes place with reference to financial assets measured at amortised cost, financial assets measured at fair value in the other comprehensive income statement components, receivables from lease agreements, as well as assets from contracts and certain loan supply and financial guarantee agreement commitments; (iv) introduce substantial reforms to the qualification of hedge transactions in order to ensure that hedges are aligned with the companies' risk management strategies and founded on a more principle-based approach. As a result, IFRS 9 has also amended IFRS 7 "Financial instruments: disclosures". The provisions of the aforementioned texts, which replace those contained in IAS 39 - "Financial Instruments: Recognition and Measurement" will take effect from financial years starting on or after 1 January 2018. The impact of the adoption of this principle on the Group is currently being analysed, however, the Group does not expect significant impacts from the application on recurring transactions.

Accounting standards and interpretations issued by the IASB/IFRIC and not yet approved by the European Commission

The following are newly issued accounting standards and interpretations for which the approval process by the European Commission has not yet been completed.
On 11 September 2014, the IASB issued the document "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28". In particular, the aim of the amendments is to provide a more detailed definition of the accounting treatment and the recognition of related effects in the income statement of the loss of control of an investee company due to its transferral to an associate or joint venture. The accounting treatment used in the investor's financial statements depends on whether the object of the transaction is or is not a business as defined by IFRS 3. On 17 December 2015, the IASB indefinitely deferred the adoption date for the regulatory provisions in this document.
On 13 January 2016, the IASB issued "IFRS 16 Leases", which defines leasing as a contract which gives an entity the right to use an asset for a given period of time in exchange for a consideration and eliminates the distinction for the lessee between finance leases and operating leases, introducing a

single accounting model for recognising leases. By applying this model the entity recognises: (i) in its balance sheet items an asset, representative of its right to use, and a liability, representative of the obligation to make the contractually-required payments, for all leases of more than twelve months whose value can be considered significant; (ii) in the income statement the depreciation of the asset recognised and the interest on the payable entered separately. A distinction is maintained between operating leases and finance leases for the purpose of preparing the financial statements of lessees. The provisions of IFRS 16, which replace those in IAS 17 "Leasing" and in the interpretations, will take effect from financial years starting on or after 1 January 2019, notwithstanding any subsequent deferrals established upon approval by the European Commission.

On 19 January 2016, the IASB issued the document "Recognition of Deferred Tax Assets for Unrealised Losses - Amendments to IAS 12", which clarifies that unrealised losses on debt securities recognised at fair value and at cost for tax purposes give rise to deductible temporary differences; it also clarifies that the estimate of future taxable income: (i) includes income arising from the realisation of assets for amounts higher than the relative book value; and (ii) excludes the reversal of deductible temporary tax differences. These measures will take effect from financial years starting on or after 1 January 2017, notwithstanding any subsequent deferrals established upon approval by the European Commission.

On 29 January 2016 the IASB issued "Disclosure Initiative - Amendments to IAS 7", which clarifies how to improve the disclosure of financial liabilities in order to allow uses of the financial statements to understand the changes, resulting from currency movements and not liabilities resulting from financing transactions, resulting, where necessary, from: (i) flow associated with financing transactions; (ii) the acquisition or loss of control of a subsidiary or a business; (iii) changes in foreign exchange rates; (iv) changes in fair value; (v) other changes. These measures will take effect from financial years starting on or after 1 January 2017, notwithstanding any subsequent deferrals established upon approval by the European Commission.

On 12 April 2016 the IASB issued "Clarifications to IFRS 15 Revenue from Contracts with Customers", which clarifies: (i) when a contractual promise to transfer goods and/or services can be identified separately from other performance obligations in a contract; (ii) how to determine whether the entity is a principal or an agent, depending on whether it controls the underlying goods or services before the transaction; (iii) how to determine whether the revenues from a licence agreement should be recognised throughout the period or at a given time. The document also provides two (optional) expedient procedures with regard to the transition to IFRS 15, according to which an entity can opt: (i) if the full retrospective method is being used, not to make the restatement of the contracts completed at the start of the first comparative period presented (the principle already included a similar approach in the case of the modified retrospective approach); (ii) instead of accounting the effects of each single amendment separately, to calculate the aggregate effects of all the changes made from the start date of the contract until the beginning of the first comparative period presented or the date of the first application in the case of the full retrospective method or the modified retrospective approach, respectively. These measures will take effect from financial years starting on or after 1 January 2018, notwithstanding any subsequent deferrals established upon approval by the European Commission.

On 20 June 2016 the IASB issued "Classification and Measurement of Share - based Payment Transaction - Amendments to IFRS 2", which: (i) clarifies the effects of the (vesting and non-vesting) conditions on the measurement of the cash-settled share-based transactions; (ii) specifies that the changes in cash-settled and equity-settled share-based transactions generates the elimination of the original liability, the recognition in shareholders' equity of the share-based payment regulated through equity instruments at fair value at the amendment date, to the extent to which, at the same date, the services were rendered and the any difference was immediately posted in the income statement; (iii) with regard to share-based payment transactions with net settlement resulting from withholdings at source made by the employer as a result of tax laws and regulations, introduces an exception so that

these transactions are classified as equity-settled in their entirety, if there were identified as such in the absence of the net settlement imposed by the application of tax regulations. These measures will take effect from financial years starting on or after 01 January 2018, notwithstanding any subsequent deferrals established upon approval by the European Commission.

On 12 September 2016 the IASB introduced "Applying IFRS 9 Financial instruments with IFRS 4 Insurance Contracts - Amendments to IFRS 4", which is designed to solve the problems that insurance companies face if they apply the new standard on financial instruments, IFRS 9, before the IASB replaces the current principle IFRS 4 with the new one currently in the process of being prepared. The document introduces two approaches: (i) for all entities that issue insurance contracts coming under the scope of the application of IFRS 4 and which IFRS 9 will apply to, there is the option of reclassifying the changes in fair value resulting from designated financial assets from the income statement to other components of the comprehensive income statement (CIS) (overlay approach), as if the entity were applying IAS 39 to these assets; (ii) for entities mainly carrying out insurance activities, there is an option for temporary exemption which allows the application of IFRS 9 to be postponed until 2021 (the deferral approach). These measures will take effect from financial years starting on or after 01 January 2018, notwithstanding any subsequent deferrals established upon approval by the European Commission.

The provisions in "Annual Improvements to IFRS Standards 2014 - 2016 Cycle", issued by the IASB on 8 December 2016 have made changes to: (i) IFRS 1, eliminating the short-term exemptions with regard to IFRS 7, IAS 19 and IFRS 10 with reference to Investment entities for first time adopters; (ii) IFRS 12, clarifying that the information required by the principle, with the exception of that set out in paragraphs B10-B16, applies to all equity investments which are classified as held for sale, held for distribution to shareholders or as discontinued operations in accordance with IFRS 5; (iii) IAS 28 clarifying that the option for an investment company, a mutual fund, an investment fund or similar entities to value its investments in associates or joint ventures at fair value with effects on the income statement can be exercised separately for each single investment, at the time of the initial measurement; the changes also clarify that an entity, which is not an investment entity but which holds an investment in associates or joint ventures which are investment entities, can opt to keep the fair value measurement made by these investment entities for the purpose of valuing its own investments. The provisions of IFRS 1 and IAS 28 are effective from the financial years beginning on or after 1 January 2018, while the changes relating to IFRS 12 are effective from the financial years beginning on or after 1 January 2017, with the exception of any deferrals established during approval by the European Commission.

On 8 December 2016 the IASB issued "Transfers of Investment property - Amendments to IAS 40", which clarifies that an entity should reclassify a property to, or from, the category of property investments if and only if there is a change in use of the property; a change in management's intended use with regard to a property does not, in itself, constitute evidence of a change in use. These measures will take effect from financial years starting on or after 01 January 2018, notwithstanding any subsequent deferrals established upon approval by the European Commission.

On the same date the IASB issued "IFRIC 22 Foreign Currency Transaction and Advance Consideration", which establishes that when foreign currency transactions take place whereby payment is made or received in advance, the exchange rate to apply for the initial recording of the asset, costs or revenue generated from the transaction for which advance payment/collection took place, corresponds to the exchange rate in force on the advance payment date. These measures will take effect from financial years starting on or after 01 January 2018, notwithstanding any subsequent deferrals established upon approval by the European Commission.

Snam is analysing the standards in question, where applicable, to assess whether their adoption will have a significant impact on the financial statements.

7. Cash and cash equivalents

Cash and cash equivalents, which amount to €34 million (€17 million at 31 December 2015), relate to current account deposits with credit institutions and mainly refer to Gasrule Insurance DAC, the Group's captive insurance company (€21 million) and Snam S.p.A. (€12 million).
Cash and cash equivalents are not subject to any usage restrictions.
A comprehensive analysis of the financial situation and major cash commitments during the year can be found in the cash flow statement.

8. Trade receivables and other current and non-current receivables

Trade receivables and other current receivables equal to €1,307 million (€1,824 million at 31 December 2015) and *other non-current receivables* equal to €213 million (€78 million at 31 December 2015) break down as follows:

	31.12.2015			31.12.2016		
(€ million)	Current	Non-current	Total	Current	Non-current	Total
Trade receivables	1,677		**1,677**	**1,271**		**1,271**
Financial receivables		78	**78**		**213**	**213**
- held for operations		78	**78**		**213**	**213**
Receivables from investment/divestment activities	23		**23**	**16**		**16**
Other receivables	124		**124**	**20**		**20**
	1,824	**78**	1,902	**1,307**	**213**	**1,520**

Trade receivables of €1,271 million (€1,677 million at 31 December 2015) mainly refer to the natural gas transportation (€988 million) and storage (€218 million) segments.
Trade receivables relating to the storage segment (€218 million) include the effects of the addition of revenue connected to the allocation of natural gas storage capacity by auction (€68 million)[11].
Receivables are reported net of the provision for impairment losses of €132 million (€157 million at 31 December 2015). The provision essentially involves the impairment losses in previous financial years on receivables from the balancing service pursuant to Resolution 608/2015/R/gas through which the Authority provided for partial payment to the balancing supervisor (Snam Rete Gas), of uncollected receivables for the period from 1 December 2011 to 23 October 2012[12]. With regard to these receivables, the provision for impairment losses, including interest, totalled approximately €126 million.

11 This revenue follows the application of Resolution 323/2016/R/gas of the Authority ("Provisions for the regulation of income statement items related to the storage service for the 2016 - 2017 thermal year"), published on 17 June 2016, with which the Authority defined, for the 2016-2017 thermal year, ways of neutralising any differences between the amount paid to storage companies based on tariffs defined under Resolution 77/2016/R/gas and the amount received from the auctions for the allocation of capacity referred to in the same resolution.

12 Through resolution 608/2015/R/gas, published on 11 December 2015, the Authority closed the process launched through resolution 145/2013/R/gas of 5 April 2013 for determining the share of expenses to be paid to the balance director with regard to receivables not collected related to the balance sheet entries in the period 1 December 2011 - 23 October 2012. The nominal value of the total receivables not paid by the Authority with regard to the case that is covered by the preliminary investigation comes to a total of approximately €130 million, including VAT. For more information, please see Note 23 "Guarantees, commitments and risks – Disputes and other measures – Recovering receivables from certain users of the transportation and balancing system".

Changes in the provision for impairment losses on receivables during the year are shown below:

(€ million)	Provision for impairment losses at 31.12.2015	Provisions (*)	Utilisations	Changes in scope of consolidation	Other changes	Provision for impairment losses at 31.12.2016
Trade receivables	156	1	(3)	(20)	(2)	**132**
Other receivables	1			(1)		
	157	**1**	**(3)**	**(21)**	**(2)**	**132**

(*) The value refers entirely to discontinued operations.

The changes in the scope of consolidation (€21 million) refer to the deconsolidation of Italgas Reti S.p.A. following the loss of control after the transaction separating the natural gas distribution business from Snam S.p.A.

Financial receivables held for operating activities (€213 million; €78 million at 31 December 2015) relate to the shareholders' loan to the associate Trans Adriatic Pipeline AG (TAP), which Snam took on under contractual agreements relating to the acquisition of the equity investment[13]. The classification of receivables as "non-current" was based on the contractual agreements in place between shareholders. Compared with 31 December 2015, receivables rose by €135 million, including accrued interest, following the cash calls requested by the Snam investee companies in 2016 based on the above-mentioned agreements.

Receivables for investment/divestment activities (€16 million; €23 million at 31 December 2015) include receivables for public and private contributions recorded in the light of investment activities involving the transportation segment. The reduction of €7 million compared with 31 December 2015 is due to the deconsolidation of Italgas Reti S.p.A.

Other receivables of €20 million (€124 million at 31 December 2015) comprise:

(€ million)	31.12.2015	31.12.2016
IRES receivables for the national tax consolidation scheme	34	**10**
Other receivables:	90	**10**
- Advances to suppliers	9	**5**
- Energy and Environmental Services Fund (CSEA)	48	
- Other	33	**5**
	124	**20**

IRES receivables for the national tax consolidation scheme (€10 million, compared with €34 million at 31 December 2015) mainly concern receivables with the former parent company, Eni, relating to the IRES refund request resulting from the partial IRAP deduction relating to tax years 2007 to 2011 (pursuant to Decree-Law 201/2011).

The reduction in trade receivables and other current receivables of €517 million compared with 31

13 Based on the agreements entered into, the shareholders are obliged to finance the project pro rata to their respective shareholding, until the pipeline becomes operational. The potential expansion of the pipeline capacity is subject to an assessment on economic viability and, thus, on TAP's economic interest, also in accordance with the exemption decision of the Regulatory Authorities. For additional information, see Note no. 14 "Shares evaluated with the net worth method" of the Notes to the consolidated Financial Statement.

December 2015 is due mainly to the deconsolidation of Italgas Reti S.p.A.
All receivables are in euros. The fair value measurement of trade and other receivables has no material impact considering the short period of time from when the receivable arises and its due date and contractual conditions.
The seniority of trade and other receivables is shown below:

	31.12.2015			31.12.2016		
(€ million)	Trade receivables	Other receivables (*)	Total	Trade receivables	Other receivables (*)	Total
Non-overdue and non-impaired receivables	1,461	190	**1,651**	**1,130**	**236**	**1,366**
Overdue and non-impaired receivables:	216	35	**251**	**141**	**13**	**154**
- 0-3 months overdue	37	9	**46**	**10**	**5**	**15**
- 3-6 months overdue	3		**3**	**2**		**2**
- 6-12 months overdue	4	14	**18**	**1**	**2**	**3**
- more than 12 months overdue	172	12	**184**	**128**	**6**	**134**
	1,677	**225**	1,902	**1,271**	**249**	**1,520**

(*) Including financial receivables, receivables from investment/divestment activities and other receivables.

Overdue and non-impaired receivables (€154 million; €251 million at 31 December 2015) mainly relate to the following sectors: (i) storage (€99 million) mainly with regard to VAT[14] invoiced to users in previous years for the use of strategic gas withdrawn and not replenished under the terms of the Storage Code; (ii) transportation (€47 million) essentially involving receivables from users (€31 million) for penalties and additional tariffs, not impaired because they were covered through the fee tariff method.
Receivables from related parties are described in Note 32 "Related-party transactions".
Specific information on credit risk can be found in Note 23 "Guarantees, commitments and risks – Financial risk management – Credit risk".

14 As provided for under the applicable legislation, notices of VAT changes may be issued at the end of bankruptcy proceedings or unsuccessful enforcement proceedings.

9. Inventories

Inventories, which amount to €481 million (€515 million at 31 December 2015) are analysed in the table below:

	31.12.2015			31.12.2016		
(€ million)	Gross amount	Impairment losses	Net value	Gross amount	Impairment losses	Net value
Inventories (current assets)	**191**	**(39)**	**152**	**160**	**(42)**	**118**
- Raw materials, consumables and supplies	141	(7)	134	**110**	**(10)**	**100**
- Finished products and merchandise	50	(32)	18	**50**	**(32)**	**18**
Compulsory inventories (non-current assets)	**363**		**363**	**363**		**363**
	554	**(39)**	**515**	**523**	**(42)**	**481**

Inventories (current assets)

Inventories of raw materials, consumables and supplies (€100 million, compared with €134 million at 31 December 2015) primarily include: (i) natural gas used for transportation activities (€42 million); and (ii) stock materials relating to the pipeline network (€42 million) and storage plants (€10 million).
Inventories of finished products and merchandise (€18 million, the same as at 31 December 2015) refer to the natural gas present in the storage system (619 million standard cubic metres, unchanged from 31 December 2015) and do not include compulsory inventories, recognised under "Non-current assets" in the balance sheet.
Inventories are reported net of the provision for impairment losses of €42 million (€39 million at 31 December 2015). The provision essentially involves the impairment (€30 million) made in 2014 for 0.4 billion cubic metres of natural gas used under the scope of storage activities of strategic gas unduly withdrawn by some service users in 2010 and 2011[15].
Changes in the provision for impairment losses during the year are shown below:

(€ million)	Provision for impairment losses at 31.12.2015	Provisions	Provision for impairment losses at 31.12.2016
Raw materials, consumables and supplies	7	3	**10**
Finished products and merchandise	32		**32**
	39	**3**	**42**

Provisions (€3 million) related to spare parts involving to the transportation segment.
Inventories are not collateralised. Inventories do not secure liabilities, nor are they recognised at net realisation value.

15 For more information on the development of the judicial proceedings in progress refer to Note. 23 "Guarantees, commitments and risks – Disputes and other measures – Recovering receivables from certain users of the storage system".

Compulsory inventories (non-current assets)

Compulsory inventories (€363 million, unchanged from 31 December 2015) comprise minimum quantities of natural gas that the storage companies are obliged to hold pursuant to Presidential Decree 22 of 31 January 2001.

The quantities of natural gas in stock, equal to around 4.5 billion standard cubic metres, are determined annually by the Ministry of Economic Development[16].

10. Current income tax assets/liabilities and other current tax assets/liabilities

Current income tax assets/liabilities and other current tax assets/liabilities break down as follows:

(€ million)	31.12.2015	31.12.2016
Current income tax assets	**54**	**26**
- IRES	32	**21**
- IRAP	8	**4**
- Tax credits on withholding tax on foreign dividends	12	
- Other assets	2	**1**
Other current tax assets	**8**	**6**
- VAT	2	**4**
- Other taxes	6	**2**
	62	**32**
Current income tax liabilities	**(1)**	**(2)**
- IRES		
- IRAP	(1)	**(2)**
Other current tax liabilities	**(50)**	**(8)**
- IRPEF withholdings for employees	(13)	**(6)**
- VAT	(35)	
- Other taxes	(2)	**(2)**
	(51)	**(10)**

Current income tax assets of €26 million (€54 million at 31 December 2015) mainly involve IRES receivables (€21 million) following the excess amount paid under the national tax consolidation scheme (€13 million) and additional IRES (€8 million).

Other current tax assets, amounting to €6 million (€8 million at 31 December 2015) mainly refer to VAT receivables (€4 million) and receivables for consumption tax (€1 million).

Other current tax liabilities of €8 million (€50 million at 31 December 2015) mainly relate to IRPEF (personal income tax) withholdings for employees (€6 million).

Taxes pertaining to the year under review are shown in Note 29 - "Income taxes".

16 On 21 January 2016, the Ministry set the strategic storage volume at 4.62 billion cubic metres for the contractual storage year 2016-2017 (1 April 2016 - 31 March 2017), which is unchanged from the previous 2015-2016 year (1 April 2015 - 31 March 2016). The Stogit share was unchanged at 4.5 billion cubic metres. On 25 January 2017, the Ministry confirmed the total volume of strategic storage for the contractual year 2017-2018 (1 April 2017 - 31 March 2018) at 4.62 billion cubic metres (equal to approximately 48,846 Gigawatt house (GWh).

11. Other current and non-current assets

Other current assets, which amount to €52 million (€98 million at 31 December 2015) and *other non-current assets* of €138 million (€137 million at 31 December 2015) break down as follows:

	31.12.2015			31.12.2016		
(€ million)	Current	Non-current	Total	Current	Non-current	Total
Other regulated assets	78	72	**150**	**37**	**69**	**106**
Market value of derivative financial instruments	3	5	**8**	**5**	**19**	**24**
Other assets	17	60	**77**	**10**	**50**	**60**
- Prepayments	11	21	**32**	**9**	**16**	**25**
- Security deposits		14	**14**		**11**	**11**
- Other	6	25	**31**	**1**	**23**	**24**
	98	**137**	**235**	**52**	**138**	**190**

Other regulated assets (€106 million; €150 million at 31 December 2015) relate to the natural gas transportation service and refer to the shortfall in amounts invoiced compared with the restriction imposed by the regulator[17], of which the current portion accounts for €37 million (€76 million at 31 December 2015) and the non-current portion accounts for €69 million (€70 million at 31 December 2015).

The market value of derivatives outstanding at 31 December 2016 is as follows:

	31.12.2015			31.12.2016		
(€ million)	Current	Non-current	Total	Current	Non-current	Total
Other assets	**3**	**5**	**8**	**5**	**19**	**24**
Fair value hedging derivatives:						
- Fair value interest rate hedging derivatives	1	5	**6**	**2**	**16**	**18**
- Accrued income on derivatives	2		**2**	**3**		**3**
Cash flow hedging derivatives:						
- Fair value exchange rate hedging derivatives					**3**	**3**
Other liabilities		**(1)**	**(1)**			
Cash flow hedging derivatives:						
- Fair value exchange rate hedging derivatives		(1)	**(1)**			

The assets arising from the market-value measurement of fair value hedging derivatives (€21 million, including the share of the accrual matured) refer to an interest rate swap (IRS) entered into in 2014. The IRS is used to hedge against the fluctuation risk of the fair value of a fixed rate liability resulting from a long-term bond issue of more than €500 million. The eight-year bond has a maturity of 21 April 2023 and a fixed annual coupon of 1.5%. The IRS has converted the fixed-rate liability into an

17 See Note 3 "Measurement criteria - Revenue".

equivalent floating-rate liability benchmarked to the 12-month Euribor + 0.5645%.
The main characteristics of the derivative in question are summarised in the table below:

(€ million)

Type of derivative	Contract start date	Maturity date (*)	Residual term (years)	Interest rate Purchased	Interest rate Sold	Nominal value at 31.12.2015	Nominal value at 31.12.2016	Market value at 31.12.2015	Market value at 31.12.2016
Interest rate swap	22.10.2014	21.04.2023	6.3	12-month + 0.5645%	1.5%	500	**500**	8	**21**

(*) From 27 January 2017 the above coverage was discontinued following the extinguishment of the derivative instrument.

