



Snam S.p.A.

Auditors' Report

On the reasonableness of the shares' issue price for the increase in share capital with exclusion of the shareholders' preemption rights

(Article 158 of the Legislative Decree n° 58 of 24 February 1998)

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(Translation from the original Italian text)

To the Shareholders of
Snam S.p.A.

1. Objective, subject and scope of the engagement

In accordance with article 158, paragraph 1, of the Italian legislative decree n° 58 of 24 February 1998, we received from Snam S.p.A. (hereinafter "**Snam**", the "**Company**" or the "**Issuer**"), the proposal to increase the share capital for consideration, with exclusion of preemption rights, under article 2441, paragraph 4 of the Italian Civil Code (the "**Share Capital Increase**"), together with the explanatory report of the Board of Directors prepared pursuant to Article 2441, paragraph 6, of the Italian Civil Code and Article 70, paragraph 4, letter a) of the Consob Regulations no. 11971 of 14 May 1999 as subsequently modified (the "**Directors' Report**"), that:

- i) places the proposed Share Capital Increase in the framework of a transaction aimed to take over the stake in Trans Austria Gasleitung GmbH ("**TAG**"), equal to the 84,47% of TAG's share capital and which represents 89,22% of the economic rights in TAG (the "**Stake in TAG**") by Snam;
- ii) explains and justifies the exclusion of the preemption rights and indicates the criteria adopted by the Directors in determining the shares' issue price;
- iii) proposes to call on 10 December 2014 the Extraordinary Shareholders' Meeting to resolve on the Share Capital Increase and to grant the Board of Directors all the necessary powers to give effect to the above.

As registered audit firm, appointed by Snam according to article 158, paragraph 1, of the legislative decree n° 58 of 24 February 1998, and considering the characteristics of the proposed Share Capital Increase, in this report we conclude, in accordance with article 158, paragraph 1, of the legislative decree n° 58 of 24 February 1998, on the reasonableness of the criteria identified by the Directors for determining the shares' issue price (the "**Price per Share**").

In order to provide the Shareholders with adequate information regarding the criteria for determining the Price per Share, this report illustrates the methods adopted by the Directors, also based on indications from their financial advisors, in determining the Price per Share and the difficulties encountered by them. In addition, this report also indicates whether, under the circumstances, such methods are reasonable and not arbitrary, whether the Directors have considered the respective importance of such methods and whether the methods have been correctly applied.

In our examination of the valuation methods adopted by the Directors of Snam, we have not carried out a valuation of Snam or TAG. This was done solely by the Directors of Snam and their financial advisors.

The procedures described in this report have been performed by us solely for the purposes of expressing our conclusions on the valuation criteria adopted by the Directors of Snam to determine the Price per Share and accordingly:

- they are not valid for different purposes;
- they do not constitute for any reason a valuation either on the opportunity of the transaction, or on the reasons for the Share Capital Increase expressed in the Directors' Reports.

2. Summary of the transaction

Terms of the transaction

On 12 September 2014, Snam's Board of Directors approved the transaction consisting in the acquisition of the Stake held by CDP GAS S.r.l. ("CDP GAS"), a subsidiary of Cassa Depositi e Prestiti S.p.A. ("CDP") in TAG (the "Transaction").

TAG is the owner of the Austrian section of the pipeline that connects Russia to Italy and also holds the transportation rights on the pipeline. TAG became the owner of the pipeline, according to the agreement signed on 8 August 2014 by CDP GAS, Gas Connect Austria GmbH ("GCA") and TAG (the "Framework Agreement") following the contribution in kind, effective from 1 October 2014, of the gas pipeline, the related infrastructures, and the staff and assets and liabilities related to the operation and maintenance services (the "Going Concern") by GCA, an Austrian gas transmission company of the OMV Group and shareholder of TAG together with CDP GAS. Following this transfer, the Stake in TAG to be acquired by Snam will equal 84.47% of the share capital of TAG, with economic rights, according to the shareholders' agreements, equal to 89.22%. Gas Connect Austria will hold the remaining 15.53% of the share capital and 10.78% of the economic rights.

