

SECOND PARTY OPINION (SPO)

Sustainability Quality of the Issuer and Sustainable Finance Framework

SNAM SpA
29 November 2021

VERIFICATION PARAMETERS

Type(s) of instruments contemplated	of	<ul style="list-style-type: none"> Sustainability-Linked Bonds and Loans, EU Taxonomy Aligned Bonds and any other financing instruments
Relevant standards		<ul style="list-style-type: none"> Green Bond Principles (June 2021), Sustainability-Linked Bond Principles (June 2020) and Climate Transition Finance Handbook (December 2020) administered by the International Capital Market Association (ICMA) Green Loan Principles (February 2021) and Sustainability-Linked Loan Principles (July 2021) published by the Loan Market Association (LMA) Proposed European Green Bond Standard (July 2021) and the EU Taxonomy Climate Delegated Act (June 2021)
Scope of verification	of	<ul style="list-style-type: none"> Sustainable Finance Framework (as of 29.11.2021) Eligibility Criteria (as of 29.11.2021) Draft version of the Bond Documentation (as of 25.11.2021)
Lifecycle		<ul style="list-style-type: none"> Pre-issuance verification
Validity		<ul style="list-style-type: none"> As long as Snam's Sustainable Finance Framework remains unchanged

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Scope of work

Snam SpA (“Snam”, “the company” or “the issuer”) commissioned ISS ESG to assist with its Sustainable Finance Framework, under which the issuer is able to issue Sustainability-Linked Bonds and Loans, EU Taxonomy Aligned Bonds and any other financing instruments by assessing four core elements to determine the sustainability quality of the instruments:

1. Sustainable Finance Framework’s link to Snam’s sustainability strategy – drawing on Snam’s overall sustainability profile and issuance-specific Use of Proceeds categories.
2. Snam’s Sustainable Finance Framework (September 2021 version) – benchmarked against the International Capital Market Association’s (ICMA) Green Bond Principles (GBP), Sustainability-Linked Bond Principles (SLBP) and Climate Transition Finance Handbook (CTFH), against the Loan Market Association’s (LMA) Green Loan Principles (GLP) and Sustainability-Linked Loan Principles (SLLP), and against the proposed European Green Bond Standard (EU GBS).
3. The eligible project categories – whether the projects contribute positively to the UN SDGs and align with the Technical Screening Criteria (including the Climate Change Mitigation and Do No Significant Harm Criteria), and Minimum Social Safeguards requirements of the Final Report on EU Taxonomy and associated Technical Annex¹ (EU Taxonomy – Climate Delegated Act 2021) on a best effort basis.
4. The sustainability credibility of the KPIs selected and Sustainability Performance Targets (SPTs) calibrated for Sustainability-Linked Transactions – whether the KPIs selected are core, relevant and material to the issuer’s business model and sector and whether the associated targets are ambitious.

Snam Business Overview

Snam is one of the world's leading energy infrastructure companies and one of the largest Italian-listed companies by capitalisation. In addition to Italy, it operates through subsidiaries in Albania (AGSCo), Austria (TAG, GCA), the United Arab Emirates (ADNOC Gas Pipelines), France (Teréga), Greece (DESFA) and the United Kingdom (Interconnector UK), and has recently started operations in China and India. It is also a major shareholder in TAP (Trans Adriatic Pipeline). First in Europe for the extension of its transmission network (over 41,000 km, including international activities) and natural gas storage capacity (around 20 billion cubic metres, including international activities), Snam is also one of the main continental operators in regasification, through the Panigaglia terminal (LNG Italy) and the shares in the Livorno (OLT) and Rovigo (Adriatic LNG) plants in Italy and in Revithoussa (DESFA) in Greece.

In its 2021-2025 strategic plan, Snam expects investments to grow to €8.1 billion and a strengthened commitment to energy transition activities: biomethane (Snam4Environment), energy efficiency (Renovit), sustainable mobility (Snam4Mobility) and hydrogen. Snam is also active in forestation (Arbolia) and has set itself the goal of achieving carbon neutrality (Scope 1 and Scope 2) by 2040. The company's business model is based on sustainable growth, transparency, the enhancement of talent

¹ [Delegated Acts: Technical Annex](#)

ISS ESG reviewed the alignment of the due diligence processes of Snam for each project category to be (re-)financed under this instrument against the Delegated Act (June 2021) version of the Taxonomy Report.

The EU Commission released an official version of the EU Taxonomy - Climate Delegated Act in June 2021. The first company report and investor disclosures using the EU Taxonomy are due at the start of 2022, covering the 2021 financial year.

and diversity, and the protection and social development of local areas, including through Snam Foundation initiatives.



TRANSPORT

For eighty years, Snam Rete Gas has been designing, building and managing infrastructure for the transport of natural gas. In 2017, Snam also concluded the acquisition of 100% of the share capital of Infrastrutture Trasporto Gas (ITG).

STORAGE

Stogit, with nine active fields, is Europe's largest player in natural gas storage.

REGASIFICATION

Gnl Italia is active in the regasification of liquefied natural gas and operates a plant in Panigaglia (SP).

ENERGETIC TRANSITION

Snam wants to contribute to the decarbonisation of the gas system through its new businesses in the energy transition: sustainable mobility (distributors of compressed natural gas - CNG and bio-CNG - and liquefied natural gas - LNG and bio-LNG, Small-scale LNG), biomethane infrastructure from organic waste and agricultural and agro-industrial waste, energy efficiency services for condominiums, public administration and industry, hydrogen.

ISS ESG ASSESSMENT SUMMARY

SECTION	EVALUATION SUMMARY ²
Part I.	Consistent with issuer's sustainability strategy
Sustainable Finance Framework link to issuer's sustainability strategy	According to the ISS ESG Corporate Rating published on 11.10.2021, the issuer shows a high sustainability performance against the industry peer group on key ESG issues faced by the Gas and Electricity Network Operators sector. The issuer is rated 6 th out of 56 companies within its sector. The Use of Proceeds categories, KPIs and SPTs financed through this bond are consistent with the issuer's sustainability strategy and material ESG topics for the issuer's industry. The rationale for issuing EU Taxonomy-Aligned and Sustainability-Linked Bonds is clearly described by the issuer.
Part II.A.	Aligned with ICMA Green Bond Principles, LMA Green Loan Principles and the proposed EU GBS (on a "best-efforts" basis)
Alignment with GBP, GLP and the proposed EU GBS	The issuer has defined a formal concept for its Sustainable Finance Framework regarding use of proceeds, processes for project evaluation and selection, management of proceeds and reporting. This concept is in line with the ICMA Green Bond Principles, the LMA Green Loan Principles and with the proposed EU GBS on a "best efforts" basis ³ .
Part II.B.	Aligned with the ICMA Sustainability-Linked Bond Principles and LMA Sustainability-Linked Loan Principles
Alignment with SLBP and SLLP	<p>The Issuer has defined a formal concept for its Sustainability-Linked financial instruments regarding the selection of KPI, calibration of Sustainability Performance Target (SPT), sustainability-linked financial instrument characteristics, reporting and verification. The framework is in line with the Sustainability-Linked Bond Principles administered by the ICMA and Sustainability-Linked Loan Principles as administered by the LMA.</p> <p>The financial characteristics of any security issued under this Framework, including a description of the selected KPI(s), SPTs, step-up margin amount or the premium payment amount, as applicable, will be specified in the relevant documentation of the specific transaction. Snam explains under which circumstances the company would recalculate the SPT and commits to engage with its Second Party Opinion provider, in line with best market practices. However, some KPIs and SPTs may not be included in every Snam's issuance.</p>
Part II.C.	Implementation of the ICMA Climate Transition Finance Handbook, except for the recommendation of external validation of the scientific basis of the emissions targets
Alignment with CTFH	The Issuer has defined a formal Climate Transition Strategy relevant to the environmentally material parts of its business model. There is good disclosure on the various elements of the strategy, including well defined emissions targets, the avoidance of offsets until at least

