

September 2016

# News@Facts



**The interview:** Talking to Marco Porro, Head of Investor Relations

## Snam confirmed in the DJSW Index, the most important sustainability world index

Why is it so important for a listed company to succeed in being included in the Dow Jones Sustainability World Index?

Launched in 1999, the DJSI World is the most important sustainability world index, which includes the companies identified as Corporate Social Responsibility leaders by RobecoSAM, the investment and rating company focused exclusively on Sustainability Investing, whose assets under management are approximately 10.8 billion USD at 30 June 2016. The confirmation of Snam, which has been included for the eighth year in a row, allows the Company to increase its visibility among Socially Responsible investors and, more generally, to keep

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Marco Porro,  
Responsible Investor  
Relations di Snam

**Performance:** First-half 2016 results

## Interim results in line with expectations

First-half results reflect the reduction of return on net invested capital (WACC) in transport and distribution for the new regulatory period, which started on 1st January 2016. Thanks to the solid business model, the interim performance resulted in line with Company's expectations.

In first-half 2016 total revenues, equal to 1,724 million euro, present a 6.2% decline compared to first-half 2015, due to lower regulated revenues in the natural gas transport and distribution businesses, and to the reduction of income from the sale of natural gas. Those negative impacts have been partly mitigated by higher regulated revenues in

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Results	1H 2015	1H 2016	Change
Gas injected into the network (bcm)	32.77	34.07	+4.0%
No. of active meters (mn)	6.518	6.525	+0.1%
Total revenues (mn €)	1,837	1,724	-6.2%
EBITDA (mn €)	1,434	1,314	-8.4%
EBIT (mn €)	1,012	867	-14.3%
Net profit (mn €)*	612	526	-14.1%
Technical investments (mn €)	487	526	+8.0%

(\* ) Net profit is attributable to Snam.

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presenting itself to the financial community as a virtuous operator taking interest in social and environmental issues.

### What distinguishes the Assessment philosophy adopted in building the DJSW Index?

The methodology adopted by the Corporate Sustainability Assessment of RobecoSAM is based on two pillars: the integration of economic, environmental and social criteria and the significant weight attributed to the shareholder value created in the long term. The DJSWI includes 316 companies, representing ca. the top 10% of the 3,400 world largest companies by market capitalisation that have been invited to participate.

During the process, based on an online questionnaire that has taken place in April and May, RobecoSAM has analysed the information submitted by Companies; on 8th September 2016, they announced the new components of the DJSI World. As a result of the Assessment, 50 companies have been deleted from the Index, while 50 new companies have been added.

### How did Snam score this year?

Very well: Snam resulted in being one of the six Italian companies and one of the 16 utilities included in the DJSI World. Moreover, its worldwide ranking improved compared to last year, with an overall score of 89 vs. 85 in 2015. Note-worthily, Snam has shown progress in all macro-areas under assessment. In particular, in the

environmental section, Snam scored 95 points, -92 points in 2015- thus reaching the highest levels of excellence in the sector.

### How does Snam prepare for the RobecoSAM Assessment?

RobecoSAM has built a solid evaluation methodology over time, with the aim of addressing new sustainability trends that are directly related to financial performance. The Assessment is therefore becoming more challenging every year, in terms of risk and opportunity analysis.

This year we had to tackle significant changes in the methodology that the questionnaire used to assess Human Rights, Impact Measurement & Valuation, and Materiality.

Despite the RobecoSAM approach is very transparent, the weights given to each question and to each criteria change every year, according to the relevance that each issue has in a specific sector. A questionnaire response that is unchanged from the previous year could therefore lead to a different score.

The continuous development of the Assessment reflects the changes in the stakeholders' perceptions about specific topics, considering how such topics are relevant for the Company and within the sector. Snam is therefore committed to carefully monitoring emerging issues and best practices in each sustainability area, and in its own sector, being aware that investors increasingly tend to directly link

good financial performance to positive Environmental, Social and Governance results.

To be continuously a member of the DJSI World since 2009 is definitely a major achievement. Does Snam strive to be included and confirmed in additional indices? Surely. The effort long made for integrating sustainability policies into the business management has generated tangible results: presently Snam is the company, in the utility sector, boasting the membership in the highest number of sustainability indices.

Some of the most important Snam's memberships include FTSE4Good, CDP Italy Climate Disclosure Leadership Index, United Nations Global Compact 100 and the series of the ECPI, MSCI, Vigeo and Ethibel indices.

