



Toward shared value

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READING GUIDE

Snam is in a privileged position in Italy and in Europe to develop and enhance its path toward sustainability following the shared value approach.



The topic of shared value, a lens through which the Company has wished to review its approach to sustainability, was formalised in late 2010 by Michael Porter and Mark Kramer, influential experts on corporate management and local competitiveness, and it explores the link between the economic system and society in a very relevant manner. The assumption at the basis of the new conceptualisation is that companies must take action to reconcile business and society: create economic value in such a manner as to generate value at the same time not only for the Company, but also for society, simultaneously meeting the Company's own needs and needs of a social nature. It is a new point of view that involves making the most of company know-how and reconfiguring relations throughout the chain of value.

In an attempt to follow the shared value approach in corporate operations, Snam has created a summary interpretative model, which has allowed the group to review its core and support processes from the standpoint of shared value, via a process of analysis carried out in the early months of 2012.

This document is intended therefore to show how the Company, in continuing with what it implemented in the recent past in terms of sustainability issues and from the standpoint of continual improvement, can generate shared value today in its relations with stakeholders and what the prospects for consolidation are in that regard with respect to certain processes selected as those with the most potential.

Therefore, this document is an additional module to the 2011 Sustainability Report, to which the reader is referred for specific reporting, in accordance with the Global Reporting Initiative's international standard (version 3.1), on the sustainable development actions and performance implemented by the Company during the last period.



SNAM:
A NETWORK
OF VALUES

Snam is the largest operator in Europe managing integrated infrastructure in the regulated gas sector. It is present in natural gas transportation, regasification, storage and distribution, and it boasts the main gas infrastructure within Italy.



Snam has the capability to execute major local and cross-border works suitable for ensuring that the country has secure gas supplies and full-capacity storage facility operation thanks to its unique knowledge of managing an integrated national gas system. A clear and transparent regulatory framework which is amongst the most advanced in Europe also allows the Company to pursue a challenging strategy aimed at the creation of value, while at the same time maintaining a low risk profile.

**Change
in the reference
scenario**

In transposing the principles of the European Union's Third Energy Package¹, Snam carried out an important reorganisation project. This process led, among other things, to the transfer of the natural gas transportation, dispatching and metering business to a new company which, due to the brand notoriety of the main national operator in the sector, took the name of Snam Rete Gas; its structure meets the requirements of independence provided for by the ITO (Independent Transmission Operator) model which the Italian government chose in adopting the European Directive.

1. On 14 August 2009, the Official Journal of the European Union published the "Third Energy Package," a series of measures containing provisions intended to modify the regulatory structure of the European internal energy market for purposes of strengthening integration and improving functioning.



In this context, the corporate company, known simply as Snam, wholly owns four operating companies (Snam Rete Gas, GNL Italia, Stogit, and Italgas), focused on managing and developing their respective businesses: transportation and dispatching, regasification, storage and distribution. Snam performs strategic guidance, direction, coordination and control functions, and it renders services in accordance with unbundling rules. The Company and its subsidiaries continue to engage in combined management of natural gas transportation, distribution, storage and regasification activities in compliance with the current regulatory framework, preserving the efficiency achieved after the acquisition of Italgas and Stogit, which took place in 2009. The rules of governance have also been amended, ensuring continued alignment with international best practices, the principles of the Code of Corporate Governance of Borsa Italiana, and Consob recommendations.



With this structure, Snam has chosen to continue to grow and create value, not just in Italy but, going forward, in Europe as well. The integrated infrastructure system that characterises it makes Snam a unique player, and this generates the best conditions for seizing the opportunities offered by the harmonisation of rules and markets with the transposition of the EU's Third Energy Package. Snam thus plays a key role. The changing scenario requires a new effort from the Company: the creation of a new, strong and distinctive corporate identity. Therefore, Snam has completed its path toward identifying and strengthening a value system in line with the new corporate structure. From industrial network to values network: skills, efficiency, soundness, reliability, innovation and sustainability. It is on these structural features that the identity of the new Snam is founded.

TOWARD THE EUROPEAN GAS MARKET: A SINGLE INTEGRATED NETWORK

The growing demand for gas and the progressive reduction in European production suggest the need for new infrastructure for imports from the areas with the biggest reserves. Greater interconnections between networks in different countries will be necessary in order to make supplies in Europe more secure, from the standpoint of diversifying sources, and to increase integration and market fluidity.

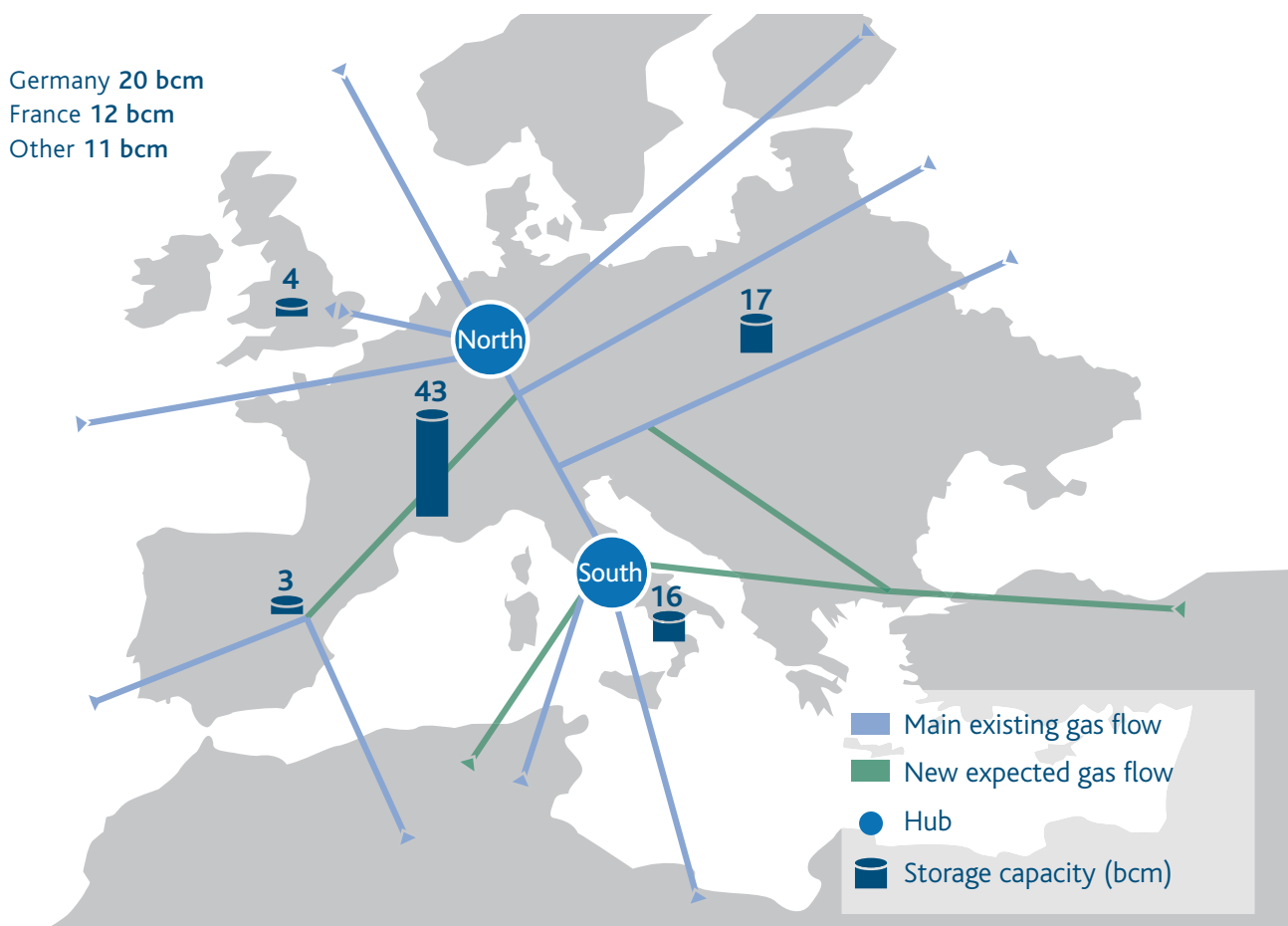
The creation of an integrated gas network is geared toward achieving medium-term objectives, providing for the interconnection of infrastructure, integrated management of storage and re-gasification capacity with a view to operational balancing and emergency management, the harmonisation of rules of access for use and integrated infrastructure management and coordinated investment planning (especially for cross-border investments).

