





Information Document  
Concerning the Partial  
and Proportional Demerger  
of Snam S.p.A.  
to ITG Holding S.p.A.



Prepared in accordance with Article 70, paragraph 6 of the regulations adopted by CONSOB by Resolution 11971 of 14 May 1999, as amended, and to Article 5 of the regulations adopted by CONSOB by Resolution 17221 of 12 March 2010 .  
The official text was published in Italian on 5 July 2016.

## Disclaimer on the English Translation

*This Information Document contains an unofficial and courtesy English language translation (the "Translation") of substantially all of the official Information Document prepared in the Italian language for the purposes of the demerger of Snam in favour of ITG Holding, which was published on Snam's website [www.snam.it](http://www.snam.it), on 5 July 2016. The Italian Information Document contains information about the Snam Group, the ITG Holding Group and the separation of Italgas from the Snam Group.*

*The Translation is provided to the shareholders of Snam for information purposes only and for ease of reference and should not be relied upon. In the event of any ambiguity about the meaning of certain translated terms or of any discrepancy between the Italian Information Document and the Translation, the Italian Information Document shall prevail.*

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*The securities mentioned in this Information Document will be issued in the context of the Demerger described herein and have not been, and are not expected to be in the future, registered pursuant to the United States Securities Act of 1933, as amended; therefore, they cannot be offered or sold, either directly or indirectly, in the United States, except pursuant to an exemption.*

## Notice to Canadian Shareholders of Snam

*The distribution of the shares of the Beneficiary Company to Snam shareholders in Canada will only be made pursuant to an exemption from the requirement that the Beneficiary Company prepares and files a prospectus with applicable Canadian securities regulatory authorities. The Beneficiary Company is not a reporting issuer in any province or territory in Canada and its shares are not listed on any stock exchange in Canada and there is currently no public market for its shares in Canada. The Beneficiary Company currently has no intention of becoming a reporting issuer in Canada, filing a prospectus with any securities regulatory authority in Canada to qualify the resale of its shares to the public, or listing its securities on any stock exchange in Canada. Accordingly, to be made in accordance with applicable Canadian securities laws, any resale of the Beneficiary Company's shares by Snam shareholders in Canada must be made under available statutory exemptions from registration and prospectus requirements or under a discretionary exemption granted by the applicable Canadian securities regulatory authority. Canadian shareholders of Snam are advised to seek legal advice prior to any resale of shares of the Beneficiary Company.*

*By its receipt of this document, each Canadian shareholder of Snam confirms that it has expressly requested that all documents evidencing or relating in any way to the distribution of the Beneficiary Company shares described herein (including for greater certainty any letter of transmittal, voting instruction form or equivalent) be drawn up in the English language only. En recevant le présent document, chaque actionnaire canadien confirme qu'il a expressément exigé que tous les documents attestant la vente des valeurs mobilières décrites aux présentes ou se rapportant de quelque manière que ce soit à celle-ci (y compris pour une plus grande certitude toute lettre d'envoi, le vote sous forme d'instruction ou équivalent) soient rédigés en anglais seulement.*

*Any discussion of taxation and related matters contained within this Information Document does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to acquire the Beneficiary Company shares and, in particular, does not address Canadian tax considerations. Canadian shareholders of Snam should consult with their own legal and tax advisers with respect to the tax consequences in their particular circumstances under relevant Canadian legislation and regulations.*

*The Beneficiary Company is incorporated under the laws of Italy. All of the directors and officers of the Beneficiary Company may be located outside of Canada and, as a result, it may not be possible for Canadian shareholders of Snam to effect service of process within Canada upon the Beneficiary Company or such persons. All or a substantial portion of the assets of the Beneficiary Company and such other persons may be located outside of Canada and, as a result, it may not be possible for Canadian shareholders of Snam to satisfy or collect a judgment in Canada against the Beneficiary Company, its directors and officers or such persons or to enforce a judgment obtained in Canadian courts against the Beneficiary Company or such persons outside of Canada.*

## Forward-looking statements

*This Information Document contains forecasts and estimates ("forward-looking statements") and, specifically, in Chapter 7, Paragraph 7.3 and Chapter 8, Paragraph 8.3 of this Information Document, concerning Snam S.p.A. and ITG Holding S.p.A. and their activities upon completion of the Demerger. Such statements do not represent factual data and are based on the current expectations and projections of the Companies Participating in the Demerger in relation to future events and, by their very nature, are subject to an intrinsic element of risk and uncertainty. The forward-looking statements relate to events and depend on circumstances that may, or may not, happen or materialise in the future and, as such, should not be unduly relied upon. Actual results may differ significantly from those contained in said statements for a number of reasons, including fluctuations in the prices of raw materials, changes in macroeconomic conditions and economic growth, as well as other changes in business conditions, modifications to regulations and the institutional environment (both in Italy and abroad), and many other reasons, most of which are out of the control of the Companies Participating in the Demerger.*

## Consolidated pro-forma summary information for the Demerged Company and the Beneficiary Company and data per share at 31 December 2015

The table below provides a summary of the consolidated income statement and balance sheet historical data at 31 December 2015 and for the year then ended of the Snam Group, and on a pro-forma basis of the Demerged Company and of the Beneficiary Company, as well as the relevant data per share.

Since the pro-forma information is based on assumptions, it must be noted that, if the Transaction had occurred on the dates used as a reference for the preparation of the pro-forma data instead of the actual dates, the historical data would not necessarily be the same as the pro-forma data. Moreover, the pro-forma data is not a projected figure and is not intended, in any way, to represent a forecast of the future results of the Post-Demerger Snam Group and of the ITG Holding Group inasmuch as it has been prepared to represent only the directly attributable and factually supportable effects of the Transaction.

The summary information presented below has been extracted from the pro-forma information included in Chapters 4 and 6 of this Information Document, and must be read in conjunction with the description of the base assumptions for its preparation and the other information contained herein.

(Euro million)	DATA AT 31 DECEMBER 2015		
	Consolidated summary data at 31 December 2015 of the Snam Group	Pro-forma data of the Post-Demerger Snam Group	Pro-forma data of the Beneficiary Company
Revenue (*)	3,970	2,576	1,416
<i>including revenues from construction and upgrading of the distribution infrastructure, entered according to IFRIC 12 – Service Concession Arrangements</i>	<i>321</i>		<i>321</i>
EBITDA	2,799	2,052	735
EBIT	1,950	1,476	462
Pre-tax profit	1,705	1,351	352
Net profit	1,238	971	269
Net profit attributable to shareholders of the parent company	1,238	971	269
Total assets	24,880	21,251	5,553
Shareholders' equity	7,586	6,588	1,132
Shareholders' equity attributable to shareholders of the parent company	7,585	6,588	1,131
Net financial debt	(13,779)	(10,317)	(3,482)
<b>Indicators per share (Euro)</b>			
Net profit per share (**)	0.354	0.277	0.332
Shareholders' equity per share (**)	2.17	1.88	1.40

(\*) Core business revenues include revenue from construction and upgrading of the distribution infrastructure, entered according to IFRIC 12 and posted in an amount equal to the related costs incurred (Euro 321 million).

(\*\*) Calculated based on the average number the shares issued and outstanding.

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## Definitions

Below is a list of the key definitions concerning the Demerger that are used in the Information Document, other than those explained in the main body of the text.

<b>AEEGSI</b>	The independent authority established pursuant to Law No. 481 of 14 November 1995 responsible for the regulation of public utility services such as electricity and gas. Through Decree No. 201/11, converted into Law No. 214/11, the Authority was also given regulatory and control functions for water services to be exercised using the same powers attributed to founding Law No. 481/95. Through paragraph 17, Article 10 of Legislative Decree No. 102 of 4 July 2014, the Authority was also awarded the regulatory functions in the district heating and district cooling sector, with powers of control, inspection and sanction laid down by Law No. 481 of 14 November 1995.
<b>AGCM</b>	The Italian Competition Authority is an independent administrative Authority that carries out its activities and takes decisions entirely independent of its executive powers. It was established through Law No. 287 of 10 October 1990 concerning "Regulations for safeguarding competition and the market".
<b>Borsa Italiana</b>	Borsa Italiana S.p.A., with its registered office at Piazza degli Affari 6, Milan.
<b>CDP</b>	<i>Cassa Depositi e Prestiti S.p.A.</i> , a company registered under Italian law, with its registered office at Via Goito 4, Rome, with VAT No. 07756511007 and Rome Companies Register No. 80199230584.
<b>CDP Gas</b>	CDP Gas S.r.l., a company registered under Italian law, with its registered office at Via Goito 4, Rome, with VAT and Rome Companies Register No. 11636031004, the share capital of which is wholly owned by CDP.
<b>CDP Reti</b>	CDP Reti S.p.A., a company registered under Italian law, with its registered office at Via Goito 4, Rome, with VAT and Rome Companies Register No. 12084871008, the share capital of which is wholly owned by CDP.
<b>Civil Code</b>	The Italian Civil Code adopted pursuant to Royal Decree No. 262 of 16 March 1942, as amended.
<b>Code of Corporate Governance</b>	The Code of Corporate Governance for Listed Companies approved by the Corporate Governance Committee, established, <i>inter alia</i> , by Borsa Italiana.
<b>De-Merger Assets and Liabilities</b>	The assets and liabilities described in Chapter 2, Paragraph 2.2 of the Information Document, which will be transferred to ITG Holding as a result of the Demerger.
<b>CONSOB</b>	<i>Commissione Nazionale per le Società e la Borsa</i> , the Italian Securities and Exchange Commission, with its registered office at Via G. B. Martini 3, Rome.
<b>Information Document Date</b>	The publication date of this Information Document, that is 5 July 2016.
<b>Demerger Effective Date</b>	The date on which the legal effects of the Demerger will come into force, which will coincide with the last date of registration of the Demerger deed in the relevant Companies Register, pursuant to Article 2506- <i>quater</i> of the Civil Code, or with any subsequent date indicated in the Demerger deed.
<b>Information Document</b>	This information document.
<b>Expert</b>	Colombo & Associati S.r.l., an independent expert from Snam, ITG Holding and their respective shareholders, which is able to exercise a significant influence on these companies, and is characterised by appropriate and proven professionalism.

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<b>Gnl Italia</b>	Gnl Italia S.p.A., a company registered under Italian law, with its registered office at Piazza Santa Barbara 7, San Donato Milanese (MI), with VAT and Milan Companies Register No. 03231010962, the share capital of which is wholly owned by Snam.
<b>Italgas Group</b>	Collectively, Italgas and the companies directly or indirectly controlled by it, pursuant to Article 2359 of the Civil Code, prior to the Demerger.
<b>ITG Holding Group or Group whose holding company is the Beneficiary Company</b>	Collectively, ITG Holding and the companies directly or indirectly controlled by it, pursuant to Article 2359 of the Civil Code and Article 93 of the TUF, after the Demerger.
<b>Snam Group</b>	Collectively, Snam and the companies directly or indirectly controlled by it, pursuant to Article 2359 of the Civil Code and Article 93 of the TUF, prior to the Demerger.
<b>Post-Demerger Snam Group or Group whose holding company is the Demerged Company</b>	Collectively, Snam and the companies directly or indirectly controlled by it, pursuant to Article 2359 of the Civil Code and Article 93 of the TUF, after the Demerger.
<b>Italgas</b>	<i>Società Italiana per il Gas per Azioni</i> , hereinafter Italgas, a company registered under Italian law, with its registered office at Largo Regio Parco 9, Turin, with VAT and Turin Companies Register No. 00489490011, the share capital of which is wholly owned by Snam.
<b>MEF</b>	The Ministry of Economy and Finance.
<b>Monte Titoli</b>	<i>Monte Titoli</i> S.p.A., with its registered office at Piazza degli Affari 6, Milan.
<b>MTA</b>	<i>Mercato Telematico Azionario</i> , the electronic stock exchange organised and managed by Borsa Italiana S.p.A.
<b>Transaction</b>	The separation of Italgas from Snam through a partial and proportional demerger with the consequent admission to trading on the MTA of the Beneficiary Company shares. The Transaction will be executed in a unitary and substantially simultaneous manner through the Transfer (defined below), the Sale (defined below) and the Demerger.
<b>Related Parties or Related Party</b>	Entities identified using the criteria set out in Article 2, Annex 1 of the Regulations on Related-Party Transactions and Article III(a)(ii) of the Procedure on Related-Party Transactions.
<b>Procedure on Related-Party Transactions</b>	The procedure " <i>Transactions involving the interests of directors and auditors and transactions with related parties</i> ", approved by the Snam Board of Directors on 30 November 2010, as amended, (after receipt of a unanimous favourable opinion from the Internal Control Committee, now known as the Control, Risk and Related-Party Transactions Committee).
<b>Demerger Plan</b>	The planned partial and proportional demerger of Snam to ITG Holding, approved on 28 June 2016 and published on 30 June 2016, pursuant to Article 2506- <i>bis</i> of the Civil Code.
<b>Issuers' Regulation</b>	The regulations approved by CONSOB with Resolution 11971 of 14 May 1999, as amended.
<b>Market Regulations</b>	The regulations adopted by CONSOB with Resolution 16191 of 29 October 2007, as amended.
<b>Regulations on Related-Party Transactions</b>	The regulations concerning the governance of transactions with Related Parties, which were adopted by CONSOB with Resolution 17221 of 12 March 2010, as amended.
<b>Demerger</b>	The partial and proportional demerger of Snam to ITG Holding.
<b>Beneficiary Company or ITG Holding or Beneficiary<sup>1</sup></b>	ITG Holding S.p.A., a company operating under Italian law, with its registered office at Piazza Santa Barbara 7, San Donato Milanese (MI), VAT and Milan Companies Register No. 09540420966, the share capital of which is held wholly by Snam.

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<sup>1</sup> The shareholders' meetings called to approve this Demerger Plan can resolve upon changing the corporate name and registered office of the Beneficiary Company.

<b>Demerged Company or Snam or Demerger</b>	Snam S.p.A., a company registered under Italian law, with its registered office at Piazza Santa Barbara 7, San Donato Milanese (MI), with VAT and Milan Companies Register No. 13271390158.
<b>Snam Rete Gas</b>	Snam Rete Gas S.p.A., a company registered under Italian law, with its registered office at Piazza Santa Barbara 7, San Donato Milanese (MI), with VAT and Milan Companies Register No. 10238291008, the share capital of which is wholly owned by Snam.
<b>External Auditors or EY</b>	Reconta Ernst & Young S.p.A., with its registered office at Via Po 32, Rome 00198, which is authorised and regulated by the MEF and registered in the special auditors' register kept by the MEF.
<b>Companies Participating in the Demerger</b>	Collectively, Snam and ITG Holding.
<b>Stogit</b>	Stogit S.p.A., a company registered under Italian law, with its registered office at Piazza Santa Barbara 7, San Donato Milanese (MI), with VAT and Milan Companies Register No. 13271380159, the share capital of which is wholly owned by Snam.
<b>Consolidated Finance Act or TUF</b>	Legislative Decree No. 58 of 24 February 1998, as amended.
<b>Consolidated Income Tax Act or TUIR</b>	Presidential Decree No. 917 of 22 December 1986, as amended.
<b>Vendor Loan</b>	The loan granted by Snam to the Beneficiary Company for payment of the consideration for the Sale.

## Glossary

<b>ATEM</b>	Minimum Geographical Areas for conducting tenders and assigning the gas distribution service calculated as 177 pursuant to the definition of Article 1 of the Ministerial Decree of 19 January 2011. The Municipalities belonging to each area are listed in the Ministerial Decree of 18 October 2011.
<b>Network Codes</b>	Documents that set out, for each type of service, the rules governing the rights and obligations of the parties involved in the process of providing those services, and that establish contractual clauses to reduce the risk of non-compliance by customers, approved through the AEEGSI at the proposal of the service provider.
<b>ETS (Emission Trading Scheme)</b>	The main tool used by the European Union, in furtherance of the Kyoto Protocol, in order to reduce greenhouse gas emissions in the energy sector and in businesses characterised by large emissions. Legislative decree 13 March 2013, n. 30 as amended and supplemented, implementing Directive 2009/29/CE.
<b>Fuel Gas (or self-consumption)</b>	Pursuant to Article 1.1, letter c, of the annex to the AEEGSI resolution 514/2013/R/gas, Fuel Gas (or self-consumption) is the quantity of gas measured for business use, including the gas necessary for the operation of the compression stations.
<b>Local Tender Process</b>	The sole tender process for the provision of gas distribution services held in each of the 177 minimum geographical areas (ATEM) identified pursuant to Articles 1 and 2 of the Decree of the Ministry of Economic Development of 19 January 2011.
<b>UFG</b>	Pursuant to Article 1.1, letter k), of Annex A to the AEEGSI resolution 514/2013/R/GAS regarding the <i>“Regulation of tariffs for the transportation and dispatching of natural gas for the regulation period 2014-2017 (RTTG)”</i> , <i>“the Unaccounted for Gas (UFG) is the quantity of gas not measured attributable to all the uncertainties of the terms that make up the transportation network balance equation”</i> .
<b>LNG</b>	Natural gas, predominantly made of methane liquefied by cooling to approximately -160°C, at atmospheric pressure, for ease of transfer into dedicated vessels (tankers) or storage in tanks. In order to be sent in the transportation network the liquid product has to be converted into gaseous stage into regasification plants and pressurised to the operating pressure of gas pipes.
<b>IAS/IFRS</b>	The International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), and interpretations issued by the IFRS Interpretation Committee (IFRS IC), previously by the IFRS Interpretation Committee (IFRIC), and by the Standing Interpretations Committee (SIC) before that recognised within the European Union and in force as at the reference dates of this Information Document.
<b>RP or Redelivery Point</b>	With reference to the distribution activity, the point of demarcation between the distribution plant and the plant of the end user, where the distribution company redelivers the natural gas for supply to the end user.
<b>RAB or Regulatory Asset Base</b>	Value of net invested capital for regulatory purposes, calculated based on the rules defined by the AEEGSI in order to determine the benchmark revenues for the regulated businesses. (AEEGSI Resolution 514/2013/R/gas for the gas transportation business, AEEGSI Resolution 438/2013/R/gas for the gas regasification business, AEEGSI Resolution 531/2014/R/gas for the gas storage business, AEEGSI Resolutions 573/2013/R/gas and 367/2014/R/gas for the gas distribution business).
<b>Centralised RAB</b>	The Centralised Net Invested Capital is made up of tangible fixed assets other than those included under local tangible fixed assets and intangible fixed assets (in other words non-industrial buildings and property, other tangible fixed assets and intangible fixed assets, such as, for example, remote management and remote control systems, equipment, vehicles, IT systems, furniture and furnishings, software licenses).



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*continued*

<b>Local RAB</b>	The Local Net Invested Capital for the distribution service is made up of the following types of tangible fixed assets: land on which there are industrial facilities, industrial facilities, primary and secondary equipment, street conduits and branch-off equipment (junctions). Local Net Invested Capital relating to the metering service is made up of the following types of tangible fixed assets: traditional metering units and electronic metering units.
<b>Skipper or User</b>	For the gas transportation business, pursuant to AEEGSI Resolution 514/2013/R/gas, the Shipper or User is the user of the gas system that acquires the transportation capacity for their own use or to sell to others.
<b>Reimbursement Value</b>	The amount owed to outgoing operators on the termination of the service pursuant to Article 5 of Decree of the Ministry of Economic Development No. 226 of 12 November 2011 in the absence of specific different calculation method forecasts contained in the documents of the individual concessions stipulated before 11 February 2012 (the date when M.D. No. 226/2011 of 12 November 2011 came into force).
<b>RIV or Residual Industrial Value</b>	The residual industrial value of the part of the plant owned by the outgoing operator is equal to the cost that should be incurred for its reconstruction as new reduced by the value of the physical degradation and also including non-current assets under construction from the accounting records (Article 5, paragraph 5 of M.D. No. 226/2011).
<b>WACC</b>	Weighted Average Cost of Capital is a firm's cost of capital.

# Summary

## A. DESCRIPTION OF THE TRANSACTION

The industrial and corporate restructuring transaction described in this Information Document consists of the separation of Italgas from Snam (the “Transaction”) through the partial and proportional demerger (the “Demerger”) and the consequent admission to trading on the *Mercato Telematico Azionario* organised and managed by Borsa Italiana (“MTA”) of the shares of the Demerger Beneficiary Company, ITG Holding<sup>2</sup>. The Transaction will be executed in a unitary and substantially simultaneous manner through the Transfer (as defined below), Sale (as defined below) and Demerger (the “Transaction”).

Through the Transaction, the entire equity investment held by Snam in Italgas as at the Information Document Date, equal to 100% of the share capital of Italgas, will be transferred to ITG Holding.

The Italgas Group is the leading operator in Italy in natural gas urban distribution.

This Information Document has been prepared by Snam pursuant to Article 70, paragraph 6 of the Issuers’ Regulation in order to provide shareholders and the market with a full picture and information about the partial and proportional Demerger of Snam in favour of the wholly-owned company ITG Holding, by virtue of which part of the total equity investment owned by the Demerged Company into Italgas will be assigned to ITG Holding.

The Information Document also, for all intents and purposes, conforms to the contents of scheme 2 of Annex 3B of the Issuers’ Regulation.

Specifically, the Transaction as a whole, which will occur in a unitary and substantially simultaneous manner, includes:

- a) the transfer in kind by Snam to ITG Holding of an equity investment of 8.23% in the share capital of Italgas (the “Transfer”) in exchange for the allocation to Snam of 108,957,843 newly issued shares of ITG Holding, in order to enable Snam to hold, post-Demerger (as per point c), an equity investment of 13.50% in the Beneficiary Company (0.03% deriving from the treasury shares held by Snam);
- b) the sale by Snam to ITG Holding of 98,054,833 shares of Italgas, equal to 38.87% of the share capital of Italgas (the “Sale”), for a price of Euro 1,503 million, to be settled through the repayment of a Vendor Loan of an equal amount to the Beneficiary Company, in order to generate an adequate level of financial debt for the Beneficiary Company, taking into account the activity, risk and cash flow generation profile; and
- c) the partial and proportional Demerger of Snam, with the allocation to ITG Holding of an equity investment equal to the 52.90% held by the Demerged Company in Italgas, and consequent allocation to Snam shareholders of the remaining 86.50% of the Beneficiary Company’s share capital.

<sup>2</sup> The shareholders’ meetings called to approve this Demerger Plan can resolve upon changing the corporate name and registered office of the Beneficiary Company.

With regard to the Expert report on the Transaction, and the Italgas dividend for financial year 2015 that should be distributed prior to the Demerger Effective Date, see Chapter 2, Paragraph 2.2 of this Information Document and Chapter 8, Paragraph 8.3 of this Information Document.

For more information about the Transaction, see Chapter 2, Paragraph 2.2 of this Information Document.

## **B. NATURE OF THE TRANSACTION WITH RELATED PARTIES**

This Information Document has also been prepared pursuant to Article 5, paragraphs 1 and 6 of the Regulations on Related-Party Transactions, as well as to Article VII, paragraph 2 of the Procedure on Related-Party Transactions, and in compliance, for all that applies, with the content required pursuant to Annex 4 to the Regulations on Related-Party Transactions.

As explained in Chapter 2, Paragraph 2.5 of this Information Document, the Demerger is not a “Related-Party Transaction” (see CONSOB Communication DEM/10078683 of 24 September 2010), while the Transfer and the Sale, despite qualifying as related party transactions, fall under the exemption set forth in Article 14, paragraph 2 of the Regulations on Related-Party Transactions and in Article X, Paragraph 8 of the Procedure on Related-Party Transactions of Snam, which stipulates that the procedures to be applied in the event of Related-Party Transactions are not applicable in the event of transactions carried out with subsidiaries (ITG Holding).

As provided for by the memorandum of understanding entered into on 28 June 2016 between Snam, CDP Reti and CDP Gas (the “Memorandum of Understanding”), the entire Transaction also provides for Snam, CDP Reti and CDP Gas to enter into a shareholders’ agreement (the “Shareholders’ Agreement”), relating to equity investments which will be held in the Beneficiary Company, equal to 13.50%, 25.08% and 0.97%, respectively. A purpose of the Shareholders’ Agreement is to ensure a stable and transparent ownership structure of ITG Holding following the Transaction. The Shareholders’ Agreement shall have a term of three years and shall be renewable. Specifically, the Memorandum of Understanding is designed to regulate, by means of the Shareholders’ Agreement, the principal terms for the realisation of the Transaction, the rights deriving from the execution of the Shareholders’ Agreement and the general *governance* which, following the implementation of the Transaction, will apply to ITG Holding and Italgas.

As at the Information Document Date, CDP holds, via CDP Reti and CDP Gas, 28.98% and 1.12%, respectively, of the voting share capital of Snam, allowing it to exert considerable influence over Snam pursuant to Article 2 of Annex 1 to the Regulations on Related-Party Transactions and to Article III(a)(ii) of the Procedure on Related-Party Transactions.

In light of CDP’s involvement as a Related Party of Snam, and of the relationship between the Transaction and the Shareholders’ Agreement between Snam, CDP Reti and CDP Gas pursuant to the Memorandum of Understanding, Snam has not made use of the aforementioned exemption and has subjected the entire Transaction to the procedure for “Significant Transactions” provided for by Article 8 of the Regulations on Related-Party Transactions and by Article VI of the Procedure on Related-Party Transactions.

The Transaction and, specifically, the Memorandum of Understanding, has been examined by the Snam Control and Risks and Related-Party Transactions Committee for the purpose of the Procedure on Related-Party Transactions.

On 28 June 2016, the Snam Control and Risks and Related-Party Transactions Committee released its unanimous favourable reasoned opinion surrounding Snam’s interest in proceeding with the Transaction as well as on the expediency and essential correctness of the related conditions.

For further information regarding the activities of the Control, Risks and Related-Party Transactions Committee, the Memorandum of Understanding and the Shareholders’ Agreement, please see Chapter 2, Paragraph 2.5 of this Information Document.

### C. GRAPHIC REPRESENTATION OF THE TRANSACTION

The two graphics below illustrate the shareholder structure of the Snam Group, pre- and post-Demerger:

FIGURE 1 – DIAGRAM OF THE SNAM GROUP PRE-DEMERGER

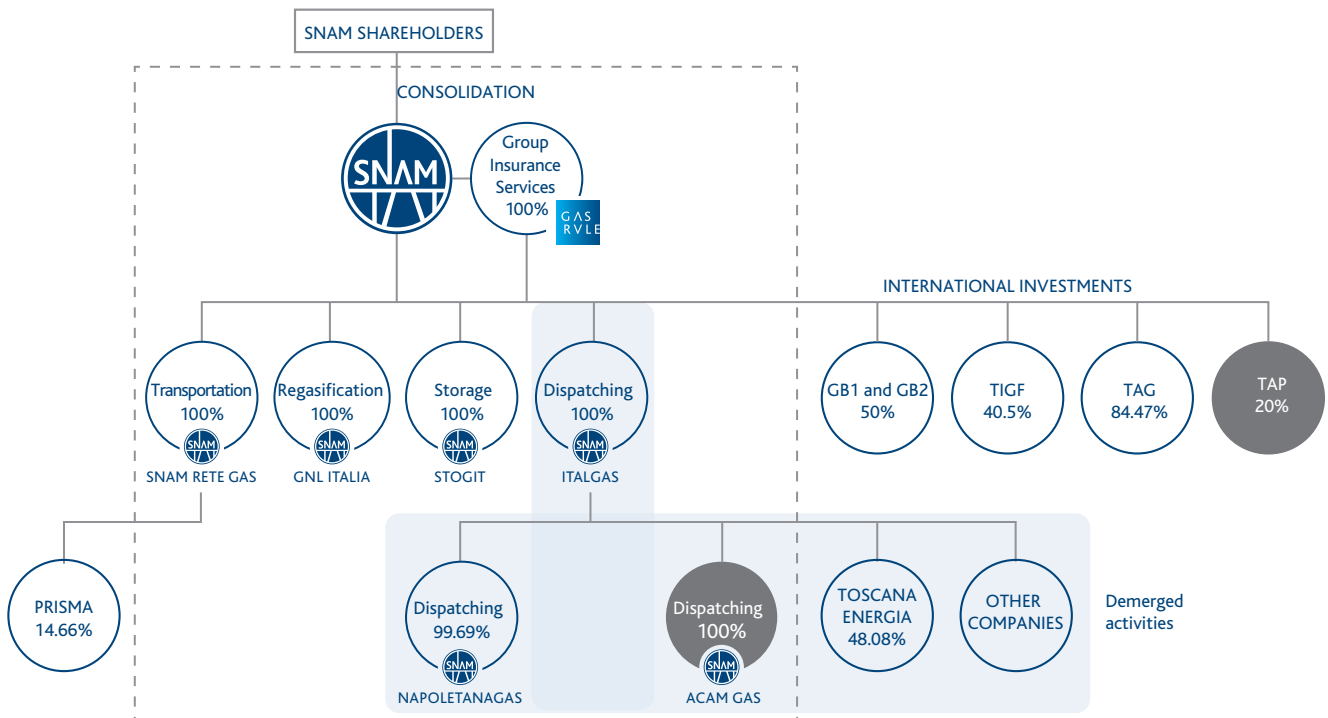
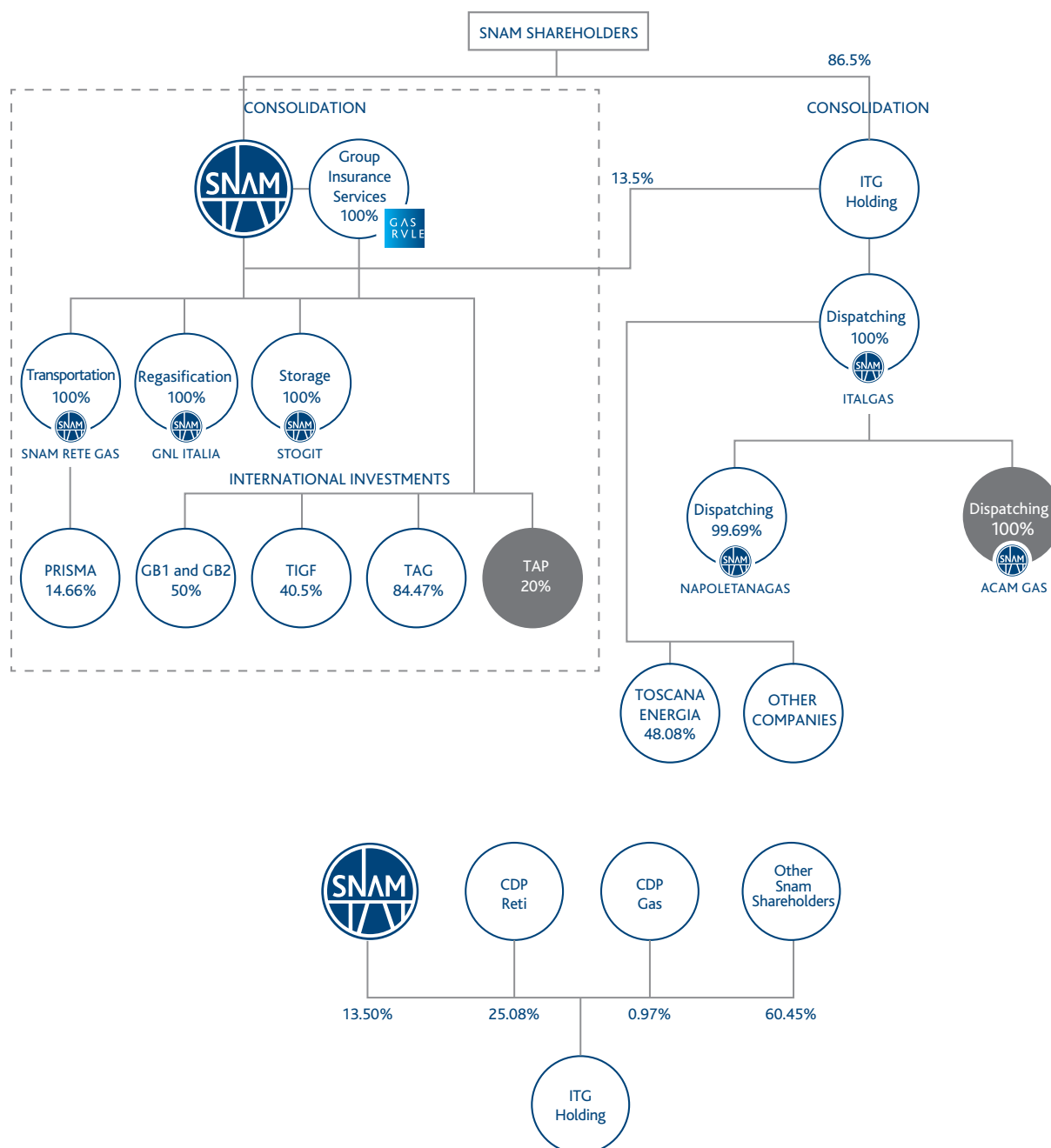


FIGURE 2 – DIAGRAM OF THE SNAM GROUP POST-DEMERGER AND OF THE ITG HOLDING GROUP



#### D. REASONS FOR AND PURPOSES OF THE TRANSACTION

The purpose of the Transaction is primarily industrial, and aims to separate Snam Group’s gas distribution activities (carried out by the Italgas Group) in Italy from its gas transportation, dispatching, regasification and storage activities in Italy and abroad. Within this framework, the division of the Transaction into the aforementioned three steps (Transfer, Sale and Demerger, which will be carried out simultaneously) also makes it possible, as mentioned above, to achieve the dual objectives of (i) enabling Snam to hold, post-Demerger, an equity investment of 13.50% in the Beneficiary Company (mainly resulting from the

Transfer), and (ii) giving the Beneficiary Company an adequate level of financial debt, taking into account its activity, risk and cash flow generation profile (via the Sale).

The reason for the Transaction is the belief that the gas distribution activities (which are subject to the Demerger) present very specific characteristics that are different from the rest of Snam Group's activities in terms of operational organisation, competitive context, regulation and investment requirements.

Upon the completion of the Demerger, two distinct groups will emerge, each focused on its own business and with objectives that can be clearly identified and recognised by the market. The two groups, given the necessary autonomy and efficiency, will have the potential to fully grasp opportunities for strategic development and a clearly defined operating profile, which will enable them to fully realise their value.

As a result of the Demerger, each Snam shareholder will hold, in place of one Snam share, two distinct shares, representing the different business areas in which Snam is active as at the Information Document. Specifically, the Snam shares, on the one side, Snam being a company operating in the transportation, dispatching, regasification and storage of natural gas, and the ITG Holding shares, on the other side, ITG Holding being a company operating in the distribution of natural gas.

For more information about the reasons for and purposes of the Transaction, see Chapter 2, Paragraph 2.3.1 of this Information Document.

## **E. METHOD OF ALLOCATING SHARES OF THE BENEFICIARY COMPANY**

The Demerger Plan is attached to this Information Document, in Annex 1.

As a result of the Demerger, Snam shareholders will be allocated shares in the Beneficiary Company in proportion to the number of shares held by each shareholder in the Demerged Company at the time of the Demerger. The allocation will take place based on a ratio of one ITG Holding share for every five Snam shares held.

This ratio may mean that individual shareholders are entitled to a number of new shares that is not a whole number. Therefore, to facilitate the transactions, Snam will engage an authorised intermediary to trade the fractional shares of the Beneficiary Company, through the depositary intermediaries enrolled with Monte Titoli, within the limits required to enable shareholders to hold, to the highest possible extent, a whole number of shares.

For more information, please see Chapter 2, Paragraph 2.2 of this Information Document.

## F. CONDITIONS PRECEDENT AND TIMETABLE FOR THE TRANSACTION

In addition to the conditions of law, including, specifically, the favourable vote of the Snam Shareholders' Meeting, the efficacy of the Transaction is conditioned upon:

- (i) the issuance of Borsa Italiana's order admitting the Beneficiary Company's shares to trading on the MTA;
- (ii) the issuance of the judgment of equivalence by CONSOB pursuant to Article 57, paragraph 1, letter d) of the Issuers' Regulation in relation to this Information Document, supplemented pursuant to said Article; and
- (iii) the approval by the bondholders of the Demerged Company.

Subsequent to the Transaction, the shares of the Beneficiary Company will be admitted to trading on the MTA.

The Transaction schedule provides that, subject to the fulfillment of the conditions set out under points (i), (ii) and (iii), the Demerger will probably take effect by 31 December 2016.

At any time, even following approval of the Demerger Plan by the shareholders of the companies involved in the Demerger, the proceedings whereby the Beneficiary Company's shares are admitted to trading on the MTA could be interrupted or suspended, if the conditions to pursue the listing are no longer deemed to be satisfied.

In addition, the acts related to the Transaction shall be conditional, thus ensuring that the individual steps into which the Transaction is divided occur in a unitary and substantially simultaneous manner.

Following the Demerger, Snam shares will continue to be listed on the MTA.

# 1. WARNINGS

Below is a summary of the risk factors or uncertainties that may have a significant impact on the activity of the Demerged Company and the group heading it as a result of the Transaction described in this Information Document. An update is also provided for the risk and uncertainty profiles shown in the consolidated financial statements of Snam as at 31 December 2015; the base prospectus relating to the Euro Medium Term Notes programme published on 23 July 2015 and the supplement to the base prospectus published on 18 September 2015.

The risks inherent to the Beneficiary Company and arising from the Demerger are also summarised.

Additional risks and events that are uncertain, currently unpredictable or currently deemed unlikely may also influence the activity, economic and financial conditions and prospects of Snam, ITG Holding and their respective groups.

## 1.1 MAIN RISKS AND UNCERTAINTIES RELATING TO SNAM GROUP'S ACTIVITIES

### 1.1.1 Risks associated with gas distribution activities

As at the Information Document Date, the Snam Group is active, via its subsidiaries, both directly and indirectly, in the natural gas distribution business in Italy. Given that, as a result of the Transaction, Snam will transfer to the Beneficiary Company the equity investments it currently holds in Italgas, which is active in the gas distribution business and that, consequently, Italgas will cease to fall within the scope of consolidation of Snam, reference must be made to Warnings 1.4.3 "*Market and competition risks. Risks associated with the expiration and renewal of gas distribution concessions*" and 1.4.4 "*Market and competition risks. Risks associated with the reimbursement provided for the outgoing operator*", with reference to the Beneficiary Company, which, either directly or through its subsidiaries, will be active in the gas distribution business.

### 1.1.2 Risks associated with maintaining gas storage concessions

At the Information Document Date, the Snam Group, directly and indirectly through its subsidiaries, operates in the natural gas storage business in Italy. Gas storage activities carried out by the Snam Group via Stogit are based on the concessions issued by the Ministry of Economic Development. As at the Information Document Date, Stogit holds 10 gas storage concessions, of which 9 are operational.

Pursuant to the applicable regulations, concessions issued prior to the entry into force of Legislative Decree 164/2000 can be extended by the Ministry of Economic Development no more than twice, for a term of 10 years each, pursuant to Article 1, paragraph 61 of Law 239/2004. Pursuant to Article 34, paragraph 18 of Decree-Law 179/2012, converted by Law 221/2012, the term of the concessions issued after the entry into force of Legislative Decree 164/2000 is 30 years, with the possibility of extension for a further 10 years.



A total 8 of the 10 gas storage concessions held by Snam via Stogit fall under the first category (Alfonsine, Brugherio, Cortemaggiore, Minerbio, Ripalta, Sabbioncello, Sergnano and Settala). For each of these concessions, which will expire in the month of December 2016, Stogit has promptly filed the extension request and the procedure is currently pending before the Ministry of Economic Development.

Activities will continue until the completion of the authorisation procedures in progress on the basis of the original authorisation, which will be automatically extended on expiry until said completion.

In addition, another concession (Fiume Treste), which also falls under the aforementioned first category, is due to expire in June 2022 and was subject to a first 10-year extension in 2011. The remaining gas storage concession held by Snam via Stogit (Bordolano) is due to expire in November 2031 and, since it falls under the second category mentioned above, it can be extended for a further 10-year period.

If Snam is unable to retain ownership of one or more of its concessions or if, at the time of the renewal, the concessions are awarded under terms less favourable than the current ones, there may be negative effects on Snam Group's operations, results, balance sheet and cash flow.

