

**REPORT OF THE BOARD OF DIRECTORS
OF ITG HOLDING S.P.A. ON THE DEMERGER PLAN OF
THE PARTIAL AND PROPORTIONAL DEMERGER OF
SNAM S.P.A.**

TO

ITG HOLDING S.P.A.

PURSUANT TO ARTICLES 2506-*TER* AND 2501-*QUINQUIES* OF THE CIVIL CODE

ITG Holding S.p.A. – *Registered office: Piazza Santa Barbara 7, San Donato Milanese (MI)*

Share capital: €50,000 – Milan Companies Register No: 09540420966

Table of Contents

1.	INTRODUCTION	5
2.	DESCRIPTION OF AND REASONS FOR THE DEMERGER	8
2.1	Description of the Companies Participating in the Demerger	8
2.1.1	Beneficiary Company	8
2.1.2	Demerged Company	8
2.2	Reasons for and purpose of the Demerger	8
2.2.1	Financial reasons and benefits of the Demerger	8
2.2.2	Outlook and plans of the Demerged Company	9
2.2.3	Outlook and plans of the Beneficiary Company	9
2.3	Main legal aspects of the Demerger	10
2.3.1	The Demerger	10
2.3.2	Admission to trading of shares of the Beneficiary Company and conditions of the Demerger	11
2.3.3	Amendments to the bylaws of the Demerged Company	11
2.3.4	Amendments to the bylaws of the Beneficiary Company	12
3.	ASSETS AND LIABILITIES ALLOCATED TO THE BENEFICIARY COMPANY AND EFFECTS OF THE DEMERGER ON ASSETS AND LIABILITIES	14
3.1	Assets and liabilities allocated to the Beneficiary Company	14
3.2	Effects on the assets and liabilities of the Demerger	17
3.2.1	Effects of the Demerger on the assets and liabilities of the Demerged Company	17
3.2.2	Effects of the Demerger on the assets and liabilities of the Beneficiary Company	17
3.3	Actual values of the net asset allocated to the Beneficiary Company and the net asset remaining with the Demerged Company	19
4.	ALLOCATION RATIO FOR SHARES OF THE BENEFICIARY COMPANY AND ALLOCATION PROCEDURES	20
5.	PROJECTIONS ON THE COMPOSITION OF THE OWNERSHIP STRUCTURE OF THE DEMERGED COMPANY AND OF THE BENEFICIARY COMPANY AFTER THE DEMERGER	21
5.1	Ownership structure of Snam and the related effects of the Demerger	21

5.2	Ownership structure of ITG Holding and the related effects of the Demerger.....	21
6.	DESCRIPTION OF THE RIGHTS ASSOCIATED WITH THE SHARES TO BE ALLOCATED TO THE DEMERGED COMPANY’S SHAREHOLDERS	23
7.	DEMERGER EFFECTIVE DATE AND DATE OF RECOGNITION OF THE TRANSACTIONS IN THE BENEFICIARY COMPANY’S FINANCIAL STATEMENTS.....	24
8.	INCENTIVE PLANS.....	25
9.	TAX EFFECTS OF THE TRANSACTION	26

Report of the Board of Directors of ITG Holding S.p.A. on the demerger plan of partial and proportional demerger of Snam S.p.A. to ITG Holding S.p.A., pursuant to Articles 2506-ter and 2501-quinquies of the Civil Code.

This report (the “**Report**”), in accordance with the provisions of Articles 2506-ter and 2501-quinquies of the Civil Code, describes the partial and proportional demerger (the “**Demerger Plan**”) of Snam S.p.A. (“**Snam**” or the “**Demerged Company**”) to ITG Holding S.p.A. (“**ITG Holding**” or the “**Beneficiary Company**”), approved by the Board of Directors of Snam and ITG Holding, respectively, on 28 June and 27 June 2016, which was prepared, filed and registered pursuant to the law on the basis of the financial statements for the year ended 31 December 2015 and approved by the Ordinary Shareholders’ Meeting of the Demerged Company on 27 April 2016 (the “**2015 Financial Statements**”), and the statement of financial position of ITG Holding at 1 June 2016.