### Did those inclusions translate also into changes in the shareholding structure?

Undoubtedly they did: the share of investors including Socially Responsible Investing criteria has progressively increased over time. As of 31 December 2015, SRI funds represented around 4.7% of Snam's share capital, while they were 4.4% in 2014 and 3% in 2013.

Also at the last Annual General Meeting, we had Environment, Social & Governance investors expressing their appreciation for the choices and the progress made by the Company. Such acknowledgements are extremely rewarding; at the same time, they challenge us to meet the ever more tightening expectations in financial markets.

## continue Performance: First-half 2016 results

the storage sector, which benefit from a WACC increase for the year 2016 vs. 2015. The 14.3% decrease shown by the EBIT in the first half of 2016 has been driven by lower revenues, as well as by higher operating costs (+7.6%) in the distribution business, and by higher depreciation (+5.9%) due to new infrastructure entering into operations.

From a business perspective, the decline in consolidated EBIT reflects a 12.9% decrease in the transport business and a 28.2% decline in distribution, partly compensated by the 5.9% rise recorded in storage.

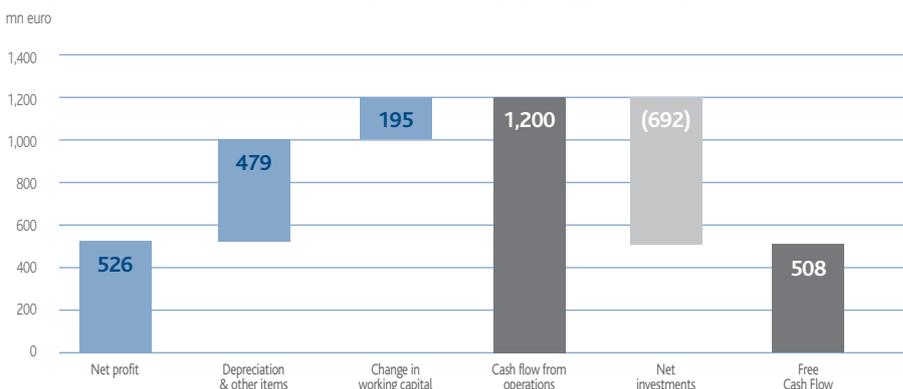
In first-half 2016 net profit is 526 million euro (-14.1% vs. 1H 2015): a result mainly driven by the 14.3% decrease in EBIT and by lower income (by 5 million euro; -7.2%) from equity investments valued using the equity method. The performance of net profit, on the contrary, benefitted from the

decrease of 10 million euro in net financial charges, due to the lower average cost of debt, and from the decrease of 54 million euro in income taxes, mainly attributable to the lower pre-tax profit.

The operating cash flow generation, amounting to 1,200 million euro, largely

exceeded the funding needs for net technical investments (692 million euro): Free Cash Flow therefore equalled 508 million euro. As at 30 June 2016, after the dividends' payment of 875 million euro, net financial debt amounts to 14,177 million euro

### 1H 2016 - CASH FLOW FROM OPERATIONS AND FREE CASH FLOW



## The process leading to the separation of Italgas from Snam is underway

The process that will lead to the separation of the distribution activities is progressing as scheduled.

- On **1<sup>st</sup> August 2016** Snam's shareholders, at their **Extraordinary meeting**, approved the partial and proportional demerger of Snam in favour of ITG Holding SpA and the reduction of Snam's share capital, which will decrease from 3,696,851,994.00 euro to 2,735,670,475.56 euro.
- On **12 September 2016** Italgas SpA (formerly ITG Holding)

submitted the **application for the admission** of ordinary shares **to be listed** on the Electronic Share Market (MTA) organised and managed by Borsa Italiana. At the time of applying for admission to listing, the company ITG Holding SpA took on the name of Italgas SpA, whilst the operative company Italgas SpA simultaneously took on the name of Italgas Reti SpA.

- Lastly, Snam has convened a **Noteholders' Meeting** to be held on **30 September 2016** to approve the separation of Italgas from Snam.