### **1.1.3 Risks associated with dependency on authorisations for gas transportation**

The gas transportation business is not subject to concessions. However, the construction and operation of new transportation infrastructure is subject to specific administrative procedures (authorisations, permits, concessions, etc.). In particular, for gas transportation, as for other Snam Group businesses, specific administrative authorisations must be issued, including those issued pursuant to Articles 52-*bis et seq.* of Presidential Decree No. 327 of 8 June 2001, concerning energy infrastructure.

Pursuant to general principles of administrative law, such authorisations can be annulled and/or revoked by the authorities that issued them, on justified grounds, pursuant to prevailing reasons of public interest, if there is a change in the *de facto* situation or a new evaluation, by the competent authorities, of the public interest originally established. Any revocation must be adequately explained, accounted for and justified by the competent authority. The cancellation or revocation of one of these authorisations may cause operational problems and delays to project execution and activities under way. Such authorisations may not be issued within the time frames required by law due to delays attributable to the bodies involved in the issuance process. Furthermore, such authorisations may be subject to legal action by interested parties such as private citizens and local public bodies or associations, which could have negative effects on Snam Group's operations, results, balance sheet and cash flow.

### **1.1.4 Risks associated with gas demand**

Based on the tariff system currently applied by the AEEGSI to natural gas transportation activities, Snam's revenues, via Snam Rete Gas, correlate in part to volumes transported. However, the AEEGSI has introduced a mechanism to guarantee the portion of revenues correlated to volumes transported, which provides for the reconciliation of revenues more than 4% higher or 4% lower than the reference revenues correlated to volumes transported. Under this mechanism, approximately 99.5% of total revenues from transportation activities are guaranteed.

Based on the tariff system currently applied by the AEEGSI to natural gas storage activities, Snam's revenues, via Stogit, correlate to infrastructure usage. However, the AEEGSI has introduced a mechanism to guarantee reference revenues that allows companies to cover a significant portion of revenues recorded. For 2015 and 2016, the minimum guaranteed level of revenues recorded was approximately 97%. AEEGSI is reviewing an integration of such mechanism which, for subsequent years, will result in reliance on the guaranteed minimum level of revenues, as well as the storage company's efficiency in terms of managing capacity allocation procedures and service provision procedures, following a procedure launched by the AEEGSI.

The change to the regulatory framework in force could have negative effects on Snam Group's operations, results, balance sheet and cash flow.

### **1.1.5 Risks associated with the limited number of Shippers**

Snam provides its services to a limited number of Shippers. Shippers acquire natural gas from producers, importers or other Shippers and then sell it – in turn – to other Shippers or to end users, such as owners of power stations and industrial facilities, which are generally directly connected to the transportation system, or to residential or commercial end users connected to a local distribution network.

The Shippers access natural gas infrastructure by using transportation, dispatching, LNG regasification, storage and distribution services.

The existing regulatory framework gives Shippers who are in possession of the necessary requirements the right to access the above-mentioned natural gas infrastructures. This right corresponds to an obligation by the operators of the infrastructures to agree to the necessary contracts to grant Shippers access based on the terms and conditions approved by the AEEGSI.

Any non-compliance by the Shippers, in particular Eni S.p.A. ("Eni") and Enel Trade S.p.A., where contracts have generated approximately 80% of the core business revenue of Snam Rete Gas in the year 2015, or a delay in complying with their obligations, could have negative effects on Snam Group's operations, results, balance sheet and cash flow.

### **1.1.6 Risks associated with changes in the price and volume of natural gas**

Market risks include the risk associated with changes in the price of natural gas. However, pursuant to the regulatory framework currently in force, changes in the price of natural gas to cover Fuel Gas and network leakages do not represent a significant risk factor for Snam, since all gas for its core activities is provided by Shippers in kind.

With regard to the UFG, the AEEGSI, by means of Resolution 514/2013/R/gas (i) defined the permitted level of the UFG given the average value registered over the last two years, and (ii) decided to keep this amount fixed for the entire regulatory period in order to incentivise the main transmission system operator to deliver further efficiency improvements. For the relevant regulatory period, amounts of UFG higher than the permitted level would not be compensated. In light of the aforementioned method for the payment in kind of UFG, there is still uncertainty about the quantities of UFG withdrawn over and above the quantities paid in kind by users of the service.

The change in the regulatory framework currently in force on the payment in kind of natural gas could have negative effects on Snam Group's operations, results, balance sheet and cash flow.

### **1.1.7 Regulatory risk**

Regulatory risk for Snam is closely linked to the regulation of activities in the gas sector. Considering the specific nature of its business and the context in which Snam operates, changes to the regulatory context with regard to criteria for determining reference tariffs are particularly significant.

The relevant directives and legal provisions issued by the European Union and the Italian government and the resolutions of the AEEGSI and, more generally, changes to the regulatory framework may have a negative impact on Snam Group's operations, results and financial position.

### **1.1.8 Legal and non-compliance risk**

Legal and non-compliance risk concerns failure to comply, in full or in part, with the European, national, regional and local rules and regulations with which Snam must comply in relation to the activities it carries out. The violation of such rules and regulations may result in criminal, civil and/or administrative sanctions, as well as damage to Snam's balance sheet, financial position and/or reputation. With regard to specific cases, the violation of regulations on the protection of workers' health and safety and of the environment, and the violation of anti-corruption rules, may also result in (possibly significant) sanctions on Snam based on the administrative responsibility of entities (Legislative Decree No. 231 of 8 June 2001).

### **1.1.9 Risks associated with taxation**

Any unfavourable change in the rate of income tax or other taxes or duties applicable to the Snam Group could have negative effects on Snam Group's operations, results, balance sheet and cash flow.

Recently, companies operating in the natural gas transportation and distribution segments, as well as other companies in the energy sector, were subject to an additional tax on top of corporate income tax (the "Robin Hood Tax"), which was later declared unlawful by the Constitutional Court in its Ruling No. 10 of 11 February 2015. Snam Group companies are frequently subject to control activities by financial administrative bodies and taxing authorities.

On 31 May 2016, the *Guardia di Finanza*, Turin Tax Police Unit, launched an audit of Italgas with regard to direct taxes, IRAP, VAT and other indirect taxes for the period 1 January 2014 to 31 May 2016. The audit activity falls within the *Guardia di Finanza's* action plan in the year 2016 with respect to entities of this size and is in line with its general functions.

### **1.1.10 Risks associated with potential competition in the sectors in which Snam operates**

As at the Information Document Date, the Snam Group is the leading operator in the regulated natural gas sector in Italy.

In the gas transportation segment, Snam Rete Gas owns almost all transportation infrastructure in Italy (approximately 94% of the entire system in terms of km of network). With regard to LNG regasification,

LNG Italia is currently the third-largest operator on the Italian market by LNG regasification capacity (3.5 billion cubic meters of annual capacity).

Stogit is one of the two storage operators currently active in Italy, and in 2015 its operations accounted for 95% of total natural gas storage capacity in the country.

Snam, via Italgas and the companies directly or indirectly controlled by it, is the leader in the natural gas distribution segment in Italy, with 30% (or approximately 34% including investee companies) of the market share in 2015, in terms of percentage of end customers connected to the network (RP). The current natural gas distribution market is fragmented. However, in recent years, it has undergone a process of restructuring and consolidation. It is believed that, in the future, given the performance of the Local Tender Processes for the allocation of the distribution service, such market consolidation process will continue and therefore continue to present the opportunity to exploit economies of scale and operational synergies.

If Snam were unable to respond adequately to the activities carried out by its competitors, there could be negative effects on Snam Group's operations, results, balance sheet and cash flow<sup>3</sup>.

#### **1.1.11 Risks associated with political, social and economic instability in natural gas supplier countries**

A large proportion of the natural gas transported through the Italian national transportation network is imported from or passes through Countries that are currently politically, socially or economically unstable, and/or which may also suffer instability in the future. The importing of natural gas from such Countries, or transit through them, is subject to risks inherent to said countries, including: high inflation; volatile exchange rates; inadequate legislation on insolvency and creditor protection; social tensions; limits on investment and the import and export of goods; increases in taxes and excises; forced renegotiation of contracts; nationalisation or renationalisation of assets; political unrest; changes in trade policies; monetary restrictions; and losses or damage caused by disorder and unrest.

If a Shipper using the transportation service via Snam's networks cannot procure natural gas from the aforementioned Countries because of said adverse conditions, or in any way suffers from said adverse conditions, or is consequently unable to fulfil contractual obligations towards Snam, or if there is any reduction in the volume of gas transported via Snam's networks as a result thereof, this could have negative effects on the Snam Group's operations, results, balance sheet and cash flow.

#### **1.1.12 Risks associated with the emissions market**

Snam Group's activities fall within the scope of the European Union Directives on the sale of permits relating to carbon dioxide emissions and the rules on controlling emissions of certain atmospheric pollutants. 1 January 2013 saw the beginning of the third regulatory period (2013-2020) of the Emission Trading Scheme ("ETS"), the greenhouse gas emissions authorisation system, which is governed by Legislative Decree of 13 March 2013, No. 30, as amended, which transposes Directive 2009/29/EC.

<sup>3</sup> The information about market position in specific sectors contained in this Notice has been taken from institutional sources such as the "Annual report on the state of services and activities carried out", AEEGSI, dated 31 March 2016 (published on 21 June 2016), internal sources of the Snam Group and the resolution of the AGCM C11695 No. 23824 of 8 August 2012.

This system has been identified as one of the tools to be used to achieve the goals set by the European Union ("20-20-20"): to reduce greenhouse gas emissions by 20%, boost the proportion of energy produced from renewable sources by 20%, and boost energy savings to 20%, all by 2020.

In 2015, carbon dioxide emissions from the Snam Group facilities covered by the ETS were overall greater than the emission permits allocated. This deficit is offset by the allowances already present in the registers for Snam Group plants, accumulated thanks to the surplus from previous years.

Emissions permits will decrease gradually between now and 2020. In light of this, it is not certain that the carbon dioxide emissions from Snam facilities will be covered in the future by the permits that Snam already holds, or that it will manage to acquire from third parties the permits necessary to cover any emissions exceeding the limits.

Compliance with greenhouse gas regulations in the future may require Snam to adjust its facilities, and to control or limit its emissions or undertake other actions that could increase the costs of complying with the regulations in force, and therefore have negative effects on Snam Group's operations, results, balance sheet and cash flow.

### **1.1.13 Risks associated with environmental, health and safety protection**

The activities in which the Snam Group engages in present certain hazard profiles. There is also a possibility that the performance of such activities will cause harm to third parties and/or Snam employees. Snam is subject to national and European rules and regulations on environmental, health and safety protection, for the safeguard of both third parties and Snam Group employees.

As part of its activities, Snam uses hazardous or potentially hazardous products. Furthermore, some of the activities it carries out that are not currently considered harmful, or whose hazardous nature has not yet been proven, could be considered harmful in the future as a result of amendments of the regulatory framework. Snam and the sites where it operates are subject to rules and regulations (including town planning regulations) on pollution, environmental protection and the use and disposal of hazardous substances and waste. These rules and regulations expose Snam to costs and liabilities related to its activities and facilities, including those relating to sites used for the disposal of waste or the decommissioning of facilities. The costs and expenses generated by environmental restoration obligations that Snam may incur are subject to different variables, such as the seriousness of the pollution, the corrective measures necessary and the extent of Snam's liability. These elements are, by their very nature, difficult to estimate.

Snam cannot predict whether, and to what extent, environmental regulation may become more restrictive over time, and cannot guarantee that the costs and expenses necessary to comply with its obligations under environmental regulations will not increase, or that said costs will be recoverable through the tariff mechanism and the applicable regulation. Substantial increases in the costs and expenses necessary to comply with its obligations under environmental regulations, or in other costs and fines, could have negative effects on Snam Group's reputation, operations, results, balance sheet and cash flow.

For information about the reclamation obligations incumbent on Italgas and its subsidiaries, see Warning 1.4.11 "*Risks associated with environmental protection and the restoration of polluted sites*".

#### **1.1.14 Operating risks. Risks associated with the malfunctioning and unforeseen interruption of the service, and with delays in the progress of infrastructure construction programmes**

Operating risks associated with Snam Group activities consist mainly of malfunctioning and unforeseen interruption of the service caused by accidental events, including accidents, breakdowns or malfunctions of equipment or control systems, reduced output of plants, and extraordinary events such as explosions, fires, earthquakes, landslides or other similar events outside of Snam's control. Such events could result in a reduction in revenue and could also cause significant damage to people, with potential compensation obligations. Although Snam has taken out specific insurance policies to cover some of these risks, the related insurance cover could be insufficient to meet all the losses incurred, compensation obligations or cost increases. For information in this regard, please see Warning 1.4.7 "*Insurance Risk*".

There is a realistic possibility that Snam could incur delays in the progress of infrastructure construction and development programmes as a result of several unknowns linked to operating, economic, regulatory, authorisation and competition factors, regardless of its intentions. Snam is therefore unable to guarantee that the projects to upgrade and extend its network will be started, be completed or lead to the expected benefits in terms of tariffs.

Additionally, the development projects may require greater investments or longer time frames than those originally planned, generating a negative impact on Snam Group's results, operations and financial position.

#### **1.1.15 Risks associated with the loss of specialised staff**

Snam's capacity to carry out its business effectively depends on the abilities and effectiveness of its staff. The loss of qualified staff, as well as the inability to attract, train or retain staff with the necessary qualifications (specifically with regard to technical positions, for which the availability of qualified staff is generally limited), or the emergence of disputes with employees, could affect Snam's capacity to implement its long-term strategy and could have a negative impact on the Group's operations, results and cash flow.

#### **1.1.16 Risks associated with acquisitions and industrial partnerships**

The Group has undertaken, and may undertake in the future, corporate operations, such as joint ventures with strategic partners, acquisitions or investments in Italian or foreign companies, which increase the complexity of Snam Group's activities and whose success is difficult to predict. It is not certain that said operations can be carried out in accordance with the planned procedures or produce the expected benefits and synergies. The integration process could also make additional expenditure and investment necessary. If the aforementioned corporate operations fail to produce the expected synergies and benefits, there could be negative effects on Snam Group's operations, results, balance sheet and cash flow.

Furthermore, the value of the investments made or that Snam could make in foreign companies active in the gas transportation sector could vary and, in the event it falls, in relation with the possession, maintenance or variation of the certifications required by transportation systems operators pursuant to Directive 2009/73/EC of the European Parliament and of the Council of 13 July 2009 concerning common rules for the internal market in natural gas, duly issued by

the competent authority in the country in which the investee company is based. Lastly, failure to achieve positive results by investee companies could have negative effects on Snam Group's operations, results, balance sheet and cash flow.

#### **1.1.17 Risks associated with the execution of Snam's strategic plan**

On 28 June 2016, the Board of Directors of Snam approved the strategic plan that sets out the strategic lines and objectives of the Snam Group for a period of five years, from 2016 to 2020. The strategic plan contains, and was drawn up on the basis of, hypotheses and estimates related to future developments and events that could affect Snam's operating sector, such as estimates concerning the demand for natural gas in Italy in the medium-to-long term, or changes to the applicable regulations.

If the events and circumstances hypothesised or relied upon by the Board of Directors when drawing up the strategic plan, including the evolution of the regulatory framework, fail to materialise, the future operations, cash flow and results of the Snam Group may differ from those set out in the strategic plan.

Furthermore, the historical consolidated results and the historical financial and operating situation may not be indicative of future financial and operating performance. There can be no guarantee whatsoever that, in the future, Snam's profitability will remain at current levels, or that the regulatory framework will not evolve in a manner that is unfavourable to Snam.

#### **1.1.18 Risks associated with the economic context and consequences of Great Britain's exit from the European Union (Brexit)**

As of the second half of 2007, the turmoil in the global financial system has caused increasingly difficult conditions in the financial markets. These conditions have led to a reduction in liquidity and greater volatility on global financial markets, and continue to impact the functioning of the financial markets and the global economy.

Some governments, international and supranational organisations and monetary authorities have recently adopted measures aimed at increasing the liquidity of the financial markets, in order to give global GDP a boost and mitigate the risk of the sovereign debt of certain European countries. However, it is difficult to predict what the impact of such measures will be on the economy and the financial system, as well as the duration. Therefore such measures or possible modifications, may have a negative impact on the ability of Snam Group and the Demerged Company's to access the capital and debt markets, or to refinance its existing debt to meet their liquidity requirements.

In addition to the above, the British referendum held on 23 June 2016, in which the majority of citizens of the United Kingdom expressed their desire to leave the European Union ("Brexit"), could cause an increase in volatility in the financial markets, a worsening in the terms of financing especially in the so-called "peripheral" countries, including Italy, and a possible consequent economic slowdown. In addition, the outcome of the referendum may significantly influence other Member States to exit the European Union and the Monetary Union with further negative consequences for the above-mentioned events. Moreover, it cannot be excluded that in the European Member States, including Italy, there may be further increases in political and institutional instability, with a consequent rise in interest rates for sovereign debt. The above-mentioned circumstances could negatively impact the implementation of

the Transaction or could cause a rise in the indebtedness of the Beneficiary Company, the Demerged Company and the Snam Group, with consequential negative effects on their business as well as their economic and financial position.

#### **1.1.19 Exchange rate risk**

The risks relating to changes in exchange rates may be both “transaction risks” and “translation risks”. Transaction risk is generated by the conversion of commercial or financial receivables (payables) into currencies other than the functional currency, and is caused by the impact of unfavourable exchange rate fluctuations between the time that the transaction is carried out and the time it is settled (collection/payment). Translation risk relates to fluctuations in the exchange rates of currencies other than the consolidation currency (the Euro), which can result in changes to consolidated shareholders’ equity. Snam’s risk management system aims to minimise transaction risk through measures such as the use of derivatives.

It cannot be ruled out that significant future changes in exchange rates may generate negative effects on Snam Group’s operations, balance sheet and cash flow, irrespective of the policies for hedging the risk resulting from exchange rate fluctuations through the financial instruments on the market put in place by Snam.

#### **1.1.20 Credit risk**

Credit risk is Snam Group’s exposure to potential losses arising from counterparties failing to fulfill their obligations. Default or delayed payment of fees may have a negative impact on the financial position and results of the Snam Group.

For the risk of non-compliance by the counterparty concerning contracts of a commercial nature, the credit management for credit recovery and any possible disputes is handled by the business units and the centralised Snam departments.

Snam provides business services to a small number of operators in the gas sector, the largest of which by revenue is Eni. The rules for client access to the services offered are established by the AEEGSI and set out in the Network Codes. For each type of service, these documents explain the rules regulating the rights and obligations of the parties involved in providing said services and contain contractual conditions, which reduce the risk of non-compliance by the clients. In certain cases, the Network Codes require guarantees to be provided to partly cover obligations where the client does not possess a specific credit rating issued by one of the leading international agencies. The regulations also contain specific clauses that guarantee the neutrality of the entity in charge of balancing, an activity carried out from 1 December 2011 by Snam Rete Gas as the major transportation company. In particular, balancing gives Snam Rete Gas an obligation to acquire, according to criteria of financial merit, the resources necessary to guarantee the safe and efficient movement of gas from entry points to withdrawal points, in order to maintain a constant balance in the network, procure the necessary storage resources for covering imbalances for individual users and adjust the relevant income statement entries.

Snam’s maximum exposure to credit risk as at 31 December 2015 is represented by the book value of the financial assets recorded in the consolidated financial statements of the Snam Group as at 31 December 2015 (the “2015 Financial Statements”). As shown in Note 8 “Trade and other receivables”



of the 2015 Financial Statements, overdue and non-impaired receivables as at 31 December 2015 came to Euro 251 million (Euro 254 million as at 31 December 2014) and mainly refer to the storage segment (Euro 105 million), principally comprising VAT billed to users for the use of strategic gas unduly withdrawn in 2010 and 2011; the distribution segment (Euro 82 million), relating mainly to relations with gas marketing companies for the distribution service, covered by guarantee policies, and other receivables from the government; and the transportation segment (Euro 64 million), mainly relating to moving fees and additional tariffs, for which no impairment loss is registered as they revert to the Authority once they are collected.

Approximately 60% of trade receivables (46% as at 31 December 2014) were with extremely reliable clients, including Eni, which represents 28% of total trade receivables (25% as at 31 December 2014).

It cannot be ruled out however, that Snam may incur liabilities and/or losses from the failure of its clients to comply with payment obligations, particularly given the current economic and financial situation, which makes the collection of receivables more complex and critical.

#### **1.1.21 Liquidity risk. Risks associated with financial requirements**

Liquidity risk is the risk that new financial resources may not be available (funding liquidity risk) or that the Demerged Company may be unable to convert assets into cash on the market (asset liquidity risk), meaning that it cannot meet its payment commitments. This may affect profit or loss should the Company be obliged to incur extra costs to meet its commitments or, in extreme cases, lead to insolvency and threaten the Company's future as a going concern.

As shown in Warning 1.1.27 "*Interest rate risk*", the Demerged Company has access to a wide range of funding sources through the credit system and the capital markets (bilateral contracts, pool financing with major domestic and international banks, loan contracts with the European Investment Bank ("EIB") and bonds).

Snam's objective is to maintain a debt structure that is balanced in composition between bonds and bank credit, and the availability of usable committed bank credit lines, in line with its business profile and the regulatory environment in which Snam operates.

As at 31 December 2015, Snam had unused committed long-term credit lines worth approximately Euro 3.95 billion. Additionally, Snam has a Euro Medium Term Notes (EMTN) programme worth a maximum total of Euro 12 billion, of which approximately Euro 9.7 billion had been used as at 31 December 2015. The EMTN programme expired on 30 June 2016 and it is being renewed.

Under the financial plan, Snam's risk management system aims to establish a financial structure that, in line with the business objectives, ensures sufficient liquidity for the Group, minimising the relative opportunity cost and maintaining a balance in terms of the duration and composition of the debt.

#### **1.1.22 Rating risk**

As at the Information Document Date, Snam's long-term rating is: (i) BBB+, according to Fitch Ratings ("Fitch"), (ii) Baa1, according to Moody's Investors Services Ltd ("Moody's"); and (iii) BBB, according to Standard & Poor's Rating Services ("S&P").

After the Transaction was announced to the market and taking into account the relevant effects, Fitch confirmed a BBB+ rating with a stable outlook for Snam's long-term debt on 29 June 2016. Moody's confirmed a Baa1 (stable outlook) rating and S&P confirmed a BBB rating with a stable outlook.

Snam's long-term rating from Moody's and S&P is one notch higher than that of the Italian Republic. Based on the methodology adopted by these ratings agencies, a downgrade of one notch in the current rating for Italy would indicate a probable corresponding downward revision in Snam's current rating.

The agencies Fitch, Moody's and S&P, which have assigned a rating to Snam, are all registered with ESMA.

Any downgrades in the rating assigned to the Snam Group, could limit the possibility of accessing the capital markets and increase the cost of raising funds and/or refinancing existing debt, with negative effects on Snam Group's operations, results, balance sheet and cash flow.

### **1.1.23 Risk of default and debt covenants. Risks associated with non-compliance with financial covenants and commitments pursuant to financial agreements**

Default risk is the possibility that when certain circumstances occur, the lender may enact contractual protections that may result in the early repayment of the loan, thus generating a potential liquidity risk.

As at 31 December 2015, Snam has unsecured bilateral and syndicated loan agreements in place with banks and other financial institutions. Some of these contracts provide, *inter alia*, for the following: (i) negative pledge commitments pursuant to which Snam and its subsidiaries are subject to limitations concerning the pledging of real property rights or other restrictions on all or part of the respective assets, shares or merchandise; (ii) *pari passu* and change-of-control clauses; and (iii) limitations on certain extraordinary transactions that the Company and its subsidiaries may carry out.

The bonds issued by Snam as at 31 December 2015 as part of the Euro Medium Term Notes programme provide for compliance with covenants that reflect international market practices regarding, *inter alia*, negative pledge and *pari passu* clauses.

Failure to comply with these covenants, and the occurrence of other events, some of which are subject to specific threshold values such as cross-default events could trigger the early repayment of the related loan. Exclusively for the EIB loans, the lender has the option to request additional guarantees, if Snam's rating is downgraded to BBB- (Standard & Poor's/Fitch Ratings Limited) or Baa3 (Moody's). The occurrence of one or more of the aforementioned scenarios could have negative effects on Snam Group's operations, results, balance sheet and cash flow.

### **1.1.24 Risks associated with legal proceedings and disputes**

Snam is involved in civil, administrative and criminal cases and legal actions related to its normal business activities. Based on the information currently available, and taking into account existing risks, Snam believes that said proceedings and actions will not have negative effects on its consolidated financial statements, given the provisions set aside in relation to the proceedings, pursuant to Snam's policies.

If said judicial proceedings conclude unfavourably for Snam and the provisions set aside are not sufficient to cover the losses resulting from the outcome of the legal proceedings under way, there could be negative effects on Snam Group's operations, results, balance sheet and cash flow.

#### **1.1.25 Risks associated with changes to investment policies**

Investment projects may be stopped or delayed due to difficulties in obtaining environmental and/or administrative authorisations or to opposition from political forces or other organisations, or may be influenced by changes in the price of equipment, materials and workforce, by changes in the political or regulatory framework during construction, or by the inability to obtain financing at an acceptable interest rate. Such delays could have negative effects on Snam Group's operations, results, balance sheet and cash flow.

#### **1.1.26 Risks associated with inflation and deflation**

Changes in the prices of goods, equipment, materials and workforce could have an impact on Snam's financial results. Any change caused by inflationary or deflationary processes could have a significant impact on Snam's results.

#### **1.1.27 Interest rate risk**

Fluctuations in interest rates affect the market value of Snam's financial assets and liabilities and its net financial expense.

As at 31 December 2015, the Snam Group used external financial resources in the form of bonds and bilateral and syndicated loans with banks and other financial institutions, in the form of medium- and long-term loans and bank credit lines at interest rates indexed to the reference market rates, particularly Euribor, and at fixed rates.

The exposure to interest rate risk as at 31 December 2015 was approximately 36% of the total exposure of the Group (31% as at 31 December 2014).

Though the Snam Group has an active risk management policy, the rise in interest rates relating to floating-rate debt not hedged against interest rate risk could have negative effects on Snam Group's operations, balance sheet and cash flow.

## **1.2 RISKS RELATING TO THE DEMERGER**

### **1.2.1 Risks relating to pro-forma data**

The Information Document contains pro-forma data at 31 December 2015, prepared, solely for illustrative purposes in compliance with applicable laws and regulations, in accordance with the applicable accounting standards, for the purpose of providing investors with information about the effects of the Demerger on the results, cash flow and balance sheet of the groups belonging to the Demerged Company and

the Beneficiary Company as if the Transaction and the settlement of the positions in place between the Demerged Company and the Beneficiary Company, and the consequent autonomous refinancing on the market of the Group whose holding company is the Beneficiary Company, had occurred, as at 31 December 2015 for the pro-forma consolidated balance sheet and 1 January 2015 for the pro-forma consolidated income statement and statement of cash flows, respectively.

Since the pro-forma information is based on assumptions, it must be noted that, if the Transaction had occurred on the dates used as a reference for the preparation of the pro-forma data instead of the actual dates, the historical data would not necessarily be the same as the pro-forma data. Moreover, the pro-forma data is not a projected figure and is not intended, in any way, to represent a forecast of the future results of the Post-Demerger Snam Group and of the ITG Holding Group inasmuch as it has been prepared to represent only the directly attributable and factually supportable effects of the Transaction.

Since the pro-forma data has been prepared to show retroactively the effects of transactions occurring at a later time, despite the compliance with commonly accepted rules and the use of reasonable assumptions, there are limits included in the nature of such pro-forma data. Lastly, in consideration of the various purposes of the pro-forma consolidated data as compared to historical figures, and in consideration of the various methodologies used to calculate the pro-forma adjustments, the pro-forma balance sheet, income statement and statement of cash flows must be reviewed and interpreted separately, without attempting to find accounting connections between them.

For more information, see Chapters 4 and 6 of this Information Document.

### **1.2.2 Risks associated with possible opposition from creditors**

Pursuant to the combined provisions of Articles 2506-*ter* and 2503 of the Civil Code, the Demerger can be implemented only after 60 days have passed since the last of the registrations provided for by Article 2502-*bis* of the Civil Code. Within this time frame, the creditors of the Companies Participating in the Demerger prior to the registration provided for by Article 2506-*bis*, paragraph 5 of the Civil Code could oppose the execution of the Demerger.

It is noted, however, that, in the case of opposition, the competent court, if it considers the risk of damage to creditors unfounded or if the debtor company has provided a suitable guarantee, may also decide that the Demerger takes place despite the opposition, pursuant to the provisions of Articles 2503, paragraph 2 and 2445, paragraph 4 of the Civil Code.

The Transaction also provides for the call of a meeting of the bondholders of the Demerged Company, which shall be asked to authorise the Transaction before it goes ahead. For the sake of completeness, it should be noted that the approval of the Transaction by the bondholders of the Demerged Company is one of the conditions to which the effectiveness of the Transaction is subject. For more information, please see Warning 1.3.2 below "*Risks associated with sources of funding used by Snam and the possible need for refinancing*".

In the event of opposition by creditors or failure to approve the Transaction by the bondholders, there could be delays or a failure to complete the Transaction.

### 1.2.3 Risks associated with the implementation of the Transaction

It is not certain that the Transaction will take place, or that there will be no administrative, technical, industrial, operational, regulatory, political or financial difficulties that prevent the expected benefits from being generated or result in costs higher than originally estimated.

### 1.2.4 Risks associated with joint and several obligations arising from the Demerger

Pursuant to Article 2506-*quater*, paragraph 3 of the Civil Code, as of the Demerger Effective Date, each of the Companies Participating in the Demerger is jointly and severally liable – within the limits of the amount of the shareholders' equity assigned to or still held by it – for existing debts as at the Demerger date not repaid by the debtor company.

The joint and several liability pursuant to Article 2506-*quater*, paragraph 3 of the Civil Code is subsidiary insofar as it arises only in the event of debts "not repaid" by the debtor company. Nevertheless, this rule, as an exception to the provisions of the Civil Code, does not apply with reference to certain specific debts and liabilities.

For example, (i) pursuant to Article 30, paragraph 2 of Legislative Decree No. 231 of 8 June 2001, the beneficiary company of a demerger bears unlimited liability for sanctions issued against the Demerged Company, provided that the business unit relating to the offence committed has been transferred to the beneficiary, and (ii) pursuant to Article 173, paragraph 13 of Presidential Decree No. 917 of 22 December 1986 and Article 15 of Legislative Decree No. 472 of 18 December 1997, with regard exclusively to tax payables and as an exception to the provisions of the Civil Code, the beneficiary may also be jointly and severally liable with the Demerged Company over and above the limits of the shareholders' equity transferred.

Snam could be called to respond jointly and severally for the obligations arising under the Demerged Assets and Liabilities.

### 1.2.5 Risks associated with the conditions precedents

The effectiveness of the Transaction is subject to the conditions of law and to the following, including, in particular, the favourable vote of the Snam Shareholders' Meeting: (i) the issuance of the Borsa Italiana's order admitting shares in the Beneficiary Company to trading on the MTA; (ii) the issuance of the judgment of equivalence by CONSOB pursuant to Article 57, paragraph 1, letter d) of the Issuers' Regulation in relation to this Information Document, supplemented pursuant to said Article; and (iii) the approval by the bondholders of the Demerged Company.

In addition, the acts related to the Transaction shall be contingent on one another, thus ensuring that the individual transfers into which the Transaction is divided occur in a unitary and substantially simultaneous manner.

In the event of failure to fulfill the aforementioned conditions precedent, there could be delays or a failure to complete the Transaction.

## 1.3 RISKS RELATING TO THE DEMERGED COMPANY ARISING FROM THE DEMERGER

### 1.3.1 Risks associated with the Demerger

Following the Demerger, the Group whose holding company is the Demerged Company will generally face the risks described with respect to the Snam Group in Paragraph 1.1 "*Main risks and uncertainties relating to Snam Group's activities*" above.

### 1.3.2 Risks associated with the financing sources used by Snam and the possible need for refinancing

The Demerged Company had access to a wide range of funding sources through the credit system and the capital markets (bilateral contracts, pool financing with major domestic and international banks, loan contracts with the EIB and bonds).

Some of Snam's existing loans contain clauses limiting the possibility of carrying out corporate transactions or disposing of significant assets of the company or its subsidiaries, which are typical in contracts of this type, and the infringement of which could trigger an early repayment obligation for said loans.

On the one hand, as at the Date of this Information Document, in addition to what is specified in Warning 1.3.3 below, "*Risks associated with the possible non-execution or ineffectiveness of the agreements with the European Investment Bank*" Snam has obtained the necessary consent to the execution of the Demerger from the financial institutions party to the loan agreements, conditional, *inter alia*, upon the completion of the Transaction.

On the other hand, the bonds issued by Snam as at 31 December 2015 under the Euro Medium Term Notes programme provide, *inter alia*, for compliance with a covenant typical of international market practice, pursuant to which approval is required from bondholders so that Snam may sell a substantial part of its industrial activity as a result of a corporate reorganisation transaction such as the Demerger. Pursuant to the relevant regulations on bonds, failure to obtain such approval could result in non-compliance on Snam's part. Snam will request said authorisation at the meeting of bondholders called on 28 June 2016, which the Snam Board of Directors resolved to convene on a date to be decided and, in any event, in sufficient time for the implementation of the Transaction. The approval of the Transaction by the bondholders of the Demerged Company is one of the conditions to which the effectiveness of the Transaction is subject.

The Transaction shall not make it necessary for the Demerged Company to carry out refinancing operations, nor shall it involve, as a direct result, an increase in the indebtedness of the Demerged Company.

The Demerged Company will be able to put in place measures to optimise its own financial structure in the course of ordinary debt management.

### **1.3.3 Risks associated with the possible non-execution or ineffectiveness of the agreements with the European Investment Bank**

The EIB has consented to the completion of the Demerger subject to certain termination conditions, such as, in particular, the receipt by the EIB of the Demerger deed, in the form and substance that is satisfactory to the EIB, and of the updated Snam business plan, in addition to any other documentation relating to the Transaction available to creditors stating that Snam's credit risk and overall business activities are not undermined by the Transaction.

With regard to the debt assumption, the EIB has expressed its willingness to agree to the debt assumption, subject to the satisfaction of certain conditions (including the approval of the deciding bodies of the EIB in this regard).

Where, as a result of the aforementioned conditions, the EIB does not grant its consent to the completion of the Demerger or does not adhere to the releasing assumption, Snam might need to recover new resources to repay the EIB.

### **1.3.4 Risks associated with the tax treatment of the Transaction**

According to the Company, for Italian tax purposes, the Demerger carried out in the context of the Transaction qualifies as a neutral transaction for the purposes of income tax and business tax (IRAP), therefore, it will not result in the realisation of taxable income for the parties involved. In order to obtain confirmation regarding the aforementioned neutrality of the Demerger pertaining to the Demerged Company, the Beneficiary Company and to the shareholders of the Demerged Company, Snam has submitted a tax ruling request application to the Italian Tax Authority.

Therefore, as at the date hereof there is no assurance regarding the fact that the Italian Tax Authority will agree with the position taken by Snam as far as the tax considerations of the Demerger described above.

### **1.3.5 Risks associated with joint and several liability arising from the Demerger**

With regard to the joint and several liability arising from the Demerger, see Warning 1.2.4 above.

### **1.3.6 Risks associated with the rating of the Demerged Company**

With regard to the risks associated with the rating of the Demerged Company, see Warning 1.1.22 above.

The ratings agencies review their opinion at least once a year, which means it cannot be ruled out that said agencies may issue a new rating for Snam during the course of 2016. Consequently, neither the timing nor the outcome of this review can be predicted.

The possibility of accessing the capital markets and other forms of financing and the associated costs depend, *inter alia*, on the rating assigned to Snam. Any downgrade in Snam's creditworthiness could limit the possibility of accessing the capital markets and increase the cost of raising funds and/or refinancing existing debt, with negative effects on Snam Group's balance sheet, results and cash flow.

### **1.3.7 Risks associated with the continuation of equity investment relationships between the Demerged Company and the Beneficiary Company**

Following the Demerger, Snam will maintain an equity investment of 13.50% of the capital of ITG Holding. Therefore, the economic and financial results of the Demerged Company will be influenced by the results of the activities of the Beneficiary Company, to the limit of the above equity investment.

### **1.3.8 Risks for the Demerged Company connected with the repayment by ITG Holding Group of the existing debt following the Transaction**

As a result of the Transaction, the ITG Holding Group will have to:

- (i) repay the existing intercompany loans with the Demerged Company; and
- (ii) pay the Demerged Company the price resulting from the Sale through the repayment of the Vendor Loan.

If the ITG Holding Group does not have the necessary financial resources to repay this debt, with regard to which please refer to Warning 1.4.9 "*Risks associated with the repayment of the existing debt following the Transaction by the ITG Holding Group*", the Demerged Company will remain responsible for a credit from the Beneficiary Company that remains unsatisfied, and as a result its debt of such amount will not be reduced, and therefore, the rating of the Demerged Company could be negatively impacted.

## **1.4 RISKS RELATING TO THE BENEFICIARY COMPANY ARISING FROM THE DEMERGER**

### **1.4.1 Risks associated with the Demerger**

Following the Demerger, the Group whose holding company is the Beneficiary Company will present, in general, the risks already described above for the Snam Group in Paragraph 1.1 "*Main risks and uncertainties relating to Snam Group's activities*" (particularly with regard to gas distribution activities), with the exception of those that are specific to natural gas transportation, dispatching, regasification and storage activities.

### **1.4.2 Risks associated with the concentration of the activities of the Group whose holding company is the Beneficiary Company**

As a result of the Transaction, Snam will transfer to the Beneficiary Company the entire equity investment that it currently holds in Italgas, which is active in the gas distribution business, and consequently Italgas will cease to fall within the scope of consolidation of Snam. As a result, the Beneficiary Company will be active, either directly or through its subsidiaries and unconsolidated investee companies, in natural gas distribution. The future results of the Beneficiary Company will therefore reflect the economic performance of these activities.

As described in more detail below in Warnings 1.4.3 "*Market and competition risks. Risks associated with the expiration and renewal of gas distribution concessions*" and 1.4.4 "*Market and competition risks. Risks associated with the reimbursement provided for the outgoing operator*",



the Beneficiary's activities will be influenced by the uncertainty linked to the renewal of gas distribution concessions following the Local Tender Processes, as well as by the quantification of the reimbursements provided for the outgoing operator pursuant to the applicable regulations. Unfavourable developments in these areas could have negative effects on the operations, results, balance sheet and cash flow of the ITG Holding Group.

### **1.4.3 Market and competition risks. Risks associated with the expiration and renewal of gas distribution concessions**

Gas distribution activities, in which the Snam Group is active and the ITG Holding Group will be active after the Demerger Effective Date, are carried out pursuant to concessions issued by individual municipalities. As at 31 December 2015, the aforementioned concessions, which are held by Italgas and its subsidiaries (Napoletanagas S.p.A. ("Napoletanagas"), AES Torino S.p.A.<sup>4</sup> and ACAM Gas S.p.A. ("ACAM Gas")), total 1,472, of which 1,183 have expired. The average remaining life of the concessions still in force is equal to 7 years.

For the sake of completeness, it should be noted that the issue relating to the expiration of concessions concerns not only Italgas and its subsidiaries, but all operators active in the gas distribution sector in Italy. In this regard, from the moment the gas distribution service is qualified as a public service, Italgas and its subsidiaries – also following the expiry of the concession – should continue with the management of the service (and be remunerated), limited to the ordinary administration, until the start date of the new concession (Article 14 of Legislative Decree No. 164 of 2000).

The new gas distribution service concessions shall be based on tender processes announced exclusively for ATEM. For further information on the Local Tender Process, see Chapter 5, Paragraph 5.1.9 of the Information Document.