* * *

1. INTRODUCTION

The industrial and corporate reorganization involves the separation of Italgas S.p.A. (“**Italgas**”) from Snam (the “**Transaction**”). The Transaction will be executed such that the Transfer (as defined below), the Sale (as defined below) and the Demerger (as defined below) occur in a unitary and substantially simultaneous manner.

Through the Transaction, which entails an industrial and corporate reorganisation, the entire equity investment held at the date of this Report by Snam in Italgas, equal to 100% of the share capital of Italgas, will be transferred to ITG Holding.

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

Specifically, the Transaction, which will occur in a unitary and substantially simultaneous manner, involves:

- a) the transfer in kind by Snam to ITG Holding of a stake equal to 8.23% of 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), a stake 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 €1,503 million, to be paid through a *vendor loan* on the part of the Beneficiary Company, enhancing part of its stake in Italgas and generating an adequate level of financial debt for the Beneficiary Company, taking into account the Beneficiary Company’s activity, risk and cash flow generation profile; and
- c) the partial and proportional demerger of Snam (the “**Demerger**”), with the allocation to ITG Holding of a stake equal to 52.90% held by the Demerged Company in Italgas (the “**Demerged Assets and Liabilities**”), and consequent allocation to Snam shareholders of the remaining 86.50% of the Beneficiary Company’s share capital.

In order to support the Transaction-related decisions of the Boards of Directors of the companies participating in the Demerger, Snam has appointed Colombo & Associati S.r.l. (the “**Expert**”), in its capacity as a proven expert operating independently from the Company, ITG Holding and the respective shareholders that can exercise significant 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, 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, with the aim of estimating the actual value of the net asset allocated to the Beneficiary Company following the Demerger.

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

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

- (i) to repay intercompany loans currently outstanding with the Demerged Company; and
- (ii) to pay the Demerged Company the price arising from the Sale by repaying the vendor loan.

Such debts will be repaid by ITG Holding through:

- (i) the use of credit lines, in relation to which, on 28 June 2016, select major banks and leading institutions have already signed several binding commitments (without prejudice to what is stated in the next paragraph) for a total of €3.9 billion, which contain the main terms and conditions of the Beneficiary Company's future financing that will be available on the effective date of the Demerger; and
- (ii) following the accession of the European Investment Bank, the finalisation of a discharge of contractual debts for Snam, effective as of the effective date of the Demerger, of two loans granted to the Demerged Company by the European Investment Bank for a total of €424 million and intended to finance Italgas projects.

All of the aforementioned commitments assumed by the lending institutions are subject, on the one hand, to the same conditions precedent as those of the Transaction as referred to in Paragraph 2.3.2 and, on the other hand, to further typical conditions for transactions of this type such as the absence of malfunctions or severe deterioration of the markets.

As stipulated in the memorandum of understanding dated 28 June 2016 between Snam, CDP Reti S.p.A. ("**CDP Reti**") and CDP Gas S.r.l. ("**CDP Gas**") (the "**Memorandum of Understanding**"), the entire Transaction also provides that Snam, CDP Reti and CDP Gas enter into a shareholders' agreement (the "**Shareholders' Agreement**") relating to the equity investments which will be held in the Beneficiary Company, amounting to 13.50%, 25.08% and 0.97%, respectively. A purpose of the Shareholder's Agreement is 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 aims to regulate, by means of the Shareholders' Agreement, the main terms for implementing the Transaction, the rights deriving from the execution of the Shareholders' Agreement and the general provisions of *governance* which, following the implementation of the Transaction, shall apply to ITG Holding and Italgas.

As a result of the Demerger, each Snam shareholder will hold, in place of shares of Snam, two separate equity securities representing the different areas of business in which Snam is engaged at the date of this Report. Specifically, these areas are: natural gas transportation, dispatching, regasification and storage (Snam share); and natural gas distribution (ITG Holding share).