The assets arising from the market-value measurement of cash flow hedging derivatives (€3 million) refer to a Cross Currency Swap agreement (CCS) entered into in 2013. The CCS is used to hedge against fluctuations in the exchange rate of a ¥10 billion long-term bond issue. The six-year bond has a maturity of 25 October 2019 and a half-yearly coupon with an annual fixed rate of 1.115%. The CCS has converted the fixed-rate, foreign-currency liability into an equivalent liability in Euro with a fixed annual rate of 2.717%.
The main characteristics of the derivative in question are summarised in the table below:

(€ million)

Type of derivative	Contract start date	Maturity date	Residual term (years)	JPY/EUR exchange rate Purchased	JPY/EUR exchange rate Sold	Nominal value (*) at 31.12.2015	Nominal value (*) at 31.12.2016	Market value at 31.12.2015	Market value at 31.12.2016
Cross-currency swap	25.10.2013	25.10.2019	2.8	133.98	138.2	75	**75**	(1)	**3**

(*) Equal to a value of ¥10 billion at an exchange rate of 133.98 JPY/€ at the issue date.

In relation to this contract, Snam agrees with its counterparties on the exchange of two capital flows (at the time of entering into the contract and upon the maturity of the underlying financial instrument) and periodic interest flows (on the same dates stipulated for the hedged item) denominated in different currencies at a predetermined exchange rate.
The fair value of hedging derivatives and their classification as a current or non-current asset/liability have been determined using generally accepted financial measurement models and market parameters at the end of the year.
Information on the risks being hedged by the derivatives and on policies adopted by the Company to hedge against these risks is provided in Note 23 - "Guarantees, commitments and risks - Management of financial risks".

The item "Other assets" (€60 million; €77 million at 31 December 2015) essentially comprises:

- prepayments (€25 million), relating mainly to up-front fees and the substitute tax on revolving credit lines[18] (€22 million) and to insurance premiums (€3 million). The current and non-current portions amount to €9 million and €16 million respectively (€11 million and €21 million at 31 December 2015);
- security deposits (€11 million) refer to the transportation segment;
- assets in the transportation segment (€21 million), mainly recognised for lower quantities of fuel gas allocated by users in previous years pursuant to Resolution ARG/gas 184/09 compared with the quantities actually used in those years, adjusted in future years by increasing the quantity to be allocated by the users. The amount corresponds entirely to the non-current portion (€2 million and €21 million respectively for the current and the non-current portions at 31 December 2015).

12. Property, plant and equipment

Property, plant and equipment, which amounts to €15,563 million (€15,478 million at 31 December 2015) breaks down as follows:

	31.12.2015						
(€ million)	Land	Buildings	Plant and equipment	Industrial and commercial equipment	Other assets	Non-current assets under construction and payments on account	Total
Cost at 31.12.2014	**165**	**721**	**19,253**	**236**	**122**	**1,829**	**22,326**
Investments (*)	3	2	5	13		823	**846**
Disposals (*)		(3)	(77)	(10)	(9)	(20)	**(119)**
Other changes	3	47	1,005	21	65	(1,334)	**(193)**
Cost at 31.12.2015	**171**	**767**	**20,186**	**260**	**178**	**1,298**	**22,860**
Provisions for amortisation and depreciation at 31.12.2014		**(241)**	**(6,400)**	**(180)**	**(79)**		**(6,900)**
Amortisation and depreciation - continuing operations		(9)	(495)	(9)	(18)		**(531)**
Amortisation and depreciation - discontinued operations		(6)		(8)			**(14)**
Disposals (*)		2	72	9	10		**93**
Other changes			38		(39)		**(1)**
Provisions for amortisation and depreciation at 31.12.2015		**(254)**	**(6,785)**	**(188)**	**(126)**		**(7,353)**
Provision for impairment losses at 31.12.2014		**(5)**	**(22)**				**(27)**
(Impairment losses)/reversals			(3)				**(3)**
Other changes			1				**1**
Provision for impairment losses at 31.12.2015		**(5)**	**(24)**				**(29)**
Net balance at 31.12.2014	**165**	**475**	**12,831**	**56**	**43**	**1,829**	**15,399**
Net balance at 31.12.2015	**171**	**508**	**13,377**	**72**	**52**	**1,298**	**15,478**

(*) The values include €19 million in investments and €2 million in net disposals attributable to discontinued operations.

18 Up-front fees to be paid as a one-off and substitute tax are to be regarded as "transaction costs" pursuant to IAS 39 "Financial instruments: recognition and measurement"; the relative charges are spread over the (expected) life of the financial instrument.

	31.12.2016						
(€ million)	Land	Buildings	Plant and equipment	Industrial and commercial equipment	Other assets	Non-current assets under construction and payments on account	Total
Cost at 31.12.2015	**171**	**767**	**20,186**	**260**	**178**	**1,298**	**22,860**
Investments (*)	1		2	13	2	845	**863**
Disposals	(1)	(3)	(19)	(11)	(5)	(9)	**(48)**
Other changes	3	13	1,118	7	20	(1,067)	**94**
Change in scope of consolidation	(11)	(350)	(12)	(179)		(6)	**(558)**
Cost at 31.12.2016	**163**	**427**	**21,275**	**90**	**195**	**1,061**	**23,211**
Provisions for amortisation and depreciation at 31.12.2015		**(254)**	**(6,785)**	**(188)**	**(126)**		**(7,353)**
Amortisation and depreciation - continuing operations		(9)	(532)	(10)	(19)		**(570)**
Amortisation and depreciation - discontinued operations		(8)		(7)			**(15)**
Disposals		1	10	10	5		**26**
Other changes				(5)			**(5)**
Change in scope of consolidation		172	5	152			**329**
Provisions for amortisation and depreciation at 31.12.2016		**(98)**	**(7,302)**	**(48)**	**(140)**		**(7,588)**
Provision for impairment losses at 31.12.2015		**(5)**	**(24)**				**(29)**
(Impairment losses)/reversals	(1)	(1)	(3)			(30)	**(35)**
Change in scope of consolidation			4				**4**
Provision for impairment losses at 31.12.2016	**(1)**	**(6)**	**(23)**			**(30)**	**(60)**
Net balance at 31.12.2015	**171**	**508**	**13,377**	**72**	**52**	**1,298**	**15,478**
Net balance at 31.12.2016	**162**	**323**	**13,950**	**42**	**55**	**1,031**	**15,563**

(*) The values include €9 million in investments attributable to discontinued operations in the period 1 January - 6 November 2016.

Property, plant and equipment (€15,563 million, compared with €15,478 million at 31 December 2015) relates mainly to transportation (€12,638 million), storage (€2,838 million) and regasification (€84 million) infrastructure.

Investments[19] (€863 million) mainly relate to continuing operations (€854 million) and refer mainly to the transportation (€734 million) and storage (€113 million) segments.

During the year, Snam capitalised €23 million of financial expenses (€28 million in 2015).

Depreciation of continuing operations (€570 million) refers to economic and technical depreciation determined on the basis of the useful life of the assets or their remaining possible use by the Company.

Capital contributions from government authorities and other entities (€69 million and €307 million; €71 million and €298 million respectively at 31 December 2015) are recorded as a deduction in the net value of property, plant and equipment.

The changes in the scope of consolidation (€225 million, net of the related provisions for depreciation, amortisation and impairment losses) refer to the deconsolidation of Italgas Reti S.p.A. following the

19 Investments by business segment are shown in the "Business segment operating performance" section of the Directors' Report.

loss of control after the transaction separating the natural gas distribution business from Snam S.p.A.
Divestments (€22 million, net of the related provisions for depreciation, amortisation and impairment losses) mainly relate to the transportation segment.
Impairment losses and reversals (€35 million) refer essentially to the impairment of the assets not yet available for use mainly with regard to the transportation segment.
The value of plant and equipment includes site dismantling and restoration costs (€287 million), relating mainly to natural gas storage (€192 million) and transportation (€93 million) sites.
Other changes (€89 million net of the related provisions for depreciation, amortisation and impairment losses) mainly relate to: (i) the revision of estimated (discounted) costs for site restoration and dismantling (€116 million) in the natural gas storage and transportation segments, which are offset by the recognition of a specific provision[20], mainly due to the change in expected discount rates; (ii) the change in stocks of pipes and related accessory materials used in the production of plants in the natural gas transportation segment (€12 million); and (iii) grants for the period (€18 million).
Contractual commitments to purchase property, plant and equipment, and to provide services related to the construction thereof, are reported in Note 23 "Guarantees, commitments and risks".

Tangible assets by business segment

Property, plant and equipment by business segment, break down as illustrated below:

(€ million)	31.12.2015	31.12.2016
Historical cost	**22,860**	**23,211**
Transportation	18,608	**19,296**
Storage	3,550	**3,753**
Distribution	547	
Regasification	148	**154**
Corporate and other activities	7	**8**
Provision for amortisation, depreciation and impairment losses	**(7,382)**	**(7,648)**
Transportation	(6,167)	**(6,659)**
Storage	(836)	**(914)**
Distribution	(317)	
Regasification	(58)	**(70)**
Corporate and other activities	(4)	**(5)**
Net balance	**15,478**	**15,563**
Transportation	12,441	**12,637**
Storage	2,714	**2,839**
Distribution	230	
Regasification	90	**84**
Corporate and other activities	3	**3**

20 Further information can be found in Note 18 "Provisions for risks and charges".

13. Intangible assets

Intangible assets, which amount to €810 million (€5,275 million at 31 December 2015) break down as follows:

	31.12.2015						
	Finite useful life					Indefinite useful life	
(€ million)	Service concession agreements	Industrial patent rights and intellectual property rights	Concessions, licences, trademarks and similar rights	Other intangible	Non-current assets under construction and payments on account	Goodwill	Total
Cost at 31.12.2014	**6,858**	**808**	**741**	**54**	**44**	**9**	**8,514**
Investments (*)	321	5		16	84		**426**
Disposals (*)	(37)	(2)					**(39)**
Other changes	(16)	79	3	(1)	(78)		**(13)**
Change in scope of consolidation	138						**138**
Cost at 31.12.2015	**7,264**	**890**	**744**	**69**	**50**	**9**	**9,026**
Provisions for amortisation and depreciation at 31.12.2014	**(2,659)**	**(649)**	**(80)**	**(49)**			**(3,437)**
Amortisation and depreciation - continuing operations		(39)	(3)				**(42)**
Amortisation and depreciation - discontinued operations	(230)	(23)		(6)			**(259)**
Disposals (*)	25	2					**27**
Other changes	(6)						**(6)**
Change in scope of consolidation	(33)						**(33)**
Provisions for amortisation and depreciation at 31.12.2015	**(2,903)**	**(709)**	**(83)**	**(55)**			**(3,750)**
Provision for impairment losses at 31.12.2014			**(1)**				**(1)**
Provision for impairment losses at 31.12.2015			**(1)**				**(1)**
Net balance at 31.12.2014	**4,199**	**159**	**660**	**5**	**44**	**9**	**5,076**
Net balance at 31.12.2015	**4,361**	**181**	**660**	**14**	**50**	**9**	**5,275**

(*) The values include €341 million in investments and €12 million in net disposals attributable to discontinued operations.

(€ million)	31.12.2016						
	Finite useful life					Indefinite useful life	
	Service concession agreements	Industrial patent rights and intellectual property rights	Concessions, licences, trademarks and similar rights	Other intangible assets	Non-current assets under construction and payments on account	Goodwill	Total
Cost at 31.12.2015	**7,264**	**890**	**744**	**69**	**50**	**9**	**9,026**
Investments (*)	258			3	75		**336**
Disposals (*)	(39)						**(39)**
Other changes	(39)	89	11	7	(78)		**(10)**
Change in scope of consolidation	(7,444)	(332)		(37)	(27)	(9)	**(7,849)**
Cost at 31.12.2016		**647**	**755**	**42**	**20**		**1,464**
Provisions for amortisation and depreciation at 31.12.2015	**(2,903)**	**(709)**	**(83)**	**(55)**			**(3,750)**
Amortisation and depreciation - continuing operations		(43)	(3)				**(46)**
Amortisation and depreciation - discontinued operations	(197)	(24)		(7)			**(228)**
Disposals (*)	23						**23**
Other changes	9	(12)	(7)	(4)			**(14)**
Change in scope of consolidation	3,068	269		24			**3,361**
Provisions for amortisation and depreciation at 31.12.2016		**(519)**	**(93)**	**(42)**			**(654)**
Provision for impairment losses at 31.12.2015			**(1)**				**(1)**
Other changes	(1)		1				
Change in scope of consolidation	1						**1**
Provision for impairment losses at 31.12.2016							
Net balance at 31.12.2015	**4,361**	**181**	**660**	**14**	**50**	**9**	**5,275**
Net balance at 31.12.2016		**128**	**662**		**20**		**810**

(*) The values include €284 million in investments and €16 million in net disposals attributable to discontinued operations in the period 1 January - 6 November 2016.

Industrial patent rights and intellectual property rights of €128 million (€181 million at 31 December 2015) mainly concern information systems and applications in support of operating activities.
Concessions, licences, trademarks and similar rights (€662 million compared with €660 million at 31 December 2015) refer essentially to concessions for natural gas storage activities (€656 million) and, specifically to the concessions of Settala (€226 million), Sergnano (€126 million), Fiume Treste (€91 million) and Brugherio (€56 million). The value of the storage concessions is represented by the reserves of natural gas in the fields ("cushion gas"[21]).
Investments (€336 million) mainly relate to continuing operations (€52 million) and refer mainly to the transportation (€42 million)[22] and discontinued operations (€284 million) segments.

21 Cushion gas is not depreciated.
22 Investments by business segment are shown in the "Business segment operating performance" section of the Directors' Report.

The changes in the scope of consolidation (€4,487 million, net of the related provisions for depreciation, amortisation and impairment losses) refer to the deconsolidation of the assets of Italgas Reti S.p.A. following the loss of control after the transaction separating the natural gas distribution business from Snam S.p.A.

Amortisation of continuing operations (€46 million) refers to economic and technical amortisation determined on the basis of the finite useful life of the intangible assets or their remaining possible use by the Company.

Due to the nature of the activities carried out by the Group, i.e. regulated activities in the gas supply chain, the recoverable value of property, plant and equipment and intangible assets was defined in keeping with the estimated value of net invested capital recognised for such assets for tariff purposes (regulatory asset base, or RAB) by the AEEGSI, net of flat-fee components[23], employee severance pay (TFR) and grants received.

For the purposes of identifying cash-generating units (CGUs) and allocating any goodwill, in accordance with the segmentation defined by the AEEGSI for the definition of the return on assets, the CGUs are represented by the business units (BUs) that carry out regulated activities in the natural gas transportation, regasification and storage sectors.

As defined above, the recoverable value of property, plant and equipment, including compulsory inventories, and intangible assets is around €19 billion[24].

Other changes (€24 million, net of the depreciation and impairment provisions) mainly consist of grants during the period (€23 million).

Contractual commitments to purchase intangible assets, and to provide services related to the development thereof, are reported in Note 23 - "Guarantees, commitments and risks".

Intangible assets by business segment

Intangible assets by business segment, break down as illustrated below:

(€ million)	31.12.2015	31.12.2016
Historical cost	**9,026**	**1,464**
Transportation	530	**573**
Storage	819	**824**
Distribution	7,615	
Regasification	3	**4**
Corporate and other activities	59	**63**
Provision for amortisation, depreciation and impairment losses	**(3,751)**	**(654)**
Transportation	(426)	**(458)**
Storage	(140)	**(147)**
Distribution	(3,142)	
Regasification	(3)	**(3)**
Corporate and other activities	(40)	**(46)**
Net balance	**5,275**	**810**
Transportation	104	**115**
Storage	679	**677**
Distribution	4,473	
Regasification		**1**
Corporate and other activities	19	**17**

23 The RAB is used to determine the service tariffs and, therefore, the cash flows generated by the assets. The RAB value is defined through the historical cost method revalued as far as Fixed capital is concerned and on a flat-fee basis for the Working capital, severance pay and, with reference to the storage sector, the site dismantling and restoration provision.

24 Estimated value as at 31 December 2016.

14. Investments valued using the equity method

Investments valued using the equity method, amounting to €1,499 million (€1,372 million at 31 December 2015) break down as follows:

	Equity investments in			
(€ million)	joint ventures	associates	non-consolidated subsidiaries	Total
Initial value at 01.01.2015	**1,343**	**50**	**9**	**1,402**
Acquisitions and subscriptions	14	130		144
Capital gains from measurement using the equity method - continuing operations	106			106
Capital gains from measurement using the equity method - discontinued operations	20			20
Exchange rate conversion differences	7			7
Sales and repayments	(147)			(147)
Decrease owing to dividends (*)	(141)			(141)
Other changes	40	(50)	(9)	(19)
Final value at 31.12.2015	**1,242**	**130**		**1,372**
Initial value at 01.01.2016	**1,242**	**130**		**1,372**
Acquisitions and subscriptions	135	35		170
Capital gains from measurement using the equity method - continuing operations	140			140
Capital gains from measurement using the equity method - discontinued operations	17			17
(Capital losses) from measurement using the equity method - continuing operations	(10)	(14)		(24)
Exchange rate conversion differences	(15)			(15)
Sales and repayments	(2)			(2)
Decrease owing to dividends (*)	(148)			(148)
Other changes	(164)	153		(11)
Final value at 31.12.2016	**1,195**	**304**		**1,499**

(*) The values include €13 million (€16 million in 2015) regarding dividends collected from equity investments with reference to discontinued operations.

Acquisitions and subscriptions (€170 million) relate to: (i) the capital contribution[25] to the consortium AS Gasinfrastruktur Beteiligung GmbH (ASG HoldCo) (€135 million), a joint venture in which Allianz and Snam respectively hold stakes of 60% and 40%. The contribution follows the agreements signed on 22 September 2016 between the consortium AS Gasinfrastruktur Beteiligung GmbH (ASG HoldCo) and OMV Gas & Power GmbH (OGP) for the sale of 49% di Gas Connect Austria GmbH (GCA), a company operating in the transportation of natural gas in Austria. The transaction was concluded on 15 December 2016 following a total outlay of €135 million[26]; (ii) the share capital increase of the associate company Trans Adriatic Pipeline AG - TAP, which is involved in the development of the project that will enable the transportation of the gas from Azerbaijan to European markets, whereby Snam is involved to an extent proportional to the shareholding owned, through the agreements signed during the acquisition of the equity investment (€35 million).

Capital gains arising from the valuation using the equity method net of continuing operations (€140

25 This case involves the capital reserve pursuant to Article 229, section 2, paragraph 5 of the Austrian Companies Act.

26 The acquisition of GCA took place via AS Gasinfrastruktur GmbH (ASG BidCo), wholly-owned by the consortium ASG HoldCo. Snam's indirect equity investment in GCA is therefore 19.6%. As a result of the acquisition, AS BidCo took over a share of OMV Gas & Power GmbH (OGP) equal to 49% of the existing shareholders' loan in favour of GCA for a nominal amount of €147 million.

million) refer to the joint-control companies TAG (€90 million) and TIGF (€50 million).
Capital losses arising from the valuation using the equity method (€24 million) refer to the share of the negative result of the joint-control companies and associates. With specific reference of the equity investments, the negative result of GasBridge 1 B.V. and Gasbridge 2 B.V (-€10 million in total), which includes the effects of the impairment on the equity investments of the latter held in Interconnector UK (€21 million).
With specific reference to the recoverable value of the equity investments in GasBridge 1 B.V. and GasBridge 2 B.V in Interconnector UK, the valuation was conducted over a time horizon of five years, through the Discounted Dividend Model (DDM) and using the rate calculated according to the cost of equity, which takes account of the risk premium as the discount rate. After the fifth year, projected cash flows using the perpetuity method based on the estimated dividend of the last year of the plan with a zero growth rate were used. The discount rate used for the estimation of the flows was around 6.5%.
Sales and repayments (€2 million) relate to the reduction in the book value of the equity investments in GasBridge 1 B.V. and GasBridge 2 B.V. following the distribution to shareholders of part of the share premium reserve generated during the establishment of the companies.
The decrease in dividends (€148 million) essentially involves the joint-control companies TAG (€75 million), TIGF (€43 million) and GasBridge 1 B.V. and GasBridge 2 B.V. (€17 million in total).
Other changes (€11 million) relate essentially to: (i) the book value of the residual equity investment (13.5%) of Snam S.p.A. in Italgas S.p.A. (formerly ITG Holding) resulting from the operation of separating Italgas Reti S.p.A. from Snam S.p.A[27] (+€153 million); (ii) the elimination of the equity investments of Snam S.p.A. in the jointly controlled companies in the distribution segment following the above-mentioned separation operation (-€173 million).
Equity investments are not collateralised.
Consolidated companies, joint ventures, associates and other significant equity investments are indicated separately in the appendix "Significant shareholdings, associates and equity investments of Snam S.p.A. at 31 December 2016", which is an integral part of these Notes.

Other information on equity investments

In accordance with the provisions of IFRS 12 - "Disclosure of interests in other entities", the economic and financial data for joint ventures and associates are provided below.

27 The operation is illustrated in detail in Note 21 "Discontinued operations".

Investments in joint ventures

The IFRS-compliant economic and financial data for each significant joint venture[28], are reported below:

	31.12.2015			
(€ million)	TIGF Holding S.A.S.	Trans Austria Gasleitung GmbH	Toscana Energia S.p.A.	GasBridge 1 B.V. e 2 B.V.
Current assets	130	**119**	**79**	**38**
- of which cash and cash equivalents	47	82	4	
Non-current assets	2,824	1,018	794	224
Total assets	**2,954**	**1,137**	**873**	**262**
Current liabilities	(101)	(47)	(248)	
- of which current financial liabilities	(16)		(153)	
Non-current liabilities	(1,751)	(535)	(243)	
- of which non-current financial liabilities	(1,446)	(439)	(206)	
Total liabilities	**(1,852)**	**(582)**	**(491)**	
Shareholders' equity	**1,102**	**555**	**382**	**262**
Equity interest held by the Group % (*)	40.50%	89.22%	48.08%	50%
Share attributable to the Group	446	496	184	131
Other adjustments			(17)	
Book value of the equity investment	**446**	**496**	**167**	**131**
Revenue	441	283	128	
Operating costs	(159)	(117)	(39)	
Amortisation, depreciation and impairment	(131)	(52)	(28)	
EBIT	**151**	**114**	**61**	
Financial income				
Financial expenses	(47)	(6)	(5)	
Income (expense) from equity investments			1	20
Income tax	(46)	(27)	(17)	
Net profit	**58**	**81**	**40**	**20**
Other components of comprehensive income	10			14
Total comprehensive income	**68**	**81**	**40**	**34**

28 Unless otherwise indicated, the financial statement figures for joint ventures, reported in full, have been updated to include adjustments made by the Parent Company pursuant to the equity-accounting method. These values refer to the preliminary reporting package and/or approved.

