



**EXPLANATORY REPORT
OF THE BOARD OF DIRECTORS**

drafted pursuant to Article 2441, paragraph 6, of the Italian Civil Code and Article 70, paragraph 4, letter a) of the Regulations approved by Consob with Resolution no. 11971 of 14 May 1999 as subsequently modified

concerning

the proposal to increase the share capital for consideration, with exclusion of preemption rights under Article 2441, paragraph 4 of the Italian Civil Code, reserved for CDP GAS S.r.l. and to be paid by CDP GAS S.r.l. through the contribution of the stake held in Trans Austria Gasleitung GmbH

30 October 2014

Snam S.p.A.

Piazza Santa Barbara 7

20097 San Donato Milanese (Milan)

Share Capital € 3,571,187,994.00 i.v.

VAT no., Tax Code and Milan Company Register no. 13271390158

This document is available at the registered offices of Snam S.p.A., and on the Snam S.p.A. website (www.snam.it)

TABLE OF CONTENTS

| | |
|---|---------------------------------------|
| 1. INTRODUCTION | 3 |
| 2. DESCRIPTION OF THE TRANSACTION | 7 |
| 3. PURPOSES OF THE CONTRIBUTION, ALLOCATION OF THE SHARE CAPITAL INCREASE, AND EFFECTS ON THE ISSUER'S MANAGEMENT PROGRAMS..... | 10 |
| 3.1 Valuation Criteria | Errore. Il segnalibro non è definito. |
| 3.2 Valuation of the Stake in TAG | 12 |
| 3.3 Fairness of the Issue Price of the New Shares resulting from the Share Capital Increase..... | 12 |
| 4. NUMBER, CATEGORY, ISSUE DATE AND ISSUE PRICE OF THE NEW SHARES RESULTING FROM THE SHARE CAPITAL INCREASE..... | 14 |
| 5. TAX EFFECTS OF THE TRANSACTION ON THE ISSUER | 15 |
| 6. SHAREHOLDERS' STRUCTURE OF THE ISSUER FOLLOWING THE SHARE CAPITAL INCREASE | 15 |
| 7. AMENDMENTS TO THE BYLAWS | 16 |
| 8. FULFILMENTS AND TIMING | 17 |

1. INTRODUCTION

Dear Shareholders,

The Board of Directors has convened this extraordinary shareholders' meeting to discuss and resolve upon the proposal to increase the share capital for consideration, with exclusion of preemption rights under Article 2441, paragraph 4 of the Italian Civil Code, to be paid through contribution, for a maximum amount € 505,000,000.00 (five hundred and five million/00), including the share premium, according to the terms and conditions set out below.

This report was prepared in accordance with the provisions under Article 2441, paragraph 6 of the Italian Civil Code and Article 70, paragraph 4, letter a) of the Issuer Regulations, in accordance with standard format no. 2 of Annex 3A of the Issuer Regulations.

1.1 Definitions

“Capital Increase” means the Snam share capital increase for consideration, with the exclusion of preemption rights, pursuant to Article 2441, paragraph 4 of the Italian Civil Code, reserved for CDP GAS, to be subscribed through the contribution in kind of the Stake in TAG.

“Newly Issued Shares” means the shares Snam issued with the Capital Increase and attributed to CDP GAS in exchange of the contribution in kind of the Stake in TAG.

“CDP” means Cassa Depositi e Prestiti S.p.A., a company registered under Italian law, with its registered offices in Rome (Italy) at 4 Via Goito, with VAT no. 07756511007, registered in the Rome Company Register under no. 80199230584.

“CDP GAS” means CDP GAS S.r.l., a company registered under Italian law, with its registered offices in Rome (Italy) at 4 Via Goito, with VAT no. and Rome Company Register no. 11636031004, whose share capital is wholly owned by CDP.

“CDP RETI” means CDP RETI S.p.A., a company registered under Italian law, with its registered offices in Rome (Italy) at 4 Via Goito, with VAT no. and Rome Company Register no. 12084871008, whose share capital is wholly owned by CDP.

“Final Certification” means the certification of TAG as an Independent Transmission Operator (“ITO”) of the Gas Pipeline pursuant to Articles 112-116 and 119 of the Gaswirtschaftsgesetz 2011, issued by E-Control, of which TAG was notified on 18 July 2014.

“Adjustment in Cash” means the portion of the consideration that, upon the fulfilment of certain conditions specified below, Snam shall pay to CDP GAS in exchange for the transfer of the Stake in TAG.

“Board of Directors” means the Board of Directors of Snam.

“Agreement” means the framework agreement signed by Snam, CDP GAS and CDP on the Signing Date, relating to the Transaction.

“Execution Date” means 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 deadline by which the execution of the Transaction must take place is 31 March 2015.

“**Signing Date**” means 19 September 2014, the date on which Snam, CDP GAS and CDP signed the Agreement.

“**E-Control**” means E-Control Austria GmbH, the Austrian gas and electricity regulatory authority.

“**Expert**” means Prof. Marco Lacchini, with offices in Milan at Via Durini, 5, expert appointed by the Court of Milan.

“**Material Adverse Event for TAG**” means any significant and unforeseen event likely to have a significant, negative and potentially long-lasting impact on the Gas Pipeline, TAG’s balance sheet, or financial or economical position, or on TAG’s ability to generate income, with the exception, in any case, of events resulting from (a) general market conditions (including capital-market conditions), or (b) interruptions or changes to the TAG’s activities resulting from the announcement of the Transaction.

