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Corporate Social Responsibility review n.1

Snam S.p.A. Investor Relations

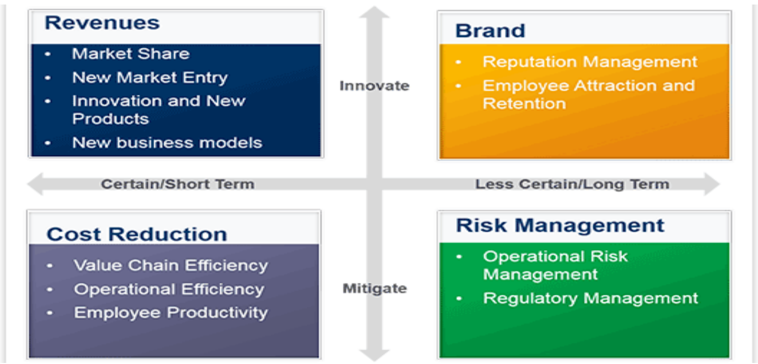
Considerations on Sustainability

The use of the term "sustainable" became part of everyday language some time ago, though at times it is used in a misleading and opportunistic manner, risking undermining its intrinsic importance and value. The origin of the adjective dates back to Roman times and meant "ability to continue to exist without interruption or diminution." Its use has spread significantly in recent years since the 1987 publication of the World Commission on Environment and Development's report, where sustainable development is defined as "fulfilling the needs of the present without compromising the ability of future generations to satisfy their own needs." In general culture and language, it was only at the beginning of the new millennium that we started to see the concept of sustainability spreading, often used as a synonym of "green" to indicate an environmental value

CSR and business

Corporate Social Responsibility (CSR), a subject that until a few years ago was of little importance, is now recognized as an increasingly strategic asset and competitive lever for business development, especially when linked to sustainability. In management, CSR is identified as the potential to create value through the anticipation and management of risks and opportunities associated with long-term developments in economic, social and environmental areas. In addition to the management of risks and opportunities, sustainability also involves an innovative approach in terms of corporate culture and communication, with particular attention paid to the needs of both internal and external stakeholders.

The positive relationship between a commitment to social responsibility and companies' financial-economic performance has been highlighted by numerous studies and analysis. Among these is a study recently conducted by the University of Bologna (Department of Economics), which analysed a sample of 122 large Italian companies and 808 European companies listed on the Stoxx Europe Total Market index. The results showed that there is a significant positive relationship between a commitment to CSR issues (measured by the propensity of companies to perform sustainability reporting) and the financial performance of these companies, both in terms of increased profitability and higher rates of growth. This relationship takes place according to a scheme represented as follows:



Another study (conducted by Assonime and Altis - Catholic University) evaluated the effective involvement of the Board of Directors of companies listed on the Italian FTSE MiB index with CSR issues. The conclusions are as follows: 77% of companies publish a Sustainability Report (with Board approval), 42% of listed companies have integrated social and environmental issues into their business plan, but only 25% have taken steps to make the remuneration of executive directors commensurate to environmental performance indicators.

Investing and ethics

CSR and responsible investing, or Socially Responsible Investing (SRI)

The two are closely related concepts that help to create a virtuous circle between the market, economy and society. SRI-related assets are difficult to quantify reliably, as the characteristics of investment funds actually involved in SRI issues are not always well defined, but involve steadily increasing values. According to the periodic survey conducted by Vigeo (one of the leading agencies in Europe for CSR ratings), in 2014 in Europe, active funds accredited as "socially responsible" are estimated at 957 (922 in the previous year), with assets managed totalling 127 billion euros (+18% compared to 2013). In terms of assets, France and the UK are regarded as the most significant markets, with assets managed totalling 46 and 21 billion euros respectively, followed by Switzerland (12 billion euros) and the Netherlands (11 billion euros). In 2014, the market share of SRI funds increased in all countries, with highs reached in the Netherlands (17.8% of total assets managed) and Belgium (7.5%).

What does SRI investment look at when choosing businesses to invest in and which issues garner the most interest? Regarding governance, it looks at the Board's and the management's specific responsibilities and the objectives of monetary incentives linked to CSR issues. Regarding enterprise risk management, it evaluates the management of risks and opportunities related to climate change. Regarding the environment, it looks at the accurate quantification/certification of Scope 1, 2, and 3 emissions, together with objectives to reduce these emissions.

