

Report of the Board of Directors on the proposals  
relating to items on the agenda of the Shareholders' meeting

**SNAM S.p.A.**

**EXTRAORDINARY AND ORDINARY SHAREHOLDERS' MEETING OF 24 APRIL 2018**

**SINGLE CALL**

**Report by the Board of Directors on the proposals concerning the items on the agenda of the  
Shareholders' Meeting**

**ORDINARY SESSION**

**Item 4**

**Consensual termination of the appointment as external auditor of the accounts and contextual  
conferral of the new appointment as external auditor of the accounts of the Company for the  
period 2018-2026**

Dear Shareholders,

As you are aware, the external auditing of the accounts of Snam S.p.A. (the "*Company*" or also "*Snam*") is currently performed by Ernst & Young S.p.A. ("*EY*"), by virtue of a mandate scheduled to expire on the date the financial statements as at 31 December 2018 are approved.

On 16 March 2017 the shareholder Cassa Depositi e Prestiti S.p.A. sent Snam S.p.A. a communication to assess the request to appoint a sole external auditor of the group for the companies included in its consolidation scope.

After this request had been examined in detail, and preliminary discussions held with EY, the Company took the view that the alignment of the Group's auditing would be in its interests, and that the request of Cassa Depositi e Prestiti S.p.A. was lawful, and asked EY about its willingness to agree on a consensual termination, pursuant to Legislative Decree 39/2010 and Ministerial Decree 261/2012, of the mandate of external auditor of the account, as well as the additional professional tasks subsequently conferred by Snam and of similar tasks conferred by the subsidiary companies.

On 6 March 2018 EY informed Snam of their willingness to agree to the consensual termination of the appointment as external auditor, it being understood that this resolution will become effective

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upon and subject to the approval of the Company's Shareholders' Meeting called to approve the financial statements as at 31 December 2017 and appoint the new external auditor, in compliance with the provisions of Legislative Decree 39/2010 and Ministerial Decree 261/2012.

In December 2017 PWC sent to the Company the proposals for appointment as external auditor for all the companies of the Snam Group, on the basis of which checks were carried out on the completeness of the services and an analysis made of the hours and fees.

The Company's Board of Statutory Auditors has, pursuant to Ministerial Decree 261/2012, issued its positive opinion on the consensual termination of the appointment with EY, having also proposed to confer the appointment of the Company's external auditor for the financial years 2018-2026 on *PricewaterhouseCoopers S.p.A.* ("PWC") in their capacity as the firm appointed to perform the external audit of the consolidated financial statements of CDP. The text of the proposal, also containing the favourable opinion of the Board of Statutory Auditors, is annexed to this report.

Now therefore, the Board of Directors is submitting for your approval:

- taking into account the favourable opinion issued by the Board of Statutory Auditors and the willingness of EY in this respect, the proposal to reach a consensual termination of the current audit mandate in place with EY, it being understood that this resolution will become effective upon and subject to the approval of the Company's Shareholders' Meeting, and the appointment of the new auditor. Therefore, if the Shareholders' Meeting does not approve the simultaneous conferment of a new appointment on another auditor the consensual termination will be deemed to be null and void;
- the reasoned proposal by the Board of Statutory Auditors to the Shareholders' Meeting to confer the appointment of external auditor of the accounts for the financial years ending on 31 December from 2018 to 2026, on *PricewaterhouseCoopers S.p.A.*

The Chairman of the Board of Directors

Mr Carlo Malacarne

**SNAM S.p.A.**

**Opinion of the Board of Statutory Auditors regarding the consensual termination of the  
appointment of external auditor of the accounts and conferral of the new appointment as  
external auditor of the accounts of the Company for the period 2018-2026 to the Snam S.p.A.  
Shareholders' Meeting.**

Dear Shareholders,

on 16 March 2017, Cassa Depositi e Prestiti S.p.A. (hereinafter also "*CDP*" or the "*Parent Company*"), sent to Snam S.p.A. (hereinafter also "*Snam*" or the "*Company*") a communication to assess the request to appoint a sole external auditor of the group for the companies included in its consolidation scope, and, for this purpose, consequently, to terminate in advance of its natural expiry the appointment as external auditor of the Snam accounts, currently conferred on the external auditor *Ernst & Young* S.p.A. (hereinafter also "*EY*"), and to replace it with the company appointed to perform the external audit of the Parent Company's accounts, *PricewaterhouseCoopers* S.p.A. (hereinafter also "*PWC*").

