

December 2015

News@Facts



The intervention: Talking to Dario Manigrasso, Supply Chain Director at Snam Rete Gas

Quality relationships: the way to transparent Supplier Relations

What does the supply side represent to Snam?

Suppliers are a key component of the organisation. The Supplier Relations therefore have to guarantee mutual respect, shared vision, interaction of management processes and technologies, exchange of knowledge and information. From this perspective, a mutually beneficial relation fundamentally improves the capacity to create value for both the counterparts.

How does the capacity to create value take shape?

The value creation is the sum of the value generated both from the Company's activity and from the Supplier's one; the whole system in which the two counterparts operate benefits from it. The value derives from the way in which activities are executed, but originates in the quality of relations; that is why the quality of the Supplier Relation system is essential.

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Performance: Nine-month 2015 results

Adjusted net profit increases by 5.7%

In the first nine months of 2015 total revenue record a 3.8% improvement compared to the same period of 2014, driven by the positive performance of regulated revenue in the transport and distribution business, which also reflects the contribution from the two newly-consolidated

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RESULTS	9M 2014	9M 2015	Change
Gas injected into the network (BCM)	47.13	49.86	+5.8%
N. of active meters (mn)	6.379	6.516	+2.1%
Total revenue (mn €)	2,648	2,748	+3.8%
Ebitda (mn €)	2,111	2,108	-0.1%
Ebit (mn €)	1,528	1,472	-3.7%
Adjusted Ebit* (mn €)	1,528	1,507	-1.4%
Net profit (mn €)**	863	888	+2.9%
Adjusted net profit (mn €)* **	863	912	+5.7%
Technical investments (mn €)	856	803	-6.2%

(*) Adjusted net profit excludes the special items, which in the first nine months of 2015 regard the estimate, based on actuarial assumptions, of costs of the Gas Fund to be borne by the employer, pursuant to Law No. 125 of 6 August 2015 (35 million euro; 24 million euro net of the tax effect).

(**) Net profit is attributable to Snam

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International development

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News@Facts Issue 4 / Year 6
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Registration n. 534
as of November 26, 2009
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How has the relationship between Snam and suppliers evolved over time?

We gradually moved from a phase characterised by an “impersonal” company-supplier relation (occasional negotiations, key importance of price, short-term contracts, multiple sourcing) to the current system of substantial “partnership”, which favours continuous interaction, central role of quality and competences, long term relations, selective and loyal sourcing. Through such structure of relations, the supplier becomes an extension of the Company. This new engagement dimension involves mutual benefits that turn into quality improvement, innovation stimulus and best practice adoption. The effectiveness of such an approach is proven by the actual improvement in the performance of the suppliers that are critical to corporate business and by the consequent increase in the Snam’s yearly valuations (vendor rating).

What are the key features of the current relationship between Company and suppliers?

In summary, a set of essential “pillars” aimed at building a relation system that is clear and responsible: quality (together with the price component, but even reliability and commitment to innovation and safety), continuous improvement, mutual growth and creation of share value, values (legality and correctness), sustainability (attention to environmental impacts) and transparency (in commercial relations and in execution of activities).

Regarding the suppliers that are more critical

to the Snam core-business, what activities do you have in place in order to ensure better compliance to Company’s objectives?

In order to be recognised as suitable, each supplier has to undergo a rigorous and in-depth qualification process during which the supplier has to pass progressive assessment phases depending on the level of the product category, technological complexity and impact on Snam performance. Several elements are taken into consideration: technical and operational expertise, economic and financial standing, commitment to protect and safeguard the environment, promotion of healthy and safe workplace. Product categories that are considered most critical have to meet even further requirements, as the availability of certified management systems according to international standards. During the relationship with Snam the supplier is continuously monitored, in order to ensure that agreed standards and operating conditions are maintained.

In such a framework, what are the most significant data, effectively summarising the reality of Snam suppliers?