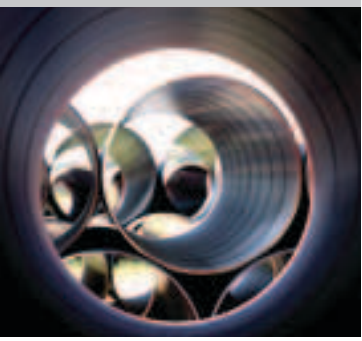
The opportunities in a dynamic market

Among European regulated utilities, Snam is in an ideal condition for offering itself as aggregator of the planned European network. This is due to the fact that it is bigger than other European players in terms of infrastructure and execution and management capacity, including through partnerships with international operators, and its integrated portfolio of assets in all the regulated segments in the sector (transportation, storage, and regasification), including leadership in the distribution segment.

Starting from here, Snam thus has before it the challenge and the opportunity of offering itself as the benchmark operator for developing the regulated gas market in Europe, with the

EUROPEAN GAS MARKET: A SINGLE INTEGRATED NETWORK





prospect of enabling the country to benefit from the advantages deriving from a larger size, access to new supply directives and integration with other European networks.

This opportunity comes from considering two factors:

- Snam's absolute leadership position in the Italian market, which is a strategic gas hub in the context of the European market;
- the development of the European regulated gas market toward the convergence of regulatory risk profiles, uniform network access rules, and a growing focus on security of supply and diversification of sources.

In the proposed "Regulation on guidelines for trans-European energy infrastructure", the EU estimates that investment volumes for the 2011-2020 period will increase by 30% in the gas sector compared with current levels. This challenge and urgency in terms of investments clearly distinguishes energy infrastructure from the infrastructure of other sectors, since energy networks are a necessary condition for the achievement of the 2020 energy and climate goals and of more long-term climate goals.

Europe and the energy strategy: the 20-20-20 objectives

In December 2008, the EU adopted an integrated strategy on energy and climate change, which sets ambitious objectives for 2020. The purpose is to put Europe on the right track toward a sustainable future by developing an economy with low CO₂ emissions based on energy efficiency. The strategy provides for the following measures:

- reducing greenhouse gases by 20% (or by 30%, subject to international agreement);

- reducing energy consumption by 20% by increasing energy efficiency;
- meeting 20% of our energy needs by using renewable energy.

"Speeding up the restructuring of existing energy infrastructure and developing new infrastructure – writes the European Union in the draft Regulation on guidelines for trans-European energy infrastructure – is of vital importance for achieving political objectives in terms of energy and climate, which consist of completing the internal energy market, ensuring the security of supply, especially for gas and oil, reducing greenhouse gas emissions by 20%, increasing the share of renewable energy in end consumption to 20%, and improving energy efficiency by 20% by 2020. At the same time, the Union must prepare its infrastructure for further decarbonisation of its energy system more over the long term, between now and 2050."





FROM CORPORATE CITIZENSHIP TO NETWORK CITIZENSHIP

The global and local dimension of Snam

The new market framework opens up obvious opportunities. Snam's move toward positioning itself among the top players in regulated gas activities involves modulating an innovative approach to corporate citizenship. It involves defining a network citizenship model as the key to juggling the difficult challenge of competitiveness and system reliability with local presence. It involves reconciling the two-fold level in which Snam operates: the "macro" role as European market leader and the demand for executing and managing infrastructure established locally. It is two-dimensional, combining an overall scenario on an international scale and a local one, with the respective impacts on local development, people, the environment and cohesiveness. Network citizenship is the challenge adopted by Snam as a possible new approach that will help the Company to interpret its activities, from the siting phase (issuance of licences, acceptance, compensatory measures, and overall project quality), up to the management and control phase for assets already established.

The objective is clear: **give networks a local presence**. It is an ambitious goal, achievable through dialogue and cooperation with local authorities, by means of a structured search for the convergence of objectives with a shared approach to development strategies and policies.



SUSTAINABILITY 2.0 AT SNAM

New identity and visibility: sustainability as an opportunity

Snam has begun a process of reflection geared toward combining consolidation of the path undertaken (control of risk factors) with a new strategic impetus that allows for positioning Snam among the key players in the country's development. Even before taking on an operational dimension, corporate sustainability can be a logical and conceptual identity framework within which the change under way is possible. This is where Snam wishes to start from in further strengthening its positioning on the market. This is where the process of reflection on Snam's new sustainability approach starts, from the standpoint of the continual improvement that characterises the Company's DNA: the creation of shared value (see box). The shared value approach explores the link between the economic system and the Company. A company's development also depends on the quality of the local areas in which it operates (availability of raw materials and human capital, market conditions, domestic demand, etc.).



The players operating within the territory may in turn create conditions for a context favourable to business development. A healthy social and local context also depends on the presence of companies that are capable of providing jobs, paying adequate wages and salaries, purchasing quality goods and services, paying taxes, protecting the environment, using resources efficiently, etc.

**Snam and
Sustainability
2.0: the change
in relations with
stakeholders
toward the
creation of value**

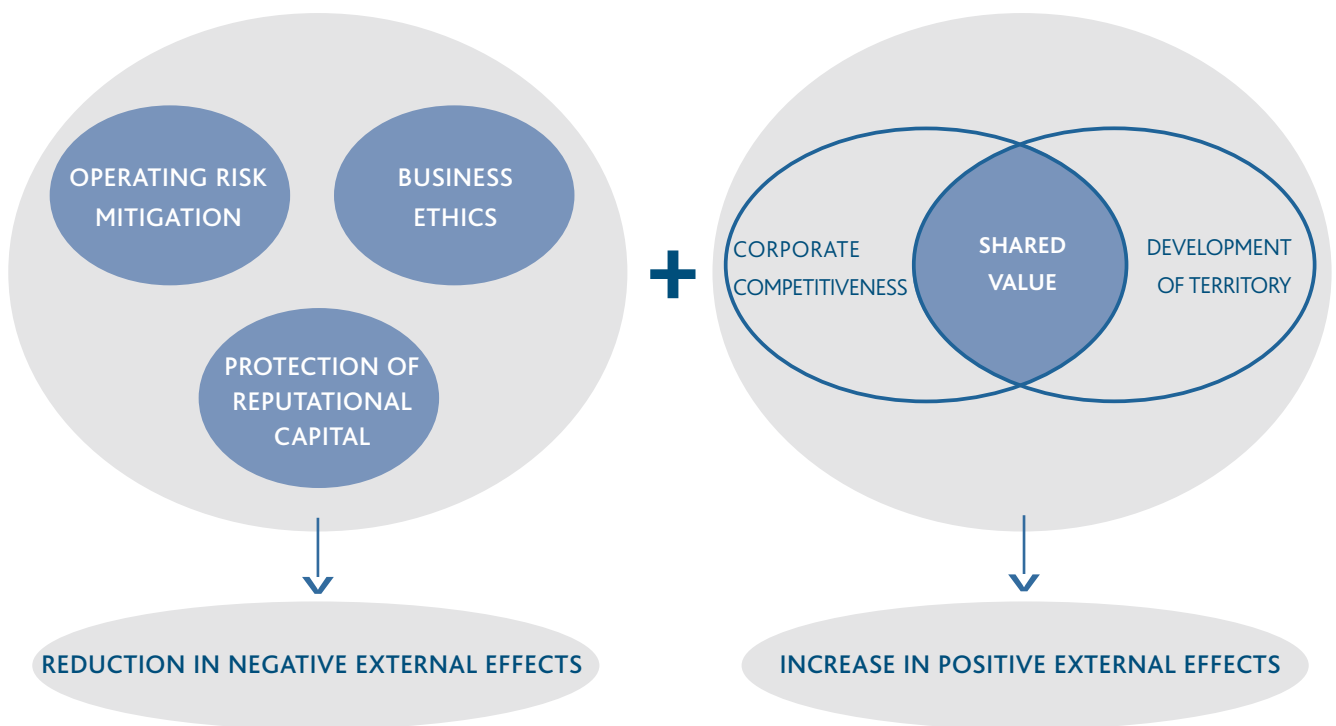
Why does Snam, one of Italy's top companies, intend to start on a path toward the creation of shared value? The Company has always considered sustainability vis-à-vis all stakeholders to be an integral part of its business model. It is a lodestar in defining strategic and operational choices and a lever for ensuring sustainable growth over the long term, at the same time guaranteeing that the value generated will be shared with all of its stakeholders. Snam plays a key role in energy supply and continues to make a contribution to the country's economic and social development, operating as a natural monopoly in an area of public interest.



Snam’s operational assets and personnel are distributed throughout a large part of the nation’s territory. The tangible and intangible assets of Snam, put the Company in a privileged position to develop and increase Sustainability 2.0, integrating the “risk mitigation” approach, which is necessary to reduce and control risks, with the concept of shared value, which is fundamental to affording a competitive advantage to the Company and to the local areas in which it operates.

This approach will support the change that the Company will experience in the coming years with a new process of reflection on Snam’s contribution to sustainable development, the country’s competitiveness and the ongoing development of the communities and local areas in which it is present and operates.

