



Report  
on Corporate Governance  
and Ownership Structure  
for 2012

## **MISSION**

*Snam oversees regulated activities in the gas sector in Italy and is fully aware of their importance to society.*

*The Company adopts and is committed to maintaining and enhancing a corporate governance system that is in line with international best practice.*

*This system is able to manage the difficult situations in which the Company has to work and the challenges it must face with regard to sustainable development. With a view to creating sufficient value to meet the expectations of shareholders, the corporate governance system defines all the rules that govern and dictate the management and control of the Company, ensuring the distribution of roles and entitlements among those who contribute to the Company's operations through the allocation of duties, responsibilities and decision-making powers*

## **BACKGROUND**

*The Company was founded on 15 November 2000 and became operational on 1 July 2001, inheriting the natural gas transportation and dispatch and liquefied natural gas (LNG) regasification operations of Snam S.p.A. (which was subsequently absorbed into eni S.p.A.).*

*On 30 June 2009, the Company bought from eni S.p.A. the entire share capital of Italgas, Italy's leading natural gas distributor, and Stogit, the country's biggest operator in the natural gas storage sector.*

*In order to comply with the new provisions concerning the separation of natural gas transportation systems from other operations in the gas sector, in 2011 Snam implemented a broad corporate reorganisation. As a result of this reorganisation, among other things, with effect from 1 January 2012 the Company transferred its natural gas transportation operations to a new wholly owned subsidiary called Snam Rete Gas, to reflect the notoriety of the brand associated with Italy's leading gas transportation operator.*

*In early 2012, Snam signed a strategic agreement with Fluxys G S.A. of Belgium with a view to developing joint gas infrastructure projects in Europe. The agreement resulted in the incorporation of two Dutch companies (Gasbridge 1 B.V. and Gasbridge 2 B.V., of which Snam and Fluxys each own 50%), which have acquired equity investments in European gas infrastructure companies.*

*In compliance with the applicable regulatory provisions, on 15 October 2012 eni sold a stake in Snam equal to 30% minus one share of the voting capital to CDP RETI S.r.l. (a wholly owned subsidiary of Cassa Depositi e Prestiti S.p.A.), thereby completing the ownership unbundling of Snam and eni. Snam shares have been listed on the Italian stock market since 6 December 2001.*



Report  
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## **Report on Corporate Governance and Ownership Structure for 2012**

pursuant to Article 123-bis of the Consolidated Finance Act  
(Testo Unico della Finanza, or TUF)  
(traditional management and control model)

Issuer: Snam S.p.A.

Website: [www.snam.it](http://www.snam.it)

Financial year to which the report refers: 2012

Date of approval of the Report: 12 February 2013

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# Glossary



**Code of Corporate Governance**

The corporate governance code for listed companies approved in December 2011 by the Corporate Governance Committee and sponsored by Borsa Italiana S.p.A.

**Consob**

*Commissione Nazionale per le Società e la Borsa* (the Italian Securities and Exchange Commission).

**Subsidiaries**

Snam's subsidiaries are as follows:

- Directly owned subsidiaries: GNL Italia S.p.A., Snam Rete Gas S.p.A., Società Italiana per il Gas per azioni - Italgas, Stoccaggi Gas Italia S.p.A. - Stogit.
- Indirectly owned subsidiaries: Compagnia Napoletana di Illuminazione e Scaldamento col Gas S.p.A. - Napoletanagas, Servizi Territori Aree Penisole S.p.A. - Seteap.

**Directive 2009/73/EC**

Directive of the European Parliament and Council of 13 July 2009 relative to common rules for the internal natural gas market and which annuls the previous Directive 2003/55/EC.

**Legislative Decree No. 93 of 1 June 2011**

Concerning the *"Implementation of Directives 2009/71/EC, 2009/73/EC and 2008/92/EC concerning common rules for the internal market in electricity and natural gas and a Community procedure to improve the transparency of gas and electricity prices charged to industrial end-users, repealing Directives 2003/54/EC and 2003/55/EC"*.

**ARG/com Resolution 153/11**

Concerning *"Regulations for procedures to certify companies acting as operators of natural gas transportation or electricity transmission systems"*.

**Rules Governing Shareholder Rights**

Legislative Decree No. 27 of 27 January 2010 concerning the *"Implementation of Directive 2007/36/EC concerning the exercise of certain rights of shareholders of listed companies"* and Legislative Decree No. 91 of 18 June 2012 concerning *"Amendments and supplements to Legislative Decree No. 27 of 27 January 2010 concerning the implementation of Directive 2007/36/EC concerning the exercise of certain rights of shareholders of listed companies"*.

**Provisions concerning gender representation in corporate bodies**

Law No. 120 of 12 July 2011 on *"Amendments to the consolidated finance act, Legislative Decree No. 58 of 24 February 1998, concerning equal access to management and supervisory bodies of companies listed on regulated markets"* and Consob Resolution No. 18098 of 8 February 2012.

**Prime Ministerial Decree of 25 May 2012**

*"Criteria, terms and conditions for the adoption by Snam S.p.A. of the ownership unbundling model pursuant to Article 15 of Law No. 27 of 24 March 2012"*.

**Issuer**

Snam.

**Combined Independent Management Committee**

The decision-making body created by the Board of Directors of Snam on 27 July 2010, intended for joint management of natural gas transportation and dispatching, distribution, storage and regasification activities pursuant to Article 9 of the Consolidated Unbundling Act.

**Law No. 56 of 11 May 2012**

The conversion into law, with amendments, of Legislative Decree 21/2012 concerning rules on special powers over shareholder structures in the defence and national security sectors, and for strategic energy, transport and communications activities.

**Unbundling Regulations**

European and national provisions on functional and/or ownership unbundling.

**Issuer Regulations**

Regulations issued by Consob with Resolution No. 11971 of 1999, as amended and supplemented, on the subject of issuers.

**Market Regulations**

Regulations issued by Consob with Resolution No. 16191 of 2007, as amended and supplemented, on the subject of markets.

**Regulations on Transactions with Related Parties**

Regulations issued by Consob with Resolution No. 17221 of 22 March 2010, as amended and supplemented, on the subject of related-party transactions.

**Report**

This report on corporate governance and ownership structure pursuant to Article 123-*bis* of the TUF.

**The Company's website**

[www.snam.it](http://www.snam.it)

**Snam or the Company**

Snam S.p.A.

**Financial Instruments**

Financial instruments as defined in Article 180 of the TUF.

**Consolidated Unbundling Act or TIU**

Annex A) to Electricity and Gas Authority Resolution No. 11 of 2007, as amended and supplemented.

**TUF**

Legislative Decree No. 58 of 24 February 1998 - Consolidated Finance Act.

Information  
on corporate governance

## General principles

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Since its inception, Snam has had a corporate governance system in line with international best practices; in other words, a set of rules which govern and dictate the Company's management and control, defining the distribution of roles and rights among those involved in the Company by allocating duties, responsibilities and decision-making powers, as well as ensuring compliance with relevant legislation, codes of ethics and conduct, and internal procedures and regulations. In line with the values upheld in the Company's Code of Ethics, integrity and transparency are the principles which Snam pursues via a management, control and risk management structure commensurate with the size and complexity of its operational structure, an adequate and effective internal control system, and communication with shareholders and other stakeholders. Special care is given to updating the information available on the Company's website.

The aim of the corporate governance system is to create value for shareholders in the medium and long term, bearing in mind the social importance of the Company's activities, particularly with regard to protecting the environment, people's health and safety, workers' rights, equal opportunities, cooperation with the communities in which the Company is present, and the interests of all stakeholders in general. The corporate governance system is based, above all, on the guidelines contained in the Code of Corporate Governance and on the recommendations set out by Consob. Specific attention is paid to compliance with the Unbundling Regulations, bearing in mind the peculiarities of the activities engaged in by Snam and its subsidiaries, which are regulated by the Electricity and Gas Authority.

## Compliance with the Code of Corporate Governance

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Snam has complied with the Code of Corporate Governance since its flotation on the stock market in 2001. With the board resolution of 19 December 2011, Snam incorporated the recommendations concerning the remuneration of directors specified in the Code of Corporate Governance, as most recently amended in the new edition of the Code issued in December 2011. On 23 April 2012, the Board of Directors confirmed that the Company's organisational and regulatory structure complied with the Code of Corporate Governance and made the necessary changes to its governance system.

Specifically, the Board:

- updated the powers reserved for the Board of Directors in order to incorporate the new provisions of the Code concerning: (i) internal control and risk management; (ii) remuneration policy; (iii) guidance for shareholders on the professional profiles of directors when appointments take place. Detailed amendments were also made in order to formally bring the text of said powers in line with the Code;
- amended the Appointments Committee Regulations in order to further bring the Committee's functions in line with the duties provided for by the Code;
- renamed the Internal Control Committee the Control and Risk Committee and redefined its duties, roles and responsibilities, particularly with regard to coordination with the other parties involved in the internal control and risk management system;
- appointed the CEO as the director in charge of the internal control and risk management system;
- determined that the Internal Auditor shall report directly to the Board of Directors, which, in accordance with the Code and the measures the Company has already put in place, shall approve his appointment and dismissal and decide on his remuneration. The Internal Auditor reports to the director in charge of the internal control and risk management system and, in compliance with the Code, no longer holds the post of Head of Internal Control.

The Code of Corporate Governance is available to the public at the website of Borsa Italiana S.p.A. ([www.borsaitaliana.it](http://www.borsaitaliana.it)).

## Corporate governance system and rules

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Snam adopts the traditional management and control system, which features:

- a Board of Directors which runs the Company;
- a Board of Statutory Auditors, in charge of overseeing:
  - compliance with the law and the deed of incorporation, as well as respect for the principles of proper administration in the conduct of company activities;
  - the adequacy of the Company's organisational structure, internal control and risk management system and administrative and accounting system;
  - procedures for the proper implementation of the rules of corporate governance provided for by the Code of Corporate Governance;
- a Shareholders' Meeting, which is responsible for passing resolutions on matters including:
  - the appointment and dismissal of members of the Board of Directors and the Board of Statutory Auditors, as well as their remuneration;
  - the approval of the financial statements and the allocation of profits;
  - the purchase and sale of treasury shares;
  - share ownership schemes;
  - the first section of the Remuneration Report (with a non-binding vote);
  - amendments to the Bylaws;
  - the issuance of convertible bonds.

The audit of the Company's financial statements is entrusted to a specialised company on the appropriate register and appointed by the Shareholders' Meeting on the basis of a reasoned proposal from the Board of Statutory Auditors.

## Bylaws

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The Bylaws set out the Company's governance model and the main rules applicable to the functioning of the corporate bodies.

The Shareholders' Meeting of 26 April 2012 amended Articles 13 and 20 of the Bylaws in order to incorporate the principle of equal gender representation on the corporate boards, pursuant to paragraph 1-ter of Article 147-ter and paragraph 1-bis of Article 148 of the TUF. These provisions will be applied the next time the members of the corporate boards are replaced (at the Shareholders' Meeting held to approve the financial statements as at 31 December 2012, scheduled for 25 and 26 March 2013).

Furthermore, the Extraordinary Shareholders' Meeting held on 30 July 2012 amended Article 5.1 of the Bylaws, eliminating the nominal value of the ordinary shares that make up the share capital and cancelling 189,549,700 treasury shares with no nominal value, without changing the amount of the share capital. On 12 February 2013, the Board of Directors resolved to propose a number of amendments to the Bylaws to the next Extraordinary Shareholders' Meeting, scheduled for 25, 26 and 27 March 2013. In addition to some purely formal amendments, the most significant amendments to be proposed are as follows.

- Article 9 of the Bylaws. The clause set out under the second paragraph could be eliminated. This clause sets forth the content of Article 126-bis of the TUF ("*Additions to the Shareholders' Meeting agenda*"), as provided for under Article 3 of Legislative Decree No. 27 of 27 January 2010 ("*Shareholders' Rights*"). Subsequently, Article 3 of Legislative Decree No. 91 of 18 June 2012 (the so-called corrective decree on *Shareholders' Rights*) amended and supplemented Article 126-bis and renamed it ("*Additions to the Shareholders' Meeting agenda and presentation of new resolution proposals*"). Article 126-bis of the TUF does not require that this right be set out in the Bylaws and its elimination would prevent the presence

of a clause in the Bylaws that does not comply with the legislation in force, as in the case of legislative amendments and as has occurred. The procedures for exercising this right would, in any case, be set forth in the notice of meeting.

Article 1, paragraph 2 of Legislative Decree No. 91 of 18 June 2012 amended the first paragraph of Article 2369 of the Italian Civil Code, stipulating that Shareholders' Meetings of companies that raise funds on the risk capital market shall, by default, be organised in the form of a single session, unless a derogation is provided for in the Bylaws. The decision to opt for the single-session format may also be justified on the grounds of simplification.

Article 12 of the Bylaws is also in compliance with the single-session provision.

- Articles 13, 16 and 20 of the Bylaws. It is stipulated that directors, statutory auditors, general managers and the CFO are forbidden from holding positions on the board of directors or supervisory board or managerial roles at eni S.p.A. and its subsidiaries, and from entering into any direct or indirect relationship of a professional or financial nature with said companies. (Article 2, paragraph 2, c) of the Prime Ministerial Decree of 25 May 2012).

## Code of Ethics

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On 12 July 2011, the Board of Directors updated the Code of Ethics, which incorporates the most modern guidelines on business ethics and sustainability in a manner that is fully consistent with the objective of including all the values that the Company recognises, accepts and shares, as well as the responsibilities it assumes inside and outside the Company.

Snam's Code of Ethics includes an Addendum which considers the peculiarities of the activities engaged in by Snam and its subsidiaries, which are regulated by the Electricity and Gas Authority. The Addendum places particular emphasis on relations with the Electricity and Gas Authority and the Unbundling Regulations.

The Code specifies that all operations must be carried out in accordance with the law in an environment of fair competition, with honesty, integrity, fairness and good faith, and in keeping with the legitimate interests of customers, employees, shareholders, business and financial partners and the communities where the Company has a business presence. Snam employees, regardless of position and without exception, are required to comply with and ensure compliance with these standards as part of their duties and responsibilities. Belief in acting in the interests of the Company in no way justifies conduct which deviates from such standards.

The Board of Directors has assigned the Supervisory Body to act as Code of Ethics Supervisor, to respond to the following issues:

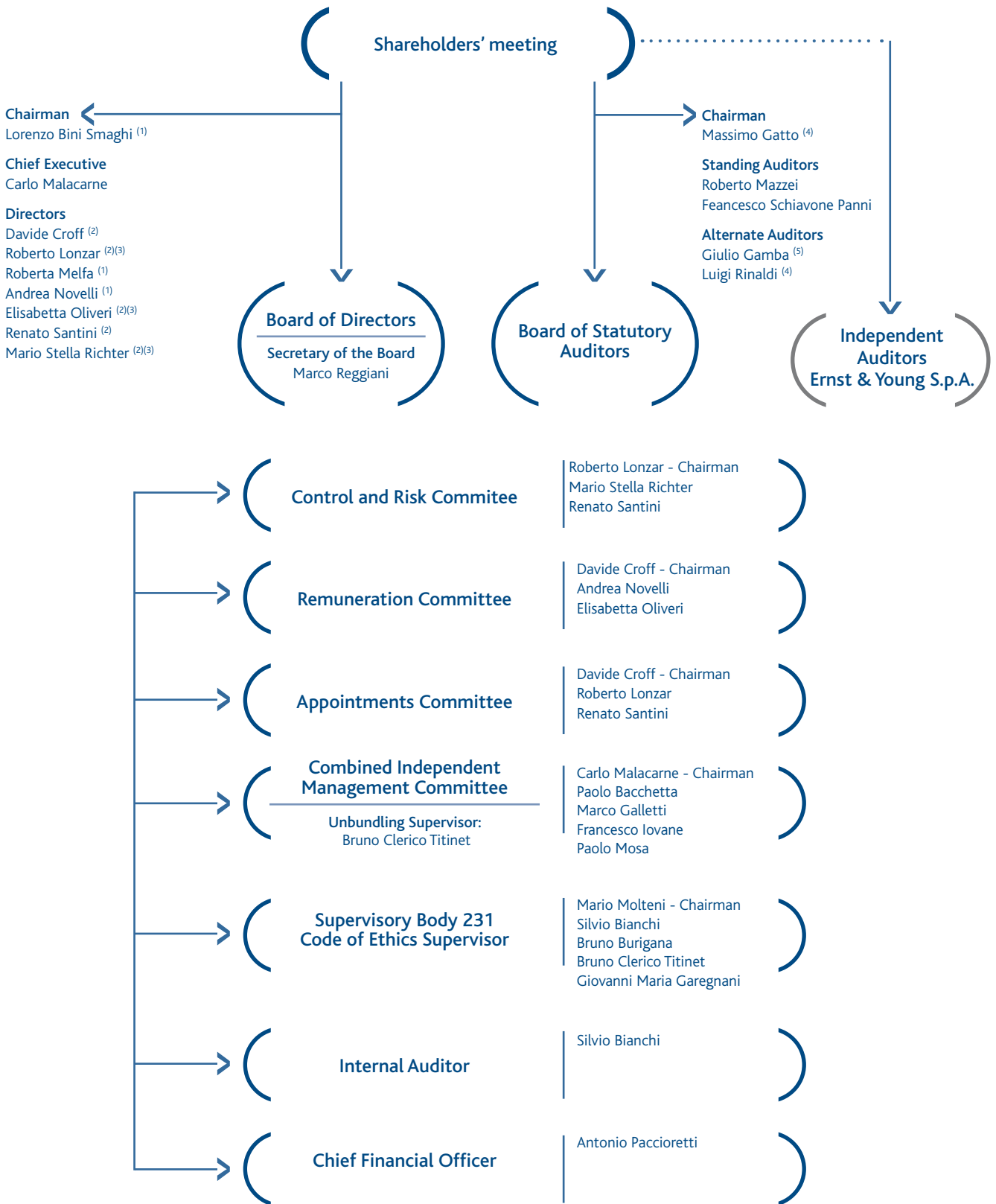
- requests for clarification and interpretation of the principles and content of the Code;
- suggestions on the application of the Code;
- reports of violations of the Code, whether these have been discovered directly or indirectly.