The criteria used to evaluate tender offers for natural gas distribution service concessions are governed by Ministerial Decree No. 226 of 12 November 2011 ("M.D. No. 226/2011"). The criteria for the granting of the concessions provides for the following: 28 points for the monetary offer (taking into account the rate discount, the services offered to the clients and the fees to be paid to the relevant municipality); 27 points for the management offer (taking into account the quality and safety of the service offered); 45 points for the technical offer (taking into account the offeror's assessment of the status of the networks and the offeror's ability to implement and improve the investment plan of the contracting entity in connection with the extension, maintenance and technical innovation).

As at the Information Document Date, it is not yet possible to express a certain evaluation concerning each element of the new concession allocation system, and there is no consolidated interpretation of the new regulatory framework from the granting authorities or from administrative case law.

Under the tender processes launched, Italgas may not be awarded concessions in the planned areas, or may be awarded said concessions under conditions that are less favourable than the current conditions, with a possible negative impact on its operations, results, balance sheet and cash flow. However, if

<sup>4</sup> AES Torino S.p.A. was merged by incorporation into Italgas with effect from 1 January 2016.

Italgas is not awarded concessions relating to previously managed municipalities, it will be entitled to receive the Reimbursement Value provided for the outgoing operator, which is calculated pursuant to M.D. No. 226/2011. For more information with regard to the Reimbursement Value planned for the outgoing operator, please see Warning 1.4.4 “*Market and competition risks. Risks associated with the Reimbursement Value in favour of the outgoing operator*”.

Given the complexity of the regulations governing the expiration of the concessions held by Italgas and its subsidiaries, this could give rise to judicial and/or arbitral disputes between concession-holders, including Italgas, and third parties, with possible negative effects on the operations, results, balance sheet and cash flow of the ITG Holding Group.

#### **1.4.4 Market and competition risks. Risks associated with the reimbursement provided for the outgoing operator**

With regard to gas distribution concessions, Article 14, paragraph 8 of Legislative Decree No. 164 of 2000 establishes that the new operator is obliged, *inter alia*, to pay a sum to the outgoing distributor equal to the Reimbursement Value for the plants whose ownership is transferred from the outgoing distributor to the new operator. Specifically, M.D. No. 226/2011 provides that the incoming operator acquires ownership of the facility with payment of the reimbursement to the outgoing operator, with the exception of any portions of the facility already under municipal ownership or which become municipally owned as a result of any free donations.

Pursuant to Article 15, paragraph 5 of Legislative Decree No. 164 of 2000, the Reimbursement Value paid to outgoing operators is calculated as per the agreements and contracts entered into, provided that they are drawn up prior to the date of entry into force of the regulation pursuant to M.D. No. 226/2011 (i.e., before 11 February 2012), and, insofar as it cannot be agreed upon by the parties and for aspects not governed by said agreements or contracts, based on the guidelines on criteria and operating procedures for evaluating the reimbursement provided for by the Ministry of Economic Development in connection with a document dated 7 April 2014 and approved with the Ministerial Decree of 22 May 2014 ( the “Guidelines”).

The Reimbursement Value calculated on the bases of the method provided by Article 5, paragraphs 5 and 11 of M.D. No. 226/2011 is equal to the cost which should be sustained for its entire reconstruction minus the value of its physical deterioration, including ongoing fixed assets as resulting from the accounting books and deducting government grants and private grants relating to local assets.

If the Reimbursement Value exceeds the value of the local net fixed assets by more than 10%, calculated based on the criteria used by the AEEGSI to determine distribution tariffs (net of public capital subsidies and private contributions relating to local assets), the local granting body shall send the documentation to the AEEGSI to be verified, together with a detailed calculation of the Reimbursement Value .

By means of Resolution 367/2014/R/gas, the AEEGSI defined the tariff regulation for gas distribution and metering services for the 2014-2019 regulatory period. The resolution provided, *inter alia*, for the following:

- the initial value, recognised for tariff purposes, of the local net fixed assets being transferred for consideration to the incoming operator is determined based on:
  - a) the amount of the reimbursement – pursuant to Article 5 of M.D. No. 226/2011 – paid to the outgoing operator, in the event that the outgoing operator is different to the incoming operator,

- determined as the reconstruction value carried forward, net of depreciation and contributions received;
- b) the value of the local net fixed assets, calculated based on the criteria used by the AEEGSI to determine distribution tariffs, in other cases;
- at the end of the first concession period (12 years), the value of the local net fixed assets will be determined, in both cases (a and b), as the sum of two components:
- a) the residual value of the existing stock at the start of the concession period, valued based on the amount to be reimbursed pursuant to Article 5 of M.D. No. 226/2011, taking into account amortisation and depreciation, as well as disposals recognised for tariff purposes during the concession period, and
  - b) the residual value of the new investments made during the concession period and in existence at the end of the period, valued based on the rules used for tariff regulation.

As a result of these regulations, there will be cases in which the amount to be reimbursed is lower or higher than the value of the Regulatory Asset Base (RAB).

The estimated RAB of the Italgas Group on 31 December 2015 was approximately Euro 5.7 billion<sup>5</sup>, as the sum of the Local RAB of approximately Euro 5.4 billion and the Centralised RAB of approximately Euro 0.3 billion.

Italgas estimated that, as at 31 December 2015, the Reimbursement Value of the total portfolio of the concessions of the Italgas Group, net of free assignments, was approximately Euro 5.6 billion based on the method provided for by Article 5 of M.D. No. 226/2011, as amended, and by the Guidelines, making an exception for concessions that, based on the aforementioned regulation, provide for specific contractual stipulations regarding the calculation of the Reimbursement Value (Roma Capitale, City of Venice, Naples and other smaller municipalities).

It is possible that the Reimbursement Value of the concessions for which a third party is an assignee as a result of the Tender is below the value of the RAB. Such a case could have negative effects on the assets and the balance sheet, income statement and financial position of the ITG Holding Group.

In 2012, Italgas won the tender for the awarding of the concession for the natural gas distribution service in the municipality of Rome (Roma Capitale concession that includes about 1.3 million RPs out of a total for the Italgas Group of about 6.5 million). Upon the outcome of the tender, for which the Local Tender Processes regulation still did not apply, a service agreement was signed with a term of 12 years, which is due to expire on 20 November 2024. The municipality of Rome has made the network, facilities and buildings instrumental to the service available to Italgas for the entire term of the service agreement.

The Reimbursement Value as at 31 December 2015 for the Roma Capitale concession was estimated by Italgas to be approximately Euro 1 billion. This amount is equal to the total of:

1. the amount paid to the municipality of Rome at the beginning of the concession (November 2012) as a one-off payment for the management of the service (Euro 874.7 million), net of amortisation

<sup>5</sup> RAB as of 31 December 2015 was estimated using as a reference the last RAB defined for regulatory purposes (RAB for tariff definition 2015), increased by the investments made in 2015 and reduced by the share of annual depreciation and amortisation for 2014 and 2015.

as at 31 December 2015 calculated for the duration of the agreement and on the basis of the remaining Reimbursement Value at the end of the concession (Euro 299.6 million) as provided for in the agreement; and

2. the value of cumulative investments starting at the beginning of the concession, in accordance with the provisions set out in the agreement and, in particular, with reference to their partial acknowledgment within the Reimbursement Value, net of related amortisation calculated according to contractual agreements.

As at 31 December 2015, Italgas has estimated the RAB related to the Roma Capitale concession to be about Euro 1.35 billion. It cannot be excluded that, at the time of expiration of the service agreement, the difference between the Reimbursement Value and the RAB value related to the Roma Capitale concession would be higher than the one estimated as at 31 December 2015.

#### **1.4.5 Risks associated with joint and several liability arising from the Demerger**

With regard to the joint and several liability arising from the Demerger, see Warning 1.2.4 above.

#### **1.4.6 Risks associated with the rating of the Beneficiary Company**

On 29 June 2016, the Beneficiary Company obtained an expected public rating of BBB+ – stable outlook from Fitch and a provisional issuer rating of Baa1 – stable outlook from Moody's..

The ratings agencies issued these ratings on the assumption that the Transaction, as well as the subsequent refinancing of the ITG Holding Group's existing debt, will be carried out according to the terms and methods provided as at the Information Document Date. The ratings agencies will issue the definitive *public ratings* once the Transaction and the refinancing have been completed.

The ratings agencies review their opinions at least once a year, which means it cannot be ruled out that said agencies may issue a new ratings for the Beneficiary Company during the course of 2016. Consequently, neither the timing nor the outcome of this review can be predicted.

The possibility of accessing the capital markets and other forms of financing and the associated costs depend, *inter alia*, on the rating assigned to the Beneficiary Company. Any downgrade in creditworthiness could limit the possibility of accessing the capital markets and increase the cost of raising funds and/or refinancing existing debt, with negative effects on the ITG Holding Group's balance sheet, results and cash flow.

#### **1.4.7 Insurance risk**

At the Information Document Date, insurance policies are in force for the Italgas Group that cover risks including property, civil liability, auto liability, life, directors' and officers' liability, accidents and theft.

At the Demerger Effective Date, new insurance policies will have to be entered into for the ITG Holding Group or else some existing policies will have to be amended. In particular, it will no longer be possible to stipulate policies with Gasrule Insurance Ltd, a Snam Group company.

It cannot be ruled out that the ITG Holding Group might incur less favourable economic terms and conditions than those currently in effect for the Italgas Group.

#### **1.4.8 Risks associated with the continuity of ITG Holding Group activities and related costs**

Snam and Snam Rete Gas provide, through their own departments and on the basis of tariffs defined according to costs incurred, services of various kinds (such as strategic planning, administration, finance, taxation, health and safety, information technology, personnel and organisation, regulations, institutional relations and communication, security, management and real estate, enterprise risk management, internal audit, supply chain, legal affairs, corporate and compliance affairs) to subsidiaries/investee companies of Snam, including Italgas.

Italgas, in turn, provides services to its subsidiaries and investee companies, while retaining the liability and obligations, including of a financial nature, arising from the service contracts with Snam or with Snam Group companies.

At the Demerger Effective Date (coinciding with the start date of trading of ITG Holding shares on the MTA), ITG Holding will have the necessary resources and structures to ensure (i) the admission to trading on the MTA of the shares of ITG Holding, and (ii) continuity of the business of the ITG Holding Group. In addition, ITG Holding will provide Italgas with the necessary services to ensure the business operations (such as regulations, finance, etc.).

The services currently provided to Italgas by Snam and Snam Rete Gas will stop as of the Demerger Effective Date, as it is understood that the provision of services to ITG Holding Group relating to some activities for which a phasing-out period is scheduled shall be guaranteed.

In consideration of the temporary nature of the supply of the cited services by Snam, the ITG Holding Group shall have to: (i) equip itself with appropriate internal structures that will be able to ensure the performance of the activities provided as a service by Snam; or (ii) stipulate appropriate agreements with third-party companies. If this does not occur, there may be negative effects on the ITG Holding Group's operations, results, balance sheet and cash flow.

The activities carried out by Snam under the scope of the service contract for the ITG Holding Group companies will be valued on the basis of the costs incurred.

It cannot be excluded that the internationalisation of the ITG Holding Group or the take-over by third parties of some activities provided as a service by Snam might involve the possible negative events on the activity of the ITG Holding Group, or increases in costs, with negative effects on ITG Holding Group's results, balance sheet and cash flow.

#### **1.4.9 Risks associated with the repayment of existing debt by the ITG Holding Group following the Transaction**

As a result of the Transaction, the ITG Holding Group will be required:

- (i) to repay intercompany loans currently outstanding with the Demerged Company; and
- (ii) pay the Demerged Company the price arising from the Sale through the repayment of the Vendor Loan.

For more information, please see Warning 1.3.2 "*Risks associated with sources of funding used by Snam and the possible need for refinancing*".

The debt described above will be repaid by ITG Holding through:

- the use of credit lines, in relation to which, on 28 June 2016, selected leading banks and financial institutions have already signed certain commitments (without prejudice to the provisions of the Paragraph below), for a total of Euro 3.9 billion, containing the main terms and conditions of the Beneficiary Company's financing which shall be available as at the Demerger Effective Date;
- the assumption of Snam's debt, effective from the Demerger Effective Date, Euro with respect to two loans it borrowed from the European Investment Bank for an amount of Euro 424 million, and intended to finance Italgas projects.

All of the aforementioned commitments undertaken by financial institutions are subject, on the one hand, to the same conditions precedent of the Transaction pursuant to Warning 1.2.5 "*Risks associated with the conditions precedent*", and on the other hand to further typical conditions for transactions of this kind such as the absence of disfunction events or the serious deterioration of the markets.

With respect to the EIB's releasing assumption mentioned above, please also see Warning 1.3.3 "*Risks associated with the possible non-execution or ineffectiveness of the agreements with the European Investment Bank*". Where, as a result of the abovementioned conditions, EIB did not grant its consent to the implementation of the Demerger or did not adhere to the assumption of Snam's debt, ITG Holding might need to collect new resources to repay Snam.

As a result, it is not possible to rule out that even if the conditions precedent of the Transaction are satisfied, when the above-mentioned loan commitments arise, there could be further conditions in loan agreements, which could result in ITG Holding not having sufficient liquidity to repay to the Demerged Company the intercompany financing and the Vendor Loan, which will impact the economic result in the event that the Beneficiary Company is forced to bear additional costs to handle its own commitments or, as an extreme consequence, face a situation of insolvency that would put its business activity at risk.

Lastly, if the resources resulting from the above-mentioned financial instruments are available to use, the debt of the ITG Holding Group immediately following the Transaction would be entirely composed of variable rate lines of credit, with margins in line with the lines of credit currently granted to Snam. In that case, as the financing instruments described above are not hedged against interest rate risk, the increase in interest rates could have negative effects on the assets and the balance sheet, income statement and financial position of the ITG Holding Group.

#### **1.4.10 Risks associated with the debt of the ITG Holding Group following the Transaction**

The future state of the ITG Holding Group will depend on, *inter alia*, its ability to independently meet its debt requirements in terms of cash loans and endorsement loans (replacing loans procured by the Demerged Company before the completion of the Transaction). This will happen by means of:

- cash flows from operating activities and available cash and cash equivalents;
- finding, renewing or renegotiating bank credit lines or other financing sources;
- placement of its own debt securities on national and international markets.

Liquidity/refinancing risk is the risk that new financial resources may not be available (funding liquidity risk) or that the Beneficiary Company may be unable to convert assets into cash on the market (asset liquidity risk), meaning that it cannot meet its payment commitments. This may affect profit or loss

should the Beneficiary Company be obliged to incur extra costs to meet its commitments or, in extreme cases, lead to insolvency and threaten the Company's future as a going concern.

The Beneficiary Company's objective is to put in place a financial structure (in terms of debt to Regulatory Asset Base ("RAB") ratio, between short- and medium-to-long-term debt, fixed-rate and variable-rate debt, and bank credit granted and bank credit used) which, in line with the business objectives and the regulatory context in which ITG Holding shall operate, would guarantee an adequate level of liquidity, while minimizing the relative opportunity cost and maintaining balance in terms of the duration and composition of the debt.

If the Beneficiary Company and its subsidiaries were not able to manage their own debt following the Demerger, there may be repercussions on the ITG Holding operations, results, balance sheet and cash flow.

#### **1.4.11 Risks associated with environmental protection and the restoration of polluted sites**

Italgas and its subsidiaries are subject to reclamation obligations relating to certain sites that have been environmentally compromised by activities carried out there in the past, including the distillation of carbon for gas production; the removal and decommissioning of obsolete facilities and machinery; and the disposal of material containing asbestos. Although resources have been set aside to cover all costs and liabilities related to the fulfilment of the obligations pursuant to the current regulations, the amount budgeted for may not be sufficient to cover all costs and liabilities that may arise from the restoration activities required by law.

With respect to the environmental provisions relating to the property complex located in Roma Ostiense (the "Property Complex"), it should be noted that such Property Complex was subject to specific agreements in relation to the sale, from Eni to Snam, of the entire share capital of Italgas, which took place in 2009. Based on the contract of sale concerning the Italgas share capital, signed on 12 February 2009 ("Sale and Purchase Agreement"), Eni assumed a commitment to acquire the Property Complex from Italgas.

On 30 June 2009, the parties signed a private agreement to implement the Sale and Purchase Agreement.

The Sale and Purchase Agreement, as supplemented by certain agreements entered into by the relevant parties, provides, in particular, for a commitment by Eni to purchase the Property Complex from Italgas. It also provides for Eni's right to receive, from Snam, by way of adjustment of the price of Italgas shares and together with the sale of the Property Complex, an amount equal to the difference between the appraised value of the Property Complex and the RAB value thereof as of 31 December 2007. From this resulting amount, the duly documented fiscal charges and accessory costs owed by Italgas in relation to the sale of the Property Complex to Eni will be deducted. With respect to the environmental charges, the adjustment of the price of Italgas shares will also include the difference between the appraised value of such charges and the value set out in the provisions for the environmental risks, relating to the Property Complex, as per the balance sheet of Italgas as of 31 December 2008.

In the event of failure to complete the sale and purchase of the Property Complex, and by virtue of the provisions in the Italgas Sale and Purchase Agreement, Snam has the right to be indemnified by Eni for environmental liabilities in excess of the amount recorded in the Italgas financial statements as at 31

December 2008 and for the related events that occurred prior to 30 June 2009 (the date of transfer of Italgas shares from Eni to Snam). It is also expected that Eni shall reimburse Snam for any environmental liabilities incurred and documented by Italgas after 31 December 2008, net of the corresponding tax effect.

In execution of the aforementioned agreements, on 24 October 2012 Snam and Eni signed a further agreement under which they agreed to make their respective subsidiaries, Italgas and Eniservizi S.p.A. ("**Eniservizi**"), sign a sale and purchase agreement relating to the Property Complex, preceded by a preliminary agreement. On 8 April 2014, Eniservizi and Italgas signed the preliminary agreement for the sale of the Property Complex for Euro 21,972,391.00, which was established as a fixed, unchangeable amount, regardless of the actual extent of remediation that will be necessary on the site. Consistent with the applicable accounting principles, the fund relating to the reclamation costs for the Property Complex was not adequate.

At the same time as the Demerger, the rights and obligations pertaining to Snam in relation to the Property Complex shall be transferred to the Beneficiary Company.

It cannot be ruled out, however, that if Italgas and its subsidiaries were to incur costs exceeding the amounts budgeted for or established pursuant to the aforementioned agreements, it could have negative effects on the ITG Holding Group's operations, balance sheet and cash flow. For further information, please see Chapter 2, Paragraph 2.2.1 of this Information Document.

#### **1.4.12 Risks associated with the subjection of Italgas to judicial control pursuant to Proceeding No. 67/2014 RMP**

On 11 July 2014, the Court of Palermo notified Italgas of a preventative measure of judicial administration, pursuant to Article 34, paragraph 2 of Legislative Decree 159/2011 on "*Anti-mafia code and prevention measures, as well as new measures relating to anti-mafia documentation in accordance with Articles 1 and 2 of Law No. 136 of 13 August 2010*". Pursuant to law, the measure was aimed at protecting the assets of Italgas from any infiltration and/or collusion by certain Italgas suppliers subject to preventive measures or criminal proceedings for specific crimes, as indicated in Article 34, paragraph 2 of Legislative Decree 159/2011. As a result of this measure, the powers to administrate the assets and financial and business activities of Italgas were transferred to a collective administrative body composed of four members, appointed by the Court of Palermo. For the duration of the measure, which was temporary with a maximum duration of six months and an option to extend it by another six months to a maximum of 12, the Italgas Board of Directors was suspended. Snam retained full ownership of the entire share capital of Italgas, with the related rights.

For the purposes of the accounting principles adopted when drawing up the Half-Year Report at 30 June 2014, it should be noted that Italgas had been notified of the measure on 11 July 2014, and therefore after the end of the first half of the year and prior to approval of said Report. Furthermore, for the purposes of Snam Group's consolidated financial statements, the collective administrative body had authorised the transmission to Snam of the Italgas Half-Year Report at 30 June 2014, together with the relevant management certifications involved in the Snam Group procedures in place and subject to prior examination by the Italgas Board of Statutory Auditors. Therefore, in the light of the control it exercised over Italgas for the entire first half of 2014 and the full availability of the Company's information flows as at 30 June 2014, in accordance with the provisions of IFRS 10 – Consolidated Financial Statements, the Snam Group had retained the procedures used for consolidating Italgas within the Group.



At the same time, CONSOB had informed Italgas that it was investigating the possible effects of the Italgas matter on the accounting methods used in relation to said company in the reports pertaining to the period of the preventative measure.

Subsequently, with an order issued on 2 October 2014, the presiding judge of the Court of Palermo gave a clearer definition of the scope of the judicial administration and the activities of the administrative body (hereinafter the "Order"). The Order specified that the objectives of the judicial administration measure of which Italgas was notified primarily related to inspection and focused on activities that may reveal whether there were indications of potential infiltration, with a view to taking the necessary steps. Based on this purpose and taking into account that no action was taken on the block of shares of Italgas and that the preventive measure was a short-term, temporary measure, the Order therefore stated that there were no legal, operational or procedural grounds to call into question Snam's powers, compliance with Snam Group's objectives and strategies, or observance of corporate procedures.

In the light of the above, and in view of the scope of the judicial administration, the Order concluded that there were no obstacles to the consolidation of the Italgas financial statements within the Snam Group, without prejudice to Italgas retaining full independence and responsibility with regard to decision-making within its sole competency.

Snam continued its active collaboration with the judicial authority and the administrative body, as well as commissioning, partly in the interests of Italgas, a leading specialist international company to conduct an autonomous and independent forensic investigation. The results, which have been made available by the judicial authority, confirmed in summary that: (i) supplier dealings with the counterparties mentioned in the Regulation accounted for less than 1% of Italgas's total cumulative expenditure (and 0.16% of Snam Group's total expenditure) between 2009 and 2014; and (ii) the current risk management and internal control system appears to be effective and suitable for the purpose of identifying, preventing or minimising the corporate operational risk of infiltration/facilitation of organised crime in business and economic activities.

For the purposes of the Interim Directors' Report at 30 September 2014, and taking into account the considerations set out in the Order, Italgas remained within Snam Group's scope of consolidation.

At the end of the six-month period, the Court of Palermo extended the preventative measure for an additional six months, as provided for by Legislative Decree 159/2011, and ordered the administrative body to draw up a programme of measures aimed at concluding the activities, including in relation to the findings of said body. On 8 January 2015, the presiding judge of the Court of Palermo issued an order confirming authorisation for Italgas to be included in Snam Group's consolidated financial statements, and ruled that the programme of measures should be drawn up taking into account Snam's proposals and the staging of a technical round table.

Based on the above considerations and taking into account (i) the favourable opinions on the inclusion of Italgas in the scope of consolidation of the Snam Group acquired from leading independent experts; (ii) the fact that the actual events that have taken place in recent months confirm that Snam continues to operate under unitary management; and (iii) the full availability of Italgas's information flow relating to the 2014 financial statements, as approved by the judicial administration, together with the relevant

certifications, and preliminarily subjected to evaluation by the Board of Statutory Auditors of Italgas, Snam has kept Italgas and, consequently, the Italgas Group, within the scope of consolidation of the Snam Group, in keeping with the accounting principles adopted in the financial documents published during the course of 2014.

Based on the outcomes of the checks carried out and Snam Group's active collaboration, on 29 June 2015, the Court of Palermo ordered that Italgas be restored to its former status.

Having acknowledged the revocation of the measure, the Italgas shareholders, at the Italgas Shareholders Meeting of 9 July 2015, appointed the Company's Board of Directors, due to expire upon approval of the financial statements as at 31 December 2015, reappointing all outgoing members. Said Board members were also confirmed in their positions by the Italgas shareholders at the Italgas Shareholders' Meeting of 22 April 2016.

As a result of the revocation of the judicial administration order by the Court of Palermo and the confirmation of the Board of Directors at the Shareholders' Meeting, Italgas has put and is putting in place measures to implement the organisational and procedural plan, as well as the monitoring and control of its activities. Italgas is also providing the information flows required by Article 34, paragraph 8 of Legislative Decree 159/2011 (Judicial Control) for the competent authorities with regard to significant transactions; Italgas appealed against the provision of these information flows with the Palermo Court of Appeal. Italgas also informs the competent authorities of the results of the periodic reports of the Watch Structure.

With regard to the above, in connection with the network checks carried out in 2014 pursuant to the preventative measure of judicial administration, the Italgas Group has, in relation to the 2015 Financial Statements, set aside Euro 20 million, mainly for the estimated costs of potentially adapting facilities in the distribution sector. Given that it is planned that a network check plan initiated in December 2015 will be implemented and it will concern 5% of the network, including municipalities where the aforementioned checks were carried out during the economic prevention measure of the judicial administration, if the amount of the aforementioned fund is not sufficient to cover the costs of adapting facilities in the distribution sector in connection with the outcomes of the checks carried out in 2014, or if other adaptation measures become necessary in connection with the outcomes of additional checks, the ITG Holding Group may incur additional, unplanned expenditures, with possible negative effects on the results, cash flow and balance sheet of the ITG Holding Group.

#### **1.4.13 Risks associated with the execution of Italgas's strategic plan**

On 21 June 2016, the Board of Directors of Italgas approved the strategic plan that sets out the strategic lines and objectives of the Italgas Group for a period of five years, from 2016 to 2020. As a result of the Transaction and therefore of the separation of Italgas from Snam, the strategic plan of the Italgas Group was submitted to the Board of Directors of ITG Holding. The strategic plan contains, and was drawn up on the basis of, hypotheses and estimates related to future developments and events that could affect Italgas's operating sector, such as estimates concerning the demand for natural gas in Italy in the medium-to-long term or changes to the applicable regulations, or the timetable for future tender processes for gas distribution concessions in the various minimum geographical areas.

If the events and circumstances hypothesised or relied upon by the Board of Directors when drawing up the strategic plan, including the evolution of the regulatory framework, fail to materialise, the future operations, cash flow and results of the ITG Holding Group may differ from those set out in the strategic plan.

Furthermore, the historical consolidated results and the historical financial and operating situation may not be indicative of future financial and operating performance. There can be no guarantee whatsoever that, in the future, Italgas's profitability will remain at current levels, or that the regulatory system will not evolve in a manner that is unfavourable to the ITG Holding Group.

### 1.5 Risks relating to potential conflicts of interest arising from Related-Party Transactions

The Transaction described in this Information Document constitutes a related-party transaction pursuant to Article III of the Procedure on Related-Party Transactions, for the reasons set out below.

As explained in Chapter 2, Paragraph 2.5.1 of this Information Document, the Demerger is not a "Related-Party Transaction" (see CONSOB Communication DEM/10078683 of 24 September 2010), while the Transfer and the Sale, despite qualifying as related party transactions, fall under the exemption set out in Article 14, Paragraph 2 of the Regulations on Related-Party Transactions and in Article X, Paragraph 8 of the Procedure on Related-Party Transactions of Snam, which stipulates that the procedures to be applied in the event of Related-Party Transactions are not applicable in the event of transactions carried out with subsidiaries (ITG Holding).

As provided for by the Memorandum of Understanding, the entire Transaction also provides for Snam, CDP Reti and CDP Gas to enter into the Shareholders' Agreement relating to the equity investments which will be held in the Beneficiary Company, equal to 13.50%, 25.08% and 0.97%, respectively. The purpose of the Shareholders' Agreement is to ensure a stable and transparent ownership structure of ITG Holding following the Transaction. The Shareholders' Agreement shall have a term of three years and shall be renewable. Specifically, the Memorandum of Understanding is designed to regulate, by means of the Shareholders' Agreement, the principal terms for the realisation of the Transaction, the rights deriving from the execution of the Shareholders' Agreement and the general governance which, after the realisation of the Transaction, will apply to ITG Holding and Italgas.

For more information about the Shareholders' Agreement, see Chapter 2, Paragraph 2.5.2 of this Information Document.

As at the Information Document Date, CDP can be defined as a Related Party of Snam pursuant to Annex 1, Article 2 to the Regulations on Related-Party Transactions and Article III(a)(ii) of the Procedure on Related-Party Transactions since, as at the Information Document Date, it holds "*an equity investment in Snam that allows it to exert considerable influence over the latter*". The Transaction, considered in terms of its overall economic value, is a "Significant Transaction" pursuant to the Procedure on Related-Party Transactions.

In the light of CDP's involvement as a Related Party of Snam, and of the correlation between the Transaction and the signing of the Shareholders' Agreement between Snam, CDP Reti and CDP Gas pursuant to the Memorandum of Understanding, Snam has not made use of the aforementioned exemption and has subjected the entire Transaction to the procedure for "Significant Transactions" provided for by Article 8 of the Regulations on Related-Party Transactions and by Article VI of the Procedure on Related-Party Transactions.

In Snam's opinion, the Transaction, in view of its characteristics, does not entail any particular risks associated with potential conflicts of interest other than those typically inherent to related-party transactions, or risks other than those typically inherent to similar transactions. Snam has, in any case, implemented the controls and measures provided for by the Regulations on Related-Party Transactions for Significant Transactions.

For further information regarding the Control, Risks and Related-Party Transactions Committee, please see Chapter 2, Paragraph 2.5 of this Information Document.

## **1.6 Risk factors relating to forward-looking statements in the Information Document**

This Information Document contains forward-looking statements concerning Snam and ITG Holding and their activities after the Transaction. It also includes references and citations to the 2016-2020 Strategic Plan of the Snam Group presented to the financial community on 29 June 2016, which contain the growth guidelines that are also based on general scenario assumptions.

These elements do not represent factual data and are based on the current expectations and projections of the Companies Participating in the Demerger with regard to future events, and by their very nature are subject to an inherent component of risk and uncertainty. Profit forecasts and estimates are made based on specific knowledge of the sector to which the companies belong, the available data and past experience. Such forecasts are based on assumptions concerning future events and trends that are subject to uncertainty, and if these do not materialise this may involve significant shifts compared to the forecasts and estimates made. These are statements that refer to events and depend on circumstances that may or may not occur or materialise in the future and, as such, one should not place undue confidence in them.

Actual results might differ significantly from those contained in these statements due to many factors, including changes in the prices of primary materials, macroeconomic conditions and the economic growth and other changes in business conditions, changes in regulations or in the institutional context (both in Italy and abroad), and many other factors, some of which are mentioned in these "Warnings", the majority of which are outside the control of the Companies Participating in the Demerger. The External Auditors' reports on Forecast Data of the Snam Group and the ITG Holding Group contained in this Information Document are reported under Annex 6.

## 2. Information about the Demerger

### 2.1 OVERVIEW OF THE DEMERGER'S METHODS AND TIME FRAMES

#### 2.1.1 Description of the Companies Participating in the Demerger

##### A) Demerged Company

###### Introduction

Snam is Europe's leading operator in the integrated creation and management of natural gas infrastructure, and a leading European player in its sector in terms of RAB.

As an integrated operator, Snam provides natural gas transportation and dispatching, storage and distribution services and LNG regasification services, and plays a major role in the natural gas infrastructure system.

In Italy, these activities are performed, respectively, by Snam's four wholly owned direct subsidiaries: Snam Rete Gas, Stogit, Italgas and Gnl Italia.

Snam operates in Europe's major energy corridors through agreements with and equity investments in the leading industry players. In particular, Snam holds equity investments in UK company Interconnector UK Ltd. (a joint venture with Fluxys SA), French company TIGF SA, Austrian company Trans Austria Gasleitung GmbH ("TAG") and Swiss company Trans Adriatic Pipeline AG ("TAP").

In 2015, Snam bought a 20% stake in Trans Adriatic Pipeline AG (TAP), the company responsible for developing the Southern Gas Corridor as a key channel enabling gas produced in Azerbaijan to be transported to European markets. This transaction marked a further significant step in the international growth strategy begun by Snam in 2012 with the acquisition of 31.5% of Interconnector UK in a joint venture with Fluxys, and continued in 2013 and 2014 with the respective acquisitions of 45% (now 40.5%) of TIGF in France, with a view to strengthening the Group's leading position among European infrastructure operators, and 84.47% of Trans Austria Gasleitung GmbH (TAG), the company that owns the Austrian section of the pipeline between Russia and Italy. TAG is a key asset in the East-West energy corridor, partly because of a potential reverse flow to Central Europe.

Snam Rete Gas is also a partner in PRISMA, an international project involving 37 European gas transportation operators from 16 countries. Its goal is to encourage harmonised service delivery and access rules and to facilitate the creation of a single European natural gas market by offering transportation capacity through a single shared digital platform.

Please see Paragraph 2.3.2 below for a description of the activities that will be carried out by the Demerged Company.

###### **Name, legal form, registered office and share capital**

Snam, with its registered office at Piazza Santa Barbara 7, San Donato Milanese (MI), has the tax code and Milan Companies Register No. 13271390158.

As at the Information Document Date, Snam's fully subscribed and paid-up share capital was Euro 3,696,851,994.00, comprising 3,500,638,294 ordinary shares with no par value.

Shareholders' rights are set out in Articles 5, 6, 10 and 12 of the Bylaws.

Pursuant to Article 5 of Snam's Bylaws, the Shareholders' Meeting can resolve upon capital increases and determine their time frames, conditions and methods. The share capital can be increased through contributions in kind and of receivables, and by issuing bonus shares, including special classes of share, pursuant to Article 2349 of the Civil Code.

The shares are indivisible registered shares, and each share entitles the holder to one vote.

As at the Information Document Date, the Shareholders' Meeting has issued only ordinary shares.

Pursuant to Article 21 of Snam's Bylaws, and in compliance with the law, the Board of Directors prepares the financial statements at the end of each financial year.

The net profit that appears on the duly approved financial statements will be allocated as follows:

- up to 5% to the legal reserve, until said reserve reaches the limit prescribed by law;
- the remainder to shares, unless otherwise resolved by the Shareholders' Meeting.

Dividends not collected within five years from the date on which they became payable revert to the Demerged Company. Interim dividends may be distributed in accordance with the law.

Lastly, Article 22 of Snam's Bylaws states that the liquidation and wind-up of the Company is governed by the relevant laws.

No shares have been issued entitling the holders to special rights, and there are no share ownership schemes in place for managers and employees.

#### **Restrictions of voting rights or share transfers**

The Bylaws of the Demerged Company make no provision for restrictions or limitations to the transfer of ownership of Snam shares. The provisions of law described below impose certain restrictions on the transfer and ownership of shares.

#### **UNBUNDLING REGULATION**

The Prime Ministerial Decree of 25 May 2012 provided for the creation of an ownership unbundling system extended to all regulated natural gas transportation, distribution, storage and regasification activities, and for the sale by the then controlling shareholder, Eni, of its entire equity investment in Snam, in view of its status as a producer and seller of energy.

In accordance with these provisions, on 15 October 2012, CDP Reti<sup>6</sup> (then a wholly owned subsidiary of CDP) purchased from Eni 30% less one share of the share capital of Snam. Eni subsequently reduced

<sup>6</sup> On 27 November 2014, SGEL acquired 35% of CDP Reti.

its equity investment, and currently holds 792,619 Snam ordinary shares, equivalent to approximately 0.02% of the share capital.

The Prime Ministerial Decree also states that CDP should guarantee the independence of and full separation between Eni and Snam. To that end, Article 2 of the Prime Ministerial Decree stipulates that:

- (i) even if Snam is included in CDP's "separate management" activities, all decisions relating to the management of equity investments in Snam shall be adopted by the Board of Directors of CDP as if the equity investment were part of its "ordinary management" operations, meaning that the MEF will have no power to guide such decisions and the members of the Board of Directors of CDP in charge of "separate management" activities will not be able to influence them;
- (ii) the members of the management and control bodies and the executives of Eni and its subsidiaries may not be part of the corporate bodies of or hold executive offices at CDP or Snam and their subsidiaries, nor may they enter into any direct or indirect professional or financial relationship with said companies, and vice versa.

Pursuant to the Prime Ministerial Decree, the voting rights attached to shares acquired (including through deeds, transactions or agreements of any kind), as well as to any shares already held, directly or indirectly, by gas and/or electricity producers or suppliers or by their parents, subsidiaries or associates pursuant to the Civil Code, or any powers of appointment pertaining to them, shall be restricted in compliance with the provisions of Article 19 of Legislative Decree 93/2011. Said Article states that the same natural or legal person cannot:

- (i) exercise control, directly or indirectly, over an undertaking that produces or supplies natural gas or electricity and at the same time exercise control or rights, directly or indirectly, over a natural gas or electricity transmission system operator or over a natural gas or electricity transmission system;
- (ii) appoint members of the supervisory board, the Board of Directors or the bodies that legally represent the Company within a transportation system operator or a transportation system and, simultaneously, directly or indirectly control or hold rights over natural gas production or supply operations.

As a result of the legislative changes and the consequent loss of Eni's control over Snam, on 14 November 2013, following the issuance of the opinion of the European Commission, the AEEGSI adopted Resolution 515/2013/R/gas, implementing its decision to definitively certify Snam Rete Gas as a natural gas transportation system operator under the ownership unbundling regime.

By virtue of the aforementioned regulation, shareholders that produce and sell gas and/or electricity are forbidden from exercising voting rights at Shareholders' Meetings, without prejudice to their dividend rights related to the Snam shares they hold.

### **Special Powers of the State**

Decree-Law No. 21 of 15 March 2012, converted by Law No. 56 of 11 May 2012 ("Decree-Law 21/2012"), provides legislation on special powers relating to corporate structures in the national security and defence sectors, as well as to strategic energy, transport and communications activities. The Decree covers the governance of the "special powers", redrafting when and how the State can exercise special powers in

relation to privatised companies, in an attempt to bring national legislation in line with the Treaty on the Functioning of the European Union.

In summary, with regard to the energy sector, the Decree entitles the Government to:

- (i) veto resolutions, deeds or transactions that are adopted by companies in possession of strategic energy assets and which result in the loss of control or availability of said assets or a change in their usage;
- (ii) impose obligations on or block non-EU entities attempting to acquire controlling interests in the aforementioned companies.

Pursuant to Law Decree 21/2012, Snam is required to notify any changes in the ownership, control, availability or purpose of networks, plants, goods and relations of strategic importance to the national interest ("Significant Assets").

This notification must be made by the Company to the Prime Minister within 10 days, and in any case no later than the implementation of the resolution, deed or transaction that affects the Significant Assets. Resolutions passed by the Shareholders' Meeting or the management bodies concerning the transfer of subsidiaries that hold the aforementioned Significant Assets must be reported within the same time frame. Within 15 days of the notification, the Prime Minister may, by issuing a decree adopted pursuant to a resolution of the Council of Ministers:

- (i) declare a veto;
- (ii) impose specific provisions or conditions, if this is sufficient to ensure the protection of the public interest.

If 15 days have passed since the notification and the Prime Minister has not adopted any measures, the operation may be carried out.

In accordance with the same procedures and time frames, notification must also be made if the acquisition of equity investments in companies that hold Significant Assets (such as Snam) by non-EU entities results in a stable holding for the acquirer, due to its acquisition of control of the company. If the acquisition poses the threat of serious harm to the fundamental interests of the State, the Prime Minister may:

- (i) make the validity of the acquisition subject to the acquirer's assumption of commitments intended to guarantee the protection of the aforementioned interests;
- (ii) block the acquisition in exceptional cases involving risks to the protection of the aforementioned interests that cannot be eliminated through the assumption of specific commitments.

The law also provides that such powers may be exercised "exclusively on the basis of objective and non-discriminatory criteria".

For the sake of completeness, networks, plants and assets pertaining to the transportation, storage and regasification businesses come under the definition of Significant Assets, meaning that notification pursuant to Law Decree 21/2012 is required in the event of changes to the ownership, control, availability or usage thereof. The distribution business, however, is excluded from the scope of Law Decree 21/2012 and its implementing decrees.



**Changes to the Bylaws related to or resulting from the Demerger**

There will be no changes in the Bylaws of the Demerged Company, except for those made to Article 5 to reflect the post-Demerger share capital reduction of the Demerged Company.

Since Snam shares have no par value, the aforementioned share capital reduction will not result in any shares being cancelled.

In particular, as a result of the Demerger, provision has been made for the following changes to the Bylaws of the Demerged Company, which will take effect on the Demerger Effective Date.