### Focus: Investments

## Progress of work at the new Bordolano storage site

The achievement of the interconnection of the gas system networks at European level requires the availability of new storage capacity. Under Snam's Investment Plan, in the 2016-2020 period 500 million euro will be dedicated to increase the modulation capacity by 5% (from 12.0 to 12.6 billion standard cubic metres/day) and the peak capacity by 3% (from 238 to 246 million standard cubic metres/day). Such increases are mainly related to the new storage field at Bordolano (close to Cremona) progressively coming into full operation. The construction works

of the new site, which had started in 2014, have been almost completed in the first half of 2016. Presently, the civil finishing works are being carried out, aiming at making the Bordolano site a plant that is fully integrated with the land: for instance, the laying of a particular covering, called "artistic wave", which will cover the sound-absorbing panels, is about to be completed. In addition, the environmental restoration is close to be finalised, with the creation of a green oasis that will extend over approximately eight hectares around the storage facility.



### Focus: Regulatory framework

## 2016 allowed revenues in the storage business approved

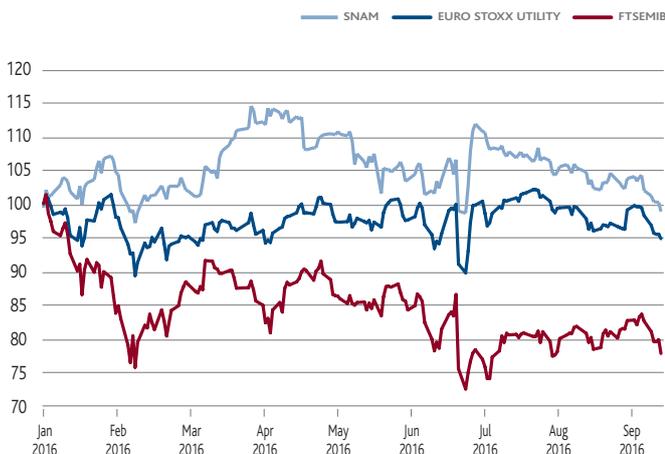
On 21 July 2016, through resolution no.418/2016, the Regulatory Authority for Electricity Gas and Water has approved the allowed revenues for the storage service for the year 2016. Such revenues are equal to 503.5 million euro.

RAB for the natural gas storage business is equal to 4.0 billion euro.

## Snam and the financial markets

### STOCK PRICE PERFORMANCE (4 JANUARY 2016 – 16 SEPTEMBER 2016)

STOCK PRICE (CLOSING PRICE OF 16 SEPTEMBER 2016 = 4.80 EURO)  
COMPARED WITH SECTOR AND MARKET INDEX (BASE 4 JAN. 2016 = 100).



Since the beginning of 2016, Snam has outperformed the European sector index and the Italian blue chip index. While both benchmarks presently trade below their respective closing levels at the end of 2015 (-7.9% for Euro Stoxx Utility and -24.2% for FTSEMIB), Snam's stock price is substantially in line with that as of 30 December 2015 (4.83 euro).

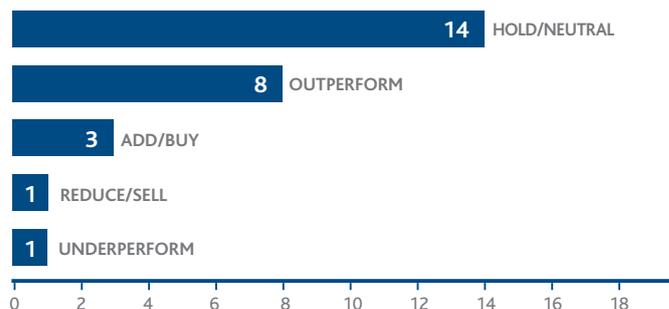
Excluding the last quarter, in which the share has discounted partly the downwards review of the Italian GDP's estimates and partly the interest rates' increase (especially from the beginning of September), Snam's outperformance of benchmarks over the whole period proves that investors appreciate the solid business model of the Company and a strategy offering attractive and visible returns.

The Company's stock price performance benefitted from the financial community welcoming both the demerger project, announced in March, and the 2016-2020 Business Plan, presented in June, in addition to the first-half 2016 results, which resulted in line with analysts' expectations, despite reflecting the WACC reduction in transport and distribution set in the new regulatory period.

As far as indices are concerned, notwithstanding the general recovery from the period-lows as of 27 June 2016, immediately after the Brexit, their performances during the last few weeks were characterised by high volatility, while the outlook remained unstable and the next Fed's monetary policy decisions were still uncertain.