Snam's shareholders will be allocated shares of the Beneficiary Company, proportionate to the shares held by each 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 authorized intermediary to purchase at market prices the fractional shares of the Beneficiary Company, through the depositary intermediaries enrolled with Monte Titoli S.p.A. ("**Monte Titoli**"), within the limits required to enable shareholders to hold, to the highest possible extent, a whole number of shares.

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 *Mercato Telematico Azionario* ("**MTA**");
- (ii) the issuance of the judgement of equivalence by the Italian Securities and Exchange Commission ("**CONSOB**"), pursuant to Article 57, paragraph 1, letter d) of CONSOB Resolution 11971/1999, as amended (the "**Issuer Regulations**") in relation to the information document prepared pursuant to Article 70 of the Issuer Regulations (the "**Information Document**"), supplemented pursuant to said Article 57 of the Issuer Regulations; 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 suitable conditions to pursue the listing were deemed not present.

In addition, the deeds relating to the Transaction are conditional so as to ensure that the individual steps defined in the Transaction occur in a unitary and substantially simultaneous manner.

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

2. DESCRIPTION OF AND REASONS FOR THE DEMERGER

2.1 Description of the Companies Participating in the Demerger

2.1.1 Beneficiary Company

ITG Holding S.p.A., incorporated on 1 June 2016, with registered office at Piazza Santa Barbara 7, San Donato Milanese (MI), tax code and registration number in the Milan Business Registry: 09540420966. The shareholders' meetings convened to approve this Demerger Plan will be empowered to deliberate on the change of the corporate name and the registered office.

At the date of this Report, the fully subscribed and paid-up share capital of ITG Holding was €50,000, comprising 50,000 ordinary shares with no par value.

Subject to the issuance of the necessary authorisations, the shares of ITG Holding will be admitted to trading on the MTA.

2.1.2 Demerged Company

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

At the date of this Report, the fully subscribed and paid-up share capital of Snam was €3,696,851,994.00, comprising 3,500,638,294 ordinary shares with no par value.

Shares of Snam are admitted to trading on the MTA.

2.2 Reasons for and purpose of the Demerger

2.2.1 Financial reasons and benefits of the Demerger

This is primarily a business Transaction aimed at separating the Snam Group's Italian gas distribution activities (carried out by 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. Transfer, Sale and Demerger, which will be completed simultaneously) will ensure fulfilment of the twin aims of (i) providing Snam with a post-Demerger stake of 13.50% in the Beneficiary Company (derived almost completely from the Transfer), and (ii) enhancing part of its stake in Italgas by giving, at the same time, the Beneficiary Company a sufficient level of financial debt in view of its business, risk and cash flow generation profiles (via the Sale).

The reason for the Transaction is the belief that the gas distribution activities (which are the subject of the Demerger) present very specific characteristics that are different from the rest of the Snam Group's activities in terms of operational organization, 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 of end customers. The distribution business is also more labour intensive than the Snam Group's other businesses, requires frequent interaction with local authorities and is based on continual small-scale investment.

Despite being based on the same principles of reference as the Snam Group's other regulated activities, the regulatory framework for distribution presents a series of its own peculiarities 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 characterized over the next few years by local tender processes for 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 fulfill their potential.

2.2.2 Outlook and plans of 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 maximize 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.

2.2.3 Outlook and plans of 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 (Ministerial Decree 226/2011). In order to cope effectively with this commitment, the company expects to have upgraded 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 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 the resolutions of the Electricity, Gas and Water Authority (the "AEEGSI") (Resolution ARG/gas 155/08 as amended), work will continue on the replacement of all meters (even domestic ones) with smart meters.

Italgas will also be able to:

- benefit from opportunities for growth 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;
- increase its 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.

2.3 Main legal aspects of the Demerger

2.3.1 *The Demerger*

The Demerger consists of a partial and proportional demerger of Snam to ITG Holding, the share capital of which is entirely held by Snam as at the date of this Report. The allocations to the Beneficiary Company cover the 52.90% equity investment of the Demerged Company in Italgas (for a description of the assets and liabilities to be transferred to the Beneficiary Company as a result of the Demerger, see the paragraph below “Assets and liabilities allocated to the Beneficiary Company”).