“**Shareholder Loan**” means the amount of the shareholder loan – including principal amount and interest – granted by CDP GAS to TAG and not yet repaid on the Execution Date, pursuant to a revolving loan agreement. As of 31 August 2014, the amount of the Shareholder Loan, including principal amount and interest, is approximately € 269,529,300.00 (two hundred and sixty-nine million, five hundred and twenty-nine thousand, three hundred/00). This amount may be subject to change due to the amounts actually drawn down by TAG. The maximum principal amount available to TAG pursuant to such agreement is € 285,504,000.00 (two hundred and eighty-five million, five hundred and four thousand/00).

“**Framework Agreement**” means the agreement signed on 8 August 2014 between CDP GAS, GCA and TAG, aimed, *inter alia*, at defining and governing the transactions and activities to be carried out with regard to the certification of TAG as an Independent Transmission Operator (“ITO”) in accordance with the provisions of applicable law, including the contribution from GCA of the Going Concern to TAG in exchange for subscription by GCA of a reserved TAG capital increase.

“**Gas Pipeline**” means the Austrian section of the gas pipeline that runs from Russia to Italy.

“**GCA**” means Gas Connect Austria GmbH, a company registered under Austrian law, with registered offices at Floridotower, 1 Floridsdorfer Hauptstraße, 1210 Vienna, Austria.

“**Maximum Amount of the Adjustment in Cash**” means an amount of € 76,600,000.00 (seventy-six million, six hundred thousand/00).

“**ING**” means ING BANK N.V., with registered offices at Amsterdamse Poort, 888 Bijlmerplein, 1102 MG Amsterdam, Netherlands.

“**Maximum Number of Shares**” means the maximum number of ordinary Snam shares that may be issued by Snam under the Capital Increase, equal to 119,000,000 (one hundred and nineteen million) ordinary shares.

“**Transaction**” refers, collectively, to:

- (i) the transfer of the Stake in TAG from CDP GAS to Snam (a) in exchange for the issuance of ordinary Snam shares, without par value, with regular enjoyment rights, pursuant to the Capital Increase¹ and, if applicable, payment by Snam to CDP GAS of the Adjustment in

¹ The number of shares issued will be determined based on the formula described in Section 4.

Cash² or, subordinately, (b) upon occurrence of the conditions set forth in Section 2.3, in exchange for payment by Snam to CDP GAS of the TAG Price;

- (ii) the repayment by TAG to CDP GAS of the Shareholder Loan, through funds that will be provided (directly or indirectly) by Snam to TAG; and
- (iii) the entering by Snam into the shareholder agreements relating to TAG in force on the Execution Date between GCA and CDP GAS.

“Stake in TAG” means the entire stake held by CDP GAS in TAG; the economic rights pertaining to this stake are summarised in Section 1.2.

“Price per Share” means the issue price, including the premium, of each ordinary Snam share, with regular enjoyment rights, to be issued under the Capital Increase, determined based on the formula described in Section 4.

“TAG Price” means the purchase price of the Stake in TAG, equal to € 505,000,000.00 (five hundred and five million/00), subject to the adjustment described in Section 2.7, which will be paid by Snam to CDP GAS on the Execution Date if, the conditions set forth in Section 2.3, being met, the Capital Increase is not executed and the consideration for the transfer of the Stake in TAG is paid by Snam exclusively in cash.

“Related-Party Transactions Procedure” means the procedure “Transactions involving directors' or statutory auditors' interests and related-party transactions”, approved by the Snam Board of Directors on 30 November 2010, as subsequently amended and supplemented (which is available at http://www.snam.it/export/sites/snam/repository/file/Governance/procedure/operazione_parti_correlate/Procedura_Partii_Correlate_dicembre_2013.pdf).

“Going Concern” means the going concern consisting, *inter alia*, of the ownership of the Gas Pipeline, the related infrastructures, and the staff and assets and liabilities related to the operation and maintenance services provided by GCA to TAG until the effective date of the Framework Agreement, which GCA transferred to TAG pursuant to the terms and conditions set out in the Framework Agreement.

“Issuer Regulations” means the regulations adopted by Consob with Resolution no. 11971 of 14 May 1999, as subsequently amended and supplemented.

“Related-Party Transactions Regulations” means the regulations adopted by Consob with Resolution no. 17221 of 12 March 2010, as subsequently amended and supplemented, setting forth regulations for related-party transactions.

“Report” means this report of the Directors prepared in accordance with the provisions of Article 2441, paragraph 6, of the Italian Civil Code and of Article 70, paragraph 4, letter a) of the Issuer Regulations.

“Report Pursuant to Article 2343” means the sworn report of Prof. Marco Lacchini, with offices in Milan at 5 Via Durini, an expert appointed by the Court of Milan on 17 July 2014, which will be made available to the public according to the terms and procedures set out in Article 70, paragraph 4, letter c) of the Issuer Regulations, updated 30 June 2014, and contains, in particular amongst

² The amount of any Adjustment in Cash will be determined based on the formula described in Section 2.3.

others, (i) a description of the Stake in TAG, (ii) a certification that the value of the Stake in TAG is at least equal to that attributed to it for purposes of determining the Capital Increase (including the share premium), and (iii) the valuation criteria used, drafted pursuant to Article 2343 of the Italian Civil Code.

“**Snam**” or the “**Company**” means Snam S.p.A., a company registered under Italian law, with registered offices in San Donato Milanese, Milan (Italy) at 7 Piazza Santa Barbara, with VAT no., Tax Code and Milan Company Register no. 1327139158.