As indicated in the aforementioned communication from CDP, the request is based mainly on the fact that Snam, being a subsidiary of CDP, pursuant to the international accounting standard IFRS 10 (Consolidated Financial Statements), fell, from 31 December 2014, within the CDP consolidation scope, representing, within the context of the consolidated financial statements of the CDP Group, a "significant component".

CDP believes that the appointment of a sole external auditor - to be identified as the external auditor of CDP - for the companies included in the consolidation scope would be the most suitable choice to ensure: (i) a complete, accurate and prompt disclosure to all stakeholders ; (ii) greater effectiveness and efficiency of the audit process; (iii) a better fluidity and better coordination of the information flows; (iv) a more effective and efficient control by the Parent Company's board of statutory auditors; (v) greater coherence with the existing regulatory framework, in consideration of the various and

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more extensive aspects of responsibility - where there are several auditors - introduced into our law by Legislative Decree no. 135 of 2016 and by Regulation (EU) no. 537 of 2014.

The CDP communication reached the Company after publication of the call notice (10 March 2017) of the Shareholders' Meeting of 11 April 2017. In the meantime, the Board has, in concert with the competent company departments, carried out all of its preparatory activities with a view to the presentation of the proposal for the first possible Shareholders' Meeting.

Snam, on 27 February 2018, believing the request by CDP to be justified and rational as well as compliant with the applicable rules, asked EY to confirm its agreement to a consensual termination, pursuant to art. 13 of Legislative Decree no. 39 of 27 January 2010 (as amended by Legislative Decree no. 135 of 17 July 2016) (hereinafter also the "*Decree*") and art. 7 of decree no. 261 of the Ministry of Economy and Finance of 28 December 2012 (hereinafter also "*Ministerial Decree 261/2012*"), of its appointment as external auditor of the accounts of Snam conferred by the Shareholders' Meeting of Snam Rete Gas S.p.A. held on 27 April 2010<sup>1</sup>, the additional professional tasks conferred subsequently by Snam, as well as the similar appointments conferred by Subsidiary companies, specifying that if this resolution is approved by the Shareholders' Meeting pursuant to law, the residual activities inherent to the financial statements of the Snam Group as at 31 December 2017 would in any case fall within the remit of EY audit.

Following the consensual termination, Snam and its Subsidiaries will make a *pro-quota* settlement to EY regarding any fees due for the services rendered up until the corresponding date, while no payment is envisaged as penalty in respect of early termination .

With a letter of 6 March 2018, EY confirmed its willingness to Snam to complete the consensual termination of the appointment as external auditor, it being understood that this resolution will

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<sup>1</sup> The adhesion by Snam Rete Gas (now Snam) to the Eni Framework Agreement was formalised on 10 June 2010, and subsequently by the companies controlled directly and indirectly. In consideration of the changes to the ownership structure (loss of control of Eni over Snam), Snam wished to regulate the rights and obligations of the contractual relationship in force with EY with the formulation of a new Framework Agreement, on 3 September 2014, for the financial years 2014-2018 (as part of the 2010-2018 nine year period) that, surpassing any previous agreement, has incorporated and replaced the Eni Framework Agreement. The amendments take the form of interventions that make the provisions of the Framework Agreement consistent with the new corporate structure of Snam and the governing law.

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become effective upon and subject to the approval of the Company's Shareholders' Meeting called to approve the financial statements as at 31 December 2017 and the appointment of a new external auditor, in compliance with the provisions of the Decree and Ministerial Decree 261/2012.