**Article 5 – Share Capital**

The current text of Article 5.1 reads: *"The share capital is Euro 3,696,851,994.00 (three billion six hundred and ninety-six million eight hundred and fifty-one thousand nine hundred and ninety-four), divided into 3,500,638,294 (three billion, five hundred million six hundred and thirty-eight thousand two hundred and ninety-four) shares with no par value."*

As a result of the Demerger, the share capital of the Demerged Company will be reduced by Euro 961,181,518.44 and, therefore, to Euro 2,735,670,475.56.

Specifically, following the Demerger, Article 5.1 of the Bylaws of the Demerged Company will read as follows: *"The share capital is Euro 2,735,670,475.56 (two billion seven hundred and thirty-five million six hundred and seventy thousand four hundred and seventy-five Euro s and fifty-six cents), divided into 3,500,638,294 (three billion, five hundred million six hundred and thirty-eight thousand two hundred and ninety-four) shares with no par value."*

For more information about the effects of the Demerger on the shareholders' equity of the Demerged Company, please see Chapter 2, Paragraph 2.2.1 of this Information Document.

**Admission to trading**

Snam shares are admitted to trading on the MTA.

**Term and financial year**

The Demerged Company is established until 31 December 2100, and this term can be extended by the Shareholders' Meeting.

The Demerged Company's financial year ends on 31 December.

**Corporate purpose**

*"2.1 The corporate purpose is to exercise, directly and/or indirectly, in Italy and abroad, including through direct or indirect equity investments in companies, entities or enterprises, in regulated activities involving transportation, dispatching, distribution, regasification and storage of hydrocarbons, as well as any other economic activity that is linked through whatever degree of importance to one or more of the above-mentioned activities, including the production of hydrocarbons associated with activities for storage thereof, the storage of other gases, the activity of energy metering, and the management of organised gas markets; all in observance of the concessions provided for by law."*

2.2 For the purposes of pursuing corporate purpose and to the effects there of, the Company:

- may take all actions necessary or appropriate to the achievement of the corporate purpose; by way of example, industrial, commercial, securities, property and financial operations and any activity that is connected with the achievement of the corporate purpose, including technical and scientific research and the acquisition of technical patents related to the activities carried out and the study, design, construction, acquisition, management and operation of complex transportation systems, transportation infrastructure, information technology and telecommunications, with the exception of the collection of public savings and the performance of activities regulated by the financial intermediation laws;
- shall carry out the technical, industrial and financial coordination of the investee companies and the provision of the appropriate financial assistance and services in favour of the investee companies;
- may engage in activities connected with the protection and remediation of the environment and land conservation;
- will comply with the principles of equal treatment of users, transparency, impartiality and neutrality in transporting and dispatching, in compliance with the applicable regulations and provisions of the law. In particular, the Company, in accordance with the principles of cost-effectiveness, profitability and maximisation of shareholders' investment, and without prejudice to the requirements of confidentiality of company data, carries out its corporate purpose with the intention of promoting competition, efficiency and the appropriate levels of quality in providing the services. To this end, it:
  - ensures impartiality in the management of essential infrastructures for the development of a free energy market;
  - prevents discrimination in the access to commercially sensitive information;
  - prevents the exchange of resources between segments of the supply chains."

### Shareholders

Please see Paragraph 2.1.4 of this Information Document for a description of the ownership structure of the Demerged Company as at the Information Document Date.

### Composition of corporate bodies and audit engagement

The members of the Board of Directors, appointed by the Shareholders' Meeting of 27 April 2016 for the financial years 2016-2018, are the following:

Name	Role
Carlo Malacarne	Chairman
Marco Alverà	Chief Executive Officer
Sabrina Bruno <sup>(1)</sup>	Director
Monica De Virgiliis <sup>(1)</sup>	Director
Francesco Gori <sup>(1)</sup>	Director
Yunpeng He	Director
Lucia Morselli <sup>(1)</sup>	Director
Elisabetta Oliveri <sup>(1)</sup>	Director
Alessandro Tonetti	Director

(1) Director fulfilling the independence requirements set out in Article 148, paragraph 3 of the TUF and in the Code of Corporate Governance approved by the Corporate Governance Committee.

The members of the Board of Statutory Auditors appointed by the same Shareholders' Meeting for 2016-2018 are the following:

<b>Name</b>	<b>Role</b>
<b>Leo Amato</b>	Standing Auditor, Chairman
<b>Massimo Gatto</b>	Standing Auditor
<b>Maria Luisa Mosconi</b>	Standing Auditor
<b>Sonia Ferrero</b>	Alternate Auditor
<b>Maria Gimigliano</b>	Alternate Auditor

On 11 May 2016, in accordance with the provisions of the Code of Corporate Governance, the Snam Board of Directors appointed the members of the Control, Risk and Related-Party Transactions Committee, the Compensation Committee and the Appointments Committee, and set up the Sustainability Committee, which makes recommendations to and advises the Board of Directors on matters pertaining to corporate social responsibility.

The Committees comprise the following members:

#### **Control, Risk and Related-Party Transactions Committee**

Elisabetta Oliveri (\*) (Chairman), Sabrina Bruno (\*), Lucia Morselli (\*)

#### **Compensation Committee**

Monica de Virgiliis (\*) (Chairman); Elisabetta Oliveri (\*); Alessandro Tonetti (\*\*)

#### **Appointments Committee**

Francesco Gori (\*) (Chairman); Monica de Virgiliis (\*); Alessandro Tonetti (\*\*)

#### **Sustainability Committee**

Sabrina Bruno (\*) (Chairman); Lucia Morselli (\*); Yunpeng He (\*\*)

The Board of Directors has certified that at least one member of the Control, Risk and Related-Party Transactions Committee and the Compensation Committee fulfils the requirements set out in the Code of Corporate Governance.

The audit firm is Reconta Ernst & Young S.p.A., which was appointed by the Shareholders' Meeting of 27 April 2010 for the financial years 2010-2018.

The External Auditors expressed an opinion with no comments with respect to the separate and consolidated financial statements for the year ended 31 December 2015. The reports containing the

(\*) Independent non-executive director  
 (\*\*) Non-executive director

opinions expressed by the External Auditors are available to the public in the locations mentioned below in Chapter 2, Paragraph 2.4 of this Information Document.

### Monetary incentive plans

As at the Information Document Date, the Demerged Company has no share incentive plans involving Snam shares.

#### *Long-term variable incentives*

Snam has two types of plans in place:

- (i) **the Deferred Monetary Incentive Plans (DMI Plans)**, reserved for managers of the Demerged Company who met their predefined individual targets in the previous year and are eligible for the Leadership Development Program<sup>7</sup>, which award a basic incentive to be paid out after three years depending on the Company's performance during that period. This performance is calculated as the average Snam Group EBITDA in the three-year period measured in comparison to budget forecasts. The DMI Plan aim to motivate and retain managers, as well as establish a closer tie between targets, performance and incentives.
- (ii) **the long-Term Monetary Incentive Plans (LTMI Plans)**, for the Chief Executive Officer, managers with strategic responsibilities and other managers that have a greater impact on the corporate results. Such plans are a tool to incentivise management and increase loyalty and provide for the annual allocation of a basic incentive award to be paid after three years and vary according to performance criteria relating to:
  - a) adjusted net income as compared with to the adjusted net income forecast in the budget (with a weighting of 60%);
  - b) performance of the Total Shareholder Return as compared to the performance of the Total Shareholder Return of a peer group (with a weighting of 40%).

The LTMI Plans are intended to support corporate profitability and guarantee a greater alignment to the interests of shareholders in the medium- to long-term.

#### *Short-term variable incentives*

Snam has also adopted an incentive plan involving an annual pay-out aimed at motivating and focusing managers in the short term, in line with the corporate objectives set out by the Board of Directors. The amount of the short-term incentive depends on the position held and company and individual performance in the previous year.

With reference to the Long-term and Short-term Variable Incentives Plan for the Chief Executive Officer and Managers with strategic responsibilities, see the 2016 Remuneration Report of Snam ([www.snam.it](http://www.snam.it)).

<sup>7</sup> The *Leadership Development Program* is a programme dedicated to the development of human resources showing constant performance, a strong passion for work and courage in breaking new ground and aims to accelerate the growth of participants. Access to the programme is selective and the participation in the programme is confirmed every year on the basis of the targets achieved.

## **B) Beneficiary Company**

### **Introduction**

The Beneficiary Company was founded on 1 June 2016, specifically to implement the Demerger; as at the Information Document Date, its share capital is wholly owned by Snam. Since its incorporation, the Beneficiary Company's only activities have been related to the Demerger, and this is not expected to change until the Demerger Effective Date.

The appointment of the members of the Board of Directors and the Board of Statutory Auditor of ITG Holding pursuant to the TUF will be made by the Shareholders' Meeting which will be held on 1 August 2016 and will take effect from the date of the actual Meeting.

Please see Chapter 2, Paragraph 2.3.3 and Chapter 5 below for a description of the activities that will be carried out by the Beneficiary Company post-Demerger.

### **Name, legal form, registered office and share capital**

ITG Holding S.p.A., incorporated on 1 June 2016, with its registered office at Piazza Santa Barbara 7, San Donato Milanese (MI), has VAT and Milan Companies Register No. 09540420966. The shareholders' meetings convened to approve the Demerger Plan will be empowered to resolve on the change in the corporate name and the registered office of the Beneficiary Company.

As at the Information Document Date, the subscribed and paid-up share capital was Euro 50,000, comprising 50,000 ordinary shares with no par value.

### **Amendments to the bylaws related to or resulting from the Demerger**

The shareholders' meetings convened to approve the Demerger Plan will be empowered to resolve on the change in the corporate name and the registered office of the Beneficiary Company.

As a result of the Transaction, the shares of the Beneficiary Company will be admitted to trading on the MTA. Therefore, the Beneficiary Company's Shareholders' Meeting convened to approve the Demerger will also be asked to resolve upon adopting, effective from the date of filing the request for admission to trading with Borsa Italiana, bylaws that comply with the provisions for listed companies set out in the Consolidated Finance Act and its relevant implementing regulations.

These bylaws, which are attached to the Demerger Plan under Annex 1, will be substantially aligned with those governing Snam post-Demerger, except for what follows below and notwithstanding that the Beneficiary Company's shares will give their holders the same rights as those granted by shares in the Demerged Company.

Article 2 of the bylaws of ITG Holding was slightly amended compared to Article 2 of Snam bylaws in order to align the corporate purpose of the Beneficiary Company with the business it will perform after the Demerger. The Beneficiary Company's corporate purpose will be to engage, directly and/or indirectly, in Italy and abroad, including through direct or indirect equity investments in companies, entities or enterprises, in regulated gas sector activities, and in particular the distribution and metering of all kinds of gas in all its applications. The Beneficiary Company will also be able to perform any other economic activity fundamentally or tangentially linked to one or more of the above mentioned activities, (and

therefore, by way of example and within the *pro tempore* sector limits laid down, every activity in the chain of gas and hydrocarbons in general), as well as any activity that can be performed using the same infrastructure as said aforementioned activities.

In addition, in line with the change in the corporate purpose, the authorisation by the Shareholders Meeting will no longer be required to approve decisions concerning the sale, transfer, leasing, usufruct or any other act of disposal, including by way of a joint venture, or restrictions on the disposal of the company or strategic business units involved in activities relating to the transportation and dispatching of gas.

Article 12.3 of Snam's bylaws, which requires a qualified majority to approve the resolutions of the Extraordinary Shareholders' Meeting, will also be eliminated.

In addition, Article 5 of the bylaws of ITG Holding will be amended to reflect the share capital increase (i) for the overall amount of Euro 40,000,000.00, as a result of the Transfer, and (ii) for the overall amount of Euro 961,181,518.44, as a result of the allocation of the Demerged Assets and Liabilities to the Beneficiary Company. The share capital of the Beneficiary Company will therefore be equal to Euro 1,001,231,518.44 comprising 809,135,502 shares with no par value, of which 699,902,209 will be awarded to Snam shareholders as a result of the Demerger (an additional 225,450 shares will be awarded to Snam in exchange for the treasury shared held by Snam).

As such, following the Demerger, the new Article 5 of the bylaws of the Beneficiary Company will read as follows: "*The share capital is Euro 1,001,231,518.44 (one billion one million two hundred and thirty-one thousand five hundred and eighteen Euro s and forty-four cents), divided into 809,135,502 (eight hundred and nine million one hundred and thirty-five thousand five hundred and two) shares with no par value*".

Lastly, Article 13 of the bylaws of ITG Holding as to the appointment of the Board of Directors of the Beneficiary Company will be amended to provide for a mechanism whereby the lists allow for the appointment of nine members, where seven are taken from the first list by number of votes and two are taken from the minority lists, using a proportional mechanism (quotients), as described in the Paragraph "Governance of ITG Holding" below. This mechanism would apply from the date of the first renewal of the corporate bodies of ITG Holding, i.e. two years after the first appointment of the corporate bodies of the Beneficiary.

### **Shareholders' Agreement**

On 28 June 2016, Snam's Board of Directors voted to enter into the Memorandum of Understanding that provides that Snam execute the Shareholders' Agreement with CDP Reti and CDP Gas relating to 13.50% stake in the Beneficiary Company. On the same date, the Boards of Directors of CDP (also on behalf of CDP Gas) and CDP Reti also voted to enter into the Memorandum of Understanding that provides that CDP Reti and CDP Gas execute the Shareholders' Agreement with Snam involving their own 26.05% stake in the Beneficiary Company.

Please see Chapter 2, Paragraph 2.5.2 of this Information Document for information about the Shareholders' Agreement.

### **Governance of ITG Holding**

ITG Holding will adopt a traditional governance model, in line with the current governance of Snam and with the best market practice. In addition, ITG Holding will adhere to and implement the provisions of the Code of Corporate Governance.

The bylaws of ITG Holding that will enter into effect on the date of filing the request for admission to trading with Borsa Italiana provide as follows:

#### *Board of directors*

The Beneficiary Company's Board of Directors is composed of nine members, of whom (i) three must belong to the least-represented gender in compliance with the Code of Corporate Governance, and (ii) four are independent directors in compliance with relevant national and international best practice. The Board of Directors resolves through the majority of its members.

If not already appointed by the Shareholders' Meeting, the Board of Directors will appoint the Chairman among its own members, who will perform the duties and functions set out in the law and the bylaws. Powers pertaining to all matters not reserved to the Board of Directors by law, by the bylaws or by the Board itself can be awarded exclusively to the CEO.

The Board of Directors will set up the following Committees in accordance with the provisions of the Code of Corporate Governance and the bylaws: (i) Appointments Committee; (ii) Compensation Committee; (iii) Control, Risks and Related-Party Transactions Committee; and (iv) Sustainability Committee (subject to the conditions precedent that the shares of the Beneficiary Company are admitted to trading on the MTA).

Before the Demerger Effective Date, ITG Holding will adopt the necessary resolutions and consequent regulatory instruments in order to provide itself with a set of corporate governance rules and an internal risk control and management system capable of ensuring not only compliance with the Italian regulatory and legislative system, but also substantial adaptation to the best practices adopted internationally by groups of a comparable size. In this sense, it is believed that ITG Holding will support many of Snam's experiences in recent years, as explained in more detail below.

At the date of the first renewal of the corporate bodies of ITG Holding, i.e. two years after the first appointment of the corporate bodies of the Beneficiary, the directors will be elected pursuant to Article 13 of the by-laws of the Beneficiary Company below:

- a) from the list that obtains a majority vote of the shareholders, seven directors will be taken, in the consecutive order that they appear on said list;
- b) the remaining two directors shall be taken from other lists that are not linked in any way, even indirectly, to the shareholders that presented or voted for the list coming first by number of votes. To this end, the votes received by the lists will be successively divided by one and two. The quotients thus obtained will be assigned progressively to candidates from each of these lists, according to the order shown therein. The quotients thus assigned to candidates from the different lists will be arranged in a single decreasing gradation. Those obtaining the highest quotients will be elected. If several candidates obtain the same quotient, the candidate from the list that has not yet elected any director or that has elected the smallest number of directors will be elected. If none of these lists has yet elected a director or if all have elected the same

number of directors, the candidate from the list obtaining the greatest number of votes will be elected. If the voting on lists is tied and the quotient is also tied, the entire Shareholders' Meeting will be asked to vote again, and the candidate winning a simple majority of votes will be elected;

- c) if, after applying the procedure described above, the minimum number of independent directors required by the bylaws is not appointed, the quotient of votes to be attributed to each candidate taken from the lists is calculated by dividing the number of votes for each list by the consecutive number of each of these candidates; non-independent candidates with the lowest quotients among the candidates taken from all the lists shall be replaced, starting from the lowest, by the independent candidates taken from the same list as the candidate being replaced (following the order in which they are listed); otherwise, they shall be replaced by persons who meet the independence criteria and appointed in accordance with the procedure mentioned under e). If candidates taken from different lists have obtained the same quotient, the candidate from the list from which the highest number of directors has been taken shall be replaced, or, alternatively, the candidate taken from the list with the fewest votes shall be replaced, or, if the number of votes is the same, the candidate who receives the fewest votes in a dedicated resolution by the Shareholders' Meeting shall be replaced; if no Shareholder Lists have been submitted, the remaining three directors will be appointed by the Shareholders' Meeting in accordance with the legal majority, with the Excluded Relative Majority Shareholders still not allowed to take part in the vote.
- d) if the procedure described in points a) and b) above does not allow for compliance with the law on gender representation, the quotient of votes to be attributed to each candidate taken from the lists shall be calculated by dividing the number of votes for each list by the consecutive number of each of these candidates; the candidate of the most represented gender with the lowest quotient among the candidates taken from all the lists shall be replaced, notwithstanding compliance with the minimum number of independent directors, by the candidate of the least represented gender (with the highest consecutive number) taken from the same list as the replaced candidate; otherwise, the candidate shall be replaced by the person appointed in accordance with the procedure mentioned under e). If candidates from different lists have obtained the same lowest quotient, the candidate from the list from which the greater number of directors has been taken shall be replaced, or, alternatively, the candidate taken from the list with the fewest votes shall be replaced, or, if the number of votes is the same, the candidate who receives the fewest votes in a dedicated resolution by the Shareholders' Meeting shall be replaced;
- e) for the appointment of directors not appointed for any reason by the above procedures, the Shareholders' Meeting will resolve by legal majority to ensure that the composition of the Board of Directors is consistent both with the law and with the bylaws.

#### **Appointment of auditors**

In conformity with legislative and regulatory obligations, including those set forth in TUF and in Legislative Decree No. 39 of 27 January 2010, ITG Holding should appoint a suitable firm of independent auditors for the statutory audit of the accounts. It is expected that this appointment will be made at the Shareholders' Meeting which will be convened on 1 August 2016.

#### **Governance of Italgas**

There are no changes expected to the governance structure and bylaws of Italgas as a result of the Transaction unless such changes are required to ensure compliance with the commitments offered by



CDP through Order C11695 of 8 August 2012. Italgas will continue to adopt its traditional governance model, consisting of a five-member Board of Directors and a three-member Board of Statutory Auditors<sup>8</sup>.

In relation to the Board of Directors, Article 16 of the Italgas bylaws states as follows:

*"The Board of Directors shall consist of five members; their term of office shall be established by the Shareholders' Meeting when the appointments are made.*

*Pursuant to the Decree of the President of the Council of Ministers of 25 May 2012, on "Criteria, conditions and procedures for adopting Snam S.p.A.'s separation of ownership model, pursuant to Article 15 of Law no. 27 of 24 March 2012", the directors cannot hold any office in the management or control body, nor can they hold any management functions at Eni S.p.A. or its subsidiaries, nor have any relations, direct or indirect, of a professional or financial nature with these companies.*

*Two of the five directors must meet the independence requirements of the Code of Corporate Governance for listed companies. The same two directors must not hold the office of Chairman or CEO nor, in any case, have executive powers.*

*Directors may not be appointed for a period of more than three financial years, whose term expires on the date of the Shareholders' Meeting called to approve the financial statements for the last year of their term of office, and they may be re-elected.*

*If, during the financial year, the office of one or more directors should be vacated, the other directors shall replace the director(s) in question by means of a resolution approved by the Board of Statutory Auditors, provided that the majority of the directors has still been appointed by the Shareholders' Meeting.*

*The directors appointed in this way shall remain in office until the next Shareholders' Meeting.*

*If, for whatever reason, the majority of directors vacate their office, the entire Board is dissolved and those directors remaining in office shall call an emergency Shareholders' Meeting to appoint a new Board of Directors."*

For the sake of completeness, note that by way of Order C11695 of 8 August 2012 (No. 23824), the Italian Competition Authority (AGCM) authorised the sale by Eni to CDP of 30% less one share of the Snam voting capital, but in so doing it took into account the obligations assumed by CDP in relation to the equity investments in Italgas (held via Snam) and F2i (which indirectly controls 2i Rete Gas). Following this, the Italgas bylaws were amended to update the obligations assumed by CDP at this point.

8 At the Information Document Date, the Board of Directors and the Board of Statutory Auditors of Italgas are composed as follows:

- Marco Reggiani (Chairman), Luca Schieppati (CEO), Antonio Paccioretti (Director). At the Information Document Date, the Board of Statutory Auditors of Italgas is Guido Corradi (Director), Gianni Coda (Director).
- Roberto Lonzar (Chairman), Stefania Mancino (Standing Auditor), Paolo Piccatti (Standing Auditor); Venanzio Cassi (Alternate Auditor), Gabriele Bisceglie (Alternate Auditor).

Specifically, these obligations stated (paragraph 38 of Order C11695 of 8 August 2012, No. 23824) that: "*(i) within 90 days (i.e. 24 June 2013) of the appointment of Snam's new Board of Directors by the Shareholders' Meeting called to approve Snam's 2012 financial statements:*

- a) *the Italgas bylaws shall be amended so that the number of members of the Italgas Board of Directors is set at five and that two of said members i) possess the independence requirements set out in the current Code of Corporate Governance for Listed Companies; ii) neither hold the position of Chairman or CEO of the company nor are entrusted with managerial powers;*
- b) *the Italgas bylaws shall be amended so that, in addition to point a), the decisions of the five-member Board of Directors on identifying natural gas distribution service tenders in which to participate and drafting the relevant technical and financial bids can be ratified only if at least four of the five serving directors vote in favour.*
- (ii) *under no circumstance shall members of the Italgas Board of Directors: a) serve as members of a management or control body of CDP; b) work for CDP in salaried employment or as a freelancer; c) have significant commercial, financial or professional relations with CDP, as defined in the current Code of Corporate Governance for Listed Companies;*
- (iii) *within 60 days (i.e. 14 December 2012) of the Contract execution date, the Snam Board of Directors shall vote to retain, and where necessary formalise (or have formalised) in the relevant internal documents of Snam and Italgas, the existing rule stating that the activities and processes of Italgas in relation to identifying natural gas distribution tenders in which to participate and drafting the relevant technical and financial bids shall not be subject to discussion or prior approval by the Snam Board of Directors".*

The obligations mentioned in points (ii) and (iii) of the Order were fulfilled by way of decisions taken by the Snam Board of Directors on 3 December 2012, through which the "*Guidelines for identifying the systems of administration and control and the composition and appointment of the members of corporate bodies of Snam S.p.A. subsidiaries and associates*" and the "*Authorities reserved exclusively for the Board of Directors under Article 2381 of the Civil Code*" were integrated (the latter of these two being confirmed by the Snam Board of Directors on 27 April 2016). Subsequently, the Italgas Extraordinary Shareholders' Meeting implemented the obligations mentioned in point (i).

In view of the above, the governance structure of Italgas at the Date of this Information Document has the following characteristics:

- (i) the number of members of the Board of Directors is set at five;
- (ii) members of the Italgas Board of Directors cannot:
  - a) be members of a management or control body of CDP;
  - b) work for CDP in salaried employment or as a freelancer; or
  - c) have significant commercial, financial or professional relations with CDP, as defined in the Code of Corporate Governance;
- (iii) two members of the Board of Directors must possess the independence requirements set out in the Code of Corporate Governance;
- (iv) the decisions of the Board of Directors on identifying natural gas distribution service tenders in which to participate and drafting the relevant technical and financial bids can be ratified only if at least four of the five serving directors vote in favour; and
- (v) the activities and processes of Italgas in relation to identifying natural gas distribution service tenders in which to participate and drafting the relevant technical and financial bids must not be subject to discussion or prior approval by the Snam Board of Directors

**Admission to trading**

In addition to the conditions of law, including, specifically, the favourable vote of the Snam Shareholders' Meeting, the efficacy of the Transaction is conditioned upon:

- (i) the issuance of Borsa Italiana's order admitting the Beneficiary Company's shares to trading on the MTA;
- (ii) the issuance of the judgment of equivalence by CONSOB pursuant to Article 57, paragraph 1, letter d) of the Issuers' Regulation in relation to this Information Document, supplemented pursuant to said Article; and
- (iii) the approval by the bondholders of the Demerged Company.

As a result of the Transaction, the shares in the Beneficiary Company will be admitted to trading on the MTA.

The Transaction schedule provides that, subject to the fulfilment of the conditions set out under points (i), (ii) and (iii), the Demerger will likely take effect by 31 December 2016.

At any time, even following approval of the Demerger Plan by the shareholders of the companies involved in the Demerger, the proceedings whereby the Beneficiary Company's shares are admitted to trading on the MTA could be interrupted or suspended, if the conditions to pursue the listing are no longer deemed to be satisfied.

In addition, the acts related to the Transaction shall be conditional, thus ensuring that the individual steps into which the Transaction is divided occur in a unitary and substantially simultaneous manner.

The initial trading date for shares in the Beneficiary Company will be fixed by Borsa Italiana with suitable notice and will coincide with the Demerger Effective Date, which will fall on a trading day.

As at the Information Document Date, the Beneficiary Company does not foresee requesting admission to trading for its shares on other markets.

**Term and financial year**

The Beneficiary Company is established until 31 December 2050, and this term can be extended by the Extraordinary Shareholders' Meeting.

The financial year ends on 31 December.

**Corporate purpose**

The corporate purpose stated in Article 2 of the bylaws of ITG Holding is in line with the corporate purpose stated in Article 2 of the Bylaws of Snam.

**Shareholders**

As at the Information Document Date, the Beneficiary Company's share capital is wholly owned by Snam.

As mentioned in the Memorandum of Understanding, the entire Transaction also provides for Snam, CDP Reti and CDP Gas entering into the Shareholders' Agreement relating to the equity investments which will be held in the Beneficiary Company, equal to 13.50%, 25.08% and 0.97%, respectively. The purpose

of the Shareholders' Agreement is to ensure a stable and transparent ownership structure of ITG Holding following to ensure a stable and transparent ownership structure of ITG Holding upon the outcome of the Transaction. The Shareholders' Agreement shall have a term of three years and shall be renewable. Specifically, the Memorandum of Understanding is designed to regulate, by means of the Shareholders' Agreement, the principal terms for the realisation of the Transaction, the rights deriving from the execution of the Shareholders' Agreement and the general governance which, after the realisation of the Transaction, will apply to ITG Holding and Italgas.

Please see Chapter 2, Paragraph 2.5.2 of this Information Document for more information about the Shareholders' Agreement.

## **2.1.2 Methods, conditions and time frames of the Demerger**

### **Type, methods, conditions and time frames of the Demerger**

The Demerger will be carried out in compliance with Articles 2506 *et seq.* of the Civil Code and in accordance with the methods and conditions laid down in the Demerger Plan attached to the Information Document, under Annex 1.

Specifically, the Demerger involves the partial and proportional demerger of Snam to ITG Holding, the share capital of which, as at the Information Document Date, is wholly owned by Snam. The Beneficiary Company is awarded the Demerged Company's 52.90% stake in Italgas (please see Chapter 2, Paragraph 2.2.1 of this Information Document for a description of the assets and liabilities to be transferred to the Beneficiary Company as part of the Demerger).

Pursuant to the combined provisions of Articles 2506-*ter* and 2501-*quater* of the Civil Code, a statement of the Beneficiary Company's financial position has been drafted as at its date of incorporation, i.e. 1 June 2016, and was approved by the Board of Directors of ITG Holding.

Availing itself of the option available under said Article 2501-*quater* of the Civil Code, the Demerged Company has used the stand-alone financial statements for the year ended 31 December 2015, which were approved by the Demerged Company's Ordinary Shareholders' Meeting on 27 April 2016 (the "2015 Stand-alone Financial Statements").

The 2015 Stand-alone financial statements were made available to the Shareholders and the public on 5 April 2016, in accordance with the methods described by law.

The Demerged Company will transfer the aforementioned asset to the Beneficiary Company at book value.

### **Method of granting shares of the Beneficiary Company**

As a result of the Demerger, Snam shareholders will be allocated shares in the Beneficiary Company in proportion to the number of shares held by each shareholder in the Demerged Company at the time of the Demerger. The allocation will take place based on a ratio of one (ITG Holding) share for every five Snam shares held. Therefore, no monetary compensation is provided for.

This ratio may mean that individual shareholders are entitled to a number of new shares that is not a whole number. Therefore, to facilitate the transactions, Snam will engage an authorised intermediary to

trade the fractional shares of the Beneficiary Company, through the depositary intermediaries enrolled with Monte Titoli, within the limits required to enable shareholders to hold, to the highest possible extent, a whole number of shares.

The shares of the Beneficiary Company will be awarded to entitled parties electronically using authorised intermediaries, starting from the Demerger Effective Date and according to the time frames and methods published with suitable notice.

Due to the treasury shares held by Snam at the Information Document Date, which amount to 1,127,250 and which will not be allocated, in addition to retaining the above mentioned shares, the Demerged Company will receive 225,450 shares of the Beneficiary Company.

In addition, the Demerged Company will receive (i) the Beneficiary Company shares held by Snam as at the Information Document Date owing to the incorporation of the Beneficiary Company (50,000 shares), and (ii) the ITG Holding shares that will be awarded to Snam following the Transfer of its 8.23% stake in Italgas to ITG Holding (108,957,843 shares).

As a result of the above, Snam will hold 13.50% of the Beneficiary Company's share capital after the Transaction.

In addition to the conditions of law, including, specifically, the favourable vote of the Snam Shareholders' Meeting, the efficacy of the Transaction is conditioned upon:

- (i) the issuance of Borsa Italiana's order admitting the Beneficiary Company's shares to trading on the MTA;
- (ii) the issuance of the judgment of equivalence by CONSOB pursuant to Article 57, paragraph 1, letter d) of the Issuers' Regulation in relation to this Information Document, supplemented pursuant to said Article; and
- (iii) the approval by the bondholders of the Demerged Company.

As a result of the Transaction, the shares in the Beneficiary Company will be admitted to trading on the MTA.

The Transaction schedule provides that, subject to the fulfilment of the conditions set out under points (i), (ii) and (iii), the Demerger will likely take effect by 31 December 2016.

At any time, even following approval of the Demerger Plan by the shareholders of the Companies Participating in the Demerger, the proceedings whereby the Beneficiary Company's shares are admitted to trading on the MTA could be interrupted or suspended, if the conditions to pursue the listing are no longer deemed to be satisfied.

In addition, the acts related to the Transaction shall be conditional, thus ensuring that the individual steps into which the Transaction is divided occur in a unitary and substantially simultaneous manner.

Subject to the necessary authorisations, the shares of the Beneficiary Company will be admitted to trading on the MTA when they are awarded. The initial trading date of ITG Holding shares on the MTA will be determined by way of an order issued by Borsa Italiana.

### Expert report

Article 2506-ter, paragraph 3 of the Civil Code makes express provision for the “simplified procedure” only in the case of a proportional demerger to a newly incorporated company.

However, there should also be no need for an expert report when the demerger can in no way alter the value of the equity investments held by the shareholders of the companies involved in the transaction, negating the need for a share-swap ratio to be calculated in relation to the overall value of the equity investments held by said shareholders, which is what happens if a partial demerger is made to an existing beneficiary company that is wholly owned by the Demerged Company. This interpretation was used by the Milan Council of Notaries in *Massima* No. 23 of 18 March 2004, issued by the *Commissione Società del Consiglio Notarile di Milano*.

Since the Transaction described by this Information Document is a Demerger to an existing Beneficiary Company wholly owned by the Demerged Company (which will remain the case until the Demerger Effective Date) and there are no alternative allocation criteria other than the proportional method, there is no need to calculate the share-swap ratio in relation to the overall value of the equity investments held by the shareholders of the companies involved in the Demerger.

As such, the Demerger will adhere to the simplified procedure, meaning that there will be no expert report on the fairness of the share-swap ratio.

In order to support the Transaction-related decisions of the Boards of Directors of the Companies Participating in the Demerger, Snam has appointed an Expert in its capacity as a proven expert operating independently of the Company, of ITG Holding and of the shareholders that exercise individual or joint control over said companies, to write:

- (i) (sworn) reports on the value of Snam’s equity investment in Italgas (including the stakes in investee companies) in order to comply with applicable regulations, including, in particular, based on the structure of the Transaction, Article 2343-ter, paragraph 2 of the Civil Code with regard to the Transfer and Article 2343-bis, paragraph 2 of the Civil Code with regard to purchases by the company from promoters, founders, shareholders and directors; and
- (ii) a report, requested by Snam on a voluntary basis, aimed at estimating the actual value of the shareholders’ equity allocated to the Beneficiary Company following the Demerger.

The adequacy of the Transfer and Sale values and the value of the shareholders’ equity assigned to the Beneficiary Company as part of the Demerger are confirmed in the reports mentioned in points (i) and (ii) above.

### Right of withdrawal

The Demerger requires the shares of the Beneficiary Company to be admitted to trading on the MTA in order to ensure their liquidity. The Demerger is subject, *inter alia*, to the Beneficiary Company’s shares being admitted to trading on the MTA. As such, the conditions are not in place for Snam’s shareholders to exercise the right of withdrawal set out in Article 2437-*quinquies* of the Civil Code.

Nor are the conditions in place for the exercise of the right of withdrawal pursuant to Article 2437 of the Civil Code. Paragraph 1, letter a) of said article states that following the Demerger, the corporate purpose of the Demerged Company will remain unchanged and the Beneficiary Company will adopt a corporate purpose aligned with that of the Demerged Company.

**Date on which the Demerger is effective**

The Demerger will be effective on the date when the Demerger deed is registered with in the relevant Companies Register pursuant to Article 2506-*quater* of the Civil Code or on the date indicated in the Demerger deed, whichever is later. The Effectiveness of the Demerger will coincide with the start date of trading of ITG Holding shares on the MTA. The Demerger is likely to be effective starting from 31 December 2016.

Equally, the shares of the Beneficiary Company awarded to the Demerged Company's shareholders will qualify for a share of the Beneficiary Company's profits as of the legal Demerger Effective Date.

**Accounting treatment of the Demerger and date from which the accounting effects apply to the participating companies**

The Transaction is being conducted under the going-concern principle, considered as a Business Combination Involving Entities or Businesses Under Common Control since the companies participating in the business combination (Snam, ITG Holding and Italgas) are and will remain consolidated as a result of the Transaction, as defined by IFRS 10 – Consolidated Financial Statements, by the same entity (CDP).

Pursuant to Article 2501-*ter*, No. 6 of the Civil Code, referred to in Article 2506-*quater* of said Code, the accounting effects of the Demerger will apply as of the Effective Date as defined in the previous Paragraph. As such, the accounting effects of the Demerger will be applied to the Beneficiary Company's financial statements as of said Effective Date.

**Tax effects of the Demerger on its Participating Companies**

The Demerger is tax neutral for the purpose of direct taxation as defined in Article 173 of the Consolidated Income Tax Act (TUIR). Specifically, under Italian tax law, the Demerger does not result in the companies involved making profits or incurring losses that are significant for tax purposes.

For the Demerged Company, the transfer of part of its shareholders' equity to the Beneficiary Company results neither in goodwill nor in latent capital gains or losses amongst its assets and liabilities. Similarly, the assets acquired by the Beneficiary Company are received at the same tax value they had when held by the Demerged Company. Any difference between the book value of these assets and their value for tax purposes will be shown in a dedicated reconciliation statement on the tax return

The Demerged Company's positions and the related obligations are allocated to the Beneficiary Company and the Demerged Company in proportion to the respective shares of book shareholders' equity transferred or retained, unless these concern positions related specifically or as a group to the Demerged Assets, and in that case these elements remain with the Beneficiary Company.

Any deferred tax reserves in the Demerged Company's most recent stand-alone financial statements are reduced, on the part of the Demerged Company, in proportion to the reduction in the related book shareholders' equity. This reduced amount in the Demerged Company must be reconstituted within the Beneficiary Company in proportion to the respective shares of book shareholders' equity transferred by the Demerged Company, unless the tax deferral depends on events affecting particular assets and liabilities, in which case the deferred tax reserves must be reconstituted by the Beneficiary Company that receives these assets and liabilities. Similarly, the Demerged Company's deferred tax reserves that were capitalised before the Demerger are transferred to the capital of the Beneficiary Company and form part of income in the event of a capital reduction due to surplus.

The provisions of Article 173 of the TUIR apply to any circumstances not expressly mentioned for the purpose of income taxes.

With regard to indirect taxation, the Demerger is not subject to value added tax (VAT), pursuant to Article 2, paragraph 3, letter f) of Presidential Decree 633/1972, and is subject to fixed registration duty, pursuant to Article 4, letter b), part one of the Tariff annexed to Presidential Decree 131/1986.

Lastly, the change in the original equity investments resulting from the Demerger constitutes neither the realisation nor distribution of capital gains or losses for the Demerged Company's shareholders. With regard to each shareholder, the division of the tax value of the stake originally held in the Demerged Company must be consistent with the existing ratio of the effective value of the equity investments received by the Beneficiary Company and the effective value of each shareholder's equity investment in the Demerged Company. However, for the Demerged Company's shareholders not resident for tax purposes in Italy, the tax regime in force in their respective countries of residence should be verified with local advisors.

### **2.1.3 Shares to be awarded to Snam shareholders**

#### **Description of the shares**

As a result of the Demerger, Snam shareholders will be allocated shares in the Beneficiary Company in proportion to the number of shares held by each shareholder in the Demerged Company at the time of the Demerger. The allocation will take place based on a ratio of one (ITG Holding) share for every five Snam shares held.

This ratio may mean that individual shareholders are entitled to a number of new shares that is not a whole number. Therefore, to facilitate the transactions, Snam will engage an authorised intermediary to trade the fractional shares of the Beneficiary Company, through the depositary intermediaries enrolled with Monte Titoli, within the limits required to enable shareholders to hold, to the highest possible extent, a whole number of shares.

In view of the request for their admission to trading on the MTA, the Beneficiary Company's shares, which are registered shares with no par value, will be subject to the transfer rules for shares issued by listed Italian companies, as set forth in the applicable laws and regulations, including those on the dematerialisation of securities.

Pursuant to Articles 83-*bis et seq.* of the TUF, the Beneficiary Company's shares will be put into the Monte Titoli centralised management system.

#### **Description of the rights associated with the shares and how they can be exercised**

The Beneficiary Company shares to be awarded to the Demerged Company will incur dividend rights as of the Demerger Effective Date.

The net profits, as they appear on the financial statements, are distributed as follows:

- 5% to legal reserves, until these reach one fifth of the share capital;
- the remainder, at the discretion of the Shareholders' Meeting, either in full or in part, to shareholders or to create or bolster reserves.



Dividends not collected within five years of the date on which they became payable revert to the Beneficiary Company. Interim dividends may be distributed in accordance with the law.

Should the Beneficiary Company be wound up at any time, for whatever reason, the Shareholders' Meeting will be responsible for establishing how the company will be liquidated.

No shares have been issued entitling the holders to special rights, and there are no share ownership schemes in place for managers and employees.

#### **Restrictions of voting rights or share transfers**

The bylaws of the Beneficiary Company make no provision for restrictions or limitations to the transfer of ownership of Beneficiary Company shares. The measures relating to the Unbundling Regulation described in Paragraph 2.1.1 make provision, with regard to the Demerged Company, for some restrictions and limitations to the transfer and ownership of shares.

#### **Restrictions to the free movement of shares**

Shares in the Beneficiary Company are and will be freely transferable.

#### **Tax system**

The Beneficiary Company shares awarded to the Demerged Company's shareholders as part of the Demerger will be admitted to trading on the MTA, meaning that they will be subject to the same tax system as the Demerged Company's shares at present.