(€ million)	TIGF Holding S.A.S.	Trans Austria Gasleitung GmbH	AS Gasinfrastruktur Beteiligung GmbH	GasBridge 1 B.V. e 2 B.V.
	31.12.2016			
Current assets	143	71	17	36
- of which cash and cash equivalents	68	24	17	
Non-current assets	2,807	1,020	601	138
Total assets	**2,950**	**1,091**	**618**	**174**
Current liabilities	(105)	(55)		
- of which current financial liabilities	*(17)*			
Non-current liabilities	(1,707)	(462)	(280)	
- of which non-current financial liabilities	*(1,438)*	*(301)*	*(280)*	
Total liabilities	**(1,812)**	**(517)**	**(280)**	
Shareholders' equity	**1,138**	**574**	**338**	**174**
Equity interest held by the Group % (*)	40.50%	89.22%	40.0%	50.0%
Share attributable to the Group	461	512	135	87
Other adjustments				
Book value of the equity investment	**461**	**512**	**135**	**87**
Revenue	465	344		
Operating costs	(162)	(129)		
Amortisation, depreciation and impairment	(133)	(77)		
EBIT	**170**	**138**		
Financial income		1		
Financial expenses	(37)	(3)		
Income (expense) from equity investments				(20)
Income tax	(10)	(35)		
Net profit	**123**	**101**		**(20)**
Other components of comprehensive income		1		(30)
Total comprehensive income	**123**	**102**		**(50)**

(*) The equity investment held in Trans Austria Gasleitung GmbH is valued based on the percentage of economic rights owned.

Information on Investments in joint ventures

TIGF Holding S.A.S.

TIGF Holding SAS is a company operating under French law, which, through TIGF Investissements SAS (a wholly owned subsidiary of TIGF Holding), controls 100% of TIGF SA.

TIGF SA (Transport et Infrastructures Gaz France) operates in the transportation and storage of natural gas in south-west France. Natural gas transportation in France is a regulated activity.

At 31 December 2016, TIGF Holding S.A.S. had the following shareholders: Snam S.p.A. (40.5%), Singapore sovereign wealth fund GIC (31.5%), EDF (18%, through a fund dedicated to liabilities arising from the disposal of nuclear assets) and Crédit Agricole Assurances (10%, through Prévoyance Dialogue, a company owned by Crédit Agricole).

TIGF Holding SAS's consolidated financial statements include TIGF Investissements SAS and TIGF SA. The corporate governance rules stipulate that decisions on significant activities must be taken with the unanimous consent of shareholders Snam and GIC.

Trans Austria Gasleitung GmbH (TAG)

Trans Austria Gasleitung GmbH (TAG) is a company operating under Austrian law that is active in the natural gas transportation segment, and it owns the gas pipeline that links the Slovakian-Austrian border to the Tarvisio entry point.

Natural gas transportation in Austria is a regulated activity.

As at 31 December 2016, Snam S.p.A. holds 84.47% of the share capital, entitling it to 89.22% of the economic rights. The remainder of the share capital is held by Gas Connect Austria GmbH (GCA).

The contractual agreements drawn up between Snam, TAG and (GCA) also stipulate that if TAG is not capable of self-financing, the other companies must finance it according to the equity investment held by each shareholder.

The corporate governance rules stipulate that decisions on significant activities must be taken with the unanimous consent of shareholders Snam and GCA.

AS Gasinfrastruktur Beteiligung GmbH

AS Gasinfrastruktur Beteiligung GmbH is a company under Austrian law jointly controlled by Snam S.p.A. and the Allianz Group, respectively owning 40% and 60%.

The company owns 100% of the company under Austrian law AS Gasinfrastruktur GmbH, which, in turn owns 49% of the share capital of Gas Connect Austria GmbH, a subsidiary of OMV AG.

The corporate governance rules of AS Gasinfrastruktur Beteiligung GmbH stipulate that decisions on significant activities must be taken with the unanimous consent of shareholders Snam and Allianz.

Gasbridge 1 B.V. and Gasbridge 2 B.V.

Gasbridge 1 B.V. and Gasbridge 2 B.V. are two companies operating under Dutch law that are equal-stake joint ventures of Snam S.p.A. and Fluxys Europe B.V.

The two companies hold equal shares in the following equity investments:

- 31.5% of Interconnector UK Ltd, a subsidiary of Fluxys;
- 51% of Interconnector Zeebrugge Terminal SCRL;

The corporate governance rules stipulate that decisions on significant activities must be taken with the unanimous consent of the two shareholders Snam S.p.A. and Fluxys Europe B.V.

Significant restrictions

Pursuant to the provisions of IFRS 12, the major significant restrictions on investee companies' ability to transfer funds to Snam in the form of dividends, loan repayments or advances appear below.

TIGF Investissement SAS

The payment of interest on the residual nominal amount of the €670 million convertible bond (of which Snam has subscribed €272 million) may be deferred at the discretion of the issuer TIGF Investissement. The bond debt is subordinate to the outstanding bank loans.

Investments in associates

The IFRS-compliant economic and financial data for all equity-accounted associates[29] not deemed to be significant are reported below:

(€ million)	31.12.2015 (*)	31.12.2016 (**)
Current assets	165	**739**
Non-current assets	983	**7,044**
Total assets	**1,148**	**7,783**
Current liabilities	(100)	**(3,434)**
Non-current liabilities	(397)	**(2,477)**
Total liabilities	**(497)**	**(5,911)**
Shareholders' equity	**651**	**1,872**
Book value of the equity investment	**130**	**304**
Revenue		**274**
EBIT		**11**
Net loss		**(90)**
Other components of comprehensive income		**3**
Total comprehensive income		**(87)**

(*) The values of 2015 refer to investment in associated company TAP that was acquired on 17 December 2015.

(**) The values of 2016 refer to investments in associated companies TAP and Italgas, representing a total of about 1.5% of the total assets. The 2016 economic data refer for TAP to the whole exercise 2016 and for Italgas to the period 7.11.2016 - 31.12.2016.

Information on investments in associates

Trans Adriatic Pipeline AG (TAP)

Trans Adriatic Pipeline A.G. (TAP) is a Swiss company formed to design, develop and build a new gas pipeline, currently under construction, which will extend from the Greek-Turkish border to Italy (at the new entry point in San Foca-Melendugno), crossing Greece and Albania.

At 31 December 2016, TAP A.G. had the following shareholders: Snam S.p.A. (20%), Socar (20% through AzTAP GmbH), BP (20% through BP Gas Marketing Ltd), Fluxys (19% through Fluxys Europe B.V.), Enagas (16% through Enagás Internacional S.L.U.) and Axpo (5% through Axpo Trading AG).

Based on the agreements entered into, the shareholders are obliged to finance the project pro rata to their respective shareholding, until the pipeline becomes operational, both through a shareholder's loan and through the subscription of share capital increases. The potential expansion of the pipeline capacity is subject to an assessment on economic viability and, thus, on TAP's economic interest, also in accordance with the exemption decision of the Regulatory Authorities.[30]

29 The financial statement figures for associates, reported in full, have been updated to include adjustments made by the Parent Company pursuant to the equity-accounting method.

30 For more information on the commitments undertaken by the shareholders with regard to TAP, refer to Note 23 "Guarantees, commitments and risks".

Under current corporate governance rules, none of TAP's shareholders is able to exercise control over the company, including in a joint capacity.

Italgas S.p.A.

Italgas S.p.A. is an Italian company which controls 100% of Italgas Reti S.p.A., Napoletanagas S.p.A. and Acam Gas S.p.A., companies operating in the natural gas distribution segment in Italy.
Natural gas distribution is a regulated activity.
At 31 December 2016, following the separation of the natural gas distribution business from Snam S.p.A., Italgas S.p.A.'s shareholders were: Snam (13.5%), C.D.P. Reti S.r.l. (25.08%), C.D.P. Gas S.p.A. (0.97%) and the remaining part owned by third parties.
On 7 November 2016, the date that the above-mentioned separation operation took effect, the shareholder's agreement, signed on 20 October 2016 by CDP Reti S.p.A. and CDP Gas S.r.l., involving all the shares held by each of them in Italgas S.p.A., became effective. The shareholder's agreement constitutes a block voting shareholder's agreement, with Snam having the right of early withdrawal if, in the event of Snam opposing the vote of the syndicated shares on reserved subjects of an extraordinary nature, Snam does not sell its equity investment in Italgas within the next 12 months (accelerated exit). Transfers of Snam's equity investment in Italgas S.p.A. (even in the case of accelerated exit) are subject to the consent and pre-emptive rights of CDP Reti, as well as to the obligation of a takeover by a third party. Snam may also increase its equity investment. The agreement is for three years, renewable unless notice is given; if Snam does not renew it, CDP Reti will have the option to purchase Snam's equity investment in Italgas at the fair market value.

15. Short-term financial liabilities, long-term financial liabilities and short-term portions of long-term financial liabilities

Short-term financial liabilities, amounting to €1,497 million (€1,351 million at 31 December 2015), and *long-term financial liabilities*, including short-term portions of long-term liabilities totalling €9,593 million (€12,445 million at 31 December 2015), break down as follows:

	31.12.2015					31.12.2016				
		Long-term financial liabilities					Long-term financial liabilities			
(€ million)	Short-term financial liabilities	Short-term portion	Long-term portion maturing within 5 years	Long-term portion maturing in more than 5 years	Total long-term portion	Short-term financial liabilities	Short-term portion	Long-term portion maturing within 5 years	Long-term portion maturing in more than 5 years	Total long-term portion
Bonds		1,356	*4,935*	*3,520*	8,455		**634**	***3,384***	***3,592***	**6,976**
Bank loans	1,323	22	*1,178*	*1,427*	2,605	**1,466**	**221**	***799***	***962***	**1,761**
Other lenders	28		*7*		7	**31**	**1**			
	1,351	**1,378**	***6,120***	***4,947***	**11,067**	**1,497**	**856**	***4,183***	***4,554***	**8,737**

Short-term financial liabilities

Short-term financial liabilities, amounting to €1,497 million (€1,351 million at 31 December 2015), relate mainly to uncommitted variable-rate credit lines (€1,466 million).

The increase compared with 31 December 2015 (€146 million) is essentially due to net utilisations of uncommitted lines of bank credit (€143 million).

There are no short-term financial liabilities denominated in currencies other than the Euro.

The weighted average interest rate on short-term financial liabilities was 0.07% (0.05% for 2015).

The market value of short-term financial liabilities is the same as their book value.

Long-term financial liabilities and short-term portions of long-term financial liabilities

Long-term financial liabilities, including short-term portions of long-term liabilities, amounted to €9,593 million (€12,445 million at 31 December 2015).

The breakdown of bond loans (€7,610 million), indicating the issuing company, the year of issue, the currency, the average interest rate and the maturity, is provided in the following table.

(€ million)

Issuing company	Issued (year)	Currency	Nominal amount	Adjustments (a)	Balance at 31.12.2016	Rate (%)	Maturity (year)
Euro Medium Term Notes							
SNAM S.p.A. (b)	2012	€	851	23	874	3.875	2018
SNAM S.p.A. (c)	2012	€	741	5	746	5.25	2022
SNAM S.p.A. (c) (d)	2012	€	716	21	737	3.5	2020
SNAM S.p.A. (b) (c)	2012	€	583	25	608	5	2019
SNAM S.p.A. (b) (c) (e)	2013	€	506	5	511	2.375	2017
SNAM S.p.A.	2013	€	332	8	340	3.375	2021
SNAM S.p.A. (f)	2013	Yen	81		81	1.115	2019
SNAM S.p.A.	2013	€	70	1	71	2.625	2018
SNAM S.p.A.	2014	€	426	8	434	3.25	2024
						12-month Euribor	
SNAM S.p.A. (g)	2014	€	500	18	518	+ 0.5645	2023
SNAM S.p.A.	2014	€	265	1	266	1.5	2019
SNAM S.p.A. (b)	2015	€	592	(49)	543	1.375	2023
SNAM S.p.A.	2015	€	138	4	142	1.5	2023
SNAM S.p.A.	2016	€	1,250	(8)	1,242	0.875	2026
SNAM S.p.A.	2016	€	500	(3)	497	0	2020
			7,551	**59**	**7,610**		

(a) Includes issue premium/discount, accrued interest and adjustment to the fair value of the bond loan, converted to variable rate through an IRS hedging derivative.
(b) Bond loans subject to the 2015 liability management operation.
(c) Bond loans subject to the 2016 liability management operation.
(d) Bond tapped for an incremental amount of €500 million, with the same interest rate and maturity as the original placement.
(e) Bond tapped for an incremental amount of €250 million, with the same interest rate and maturity as the original placement.
(f) Bond loan with a nominal value of ¥10 billion, converted into Euros through a cross-currency swap (CCS). The indicated nominal value is obtained by converting into Euros at the year-end spot exchange rate.
(g) Fixed-rate bond, converted into variable-rate through an IRS hedging derivative.

The €2,201 million reduction in bond loans compared with 31 December 2015 was mainly due to: (i) the liability management transaction, concluded in October 2016, which involved the buying back on the bond market at a fixed rate for a total nominal value of €2.75 billion with an average coupon of approximately 3.3% and a remaining term of around 3 years, following a total outlay of approximately €3.1 billion[31]; (ii) the repayment of 3 bonds that had reached their natural maturity in January 2016,

31 For more information about the acquisition, please see the section "Annual profile – Main events" in the Directors' Report.

July 2016 and October 2016, for a nominal value, respectively, of €150 million, €700 million and €300 million. This reduction was partly offset by the new bond issues made with regard to the financing of part of the liability management transaction, relating to two fixed-rate bond loans, issued on 25 October 2016, for a nominal value of €1,250 million and €500 million, respectively.
Payables for bank loans (€1,982 million) relate to term loans, of which €1,182 million concern European Investment Bank (EIB) funding. In 2016, note that under the scope of the operation separating Italgas Reti S.p.A. from Snam S.p.A. the assumption of Snam S.p.A.'s debt by Italgas S.p.A. relating to two loans provided to Snam S.p.A. by the EIB intended to fund Italgas S.p.A. projects with a total nominal value of €424 million was finalised. The assumption of the two EIB loans and the repayment net of bank term loans of a nominal value of €200 million, led to a total reduction in bank loan payables worth a nominal €624 million.
There are no other long-term bank loans denominated in currencies other than the euro.
The weighted average interest rate on bank loans used (excluding loan contracts with the EIB) was 0.4%[32] (the same as in 2015).
There were no breaches of loan agreements as at the reporting date.
The market value of the long-term financial debt, including the short-term portion, stands at €10,230 million[33] (€13,383 million at 31 December 2015).
Snam has unused committed and uncommitted credit lines of €3.2 billion and €1.7 billion, respectively.

Financial covenants and negative pledge commitments
At 31 December 2016, Snam had medium- and long-term loans from a pool of national and international banks. Some bilateral loan agreements were also entered into with these banks. These medium-/long-term loans are subject, inter alia, to the usual covenants imposed in international market practice, e.g. negative pledge, pari passu and change of control clauses.
In particular, the syndicated loans and bilateral loans are subject, inter alia, to a negative pledge covenant pursuant to which Snam and the Group subsidiaries are subject to limitations in terms of pledging real property rights or other restrictions on all or part of the respective assets, shares or merchandise, and/or documents representing merchandise; this covenant is subject to set expiry dates and to exceptions on restrictions for which the creation and/or existence is explicitly permitted.
At 31 December 2016, Snam also had medium/long-term loans taken out with the European Investment Bank (EIB), the contractual clauses of which are broadly in line with those described above. Exclusively for the EIB loans, the lender has the option to request additional guarantees if Snam's credit rating is lower than BBB (Standard & Poor's/Fitch Ratings Limited) or Baa2 (Moody's) for at least two of the three ratings agencies.
At 31 December 2016, the banking financial liabilities subject to these restrictive clauses amounted to approximately €2.0 billion.
Failure to comply with the covenants established for these loans - 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.
Bonds, with a nominal value of €7.6 billion, refer to securities issued under the Euro Medium Term Notes programme. The covenants set for the programme's securities reflect international market practices and relate, inter alia, to negative pledge and pari passu clauses. Specifically, under the negative pledge clause, Snam and its significant subsidiaries are subject to limitations in relation to the creation or maintenance of restrictions on all or part of their own assets or inflows to guarantee present or future debt, unless this is explicitly permitted.

32 It excludes the up-front fee amortisation.
33 It includes bond loans, whose value is estimated on the basis of the market listings at 31 December 2016, and financial liabilities to banks, all at floating rate, whose corresponding market value is taken as the nominal repayment value.

Failure to comply with these covenants - in some cases only when this non-compliance is not remedied within a set time period - and the occurrence of other events, such as cross-default events, some of which are subject to specific threshold values, may result in Snam's failure to comply and could trigger the early repayment of the relative loan.
As at 31 December 2016, there were no identified events resulting in failure to comply with the aforementioned commitments and covenants.

Breakdown of net financial debt

The breakdown of net financial debt, showing related-party transactions, is provided in the following table:

	31.12.2015			31.12.2016		
(€ million)	Current	Non-current	Total	Current	Non-current	Total
A. Cash and cash equivalents	17		17	34		34
B. Securities available for sale and held to maturity						
C. Cash (A+B)	**17**		**17**	**34**		**34**
D. Financial receivables not held for operating activities						
E. Short-term financial liabilities to banks	1,323		1,323	1,466		1,466
F. Long-term financial liabilities to banks	22	2,605	2,627	221	1,761	1,982
G. Bonds	1,356	8,455	9,811	634	6,976	7,610
H. Short-term financial liabilities to related parties	19		19	18		18
I. Long-term financial liabilities to related parties						
L. Other short-term financial liabilities	9		9	13		13
M. Other long-term financial liabilities		7	7	1		1
N. Gross financial debt (E+F+G+H+I+L+M)	**2,729**	**11,067**	**13,796**	**2,353**	**8,737**	**11,090**
O. Net financial debt (N-C-D)	**2,712**	**11,067**	**13,779**	**2,319**	**8,737**	**11,056**

16. Trade and other payables

Trade payables and other payables, which amount to €1,264 million (€1,746 million at 31 December 2015) comprise the following:

(€ million)	31.12.2015	31.12.2016
Trade payables	694	**433**
Payables for investment activities	468	**384**
Other payables	584	**447**
	1,746	**1,264**

Trade payables of €433 million (€694 million at 31 December 2015) relate mainly to the natural gas transportation (€313 million, including €213 million relating to gas balancing activities), storage (€46 million) and regasification (€1 million) business segments.
Payables for investment activities (€384 million, including €4 million expiring after the period; €468 million at 31 December 2015) refer mainly to the natural gas transportation (€312 million) and storage (€64 million) business segments.

Other payables of €447 million (€584 million at 31 December 2015) break down as follows:

(€ million)	31.12.2015	31.12.2016
IRES payables for the national tax consolidation scheme		**2**
Other payables	584	**445**
- Payables to the Energy and Environmental Services Fund (CSEA)	418	**381**
- Payables to employees	54	**26**
- Payables to pension and social security institutions	32	**16**
- Consultants and professionals	12	**8**
- Payables to the government	42	
- Other	26	**14**
	584	**447**

Payables to the CSEA (€381 million) refer to accessory tariffs for the transportation segment pursuant to the following resolutions: ARG/gas 177/10 (measures and interventions for energy saving and development of renewable energy sources in the natural gas sector: €138 million); ARG/gas 87/11 (payment to cover costs arising from the application of the revenue guarantee factor for the storage service and the charges borne by the GSE: €114 million); ARG/gas 92/08 (payment to cover costs arising from the application of the revenue guarantee factor for the LNG regasification service: €58 million); ARG/gas 155/11, as amended (recovery of charges related to outstanding receivables from the balancing of the gas system: €20 million); 363/2012/R/gas (recovery of charges applied for the default service on the transportation network: €20 million); ARG/com 93/10 (discounts for disadvantaged gas customers: €15 million); ARG/gas 184/09 (coverage of the equalisation imbalances of the revenues relating to the regional network capacity fee) (€6 million).
The reduction in trade and other Payables of €482 million compared with 31 December 2015 is due mainly to the deconsolidation of Italgas Reti S.p.A.
Note 32 - "Related-party transactions" contains information about payables due to related parties.
The fair value measurement of trade and other payables has no material impact given the short period of time between when the payable arises and its due date.

17. Other current and non-current assets

Other current liabilities, amounting to €21 million (€71 million at 31 December 2015), and *other non-current liabilities*, amounting to €309 million (€293 million at 31 December 2015), break down as follows:

	31.12.2015			31.12.2016		
(€ million)	Current	Non-current	Total	Current	Non-current	Total
Other liabilities from regulated activities	57	149	**206**	**12**	**167**	**179**
Market value of derivative financial instruments		1	**1**			
Other liabilities	14	143	**157**	**9**	**142**	**151**
- Prepaid revenue and income	5	18	**23**	**5**	**10**	**15**
- Prepaid contributions for connecting to the transportation network		4	**4**		**4**	**4**
- Other	9	121	**130**	**4**	**128**	**132**
	71	**293**	**364**	**21**	**309**	**330**

Liabilities from regulated activities, amounting to €179 million (€206 million at 31 December 2015), relate to:

- the transportation segment (€141 million) due to the transportation revenue invoiced in excess of the restriction established by the regulator and penalties charged to users who exceeded the committed capacity; this amount is to be returned through tariff adjustments pursuant to Resolution 166/05 of the Authority. The current and non-current portions amount to €12 million and €129 million respectively (€57 million and €110 million at 31 December 2015);
- the storage segment (€38 million) due to payments for balancing and stock replenishment, to be returned to service users pursuant to Resolution 50/06 of the Authority. The amount corresponds entirely to the non-current portion (€39 million at 31 December 2015).