“**Bylaws**” means the bylaws of Snam.

“**TAG**” means Trans Austria Gasleitung GmbH, a company registered under Austrian law, with registered offices in Vienna at Wiedner Hauptstrasse, whose share capital is currently subscribed in the amount of € 76,566.31 and paid in in the amount of € 22,061.69, registered in the Company Register of the Vienna Commercial Court under no. FN 122567 x.

“**Italian Securities Act (TUF)**” means Legislative Decree no. 58 of 24 February 1998, the Consolidated Law on Finance.

1.2 TAG is a company that provides natural gas transportation services related to the Austrian part of the Gas Pipeline that runs from Russia to Italy. TAG is also the owner of the transportation rights, which it manages by entering into transportation agreements and carrying out the related activities. Following the execution of the Framework Agreement, TAG also owns the Gas Pipeline.

On 18 July 2014, following a positive opinion issued by the European Commission on 16 June 2014, E-Control issued to TAG the Final Certification as an Independent Transmission Operator (“ITO”) of the Gas Pipeline pursuant to Articles 112-116 and 119 of the Gaswirtschaftsgesetz 2011, the Austrian law implementing Directive 2009/73/EC.

On 18 September 2014, the closing of the Framework Agreement occurred. All actions and transactions executed under the Framework Agreement became effective following the registration with the company register of Vienna of the resolution for the share capital increase of TAG implemented through a contribution in kind of the Going Concern under the Framework Agreement; this registration took place on 1 October 2014. Therefore, in accordance with the Final Certification, and to ensure compliance with the necessary requirements under applicable law, pursuant to the Framework Agreement, GCA transferred the Going Concern (including ownership of the Gas Pipeline) to TAG, as a consequence of which, some amendments to the TAG governance were adopted as well as some modifications to the equity interests and economic rights pertaining to the shareholders. In particular, following the execution of the Framework Agreement, the Stake in TAG represents 84.47% of the relevant share capital and 89.22% of the economic rights in TAG. GCA holds the remaining part of the share capital, economic rights, and voting rights in TAG. In accordance with the shareholders’ agreements currently in force, GCA currently holds and will continue to hold joint control of TAG following the execution of the Transaction pursuant to the Agreement.

1.3 On 19 September 2014, Snam, CDP and CDP GAS entered into the Agreement concerning the Transaction, whose execution is conditional upon, *inter alia*, the approval by Snam’s extraordinary shareholders’ meeting of the resolution for the share capital increase related to the Transaction, to which this Report refers. Please note that the Transaction is qualified as a material

transaction with a related party under the Related-Party Transactions Procedure. In this respect, please refer to the prospectus Snam provided to the public pursuant to Article 5 of the Related-Party Transactions Regulations, as well as the Related-Party Transactions Procedure regarding the signing of the Agreement by Snam, CDP GAS and CDP, approved by Snam's Board of Directors, on 12 September 2014.

2. DESCRIPTION OF THE TRANSACTION

2.1 The Capital Increase is related to the Transaction provided for in the Agreement. The Agreement provides the following.

- (i) On the Execution Date, the transfer of the Stake in TAG from CDP GAS to Snam via the Capital Increase, to be paid by CDP GAS by means of the contribution in kind of the Stake in TAG in exchange for the issuance by Snam of ordinary shares without par value, with regular enjoyment rights (the number of shares that may be issued will be determined in accordance with the provisions specified below), and, where applicable, payment by Snam to CDP GAS of the Adjustment in Cash (which may not under any circumstances exceed the Maximum Amount of the Adjustment in Cash). Subordinately, upon fulfilment of the conditions set forth in Section 2.3, the Stake in TAG will be transferred in exchange for payment by Snam to CDP GAS of the TAG Price.
- (ii) After the necessary consents have been obtained from ING pursuant to the loan agreement in force, *amongst others*, between ING and TAG, and subject to provision by TAG and GCA of the necessary cooperation, on the Execution Date, TAG will repay to CDP GAS an amount equal to the amount of the Shareholder Loan, including capital and interest, disbursed by CDP GAS to TAG and not yet repaid on the Execution Date, through funds that will be provided (directly or indirectly) by Snam to TAG.
- (iii) On the Execution Date, Snam will enter into the shareholder 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. Please note that, pursuant to the articles of association of TAG and the shareholder agreements relating to TAG, following the completion of the Transaction, Snam and GCA will jointly control TAG. Please also note that, pursuant to the Framework Agreement, GCA has undertaken to give its consent to the transfer of the Stake in TAG from CDP GAS to Snam pursuant to the shareholder agreements in force and the articles of association of TAG.
- (iv) On the Execution Date, the representatives in the corporate bodies of TAG designated by CDP GAS will be replaced by representatives designated by Snam.

2.2 As described in more detail in Section 3, the Parties have attributed to the Stake in TAG a value of € 505,000,000.00 (five hundred and five million/00). Pursuant to the Agreement and to Article 2343 of the Italian Civil Code, for purposes of the 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 Report Pursuant to Article 2343 was updated on 30 June 2014, and is based on financial data related to TAG and the Going Concern. According to the Report Pursuant to Article 2343, the value of the Stake in TAG is at least equal to that attributed to it for purposes of determining the share capital and the share premium.

2.3 According to the Agreement, no earlier than 5 (five) business days prior to the Execution Date, 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 (180) calendar days prior to the date on which the Price per Share is determined by the Snam Board of Directors - rounded off to the nearest thousandth of a euro, as described in greater detail in Section 4 below.