### **2.1.4. Major shareholders and control structures**

#### **Ownership structure of the Demerged Company**

As at the Information Document Date, there are no shareholders purporting to exercise control over Snam as defined in Article 2359 of the Civil Code and Article 93 of the TUF. Shareholder CDP declared, with effect from the financial statements as at 31 December 2014, that it had de facto control over Snam within the meaning of international accounting standard IFRS 10 – Consolidated Financial Statements.

According to the shareholder register, communications received and other information available to Snam, as at the Information Document Date, the following shareholders directly or indirectly hold 3% or more of the Demerged Company's share capital with voting rights:

<b>Declarant</b>	<b>Direct shareholder</b>	<b>Proportion of ordinary share capital (%)</b>
CDP	CDP Reti <sup>(1)</sup>	28.98
	CDP Gas <sup>(2)</sup>	1.12
MINOZZI ROMANO	Finanziaria Ceramica Castellarano S.p.A.	0.26
	Iris Ceramica Group S.p.A.	1.412
	Minozzi Romano	1.361

(1) Company in which CDP holds 59.1% and State Grid Europe Limited ("SGEL") holds 35%, with the remaining 5.9% held by Italian institutional investors.

(2) Wholly owned subsidiary of CDP.

As at the Information Document Date, Snam holds 1,127,250 treasury shares, equal to 0.03% of the share capital, while Snam's subsidiaries do not hold, and are not authorised by their respective shareholders' meetings to acquire, Snam shares.

Snam has approximately eighty thousand shareholders as at the Information Document Date.

Since it is partial and proportional, the Demerger will not result in any change to Snam's ownership structure.

### Ownership structure of the Beneficiary Company

As at the Information Document Date, the Beneficiary Company's share capital is wholly owned by Snam.

As a result of the Demerger, all shareholders of the Demerged Company will receive Beneficiary Company shares in proportion to their stakes. The Demerged Company's shareholders will receive 86.50% of the Beneficiary Company's shares, while the Demerged Company itself will hold on to the remaining 13.50%.

This means that, assuming there are no changes to the ownership structure of the Demerged Company, the shareholders with 3% or more of the Beneficiary Company's share capital as at the Demerger Effective Date are as follows:

Declarant	Direct shareholder	Proportion of ordinary share capital (%)
CDP	CDP Reti	25.08
	CDP Gas	0.97
Snam	Snam	13.50

Of Snam's 13.50% stake in the Beneficiary Company, 13.47% comes from the Transfer of Snam's 8.23% stake in Italgas to the Beneficiary Company, and the remaining 0.03% comes from the awarding of Beneficiary Company shares in proportion to the treasury shares held prior to the Demerger Effective Date.

As mentioned in the Memorandum of Understanding, the entire Transaction also provides for Snam, CDP Reti and CDP Gas entering into the Shareholders' Agreement relating to the equity investments which will be held in the Beneficiary Company, equal to 13.50%, 25.08% and 0.97%, respectively. The purpose of the Shareholders' Agreement is to ensure a stable and transparent ownership structure of ITG Holding following the Transaction. The Shareholders' Agreement shall have a term of three years and shall be renewable. Specifically, the Memorandum of Understanding is designed to regulate, by means of the Shareholders' Agreement, the principal terms for the realisation of the Transaction, the rights deriving from the execution of the Shareholders' Agreement and the general governance which, after the realisation of the Transaction, will apply to ITG Holding and Italgas.

Please see Chapter 2, Paragraph 2.5.2 of this Information Document for more information about the Shareholders' Agreement.

### Effect of the Demerger on the Shareholders' Agreements

Based on the notifications sent to CONSOB pursuant to Article 122 of the TUF and the applicable provisions of the Issuers' Regulation, as at the Information Document Date, CDP, SGEL and State Grid International Development Limited are locked into the Shareholders' Agreement with Snam (the "SGEL Shareholders' Agreement"). The SGEL Shareholders' Agreement was entered into when a stake of 35% in CDP Reti was transferred to SGEL on 27 November 2014.

The SGEL Shareholders' Agreement was amended on 23 December 2014 to reflect the changes to CDP's equity investment in Snam following the 19 December 2014 transfer to Snam of the stake held by CDP (via CDP Gas) in Trans Austria Gasleitung GmbH, as part of the Snam capital increase reserved for CDP Gas and the signing of the deed of transfer of the aforementioned equity investment by CDP Gas.

Specifically, the SGEL Shareholders' Agreement – which has a three-year term from the date of signing and will be renewed automatically for subsequent three-year periods, unless one of the parties withdraws – grants SGEL governance rights to protect its investment in CDP Reti.

The rights and obligations of SGEL with regard to Snam, as set out in the SGEL Shareholders' Agreement, include in particular the following:

- as long as SGEL holds an equity investment of at least 20% in CDP Reti, it shall be entitled to appoint a candidate to be included on the list of candidates for the position of director of Snam, which will be submitted by CDP Reti at the Shareholders' Meeting called to appoint members of the Board of Directors.
- if the CDP Reti list obtains a majority of votes at the Shareholders' Meeting, SGEL's candidate must be appointed to the position of director of Snam;
- SGEL has undertaken to ensure that the director appointed by it to Snam's Board of Directors (if and to the extent that said director is not independent pursuant to Article 148 of the TUF) shall abstain, to the maximum extent permitted by law, from receiving information and/or documentation from Snam in relation to matters on which there is a conflict of interest for SGEL and/or any affiliated party, in relation to business opportunities in which Snam, on the one hand, and SGEL and/or an affiliated party, on the other, have an interest and may be in competition. Furthermore, said director may not take part in the discussions of Snam's Board of Directors concerning the aforementioned matters.

In addition, the SGEL Shareholders' Agreement entitles SGEL to withdraw if the Snam Shareholders' Meeting approves, *inter alia*, demergers where the value of the shareholders' equity transferred to the beneficiary company is greater than 10% of Snam's shareholders' equity, provided that the decisions in question have been approved by Snam's Shareholders' Meeting with a favourable vote in by CDP Reti (i.e. without this vote, the resolution would not have been adopted), notwithstanding a negative vote by the SGEL-appointed members on the CDP Reti Board of Directors.

For more details on the SGEL Shareholders' Agreement, please see the extract published on the websites of Snam and CONSOB.

Notwithstanding the above, on 28 June 2016 the Board of Directors of CDP Reti approved, to the extent of its concern, the Transaction: as a consequence, it is expected that those which adhere to the SGEL Shareholders' Agreement will adopt the amendments to the Shareholders' Agreement necessary as a result of the Demerger in order to then publish them within the terms provided by law.

## 2.2 DESCRIPTION OF THE ASSETS AND LIABILITIES TO BE TRANSFERRED TO THE BENEFICIARY COMPANY

### 2.2.1 Assets and liabilities to be transferred to the Beneficiary Company

#### Introduction

The Demerger provides for the Beneficiary Company (a pre-existing company wholly owned by Snam as at the Information Document Date) being awarded the assets and liabilities mentioned in the Paragraph below, "*Assets and liabilities transferred to the Beneficiary Company*".

Since this is a partial and proportional demerger to a company whose share capital is, as at the Information Document Date, and will remain up to the Demerger Effective Date, wholly owned by the Demerged Company, the Transaction in no way entails a change in the value of the equity investments held by the shareholders of the Demerged Company, and therefore – partly based on the opinion expressed by the Milan Council of Notaries in *Massima* No. 23 of 18 March 2004, issued by the *Commissione Società del Consiglio Notarile di Milano* – the conditions remain in place for the exemption, set out in Article 2506-ter, paragraph 3 of the Civil Code, from the need to provide the expert report pursuant to Article 2501-sexies of said Code.

Pursuant to the combined provisions of Articles 2506-ter and 2501-quater of the Civil Code, the Beneficiary Company's statement of financial position has been drafted as at its date of incorporation, i.e. 1 June 2016, and was approved by the Board of Directors of ITG Holding.

Availing itself of the option available under said Article 2501-quater of the Civil Code, the Demerged Company has used the 2015 Stand-alone Financial Statements.

The 2015 Stand-alone Financial Statements were made available to the Shareholders and the public on 5 April 2016, in accordance with the methods described by law.

The Demerged Company will transfer the aforementioned asset to the Beneficiary Company at book value.

#### Reorganisation of the corporate structures

Through the operational and corporate restructuring Transaction, the entire stake that Snam holds in Italgas as at the Information Document Date, i.e. 100% of the share capital, will be transferred to ITG Holding.

Specifically, the Transaction as a whole, which will occur in a unitary and substantially simultaneous manner, includes:

- a) the Transfer in kind by Snam to ITG Holding of an equity investment of 8.23% in the share capital of Italgas in exchange for the allocation to Snam of 108,957,843 newly issued shares of ITG Holding, in order to enable Snam to hold, post-Demerger (as per point c), an equity investment of 13.50% in the Beneficiary Company (0.03% deriving from the treasury shares held by Snam);
- b) the Sale by Snam to ITG Holding of 98,054,833 shares of Italgas, equal to 38.87% of the share capital of Italgas, for a price of Euro 1,503 million, to be settled through the repayment of a Vendor Loan of an equal amount to the Beneficiary Company, in order to generate an adequate level of

financial debt for the Beneficiary Company, taking into account the activity, risk and cash flow generation profile; and

- c) the partial and proportional Demerger of Snam, with the allocation to ITG Holding of an equity investment equal to the 52.90% held by the Demerged Company in Italgas, and consequent allocation to Snam shareholders of the remaining 86.50% of the Beneficiary Company's share capital.

The reorganisation of Italgas's corporate structures, carried out by way of the Transfer and the Sale (executed at the same time as the Demerger), is closely associated with the execution of the Demerger itself and has two objectives: (i) to provide Snam with a post-Demerger stake of 13.50% in the Beneficiary Company once the Transaction is complete mainly resulting from the Transfer, and (ii) appreciating part of its stake in Italgas by giving, at the same time, the Beneficiary Company an adequate level of financial debt, taking into account its activity, risk and cash flow generation profile.

In addition to the conditions of law, including, specifically, the favourable vote of the Snam Shareholders' Meeting, the efficacy of the Transaction is conditioned upon:

- (i) the issuance of Borsa Italiana's order admitting the Beneficiary Company's shares to trading on the MTA;
- (ii) the issuance of the judgment of equivalence by CONSOB pursuant to Article 57, paragraph 1, letter d) of the Issuers' Regulation in relation to this Information Document, supplemented pursuant to said Article; and
- (iii) the approval by the bondholders of the Demerged Company.

Subsequent to the Transaction, the shares of the Beneficiary Company will be admitted to trading on the MTA.

The Transaction schedule provides that, subject to the fulfilment of the conditions set out under points (i), (ii) and (iii), the Demerger will probably take effect by 31 December 2016.

At any time, even following approval of the Demerger Plan by the shareholders of the companies involved in the Demerger, the proceedings whereby the Beneficiary Company's shares are admitted to trading on the MTA could be interrupted or suspended, if the conditions to pursue the listing are no longer deemed to be satisfied.

In addition, the acts related to the Transaction shall be conditional, thus ensuring that the individual steps into which the Transaction is divided occur in a unitary and substantially simultaneous manner.

In order to support the Transaction-related decisions of the Boards of Directors of the Companies Participating in the Demerger, Snam has appointed the Expert to write:

- (i) (sworn) reports on the value of Snam's equity investment in Italgas (including the stakes in investee companies) in order to comply with applicable regulations, particularly, based on the structure of the Transaction, Article 2343-ter, paragraph 2 of the Civil Code with regard to the Transfer and Article 2343-bis, paragraph 2 of the Civil Code with regard to purchases by the company from promoters, founders, shareholders and directors; and
- (ii) a report, requested by Snam on a voluntary basis, aimed at estimating the actual value of the shareholders' equity allocated to the Beneficiary Company following the Demerger.

The adequacy of the Transfer and Sale values and the value of the shareholders' equity assigned to the Beneficiary Company as part of the Demerger are confirmed in the reports mentioned in points (i) and (ii) above.

#### **Assets and liabilities transferred to the Beneficiary Company**

Under the Demerger, the Demerged Company will allocate to the Beneficiary Company a stake of 52.90% in the share capital of Italgas. In keeping with the accounting principles, the allocation will occur at the carrying value for which the equity investment is registered, equal to Euro 1,569,211,964.76, corresponding to 52.90% of the total cost of Euro 2,966,473,384.94.

<b>Company name</b>	<b>Registered office</b>	<b>Share capital in Euros</b>	<b>% stake held by Snam</b>	<b>Shares held</b>	<b>REA No.</b>	<b>Snam book value in Euro s as at 31 December 2015</b>
Italgas	Turin	252,263,314.00	100	252,263,314	Turin No. 1082	2,966,473,384.94

No other element of the Demerged Company's assets or liabilities beyond what is expressly stated shall form the object of assignment. Therefore, the value of the shareholders' equity allocated comes to Euro 1,569,211,964.76.

#### **Ostiense Property Complex**

In this regard, together with the Demerger, Snam's rights and obligations in relation to the Property Complex located in Roma Ostiense will be transferred to the Beneficiary Company as a result of specific contractual arrangements entered into during the sale by Eni of 100% of its share capital in Italgas to Snam, which occurred in 2009 (as summarised below) .

On 12 February 2009, Snam (then Snam Rete Gas, now Snam) and Eni signed the Sale and Purchase Agreement for the purchase by Snam of 100% of the share capital of Italgas, the proprietary company of, *inter alia*, the Property Complex, consisting of land and overlying buildings, located in Rome, Ostiense Area.

On 30 June 2009, the parties signed a private deed to implement the Sale and Purchase Agreement.

The Sale and Purchase Agreement, as supplemented by certain agreements entered into by the relevant parties, provides, in particular, for a commitment by Eni to purchase the Property Complex from Italgas. It also provides for Eni's right to receive, from Snam, by way of adjustment of the price of Italgas shares and together with the sale of the Property Complex, an amount equal to the difference between the appraised value of the Property Complex and the RAB value thereof as of 31 December 2007. From this resulting amount, the duly documented fiscal charges and accessory costs owed by Italgas in relation to the sale of the Property Complex to Eni will be deducted. With respect to the environmental charges, the adjustment of the price of Italgas shares will also include the difference between the appraised value of such charges and the value set out in the provisions for the environmental risks, relating to the Property Complex, as per the balance sheet of Italgas as of 31 December 2008.

In the event of failure to complete the sale and purchase of the Property Complex, and by virtue of the provisions in the Italgas Sale and Purchase Agreement, Snam has the right to be indemnified by Eni for environmental liabilities in excess of the amount recorded in the Italgas financial statements as at 31 December 2008 and for the related events that occurred prior to 30 June 2009 (the date of transfer of Italgas shares from Eni to Snam). It is also expected that Eni shall reimburse Snam for any environmental liabilities incurred and documented by Italgas after 31 December 2008, net of the corresponding tax effect.

In execution of the aforementioned agreements, on 24 October 2012 Snam and Eni signed a further agreement under which they agreed to make their respective subsidiaries, Italgas and Eniservizi, sign a sale and purchase agreement relating to the Property Complex, preceded by a preliminary agreement. On 8 April 2014, Eniservizi and Italgas signed the preliminary agreement for the sale of the Property Complex for Euro 21,972,391.00, which was established as a fixed, unchangeable amount, regardless of the actual extent of remediation that will be necessary on the site. Consistent with the applicable accounting principles, the fund relating to the reclamation costs for the Property Complex was not adequate.

With respect to the business activity carried out by Italgas and its subsidiaries, the following is specified, in addition to what has already been stated.

The natural gas distribution service is based on concessions currently awarded by the individual municipalities in which Italgas operates. The distribution service consists of carrying gas through local pipelines from transportation network connection points to points for redelivery to end users (domestic or industrial customers). The service is carried out on behalf of companies authorised to market gas.

Based on information provided to the AEEGSI, in 2014, approximately 230 companies distributed natural gas in approximately 7,100 municipalities in Italy, to approximately 23 million customers.

Italgas, along with its subsidiaries Napoletanagas and ACAM Gas, manages a distribution network of approximately 57,000 km and has a gas distribution concession in 1,472 municipalities, of which 1,401 are operational, with 6.526 million active meters at Redelivery Points.

The Italgas Group is Italy's leading distributor of natural gas in urban areas by number of Redelivery Points.

Italgas also has non-controlling interests in other natural gas distribution firms, for which it acts as the primary industrial shareholder. These companies, which are not consolidated by Italgas, are mentioned below.

The values shown below are taken from the respective financial statements, drafted in accordance with the provisions of the Civil Code (and Legislative Decree 127/1991 in the case of consolidated financial statements) and the accounting principles drawn up by the National Board of Certified Public Accountants and Bookkeepers and by the Italian Accounting Organisation (OIC).

■ **Toscana Energia S.p.A. (48.08%)**

Toscana Energia S.p.A. ("Toscana Energia") is 51.25% owned by public bodies, including a 20.6% stake held by the municipality of Florence, and 0.67% owned by private shareholders.

Toscana Energia performs the distribution service in 104 municipalities across Tuscany, with approximately 790,000 active Redelivery Points and more than 1 billion cubic meters of gas carried in 2015.

At 31 December 2015, Toscana Energia's revenues of some Euro 125 million generated EBIT of approximately Euro 61 million and a net profit of approximately Euro 40 million.

■ **Umbria Distribuzione Gas S.p.A. (45%)**

The remaining 55% of Umbria Distribuzione Gas S.p.A. ("Umbria Distribuzione") is owned by ASM Terni S.p.A. (40%) and Acea S.p.A. (15%).

As the holder of an 11-year mandate that began in August 2007, Umbria Distribuzione manages the natural gas distribution service in the Terni municipality, making use of an integrated system of infrastructure owned by Terni Reti S.r.l., a wholly owned subsidiary of the Terni municipality.

The natural gas distribution network managed by Umbria Distribuzione extends for 397 km, with approximately 50,000 active Redelivery Points and 54 million cubic meters of gas carried.

At 31 December 2015, Umbria Distribuzione's revenues of approximately Euro 6.5 million generated EBIT of some Euro 550,000 and a net profit of approximately Euro 310,000.

■ **Metano S. Angelo Lodigiano S.p.A. (50%)**

The remaining 50% of Metano S. Angelo Lodigiano S.p.A. ("Metano Lodigiano") is owned by the municipality of S. Angelo Lodigiano.

Metano Lodigiano holds the gas distribution concessions in the municipalities of Sant'Angelo Lodigiano (LO), Villanova del Sillaro nella Frazione Bargano (LO), Castiraga Vidardo (LO), Marudo (LO) and Villanterio (PV).

Metano Lodigiano serves approximately 9,700 Redelivery Points and carries 17 million cubic meters of gas in 2015.

As at 31 December 2015, Metano Lodigiano's revenues of approximately Euro 1.5 million generated EBIT of some Euro 540,000 and a net profit of approximately Euro 350,000.

On 21 June 2016, the Italgas Board of Directors called the Shareholders' Meeting to be held on 18 July 2016 to resolve on the distribution of a dividend for the financial year 2015, equal to Euro 274,563,390.96.

**Effects of the Demerger on the assets and liabilities of the Demerged Company**

The Demerger will result in a proportional reduction of Euro 1,569,211,964.76, in the Demerged Company's shareholders' equity, by way of a reduction of Euro 961,181,518.44 in share capital and a reduction of Euro 608,030,446.32 in reserves. Specifically, the Legal Reserve will be reduced by Euro 192,236,303.69 and the Share Premium Reserve by Euro 415,794,142.63.

Any differences in the book value of the asset to be assigned, which result from any corporate dynamics that occur up until the Demerger Effective Date, will not result in cash adjustments, but will instead be applied as a benefit or charge to the assigned assets.

Since Snam shares have no par value, the aforementioned share capital reduction will not result in any shares being cancelled.



### Effects of the Demerger on the assets and liabilities of the Beneficiary Company

The Demerger will result in a corresponding increase of Euro 1,569,211,964.76 in the Beneficiary Company's shareholders' equity, attributed (i) to share capital in the amount of Euro 961,181,518.44, thereby increasing the share capital from Euro 40,050,000 to Euro 1,001,231,518.44 via the issuance of 700,127,659 new shares; and (ii) to reserves in the total amount of Euro 608,030,446.32. The Legal Reserve will increase by Euro 192,236,303.69, and the Share Premium Reserve by Euro 415,794,142.63.

A summary of the aforementioned effects on the assets and liabilities of the Demerged Company and the Beneficiary Company is shown below. In particular, the first column shows the Demerged Company's shareholders' equity items at 31 December 2015, while the second and third columns show, respectively, a post-Demerger breakdown of the shareholders' equity of the Beneficiary Company and the Demerged Company.

	<b>Snam pre-Demerger (31 December 2015)</b>	<b>ITG Holding post-Demerger (*)</b>	<b>Snam post-Demerger</b>
Share capital	3,696,851,994.00	961,181,518.44	2,735,670,457.56
Legal reserve	739,370,398.80	192,236,303.69	547,134,095.11
Share premium reserve	1,604,214,715.01	415,794,142.63	1,188,420,572.38
Other reserves	(29,979,837.77)		(29,979,837.77)
Net profit 2015	824,675,951.88		824,675,951.88
<b>Total</b>	<b>6,835,133,221.92</b>	<b>1,569,211,964.76</b>	<b>5,265,921,257.16</b>

(\*) The items of shareholders' equity awarded to ITG Holding after the Demerger and allocated to the Share Capital and Legal Reserve have been calculated on a proportional basis, i.e. ratio of the Demerged Assets and Liabilities to Snam's shareholders' equity at 31 December 2015, net of the effects of allocating 2015 income, as decided by the Shareholders' Meeting of 27 April 2016. The amount allocated to the share premium reserve was calculated on top of the total value of the Demerged Assets and Liabilities.

The following summarises the balance sheet effects on the shareholders' equity of the Demerged Company and the Beneficiary, as a result of the entire transaction (incorporation of ITG Holding, Transfer, Sale and Demerger), also including the effects resulting from the allocation of profit for 2015, approved by the Shareholders' Meeting of 27 April 2016.

(€ million)

<b>Snam</b>	<b>31 December 2015 (pre-Transaction)</b>	<b>Distribution of 2015 dividend</b>	<b>Snam post-dividend distribution</b>	<b>Sale</b>	<b>Demerger</b>	<b>Snam post-Transaction</b>
Share capital	3,697		3,697		(961)	2,736
Legal reserve	739		739		(192)	547
Share premium reserve	1,603	(50)	1,553		(416)	1,137
Other reserves	(29)		(29)	350 (*)		321
Net profit	825	(825)				
<b>Snam shareholders' equity</b>	<b>6,835</b>	<b>(875)</b>	<b>5,960</b>	<b>350</b>	<b>(1,569)</b>	<b>4,741</b>

(€ million)

<b>ITG Holding</b>	<b>Incorporation</b>	<b>Transfer</b>	<b>Sale</b>	<b>Demerger</b>	<b>ITG Holding post-Transaction</b>
Share capital	Euro 50,000	40		961	1,001
Legal reserve				192	192
Share premium reserve		204		416	620
Other reserves			(350) (*)		(350)
<b>ITG Holding shareholders' equity</b>		<b>244</b>	<b>(350)</b>	<b>1,569</b>	<b>1,463</b>

(\*) The reserve, which is positive for the Demerged Company and negative for the Beneficiary Company, is taken away again in view of the Sale and is equal to the difference between the Sale price and the corresponding fraction of cost of the equity investment.

## 2.3 REASONS FOR AND PURPOSE OF THE TRANSACTION

### 2.3.1 Financial reasons and benefits of the Transaction

This is primarily a business Transaction aimed at separating Snam Group's Italian gas distribution activities (carried out by the Italgas Group) from its gas transportation and dispatching, regasification and storage activities in Italy and abroad. Within this context, the structure of the Transaction in its three stages mentioned above (*i.e.* Demerger, Transfer and Sale, which will be completed simultaneously) will ensure fulfilment, as mentioned above, of the twin aims of (i) providing Snam with a post-Demerger stake of 13.50% in the Beneficiary Company (mainly resulting from the Transfer), and (ii) granting to the Beneficiary Company an adequate level of indebtedness, taking into account its activity, risk and cash flow generation profile (via the Sale).

The reason for the Transaction is the belief that the gas distribution activities (which are subject to the Demerger) present very specific characteristics that are different from the rest of Snam Group's activities in terms of operational organisation, competitive context, regulation and investment requirements.

Distribution is primarily a local business awarded on a fixed-term concession basis by local and regional authorities and carried out using mainly metropolitan low-pressure pipeline networks that transport the gas to the redelivery points at the homes or businesses of end customers. The distribution business is also more labour intensive than Snam Group's other businesses, requires frequent interaction with local authorities and is based on continuous small-scale investment.

Despite being based on the same principles of reference as Snam Group's other regulated activities, the regulatory framework for distribution has certain characteristics in terms of the way in which operating costs are recognised on a parametric basis because of the hugely fragmented nature of the market, in which there are many competitors.

From an operational perspective, Italgas is preparing for a journey that will be characterised over the next few years by Local Tender Processes for gas distribution concessions, which are expected to result in a more concentrated market with an opportunity for economies of scale and operating synergies.

Two distinct groups will emerge from the Demerger, each focused on its own business and with clearly identified, market-visible objectives. Both groups should have the autonomy required to best capitalise on strategic growth opportunities and a well-defined operational profile that will allow them to fulfil their potential.

As a result of the Demerger, each Snam shareholder will have, in place of a Snam share, two different shares representing the different business areas in which Snam operates as at the Information Document Date. Specifically, the Snam shares, on the one side, Snam being a company operating in the transportation, dispatching, regasification and storage of natural gas, and the ITG Holding shares, on the other side, ITG Holding being a company operating in the distribution of natural gas.

### 2.3.2 Outlook and plans for the Demerged Company

The Transaction means that the Post-Demerger Snam Group will be able to concentrate on its transportation, storage and regasification activities in Italy and abroad in a bid to maximise the value of its existing asset portfolio and capitalise on new development opportunities.

As an additional opportunity, the Post-Demerger Snam Group intends to retain a stake of 13.50% in Italgas so it can benefit from the future growth and value creation of this company.

### 2.3.3 Outlook and plans for the Beneficiary Company

The Beneficiary Company's role will be to manage the equity investment in Italgas. Over the coming years, Italgas will be involved in gas distribution service tenders at local level, as defined by industry regulations (M.D. No. 226/2011). In order to cope effectively with this commitment, the company expects to upgrade its technical structures and the related process by the end of 2016.

In particular, the company is in the process of finishing its revision and computerisation of most of its technical and production processes, from designing and implementing projects to managing works, maintaining and running distribution facilities and overseeing map updates, including by way of new workforce management tools enabling, among other things, the on-site production of summaries of the activities carried out by corporate management systems.

In compliance with AEEGSI resolutions (Resolution ARG/gas 155/08 as amended), all meters (including domestic ones) will continue to be replaced with smart meters.

Italgas will also be able to:

- benefit from growth opportunities arising from changes in the market through more effective use of financial debt, including by way of an investment grade credit rating, just like the other Italian operators;
- obtain a higher market share and react more effectively if the tender timetable is brought forward;
- enjoy more flexibility with regard to investments, since the restrictions that come with being part of the Snam Group, i.e. competing against other investment opportunities and being bound by Snam's debt, will no longer apply;
- obtain direct access to the capital markets, enabling it to finance future growth.

## 2.4 DOCUMENTS MADE AVAILABLE TO THE PUBLIC

Pursuant to the applicable legislations and regulations, the following documents are published on the website of the Demerged Company ([www.snam.it](http://www.snam.it)) and submitted to and made available by the "NIS-Storage" authorised storage facility managed by Bit Market Services S.p.A ([www.emarketstorage.com](http://www.emarketstorage.com)), as well as Snam's registered office at Piazza Santa Barbara 7, San Donato Milanese (MI):

1. Demerger Plan and related annexes registered with the Milan Companies Register on 1 July 2016;

2. Report by Snam's Board of Directors, in compliance with Annex 3A of the Issuers' Regulation, in relation to the Demerger;
3. Report by ITG Holding's Board of Directors, pursuant to Articles 2506-ter and 2501-quinquies of the Civil Code in relation to the Demerger;
4. Report by the External Auditors on the Pro-Forma Consolidated Financial Statements of the Post-Demerger Snam Group for the year ended 31 December 2015;
5. Report by the External Auditors on the Pro-Forma Consolidated Financial Statements of the ITG Holding Group for the year ended 31 December 2015;
6. Reports by the External Auditors on the Forecast Data of the Snam Group and of the ITG Holding Group contained in this Information Document;
7. Snam's stand-alone financial statements for the year ended 31 December 2015, approved by the Demerged Company's Ordinary Shareholders' Meeting on 27 April 2016;
8. Opinion of Snam's Control, Risk and Related-Party Transactions Committee;
9. Opinion of Prof. Antonio Nuzzo submitted to the Control, Risk and Related-Party Transactions Committee;
10. Snam's annual financial reports for the financial years 2013, 2014, 2015 including the stand-alone and consolidated financial statements and the reports of the Board of Directors and the Independent Auditor;
11. Expert report prepared pursuant to Article 2343-ter paragraph 2 of the Civil Code with reference to the equity investment held by Snam in Italgas (including the equity investments in investee companies) subject of the Transfer;
12. Expert report prepared pursuant to Article 2343-bis paragraph 2, of the Civil Code with reference to the equity investment held by Snam in Italgas (including the equity investments in investee companies) subject of the Sale;
13. Expert report, requested by Snam on a voluntary basis, in order to estimate the effective value of the shareholders' equity assigned to the Beneficiary Company following the Demerger.

Finally, the Information Document has been made available to the public at the registered office of the Companies Participating in the Demerger, on Snam's website ([www.snam.it](http://www.snam.it)) and at the "NIS-Storage" authorised storage facility managed by Bit Market Services S.p.A. ([www.emarketstorage.com](http://www.emarketstorage.com)).

Please see the Disclaimer on page 2 of this Information Document.

## 2.5 INFORMATION WITH REGARD TO THE TRANSACTION AS CARRIED OUT WITH RELATED PARTIES

### 2.5.1 Indication of the Related Parties with which the Transaction has been implemented, the nature of the relationships and the scope and nature of the interests of said Parties

As at the Information Document Date, there are no shareholders purporting to exercise control over Snam as defined in Article 2359 of the Civil Code and Article 93 of the TUF. Shareholder CDP declared, with effect from the financial statements as at 31 December 2014, that it had de facto control over Snam within the meaning of international accounting standard IFRS 10 – Consolidated Financial Statements.

As at the Information Document Date, CDP holds stakes, through CDP Reti<sup>9</sup> and CDP Gas<sup>10</sup> respectively, of 28.98% and 1.12% in Snam's share capital.

Given that its stake, as at the Information Date, "*enables it to exercise considerable influence over Snam*", CDP is a Related Party of Snam as defined in Annex 1, Article 2 to the Regulations on Related-Party Transactions and Article III(a)(ii) of the Procedure on Related-Party Transactions. Considering its overall economic value, the Transaction qualifies as a "major" transaction under the Procedure on Related-Party Transactions.

As clarified by CONSOB Communication DEM/10078683 of 24 September 2010, a genuine proportional demerger whereby the assets and liabilities of a listed company are demerged into the beneficiary company and the shares are allocated proportionately to its shareholders, meaning that these are treated equally, does not constitute a "Related-Party Transaction". In view of the foregoing, the partial and proportional Demerger of Snam and the allocation to ITG Holding of a 52.90% stake in Italgas does not constitute a "Related-Party Transaction" and, therefore, should not be subject to the "Major Transaction" procedure set out in Article 8 of the Regulations on Related-Party Transactions.

Conversely, the Transfer in kind from Snam to ITG Holding of an 8.23% stake in Italgas and the Sale by Snam to ITG Holding of a 38.87% stake in Italgas are classified as "Related-Party Transactions" since they were concluded with a related party, i.e. ITG Holding, a wholly owned subsidiary of Snam. However, Article 14, paragraph 2 of the Regulations on Related-Party Transactions and Article X, Paragraph 8 of the Procedure on Related-Party Transactions state that the procedures applied to Related-Party Transactions do not apply to transactions with subsidiaries (ITG Holding).

As mentioned in the Memorandum of Understanding, the entire Transaction also provides for Snam, CDP Reti and CDP Gas entering into the Shareholders' Agreement relating to the equity investments which will be held in the Beneficiary Company, equal to 13.50%, 25.08% and 0.97%, respectively. The purpose of the Shareholders' Agreement is to ensure a stable and transparent ownership structure of ITG Holding following the Transaction. The Shareholders' Agreement shall have a term of three years and shall be renewable. Specifically, the Memorandum of Understanding is designed to regulate, by means of the Shareholders' Agreement, the principal terms for the realisation of the Transaction, the rights deriving from the execution of the Shareholders' Agreement and the general governance which, after the realisation of the Transaction, will apply to ITG Holding and Italgas.

Please see Chapter 2, Paragraph 2.5.2 of this Information Document for more information about the Shareholders' Agreement.

In the light of CDP's involvement as a Related Party of Snam, and the correlation between the Transaction and the signing of the Shareholders' Agreement between Snam, CDP Reti and CDP Gas as provided for by the Memorandum of Understanding, Snam has not availed itself of the aforementioned exemption and has subjected the entire Transaction to the "Major Transaction" procedure set out in

<sup>9</sup> Company 59.10% owned by CDP.

<sup>10</sup> Company wholly owned by CDP.

Article 8 of the Regulations on Related-Party Transactions and Article VI of the Procedure on Related-Party Transactions.

### **2.5.2 Significant agreements and relationships between Snam, its subsidiaries, executives and the Boards of Directors of Snam and CDP**

On 28 June 2016, Snam's Board of Directors voted to enter into the Memorandum of Understanding that provides that Snam sign the Shareholders' Agreement with CDP Reti and CDP Gas, relating to its 13.50% stake in the Beneficiary Company. On the same date, the boards of directors of CDP (also on behalf of CDP Gas) and CDP Reti also voted to enter into the Memorandum of Understanding that provides that CDP Reti and CDP Gas sign the Shareholders' Agreement relating to their 26.05% stake in the Beneficiary Company.

The main characteristics of the Shareholders' Agreement, which shall be signed by the parties prior to the Demerger Effective Date, particularly the specific rights that it allocates to its signatories, are described below.

#### **Shareholders' Agreement**

The structure of the Shareholders' Agreement on the stakes in ITG Holding held by Snam, CDP Reti and CDP Gas will be consistent (i) with the role of CDP as reference shareholder as currently held by CDP in Snam and (ii) with Snam's interest in maintaining an essentially financial interest in ITG Holding.

#### **In order to achieve the aforementioned objectives, the Shareholders' Agreement should contain the following provisions:**

- an Advisory Committee shall be established, comprising five members, of whom four will represent CDP Reti and one Snam. The Advisory Committee will resolve through simple majority on the exercise of voting right relating to ITG Holding shares of members of the Shareholders' Agreement. The parties to the Shareholders' Agreement shall cast their votes, by majority vote in proportion to their shares in ITG Holding, on the basis of what is resolved by the Advisory Committee, except for the rights of Snam relating to Reserved Matters (as defined below);
- in relation to certain resolutions of ITG Holding with an extraordinary nature (the "Reserved Matters")<sup>11</sup>, if the Advisory Committee should adopt resolutions with a vote against by the representative designated by Snam, Snam shall be able to: (i) sell to potential third-party purchasers its entire equity investment in ITG Holding (in this case CDP Reti shall have a pre-emption right to the equity investment and shall have a right of approval concerning the third-party purchaser, it being understood that the third party must enter into the Shareholders' Agreement instead of Snam); and (ii) if no sale of the stake occurs within 12 months, to withdraw from the Shareholders' Agreement resulting in the cancellation of the latter;
- Snam shall not be able to increase or sell off its equity investment in ITG Holding (the "Snam Equity Investment") in pieces. Snam may, at any time, sell its equity investment only in its entirety and in compliance with the following rules: (i) CDP Reti shall have a preferential purchase right to this

<sup>11</sup> The aforementioned Reserved Matters shall be: (i) capital increases with exclusion or limitation of the option right of shareholders for a total amount exceeding 20% of the shareholders' equity of ITG Holding; (ii) mergers or demergers for a total amount exceeding 20% of the shareholders' equity of ITG Holding; (iii) wind-up or liquidation of ITG Holding.

equity investment and not only the right of approval concerning a third-party purchaser, and (ii) the third party must enter into the Shareholders' Agreement on the same terms and conditions as Snam; and

- CDP Reti, CDP Gas and other parties associated with them shall not be able to acquire additional shares or other financial instruments of ITG Holding if these acquisitions would result in the crossing of the relevant thresholds for the purposes of the rules on the obligation of a public tender offer. In addition, CDP shall not be able to sell the ITG Holding shares that it holds, if the total equity investment attributable to the Shareholders' Agreement would fall below 30%.

Furthermore, the Shareholders' Agreement shall provide that CDP Reti, CDP Gas and Snam present a joint list for appointment to the ITG Holding Board of Directors in order to ensure that Snam designates one candidate and CDP Reti designates the remaining candidates (1 of which will be appointed by SGEL), including the CEO and the chairman, on the assumption that this list would come out first by number of votes obtained in the ITG Holding Shareholders' Meeting.

The Shareholders' Agreement shall have a term of three years, renewable upon expiration in the event that Snam or CDP Reti does not express the intention to not renew it with prior notice of 12 months. In the event that Snam expresses the intention not to renew, CDP Reti will have the right to exercise a put option on the Snam Equity Investment at its fair market value within 12 (twelve) months of notification of withdrawal from the Shareholders' Agreement.

The governance of ITG Holding shall be in line with the current governance of Snam and with the best market practices, with the proviso that (i) the Board of Directors, which will hold office for a period of two years beginning on the date of appointment, shall comprise nine members, of whom eight, including the Chairman and CEO, shall be designated by CDP Reti (one shall be designated by SGEL) and one director shall be designated by Snam. The Board of Directors shall comprise four independent directors, whereas (ii) after the first renewal, the Board of Directors shall comprise nine members, of whom seven shall be drawn from the first list by number of votes and two shall be drawn from the minority lists, using a proportional mechanism (quotients).

#### **Governance of ITG Holding**

Please see Chapter 2, Paragraph 2.1.1 of this Information Document for information about the corporate governance system of ITG Holding.

#### **Governance of Italgas**

Please see Chapter 2, Paragraph 2.1.1 of this Information Document for information about the post-Demerger corporate governance system of Italgas.

### **2.5.3 Impact of the Transaction on the pay of the directors of the Demerged Company and/or its subsidiaries**

As at the Information Document Date, it is not expected that the pay of the directors of Snam and/or its subsidiaries will change as a result of the Transaction.



#### **2.5.4 Members of the management and control bodies, general managers and executives who are part of the Transaction**

Within Snam, there are no members of the Board of Directors or Board of Statutory Auditors, general managers or executives who are involved in the Transaction.

#### **2.5.5 Transaction authorisation timetable**

On 16 March 2016, the Board resolved to launch a feasibility study into a possible industrial and corporate reorganisation operation separating Italgas from Snam to be implemented through the partial and proportional Demerger of Snam involving all or part of the equity investment in Italgas. The launch of the feasibility study was announced to the market indicating that the results, together with the new Strategic Plan, would be presented by the end of July 2016.

Snam's new Board of Directors was appointed by the Shareholders' Meeting on 27 April 2016, for the financial years 2016, 2017 and 2018.

On 11 May 2016, the Board of Directors of Snam, in line with the provisions of the Code of Corporate Governance, appointed the members of the Control and Risks and Related-Party Transactions Committee, the Remuneration Committee and the Appointments Committee and established the Sustainability Committee, which carries out proposal and consultation functions with regard to the Board of Directors on corporate social responsibility issues and an update to the feasibility study was supplied and the programme of activities relating to the Demerger was discussed.

On 31 May 2016, the Board of Directors approved the change to the corporate timetable and announced that the approval of the Strategic Plan will take place on 28 June 2016. In the same meeting, the Board of Directors was also given an update on the progress of the feasibility study.

#### **Activities of the Control, Risk and Related-Party Transactions Committee**

Pursuant to Article VII of the Procedure on Related-Party Transactions, major transactions are approved by the Board of Directors subject to a favourable reasoned opinion of the Control, Risk and Related-Party Transactions Committee, which comments on whether it is in the Demerged Company's interest to conclude the transaction and on whether the conditions thereof are substantially fair and appropriate.