As a result of the Demerger, Snam's 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 ordinary share of the Beneficiary Company for every five Snam shares held.

Since this is a partial and proportional demerger of a company whose share capital is, at the date of this Report, and will remain up to the effective date of the Demerger (the “**Demerger Effective Date**”), wholly owned by the Demerged Company, the Demerger 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 Regulation No 23 of 18 March 2004, prepared by its own Companies Committee – the conditions remain in place for the exemption, set out in Article 2506-ter, paragraph 3 of the Civil Code, from the need to write the expert report mentioned in Article 2501-sexies of the Civil Code.

Pursuant to and for the purposes of the combined provisions of Articles 2506-ter and 2501-quater of the Civil Code, the Beneficiary Company's statement of financial position at the date of its incorporation (1 June 2016) was drawn up, 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 Financial Statements.

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

The Demerger will take legal effect on the later of: the date when the Demerger deed is recorded in the relevant Companies Register pursuant to Article 2506-*quater* of the Civil Code or on the date indicated in the Demerger deed. The Demerger Effective Date shall coincide with the start date of negotiations about the shares of ITG Holding on the MTA. The Demerger is likely to take effect before 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 above-mentioned Demerger Effective Date.

2.3.2 Admission to trading of shares of the Beneficiary Company and conditions of the Demerger

In addition to the conditions of law, including, in particular, the favourable vote of Snam's Shareholders' Meeting, the effectiveness of the Transaction is subject to:

- (i) the issuance of Borsa Italiana's order admitting the Beneficiary Company's shares to trading on the MTA;
- (ii) the issuance of the judgement of equivalence by CONSOB pursuant to Article 57, paragraph 1, letter d) of the Issuer Regulations in relation to the 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 traded on the MTA.

The schedule of the Transaction 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 suitable conditions to pursue the listing were deemed not present.

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.

At the date of this Report, the Beneficiary Company does not plan to request the admission to trading of its shares on other markets.

2.3.3 Amendments to the bylaws of the Demerged Company

The bylaws of the Demerged Company will not be amended, except for amendments that will be made to Article 5 in order to reflect the reduction in the share capital of the Demerged Company on completion of the Demerger.

Article 5 - Share capital

The current text of Article 5, paragraph 1 reads as follows: *“The share capital is €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 €961,181,518.44, to €2,735,670,475.56.

Following the Demerger, Article 5.1 of the bylaws of the Demerged Company will read as follows: *“The share capital is €2,735,670,475.56 (two billion seven hundred and thirty-five million six hundred and seventy thousand four hundred and seventy-five point five six), 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”*.

The bylaws of Post-Demerger Snam are attached to the Demerger Plan as Annex A.

2.3.4 Amendments to the bylaws of the Beneficiary Company

The shareholders' meetings convened to approve this Demerger Plan will be empowered to deliberate on the change of the corporate name and the registered office.

Subsequent to the Transaction, the shares of the Beneficiary Company will be admitted to trading on the MTA. Therefore, the Beneficiary Company's Shareholders' Meeting called 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 in Legislative Decree No 58 of 24 February 1998, as amended (the **“Consolidated Finance Act”** or **“TUF”**) and the relevant implementing regulations.

These bylaws, which are attached to the Demerger Plan as Annex B, will be broadly in line with those governing Post-Demerger Snam, except for what is described 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 will be amended slightly compared to Article 2 of Snam's bylaws in order to promptly bring the corporate purpose of the Beneficiary Company into line with the business it will perform after the Demerger. Therefore, the Beneficiary Company's corporate purpose will be to exercise, 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 to the extent permitted by the rules for the sector in force from time to time, any activity included in the gas and hydrocarbons industry 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 to the corporate purpose, authorisation by the shareholders 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) totalling €40,000,000.00 as a result of the Transfer, and (ii) totalling €961,181,518.44 as a result of the Beneficiary Company being allocated the Demerged Assets and Liabilities. The share capital of the Beneficiary Company will therefore total €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 shares 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 €1,001,231,518.44 (one billion one million two hundred and thirty-one thousand five hundred and eighteen point forty-four), 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, relating to the appointment of the Board of Directors of the Beneficiary Company, will be amended to provide a mechanism whereby nine members are appointed based on lists. Seven directors are taken from the first list according to number of votes and two directors are taken from the minority lists using a proportional mechanism (quotient). This mechanism shall apply starting from the renewal of the Board of Directors of ITG Holding, *i.e.* after two years from the first appointment of the Board of Directors of the Beneficiary Company.