Other liabilities of €151 million (€157 million at 31 December 2015) include:

- prepaid revenue and income (€12 million) relating mainly to the current and non-current portion of the prepaid fee for the concession to use fibre-optic cables given to a telecommunications operator (€2 million and €10 million, respectively);
- other liabilities relating mainly to: (i) guarantee deposits paid as collateral by users of the balancing service, pursuant to Resolution ARG/gas 45/11 (€62 million); and (ii) the higher quantities of fuel gas allocated by users in previous years pursuant to Resolution ARG/gas 184/09 compared with the quantities actually used in those years, equalised by reducing the quantities allocated by users (€66 million). The amount corresponds entirely to the non-current portion (€9 million and €53 million respectively for the current and the non-current portions at 31 December 2015).

18. Provisions for risks and charges

Provisions for risks and charges, which amount to €707 million (€776 million at 31 December 2015) are analysed in the table below:

	31.12.2015						
				Utilisations			
(€ million)	Opening balance	Provisions (*)	Increases due to passing of time	against charges	for excess (*)	Other changes	Final balance
Provision for site dismantling and restoration	650		11	(8)		(138)	**515**
Provision for environmental risks and charges	136	1	1	(3)		(4)	**131**
Provision for litigation	52	5		(5)	(19)	1	**34**
Other provisions	176	20		(5)	(8)	(87)	**96**
	1,014	**26**	**12**	**(21)**	**(27)**	**(228)**	**776**

(*) The values include €14 million in net utilisation of provisions for risks and charges attributable to discontinued operations.

(€ million)	Opening balance	Provisions (*)	Increases due to passing of time	Utilisations against charges	Utilisations for excess (*)	Other changes	Change in scope of consolidation	Final balance
	31.12.2016							
Provision for site dismantling and restoration	515		9	(11)		116	(1)	**628**
Provision for environmental risks and charges	131	6	1	(4)	(1)	5	(136)	**2**
Provision for litigation	34	7		(1)	(3)		(23)	**14**
Other provisions	96	27		(10)	(1)		(49)	**63**
	776	**40**	**10**	**(26)**	**(5)**	**121**	**(209)**	**707**

(*) The values include €20 million in net accruals to provisions for risks and charges attributable to discontinued operations in the period 1 January - 6 November 2016.

The change in the scope of consolidation (€209 million) refers to the deconsolidation of Italgas Reti S.p.A. following the transaction separating the natural gas distribution business from Snam.
Other changes (€121 million) relate essentially to: (i) the revision of estimated (discounted) costs for site dismantling and restoration (€116 million) in the storage segment (€91 million) and transportation segment (€25 million), essentially following the reduction of expected discount rates.
The provision of €628 million for site dismantling and restoration (€515 million at 31 December 2015) was recognised primarily due to expenses which are expected to be incurred for the removal of facilities and the restoration of sites in the natural gas storage (€518 million) and transportation (€105 million) business segments.
The provision for litigation (€14 million, compared with €34 million at 31 December 2015) included costs which the Company has estimated it will incur for existing lawsuits.
Other provisions for risks and charges (€63 million compared with €96 million at 31 December 2015) mainly involve expenses recognised to offset the item "Change in inventories", arising from the difference between the estimated quantities of Unaccounted-For Gas (UFG), which the Company expects to calculate definitively in the four-year period 2015-2018, and the forecast quantities that will be granted in kind by users as required by Resolution 514/2013/R/gas (€40 million).
In accordance with ESMA Recommendation 2015/1608 of 27 October 2015, the effects on provisions of risks and charges arising from a reasonably possible change to the discount rate used at year-end are shown below.
The sensitivity[34] of the discount rate represents the change in the value of the actuarial liability obtained using the end-of-year valuation data, changing the discount rate without any change in the other assumptions.

(€ million)	Change in discount rate	
Effect on the net obligation at 31.12.2016	**Reduction of 10%**	**Increase of 10%**
Provision for site dismantling and restoration	24	(23)

34 For the purposes of sensitivity, only provisions for risks and charges showing a significant accretion discount were taken into account.

19. Provisions for employee benefits

Provisions for employee benefits, amounting to €44 million (€166 million at 31 December 2015), can be broken down as follows:

(€ million)	31.12.2015	31.12.2016
Employee severance pay (TFR)	100	**29**
Supplemental healthcare provision for company executives of Eni (FISDE)	10	**3**
Gas Fund	35	
Other employee benefit provisions	21	**12**
	166	**44**

The provision for employee severance pay (TFR), governed by Article 2120 of the Italian Civil Code, represents the estimated liability determined on the basis of actuarial procedures for the amount to be paid to employees at the time that the employment is terminated. The principal amount of the benefit is equal to the sum of portions of the allocation calculated on compensation items paid during the employment and revalued until the time that such relationship is terminated. Due to the legislative changes introduced from 1 January 2007 for companies with more than 50 employees, a significant part of severance pay to be accrued is classified as a defined-contribution plan since the company's only obligation is to pay the contributions to the pension funds or to INPS. Liabilities related to severance pay pre-dating 1 January 2007 remain a defined-benefit plan to be valued using actuarial methods (€29 million; €100 million at 31 December 2015).

The supplementary healthcare provision for Company executives of Eni (FISDE) of €3 million (€10 million at 31 December 2015) includes the estimate of costs (determined on an actuarial basis) related to contributions benefiting current[35] and retired executives.

FISDE provides financial supplementary healthcare benefits to Eni Group[36] executives and retired executives whose most recent contract of employment was as an executive with the Eni Group. FISDE is funded through the payment of: (i) contributions from member companies; (ii) contributions from individual members for themselves and their immediate family; and (iii) ad hoc contributions for specific benefits. The amount of the liability and the healthcare cost are determined on the basis, as an approximation of the estimated healthcare expenses paid by the fund, of the contributions paid by the company in favour of pensioners.

Other employee benefit provisions of €12 million (€21 million at 31 December 2015) concern long-term benefits connected with deferred cash incentive plans (IMD), long-term cash incentive plans (ILT) (€9 million in total) and seniority bonuses (€3 million).

Deferred cash incentive plans are allocated to executives who have met the goals set out in the year preceding the allocation year, and allocate a basic incentive that is disbursed after three years and varies according to the performance achieved by the Company during the course of the three-year period following the time of the allocation. The benefit is provisioned when Snam's commitment to the employee arises. The estimate is subject to revision in future periods, based on the final accounting and updates to profit forecasts (above or below target).

The long-term incentive plans, which replaced the preceding stock option allocations, involve the payment, three years after allocation, of a variable cash bonus tied to a measure of company performance. Obtaining the benefit depends on the achievement of certain future performance levels and is conditional on the beneficiary remaining with the Company for the three-year period following

35 For executives in service, contributions are calculated from the year in which the employee retires and refer to the years of service provided.

36 The fund provides the same benefits for Snam Group executives.

the allocation (the "vesting period"). This benefit is allocated pro rata over the three-year period depending on the final performance parameters.
Seniority bonuses are benefits paid upon reaching a minimum service period at the Company and are paid in kind.
Deferred cash incentive plans, long-term cash incentive plans and seniority bonuses are classified as other long-term benefits pursuant to IAS 19.
The composition of and changes in employee benefit provisions, determined by applying actuarial methods, are as follows[37]:

	31.12.2015					31.12.2016				
(€ million)	Provision for employee severance pay (TFR)	FISDE	Gas Fund	Other provisions	Total	Provision for employee severance pay (TFR)	FISDE	Gas Fund	Other provisions	Total
Current value of the obligation at the start of the year	**108**	**11**		**22**	**141**	**100**	**10**	**35**	**21**	**166**
Current cost				6	**6**				**5**	**5**
Cost of past service (*)			35		**35**			**(1)**		**(1)**
Cost in interest	2				**2**	**2**				**2**
Revaluations/ (Impairment losses):	(5)	(1)			**(6)**	**6**	**(1)**	**2**		**7**
- Actuarial (gains) / losses resulting from changes in the financial assumptions (**)	(4)	(1)			**(5)**	**7**		**2**		**9**
- Effect of past experience (**)	(1)				**(1)**	**(1)**	**(1)**			**(2)**
Benefits paid	(6)			(7)	**(13)**	**(3)**			**(7)**	**(10)**
Change in scope of consolidation	1				**1**	**(76)**	**(6)**	**(36)**	**(7)**	**(125)**
Current value of the obligation at the end of the year	**100**	**10**	**35**	**21**	**166**	**29**	**3**		**12**	**44**

(*) The values are entirely attributable to discontinued operations and involve the expenses, including in the changes in the estimate, resulting from the closure of the gas fund (-€1 million in 2016; +€35 million in 2015).

(**) The values include +€6 million in 2016 (-€4 million in 2015) of Actuarial (Gains) / Losses from remeasurements of defined-benefit plans for employees attributable to discontinued operations.

37 The table also provides a reconciliation of liabilities recorded for employee benefit provisions.

Costs for defined-benefit plans recognised under other components of comprehensive income are broken down in the following table:

	2015			2016			
(€ million)	Provision for employee severance pay (TFR)	FISDE	Total	Provision for employee severance pay (TFR)	FISDE	Gas Fund	Total
Revaluations/(Impairment losses):							
Actuarial (gains) / losses resulting from changes in the financial assumptions	(4)	(1)	**(5)**	**7**		**2**	**9**
- Effect of past experience	(1)		**(1)**	**(1)**	**(1)**		**(2)**
	(5)	**(1)**	**(6)**	**6**	**(1)**	**2**	**7**

The main actuarial assumptions used to determine liabilities at the end of the year and to calculate the cost for the following year are indicated in the table below:

	2015				2016		
	Provision for employee severance pay (TFR)	FISDE	Gas Fund	Other	Provision for employee severance pay (TFR)	FISDE	Other
Discount rate (%)	1.9	1.9	1.8	0.6-1.9	**1.2**	**1.2**	**0.5.-0.8**
Inflation rate (%) (*)	1.8	1.8	N.A.	1.8	**1.2**	**1.2**	**1.2**

(*) With regard to the other provisions, the rate relates only to seniority bonuses.

The discount rate adopted was determined by considering the yields on bonds issued by Eurozone companies with AA ratings.
The employee benefit plans recognised by Snam are subject, in particular, to interest rate risk, in the sense that a change in the discount rate could result in a significant change in the liability.
The table below illustrates the effects of a reasonably possible[38] change in the discount rate at the end of the year.
The sensitivity of the discount rate represents the change in the value of the actuarial liability obtained using the end-of-year valuation data, changing the discount rate by a certain number of basis points, without any change in the other assumptions.

(€ million)	Discount rate	
Effect on the net obligation at 31.12.2016	**Reduction of 0.5%**	**Increase of 0.5%**
Employee severance pay (TFR)	2	(2)
FISDE		1
	2	**(1)**

38 With regard to FISDE, any changes relating to mortality do not have a significant effect on the liability.

The maturity profile of the obligations for employee benefit plans is shown in the following table:

	31.12.2015					31.12.2016			
(€ million)	Provision for employee severance pay (TFR)	FISDE	Gas Fund (*)	Other provisions	Total	Provision for employee severance pay (TFR)	FISDE	Other provisions	Total
Within the next year	3		3	9	**15**	**1**		**4**	**5**
Within five years	19	1	12	11	**43**	**4**		**6**	**10**
Between five and ten years	39	2	15	1	**57**	**10**		**1**	**11**
Beyond 10 years	39	7	8		**54**	**14**	**3**	**1**	**18**
	100	**10**	**38**	**21**	**169**	**29**	**3**	**12**	**44**

(*) The amount includes an estimate of the INPS solidarity surcharge of 10% applied to the amounts to be allocated to the supplementary pension schemes.

The weighted average maturity of obligations for employee benefit plans is shown below:

	2015				2016		
	Provision for employee severance pay (TFR)	FISDE	Gas Fund	Other	Provision for employee severance pay (TFR)	FISDE	Other
Weighted average maturity (years)	9	17	6	3	**11**	**23**	**3**

20. Deferred tax liabilities

Deferred tax liabilities of €187 million (€388 million at 31 December 2015) are stated net of offsettable prepaid tax assets of €369 million (€515 million at 31 December 2015).
There are no prepaid tax assets which cannot be offset.

(€ million)	31.12.2015	Provisions (*)	Utilisations (*)	Other changes	Change in scope of consolidation	31.12.2016
Deferred tax liabilities	903		(47)	30	(330)	**556**
Prepaid tax assets	(515)	(64)	23	(25)	212	**(369)**
	388	**(64)**	**(24)**	**5**	**(118)**	**187**

(*) The values include €40 million in net prepaid taxes investments from discontinued operations in the period 1 January - 6 November 2016.

Deferred tax liabilities and prepaid tax assets break down as follows, based on the most significant temporary differences:

	31.12.2016								
(€ million)	Opening balance	Provisions	Utilisations	Significant impacts on shareholders' equity (*)	Other changes	Change in scope of consolidation	Final balance	*of which: IRES*	*of which: IRAP*
Deferred tax liabilities	**903**		**(47)**		**30**	**(330)**	**556**	***541***	***15***
Depreciation and amortisation exclusively for tax purposes	663		(26)		(2)	(182)	453	*453*	
Revaluation of property, plant and equipment	141		(6)			(135)			
Capital gains subject to deferred taxation	18		(14)			(4)			
Site dismantling and restoration	57				32		89	*76*	*13*
Capitalisation of financial expenses	10					(3)	7	*6*	*1*
Impairment losses on receivables in excess of tax deductibility	4					(1)	3	*3*	
Other temporary differences	10		(1)			(5)	4	*3*	*1*
Prepaid tax assets	**(515)**	**(64)**	**23**	**(2)**	**(23)**	**212**	**(369)**	***(333)***	***(36)***
Site dismantling and restoration	(144)	(3)	3		(32)		(176)	*(150)*	*(26)*
Provision for risks and charges and other non-deductible provisions	(119)	(23)	6		3	62	(71)	*(66)*	*(5)*
Non-repayable and contractual grants	(104)		2			80	(22)	*(19)*	*(3)*
Non-deductible amortisation and depreciation	(117)	(35)	7		7	50	(88)	*(87)*	*(1)*
Employee benefits	(16)	(3)	3	(2)	(1)	11	(8)	*(7)*	*(1)*
Other temporary differences	(15)		2			9	(4)	*(4)*	
Net deferred tax liabilities	**388**	**(64)**	**(24)**	**(2)**	**7**	**(118)**	**187**	***208***	***(21)***

(*) The values refer to tax on Actuarial (Gains) / losses from remeasurements of defined-benefit plans for employees attributable to discontinued operations of the period 1 January - 6 November 2016.

Prepaid tax assets and deferred tax liabilities are considered to be long term.
Note 29 "Income taxes" provides information about taxes for the year.

21. Discontinued Operations

On 7 November 2016, the start date of the listing of Italgas S.p.A. (formerly ITG Holding S.p.A.) on the Mercato Telematico Azionario organised and managed by Borsa Italiana S.p.A., the transaction separating Italgas Reti S.p.A. (formerly Italgas S.p.A.) from Snam S.p.A. became effective.
The purpose of the transaction was primarily a business one, aimed at separating the Snam Group's Italian gas distribution activities, featuring specific characteristics compared with other Snam Group operations in terms of operational organisation, competitive context, regulation and investment requirements, from the gas transportation and dispatching, regasification and storage businesses in Italy and abroad.

Under the scope of the transaction, in a unitary and substantially simultaneous manner[39], which led to the transfer to Italgas S.p.A. of the 100% stake of Snam S.p.a. in Italgas Reti S.p.A., the following was agreed on 2 November 2016:

- the partial and proportional demerger with the allocation to Italgas of an equity investment equal to the 52.90% held by Snam in Italgas Reti and consequent allocation to Snam shareholders of the remaining 86.50% of the share capital of Italgas. As a result of the demerger, Italgas S.p.A. issued and assigned one Italgas S.p.A. share for every five Snam S.p.A. shares owned to Snam S.p.A. shareholders;
- the contribution in kind by Snam S.p.A. to Italgas S.p.A. of a shareholding equal to 8.23% of the share capital of Italgas Reti S.p.A. following the allocation to Snam of 108,957,843 newly issued shares of Italgas S.P.A., in order to enable Snam S.p.A. to hold, post-demerger, a stake of 13.5% in ltalgas S.p.A.;
- the sale by Snam S.p.A. to Italgas S.p.A. of 98,054,833 Italgas Reti S.p.A. shares, equal to 38.87% of the share capital, for a consideration of €1,503 million, following the assumption of a debt of the same amount pertaining to Italgas S.p.A. in order to generate an adequate level of financial debt.

The deed of demerger was recorded in the Milan Companies Register on 3 November 2016 following the issuing by Borsa Italiana of the admission to listing on the Mercato Telematico Azionario, issued on 2 November 2016, and the judgment of equivalence by CONSOB, pursuant to Article 57, paragraph 1, letter d) of the Issuers' Regulation, for the Information Document relating to the demerger, issued on 3 November 2016.
As laid down in the deed of demerger, the effects begin from the start date of trading, i.e. 7 November 2016.
On 7 November 2016, through the listing of Italgas S.p.A., the shareholder's agreement, signed on 20 October 2016 by CDP Reti S.p.A. and CDP Gas S.r.l., involving all the shares held by each of them in Italgas S.p.A., became effective. The shareholder's agreement constitutes a block voting shareholder's agreement, with Snam having the right of early withdrawal if, in the event of Snam opposing the vote of the syndicated shares on reserved subjects of an extraordinary nature, Snam does not sell its equity investment in Italgas within the next 12 months (accelerated exit). The shareholder's agreement also requires CDP Reti, CDP Gas and Snam to submit a joint list for the appoint of the Board of Directors of Italgas that ensures Snam has 1 candidate. The transfers of Snam's equity investment in Italgas (even in the case of accelerated exit) are subject to the consent and pre-emptive rights of CDP Reti, as well as to the obligation of a takeover by a third-party. Snam may also increase its equity investment. The agreement is for three years, renewable unless notice is given; if Snam does not renew it, CDP Reti will have the option to purchase Snam's equity investment in Italgas at the fair market value.
Following the transaction, each Snam shareholder will own two different shares, in place of each Snam share, representing two different areas of the business. Specifically, the Snam shares, on the one side, Snam being a company operating in the transportation, dispatching, regasification and storage of natural gas, and the ITG Holding shares, on the other side, Italgas being a company operating in the distribution of natural gas.
For the purpose of the 2016 financial statements, as the separation of the natural gas distribution business involves a major line of business, this led to the separate representation of the results and cash flows of the natural gas distribution segment for the period 1 January - 6 November 2016, the

39 Under the scope of this transaction, as illustrated in the Information Document on the listing of Italgas ordinary shares published on 4 November 2016, Snam S.p.A. submitted a tax ruling request to the Italian Tax Authority to obtain an opinion with regard to the absence of unlawful profiles with reference to the existing transactions under the scope of the separation of the gas distribution business pertaining to its subsidiary Italgas S.p.A., from Snam. In response to this request, the Tax Authority confirmed the absence of unlawful profiles in relation to the above-mentioned transactions.

distribution segment as discontinued operations pursuant to IFRS 5 Non-current Assets Held for Sale and Discontinued Operations".
The main economic - financial data of discontinued operations, net of inter-company items for 2016 (01.01.2016 - 06.11.2016) and for the year of comparison 2015:

(€ million)	2015	2016
Total income	1,416	**1,134**
Operating costs	(620)	**(543)**
EBIT	523	**348**
Financial income (expense)		**(8)**
Income (expense) from equity investments	29	**17**
Pre-tax profit	552	**357**
Income tax	(110)	**(87)**
- of which current taxes	*169*	***127***
- of which prepaid taxes	*(59)*	***(40)***
Net result	442	**270**
- of which Snam shareholders'	*442*	***270***
- of which minority interests		
Net cash flow from operating activities	517	**413**
Net cash flow from investment activities	(379)	**(298)**
Net cash flow from financing activities	(183)	**(116)**
Technical investments	393	**293**

The transaction of separating the natural gas distribution business from Snam led to a reduction in the net financial debt of €3.6 billion in total, of which €2.1 billion related to the repayment at market value of the inter-company loans and €1.5 billion to the repayment of the vendor loan under the transaction involving the sale of 38.87% of Snam S.p.A.'s stake in Italgas S.p.A. The cash in for the company amounted to a total of €3.2 billion, net of €0.4 billion in EIB loans relating to Italgas projects transferred to the latter.
Note that the transaction of separating the natural gas distribution from Snam is a business combination involving entities under common control, specifically, the companies participating in the business combination are ultimately controlled, pursuant to IFRS 10 by the same party, i.e. CDP, both before and after the combination and this control is not temporary in nature. As a result, for the purpose of the Snam Group consolidated financial statements, the transaction in its entirety was recorded applying the principle of continuity of values.

22. Shareholders' equity

Shareholders' equity, which amounts to €6,497 million (€7,586 million at 31 December 2015) breaks down as follows:

(€ million)	31.12.2015	31.12.2016
Snam Shareholders' equity	**7,585**	**6,497**
Share capital	3,697	**2,736**
Share premium reserve	1,603	**1,140**
Legal reserve	739	**547**
Cash flow hedge reserve	(3)	**(2)**
Reserve from remeasurement of defined-benefit plans	(16)	**(7)**
Consolidation reserve	(1,701)	**(674)**
Other reserves	46	**35**
Retained earnings	1,987	**1,969**
Net profit	1,238	**861**
Less:		
- Negative reserve for treasury shares in the portfolio	(5)	**(108)**
Shareholders' equity attributable to third parties	**1**	
Napoletanagas	1	
	7,586	**6,497**

Below is a breakdown of the shareholders' equity of Snam at 31 December 2016.

Share capital

The share capital as at 31 December 2016 consisted of 3,500,638,294 shares without nominal value (the same as at 31 December 2015), with a total value of €2,735,670,476 (€3,696,851,994 at 31 December 2015).

The reduction in the composition of the share capital is due to the partial and proportional demerger of Snam which took effect on 7 November 2016.

Share premium reserve

The share premium reserve at 31 December 2016 totalled €1,140 million (€1,603 million at 31 December 2015). The reduction of €463 million is mainly due to: (i) the partial and proportional demerger of Snam with effect from 7 November 2016 (€416 million); (ii) the use of part of the reserve to pay shareholders the 2015 dividend (€50 million).

Legal reserve

The legal reserve at 31 December 2016 totalled €547 million (€739 million at 31 December 2016). The reduction compared with 31 December 2015 is due to the partial and proportional demerger of Snam which took effect on 7 November 2016.