On 19 September 2014, Snam, CDP and CDP GAS (together, the "Parties") entered into an agreement concerning the Transaction, which execution is conditional upon, *inter alia*, the approval by Snam's Extraordinary General Shareholders' Meeting of the resolution for the Share Capital Increase related to the Transaction (the "Agreement"). The Directors' Report provides details about the conditions precedent related to the Transaction.

The Parties have attributed to the Stake in TAG a value of Euro 505,000,000.00 (five hundred and five million/00) (the "Consideration"), subject to a price adjustment, if any. Without prejudice to the possibility that the Consideration will be partially or entirely paid in cash (see note, *infra*), The Consideration of Euro 505 million will be paid by Snam through the execution of a share capital increase, with exclusion of the preemption rights, reserved for CDP GAS, to be underwritten, by CDP GAS through the contribution in kind of the Stake in TAG.

The transfer of the Stake in TAG from CDP GAS to Snam will take place within the fifteenth business day after the day on which the last of the conditions precedent provided for by the Agreement is fulfilled (with the exception of conditions which, by their very nature, must be fulfilled on the execution date itself), or another date agreed in writing by the Parties (the "Execution Date"). On the Execution Date, Snam will enter into the shareholders' agreements relating to TAG in force on that date between GCA and CDP GAS, acquiring the rights and obligations of the latter pursuant to these agreements.

The main conditions precedent not yet fulfilled at the date of this report are the following:

- the resolution to be taken by the Extraordinary Meeting of the shareholders of Snam to increase the share capital in connection with the Transaction;
- the consent to be obtained from ING Bank N.V., financial institution financing TAG, for the completion of the Transaction and the related activities;
- the communication of the Transaction to be made to the Italian government pursuant to Article 2 of Decree Law no. 21 of 15 March 2012, which was finally approved, with amendments, with Law no. 56 of 11 May 2012, and to the related implementing regulations, and that the government has not exercised the special powers provided for by the aforementioned legislation or, alternatively, it has been confirmed that said legislation does not apply to the Transaction;
- the delivery, by CDP GAS to Snam, of a certified interim financial statements of TAG referring to the effective date of the contribution of the Going Concern to TAG pursuant to the Framework Agreement, subject to a limited review in accordance with ISA 805 (International Standards on Auditing - Audit for Special Purpose Engagement).

The deadline by which the execution of the Transaction must take place is 31 March 2015. If the conditions precedent are not fulfilled by 31 March 2015, the Parties will not be further required to conclude the Transaction.

In addition, the Directors' Report reports that, on the Execution Date, Snam will provide TAG with the funds necessary to enable TAG to reimburse CDP GAS for the outstanding amount of the shareholder loan granted by CDP Gas to TAG which, as of 31 August 2014, amounted to approximately Euro 270 million.

The Directors' Report discloses that the Transaction is between related parties as CDP holds (i) through CDP RETI (a subsidiary of CDP) approximately 30% of the share capital of Snam, which represents a stake allowing a considerable influence on Snam, and (ii) 100% of CDP GAS. The Transaction is also considered as "material" pursuant to Consob Regulation no. 17221 of 12 March 2010, as subsequently amended and supplemented, (the "RPT Regulations") as well as to the Snam Procedure "Transactions involving directors' or statutory auditors' interests and related-parties transactions" (the "RPT Procedure").

In this regard, Snam prepared and provided to the public, on 19 September 2014, the prospectus pursuant to Article 5 of the RPT Regulations, as well as to the RPT Procedure with reference to the signing of the Agreement by Snam, CDP GAS and CDP.

Snam's Board of Directors approved the Transaction, which was also subject to the favorable reasoned opinion issued on 12 September 2014 by the Company's Control and Risk Committee in its composition as Committee for related-parties transactions (the "Committee"). This Committee expressed unanimous opinion on the interest of Snam in completing the Transaction and on the suitability and substantial fairness of its conditions. The Committee was assisted by three independent advisors for regulatory, legal and financial matters.