## Sustainability

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Sustainability is an integral part of the Snam corporate governance system and is the guiding principle behind a process of continuous improvement built around an economic and business model that focuses on respect for individuals, stakeholders, the environment and the community as a whole. By applying the processes set out in its corporate sustainable-development model, Snam oversees sustainability issues and reinforces the principles of sustainability across all its organisational levels and business sectors. The Board of Directors has assigned itself a central role in defining sustainability policies and approving the Sustainability Report.

SUMMARY CHART



(1) Directors coopted to replace: Salvatore Sardo, Alessandro Bernini and Massimo Mantovani  
 (2) Independent directors  
 (3) Directors appointed from the minority shareholders' list  
 (4) Statutory auditors appointed from the minority shareholders' list  
 (5) He resigned from office from 21 January 2013

# Information on ownership structure at 31 December 2012<sup>1</sup>

<sup>1</sup> For the information required pursuant to Article 123-*bis*, paragraph 1, i) of the TUF, please refer to the 2013 Remuneration Report. The information required pursuant to Article 123-*bis*, paragraph 1, l) of the TUF is described in the section of the report covering the Board of Directors.



## Shareholder structure

The table below shows the structure of the share capital of Snam at 31 December 2012, that is equal to € 3,571,187,994.00

SHARE CLASS	NUMBER OF SHARES	PROPORTION OF SHARE CAPITAL (%)	LISTING MARKET	RIGHTS AND OBLIGATIONS
Ordinary shares without indication of the nominal value	3,381,638,294	100	Italian regulated market	The shares are indivisible, and each share entitles the holder to one vote. Shareholders may exercise ownership and dividend rights, subject to the limits set forth by the regulations in force

In particular:

- The Company has not issued other financial instruments granting the right to subscribe newly issued shares.
- Snam shares are listed on the FTSE MIB index of Borsa Italiana, the main international indices (STOXX, S&P, MSCI, FTSE), and the three main sustainability indices (the *Dow Jones Sustainability World Index*, the *FTSE4Good Index* series and the *STOXX Global ESG Leaders* index), as well as on the ECPI family of indices.
- As at 31 December 2012, the Company holds 2,906,550 treasury shares, equal to 0.09% of the share capital. The floating capital is 49.68%.

## Restrictions on the transfer of shares and voting rights

- Article 19 of Legislative Decree 93/2011 stipulates that the same natural or legal person(s) may not, either directly or indirectly, control a company that produces or supplies natural gas or electricity whilst also directly or indirectly controlling or holding rights over a natural gas transportation or electricity transmission system operator or a natural gas transportation or electricity transmission system; it also stipulates that the same natural or legal person(s) may not appoint members of the supervisory board, the board of directors or the bodies that legally represent the company within a transport system operator or a transport system, and may not directly or indirectly control or hold rights over natural gas production or supply operations. The rights mentioned refer in particular to the power to exercise voting rights, to appoint members of the supervisory board, the board of directors or the bodies that legally represent the company, and to hold a majority stake.
- Pursuant to the Prime Ministerial Decree of 25 May 2012, as of the date on which eni S.p.A. ceases to control Snam S.p.A. pursuant to Article 2359, paragraph 1 of the Italian Civil Code (eni S.p.A. lost control over Snam S.p.A. on 15 October 2012), for the purposes of implementing Article 19 of Legislative Decree 93/2011, the voting rights attached to shares acquired, including through deeds, transactions or agreements of any kind, as well as to shares already held directly or indirectly by gas and/or electricity producers or suppliers or by companies that control them, are controlled by them or are associated with them pursuant to the Italian Civil Code, and any powers of appointment pertaining to them, shall be restricted in compliance with the provisions of Article 19, paragraphs 1, b) and c), and 2 of Legislative Decree 93/2011, as mentioned above.

## Significant shareholdings

The table below shows shareholders with stakes of more than 2% in Snam as at 31 December 2012 (based on information available and notices received pursuant to the Issuer Regulations).

SHAREHOLDERS	% OF SHARE CAPITAL AS AT 31 DECEMBER 2011	% OF SHARE CAPITAL AS AT 31 DECEMBER 2012
CDP Reti S.r.l. <sup>2</sup>	0.00	30.00
eni S.p.A.	52.53	20.23

## Geographical distribution of shareholders

The table below shows the geographical breakdown of shareholders at 31 December 2012 (based on notices provided for by applicable regulations and information available to the Company).

SHAREHOLDERS	PROPORTION OF SHARE CAPITAL (%)
Italy	66.30
Rest of continental Europe	14.09
US and Canada	8.77
UK and Ireland	7.89
Rest of the world	2.95
<b>Total</b>	<b>100.00</b>

## Shares that entitle the holder to special rights and special powers

### *Shares that entitle the holder to special rights*

No shares that entitle the holder to special rights are issued.

### *Special powers*

In order to ensure that Italian regulations on "special powers" comply with EU principles, Law No. 56 of 11 May 2012 has set forth a series of new provisions. As far as Snam is concerned, the special powers that may be exercised in the energy, transport and communications sectors consist of the possibility for the Italian government to: veto the implementation of resolutions, acts and transactions concerning strategic assets, providing that the prerequisites required by law are fulfilled, or to apply specific conditions thereto; impose conditions on the acquisition by non-EU residents of equity investments in companies that hold "strategic" assets; and, in exceptional cases, oppose said acquisition altogether.

The law therefore provides for the company in question to inform the prime minister of any resolution, act or transaction adopted by a company that holds one or more strategic assets which would result

<sup>2</sup> Wholly owned subsidiary of Cassa Depositi e Prestiti S.p.A. (CDP)

in a change of ownership, control or availability of said assets or a change in their purpose, including resolutions passed by the shareholders' meeting or management bodies with a view to merging or splitting the company or transferring its registered office overseas, within 10 days and in any case prior to the implementation thereof. Within 15 days of the notification, the prime minister may issue a decree to veto any resolutions, acts or transactions that may give rise to an exceptional situation of serious damage to the public interest with regard to the security and functioning of networks and plants and the continuity of supplies. Until the notification is issued and in any case until the aforementioned time frame has expired, the resolution, act or transaction in question shall be suspended. Once the relevant time frame has elapsed, the operation may be carried out.

The law also stipulates that the prime minister must receive notification of any acquisition by a non-EU resident of equity investments in companies that hold strategic assets from the acquirer within 10 days, together with any useful information providing a general description of the planned acquisition, the acquirer and the sector in which it operates. In the event that said acquisition poses a threat of serious damage to the fundamental interests of the state with regard to the security and functioning of networks and plants and the continuity of supplies, the law stipulates that within 15 days of notification of the operation, the prime minister may issue a decree (adopted pursuant to a resolution of the Council of Ministers) stating that the acquisition may go ahead only if the acquirer agrees to guarantee the protection of said interests. In exceptional cases of risks to said interests that cannot be eliminated by the acquirer's entering into the relevant commitments, the government may oppose the acquisition.

The government was due, within 120 days of the date on which Law No. 56 of 11 May 2012 entered into force, to adopt regulations aimed at identifying the networks and plants of strategic importance to the national interest in the energy, transport and communications sectors, pursuant to Article 17, paragraph 1 of Law No. 400 of 23 August 1988, as subsequently amended, at the proposal of the Ministry of Economy and Finance, the Ministry of Economic Development and the Ministry of Infrastructure and Transport. At the time of writing, these regulations have not been adopted.

### **Mechanism for exercising voting rights in a possible employee share ownership system**

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There are no plans for an employee share ownership system.

### **Shareholder pacts**

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Snam is not aware of any shareholder pacts or other agreements between shareholders, and no such pacts have been published pursuant to law.

### **Change of control clauses**

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Snam and its Subsidiaries are party to significant agreements (which may be disclosed without harming the Company) that take effect, are altered or are terminated in the event that an entity or entities acting in concert, other than Cassa Depositi e Prestiti S.p.A., gain control of Snam. This applies particularly to bank finance agreements signed in 2012 in connection with the disposal by eni S.p.A. of its controlling interest in Snam.

For Snam, this specifically concerns agreements that allow the other party to terminate the contract after an entity or entities acting in concert, other than Cassa Depositi e Prestiti S.p.A., gain control of Snam such that its credit rating is downgraded to below the defined thresholds.

### **Powers to increase the share capital and authorisations to buy treasury shares**

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The Board of Directors does not have the power to increase the share capital pursuant to Article 2443 of the Italian Civil Code. The Bylaws provide that the Company may issue shares, including special classes of shares, to be allotted as a bonus pursuant to Article 2349 of the Italian Civil Code. There are currently no treasury share buyback programmes pursuant to Articles 2357 et seq. of the Italian Civil Code.

### **Management and coordination**

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There are no entities that control Snam. Snam is not managed or coordinated by any other entity. Snam manages and coordinates its subsidiaries.

# Board of Directors

## Role and functions

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The Board of Directors is the central player in the Snam corporate governance system and is vested with the broadest powers for the ordinary and extraordinary administration of the Company, and, in particular, it is authorised to carry out any acts it considers expedient to the implementation and achievement of the corporate purpose, except for any acts which fall by law or pursuant to the Bylaws to the Shareholders' Meeting.

In addition to those powers which cannot be delegated by law, the Snam Board of Directors<sup>3</sup> has assigned itself the following powers pursuant to Article 2381 of the Italian Civil Code:

- a) setting strategic guidelines and objectives for the Company and the Group, including sustainability policies in compliance with the regulations on unbundling, at the proposal of the Chief Executive Officer (CEO). The Board examines and approves the strategic, business and financial plans of the Company and of the Group, monitoring their implementation each year, as well as the Company's strategic agreements and, subject to the binding opinion of the CEO (as the organiser of the Combined Independent Management Committee), the annual and multi-annual infrastructure plan;
- b) examining and approving the budget of the Company and of the Group;
- c) examining and approving the half-yearly report and the interim reports on operations of the Company and of the Group, as provided for by current legislation;
- d) examining and approving the Sustainability Report and the Report on Corporate Governance and Ownership Structure, to be brought to the attention of the Shareholders' Meeting;
- e) defining the system and rules of corporate governance of the Company and of the Group. In particular, following consultation with the Control and Risk Committee, it adopts rules which ensure transparency and substantial and procedural correctness of transactions with related parties and of transactions in which a director or a statutory auditor has a personal interest or an interest on behalf of others; it also adopts a procedure for the management and communication of corporate information, with particular reference to privileged information;
- f) setting up the Internal Committees of the Board, with proposal and consultative functions, appointing their members, establishing their duties and approving their regulations;
- g) receiving half-yearly reports from the Internal Committees of the Board;
- h) monitoring operating performance, particularly by taking into consideration information received from the Chairman, CEO and Control and Risk Committee, paying particular attention to any conflicts of interest and periodically comparing actual results taken from financial statements and interim accounting reports with the budget;
- i) assigning and revoking powers to/from the Chairman and the CEO, appointed as the director in charge of the internal control and risk management system, setting their limits and methods of operation and determining their remuneration once the proposals of the appropriate Committee have been examined and following consultation with the Board of Statutory Auditors. It may issue directives to the delegated bodies and it may take it upon itself to perform operations which are covered by the powers. The Chairman and the CEO report at least once a quarter to the Board itself and to the Board of Statutory Auditors on how they have exercised their powers, on the transactions with the greatest impact on the financial statements carried out by the Company and its subsidiaries, and on transactions with related parties. Disclosure must be prompt in the case of transactions where the directors have a personal interest or an interest on behalf of third parties, or which are influenced by any party who performs management and coordination activities;

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<sup>3</sup> During the course of 2012, the Board's powers pursuant to Article 2381 of the Italian Civil Code were amended, mainly in order to make the adjustments necessary to comply with the 2011 version of the Code of Corporate Governance and the Snam Group's new shareholder structure.

- j) on the recommendation of the CEO, resolving on transactions of the Company and its subsidiaries that have a significant impact on the financial statements of the Company and the Group. This is without prejudice, in each case, to compliance with the confidentiality obligations relating to the commercial relations between the subsidiary and the Company or third parties. The following transactions are considered to have a significant impact:
- acquisitions, disposals, sales, transfers of companies or business units (including rent and usufruct), real estate and/or equity investments worth more than €50 million;
  - supply contracts and contracts for the sale of goods and/or services relating to the commercial activities of the Company and its subsidiaries worth over €1 billion and/or with a duration of over 15 years;
  - contracts for the trading of movable property, including publicly registered movable property; contracts for advertising space and time; rental and lease contracts; intellectual property services contracts; service agreements; hire contracts; transport and courier contracts; supply contracts; insurance contracts as the insured party; brokerage and business procurement contracts; mandate agreements; commission agreements; agency agreements; sales concession agreements; storage contracts; subcontracting; bailment agreements; publishing and printing contracts; usufruct, usage and residential contracts; contracts for the trading, hiring, leasing and renting of hardware and software or computerised systems, worth over €50 million and/or with a duration of over 15 years;
  - as lessee, real estate financial lease contracts worth over €50 million and/or with a duration of over 15 years, and movable property (including movable property publicly registered in Italy and abroad) financial lease contracts worth over €50 million and/or with a duration of over 15 years;
  - the disbursement by the Company and its subsidiaries of loans to third parties other than Snam and its subsidiaries;
  - sureties and other forms of personal guarantee, as well as letters of patronage, in relation to commitments assumed or to be assumed by companies in which the Company directly or indirectly holds an equity investment, for amounts greater than €50 million and in any event if the amount is not proportional to the investment held therein;
  - sureties guaranteeing commitments assumed or to be assumed by the Company with third parties, for amounts greater than €50 million euros.
- The activities and processes carried out by subsidiary Italgas in relation to identifying natural gas distribution tenders in which to participate, and in relation to formulating the technical and financial bids for these tenders, are not discussed or subject to prior approval by the Snam Board of Directors. With reference to point j), the amount of €50 million is in any case increased to €100 million for transactions by subsidiary Snam Rete Gas;
- k) appointing and dismissing the general managers upon the recommendation of the CEO and approval from the Chairman, granting them the related powers;
- l) appointing and dismissing the Chief Financial Officer, upon the recommendation of the CEO, ratification from the Chairman and approval from the Board of Statutory Auditors, ensuring that he/she has the necessary powers and resources;
- m) upon the recommendation of the CEO, ratification from the Chairman and approval from the Control and Risk Committee, and having consulted the Board of Statutory Auditors, appointing and dismissing the *Internal Auditor* and, having consulted the Remuneration Committee, setting his/her remuneration in line with the Company's pay policy; ensuring that he/she is given the appropriate resources to fulfil his/her responsibilities;
- n) ensuring that an Investor Relations Manager has been appointed;
- o) after reviewing the proposals of the Remuneration Committee, defining the remuneration policy and compensation system for the directors, general managers and executives with strategic responsibilities of the Company and its subsidiaries; implementing the compensation plans based on

- shares or securities approved by the Shareholders' Meeting; approving the Remuneration Report to be submitted to the Shareholders' Meeting;
- p) defining the basic guidelines for the organisational, administrative and accounting structure of the Company and its subsidiaries; The Board evaluates the adequacy of the organisational, administrative and accounting structure put in place by the CEO, with particular reference to the internal control and risk management system;
- q) having consulted the Control and Risk Committee, defining the guidelines for the internal control and risk management system so as to ensure the identification, measurement, management and monitoring of principal risks of the Company and its subsidiaries, also determining the degree of compatibility of these risks with a management of the Company and the Group which is consistent with its defined strategic objectives. The Board evaluates, on an annual basis, the adequacy and effectiveness of the internal control and risk management system with regard to the characteristics of the Company and of the Group and the risk profile it has adopted;
- r) approving, at least once a year, the Audit Schedule prepared by the *Internal Auditor*, after hearing the opinion of the Control and Risk Committee and having consulted the Board of Statutory Auditors and the director in charge of the internal control and risk management system;
- s) on the recommendation of the CEO, deciding on the exercising of voting rights at the Shareholders' Meetings of direct subsidiaries, and, on the recommendation of the Appointments Committee, deciding on the appointments of the members of the direct subsidiaries' corporate bodies;
- t) drawing up resolutions to be submitted to the Shareholders' Meetings;
- u) when the Board of Directors is being appointed, recommending profiles that are suitable to be candidates to the shareholders, taking into account the results of the annual assessment of the functioning, size and composition of the Board and its Committees;
- v) examining and resolving on other particularly important and sensitive issues which the directors who hold powers wish to draw to the attention of the Board.