SUSTAINABILITY 2.0



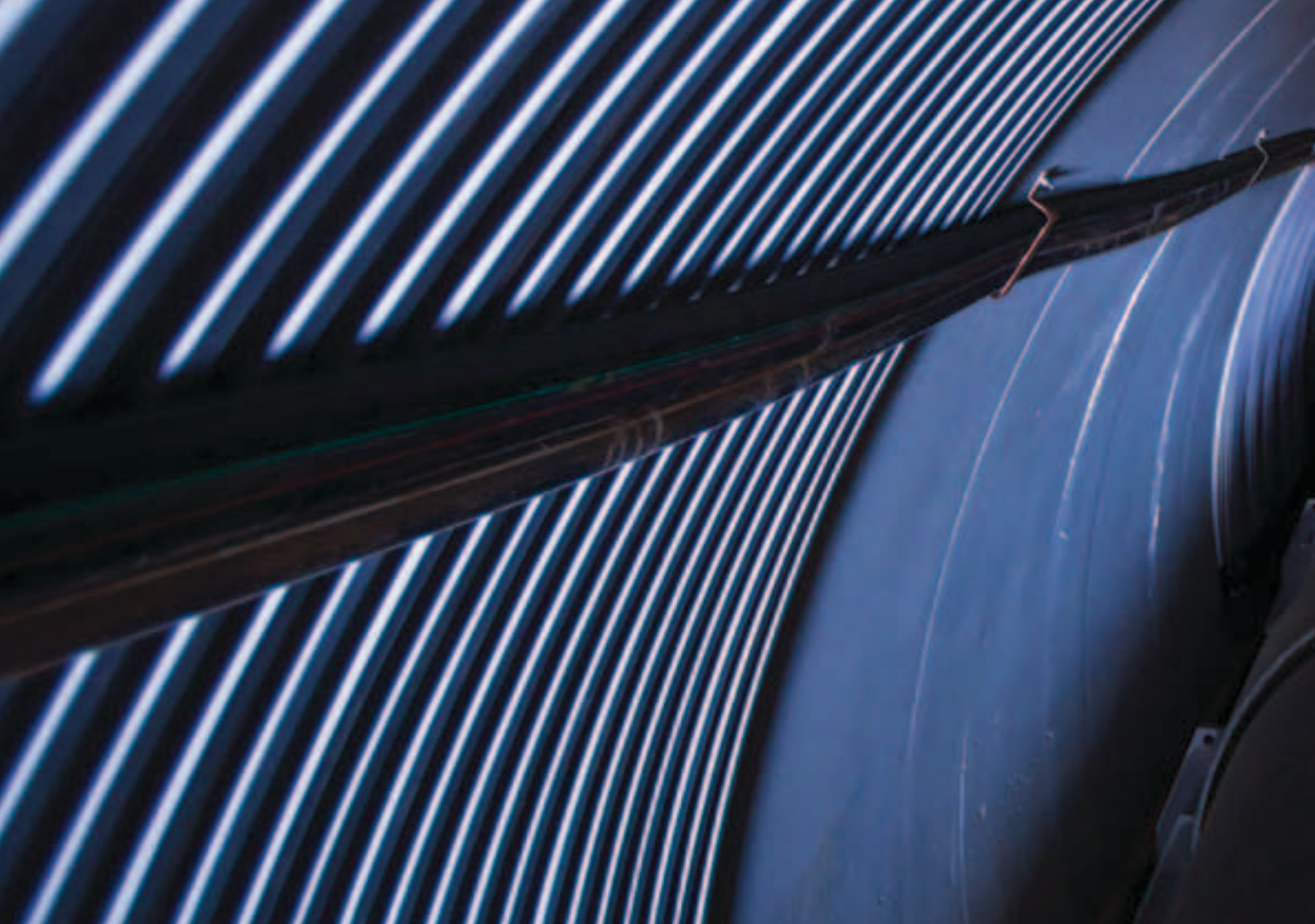
Sustainability for a competitive advantage

Snam is capable of creating development opportunities for itself and for the stakeholders with which it interacts, allowing it to increase the competitiveness and speed of innovation processes. Sustainability is a model of responsible corporate conduct vis-à-vis stakeholders aimed at maintaining the “licence to operate” and at protecting reputational capital. Sustainability is a development model based on corporate leadership in interacting with the social context in question, aimed at creating opportunities to create and share value. Sustainability is a key factor for acquiring a competitive edge through the expression of leadership, including culturally, on key topics and a strong drive toward innovation.

Three key questions

Starting in the pages of the 2010 edition of the Sustainability Report, the Company began a first draft of reasoning on the subject of shared value, asking itself three key questions for purposes of understanding to what degree sustainability strategies are rooted in the Company. Firstly: do sustainability policies inform all activities throughout the Company's chain of value, beginning with the most critical ones, considering the specific nature of the business? Secondly: is attention to sustainability seen only in a defensive mode – in the sense of "protecting value", for limiting operational and reputational risks – or does it become a source of "creation of value", as a driver of innovation? Lastly, the third question: does the Company contribute, by self-governance and by participating in defining the rules implemented by lawmakers and public authorities, to designing a system of governance capable of ensuring fairness and efficiency in general? Being players in true sustainable growth implies being able to answer these three questions in the affirmative.





"Creating Shared Value", by Michael E. Porter and Mark R. Kramer

The shared value approach, conceived by Michael Porter, professor at Harvard Business School, where he directs the Institute for Strategy and Competitiveness, in collaboration with Mark Kramer, senior fellow of the CSR Initiative at Harvard's John F. Kennedy School of Government in Cambridge, Massachusetts, explores the link between the economic system and society. The concept, published for the first time by the Harvard Business Review in January 2011, is based on the assumption that, in light of the recent financial and economic crises, capitalism is under attack and therefore it is necessary to identify a new model capable of reinventing it.

The starting point is that no company is an isolated entity. The success of all companies is influenced by the support services and infrastructure surrounding them; productivity and innovation are strongly influenced by the logistical infrastructure of a given local area. A company's development therefore depends on (the quality and quantity of) domestic demand. Players operating in a local area can create conditions for a context favourable to business development. On the other hand, a healthy social and local context depends on the presence of companies that are capable of providing jobs, offering adequate salaries and wages, acquiring quality goods and services, paying taxes, protecting the environment, using resources efficiently, etc.




Companies, says Porter, must act to reconcile business and society, and the path to go down is that of "creating shared value", i.e. creating economic value in such a manner as to generate value at the same time not only for the Company, but also for society, simultaneously meeting the Company's needs and needs of a social nature. It is a new point of view that involves making the most of company know-how and reconfiguring relations throughout the value chain.

Companies can create shared value in three different ways, writes Mark Kramer: re-conceiving new products and markets; redefining productivity in the value chain; and building industry clusters to support society's competitiveness.

The concept of shared value in a certain sense includes the idea of social responsibility applied until now: it serves as an innovative approach to sustainability that sees social growth as a central and not an ancillary objective, write the authors. "CSR programmes focus mainly on reputation and have only a limited connection to business, which makes them difficult to justify and maintain over the long term. On the other hand, the Creation of Shared Value (CSV) is functional to profitability and to a company's competitive position. It makes use of a company's specific resources and specific expertise to create economic value through the creation of social value".