Without prejudice to the possibility that the Transaction may take place partially or entirely as a sale and purchase, the Shareholders will resolve upon a Share Capital Increase for a maximum amount of Euro 505 million, inclusive of share premium, with exclusion of preemption rights, under article 2441, paragraph 4 of the Italian Civil Code, reserved for CDP GAS to be underwritten through the

contribution in kind of the Stake in TAG. Snam will issue and will grant to CDP GAS a whole number of ordinary shares without par value, with regular enjoyment rights (the “Newly Issued Shares”), determined based on the following formula: Euro 505,000,000.00 divided by the Price per Share.

Upon the Shareholders’ resolution, no earlier than 5 business days prior to the Execution Date, the Board of Directors of Snam will determine the Price per Share as the weighted average value of the official prices of Snam shares, as defined in the Stock Market Regulations, registered in the one hundred and eighty calendar days prior to the date on which the Price per Share is determined by the Board of Directors, rounded off to the nearest thousandth of a euro:

$$P_{SNAM} = \frac{\sum_n [(Pu) \times (Vn)]}{\sum_n Vn}$$

where:

- PSnam: Price per Share;
- n: number data collections - i.e., of trading days - in the period of 180 (one hundred and eighty) calendar days prior to the date of the Board of Directors meeting held to determine the Price per Share;
- Vn: volumes recorded on each trading day;
- Pu: official price of Snam shares, as defined in the Stock Market Regulations, referring to the day n, calculated as defined in the Stock Market Regulations, i.e. equal to the weighted average price for the relevant quantities (Vn) of all the contracts concluded during the day, as reported by Bloomberg.

Under no circumstances may the number of shares issued by Snam pursuant to this formula exceed the maximum number 119,000,000 Newly Issued Shares (the “Maximum Number of Shares”).

If the number of shares determined as indicated above exceeds the Maximum Number of Shares, Snam will issue and will grant to CDP GAS the Maximum Number of Shares, and will pay CDP GAS an adjustment in cash, up to the maximum amount of the adjustment in cash, i.e. Euro 76,600,000.00 (the “Adjustment in Cash”).

Therefore, if the Adjustment in Cash is necessary, a mixed transaction involving a contribution in kind pursuant to Articles 2342 et seq. of the Italian Civil Code and a sale and purchase transfer will take place. In this context, a part of the shares that constitute the Stake in TAG will be transferred in exchange for the issuance of Snam shares (as a consequence of a share capital increase of Snam), while the remaining part will be transferred in exchange for the payment of the Adjustment in Cash. The ratio between the shares of the Stake in TAG contributed in kind and the shares sold will correspond to the ratio between the total value of the Newly Issued Shares and the Adjustment in Cash.

If the Price per Share thus determined is lower than Euro 3.60, the transfer of the Stake in TAG will take place in exchange for a cash-only payment of the Consideration without any Share Capital Increase.

The Directors’ Report explain that the parties have determined the net working capital of TAG and the net financial position of TAG, estimated as at 30 November 2014 and adjusted to take into account the difference, if any, between the capital expenditure that had actually been made by that date and

the capital expenditure that the parties estimated. After the Execution Date, the parties will verify, possibly also by an independent auditor, the actual net financial debt (as adjusted to take into account capital expenditure) and net working capital of TAG as at 30 November 2014. TAG's net financial position will also be adjusted to take into account the difference, if any, between the capital expenditure that had actually been made by that date and the capital expenditure that the parties estimated. Any positive or negative difference between the estimated net financial debt and the actual net financial debt as at 30 November 2014 will give rise, respectively, to a payment by Snam to CDP GAS or, vice versa, a payment by CDP GAS to Snam. Any positive or negative difference between the actual net working capital and the estimated net working capital will give rise, respectively, to a payment by Snam to CDP GAS or a payment by CDP GAS to Snam.