The Bylaws also give the Board of Directors the authority to adopt decisions on proposals concerning:

- mergers pursuant to Articles 2505 and 2505-bis of the Italian Civil Code, as well as proposals concerning demergers, in the cases mentioned in the provisions thereof;
- the opening, modification and closure of additional offices;
- the reduction of the share capital upon the withdrawal of one or more shareholders;
- compliance of the Bylaws with regulatory provisions;
- the transfer of the registered office within Italy.

### **Authorised parties**

At its meeting on 15 October 2012, the Board of Directors appointed Lorenzo Bini Smaghi as Chairman (replacing Salvatore Sardo, who resigned from the roles of Chairman and director with effect from the same date) and assigned him the following duties, responsibilities and powers. In addition to the responsibilities attributed to him by law and by the Bylaws, the Chairman shall have the following powers:

- he is the Company's legal representative;
- he enters into relations of strategic importance with institutional bodies and international authorities, together with the CEO;
- he calls and presides over board meetings and sets their agenda, together with the CEO. He guides, oversees and coordinates board activities, ensuring proper functioning and adequate disclosure by directors. He also ensures that board decisions are implemented;
- having consulted the Control and Risk Committee, he assesses and contributes to the CEO's suggestions



- to the board regarding the appointment, dismissal and remuneration of the *Internal Auditor*;
- he assesses and contributes to the CEO's suggested appointments of general managers, the Chief Financial Officer and members of the Supervisory Body pursuant to Legislative Decree No. 231 of 8 June 2001, to be put before the board.

At its meeting on 30 April 2010, the Board of Directors appointed Carlo Malacarne as Chief Executive Officer, assigning to him all functions pertaining to the CEO and granting him all responsibilities and powers not reserved for the Board or the Chairman by law or pursuant to the Bylaws or a Board resolution.

Pursuant to Article 19 of the Bylaws, the Chairman and the CEO represent the Company.

### **Assessment of the adequacy of the organisational, administrative and accounting structure**

At its meeting on 12 February 2013, the Board of Directors, implementing the provisions of the Italian Civil Code and the Code of Corporate Governance, assessed the organisational, administrative and accounting structure as commensurate with the size and type of activity engaged in by Snam and its subsidiaries.

### **Approval and periodic monitoring of the strategic, business and financial plans of the Company and the Group**

On 12 March 2012, the Board of Directors approved the Snam Group's 2012-2015 Plan and the subsidiaries' 2012-2015 Annual and Multi-Year Infrastructure Development Plan. The Board of Directors is responsible for monitoring the 2012 plans, and in 2013 will examine the first, second and third forecasts.

### **Assessment of the size, composition and functioning of the Board and its Committees**

In accordance with the provisions of the Code of Corporate Governance, the Board of Directors has evaluated the size, composition and functioning of the Board and its Committees using the services of Egon Zehnder International, an outside specialist. The evaluation process was carried out by:

- analysis and discussion of a questionnaire focused on the following items:
  - areas of excellence to be preserved when the Board is replaced in 2013;
  - areas of attention that emerged in the previous Board Review;
  - possible measures identified and taken in the current financial year.
- drawing up a summary of the 2012 self-assessment to present to the Board.

At the end of the survey, Egon Zehnder International made the following statement: *"Based on the comments gathered and the comparative analysis performed, we consider Snam to be compliant with the guidelines of the Code of Corporate Governance. We are of the opinion that the Board, in the last year of its term, has continued to function well and in a cooperative manner, thanks in part to a complete, transparent flow of information both in support of and during Board meetings"*.

Considering the results of the assessment of the Board of Directors and its Committees conducted by Egon Zehnder International, the Board of Directors expressed a broadly positive opinion on 12 February 2013 on the size, composition and functioning of the Board and of its Committees. The Board, considering

the results of the assessment, has also expressed the following guidance as to the candidates it would like to see included on the Board, which also features in the Report of the Board of Directors to the Ordinary Shareholders' Meeting of 25 and 26 March 2013 concerning the appointment of the directors: *"the qualities that the majority of the directors wish to see in the new Board members are:*

- strategic and market-based direction
- knowledge of the energy business
- an international scope.

*Otherwise, we believe that the current mix of expertise is generally appropriate for Snam's future needs".*

Egon Zehnder International provides consultancy services for Snam with regard to management assessment and selection.

### **Appointment, composition and term of office**

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The Company is managed by a Board of Directors made up of no fewer than five members and no more than nine; their number and their term of office are decided by the Shareholders' Meeting at the time of appointment.

The Bylaws provide for a voting list mechanism for the appointment of directors in order to ensure that minority shareholders are represented on the Board. The Board of Directors is appointed by the Shareholders' Meeting based on the lists submitted by the shareholders, in which candidates must be listed by a consecutive number. Lists are filed at the registered office by the twenty-fifth (25th) day prior to the date of the Shareholders' Meeting called to resolve on the appointment of the members of the Board of Directors and made available to the public by the methods provided for by law and by Consob regulations at least twenty-one (21) days prior to the date of the Shareholders' Meeting.

Each shareholder may submit or be involved in submitting only one list and may vote on only one list, according to the terms provided for by the abovementioned legal and regulatory provisions. Each candidate may appear only once. Non-compliance leads to ineligibility. Only shareholders who, alone or together with other shareholders, represent at least 1% of the share capital (the percentage set by Consob) are entitled to submit lists.

Ownership of the minimum percentage necessary for the submission of lists is determined in consideration of the number of shares registered in the shareholder's favour on the date on which the lists are filed at the Company. For purposes of corroborating ownership of the number of shares necessary for the submission of lists, shareholders must produce the respective certification issued in accordance with the law by authorised intermediaries by the deadline provided for publication of the lists by the Company.

Pursuant to the provisions of the Bylaws, at least one director, if the Board is made up of no more than seven members, or at least three directors, if the Board has more than seven members, must meet the independence requirements for statutory auditors of listed companies. These limits are higher than those required by law. Candidates meeting the aforesaid independence requirements must be specifically identified on the lists. All candidates must also meet the integrity requirements provided for by current legislation.

In order to comply with applicable regulations on gender representation, in the lists containing three or more candidates, candidates of each gender shall be present, as specified in the call notice for the

Shareholders' Meeting. Where the number of the least represented gender must, by law, be at least three, the competing lists for the appointment of the majority of the Board must include at least two candidates of the least represented gender.

Each list will be accepted only if accompanied by a curriculum vitae for each candidate, as well as statements from the candidates in which they accept their candidacy and declare, assuming full responsibility, that there are no grounds for ineligibility or incompatibility, and that they satisfy the aforementioned integrity and independence requirements. The directors appointed must inform the Company of any loss of the independence and integrity requirements, as well as the existence of causes of ineligibility or incompatibility.

The Board shall periodically evaluate the independence and integrity of the directors, as well as the lack of grounds for ineligibility or incompatibility. If one of the directors does not fulfil or no longer fulfils the established independence or integrity requirements imposed by law, or if there are grounds for ineligibility or incompatibility, the Board will dismiss the director and arrange for him to be replaced, or will ask that the grounds of incompatibility be removed within an established period of time, otherwise he must forfeit the post.

Directors are to be elected as follows:

- a) seven tenths of the directors to be elected are taken from the list receiving the majority of the shareholders' votes in the consecutive order in which they appear on the list, rounding down to the nearest whole number, if the number is a fraction;
- b) the remaining directors shall be taken from the other lists, which may not be associated in any way, even indirectly, to shareholders who have submitted or voted for the list which came in first in number of votes; for that purpose, the votes won by said lists shall be divided successively by one, two or three, depending on the consecutive number of directors to be elected. The quotients thus obtained shall be assigned progressively to candidates from each of these lists, according to the order shown in them. The quotients thus assigned to candidates from the different lists shall be arranged in a single decreasing gradation. Those obtaining the highest quotients shall be elected. If several candidates obtain the same quotient, the candidate from the list which has not yet elected any director or that has elected the smallest number of directors will be elected. If none of these lists has elected a director or they have all elected the same number of directors, the candidate whose list has obtained the greatest number of votes is elected. If the voting on lists is tied and the quotient is also tied, a new vote by the entire Shareholders' Meeting shall be held, and the candidate winning a simple majority of votes shall be elected;
- c) if, after following the procedure described above, the minimum number of independent directors required by the Bylaws is not elected, the quotient of votes to be attributed to each candidate taken from the various lists is calculated, dividing the number of votes for each list by the order 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 very 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 people who meet the independence criteria, who shall be appointed in accordance with the procedure mentioned in letter d). Where candidates from different lists have obtained the same quotient, the candidate from the list from which the greater number of directors has been taken shall be replaced, or, if these numbers of directors are the same, 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 vote by the Shareholders' Meeting shall be replaced;

- c-bis) where following the procedure mentioned in letters a) and b) fails to ensure 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 order 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) from the same list as the replaced candidate; otherwise, the candidate shall be replaced by the person nominated in accordance with the procedure mentioned in letter d). Where 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, if these numbers of directors are the same, 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 vote by the Shareholders' Meeting shall be replaced;
- d) for the appointment of directors not appointed for any reason by the above procedures, the Shareholders' Meeting shall decide by statutory majority so as to ensure that the composition of the Board of Directors is consistent both with the law and with the Bylaws.

Additional binding legal provisions, including regulatory rules, remain unchanged.

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

The list voting mechanism applies only for the replacement of the entire Board of Directors. Even during its term of office, the Shareholders' Meeting may change the number of members on the Board of Directors, provided it is within the limit set forth in paragraph 1 of Article 13 of the Bylaws (as previously mentioned, there must be at least five and not more than nine directors), by making the relevant appointments. The term of office of directors thus elected shall expire with those in office. If, during the financial year, the office of one or more directors should be vacated, Article 2386 of the Italian Civil Code shall be applied. If the majority of directors should vacate their offices, the entire Board shall be understood to resign, and a Shareholders' Meeting must be called without delay by the Board of Directors in order to replace it.

The Shareholders' Meeting of 27 April 2010 set the number of directors at nine and their term of office at three financial years, expiring on the date of the Shareholders' Meeting called to approve the individual financial statements at 31 December 2012 (scheduled for 25 and 26 March 2013). Following the sale by eni S.p.A. of a 30% stake in Snam to CDP Reti S.r.l. in compliance with the Prime Ministerial Decree of 25 May 2012, which took place on 15 October 2012, the three members of Snam's Board of Directors who were also eni S.p.A. executives (Salvatore Sardo, Alessandro Bernini and Massimo Mantovani) resigned (with effect from the Board meeting of 15 October 2012, which appointed their replacements) from their respective positions of Chairman/director and director. The current directors are: Lorenzo Bini Smaghi, Carlo Malacarne, Davide Croff, Roberto Lonzar, Roberta Melfa, Andrea Novelli, Elisabetta Oliveri, Renato Santini and Mario Stella Richter. The same meeting of the Board of Directors appointed Lorenzo Bini Smaghi as Chairman.

- Carlo Malacarne, Davide Croff and Renato Santini are the directors who were candidates on the list submitted by eni S.p.A., which also included the directors who resigned: Salvatore Sardo, Alessandro Bernini and Massimo Mantovani;
- Lorenzo Bini Smaghi, Roberta Melfa and Andrea Novelli are the directors coopted by the Board to replace the directors who resigned;

- Roberto Lonzar, Elisabetta Oliveri and Mario Stella Richter are the directors who were candidates on the lists submitted jointly by certain minority shareholders;
- The list specifically indicated that Davide Croff, Roberto Lonzar, Elisabetta Oliveri, Renato Santini and Mario Stella Richter meet the independence requirements set forth in the Bylaws.

The *curricula vitae* of the directors are available on the Company's website under the "Governance" section. Below is a brief summary:

### **Lorenzo Bini Smaghi**

Born in Florence in 1956, Lorenzo Bini Smaghi graduated from the Catholic University of Leuven with a degree in Economics in 1978, and two years later earned a Master of Arts in Economics from the University of Southern California and a degree in Political Sciences from the University of Bologna.

In 1988 he was awarded a PhD from the University of Chicago.

He has been Chairman of SACE S.p.A. and a member of the Board of Directors of the European Investment Bank, Finmeccanica and MTS S.p.A.

Between June 2005 and November 2011 he was a member of the Executive Committee of the European Central Bank.

He is currently a Visiting Scholar at the Harvard Weatherhead Center for International Affairs.

Lorenzo Bini Smaghi is also a member of the "A-List" (a group of commentators for the Financial Times) and is Chairman of the Palazzo Strozzi Foundation in Florence. He is President of the University of Chicago Alumni Italian Chapter.

He was Chairman of the Board of Directors of Snam Rete Gas S.p.A. between 1 January 2012 and 26 November 2012.

### **Carlo Malacarne**

Born in Pavia in 1953, Carlo Malacarne earned a Bachelor's Degree in Electronic Engineering and, after a brief period at Selecontrol, began his career at Snam S.p.A. in the gas transportation department. Subsequently, as Telecommunications and Process Systems Director, he assisted the eni Group in meeting its objective to reorganise its telecommunications systems.

In March 1998, he was appointed Constructions Manager, tasked with ensuring that investments both in Italy and abroad were executed properly. In July 1999 he was appointed Network Management Director for Italy.

After the incorporation of Snam Rete Gas S.p.A., in July 2001 he was appointed General Manager of Company Operating Activities and Chairman of the Board of Directors of GNL Italia S.p.A.

Since 26 November 2012 he has been Chairman of the Board of Directors of Snam Rete Gas S.p.A.

He has served as CEO of Snam since May 2006.

### **Davide Croff**

Born in Venice in 1947, Davide Croff graduated from Cà Foscari University in Venice with a degree in Economics and Commerce before specialising in Economics at Pembroke College, Oxford.

He is a Cavalier of the Great Cross of the Italian Republic.

His roles have included that of Chairman of Permasteelisa S.p.A. and Operations Director at BPM S.p.A.

He is a director of Venice Newport Container and Logistics S.p.A., the European Institute of Oncology, Fiera Milano S.p.A. and Gualtieri e Associati S.p.A.

He is also a member of the Assonime Board and sits on the Council for the United States and Italy.

**Roberto Lonzar**

Born in Trieste in 1953, Roberto Lonzar graduated from the University of Trieste with a degree in Economics and Commerce.

He currently works as an auditor and chartered accountant, and is a statutory auditor at several companies, including: Genertellife S.p.A., Genertel S.p.A., General Investments Italy SGR, Simgenia SIM S.p.A. and TBS Group S.p.A.

He is also a member of the Supervisory Board of Generali Investments S.p.A.

**Roberta Melfa**

Born in Rome in 1962, Roberta Melfa graduated *cum laude* from the Sapienza University of Rome with a degree in Law in the 1986/1987 academic year.

She qualified as a lawyer in 1990 and is currently the Legal and Corporate Affairs Manager at Cassa Depositi e Prestiti.

**Andrea Novelli**

Born in San Benedetto del Tronto (AP) in 1978, Andrea Novelli graduated *cum laude* from the Bocconi University in Milan with a degree in Business Economics in 2002.

He has been an executive at Cassa Depositi e Prestiti S.p.A. since 2004 and since 2009 has held the positions of Head of the Administration, Planning and Control Department and CFO.

He is the Financial Controller of the Supervisory Board of STMicroelectronics N.V. and a director of Galaxy S.à.r.l. SICAR.

**Elisabetta Oliveri**

Born in Varazze (SV) in 1963, Elisabetta Oliveri graduated *cum laude* from the University of Genoa with a degree in Electronic Engineering.

She has held senior positions at a number of multinational companies. She was initially General Manager and then CEO of Sirti S.p.A.

She is currently CEO and General Manager of Gruppo Fabbri Vignola S.p.A. and a member of the Board of Directors of ATM S.p.A, Gruppo L'Espresso S.p.A. and Eutelsat S.A. She is also the Chairman and founder of the Furio Solinas Onlus Foundation. She is a Knight of the Italian Republic.

**Renato Santini**

Born in Bologna in 1960, Renato Santini is a graduate of the University of Bologna with a degree in Economics and Commerce, and earned a Master's in Accounting and Finance (MSc) from the London School of Economics and Political Science.

He currently works as a chartered accountant and auditor. He is a Professor of Corporate Finance on the Bachelor's degree course in Economics and Business and a Professor of Financial Planning on the Master's degree course in Economics in Business at the University of Bologna.

He is also a member of the decision-making and control bodies of various companies and foundations.

**Mario Stella Richter**

Born in Rome in 1965, Mario Stella Richter is a law graduate of the Sapienza University of Rome and has a Master of Laws from Columbia University in New York.

Since 2000 he has taught commercial law, including at the school of law at the Università Tor Vergata di Roma since 2006.

Since 1992 he has been practising as a lawyer in Rome (and has been qualified to represent clients before the Court of Cassation since 2001) and has written some 150 books and other publications.

He is currently a Deputy Special Commissioner of S.I.A.E.

At its meeting on 30 April 2010, the Board of Directors confirmed Marco Reggiani, Director of Legal and Corporate Affairs and Compliance, as Secretary of the Board of Directors. On the same date, the Board of Directors adopted regulations governing its functioning.