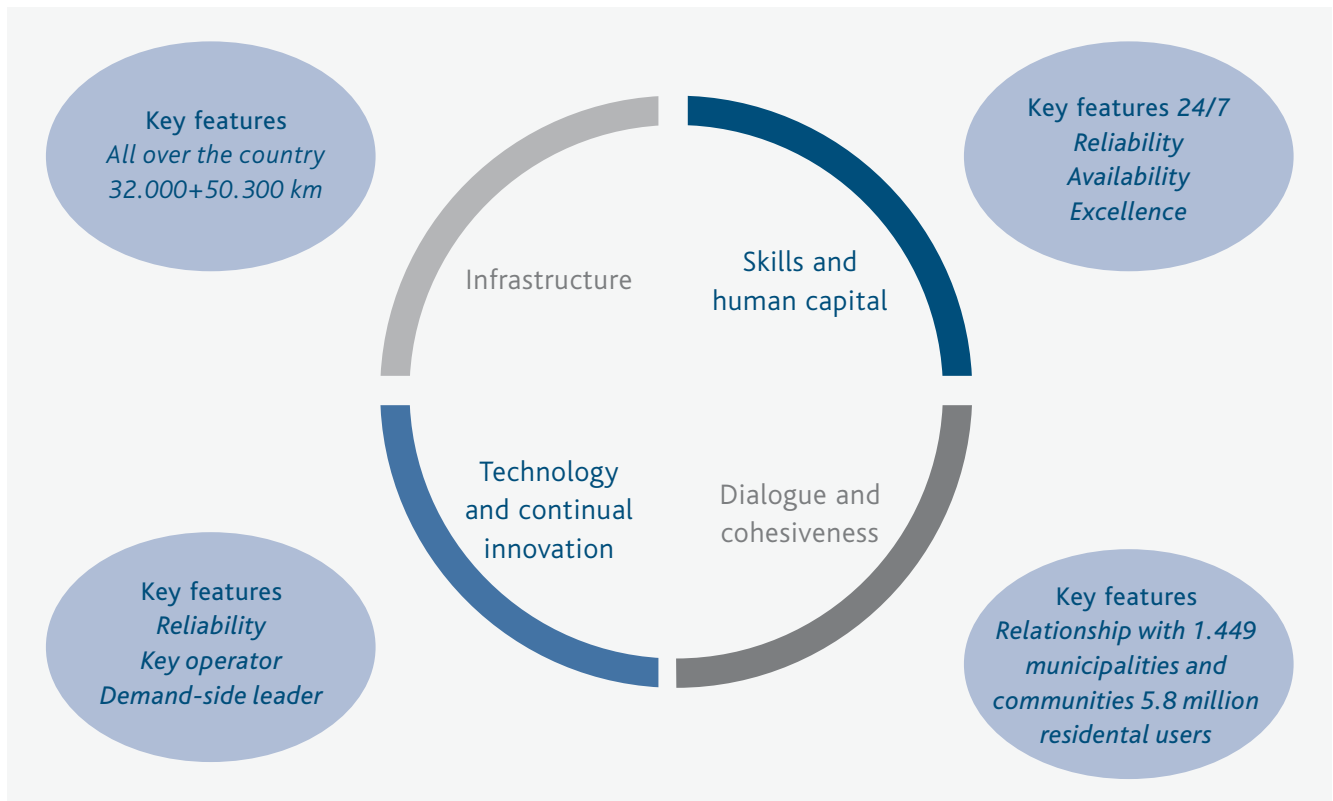




INTERPRETING
SHARED VALUE:
THE FRAMEWORK
OF REFERENCE

The subject of shared value is not intended to replace the sustainability measures in existence at the Company, but to support and enhance that aspect, from a standpoint of continuity and consistency with what is already in place. In an attempt to follow this approach in its operations, Snam has made a summary interpretative model, which has allowed the group to review its core and support processes from the standpoint of shared value.

SNAM'S ASSETS FOR VALUE CREATION



Snam's assets Every company is characterised by corporate assets, which represent levers for the creation of value. These are distinctive elements of each company, which represent the stock of internal capital, on the one hand, and, on the other, define the manoeuvring room for creating value, competing on the market and generating wealth. Snam has identified four fundamental assets which can broadly represent its core business.

Using these levers, Snam intends to interpret the subject of shared value.

Infrastructure Snam works to achieve countrywide growth with **infrastructure** that is silent and invisible, wide-reaching and secure, and carries what is, in itself, already an asset for the country: energy with a reduced environmental impact. In addition, the investments made in recent years aimed at making Italy the hub of the Mediterranean place the Company amongst the most important players in the European economy.

Technology and continuous innovation Due to the peculiarity of its business, Snam ranks as a multiplier of **innovation** on the domestic scene. A pioneer of many technological solutions, the Company indirectly furthers an offering of specific and cutting-edge services, preparing operating standards as an early adopter which are then made available nationwide.

Over the years, Snam has promoted a demand for new technology, striking up partnerships with high-ranking suppliers, in a path toward mutual growth.

Skills and human capital Snam also provides its own services using specialised **human capital** capable of skilfully managing complex facilities and projects. This distinctive savoir faire is an example for the country as a whole.

This human capital is among the Company's intangible assets and contributes to its success on a daily basis.

Dialogue and cohesion

Lastly, Snam holds significant relational capital, as it physically enters Italian homes via an indispensable service. **Local relations** and distribution throughout the peninsula, by means of local offices and broad-based skills, ensure a relationship of strong interrelation with the community. With some players, the group has dialogues and constant contact.

Snam is one of the few operators that provide uniform and universal service throughout Italy. For this reason, Snam can take on a key role in generating positive external effects for the community, from promoting lawfulness to creating widespread well-being, under the banner of transparency and inclusion.

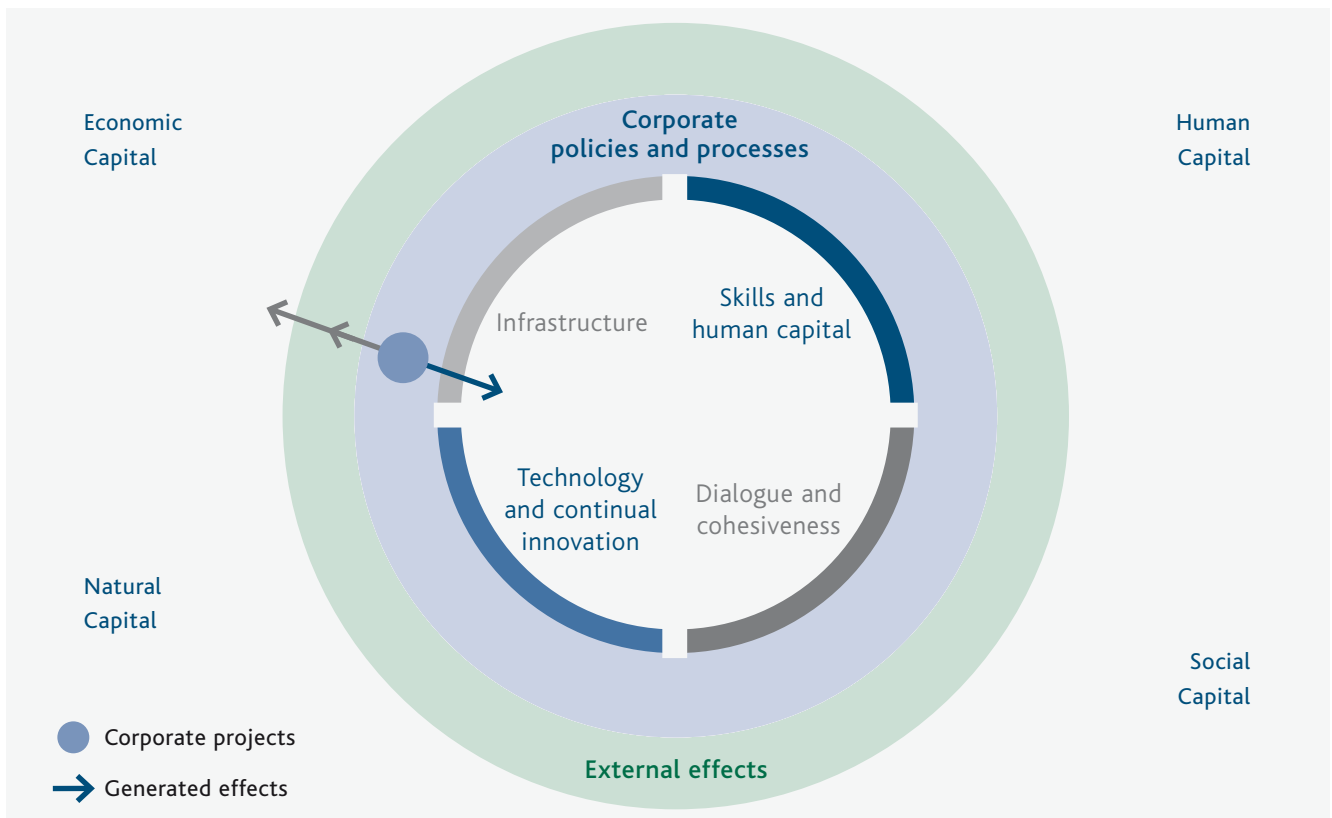
Processes that generate value

The corporate assets are managed and guided by common policies which give rise to the processes that characterise the Company's day-to-day operations, as well as the peculiar features of individual company functions. On the basis of the assets identified, the prevailing policies and processes are developed (summarised in the corporate Organisational Manual). In short, Snam develops projects, based on processes, aimed at maximising the potential for generating shared value.

Local impacts

External effects become impacts if they have a significant effect on local assets. To supplement its methodological approach, Snam has chosen to interpret local areas using the Four Capital Model, which identifies a capital inventory in the said local area, identified as four assets, conceptually mirroring the four assets described above in relation to the Company. The Four Capital Model, developed in connection with a broad-based European Union project in collaboration with other partners², is used to support the measuring and planning of local public policies because it offers a summary measurement of the economic and social well-being of a given area. The underlying idea of the model is that four forms of capital go into making up the

SHARE VALUE MODEL



2. The **Four Capital Model** was proposed and experimented with in the context of evaluating the sustainability of interventions financed by the European Union's Structural Funds, in broad-based research commissioned from a network of European universities and research institutes by the Directorate-General for Regional Policy (DG REGIO) of the European Commission (DG REGIO EC, The contribution of the structural funds to sustainable development, Brussels, 2002).



size of the “overall” capital, with respect to which a system’s sustainability can be measured. The application of this model allows for “measuring” the quality of development processes and encourages an integrated approach in the formulation of strategies and programmes by decision-makers, helping to grasp the relevance of certain fundamental variables for balanced and lasting development. The local aspect of development is in fact a fundamental prerequisite for the well-being of communities: the economic, natural and social wealth of the reality in which we live depends on the sustainability of local growth processes.