The Control, Risk and Related-Party Transactions Committee discussed the aspects relating to the Transaction in its meetings of 26 May 2016, 20 June 2016 and 28 June 2016.

On 26 May 2016, the Control and Risks and Related-Party Transactions Committee examined the various stages into which the Transaction is currently divided and the related timetable with special attention on the aspects regarding relations with CDP because it is a Related Party of Snam. The Committee decided that the agreements with CDP should be submitted to them and, on the other hand, it advised the Company to obtain a specific legal opinion on the subject.

On 20 June 2016, the Control and Risks and Related-Party Transactions Committee examined the Transaction and, specifically, the Memorandum of Understanding.

In compliance with the Related-Party Transactions Procedure and the provisions of the Related-Party Transactions Regulation. (i) on the instructions of Snam's Control and Risks and Related-Party Transactions Committee, the independent expert, Prof. Antonio Nuzzo, was mandated to assist the Control and Risks Committee in the issuing of its opinion on the Transaction, (ii) Prof. Antonio Nuzzo prepared his opinion with regard to the Transaction and, specifically, the Memorandum of Understanding on the expediency and essential correctness of the related conditions; and (iii) on 28 June 2016, Snam's Control and Risks and Related-Party Transactions Committee issued its unanimous favourable reasoned opinion surrounding Snam's interest in proceeding with the Transaction as well as the expediency and essential correctness of the related conditions.

The opinion of Snam's Control and Risks and Related-Party Transactions Committee is attached to this Information Document in Annex 7. The opinion of Prof. Antonio Nuzzo is attached to this Information Document in Annex 8.

On 28 June 2016, the Control and Risks and Related-Party Transactions Committee released its unanimous favourable reasoned opinion surrounding Snam's interest in proceeding with the Transaction as well as on the expediency and essential correctness of the related conditions.

#### **The Snam Board of Directors' approval of the Transaction**

On 28 June 2016, based on the exploratory documentation received and the favourable opinion of the Control, Risk and Related-Party Transaction Committee, stating that it was in the Demerged Company's interest to proceed with the Transaction and that the conditions thereof were substantially fair and appropriate, the Demerged Company's Board of Directors approved the Transaction. During this meeting, information relating to Snam's Directors' interest in relation to the Transaction was provided, pursuant to the Procedure on Related-Party Transactions.

## 3. Significant effects of the Transaction on the Demerged Company

### 3.1 SIGNIFICANT EFFECTS ON THE DEMERGED COMPANY

The effects of the Demerger on the Demerged Company's results, assets and liabilities, margins and cash flows are examined in Chapter 4 below.

As a result of the Demerger, Snam will award a 52.90% stake in Italgas to the Beneficiary Company. As such, as of the Demerger Effective Date, Snam's main activities will relate to the transportation, storage and regasification of natural gas in Italy, as well as some stakes in gas transmission and storage activities in certain European countries. Snam's future results and cash flows will broadly reflect the performance of these activities, as well as the contribution from the 13.50% stake in the ITG Holding Group.

Finally, the Demerger will have no effect on the key characteristics of the business carried out by the individual segments of the Snam Group (whether these are being transferred to the Beneficiary Company or remaining in the Demerged Company), or on the related services, major markets, business strategies and personnel management policies.

### 3.2 SIGNIFICANT EFFECTS ON THE SNAM GROUP

Snam and Snam Rete e Gas provide, through their own departments and on the basis of tariffs defined according to costs incurred, services of various kinds (such as strategic planning, administration, finance, taxation, health and safety, information technology, personnel and organisation, regulations, institutional relations and communication, security, management and real estate, enterprise risk management, internal audit, supply chain, legal affairs, corporate and compliance affairs) to subsidiaries/investee companies of Snam, including Italgas.

Italgas, in turn, provides services to its subsidiaries and investee companies, while retaining the liability and obligations, including of a financial nature, arising from the service contracts with Snam or with Snam Group companies.

At the Demerger Effective Date (coinciding with the start date of trading on the MTA of the shares of ITG Holding), ITG Holding will have the necessary resources and structures to ensure (i) the admission to trading on the MTA of the shares of ITG Holding, and (ii) continuity of the business of the ITG Holding Group. In addition, ITG Holding will provide Italgas with the necessary services to ensure the business operations (such as regulations, finance, etc.).

The services currently provided to Italgas by Snam and Snam Rete e Gas will stop as of the Demerger Effective Date, it being understood that the provision of services to the ITG Holding Group relating to some activities for which a phasing-out period is scheduled will continue.

In consideration of the temporary nature of the supply of the cited services by Snam, the ITG Holding Group shall have to: (i) equip itself with appropriate internal structures that will be able to ensure the performance of the activities provided as a service by Snam; or (ii) stipulate appropriate agreements with third-party companies. If this does not occur, there may be negative effects on the ITG Holding Group's operations, results, balance sheet and cash flow.

The activities carried out by Snam under the scope of the service contract for the ITG Holding Group companies will be valued on the basis of the costs incurred.

It cannot be excluded that the internationalisation of the ITG Holding Group or the take-over by third parties of some activities provided as a service by Snam may trigger the occurrence of events which may have a negative effect on ITG Holding Group's activities, or involve increases in costs, with negative effects on the ITG Holding Group's operations, results, balance sheet and cash flow.

## 4. Pro-forma consolidated balance sheet, income statement and financial data for the Demerged Company

### INTRODUCTION

This Chapter provides information on the pro-forma consolidated balance sheet, income statement and cash flow statement of the Demerged Company and its subsidiaries and associates ("Post-Demerger Snam Group") for the year ended 31 December 2015 (hereinafter the "Pro-Forma Consolidated Financial Statements of the Post-Demerger Snam Group"), accompanied by the related explanatory notes.

The Pro-Forma Consolidated Financial Statements of the Post-Demerger Snam Group were prepared in accordance with CONSOB Communication DEM/1052803 of 5 July 2001, in order to report the theoretical retroactive impact of the Demerger on historical data originally presented by the Snam Group and of the other measures to reorganise the corporate structure in a unitary and substantially simultaneously manner with the Demerger (i.e. the Transfer and the Sale, together with the Demerger defined below, the "Transaction" as described in the Paragraph "Reorganisation of corporate structure" in Chapter 2, Paragraph 2.2.1 of this Information Document).

Specifically, the pro-forma data as at 31 December 2015 was prepared for information purposes aimed at explaining the impact of the Transaction as if it had occurred with regard to the impact on the balance sheet as at 31 December 2015, and with regard to the operating impact and cash flows, on 1 January 2015.

Through the industrial and corporate restructuring Transaction, the entire equity investment held by Snam in Italgas as at the Information Document Date, equal to 100% of the share capital of Italgas, will be transferred to ITG Holding.

Specifically, the Transaction as a whole, which will occur in a unitary and substantially simultaneous manner, includes:

- a) the Transfer in kind by Snam to ITG Holding of an equity investment of 8.23% in the share capital of Italgas in exchange for the allocation to Snam of 108,957,843 newly issued shares of ITG Holding, in order to enable Snam to hold, post-Demerger (as per point c), an equity investment of 13.50% in the Beneficiary Company (0.03% deriving from the treasury shares held by Snam);
- b) the sale by Snam to ITG Holding of 98,054,833 shares of Italgas, equal to 38.87% of the share capital of Italgas, for a price of Euro 1,503 million, to be settled through the repayment of a Vendor Loan of an equal amount to the Beneficiary Company, in order to generate an adequate level of financial debt for the Beneficiary Company, taking into account the activity, risk and cash flow generation profile; and
- c) the partial and proportional Demerger of Snam, with the allocation to ITG Holding of an equity investment equal to the 52.90% held by the Demerged Company in Italgas, and consequent allocation to Snam shareholders of the remaining 86.50% of the Beneficiary Company's share capital, as described in Chapter 2, Paragraph 2.1.2 of this Information Document.

The adequacy of the Transfer and Sale values indicated in points a) and b) was confirmed by sworn reports of the value of the equity investment held by Snam in Italgas (including the equity investments held by it in the investee companies) issued by an Independent Expert in order to comply with the requirements of current regulations, and specifically, on the basis of the structure of the Transaction: (i) the provisions of Article 2343-ter, paragraph 2 of the Civil Code regarding the Transfer; and (ii) the provisions of Article 2343-bis, paragraph 2 of the Civil Code regarding the purchase of the company from advisors, founders, shareholders and directors.

In addition, the Expert issued a report requested by Snam on a voluntary basis, estimating the actual value of shareholders' equity assigned to the Beneficiary Company following the Demerger as indicated in point c), which confirms the value of shareholders' equity determined for the purposes of the Demerger transaction.

The transactions represent a single structure in which the result of the single steps is represented by the transfer of the entire stake held by the Demerged Company in Italgas to the Beneficiary Company.

Pursuant to Article 93 of the TUF, following the loss of control carried out by Snam with respect to Italgas, the latter will be required to repay the loans made to it by the Demerged Company. In addition to Italgas's settlement of pre-existing financial transactions, the Beneficiary Company will also be required to liquidate the amount indicated in point b) resulting from the Sale transaction described above. In order to liquidate the amounts referenced, the ITG Holding Group will have to fund itself independently on the market.

Thus, for the purposes of the pro-forma data presented below, in addition to the impact of the Transaction as described above, due consideration was given to the impact from the settlement of existing financial transactions with the Demerged Company and the resulting autonomous refinancing of the Group whose holding company is the Beneficiary Company on the market, since they are closely connected with the Transaction.

As a result of the Demerger, the Demerged Company will continue to wholly own the equity investments heading the transportation, regasification and natural gas storage businesses as well as the corporate area. These include:

- Snam Rete Gas, the largest Italian operator in the area of natural gas transportation and dispatching in Italy;
- Gnl Italia, the owner of the Panigaglia regasification terminal (La Spezia);
- Stogit, the largest natural gas storage operator in Italy, and one of the largest in Europe;
- companies currently identified as a part of Snam Group's corporate area: (i) Snam, which carries out the Group's centralised management of legal, corporate and compliance matters; planning; administration; finance and control; HSEQ; ICT; personnel and organisation; regulations; industrial relations and communication; security; general and property services; enterprise risk management; auditing, and (ii) Gasrule Insurance Ltd., a captive insurance company with its registered office in Dublin, which covers the Group's industrial risks.

For a proper interpretation of the information contained in the pro-forma consolidated data, it should be noted that:

- (i) since these are representations based on assumptions, if the Demerger were truly implemented on the dates used as a reference for the preparation of the pro-forma data instead of on the actual data, the historical data would not necessarily be the same as the pro-forma data;
- (ii) the pro-forma adjustments represent the most significant balance sheet, income statement and financial effects directly connected with the Transaction;

- (iii) the pro-forma data is not projected figures and are not intended, in any way, to represent a forecast of the future balance sheet, income statement and financial situation of the Post-Demerger Snam Group;
- (iv) in consideration of the various purposes of the pro-forma consolidated data as compared to historical figures, and in consideration of the various methodologies used to calculate the pro-forma adjustments made to Snam Group's consolidated financial statements, the pro-forma consolidated balance sheet, income statement and statement of cash flows must be reviewed and interpreted separately, without attempting to find accounting connections between them.

Finally, pursuant to Annex II of Regulation 809/2004/EC, it is believed that all adjustments reflected in the pro-forma consolidated data shall have a permanent effect, with the exception of those indicated at the end of the pro-forma consolidated income statement with comments in the notes.

The Pro-Forma Consolidated Financial Statements of the Post-Demerger Snam Group published in this document were reviewed by the External Auditors, who issued their unqualified report on 4 July 2016.

#### **4.1 Pro-forma consolidated balance sheet as at 31 December 2015 and pro-forma consolidated income statement and statement of cash flows for the year ended 31 December 2015 for the Post-Demerger Snam Group**

The Pro-Forma Consolidated Financial Statements of the Post-Demerger Snam Group were prepared on the basis of Snam Group's consolidated financial statements as at 31 December 2015, prepared according to IFRS, and audited by the External Auditors, who issued their unqualified report on 5 April 2016.

The following paragraphs of this Chapter 4 outline the scope of presentation of the pro-forma consolidated data, the base assumptions for their preparation, the allocation of balance sheet and income statement elements to the ITG Holding Group and pro-forma adjustments.

The Pro-Forma Consolidated Financial Statements of the Post-Demerger Snam Group include:

- historical data taken from Snam Group's consolidated financial statements as at 31 December 2015 (column A);
- the impact of deconsolidating the group of assets transferred to the ITG Holding Group on Snam Group's consolidated financial statements following the Demerger (column B);
- the impact arising from re-establishing asset and liability transactions and the restoration of positive and negative income components and cash flows related to transactions carried out between companies of the Post-Demerger Snam Group and of the ITG Holding Group (column C);
- the post-Demerger aggregate, which includes consolidated amounts for Snam less the group of assets transferred to the ITG Holding Group, and the impact arising from re-establishing asset and liability transactions between companies of the Post-Demerger Snam Group and of the ITG Holding Group; i.e. the historical data of the natural gas transportation, regasification and storage operating segments, and the corporate area (column D);
- pro-forma adjustments applied to post-Demerger aggregate data to reflect the impact of significant transactions related to the Transaction (column E);
- the pro-forma consolidated amounts of the Post-Demerger Snam Group (column F).

Unless otherwise indicated, figures are presented in millions of Euro.

## 4.1.1 Pro-forma consolidated balance sheet as at 31 December 2015

(€ million)

	Consolidated financial statements as at 31 December 2015 Snam Group (A)	Less: elements attributed to the ITG Holding Group (B)	Re-establishment of inter-company components (C)	Post-Demerger aggregate (D=A+B+C)	Pro-forma adjustments (E)	Pro-forma consolidated balance sheet of Post-Demerger Snam Group (F=D+E)
<b>ASSETS</b>						
<b>Current assets</b>						
Cash and cash equivalents	17	(2)		15	1,693	1,708
Trade and other receivables	1,824	(563)	487	1,748	(433)	1,315
Inventories	152	(19)		133		133
Current income tax assets	54	(8)		46	(30)	16
Other current tax assets	8	(4)		4		4
Other current assets	98	(3)		95		95
	<b>2,153</b>	<b>(599)</b>	<b>487</b>	<b>2,041</b>	<b>1,230</b>	<b>3,271</b>
<b>Non-current assets</b>						
Property, plant and equipment	15,478	(230)		15,248		15,248
Compulsory inventories	363			363		363
Intangible assets	5,275	(4,472)		803		803
Investments valued using the equity method	1,372	(169)		1,203	153	1,356
Other receivables	78		1,417	1,495	(1,417)	78
Other non-current assets	137	(5)		132		132
	<b>22,703</b>	<b>(4,876)</b>	<b>1,417</b>	<b>19,244</b>	<b>(1,264)</b>	<b>17,980</b>
Non-current assets held for sale	24	(24)				
<b>TOTAL ASSETS</b>	<b>24,880</b>	<b>(5,499)</b>	<b>1,904</b>	<b>21,285</b>	<b>(34)</b>	<b>21,251</b>



(€ million)

	Consolidated financial statements as at 31 December 2015 Snam Group (A)	Less: elements attributed to the ITG Holding Group (B)	Re-establishment of inter-company components (C)	Post-Demerger aggregate (D=A+B+C)	Pro-forma adjustments (E)	Pro-forma consolidated balance sheet of Post-Demerger Snam Group (F=D+E)
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>						
<b>Current liabilities</b>						
Short-term financial liabilities	1,351			1,351	(1,323)	28
Short-term portion of long-term financial liabilities	1,378			1,378		1,378
Trade and other payables	1,746	(393)	12	1,365		1,365
Current income tax liabilities	1	(1)				
Other current tax liabilities	50	(9)		41	11	52
Other current liabilities	71			71		71
	<b>4,597</b>	<b>(403)</b>	<b>12</b>	<b>4,206</b>	<b>(1,312)</b>	<b>2,894</b>
<b>Non-current liabilities</b>						
Long-term financial liabilities	11,067			11,067	(448)	10,619
Provisions for risks and charges	776	(192)		584		584
Provisions for employee benefits	166	(116)		50		50
Deferred tax liabilities	388	(159)		229		229
Other non-current liabilities	293	(6)		287		287
	<b>12,690</b>	<b>(473)</b>		<b>12,217</b>	<b>(448)</b>	<b>11,769</b>
Liabilities directly associated with assets held for sale	7	(7)				
<b>TOTAL LIABILITIES</b>	<b>17,294</b>	<b>(883)</b>	<b>12</b>	<b>16,423</b>	<b>(1,760)</b>	<b>14,663</b>
<b>SHAREHOLDERS' EQUITY</b>						
Share capital issued and reserves attributable to shareholders of the parent company	7,585	(4,615)	1,892	4,862	1,726	6,588
Minority interests	1	(1)				
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>7,586</b>	<b>(4,616)</b>	<b>1,892</b>	<b>4,862</b>	<b>1,726</b>	<b>6,588</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>24,880</b>	<b>(5,499)</b>	<b>1,904</b>	<b>21,285</b>	<b>(34)</b>	<b>21,251</b>

## 4.1.2 Pro-forma consolidated income statement for the year ended 31 December 2015

(€ million)

	Consolidated financial statements as at 31 December 2015 Snam Group (A)	Less: elements attributed to the ITG Holding Group (B)	Re-establishment of inter-company components (C)	Post-Demerger aggregate (D=A+B+C)	Pro-forma adjustments (E)	Pro-forma consolidated income statement of Post-Demerger Snam Group (F=D+E) <sup>(*)</sup>
<b>REVENUE</b>						
Core business revenue	3,856	(1,386)	71	2,541	(71)	2,470
Other revenue and income	114	(30)	2	86	20	106
	<b>3,970</b>	<b>(1,416)</b>	<b>73</b>	<b>2,627</b>	<b>(51)</b>	<b>2,576</b>
<b>OPERATING COSTS</b>						
Purchases, services and other costs	(782)	376	(3)	(409)	28	(381)
Personnel cost	(389)	244	(16)	(161)	18	(143)
	<b>(1,171)</b>	<b>620</b>	<b>(19)</b>	<b>(570)</b>	<b>46</b>	<b>(524)</b>
<b>AMORTISATION, DEPRECIATION AND IMPAIRMENT</b>	<b>(849)</b>	<b>273</b>		<b>(576)</b>		<b>(576)</b>
<b>EBIT</b>	<b>1,950</b>	<b>(523)</b>	<b>54</b>	<b>1,481</b>	<b>(5)</b>	<b>1,476</b>
<b>FINANCIAL INCOME (EXPENSES)</b>						
Financial expenses	(392)	5		(387)	(3)	(390)
Financial income	12	(5)	48	55	68	123
	<b>(380)</b>		<b>48</b>	<b>(332)</b>	<b>65</b>	<b>(267)</b>
<b>INCOME (EXPENSE) ON EQUITY INVESTMENTS</b>						
Equity method valuation effect	126	(20)		106	36	142
Other income (expense) from equity investments	9	(9)				
	<b>135</b>	<b>(29)</b>		<b>106</b>	<b>36</b>	<b>142</b>
<b>PRE-TAX PROFIT</b>	<b>1,705</b>	<b>(552)</b>	<b>102</b>	<b>1,255</b>	<b>96</b>	<b>1,351</b>
Income taxes	(467)	110		(357)	(23)	(380)
<b>Net profit</b>	<b>1,238</b>	<b>(442)</b>	<b>102</b>	<b>898</b>	<b>73</b>	<b>971</b>
<b>Applicable to:</b>						
- Shareholders of parent company	<b>1,238</b>	<b>(442)</b>	<b>102</b>	<b>898</b>	<b>73</b>	<b>971</b>
- Minority interests						

(\*) The pro-forma net profit of the Post-Demerger Snam Group includes non-recurring items, net of the related tax effect of +Euro 66 million, mainly represented by (i) Euro 116 million (+Euro 79 million net of the related tax effect) from financial income resulting from adjusting outstanding receivables from the ITG Holding Group at 31 December 2015 to market value; (ii) Euro (5) million (Euro (3) million net of the related tax effect) from ancillary costs directly related to the Transaction (see Paragraph 4.1.4 below for further information); and (iii) the taxation of transactions for the reorganisation of the corporate structure as noted above, totalling Euro (6) million.

## 4.1.3 Pro-forma consolidated statement of cash flows for the year ended 31 December 2015

(€ million)

	Consolidated financial statements as at 31 December 2015 Snam Group (A)	Less: elements attributed to the ITG Holding Group (B)	Re-establishment of inter-company components (C)	Post-Demerger aggregate (D=A+B+C)	Pro-forma adjustments (E)	Pro-forma consolidated statement of cash flows of Post-Demerger Snam Group (F=D+E) <sup>(*)</sup>
Net profit	1,238	(442)	102	898	73	971
Adjustments for reconciling net profit with cash flows from operating activities						
Total amortisation and depreciation	846	(273)		573		573
Impairment losses	3			3		3
Equity method valuation effect	(126)	20		(106)	(36)	(142)
Net capital losses (capital gains) on asset sales, cancellations and eliminations	32	(12)		20		20
Interest income	(8)	1	(48)	(55)	(68)	(123)
Interest expense	345	(1)		344	(3)	341
Income taxes	467	(110)		357	23	380
Other changes	(9)	9				
Changes in working capital:						
- Inventories	55	4		59		59
- Trade receivables	(9)	45	12	48		48
- Trade payables	(128)	24	1	(103)		(103)
- Provisions for risks and charges	(14)	20		6		6
- Other assets and liabilities	136	10	(27)	119		119
Working capital cash flow	40	103	(14)	129		129
Change in provisions for employee benefits	30	(31)		(1)		(1)
Dividends collected	141	(17)	214	338	(185)	153
Interest collected	5	(1)	48	52	(48)	4
Interest paid	(345)			(345)	3	(342)
Income taxes paid net of reimbursed tax credits	(605)	150		(455)		(455)
Net cash flow from operating activities	2,054	(604)	302	1,752	(241)	1,511

**(€ million)**

	Consolidated financial statements as at 31 December 2015 Snam Group (A)	Less: elements attributed to the ITG Holding Group (B)	Re-establishment of inter-company components (C)	Post-Demerger aggregate (D=A+B+C)	Pro-forma adjustments (E)	Pro-forma consolidated statement of cash flows of Post-Demerger Snam Group (F=D+E) <sup>(*)</sup>
<b>Net cash flow from operating activities</b>	2,054	(604)	302	1,752	(241)	1,511
Investments:						
- Property, plant and equipment	(793)	20		(773)		(773)
- Intangible assets	(393)	340		(53)		(53)
- Companies joining the scope of consolidation and business units	(46)	46				
- Equity investments	(144)			(144)		(144)
- Financial receivables held for operations	(78)		(116)	(194)		(194)
- Change in payables and receivables relating to investments	18	(27)		(9)		(9)
<i>Cash flow from investments</i>	<i>(1,436)</i>	<i>379</i>	<i>(116)</i>	<i>(1,173)</i>		<i>(1,173)</i>
Divestments:						
- Property, plant and equipment	6	(1)		5		5
- Equity investments	147			147		147
- Change in receivables relating to divestment activities					1,133	1,133
- Companies leaving the scope of consolidation and business units					1,503	1,503
<i>Cash flow from divestments</i>	<i>153</i>	<i>(1)</i>		<i>152</i>	<i>2,636</i>	<i>2,788</i>
<b>Net cash flow from investment activities</b>	<b>(1,283)</b>	<b>378</b>	<b>(116)</b>	<b>(1,021)</b>	<b>2,636</b>	<b>1,615</b>
Assumption of long-term financial debt	1,167			1,167	(18)	1,149
Repayment of long-term financial debt	(1,620)			(1,620)		(1,620)
Increase (decrease) in short-term financial debt	284			284	(1,323)	(1,039)
Financial receivables not held for operations	216		85	301	409	710
	47		85	132	(932)	(800)

continued

(€ million)

	Consolidated financial statements as at 31 December 2015 Snam Group (A)	Less: elements attributed to the ITG Holding Group (B)	Re-establishment of inter-company components (C)	Post-Demerger aggregate (D=A+B+C)	Pro-forma adjustments (E)	Pro-forma consolidated statement of cash flows of Post-Demerger Snam Group (F=D+E) (*)
Dividends paid to Snam shareholders	(875)			(875)		(875)
Net cash flow from financing activities	(828)		85	(743)	(932)	(1,675)
Net cash flow for the period	(57)	(226)	271	(12)	1,463	1,451
Cash and cash equivalents at the beginning of the period	74	(47)		27		27
Cash and cash equivalents at the end of the period (**)	17	(273)	271	15	1,463	1,478

(\*) The pro-forma net cash flow for the period of the Post-Demerger Snam Group includes non-recurring additions to net cash flows of Euro 1,693 million, mainly represented by the collection of existing receivables from the ITG Holding Group net of the repayment of bank lines of Euro 1,722 million (see Paragraph 4.1.4 below for additional information).

The pro-forma statement of cash flows includes effects not taken into account when preparing the pro-forma balance sheet totalling Euro (230) million, since the pro-forma adjustments were calculated on the basis of the general rule that transactions relating to the pro-forma balance sheet are assumed to have occurred as at 31 December 2015, while those relating to the pro-forma income statement and statement of cash flows are assumed to have occurred on 1 January 2015.

(\*\*) The amounts recorded under "Cash and cash equivalents at the end of the period" in columns B and C of the statement of cash flows are to be read collectively in order to associate the sum of these amounts to the total of cash attributed to the ITG Holding Group indicated in column B of the pro-forma balance sheet in Paragraph 4.1.1.

#### 4.1.4 Notes to the Pro-Forma Consolidated Financial Statements of the Post-Demerger Snam Group

The accounting standards and valuation criteria used to prepare the pro-forma data are consistent with those used in Snam Group's consolidated financial statements at 31 December 2015, to which reference should be made.

The Transaction is being conducted under the going-concern principle, considered as a Business Combination Involving Entities or Businesses Under Common Control since the companies participating in the business combination (Snam, ITG Holding and Italgas) are and will remain consolidated as a result

of the Transaction, as defined by IFRS 10 – Consolidated Financial Statements, by the same entity (CDP). Thus, the Demerger Transaction is excluded from the mandatory scope of IFRS 3 and IFRIC 17 since it is a transaction relating to a Business Combination Involving Entities or Businesses Under Common Control. As a result, the Pro-Forma Consolidated Financial Statements of the Post-Demerger Snam Group were prepared applying the principle of continuity of amounts, which generates amounts in the balance sheet that are equal to those stated in Snam Group's consolidated financial statements before the Demerger.

With the exception of the Beneficiary Company, which was established by Snam on 1 June 2016, the Transaction covers entities already included in Snam Group's scope of consolidation at 31 December 2015. Therefore, the scope of consolidation used when preparing Snam Group's consolidated financial statements at 31 December 2015 is the same as the sum of the scopes of consolidation of the Demerged Company and Beneficiary Company taken into account for the preparation of the Pro-Forma Consolidated Financial Statements of the Post-Demerger Snam Group.

Specifically, the scope of consolidation of the Demerged Company is the same as the aggregate of the "Corporate and other activities" segments and operating segments requiring disclosure under IFRS 8, Transportation and Dispatching, Regasification and Storage. Therefore the pro-forma data of the Post-Demerger Snam Group before pro-forma adjustments, as well as the data indicated in column D "Post-Demerger aggregate", correspond to the sum of data for the above segments net of eliminations for related inter-company transactions.

#### **Base assumptions for the preparation of the Pro-Forma Consolidated Financial Statements**

Following the operations described in the introduction to this Chapter, by means of the Demerger, Snam will assign a portion of its assets to the Beneficiary Company, consisting of an equity investment of 52.90% held by the Demerged Company in Italgas.

In exchange for the assignment of these assets, ITG Holding will assign its own newly issued shares to the shareholders of Snam in proportion with the shareholding held by each in the share capital of Snam. The allocation will take place based on a ratio of one ITG Holding share for every five Snam shares held.

This ratio may mean that individual shareholders are entitled to a number of new shares that is not a whole number. Therefore, to facilitate the transactions, Snam will engage an authorised intermediary to trade the fractional shares of the Beneficiary Company, through the depositary intermediaries enrolled with Monte Titoli, within the limits required to enable shareholders to hold, to the highest possible extent, a whole number of shares.

ITG Holding will apply to the competent authorities and bodies to have its own shares traded on the MTA. As a result of the Transaction, the shares of the Beneficiary Company will be admitted to trading on the MTA. The execution of the Demerger deed is therefore subject, in addition to what is set out by the Civil Code, to obtaining the authorisations of Borsa Italiana and CONSOB necessary for that purpose.

Therefore the reference date used in preparing the Pro-Forma Consolidated Financial Statements for simulating the impact of deconsolidation resulting from the Demerger does not correspond to the date that will actually be used for the preparation of the consolidated financial statements of the Post-Demerger Snam Group and the ITG Holding Group for the period in which the Demerger is finalised.

Any differences in the accounting amounts of assets being transferred that are due to company changes that may occur between 31 December 2015 and the Demerger Effective Date will not result in cash adjustments, but will instead be applied as a benefit or charge to the assets assigned.

The following base assumptions were used to assess the impact of the Transaction on the reference dates used for preparing the pro-forma data:

- the pro-forma consolidated financial statements and information were prepared using Snam Group's consolidated financial statements at 31 December 2015 as a reference and supplementing the latter with pro-forma adjustments aimed at depicting the impact of the Transaction (the Demerger and unitary and substantially simultaneous corporate transactions, *i.e.* the Transfer and Sale);
- the pro-forma adjustments were calculated on the basis of the general rule that transactions related to the balance sheet are assumed to have occurred as at the reference date of the balance sheet, while with regard to the income statement and statement of cash flows, transactions are assumed to have occurred at the beginning of the period to which these statements refer. Thus, in accordance with the rules for preparing pro-forma statements, which are specified in the previously referenced CONSOB Communication DEM/1052803 of 5 July 2001, the impact of transactions carried out and planned after 31 December 2015 was not taken into account unless closely related to the aforementioned Transaction.

#### **Elements of the balance sheet, income statement and statement of cash flows assigned to the ITG Holding Group (column B)**

This column reflects the impact of the partial and proportional Demerger of Snam to the Beneficiary Company on consolidated data through Snam's allocation of a portion of its assets, represented by the net assets related to natural gas distribution in Italy.

#### **Re-establishment of inter-company components (column C)**

This column reflects the re-establishment of asset and liability transactions as well as positive and negative income and cash flow components attributable to transactions carried out between companies of the Group whose holding company is the Demerged Company and companies of the Group whose holding company is the post-Demerger Beneficiary Company, considering that as a result of the Transaction, the reasons for the elimination of these transactions no longer apply since they can no longer be qualified as inter-company transactions. Specifically, these are mainly relationships resulting from the following types of transactions:

- revenue/receivables for services performed centrally by Snam or by companies that will remain a part of the Post-Demerger Snam Group for companies that will form a part of the ITG Holding Group, especially with regard to corporate, legal and compliance services; planning, administration, finance and control; HSEQ; ICT; personnel and organisation; regulations; institutional relations and communication; security; general and property services; enterprise risk management; auditing and procurement;
- costs/payables for the lease of properties and for the secondment of staff on the payroll of companies that will form a part of the ITG Holding Group to companies that will remain a part of the Post-Demerger Snam Group;
- loans provided by Snam to companies that will form a part of the ITG Holding Group, and inter-company asset/liability balances under the Group's cash pooling agreement between Snam and

- companies that will form a part of the ITG Holding Group;
- financial income/receivables (and/or expenses/payables) related to interest income/expenses on cash pooling balances and chargebacks for financial services involving the centralised management of treasury services, and financial income/receivables related to interest income on loans provided by Snam to companies that will form a part of the ITG Holding Group;
- receivables/payables for the Group's tax consolidation and VAT payment schemes.

### **Pro-forma adjustments (column E)**

This column reflects the pro-forma adjustments applied to the aggregate post-Demerger data of the Post-Demerger Snam Group to indicate the impact of the Transactions described above.

Note that in accordance with the above-mentioned principle of continuity of amounts, which resulted in leaving the net assets within the purview of the ITG Holding Group unchanged, no capital gains and/or losses were reported in the income statement as a result of the Transaction.

### **Adjustments to the consolidated balance sheet**

#### **INVESTMENTS VALUED USING THE EQUITY METHOD**

As noted above, the reorganisation of the corporate structure will allow the Demerged Company to hold a 13.5% stake in the post-Demerger Beneficiary Company. This stake is initially recorded at Euro 153 million, equal to the 13.50% share of the post-Demerger pro-forma shareholders' equity of the group headed by the Beneficiary Company.

#### **NET FINANCIAL DEBT**

The pro-forma adjustments include a reduction of the net financial debt pertaining to the Demerged Company totalling Euro 3,469 million (of which Euro 1,722 million resulted from increased available liquidity and Euro 1,747 million corresponding to the reduction in financial debt), resulting from the settlement by the Beneficiary Company, assumed to occur when the Transaction goes into effect, of (i) the debt value as at 31 December 2015 attributed to ITG Holding Group (Euro 1,966 million), as well as (ii) the receivable generated for the Demerged Company following the Sale of 38.87% of the equity investment held by Snam in Italgas to the Beneficiary Company (Euro 1,503 million), of which Euro 424 million, corresponding to the amount related to loans provided to Snam by the European Investment Bank (EIB), shall be settled by assumption by the Beneficiary Company.

The pro-forma adjustments also include the payment of ancillary costs directly related to the Transaction and a reduction of the bonds due to the adjustment made in accordance with the application of the amortised cost method resulting from the recording of fees related to renegotiation of the contractual terms of these bonds. An adjustment equal to the amount of the fees was made to reduce cash by the related outlay.

#### **CURRENT INCOME TAX ASSETS AND LIABILITIES**

Pro-forma adjustments include the tax effect connected with (i) the adjustment of outstanding receivables from Italgas at 31 December 2015 to market value; (ii) ancillary costs directly related to the Transaction; and (iii) the taxation of transactions to reorganise the corporate structure as described above.



## Adjustments to the consolidated income statement

### **COSTS RELATED TO THE DEMERGER**

Pro-forma adjustments include ancillary costs that are directly related to the Transaction in an amount projected at Euro 5 million (Euro 3 million net of the related tax effect). Specifically, this is an estimate of costs incurred for services rendered by legal, tax and accounting advisors. Note that in each case, these are not recurring costs.

### **PROVISION OF SERVICES**

With regard to services provided between the companies of the Post-Demerger Snam Group and the ITG Holding Group, in the pro-forma adjustments, inter-company revenues were reversed that correspond to services provided to date by the Demerged Company, for which it is assumed that the costs incurred will be borne directly by the Beneficiary Company (Euro 51 million). As a result, personnel and service costs of the same amount were reversed that were incurred to date directly by the Demerged Company so that the above services could be provided to the Beneficiary Company.

### **NET FINANCIAL INCOME/EXPENSES**

Pro-forma adjustments include the portion of costs applicable to the period for the renegotiation of the contractual terms of bonds. These additional costs, insofar as they relate to the revision of the contractual terms of existing financial debt that is not being repaid, will be allocated to the income statement using the amortised cost method over the remaining term of the bonds being renegotiated. For the purposes of pro-forma adjustments, the impact on the income statement (estimated at Euro 6 million) was determined by taking into account the average remaining term of these bonds.

With regard to the impact on net financial expenses due to lower levels of net financial debt, if the Transaction had occurred on 1 January 2015, adjustments would have been made to the pro-forma income statement of the Demerged Company solely for financial expenses related to loans made to Snam by the European Investment Bank that were taken over by the Beneficiary Company in the amount of Euro 3 million. This assumption was made in consideration of the fact that for the other lower net financial debt, the marginal cost of borrowing for repayable forms of loans identified as a function of a cost/benefit analysis is actually zero, and that any investment of surplus cash, under current market conditions, would have generated little or no income in any case.

Pro-forma adjustments also include (i) the elimination of inter-company financial income to companies that will form a part of the ITG Holding Group since, considering that the Transaction and concurrent repayment of inter-company loans occurred on 1 January 2015, there is no reason for this income to exist; (ii) the effect from adjusting outstanding receivables from Italgas at 31 December 2015 to market value.

### **INCOME FROM EQUITY INVESTMENTS**

Pro-forma adjustments include the effect from measuring the 13.50% stake in the post-Demerger Beneficiary Company using the equity method.

### **INCOME TAXES**

Where applicable, the related tax effects were recognised on the pro-forma adjustments described above; these were calculated using the theoretical tax rate in effect at 31 December 2015 of 27.5% for IRES (corporation tax) and 3.9% (4.65% if the effects are attributable to Snam) for IRAP (regional

production tax).

The adjustments also include tax estimated at Euro 6 million for the taxation of transactions for the reorganisation of the corporate structure as described above.

In addition, for the purposes of the Pro-Forma Consolidated Financial Statements, it was assumed that effective 1 January 2015 the Italian subsidiaries forming a part of the Beneficiary Company would be removed from the Italian tax consolidation of the Snam Group, with the theoretical initiation<sup>12</sup> of a new national tax consolidation scheme headed by the Beneficiary Company. However, at present it is believed that prepaid tax assets, net of the resulting deferred tax liabilities, after allocating amounts to the ITG Holding Group that pertain to it, will be recoverable, including in the new structure resulting from the Transaction and under the assumption of a new national tax consolidation scheme, in the same amount at which they were already recorded.

### **Adjustments to the consolidated statement of cash flows**

The pro-forma adjustments described above for: (i) costs related to the Demerger; (ii) fees incurred to renegotiate the contractual terms of bonds; (iii) lower financial expenses related to loans provided by the EIB that are being taken over by the Beneficiary Company; and (iv) lower inter-company financial income, were reflected in the pro-forma consolidated statement of cash flows at 31 December 2015, assuming that these are settled in cash resulting in a negative effect of -Euro 74 million on the cash of the Post-Demerger Snam Group. Note that the above pro-forma adjustments do not include, for the sole purposes of the statement of cash flows, the related tax effects, under the assumption that the related effect on cash flows would show up in the following period.

The pro-forma adjustments to the statement of cash flows also include total cash flow of (Euro 3,045 million) from the Beneficiary Company's settlement of (i) the receivable generated for the Demerged Company following the Sale of 38.87% of the equity investment held by Snam in Italgas to the Beneficiary Company, net of the amount related to the loans made by the European Investment Bank (EIB) that are being taken over by the Beneficiary Company, and (ii) the amount of financial debt outstanding at 31 December 2015 attributed to the ITG Holding Group, as described in the previous paragraph concerning net financial debt. This incoming cash flow was partially offset by the outlay for the projected closure of bank lines totalling Euro 1,323 million.

With regard to dividends, in 2015 Italgas approved the distribution of dividends on 2014 profits totalling Euro 214 million to Snam; these were paid in the same year (2015). Pro-forma adjustments to data of the statement of cash flows reflect the reversal of this distribution to the extent of the complementary amount of the 13.50% stake that Snam will continue to hold in the Beneficiary Company (Euro 185 million). This portion of the distribution would not have been made to Snam in the event that the Transaction occurred on 1 January 2015.

### **Other effects of the Transaction**

Possible higher or lower costs resulting from the restructuring of activities at the corporate level of the

<sup>12</sup> In fact, the Beneficiary Company may actually initiate its tax consolidation scheme starting on 1 January 2016.

Demerged Company were not subject to pro-forma adjustments since they are still being quantified.

## 4.2 CONSOLIDATED PRO-FORMA PER-SHARE INDICATORS FOR THE POST-DEMERGER SNAM GROUP

### 4.2.1 Historical and pro-forma per-share data for the Demerged Company and the group it heads

Below are the historical figures for the Snam Group at 31 December 2015 and pro-forma per-share data for the Post-Demerger Snam Group at 31 December 2015.

Note that at 31 December 2015, Snam's share capital, which is fully paid in, consists of 3,500,638,294 ordinary shares, and that on the same date the Company held 1,127,250 own shares.