Based on the Price per Share thus determined, the transfer of the Stake in TAG will take place as mentioned above in exchange for the issuance of ordinary Snam shares and the payment, if any, of the Adjustment in Cash.

Subordinately, if the Price per Share thus determined is lower than € 3.60 (three/60), the transfer of the Stake in TAG will take place in exchange for a cash-only payment.

Contribution of the Stake in TAG and possible Adjustment in Cash. Without prejudice to the possibility that the Transaction may take place entirely as a sale and purchase (see below), on the Execution Date, in exchange for the contribution in kind of the Stake in TAG by CDP GAS, Snam will issue and will grant to CDP GAS a whole number of ordinary shares without par value, with regular enjoyment rights, determined based on the following formula: € 505,000,000.00 (five hundred and five million/00) (equal to the value attributed to the Stake in TAG) divided by the Price per Share, rounded off to the nearest whole number. Under no circumstances may the number of shares issued by Snam pursuant to this formula exceed the Maximum Number of Shares, *i.e.* 119,000,000 (one hundred and nineteen million).

If the number of shares determined as indicated above exceeds the Maximum Number of Shares, Snam: (a) will issue and will grant to CDP GAS the Maximum Number of Shares; and (b) will pay CDP GAS the Adjustment in Cash, determined based on the following formula: € 505,000,000.00 (five hundred and five million/00) (equal to the value attributed to the Stake in TAG) – (Maximum Number of Shares multiplied by the Price per Share), up to the Maximum Amount of the Adjustment in Cash, *i.e.* € 76,600,000.00 (seventy-six million, six hundred thousand/00).

Therefore, if the Adjustment in Cash is necessary, a mixed transaction involving a contribution in kind pursuant to Articles 2342 *et seq.* 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.

Please note that, even in such case, the provisions of Article 2343 of the Italian Civil Code will be complied with, since the value of the shares of the Stake in TAG contributed in kind would be at least equal to the value attributed to it for the purposes of determining the amount of the share capital and the related share premium.

TAG's results for the 2014 financial year will benefit Snam.

Sale and Purchase. If the Price per Share is lower than € 3.60 (three/60) and, therefore, the sum of (a) the value of the Maximum Number of Shares (calculated as the Maximum Number of Shares multiplied by the Price per Share), and (b) the Maximum Amount of the Adjustment in Cash, is

lower than € 505,000,000.00 (five hundred and five million/00) (*i.e.*, the value attributed to the Stake in TAG), Snam will pay CDP GAS the TAG Price, *i.e.* € 505,000,000.00 (five hundred and five million/00), equal to the value that the Parties have attributed to the Stake in TAG (as specified in Section 2.2). In such case, the Capital Increase will not take place, no Snam shares will be issued or granted to CDP GAS (meaning that Snam's share capital will remain unchanged following the completion of the Transaction), and no Adjustment in Cash will be paid by Snam.

2.4 Pursuant to the Agreement, an extraordinary meeting of Snam shareholders is scheduled to be convened to resolve on Snam's share capital increase (referred to in this Report), which must take place by 31 March 2015, for a maximum amount of € 505,000,000.00 (five hundred and five million/00), including the share premium, with the exclusion of pre-emption rights pursuant to Article 2441, paragraph 4 of the Italian Civil Code, to be paid for via the contribution in kind of the Stake in TAG. The extraordinary shareholders' meeting will also be convened to resolve on the criteria for the determination of the exact number of shares to be issued based on the formula set out in Section 2.3 above and on granting to the Board of Directors the power to perform all activities necessary to implement the resolution, all of which are aimed at implementing the Capital Increase. Please note that, in any case, as indicated in Section 2.3, no capital increase will take place if the Price per Share is lower than € 3.60 (three/60) and the transfer of the Stake in TAG must therefore take place via a sale and purchase.

2.5 The Agreement contains the following conditions precedent:³

- (i) the extraordinary meeting of Snam shareholders has validly resolved to increase Snam's share capital in connection with the Transaction, as indicated in Section 2.4 above;
- (ii) pursuant to Article 158 of the Italian Securities Act (TUF), Snam's auditor, Reconta Ernst & Young S.p.A., has issued a favourable opinion on the fairness of the criteria used to determine the issue price of the Snam shares to be issued within the Capital Increase;
- (iii) the Final Certification is still valid and in effect;
- (iv) consent from ING has been obtained for the completion of the Transaction and the related activities;
- (v) the Italian government has been informed of the Transaction 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 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;
- (vi) CDP GAS certifies the truthfulness, accuracy and correctness, on the Execution Date, of certain representations and warranties given by CDP GAS in relation to: (i) the incorporation and existence of TAG and powers of signature; (ii) share capital and stakes, and consents necessary for the transfer; (iii) authorisations held by TAG; (iv) employees of TAG; and (v) material agreements;
- (vii) Snam certifies the truthfulness, accuracy and correctness, on the Execution Date, of certain representations and warranties given by it in relation to: (i) its incorporation and existence; (ii) powers of signature; (iii) the absence of any infringement of laws resulting from the

³ This paragraph 2.5 does not contain the conditions precedent under the Agreement that have already been fulfilled as of the date of this Report.

signing and execution of the Agreement; and (iv) the validity of the corporate resolutions necessary for the signing of the Agreement and for the Capital Increase;

- (viii) no law or regulation that makes the completion of the Transaction unlawful has been approved and is still in force, and no order forbidding or suspending completion of the Transaction has been issued by any authority and is still in force;
- (ix) between the Signing Date and the Execution Date, no Material Adverse Event for TAG has occurred that has not been fully remedied by CDP GAS prior to the Execution Date, without having resulted in any loss for TAG; and
- (x) CDP GAS has provided Snam with 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 accounting audit in accordance with ISA 805 (International Standards on Auditing – Audit for Special Purpose Engagement).