² ISS ESG's evaluation is based on Snam's Sustainable Finance Framework (29.11.2021) and on the ISS ESG Corporate Rating applicable at the SPO delivery date (updated on the 11.10.2021).

ISS ESG bases this analysis on the issuer's own emissions reporting and makes no comment on the quality or consistency of the issuer's Scope 1, 2 or 3 emissions reporting, either in relation to GHG Protocol, or to established norms for the issuer's sector. ISS ESG notes that Scope 3 reporting may be different between companies in the same sector and does not undertake any benchmarking of an issuer's reporting.

³ "Best efforts basis" is due to the fact that the European GBS is currently a legislative proposal.

	<p>2030, and how it is linked to the financing program, with examples of planned investments. However, the scientific basis of the emissions targets currently cannot be independently verified because commonly established reference points to conduct such a benchmarking are currently not available for this sector.</p>
<p>Part III.</p> <p>Sustainability quality of the Use of Proceeds and EU Taxonomy Assessment</p>	<p>Positive</p> <p>The Sustainability-Linked Bonds and Taxonomy-Aligned Bonds will (re-)finance eligible asset categories which include carbon & emission reduction projects, retrofit of gas transmission network, advanced biomethane, and hydrogen.</p> <p>Those use of proceeds categories have a significant contribution to SDGs 7 ‘Affordable and clean energy’, and 13 ‘Climate action’.</p> <p>ISS ESG assessed the alignment of Snam’s selection criteria against the requirements of the EU Taxonomy (Climate Delegated Act version of June 2021), on a best-efforts basis⁴. Based on robust processes for selection, the nominated project categories are considered to be:</p> <ul style="list-style-type: none"> • Aligned with the Climate Change Mitigation Criteria • Aligned with the Do No Significant Harm Criteria • Aligned with the Minimum Social Safeguards requirements
<p>Part IV. A.</p> <p>KPI 1 selection and SPT 1 calibration: Reduction of methane emissions</p>	<p>KPI selection: Relevant, core and material to issuer’s business model and sustainability profile.</p> <p>SPT calibration:</p> <ul style="list-style-type: none"> • Ambitious against issuer’s past performance (with limitations)⁵ • Ambitious against issuer’s sectorial peer group • Ambitious against international targets <p>ISS ESG finds that the KPI 1 selected is core, relevant and material to Snam’s business model and consistent with its sustainability strategy. It is appropriately measurable, quantifiable, externally verifiable and benchmarkable. The KPI historical data has not been verified by an external party⁶.</p> <p>ISS ESG finds that SPT 1 calibrated by Snam is ambitious against the company’s past performance (with limitations due to the lack of verified historical data) and also when compared to peers in the Gas Network Operators sector practices in terms of defining a public methane reduction target. The SPT 1 is ambitious against the international targets such as the OGMP’s standards and the Global Methane Pledge. SPT 1 is set in a clear timeline, benchmarkable against the Methane Guiding Principles and supported by a strategy and action plan.</p>
<p>Part IV. B.</p>	<p>KPI selection: Core and relevant to the issuer’s business model and sustainability profile. If used individually on a financial instrument as a stand-alone KPI, the KPI is material to the company’s direct operations but not to the whole Corporate</p>

⁴ Whilst the Final Delegated Act for Mitigation and Adaptation were published in June 2021, the Technical Screening Criteria allow for discretion on the methodologies in determining alignment in certain cases. Therefore, at this stage ISS ESG evaluates the alignment with the EU Taxonomy on a "best efforts basis".

⁵ Due to lack of verified historical data for Snam’s performance on this specific KPI. The KPI’s historical data has not been verified by an external party on a stand-alone basis, but an external party has verified Snam’s Sustainability Report through a limited audit.

⁶ See footnote number 5.

KPI 2 selection and SPTs 2 and 3 calibration:

Reduction of GHG emissions on Scope 1 and 2

Value Chain⁷. If integrated with KPI 3 on the same financial instrument, then together, both KPI 2 and 3 are material to the issuer’s business model and sustainability profile.

SPTs calibration:

- **Ambitious against issuer’s past performance (with limitations⁸)**
- **Ambitious against issuer’s sectorial peer group**
- **Committed to be in line with the Paris Climate Agreement**

ISS ESG finds that the KPI 2 selected is core and relevant to the issuer’s business model and sustainability profile. Snam’s KPI covers 58% of the company’s total GHG footprint, because it does not include the Scope 3 GHG emissions, which represent a 42% of the company’s overall GHG emissions⁹ as of 2020. In light of this, KPI 2 is considered moderately material, as it is material to the company’s direct operations, but it does not cover the entire corporate value chain¹⁰. The KPI 2 is consistent with its sustainability strategy of carbon neutrality by 2040. It is appropriately measurable, quantifiable, externally verifiable and benchmarkable. However, it has not been externally verified. It covers all the Scope 1 and 2 GHG emissions resulting from the operations and activities of Snam.

ISS ESG finds that the SPT 2 and 3 calibrated by Snam’s are ambitious against past performance, because whilst the future annualized reductions are similar to the previous annual reductions, Snam explains that future reductions will be more difficult to achieve than previous reductions. The reasoning is limited by the fact that GHG historical data has not been verified. The SPT 2 and 3 are ambitious compared to its industry practices in terms of magnitude of targets set. Snam has committed to the SBTi, and hence the company will be in line with the Paris Agreement. The targets are set in a clear timeline, are benchmarkable and supported by a long-term strategy and action plan.

Part IV. C.

KPI 3 selection and SPT 4 calibration:
Reduction of GHG emissions on Scope 3

KPI selection: Core and relevant to the issuer’s business model and sustainability profile. If used individually on a financial instrument as a stand-alone KPI, the KPI is material to the company’s Corporate Value Chain but not to its direct operations¹¹. If integrated with KPI 2 on the same financial instrument, then together, both KPI 2 and 3 are material to the issuer’s business model and sustainability profile.