Reserve for fair value of cash flow hedging derivatives

The cash flow hedge reserve (-€2 million, compared with -€3 million at 31 December 2015) includes the fair-value measurement of cash flow hedging derivatives relating to a cross currency swap described in Note 11 "Other current and non-current assets".

The changes in the reserve during the course of the year are shown below:

(€ million)	Gross reserve	Tax effect	Net reserve
Reserve at 31.12.2015	**(4)**	**1**	**(3)**
Changes in 2016	1		**1**
Reserve at 31.12.2016	**(3)**	**1**	**(2)**

Reserve for remeasurement of defined-benefit plans for employees

At 31 December 2016, the reserve for remeasurement of employee benefit plans (-€7 million; -€16 million at 31 December 2015) included actuarial losses, net of the relative tax effect, recognised under other components of comprehensive income pursuant to IAS 19.

The changes in the reserve during the course of the year are shown below:

(€ million)	Gross reserve	Tax effect	Net reserve
Reserve at 31.12.2015	**(25)**	**9**	**(16)**
Changes in 2016	(7)	2	**(5)**
Change in scope of consolidation	20	(6)	**14**
Reserve at 31.12.2016	**(12)**	**5**	**(7)**

Consolidation reserve

The negative consolidation reserve of €674 million (compared with €1,701 million at 31 December 2015) includes the value derived from the difference between the acquisition cost of the Stogit equity investments (€1,597 million, including the additional transaction expenses and price adjustment following the agreements reached at transaction closing) and the shareholders' equity attributable to the Group on the transaction completion date (€923 million). The reduction of €1,027 million is due to: (i) the reclassification of the reserve for the deconsolidation of Italgas Reti S.p.A. following the partial and proportional demerger of Snam S.p.A. with the allocation to Italgas S.p.A. of 52.90% of the stake in Italgas Reti S.p.A.; (ii) the price adjustment in favour of Eni, recognised in 2010, in relation to contractual agreements with Eni at the time of the acquisition of the stake in Stogit (€21 million). The adjustment follows the definitive approval by the Electricity, Gas and Water Authority (AEEGSI) of the storage tariffs for 2015, the reference tariff year for the purposes of adjusting the contractual price.

Other reserves

The other reserves of €35 million (€46 million at 31 December 2015) refer mainly to the effects of the valuation of the equity investments using the equity method.

Retained earnings

Retained earnings totalled €1,969 million (€1,987 million at 31 December 2015). The change is mainly due to the allocation of the residual profit for 2015 (€413 million) partly offset by the effect of the partial and proportional demerger of Snam as from 7 November 2016.

Negative reserve for treasury shares in the portfolio

The treasury shares held by the Company, amounting to €108 million (€5 million at 31 December 2015), are broken down in the table below:

Period	Number of shares	Average cost (€)	Total cost (€ million) (*)	Share capital (%) (**)
Treasury shares acquired	**224,315,880**			
Year 2005	800,000	4.399	3	0.04
Year 2006	121,731,297	3.738	455	6.22
Year 2007	73,006,653	4.607	336	3.73
Year 2016	28,777,930	3.583	103	0.82
Less treasury shares allocated/sold/cancelled:	**(194,410,700)**			
- granted under the 2005 stock grant plans	(39,100)			
- sold under the 2005 stock option plans	(69,000)			
- sold under the 2006 stock option plans	(1,872,050)			
- sold under the 2007 stock option plans	(1,366,850)			
- sold under the 2008 stock option plans	(1,514,000)			
- cancelled in 2012 following resolution by the Extraordinary Shareholders' Meeting of Snam S.p.A.	(189,549,700)			
Treasury shares held by the Company at 31 December 2016	**29,905,180**			

(*) Calculated on the basis of historical prices.

(**) The share capital is the same as that of the date of the last acquisition in the year.

At 31 December 2016, Snam held 29,905,180 treasury shares (1,127,250 at 31 December 2015), equal to 0.85% of its share capital, recorded as a €108 million reduction in shareholders' equity (€5 million at 31 December 2015). Their market value at 31 December 2016 was around €117 million[40]. At this date, all stock options had been exercised. There are therefore no remaining treasury shares committed to these plans.

The increase of €103 million follows the decision of the Shareholders' Meeting which, on 1 August 2016, authorised the Board of Directors, pursuant to Articles 2357, paragraph 3 and 2357-*ter* of the Civil Code to purchase[41], in one or more tranches, on the Mercato Telematico Azionario managed by Borsa Italiana S.p.A. within 48 months of the date of the partial and proportional demerger of Snam up to a maximum of 121,395,090 Snam ordinary shares up to the maximum limit of 3.5% of the subscribed and paid-up share capital.

On 2 March 2017, Snam S.p.A. purchased a total of 64,046,725 treasury shares, equal to 1.83% of the share capital, for a total cost of €233,081,796.89 million.

Dividends

On 27 April 2016, the Ordinary Shareholders' Meeting of Snam S.p.A. resolved to distribute an ordinary dividend for 2015 of €0.25 per share; the dividend (€875 million) was paid out as of 23 May 2016, with an ex-coupon date of 23 May 2016 and a record date of 24 May 2016.

In its meeting of 6 March 2017, the Board of Directors proposed to the Shareholders' Meeting convened for 11 April 2017 the distribution of an ordinary dividend of €0.21 per share. The dividend will be paid out as of 24 May 2017, with an ex-coupon date of 22 May 2017 and a record date of 23 May 2017.

40 Calculated by multiplying the number of treasury shares by the official share price at 31 December 2016 (€3.92 per share).

41 The purchases should be made at a price not lower than or higher than 5% of the reference price on the stock exchange the day before each individual purchase and therefore up to a total amount of no more than €500 million.

23. Guarantees, commitments and risks

Guarantees, commitments and risks, amounting to €4,605 million (€4,334 million at 31 December 2015) comprise:

(€ million)	31.12.2015	31.12.2016
Guarantees given in the interest of:	**124**	**123**
- subsidiaries (*)	124	35
- associates (*)		88
Financial commitments and risks:	**4,210**	**4,482**
Commitments	**1,907**	**2,632**
Commitments for the purchase of goods and services	1,898	1,853
Commitments in associates		776
Other	9	3
Risks	**2,303**	**1,850**
- third-party assets on deposit	2,210	1,785
- compensation and litigation	93	65
	4,334	**4,605**

(*) At 31 December 2016, hold-harmless letters issued to Eni in favour of Snam amounted to €1 million.

Guarantees

Guarantees issued in the interest of subsidiaries (€35 million) essentially refer to hold-harmless letters issued in favour of third parties for performance bonds.

Other personal guarantees issued in the interest of associates (€88 million) refer mainly to hold-harmless letters issued in favour of third parties for participation in tenders and concessions relating to the natural gas distribution service (€63 million) and performance bonds (€24 million).

Commitments

At 31 December 2016, commitments with suppliers to purchase property, plant and equipment and provide services relating to investments in property, plant and equipment and intangible assets under construction totalled €1,853 million (€1,898 million at 31 December 2015).

Commitments in associates (€776 million) refer to the commitment undertaken by Snam S.p.A. with regard to TAP as the shareholder responsible for financing the project according to the level of the shareholding. The total commitment of Snam S.p.A. at 31 December 2016 undertaken with regard to the estimated cost of the entire project approved by TAP in 2016 stands at around €0.8 billion. At 31 December 2016 Snam paid a total of €0.3 billion, including sums recognised during the conclusion of the transaction to purchase the company, of which €0.1 billion refers to the above commitment. It should, however, be pointed out that in the case of finance agreements finalised for the market cost of the project, guarantees on the loans will be defined, with a consequent reduction of the overall amount of the commitment, as well as the repayment methods for the shareholder loans.

Other commitments refer to future minimum payments relating to operating lease transactions that cannot be cancelled (€3 million expiring in the following year).

Risks

Risks related to third-party assets on deposit, equal to €1,785 million (€2,210 million at 31 December 2015) relate to approximately 8.36 billion cubic metres of natural gas deposited in the storage plants by customers of the service. This amount was determined by valuing the deposited gas quantities at the average stock cost of approximately €0.22 per standard cubic metre (€0.26 at 31 December 2015).

Risks concerning compensation and litigation (€65 million) relate to possible (but not probable) claims for compensation arising from ongoing litigation, with a low probability that the pertinent economic risk will arise.

FINANCIAL RISK MANAGEMENT

Introduction

The main corporate financial risks identified, monitored and, where specified below, managed by Snam are as follows:

- risk arising from exposure to fluctuations in interest and exchange rates;
- credit risk arising from the possibility of counterparty default;
- liquidity risk arising from not having sufficient funds to meet short-term financial commitments;
- rating risk;
- debt covenant and default risk.

There follows a description of Snam's policies and principles for the management and control of the risks arising from the financial instruments listed above. In accordance with IFRS 7 - "Financial instruments: additional information", there are also descriptions of the nature and size of the risks resulting from such instruments.
Information on other risks affecting the Company's business (natural gas price risk, operational risk and risks specific to the segment in which Snam operates) can be found in the "Elements of risk management and uncertainty" section of the Directors' Report.

Interest rate risk

Interest rate risk is associated with fluctuations in interest rates affecting the market value of the Company's financial assets and liabilities and its net financial expense. Snam aims to optimise interest rate risk while pursuing its financial objectives. The Snam Group has adopted a centralised organisational model. In accordance with this model, Snam's various departments access the financial markets and use funds to cover financial requirements, in compliance with approved objectives, ensuring that the risk profile stays within defined limits. At 31 December 2016, the Snam Group used external financial resources in the form of bonds and bilateral and syndicated loans with banks and other financial institutions, in the form of medium- to long-term loans and bank credit lines at interest rates indexed to the reference market rates, in particular the Europe Interbank Offered Rate (Euribor), and at fixed rates.
The exposure to interest rate risk at 31 December 2016 was approximately 36% of the total exposure of the Group (the same at 31 December 2015). At 31 December 2016 Snam has an Interest Rate Swap (IRS) agreement on a fixed rate bond loan for an amount of €500 million with a due date of 2023. IRS agreements are used to convert fixed rate loans into variable rate loans[42].
The effects on shareholders' equity and net profit at 31 December 2016 of a hypothetical change of +/-10% in interest rates applied over the course of the year is less than €1 million. Though the Snam Group has an active risk management policy, the rise in interest rates relating to floating-rate debt not hedged against interest rate risk could have negative effects on Snam Group's operations, balance sheet and cash flow.

42 From 27 January 2017 the above coverage was discontinued following the extinguishment of the derivative instrument.

Exchange rate risk

Snam's exposure to exchange rate risk relates to both transaction risk and translation risk. Transaction risk is generated by the conversion of commercial or financial receivables (payables) into currencies other than the functional currency and is caused by the impact of unfavourable exchange rate fluctuations between the time that the transaction is carried out and the time it is settled (collection/payment). Translation risk relates to fluctuations in the exchange rates of currencies other than the consolidation currency (the euro), which can result in changes to consolidated shareholders' equity.
Snam's risk management system aims to minimise transaction risk through measures such as the use of derivatives. It cannot be ruled out that significant future changes in exchange rates may generate negative effects on Snam Group's operations, balance sheet and cash flow, irrespective of the policies for hedging the risk resulting from exchange rate fluctuations through the financial instruments on the market put in place by Snam.
As at 31 December 2016, Snam's foreign-currency items essentially refer to a ¥10 billion bond maturing in 2019 and with an issue-date value of approximately €75 million. The bond has been fully converted into Euros by a cross-currency swap, with the same notional amount and maturity as the hedged component. This swap is considered to be a cash flow hedging derivative. Snam does not have any cross-currency swaps in place for speculative purposes.
The effects on shareholders' equity and net profit at 31 December 2016 of a hypothetical change of +/-10% in €/¥ exchange rates actually applied over the course of the year is less than €1 million. The exchange rate change has no effect on the profit for the period since the effects of such a change are offset by the effects of the hedging derivative.

Credit risk

Credit risk is the Company's exposure to potential losses arising from counterparties failing to fulfil their obligations. Default or delayed payment of fees may have a negative impact on the economic results and the financial balance of Snam. For the risk of non-compliance by the counterparty concerning contracts of a commercial nature, the credit management for credit recovery and any possible disputes is handled by the business units and the centralised Snam departments. Snam provides business services to a small number of operators in the gas sector, the largest of which by revenue is Eni S.p.A. The rules for client access to the services offered are established by the Authority and set out in the Network Codes. For each type of service, these documents explain the rules regulating the rights and obligations of the parties involved in providing said services and contain contractual conditions which reduce the risk of non-compliance by the clients. In certain cases, the Codes require guarantees to be provided to partly cover obligations where the client does not possess a credit rating issued by one of the leading international agencies. The regulations also contain specific clauses which guarantee the neutrality of the entity in charge of balancing, an activity carried out from 1 December 2011 by Snam Rete Gas as the major transportation company. In particular, balancing gives Snam Rete Gas an obligation to acquire, according to criteria of financial merit, the resources necessary to guarantee the safe and efficient movement of gas from entry points to withdrawal points, in order to maintain a constant balance in the network, procure the necessary storage resources for covering imbalances for individual users and adjust the relevant income statement items.
Snam's maximum exposure to credit risk as at 31 December 2016 is represented by the book value of the financial assets recorded in the consolidated financial statements of the Snam Group as at 31 December 2016. As shown in Note 8 "Trade and other receivables", overdue and non-impaired receivables as at 31 December 2016 came to €154 million (€251 million at 31 December 2015) and mainly refer to the storage segment (€99 million), principally comprising VAT billed to users for the use of strategic gas unduly withdrawn in 2010 and 2011 and various receivables from Public administrations and the transportation sector (€47 million) essentially involving receivables from Users

(€31 million) for penalties and additional tariffs, for which no impairment loss is registered as they are covered through the fee tariff methods.
Approximately 65% of trade receivables (60% as at 31 December 2015) were with extremely reliable clients, including Eni, which represents 21% of total trade receivables (28% as at 31 December 2015). It cannot be ruled out however, that Snam may incur liabilities and/or losses from the failure of its clients to comply with payment obligations, particularly given the current economic and financial situation, which makes the collection of receivables more complex and critical. Snam's maximum exposure to credit risk at 31 December 2016 is the book value of the financial assets in its statement of financial position.

Liquidity risk

Liquidity risk is the risk that new financial resources may not be available (funding liquidity risk) or that the Company may be unable to convert assets into cash on the market (asset liquidity risk), meaning that it cannot meet its payment commitments. This may affect profit or loss should the Company be obliged to incur extra costs to meet its commitments or, in extreme cases, lead to insolvency and threaten the Company's future as a going concern.
Snam's risk management system aims to establish, under the financial plan, a financial structure that, in line with the business objectives, ensures sufficient liquidity for the Group, minimising the relative opportunity cost and maintaining a balance in terms of the duration and composition of the debt.
As shown in the "Interest rate risk" section, the Company had access to a wide range of funding sources through the credit system and the capital markets (bilateral contracts, pool financing with major domestic and international banks, loan contracts with the EIB and bonds).
Snam's objective is to maintain a debt structure that is balanced in composition between bonds and bank credit, and the availability of usable committed bank credit lines, in line with its business profile and the regulatory environment in which Snam operates.
At 31 December 2016, Snam had unused committed long-term credit lines worth approximately €3.2 billion. In addition, at the same date Snam had a Euro Medium Term Notes (EMTN) programme for a maximum total value of €10 billion, of which approximately €7.5 billion was used at 31 December 2016. Based on existing bond loans at 31 December 2016, the renewal of the programme allows for the issue, by 30 September 2017, of bonds worth up to €2.5 billion[43], to be placed with institutional investors operating in Europe.
Snam's risk management system aims to establish, under the financial plan, a financial structure that, in line with the business objectives, ensures sufficient liquidity for the Group, minimising the relative opportunity cost and maintaining a balance in terms of the duration and composition of the debt.

Rating risk

With reference to rating risk, Snam's long term rating is equal to: (i) Baa1, confirmed on 19 December 2016 by Moody's Investors Services Ltd ("Moody's"), downgrading the outlook from stable to negative following the same action taken on the rating of the Italian Republic (which was downgraded from Baa2 with a stable outlook to Baa2 with a negative outlook) which took place of 7 December 2016; (ii) BBB with a stable outlook, confirmed on 29 November 2016 by Standard & Poor's Rating Services ("S&P"); (iii) BBB+ with a stable outlook, confirmed on 29 July 2016 by Fitch Ratings ("Fitch"). Snam's long-term rating by Moody's and Standard & Poor's is a notch higher than that of Italian sovereign debt. Based on the methodology adopted by these rating agencies, the downgrade of one notch from the current rating of the Republic of Italy would lead to a corresponding reduction of Snam's current rating.

43 Also taking into consideration the additional bond issues in January and February 2017, for a nominal overall amount of €800 million, the programme allows the issuing of bond loans of a maximum amount of €1.7 billion.

The current credit ratings of the ratings' agencies include the separation of Italgas from Snam.
In this regard note that, following the announcement to the market of the operation of separating Italgas from Snam, on 29 June 2016 Fitch Ratings confirmed the rating of BBB+ with a stable outlook, Moody's confirmed the rating of Baa1, with a stable outlook and S&P confirmed the rating of BBB with a stable outlook. The main elements that caused the confirmation of the rating are: (i) the improvement of the credit metrics immediately following the transaction; (iii) Snam's confirmed focus on the regulated business in Italy, considered as stable and favourable with the minimum exposure of the results to the volatility of volumes of gas transported and (iii) the resilience of the financial metrics in stress tests featuring a reduction of the regulatory return.
Any downgrades in the rating assigned to the Snam Group, could limit the possibility of accessing the capital markets and increase the cost of raising funds and/or refinancing existing debt, with negative effects on Snam Group's operations, results, balance sheet and cash flow.

Debt covenant and default risk

Default risk is the possibility that when certain circumstances occur, the lender may enact contractual protections that may result in the early repayment of the loan, thus generating a potential liquidity risk.
As at 31 December 2016, Snam has unsecured bilateral and syndicated loan agreements in place with banks and other financial institutions. Some of these agreements include, *inter alia*, compliance with typical international practice commitments, some of which are subject to specific threshold values, such as, for example: (i) negative pledge commitments pursuant to which Snam and its subsidiaries are subject to limitations concerning the pledging of real property rights or other restrictions on all or part of the respective assets, shares or merchandise; (ii) *pari passu* and change-of-control clauses; and (iii) limitations on certain extraordinary transactions that the Company and its subsidiaries may carry out; (iv) limits on the debt of subsidiaries.
The bonds issued by Snam at 31 December 2016 as part of the Euro Medium Term Notes programme provide for compliance with covenants that reflect international market practices regarding, inter alia, negative pledge and pari passu clauses.
Failure to meet these covenants, and the occurrence of other events, for example cross-default events, may result in Snam's failure to comply and could trigger the early repayment of the relative loan.
Exclusively for the EIB loans, the lender has the option to request additional guarantees if Snam's credit rating is lower than BBB (Standard & Poor's/Fitch Ratings Limited) or Baa2 (Moody's) for at least two of the three ratings 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, creating additional costs and/or liquidity problems. There are no covenants among these commitments that involve compliance with ratios of an economic and/or financial nature.
With specific reference to the covenants in the context of the transaction of separating Italgas Reti from Snam, note that, at the date of this document, the consent issued by the financial institutions and the EIB has become effective and, in relation to the bond loans, issued under the scope of the Euro Medium Term Notes programme, Snam has obtained approval from the bondholders. In addition, the assumption of Snam's debt relating to two loans provided by the EIB and intended to financial Italgas projects has been finalised.

Future payments for financial liabilities, trade and other payables

The table below shows the repayment plan contractually established in relation to the financial payables, including interest payments:

					Maturity				
(€ million)	Balance at 31.12.2015	Balance at 31.12.2016	Maturing within 12 months	Maturing beyond 12 months	2018	2019	2020	2021	Beyond
Financial liabilities									
Bank loans	3,948	**3,447**	**1,686**	**1,761**	24	643	50	82	962
Bonds (*)	9,695	**7,545**	**505**	**7,040**	922	922	1,216	332	3,648
Other lenders	35	**32**	**32**						
Interest on loans (*)	1,632	**977**	**201**	**776**	197	148	120	96	215
	15,310	**12,001**	**2,424**	**9,577**	**1,143**	**1,713**	**1,386**	**510**	**4,825**

(*) Future payments include the cash flow generated by hedging derivatives (CCS and IRS).

For information on the payment terms for trade and other payables, please see Note 16 of the consolidated financial statement.

Other information on financial instruments

In relation to the categories mentioned in IAS 39 "Financial instruments: recognition and measurement", Snam has no financial assets held to maturity, available for sale or held for trading. As a result, the financial assets and liabilities all fall within the classification of financial instruments measured at amortised cost.

The book value of financial instruments and the relative effects on results and the balance sheet can be seen below.

	Book value		Income/Expense recognised in the income statement		Income/Expense recognised in shareholders' equity (a)	
(€ million)	Balance at 31.12.2015	Balance at 31.12.2016	2015	2016	2015	2016
Financial instruments measured at amortised cost						
- Trade and other receivables (b)	1,804	**1,308**	(40)	**2**		
- Financial receivables (c)	78	**213**	3	**4**		
- Trade and other payables (b)	1,746	**1,264**				
- Financial payables (c)	(13,796)	**(11,090)**	(364)	**(624)**		
Financial instruments measured at fair value						
Net assets (liabilities) for hedging derivatives (c)	7	**24**		**1**	...	**1**
Adjustment of financial receivables from the Italgas Group				**119**		

(a) Net of tax effect.

(b) The effects on the income statement are recorded under "Purchases, services and other costs" and "Financial income/(expense)".

(c) The effects on the income statement are recorded under "Financial income/(expense).

Market value of financial instruments

Below is the classification of financial assets and liabilities measured at fair value in the statement of financial position in accordance with the fair value hierarchy defined on the basis of the significance of the inputs used in the measurement process. More specifically, in accordance with the characteristics of the inputs used for measurement, the fair value hierarchy comprises the following levels:

a) level 1: prices quoted (and not amended) on active markets for the same financial assets or liabilities;
b) level 2: measurements made on the basis of inputs differing from the quoted prices referred to in the previous point, which, for the assets/liabilities submitted for measurement, are directly (prices) or indirectly (price derivatives) observable;
c) level 3: inputs not based on observable market data.