The Board of Directors is convened by the Chairman - or, if he is absent or incapacitated, by the CEO, or, finally, if he is absent or incapacitated, by the eldest board member - whenever he deems it necessary or when at least two Board members request a meeting of the Board in writing. The request must indicate the reasons for convening the Board. The Board of Directors meets in the location indicated in the notice of meeting. The notice is usually sent at least five days before the meeting. A complete, comprehensive set of documents related to agenda items is made available to directors and standing auditors by the Secretary of the Board at least two days prior to the date of the meeting, except in exceptional cases covered in the Regulations of the Board. At the beginning of each Board meeting, directors and statutory auditors are required to inform the Board of Directors and the Board of Statutory Auditors of any interest that they have, either on their own behalf or on behalf of third parties, in a given Company transaction. At Board meetings, heads of the appropriate Company departments may, at the request of the Chairman and with the consent of those present, participate in order to provide appropriate background information on agenda items (some department heads participated in this way in 2012). In 2012, the Board of Directors met eight times; the meetings were attended on average by 77.3% of the directors, and the attendance of independent directors was approximately 87.5% on average. Six meetings of the Board of Directors are planned for 2013. As at the date of approval of this Report, two meetings of the Board of Directors had been held. The "*Calendar of Corporate Events for 2013*" is available at the Company's website.

Except for the CEO, the Board of Directors is made up of non-executive members, a number (5) of whom are independent, to ensure by both number (majority of directors) and authority that their opinion can have a bearing on board decisions. The presence of independent directors on both the Board of Directors and its Committees also ensures that the interests of all shareholders are adequately protected.

Independence and integrity on the part of the directors, as well as the lack of grounds for their ineligibility and incompatibility, are assessed after appointment and at least once a year by the Board of Directors, considering the information provided by the interested party or available to the Company.

At its meeting of 12 February 2013, the Board of Directors, based on proposals from the Appointments Committee, issued the following directives and expressed the following position on the accumulation of offices held by directors:<sup>4</sup>

- a) an executive director should not hold:
  - i) the office of executive director at another listed Italian or foreign company, or at a financial, banking or insurance company or at a company with shareholders' equity in excess of €1 billion; or
  - ii) the office of non-executive director or statutory auditor (or member of another control body) at more than three of the aforementioned companies;

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4 Article 1.C.2 of the Code of Corporate Governance for Listed Companies issued by Borsa Italiana S.p.A. in 2011 stipulates: "*Directors shall accept the office when they believe that they can devote the time necessary to the diligent performance of their duties, taking into account the commitment involved in their work and professional activities and the number of offices as director or statutory auditor held by them in other companies listed on regulated markets (including foreign markets), or in financial, banking, insurance or large-sized companies. Based on the information received from the directors, the board must gather and publish each year in the report on corporate governance the offices as director or statutory auditor held by the directors in the aforesaid companies*", while Article 1.C.3 provides that: "*The board shall issue a recommendation with regard to the maximum number of offices as director or statutory auditor of the companies referred to in the previous paragraph [1.C.2] that may be considered compatible with the effective performance of the role of director of the issuer, taking into account the directors' membership of the board's internal committees. For that purpose, it shall identify different general criteria depending on the commitment to each role (for executive, non-executive and independent directors), and the nature and size of the companies in which the offices are held, as well as whether they belong to the issuer's group*".

- iii) in the case of the CEO, the office of director of another issuer not belonging to the same group whose CEO is a director of the Company;
- b) a non-executive director (including independent non-executive directors) should not, in addition to the position held at the Company, hold:
  - i) the office of executive director at more than two listed Italian or foreign companies, or financial, banking or insurance companies or companies with shareholders' equity in excess of €1 billion and the office of non-executive director or statutory auditor (or member of another control body) at more than five of the aforementioned companies; or
  - ii) the office of non-executive director or statutory auditor (or member of another control body) at more than eight of the aforementioned companies;

For the purposes of the calculation, the offices held within the Snam Group and on Snam Committees are not relevant.

If the limits indicated are exceeded, the directors must promptly inform the Board of Directors, which shall evaluate the situation in light of the Company's interest and ask the director to comply with its decisions on the matter. The declarations made by the directors on multiple offices held and the type of companies listed in the Code of Corporate Governance, as well as the relevant recommendations issued by the Board of Directors, reveal the following:

DIRECTOR	IMPORTANT POSITIONS HELD PURSUANT TO ARTICLE 1.C.3. OF THE CODE OF CORPORATE GOVERNANCE
Davide Croff	Operations Director at BPM S.p.A. and director at Fiera Milano S.p.A.
Roberto Lonzar	Standing auditor at Generali Investments Italy SGR, Genertellife S.p.A. and TBS Group S.p.A. Chairman of the Board of Statutory Auditors at Genertel S.p.A. and Simgenia SIM S.p.A. Member of the Supervisory Board of Generali Investments S.p.A.
Elisabetta Oliveri	Director of ATM S.p.A., Gruppo L'Espresso S.p.A. and Eutelsat S.A.
Andrea Novelli	Financial Controller of the Supervisory Board of STMicroelectronics N.V. and director of Galaxy S.à.r.l. SICAR
Renato Santini	Director at PBF S.r.l. Chairman of the Board of Statutory Auditors at Perennius Capital Partners SGR

At the abovementioned meeting, the Board of Directors took note of the statements made by the directors, the provisions of the Code of Corporate Governance on the accumulation of management and control offices and the directive preventing cross directorships, as well as the Board's confirmed position concerning the accumulation of management and control offices, and it certified that, except for the CEO, the directors hold a non-executive role, the CEO holds no other positions outside of the Snam Group, and the number of important positions pursuant to the rules in question held by said directors is compatible with the effective performance of the role of director at Snam.

At the meeting on 12 February 2013, based on the statements made by each director in January 2013, the Board of Directors certified that no grounds for ineligibility, forfeiture or incompatibility exist for the directors and that, pursuant to Article 148, paragraph 4 of the TUF, the directors and the CFO meet the integrity requirements stipulated for members of oversight bodies pursuant to regulations issued by the Ministry of Justice, contained in Article 2 of Justice Ministry Decree No. 162 of 2000.



The same Board meeting also noted that the non-executive directors, Davide Croff, Roberto Lonzar, Elisabetta Oliveri, Renato Santini and Mario Stella Richter, meet the independence requirements stipulated for statutory auditors under Article 148, paragraph 3 of the TUF and Article 3 of the Code of Corporate Governance.<sup>5</sup> The Board of Statutory Auditors also verified that the criteria and the procedures adopted by the Board of Directors in order to determine whether the directors met the independence requirements were correctly applied. Pursuant to Article 147-ter of the TUF, said directors meet the independence requirements stipulated for statutory auditors by Article 148, paragraph 3 of the TUF.

In 2012 the independent directors held a meeting with the aim, in keeping with the principles of the Code of Corporate Governance, of promoting information and discussion on matters of significant importance. During the meeting, the CEO pointed out that Snam needed to (i) carry out a refinancing in order to repay its debt to eni in light of the withdrawal of eni from the ownership structure of Snam and its subsidiaries, and (ii) create a finance department that is independent of that of eni. Snam's statutory auditors were invited to attend the meeting.

Snam has not appointed a lead independent director due to the absence of the prerequisites set forth in Article 2.C.3 of the Code of Corporate Governance, considering that the Chairman of the Board of Directors does not hold the office of Chief Executive Officer and does not hold a controlling stake in the Company. Furthermore, the appointment of a lead independent director was not requested by the independent directors.

### Succession plans

Snam does not provide for succession plans for executive directors due to the nature of the Company's shareholder structure, and the fact that, by law and pursuant to the Bylaws, directors are appointed by the Shareholders' Meeting on the basis of lists submitted by shareholders.

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5 Relative to independence requirements for directors, Article 3.C.1 of the Code of Corporate Governance provides that: *"...redacted... a director does not appear independent, as a rule, in the following cases, which are not to be considered exhaustive:*

- a) *if he, directly or indirectly, including through subsidiaries, trust companies or an intermediary, controls the issuer or is capable of exercising significant influence on it, or is a party to a shareholder agreement whereby one or more parties may exercise control or significant influence on the issuer;*
- b) *if he is, or has been in the previous three financial years, an important agent of the issuer, of one of its strategically important subsidiaries or of a company subject to common control with the issuer, or of a company or entity which, including with others through a shareholder agreement, controls the issuer or is capable of exercising significant influence over it;*
- c) *if he has, or has had in the previous financial year, either directly or indirectly (for example through subsidiaries or companies of which he is an important agent, or in the capacity of partner of a professional law firm or consultancy company), a significant commercial, financial or professional relationship:*
  - *with the issuer, one of its subsidiaries, or any of their respective important agents;*
  - *with a party that, including together with others through a shareholder agreement, controls the issuer, or - in the case of companies or entities - with their respective important agents, or he is, or in the previous three financial years has been, an employee of one of the aforesaid parties;*
- d) *if he receives, or in the previous three financial years has received, significant remuneration from the issuer or a subsidiary or parent in addition to the "fixed" salary as a non-executive director of the issuer, and in addition to the compensation for participation on committees recommended by this Code, including in the form of participation in incentive plans associated with company performance, including share-based plans;*
- e) *if he has been a director of the issuer for more than nine of the last 12 years;*
- f) *if he holds the office of executive director at another company in which an executive director of the issuer holds the office of director;*
- g) *if he is a shareholder or director of a company or entity belonging to the network of the company engaged to audit the issuer;*
- h) *if he is a close family relation of a person who is in any situation described in one of the previous items."*

The subsequent article, Article 3.C.2, provides that: *"For the purposes of the above, "important agents" of a company or entity shall be considered to refer to the entity's chairman, its legal representative, the chairman of the board of directors, executive directors and executives with strategic responsibilities at the company or entity in question".*

## Remuneration system for directors and executives with strategic responsibilities

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On 27 February 2013, the Board of Directors will examine the Remuneration Report stipulated by Article 123-ter of the TUF, which is to be submitted to the Shareholders' Meeting pursuant to the applicable regulations, containing, among other things, the remuneration policy for the Chairman, the CEO and other executives with strategic responsibilities. The Remuneration Report prepared in accordance with Article 123-ter of the TUF is posted on the Company's website, in the "Governance" section.

# Handling of company information

## Report by the Chairman and CEO pursuant to Article 16 of the Bylaws

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Pursuant to Article 16 of the Bylaws, the Chairman and the CEO report at least quarterly to the Board of Directors and the Board of Statutory Auditors, including with regard to the subsidiaries, on overall progress, foreseeable trends, and transactions with a significant impact on the financial statements, paying special attention to transactions in which they have an interest either on their own behalf or on behalf of third parties or transactions which are influenced by any party involved in management and coordination.

## Adoption and updating of information handling procedures

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The Snam Board of Directors has adopted inter-related procedures for matters pertaining to: market abuse, i.e. disclosure to the market of confidential information and documents concerning Snam and the financial instruments it has issued; internal dealing; and the keeping and updating of the register of persons who have access to confidential information. On 26 October 2012, the Board of Directors approved the updating of two of the three procedures (disclosure to the market and internal dealing)<sup>6</sup>. The updates consisted mainly of: (i) removing all references to eni S.p.A. from the text of the procedures and (ii) a number of updates required following regulatory amendments.

### Disclosure to the market of confidential information and documents concerning Snam and the financial instruments it has issued

In compliance with the provisions of the TUF and the Issuer Regulations on the disclosure of confidential information to the public, the Board of Directors approved the *"Procedure for disclosure to the market of confidential information and documents concerning Snam and the financial instruments it has issued"*. The Procedure also takes into account the guidelines of the *"Market disclosure guide"* prepared by the Ref Forum on company information, containing the principles of proper market disclosure, as well as the Code of Corporate Governance for Listed Companies.

The Procedure sets out the terms and methods for:

- disclosing to the market confidential information held by Snam, as an issuer of financial instruments listed on regulated markets or of financial instruments for which an application has been made for admission to trading on a regulated market in Italy or another EU country, as identified in Article 180 of the TUF, which relates directly to the issuer, its subsidiaries or the financial instruments;
- disclosing confidential information that non-issuer subsidiaries provide to the issuer to comply with the provisions of the Procedure.

Specifically, the Procedure governs:

- information to be disclosed to the market, highlighting and analysing the requirements of importance, clarity, consistency, information symmetry, coherence and timeliness;
- relations between Snam and subsidiaries;
- meetings with market operators, interviews and statements to the media;
- the publication of press releases;
- dissemination of information through multimedia tools (*internet, email, CD-ROM, broadcasting*) and advertisements;

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<sup>6</sup> The abovementioned procedures replace those adopted previously by the Board of Directors on 17 March 2006 and then revised on 13 February 2012, and are posted in the *"Governance"* section of the Company's website.

- delay and objection to the dissemination of information;
- Consob powers and sanctions;
- storing and gaining access to documentation.

### **Identification of significant parties and disclosure of transactions they have made, including through intermediaries, involving shares issued by Snam or other associated financial instruments ("Internal Dealing")**

In accordance with the provisions of Article 114, paragraph 7, of the TUF and of the Issuer Regulations, the Board of Directors approved the "*Procedure for identifying significant parties and disclosing transactions made by them, including through intermediaries, involving shares issued by Snam or other associated financial instruments*" ("*Internal Dealing Procedure*").

The Procedure contains provisions which govern disclosure obligations and limitations concerning transactions involving shares issued by Snam and other associated financial instruments, made on their own behalf by significant parties, i.e. (i) any person who holds a holding, calculated pursuant to Article 118 of Regulations on Issuers, equal to at least 10 per cent of the share capital of the listed issuer represented by voting shares and any other person who controls the listed issuer Snam, (ii) directors and standing auditors, (iii) members of the Combined Independent Management Committee and members of the Management Committee.

The Procedure sets forth the obligation to disclose to the market and to Consob within five trading days of the day in each calendar year when the overall amount of transactions in absolute terms (sum of the prices paid and collected) is equal to or greater than the equivalent of €5,000. Lastly, the Procedure prohibits significant persons from carrying out transactions on financial instruments issued by Snam in the 15 days prior to Board meetings in which mandatory periodic reports, interim dividend proposals and the budget are examined or a dividend proposal for the Shareholders' Meeting is outlined. Transactions which must be considered to verify whether the abovementioned limits have been exceeded include disposals of shares acquired through stock option and stock grant plans.

### **Keeping and updating the register of persons who have access to confidential information at Snam**

In accordance with the provisions of Article 115-*bis* of the TUF and of the Issuer Regulations, the Board of Directors approved the procedure for "*Keeping and updating the register of persons who have access to confidential information at Snam*". The register is divided into two sections:

- the first lists the names or company names of persons which, due to their work or professional activities or due to the functions they carry out, have access to confidential information on a regular basis (Section A);
- the second lists the names or company names of persons which, due to their work or professional activities or due to the functions they carry out, have access to confidential information on an occasional basis (Section B).

In each section, the persons are grouped into two sub-sections, depending on whether they are employees or external parties.

Section A of the register contains the names or company names of:

- a) Snam directors and standing auditors;

- b) members of the Combined Independent Management Committee;
- c) persons reporting directly to the CEO;
- d) the independent auditors engaged to audit Snam;
- e) consultants who provide their professional activity based on a consultancy relationship or provision of paid work with a duration of more than one year and who have access to information.

Section B of the register contains the names or company names of:

- f) employees of Snam who have access to information on an occasional basis in relation to specific duties;
- g) consultants who provide their professional activity based on a consultancy relationship or provision of paid work with a duration of less than one year and who have access to information.

The register is a single register kept by Snam's Director of Personnel, Organisation and Security, who sets forth the criteria and methods to adopt for keeping, managing and gathering information contained in the register, so that it can be easily accessed, managed, consulted, extracted and printed. He relies on the Head of Organisation, Development, Training and Remuneration to keep and update the register.

Committees instituted  
by the Board of Directors

The Board established the following internal Committees, as dictated by the Code of Corporate Governance, with consultative and advisory duties: a) the Control and Risk Committee, b) the Remuneration Committee and c) the Appointments Committee. The composition, duties and functioning of the Committees are governed by the Board in special regulations (available at the Company's website in the "Governance" section) in accordance with criteria set out by the Code.

The above Committees consist of three members.

In the performance of their functions, the Committees may access information and company departments. They have sufficient financial resources and may use external consultants within the terms set by the Board of Directors.

Individuals who are not members may participate in Committee meetings if asked to do so in relation to individual agenda items. The respective secretaries take minutes for the Committee meetings.

A Combined Independent Management Committee was also appointed pursuant to Article 16 of the Bylaws.

### Remuneration Committee

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The Committee consists of three non-executive directors, of whom two are independent, including Chairman Davide Croff. The other members are Andrea Novelli and Elisabetta Oliveri. The Board of Directors has verified that at least one member has sufficient knowledge and experience of financial matters or remuneration policies.