“The Four Capital Model”

The “Four Capital Model” lends itself to discussion with representatives of local interests, to public presentations, to the identification of objectives and responsibilities, and to ex ante evaluation. The four areas of measurement taken into consideration by the methodology, with particular reference to a local area’s ability to be self-sustaining and grow in a balanced manner, can be summarised as follows:

- economic capital: this is made up of what is traditionally considered as capital, i.e. all the resources available to produce goods and services, as well as wealth created and economic well-being. The indicators used to measure economic capital are: disposable income, real estate wealth, infrastructure, savings, credit, companies, production activities in different sectors, etc.
- natural capital: besides traditional natural resources, such as water, land, air, energy and natural areas, natural capital includes pressure factors that can reduce the supply of such resources. The indicators used to measure natural capital are: air quality (e.g. CH₄, NO_x, COV, CO, PM10), CO₂ emissions, waste production and management (e.g. urban waste, separated collection), land use, green areas, energy and gas consumption, anthropic pressure, etc.

- human capital: this refers to the potential productivity of an individual and his/her state of health and well-being; it therefore includes health, education, experience and work skills. All of these elements contribute to development because they determine workforce productivity. Indicators used include: demographic trends, population structure, immigration, academic institutions, professional training, entrepreneurship and culture.
- social capital: this refers to the concept of cohesiveness, cooperation and social well-being. Social capital is defined as a structure of relatively long-lasting relationships between people that are capable of encouraging cooperation and therefore of producing material and symbolic assets, like other forms of capital. This relationship structure is made up of formal and informal trust networks that stimulate reciprocity and cooperation. The indicators used are: personal assistance services, political participation, connections within the community, access to basic services, support for families, income disparities, and certain trust and social cohesiveness indicators.

A local area is deemed sustainable if the system’s overall capital endowment is not subject to decline.



THE CREATION
OF SHARED
VALUE TODAY

In order to create shared value, Snam is committed to furthering sustainable development throughout its transportation, dispatching, regasification, storage and distribution processes.

Creating shared value is a fundamental part of Snam's method of operation and it focuses on specific company business areas in which the potential for the creation of joint value for both the Company and stakeholders is greater.



**In the territory,
for the territory**

Territory is a fundamental element for the Company to be able to prosper. Territory is to be understood both in the sense of the natural resources to which the Company has access with its infrastructure assets to ensure supply and in the sense of the anthropic resources that populate it. Precisely for these basic reasons, Snam is in a privileged position to explore the concept of shared value (see box). The group holds a central position in the value chain, rising up as a strategic resource for the country. Its relationship of osmosis with the Italian territory, its broad geographical presence and its homogenous offerings throughout the country enable Snam to rank among the main drivers of Italian development.

Moreover the Company holds a broad array of tangible and intangible assets: it owns technological infrastructure, is a major buyer of products and services, encourages demand for some specialised technologies, and contains powerful know-how on technologies, safety and security, and complex project management.

The mission

Shared value is implicitly innate in the corporate mission, which identifies the Snam group's objective as "the creation of value capable of meeting shareholder expectations, achieved by providing services to its customers under conditions of the utmost safety and reliability and ensuring the development of infrastructure and the flexibility of the gas system in Italy, in support of the development of competition and security in the supply system. The Snam group pursues a model of sustainable growth over time, centred on careful evaluation of environmental impacts and on the development of new and more efficient technologies. In order to successfully achieve its objectives, the entire group wagers on the wealth of skills of its people and their continual honing".

Identifying shared value: the analysis conducted at the Company

In the early months of 2012, Snam launched a process of structured analysis of its basic business characteristics consistent with the shared value approach, to reach a definition of a summary model that would allow the Company to systematically review its core and support processes according to that approach. Shared value is the lens through which some projects and processes already under way at the Company were identified, viewed and classified. The process of identifying, evaluating and exploiting shared value activities falls within the process of continual improvement undertaken by Snam.

The purpose of the analysis process was to:

- understand whether (and how) shared value is a useful conceptual framework and operating tool for Sustainability 2.0 at Snam;
- develop a strategy and an operating approach for shared value;
- improve Snam's sustainability reporting.

Sixteen in-depth interviews were conducted with corporate contact people in different functions aimed at sharing the project approach and at exploring the subject, identifying current and potential projects, both at the corporate level (Snam S.p.A.) and at the subsidiaries, Snam Rete Gas, Stogit, Italgas and GNL Italia.

It was thus possible to map about 60 processes and projects with potential shared value. The congruence of each project with the main corporate processes was evalu-

ated, identifying the leader process, the contributory processes and the beneficiary processes.

The subject of shared value is on a path of **natural continuity** with the measures implemented in the last two years in terms of sustainability, starting from the **mapping of stakeholders** and from the projects deriving from it and consequently carried out. For a description of these (e.g. the workshop with suppliers on sustainability issues, the Social Impact Assessment applied to investment projects, the local stakeholder satisfaction process concerning the execution of the Malborghetto – Bordano methane pipeline, and the strategy of engagement with non-profit organisations), the reader is referred to the 2011 Sustainability Report.

In short, it was possible to identify the following at the Company:

- significant congruence between shared value and corporate DNA ;
- a strong interest in the subject of shared value and its possible application. The cultural fabric with regard to Sustainability 2.0 issues appears very ingrained at the Company and widespread at different levels;
- unexpressed potential on the subject of shared value; therefore, the review already under way of some processes through this lens should have very low marginal costs.



SHARED VALUE IN KEY PROCESSES

In order to create shared value, Snam is committed to furthering sustainable development throughout its transportation, dispatching, regasification, storage and distribution processes. Creating shared value is a fundamental part of Snam's method of operation and it focuses on specific company business areas in which the potential for the creation of joint value for both the Company and stakeholders is greater.

The projects already developed in connection with shared value can be systematised and grounded in the corporate operating model, with the objective of seizing opportunities and making the production of shared value more fluid.

Specifically, through recognition of key projects under way at the Company, it has been possible to map some processes capable of guiding the generation of shared value and identifying additional contributory and beneficiary processes.

The following pages describe current and possible generation of shared value in company areas with the greatest potential, i.e. relations with suppliers, the making of new investments, site and infrastructure management, and the management and provision of services.

The external effects generated by such processes, if properly managed, coordinated and systematised, may be maximised and transformed into the creation of shared value, to reinforce the effects among key stakeholders and give them continuity.





SHARED VALUE PROJECTS

The following pages therefore outline key projects already in existence at the Company capable of generating shared value, along with an attempt to begin describing future projects. These include some initiatives now in an embryonic phase, others that are to undergo feasibility studies and then possible selection, and still others already incipient in the activities currently carried out by the Company and which will therefore be systematised and evaluated, with a view to maximising their potential capacity for generating shared value.