First of all, some quantitative data (year 2014): procurement is around 1,200 million euro; contracts are approximately 1,600 (relating to approximately 1,000 qualified suppliers, of which ca. 60% assigned to small and medium enterprises, with goods and services that are 92% bought in Italy); listed qualified suppliers are around 3,600. Moreover, some important initiatives are worth to be highlighted: the

launch, two years ago, of a Portal specifically dedicated to Suppliers (that in 2014 has recorded 83,000 visits, with 800,000 page views) and the annual Suppliers’ Workshop, which this year has reached the fifth edition, the day that the Group dedicates to meeting and dialoguing with its supply chain.

What are the future strategies linked to suppliers?

The evolution of a relation between company and suppliers will lead the latter to be increasingly at the core of the procurement strategy. Ever more in-depth involvement of key-suppliers, risk sharing, joint development of improvement plans and attention to the impact of the supplier along the whole value chain represent the crucial points of this collaboration, aimed to an even more sustainable management of the supply chain.

Any last issues you think it is meaningful to point out?

The Supplier Relations evolved and will continue to evolve towards an even greater integration of interests and business. I would like to emphasise that any relation has to be based on quality, safety and health of workers, transparency and correctness. Also technological progress will surely provide a key help to the development of the supply chain, but, without a continuous attention to the issues mentioned above, any effort might be easily frustrated. That is why we will continue to monitor with greater and greater attention the performances of our Suppliers, in order to guarantee the success of the challenges we will have to face.

continue Performance: Nine-month 2015 results

companies: from 1st April 2015, Acam Gas and, from July 2014, A.E.S. Torino.

Nine-month 2015 adjusted EBIT shows a light decrease: it falls by 21 million (-1.4%), owing to the operating costs’ increase (mainly linked to gas withdrawals from storage for natural gas sales and to the change in the scope of consolidation), and to higher depreciation (+9.1%). From a sectoral viewpoint, the adjusted EBIT performance reflects the reduction in the storage (-21 million euro; -8.0%) and distribution business (-10 million euro; -2.6%), only partially counterbalanced from the positive performance of the transport business (+6 million euro; +0.7%).

Adjusted net profit amounts to 912 million euro, showing a 5.7% increase (+49 million euro) over the first nine months of 2014, thanks to the following positive drivers: the 24 million euro decrease in net financial expense, the 30 million increase in net income from equity investments and the 68 million euro decline

in income taxes, due to the cancellation of the additional corporate income tax IRES (known as “Robin Hood Tax”).

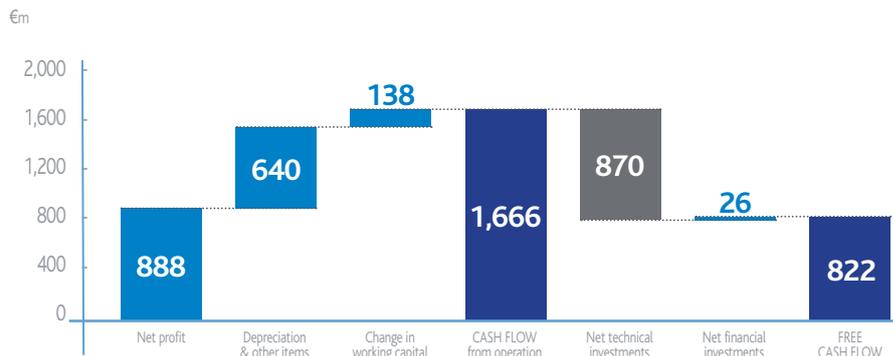
These factors have been partly offset by the revaluation carried out at the date of acquisition of control of the 49% stake previously held in AES Torino (51 million euro lower income).

The operating cash flow generation, equal

to 1,666 million euro, has largely exceeded the funding needs for net investments, equal to 844 million euro; the Free Cash Flow has therefore reached 822 million euro.