SPT calibration:

- **Limited information to assess the ambition against issuer’s past performance**
- **Ambitious against issuer’s sectorial peer group**
- **Committed to be in line with the Paris Agreement**

⁷ Material to the company’s direct operations, but not material to the entire corporate value chain (covering around 58% of Snam’s overall GHG emissions). As the SBTi requires companies to include Scope 3 in their target if Scope 1 and 2 emissions account for less than 60% of the total GHG footprint, Snam’s KPI is considered to be slightly below this threshold. As such, its KPI for Scope 1 and 2 emissions is assessed as “moderately material” on a stand-alone basis.

⁸ Due to lack of verified historical data for this specific KPI.

⁹ ISS ESG bases this analysis on the issuer’s own emissions reporting and makes no comment on the quality or consistency of the issuer’s Scope 1, 2 or 3 emissions reporting, either in relation to GHG Protocol, or to established practices for the issuer’s sector.

¹⁰ The SBTi prescribes that companies should cover Scope 3 emissions in case Scope 1 and 2 emissions account for less than 60% of the total GHG footprint. See footnote 6 for more information.

¹¹ Material to the company’s corporate value chain, but not material to its direct operations (covering around 42% of Snam’s overall GHG emissions).

ISS ESG finds that the KPI selected is core and relevant and moderately material to the issuer's business model as a standalone KPI (since it does not cover Scope 1 and 2 emissions, which represents around 58% of total GHG emissions). The KPI 3 is consistent with its sustainability strategy which includes Scope 3 emission within its long-term carbon neutrality objective. It is appropriately measurable, quantifiable, externally verifiable and benchmarkable. However, it has not been externally verified.

ISS ESG finds that the SPT 4 calibrated is ambitious compared to its peers in the Gas Network Operators sector in terms of setting a Scope 3 emissions reduction target with the largest magnitude. There is limited evidence on the ambition against past performance, due to the lack of information available on historical data (two comparable years were provided). Snam has committed to the SBTi, and hence the company will be in line with the Paris Agreement. The target is set in a clear timeline and is supported by a strategy and action plan.

PART I: SUSTAINABLE FINANCE FRAMEWORK LINK TO SNAM'S SUSTAINABILITY STRATEGY

A. ASSESSMENT OF SNAM'S ESG PERFORMANCE

The ISS ESG Corporate Rating provides material and forward-looking environmental, social and governance (ESG) data and performance assessments.

COMPANY	SECTOR	DECILE RANK	TRANSPARENCY LEVEL
Snam SpA	Gas and Electricity Network Operators	1	VERY HIGH

This means that the company currently shows a high sustainability performance against peers on key ESG issues faced by the Oil & Gas Storage & Pipelines sector and obtains a Decile Rank relative to industry group of 1, given that a decile rank of 1 indicates highest relative ESG performance out of 10.

ESG performance

As of 09.11.2021, this Rating places Snam 6th out of 56 companies rated by ISS ESG in the Oil & Gas Storage & Pipelines sector.

Key challenges faced by companies in terms of sustainability management in this sector are displayed in the chart on the right, as well as the issuer's performance against those key challenges in comparison to the average industry peers' performance.

Key Issue Performance



Sustainability Opportunities

Snam is an integrated natural gas transportation company. Natural gas is the cleanest-burning fossil fuel with much lower levels of carbon dioxide and air pollutant emissions than coal and oil. While natural gas, therefore, might be considered as a short- to medium-term bridge fuel in the energy transition process, it does not offer a long-term solution to the challenge of global warming as it is still responsible for a large share of total greenhouse gas emissions. On the other hand, Snam has been investing in biomethane production and infrastructure. While marking a very welcome entry into a business segment that can contribute to the achievement of global sustainability objectives such as fighting climate change, as of 2020, the company is estimated to still only derive minimal revenues from biomethane production and infrastructure.

Sustainability Risks

For companies active in the natural gas infrastructure business, the main sustainability issues are to adequately manage employee as well as contractor health and safety, to maintain the integrity of natural gas assets, especially pipelines, and to manage risks related to business conduct compliance.

The company has in place a group-wide management system for health and safety, which is certified according to OHSAS 18001, and the accident rates of both direct employees and contractors are comparatively low and show a decreasing trend in recent years. However, in 2020 a contractor suffered a fatal accident. With regard to pipeline integrity, the company has in place a strong management framework to periodically conduct inspections and maintenance operations. The company has also set up targets to reduce fugitive methane emissions in the transportation network. The company's code of ethics covers almost all relevant aspects of business ethics including corruption, antitrust and conflicts of interest. Snam's compliance system is well designed and places a special focus on anti-corruption guidelines and procedures. Snam also has strong community outreach programs in place, including feedback mechanisms for public consultations, to mitigate the effects of its operations on local communities. However, some human rights risks arise from the company's involvement in the Trans Adriatic Pipeline project (20% share), which has been criticised for involuntary resettlement of local villagers and inadequate compensation.

Governance opinion

The company's chair of the board, Nicola Bedin (as at April 14, 2021) is non-independent. Associated governance risks are affirmed by the fact that in total, just more than half of the members of the board of directors are independent. Furthermore, the company has set up board committees in charge of remuneration and nomination with two thirds of independent members. The company's audit committee is made up of independent experts only. Compensation schemes for the executive management and the CEO include short-term and long-term incentive components.

An ESG committee is in charge of supervising the sustainability strategy of the company and consists of a majority of independent members. Sustainability-related topics, i.e. the accident frequency rate for employees and contract workers as well as the inclusion and performance in relation to select sustainability indexes, are part of the short-term incentive parameters for the CEO. The company's code of ethics covers almost all relevant aspects of business ethics including corruption, antitrust and conflicts of interest. Snam's compliance system is well-designed with trainings, risk assessments and other procedures.

Sustainability impact of products and services portfolio

Using a proprietary methodology, ISS ESG assessed the contribution of Snam's current products and services portfolio to the Sustainable Development Goals defined by the United Nations (UN SDGs). This analysis is limited to the evaluation of final product characteristics and does not include practices along the company's production process.

ISS ESG determined that, based on the information provided by Snam, its overall business model has no net impact (contribution and/or obstruction) to the UN SDGs.

Breaches of international norms and ESG controversies

The company is not facing any severe controversy.