With regard to the above, the classification of the assets and liabilities measured at fair value on the statement of financial position according to the fair value hierarchy concerned derivative financial instruments at 31 December 2016 classified at level 2 and recognised in Note 11 under "Other current and non-current liabilities" (€24 million).

Disputes and other measures

Snam is involved in civil, administrative and criminal cases and legal actions related to its normal business activities. According to the information currently available and considering the existing risks, Snam believes that these proceedings and actions will not have material adverse effects on its consolidated financial statements.
The following is a summary of the most significant proceedings; unless indicated otherwise, no allocation has been made for the litigation described below because the Company believes it improbable that these proceedings will have an unfavourable outcome or because the amount of the allocation cannot be reliably estimated.

Criminal cases

Snam Rete Gas S.p.A. - Judiciary investigations into gas metering

In 2006, the public prosecutor at the Court of Milan opened a criminal case on the issue of gas metering and the legitimacy and reliability of "Venturi meters". This case involved several companies in the gas sector, including Snam Rete Gas. The company was investigated pursuant to Article 24 and 25-*ter* of Legislative Decree 231/2001. The notice of conclusion of preliminary investigations was served in November 2009. Some managers and department heads (including some no longer employed by the company) were under investigation with regard to various matters.
The period under investigation is a time span that, in total, covers the years from 2003 to 2007, relating primarily to annual natural gas consumption reports and to assessment and/or payment of excise duties on natural gas, as well as to possible obstruction of supervisory duties. With the help of independent external experts, the administrative, tax and European legislation aspects have been examined more closely. Snam Rete Gas is reassured by the opinions of the experts and maintains that the allegations made are unfounded. The company therefore considers itself unlikely to suffer a subsequent negative economic impact.
On 24 January 2012, the preliminary hearing judge ruled that there was insufficient evidence to proceed to a trial of any of those under investigation and simultaneously ordered the release from seizure of the meters.

The assistant public prosecutor has filed for an appeal before the Court of Cassation at the Court of Milan. The Court of Cassation partially annulled the contested ruling, rejecting the rest of the public prosecutor's appeal, in particular for the effect of the indictments referred to in Articles 472, paragraphs 1 and 2 of the Criminal Code and Article 2638, paragraph 1 of the Italian Civil Code, and the charge pursuant to Legislative Decree 231/2001.
Following the adjournment implemented by the Court of Cassation, the new preliminary hearing opened on 12 December 2013, following which the preliminary hearing judge ordered committal to trial only for 2006 and 2007. The hearing began on 18 April 2014. At the hearing of 27 March 2015, the Court of Milan absolved the charges against the defendants due to lack of evidence and because it did not constitute an offence. The public prosecutor has appealed.

Snam Rete Gas S.p.A. - Tresana incident
On 18 January 2012, an explosion took place on the La Spezia-Cortemaggiore (Tresana) pipeline during maintenance work being conducted on the line (performed by a subcontractor). Snam Rete Gas took immediate action to provide all the necessary assistance and to ascertain responsibility and the causes of the incident. The gas flow was promptly re-established on the line. After the conclusion of the preliminary investigation, several charges were brought against several managers and directors and as a result of the committal to trial declared by the preliminary hearing judge on 23 June 2015, the proceedings began.

Snam Rete Gas S.p.A. - Pineto incident
The public prosecutor at the Court of Teramo opened an investigation against certain directors, executives and managers(including some no longer employed by the company), in relation to the incident that took place on 6 March 2015 near the town of Pineto (Teramo) involving a gas leak on a section of piping. The causes of the gas leak and fire are currently being investigated. The infrastructure was quickly made safe, stopping the gas leak and facilitating the firefighting operations.
The public prosecutor arranged the removal of the names of several senior positions, believing that in the light of the investigations carried out, the liability of several senior Snam Rete Gas mangers could be excluded.
On 2 February 2017, the notice of conclusion of the preliminary investigations was announced, the accused offences were deemed criminal negligence causing wide-scale disaster and wildfire caused by arson.
Positions within the employer model are still being investigated - Employer, Safety Manager, Safety Officer - and also technical positions. Snam Rete Gas is actively cooperating with the relevant authorities.

Snam Rete Gas – Sestino (AR) incident
The public prosecutor at the Court of Arezzo brought a criminal case against several Snam Rete Gas directors and executives(including some no longer employed by the company), in relation to an event that took place on 19 November 2015 in the municipality of Sestino (AR).
On that date there was a break in the pipeline that caused an uncontrolled gas leak. The reasons for the gas leak and fire are currently being ascertained. Snam Rete Gas is actively cooperating with the relevant authorities.

Snam Rete Gas - Badia Tedalda (AR) criminal proceedings

The public prosecutor at the Court of Arezzo opened criminal proceedings with regard to Snam Rete Gas for an alleged violation of the landscape and environmental protection order with regard to the work of reopening the network for the pipeline in the Municipality of Badia Tedalda (AR), which took place without the necessary permits. The Company is cooperating with the Authorities.
Electricity, Gas and Water Authority (AEEGSI)

Snam Rete Gas S.p.A. Investigation into violations on the subject of natural gas metering with regard to Snam Rete Gas S.p.A and request for information

Through Resolution VIS 97/11, notified on 15 November 2011, the Electricity, Gas and Water Authority (the Authority) started proceedings to look into whether there were any violations with regard to natural gas metering, relating to alleged irregularities in gas metering with reference to 45 plants. Through its subsequent Resolution 431/2012/S/gas of 25 October 2012, the Electricity and Gas Authority opened further proceedings to determine whether there had been violations with regard to natural gas metering, simultaneously joining with the aforementioned investigative proceedings. Snam Rete Gas S.p.A. has submitted proposals in relation to the alleged conduct, as well as an update on the situation at the regulating and metering plants in question. By means of Resolution 332/2015/S/gas of 9 July 2015, the Authority declared the proposals to be inadmissible, on the grounds that they would not be adequate to restore the alignment of interests existing before the alleged violations or to eliminate any immediate and direct consequences of these violations.
Snam Rete Gas is awaiting the final order.

Snam Rete Gas S.p.A. - Resolution 608/2015/R/gas – Proceedings to determine the share of costs arising from outstanding receivables owing to the gas balancing supervisor

By way of Resolution 145/2013/R/gas of 5 April 2013, the AEEGSI began "*proceedings to determine the share of costs arising from outstanding receivables owing to the gas balancing supervisor for the period 1 December 2011 - 23 October 2012*".
The proceedings in question were triggered by the outcome of the investigation launched through resolution 282/2012/R/gas on the procedures for regulating the economic aspects of balancing and the steps taken to protect the system relating to the period 1 December 2011 - 31 May 2012. This investigation was concluded by way of Resolution 144/2013/E/gas, and the AEEGSI used Resolution 145/2013/R/gas to rule that dedicated proceedings should be opened to determine the share of the costs owing to Snam Rete Gas S.p.A. with regard to "*fully outstanding receivables*" and to monitor the situation going forward.
Following the investigation, through resolution 608/2015/R/gas of 11 December 2015, the Authority closed the proceedings deciding not to pay the share of the outstanding receivables in relation to which the specific case was the object of the investigation, for the total sum of approximately €130 million including VAT. Lastly, the Authority paid Snam Rete Gas the remaining part of the receivables not collected for the period from 1 December 2011 - 23 October 2012. The Company, believing that the conditions existed for paying the share of expenses resulting from receivables not collected and subject to the proceedings in question, challenged resolution 608/2015/R/gas before the competent legal authorities. The merit hearing took place on 17 January 2017; the decision of the Milan Regional Administrative Court is awaited.
The Company made an allocation to the provision for impairment losses on receivables.

Snam Rete Gas S.p.A. - Resolution 9/2014/S/gas – "Launch of punitive proceedings against Snam Rete Gas S.p.A. for non-compliance with Resolution 292/2013/R/gas".

By means of Resolution 9/2014/S/gas, published on 27 January 2014, the Authority provided for the

launch of punitive proceedings against Snam Rete Gas S.p.A. for non-compliance with Resolution 292/2013/R/gas. The proceedings aim to ascertain whether or not delays exist in provisions relating to the enactment of amendments to the Network Code established by Resolution 292/2013/R/gas, with regard to settlement or determination of the relative physical and financial items of the balancing of the gas system. On 11 July 2016 the Authority announced the findings of the preliminary investigation. Snam Rete Gas asked for the deadlines for submitting its defence.

Snam Rete Gas S.p.A. - Resolution 250/2015/R/gas, published on 1 June 2015 on the: "Adoption of measures on the odorising of gas for domestic use and similar for end users connected directly to the natural gas transportation networks"
Through Resolution 250/2015/R/gas, following the ruling of the Milan regional administrative court, the AEEGSI amended Article 5 of Resolution 602/2013/R/gas dealing with the obligation pursuant to transportation companies to odorise gas for end users connected directly to the transportation network, which, taking into account the categories of use indicated in the TISG, do not use the gas delivered for merely technological purposes. In this regard, the AEEGSI arranged that the transportation companies, after carrying out a survey of the redelivery points involved (by 31 July 2015)) and sending the AEEGSI the adaptation plan (by 30 November 2015), to be updated every six months, with the description of the technical solution identified, should complete the implementation of the adaptation plans by 31 January 2017.
Snam Rete Gas has appealed against the above resolution believing that the deadline for implementing the plan can only be decided after the survey. Having carried out the survey, when sending the plan and the subsequent updates, given the high number of redelivery points involved (more than 1300) and the critical areas that emerged in the implementation of the plan, Snam Rete Gas found that the deadline set by the AEEGSI was unreasonable.
Moreover, through the subsequent Resolution 484/2016/E/gas, entitled: "*formal notice to comply with the obligations regarding the odorising of gas for domestic use and similar by end users connected directly to the natural gas transportation networks"* the AEEGSI confirmed the deadline of 31 January 2017.
Consequently, under the scope of an application through which Snam Rete Gas challenged Resolution 250/2015/R/gas, it submitted an appeal for further grounds against Resolution 484/2016/E/gas asking for the resolutions challenged to be suspended. The application for a suspension, rejected at first by the Milan administrative regional court through ruling no. 1690/2016 of 20 December 2016, was later accepted by the Council of State through the ruling of 23 January 2017. A date is yet to be set for a merit hearing before the Milan regional administrative court.

Cerved Rating Agency S.p.A. and Cerved Group S.p.A. /AEEGSI/Snam Rete Gas S.p.A.
In February 2015, the Cerved Group and Cerved Rating Agency requested, firstly before the Lombardy - Milan administrative regional court, the annulment of AEEGSI Resolution 207/2014/R/gas, because the part in which Cerved is excluded from parties accredited to issue credit ratings guaranteeing the payment of bonds from the transfer and the provision of the gas transportation and balancing service is unlawful.
Through the ruling filed in April 2016, the Lombardy regional administrative court only partly accepted the appeal submitted by Cerved, believing Cerved's applications with regard to the request to annul the AEEGSI's resolution to have grounds and therefore the Snam Rete Gas Network Code, in the part in which it does not consider Cerved among the parties entitled to issue credit ratings for the purpose of the Network Code. However, the demand to confirm Cerved's right to be admitted to the list of parties accredited for issue credit ratings for the purpose of the Network Code was rejected, as was the claim for compensation for damages.
As a result of the ruling, Snam Rete Gas and the AEEGSI, each as far as their area of responsibility is

concerned, should evaluate the claim of the plaintiff once again. Moreover, the Council of State was notified of the appeal which is pending. The merit hearing took place on 9 February 2017; the decision of the Council of State is awaited.

Stoccaggi gas Italia S.p.A. - Gas Tera Consortium and Gas Tera Consortium PMI/AEEGSI/Stogit S.p.A.
Through the appeal announced on 15 June 2016, the Gas Tera Consortium and the Gas Tera PMI Consortium challenged Resolution 180/2016/R/gas on "Determinations following the Lombardy administrative regional court ruling no. 1124/2015", through which the Authority asked Stogit to notify investors pursuant to Legislative Decree 130/2010 of the amounts that were paid through Resolution 144/2014/R/gas by the Authority to the parties to whom the investors had sold the storage capacities for A.T. 2013/2014, in accordance with what was established by Resolution 144/2014/R/gas. The sums were paid by the then Cassa Conguaglio Settore Elettrico (CCSE) to Stogit in December 2014 and then promptly repaid to those with rights according to the above Resolution. According to the reconstruction of the plaintiffs, Stogit paid an apparent creditor, by virtue of Resolution 144/2014/R/gas, which in the meantime was challenged, but not suspended in the trial which concluded with ruling no. 1124/2015 which established that it is the sellers and not the assignees who have the right to collect these sums. The plaintiffs asked for a declaration of invalidity or, alternatively, the annulment of the challenged Resolution, asking to know whether the burden of recovering the payable with regard to third parties where the sum due to the plaintiffs was incorrectly paid was incumbent upon them. The merit hearing took place on 31 January 2017; the decision of the Milan Regional Administrative Court is awaited.

Tax cases

Stoccaggi gas Italia S.p.A. - Registration tax
On 30 November 2012, the Milan branch of Italy's Revenue Agency served the Company with notice of a tax assessment for the value adjustment of the transfer by Saipem Energy Services S.p.A. to Stogit of its plant operating maintenance business unit. The assessed transfer value was greater than the declared value owing to a higher goodwill calculation, resulting in an additional figure of approximately €88,000 in registration tax, plus fines and interest.
Pursuant to Article 12 of Legislative Decree No. 218/1997, the Company responded to this order by submitting a tax settlement proposal with a view to establishing whether the grounds exist to definitively resolve the matter. This proposal was not accepted.
The Company has therefore submitted a joint appeal with Saipem S.p.A. to the Milan provincial tax commission, opposing the Milan branch of the Revenue Agency.
On 18 September 2014, the appeal was processed by the Milan provincial tax commission, which issued a ruling upholding the appeal on 2 October 2014.
On 19 March 2015, the Revenue Agency(Provincial Office II – Milan) brought an appeal before the regional tax commission and the Company, in consortium with Saipem S.p.A., appeared before the court.
On 19 March 2016 there was a hearing to discuss the appeal at the regional tax commission. The ruling has not yet been filed.
The allocation made by the Company to the provision for risks and charges in 2012 remains unchanged.

Stoccaggi gas Italia S.p.A. – Payment notice for registration tax
On 4 March 2015, the Revenue Agency issued Stogit S.p.A. with a payment notice requesting payment of the total sum of approximately €2.7 million in tax, relating mainly to registration tax for legal deeds. The Company brought an appeal before the provincial tax commission of Milan, requesting that the tax be redetermined.

By means of the internal review provision No 55/2015, the Revenue Agency, in accepting the request, corrected the contested notice from €2.7 million to €0.4 million, in addition to service fees, which the company paid on 4 May 2015.
The hearing before the Milan provincial tax commission to deal with the dispute was held on 9 February 2017. The ruling of the commission's is awaited.

GNL Italia S.p.A. - Local duties
In 2016, with regard to the Panigaglia plant, the Municipality of Portovenere issued TARSU adjustment notices for 2012 and TARES notices for 2013 (approximately €180 thousand), as well as TARI notices for 2015 (approximately €63 thousand).
The notices involve the industrial areas where the Company disposes of its special waste and were therefore challenged with appeals at the La Spezia provincial tax commission.
The hearing to deal with the dispute for the 2015 TARI notices was held on 24 February 2017. The ruling of the commission's is awaited.
Also note that a similar notice of investigation, issued by the Municipality of Portovenere in 2015 for the 2014 TARSU (approximately €58 thousand) was cancelled by the La Spezia provincial tax commission through a ruling on 05/05/2016; however, the allocated provision, which took place in 2015, was not transferred because the Municipality of Portovenere submitted an appeal to the Liguria regional tax commission.

Recovering receivables from certain users of the transportation and balancing system

The balancing service ensures that the network is safe and that costs are correctly allocated between the market operators. Balancing has both a physical and a commercial purpose. The physical balancing of the system consists of the set of operations through which the Dispatching department of Snam Rete Gas controls flow parameters (capacity and pressure) in real time in order to ensure that gas can move safely and efficiently from injection points to withdrawal points at all times. Commercial balancing consists of the activities required to correctly schedule, account for and allocate the transported gas, as well as the fee system that encourages users to maintain a balance between the volumes they inject into and withdraw from the network.
Pursuant to the current balancing regime, which was introduced by Resolution ARG/gas 45/11 and came into effect on 1 December 2011, in its role as Balancing Supervisor, Snam Rete Gas must ensure that it procures the quantities of gas required to balance the system and offered on the market by users through a dedicated platform of the Energy Market Operator, and, accordingly, it must financially settle the imbalances of individual users by buying and selling gas on the basis of a benchmark unit price (the "principle of economic merit"). The Company must also ensure that it recovers sums owed for the settlement of imbalances from any defaulting users.

a) **Unpaid receivables relating to the period from 1 December 2011 to 23 October 2012**
The initial regulation laid down by the Authority with Resolution ARG/gas 155/11 stated that users had to provide specific guarantees to cover their exposure and, where Snam Rete Gas had performed its duties diligently and had not been able to recover the costs related to provision of the service, these costs would have been recovered through a special fee determined by the Authority. This Resolution, with reference to the income statement items pertaining to the balancing system, stipulated that the Balancing Supervisor would receive from the Electricity Equalisation Fund (as of 1 January 2016, the Energy and Environmental Services Fund, CSEA) the value of receivables unpaid by the end of the month following the month in which notification was given[44].

44 To be presented to the CSEA four months after the due date of unpaid invoices.

Through its subsequent Resolution 351/2012/R/gas[45], the Authority ordered, with effect from 1 October 2012, the application of the variable unit fee CV^{BL} to cover uncollected receivables, and the payment of the expenses to be recovered in monthly instalments of up to €6 million over a minimum of 36 months.

Through Resolution 282/2012/R/gas, as subsequently amended by Resolution 444/2012/R/gas, the Authority opened an exploratory investigation into balancing service provision methods for the period 1 December 2011 - 23 October 2012[46]. The investigation was closed by Resolution 144/2013/E/gas of 5 April 2013. On the same date, the Authority: (i) adopted Resolution 145/2013/R/gas, through which it opened proceedings to determine the share of costs arising from uncollected receivables owing to the gas balancing supervisor for the period 1 December 2011 - 23 October 2012; and (ii) opened six proceedings aimed at establishing whether there have been violations regarding the natural gas balancing service[47].

With regard to the preliminary investigation discussed in point (i) above, the proceedings were closed by means of Resolution 608/2015/R/gas, with which the Authority decided not to pay a share of the uncollected receivables in relation to specific cases analysed in the preliminary investigation, in any case subject to Snam Rete Gas's right to withhold the receivables relating to the income statement entries on balancing, possibly already recuperated. The Company challenged Resolution 608/2015/R/gas, before the competent judicial Authority.

During the above-mentioned investigation period, Snam Rete Gas, having terminated the transportation contracts of the six users involved in the aforementioned proceedings since they either defaulted on payments or failed to comply with the balancing obligations set forth in the industry regulations and the Network Code, initiated steps to recover the receivables relating to income statement items arising from commercial balancing operations entrusted to Snam Rete Gas in its capacity as Balancing Supervisor, and also relating to the transportation service.

Specifically, the competent judicial authorities issued 11 provisional executive orders, of which six related to receivables arising from the balancing service and five to receivables arising from the transportation service[48]. Having received these orders, Snam Rete Gas initiated the necessary executive proceedings, which resulted in the recovery of negligible amounts of the overall debt of the users, partly because of the bankruptcy procedures under way at all of these users.

In particular, at present:

- four Users were declared bankrupt. With regard to all four User, Snam Rete Gas obtained measures for admission to the list of creditors for the receivable owed, plus interest;
- two Users applied for composition procedures. For the first user, the judicial authority issued a provision of composition with creditors[49]. With regard to the second, the proceedings pursuant to Article 173 L.F. have just concluded with the application to dismiss being rejected and the user filed a new arrangement proposal which has yet to be put to a vote by the creditors[50].

45 The above resolution was cancelled through the ruling 1587/2014 of the Milan regional administrative court in relation to the obligation for users to pay the CVBL fee of 0.001 €/Smc from 1 October 2012. Therefore, the coefficient was recalculated through Resolution 372/2014/R/gas at the same amount of 0.001 €/Smc.

46 The period covered by the preliminary investigation was initially limited to the period 1 December 2011 – 31 May 2012, but it was subsequently extended until 23 October 2012 by Resolution 444/2012/R/gas.

47 As at 31 December 2016, four of the aforementioned proceedings had been concluded through the approval of Resolutions 151/2014/S/gas, 188/2014/S/gas, 241/2014/S/gas and 471/2014/S/gas, with which the Authority imposed significant financial penalties on the four users in question.

48 The users in question have appealed against some of these injunctions. Specifically, as well as requesting the suspension of the provisional enforceability and the revocation and/or declaration as null and void of the injunctions themselves, three users have submitted counterclaims requesting that Snam Rete Gas be ordered to compensate them for alleged damage suffered. In relation to the two users, the oppositions were declared null and void, with the resulting lapse of the demand and the passage into judgment of the injunction decrees.

49 In respect of the approval provision, a claim was brought before the Court of Appeal of Turin, and – in respect to the confirmation procedure adopted by the same Court – the appeal was brought before the Court of Cassation.

50 With this user, Snam Rete Gas formalised a repayment plan for the full repayment of the receivables owed. In addition, following the presentation of a request for an arrangement with creditors, the party interrupted payment.

b) **Unpaid receivables after 23 October 2012**

Two additional transportation contracts were terminated in 2013. In relation to one user, the Court of Milan issued a provisional executive injunction ordering the user to pay Snam Rete Gas a total of around €14 million, plus interest and expenses, in relation to the balancing service. The executive procedures initiated resulted in the recovery of around €500 thousand. The user appealed against the injunction, submitting a counterclaim requesting compensation for alleged damage suffered. Moreover, recently, the ruling was declared lapsed with the consequent consolidation of the securities purchased by Snam Rete Gas.

Two provisional executive injunctions were issued in relation to a second user. The first concerned the balancing service, for a sum of around €700 thousand, while the other related to the transportation service, for approximately €4.5 million. As a result, proceedings were launched to implement the injunctions, in response to which the user appealed but did not bring a counterclaim. For this reason, the user was recently declared bankrupt[51].