The conditions precedent referred to in points (vi) and (ix) are set forth exclusively in the interest of Snam, which may therefore, at its discretion, waive them and proceed with the execution of the Transaction.

The condition precedent referred to in point (vii) is set forth exclusively in the interest of CDP GAS, which may therefore, at its discretion, waive it and proceed with the execution of the Transaction.

2.6 The Transaction will be executed on the Execution Date, which must take place by 31 March 2015. If the conditions precedent have not been fulfilled by that date, the parties will no longer be required to execute the Transaction.

2.7 The parties have determined the net working capital of TAG and the net financial position of TAG estimated 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. 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. 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.

3. PURPOSES OF THE CONTRIBUTION, ALLOCATION OF THE SHARE CAPITAL INCREASE, AND EFFECTS ON THE ISSUER'S MANAGEMENT PROGRAMS

Evaluations of obvious interest to the company led Snam's Board of Directors to view positively the transaction to acquire the Stake in TAG and consequently to propose the Capital Increase.

- From an industrial and business perspective, the transaction is fully consistent with Snam's strategy to create a European gas infrastructures platform, and it 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 Tarvisio currently accounts for a significant proportion of the country's imports.

- From an economic and financial perspective, the decision to perform 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 according to Article 4 below, is lower than € 3.60 (three/60), the consideration for the Stake in TAG will be paid entirely in cash, to protect minority shareholders who would be excluded from the Capital Increase, and the Capital Increase will not take place.

3.1 Valuation Criteria

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 chosen methodologies should be considered intrinsic parts of a single valuation process. An analysis of the results obtained with each independent methodology, rather than an analysis of the complementary relationship that is created with other criteria, would result in the loss of significance of the valuation process itself.

In the valuation process of the Stake in TAG, in collaboration with Rothschild S.p.A. and Unicredit S.p.A. as financial advisors, valuation methodologies in line with domestic and international practice were used.

In this sense, the main valuation methodologies used were the Dividend Discounted Model ("DDM") and the Discounted Cash Flow Model ("DCF").

- Dividend Discount Model ("**DDM**"): 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, net of financial debt of the company on the date of the valuation. The future dividend flows during the business plan period were discounted at the cost of equity (K_e), calculated based on current market parameters relating to the sector and the risk profile of Austrian regulation.
- Discounted Cash Flow ("**DCF**"): 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.

In both methodologies, the terminal value was estimated with reference to the expected RAB in 2022.

The DDM should be considered a benchmark methodology as it allows to take into account the present 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, it should be noted 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.

3.2 Valuation of the Stake in TAG

The assets and the related activities of TAG are subject to Austrian regulation; the current regulatory period is 2013 to 2016. Rothschild S.p.A. and Unicredit S.p.A., in applying the methodologies described above, carried out a valuation based on a business plan that considered 30 November 2014 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 line with the common valuation practice, a scenario of continuity was considered and certain sensitivities have been made to reflect the effects of alternative scenarios.

Based on the above-mentioned assumptions, the valuation range used by the financial advisors for the Stake in TAG (which represents 84.47% of the share capital and 89.22% of economic rights in TAG) are listed in the table below.

| | |
|-------------------|-------------------|
| Rothschild | € 466-598 million |
| Unicredit | € 461-591 million |

Financial advisors Rothschild S.p.A. and Unicredit S.p.A. also prepared related-party transaction fairness opinions confirming the fairness of the price of € 505,000,000.00 (five hundred and five million/00).

Banca IMI, appointed as an independent expert by Snam's Related-Party Transactions Committee, used a valuation range of € 476 million to € 581 million for the valuation of 89.22% of TAG, issuing the related fairness opinion related to the suitability of the price € 505,000,000.00 (five hundred and five million/00).

3.3 Fairness of the issue price of the new shares object of the capital increase

The Report Pursuant to Article 2343 on the economic value of the Participation in TAG held by CDP GAS for the purpose of the contribution in kind in Snam S.p.A. has been drafted by the Expert, Prof. M. Lacchini, appointed by the Court of Milan with a decision dated 25 July 2014.

In performing his mandate, the Expert points out that – in the absence of a valuation criterion which simultaneously and completely satisfies the rationality, objectivity and fairness requirements and

which, therefore, can be considered as an optimal method – the choice of the methodology or methodologies to be used to quantify the value of a company or of a going concern depends on the aim of the valuation, on the quantity and quality of the information available, and on the particular situation of the enterprise being evaluated.

In the case of the value determination of TAG's economic capital and of the respective participation held by CDP GAS for the purpose of the contribution in kind in Snam, the Expert, on the basis of a balance sheet of TAG as of 30 June 2014, has deemed it opportune to adopt the complex income method. Indeed, such criterion is unanimously considered by the doctrine as endowed with high theoretical consistency, thus allowing the evaluation of the enterprise on the basis of the revenues that it will presumably be able to generate in the future. Moreover the Expert, having at his disposal the company's business plan, has deemed it opportune to adopt the valuation methodology based on the "programmed results method" for the purpose of the forecast on the expected net income flows. This data, derived from the industrial plan, expresses the future economic and financial evolution of the company, has been assumed as true and reliable, and has not been subjected to any audit.