B. CONSISTENCY OF THE SUSTAINABILITY-LINKED BONDS AND TAXONOMY-ALIGNED BONDS WITH SNAM'S SUSTAINABILITY STRATEGY

Key sustainability objectives and priorities defined by the issuer

Snam has integrated sustainability into its business model and industrial strategy with an increasingly holistic approach. This involved defining and monitoring sustainability KPIs already in place within the company, setting goals in all ESG areas relevant to its business and stakeholders through a specific ESG Scorecard. Through its sustainability model, Snam already monitors over 140 ESG KPIs, many of which are supported by multi-year targets. With its new ESG Scorecard, Snam has decided to further strengthen this process by defining specific annual KPIs and targets in the environmental sphere (natural gas emissions, energy savings, green innovation, soil and biodiversity protection), the social sphere (welfare, employee engagement, safety, gender diversity, responsible and sustainable supply chain, local communities) and the governance sphere (governance structure and its functioning, infrastructure reliability, anti-corruption).

Snam has also aligned with the Paris objectives and substantiated its commitment to the future by defining a strategy to achieve carbon neutrality by 2040 through a structured action plan. The new Net Zero Carbon plan envisages a gradual reduction in Scope 1 and 2 emissions, in line with the commitments set out in the Paris Agreement to limit the rise in global temperature to no more than 1.5°C, and a gradual containment of Scope 3 emissions, through increasing awareness and involvement of the value chain, primarily suppliers and subsidiaries.

Snam's commitment to doing business according to a sustainable development model, to respect and protect human rights and labour and the environment, was renewed in 2009 with its membership of Global Compact. Snam's policy on human rights enshrines the UN Universal Declaration of Human Rights, the Fundamental Conventions of the ILO, and the OECD Guidelines for Multinational Enterprises.

Revenues from new businesses contributing to global sustainability objectives equate to around 7%. However, they will significantly increase in the following years (EBDITA¹² coming from green businesses is estimated to be at 150 million euros by 2024).

Rationale for issuance

The company is committed to making its network ready for the transport of fully decarbonised gas (biomethane and hydrogen) by 2050. In the 2021-2025 strategic plan, 50% of the approximately €8.1 billion in total investments will be dedicated to replacements and development of assets with hydrogen compatible standards. Snam is promoting the energy transition through four startups dedicated to biomethane, energy efficiency, sustainable mobility and hydrogen.

Snam's 2021-2025 strategic plan details investments of circa 8.1 billion euro (almost 1 billion euro more than the 7.4 billion euro of the previous plan), attributable both to the core business of regulated infrastructures (6.8 billion euro) and to the new activities of energy transition (over 1.3 billion euro, almost doubled compared to the previous plan). In this context, c.50% of the investments foreseen in the plan is for "hydrogen ready" infrastructure, i.e. to the substitution and development of assets with "hydrogen ready" standards, aiming at promoting the development of hydrogen to foster the

¹² Earnings before interest, taxes, depreciation, and amortization

decarbonisation of the energy sector, transport and manufacturing. The 1.3 billion euro to be invested in the new energy transition businesses will be used to strengthen a broad and diversified platform of activities dedicated to energy efficiency, biomethane production and infrastructure and hydrogen along the entire value chain, which Snam has created in recent years to be a “system integrator” able to offer green solutions and contribute to the development of renewable gases.

As the proceeds from the Framework will be used to finance the activities mentioned above, ISS ESG finds the issuance is in line with the overall Snam’s ESG strategy.

Contribution of Use of Proceeds categories to sustainability objectives and priorities

ISS ESG mapped the Use of Proceeds categories financed under this Sustainable Finance Framework with the sustainability objectives defined by the issuer, and with the key ESG industry challenges as defined in the ISS ESG Corporate Rating methodology for the Oil & Gas Storage & Pipelines sector. Key ESG industry challenges are key issues that are highly relevant for a respective industry to tackle when it comes to sustainability, e.g. climate change and energy efficiency in the buildings sector. From this mapping, ISS ESG derived a level of contribution to the strategy of each Use of Proceeds categories.

USE OF PROCEEDS CATEGORY	SUSTAINABILITY OBJECTIVES FOR THE ISSUER	KEY ESG INDUSTRY CHALLENGES	CONTRIBUTION
Carbon emissions reduction projects	✓	✓	Contribution to a material objective
Replacement of pipeline hydrogen	✓	✓	Contribution to a material objective
Advanced biomethane	✓	✓	Contribution to a material objective
Manufacture of hydrogen equipment	✓	✓	Contribution to a material objective
KPI 1 (Reduction of methane emissions)	✓	✓	Contribution to a material objective
KPI 2 (Reduction of Scope 1 and 2 emissions)	✓	✓	Contribution to a material objective
KPI 3 (Reduction of Scope 3 emissions)	✓	✓	Contribution to a material objective

Opinion: *ISS ESG finds that the Use of Proceeds financed through the framework are consistent with the issuer’s sustainability strategy and material ESG topics for the issuer’s industry. The rationale for issuing Sustainability-Linked Bonds and Taxonomy-Aligned Bonds is clearly described by the issuer.*

PART II: ALIGNMENT WITH RELEVANT PRINCIPLES

A. GREEN BOND PRINCIPLES, GREEN LOAN PRINCIPLES AND EU GREEN BOND STANDARD

1. Use of Proceeds

FROM SNAM'S FRAMEWORK

Snam voluntarily adheres to the requirements of the EU GBS regulation proposal. The proceeds of the Bonds issued under this Framework ("Bond") will be used to finance or refinance, in whole or in part, existing and/or future Eligible Projects (as defined below) exclusively in Italy. The proceeds of financing instruments will be used to finance or refinance Eligible Projects with disbursements occurring in the 36 months prior to the financing instrument's issuance. Eligible projects may include Capital Expenditures (capex), Operating Expenditures (opex) ensuring the continued and effective functioning of Snam's assets, as well as acquisitions of a majority or minority stake in "Pure Player" companies specialized in any of the Eligible Project Categories described in the Use of Proceeds section of this Framework. A pure player company is defined as having at least 90% of its revenue derived from activities falling in any of the below Eligible Project Categories.

For the purposes of this section, "Eligible Projects" means projects included in the following macro categories:

- Network Readiness and Pollution Prevention, Leak Detection and Control
 - Carbon & Emission Reduction,
 - Retrofit of Gas Transmission Network
- Green Gases
 - Advanced Biomethane
 - Hydrogen

Given that Snam is at an early stage for some projects, in particular those related to biomethane and hydrogen, and that for other such as retrofitting economic valuation is still ongoing, the company is setting the general criteria for the projects selection, while it will provide additional details once the specific assets have been identified on the occasion of the Annual Report.

The eligible projects that are classified within the aforementioned categories shall meet a set of environmental criteria, which are approved by Snam's Committee. The categories contribute to the EU environmental objective of climate change mitigation.