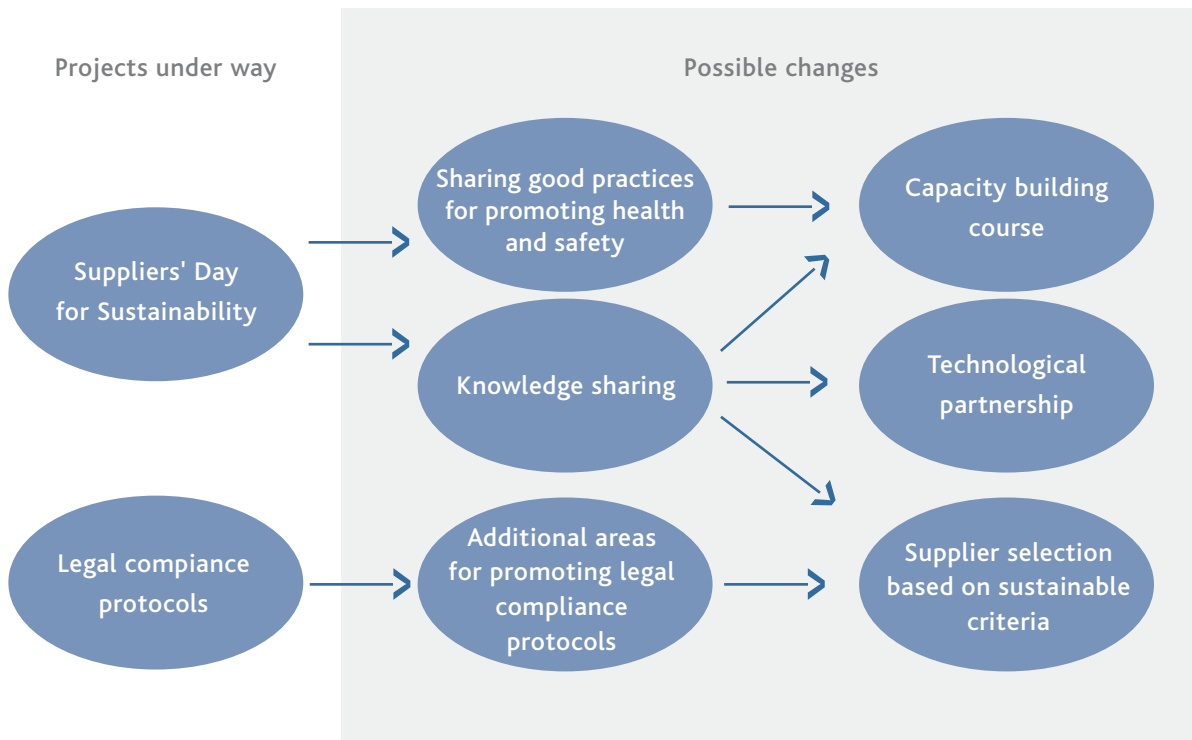
RELATIONS WITH SUPPLIERS

The supplier management process is intended to satisfy the procurement needs expressed by Snam's corporate units, ensuring the quality of the suppliers involved and compliance with service level agreements, with the objective of maximising value in terms of products and services rendered to customers and minimising overall procurement costs. This process is therefore capable of generating value for Snam's suppliers and partners, guaranteeing the Company greater reliability, adaptability and competitiveness, at the same time generating healthy entrepreneurial development countrywide. Thus, suppliers become more like business partners.

In 2011, a two-day workshop dedicated to suppliers was held, titled **Suppliers' Day for Sustainability**, which dealt specifically with the subject of sustainability. This initiative awakened great interest and met suppliers' needs in that regard, satisfying a relevant request

sure to get the attention of the partners involved. The meeting with suppliers was an opportunity to express the Company's commitment to sustainable development, to describe its importance for achieving business objectives and, above all, to share the values that support the Company's operations. Security, transparency, attention to the community, respect for local areas and strengthening the licence to operate are indispensable values around which to seal a responsible and loyal relationship with suppliers, with the awareness that the success of Snam depends partly upon their contribution. The Suppliers' Day for Sustainability was an initial gathering to build on increasingly aware collaboration between the Company and its suppliers. On that occasion, among other topics, the issue of corruption risk associated with suppliers' activities was discussed in depth.

RELATIONS WITH SUPPLIERS - A SUMMARY CHART



Snam, in collaboration with the Prefecture of Caltanissetta, has in fact signed a **legal compliance protocol** for the territory of Gela. This experiment, carried out with the involvement of public and private partners, requires ethical conduct in relations between different parties, which is more restrictive than the legal requirements, ensuring sound oversight of the issue of lawfulness, to prevent the risk of corruption and promote the fight

against organised crime, in support of fair, ethical and meritocratic local entrepreneurial development.

In addition, as another area where the Company is already developing shared value now, we must note its continual commitment to the creation of a **broad culture for the promotion of worker safety and health**, a culture that inevitably indirectly affects suppliers most exposed to risks in that area.

Based on shared value experiences that emerged during internal reconnaissance, which can be developed along some basic guidelines, Snam has thus launched a number of projects. The first provides for **extending activities already under way**.

The Company is evaluating actions aimed at disseminating the adoption of legal compliance protocols countrywide, in collaboration with institutions, in order to disseminate a new culture in more at-risk areas to affirm the universal principles of lawfulness, for the benefit of the local sector, making suppliers themselves aware of the importance of adhering to voluntary agreements in that sense. Contributing to the development of a strong regulatory framework of reference is a fundamental condition for developing entrepreneurship in support of Snam's business. This also involves making efforts in the area of workplace safety. In 2010,



Snam launched the “Objective Safety” project, an important corporate initiative spanning three years that aims to act on the culture of the workforce to improve their attitudes, behaviour and personal responsibility with respect to workplace health and safety, because it believes that excellence in performance comes from going beyond regulations in the sense of doing better. The possibility is being studied of including suppliers among the parties involved in “Objective Safety”, the ultimate objective of which is to further reduce the number of accidents through an integrated approach with the involvement of all personnel, putting a common focus on and making the most of the positive experiences acquired by all of the companies involved in the business.

Progressively, it will be possible therefore to extend the abovementioned project with time spent specifically on suppliers, including subcontractors. The activities aimed at achieving the goal of reducing accidents generate shared value to the extent that they succeed in bringing a culture of excellence outside of the Company, in this case also for purposes of reducing social costs.

Making corporate know-how available with a network approach using a **knowledge sharing** system to support suppliers on the path toward continual improvement is one of the keys that may increase the Company’s competitiveness. A systematic and structured exchange of information (web-based or using other two-way models) represents an opportunity for the real-time transfer of information to improve administrative communication and to offer training and information in a process of assistance for continual improvement, aiding subjects of corporate interest. Using this system, the emphasis could be placed on the two areas discussed above, which Snam considers to be indispensable prerequisites for the development of healthy entrepreneurship: strengthening legal compliance, from the fight against organised crime up to furthering workplace safety.

In its day-to-day operations, Snam is already offering on-going assistance to suppliers to make them partners of value. The second shared value development directive goes precisely toward creating a partnership of excellence.

During the process of identifying activities with shared value, Snam is planning supervised training for smaller, unstructured family-run suppliers (which represent



a large percentage of the group’s list of suppliers) via a **capacity building course**, aimed at growth, internationalisation, and accreditation with additional customers, including by implementing temporary consortia, in a framework of social and environmental responsibility. Over time, Snam intends in fact to strengthen a **supplier selection process based on sustainability criteria**, extending current requirements in the qualification process to all key sustainable development issues. This approach will generate a further natural selection among suppliers and a consequent impact on the sector. Strengthening supplier competitiveness means strengthening Snam’s competitiveness.

An additional initiative starts out from the assumption that today Snam is among the greatest “technology drivers” in Italy. The group is undoubtedly an early adopter of technologies, and requires specialised know-how from its partners. This has given rise to the idea of creating a working group guided by Snam that would involve the most innovative suppliers and possibly other outside players, such as research centres and universities, in developing technological skills and synergies between players. Snam boasts a large capacity to stimulate demand and allows indirectly for the growth of high-value local entrepreneurship, because it needs unique, high-tech solutions. It thus becomes more relevant to start up a **technological partnership with suppliers**, which is naturally compatible with regulatory provisions for the sector, in cooperation with the best institutions in this field, starting with specialised centres.

If we interpret the lines of action set out according to the Four Capital Model, it is clear that a large part of the activities identified are capable of increasing local eco-

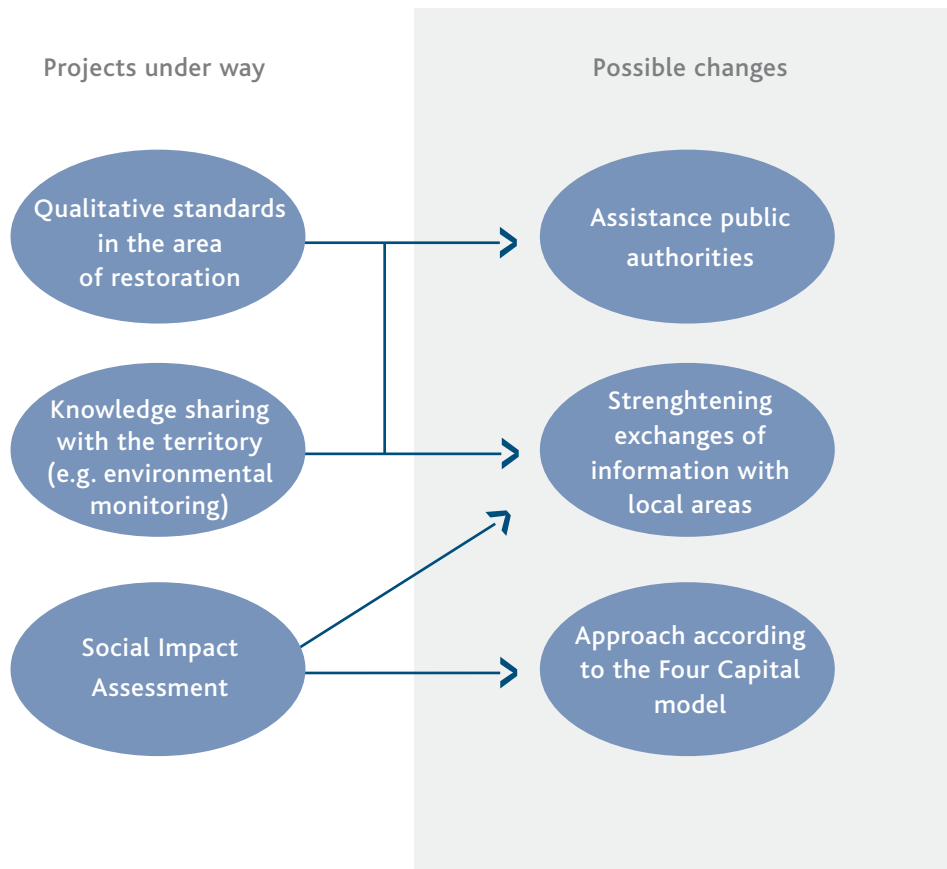
nomonic capital primarily, with inevitable positive impacts on human capital and social capital, while respecting and making the most of natural capital.