The Committee provides the following consultative and advisory functions to the Board of Directors with regard to the compensation of directors:

- it submits for the approval of the Board of Directors the Remuneration Report and, in particular, the Policy for the Remuneration of Directors and Executives with Strategic Responsibilities to be presented to the Shareholders' Meeting called to approve the annual financial statements by the deadlines set by law;
- it periodically assesses the adequacy, overall consistency and specific application of the policy adopted and makes related proposals to the Board;
- it makes proposals concerning the compensation of the Chairman and CEO in terms of the various forms of compensation and pay arrangements;
- it makes proposals concerning the compensation of members of the Board Committees;
- after reviewing instructions from the CEO, it proposes general criteria for the compensation of executives with strategic responsibilities, annual and long-term incentive plans (including those based on shares), and the determination of performance objectives and final calculations of company results of performance plans connected with the determination of the variable compensation of executive directors and the implementation of incentive plans;
- it monitors the application of decisions made by the Board;
- it reports on its activities to the Board every six months.

The Committee also provides any opinions required by the procedure concerning related-party transactions by the deadlines set by this procedure.

In accordance with the Board's decision, the Remuneration Committee annually reviews the remuneration structure of the Internal Auditor and ensures that it is consistent with the general criteria approved by the Board for all executives, and must indicate the above to the Chairman of the Control and Risk Committee for the purposes of the opinion which he must express on this matter at the Board meeting.

In 2012 the Remuneration Committee met four times, with an average attendance of 83.3% of its members. In the first half of the year, the Committee focused its efforts on drawing up guidelines for the pay policy and the 2012 Remuneration Report, finalising the Company results for 2011, and defining the performance objectives for 2012 for the purposes of cash incentive plans.



In the second half of the year, it analysed the results of the Shareholders' Meeting vote on the 2012 Remuneration Report and began an in-depth examination of the matters of interest to the shareholders and proxy advisors. Furthermore, following the appointment of a new Chairman decided by the Board of Directors on 15 October 2012, the Committee put forward a definitive proposal concerning the Chairman's remuneration, which was put to the Board of Directors on 26 October 2012. For 2013, the Committee has scheduled four meetings. As at the date of approval of this report, the first meeting has taken place.

### Appointments Committee

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The Appointments Committee is made up only of non-executive and independent directors: Davide Croff, Roberto Lonzar and Renato Santini. The chairman of the Committee is Davide Croff. The Board meeting of 23 April 2012 approved the new regulations. The Committee provides the following consultative and advisory functions to the Board of Directors:

- it proposes to the Board candidates for the position of director, should the office of one or more directors be vacated during the year (Article 2386, first paragraph, Italian Civil Code), ensuring compliance with the requirements for the minimum number of independent directors and for the quota reserved for the minority gender;
- at the proposal of the CEO, it submits candidates to the Board of Directors for corporate bodies of direct subsidiaries. Proposals made by the Committee are binding;
- it prepares and proposes: (a) procedures for the annual self-assessment of the Board and its Committees, (b) directives concerning restrictions and prohibitions on directors of Snam and its subsidiaries holding multiple offices, and (c) criteria for assessing the requirements of professionalism and independence of board members of Snam and its subsidiaries, and any competing activities performed;
- it reports to the Board semi-annually on the activities it performs.

In 2012 the Appointments Committee met six times, with all members present. In the first part of the year, the Committee prepared proposals on restrictions and prohibitions on Company directors holding multiple offices. It also issued a binding opinion on proposals concerning the composition of the corporate bodies of the following direct subsidiaries: GNL Italia, Italgas and Stogit. In the second part of the year, it proposed the cooptation of three members of the Snam Board of Directors following the resignation of three directors who were executives at eni, it proposed the cooptation of directors onto the boards of Snam Rete Gas and Stogit, and it examined the proposal concerning the Board Evaluation for 2012 presented by Egon Zehnder International. The Appointments Committee is scheduled to meet at least twice a year. As at the date of approval of this Report, one meeting has taken place.

## Control and Risk Committee

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The Control and Risk Committee is made up exclusively of independent non-executive directors, as defined by the Code of Corporate Governance for Listed Companies: Roberto Lonzar, Renato Santini and Mario Stella Richter. The Committee is chaired by Roberto Lonzar.

At least one member of the Committee must have adequate accounting and financial experience, as evaluated by the Board of Directors at the time of appointment. The Snam Board concluded that the majority of the Committee members had adequate accounting and financial experience.

The Committee provides recommendations and advice to the Board by making suitable enquiries to support assessments and decisions concerning the internal control and risk management system, as well as those relating to the approval of financial reports.

Specifically, the Committee performs the following functions:

- a) it evaluates, together with the CFO and having consulted the Independent Auditors and the Board of Statutory Auditors, the proper use of accounting standards and their consistency for the purposes of preparing the consolidated financial statements;
- b) it issues opinions on specific aspects relating to the identification of the main risks faced by the Company;
- c) it performs additional duties assigned to it by the Board of Directors, in particular expressing an opinion on the rules governing the transparency and substantial and procedural correctness of related-party transactions and those in which a director or statutory auditor has an interest, either on his own behalf or on behalf of a third party;
- d) it examines the periodic reports relating to evaluation of the internal control and risk management system, and those of particular importance prepared by the Internal Auditor;
- e) it monitors the independence, suitability, effectiveness and efficiency of the Internal Audit function;
- f) it may ask the Internal Auditor to carry out inspections of specific operational areas, giving notice of this to the Chairman of the Board of Statutory Auditors at the same time;
- g) it reports to the Board, at least every six months, upon approval of the annual and half-yearly financial report, on the activity it carries out and the adequacy of the internal control and risk management system;
- h) it expresses its opinion on proposals to the Board of Directors submitted by the CEO, in agreement with the Chairman, which (i) concern the appointment, removal and remuneration of the Internal Auditor, in line with the Company's pay policy; and (ii) are designed to ensure that he/she is given the appropriate resources to fulfil his/her responsibilities.

The Committee also expresses its opinion to the Board of Directors in order to:

1. define the guidelines for the internal control and risk management system, so that the main risks facing the Company and its subsidiaries can be correctly identified and adequately measured, managed and monitored, as well as determining to what extent these risks can be managed using a policy that is consistent with the strategic objectives identified;
2. periodically evaluate, at least annually, the adequacy and effectiveness of the internal control and risk management system with respect to the characteristics of the Company and the risk profile it has adopted;
3. periodically approve, at least once a year, the work plan prepared by the Internal Auditor;
4. describe, in the Report on Corporate Governance and Ownership Structure, the main features of the internal control and risk management system, as well as evaluate the adequacy of the system;
5. evaluate the conclusions presented by the Independent Auditors in any letter containing suggestions and in the report on key matters arising from the external audit.

The Chairman of the Company, the CEO and the standing auditors are invited to attend Committee meetings. Other individuals who are not Committee members may be invited to attend by the Committee Chairman, particularly managers responsible for managing important corporate activities which are pertinent to the overall effectiveness and efficiency of the internal control system. The Committee meetings are deemed valid with the presence of the majority of the members in office; the Committee resolves by an absolute majority of the attendees.

In 2012, the Committee met nine times, with an average attendance of 92.6% of its members, carrying out the activities provided for in the Regulations.

With reference to its role of supervising the activities of the Internal Audit function, as assigned to it by the *Guidelines of the Board of Directors of Snam regarding Internal Audit activities*, the Committee has examined: the audit schedule and the quarterly reports drawn up by the Internal Auditor on the progress of the audit schedule, the main results of the audits performed during the period and the follow-up on corrective actions agreed with management based on the observations emerging from the controls carried out; and the quarterly statements on reports received by Snam and its subsidiaries and the merits thereof, the checks carried out in this regard and the results of said checks, and, when the reports were deemed to be well-founded, the measures adopted by the Company.

With regard to compliance with the provisions of Law No. 262 of 2005 on safeguarding investments and the rules governing financial markets, the Committee, together with the CFO, has examined the half-yearly reports on the adequacy of the Corporate Reporting Control System and on the observance of administrative and accounting procedures. The Committee has also analysed the activities carried out to revise the Control System that were made necessary by the organisational and operational restructuring of the Snam group carried out in order to incorporate the provisions of Legislative Decree 93/2011 on functional unbundling.

With regard to the work performed by the Independent Auditors, the Committee analysed issues concerning the annual and half-yearly financial reports with the managers of Reconta Ernst & Young. The analysis covered both the audit of the financial statements of Snam and its subsidiaries and the checks carried out to ascertain the effectiveness of the Corporate Reporting Control System.

With regard to administrative liability pursuant to Legislative Decree No. 231/2001, the Committee, together with the Supervisory Body, has examined the activities carried out in relation to its role overseeing the implementation of, and adherence to, the provisions of Model 231, including as Code of Ethics Supervisor. The Committee has also examined the proposal to update the Organisation, Management and Control Model in relation to (i) the scope of application of administrative liability, which has been broadened to cover additional offences, and (ii) the organisational restructuring of the Snam Group initiated on 1 January 2012.

In 2012, the Control and Risk Committee met with several managers of the Company to obtain information on specific aspects concerning powers received from the Board of Directors and, more generally, the internal control system. These activities concerned, in particular: (i) relations with related parties that have been analysed periodically based on information provided by management; (ii) corporate security systems, particularly the Company's "Business Continuity Management" project; and (iii) the "Enterprise Risk Management System" project aimed at systematically supporting management in identifying, measuring, managing and monitoring the main risks that could affect whether the Company achieves its strategic objectives.

In addition to these recurring activities, special attention was paid in the first half of 2012 to the changes introduced by the new Code of Corporate Governance for Listed Companies. The Committee, having observed that Snam was already compliant with most provisions of the Code, carried out an in-depth

analysis of the proposal to amend certain aspects of the corporate governance system and the implications this would have in terms of the role and new powers of the Committee itself, in the context of an internal control and risk management system consistent with the new Code of Corporate Governance.

In the second half of the year, the Committee focused its attention on the initiatives carried out by the Company in order to fulfil its obligations in connection with implementing the ownership unbundling provisions set forth by Decree-Law No. 1 of 14 January 2012 and by the Prime Ministerial Decree of 25 May 2012, which set out the terms and time frame for the implementation of the ownership unbundling of eni and Snam. The Committee focused on aspects relating to corporate governance and the internal control system, particularly with regard to the content and development of the "Snam Finance Project", through which the Company aims to achieve complete autonomy for its financial activities.

At its meeting on 5 February 2013, the Committee examined the 2012 Snam Internal Auditor's Report. The Report details: (i) the audits performed during the course of the year pursuant to the audit schedule approved by the Board of Directors and the results thereof, together with updates on follow-ups on the progress of corrective actions agreed with management with a view to solving any problems that have arisen and constantly improving the internal control system; (ii) the checks carried out in relation to the Corporate Reporting Control System, defined in agreement with the CFO; and (iii) the reports received during the period in question and the checks implemented in order to ascertain whether said reports are well-founded, support assessments by the competent corporate bodies and provide the information required to sanction improper conduct or implement measures aimed at strengthening the internal control system.

The Committee reported to the Board of Directors, at its meetings on 30 July 2012 and 12 February 2013, on the activities carried out in the first and second halves of 2012, respectively. At the meeting on 12 February 2013, the Board of Directors, as provided for by the Code of Corporate Governance, assessed the adequacy and effectiveness of the internal control and risk management system, based on the report by the Control and Risk Committee. The Committee has scheduled seven meetings for 2013. As at the approval date of this Report, two meetings had been held.

### Combined Independent Management Committee

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The Consolidated Unbundling Act stipulates that, pursuant to Article 9 of the Unbundling Regulations, natural gas storage, regasification, transportation, dispatching, distribution and metering activities may be managed jointly, and are not subject to functional unbundling obligations.

To implement these regulations, Article 23 of Annex A of Resolution ARG/com 153/11 of 3 November 2011 of the Electricity and Gas Authority specified that companies that carry out natural gas storage, regasification, transportation, dispatching, balancing, distribution and metering activities, as described in Article 4 of the TIU, are considered a part of the same company.

At a meeting on 27 July 2010, Snam's Board of Directors created the Combined Independent Management Committee, a decision-making body (committee pursuant to Article 16.1 of the Bylaws) dedicated to jointly managing regulated activities involving natural gas transportation and dispatching, distribution, storage and regasification. The Committee is made up of the following individuals:

- the CEO of Snam;
- the CEO of GNL Italia;
- the CEO of Italgas;
- the CEO of Snam Rete Gas;
- the CEO of Stogit.

The Board of Directors granted the Combined Independent Management Committee all powers for the performance of its functions. The Combined Independent Management Committee adopted its own operating regulations on 28 July 2010.

The CEO of Snam chairs the Combined Independent Management Committee and represents the organisational structure, part of the Management Committee itself, dedicated to expressing binding opinions to the Board of Directors, in accordance with and for the purposes set forth in Article 11.5, c) of the Consolidated Unbundling Act, for all decisions adopted by said body concerning managerial and organisational aspects of the business, and for any decisions that could have a direct or indirect impact on the independence of the transportation system, as well as for the approval of the development plan referred to in paragraph 11.1, b), i) of the Consolidated Unbundling Act.

On 29 June 2012, the Combined Independent Management Committee sent the Electricity and Gas Authority the Annual Report on Measures Adopted to Implement the Compliance Programme.

In accordance with Article 11.1, b), ii) of the Consolidated Unbundling Act, the Combined Independent Management Committee shall examine and define Snam's Annual and Multi-Year Infrastructure Development Plan before submitting it for the approval of the Board of Directors and the Electricity and Gas Authority.

### Unbundling Supervisor

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In accordance with Article 15.1 of the Consolidated Unbundling Act, the Combined Independent Management Committee appointed the Supervisor to oversee the proper management of commercially sensitive information pertaining to the business. He is responsible, among other things, for ensuring that the obligations involved in managing the data and information obtained in carrying out the activities are observed, and for preparing, together with the Management Committee, the relevant portions of the Compliance Programme referred to in Article 12.2 of the Consolidated Unbundling Act, as well as those of the Annual Report referred to in Article 12.3 of the same act, relating to information management. The office of Supervisor is currently held by Snam's Head of Compliance.

At the same time, for the purposes of complying with the new corporate and organisational structure of Snam and its subsidiaries, the Management Committee revised the "*Procedure for access to commercially sensitive information*", which governs access to commercially sensitive information obtained by Snam and its subsidiaries in carrying out natural gas transportation and dispatching, regasification, storage and distribution activities. This refers to:

- i) information relating to parties who rely on the infrastructure operated by Snam and its subsidiaries, which has become available to the latter through the exercise of their business;
- ii) information relating to the infrastructure operated by Snam and its subsidiaries which may give a competitive advantage to the holder of such information in the event of non-uniform disclosure.

# Corporate, functional and organisational unbundling

## Legislative Decree No. 93 of 1 June 2011 and Prime Ministerial Decree of 25 May 2012: from functional unbundling to ownership unbundling

With Legislative Decree No. 93 of 1 June 2011 concerning the "*Implementation of Directives 2009/72/EC, 2009/73/EC and 2008/92/EC concerning common rules for the internal market in electricity and natural gas and a Community procedure to improve the transparency of gas and electricity prices charged to industrial end-users, repealing Directives 2003/54/EC and 2003/55/EC*" (the "Decree"), Italian legislators transposed into law Directive 2009/73/EC, which introduced new provisions concerning the unbundling of operators of natural gas transportation systems from other activities in the gas sector.

The Decree dictates that the country's largest transportation company must comply with the rules governing the "Independent Transmission Operator" or ITO (the "Operator").

According to the rules governing the ITO model, in order to evidence the separation of the Operator from the vertically integrated undertaking, the Operator's compliance with the requirements of the Decree must be certified by the Electricity and Gas Authority. Once certification is obtained, the Operator is approved and designated as a "Transportation System Operator" by the Ministry of Economic Development. This designation is notified to the European Commission and published in the Official Gazette of the European Union.

In addition, the Decree: (i) for distribution operations, confirmed the mechanism of corporate and functional unbundling, which was already provided for in Directive 2003/55/EC; (ii) for storage operations, provided for a requirement of corporate unbundling from the company that owns the transportation network when the latter has adopted the ISO model (required for smaller transportation companies); and (iii) for LNG regasification operations, in addition to identifying the duties of the LNG system operator, confirmed the principle of separating accounting for LNG operations from that of other gas industry operations.

The Snam Board of Directors decided that the most efficient way to comply with the provisions of the Decree would be to transfer the business unit engaged in gas transportation, dispatching, remote monitoring and metering activities to a wholly owned subsidiary, Snam Rete Gas, which therefore requested certification as an Independent Transmission Operator.

As a consequence of the resulting corporate restructuring, an organisational structure was created which, based on the goal of strengthening the rules of the functional unbundling of the vertically integrated undertaking (eni), consisted of four operating companies directly controlled by Snam (GNL Italia, Italgas, Snam Rete Gas and Stogit, along with the indirect subsidiary Napoletanagas), focused on the management and development of their respective businesses, and a holding company (Snam) with the role of:

- a) providing the strategic direction, management, coordination and oversight of subsidiaries;
  - b) providing business support services to the subsidiaries (including through the insourcing of services previously provided by eni and its subsidiaries) in keeping with the provisions of the Decree, in order to preserve the degree of operating efficiency achieved following the acquisition of Italgas and Stogit in 2009.
- In accordance with the provisions of the Decree, Snam Rete Gas adopted a governance structure and independent organisational structures that comply with the specific requirements of the Decree (including personnel and asset ownership).