ELIGIBLE PROJECTS	DESCRIPTION
Carbon & Emission Reduction Projects	<p>Infrastructure, equipment, technology, systems and processes that, in the context of a conversion of existing natural gas networks to hydrogen, demonstrate a reduction in methane leakage in industrial facilities. Examples of investments include, inter alia:</p> <ul style="list-style-type: none"> • replacement of old generation boilers ("heaters") with more efficient boilers ("Skids") with an expected nominal energy saving of at least 15% and a reduction of methane emissions of around 5,400 standard cubic meters for each plant; • revamping of the network connection nodes, with the replacement of gas-powered pneumatic instrumentation with electrically driven instrumentation;

	<ul style="list-style-type: none"> • replacement of turbo-compressors with latest-generation machines yielding an expected reduction in NOx emissions of at least 75%¹³; • electrification of compressor units: replacement of turbo-compressors powered by gas with electric machines resulting in the elimination of natural gas use and leading to an expected lower consumption of gas at least of 4 million standard cubic meters and to expected savings in terms of NOx emissions of at least 35 tons per year; and • installation of Leak Detection System which allows a real time monitoring of the network and a timely intervention in case of significant gas leaks. The system locates the CH4 leakage and can significantly reduce the time for intervention. • replacement / renovation of valves, control and command devices, pneumatic actuators and instrumentations etc. with an expected reduction in natural gas emissions at completion of the interventions of at least 20%.
Retrofit of gas transmission network	<p>Activities and projects carried out with the aim to adapt Snam's gas network to be ready to transport a certain increasing percentage of hydrogen and/or other low-carbon gases. Examples of projects include:</p> <ul style="list-style-type: none"> • Replacement of already existing pipelines with new <i>hydrogen-ready</i>¹⁴ pipelines, in order to enable the integration of hydrogen and other low-carbon gases, while maintaining at the same time the current network operating and safety standards.
Advanced Biomethane	<ul style="list-style-type: none"> • Acquisition and development of biomethane plants and upgrading of existing biogas plants, in Italy. Both greenfield and revamping projects will have biomass sustainability and greenhouse gas emission reduction criteria laid down in the Renewable Directive as fundamental pillars. Biomethane supply chain can deliver very high decarbonisation effects while preserving biodiversity and food security¹⁵.
Hydrogen¹⁶	<ul style="list-style-type: none"> • Hydrogen fueling stations for trains

¹³ In case of replacement of gas powered turbo-compressors. In the case of Brugherio plant, the replacement of an old electric-compressor with latest-generation machine has a positive environmental impact in terms of flexibility of the system.

¹⁴ For *hydrogen-ready* Snam means SNAM internal standards ("GASD") coming from the implementation of international standards currently available. Design and construction of all SNAM network are based on these standards including company's know-how. The SNAM's network "hydrogen-ready" is based on the ASME B31.12' "Hydrogen Piping and Pipeline" standard. GASD remain unchanged for H2NG mixtures up to H2 100% in volume. These standards regulate design and construction phases of new gas network.

¹⁵ In particular, the energy conversion of agricultural residues such as manure can avoid GHG emission from cattle breeding allowing in some cases to reach a carbon negative effect. Advanced agricultural practices such as "biogasdoneright" implemented in order to supply anaerobic digestors with non-food sustainable secondary energy crops can both ameliorate the carbon sequestration capacity of agricultural land and mitigate the soil erosion phenomenon. In addition, the circularity concepts behind "biogasdoneright" practices considers the digestate as a biological fertilizer that can substitute chemical fertilizers obtained from fossil sources.

¹⁶ Collaborations and partnerships along the entire hydrogen chain will be of fundamental importance, allowing Snam to strategically position itself for the future, to internalise the expertise of leading companies in the sector, and above all to make a concrete contribution to national and European decarbonisation objectives. In 2020, Snam started working with Ferrovie dello Stato Italiane and Alstom to convert the first railway lines from diesel to hydrogen. The agreement already provides for the conversion of about 13 sections for a total length of about 700 km and the installation of the first fuel cells with a capacity of 45 MW. In 2021, Snam also plans to build the first "Fuel Cell pilot projects", hydrogen-ready pilot plants serving the transportation network in which the fuel cells, although initially powered by methane from the gas network, are able to receive as input a mixture of hydrogen and natural gas with up to 50% hydrogen. Snam will participate directly in this experiment, also installing fuel cells for its own operations with a capacity of 5.2 MW.

- Fuel cells H₂-ready on Snam network to supply electricity and heat consumptions
- Manufacture of equipment for the production of hydrogen (Electrolysers to produce hydrogen that will comply with the TSC of climate change mitigation of the EU Taxonomy (category 3.10)¹⁷, construction of hydrogen production plants)
- Production of electricity from PV plants

Opinion: ISS ESG considers the Use of Proceeds description provided by Snam's Sustainable Finance Framework as aligned with the GBP, the GLP, and with the proposed EU GBS on a best-efforts basis. An expected lookback period of three years for the eligible projects is defined. A detailed description of the project categories and its environmental benefits has been added by the Issuer.

2. Process for Project Evaluation and Selection

FROM SNAM'S FRAMEWORK

Projects to which the proceeds of the Bonds are intended to be allocated are evaluated and selected based on compliance with the eligibility criteria set out above by Snam's Sustainable Finance Committee (formerly known as Transition Bond or Climate Action Bond Committee), which is comprised of members of the Finance Department, the CSR Department, the Technical Department and the Planning & Control Department.

The projects are selected by the relevant functions of Snam (Technical Department, P&C Business Unit Asset Italia Department, M&A Department, Business Development Department, Energy Efficiency and Bio-methane Department) from the pool of investments included in the Business Plan. On an annual basis these investments are assessed and validated by the Sustainable Finance Committee, on the basis of Snam's "Project evaluation and selection process" policy, a summary of which will be published on Snam's website¹⁸. In particular, during this assessment the Committee reviews the list of selected projects included in Snam's capex plan and evaluates their alignment with the requirements set in the Framework. At the end of the analysis, the Committee will have to unanimously agree on the eligibility status of each project.

The allocation of the proceeds of the Bond will be overseen by the Finance Department.

Opinion: ISS ESG considers the Process for Project Evaluation and Selection description provided by Snam's Sustainable Finance Framework as aligned with the GBP, the GLP, and with the proposed EU GBS on a best-efforts basis. Snam's Sustainable Finance Committee includes experts from the CSR Department, in line with best market practices.

¹⁷ Snam states that the net proceeds of the bonds to be issued under this Framework will be deployed to exclusively finance the portion of those capex / opex / financial investments (e.g. equity injections in associates, temporary joint ventures, special purpose vehicles or any form of partnership to be discussed with the counterparty) which will be dedicated to a process for the production of hydrogen according to Section 3.10 of the Delegated Acts, providing appropriate verification on the occasion of the Annual Green reporting.

¹⁸ https://www.snam.it/en/Investor_Relations/debt_credit_rating/sustainable_finance.html

3. Management of Proceeds

FROM SNAM'S FRAMEWORK

The proceeds from the Bonds will be managed by Snam's Finance department. The net proceeds from the instruments will be tracked internally and an amount at least equivalent to the net proceeds of each instrument will be earmarked for allocation to the portfolio of Eligible Projects.