		<b>Consolidated financial statements of the Snam Group at 31 December 2015 (historical data)</b>	<b>Pro-forma data of the Post- Demerger Snam Group at 31 December 2015</b>
Ordinary shares issued at end of period	(million)	3,500.6	3,500.6
Weighted average of shares outstanding during the period	(million)	3,499.5	3,499.5
Net profit per share	(€)	0.354	0.277
Shareholders' equity per share attributable to parent company's shareholders	(€)	2.17	1.88
Dividend per share	(€ per share)	0.25	
Net cash flow per share	(€)	(0.02)	0.41

### 4.2.2 Summary comments on significant changes in pro-forma per-share data compared to historical per-share data

#### Net profit per share

This indicator was calculated by reporting the net profit attributable to the parent company's shareholders at the average number of the shares issued and outstanding. The exclusion of the operating profit attributable to ITG Holding Group, together with the effects of the pro-forma adjustments described above resulted in lower profit per share compared to the historical figure for the Snam Group overall.

#### Shareholders' equity per share attributable to parent company's shareholders

This indicator is structured as the ratio of shareholders' equity attributable to the parent company's shareholders to the average number of shares outstanding. The value of this indicator decreased from

this historical figure for the Snam Group because of the assignment of a portion of Snam's shareholders' equity to the group headed by the Beneficiary Company. This reduction was partially offset (as compared to historical data) by improvements in shareholders' equity resulting from the pro-forma adjustments described above.

**Net cash flow per share**

This indicator was determined as the ratio of net cash flow for the period to the average number of shares outstanding. The pro-forma adjustments described above, and in particular, the Beneficiary Company's repayment of (i) the receivable generated for the Demerged Company following the Sale of 38.87% of the equity investment held by Snam in Italgas to the Beneficiary Company, net of the amount related to loans provided by the European Investment Bank (EIB) that are being taken over by the Beneficiary Company (Euro 1,079 million) and (ii) the amount of the net financial debt outstanding at 31 December 2015 assigned to the ITG Holding Group (Euro 1,966 million), partially offset by the outlay for the projected closure of bank lines totalling Euro 1,323 million, were partially offset by the loss of cash flow from operations attributed to the ITG Holding Group.

**4.3 Report of the External Auditors on pro-forma data from the balance sheet, income statement and statement of cash flows of the Post-Demerger Snam Group**

The External Auditors' report concerning the review of the Pro-Forma Consolidated Financial Statements of the Post-Demerger Snam Group at 31 December 2015 is attached to this Information Document.

## 5. Description of the Beneficiary Company

### 5.1 DESCRIPTION OF THE BENEFICIARY COMPANY'S OPERATIONS

#### 5.1.1 The ITG Holding Group

Through the industrial and corporate restructuring Transaction, the entire equity investment held by Snam in Italgas as at the Information Document Date, equal to 100% of the share capital of Italgas, will be transferred to ITG Holding.

Therefore, the Beneficiary Company will serve as a holding company of the equity investment in Italgas. In this regard, the final organisational model specifies that the holding company will provide guidelines and controls for the ITG Holding Group and directly oversee Internal Audit Activities; Legal Affairs, Corporate and Compliance Affairs; Enterprise Risk Management; Investor Relations; Finance; Strategic Planning; Consolidated Management Control and the Financial Statements, Control of ITG Holding Operational Management.

Below is a description of the ITG Holding Group's operations in the above sector.

As a result of the Transaction, ITG Holding will be the parent company of the ITG Holding Group, the Italian leader of natural gas distribution via urban networks.

ITG Holding will directly control Italgas (100%) and will indirectly control Napoletanagas (99.9%) and Acam Gas (100%).

The ITG Holding Group (now Italgas Group) holds 1,472 concessions as of 31 December 2015, of which 1,310 are held as Italgas (including the Turin concession for AES which was incorporated into Italgas effective 1 January 2016), 133 are held by Napoletanagas in the Campania region and 29 are held by Acam in the provinces of La Spezia and Massa Carrara.

As better described in Chapter 2, Paragraph 2.2.1 of this Information Document, ITG Holding will also hold non-controlling interests in other natural gas distribution companies, for which it will exercise the role of industrial shareholder of reference. These companies, not consolidated by ITG Holding, are Toscana Energia (48.08%), Umbria Distribuzione Gas S.p.A. (45%), and Metano S. Angelo Lodigiano (50%).

In 2015, pro-forma revenue of the ITG Holding Group totalled Euro 1,416 million<sup>13</sup>.

For the presentation of other pro-forma financial information on the ITG Holding Group, see Chapter 6 below of this Information Document.

13 This revenue includes the revenues from construction and upgrading of the distribution infrastructure, entered according to IFRIC 12 and posted in an amount equal to the related costs incurred (Euro 321 million).

### 5.1.2 History

Italgas was founded on 12 September 1837 as *Compagnia di illuminazione a Gas per la Città di Torino*. It was the first company in Italy, and among the first in Europe, to produce and distribute gas for lighting. The expansion to the rest of Italy started 25 years later, with the new company name *Società Italiana per il Gas*.

In subsequent years, with the advent of electric power, the company changed its product offering and launched the distribution of manufactured gas for cooking and heating. In 1967, Italgas became part of the Eni Group.

With the progressive affirmation of natural gas and the development of gas pipeline transportation networks since the 1970s, the company focuses on the construction of networks for urban distribution and the sale of gas for domestic use, taking on the leading role in Italy's growth of methanisation. In 2000, in parallel with new legal provisions on the unbundling of gas distribution activities from selling activities, the latter was separated from Italgas and merged with the Gas and Power Division of Eni.

Following its sale by Eni, Italgas has been part of the Snam Group since 1 July 2009.

The shares of Italgas were listed on the MTA of Borsa Italiana from 1900 to 2003.

For more information, see Warning 1.4.12 "*Risks associated with the subjection of Italgas to judicial control pursuant to Proceeding No. 67/2014 RMP*".

### 5.1.3 Employees

Employees working in ITG Holding Group companies after the Demerger will be guaranteed the conditions and benefits allocated to the employees of the Snam Group as of the Information Document Date, with specific reference to the pension funds and integrated health funds.

In this regard, all managerial staff registered in the Fopdire, Previndai and Fidae funds on the Demerger Effective Date will keep the same health and social security cover in place on the Information Document Date, at least for a transitional period. In addition, even with reference to the funds dedicated to non-managerial staff working in ITG Holding Group companies following the Demerger, the registration in the Faside health fund and the Fondenergia integrated pension fund will be maintained.

### 5.1.4 Regulated activities

The distribution service consists of carrying gas through local pipelines from transportation network connection points to points for redelivery to end users (domestic or industrial customers). The service is carried out on behalf of companies authorised to market gas.

The relationship between the distribution companies and sales companies is governed by a special document prepared by the AEEGSI called the "Network Code," which specifies services performed by the distributor broken down into main services (gas distribution service and distribution plant technical management) and ancillary services (start-up of new plants; activation, deactivation,

suspension and reactivation of supply to end customers; group verification of metering at the request of end customers, etc.).

The company's activity of distributing natural gas is carried out through the operation of an integrated system of the following infrastructure:

- stations for withdrawing gas from the national pipeline network;
- pressure reduction plants;
- local transportation and distribution networks;
- user derivation plants;
- redelivery points where meters are installed at end customers.

This infrastructure, most of which is owned, makes it possible to withdraw gas from the national transportation network and redeliver it to end (domestic or industrial) customers. Gas is also odorised at withdrawal points.

Furthermore, Italgas is engaged in metering activities, which consist of determining, gathering, making available and archiving metering data on natural gas withdrawn over the distribution networks.

Italgas and its subsidiaries operate in the natural gas distribution sector with distinguished expertise and a leadership position in the domestic market.

### **5.1.5 Operational management**

Italgas maintains a high quality standard in customer service that is reflected in its on-going programme to replace pipes and meters, continual oversight of the distribution network and prompt management of the rapid response service that handles emergencies, accidents and breakdowns of the distribution line. In this regard, Italgas has an organisational structure consisting of:

- an integrated supervision centre at the national level consisting of two supervision sites with 24-hour coverage, 365 days a year (this centre remotely controls plants and receives and manages requests for assistance);
- operating units located in the area served and specifically dedicated to the management of assistance.

Data from remote control and remote meter reading is immediately made available to the entire country by means of automated telecommunications technology, making it possible for operating units to have a constantly updated overview of the distribution system's status.

Based on requests received from sales companies, Italgas is responsible for carrying out technical assistance at end customers related to the supply of gas, such as activating and deactivating delivery points, determining gas consumption, transferring ownership of redelivery points, inspecting redelivery and metering systems, executing connections and moving meters.

Over the years, Italgas maintained levels of excellence in accordance with the standards of quality set forth by AEEGSI with Resolution 574/2013.

In support of operating activities, Italgas uses an in-house central laboratory to carry out (including on behalf of affiliates and third parties) the calibration/checking of gas meters, technological and mechanical

testing of polyethylene pipes, chemical and odour analyses of gas, calibration and maintenance of metering instruments (electrical measurements, manometers, thermometers, hygrometers and gas detectors). The laboratory operates on the basis of integrated corporate ISO certification standards. In addition, for certain tests (that can be found on the website of the entity ACCREDIA, the Italian Accreditation Agency) and for calibrating gas meters with a capacity of up to 40 m<sup>3</sup>/h, it is able to issue accredited testing reports and calibration certificates that are valid worldwide.

### **5.1.6 Non-regulated activities**

Italgas built the district heating network of Cologno Monzese (MI), which the company manages under a 40-year concession (expiring in 2038). Italgas provides both the management of the district heating network and the management of the retail energy relationship with the end customer. On 31 December 2015, the network will be extended 8.4 km (including 1.8 km of distribution network and 2.1 km of user branch-offs) supplying 20.5 Mcal to 52 users.

Through the subsidiary Napoletanagas, Italgas manages the water supply service for five municipalities in Campania; these assignments will expire between 2020 and 2021. In 2015, 7.66 million cubic meters of water were sold (7.39 million cubic meters in 2014) to 28,771 customers (28,637 customers in 2014).

The Italgas Group also has fixed assets partly used in direct functional operation of the business activity and partly leased to Snam Group companies and third-party entities.

Italgas assists its investee companies, subsidiaries and associates in carrying out their own operating activities by providing corporate services (administration, finance, auditing, legal, personnel and organisation, procurement, HSEQ), operational technology services (including engineering services and laboratory activities), as well as marketing and information services.

### **5.1.7 Health, Safety, Environment and Quality**

The company is constantly vigilant and effective in its commitment to the environment, health and safety.

Italgas was the first Italian company in the service sector to obtain recognition in the form of the "Integrated Quality, Environment and Safety Certification" in 2001 from the Det Norske Veritas (DNV) international certification organisation, and this was also extended to energy management in 2012. Since then, every six months the Certification Organisation verifies compliance of the company's operations with international standards UNI EN ISO 9001, UNI EN ISO 14001, BS OHSAS 18001 and UNI CEI EN ISO 50001 in order to maintain certification. The commitment to areas such as the environment, health, safety and energy management, which are aimed at providing quality and customer satisfaction, are embodied in the adoption of the "Health, Safety, Environment, Quality and Energy Policy".

### **5.1.8 Innovation**

In keeping with industry regulations in Europe (Energy Efficiency Directive) and Italy (AEEGSI regulations on responsibility for metering and in the area of implementing Smart Metering), Italgas was one of the first distributors in Italy to provide its meters with advanced technologies and in 2009 launched the project



"Remote meter reading at gas redelivery points". During the experimentation phase, application products and technological market solutions were closely evaluated. The new AMM-MDM (Automatic Meter Management and Meter Data Management) information systems, equipped with all functions to manage the reading system for remote meter reading and traditional meters, were released in August 2013 for industrial and commercial users and implemented in April 2016 for all other users (over 6 million). With regard to the development of remote meter reading, Italgas implemented the Work Force Management system, making it possible to manage installation, configuration, activation and maintenance of remotely read meters by equipping operational staff with a single tool (tablets).

In addition, starting in 2012 Italgas launched "GasToGo", a new application developed for tablets, which in conjunction with corporate and consumer applications makes it possible to achieve a substantial increase in operating efficiency while reducing costs and improving service quality. Thanks to GasToGo, Italgas manages over 3 million activities both internally and externally, of which about 2 million are with customers, and the remaining activities are for maintenance and rapid response. Employees receive a daily list directly on their tablets showing activities over an optimised path, with the ability to bring up multimedia documents, geolocate network assets and collaborate by email, chats or video calls. GasToGo, which won the SMAU Mob App Award in 2013 and continues to develop through direct integration with remote meter reading devices, the management of work sites and new augmented reality functions.

#### **5.1.9 Characteristics and performance of reference markets**

As at 31 December 2015, the Italgas Group had a distribution network of about 57,000 km and concessions in 1,472 municipalities, including 1,401 in operation, with 6.526 million active meters located at gas redelivery points for end customers. In 2015, Italgas and its subsidiaries transported approximately 7.6 billion cubic meters of gas on behalf of approximately 260 sales companies.

The Italgas Group, which has a presence in all areas of Italy supplied with methane gas, has a share of about 30% of the distribution market in terms of the number of redelivery points in Italy, which rises to 34% including associates, the largest of which is Toscana Energia. The latter, in which Italgas has a 48.08% stake, provides a distribution service in 104 municipalities across Tuscany, with about 790,000 active redelivery points, a 7,700 km network under management and over 1 billion cubic meters of gas transported.

Gas distribution activities have traditionally been carried out under concessions. This service, which was previously awarded primarily through direct negotiations, has been assigned only through competitive bidding since 2000 for a period of up to 12 years.

Starting in 2011, M.D. No. 226/2011 specified that the distribution service may only be carried in minimum geographical areas (ATEM), most the size of a province.

Each ATEM is made up of a group of municipalities served by distribution plants that must be managed by a single concession-holder who has been awarded the service contract and is identified after the tender. The average size of minimum geographical areas identified is about 110,000 users, ranging from a minimum of about 20,000 to a maximum of about 1,300,000 users. Also in this case, the maximum term of contracts awarded is twelve years.

In addition, M. D. No. 226/2011 governs tenders in this area and sets criteria for awarding concessions. These criteria are as follows:

- economic conditions;
- levels of safety and quality;
- system development plans.

In addition, the regulation requires the party awarded the concession to reimburse departing operators for the plants transferred.

With regard to the timing for conducting tenders, based on the ministerial calendar indicated in Law 11/2015, the launch was planned for July 2015 with a concentration of tenders in the years 2015, 2016 and 2017. The calendar of the Ministry of Economic Development has been updated several times, most recently with the "*Milleproroghe*" decree converted into law in February 2016.

This decree revised the tender publication dates, leaving the overall time limit almost unchanged, and thus concentrating them in 2016 and 2017. In addition, the decree:

- extended the deadlines for publishing calls for bids (to July 2016 for the first group of minimum geographical areas);
- granted to the Regions an additional six months to exercise their right of substitution, providing, however, for the right of substitution of the Ministry of Economic Development in case of non-compliance by the Regions;;
- eliminated the economic penalties for entities in default.

This new configuration therefore calls for the publication of 74 calls for bids in 2016 (including 13 already published in 2015), 98 calls for bids in 2017 and 5 calls for bids in 2018 and 2019.

As at the Information Document Date, 16 calls for bids were published for a total of 17 minimum geographical areas (Cremona 2 and Cremona 3 were grouped), including 1 that was revoked and 6 that were suspended. In addition, the dates for presenting bids or pre-qualifying applications were extended for 6 calls for bids. It should also be noted that appeals were filed by different operators for some of the previously published calls for bids since they were not fully compliant with regulations.

This new framework will entail a radical revision of bidding procedures for current operators who must revise their strategies, since they must compete in areas encompassing several municipalities and at the same time provide better management standards than those specified by the AEEGSI. As a result, the new framework, given the economies of scale and the larger scope of services provided (and therefore the transition to ATEM) should enhance efficiencies and reduce costs.

\* \* \*

Information regarding the market position in specific sectors contained in this section was taken from institutional sources including, primarily, the "*Annual Report on the Status of Services and Activities Performed*", AEEGSI, dated 31 March 2016 (published on 21 June 2016), and internal sources of the Snam Group.

## 6. Pro-forma consolidated balance sheet, income statement and financial data for the Beneficiary Company

### Introduction

This Chapter presents the pro-forma consolidated balance sheet, income statement and statement of cash flows of the ITG Holding Group at 31 December 2015 (the "Pro-Forma Consolidated Financial Statements" of the ITG Holding Group").

The Pro-Forma Consolidated Financial Statements of the ITG Holding Group were prepared for information purposes in accordance with CONSOB Communication DEM/1052803 of 5 July 2001, in order to retroactively reflect the effects of the Transaction on Snam Group's historical data. The Transaction is described in the Paragraph "Reorganisation of corporate structure" in Chapter 2, Paragraph 2.2.1 of this Information Document.

Specifically, the pro-forma data at 31 December 2015 shows the impact of the Transaction as if it had occurred respectively with regard to the impact on the balance sheet at 31 December 2015, and with regard to the operating impact and cash flows, on 1 January 2015.

Through the industrial and corporate restructuring Transaction, the entire equity investment held by Snam in Italgas as at the Information Document Date, equal to 100% of the share capital of Italgas, will be transferred to ITG Holding.

Specifically, the Transaction as a whole, which will occur in a unitary and substantially simultaneous manner, includes:

- a) the Transfer in kind by Snam to ITG Holding of an equity investment of 8.23% in the share capital of Italgas in exchange for the allocation to Snam of 108,957,843 newly issued shares of ITG Holding, in order to enable Snam to hold, post-Demerger (as per point c), an equity investment of 13.50% in the Beneficiary Company (0.03% deriving from the treasury shares held by Snam);
- b) the Sale by Snam to ITG Holding of 98,054,833 shares of Italgas, equal to 38.87% of the share capital of Italgas, for a price of Euro 1,503 million, to be settled through the repayment of a Vendor Loan of an equal amount to the Beneficiary Company, in order to generate an adequate level of financial debt for the Beneficiary Company, taking into account the activity, risk and cash flow generation profile; and
- c) the partial and proportional Demerger of Snam, with the allocation to ITG Holding of an equity investment equal to the 52.90% held by the Demerged Company in Italgas, and consequent allocation to Snam shareholders of the remaining 86.50% of the Beneficiary Company's share capital, as described in Chapter 2, Paragraph 2.1.2 of this Information Document.

The adequacy of the values of the Transfer and Sale indicated in points a) and b) was confirmed by sworn reports of the value of the equity investment held by Snam in Italgas (including the equity investments held by it in the investee companies) issued by an Independent Expert in order to comply with the requirements of current regulations, and specifically, on the basis of the structure of the Transaction: (i) the provisions of Article 2343-ter, paragraph 2 of the Civil Code regarding the Transfer; and (ii) the

provisions of Article 2343-*bis*, paragraph 2 of the Civil Code regarding the purchase of the company from advisors, founders, shareholders and directors.

In addition, the Expert issued a report requested by Snam on a voluntary basis, estimating the actual value of shareholders' equity assigned to the Beneficiary Company following the Demerger as indicated in point c), which confirms the value of shareholders' equity determined for the purposes of the Demerger transaction.

The transactions represent a single structure, in which the result of the single steps is represented by the transfer of the entire stake held by the Demerged Company in Italgas to the Beneficiary Company.

Pursuant to Article 93 of the TUF, following the loss of control carried out by Snam with respect to Italgas, the latter will be required to repay the loans made to it by the Demerged Company. In addition to Italgas's settlement of pre-existing financial transactions, the Beneficiary Company will also be required to liquidate the amount indicated in point b) resulting from the Sale transaction described above. In order to liquidate the amounts referenced, the ITG Holding Group will have to fund itself independently on the market.

Thus, for the purposes of the pro-forma data presented below, in addition to the impact of the Transaction as described above, due consideration was also given to the impact from the settlement of existing financial transactions with the Demerged Company and the resulting autonomous refinancing of the Group headed by the Beneficiary Company on the market since they are closely connected with the Transaction.

As a result of the Demerger, the Demerged Company will continue to wholly own the equity investments heading the transportation, regasification and natural gas storage businesses as well as the corporate area. These include:

- Snam Rete Gas, the largest Italian operator in the area of natural gas transportation and dispatching in Italy;
- Gnl Italia, the owner of the Panigaglia regasification terminal (La Spezia);
- Stogit, the largest natural gas storage operator in Italy, and one of the largest in Europe;
- companies currently identified as a part of Snam Group's corporate area: (i) Snam, which carries out the group's centralised management of legal, corporate and compliance matters; planning; administration; finance and control; HSEQ; ICT; personnel and organisation; regulations; industrial relations and communication; security; general and property services; enterprise risk management; auditing, and (ii) Gasrule Insurance Ltd, a captive insurance company with its registered office in Dublin, which covers the Group's industrial risks.

For a proper interpretation of the information contained in the pro-forma consolidated data, it should be noted that:

- (i) since these are representations based on assumptions, if the Demerger were truly implemented on the dates used as a reference for the preparation of the pro-forma data instead of on the actual data, the historical data would not necessarily be the same as the pro-forma data;
- (ii) the pro-forma adjustments represent the most significant balance sheet, income statement and financial effects directly connected with the Demerger;
- (iii) the pro-forma data are not projected figures and are not intended, in any way, to represent a forecast of the future balance sheet, income statement and financial situation of the ITG Holding Group;

- (iv) in consideration of the various purposes of the pro-forma consolidated data as compared to historical figures, and in consideration of the various methodologies used to calculate the pro-forma adjustments made to Snam Group's consolidated financial statements, the pro-forma consolidated balance sheet, income statement and statement of cash flows must be reviewed and interpreted separately without attempting to find accounting connections between them.

Finally, pursuant to Annex II of Regulation 809/2004/EC, it is believed that all adjustments reflected in the pro-forma consolidated data shall have a permanent effect, with the exception of those indicated at the end of the pro-forma consolidated income statement with comments in the notes.

The Pro-Forma Consolidated Financial Statements of the ITG Holding Group published in this document were reviewed by the External Auditors, who issued their unqualified report on 4 July 2016.

## **6.1 PRO-FORMA CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2015 AND PRO-FORMA CONSOLIDATED INCOME STATEMENT AND STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2015 FOR THE ITG HOLDING GROUP**

The Pro-Forma Consolidated Financial Statements of the ITG Holding Group were prepared on the basis of Snam Group's consolidated financial statements at 31 December 2015, prepared according to IFRS, and audited by the External Auditors, who issued their unqualified report on 5 April 2016.

The following paragraphs of this Chapter outline the scope of presentation of the pro-forma consolidated data, the base assumptions for their preparation, the determination of balance sheet and income statement elements remaining with the Post-Demerger Snam Group and pro-forma adjustments.

The Pro-Forma Consolidated Financial Statements of the ITG Holding Group include:

- historical data taken from Snam Group's consolidated financial statements at 31 December 2015 (column A);
- the impact of deconsolidating the group of assets remaining with the Demerged Company on Snam Group's consolidated financial statements (column B);
- the impact arising from re-establishing asset and liability transactions and the restoration of positive and negative income components and cash flows related to transactions carried out between companies of the Post-Demerger Snam Group and of the ITG Holding Group (column C);
- the post-Demerger aggregate, which includes consolidated amounts for Snam less the group of operations remaining with the Post-Demerger Snam Group, and the impact arising from re-establishing asset and liability transactions between companies of the Post-Demerger Snam Group and of the ITG Holding Group, i.e. the historical data of the natural gas distribution operating segment (column D);
- pro-forma adjustments applied to post-Demerger aggregate data to reflect the impact of significant transactions related to the Transaction (column E);
- the pro-forma consolidated amounts of the ITG Holding Group (column F).

Unless otherwise indicated, figures are presented in millions of Euro.

## 6.1.1 Pro-forma consolidated balance sheet as at 31 December 2015

(€ million)

	Consolidated financial statements as at 31 December 2015 Snam Group (A)	Less: elements remaining with the Post-Demerger Snam Group (B)	Re-establishment of inter-company components (C)	Post-Demerger aggregate (D=A+B+C)	Pro-forma adjustments (E)	Pro-forma consolidated balance sheet of the Beneficiary Company (F=D+E)
<b>ASSETS</b>						
<b>Current assets</b>						
Cash and cash equivalents	17	(15)		2		2
Trade and other receivables	1,824	(1,261)	12	575		575
Inventories	152	(133)		19		19
Current income tax assets	54	(46)		8	34	42
Other current tax assets	8	(4)		4		4
Other current assets	98	(95)		3	6	9
	<b>2,153</b>	<b>(1,554)</b>	<b>12</b>	<b>611</b>	<b>40</b>	<b>651</b>
<b>Non-current assets</b>						
Property, plant and equipment	15,478	(15,248)		230		230
Compulsory inventories	363	(363)				
Intangible assets	5,275	(803)		4,472		4,472
Investments valued using the equity method	1,372	(1,203)		169		169
Other receivables	78	(78)				
Other non-current assets	137	(132)		5	2	7
	<b>22,703</b>	<b>(17,827)</b>		<b>4,876</b>	<b>2</b>	<b>4,878</b>
<b>Non-current assets held for sale</b>	<b>24</b>			<b>24</b>		<b>24</b>
<b>TOTAL ASSETS</b>	<b>24,880</b>	<b>(19,381)</b>	<b>12</b>	<b>5,511</b>	<b>42</b>	<b>5,553</b>

(€ million)

	Consolidated financial statements as at 31 December 2015 Snam Group (A)	Less: elements remaining with the Post-Demerger Snam Group (B)	Re-establishment of inter-company components (C)	Post-Demerger aggregate (D=A+B+C)	Pro-forma adjustments (E)	Pro-forma consolidated balance sheet of the Beneficiary Company (F=D+E)
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>						
<b>Current liabilities</b>						
Short-term financial liabilities	1,351	(1,351)	409	409	1,891	2,300
Short-term portion of long-term financial liabilities	1,378	(1,378)	24	24	(24)	
Trade and other payables	1,746	(1,353)	54	447		447
Current income tax liabilities	1			1		1
Other current tax liabilities	50	(41)		9		9
Other current liabilities	71	(71)				
	<b>4,597</b>	<b>(4,194)</b>	<b>487</b>	<b>890</b>	<b>1,867</b>	<b>2,757</b>
<b>Non-current liabilities</b>						
Long-term financial liabilities	11,067	(11,067)	1,417	1,417	(233)	1,184
Provisions for risks and charges	776	(584)		192		192
Provisions for employee benefits	166	(50)		116		116
Deferred tax liabilities	388	(229)		159		159
Other non-current liabilities	293	(287)		6		6
	<b>12,690</b>	<b>(12,217)</b>	<b>1,417</b>	<b>1,890</b>	<b>(233)</b>	<b>1,657</b>
Liabilities directly associated with assets held for sale	7			7		7
<b>TOTAL LIABILITIES</b>	<b>17,294</b>	<b>(16,411)</b>	<b>1,904</b>	<b>2,787</b>	<b>1,634</b>	<b>4,421</b>
<b>SHAREHOLDERS' EQUITY</b>						
Share capital issued and reserves attributable to shareholders of the parent company	7,585	(2,970)	(1,892)	2,723	(1,592)	1,131
Minority interests	1			1		1
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>7,586</b>	<b>(2,970)</b>	<b>(1,892)</b>	<b>2,724</b>	<b>(1,592)</b>	<b>1,132</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>24,880</b>	<b>(19,381)</b>	<b>12</b>	<b>5,511</b>	<b>42</b>	<b>5,553</b>

## 6.1.2 Pro-forma consolidated income statement for the year ended 31 December 2015

(€ million)

	Consolidated financial statements as at 31 December 2015 Snam Group (A)	Less: elements remaining with the Post-Demerger Snam Group (B)	Re-establishment of inter-company components (C)	Post-Demerger aggregate (D=A+B+C)	Pro-forma adjustments (E)	Pro-forma consolidated balance sheet of the Beneficiary Company (F=D+E) <sup>(*)</sup>
<b>REVENUE</b>						
Core business revenue <sup>(**)</sup>	3,856	(2,470)	1	1,387	(1)	1,386
Other revenue and income	114	(84)	2	32	(2)	30
	<b>3,970</b>	<b>(2,554)</b>	<b>3</b>	<b>1,419</b>	<b>(3)</b>	<b>1,416</b>
<b>OPERATING COSTS</b>						
Purchases, services and other costs	(782)	406	(73)	(449)	10	(439)
Personnel cost	(389)	145	16	(228)	(14)	(242)
	<b>(1,171)</b>	<b>551</b>	<b>(57)</b>	<b>(677)</b>	<b>(4)</b>	<b>(681)</b>
<b>AMORTISATION, DEPRECIATION AND IMPAIRMENT</b>	<b>(849)</b>	<b>576</b>		<b>(273)</b>		<b>(273)</b>
<b>EBIT</b>	<b>1,950</b>	<b>(1,427)</b>	<b>(54)</b>	<b>469</b>	<b>(7)</b>	<b>462</b>
<b>FINANCIAL INCOME (EXPENSES)</b>						
Financial expenses	(392)	387	(48)	(53)	(91)	(144)
Financial income	12	(7)		5		5
	<b>(380)</b>	<b>380</b>	<b>(48)</b>	<b>(48)</b>	<b>(91)</b>	<b>(139)</b>
<b>INCOME (EXPENSE) ON EQUITY INVESTMENTS</b>						
Equity method valuation effect	126	(106)		20		20
Other income (expense) from equity investments	9			9		9
	<b>135</b>	<b>(106)</b>		<b>29</b>		<b>29</b>
<b>PRE-TAX PROFIT</b>	<b>1,705</b>	<b>(1,153)</b>	<b>(102)</b>	<b>450</b>	<b>(98)</b>	<b>352</b>
Income taxes	(467)	357		(110)	27	(83)
<b>Net profit</b>	<b>1,238</b>	<b>(796)</b>	<b>(102)</b>	<b>340</b>	<b>(71)</b>	<b>269</b>
<b>Applicable to:</b>						
- Shareholders of parent company	<b>1,238</b>	<b>(796)</b>	<b>(102)</b>	<b>340</b>	<b>(71)</b>	<b>269</b>
- Minority interests						

<sup>(\*)</sup> The pro-forma net profit of the ITG Holding Group includes non-recurring costs net of the related tax effect of Euro 89 million, represented by Euro 116 million (Euro 84 million net of the related tax effect) from financial expenses resulting from adjusting outstanding net financial debt attributed to the ITG Holding Group at 31 December 2015 to market value; and Euro 7 million (Euro 5 million net of the related tax effect) from ancillary costs directly related to the Transaction (see Paragraph 6.1.4 below for further information).

<sup>(\*\*)</sup> Core business revenue includes revenue from the construction and expansion of distribution infrastructure recorded in accordance with IFRIC 12 and recognised in an amount equal to the related costs incurred (Euro 321 million).



### 6.1.3 Pro-forma consolidated statement of cash flows for the year ended 31 December 2015

(€ million)

	Consolidated financial statements as at 31 December 2015 Snam Group (A)	Less: elements remaining with the Post-Demerger Snam Group (B)	Re-establishment of inter-company components (C)	Post-Demerger aggregate (D=A+B+C)	Pro-forma adjustments (E)	Pro-forma consolidated statement of cash flows of the Beneficiary Company (F=D+E)
Net profit	1,238	(796)	(102)	340	(71)	269
Adjustments for reconciling net profit with cash flows from operating activities						
Total amortisation and depreciation	846	(573)		273		273
Impairment losses	3	(3)				
Equity method valuation effect	(126)	106		(20)		(20)
Net capital losses (capital gains) on asset sales, cancellations and eliminations	32	(20)		12		12
Interest income	(8)	7		(1)		(1)
Interest expense	345	(344)	48	49	(91)	140
Income taxes	467	(357)		110	(27)	83
Other changes	(9)			(9)		(9)
Changes in working capital:						
- Inventories	55	(59)		(4)		(4)
- Trade receivables	(9)	(36)	1	(46)		(46)
- Trade payables	(128)	104	(12)	(36)		(36)
- Provisions for risks and charges	(14)	(6)		(20)		(20)
- Other assets and liabilities	136	(146)	28	18	(2)	16
<i>Working capital cash flow</i>	40	(143)	15	(88)	(2)	(90)
Change in provisions for employee benefits	30	1		31		31
Dividends collected	141	(124)		17		17
Interest collected	5	(4)		1		1
Interest paid	(345)	345	(48)	(48)	25	(23)
Income taxes paid net of reimbursed tax credits	(605)	455		(150)		(150)
<b>Net cash flow from operating activities</b>	<b>2,054</b>	<b>(1,450)</b>	<b>(87)</b>	<b>517</b>	<b>16</b>	<b>533</b>

**(€ million)**

	Consolidated financial statements as at 31 December 2015 Snam Group (A)	Less: elements remaining with the Post-Demerger Snam Group (B)	Re-establishment of inter-company components (C)	Post-Demerger aggregate (D=A+B+C)	Pro-forma adjustments (E)	Pro-forma consolidated statement of cash flows of the Beneficiary Company (F=D+E) <sup>(1)</sup>
<b>Net cash flow from operating activities</b>	2,054	(1,450)	(87)	517	16	533
Investments:						
- Property, plant and equipment	(793)	773		(20)		(20)
- Intangible assets	(393)	53		(340)		(340)
- Companies joining the scope of consolidation and business units	(46)			(46)		(46)
- Equity investments	(144)	144			(1,503)	(1,503)
- Financial receivables held for operations	(78)	78				
- Change in payables and receivables relating to investments	18	9		27		27
<i>Cash flow from investments</i>	<i>(1,436)</i>	<i>1,057</i>		<i>(379)</i>	<i>(1,503)</i>	<i>(1,882)</i>
Divestments:						
- Property, plant and equipment	6	(5)	(1)			
- Equity investments	147	(147)				
<i>Cash flow from divestments</i>	<i>153</i>	<i>(152)</i>	<i>(1)</i>			
<b>Net cash flow from investment activities</b>	<b>(1,283)</b>	<b>905</b>	<b>(1)</b>	<b>(379)</b>	<b>(1,503)</b>	<b>(1,882)</b>
Assumption of long-term financial debt	1,167	(1,167)	162	162	760	922
Repayment of long-term financial debt	(1,620)	1,620	(46)	(46)	(1,133)	(1,179)
Increase (decrease) in short-term financial debt	284	(284)	(85)	(85)	1,891	1,806
Financial receivables not held for operations	216	(216)				
	47	(47)	31	31	1,518	1,549

continued

(€ million)

	Consolidated financial statements at 31 December 2015 Snam Group (A)	Less: elements remaining with the Post-Demerger Snam Group (B)	Re-establishment of inter-company components (C)	Post-Demerger aggregate (D=A+B+C)	Pro-forma adjustments (E)	Pro-forma consolidated statement of cash flows of the Beneficiary Company (F=D+E) (*)
Dividends paid to Snam shareholders	(875)	875	(214)	(214)		(214)
Net cash flow from financing activities	(828)	828	(183)	(183)	1,518	1,335
Effect of the change in scope of consolidation						
Net cash flow for the period	(57)	283	(271)	(45)	31	(14)
Cash and cash equivalents at the beginning of the period	74	(27)		47		47
Cash and cash equivalents at the end of the period (**)	17	256	(271)	2	31	33

(\*) The pro-forma statement of cash flows includes effects not taken into account when preparing the pro-forma balance sheet totalling Euro 31 million, since the pro-forma adjustments were calculated on the basis of the general rule that transactions relating to the pro-forma balance sheet are assumed to have occurred as at 31 December 2015, while those relating to the pro-forma income statement and statement of cash flows are assumed to have occurred on 1 January 2015.

(\*\*) The amounts recorded under "Cash and cash equivalents at the end of the period" in columns B and C of the statement of cash flows are to be read collectively in order to associate the sum of these amounts to the total of cash attributed to the Post-Demerger Snam Group indicated in column B of the pro-forma balance sheet in Paragraph 6.1.1.

#### 6.1.4 Notes to the Pro-Forma Consolidated Financial Statements of the ITG Holding Group

The accounting standards and valuation criteria used to prepare the pro-forma data are consistent with those used in Snam Group's consolidated financial statements at 31 December 2015, to which reference should be made.

The Transaction is being conducted under the going-concern principle, considered as a Business Combination Involving Entities or Businesses Under Common Control since the companies participating in the business combination (Snam, ITG Holding and Italgas) are and will remain consolidated as a result of the Transaction, as defined by IFRS 10 – Consolidated Financial Statements, by the same entity (CDP). Thus, it is excluded from the mandatory scope of IFRS 3 and IFRIC 17 since it is a transaction relating to a Business Combination Involving Entities or Businesses Under Common Control. As a result, the Pro-Forma Consolidated Financial Statements of the ITG Holding Group were prepared applying the principle

of continuity of amounts, which generates amounts in the balance sheet that are equal to those stated in Snam Group's consolidated financial statements before the Demerger.

With the exception of the Beneficiary Company, which was established by Snam on 1 June 2016, the Transaction covers entities already included in Snam Group's scope of consolidation at 31 December 2015. Therefore, the scope of consolidation used when preparing Snam Group's consolidated financial statements at 31 December 2015 is the same as the sum of the scope of consolidation of the Demerged Company and Beneficiary Company taken into account for the preparation of the Pro-Forma Consolidated Financial Statements of the ITG Holding Group.

Specifically, the scope of consolidation of the Beneficiary Company is the same as the Distribution operating segment, which is reported in accordance with IFRS 8. Therefore, the pro-forma data of the ITG Holding Group before pro-forma adjustments, as indicated in column D "Post-Demerger aggregate" correspond to the data for the above segment (net of eliminations for related inter-company transactions between the companies that make up the same segment).

#### **Base assumptions for the preparation of the Pro-Forma Consolidated Financial Statements**

Following the transactions described in the introduction to this Chapter, by means of the Demerger, Snam will assign a portion of its assets to the Beneficiary Company consisting of an equity investment of 52.90% held by the Demerged Company in Italgas.

In exchange for the assignment of these assets, ITG Holding will assign its own newly issued shares to the shareholders of Snam in proportion with the shareholding held by each in the share capital of Snam. The allocation will take place based on a ratio of one ITG Holding share for every five Snam shares held.

This ratio may mean that individual shareholders are entitled to a number of new shares that is not a whole number. Therefore, to facilitate the transactions, Snam will engage an authorised intermediary to trade the fractional shares of the Beneficiary Company, through the depositary intermediaries enrolled with Monte Titoli, within the limits required to enable shareholders to hold, to the highest possible extent, a whole number of shares.

ITG Holding will apply to the competent authorities and bodies to have its own shares traded on the MTA. As a result of the Transaction, the shares of the Beneficiary Company will be admitted to trading on the MTA. The signing of the Demerger deed is therefore subject, in addition to what is set out by the Civil Code, to obtaining the authorisations of Borsa Italiana and CONSOB necessary for that purpose.

Therefore the reference date used in preparing the Pro-Forma Consolidated Financial Statements for simulating the impact of deconsolidation resulting from the Demerger does not correspond to the date that will actually be used for the preparation of the consolidated financial statements of the Post-Demerger Snam Group and the ITG Holding Group for the period in which the Demerger is finalised.

The book value in the parent company of assets being transferred will remain unchanged, since any variations that are due to company changes that may occur by the Demerger Effective Date will not result in cash adjustments, but will instead be applied as a benefit or charge to the assets assigned.

The following base assumptions were used to assess the impact of the Transaction on the reference dates for preparing the pro-forma data:

- the pro-forma consolidated financial statements and information were prepared using Snam Group's consolidated financial statements at 31 December 2015 as a reference and supplementing the latter with pro-forma adjustments aimed at depicting the impact of the Transaction (the Demerger and unitary and substantially simultaneous corporate transactions, i.e. the Transfer and Sale);
- the pro-forma adjustments were calculated on the basis of the general rule that transactions related to the balance sheet are assumed to have occurred as at the reference date of the balance sheet, while with regard to the income statement and statement of cash flows, transactions are assumed to have occurred at the beginning of the period to which these statements refer. Thus, in accordance with the rules for preparing pro-forma statements, which are specified in the previously referenced CONSOB Communication DEM/1052803 of 5 July 2001, the impact of transactions carried out and planned after 31 December 2015 was not taken into account unless closely related to the aforementioned Transaction.