On 8 June 2012, the Electricity and Gas Authority announced the preliminary certification of Snam Rete Gas as an Independent Transmission Operator, pursuant to Article 9, paragraph 8 of the Directive and Article 10, paragraph 1, a) of the Decree (Resolution 191/2012/E/gas), which was followed by the

required opinion of the European Commission on 1 August 2012. On 4 October 2012, the Electricity and Gas Authority completed the process of certifying Snam Rete Gas as an Independent Transmission Operator, issuing Resolution 403/2012/R/gas ("Resolution 403/12"). Pending completion of the process of certifying Snam Rete Gas as an Independent Transmission Operator, Law No. 27 of 24 March 2012 converted into law Decree-Law No. 1 of 24 January 2012 ("Law 27/12"), which, in Article 15, provides for the ownership unbundling of regulated natural gas transportation, storage, regasification and distribution services from other activities in the same sector carried out in competition by 24 September 2013.

In this respect, the Prime Ministerial Decree of 25 May 2012 established the "criteria, conditions and manner with which Snam shall comply in order to adopt the model for the ownership unbundling of the management of the national gas transportation network and ensure that Snam is completely detached from vertically integrated natural gas and electricity production and supply undertakings".

The provisions of the Prime Ministerial Decree of 25 May 2012 created a much stricter regime of ownership unbundling ("OU") in Italy than the one provided for by the Third Energy Package. In addition to not making OU compulsory for natural gas transportation activities, the European regulations provide for: (i) the possibility to adopt the OU regime only in relation to natural gas transportation activities, while they provide for only corporate and functional unbundling for distribution activities, functional unbundling for storage and merely administrative and accounting unbundling for regasification activities; (ii) in the event of OU, the ownership of a "minority" stake in the share capital by the vertically integrated undertaking and severe restrictions on its voting rights (Article 9 of Directive 2009/73/EC).

Italy, on the other hand, has opted for an OU regime that covers all regulated natural gas transportation, distribution, storage and regasification activities and also requires that the vertically integrated undertaking (eni) sell its entire stake in Snam.

The Prime Ministerial Decree stipulates that eni must, as quickly as market conditions permit, and by 25 September 2013 at the latest, reduce its shareholding to the extent that it no longer controls Snam and, subsequently, sell its remaining shares in the Company. Specifically, the Prime Ministerial Decree of 25 May 2012 stipulates that eni must:

- as quickly as market conditions permit, sell, in one or more instalments, shares equal to no less than 25.1% of Snam's share capital in a direct deal with CDP;
- following the sale of at least 25.1% of Snam's share capital to CDP, sell its residual stake in Snam via a transparent, non-discriminatory sale procedure involving individual and institutional investors.

The Prime Ministerial Decree also provides that, as a result of the acquisition of at least 25.1% of Snam's share capital, CDP shall ensure that eni and Snam are independent and completely detached.

To that end, Article 2 of the Prime Ministerial Decree of 25 May 2012 provides that:

- 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 the Ministry of Economy and Finance 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;
- CDP's equity investment in eni shall remain unchanged;
- the members of the corporate 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 its subsidiaries, nor may they enter into any direct or indirect professional or financial relationship with said companies, and vice versa.

Snam and its subsidiaries have carried out the relevant checks in this respect, with the result that none of their directors or executives are ineligible pursuant to the above conditions. Where statutory auditors were found to be ineligible, measures have been taken to rectify their ineligibility and ensure that the composition of the Boards of Statutory Auditors of the Snam Group complies with the aforementioned regulations.

The Prime Ministerial Decree also provides that, as of the sooner of 25 September 2013 and the date



on which eni ceases to control Snam, eni's voting rights (or those held by other gas and/or electricity producers or suppliers that control it or are subsidiaries or associates of it) at Snam's Shareholders' Meetings shall be restricted in line with the provisions of Article 19 of the Decree.

In line with the provisions of the Prime Ministerial Decree, following the fulfilment of the conditions precedent set out in the purchase agreement (including the authorisation of the Competition Authority), eni completed the sale to CDP Reti S.r.l. (a wholly owned subsidiary of CDP) of 30% less one share of Snam's voting share capital.

As a result of eni's loss of control over Snam, on 14 December 2012 Snam Rete Gas filed an application to be recertified as a Transmission System Operator under ownership unbundling.

The implementation of ownership unbundling involved exceeding the conditions related to the legal regime governing transportation operators, and on 19 December 2012 the Shareholders' Meeting of Snam Rete Gas consequently amended its Bylaws (with effect from 1 January 2013).

Board of Statutory Auditors  
and Independent Auditors

## Board of Statutory Auditors

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Pursuant to Article 149 of the TUF, the Board of Statutory Auditors oversees compliance with the law and with the deed of incorporation, respect for the principles of proper administration, the adequacy of the Company's organisational structure in relation to its remit, the internal control system and the administrative and accounting system, methods for specific implementation of the rules of corporate governance provided for by the codes of conduct drafted by regulated-market management companies or by industry associations, which the Company publicly declares it upholds, the reliability of the latter to properly represent operational events, and the adequacy of the Company's instructions to subsidiaries pursuant to Article 114, paragraph 2 of the TUF.

Following the entry into force of Legislative Decree No. 39 of 27 January 2010 (*"Implementation of Directive 2006/43/EC concerning the independent audit of annual financial statements and consolidated financial statements, which amends Directives 78/660/EEC and 83/349/EEC, and which revokes Directive 84/253/EEC"*), the Board of Statutory Auditors oversees:

- a) the financial reporting process;
- b) the effectiveness of the internal control, internal audit and, if applicable, risk management systems;
- c) the independent audit of the annual financial statements and consolidated financial statements;
- d) the independence of the external audit company, particularly with regard to the provision of non-audit services to the entity being audited.

In this regard, in 2012, the Board of Statutory Auditors met five times with the Independent Auditors for a timely exchange of information related to the performance of their respective duties in accordance with Article 2407-septies of the Italian Civil Code, as well as the competent Company functions.

Pursuant to Article 20 of the Bylaws, Snam's Board of Statutory Auditors is made up of three standing auditors and two alternate auditors appointed by the Shareholders' Meeting for three financial years. They may be re-elected at the end of their term of office. Similar to the provisions set forth for the Board of Directors and in accordance with the applicable provisions, the Bylaws set forth that statutory auditors be appointed by list voting, unless they are replaced during their term of office.

Statutory auditors are chosen from among those who meet the professionalism and integrity requirements indicated in Justice Ministry Decree No. 162 of 30 March 2000. Issues set forth in this decree which relate strictly to the Company's activity include: commercial law, business economics and business finance. Likewise, the sector pertaining strictly to the Company's business is the engineering and geology sector. Statutory auditors may assume offices as members of management and control bodies of other companies within the limits set by Consob in its regulations, without prejudice to the provisions of Article 2, paragraph 2, c) of the Prime Ministerial Decree of 25 May 2012.

The Board of Statutory Auditors is appointed by the Shareholders' Meeting, in compliance with the provisions in force on gender representation, based on the lists submitted by the shareholders. In these lists, the candidates must be listed by consecutive number and their number must not be higher than that of the members of the body to be elected.

The Board of Statutory Auditors is appointed by the Shareholders' Meeting based on the lists submitted by the shareholders, in which candidates must be listed by a consecutive number. The procedures governed by the Bylaws shall apply for the filing, submission and publication of lists. Each shareholder may submit or be involved in submitting only one list and may vote on only one list, according to the terms provided for by the abovementioned legal and regulatory provisions.

Only shareholders who, alone or together with other shareholders, represent at least 1% of the share capital (the percentage set by Consob) are entitled to submit lists. Each candidate may appear only once. Non-compliance leads to ineligibility.

Lists are broken down into two sections: the first for candidates to the office of standing auditor, and the second for candidates to the office of alternate auditor. At least the first candidate in each section must be included in the register of auditors and must have a minimum of three years' experience as an external auditor.

Two standing auditors and one alternate auditor are taken from the list that wins the majority of the votes. The other standing auditor and the other alternate auditor are appointed according to the methods set forth in Article 13.5, b) of the Bylaws for the election of directors, which are to be applied differently to each of the sections into which the other lists are broken down.

The standing auditor elected by the methods provided for by Article 13.5, b) of the Bylaws for the election of directors is appointed Chairman of the Board of Statutory Auditors by the Shareholders' Meeting. In the event of the replacement of a statutory auditor from the list that wins the majority of the votes, he is replaced by the alternate auditor from the same list; in the event of the replacement of the statutory auditor from the other lists, he is replaced by the alternate auditor from those lists.

Lists for appointing statutory auditors, together with details on the candidates as well as a mention of the identity of the shareholders submitting said lists and the percentage equity interest owned, must be made available to the public at the Company's headquarters and Borsa Italiana S.p.A. and posted on the Company's website in a timely manner, and in any case within the time periods provided for by current regulations. The list voting procedure applies only for the replacement of the entire Board of Statutory Auditors. Additional binding legal provisions, including regulatory rules, remain unchanged. Outgoing statutory auditors may be re-elected.

Upon notice to the Chairman of the Board of Directors, the Board of Statutory Auditors may call Shareholders' Meetings and Board of Directors' meetings. The power to call Board of Directors' meetings may be exercised individually by each member of the Board of Statutory Auditors; power to call Shareholders' Meetings must be exercised by at least two members of the Board.

The Board of Statutory Auditors may meet via conference call or videoconference providing that all participants are identifiable and can follow the discussion, examine, receive and transmit documents, and participate in real time in the discussions. A meeting is considered to have taken place where the Chairman of the Board of Statutory Auditors and the Secretary, if appointed, are located.

On 27 April 2010, the Shareholders' Meeting appointed statutory auditors for a term of three financial years, or until the date of the Shareholders' Meeting called to approve the 2012 financial statements. The following individuals were appointed: Massimo Gatto: Chairman; Roberto Mazzei and Francesco Schiavone Panni: standing auditors; Giulio Gamba and Luigi Rinaldi: alternate auditors. The Shareholders' Meeting also set the gross annual remuneration of the Chairman of the Board of Statutory Auditors and of each standing auditor at €60,000 and €40,000 respectively, in addition to the reimbursement of expenses incurred in carrying out their duties. Roberto Mazzei, Francesco Schiavone Panni and Giulio Gamba were elected from the list submitted by eni S.p.A.; Massimo Gatto and Luigi Rinaldi were elected from the list submitted by minority shareholders.

Giulio Gamba, an alternate auditor, resigned from the post on 21 January 2013.

Based on the statements made by its members, the Board of Statutory Auditors confirmed that all its members fulfilled the independence requirements provided for by law, as well as those stipulated for directors pursuant to Article 3 of the Code of Corporate Governance.

The Board of Statutory Auditors is invited to attend meetings of the Control and Risk Committee.

In 2012, the Board of Statutory Auditors met 14 times; the meetings were attended on average by 95.2% of the statutory auditors. The Board of Statutory Auditors has scheduled six meetings for the first quarter of 2013. As at the approval date of this Report, two meetings had been held.

The *curricula vitae* of the statutory auditors are available on the Company's website under the "Governance" section. Below is a brief summary:

#### **Massimo Gatto**

Born in Rome in 1963, Massimo Gatto gained a degree in Economics and Business from the Sapienza University of Rome. He works as a chartered accountant, auditor and official receiver. Currently, in addition to serving as Chairman of the Board of Statutory Auditors of Snam, he is a standing auditor of Eurofinance 2000 S.r.l. and Associazione Nazionale per l'Enciclopedia della Banca e della Borsa, and an alternate auditor of Banca Popolare dell'Etruria e del Lazio Società Cooperativa S.p.A., UniCredit Factoring S.p.A., Emmeti Auto S.r.l. (in liquidation) and Mediaset S.p.A.

#### **Roberto Mazzei**

Born in Lamezia Terme in 1962, Roberto Mazzei is a chartered accountant and auditor. He is an Associate Professor of Corporate Finance at the Faculty of Economics of the University of Sassari and has taught in the Finance and Real Estate Department at the SDA Bocconi School of Management. In addition to serving as a statutory auditor at Snam, he is currently Chairman of Principia SGR, a venture capital company. He also serves as director and statutory auditor at companies belonging to various public and private industrial groups.

#### **Francesco Schiavone Panni**

Born in Rome in 1954, Francesco Schiavone Panni is a chartered accountant and auditor. In addition to serving as a statutory auditor at Snam, he currently sits on corporate bodies within companies belonging to the following groups: Banca d'Italia, B.N.L. S.p.A. - BNP PARIBAS, EDF EN Italia S.p.A. (EDF S.A. Paris), Condotte S.p.A., I.M. Intermetro S.p.A., TIFast European Titanium Company S.p.A. and FRI-EL GREEN POWER S.p.A.

### **Independent Auditors**

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As required by law, auditing activities are assigned to an independent auditing firm included in the relevant register and appointed by the Shareholders' Meeting based on a reasoned proposal from the Board of Statutory Auditors.

On 27 April 2010, the Shareholders' Meeting appointed Reconta Ernst & Young S.p.A. to audit the Company for the 2010-2018 period.

# Shareholders' Meeting and shareholders' rights

Shareholders' Meetings are privileged corporate meetings between the Company's management and its shareholders.

In order to get shareholders actively involved in the Company, Snam introduced various measures aimed at encouraging shareholders' participation in decisions to be made at Shareholders' Meetings by making it easier for them to exercise their rights. In particular, in 2010 Snam made revisions to its Bylaws resulting from the adoption in Italy, via Legislative Decree No. 27 of 27 January 2010, of Directive 2007/36/EC concerning the exercise of certain rights of shareholders of listed companies (the *Shareholders' Rights Directive*).

By introducing measures which the legislation leaves to companies' choice, Snam aimed to provide its shareholders with additional tools to encourage them to take part in Shareholders' Meetings and exercise their voting rights (e.g. appointment of the listed company's representative).

The Board of Directors resolved to propose to the Extraordinary Shareholders' Meeting of 25, 26 and 27 March 2013 that the Bylaws be amended to stipulate that the Company's Shareholders' Meetings be held, by default, in the form of a single session.

The right to attend Shareholders' Meetings is governed by law, the Bylaws and the provisions contained in the notice of meeting. Authorisation to attend Shareholders' Meetings is granted pursuant to the relevant provisions of law. Those with voting rights may be represented by written proxy within the legal limits; notice of this proxy may be given by certified email. The related documents shall be kept by the Company.

To facilitate shareholder participation, the Bylaws indicate that the Company must provide space to shareholder associations which satisfy the pertinent regulatory requirements, according to the terms and conditions agreed from time to time with their legal representatives, for communicating and gathering proxies from employee shareholders of the Company and its subsidiaries.

Shareholders may ask questions about agenda items both prior to and during the Meeting. Questions arriving before the Shareholders' Meeting will be answered during the Meeting, at the latest. The information is provided in compliance with the rules for price-sensitive information.

The Ordinary Shareholders' Meeting carries out the functions provided for by Article 2364 of the Italian Civil Code, and the Extraordinary Shareholders' Meeting carries out the functions referred to in Article 2365 of the Italian Civil Code, as well as the functions provided for by other legal provisions.

Pursuant to Article 12 of the Bylaws, the Ordinary Shareholders' Meeting authorises resolutions concerning sale, transfer, leasing, usufruct and any other act of disposal, including those that apply to joint ventures, or of subjection to business restrictions or strategically relevant business units involving gas transportation or dispatching activities, without prejudice to the directors' responsibility for the acts carried out, pursuant to Article 2364, No. 5 of the Italian Civil Code. Resolutions in such matters are adopted, including at second sessions, by a favourable vote of shareholders representing at least three quarters of the capital present at the Shareholders' Meeting. On other matters under its competence, the Ordinary Shareholders' Meeting resolves with the majorities stipulated by law.

The Extraordinary Shareholders' Meeting resolves, during first, second and third sessions, with a favourable vote by at least three quarters of the share capital present at the Shareholders' Meeting. As provided for by the Code of Corporate Governance, the Shareholders' Meeting is governed by meeting regulations which require that Company Shareholders' Meetings be held in an orderly and functional manner and guarantee the right of each attending shareholder to state his opinion on the items under discussion.

The regulations, which were approved by resolution of the Ordinary Shareholders' Meeting of 27 July 2001 and subsequently amended by the Ordinary Shareholders' Meeting on 27 April 2004 and 13 April 2011, are available on the Company website under the "*Governance*" section.

In 2012 the Shareholders' Meeting was held twice: on 26 April 2012, in an ordinary and an extraordinary session, and on 30 July 2012, in an extraordinary session. On 26 April 2012, the Ordinary Shareholders' Meeting voted on the following items: (i) the approval of the 2011 financial statements; (ii) the allocation of the profit for the year and the distribution of dividends; (iii) the remuneration policy pursuant to Article 123-ter of Legislative Decree No. 58 of 24 February 1998. In the extraordinary session of 26 April 2012, the Shareholders' Meeting resolved to amend Articles 13 and 20 of the Bylaws in order to comply with the regulatory provisions on equal gender representation in company boards. The Extraordinary Shareholders' Meeting of 30 July 2012 resolved to: (i) eliminate the nominal value of the ordinary shares that make up the share capital, which was previously €1.00 each, so that the shares have no nominal value; (ii) cancel 189,549,700 treasury shares with no nominal value, without changing the amount of the share capital; (iii) consequently amend Article 5.1 of the Bylaws.