Rationale of the transaction

The Directors' Report illustrates that evaluations of obvious interest to the Company led the Board of Directors of Snam to assess positively the Transaction to acquire the Stake in TAG and consequently to propose the Share Capital Increase.

In particular, from an industrial and business perspective, the Transaction is fully consistent with Snam's strategy to create a European gas infrastructures platform, and allows the Company to pursue its policy of diversifying country risk and regulatory risk. Following the Company's investments in Interconnector UK and TIGF, with the acquisition of a the Stake in TAG, which represents one of the most important routes for supplying Russian gas to Europe, Snam would assume a significant position in the East-West corridor, which has been identified as a priority in Snam's plans to develop its international presence in the energy corridors set out in Directive 2009/73/EC. Furthermore, with the investment in TAG, Snam would acquire influence over an asset of strategic importance for the Italian gas market, as the gas injected at the entry point of Tarvisio currently accounts for a significant proportion of the country's imports.

Purposes of the contribution

In the context of the Transaction, the Directors explain that from an economic and financial perspective, the decision to execute the Transaction preferably using Snam shares allows the Company to strengthen its balance sheet position by regaining the financial flexibility it used in previous acquisitions. If, however, the Price per Share, calculated as detailed above, is lower than Euro 3.60, the Consideration will be paid entirely in cash, to protect minority shareholders who would be excluded from the Share Capital Increase, and the Share Capital Increase will not take place.

3. Documentation utilized

In performing our work, we analyzed the following documentation:

1. The Directors' Report, prepared for the Shareholders' Extraordinary General Meeting convened on 10 December 2014, which indicates the criteria adopted by the Directors in determining the shares' issue price;
2. The Snam Board of Directors' internal document dated 12 September 2014, which illustrates the industrial and business rationale of the Transaction and the considerations about the valuation of TAG;
3. The favorable reasoned opinion issued on 12 September 2014 by the Committee;

4. The fairness opinion issued by the financial advisor of the Company's Committee on the fairness of the Consideration relating to the transfer to Snam of the Stake in TAG;
 5. The *fairness opinions* issued by the financial *advisors* of the Board of Directors of Snam on the fairness of the Consideration relating to the transfer to Snam of the Stake in TAG, equal to Euro 505 million;
 6. The Agreement, and related attachments, signed on 19 September 2014 by Snam, CDP and CDP GAS related to the Transaction;
 7. The information document for significant transactions with related parties, prepared for the Transaction, published on 19 September 2014;
 8. The consolidated financial statements of Snam as at 31 December 2013, prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by EU, audited by us;
 9. The consolidated half year report of Snam as at 30 June 2014, prepared in accordance with IFRS adopted by the EU, applicable to interim reporting (IAS 34), reviewed by us;
 10. The consolidated third quarter report of Snam as at 30 September 2014, prepared in accordance with IFRS and in conformity with article 154-ter paragraph 5 of the Legislative Decree n° 58 of 24 February 1998;
 11. The financial statements of TAG as at 31 December 2013 and 2012, prepared in accordance with Austrian Generally Accepted Accounting Principles, audited by PwC Wirtschaftsprüfung GmbH;
 12. The *Balance Sheets* and the *Income Statements* of TAG as at 31 December 2013 and 2012, prepared in accordance with IFRS, signed for identification by PwC Wirtschaftsprüfung GmbH;
 13. The *Balance Sheets* and the *Income Statements* of TAG as at 30 June 2014 and 2013, prepared in accordance with IFRS, signed for identification by PwC Wirtschaftsprüfung GmbH;
 14. The 2014 - 2022 *business plan* of TAG, inclusive of the Going Concern, prepared by Snam management with the assistance of external consultants;
 15. The *due diligence* reports on TAG prepared by the financial, tax, legal, technical and regulatory advisors of the Board of Directors of Snam and of the Committee of Snam;
 16. The report pursuant to article 2343 of the Italian Civil Code prepared and sworn by Prof. Marco Lacchini, an expert appointed by the Court of Milan;
 17. Publicly available information about Snam and companies operating in the same sector and financial researches and analyses, published by specialized institutions and investment banks;
 18. Other accounting and statistical information and any other information considered relevant to the purposes of this report.
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4. Valuation methods adopted by the Boards of Directors for the determination of the Price per Share