3. ASSETS AND LIABILITIES ALLOCATED TO THE BENEFICIARY COMPANY AND EFFECTS OF THE DEMERGER ON ASSETS AND LIABILITIES

3.1 Assets and liabilities allocated to the Beneficiary Company

As a result of the Demerger, the Demerged Company will assign to the Beneficiary Company an equity investment of 52.90% of the share capital of Italgas. In accordance with the principle of continuity of accounting values, the assignment will take place at a carrying value, which is €1,569,211,964.76, corresponding to 52.90% of the total cost of €2,966,473,384.94.

Company name	Registered office	Share capital in euros	% stake held by Snam	Shares held	REA No	Snam book value in euros as at 31 December 2015
Italgas S.p.A.	Turin	252,263,314.00	100	252,263,31	Turin No 1082	2,966,473,384.94

No other asset or liability item of the Demerged Company, other than those expressly mentioned, will be awarded. The value of the net asset awarded is therefore €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 in Roma Ostiense (the "**Property Complex**"), will be transferred to the Beneficiary Company as a result of specific contractual arrangements entered into during the sale by Eni S.p.A. ("**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 a sale and purchase agreement (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 integrated by the following agreements entered into by the parties, provides, in particular, for a commitment by Eni to purchase, from Italgas, the Property Complex and 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 its RAB value as at 31 December 2007, after the deduction of fiscal charges and the duly documented ancillary costs associated with the sale of the Property Complex to Eni. In relation to the environmental costs, the Italgas' shares price adjustment mechanism will include the difference between the appraised value of those costs and the cost accounted for in the provisions for the

environmental risks relating to the Property Complex in Italgas financial statements as at 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 €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 by its subsidiaries, in addition to what has already been reported, the following should be noted.

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 Electricity, Gas and Water Authority (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 S.p.A. (“**Napoletanagas**”) and ACAM Gas S.p.A. (“**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 (“**RPs**”) for end-users.

The Italgas Group is Italy’s leading distributor of natural gas in urban areas in terms of number of RPs.

Italgas also has non-controlling interests in other natural gas distribution companies, 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 around 790,000 active RPs and more than 1 billion cubic metres of gas carried in 2015.

At 31 December 2015, Toscana Energia’s revenues of some €125 million generated EBIT of approximately €61 million and a net profit of approximately €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 which 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 kilometres, with around 50,000 active RPs and 54 million cubic metres of gas carried.

At 31 December 2015, Umbria Distribuzione’s revenues of approximately €6.5 million generated EBIT of some €550,000 and a net profit of approximately €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, Bargano (LO), Castiraga Vidardo (LO), Marudo (LO) and Villanterio (PV).

Metano Lodigiano serves around 9,700 RPs and carries 17 million cubic metres of gas in 2015.

At 31 December 2015, Metano Lodigiano’s revenues of approximately €1.5 million generated EBIT of some €540,000 and a net profit of approximately €350,000.

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

3.2 Effects on the assets and liabilities of the Demerger

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

The Demerger will yield a proportional reduction of €1,569,211,964.76 in the Demerged Company's net asset, by way of a reduction of €961,181,518.44 in share capital and a reduction of €608,030,446.32 in reserves. Specifically, the legal reserve will be reduced by €192,236,303.69 and the share premium reserve by €415,794,142.63.