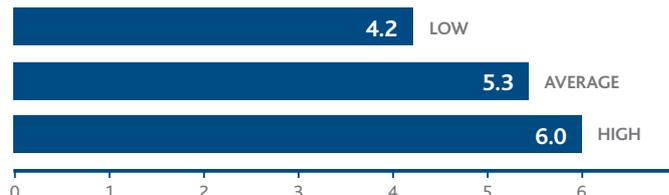
## BROKERS' RECOMMENDATIONS

NUMBER OF BROKERS 27



## CONSENSUS TARGET PRICE

NUMBER OF BROKERS 27



The consensus target price is equal to 5.3 euro: it is therefore unchanged in comparison with the value at the end of June 2015, at the time of the issue of the last newsletter.

It should be noted that over 80 percent of the analysts (precisely 22, out of the 27 analysts covering the stock) have a target price exceeding 5 euro. At present price levels, the discount to the average target price of 5.3 euro indicates a potential revaluation gap of 10.4%.

Most brokers' recommendations are neutral (14 Hold/Neutral out of 27) or positively oriented (11 Buy/Outperform out of 27).

## SNAM AND THE STOCK EXCHANGE

OFFICIAL LISTING MARKET > BORSA ITALIANA EQUITY MARKET

TYPE OF SHARES > ORDINARY SHARES

INDEX MEMBERSHIP > FTSEMIB / FTSE ALL-SHARE / EURO STOXX / EURO STOXX UTILITY / STOXX EUROPE 600

ETHICAL INDEX MEMBERSHIP > FTSE4GOOD / ETHIBEL / CAPITAL PARTNERS / DOW JONES SUSTAINABILITY WORLD/ STOXX GLOBAL ESG LEADERS INDICES / VIGEO WORLD 120 / VIGEO EUROPE 120 / GC100 / CDLI / MSCI GLOBAL SUSTAINABILITY INDEX

CREDIT RATINGS > S&P'S: BBB; MOODY'S: BAA1; FITCHRATINGS: BBB+  
CODES

ISIN > IT0003153415

REUTERS > SRG.MI

BLOOMBERG > SRG IM

HIGH (365 DD) > € 5.53 – 30 MARCH 2016

LOW (365 DD) > € 4.31 - 24 SEPTEMBER 2015

LAST DIVIDEND PAID (FISCAL YEAR 2014) > € 0.25- 25 MAY 2016

TOTAL N. OF SHARES OF THE SHARE CAPITAL > 3,500,638,294

MKT CAP (BILLION EURO) > 16.80

## News: Buyback

### Approval of treasury shares' purchase up to a maximum of 500 million euro

On 1<sup>st</sup> August 2016, at the Meeting called in ordinary session, shareholders approved the authorisation for purchasing treasury shares, for a maximum amount of 500 million euro and up to a maximum limit of 3.5% of

Snam post-demerger share capital, within 18 months from the effective date of the demerger.

The buyback aims at providing the Company with an instrument of strategic and financial

flexibility intended to increase value for shareholders, also by improving the financial structure. At the end of August 2016, treasury shares already held by Snam were 0.03% of share capital.

## FINANCIAL CALENDAR 2016

THIRD QUARTER 2016 REPORT.

25 OCTOBER 2016 > BOD

26 OCTOBER 2016 > PRESS RELEASE AND CONFERENCE CALL

Press release will be issued in the morning (non-trading hours), with the exception of that of 27 April 2016, which will be issued at the end of the Meeting. Conference Calls take place in the afternoon.

## In-depth in Snam businesses - TRANSPORT AND DISPATCHING

**8** entry points of the National Network for natural gas coming from abroad: Tarvisio, Gorizia, Passo Gries, Mazara del Vallo, Gela, as well as the LNG terminals in Panigaglia, Rovigo (Cavarzere) and Livorno.