In order to determine the Price per Share of the Newly Issued Shares, and to assess the fairness of the economic value of the Stake in TAG with respect to the Share Capital Increase, the Board of Directors of Snam, also based on indications from their financial advisors, has determined the economic value of TAG's capital using methodologies in line with the common valuation practice for comparable transactions and considering the intrinsic elements of the company to be evaluated. As highlighted by the Directors, TAG's results for the 2014 financial year will be attributed to Snam.

The Directors' Report explains that to perform the valuation of the Stake in TAG, a scenario of continuity was considered and certain sensitivities were made to reflect the effects of alternative scenarios. In particular, the choice of the criteria to apply in the economic valuation of TAG's capital is a direct function of the characteristics of the entity being valued, of the type of transaction, and of the objectives being evaluated.

The determination of the Price per Share

The Directors, having considered the fact that Snam is a public company, and also based on the work of their financial advisors, have concluded to identify the criterion for determining the Price per Share by observing the official prices of Snam shares over a period of time which is long enough to allow tracking an official price in a reasonable way.

In particular, the Board of Directors will determine the Price per Share as the weighted average value of the official prices of Snam shares, as defined in the Stock Market Regulations, registered in the one hundred and eighty calendar days prior to the date on which the Price per Share is determined by the Board of Directors of Snam.

Valuation of the Stake in TAG

The Directors first illustrate that the chosen methodologies should be considered as inseparable parts of a unique valuation process. An analysis of the results obtained with each methodology independently, rather than an analysis of the complementary relationship that is created with other methodologies, would result in the loss of significance of the overall valuation process.

In the valuation process of the Stake in TAG, in collaboration with the financial advisors, the main valuation methodologies used were the Dividend Discounted Model ("DDM") and the Discounted Cash Flow Model ("DCF"):

- i. Dividend Discount Model: the value of TAG's share capital is estimated as the present value of future dividend flows potentially distributable to shareholders, and of the terminal value. The future dividend flows during the business plan period were discounted at the cost of equity, calculated based on current market parameters relating to the sector and the risk profile of Austrian regulation;
- ii. Discounted Cash Flow: the value of TAG's share capital is estimated as the current value of TAG's expected operating cash flows and the terminal value, net of financial debt of the company on the date of the valuation. Operating cash flows for the business plan period were discounted at a weighted average cost of capital ("WACC"), calculated based on current market parameters relating to the sector and the risk profile of Austrian regulation.

The Directors, assisted by their financial advisors, carried out a valuation based on a business plan that considered 30 November 2014 as the reference date for the valuation and a time horizon up to 2022, the year in which the long-term transportation contracts currently in place expire. In both methodologies, the terminal value was estimated with reference to the expected RAB in 2022.

According to the Directors, the DDM should be considered as the benchmark methodology, as it allows to take into account the current financial structure in TAG and the ability of TAG to reward its shareholders through dividends.

Valuations based on EV/EBITDA market multiples and the implied EV/EBITDA multiples of comparable transactions were used as control methodologies. However, the Directors' Report explains that the methodologies of current market multiples and comparable transactions based on the EV/EBITDA ratio are influenced by the limited comparability of the sample due to: (i) the current regulatory and legislative contexts of the various countries in which these companies operate; (ii) the degree of diversification and the size of the activities carried out within the context of gas and electricity transportation and distribution; and (iii) the limited number of previous transactions in the sector and the scarcity of public information on the economic terms of such transactions. Moreover, the multiples of comparable companies are based on stock market prices and are therefore influenced by external factors and financial-market volatility.

5. Valuation difficulties encountered by the Directors

In carrying out their valuations for the purpose of determining the Price per Share, the Board of Directors of Snam did not encounter any difficulties.