# Internal control and risk management system

## Principles of the internal control and risk management system

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Snam has adopted an internal control and risk management system which follows the recommendations of the Code of Corporate Governance Code for Listed Companies and is in line with current best practice. The purpose of the control and risk management system is to help the Company to carry out its business in compliance with the corporate objectives defined by the Board of Directors by promoting informed decision making, which in turn helps to ensure the safeguarding of corporate assets, the efficiency and effectiveness of corporate processes, the reliability of financial information, and compliance with laws, regulations, the Bylaws and internal procedures.

The Board of Directors is responsible for the internal control and risk management system and, with the assistance of the Control and Risk Committee, guides and assesses the adequacy of the system and appoints one or more directors to take charge of the implementation and maintenance of an effective internal control and risk management system.

To that end, the Board of Directors has appointed the CEO as the director in charge of implementing and maintaining an effective internal control and risk management system that performs the functions provided for by the Code of Corporate Governance.

Management is primarily responsible for applying the control and risk management system, since control activities are an integral part of managerial processes. Management must therefore foster an environment that promotes controls and must specifically manage "line controls", consisting of all the controls that individual operating units or companies perform on their own procedures.

The *Internal Audit* department performs an independent control role and is specifically responsible for ensuring that the internal control and risk management system is functioning properly and is adequate.

The Board of Statutory Auditors, in its capacity as the committee in charge of internal controls and auditing the financial statements, monitors the effectiveness of the internal control and risk management system. The internal control and risk management system is subject to checks and updates from time to time, in order to continually ensure its suitability for protecting the main areas of risk among the Company's activities, with respect to the characteristics of its operating sectors and its organisational structure, in keeping with any new legislative or regulatory developments.

In this context, and in order to comply with the provisions of the Code of Corporate Governance, Snam has taken steps to create an Enterprise Risk Management System made up of rules, procedures and organisational structures to identify, measure, manage and monitor the main risks that could affect whether the Company achieves its strategic objectives, which will take due consideration of existing reference models and best practices. In 2013, the Board of Directors will set out guidelines for the internal control and risk management system in order to determine the degree of risk posed by a Company management policy that is consistent with the strategic objectives identified.

## Chief Financial Officer (CFO)

Article 154-bis of the TUF stipulates that the bylaws of listed issuers whose member state of origin is Italy must set forth the professional requirements and method of appointment of a CFO, following a compulsory opinion from the oversight body.

The CFO prepares adequate administrative and accounting procedures for the preparation of the individual financial statements and, where applicable, the consolidated financial statements, as well as any other financial reports. The authorised administrative bodies and the CFO must certify the following in a special report on the individual financial statements, the condensed half-yearly financial statements and, if applicable, the consolidated financial statements:

- a) the adequacy and effective application of the administrative and accounting procedures for the preparation of the individual financial statements and, where applicable, the consolidated financial statements, and any other financial communications during the period covered by the documents;
- b) that the documents are prepared in accordance with the applicable international accounting standards recognised by the European Community pursuant to EC Regulation No. 1606/2002 of the European Parliament and Council of 19 July 2002;
- c) that the documents are consistent with the accounting ledgers and records;
- d) the documents' suitability for providing a true and fair view of the issuer's financial position, results and cash flows and those of all the companies included in the consolidation scope;
- e) for both the individual and consolidated financial statements, that the report on operations includes a reliable analysis of operating performance and results, as well as of the standing of the issuer and all companies included in the consolidation, together with a description of the main risks and uncertainties to which they are exposed;
- f) for the condensed half-yearly financial statements, that the interim report on operations includes a reliable analysis of the information referred to in paragraph 4 of Article 154-ter.

Article 16 of the Bylaws provides that the Board of Directors, on the suggestion of the CEO, following agreement with the Chairman and having a favourable opinion from the Board of Statutory Auditors, must appoint the CFO from among the individuals who satisfy the professional requirements.

The Chief Financial Officer must be chosen from among people who have performed the following activities for at least three years:

- a) managerial, control or administrative activities at a company listed on regulated markets in Italy, other states of the European Union or other countries belonging to the OECD which has a share capital of no less than €2 million, or
- b) external audit activities at the companies mentioned under letter a), or
- c) professional or university teaching activities in finance or accounting, or
- d) managerial functions at public or private entities with financial, accounting or control responsibilities.

The Board of Directors shall ensure that the Chief Financial Officer is vested with adequate powers and means to perform his duties and shall ascertain that the Company's administrative and accounting procedures are effectively applied.

At a meeting on 29 October 2007, the Board of Directors, in accordance with the professionalism requirements contained in the Bylaws, at the suggestion of the CEO, by agreement with the Chairman and upon a favourable opinion from the Board of Statutory Auditors, appointed Antonio Paccioletti, Planning, Administration, Finance and Control Manager of Snam, as CFO.

The Board of Directors has also verified the adequacy of the powers and resources at the disposal of the CFO to perform his duties, as well as compliance with the existing administrative and accounting procedures.

### **Internal Auditor**

The Board of Directors, in compliance with the recommendations of the Code of Corporate Governance, at the suggestion of the director in charge of the internal control and risk management system, by agreement with the Chairman upon a favourable opinion from the Control and Risk Committee and having consulted the Board of Statutory Auditors: (i) appoints and dismisses the Internal Auditor; (ii) ensures that he/she has adequate resources to fulfil the responsibilities of the role; and (iii) determines his/her remuneration in line with Company policy.

The Internal Auditor:

- verifies, both on a continual basis and in relation to specific requirements, in compliance with international standards, the functioning and suitability of the internal control and risk management system via an audit schedule, approved by the Board of Directors, based on a structured process of analysing and prioritising the main risks;
- is not in charge of any operational departments and reports directly to the Board of Directors;
- has direct access to all information that is useful for carrying out his/her duties;
- prepares periodic reports containing appropriate information on his/her work, on how risks are managed and on compliance with the plans set up to limit them. These reports contain an evaluation of the suitability of the internal control and risk management system;
- prepares timely reports on events of particular importance;
- submits the reports to the Chairmen of the Board of Statutory Auditors, the Control and Risk Committee and the Board of Directors, and to the director in charge of the internal control and risk management system;
- verifies, in the context of the audit schedule, the reliability of the IT systems used, including the accounting systems.

Internal Audit activities are carried out based on the guidelines approved by the Board of Directors, ensuring that the necessary conditions of independence, objectivity, expertise and professional diligence are met.

The Internal Auditor reports to the CEO, who is in charge of the internal control and risk management system, and, via the Control and Risk Committee, to the Board of Directors and the Board of Statutory Auditors.

## Model 231

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Legislative Decree No. 231 of 8 June 2001 introduced rules of corporate administrative liability, on the basis of which companies may be held liable and consequently punished for offences committed or attempted in the interest or to the advantage of the Company by persons who hold the role of representative, director or manager at the entity or at one of its organisational units enjoying financial and functional independence, as well as by persons engaging in management and control of the entity, de facto or otherwise (i.e., senior management) or by persons subject to management or oversight by one of the abovementioned parties (i.e., individuals managed by another party).

The Company is not liable if, before an offence is committed, it has adopted and effectively implemented organisational, management and control models suitable for preventing such offences and if it has set up a Supervisory Body charged with overseeing the functioning and observance of the models.

In relation to the above, Snam has adopted its own organisation, management and control model pursuant to Legislative Decree No. 231 of 2001 ("Model 231") and appointed a Supervisory Body with autonomous powers of initiative and control. The model's structure is as follows:

- Snam Code of Ethics; the Code represents, among other things, an inviolable general principle of Model 231;
- Risk analysis methodology;
- Duties of the Supervisory Body, with the appointment and assignment of functions and powers, as well as a determination of how information flows from and to it;
- Recipients and extension of Model 231, identifying the recipients of Model 231, defining the rules for extending Model 231 to subsidiaries, and the principles adopted for disclosure to staff and the market, including the adoption of contractual clauses in dealings with third parties, as well as training intended for staff;
- Structure of the disciplinary system, with the determination of penalties commensurate with the violation and applicable in the event that Model 231 is violated;
- Control mechanisms, with the identification of general standards of transparency and supply management procedures;
- Rules for updating Model 231, planning a schedule for incorporating changes in the event of new legislative developments, significant changes in the organisational structure or sectors of activity of the Company, significant violations of Model 231 and/or outcomes of audits on its effectiveness or experience within the public domain in the sector.

Model 231 was approved by resolution of the Board of Directors, after hearing the opinion of the Board of Statutory Auditors.

The task of implementing and updating Model 231 is entrusted to the Chief Executive Officer, by virtue of the powers granted to him/her. The task of updating the compulsory general principles of the Model is reserved for the Board of Directors, however.

The corporate provisions instrumental to the implementation of Model 231 are issued by the competent corporate functions. These provisions contain control mechanisms in compliance with Model 231.

The subsidiaries have implemented the legal provisions by adopting their own organisational, management and control model, commensurate with their specific operations, and appointing their own Supervisory Body charged with monitoring that the Model is implemented and applied effectively.

In February 2012, as a result of the reorganisation of the Snam Group following the implementation of

the provisions of Legislative Decree 93/2011, as well as the introduction of environmental crimes into the body of Legislative Decree No. 231/2011, a new draft of Model 231 was approved. Subsequently, following the completion of the sale by eni S.p.A. to CDP Reti S.r.l. of 30% less one share of the voting share capital of Snam, which meant that eni ceased to control Snam, as part of a wider redefinition of the Company's information flows, the Board of Directors of Snam made changes to Model 231.

The multifunctional "*Team 231*" was created within the Company with the purpose of identifying and carrying out the activities required to update Model 231, used by the Company and its subsidiaries, by incorporating new legislative developments introduced under the scope of application of Legislative Decree No. 231 of 8 June 2001.

The composition and functions of Team 231 were recently amended with a view to guaranteeing the performance of the activities needed to examine and prepare the updating of Model 231 of Snam and its subsidiaries following the approval of Law No. 190 of 6 November 2012 "*Anti-corruption law - provisions for the prevention and repression of corruption and unlawfulness in public administration.*"

### **Supervisory Body 231**

The Supervisory Body consists of the Director of Personnel, Organisation and Security, the *Internal Auditor*, the Head of Compliance and two outside members, one of whom serves as Chairman.

The duties of the Supervisory Body include:

- a) supervising the effectiveness of Model 231 and monitoring the implementation and updating of the model;
- b) reviewing the adequacy of Model 231 in preventing unlawful behaviour;
- c) analysing the continued fulfilment of the requirements of strength and functionality of Model 231;
- d) approving the annual supervisory activity schedule within the Company's structures and functions, in line with the internal control system's inspection and control schedule;
- e) examining the results of the activities performed and the respective reporting;
- f) taking care of relevant information flows to Company departments and the subsidiaries' supervisory bodies.

The Supervisory Body also acts as the Code of Ethics Supervisor.

While performing its tasks, the Supervisory Body has unlimited access to corporate information for investigation, analysis and control activities. Any Company department, employee and/or member of corporate bodies is subject to a disclosure obligation upon any request by the Supervisory Body, or upon the manifestation of significant events or circumstances, for the purposes of the Supervisory Body's remit.

The Supervisory Body reports on the implementation of Model 231 and on the emergence of any problems, and publishes the result of its activities. This covers the following information flows:

- (i) ongoing, with the CEO, who reports to the Board of Directors when reporting on the performance of his duties;
- (ii) half-yearly, with the Control and Risk Committee and the Board of Statutory Auditors; a half-yearly report is prepared regarding the activity performed, noting the outcome of controls and the legislative developments on the administrative liability of entities; at that time, dedicated meetings are organised with the Control and Risk Committee and the Board of Statutory Auditors; the half-yearly report is also sent to the Chairman and to the CEO;

- (iii) immediate reporting line, in case of ascertained facts of special importance and significance, to the Control and Risk Committee and the Board of Statutory Auditors, after informing the Chairman and the Chief Executive Officer.

“Dedicated information channels” are established in order to facilitate the communication and information flow.

In 2012, the Supervisory Body met 11 times, with the attendance of 94.5% of its members.

### **Internal control and risk management system for the financial reporting process**

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The financial reporting internal control system is the process aimed at providing reasonable certainty of the reliability<sup>7</sup> of disclosed financial information and of the ability of the financial statement preparation process to disclose financial information in keeping with generally accepted accounting principles.

Snam has adopted a body of rules that define the standards, methodologies, roles and responsibilities for designing, implementing and maintaining over time the system of internal controls on the financial reporting of Snam and its subsidiaries, and for evaluating its effectiveness.

The body of procedures for the financial reporting internal control system was defined in accordance with the provisions of Article 154-*bis* of the TUF and takes into account the provisions of the US *Sarbanes-Oxley Act of 2002* (SOA), which apply to the former parent, eni, in its capacity as an issuer listed on the *New York Stock Exchange* (NYSE) and which have repercussions for Snam as a significant subsidiary. As a result of the sale to CDP of part of eni’s equity investment in Snam, which took effect on 15 October 2012, Snam ceased to be included in eni’s scope of consolidation and therefore is no longer subject to the requirements of the SOA. Snam is still subject, however, to the obligations pursuant to Italian legislation on listed companies, which are set forth in the aforementioned Article 154-*bis* of the TUF.

The internal control model for financial reporting adopted by Snam is based on the COSO Report (“*Internal Control - Integrated Framework*”, published by the *Committee of Sponsoring Organizations of the Treadway Commission*).

In addition to Snam, the control model is applied to subsidiaries pursuant to international accounting standards, based on their relevance for the purposes of preparing financial reports. Snam subsidiaries adopt the defined control model as a reference to design and implement their own control system, tailoring it to their size and the complexity of the activities they undertake.

The design, implementation and maintenance of the control system take place by assessing risk, identifying controls, assessing controls and reporting.

The risk assessment process, which is conducted according to a top-down approach, is aimed at identifying the organisational entities, processes and specific activities that may pose a risk of unintentional error or of fraud that could have a significant impact on the financial statements.

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<sup>7</sup> Reliability (of information): information that is correct, complies with generally accepted accounting standards and fulfils the requirements of the applicable laws and regulations.

In particular, identifying the organisational entities which fall within the scope of the financial reporting control system relies on the contribution of the different entities to specific amounts on the consolidated financial statements (total assets, total financial debt, net revenues, earnings before tax), and considers their relevance for specific procedures and risks. Within the companies whose financial reporting is relevant to the control system, significant procedures are then identified based on an analysis of quantitative factors (procedures which help determine financial statement items in amounts in excess of a specific percentage of pre-tax profit) and qualitative factors (e.g., the complexity of the accounting treatment of the item; new developments or significant changes in business conditions).

For relevant procedures and activities, risks are identified, i.e., potential events which may compromise the achievement of the control objectives for financial reporting (e.g., financial statement declarations). The risks thus identified are assessed in terms of potential impact and likelihood of occurrence, based on quantitative and qualitative parameters and by assuming the absence of controls (so-called inherent-risk assessment). In particular, with reference to the risk of fraud,<sup>8</sup> a dedicated risk assessment is conducted at Snam based on a specific methodology relative to "Anti-fraud programmes and controls".

For companies, processes and related risks considered significant, a control system has been defined based on two fundamental principles: disseminating controls to all levels of the organisational structure, in line with the operational responsibilities assigned, and sustaining the controls over time, so that they are integrated and compatible with operating requirements.

The control system structure provides for entity-level controls, which apply across the entire entity in question (group/individual company), and process-level controls. Entity-level controls are organised in a checklist which is defined, on the basis of the model adopted in the COSO Report, according to five components (control environment, risk assessment, control activity, information systems and communication flows, monitoring activity). Of particular importance are: control activities designed to determine the timing for the preparation and disclosure of economic and financial results ("half-yearly and financial statement circular" and the respective calendars); the existence of organisational structures and of a body of regulations appropriate for the achievement of financial reporting objectives; training activities concerning accounting standards and the internal control system for financial reporting. Process-level controls are broken down into: specific controls, understood as all manual or automated activities intended to prevent, identify and correct errors or irregularities which occur in carrying out operating activities; and pervasive controls, understood as structural elements of the control system aimed at defining a general context which encourages proper execution and control of operational activities (such as the segregation of incompatible tasks and general controls on information systems).

Specific controls are identified in special procedures which define both the performance of corporate procedures and so-called key controls, the absence or non-functioning of which entails a risk of significant error or fraud on the financial statements which has no chance of being intercepted by other controls.

Both entity-level and process-level controls are subject to evaluation (monitoring) in order to verify over time the quality of their design and their operational effectiveness. To this end, ongoing evaluation has been entrusted to the management responsible for significant processes/activities, and separate evaluation has been entrusted to the *Internal Auditor*, who operates in accordance with a pre-existing plan which has been communicated to the CFO and aims to define the scope and objectives of his/her actions via agreed audit procedures.

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8 Fraud: in the context of the control system, any intentional action or omission that results in a false statement in a report.



Monitoring activities identify any deficiencies in the financial reporting control system which are subject to evaluation in terms of the likelihood of occurrence and the impact on financial reporting; based on their materiality, they are qualified as "deficiencies", "significant weaknesses" and "material deficiencies". The evaluation of the deficiencies considers them both individually and combined with financial statement items or significant information.