Green bond

The bond market is showing increasing interest in green bonds, i.e. bond issues related to environmental projects and sustainability initiatives. From the first issue of green bonds, which took place in 2008 by the World Bank, it is estimated that these issues may reach a total of approximately $40 billion in 2014. Contributing to the growth potential of this sector is interest from large investment banks (including Bank of America Merrill Lynch, BNP Paribas, Deutsche Bank, Goldman Sachs and Morgan Stanley), which recently wrote a guide (Green Bond Principles) about regulation and transparency of green bonds at an international level. In particular, Morgan Stanley aims to reach 10 billion in assets within 5 years. Green bonds have also arrived in Italy. One of the first issuers was the multi-utility Hera, which took steps in June this year to place a bond issue of 500 million euros, related to a specific environmental project. At a European level, the French company GDF Suez in particular has excelled. This past May it placed a jumbo green bond of 2.5 billion euros (in two parts, one of 1.2 and another of 1.3 billion euros, average coupon 1.895%), aimed at financing renewable energy systems and energy efficiency initiatives.

CSR Observatory

Sodalitas Social Solution – CSR best practices

Corporate Social Responsibility is an issue that is increasingly followed and practiced by Italian companies, though in significantly different ways and with different commitments.

A large compendium of CSR case studies is available on www.sodalitas.it, the website of the Fondazione Sodalitas (which Snam has been a corporate supporter of since 2011) - it was established in 1995 on Assolombarda's initiative to promote the culture of corporate sustainability. The more than 2,000 business cases reported (the most comprehensive European database on CSR issues) are organized into 10 categories, with Partnership with the Community and Management of Environmental Impact the largest categories. While the business cases surveyed in the *Partnership with the Community* category mainly feature collaborative efforts with non-profit organizations, initiatives that fall under the *Environmental Management* category are more diversified and attributable to the following issues: technical solutions aimed at reducing energy and water consumption as well as the reduction of CO_2 emissions; the use of renewable sources; initiatives to raise employee awareness on practices and behaviour for the protection of the environment; involvement of employees in volunteer initiatives and green procurement initiatives. In particular, in the business cases monitored, the implementation of a sustainability program in the supply chain is due to two main types of interventions: those by companies, which are essentially the introduction of sustainability criteria in the selection of products and services purchased and/or in the definition of a CSR profile of its suppliers, and those adopted by the purchasing centres of public bodies (Regions, ASL, CONSIP for purchasing management of PA at a national level), requiring implementing protocols that include energy efficiency and environmental sustainability criteria in agreements and calls for tender for supplies.

European Union: new objectives for 2030 on Climate Change and Energy Policy

On 23 October, the 28 EU countries ratified an agreement on new climate objectives for 2030, in order to ensure the achievement of the goal ahead of 2020 (the so-called "20-20-20" package) and to promote further improvements in terms of energy efficiency beyond this date. The European Council's agreement on climate includes reaching the following objectives by 2030: 1) a 40% reduction in greenhouse gas emissions compared to 1990 levels (binding commitment at a European and national level); 2) reach a renewable energy share of "at least" 27% of the total energy consumption (binding commitment at a European level but only indicative at a national level); 3) achieve greater energy efficiency of "at least" 27% compared to the forecast energy consumption based on existing criteria (binding commitment at a European level but only indicative at a national level). The latter two objectives are not binding for individual states (therefore introducing a degree of uncertainty around the ability to achieve them), as the agreement is a compromise that takes into account the inconsistencies between the characteristics of European energy systems. Regarding the gas sector, the European Council has also decided to implement several projects considered "critical" and of "common interest", such as the North-South Corridor, the Southern Gas Corridor and the promotion of a new gas hub in southern Europe.

The UNsustainability of climate change

Despite the efforts and numerous initiatives undertaken at a national and international level to contain greenhouse gases, according to the World Meteorological Organization, 2013 marked a record high of global emissions, with a concentration of atmospheric CO_2 equal to levels of three million years ago, when the temperature was two or three degrees higher, and the sea level was 25 metres higher. This not only led to increased emissions of greenhouse gases, but also the consequent loss of the ocean's ability to mitigate emissions (due to acidification). The concentration of carbon dioxide in the atmosphere has since increased from an average value estimated at 280 parts per million from the pre-industrial era, to 316 in 1959, to the current 396 shares per million; this is very close to the threshold limit, conventionally fixed at 420 parts per million. In this context, the news that the two countries currently the largest emitters of greenhouse gases (China and the United States) signed an agreement on 12 November to reduce these emissions is encouraging. For the United States, it requires reducing emissions by 26-28% by 2025 compared to 2005 levels; for China, the commitment involves starting to reduce them gradually once they have reached their peak in 2030, and increasing the amount of energy from non-fossil sources to 20% of its total energy mix by this date.

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