Net financial debt as of 30 September 2015 is 13,709 million euro, showing a 57 million euro increase vs. that as of 31 December 2014, after the payment to shareholders of a 2014 dividend of 875 million euro.

9M 2015 - OPERATING CASH FLOW AND FREE CASH FLOW



Two important steps forward in the international development strategy of Snam: the MoU with SOCAR and the acquisition from Statoil of the 20% stake in TAP

Recently two important developments on the international scene took place, both contributing to consolidate the Snam's role, as integrated infrastructure operator, in facilitating higher competitiveness among sources and in strengthening the supply security for the European gas system.



On **23 September 2015** Snam signed a Memorandum of Understanding (MoU) with the State Oil Company of Azerbaijan Republic (**SOCAR**) for the joint evaluation of initiatives favouring the development of the South Corridor, a major route for gas flows to Europe. SOCAR and Snam made commitment to share expertise and best practice in constructing and operating facilities for the transport of natural gas, from the Republic of Azerbaijan and other neighbouring

producing countries, to the European markets, through Italian infrastructures.

Following to this MoU, on 1st December 2015 Snam signed an exclusivity right for the purchase of the 20% stake in the Trans Adriatic Pipeline AG (**TAP**) owned by **Statoil Holding Netherlands BV**, for 130 million euro.

Snam will also replace Statoil in the shareholders' loan currently granted to TAP for a nominal amount of 78 million euro. The

closing has taken place on 17 December 2015. Snam will therefore take over all of Statoil's rights and duties related to the development of the project of the Trans Adriatic Pipeline, spanning from the Turkey-Greece border to Italy along the South Corridor. The gas produced from the Shah Deniz II field in Azerbaijan will be transported to the European markets - through multi-annual ship-or-pay contracts - through the Snam Rete Gas pipeline system.

Focus: Debt management

The policy of financial sources optimisation continues to generate relevant results



In late 2015, Snam has proactively executed the financial optimisation process outlined in the Strategic Plan, achieving a set of significant improvements in terms of balanced structure of financial sources and of cost of debt.



Firstly, on 30 September 2015, Snam has signed an agreement with the European Investment Bank (**EIB**) to finance works promoted by

Italgas. The **loan of 124 million euro**, which has been disbursed on 22 October 2015, presents a floating rate and will mature in 2035.

The EIB has moreover granted a **further loan**, for an overall amount of **373 million euro**, for the development of **Snam Rete Gas** projects, which are aimed to improve efficiency and flexibility in the Italian gas system through the reverse flow. The loan is at a floating rate and will run for 20 years.

Snam Rete Gas investments for the **reverse flow**, whose estimated cost is 750 million euro overall, will enable two-way flows of gas and will favour the development of the North-South corridor; they therefore fall within the list of Projects of Common Interest at a European level.

During 2015, the Snam group has been granted by the EIB around 700 million euro loans as a whole.

Another recent milestone, on 3 November 2015, was the complete success of the placement, with institutional investors, of a **Snam S.p.A. note issue of 750 million euro**, under the EMTN (Euro Medium Term Notes) Plan approved by the Board of Directors on 22 June 2015.

Demand, coming from a broad range of high-profile international investors, resulted in being 7 times the offer.

NOTE FEATURES

Amount:	750 million euro
Listing Market:	Luxembourg Stock Exchange
Maturity:	19 November 2023
Annual coupon:	1.375%
Re-offer price:	99.191
Re-offer yield:	1.327%

On the same day, on 3 November 2015, BNP Paribas S.A. has moreover launched a **Tender Offer** on the following notes already issued by Snam S.p.A.:

€ 1,000,000,000 – 4.375%	maturity 11 July 2016
€ 1,250,000,000 – 2.375%	maturity 30 June 2017
€ 1,500,000,000 – 3.875%	maturity 19 March 2018
€ 1,000,000,000 – 5.000%	maturity 18 January 2019

up to a maximum overall amount of 1 billion euro, in accordance with the terms and conditions included in the Tender Offer Memorandum.