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

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

The Demerger will yield a corresponding increase of €1,569,211,964.76 in the Beneficiary Company's net asset, attributed (i) to share capital in the amount of €961,181,518.44, thereby increasing the share capital from €40,050,000 to €1,001,231,518.44 via the issuance of 700,127,659 new shares; and (ii) to reserves in the total amount of €608,030,446.32. The legal reserve will increase by €192,236,303.69 and the share premium reserve by €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 net asset items at 31 December 2015, while the second and third columns show, respectively, the post-Demerger breakdown of the net asset of the Beneficiary Company and the Demerged Company.

	Snam pre-Demerger (31 December 2015)	ITG Holding post- Demerger^(*)	Snam post-Demerger
Share capital	3,696,851,994.00	961,181,518.44	2,735,670,475.56
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 at 31 December 2015	824,675,951.88		824,675,951.88
Total	6,835,133,221.92	1,569,211,964.76	5,265,921,257.16

(*) The items of net asset 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. the ratio of the Demerged Assets and Liabilities to Snam's net asset 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 net asset of the Demerged Company and the Beneficiary Company, as a result of the entire Transaction (Constitution, Transfer, Sale and Demerger), also including the effects resulting from the allocation of the net profit for 2015, approved by the Shareholders' Meeting of 27 April 2016.

(€ million)

Snam	31 December 2015 (pre-Transaction)	Distribution of 2015 dividend	Snam post-dividend distribution	Sale	Demerger	Snam post-Transaction
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)				
Snam net asset	6,835	(875)	5,960	350	(1,569)	4,741

ITG Holding	Establishment	Transfer	Sale	Demerger	ITG Holding post-Transaction
Share capital	€50,000	40		961	1,001
Legal reserve				192	192
Share premium reserve		204		416	620
Other reserves			(350) ^(*)		(350)
ITG Holding net asset		244	(350)	1,569	1,463

(*) The reserve, a positive value for the Demerged Company and a negative value for the Beneficiary Company, is recognised against the Sale and is equal to the difference between the Sale price and the corresponding fraction of the cost of the holding.

3.3 Actual values of the net asset allocated to the Beneficiary Company and the net asset remaining with the Demerged Company

Pursuant to Article 2506-*ter*, paragraph 2 of the Civil Code, it is hereby stated that:

- a) the actual value of the net asset that will be allocated to the Beneficiary Company as a result of the Demerger is no less than the relative book value amounting to €1,569,211,964.76, corresponding to 52.90% of the overall cost of the equity investment held by Snam in Italgas at 31 December 2015, *i.e.* €2,966,473,384.94; and
- b) the actual value of the net asset that will remain with the Demerged Company as a result of the Demerger is no less than the relative book value (which was €5,265,921,257.16 at 31 December 2015).

4. ALLOCATION RATIO FOR SHARES OF THE BENEFICIARY COMPANY AND ALLOCATION PROCEDURES

As a result of the Demerger, Snam's shareholders will be allocated shares in the Beneficiary Company in proportion to the 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. After the allocation, Snam's shareholders will hold a total share of 86.50% of the share capital of the Beneficiary Company. No cash adjustment is therefore 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 authorized 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.

Subject to the issue of the necessary authorisations at the time of allocation, the shares of the Beneficiary Company will be admitted to trading on the MTA. The initial date of trading of ITG Holding shares on the MTA will be established by Borsa Italiana with a specific order.

In exchange for the treasury shares held by Snam at the date of this Report (1,127,250), which will not be allocated, in addition to retaining the above shares, the Demerged Company will receive 225,450 shares of the Beneficiary Company.

In addition to such number of shares, the following should be taken into account (i) the Beneficiary Company shares held by Snam as at the date of this Report, resulting from the incorporation of the Beneficiary Company (50,000), 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).