6. Results of the valuation performed by the Directors

Based on the methodologies above described, the financial advisors appointed by the Board of Directors of Snam, have determined a valuation range of Euro 461 - 598 million for the valuation of the Stake in TAG, which represents 84.47% of the share capital and 89.22% of economic rights in TAG.

The financial advisor appointed by the Committee of Snam has determined a valuation range of Euro 476 - 581 million for the valuation of 89.22% of TAG, issuing the related fairness opinion related to the suitability of the price Euro 505,000,000.00.

The Directors' Report explains that the Parties have determined for the Stake in TAG a consideration of Euro 505,000,000.00 also on the basis of the net working capital of TAG and the net financial position of TAG estimated as at 30 November 2014, subject to a price adjustment if any. This amount is therefore included within the ranges mentioned above.

The Directors state that the financial advisors who assisted them in the valuation process, issued on 12 September 2014 their fairness opinions to confirm the fairness of the Consideration relating to the transfer to Snam of the Stake in TAG, equal to Euro 505 million.

In addition, the Directors' Report illustrates that pursuant to the Agreement and to article 2343 of the Italian Civil Code, for the purposes of the Share Capital Increase, CDP GAS presented to Snam the report pursuant to article 2343 prepared and sworn by Prof. Marco Lacchini, an expert appointed by the Court of Milan (the "Expert"). The report pursuant to article 2343 was issued on 14 October 2014 and includes the estimate of the economic value of the Stake in TAG held by CDP GAS.

The value of TAG's economic capital was determined by the Expert to be Euro 577,493,000.00 as of 30 June 2014. At the same date, the economic value of the Stake held by CDP GAS in TAG, corresponding to 89.22% of the economic rights in TAG, is Euro 515,239,000.00. In conclusion, the report pursuant to article 2343 prepared by the Expert confirms that the value of the Stake in TAG is at least equal to the value attributed to it for the purpose of the share capital and share premium calculations.

7. WORK DONE

7.1 *Work done on the documentation utilized as previously mentioned at paragraph 3*

We examined the Directors' Report dated 30 October 2014 and the document prepared for the Board of Directors' internal purposes, dated 12 September 2014, that describe the industrial and business rationale of the Transaction and the considerations about the valuation of TAG.

We also read and examined (i) the favorable reasoned opinion to the Transaction issued by the Committee of Snam on 12 September 2014; (ii) the fairness opinion issued by the Snam's Committee financial advisor dated 12 September 2014 and related to the fairness of the Consideration, under a financial perspective, for Snam; (iii) the fairness opinions issued by the Snam's Board of Directors financial advisors on 12 September 2014 related to the fairness of the Consideration of the Transaction for financial purposes; (iv) the Agreement signed by CDP, CDP GAS and Snam on 19 September 2014 related to the Transaction; (v) the information documents on significant transactions with related parties, published on 19 September 2014 related to the Transaction; (vi) evidence of the financial, tax, legal, technical and regulatory due diligences on TAG prepared by the advisors of the Board of Directors and of the Committee of Snam; (vii) the Report Pursuant to Article 2343 of the Italian Civil Code prepared by the Expert, Prof. M. Lacchini, appointed by the Court of Milan.

The Committee, expressed favorable opinion for the execution of the Transaction, underlying some attention points identified by its regulatory and legal advisors. Those aspects relate to:

- under the expected regulatory framework and market scenarios, the attention point refers to "uncertainty related to an infrastructure with still a long residual useful life" and,
- under a legal perspective to the matter that (i) "the allocation of risks deriving from the Agreement could appear as not particularly favorable to Snam with respect to common market practice" and (ii) to the "Snam commitment to opt out the right to promote liability actions versus the TAG Directors appointed by CDP and CDP GAS, excluding fraud and negligence to the maximum extent provided by the applicable Law".

With reference to the above mentioned aspects the Committee however concluded that "no undeserved advantage for CDP and CDP GAS has been identified".