The newly-issued notes were aimed, in whole or in part, at an exchange with the different notes that BNP Paribas S.A. would have acquired as result of the Tender Offer. On 10 November 2015, once the Tender Offer was concluded, on the back of the results, BNP Paribas has accepted to re-purchase an overall amount of 1 billion euro (in nominal terms) of the following notes:

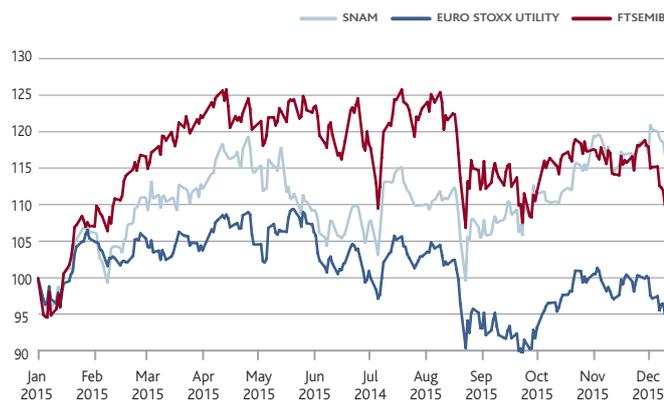
Snam S.p.A. notes due 11 July 2016:	300,009,000 €
Snam S.p.A. notes due 30 June 2017:	250,085,000 €
Snam S.p.A. notes due 19 March 2018:	299,954,000 €
Snam S.p.A. notes due 18 January 2019:	149,950,000 €

Later, on 19 November 2015, Snam exchanged the notes listed above with the newly-issued notes and paid the remaining amount by cash.

Snam and the financial markets

STOCK PRICE PERFORMANCE (2 JANUARY 2015 – 11 DECEMBER 2015)

STOCK PRICE (CLOSING PRICE OF 11 DECEMBER 2015 = 4.76 EURO)
COMPARED WITH SECTOR AND MARKET INDEX (BASE 2 JAN.2015 =100).



Since the beginning of 2015, the Snam stock outperforms both the sector benchmark and the Italian blue chips' basket, when comparing the 16% raise in the Snam share price with the 10.5% increase in the FTSE MIB and the 5.7% decline in the Euro Stoxx Utility Index.

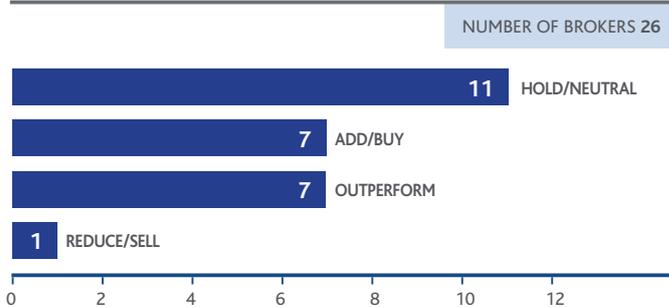
The uptrend of the Snam stock price, lasting since late August, has been supported by sound fundamentals, proven also by the nine-month results for the current fiscal year (released on 28 October 2015), and by the stable and visible regulatory framework, confirmed by the resolution in which the Authority has set the WACC (2 December 2015).

The stock has moreover shown its defensive nature even in the last few trading days, characterised by a sharp decrease of the FTSE MIB, against an ever more evident weakening of emerging economies, falling oil prices and following the disappointment of expectations for a more robust and extended QE support compared to that announced by the ECB on the last 3 December. In the meantime, the performance of the Euro Stoxx Utility Index, representing the sector benchmark, continues to be penalised by the negative performance of some European large caps (especially RWE and EON), due to the weakness of electricity prices in an environment showing excess of production capacity.