In consideration of the above, the Company asked Prof. Luigi Arturo Bianchi to give a legal opinion on the legitimacy of the early termination of the current appointment as external auditor of Snam's accounts, and the conferment of a new appointment on the Parent Company's auditor, whose arguments can be summarized as follows: *(i)* the provision of the same firm to perform the external auditing of the accounts of CDP and the consolidated companies in itself constitutes a legitimate request by CDP in the exercise of its prerogatives as controlling shareholder; *(ii)* the appointment by Snam of the auditor of the consolidated accounts of CDP is also a choice of interest to Snam, due, inter alia, to the economies of scale and the reduction of costs that this entails; *(iii)* it must therefore be seen that the proposal to the Company's Shareholders' Meeting to consensually terminate the current appointment and confer a new appointment on the auditor of the parent company CDP is justified; and *(iv)* although the regulations require a "tender" to be launched for conferment of the auditing appointment, the aforesaid advantages deriving from the adoption of a sole external auditor, as well as the possibility to compare and assess the terms and conditions of the current appointment with those proposed by the external auditor of CDP and therefore to check that the conditions proposed by the latter are more suitable for Snam, make it possible for the proposal to appoint PWC to audit the Company's accounts without formalising a specific "tender" can be submitted to the Shareholders' Meeting.

In this regard, Snam, in order to make the technical-economic analysis of the activities that would be carried out by the new external auditor, asked PWC at the end of 2017 to provide all the data and information necessary to enable a detailed assessment of the activities to be carried out. In December 2017 PWC sent Snam's Internal Audit Department the proposals for appointment as external auditor for all the companies of the Snam Group, on the basis of which checks were carried out on the completeness of the services and an analysis made of the hours and fees. The table below summarises

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the terms of the proposal presented by PWC in relation to Snam for the individual activities, the relative effort and the fees applicable to each fiscal year.

<b>Service</b>	<b>effort (hours)</b>	<b>Prices (euros)</b>
Auditing of financial statements	480	30,000
External auditing of consolidated financial statements + ISA 600 for companies that are not audited by PWC	760	50,000
Limited auditing of abbreviated interim consolidated financial statements	320	20,000
Auditing of Snam Group reporting package (for CDP S.p.A. and CDP Reti S.p.A.)	280	17,000
Limited auditing of separate financial statements as at 30/09 for the purposes of advance dividends	320	20,000
Limited auditing of consolidated non-financial statement pursuant to Legislative Decree 254/16 and Sustainability Report	560	35,000
Auditing of consolidated separate annual accounts (unbundling)	160	10,000
Assessment of adequacy of Corporate Reporting Internal Control System	2,790	150,000
<b>Total</b>	<b>5,670</b>	<b>332,000</b>

It is specified that:

- the external audit of the annual financial statements includes: *(i)* periodic legal audits, *(ii)* the signing of the tax declarations and *(iii)* the verification of the coherence of the report on operations and some information contained in the report on Corporate Governance and Ownership Structure Report with the financial statements;
- the audit of the consolidated financial statements includes the coordination and acquisition and analysis of the results of the audit work carried out by other independent auditing firms (in application of the auditing principle ISA 600);
- the assessment of the adequacy of the Corporate Reporting Internal Control System is related to the additional appointment assigned on a voluntary basis of particular importance in relation

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to Legislative Decree 262/2005, aimed at ensuring the performance of the analysis of the internal control system connected to the preparation of the financial reporting (SCIS) for the formation of the Company's annual financial statements and the consolidated financial statements for the purpose of issuing a specific professional opinion on the adequacy of the system.

PWC has also submitted the following proposal in relation to any bond issues as part of the EMTN Programme; a comparison of PWC and EY fees is given below.

<b>Service</b>	<b>PWC fees (euros)<sup>2</sup></b>	<b>EY fees (euros)<sup>2</sup></b>
Comfort Letter on the new EMTN Programme	20,000	60,000
Comfort Letter on the updates to the existing EMTN Programme and/or subsequent bond issues	20,000	20,000
<b>Total</b>	<b>40,000</b>	<b>80,000</b>

The following table sets out the overall context of the proposals drawn up by PWC for the Snam Group companies, compared with the conditions currently envisaged by the agreement in place with EY.