On the basis of the above, the value of TAG's economic capital, as of 30 June 2014, calculated on the basis of the complex income method and taking into account the aims of the mandate given, has been determined by the Expert as € 577,493,000. Also as of 30 June 2014, the economic value of the participation held by CDP GAS in TAG, corresponding to 89.22% of the economic rights in TAG, is € 515,239,000.

The Expert clarifies that such valuation represents the "reference technical value" of the Company, not to be confused with the potential transfer price, which could be determined also on the basis of further reflections and other contingent and subjective elements. More precisely, the Expert points out that, also based on the prevailing doctrine and valuation practice, in the context of the confidence and discretion interval granted to experts for the purpose of the calculation of the valuation algorithms, he has used parameters he has considered remarkably reasonable and prudent.

More specifically, the doctrine and the valuation practice consider absolutely physiological a confidence interval in the determination of the value of around a 5-10% increase or decrease of the economic value resulting from the valuation process.

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 calculation. On this point, it should be recalled that the closing of the Agreement is conditional, *inter alia*, on the issuance by Snam's auditors, Reconta Ernst & Young S.p.A. - pursuant to Article 158 of the Italian Securities Act (TUF) – of a favourable opinion on the fairness of the criteria used to determine the issue price of the Snam shares to be issued in the Capital Increase. Pursuant to paragraph 2 of Article 158 of the Italian Securities Act (TUF), this opinion will be published at least 21 days before the date of the extraordinary shareholders' meeting.

4. NUMBER, CATEGORY, ISSUE DATE AND ISSUE PRICE OF THE NEW SHARES RESULTING FROM THE SHARE CAPITAL INCREASE

Without prejudice to the possibility that the Transaction will take place entirely through a sale and purchase (as indicated in Section 2.3), on the Execution Date, in exchange for the contribution of the Stake in TAG by CDP GAS, Snam will issue and grant to CDP GAS a whole number of ordinary shares without par value, with regular enjoyment rights, determined based on the following formula: €505,000,000.00 (five hundred and five million/00) (equal to the value attributed to the Stake in TAG) divided by the Price per Share.

Under no circumstances may the number of shares issued by Snam pursuant to this formula exceed the Maximum Number of Shares, *i.e.* 119,000,000 (one hundred and nineteen million).

If the number of shares determined as indicated above exceeds the Maximum Number of Shares, Snam (a) will issue and will grant to CDP GAS the Maximum Number of Shares, and (b) will pay CDP GAS the Adjustment in Cash, determined based on the following formula: € 505,000,000.00 (five hundred and five million/00) (equal to the value attributed to the Stake in TAG) – (Maximum Number of Shares multiplied by the Price per Share), up to the Maximum Amount of the Adjustment in Cash, *i.e.* € 76,600,000.00 (seventy-six million, six hundred thousand/00).

No earlier than 5 (five) 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 180 (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 one euro:

$$P_{SNAM} = \frac{\sum_n [(P_u) \times (V_n)]}{\sum_n V_n}$$

Where:

P_{Snam} : 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

V_n : volumes recorded on each trading day

P_u : 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 (V_n) of all the contracts concluded during the day, as reported by Bloomberg.

As indicated in Section 2.3 above, the Capital Increase will not take place if the Price per Share is lower than € 3.60 (three/60), and the consideration for the transfer of the Stake in TAG will be paid exclusively in cash.

5. TAX EFFECTS OF THE TRANSACTION ON THE ISSUER

The book value of the Stake in TAG, transferred to Snam via contribution in kind, is an acquisition cost recognized by Snam for income tax purposes, as is the case in the event of an acquisition via sale and purchase. In terms of indirect taxes, the contribution in kind is subject to a registration tax of € 200.00 [two hundred], pursuant to Article 4, paragraph 1, number 5, of the tariff part I, annex to the D.P.R. 26.4.1986 no. 131.

The transaction contributing the Stake in TAG, as is the case in the event of acquisition via a sale and purchase, requires that CDP GAS invoice the relative value, exempt from VAT, pursuant to Article 10, paragraph 1, number 4 of the D.P.R. 26.10.1972 no. 633.

6. SHAREHOLDERS' STRUCTURE OF THE ISSUER FOLLOWING THE SHARE CAPITAL INCREASE

Without prejudice to the possibility that the entire Transaction may take place via a sale and purchase transaction (as indicated in Section 2.3 above), on the Execution Date, in exchange for the contribution in kind of the Stake in TAG by CDP GAS, Snam will issue and will attribute to CDP GAS a whole number of ordinary shares calculated following the formula indicated in Section 4 above.

Without prejudice to that fact the Newly Issued Shares may not exceed the Maximum Number of Shares, by way of example, the following table sets out, in light of the current relevant shareholdings in Snam, the participations exceeding 2% of the share capital which will exist following execution of the Capital Increase, assuming that, pursuant to the Capital Increase, the Maximum Number of Shares is issued.

| Shareholder of Snam | Number of Snam Shares | % of the share capital ⁴ |
|---------------------|-----------------------|-------------------------------------|
| CDP RETI | 1,014,491,489 | 28.99% |
| ENI S.p.A. | 288,683,602 | 8.25% |
| CDP GAS | 119,000,000 | 3.4% |

Following the execution of the Capital Increase, no change in the control of the Company, as defined under Article 93 of the Italian Securities Act (TUF), will occur.