The balance of proceeds should be periodically adjusted, in order to match allocations to Eligible Projects (re)financed during this period. To this end, if for any reason projects became no longer eligible, Snam commits to substituting them as soon as practical, on a best effort basis.

Pending the full allocation of the financing instruments' proceeds which is expected within maximum 5 years from the issuance as per the requirements of EU GBS, Snam will invest the balance of the net proceeds at its own discretion as per its liquidity management policy, including to reimburse outstanding credit facilities, pay down existing debt, or keep it in cash or cash equivalents, overnight or other short-term financial instruments.

Payment of principal and interest on the Bonds will be made from Snam's general funds and will not be directly linked to the performance of any of the Eligible Projects.

Opinion: ISS ESG finds that Management of Proceeds proposed by Snam's Sustainable Finance Framework is aligned with the GBP, the GLP, and with the proposed EU GBS on a best-efforts basis. Snam also discloses the intended types of temporary investment instruments for unallocated proceeds, in line with best-market practices.

4. Reporting

FROM SNAM'S FRAMEWORK

On an annual basis and up until full allocation of the financing instrument proceeds, the Company will publish a report detailing, at a minimum:

1. Allocation of the net proceeds of financing instruments to Eligible Projects, at the project level where possible, or otherwise at the category level;
2. Brief description of all Eligible Projects funded, including their location (country), the types and sectors of projects, and the respective NACE codes¹⁹;
3. Contribution to the EU environmental objectives;
4. Proportion of proceeds used for financing versus refinancing;
5. Current funded amounts, percentage funded by the proceeds, and funding dates; and
6. Assertions by management that an amount equal to the net proceeds of that tranche or series of financing instruments are invested in qualifying Eligible Projects and that, until full allocation, an amount equal to any unallocated net proceeds is used to reimburse outstanding credit facilities / pay down existing debt or kept in cash, overnight or other short-term financial instruments.

Snam will include for its Impact Report:

¹⁹ In accordance with the statistical classification of economic activities established by Regulation (EC) No 1893/2006.

1. An estimation of positive and adverse environmental impacts in aggregated form
2. Information on the methodology and assumptions used to evaluate the impacts of projects, where the European green bond factsheet of the bond did not include this information
3. Information about the projects' positive and negative environmental impacts and, where available, related metrics. Where this information is not available at project level, this must be justified

In addition, Snam intends to provide:

- i. detailed case studies on a select number of projects; and
- ii. evidence of the linkage between the projects financed and Snam's Climate transition Strategy, as reasonably practicable and on a best effort basis.

The updates and assertions will be accompanied by a report from an independent auditor in respect of the independent accountant's assurance of management's assertion, conducted in accordance with International Standard on Assurance Engagements (ISAE) 3000. If the net proceeds are not fully allocated within one year of issuance, the Company will continue to provide updates annually together with an annual attestation report from an independent accountant until the net proceeds are fully allocated. Snam confirms that any reporting activity will be also in line with the requirements envisaged by the EU Green Bond Standards.

Opinion: ISS ESG finds that the reporting proposed by Snam's Sustainable Finance Framework to be aligned with the GBP, the GLP, and with the proposed EU GBS on a best-efforts basis. The Issuer is transparent on the level of expected reporting, the type of information, the frequency, scope, and duration. Snam will also include detailed case studies on a selected number of projects, in line with best market practices.

External review

FROM SNAM'S FRAMEWORK

Snam will seek a post-issuance review of the allocation report by an external reviewer certified by ESMA. All the reports will be available on Snam's website at the following link: https://www.snam.it/en/Investor_Relations/debt_credit_rating/transition_bond.html.

B. SUSTAINABILITY-LINKED BOND PRINCIPLES

Rationale for Framework

FROM SNAM'S FRAMEWORK

Following the 2020-2024 Strategic Plan Presentation in November 2020, Snam's commitment towards ESG has been further scaled up through the Net Zero strategy that will lead Snam to be carbon neutral by 2040. As a continuous effort to integrate ESG attention in the corporate strategy, in the new Strategic Plan 2021-2025 Snam has improved the existing targets on CH4 emissions and Scope 1 and 2 GHG emissions reduction and has also adopted a new target for Scope 3 GHG emissions reduction.

Snam's Sustainable Finance Framework (the "Framework") represents the output of this new step and it intends to be the cornerstone of the Group's financial strategy for the next years. The Framework has been developed to clarify the link between the financing choices and the initiatives and investments that Snam intends to carry out in the upcoming years. Under this Framework Snam will be able to issue use of proceeds and KPI-linked bonds, loans, project financings and/or any other financing instruments in various formats and currencies. Through this integrated Sustainable Finance Framework, Snam will decide to use either a use of proceeds or a sustainability-linked formats.

Opinion: ISS ESG considers the Rationale for Issuance provided by Snam as aligned with the SLBP and SLLP. The Issuer has described the rationale to issue Sustainability-Linked Financial Instruments and its connection with the overall sustainability and business strategy.

2.1. Selection of KPI

ISS ESG conducted a detailed analysis of the sustainability credibility of the KPIs' selection available in Part III of this report.

Opinion: ISS ESG finds that the KPI 1 selected is core, relevant and material to Snam's business model and consistent with its sustainability strategy. It is appropriately measurable, quantifiable, externally verifiable and benchmarkable. The KPI historical data has not been verified by an external party.

ISS ESG finds that the KPI 2 selected is core and relevant to the issuer's business model and sustainability profile. Snam's KPI covers 58% of the company's total GHG footprint, because it does not include the Scope 3 GHG emissions, which represent a 42% of the company's overall GHG emissions²⁰ as of 2020. In light of this, KPI 2 is considered moderately material, as it is material to the company's direct operations, but it does not cover the entire corporate value chain²¹. The KPI 2 is consistent with its sustainability strategy of carbon neutrality by 2040. It is appropriately measurable, quantifiable, externally verifiable and benchmarkable. However, it has not been externally verified. It covers all the Scope 1 and 2 GHG emissions resulting from the operations and activities of Snam.

ISS ESG finds that the KPI selected is core and relevant and moderately material to the issuer's business model as a standalone KPI (since it does not cover Scope 1 and 2 emissions, which represents around 58% of total GHG emissions). The KPI 3 is consistent with its sustainability strategy which includes

²⁰ ISS ESG bases this analysis on the issuer's own emissions reporting and makes no comment on the quality or consistency of the issuer's Scope 1, 2 or 3 emissions reporting, either in relation to GHG Protocol, or to established practices for the issuer's sector.

²¹ The SBTi prescribes that companies should cover Scope 3 emissions in case Scope 1 and 2 emissions account for less than 60% of the total GHG footprint. See footnote 6 for more information.

Scope 3 emission within its long-term carbon neutrality objective. It is appropriately measurable, quantifiable, externally verifiable and benchmarkable. However, it has not been externally verified.