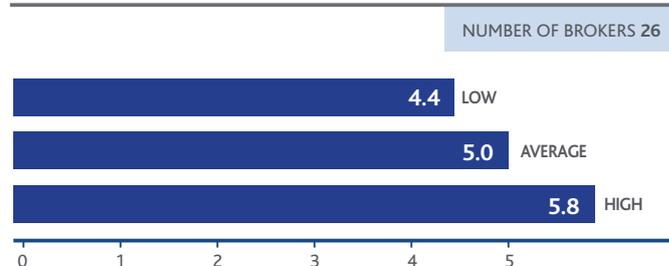
In comparison with the last issue of N@F, released on 11 September 2015, the consensus target price of the 26 analysts covering the Snam stock has improved, moving from 4.7 up to 5.0 euro. The high target price is presently 5.8 euro (was 5.6 euro), while the low one is 4.4 euro (was 4.1 euro). At current prices, the stock presents a potential revaluation gap of 5%.

The picture of brokers' recommendations, already positively set in the

BROKER RECOMMENDATIONS



CONSENSUS TARGET PRICE



past, now shows further strengthening, indicating an increase in the number of favourable ratings: at present the buying recommendations (expressed as either Buy or Outperform), are 14 as a whole, against 11 ratings that suggest holding the stock in the portfolio.

SNAM AND THE STOCK EXCHANGE

OFFICIAL LISTING MARKET > BORSA ITALIANA EQUITY MARKET

TYPE OF SHARES > AZIONI ORDINARIE

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

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

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

ISIN > IT0003153415

REUTERS > SRG.MI

BLOOMBERG > SRG IM

HIGH (365 DD) > € 4.93 – 3 DECEMBER 2015

LOW (365 DD) > € 3.85 – 15 DECEMBER 2014

LAST DIVIDEND PAID (FISCAL YEAR 2014) > € 0.25 – 20 MAY 2015

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

MKT CAP (BILLION EURO) > 16.66

News: Sustainability

Scoring 100/100, Snam has been confirmed for the third time in the CDLI sustainability index



In November 2015, during the presentation of the CDP Climate Change Italy Report 2015 & Leadership Awards, Snam has been awarded for the excellence disclosure

score achieved in the CDP Italy Climate Disclosure Leadership Index (CDLI), scoring 100/100, an improvement compared to 97/100 in 2014. Snam has also obtained the B rating in the performance assessment.

The Snam stock has been confirmed for the third year in a row as a component of the CDLI, the sustainability index adopted as benchmark by 822 investors managing assets for 95 trillion US\$.

Even in 2015 Snam is among the companies supporting CDP's activities by means of a voluntary contribution.



Carbon Disclosure Project (CDP) is among the most important no-profit organisations at international level.

Its mission is to motivate companies and cities to disclose their environmental impacts, giving decision makers data they need to change market behaviour. CDP especially focuses its evaluations on the transparency of corporate information about climate change, greenhouse gas emissions and management of water resources.