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

5. PROJECTIONS ON THE COMPOSITION OF THE OWNERSHIP STRUCTURE OF THE DEMERGED COMPANY AND OF THE BENEFICIARY COMPANY AFTER THE DEMERGER

5.1 Ownership structure of Snam and the related effects of the Demerger

At the date of this Report, 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. The shareholder Cassa Depositi e Prestiti S.p.A. (“**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 date of this Report, the following shareholders directly or indirectly hold 3% or more of the Demerged Company’s share capital with voting rights:

Declarant	Direct shareholder	Proportion of ordinary share capital (%)
CDP	CDP Reti S.p.A. ⁽¹⁾	28.98
	CDP Gas s.r.l. ⁽²⁾	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 holds 35%, with the remaining 5.9% held by Italian institutional investors.

⁽²⁾ Wholly owned subsidiary of CDP.

At the date of this Report, 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 at the date of this Report.

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

5.2 Ownership structure of ITG Holding and the related effects of the Demerger

At the date of this Report, 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 S.p.A.	25.08
	CDP Gas s.r.l.	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 stipulated in the Memorandum of Understanding dated 28 June 2016 between Snam, CDP Reti and CDP Gas S.r.l., the entire Transaction also provides that Snam, CDP Reti and CDP Gas enter into the Shareholders' Agreement relating to the equity investments which will be held in the Beneficiary Company, amounting to 13.50%, 25.08% and 0.97%, respectively. A purpose of the Shareholder's Agreement is 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 aims to regulate, by means of the Shareholders' Agreement, the main terms for implementing the Transaction, the rights deriving from the execution of the Shareholders' Agreement and the general provisions of *governance* which, following the implementation of the Transaction, shall apply to ITG Holding and Italgas.

6. DESCRIPTION OF THE RIGHTS ASSOCIATED WITH THE SHARES TO BE ALLOCATED TO THE DEMERGED COMPANY'S SHAREHOLDERS

Shares of the Beneficiary Company will be allocated to the Demerged Company's shareholders in the amount and according to the allocation criteria described in the above paragraph "Allocation ratio for shares of the Beneficiary Company and allocation procedures".

These shares will have exactly the same characteristics as the shares of the Demerged Company owned by each shareholder of this company.

Other than ordinary shares, no issues of shares of the Beneficiary Company are planned.

Shares of the Beneficiary Company that will be allocated to the Demerged Company's shareholders will incur dividend rights from 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.

7. DEMERGER EFFECTIVE DATE AND DATE OF RECOGNITION OF THE TRANSACTIONS IN THE BENEFICIARY COMPANY'S FINANCIAL STATEMENTS

The Demerger will take legal effect on the later of: the date when the Demerger deed is recorded in the relevant Companies Register pursuant to Article 2506-*quater* of the Civil Code or on the date indicated in the Demerger deed. The Demerger Effective Date shall coincide with the start date of negotiations about the shares of ITG Holding on the MTA. The Demerger is likely to take effect before 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.

The Transaction is being conducted under the going-concern principle insofar as it is assumed it is 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 the Civil Code, the accounting effects of the Demerger will apply as of the Demerger Effective Date. As such, the accounting effects of the Demerger will be applied to the Beneficiary Company's financial statements as of said effective date.

8. INCENTIVE PLANS

At the date of this Report, the Demerged Company has no incentive plans for the directors or the employees.

9. TAX EFFECTS OF THE TRANSACTION

The Demerger is tax neutral for the purpose of direct taxation as defined in Article 173 of Presidential Decree No 917 of 22 December 1986, as amended (“**Consolidated Income Tax Act**” or “**TUIR**”). Specifically, under Italian tax law, the Demerger does not result in the parties involved making profits or incurring losses that are significant for tax purposes.

For the Demerged Company, the transfer of part of its net asset 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 taxable positions and the related obligations are allocated to the Beneficiary Company and the Demerged Company in proportion to the respective shares of book net asset transferred or retained, although taxable positions related specifically or as a group to the demerged assets and liabilities remain with the Beneficiary Company.

Any deferred tax reserves in the Demerged Company’s most recent separate financial statements are reduced in proportion to the reduction in the related book net asset. This reduced amount in the Demerged Company must be reconstituted within the Beneficiary Company in proportion to the respective shares of book net asset 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 respect 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.

The Chairman
Avv. Marco Reggiani