<b>Company</b>	<b>PWC fees (euros)<sup>3</sup></b>	<b>EY fees (euros)<sup>3</sup></b>
Snam S.p.A.	332,000	387,100
Snam Rete Gas S.p.A.	92,500	93,000
Stogit S.p.A.	82,500	108,500
Gnl S.p.A.	25,000	25,900
Gasrule Insurance DAC	47,000	54,200
Snam4Mobility S.p.A.	17,500	10,000
Asset Company 2 S.r.l.	12,500	14,000
Infrastrutture Trasporto Gas S.p.A.	31,000	28,100
<b>Total</b>	<b>640,000</b>	<b>720,800</b>

Among other things, the technical analysis of the proposals submitted by PWC has shown that: (i)

<sup>2-3</sup> the amounts indicated do not include VAT, out of pocket and secretarial expenses, to be invoiced according to the cost incurred, nor the supervisory contribution made to CONSOB or other supervision authority, which could be envisaged for such tasks following the coming into force of new regulatory provisions issued by the competent authorities.

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the auditing methods described, considering the hours and professional resources envisaged, are adequate in relation to the size and complexity of the appointment; *(ii)* PWC, for the purposes of the rules laid down on independence, will ensure its independence and that no causes of incompatibility exist pursuant to articles 10 and 17 of the Decree, retaining in the records suitable documentation to this end; and *(iii)* PWC has an organization and technical-professional competence suitable for the scale and complexity of the appointment.

It is shown that, following the comparison made between the fees proposed by PWC with respect to those in place with EY, the total saving on auditing, including costs for EMTN issue (in the case of a single issue) amounts to a total of 120,800 euros, equal to 15%.

The comparison between these alternative proposals ensures, *inter alia*, *(i)* compliance with the new regime introduced by the Regulations, which requires the submission to the Shareholders' Meeting of at least two bids for the external auditor and *(ii)* continuity of the external auditing activity, in consideration of the fact that the current appointment is due to end upon the completion by EY of the outstanding activities related to the financial statements of the Snam Group as at 31 December 2017.

We share the reasons underlying the proposal for consensual termination of the appointment conferred on EY and to confer a new mandate on another independent auditing firm, since this replacement would make it possible to obtain advantages in organizational terms, through greater efficiency and effectiveness of the external audit activity, as well as from a financial perspective (savings).

Therefore, on the basis of the facts received, as well as the checks carried out and the reasons set out above, the Board of Statutory Auditors of Snam S.p.A.:

- (i)* gives its positive opinion on the consensual termination of the external auditing appointment conferred on the independent auditing firm EY S.p.A. by the Shareholders' Meeting of Snam S.p.A. on 27 April 2010, at the same time conferring the appointment as external auditor of Snam S.p.A., pursuant to (EU) Regulation 537/2014 concerning the specific requirements relating to the external auditing of the accounts of public-interest entities and Legislative Decree 39/2010



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on external auditing of annual and consolidated accounts, for the duration of nine financial years, and specifically the financial years ending on 31 December from 2018 to 2026, on independent auditing firm *PricewaterhouseCoopers S.p.A.*, with its registered office in Milan, Via Monte Rosa no. 91, tax code and VAT Number and Milan Business Register no. 12979880155, registered under no. 119644 of the Register of External Auditors held at the relevant Ministry, all in accordance with the terms and conditions, including financial, contained in the offer submitted by PWC and summarised in the proposal of the Board of Statutory Auditors, subject to resolution of the Shareholders' Meeting regarding the consensual termination of the appointment conferred on *Ernst & Young S.p.A.* and in any case in furtherance of this resolution;

(ii) proposes to confer a mandate on the Chief Executive Officer, with sub-delegation powers, to prepare and sign all documents and legal transactions inherent to both the formalisation of the consensual termination of the appointment as external auditor currently conferred on EY S.p.A. and the conferment of the new appointment as external auditor of the accounts on PWC, as well as to carry out any other deeds and/or to proceed to fulfil all obligations envisaged by current legislative and regulatory provisions.

San Donato Milanese, 08 March 2018

The Board of Statutory Auditors of Snam S.p.A.

Mr Leo Amato (Chairman)

Mr Massimo Gatto

Ms Maria Luisa Mosconi