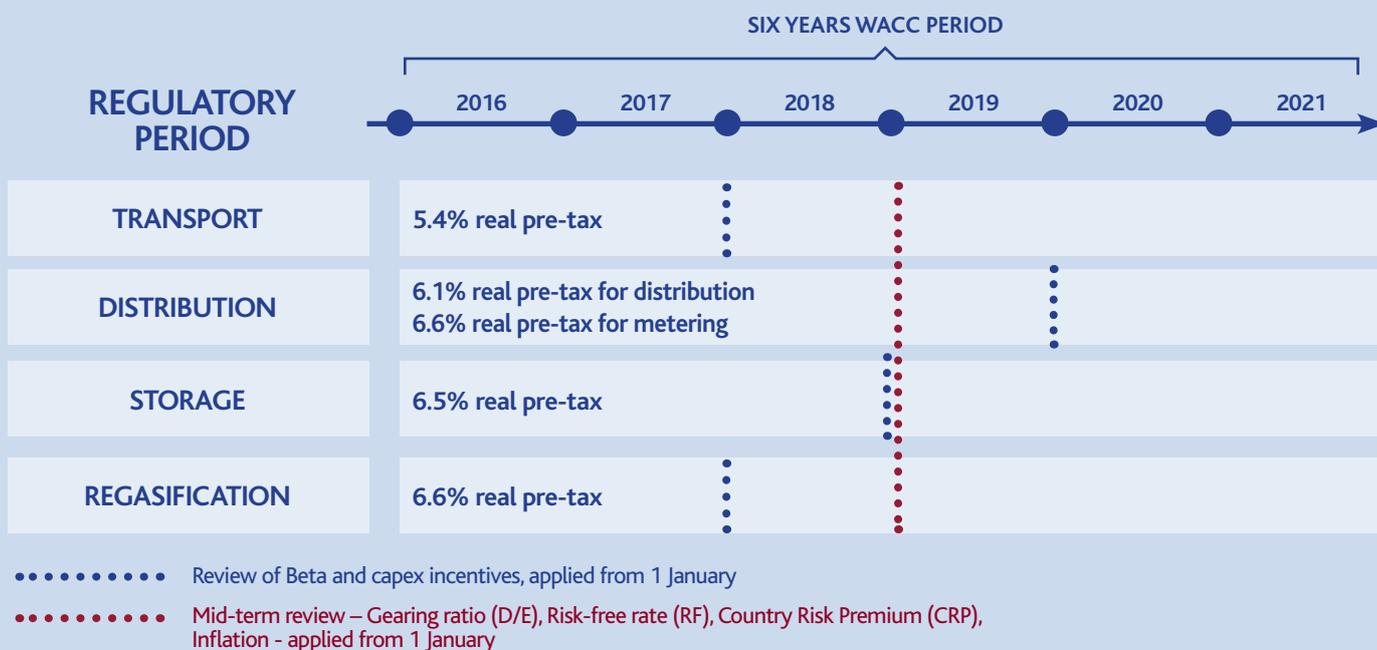
In-depth in Snam businesses - REGULATION

On 2 December 2015, through resolution 583/2015, the Authority for Electricity Gas and Water has **set the rate of return on regulatory invested capital (WACC)** for infrastructural gas services, defining the criteria for the setting and update of the rate itself. The Authority has established a **regulatory period lasting six years**, inside which the WACC parameters' levels for all infrastructural gas services are effective, except the parameters

that are service-specific: the Beta parameter and the Debt to Equity ratio (D/E).

The resolution moreover envisages a mechanism of infra-period WACC update, which allows rate adjustments based on the economy trend, so mitigating the regulatory risk.

The new criteria confirm the **stability, visibility and transparency** of the regulatory framework.



Year 2015 transport tariffs approved

Through resolution 587/2015, on 4 December the Authority approved the 2016 tariffs for the gas transport, dispatching and metering business. The resolution sets the RAB at 31 December 2014 at 15 billion euro.

Tariffs have been calculated on the basis of allowed revenue of 1,850 million euro. Actual revenue for the year 2016 will have to take into account the transported volumes compared to the reference volumes, assumed at 67.2 bcm.

Awards : Italian Webranking

Also in 2015 Snam proves to be among the best practices in terms of quality and richness of digital communications.

In the 2015 Italian Webranking, led by Comprend in collaboration with Lundquist, Snam scored 85.9 points out of 100, ranking third among the 70 Italian companies assessed. The research proved the effectiveness of Snam's effort in engaging stakeholders through a transparent and continuous dialogue. Such a commitment has allowed the Company to position itself in the top ten scores since 2005 onwards, with a significant improvement in 2014 and in 2015, years in which Snam has respectively ranked second and third. The Snam evaluation that Comprend



has conducted in 2015 has identified a substantial improvement in the sections dedicated to Governance and People, and has highlighted greater integration of

social media in the articulated platform of communication channels that the Company uses when dialoguing with stakeholders.