2.2. Calibration of Sustainability Performance Target (SPT)

ISS ESG conducted a detailed analysis of the sustainability credibility of the SPTs. It is available in Part III of this report.

Opinion: ISS ESG finds that SPT 1 calibrated by Snam is ambitious against the company's past performance (with limitations due to the lack of verified historical data) and also when compared to peers in the Gas Network Operators sector practices in terms of defining a public methane reduction target. The SPT 1 is ambitious against the international targets such as the OGMP's standards and the Global Methane Pledge. SPT 1 is set in a clear timeline, benchmarkable against the Methane Guiding Principles and supported by a strategy and action plan.

ISS ESG finds that the SPT 2 and 3 calibrated by Snam are ambitious against past performance, because whilst the future annualized reductions are similar to the previous annual reductions, Snam explains that future reductions will be more difficult to achieve than previous reductions. The reasoning is limited by the fact that GHG historical data has not been verified. The SPT 2 and 3 are ambitious compared to its industry practices in terms of magnitude of targets set. Snam has committed to the SBTi, and hence the company will be in line with the Paris Agreement. The targets are set in a clear timeline, are benchmarkable and supported by a long-term strategy and action plan.

ISS ESG finds that the SPT 4 calibrated is ambitious compared to its peers in the Gas Network Operators sector in terms of setting a Scope 3 emissions reduction target with the largest magnitude. There is limited evidence on the ambition against past performance, due to the lack of information available on historical data (two comparable years were provided). Snam has committed to the SBTi, and hence the company will be in line with the Paris Agreement. The target is set in a clear timeline and is supported by a strategy and action plan.

2.3. Sustainability-Linked Securities Characteristics

FROM SNAM'S FRAMEWORK

In case of Snam's failure to satisfy the applicable SPTs of the relevant KPI incorporated in each specific Sustainability-Linked instrument by the agreed Reference Date, a margin adjustment will be triggered, as applicable and as specified in the relevant documentation of the specific transaction (e.g. Final Terms of the Sustainability-Linked Bond) bringing to an increase in the interest rate applicable to interest periods following such reference date. The SPT will be measured once, at the target date. However, the KPIs will be reported on annually (as described in the framework) which will enable investors to track Snam's performance.

For the avoidance of doubt, no more than one step-up margin or margin adjustment, as applicable, can be applied over the life of a given Sustainability-Linked Instrument.

The KPIs and SPTs set out in this framework will remain applicable throughout the maturity of any financing issued under the Framework, regardless of any future changes of Snam's sustainability strategy. However, SPT(s) and/or the baseline(s) should be recalculated and applied to existing financing at the occurrence of:

- 1) any event that requires the Group to change its methodology to calculate the GHG emissions following a significant change in data due to better data accessibility or discovery of data errors or

- 2) in case of significant structural changes of the Group perimeter such as acquisitions, divestitures or mergers. In such events the SPT/baseline should be recalculated in good faith by Snam, on the condition that Snam's Second Party Opinion provider has independently confirmed to Snam in writing that the proposed revision:
 - a. is consistent with Snam's sustainability strategy; and
 - b. is in line or more ambitious than the initial target, and shows an improvement of Snam's commitment; and
 - c. has no material impact on the second party opinion originally provided to Snam in connection with the Framework.

When significant structural changes occur in the middle of a year, the current and baseline year will be recalculated for the entire year. In the event of an acquisition, in order to ensure that full and accurate data are available, recalculation will be carried out within one year after the structural change has occurred.

Baselines and/or SPTs adjustments will be reported by Snam in the ESG Progress Report.

Opinion: ISS ESG considers the Sustainability-Linked Securities Characteristics description provided by Snam as aligned with the SLBP and SLLP. Some KPIs and SPTs may not be included in every Snam's issuance. KPIs and SPTs' calculation methodologies have been defined in the section above. Snam explains under which circumstances the company would recalculate the SPT and commits to engage with its Second Party Opinion provider, in line with best market practices.

2.4. Reporting

FROM SNAM'S FRAMEWORK

With reference to the KPIs, Snam will report at least annually on their performance and trajectory towards the predefined and associated target, and in any case for any date/period relevant for the assessment of the trigger event associated to the specific Sustainability-Linked Bond, in the Group's Consolidated Non-Financial Disclosure (NFD), in accordance with Legislative Decree 254/16 (as amended and supplemented from time to time), which will be available on the Company's website.

In particular, the reporting will include:

- up-to-date information on the performance of the selected KPI(s), including baselines where relevant;
- any additional relevant information enabling investors to monitor the progress of each selected KPI towards the SPT;
- a verification assurance report relative to the KPI outlining the performance against the SPTs and the related impact, and timing of such impact, on the bond's financial and/or structural characteristics; and
- any information enabling investors to monitor the level of ambition of the SPTs (e.g., any update on the issuers sustainability strategy or on the related KPI/ESG governance, and more generally any information relevant to the analysis of the KPIs and SPTs).

Opinion: ISS ESG considers the Reporting description provided by Snam as aligned with the SLBP and SLLP. The reporting will be made publicly available annually and include valuable up-to-date

information, as described above. Snam commits to include in the reporting any information that could enable investors to monitor the level of ambition of the SPT.

2.5. Verification

FROM SNAM'S FRAMEWORK

The Framework has been verified by ISS ESG against the relevant market guidelines/Principles and or Regulation, where applicable.

KPIs are reported in Snam's non-Financial reporting (NFS and Sustainability Report) that is subjected to a limited assurance engagement according to the criteria indicated by the "International Standard on Assurance Engagements ISAE 3000 Revised - Assurance Engagements Other than Audits or Reviews of Historical Financial Information" principle, issued by International Auditing and Assurance Standards Board (IAASB), by an External Verifier. As such, the annual performance of each selected KPI will be subject to external verification on an annual basis and at "Limited Assurance" standard.

"External Verifier" means any qualified provider of third-party assurance or attestation services appointed by Snam, to review Snam's statement on KPIs.

Opinion: ISS ESG considers the Verification description provided by Snam as aligned with the SLBP and SLLP. The issuer has obtained a pre-issuance external review through this SPO. On top of this, Snam plans to obtain a verification of its reporting related to the performance of its SPTs. Such verification will be published in Snam's non-financial reporting, in line with the market requirements.

C. CLIMATE TRANSITION FINANCE HANDBOOK

1. Climate Transition Strategy and Governance

Since 2019, Snam has issued 4 bonds with the Transition label and one bond with the Climate Action label, which aim to finance the company's transition strategy. This strategy is primarily designed to orient the company's operations and business model towards delivering lower carbon fuels and reducing its own operational emissions, with the aim of contributing positively to the Paris Agreement

In 2020, Snam updated its transition strategy with the announcement of a 4-year investment plan between 2021-2025 which will enable it to implement its overall strategy to reach net zero emissions by 2040. As part of this strategy, various decarbonisation levers are mentioned, which contribute to both enabling the decarbonisation of the fuels transported in its network, as well as the decarbonisation of the company's own operations. In particular, approximately half of this expenditure would be involved with making the gas network capable of transmitting hydrogen gas. The remainder would be related to increasing the transmission efficiency of the network as well as increasing the proportion of lower carbon gaseous fuels in its network.