MAKING NEW INVESTMENTS

The process of making new investments is geared toward managing group infrastructure execution activities, providing for coordination and control in managing investment projects and ensuring that project management methods and techniques are applied and that time, cost and quality targets are met. This process

is capable of generating shared value for each phase (feasibility study, design, obtaining authorisations and licences, and execution) by locally sharing, at a reduced marginal cost, the outputs generated during the infrastructure implementation process, from the planning stage up to completion of the work.

MAKING NEW INVESTMENTS – SUMMARY CHART



Snam has implemented a model for evaluating social, economic and environmental impacts countrywide and locally, simultaneously with developing action plans in support of primary development projects. This methodology, known as **Social Impact Assessment**, is aimed at

evaluating investment projects and provides an analysis of local stakeholders' ex ante socioeconomic situation that is capable of estimating social and economic effects on the local area caused by the execution of new assets. In this regard, we note the possibility of imple-

menting the **Four Capital approach** in dealings with local authorities and key stakeholders, as a local planning tool with high added value for decision-makers. It is precisely on exchanging knowledge continually that generating shared value between the Company and local areas is based today.

In the interventions carried out, Snam already provides in-depth information aimed at dealing with authorisation procedures. Such in-depth information (measurements, descriptions, environmental monitoring and studies), prepared at times through implementing partnerships with other entities, is made available to the relevant authorities (often as a result of requirements from the authorities, sometimes on a voluntary basis) and constitutes a significant source of knowledge sharing.

Basically, Snam **shares knowledge with local areas** that is acquired in those same local areas, providing government decision-makers with important information that aids their decision-making processes. Knowledge useful to Snam's operations is drawn from the local areas where the Company operates, and can be given back in a structured manner. In this area, going forward, the Company intends to evaluate the sharing of the qualitative and quantitative technical know-how available (e.g. by providing satellite images or geo-referencing systems made in the siting phase) to improve knowledge of local areas. Snam is very willing to engage in dialogue with interested parties to support them in the most delicate phases of development projects and to provide as much information as possible to help with project coordination and management.

The Company has also achieved optimum **operating standards in the area of restoration**, partly thanks to



the use of technologies that allow for minimising the impact on the local area and on the environment. Specifically, the group has conceived a cutting-edge methodology over the years for morphological restoration. As proof of this, together with the Ministry of Environment, Snam has formalised some standards and facsimiles for the management of local post-completion activities. This modus operandi could be followed locally, including in other areas of responsibility. The main opportunity for creating shared value lies precisely in this point: structuring and **systematising information exchanges locally** will allow for building a solid relationship based on mutual trust. Snam may share know-how and best practices on restoration with local entities via direct assistance aimed at replicating locally certain solutions implemented with regard to infrastructure, in order to better manage the local structure. In addition, systematically sharing outputs deriving from **pre-completion and post-completion monitoring** will provide local areas with knowledge that is potentially useful at the local level. Cooperating with local areas could lead to preparing guidelines, providing training sessions or making available true advisory support.

Snam is aware that in the asset building process there is ample room for generating shared value, especially in connection with highly complex projects. **Industrial ecology** or industrial optimisation activities in the local areas where Snam is present with its subsidiaries, capable of improving the production capacity and efficiency (energy-wise and otherwise) of economic entities established on a local scale in existing supply chains, are possibilities for which feasibility studies could be done. Lastly, developing **partnerships with surface and sub-**



surface users may pave the way for the implementation of joint monitoring and coordination procedures. Snam believes it is important to strengthen relations with other subsurface users (e.g. coordination and op-

timisation of excavation activities) to strengthen communication inputs with those doing the work and to intervene preventively for infrastructure safety.

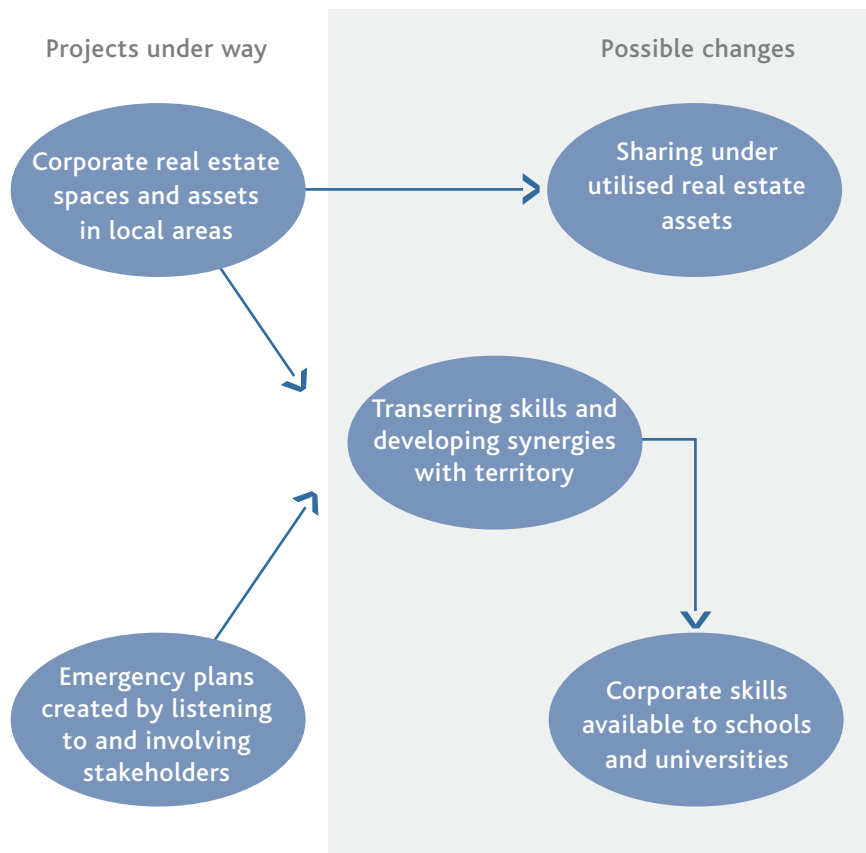
SITE AND INFRASTRUCTURE MANAGEMENT AND EXPLOITATION

The process of managing sites and, in general, all of the Company's assets involves all of the activities associated with managing the group's infrastructure in order to ensure that it is maintained and used in accordance with the quality standards defined by Snam and regulatory requirements. Real estate asset management and general services are defined as "non-core" by Snam. The asset management process includes managing compres-

sion and storage stations and treatment facilities, transportation and distribution lines, regasification plants, storage wells and metering facilities. Snam is capable of generating shared value alongside this process when the management of infrastructure and real estate assets takes place while at the same time increasing corporate citizenship locally.

In terms of safety, the best practice represented by the

SITE AND INFRASTRUCTURE MANAGEMENT – SUMMARY CHART



evacuation plan outside the Panigaglia regasification plant is noteworthy. This procedure, which is mandatory pursuant to Legislative Decree 334/1994 on major inci-

dent risks, has been drafted and shared over the years with local institutions. At the time of the flood that hit the area of Lunigiana in 2010, the plant's emergency

plan was used to manage the evacuation, supporting rescue coordination and representing a case of excellence. Snam is now evaluating areas for potential cooperation with local players in order to share skills and best practices and to develop synergies aimed at the planning and governance of some aspects specific to local areas.

An additional area in which the potential for generating present and future shared value is significant is that of **making real estate spaces and assets available to local areas**. In particular, GNL Italia is already a positive reference in the sharing of corporate spaces with the example of Ca' Bertocchi, a fully renovated period villa owned by it and made available to the local community for cultural events, conferences, etc.

An interesting opportunity is afforded by maximising the potential of unused spaces in cooperation with local authorities or non-profit associations operating in the local areas where the Company is present. Snam may make equipped areas neighbouring its plants available

to interested citizens. Such areas, which are appropriately regulated, may be intended for varied uses (e.g. the planting of small vegetable gardens turned over to the community). Furthermore, the plants are already places for **increasing biodiversity**, ecosystems where different species have become established: Snam will evaluate the possibility of entering into agreements with specialised partners to encourage the study and protection of fauna, and possibly also with academic institutions interested in educational courses on the wealth of local fauna.