In 2014, another transportation contract was terminated in relation to a user that had failed to pay outstanding balancing service invoices in the amount of around €75 thousand and transportation service invoices worth approximately €180 thousand. As a result, Snam Rete Gas initiated debt recovery measures, having recently obtained two provisional executive injunctions. For this reason, the user was declared bankrupt[52].

Lastly, two provisional executive injunctions were recently issued with regard to a user that had failed to pay outstanding balancing service invoices in the amount of around €95 thousand and transportation service invoices worth approximately €860 thousand.

Snam Rete Gas, as stated in the provisional executive injunctions issued by the Court, has engaged in proper conduct and complied with the provisions of the transportation contract, the Network Code and, more generally, the applicable legislation.

Finally, it should be noted that, in terms of the preliminary investigation, on 12 February 2016 the public prosecutor at the Court of Milan ordered the urgent preventive seizure of the moveable and fixed assets belonging to companies and attributable in various guises to the above-mentioned five users. This criminal proceeding resulted in the formal complaint report (and subsequent supplementary reports) filed by Snam Rete Gas, as offended party, in October 2012 for the crimes of falsehood and aggravated fraud. At present, the Company is still the offended party of the crime.

Recovering receivables from users of the storage system

Withdrawals made from strategic storage by three users, invoiced by Stogit and not replenished by the user under the terms specified by the Storage Code

Following withdrawals from strategic storage made by a user in November and December 2010, in 2012 Stogit asked for and obtained an injunction with regard to the sums due that the user failed to pay. The provisional enforceability was confirmed during the opposition launched by the opposing party. Executive actions were launched.

Following the withdrawals and the failed reintegration of the strategic gas in January, February and March 2011 as well, in 2013 Stogit requested and obtained a second provisional executive injunction for the further sums accrued.

Urgent proceedings were also launched for the reintegration of all the gas unlawfully withdrawn, concluding with the conviction of the debtor, with the subsequent application for injunctive relief also being rejected.

The above rulings were later combined.

51 The credit declared by Snam Rete Gas was included in the liabilities as requested.

52 Snam Rete Gas was admitted to the current list of creditors for the entire debt due, plus interest.

In September 2012 the Court of Asti admitted the above user together with another two users (who also defaulted with regard to Stogit) in proceedings for an arrangement with creditors. Under the terms and conditions established by the court-appointed receiver, Stogit formally transmitted and documented the amounts of its receivables with these users.
Moreover, following the sub-proceedings to dismiss the arrangement, in November 2013 the Court of Asti declared two of the above-mentioned users bankrupt. In both cases, Stogit promptly filed a proof of claim. Following the examination of the list of creditors, Stogit's receivables were admitted in full. However, the procedure for an arrangement with creditors is continuing with regard to the third user, which was approved by way of an order issued by the Court of Asti on 2 July 2014. In reference to the approval decree, against which an appeal was brought by one of the creditors, the Court of Appeal of Turin issued a ruling, confirming the approval of the arrangement with creditors. An appeal brought by the aforementioned creditor is currently pending before the Court of Cassation.

Withdrawals made from strategic storage by a user, invoiced by Stogit and not replenished by the user under the terms specified by the Storage Code, ascribable to the 2010-2011 and 2011-2012 thermal years
Stogit filed with the Civil Court of Milan for a payment injunction provisionally enforceable against one user. At present, following the partial restitution of gas in the wake of legal action brought, Stogit is still owed approximately 23.6 million SCM.
Stogit promoted the appropriate executive measures.
Through a ruling made on 4 March 2015, the Court of Rome declared the user bankrupt. Stogit therefore initiated proceedings to prove the receivable was owed to it, in compliance with the timeline indicated. The receivable was declared unsecured by the presiding judge.

Withdrawals made from strategic storage by a user, invoiced by Stogit and not replenished by the user under the terms specified by the Storage Code, ascribable to October and November 2011
Stogit filed with the Civil Court of Milan for a payment injunction provisionally enforceable.
Pending the proceedings, the Court of Rome declared the user bankrupt on 30 October 2014. As a result the Civil Court of Milan declared the interruption of Stogit's legal action and Stogit then initiated proceedings to prove the receivables owed to it in compliance with the timeline indicated. The receivable was declared unsecured by the presiding judge.
At present, following the partial restitution of gas in the wake of legal action brought because of improper withdrawals, Stogit is still owed approximately 56.0 million SCM.

Emissions trading
1 January 2013 was the start of the third regulatory period (2013-2020) of the Emission Trading System (ETS), the greenhouse gas emission allowance system governed by Legislative Decree 30 of 13 March 2013, as amended, and transposing Directive 2009/29/EC. The reduction of CO_2 emissions comes under the objectives set by the European Union in the 2020 Climate and Energy Package, approved in 2009, which involves reducing greenhouse gas emissions by 20% (compared with 1990 levels) by 2020, increasing the share of energy produced from renewable sources by 20% and improving energy efficiency by 20%.
In 2016 the free allocation for the Snam Group was equal to around 207,000 shares, with a decrease of approximate 13% compared with 2015. The reduction was due in part to the progressively decreasing allocation of the free shares on the part of the competent national authority, established for the third regulatory period by Article 10- bis of Directive 2009/29/EC, and in part by lower consumption recorded over the course of 2015.
In 2016, carbon dioxide emissions of the Snam Group facilities covered by the ETS were overall greater

than the emission permits allocated. In view of 0.550 million tonnes of carbon dioxide emitted into the atmosphere, around 0.207 million tonnes were allocated, resulting in a 0.343 million-tonne deficit. This deficit is offset by the allowances already present in the registers for Snam Group plants, accumulated thanks to the surplus from previous years.

Other commitments and risks

The other unevaluated commitments and risks are:

Commitments arising from the contract for the acquisition of Italgas and Stogit from Eni

The price determined for the acquisition of Italgas and Stogit is subject to adjustment mechanisms based on commitments made when the transaction was completed, which were also intended to apply after the date of execution.

Acquisition of Italgas

Note that, at the same time as the transaction to separate Italgas Reti S.p.A. from Snam S.p.A., the following were transferred to the Company Italgas S.p.A. (formerly ITG Holding S.p.A) all the rights and obligations pertaining to Snam S.p.A with regard to the sale of the Roma Ostiense property complex as a result of contractual arrangements entered into during the purchase in 2009 by Eni of the entire share capital of Italgas.

Therefore at 31 December 2016 there are no residual commitments from the above agreements with regard to the adjustment of the Italgas purchase price.

For more information, refer to the Information Document on the demerger of Snam S.p.A. in favour of Italgas S.p.A., prepared pursuant to Article 70, paragraph 6 of the regulation adopted by CONSOB through Resolution 11971 of 14 May 1999 and later amendments and supplements, available on the Snam website (www.snam.it, in the section "Investor Relations/Separation of Italgas from Snam).

Acquisition of Stogit

At 31 December 2016 the residual commitments resulting from the above agreements involve hedging mechanisms to keep the risks and/or benefits that may derive from the following pertaining to Eni: (i) the possible exploitation of the gas owned by Stogit at the time of the transfer of the shares other than that recognised by the Authority for Electricity, Gas and the Water System (the AEEGSI) in the case of its sale, or partial sale, if certain quantities were to become no longer instrumental to the regulated concessions and therefore available for sale; (ii) the possible sale of the storage capacity which should be freely available on a negotiable basis rather than a regulated basis, or the transfer of concessions held by Stogit at the time of the share transfer that may become dedicated mainly to storage activities which are no longer regulated.

With regard to the adjustment of the Stogit purchase price, in order to take into account the different value, compared with the share transfer date, paid by the AEEGSI for the quantities of natural gas owned by Stogit included in the RAB (Regulatory Asset Base) assets, note that following the definitive approval by the AEEGSI of the 2015 storage tariffs, a price adjustment was made in favour of Eni, amounting to a total of €6 million.

See below for the comments on the income statement items. Note that, following the operation of separating the natural gas business in Italy from Snam, which led to the transfer, with effect from 7 November 2016, of the entire equity investment held by Snam S.p.A. in Italgas Reti S.p.A. (formerly Italgas S.p.A.) to Italgas S.p.A. (formerly ITG Holding S.p.A.), the result of the Natural gas distribution sector for the period 1 January - 6 November 2016 was reported separately under the item "Net profit - discontinued operations" in the income statemen[53], as required by the provisions of IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations". Therefore, the comments below refer solely to continuing operations (transportation and dispatching, regasification, storage, as well as corporate activities).
However, it should be borne in mind that the separate reporting of discontinued operations in accordance with the criteria pursuant to IFRS 5 only refers to relations with third parties leaving eliminations for inter-company transactions in place. This creates a distortion in the separation of the values between continuing and discontinued operations which, at an economic level, penalises one or the other, the more important, the greater the inter-company relations of the discontinued sectors.
To eliminate these distortions, the Directors' Report contains alternative performance measures, not included in the IFRS (Non - GAAP measures), which restore inter-company transactions for discontinued operations in the results of continuing operations, at the level of individual income statement items, to obtain a representation of the results of continuing operations as if the discontinued operations had been deconsolidated. On the basis of these representations, refer to the chapter "Financial review and other information" in the Directors' Report for the reasons behind the most significant changes.

24) Revenue

The breakdown of revenue for the period, which totalled €2,501 million (€2,554 million in 2015), is shown in the following table:

(€ million)	2015	2016
Core business revenue	2,470	**2,419**
Other revenue and income	84	**82**
	2,554	**2,501**

The Group generates all of its revenue in Italy. An analysis of revenue by business segment can be found in Note 31 - "Information by business segment".
Revenues from related parties are described in Note 32 "Related-party transactions".

Core business revenue

Core business revenue, which totalled €2,419 million (€2,470 million in 2015), is analysed in the following table:

(€ million)	2015	2016
Natural gas transportation	2,040	**1,925**
Liquefied natural gas (LNG) regasification	18	**18**
Natural gas storage	397	**434**
Corporate and other activities	15	**42**
	2,470	**2,419**

53 The analysis of the net profit of discontinued operations, in conformity with the provisions of paragraph 33 of IFRS 5, is given in Note 21 "Discontinued operations".

Natural gas transportation

Core business revenue (€1,925 million) relates mainly to fees for transportation services (€1,918 million) and mainly relate to Eni S.p.A. (€1,069 million) and Enel Trade S.p.A. (€379 million). Transportation revenue includes the chargeback to users of the costs of connecting the Company's network to that of other operators (€63 million)[54]. Snam provided its transportation service to 136 companies in 2016.

Liquefied natural gas (LNG) regasification

Core business revenue (€18 million) refers almost entirely to the factor for covering revenue paid by the AEEGSI pursuant to Resolution 438/2013/R/gas[55]. Snam provided its regasification service to four companies in 2016.

Natural gas storage

Core business revenue (€434 million) relates mainly to fees for modulation (€345 million) and strategic (€91 million) storage, and mainly concerns Eni S.p.A. (€60 million) and Enel Trade S.p.A. (€14 million). Snam provided its natural gas storage service to 91 companies in 2016.

Group core business revenue is reported net of tariff components, additional to the tariff, applied to cover expenses of a general nature of the gas system[56]. Amounts received from Snam are paid in full to the Energy and Environmental Services Fund (CSEA).

(€ million)	2015	2016
Additional fees for the transportation service	791	**955**

Other revenue and income

Other revenue and income, which amounted to €82 million (€84 million in 2015), can be broken down as follows:

(€ million)	2015	2016
Income from gas sales for the balancing service (*)	49	**72**
Natural gas connection competitive tendering procedure	3	**3**
Capital gains from disposals of property, plant and equipment and intangible assets	3	
Other income	29	**7**
	84	**82**

(*) Revenue from the balancing business, operational since 1 December 2011, in accordance with Resolution ARG/gas 45/11 of the Authority, relates to sales of proprietary natural gas made for the purposes of balancing the gas network. The revenue is matched to operating costs linked to withdrawals from the gas storage system.

54 Where the provision of the transportation service involves the networks of multiple operators, Resolution 166/05 of the Authority, as amended, provides for the principal operator to invoice the users for the service, transferring to the other operators of the transportation networks the portion attributable to them.

55 Article 18 "Application methods for the factor for covering revenue" of Annex A of Resolution 438/2013/R/gas defined the factor for covering revenue at 64% of the benchmark revenues.

56 These items, totalling €955 million (€791 million in 2015) refer essentially to the following fees: (i) CRVOS, introduced by the Authority through Resolution ARG/gas 29/11 to cover the expenses pursuant to Article 9 of Legislative Decree 130/10, incurred by the Energy Services Operator (GSE) for paying the amounts due to the storage company relating to the SG guarantee factor (€293 million); (ii) GST and RET, respectively to cover expenses for offsetting tariff breaks for disadvantaged gas sector customers and expenses for energy-saving measures, and interventions and the development of renewable sources in the gas sector (€374 million in total); (iii) CVFG, to cover expenses arising from the application of the guarantee factor for LNG regasification revenue pursuant to Article 18 of Resolution 92/08 (€120 million); (iv) CRVBL, to cover expenses associated with balancing the gas system (€61 million); (v) CRVI, to cover expenses for reducing gas consumption (€45 million); (vi) UG3T introduced by means of Resolution 134/14/R/gas to cover expenses arising from the default service provided to customers who are directly connected to the regional transportation network (€46 million); (vii) established by Resolution ARG/gas 184/09 to cover the equalisation imbalances of revenues relating to the Regional network capacity fee (€12 million).

25. Operating costs

The breakdown of *operating costs* for the period, which totalled €557 million (€551 million in 2015), is shown in the following table:

(€ million)	2015	2016
Purchases, services and other costs	403	**390**
Personnel cost	148	**167**
	551	**557**

Revenues from related parties are described in Note 32 "Related-party transactions".

Purchases, services and other costs

Purchases, services and other costs, which amounted to €390 million (€403 million in 2015), can be broken down as follows:

(€ million)	2015	2016
Purchase costs for raw materials, consumables, supplies and goods	76	**109**
Costs for services	270	**307**
Costs for the use of third-party assets	26	**21**
Changes in raw materials, consumables, supplies and goods	89	**32**
Net accrual to (utilisation of) provisions for risks and charges	3	**6**
Net (utilisation of)/allocations to the provision for impairment losses on receivables	34	**(2)**
Other expenses	42	**37**
	540	**510**
Less:		
Increase on internal work	**(137)**	**(120)**
- of which purchase costs for raw materials, consumables, supplies and goods	(76)	**(66)**
- of which costs for services	(61)	**(54)**
	403	**390**

Costs for services, which amounted to €253 million (€209 million in 2015), related to:

(€ million)	2015	2016
IT (Information Technology) services	59	**65**
Purchase of transportation capacity (interconnection)	59	**62**
Technical, legal, administrative and professional services	27	**49**
Ordinary maintenance	31	**32**
Personnel-related services	18	**20**
Construction, planning and coordination of work	13	**16**
Telecommunications services	14	**15**
Provision of utilities	12	**12**
Insurance	9	**9**
Other services	28	**27**
	270	**307**
Less:		
Increase on internal work	(61)	**(54)**
	209	**253**

Costs for the use of third-party assets, which amounted to €21 million (€26 million in 2015), can be broken down as follows:

(€ million)	2015	2016
Leases and rentals	21	**15**
Fees, patents and licences	5	**6**
	26	**21**

Leasings and rentals (€15 million) mainly relate to charges for operating leases of properties for use as offices.

Changes in raw materials, consumables, supplies and goods (€32 million) were due essentially to withdrawals of natural gas from storage for the purpose of being sold, primarily in the transportation segment, and to a reduction in inventories caused for the most part by the development of the natural gas transportation networks (€12 million).
Net allocation to the provision for risks and charges (€6 million net of utilisation) refers mainly to the accident reserve fund with reference to the captive company Gasrule.
For more details about the change in provisions for risks and charges, please see Note 18 "Provisions for risks and charges".
Net utilisation of the provision for impairment losses on receivables (€2 million) essentially relates to the transport sector and involves the release of the surplus fund, as a result of the collection of receivables previously impaired.
More information on changes of the provision for impairment losses can be found in Note 8 "Trade and other receivables".

Other expenses, which amounted to €37 million (€42 million in 2016), can be broken down as follows:

(€ million)	2015	2016
Capital losses on eliminations of property, plant and equipment and intangible assets	23	**21**
Direct and indirect taxes	11	**13**
Methane consumption tax	1	**2**
Other expenses	7	**1**
	42	**37**

Personnel cost

Personnel cost, which amounted to €167 million (€148 million in 2015), can be broken down as follows:

(€ million)	2015	2016
Wages and salaries	145	**151**
Social security contributions (pensions and healthcare assistance)	42	**45**
Employee benefits	5	**5**
Other expenses	13	**27**
	205	**228**
Less:		
Increase on internal work	**(57)**	**(61)**
	148	**167**

Other expenses (€27 million) mainly includes expenses for defined-contribution plans (€11 million) and for voluntary redundancy expenses (€8 million), with reference to the estimate of expenses from the early retirement of 74 employees expected in the two-year period 2017-2018.
A description of employee benefits can be found in Note 19 "Provisions for employee benefits".

Average number of employees

The average number of payroll employees included in the scope of consolidation, broken down by status, is as follows:

Professional status	2015	2016
Executives	104	**101**
Managers	414	**429**
Office workers	1,537	**1,594**
Manual workers	718	**726**
	2,773	**2,850**

The average number of employees is calculated on the basis of the monthly number of employees for each category and does not include employees of discontinued operations.
The number of personnel in service at 31 December 2016 was 2,883 (3,005 at 31 December 2015, including staff transferred to the Italgas Group in 2016 pairs to 207 persons, as a result of the separation operation), an decrease of 122 compared with 31 December 2015.

Remuneration due to key management personnel

The remuneration due to persons with powers and responsibilities for the planning, management and control of the Company, i.e. executive and non-executive directors, general managers and managers with strategic responsibilities ("key management personnel"), in office during the year (including ancillary costs and contributions) amounted to €14 million (€6 million in 2015) and breaks down as follows:

(€ million)	2015	2016
Wages and salaries	4	**6**
Severance indemnity		**6**
Other long-term benefits	2	**2**
	6	**14**

Remuneration due to directors and statutory auditors

Remuneration due to directors totalled €4 million and €11 million, respectively, for 2015 and 2016. Remuneration due to auditors totalled €0.2 million (the same as in 2016). This remuneration includes emoluments and any other amounts relating to pay, pensions and healthcare due for the performance of duties as a director or statutory auditor giving rise to a cost for the Company, even if not subject to personal income tax.

26. Amortisation, depreciation and impairment

Amortisation, depreciation and impairment, which amounted to €651 million (€576 million in 2015), can be broken down as follows:

(€ million)	2015	2016
Amortisation and depreciation	**573**	**616**
- Property, plant and equipment	531	**570**
- Intangible assets	42	**46**
Impairment losses	**3**	**35**
- Impairment losses on property, plant and equipment	3	**35**
	576	**651**

For more details about amortisation, depreciation and impairment losses relating to property, plant and equipment and intangible assets, please see Note 12 "Property, plant and equipment", and Note 13 "Intangible assets".

An analysis of amortisation, depreciation and impairment by business segment can be found in Note 31 "Information by business segment".

27. Financial expense (income)

Financial expense (income), which amounted to €510 million (€380 million in 2015), can be broken down as follows:

(€ million)	2015	2016
Financial expense (income)	**363**	**624**
Financial expenses	366	**624**
Financial income	(3)	
Other financial expense (income)	**17**	**(115)**
Other financial expense	21	**11**
Other financial income	(4)	**(126)**
Losses (Gains) on hedging derivatives – ineffective portion		**1**
Losses on derivative contracts		**1**
	380	**510**

(€ million)	2015	2016
Financial expense (income)	**363**	**624**
Expense on financial debt:	**395**	**647**
- Interest and other expenses on bond loans	364	**622**
- Fees on loans and bank credit lines	16	**13**
- Interest expense on credit lines and loans due to banks and other lenders	15	**12**
Financial expense capitalised	(29)	**(23)**
Income from financial receivables:	(3)	
- Interest and other income from financial assets not held for operations	(3)	
Other financial expense (income):	**17**	**(115)**
- Interest income on financial receivables held for operations		**(123)**
- Other income	(4)	**(3)**
- Accretion discount (*)	12	**10**
- Other expenses	9	**1**
Losses (Gains) on hedging derivatives – ineffective portion		**1**
	380	**510**

(*) This item refers to the increase in provisions for risks and charges and provisions for employee benefits, which are reported at discounted value under Note 18 "Provisions for risks and charges", and Note 19 "Provisions for employee benefits".

Expense on financial debt (€647 million) is mainly related to: (i) interest expense and other expenses on bond loans (€622 million) with reference essentially to the expenses from the liability management transaction[57] (€329 million) which led to the buying back on the bond market for a total nominal value of €2.75 billion with an average coupon of approximately 3.3% and a remaining term of around 3 years and to interest on 15 bond loans (€293 million); (ii) the portion pertaining to the year of up-front

57 There is more information on the transaction in the chapter, "Snam in 2016 - Main events" in the Directors' Report.

fees on revolving credit lines (€7 million) and fees on unused credit lines (€5 million); and (iii) interest expense payable to banks relating to revolving credit lines, uncommitted credit lines and maturing loans totalling €12 million.
Financial expense capitalised (€23 million) is related to the portion of financial expense capitalised pursuant to investment activities.
Net financial expense (€115 million) mainly relates to: (i) income from adjustment of financial receivables from the Italgas Group from the operation of separating the natural gas distribution business from Snam (+€119 million); ii) expenses connected to the accretion discount on the provision for storage and transportation sector site dismantling and restoration provisions (+€10 million in total); (iii) income from the Shareholders' Loan granted to TAP (+€2 million).

28. Income and expense from equity investments

Income and expense from equity investments, which amounted to €116 million (€106 million in 2015), can be broken down as follows:

(€ million)	2015	2016
Equity method valuation effect		
Capital gains from valuation using the equity method	106	**140**
Capital losses from valuation using the equity method		**(24)**
	106	**116**

Details of capital gains and capital losses from the valuation of equity investments using the equity method can be found in Note 14 "Equity-accounted investments".