We have audited the separate financial statements of Snam and the consolidated financial statements of Snam and its subsidiaries as of 31 December 2013.

We have reviewed the interim condensed consolidated financial statements of Snam and its subsidiaries as of 30 June 2014.

We have furthermore performed certain review procedures on the Snam interim consolidated quarterly report at September 30, 2014, for the issuance of this Report.

Considering the inherent uncertainties and limitations of any forward-looking data, we have discussed the TAG Business Plan with management of Snam and their financial advisors, analyzing the most relevant characteristics of the forecasting process of the Company. The analysis included the understanding of the process used by the Company to prepare forecast data, the reasons of the assumptions, the adopted valuation criteria and accounting standards as well as the clerical accuracy of the forecasting model.

7.2 *Work done on the methods used to determine the issue price of the new shares*

We have performed the following procedures:

- a) Analyzed the Directors' Report to verify the methodologies used to determine the value of TAG;
- b) Collected, through enquiries of Company's management, information relating to events subsequent to the 30 June 2014 that could have significant impacts on the values which are the object of our engagement; officials of the Company have advised us that from 30 June 2014 to the date of this report no events have happened or circumstances are in place that would require changes to the valuation prepared by Management;
- c) Read the minutes of the meeting of the Shareholders and of the Board of Directors of the Company set forth in the minutes book in the year 2014 and obtained from officials of the Company a summary of the topics of the meetings not yet set forth in the meeting books through the date of this report;
- d) Performed sensitivity analysis within the valuation methods adopted, with the aim to verify to what extent the values identified by the Company's Directors are affected by changes in the assumptions and parameters considered to be significant;
- e) Verification of the consistency of the data utilized, with respect to the reference sources and with the documentation used, described in paragraph 3. above;
- f) Verification of the mathematical accuracy of the calculation of the values derived from the application of the valuation methods used by the Directors;
- g) Critical analysis of the valuation methods used by the Directors;
- h) Discussions, with the Company's management and their financial advisors on the Transaction, of its contents and documentation, of the procedures performed, the issues encountered and the solutions adopted;
- i) Observation of the trends of Snam' shares price on the Italian Stock Exchange for significant time intervals.

The above mentioned procedures have been performed to the extent considered necessary for the purpose of our engagement, as indicated in paragraph 1. above.

We have also gathered and obtained representation that, based on the knowledge and belief of Snam Management, no significant changes occurred in the data and information used in our analysis, and that there were no events that would require a modification of the criteria used to determine the issue price of the new shares indicated in the Directors' Report and that, as such, may be relevant for the purpose of this report.

8. Comments on the suitability of the methods used and the validity of the estimates

It being understood what reported above with reference to the objective, the purpose and the limitations of the valuations in the context of transactions similar to the one under analysis, we note that:

- the valuation methods adopted are widely used in the Italian and international professional practice, they are based on accepted valuation doctrine and on parameters determined through a generally accepted methodology process;
- they appear adequate in the circumstances, in light of the characteristics of TAG;

- the methods have been developed on a stand alone basis, in conformity with the valuation framework required (that is, no future possible synergies between Snam and TAG have been considered in the valuation);
- the application of more than one method broadened the valuation process and allows a substantial analysis of the results obtained;
- the choice of the Directors with reference to the valuation methodologies appears consistent with the financial structure and the type of operations of TAG, whose make relevant for the valuation process the financial aspects. In particular, the adoption of the DDM methodology appears consistent with professional practice and valuation doctrine and with the relevance of the financial aspects in the valuation process.