#### **Elements of the balance sheet, income statement and statement of cash flows remaining with the Post-Demerger Snam Group (column B)**

This column includes the impact of deconsolidating elements of the income statement and statement of cash flows related to the group of operations remaining with Snam (Post-Demerger Snam Group) after the Demerger. These are the remaining assets of post-Demerger Snam consisting of the net assets concerning the natural gas transportation, regasification and storage businesses and the corporate area.

#### **Re-establishment of inter-company components (column C)**

This column reflects the re-establishment of asset and liability transactions as well as positive and negative income and cash flow components attributable to transactions carried out between companies of the Group whose holding company is the Demerged Company and companies of the Group whose holding company is the post-Demerger Beneficiary Company, considering that, as a result of the Transaction, the reasons for the elimination of these transactions no longer apply since they can no longer be qualified as inter-company transactions. Specifically, these are mainly relationships resulting from the following types of transactions:

- revenue/receivables for the lease of properties and for staff seconded by companies that will form a part of the ITG Holding Group to companies that will remain a part of the Post-Demerger Snam Group;
- costs/payables for services performed centrally by Snam or by companies that will remain a part of the Post-Demerger Snam Group for companies that will form a part of the ITG Holding Group, specifically with regard to corporate, legal and compliance services; planning, administration, finance and control; HSEQ; ICT; personnel and organisation; regulations; institutional relations and communication; security; general and property services; enterprise risk management; auditing and procurement;
- loans provided by Snam to companies that will form a part of the ITG Holding Group, and inter-company asset/liability balances under the Group's cash pooling agreement between Snam and companies that will form a part of the ITG Holding Group;
- financial expenses/payables (and/or income/receivables) related to interest income/expenses on cash pooling balances and chargebacks for financial services involving the centralised management of treasury services, and financial expenses/payables related to interest expense on loans provided by Snam to companies that will form a part of the ITG Holding Group;
- receivables/payables for the Group's tax consolidation and VAT payment schemes.

**Pro-forma adjustments (column E)**

This column reflects the pro-forma adjustments applied to the aggregate post-Demerger data of the ITG Holding Group to indicate the impact of the Transaction described above.

Note that the above-mentioned application of the principle of continuity of amounts resulted in leaving the net assets within the purview of the ITG Holding Group unchanged.

**Adjustments to the consolidated balance sheet****NET FINANCIAL DEBT**

Pro-forma adjustments included an increase in financial payables for the Beneficiary Company totalling Euro 1,619 million, resulting from the impact of (i) the purchase of the 38.87% stake held by Snam in Italgas (Euro 1,503 million) and (ii) the estimate of the adjustment to the market value of the outstanding financial debt at 31 December 2015 allocated to the ITG Holding Group.

For the purposes of preparing the pro-forma data resulting from the autonomous refinancing of the Group whose holding company is the Beneficiary Company on the market, approximately two thirds of the projected financial structure consist of a short-term "bridge loan" (Bridge to Bond), and the remainder consists of long-term, variable-rate loans and bank lines.

Long-term financial liabilities (and specifically revolving bank lines) also include the following effects (i) Euro 8 million resulting from the loan disbursement made for estimated upfront fees related to the refinancing of the ITG Holding Group on the market; and (ii) Euro 7 million for incurring ancillary costs directly related to the Transaction.

**CURRENT INCOME TAX ASSETS**

Pro-forma adjustments include the tax effect connected with (i) the adjustment of outstanding financial payables to Snam at 31 December 2015 to market value; and (ii) ancillary costs directly related to the Transaction.

**Adjustments to the consolidated income statement****COSTS RELATED TO THE DEMERGER**

These adjustments include ancillary costs directly related to the Transaction for a projected amount of Euro 7 million (Euro 5 million net of the related tax effect).

**PROVISION OF SERVICES**

In relation to services provided between companies of the ITG Holding Group and the Post-Demerger Snam Group, the pro-forma adjustments included a reclassification of the item "Purchases, services and other costs" to the item "Personnel expense" to take into account the proper nature of estimated costs related to the activities that will be performed directly by the Beneficiary Company; these activities were previously performed and charged back by the Demerged Company. The item "Purchases, services and other costs" includes external costs that will be directly incurred by the ITG Holding Group, as well as the Demerged Company's chargeback of costs for the service contract that is still in effect for the performance of services related to certain activities for which a phase-out period is planned.

#### NET FINANCIAL EXPENSES

In the income statement, if the Demerger had occurred on 1 January 2015, the ITG Holding Group would have incurred financial expenses of Euro 23 million which were estimated based on a 3-month Euribor variable rate plus a spread that reflects the projected rating of the Beneficiary Company, the composition of projected sources of funding and the related term<sup>14</sup>. These financial expenses also include the portion of upfront fees applicable to the year (Euro 6 million). The financial expenses resulting from the post-Demerger aggregate were adjusted for a total amount of Euro 25 million.

Net financial expenses also include the difference resulting from the adjustment to market value of the financial debt assigned to the ITG Holding Group outstanding at 31 December 2015, totalling Euro 116 million.

#### INCOME TAXES

Where applicable, the related tax effects were recognised on the pro-forma adjustments described above; these were calculated using the theoretical tax rate in effect at 31 December 2015 (31.7% including 27.5% for IRES and 4.2% for IRAP).

In addition, for the purposes of the Pro-Forma Consolidated Financial Statements, it was assumed that effective 1 January 2015 the Italian subsidiaries forming a part of the Beneficiary Company would be removed from the Italian tax consolidation of the Snam Group with the concurrent theoretical initiation<sup>15</sup> of a new national tax consolidation scheme headed by the Beneficiary Company. However, at present it is believed that prepaid tax assets, net of the resulting deferred tax liabilities, after allocating amounts to the ITG Holding Group that pertain to it, will be recoverable, including in the new structure resulting from the Transaction and under the assumption of a new national tax consolidation scheme, in the same amount at which they were already recorded.

#### Adjustments to the consolidated statement of cash flows

The pro-forma adjustments to the consolidated cash flow statements include the lower financial expenses resulting from the borrowing cost of the new entity, totalling, net of the relevant upfront fees, Euro 31 million. Note that the above pro-forma adjustments do not include, for the sole purposes of the statement of cash flows, the related tax effects, under the assumption that the related effect on cash flows would show up in the following period.

The pro-forma adjustments to the statement of cash flows also include total cash outlays of Euro 3,045 million from the Beneficiary Company's payment to the Demerged Company of (i) the receivable generated for the Demerged Company following the Sale of 38.87% of the equity investment held by Snam in Italgas to the Beneficiary Company, net of the amount related to the loans made by the European Investment Bank (EIB) that are being taken over by the Beneficiary Company, and (ii) the amount of net financial debt outstanding at 31 December 2015 attributed to the ITG Holding Group, as described in the previous paragraph concerning net financial debt. This outlay of cash is offset by new financial payables to credit institutions of the same amount.

<sup>14</sup> These assumptions do not take into account the later projected issuance of listed bonds by the Beneficiary Company.

<sup>15</sup> In fact, the Beneficiary Company may actually initiate its tax consolidation scheme starting on 1 January 2016.

**OTHER EFFECTS OF THE TRANSACTION**

Possible higher or lower costs resulting from the restructuring of activities at the corporate level of the Demerged Company were not subject to pro-forma adjustments since they are still being quantified.

## 6.2 CONSOLIDATED PRO-FORMA PER-SHARE INDICATORS FOR THE ITG HOLDING GROUP

### 6.2.1 Historical and pro-forma per-share data for the Beneficiary Company and the group it heads

Below are the historical figures for the Snam Group at 31 December 2015 and pro-forma per-share data for the ITG Holding Group at 31 December 2015.

Note that at 31 December 2015, Snam's share capital, which is fully paid in, consisted of 3,500,638,294 ordinary shares, and that on the same date the Company held 1,127,250 own shares.

The share capital of ITG Holding is represented by 809,135,502 shares, comprising shares issued in the context of (i) the incorporation of the company (No. 50,000), (ii) the Transfer (No. 108,957,843), and (iii) the Demerger, on the basis of a ratio of one share of ITG Holding for five shares of Snam (No. 700,127,659).

		<b>Consolidated financial statements of the Snam Group at 31 December 2015 (historical data)</b>	<b>Pro-forma data of the ITG Holding Group at 31 December 2015</b>
Ordinary shares issued at end of period	(million)	3,500.6	809.1
Weighted average of shares outstanding during the period	(million)	3,499.5	809.1
Net profit per share	(€)	0.354	0.332
Shareholders' equity per share attributable to parent company's shareholders	(€)	2.17	1.40
Dividend per share	(€ per share)	0.25	
Net cash flow per share	(€)	(0.02)	(0.02)



## **6.2.2 Summary comments on significant changes in pro-forma per-share indicators compared to historical per-share data**

### **Net profit per share**

This indicator was calculated by reporting the net profit attributable to the parent company's shareholders at the average number of the shares issued and outstanding. The effect resulting from the exclusion of the operating profit attributable to Post-Demerger Snam Group was partially offset by the lower number of shares outstanding of the Beneficiary Company compared with the historical figure of the Demerged Company, resulting in a reduction in profit per share compared to the historical level for the Snam Group overall.

### **Shareholders' equity per share attributable to parent company's shareholders**

This indicator is structured as the ratio of shareholders' equity attributable to the parent company's shareholders to the average number of shares outstanding. The indicator dropped in comparison to the historical figure for the Snam Group, due to the absence of the portion of shareholders' equity related to the Group whose holding company is the Demerged Company. Shareholders' equity also decreased as a result of providing the Beneficiary Company with a sufficient level of financial debt, bearing in mind the operations, risk profile and ability to generate cash flows of the latter. These effects were partially offset by the lower number of shares outstanding of the Beneficiary Company compared with the historical figure for the Demerged Company.

### **Net cash flow per share**

This indicator was determined as the ratio of net cash flow for the period to the average number of shares outstanding. The absence of cash flow attributed to the operations remaining with the Post-Demerger Snam Group was offset by the lower number of shares outstanding of the Beneficiary Company resulting in a similar indicator value compared with the historical figure for the Demerged Company.

## **6.3 Report of the External Auditors on pro-forma consolidated data from the balance sheet, income statement and statement of cash flows of the ITG Holding Group**

The External Auditors' report concerning the review of the Pro-Forma Consolidated Financial Statements of the ITG Holding Group at 31 December 2015 is attached to this Information Document.

## 7. Outlook for the Demerged Company and the Group it heads

### 7.1 INFORMATION ON THE BUSINESS PERFORMANCE OF SNAM AND THE SNAM GROUP SINCE THE END OF 2015

As announced in Snam's 12 May 2016 press release regarding the results for the first quarter of 2016 (see the latter for details), and in line with the expectations of the Demerged Company, results for the first quarter of 2016 reflect the reduction in WACC (Weighted Average Cost of Capital) set by the new regulatory period.

Below are financial highlights for the period and the main comments on their change during the period:

#### FINANCIAL HIGHLIGHTS

(€ million)

		First quarter		Change	% change
		2015	2016		
Total revenue (a)		929	852	(77)	(8.3)
- of which from regulated activities		898	838	(60)	(6.7)
Operating costs (a)		212	209	(3)	(1.4)
EBITDA		717	643	(74)	(10.3)
EBIT		510	429	(81)	(15.9)
Net profit (B)		325	266	(59)	(18.2)
EBIT per share (c)	(€)	0.146	0.123	(0.023)	(16.0)
Net profit per share (c)	(€)	0.093	0.076	(0.017)	(18.3)
Technical investments		225	231	6	2.7
Number of shares outstanding at the end of the period	(million)	3,499.5	3,499.5		
Average number of shares outstanding during the period	(million)	3,499.5	3,499.5		

- (a) Net of revenue from the construction and upgrading of natural gas distribution infrastructure, entered according to IFRIC 12 and posted in an amount equal to the related costs incurred (Euro 62 and Euro 46 million, respectively, for the first quarters of 2016 and 2015).  
 (b) Net profit is attributable to Snam.  
 (c) Calculated considering the average number of shares outstanding during the year.

#### Total revenue

In the first quarter of 2016, revenue totalled Euro 852 million, a reduction of Euro 77 million (-8.3%) from the first quarter of 2015. Net of components offset in costs, total revenue amounted to Euro 820 million in the first quarter of 2016, down by Euro 69 million, or 7.8%, compared with the same period of the previous year. The reduction was due to the lower regulated revenue (-Euro 52 million; -6.1%) recorded in all the main business segments, mainly as a result of the updating of the rate of return on net invested capital (WACC - Weighted Average Cost of Capital), and of the fall in non-regulated revenue (-Euro 17 million), attributable mainly to lower income from sales of natural gas.

## EBIT

In the first quarter of 2016, EBIT<sup>16</sup> totalled Euro 429 million, a reduction of Euro 81 million (15.9%) from the first quarter of 2015. The reduction was mainly due to lower revenue (-Euro 69 million; -7.8%) and the increase in amortisation and depreciation for the period (-Euro 7 million; -3.4%), due largely to the new infrastructure's entry into service.

With reference to the operating segments, the fall in EBIT was attributable to the natural gas transportation (-Euro 45 million; -15.4%), distribution (-Euro 26 million; -21.0%) and storage (-Euro 11 million; -12.2%) business segments.

## Net profit

In the first quarter of 2016, net profit totalled Euro 266 million, a reduction of Euro 59 million (18.2%) from the first quarter of 2015. The reduction was mainly due to the decline in EBIT (-Euro 81 million; -15.9%) and lower income from equity investments measured using the equity method (-Euro 10 million; -24.4%). These factors were partly offset by the lower financial expenses related to net financial debt (Euro 10 million; 10.4%), thanks to the reduction in the average cost of debt and the fall in income taxes (Euro 28 million; 21.4%), mainly due to the lower pre-tax profit.

## Technical investments

Technical investments in the first quarter of 2016, totalling Euro 231 million (Euro 225 million in the first quarter of 2015), related mainly to the transportation (Euro 136 million), distribution (Euro 70 million) and storage (Euro 23 million) business segments.

## Net financial debt

Net financial debt was Euro 13,543 million as at 31 March 2016, compared with Euro 13,779 million as at 31 December 2015.

The positive net cash flow from operating activities (Euro 572 million) was used to finance all requirements linked with technical investments for the period and to reduce net financial debt by Euro 236 million compared with 31 December 2015.

## 7.2 OUTLOOK FOR THE CURRENT YEAR

As announced on the occasion of the presentation of results for the first quarter of 2016, and based on the information currently available, seasonally adjusted demand for natural gas in the Italian market at the end of 2016 is expected to be essentially stable compared with the 2015 levels. Snam confirms its commitment

<sup>16</sup> EBIT was analysed by isolating only the elements that resulted in a change to that figure. To this end, applying gas sector tariff regulations generates revenue components that are offset in costs.

to the development of natural gas infrastructures in Italy through a programme of technical investments for 2016, which is essentially in line with 2015 for the same scope of activities. Snam also confirms its focus on operating efficiency in 2016, and the aim to continue the process of optimising the Group's financial structure.

Assuming that the Demerger Effective Date is 31 December 2016, for the current year there would be no significant effects on the income statement of the Demerged Company and the Group it heads. If the Transaction were to occur on an earlier date, the above effects would be seen starting on that date.

### 7.3 FORECAST DATA

On 28 June 2016, the Board of Directors of Snam approved the strategic plan defining the strategic guidelines and the targets of the Post-Demerger Snam Group for a period of five years, from 2016 to 2020 (the "Post-Demerger Snam Strategic Plan").

The separation of Italgas from Snam is aimed at strengthening both companies and producing benefits for the shareholders also considering the differences in the businesses in which the above-mentioned companies operate and the different development opportunities which may arise in the context of their respective businesses.

Thanks to the synergic and integrated management of its transportation, LNG and storage businesses, Snam deems to be able to contribute significantly to influence the creation of the single energy market, strengthening its leadership in Europe. Snam, also in light of the financial flexibility from which it will benefit further to the separation of Italgas, and the applicable regulatory context, will be able to focus on organic investments and pursue further development opportunities in Europe to improve its growth profile and, as a result, the remuneration policy of its shareholders. The above is expected to be implemented simultaneously maintaining, at the same time, a rigorous discipline and solid financial structure, elements which have always characterised Snam's business. The Transaction may be qualified as neutral in terms of Snam's credit rating; in this regard, following the announcement of the Transaction and taking into account the relevant effects, the rating agencies Fitch, Moody's and S&P's confirmed their ratings of Snam. Snam will also keep a 13.50% stake in Italgas - regulated by the Shareholder's Agreement between Snam, CDP Reti and CDP Gas - which will enable it to benefit also from the creation of value arising from the future growth of opportunities of Italgas in the distribution business.

The Post-Demerger Snam Strategic Plan is the result of a prospective simulation of the economic and financial parameters of the Post-Demerger Snam Group, and was prepared on the basis of the historical data of the Snam Group as of 31 December 2015, taking into consideration the effects of the Transaction from 2016 on a pro-forma basis, as if it had occurred on 1 January 2016. The Post-Demerger Snam Strategic Plan envisages targets identified on the basis of a substantial continuity of the current regulatory framework and the results of the management's initiatives (the "Forecast Data").

The Forecast Data is based on hypotheses relating to future events and actions including, *inter alia*, general and hypothetical assumptions regarding future events - influenced by risks and uncertainties characterising the current macroeconomic scenario - actions that may not occur and events or other factors that may impact the trend of the main economic and financial parameters of Snam, and which

the directors and the management of Snam cannot influence, or can only partially influence (collectively, the “Hypothetical Assumptions”).

In particular, these Hypothetical Assumptions envisage, *inter alia*:

- (i) the positive completion of all steps of the Transaction, including the admission to trading of the shares of ITG Holding on the MTA, in compliance with the expected timeline;
- (ii) the successful outcome of the refinancing on the market of the ITG Holding Group;
- (iii) the confirmation of the forecasts relating to natural gas’ demand in Italy in the medium-long term;
- (iv) the renewal of Stogit’s concessions related to the storage plants after their expiration; and
- (v) the expected developments in the applicable regulatory framework.

In addition, the hypotheses relating to the evolution of the macroeconomic and regulatory scenario, and the dynamics of the reference rates on which the Post-Demerger Snam Strategic Plan is based, have been prepared using the forecasts currently available, based on the knowledge, experience and assessments developed by the Snam Group. Specifically, the Forecast Data has been prepared assuming an average annual inflation rate of approximately 1% over the period of the plan, in order to update the RAB value. Furthermore, the Post-Demerger Snam Strategic Plan has been developed on the basis of the current competitive market position.

Given the uncertainty relating to the occurrence of any future events and the extent and timing thereof, the differences between the historical figures and the Forecast Data could be significant, even if the forecasted events included in the Hypothetical Assumptions will occur.

### **Summary of the guidelines and growth targets**

In the 2016-2020 period, the post-Demerger Snam plans investments for a total of Euro 4.3 billion, of which Euro 0.9 in 2016 to support the development of the Italian infrastructure and its relation with European infrastructure, strengthening, *inter alia*, the safety, flexibility and liquidity of the whole gas system. The target is expected to be achieved by strengthening the transportation network and creating further storage capacity in Italy, which will, in turn, enable the creation of additional reverse flow capacity towards other European countries, and open new flows from the Caspian region through the TAP gas pipeline.

In particular, investments of approximately Euro 3.8 billion over the life of the plan are envisaged in the LNG and transportation businesses, not only to ensure the safety and reliability of the network, but also to meet the quantity and diversification requirements of supplies, for the benefit of the Shippers and the end users. The North West of Italy represents one of the areas of major interest, where the completion of the projects to ensure flexibility and security in the procurement, and to create additional output capacity, which is partially already implemented, is envisaged.

In the storage business, the planned investment in the period 2016-2020 is Euro 0.5 billion, to increase modulation and peak capacity, improving the overall flexibility and liquidity of the system and promoting further opportunities for gas trading. These improvements are primarily influenced by the progressive start-up of the Bordolano site (Cremona). In light of the above-mentioned investments and assuming an average annual inflation rate of approximately 1%, in the period of the plan, the consolidated RAB of the transportation, LNG and storage businesses is estimated to grow at an annual average rate of approximately 1%, compared to the Euro 19.2 billion estimated at the end of 2015. Snam will be able to leverage on its international subsidiaries to promote increasing interconnection

between European infrastructure systems, and develop greater diversification and flexibility of gas flows, while at the same time maximising the profitability of its assets.

Snam, applying a selective approach and its financial policy, will monitor new opportunities to invest in infrastructure assets, including at the European level, with a risk profile in line with the one of its current business portfolio.

In addition, Snam plans to develop new market services considering the national regulatory framework in order to increase the quality of its commercial offering to Shippers and to create benefits for the end-consumers lowering system costs.

In a medium-long term perspective, Snam is focused on new uses of natural gas, such as the transformation of biogas into biomethane, power to gas, and the development of the logistics to use liquefied natural gas and compressed natural gas.

Regarding its transportation, LNG and storage businesses, Snam plans to maintain its focus on operating efficiency: the inertial increase in structural costs related to the Demerger and the inflationary effect are expected to be substantially offset by new efficiency measures. The fixed costs are expected to remain substantially stable in real terms in the period of the plan, taking into account the same perimeter.

The plan thus provides for an increase in net profits, as compared to the estimated pro-forma value for 2016 of approximately Euro 0.8 billion, as a result of several factors which are not entirely under the management's control, such as the expected growth of RAB, the achievement of operational efficiencies and the growing income from subsidiaries, which from 2020 are likely to benefit also from TAP, as well as the expected reduction in financial costs.

With regard to the shareholders' remuneration policy, Snam plans to distribute a 2016 dividend per share (DPS) equal to Euro 0.21 cents, whose annual increase is expected to amount to 2.5% for 2017 and 2018. In addition, the Directors intend to submit to the shareholders' meeting the proposal to authorise a treasury shares buyback programme, for a maximum number of shares representing 3.5% of the post-Demerger share capital, for a maximum amount equal to Euro 500 million over an 18-month period. This programme provides for additional flexibility to optimise the capital structure and support the total remuneration of the shareholders. This programme will be implemented once the specific opportunities for growth and value creation as well as the evolution of financial position will be assessed.

For more information on the evolution of the Forecast Data provided, please refer to the press release on the 2016-2020 Strategic Plan of Snam issued on 29 June 2016, and to "2016-2020 Strategy and Targets" presentation made available to the public on the website [www.snam.it](http://www.snam.it).

## 7.4 EXTERNAL AUDITORS' REPORT AND FORECAST DATA

On 4 July 2016, External Auditors issued its report on the Forecast Data of the Snam Group, included in the Information Document, as Annex 6.

## 8. Outlook for the Beneficiary Company and the Group it heads

### 8.1 INFORMATION ON THE BUSINESS PERFORMANCE OF ITG HOLDING AND THE GROUP IT HEADS SINCE THE END OF 2015

The Beneficiary Company was established on 1 June 2016 specifically to implement the Demerger. Therefore, since its establishment it has not performed any activities other than those aimed at implementing the Demerger.

The Group whose holding company is the Beneficiary Company largely coincides with Snam Group's Distribution segment at the Information Document Date. As announced in Snam's 12 May 2016 press release regarding the results for the first quarter of 2016 (see for details), below are the financial results, provided solely for information purposes, indicating to what extent the Distribution segment contributed to the results of the Snam Group during the period.

On 17 March 2016, Snam informed the market of the opportunity to conduct a feasibility study in relation to a potential industrial and corporate reorganisation to separate Italgas from Snam through the partial and proportional Demerger of Snam relating in total on in part to the stake in Italgas, with the aim to submit the outcome of the feasibility study to the approval of the Board of Directors and, therefore, to approve and present the Strategic Plan to the institutional investors and the financial analysts by July 2016.

On 31 May 2016 Snam informed the market that the Board of Directors convened to approved the 2016-2020 Strategic Plan took place on 28 June 2016 and that the Strategy Presentation occurred on 29 June 2016.

On 29 June 2016, Snam informed the market that (i) the 2016-2020 Strategic Plan was approved, and (ii) the Board of Directors designated Paolo Gallo as chief executive officer candidate of the Beneficiary Company.

#### Reclassified income statement - Distribution segment

(€ million)	First quarter		Change	% change
	2015	2016		
Regulated revenue (*)	267	256	(11)	(4.1)
Operating costs (*)	(80)	(95)	(15)	18.8
<b>EBITDA</b>	<b>187</b>	<b>161</b>	<b>(26)</b>	<b>(13.9)</b>
Amortisation, depreciation and impairment	(63)	(63)		
<b>EBIT</b>	<b>124</b>	<b>98</b>	<b>(26)</b>	<b>(21.0)</b>

(\*) Net of revenue from the construction and upgrading of natural gas distribution infrastructure, entered according to IFRIC 12 and posted in an amount equal to the related costs incurred (Euro 62 and Euro 46 million, respectively, for the first quarters of 2016 and 2015).

The Distribution segment's EBIT totalled Euro 98 million, down by Euro 26 million (-21.0%) compared with the first quarter of 2015 due to the reduction in transmission revenue (-Euro 13 million), which was largely the result of an increase in the rate of return on invested capital for 2016 from 6.9% to 6.1% for distribution and from 7.2% to 6.6% for metering, and the increase in operating costs (-Euro 15 million) as a result of net allocations to provisions for risks and charges to cover utilisation in the first quarter of 2015.

Technical investments in the Distribution segment totalled Euro 70 million (Euro 56 million in the first quarter of 2015) with respect to distribution investments (Euro 40 million, including Euro 6 million for the replacement of cast iron pipes), metering investments (Euro 22 million) and other investments (Euro 8 million).

## 8.2 OUTLOOK FOR THE CURRENT YEAR

As explained in the paragraph above, since its establishment, the Beneficiary Company has not engaged in any activities other than those aimed at implementing the Demerger, and no other activities are planned until the Demerger Effective Date.

Assuming that the Demerger Effective Date is 31 December 2016, for the current year there would be no significant effects on the income statement of the Beneficiary Company. If the Transaction were to occur on an earlier date, the above effects would be seen starting on that date.

For information on the Distribution segment, see Chapter 7, Paragraph 7.2 of this Information Document.

## 8.3 FORECAST DATA

On 21 June 2016, the Board of Directors of Italgas approved the strategic plan defining the strategic guidelines and targets of the Italgas Group for a period of five years, from 2016 to 2020. As a result of the Transaction and therefore of the separation of Italgas from the Snam Group, the strategic plan of the Italgas Group was submitted to the Board of Directors of ITG Holding (the "Italgas Strategic Plan"), company which upon completion of the Transaction will manage the activities related to the distribution business, through its subsidiaries. Further to the effective date of the Transaction, the directors of the Beneficiary Company could adopt guidelines which are different from those described in this chapter.

The separation of Italgas from Snam is aimed at strengthening both companies and producing benefits for all the shareholders, also considering the differences in the businesses in which the above-mentioned companies operate and the different development opportunities which may arise in the context of their respective businesses.

As an independent company from a managerial, operational and financial perspectives, Italgas will be able to focus on the best strategy to take part in the Local Tender Processes for the renewal of gas distribution concessions, in order to significantly grow in the business in which it operates. This will allow Italgas to benefit from further economies of scale and greater operating efficiency. It is also envisaged that Italgas will have solid credit rating, in line with Snam's one, and direct access to capital markets, with a more efficient financial structure and competitive costs, taking advantage of the current financial



market opportunities. In this regard, following the announcement of the Transaction, the rating agencies Fitch and Moody's assigned respectively an expected public rating and a provisional issuer rating to ITG Holding. These ratings are in line with those assigned to Snam.

The Italgas Strategic Plan is the result of a prospective simulation of the economic and financial parameters of the ITG Holding Group, and was prepared on the basis of the historical data of the Snam Group as of 31 December 2015, taking into consideration the effects of the Transaction from 2016 on a pro-forma basis, as if it had occurred on 1 January 2016.

The Italgas Strategic Plan envisages targets identified on the basis of a substantial continuity of the current regulatory framework and the results of management's initiatives (the "Forecast Data").

The Forecast Data is based on hypotheses relating to future events and actions including, *inter alia*, general and hypothetical assumptions regarding future events - influenced by risks and uncertainties characterising the current macroeconomic scenario - actions that may not occur and events or other factors that may impact the trend of the main economic and financial parameters of Italgas, and which the directors and the management of ITG Holding cannot influence, or can only partially influence (collectively, the "Hypothetical Assumptions").

In particular, these Hypothetical Assumptions envisage, *inter alia*:

- (i) the positive completion of all steps of the Transaction and the admission to trading of the shares of ITG Holding on the MTA, in compliance with the expected timeline;
- (ii) the successful outcome of the refinancing on the market of the ITG Holding Group, including the potential issuance of listed notes;
- (iii) the accuracy of the schedule of the upcoming tenders for the award of the gas distribution service in the various ATEMs envisaged by the management of ITG Holding;
- (iv) the achievement of the success rate envisaged by the management of ITG Holding with regard to upcoming tenders for the award of the gas distribution service in the various ATEMs in which the ITG Holding Group expects to take part;
- (v) the RAB value as an indicator of the Reimbursement Value to be paid to the outgoing operators in the context of the upcoming tenders for the award of the gas distribution service in the various ATEM; and
- (vi) the confirmation of the forecasts relating to natural gas' demand in Italy in the medium/long-term or changes in applicable regulations.

In addition, the hypotheses relating to the evolution of the macroeconomic and regulatory scenario, and the dynamics of the reference rates on which the Italgas Strategic Plan is based, have been prepared on the basis of the forecasts currently available. Specifically, the Forecast Data has been prepared assuming an average annual inflation rate of approximately 1% over the period of the plan, in order to update the RAB value. Furthermore, the Italgas Strategic Plan has been developed on the basis of the current competitive market position.

Given the uncertainty relating to the occurrence of any future events and the extent and timing thereof, the differences between the historical figures and the Forecast Data could be significant, even if the forecasted events included in the Hypothetical Assumptions will occur.

### Summary of the guidelines and growth targets

The Italgas pro-forma consolidated net financial debt as of 31 December 2015 is approximately equal to Euro 3.5 billion. Considering the ordinary dividend for 2015 of approximately Euro 275 million that Italgas plans to distribute to Snam prior to the Demerger, the estimates relating to forecasted cash flow for 2016, net financial debt of Italgas at end of 2016, can be estimated as approximately Euro 3.7 billion. As a result of the Transaction, Italgas will, *inter alia*, be required to repay the intercompany loans currently outstanding with Snam. The total debt will be repaid by Italgas through:

- the use of credit lines, in relation to which selected leading banks have already signed certain commitments for a total of Euro 3.9 billion, containing the main terms and conditions of Italgas' financing;
- the assumption of Snam's debt, with respect to two loan borrowed from the European Investment Bank for a total amount of Euro 424 million, and intended to finance Italgas projects.

The commitments of the banks will be regulated in facility agreements, whose effectiveness will be subject to the completion of the Transaction, the authorisation of the relevant regulatory authorities and the admission to trading of Italgas shares.

Upon completion of the Transaction, the envisaged debt structure of ITG Holding will be as follows:

- a Bridge to Bond for approximately Euro 1.1 billion, with a maturity of up to 2 years;
- revolving credit facilities for approximately Euro 2.3 billion, with a maturity ranging from 3 to 5 years;
- bilateral bank facilities for approximately Euro 500 million, with a maturity ranging from 3 to 5 years;
- two loans to be disbursed by the European Investment Bank for an amount of approximately Euro 424 million, with an average residual maturity of approximately 10 years.

The leverage ratio and the financial package are expected to be in line with solid investment grade rating, in line with the Snam's one.

During the period 2016-2020, ITG Holding plans to make technical investments for a total amount equal to approximately Euro 2 billion, approximately Euro 0.4 billion of which in 2016 (70% on the network and 30% in the metering business) and approximately Euro 1.6 billion to the period 2017-2020 (57% on the network and 43% in the metering business).

During the period of the plan, it is expected that the tenders for the renewal of natural gas distribution concessions, to be carried out on the basis of 177 geographical areas (ATEM) identified pursuant to the applicable laws and regulations, will start. It is also expected that the outcome of such tenders will trigger a significant consolidation of the market, which is currently characterised by the presence of over 200 operators.

The Italgas Strategic Plan assumes that there are the conditions to increase the current market share of approximately 30% to approximately 40%, at the end of the Local Tender Process in terms of Redelivery Points (RP) of the consolidated perimeter of the ITG Holding Group.

The plan of technical investments relating to the current activities, together with the envisaged new concessions acquisition programme, will lead to an estimated consolidated RAB growth target from around Euro 5.7 billion at end 2015 to more than Euro 7 billion at the end of the Local Tender Process.

For more information on the evolution of the Forecast Data provided, please refer to the press release on the 2016-2020 Strategic Plan published on 29 June 2016 and to the document entitled "2016-2020 Strategy and Targets", made available to the public on the website [www.snam.it](http://www.snam.it).

#### **8.4 EXTERNAL AUDITORS' REPORT ON FORECAST DATA**

On 4 July 2016, the External Auditors issued its report on the Forecast Data of the ITG Holding Group, included in the Information Document, as Annex 6.

## 9. Information on the financial instruments to be admitted to trading

The information provided in this Chapter 9 relates to the ordinary shares for which the Beneficiary Company will submit an application to Borsa Italiana for admission to trading on the MTA. The Transaction is subject, *inter alia*, to this admission to trading.

### 9.1 TYPE AND CLASS OF FINANCIAL INSTRUMENTS TO BE ADMITTED TO TRADING

The financial instruments covered by the application for admission to trading are the Beneficiary's ordinary shares, which have no par value (collectively, the "Shares").

The Beneficiary Company will issue new ordinary Shares and assign them to shareholders of the Demerged Company based on a ratio of one Share of the Demerged Company for five Shares, of the same category, of the Beneficiary.

### 9.2 LAW GOVERNING THE ISSUANCE OF SHARES

Shares will be issued under Italian law.

### 9.3 RULES RELATING THE SALE AND PURCHASE OF THE SHARES

The ordinary shares that will be issued by the Beneficiary Company will be registered, freely transferable and issued in non-physical form under centralised management at Monte Titoli.

### 9.4 SHARE ISSUANCE CURRENCY

The shares will be denominated in Euros.

### 9.5 DESCRIPTION OF RIGHTS, INCLUDING ANY LIMITATIONS THERETO, CONNECTED WITH THE SHARES AND PROCEDURE FOR EXERCISING THEM

Pursuant to Article 5 of the ITG Holding bylaws, the Shareholders' Meeting may approve capital increases and establish terms, conditions and procedures for them. Capital may be increased: with contributions in

kind and of receivables and with the issuance of new shares, including in special categories, to be assigned free of charge pursuant to Article 2349 of the Civil Code.

The shares are registered and indivisible, and each share entitles the holder to one vote.

As at the Information Document Date, the Shareholders' Meeting has only issued ordinary shares.

Pursuant to Article 21 of the ITG Holding bylaws, at the end of each financial year, the Board of Directors shall, as required by law, prepare the financial statements.

The net profit reported in the duly approved financial statements shall be allocated as follows:

- up to 5% to the legal reserve until it reaches the limit set by law;
- the remainder to shares, unless otherwise decided by the Shareholders' Meeting.

Dividends not collected within five years of the date that they are payable shall revert to the Beneficiary Company. Advance dividend payments may be made as allowed by law.

Lastly, Article 22 of the ITG Holding bylaws specifies that the liquidation and winding-up of the Company are governed by law.

No securities have been issued that grant special rights, and there are no stock option plans for management and employees.

The Beneficiary Company's bylaws have no restrictions on the transfer of, or limitations on holding, the Beneficiary Company's shares. The legal provisions regarding the Unbundling Regulations described in Paragraph 2.1.1 with regard to the Demerged Company provide certain restrictions on the transfer of, and limitations on the holding of, shares.

## **9.6 RESOLUTIONS, AUTHORISATIONS AND APPROVALS PURSUANT TO WHICH THE FINANCIAL INSTRUMENTS WERE OR WILL BE CREATED AND/OR ISSUED**

The Shares will be issued starting on the Demerger Effective Date pursuant to a resolution of the Beneficiary's Extraordinary Shareholders' Meeting called to vote on the Demerger, and subject to the admission to trading the Shares on the MTA.

The total number of Shares, equal to 809,135,502, comprises Shares issued in the context of (i) the incorporation (No. 50,000), (ii) the Transfer (No. 108,957,843), and (iii) the Demerger, on the basis of a ratio of one Share of ITG Holding for five shares of Snam (No. 700,127,659).

## **9.7 DESCRIPTION OF ANY RESTRICTIONS ON THE FREE TRANSFERABILITY OF THE SHARES**

The Beneficiary's bylaws that will be adopted on the date that the admission to trading is filed with Borsa Italiana have no particular provisions concerning the purchase or transfer of the Shares. Thus, on the trading commencement date, the Shares will be freely transferable.

## **9.8 APPLICABILITY OF REGULATIONS CONCERNING PUBLIC TENDER OFFERS AND/OR RESIDUAL PURCHASE OFFERS**

At the Demerger Effective Date, the Beneficiary Company will be a company with shares listed on a regulated market. From the time that the Shares are issued, they will therefore be subject to the provisions of the Consolidated Finance Act and related implementation regulations, including in particular the Issuers' Regulation, especially with regard to provisions concerning public tender offers and public sale offers.

## 10. Admission to trading and trading procedures

### 10.1 MARKETS FOR ADMISSION TO TRADING

Snam shares are admitted to trading on the MTA managed by Borsa Italiana, and will continue to be listed on the market on the Demerger Effective Date.

The Beneficiary Company shall submit an application to trading authorisation of its shares on the MTA to Borsa Italiana.

The Transaction is subject to, *inter alia*, this admission to trading, which will be finalised when Borsa Italiana sets the date for the commencement of trading of the shares of ITG Holding on the MTA.

Therefore, following the Transaction, the Beneficiary Company's shares will be listed on Borsa Italiana's MTA.

### 10.2 TRADING COMMENCEMENT DATE

Borsa Italiana will set the trading commencement date with an order pursuant to Article 2.4.2, paragraph 4 of the Regulation on Markets Organised and Managed by Borsa Italiana, following the issuance by Borsa Italiana of the order that officially admits the Shares to trading following the recording of the Demerger deed with the appropriate Company Register.

The trading commencement date on the MTA for the Shares will coincide with the Demerger Effective Date (or the first trading day thereafter in the event that the Demerger Effective Date occurs on a non-trading day).

## ANNEXES

1. Demerger Plan and related annexes registered with the Milan Companies Register on 1 July 2016;
2. Report by Snam's Board of Directors, in compliance with Annex 3A of the Issuers' Regulation, in relation to the Demerger;
3. Report by ITG Holding's Board of Directors, pursuant to Articles 2506-*ter* and 2501-*quinquies* of the Civil Code in relation to the Demerger;
4. Report by the External Auditors on the Pro-Forma Consolidated Financial Statements of the Post-Demerger Snam Group for the year ended 31 December 2015;
5. Report by the External Auditors on the Pro-Forma Consolidated Financial Statements of the ITG Holding Group for the year ended 31 December 2015;
6. Reports by the External Auditors on the Forecast Data of the Snam Group and of the ITG Holding Group contained in this Information Document;
7. Opinion of Snam's Control, Risk and Related-Party Transactions Committee;
8. Opinion of Prof. Antonio Nuzzo submitted to the Control, Risk and Related-Party Transactions Committee;
9. Expert report prepared pursuant to Article 2343-*ter* paragraph 2 of the Civil Code with reference to the equity investment held by Snam in Italgas (including the equity investments in investee companies) subject of the Transfer;
10. Expert report prepared pursuant to Article 2343-*bis* paragraph 2, of the Civil Code with reference to the equity investment held by Snam in Italgas (including the equity investments in investee companies) subject of the Sale;
11. Expert report, requested by Snam on a voluntary basis, in order to estimate the effective value of the shareholders' equity assigned to the Beneficiary Company following the Demerger.



## **Statement of the chief financial officer pursuant to article 154-*bis*, paragraph 2 of legislative decree 58/1998 (“TUF”)**

The undersigned, Antonio Paccioretti, in his/her capacity as the Chief Financial Officer of Snam S.p.A., hereby certifies, pursuant to Article 154-*bis*, paragraph 2 of the TUF, that the accounting information contained in this Information Document corresponds to information contained in accounting documents, registers and entries.

Antonio Paccioretti  
Chief Financial Officer





By  
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