29 Income taxes

Income taxes for the year, which amounted to €308 million (€357 million in 2015), can be broken down as follows:

	2015			2016		
(€ million)	IRES	IRAP	Total	IRES	IRAP	Total
Current taxes (*)	**361**	**65**	**426**	**287**	**61**	**348**
Current taxes for the year	362	66	**428**	**285**	**61**	**346**
Adjustments for current taxes relating to previous years	(1)	(1)	**(2)**	**2**		**2**
Deferred and prepaid taxes (*)	**(73)**	**4**	**(69)**	**(39)**	**(1)**	**(40)**
Deferred taxes	(16)		**(16)**	**(22)**		**(22)**
Prepaid taxes	(22)	4	**(18)**	**(17)**	**(1)**	**(18)**
Adjustment to deferred taxes (IRES) pursuant to the 2016 Financial Stability Law	(35)		**(35)**			
	288	**69**	**357**	**248**	**60**	**308**

(*) For more information on discontinued operations, refer to Note 21, "Discontinued operations".

Income taxes amounted to €308 million, consisting of €348 million in current taxes, which were partially offset by net prepaid taxes totalling €40 million.
The reconciliation of the theoretical tax charge (calculated by applying the corporation tax (IRES) and regional production tax (IRAP) rates in force in Italy) with the actual tax charge for the year can be broken down as follows:

	2015		2016	
(€ million)	Tax rate	Balance	Tax rate	Balance
IRES				
Pre-tax profit		1,255		**899**
IRES due, calculated based on the theoretical tax rate	**27.5%**	**345**	**27.5%**	**247**
Changes to the theoretical rate:				
- Income from equity investments	(2.3%)	(29)	**(2.8%)**	**(25)**
- Tax and dividends	1,0%	12	**1.2%**	**11**
- Adjustment to deferred taxes (IRES) pursuant to the 2016 Financial Stability Law	(2.8%)	(35)		
- Other permanent differences	(0.4%)	(5)	**1.7%**	**15**
IRES due for the year recorded on the income statement	**22.9%**	**288**	**27.6%**	**248**

	2015		2016	
(€ million)	Tax rate	Balance	Tax rate	Balance
IRAP				
Difference between value and production costs		1,547		**1,318**
IRAP due, calculated based on the theoretical tax rate	3.9%	60	**3.9%**	**51**
Changes to the theoretical rate				
Different IRAP rates	0.3%	4	**0.2%**	**3**
Other permanent differences	0.3%	5	**0.5%**	**6**
IRAP due for the year recorded in the Income statement	**4.5%**	**69**	**4.6%**	**60**

An analysis of deferred and prepaid taxes based on the nature of the significant temporary differences that generated them can be found in Note 20 "Deferred tax liabilities".

Taxes related to components of comprehensive income

Current and deferred taxes related to other components of comprehensive income can be broken down as follows:

	2015			2016		
(€ million)	Pre-tax value	Tax effect	Post-tax value	Pre-tax value	Tax effect	Post-tax value
- Remeasurement of defined-benefit plans for employees	3	(1)	2	**(1)**		**(1)**
- Portion of equity investments measured using the equity method pertaining to "other components of comprehensive income"	11		11	**(14)**		**(14)**
- Change in fair value of cash flow hedge derivatives				**1**		**1**
Other components of comprehensive income	**14**	**(1)**	**13**	**(14)**		**(14)**
Deferred/prepaid taxes		**(1)**				

30. Earnings per share

Basic earnings per share, equal to €0.25 (€0.35 per share in 2015), are calculated by dividing the net profit attributable to Snam (€861 million; €1,238 million in 2015) by the weighted average number of Snam shares outstanding during the year, excluding treasury shares (3,470,733,114 shares; 3,499,511,044 shares in 2015).

As at 31 December 2015 and 31 December 2016 there were no potential issues with dilutive effects on the results, therefore, in the years under consideration, basic earnings per share are the same as diluted earnings per share.

Reconciliation of basic and diluted earnings per share

The reconciliation of the weighted average number of outstanding shares used to determine basic and diluted earnings per share is set out below:

	31.12.2015	31.12.2016
Weighted average number of outstanding shares used to calculate basic earnings and diluted earnings	**3,499,511,044**	**3,470,733,114**
Net profit attributable to Snam (€ million)	**1,238**	**861**
Basic earnings and diluted earnings per share (€ per share)	0.35	**0.25**
Net profit attributable to Snam - continuing operations (€ million)	796	**591**
Basic and diluted earnings per share	0.23	**0.17**
Net profit attributable to Snam - discontinued operations (€ million)	**442**	**270**
Basic and diluted earnings per share	0.12	**0.08**

31 Segment information

The information about business segments has been prepared in accordance with the provisions of IFRS 8 "Operating segments", which requires the information to be presented in a manner consistent with the procedures adopted by the Company's management when taking operational decisions. Consequently, the identification of the operating segments and the information presented are defined on the basis of the internal reporting used for 2016 by the Company's management for allocating resources to the different segments and for analysing the respective performances.

Following the operation of separating the natural gas business in Italy from Snam, which led to the transfer of the entire equity investment held by Snam S.p.A. in Italgas Reti S.p.A.to Italgas S.p.A., the business segments for which information is provided are natural gas transportation ("Transportation"), LNG regasification ("Regasification") and natural gas storage ("Storage"). They relate to activities carried out predominantly by Snam Rete Gas, GNL Italia and Stogit.

As revealed on 13 October 2016, Snam announced significant changes to its organisation, effective from 1 November 2016. Any impacts of these organisational changes on the breakdown of the Snam Group business segments will be reflected in the segment reporting pursuant to IFRS 8 from the first quarter of 2017, following the definition of the internal reporting which will be used by company management.

The information by business segment as at 31 December 2016 is listed below, compared with the figures as at 31 December 2015.

(€ million)	Corporate and other activities	Transportation and dispatching	Distribution	Storage	Regasification	Reinstatement of eliminations from transactions to Discontinued operations	Consolidation adjustments and eliminations	Total
2015								
Net core business revenue (a)	209	2,064		533	19	(73)		**2,752**
to be deducted: inter-segment revenue	(127)	(19)		(135)	(1)			**(282)**
Revenue from third parties	82	2,045		398	18	(73)		**2,470**
Other revenue and income		77		2	5			**84**
Net (accruals to)/utilisation of provisions for risks and charges		(3)						**(3)**
Amortisation, depreciation and impairment	(5)	(495)		(71)	(5)			**(576)**
EBIT	(4)	1,165		319	1	(54)		**1,427**
Valuation of equity investments using the equity method	106							**106**
Total assets	1,416	13,860	5,498	4,003	103			**24,880**
- of which investments valued using the equity method	1,203		169					**1,372**
Total liabilities	13,992	9,775	2,787	2,728	40		(12,028)	**17,294**
Investments in property, plant and equipment and intangible assets	9	693	7	170				**879**
2016								
Net core business revenue (a)	**226**	**1,947**		**581**	**18**	**(59)**		**2,713**
to be deducted: inter-segment revenue	**(128)**	**(19)**		**(147)**				**(294)**
Revenue from third parties	**98**	**1,928**		**434**	**18**	**(59)**		**2,419**
Other revenue and income		**80**		**2**				**82**
Net (accruals to)/utilisation of provisions for risks and charges	**(5)**	**(1)**						**(6)**
Amortisation, depreciation and impairment	**(7)**	**(545)**		**(87)**	**(12)**			**(651)**
EBIT	**(26)**	**1,021**		**346**	**(5)**	**(43)**		**1,293**
Valuation of equity investments using the equity method	**116**							**116**
Total assets	**1,893**	**13,999**		**4,130**	**107**			**20,129**
- of which investments valued using the equity method	**1,499**							**1,499**
Total liabilities	**11,278**	**10,012**		**2,930**	**50**		**(10,638)**	**13,632**
Investments in property, plant and equipment and intangible assets	**6**	**776**		**117**	**7**			**906**

(a) Balances before elimination of inter-segment revenue.

Revenue is generated by applying regulated tariffs or market conditions. The revenue was generated entirely in Italy; costs were incurred almost entirely in Italy.

32. Related-party transactions

Considering the de facto control of CDP S.p.A. over Snam S.p.A., pursuant to the international accounting standard IFRS 10 - Consolidated Financial Statements, based on the current Group ownership structure the related parties of Snam are represented by Snam's associates and joint ventures as well as by the parent company CDP S.p.A. and its subsidiaries and associates, and direct or indirect subsidiaries, associates and joint ventures of the Ministry of Economy and Finance. Members of the Board of Directors, Statutory Auditors and Snam Group and CDP managers with strategic responsibilities, and their families, are also regarded as related parties.

As explained in detail below, related-party transactions mainly concern the exchange of goods and the provision of regulated services in the gas sector. Transactions between Snam and related parties are part of ordinary business operations and are generally settled under market conditions, i.e. the conditions that would be applied between two independent parties. All the transactions carried out were in the interest of the companies of the Snam Group.

Pursuant to the provisions of the applicable legislation, the Company has adopted internal procedures to ensure that transactions carried out by Snam or its subsidiaries with related parties are transparent and correct in their substance and procedure.

Directors and statutory auditors declare potential interests that they have in relation to the Company and the Group every six months, and/or when changes in said interests occur; they also inform the Chief Executive Officer (or the Chairman, in the case of the Chief Executive Officer's interests), who in turns informs the other directors and the Board of Statutory Auditors, of individual transactions that the Company intends to carry out and in which they have an interest.

Snam is not subject to management and coordination. Snam manages and coordinates its subsidiaries, pursuant to Article 2497 et seq. of the Italian Civil Code.

In terms of related-party transactions, pursuant to the disclosure obligations set forth under Consob Regulation No. 17221 of 12 March 2010, should be pointed out: the agreement between Snam Rete Gas S.p.A. and Eni S.p.A., of natural gas transportation capacity for the 2016 - 2017 thermal year. On 3 March 2017, the transport contract value exceeded the materiality threshold of 140 million identified in the Procedure "Transactions involving the interests of the Directors and Statutory Auditors and transactions with related parties" of Snam.

The contract is defined in accordance with the procedures defined in the Snam Rete Gas S.p.A. Network Code, which was approved by the Electricity, Gas and Water Authority with Resolution No. 75/2003, as subsequently amended.

As in the case of contractual agreements, the finalisation of these commitments entails the calculation of a fee for services rendered by applying the natural gas transportation and dispatching tariffs approved by the Authority Resolution.

The contract is classed as ordinary transaction concluded under market-equivalent or standard conditions, pursuant to art. 3 of the Procedure (published on www.snam.it site), since: (i) they fall within the scope of normal business operations and the associated financial activities; and (ii) the terms applied are based on regulated tariffs.

With reference to the operation of separating Italgas Reti S.p.A. (formerly Italgas S.p.A.) from Snam S.p.A., implemented through three transactions (transfer, sale and demerger) which took place jointly and at the same time with effect from 7 November 2016, note that: (i) the demerger transaction with the proportional granting of shares to shareholders does not constitute a "Related-party transaction" pursuant to the reporting obligations of CONSOB Regulation 17221 of 12 March 2010 and CONSOB Communication DEM/10078683 of 24 September 2010); (ii) the transfer and sale transactions, despite

qualifying as related-party transactions, fall under the exemption set forth in Article 14, paragraph 2 of the Regulations on Related-Party Transactions and in Article X, Paragraph 8 of the Procedure on Related-Party Transactions of Snam, which stipulates that the procedures to be applied in the event of Related-Party Transactions are not applicable in the event of transactions carried out with subsidiaries (Italgas S.p.A., formerly ITG Holding S.p.A.). In light of CDP's involvement as a Related Party of Snam, Snam has not made use of the aforementioned exemption and has subjected the entire Transaction to the procedure for "Significant Transactions" provided for by Article 8 of the Regulations on Related-Party Transactions and by Article VI of the Procedure on Related-Party Transactions[58].
Under the scope of related-party transactions, there are no further transactions to report for 2016 pursuant to the disclosure requirements of Consob Regulation 17221 of 12 March 2010.
The amounts involved in commercial, financial and other transactions with the above-mentioned related parties are shown below for the 2015 and 2016 financial years. The nature of the most significant transactions is also stated.

58 The procedure for related-party transactions, pursuant to Article 4 of CONSOB Regulation 17221 of 12 March 2010, as subsequently amended, which was approved by the Board on 30 November 2010, is available on the Company's website at www.snam.it in the Governance section.

Commercial and other transactions

Commercial and other transactions can be broken down as follows:

	31.12.2015					2015				
						Costs (a)			Revenue (b)	
(€ million)	Receivables	Other assets	Payables	Other liabilities	Guarantees and commitments	Goods	Services	Other	Services	Other
Companies under joint control and associates										
TAG GmbH	2		1	1		13			1	14
Toscana Energia S.p.A.	3									
TIGF Investissements	1									
Umbria Distribuzione Gas S.p.A.	1									
	7		**1**	**1**		**13**			**1**	**14**
Companies owned or controlled by the State										
Gestore dei mercati energetici S.p.A.			1			5				22
Anas Group	3	1	5					1	5	
Enel Group (c)	110		47				1	1	352	
Eni Group (c)	506	1	164		3	19	59		1,335	
Ferrovie dello Stato Group	1		2							
	620	**2**	**219**		**3**	**24**	**60**	**2**	**1,692**	**22**
	627	**2**	**220**	**1**	**3**	**37**	**60**	**2**	**1,693**	**36**
Discontinued operation										
Enel group								1	90	1
Eni group						7	5	5	703	9
Toscana Energia S.p.A.									2	
Umbria Distribuzione Gas S.p.A.									1	
						7	**5**	**6**	**796**	**10**
Total	**627**	**2**	**220**	**1**	**3**	**44**	**65**	**8**	**2,489**	**46**

	31.12.2016					2016				
						Costs (a)			Revenue (b)	
(€ million)	Receivables	Other assets	Payables	Other liabilities	Guarantees and commitments	Goods	Services	Other	Services	Other
Companies under joint control and associates										
AS Gasinfrastruktur GmbH (BidCo)	4								4	
TAG GmbH	3		3	2		21			2	21
TIGF Investissements	1									
	8		3	2		21			6	21
Subsidiaries of the parent company Cassa Depositi e Prestiti										
Italgas Group	33		10		88			1	24	
	33		10		88			1	24	
Companies under the joint control of the parent company Cassa Depositi e Prestiti										
Saipem Group			43				40			
			43				40			
Companies owned or controlled by the State										
Gestore dei mercati energetici S.p.A.	12		10			2				2
Anas Group	1	1	5					1		
Enel Group (c)	166		13						394	
Eni Group (c)	280	1	31		1		16	1	1,129	2
Ferrovie dello Stato Group	1		1							
	460	2	60		1	2	16	2	1,523	4
	501	2	116	2	89	23	56	3	1,553	25
Discontinued operation										
Gestore dei mercati energetici S.p.A.								2		
Enel group									88	1
Eni group						6	4	1	580	7
Toscana Energia S.p.A.									2	
						6	4	3	670	8
Total	501	2	116	2	89	29	60	6	2,223	33

(a) Inclusive of costs for goods and services to be used in investment activities.
(b) Before tariff components which are offset in costs.
(c) Inclusive of amounts on the balance sheet relating to natural gas balancing activities.

Companies under joint control and associates

The most significant commercial relations with companies under joint control and associates include:

- the sale and the purchase of gas from TAG, governed by the Service Balance Agreement, an agreement aimed at ensuring the daily balance between the quantities metered and the quantities expected at the Tarvisio entry point;
- the provision to TAG of services for the realisation of the transport infrastructures governed by the Engineering, Procurement and Construction Management (EPCM) Agreement.

Subsidiaries of the parent company Cassa Depositi e Prestiti

The most significant commercial relations with subsidiaries of Cassa Depositi e Prestiti include:

- guarantees issued in the interest of Italgas Group refer mainly to hold-harmless letters issued in favour of third parties for participation in tenders and concessions relating to the natural gas distribution service and performance bonds.
- the provision to the Italgas Group of services by Snam S.p.A. in the period 7 November - 31 December 2016, mainly relating to the administration of personnel and legal affairs, corporate and compliance and ICT services. The services provided, regulated on tariffs defined on the basis of costs incurred through a full cost logic, refer to phase-out agreements for a transition period, aimed at ensuring the continuity of the activities previously guaranteed by Snam.

Companies under the joint control of the parent company Cassa Depositi e Prestiti

The most significant commercial relations with companies under the joint control of Cassa Depositi e Prestiti include the purchase by Saipem of design and works supervision services for the realisation of natural gas transportation and storage infrastructures, regulated by agreements signed at normal market conditions.

Companies owned or controlled by the State

The most significant commercial relations with companies controlled or owned by the State involve:

- the provision to the Eni Group and the Enel Group of natural gas transportation, regasification and storage services, regulated by tariffs established by the Authority;
- the purchase by the Eni Group of electricity used for carrying out activities.

Additionally, as at 31 December 2016 there were assets posted in reference to transactions arising from the national tax consolidation scheme in force until 31 July 2012.

Financial transactions

Financial transactions can be broken down as follows:

	31.12.2015		2015
(€ million)	Receivables	Payables	Income
Companies under joint control and associates			
- GasBridge1 B.V. GasBridge 2 B.V.		19	
- Trans Austria Gasleitung GmbH (TAG)			3
- Trans Adriatic Pipeline AG (TAP)	78		
	78	**19**	**3**

	31.12.2016		2016	
(€ million)	Receivables	Payables	Expenses	Income
Companies under joint control and associates				
- GasBridge1 B.V. GasBridge 2 B.V.		**18**		
- Trans Adriatic Pipeline AG (TAP)	**213**			**2**
	213	**18**		**2**
Parent company				
- Cassa Depositi e Prestiti (*)			**1**	
			1	
Subsidiaries of the parent company Cassa Depositi e Prestiti				
- Italgas Group				**121**
				121
	213	**18**	**1**	**123**

(*) This refers to the costs incurred regarding loans granted by the European Investment Bank (EIB).

Companies under joint control and associates

Financial relations with companies under joint control and associates include:

- loans received by GasBridge1 B.V. and GasBridge2 B.V. repayable on demand;
- financial receivables relating to the Shareholders' Loan granted to the associate Trans Adriatic Pipeline AG (TAP) and related financial income.

Subsidiaries of the parent company Cassa Depositi e Prestiti

Financial relations with subsidiaries of the parent company Cassa Depositi e Prestiti refer, in the main, to financial income relating to the adjustment to the market value of financial receivables from the Italgas Group at 6 November 2016 (€119 million), the effective date of the transaction separating the

natural gas distribution business from Snam.
Transactions with directors, statutory auditors and key managers, with reference in particular to their remuneration, are described in Note 25 "Operating costs".

Impact of related-party transactions or positions on the balance sheet, income statement and statement of cash flows

The impact of related-party transactions or positions on the balance sheet is summarised in the following table:

	31.12.2015			31.12.2016		
(€ million)	Total	Related parties	Share %	Total	Related parties	Share %
Balance sheet						
Trade receivables and other current receivables	1,824	627	34.4	**1,307**	**501**	**38.3**
Other non-current receivables	78	78	100.0	**213**	**213**	**100.0**
Other non-current assets	137	2	1.5	**138**	**2**	**1.4**
Short-term financial liabilities	1,351	19	1.4	**1,497**	**18**	**1.2**
Trade and other payables	1,746	220	12.6	**1,264**	**116**	**9.2**
Other current liabilities	71	1	1.4	**21**	**2**	**9.5**

The impact of related-party transactions on the income statement is summarised in the following table:

	2015			2016		
(€ million)	Total	Related parties	Share %	Total	Related parties	Share %
Income statement						
Core business revenue	2,470	1,693	68.5	**2,419**	**1,553**	**64.2**
Other revenue and income	84	36	42.9	**82**	**25**	**30.5**
Purchases, services and other costs	403	38	9.4	**390**	**43**	**11.0**
Financial income	7	3	42.9	**126**	**123**	**97.6**
Discontinued operation						
Core business revenue	1,386	796	57.4	**1,111**	**670**	**60.3**
Other revenue and income	30	10	33.3	**23**	**8**	**34.8**
Purchases, services and other costs	379	18	4.7	**369**	**13**	**3.5**

Related-party transactions are generally governed on the basis of market conditions, i.e. the conditions

that would be applied between two independent parties.
The principal cash flows with related parties (*) are shown in the following table:

(€ million)	2015	2016
Revenue and income	2,535	**2,256**
Cost and expense	(56)	**(56)**
Change in trade receivables and other current receivables	(54)	**102**
Change in other current assets	(2)	
Change in trade and other payables	23	**(80)**
Change in other current liabilities	1	**1**
Interest received (paid)	3	**120**
Net cash flow from operating activities	**2,450**	**2,343**
Investments:		
- Tangible and intangible fixed assets	(61)	**(39)**
- Equity investments	(14)	
- Financial receivables held for operations	(78)	**(133)**
- Change in payables and receivables relating to investments	(4)	**(5)**
Cash flow from investments	**(157)**	**(177)**
Divestments:		
Companies leaving the scope of consolidation		**1,503**
Net cash flow from investment activities	**(157)**	**1,326**
Financial receivables of companies leaving the scope of consolidation		**1,585**
Increase (decrease) in short-term financial debt	6	**(1)**
Financial receivables not held for operations	216	
Net cash flow from financing activities	**222**	**1,584**
Total cash flows with related parties (*)	**2,515**	**5,253**

(*) The financial flows refer to both continuing and discontinued operations.

The effect of cash flows with related parties is shown in the following table:

	31.12.2015			31.12.2016		
(€ million)	Total	Related parties	Share %	Total	Related parties	Share %
Cash flow from operating activities	2,054	2,450	N.A.	**1,627**	**2,343**	**N.A.**
Net cash flow from investment activities	(1,283)	(157)	12.2	**80**	**1,326**	**N.A.**
Net cash flow from financing activities	(828)	222	(26.8)	**(1,690)**	**1,584**	**N.A.**

33. Significant non-recurring events and transactions

Pursuant to Consob Communication DEM/6064293 of 28 July 2006, it should be stated that no significant non-recurring events or transactions took place during the course of the year.

34. Positions or transactions arising from atypical and/or unusual transactions

Pursuant to Consob Communication DEM/6064293 of 28 July 2006, it should be stated that no atypical and/or unusual positions or transactions took place during the course of the year.

35. Significant events after the end of the fiscal year

Other than those illustrated in the Directors' Report, there were no significant events after the end of the fiscal year.

36. Publication of the financial statements

The financial statements were authorised for publication by Snam's Board of Directors at its meeting of 06 March 2017, in accordance with the law. The Board of Directors authorised the Chairman and the Chief Executive Officer to make any changes which might be necessary or appropriate for finalising the format of the document during the period between 6 March 2017 and the date of approval by the Shareholders' Meeting.