With regards to the development of the valuation methodologies performed by the Directors, our considerations are the following:

a) with regards to the definition of the Price per share:

- In case of exclusion of preemption rights, the article 2441, paragraph 6 of the Italian Civil Code, provides that the issue price of the new shares must be determined *“based on the value of equity, having considered, for the shares listed in regulated markets, also the shares value trend of the last six-months period”*. In accordance with qualified doctrine, such rule has to be interpreted in a way that the share issue price must not be necessarily determined equal to the net equity value, providing that it has to be determined “based on” that value; this circumstance leaves discretion to the Directors, who might issue the new shares at a price not equivalent to the exact net equity value. Similarly, the rule’s reference to the share value trend of the last six-months period leaves discretion to Directors to select the share issue value deemed to be the most appropriate in light of the market trends during the period observed.
- As described in the preceding paragraphs, with regards to the Price per Share of the Newly Issued Shares, the Board of Directors of Snam resolved to fix it as the weighted average value of the official prices of Snam shares, as defined in the Stock Market Regulations, registered in the one hundred and eighty calendar days prior to the date on which the Price per Share is determined by the Board of Directors, rounded off to the nearest thousandth of a euro (the **“Criterion”**). The Criterion satisfies the following requisites: (i) the weighted average criteria, if compared to the simple average, makes it possible to determine a weighted value taking into consideration the significance of each price set in each negotiation day, assigning higher relevance to prices set in correspondence to high-volumes negotiation (ii) the six months period is long enough to mitigate any unexpected share fluctuation determined by contingent or temporary stock market situations, as well as to comply with the applicable rules.
- The Directors of Snam inform that, to protect Shareholders excluded from the Share Capital Increase, it is anyway established that, should the Price per Share set as defined above be lower than Euro 3.60 per share, the consideration for the Stake in TAG will be paid directly in cash and the Share Capital increase will not take place. This provision represents a protection from the risk of dilution of those shares owned by shareholders excluded from the Share Capital Increase.

b) With reference to the valuation of the Stake in TAG for the purpose of contribution in kind:

- With regards to the valuation of the Stake for the purpose of the contribution in kind, based on the results obtained through the valuation methodologies described above, also based upon the advice of its financial advisors, the Board of Directors of Snam has approved the amount of Euro 505 million agreed with CDP GAS.

- The Committee expressed favorable opinion for the execution of the Transaction, also based on the valuation included in the fairness opinion issued by its financial advisor; this valuation is in line with the value assigned to the Stake in TAG for the purpose of the contribution in kind.
- This value is also included in the valuation ranges identified by the financial advisors engaged by the Board of Directors of Snam and lower than the value included in the Report Pursuant to Article 2343 ter, paragraph 2, letter b) of the Italian Civil Code issued by the Expert appointed by the Court of Milan.

9. Specific limitations encountered by the auditors in carrying out the engagement

As previously indicated, in the execution of our work we utilized data, documents and information provided to us by Snam, including the fairness opinions of financial advisors and the financial, tax, legal, technical and regulatory due diligence reports, assuming their truthfulness, correctness and completeness, without performing specific assessments on them. Similarly, we have not performed, since they were out of the scope of our engagement, assessments and/or valuations on the validity and/or effectiveness of the Transaction concluded by Snam or CDP and CDP Gas, neither on the effects of the Share Capital Increase on the Transaction.

When utilizing the forecasted data and financial analysis we have been provided with, we have deemed they have been prepared objectively, based on assumptions reflecting the best forecasts currently available to the Snam and TAG Officials, with reference to the future financial results and economic conditions.

Finally, our report has been prepared based on certain forecasted data reasonably conceivable and, as such, does not take into consideration the possibility that certain extraordinary or unexpected events may occur and, being based on forecasted data, it depends on the actual accomplishment of the hypotheses and assumptions used to prepare the future plans.

10. Conclusion

Based on the documentation we have examined and on the procedures described above, and considering the nature and the extent of our work as described in this report, we believe that the Criterion adopted by the Directors of Snam for determining the Price per Share for the Share Capital Increase with exclusion of the Shareholders' preemption rights, in accordance with article 2441, paragraph 6 of the Italian Civil Code, as provided for the Transaction, is, under the circumstances, reasonable and not arbitrary and, accordingly we express a positive conclusion on it.

Turin, 18 November 2014

Reconta Ernst & Young S.p.A.
Signed by Stefania Boschetti, partner

This report has been translated into the English language solely for the convenience of international readers.