**53** entry points of the National Network at which national production is injected.

**2** virtual entry points, one for each storage operator (Stogit SpA and Edison Stoccaggio SpA).

**67.25** bcm of natural gas injected into the Network in 2015, of which **6.43** bcm from national production.

**32,534** km Transportation Network in use at 2015 year-end.

**876.5** megawatt of installed capacity at the **11** compression stations at 2015 year-end.

**139** shippers having transport contracts with Snam Rete Gas in 2015.

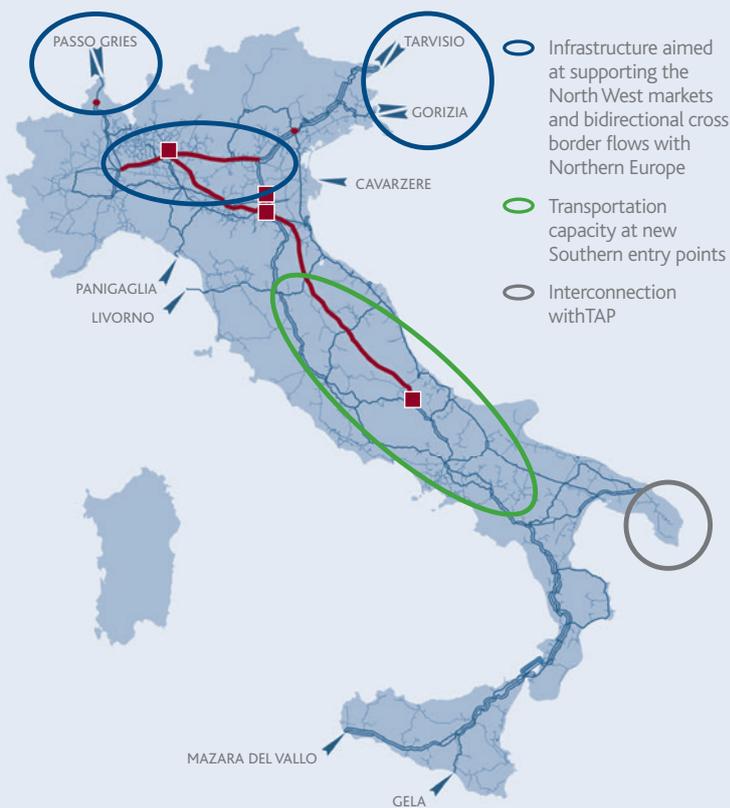
### The Transport and LNG businesses will absorb the most relevant share of the five-year Investment Plan of Snam.

Investments planned in transport and LNG in Italy (3.8 billion euro), aimed to support the **development of the Italian infrastructure** and its **interconnection with the European markets**, as well as to strengthen **security, flexibility and liquidity** of the gas system, represent approximately **88%** of the overall investment plan for the 2016-2020 period, equal to 4.3 billion euro.

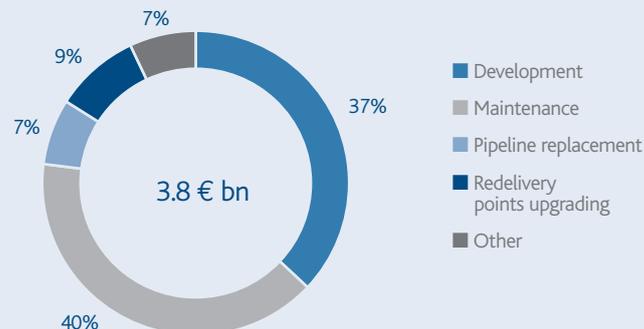
### MAIN INVESTMENT PROJECTS IN TRANSPORT

In the **Northwestern area of the Country**, Snam has planned to invest 600 million euro for the completion of the projects aimed at increasing flexibility and security of European supply, through the creation of **new available exit capacity**, part of which is already operational. Such projects also include the construction of two new compression stations and the upgrading of an existing plant. With the aim of facilitating new imports, along the South-North corridor Snam will develop new capacity for transporting the gas coming from the **South entry points**, with the strengthening of the **Adriatic pipeline**. Moreover, new infrastructure will be built in **Apulia**, for **interconnection with the Trans Adriatic Pipeline (TAP)** that will take gas from Azerbaijan to Italy, starting from 2020: Snam will construct a gas pipeline of more than 50 km, which will entail an investment of approximately 150 million euro.

**Beyond 2020**, Snam will allocate further significant investments to the **replacement** of completely depreciated **pipelines** and to the completion of the «tails» of some **development projects**.



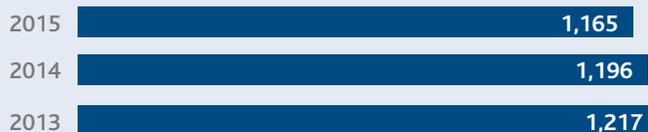
### 2016-2020 INVESTMENTS TRANSPORT & LNG



### TRANSPORT OPERATING INVESTMENTS (mn euro)



### TRANSPORT EBIT (mn euro)



### TRANSPORT CAPACITY SOLAR YEAR 2015 (bcm/d)

Transport capacity	Allocated capacity	Saturation (%)
371.6	293.8	79.1