The Agreement contains, *inter alia*, a standstill obligation, which is also subject to a standstill agreement, signed on the same date, related to the execution of the Transaction, which contains provisions that could be considered as having the nature of shareholders' agreements. In particular, pursuant to such provisions, during the period between the Signing Date and the Execution Date, the parties to the Agreement undertake not to put in place, either directly or indirectly, any transactions involving Snam shares or financial instruments related to Snam shares, with the exception of (i) any transactions involving Snam treasury shares intended to service stock

⁴ The percentages are calculated by taking into account the overall shares issued by Snam net of the treasury shares.

option plans, and (ii) any transactions that may be carried out by CDP on CDP RETI shares and, therefore, indirectly on Snam shares, in relation to the entry of one or more investors into the share capital of CDP RETI. The agreements in question take effect from Signing Date and will terminate with the execution of the Transaction.

Please note that in any event, as indicated in Section 2.3 above, no share capital increase will take place if the Price per Share is less than € 3.60 (three/60) and the transfer of the Stake in TAG therefore takes place via a share and purchase.

7. AMENDMENTS TO THE BYLAWS

With the approval of the extraordinary shareholders' meeting on the proposal for resolution upon the Capital Increase, Article 5 of the Bylaws will be amended to indicate the Company's total share capital and the number of shares issued by Snam. The following table contains Article 5 of the Bylaws with the proposed amendments to the current text.

| Bylaws | |
|---|---|
| Article 5 | |
| Current text | Proposed test |
| 5.1 The share capital amounts to €3,571,187,994.00 (three billion, five hundred seventy-one million, one hundred eighty-seven thousand, nine hundred ninety-four/00), divided into 3,381,638,294 (three billion, three hundred eighty-one million, six hundred thirty-eight thousand, two hundred ninety-four) shares with no indication of nominal value | Paragraph unchanged |
| | 5.2 The Shareholders' Meeting of December 10, 2014 resolved to increase the share capital for consideration, up to a maximum amount of € 505,000,000.00 (five hundred and five million/00), including the share premium, with the exclusion of pre-emption rights pursuant to Article 2441, paragraph 4, of the Italian Civil Code, reserved to CDP Gas S.r.l., to be paid for via the contribution in kind of the stake in Trans Austria Gasleitung GmbH, a company registered under Austrian law, with registered offices in Vienna at Wiedner Hauptstrasse, registered in the Company Register of the Vienna Commercial Court under no. FN 122567 and to take place by 31 March 2015; all of |

| | |
|---|---|
| | which is subject to the price per share determined by the Board of Directors for the purpose of the share capital increase being equal to or more than € 3.60 (three/60) and pursuant to the terms and conditions set forth in the relevant Shareholders' Meeting resolution. |
| 5.2 The Shareholders' Meeting may decide to increase capital by imposing terms, conditions and procedures. The capital may be increased: with in-kind contributions and credits and by issuing new shares, including special categories, to be allocated for free under Article 2349 of the Italian Civil Code. | The paragraph remains unchanged; the clause number changes to 5.3. |

Please note that the entire number of ordinary shares without par value that will be issued through CDP GAS' contribution of the Stake in TAG will be determined by the Board of Directors no earlier than 5 (five) business days before the Execution Date, according to the formula indicated in Section 4 above, and under no circumstances may the number of shares issues by Snam pursuant to this formula exceed the Maximum Number of Shares, *i.e.* 119,000,000 (one hundred and nineteen million).

8. FULFILMENTS AND TIMING

The Board of Directors will submit this Report to the auditing firm Reconta Ernst & Young S.p.A. so that it may prepare an opinion on the fairness of the issue price, pursuant to Article 158 of the Italian Securities Act (TUF), which will be made available to the public at least 21 days before the scheduled extraordinary shareholders' meeting.

The Report Pursuant to Article 2343, prepared by the expert appointed by the Court of Milan, Prof. Marco Lacchini, will be made available to the public, according to the procedure set forth under the Issuer Regulations, at least 21 days before the scheduled extraordinary shareholders' meeting.

The extraordinary shareholders meeting will be convened on December 10, 2014 to resolve upon the Capital Increase and to grant the directors all of the required powers to execute the Capital Increase.

If the extraordinary shareholders' meeting approves the proposal for the resolution to implement the Capital Increase, it is foreseen that, no earlier than 5 (five) business days before the Execution Date, a Board of Directors meeting will be held which will determine the Price per Share and give effect to the shareholders' meeting, possibly granting to one or more directors, *inter alia*, the necessary powers to offer and allow CDP GAS to subscribe the Capital Increase.

Currently, the Execution Date is expected to take place before December 31, 2014 and, in any event, no later than 31 March 2015.

The Newly Issued Shares will be non-transferrable and will remain deposited with the Company until the valuations contained in the Report Pursuant to Article 2343 are verified by the Board of Directors pursuant to Article 2343, paragraph 3 of the Italian Civil Code.

Admission to trading of the Newly Issued Shares on the online stock market (*Mercato Telematico Azionario*) operated by Borsa Italiana does not require the publication of the prospectus related to an admission to trading since the exemption provided for in Article 57, paragraph 1, letter (a) of the Issuer Regulations applies because, as previously mentioned, in no event may the number of issued shares by Snam in applying this formula exceed the Maximum Number of Shares, *i.e.* 119,000,000 (one hundred and nineteen million).

Dear Shareholders,

In view of the above, the Board of Directors proposes to make the following resolutions:

“The extraordinary shareholders’ meeting of Snam S.p.A.