These activities could be included in broader projects aimed at making the Company's innate knowledge and skills available to schools, which would also help improve the **link between the academic world and the world of work**, in order to afford young people full awareness of the Italian corporate and industrial world, of which Snam is a leading proponent. Improved knowledge and skills among candidates for a possible recruiting pool is also an implicit advantage for the Company.



Sharing corporate excellence may also be considered with university and post-graduate training centres by implementing **partnerships with training institutions**. Specifically, a dialogue could be implemented with universities on such topics as workplace safety, asset security, technological research and development, the crowning achievements of the group's savoir faire. Lastly, again in cooperation with university centres, Snam may consider sharing its skills to support the start-up

and subsequent development of innovative companies possibly compatible with its own sector. This assistance could be articulated around different topics, from developing a business model to building a partnership and from access to qualified professionals to the search for capital.

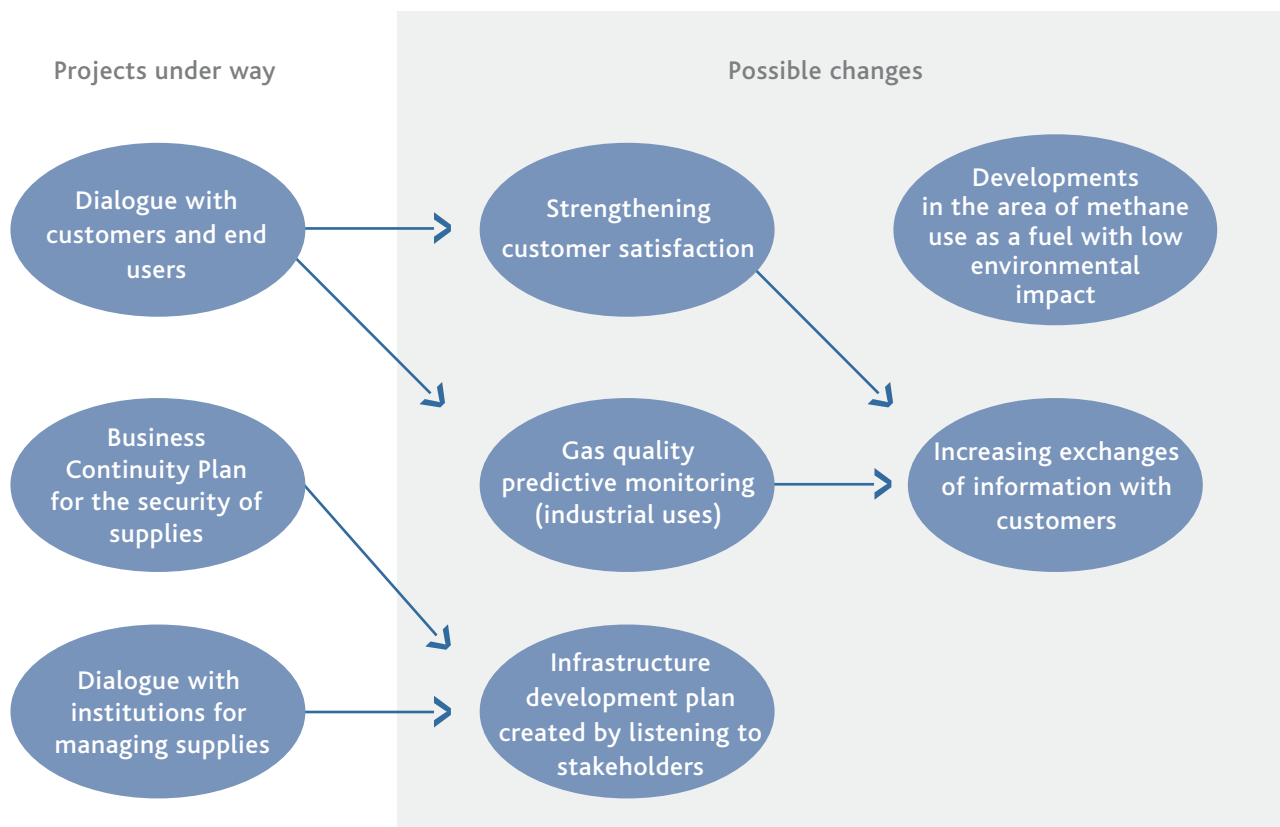
The benefits of the stock of local capital are evident and encompass all four of the areas of application of the model: economic, social, human and natural.

PROVIDING SERVICE: RELIABILITY, CONTINUITY, AND QUALITY

Providing services is the main process through which Snam intends to satisfy its service obligations in each one of the businesses in which it operates, in line with the corporate mission and strategy. "Core" activities are defined as those characteristic of Snam's business, such as natural gas transportation and dispatching, regasification of liquefied natural gas, and natural gas distribu-

tion and storage. The process of marketing core services sets itself the objective of seeing to business relations with users of the gas system, contract development and management, commercial management of user requirements, commercial planning and balancing, and billing for services provided.

PROVIDING SERVICE – SUMMARY CHART



For a company such as Snam, ensuring service quality, reliability and continuity means implicitly generating social value. The Company, through a process of safeguarding its business and its primary processes, ensures normal living conditions for the Italian people. Snam was among the first companies in the gas sector to equip itself with a **Business Continuity Plan**, a model of structured management of possible crises. With this plan, the Company invests in protecting its assets, i.e. in protecting service to the community, through synergies with other stakeholders. The Business Continuity Plan provides for mapping all possible risks and implementing a business impact analysis with respect to all corporate processes, then focusing on the operational continuity of critical processes.

The security of energy supplies is an imperative for Snam, precisely because, due to the sector's peculiarities, the concept of "business continuity" coincides with that of "**social continuity**". Snam's infrastructure, along with a large part of the investments proposed from the standpoint of a European market, is aimed at ensuring a secure energy supply for the country.

Snam has developed many tools and opportunities for dialogue and communication in support of the main stakeholders. Specifically, to aid **service quality**, the Company has prepared a pilot project for predictive measurement of gas quality and for web transmission of the respective specifics in real time to the customer, particularly for industrial targets that need gas quality to be constant; for some end customers, in fact, operational problems could occur in the event of a variation in the quality of continuous gas supply.

In addition, Snam has begun a process of bolstering cus-



customer satisfaction survey activities, which will include meetings dedicated to customers, both (upstream) prior to the preparation of the survey itself and (downstream) for giving out the final results. Customer satisfaction surveys will be a tool for further developing dialogue with customers, with a view to consolidating relationships and managing any problems in real time. If significant new changes to contractual terms should become necessary in the future, the Company could evaluate the possibility of holding prior structured meetings with customers to explain to the market the meaning of the changes, which often derive from unilateral decisions by the authorities (e.g. amendments to the Network Code), and to gather requests. Among the future projects being evaluated is the development of a relationship of mutual exchange with customers in the provision of metering data to increase commercial capacity and informational symmetry. The development of gas telemetering, a direction that will be pursued soon in Italy, could in fact generate new opportunities.

Snam's desire to create shared value, as well as engaging in systematic dialogue with customers, can be represented by relations with institutions. In light of this, some planning aspects could be reinterpreted as an opportunity for discussion and coordination with public authorities and could be designed with a participatory approach, involving some key stakeholders in a collegiate manner.

Lastly, as the final project directive, we may consider the launch of a feasibility study for the use of **liquid methane (LNG) for automotive use**, in specific contexts and in fragile ecosystems. The positive impacts would be undeniable: greater efficiency and decreased pollution, possibly starting with some pilot projects.





INTEGRATING
SHARED VALUE:
THE ROAD MAP

Snam will be capable of increasing and systematising the generation of shared value made available to local entities, an approach that is both local and global, and capable of offering local citizenship to the gas infrastructure.

In light of the interpretative framework set forth above, the strategic approach according to shared value is capable of maximising positive external effects, i.e. the positive effects generated by the Company for which the Company does not obtain direct economic compensation, creating a virtuous and one-to-one link between the quality of local areas and the Company's competitiveness. Therefore, each project within each corporate process, interpreted from this standpoint and therefore made systematic, coordinated, integrated and managed, on the one hand creates value for the Company, and on the other hand generates value for stakeholders in local areas, increasing their competitiveness, which in turn has an effect on the Company's competitiveness.

This may, in terms of some key processes, facilitate siting and revamping activities, create opportunities for greater efficiency (including for the community), be

a driver of a competitive edge, and contribute to risk management, prevention and mitigation, in addition to representing a possible new narrative approach to corporate activities.

Based on this, Snam has prepared a road map, aimed at evaluating the projects mentioned above, to bring them to completion within a time period shared internally within the Company. Starting in the second quarter of 2012, the process of selecting such projects will gradually begin, aimed at identifying which to carry out straight away and which to subject to preliminary feasibility studies (for more complex actions).

In a process over the medium term, Snam will increase and systematise, in a coordinated process, the generation of shared value, which will be made available to local entities, by means of an approach that is both local and global and capable of offering local citizenship to the domestic and European gas infrastructure.





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