The results of the monitoring activities are subject to periodic reporting on the status of the control system, which is carried out using IT tools aimed at ensuring the traceability of information on the adequacy of the design and the functionality of the controls. Based on this reporting, the CFO prepares a half-yearly report on the adequacy and effective application of the financial reporting control system which is shared with the CEO and submitted to the Board of Directors, following a report to the Control and Risk Committee and Board of Statutory Auditors, upon approval of the draft financial statements and the half-yearly financial report, so that the referenced supervisory activities can be carried out, as well as his own evaluations on the financial reporting internal control system.

The CFO's activities are supported within Snam and its subsidiaries by various parties whose duties and responsibilities are defined by the aforementioned rules. In particular, control activities involve all levels of the organisational structure of Snam and the relevant subsidiaries, such as business operating managers and departmental managers, up to administrative managers and CEOs. In this organisational context, the risk owner assumes particular importance for the purposes of the internal control system as the person who, through ongoing monitoring, evaluates the design and operation of specific and pervasive controls and supplies information for reports on monitoring activities, as well as on any deficiencies found, in order to identify appropriate corrective actions in a timely manner.

### Snam Regulatory Framework

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In accordance with the evolving process aimed at continually improving the effectiveness and efficiency of its internal control and risk management system, the Company has adopted its own Regulatory Framework.

The Regulatory Framework is broken down into three hierarchical levels:

- level one: Organisational Manual, which also includes policies and *Management System Guidelines* (MSGs) as appendices, with a separate method for their determination and authorisation;
- level two: Procedures;
- level three: Operating Instructions.

Certified management systems are included in the Regulatory Framework. Lastly, circulars are required solely to govern specific issues (sometimes with temporary validity).

The methods used by subsidiaries to structure their Regulatory Framework, which incorporates the Parent Company's guidance and coordination tools, are as follows:

- Snam determines and issues: (i) cross-company tools ("level-one" tools concerning structure and operating procedures and instructions that serve a management and coordination function for subsidiaries) and (ii) the tools necessary for its "self-functioning";
- the subsidiaries incorporate the tools in item (i) and determine and issue the tools in item (ii).

## Anti-Corruption Management System Guideline

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With a resolution of 9 February 2011, the Board of Directors of Snam tasked the CEO with adopting and updating the MSGs concerning compliance, regarding, among other things, issues related to the fight against corruption. The adoption and implementation of these MSGs is compulsory for Snam and all its subsidiaries.

The "Anti-Corruption" MSGs, which were adopted by the Board of Directors on 10 February 2012, cancelled and replaced eni Circular No. 377 of 12 November 2009 "Anti-Corruption Guidelines", but left intact the organisational structure introduced by these guidelines with the creation, within the Legal and Corporate Affairs and Compliance Division, of the Snam Anti-Corruption Unit.

Furthermore, in line with Snam's Code of Ethics, the *Anti-Corruption* MSGs prohibit corruption without exception, including corruption between private parties.

The purpose of the policy, in addition to avoiding heavy sanctions, is to protect Snam's reputation by introducing a specific system of rules designed to ensure that the Company complies with the best international standards in the fight against corruption.

The adoption and implementation of the *Anti-Corruption* MSGs is compulsory for Snam and its subsidiaries, which have incorporated the guidelines by means of a resolution of the Board of Directors.

As part of its updating of Model 231, the Company has begun to review its anti-corruption regulatory and procedural system, including in relation to the provisions of Law 190/12 (Anti-Corruption Law) and of the *UK Bribery Act* (concerning investments made by Snam in the UK).

## Antitrust Code of Conduct

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On 3 August 2012, Snam adopted the "*Antitrust Code of Conduct*" MSGs (the "*Antitrust Code*"), with which all employees of Snam and its subsidiaries must comply in order to ensure that Snam and its subsidiaries comply with the principles set forth by the applicable antitrust regulations.

Snam's subsidiaries have incorporated the Antitrust Code into their Regulatory Framework.

The Antitrust Code is one of the initiatives undertaken by the Snam Group to promote the development of a corporate culture regarding competition protection and to establish procedures and systems that can minimise the risk of breaching antitrust rules, within the wider context of compliance initiatives (Model 231, fight against corruption, corporate ethics, etc.).

Specifically, given that the main risks a company may run by breaching antitrust rules include (i) monetary fines, (ii) liability for compensation for damage caused to third parties by antitrust offences, (iii) damage to the company's image, and (iv) a possible negative impact on the company's share price on regulated markets, following an analysis of international antitrust best practices, an antitrust compliance programme was drawn up, which is implemented through:

- (i) the adoption of the Antitrust Code, which, in a straightforward yet comprehensive manner, sets out detailed guidelines and rules of conduct concerning antitrust matters, paying particular attention to the sectors in which the Snam Group operates;

- (ii) dedicated communication and training initiatives for all employees which aim to ensure familiarity with the Code, as well as its effectiveness and correct implementation;
- (iii) the establishment, within Snam's Legal and Corporate Affairs and Compliance Division, of an Antitrust Supervisor, who will provide the necessary support and assistance concerning application of the Code;
- (iv) a monitoring programme aimed at verifying the effectiveness of the rules set out in the Code and the suitability of amending and updating it in order to ensure more effective implementation of its rules in the light of regulatory and business developments.

The Antitrust Code of Conduct is implemented at Snam and its subsidiaries and is aimed in particular at all: (i) members of corporate bodies, (ii) executives, (iii) employees and collaborators who represent the companies, referred to collectively as "Snam's People".

# Relations with shareholders and investors

Snam has adopted a communication policy that aims to engage in constant dialogue with shareholders, institutional investors, socially responsible investors, analysts and all financial market operators, and to ensure the systematic disclosure of timely and comprehensive information on its activities, limited only by the confidentiality requirements inherent to certain types of information. It is for this reason that information is provided to investors, the market and news media through press releases, periodic meetings with institutional investors, the financial community and the press, and the ample documentation continually made available and updated on the Company's website.

Information regarding reports, significant events/transactions and procedures issued by Snam on corporate governance is disclosed to the public in a timely manner and posted on the Company's website. Also available on the website are the Company's press releases, the documentation used in meetings with financial analysts, notices to shareholders, and information and documentation on agenda items for Shareholders' Meetings, including the minutes of these meetings.

Relations with shareholders and financial market operators are handled by the Investor Relations unit. Information of interest to them is available on the Company's website and may be requested by *email at the following address: investor.relations@snam.it*.

Relations with the news media are handled by the Institutional Relations and Communications Department. Information of interest to them is available on the Company's website.

The *Investor Relations* section of the Company website includes the "*Financial Markets Reviews*", which provide a monthly analysis of the financial markets and the stock market performance of the utilities sector, Snam's stock and that of its competitors, and "*News&Facts*", a quarterly publication aimed in particular at individual investors. Since 2010, the *Investor Relations* section of the Company website has included an interactive version of the "Guide for shareholders", which is updated semi-annually and provides a summary of useful information so that all shareholders can actively follow their investment in Snam.

# Transactions with related parties

On 30 November 2010 the Board of Directors approved the Procedure *“Transactions in which directors or statutory auditors have an interest, and related-party transactions”*.

At its meeting on 13 February 2012, the Board of Directors performed the first annual audit, in advance of the three-year deadline required by Consob, on the effectiveness of the Procedure, as stipulated therein, and approved several updates to account for specific operating requirements that arose in the first year of application and the revised organisational structure of Snam and its subsidiaries.

Snam’s Control and Risk Committee, which is made up entirely of independent directors pursuant to Borsa Italiana’s Code of Corporate Governance and the relevant Regulations, expressed a unanimous provisional favourable opinion on the Procedure and related revisions.

The Procedure, which closely follows the provisions of the Consob Regulations, takes into account the peculiarities of the regulatory framework in which Snam and its subsidiaries operate and the relevant assessments concerning the adoption of certain powers provided for by the Regulations and the identification of the so-called thresholds of significance for individual transactions. Specifically, the Procedure was issued in compliance with the Unbundling Regulations, while considering the specifics of the activities engaged in by Snam and its subsidiaries, which are subject to supervision by the Electricity and Gas Authority, and particularly the rules on functional unbundling.

The parties identified as “Related Parties” include not only those indicated in the Regulations, but also the members of the Combined Independent Management Committee, bearing in mind that Consob has asked interested issuers for an assessment of the advisability of considering *“parties other than related parties to which to apply the provisions in question, in whole or in part, particularly in light of ownership structures, any relevant contractual or statutory restrictions for purposes of Article 2359, paragraph 1, 3) or Article 2497-septies of the Italian Civil Code, and sector rules which may apply to them with regard to related parties”*.

A detailed examination process is planned - for transactions with both Related Parties and Parties of Interest - which would (i) identify the timing and (ii) guarantee that information flows are formalised and tracked between the corporate unit responsible for initially determining whether the Procedure should be applied (the Procurer), the superior unit (the Manager of the competent Snam structure), the body responsible for expressing an opinion on the transaction (the Control and Risk Committee/Remuneration Committee) and, lastly, the party which approves the transaction (the Board of Directors/CEO/another party’s directors).

For the purposes of issuing specific opinions pursuant to approval procedures for “Small Transactions” and “Large Transactions”, the following is provided for:

- the appointment of the Control and Risk Committee as the entity in charge of issuing:
  - for “Small Transactions”, a non-binding reasoned opinion that must address the Company’s interest in carrying out the transaction, as well as the expedience and substantial accuracy of its conditions. In the event of a negative opinion, the Company is required to inform the market, at the end of the quarter in question, of the reasons which led it to carry out the transactions despite this opinion;
  - for “Large Transactions”, which are the exclusive preserve of the Board of Directors, a favourable reasoned opinion on the Company’s interest in carrying out the transaction, as well as the expedience and substantial accuracy of its conditions. The Control and Risk Committee, or one or more of its members (as designated by the Committee), shall also be involved in the negotiation and examination stages, receiving comprehensive and timely information, with the power to request information and submit comments to the authorised bodies and persons tasked with carrying out the negotiations and examination.

In both cases, the Committee may be assisted, at the Company's expense, by one or more independent experts of its choice;

- if the Control and Risk Committee is not made up entirely of unrelated directors, the Committee is to be supplemented by a number of unrelated and independent directors in order of seniority until it is made up entirely of unrelated directors. If it is not possible to supplement it in this way, the Control and Risk Committee shall inform the Board of Directors, which will assign the task to an independent expert;
- for transactions involving the compensation of Snam's directors, statutory auditors and executives with strategic responsibilities (those making up the Snam Management Committee), the opinion is to be expressed by the Remuneration Committee, made up of non-executive directors, the majority of whom must be independent.

For the purposes of deciding whether a transaction qualifies as a Large or Small Transaction, Consob uses a threshold of 5% of at least one of several parameters (market capitalisation or shareholders' equity, total assets, total liabilities) as identified in the Regulations. The threshold is lowered to 2.5% for transactions entered into with a listed parent or with parties related to it which are in turn related to the Company.

For utmost market transparency, the Procedure adopts a more stringent criterion by setting, for all related-party transactions, a single threshold of €140 million for identifying Large Transactions.

In order to further foster market transparency, Snam ensures the utmost substantial and procedural correctness by voluntarily applying the provisions of the Consob Regulations to all transactions carried out by its subsidiaries with related parties of Snam. This ensures adequate and timely information flows between the directors of the subsidiaries and Snam.

The Procedure is posted in the Governance section of the Company's website.



Changes to the corporate  
governance structure after  
the end of the financial year

There were no significant changes occurring after the year-end.

Attached are the tables indicated in the document "*Guide to compiling the Report on corporate governance*" issued in March 2004 by Assonime and Emittenti Titoli S.p.A.

## ANNEX 1 - STRUCTURE OF SNAM BOARD OF DIRECTORS AND COMMITTEES

Members	Board of Directors <sup>1</sup>					Control and Risk Committee		Remuneration Committee		Appointments Committee		Executive Committee	
	Executive	Non-executive	Independent	Percentage (%) Board meeting attendance****	Number of other offices**	**	**** (%)	**	**** (%)	**	**** (%)	**	**
<b>Chairman</b> Lorenzo Bini Smaghi <sup>(2)</sup>		X		100									
<b>Chairman</b> Salvatore Sardo <sup>(3)</sup>		X		100									
<b>CEO</b> Carlo Malacarne	X			100									Non-existent
<b>Directors:</b>													
Alessandro Bernini <sup>(4)</sup>		X		0				X	33.3				
Davide Croff		X	X	75.0	2			X	100	X	100		
Roberto Lonzar*		X	X	87.5	6	X	100			X	100		
Massimo Mantovani <sup>(4)</sup>		X		16.7									
Roberta Melfa <sup>(5)</sup>		X		66.7									
Andrea Novelli <sup>(6)</sup>		X		100				X	100				
Elisabetta Oliveri*		X	X	87.5	3			X	100				
Renato Santini		X	X	100	2	X	100			X	100		
Mario Stella Richter*		X	X	87.5		X	77.8						
<b>Number of meetings held in 2012</b>				<b>8</b>			<b>9</b>		<b>4</b>		<b>6</b>		
<b>Average duration (minutes)</b>				<b>144</b>			<b>126</b>		<b>62</b>		<b>45</b>		
<b>Average percentage (%) attendance</b>				<b>77.3</b>			<b>92.6</b>		<b>83.3</b>		<b>100</b>		

(\*) indicates that the director was appointed by a list submitted by minority shareholders.

(\*\*) indicates the number of director or statutory auditor offices held by the individual in question in other companies listed on regulated markets, including foreign markets, as well as financial, banking and insurance companies or companies with shareholders' equity in excess of €1 billion. Relative to directors currently in office, the information on offices indicated was gathered by the Board of Directors on 12 February 2013.

(\*\*\*) "X" indicates each director's membership of the Committees.

(\*\*\*\*) Indicates the percentage attendance by the directors at meetings of the Board of Directors and of its internal Committees.

Quorum required to submit lists for appointment to the Board of Directors: 1% (the percentage set by Consob)

(1) appointed by the Shareholders' Meeting of 27 April 2010 with term ending on the date of the Shareholders' Meeting called to approve the 2012 financial statements.

(2) appointed director and Chairman by the Board of Directors on 15 October 2012. Percentage attendance at Board meetings is calculated based on the meetings held during the director's term of office.

(3) resigned from the offices of director and Chairman with effect from the meeting of the Board of Directors on 15 October 2012. Percentage attendance at Board meetings is calculated based on the meetings held during the director's term of office.

(4) resigned from the office of director with effect from the meeting of the Board of Directors on 15 October 2012. Percentage attendance at Board meetings is calculated based on the meetings held during the director's term of office.

(5) appointed director by the Board of Directors on 15 October 2012. Percentage attendance at Board meetings is calculated based on the meetings held during the director's term of office.

(6) appointed director and member of the Remuneration Committee by the Board of Directors on 15 October 2012. Percentage attendance at Board and Committee meetings is calculated based on the meetings held during the term of office.

## STRUCTURE OF THE COMBINED INDEPENDENT MANAGEMENT COMMITTEE

MEMBERS	PERCENTAGE (%) ATTENDANCE AT MEETINGS OF THE COMBINED INDEPENDENT MANAGEMENT COMMITTEE
Carlo Malacarne - CEO Snam S.p.A.	100
Marco Galletti - CEO GNL Italia S.p.A.	100
Paolo Mosa - CEO Italgas S.p.A.	100
Francesco Iovane - CEO Snam Rete Gas S.p.A.	100
Paolo Bacchetta - CEO Stogit S.p.A.	100
<b>Number of meetings held in 2012</b>	<b>3</b>
<b>Average duration (minutes)</b>	<b>50</b>
<b>Average percentage (%) attendance</b>	<b>100</b>

## ANNEX 2 - SNAM BOARD OF STATUTORY AUDITORS <sup>(1)</sup>

MEMBERS	PERCENTAGE (%) ATTENDANCE OF BOARD OF DIRECTORS' MEETINGS	PERCENTAGE (%) ATTENDANCE OF BOARD OF STATUTORY AUDITORS' MEETINGS	NUMBER OF OTHER OFFICES (**)
<b>Chairman</b>			
Massimo Gatto*	100	100	1
<b>Standing Auditors</b>			
Roberto Mazzei	87.5	85.7	10 <sup>(2)</sup>
Francesco Schiavone Panni	100	100	19 <sup>(2)</sup>
<b>Number of meetings held in 2012</b>	<b>8</b>	<b>14</b>	
<b>Average duration (minutes)</b>	<b>144</b>	<b>171</b>	
<b>Average percentage (%) attendance</b>	<b>95.8</b>	<b>95.2</b>	

\* indicates that the statutory auditor was appointed from lists submitted by minority shareholders.

\*\* This column indicates the number of offices as director or statutory auditor which are held by the individual in question at other companies.

(1) appointed by the Shareholders' Meeting of 27 April 2010 with term ending on the date of the Shareholders' Meeting called to approve the 2012 financial statements.

(2) including the office of standing auditor at another listed company.

Quorum required to submit lists for appointment to the Board of Statutory Auditors: 1% of the share capital (the percentage set by Consob)



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