- after review of the content of the report of the Board of Directors prepared pursuant to Article 2441, paragraph 6, of the Italian Civil Code and of the proposal for the share capital increase for consideration, with the exclusion of pre-emption rights, pursuant to Article 2441, paragraph 4, of the Italian Civil Code, to be subscribed through contribution in kind;
- after review of the sworn report, pursuant to Articles 2440 and 2343 of the Italian Civil Code, of Prof. Marco Lacchini, expert appointed by the Court of Milan on 17 July 2014;
- after review of the fairness opinion on the issue price of the shares prepared by the auditing firm Reconta Ernst & Young S.p.A.;

resolves

- a) to increase the share capital for a maximum amount of € 505,000,000.00 (five hundred and five million/00), including the share premium, with the exclusion of pre-emption rights pursuant to Article 2441, paragraph 4 of the Italian Civil Code, to be paid for via the contribution in kind of the stake in Trans Austria Gasleitung GmbH, a company registered under Austrian law, with registered offices in Vienna at Wiedner Hauptstrasse, registered in the Company Register of the Vienna Commercial Court under no. FN 122567 x and to take place by 31 March 2015; all of which is conditional upon the price per share determined by the Board of Directors in execution of the following resolution under point b) being equal to or more than €3.60 (three/60);
- b) (1) to grant to the Board of Directors to power to determine
 - (i) the issue price, including the share premium, of each ordinary share, with regular enjoyment rights, to be issued through the share capital increase mentioned in point a) above, as the weighted average value of the official prices of Snam Shares, as defined in the Stock Market Regulations, registered in the 180 (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 one euro, according to the following formula:

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

Where:

P_{Snam} : 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

V_n : volumes recorded on each trading day

P_u : 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 (V_n) of all the contracts concluded during the day, as reported by Bloomberg;

- (ii) the number of ordinary shares, with regular enjoyment rights, to be issued through the share capital increase as mentioned in point a) above, using the following formula: € 505,000,000.00 (five hundred and five million/00) divided by the issue price, including share premium, of each ordinary share (as determined above), rounded off to the nearest whole number; and
 - (iii) the portion of the issue price to be attributed to the capital and the portion, which shall in any case be provided, to be attributed to the share premium reserve;
- c) (2) to establish that (i) under no circumstances may the number of shares issued by Snam in applying the above-mentioned point b(1)(ii) exceed the number 119,000,000 (one hundred and nineteen million) shares; if the number of shares determined in applying the above-mentioned formula in point b(1)(ii) exceeds the number of shares, Snam will (A) issue and grant to CDP GAS 119,000,000 (one hundred and nineteen million) shares, and (B) pay CDP GAS an adjustment in cash, determined based on the following formula: € 505,000,000,00 – (119,000,000 multiplied by the Price per Share), up to a maximum amount of € 76,600,000.00 (seventy-six million, six hundred thousand/00); all of which is described in the report of the Board of Directors in compliance with Articles 2440 and 2343 of the Italian Civil Code;
- d) to grant the Board of Directors (and the Chief Executive Officer, with the power to sub-delegate) all the necessary and appropriate powers to give effect to the above, without prejudice to all of the conditions in the Report, including the necessary powers to offer the subscription of the share capital increase, to sign the deed of contribution and therefore to put in place any formalities and to sign any deed and/or document related to the above-mentioned share capital increase, it being understood that the share capital increase must take place no later than the deadline of 31 March 2015;
- e) to modify Article 5 of the bylaws as follows:
- “5.1 The share capital amounts to €3,571,187,994.00 (three billion, five hundred seventy-one million, one hundred eighty-seven thousand, nine hundred ninety-four/00), divided into 3,381,638,294 (three billion, three hundred eighty-one million, six hundred thirty-eight thousand, two hundred ninety-four) shares with no indication of nominal value.
- 5.2 The Shareholders’ Meeting of December 10, 2014 resolved to increase the share capital for consideration, up to a maximum amount of € 505,000,000.00 (five hundred and five million/00), including the share premium, with the exclusion of pre-emption rights pursuant to Article 2441, paragraph 4, of the Italian Civil Code, reserved to CDP Gas S.r.l., to be paid for via the contribution in kind of the stake in Trans Austria Gasleitung GmbH, a company registered under Austrian law, with registered offices in Vienna at Wiedner

Hauptstrasse, registered in the Company Register of the Vienna Commercial Court under no. FN 122567 and to take place by 31 March 2015; all of which is subject to the price per share determined by the Board of Directors for the purpose of the share capital increase being equal to or more than € 3.60 (three/60) and pursuant to the terms and conditions set forth in the relevant Shareholders' Meeting resolution.

5.3 The Shareholders' Meeting may decide to increase capital by imposing terms, conditions and procedures. The capital may be increased: with in-kind contributions and credits and by issuing new shares, including special categories, to be allocated for free under Article 2349 of the Italian Civil Code.”;

- f) to authorize the President of the Board of Directors and the Chief Executive Officer, severally and with the power to delegate through special powers of attorney, to register and publish, pursuant to the law, the amended text of the Bylaws with the relevant amendments approved by the previous resolutions and in execution of the above resolutions; and
- g) lastly, to grant the required powers to the President of the Board of Directors and the Chief Executive Officer, severally and with the power to delegate through special powers of attorney, to make non-substantive amendments to the above-mentioned resolution that are necessary and appropriate to execute the share capital increase, and effect the necessary registrations with the Companies' Registry and/or comply with the requirements of the competent authorities.”

The Chairman of the Board of Directors
Mr. Lorenzo Bini Smaghi