The company has also developed an ESG scorecard with targets on 9 environmental metrics, which will be used to provide disclosure on the company's progress on reducing its climate impacts, such as methane emissions, energy efficiency, solar energy generation, production of bioenergy, and lower carbon sources of gaseous fuels.

Since 2018, the company has been reporting in accordance with the TCFD recommendations. A Sustainable Finance Committee, which is comprised of multiple departments, co-ordinates the development and implementation of the transition finance strategy.

Opinion: *ISS ESG finds Snam's Framework establishes a clear link between the issuance of these bonds and the company's climate transition strategy. The financing will be used to deliver the decarbonisation and climate transition objectives, with at least 40% of current total company financing needs coming from these types of issuances. There is information about how the overall investments will be spread across different areas. There is a long term (2040) target for carbon neutrality of the company's Scope 1 and 2 emissions as well as interim targets. As part of its decarbonisation strategy, Snam commits to not using offsets for its Scope 1 and 2 emissions before 2040, and instead focusing on efforts to reduce Scope 1 and 2 emissions as much as possible. The ESG scorecard in particular provides extra disclosure on the company's broader sustainability strategy and progress to mitigate other environmental and social externalities. Overall, the Framework highlights elements of the company's strategy which address risks and opportunities that stem from the energy transition.*

The involvement of the Sustainable Finance Committee provides good internal oversight and governance over the linkage of the issuance of the bonds with the transition strategy.

Snam has committed to setting targets which are aligned with a 1.5 degrees pathway and therefore aligned with the Paris Agreement. The company has clarified that its strategy was formulated with inputs from an external consultant, however there is no external technical review on the credibility of whether the announced targets and expenditure plan can lead to achievement of the targets.

2. Business Model Environmental Materiality

Snam's business model centers on the transport of fossil fuels which are sold by the producers of fuel products customers, for consumption by end users. Its climate transition strategy focuses on enabling providers of lower carbon and alternative fuels to transport their products in the company's network, as well as decarbonizing its own operations.

Opinion: ISS ESG finds that Snam's climate transition strategy as outlined in the Framework as relevant to the environmentally-material parts of the issuer's business model. The company expects that the current determination of materiality will not be changing in the foreseeable future. The issuances will be used to finance strategic improvements to its core business activities and reduce their environmental impacts. The strategy's planned trajectory emphasizes the company's current impacts on climate change and future contributions to climate action. The transformation of the company's network to allow the transport of lower carbon and alternative fuels is crucial to the continued success of company's business model and enable the company to contribute to the decarbonisation of the energy sector.

3. Climate transition strategy to be "science-based"

ISS ESG finds that the issuer's transition strategy:

- Is quantitatively measurable (based on a consistent measurement methodology over time).
- Is not possible to be definitively aligned with, benchmarked or otherwise referenced to science-based trajectories. For example, such a benchmark by SBTi is not available yet. The company explains that it has calculated its 2030 GHG target based on the SBTi general methodology for the 1.5 degrees scenario, which is one of the most widely used tool at present. However, the target has not yet received external validation by SBTi.
- Is publicly disclosed on the company website.²²
- Includes interim milestones, such as 2025, 2027 and 2030 GHG targets for the purposes of the sustainability linked bonds.
- Is not supported by independent assurance or verification. In the absence of the specific SBTi methodology for the Oil and Gas sector, it's not yet possible for the targets to be externally validated by the SBTi. Neither has the company received external verification on the scientific basis of its climate strategy by any other external party. The company has clarified that the strategy received inputs from an external consultant.

Opinion: Overall, there is a mix of short (2025/27) and medium (2030) term decarbonisation targets for the company's Scope 1 and 2 emissions as well as a medium term (2030) target for the Scope 3 emissions. There is a longer-term commitment to attain carbon neutrality by 2040, which includes Scopes 1 and 2 emissions. There is a clearly defined baseline which uses externally verified GHG data. The commitment to attain carbon neutrality by 2040 include Scopes 1 and 2 emissions. Absolute GHG targets are used, which may make it more difficult to assess progress if the boundary of the emissions reporting changes with structural changes to the company.

²² https://www.snam.it/en/Sustainability/acting_for_the_environment/climate_change.html

ISS ESG considers that the unavailability of SBTi validation of the targets is due to the fact that Snam's target setting should be based on the upcoming SBTi Oil and Gas Methodology²³, which is currently under development. The company also commits to using offsets closer to 2040, after it has made efforts to minimise its Scope 1, 2 and 3 emissions as much as possible, which follows best practice science-based guidance in target setting.

Without the SBTi validation or other external reference, it is not possible to determine to what extent is the strategy science based. ISS ESG recommends that when the SBTi Oil and Gas methodology becomes available, Snam can reconsider whether they should base their target on that new methodology and submit to the SBTi for validation, in order to confirm the scientific basis of the targets.

4. Implementation Transparency

In the company's strategy 2021-2025 as laid out in the Framework, the company has announced an investment commitment of 8.1 billion EUR, of which approximately 10% will be related to the energy transition. This amount includes making the company's infrastructure appropriate for carrying hydrogen, upgrading the infrastructure to enhance transmission efficiency and reduce methane emissions, increase energy efficiency, introduce biomethane production and other related solutions, such as hydrogen powered trains and hydrogen fueling stations.

In Snam's "Climate Action and Transition Bonds Report 2021"²⁴, there is information on the various investments into decarbonisation actions and projects which are funded by the issued bonds.

Opinion: *ISS ESG finds that the company's Framework and 2021-2025 plan has basic information about various amounts of CAPEX investments into different areas. There is detail about how the different areas are linked to the overall strategy and how they can deliver climate related outcomes and impacts. Large amounts of the 700M EUR spending may be viewed as beyond "business as usual" in terms of being related to new technologies and equipment. The annual transition bond reporting provides good information on the various investments relating to the overall strategy. Some other elements of the investments which are related to enhancing the efficiency of the network may be considered as more related to "business as usual" and maintenance investments. The company has privately indicated that an external consultant provided input on investment opportunities and priorities for the strategy.*

As suggested by the CTFH, in order to provide maximum transparency, ISS ESG recommends that the company consider including future analyses of the extent to which investment outcomes will be aligned with the original 2021-2025 spending plan. There is also no consideration in the Framework of whether the strategy may have any negative implications on the company's employees or local communities.

²³ <https://sciencebasedtargets.org/sectors/oil-and-gas>

²⁴ https://www.snam.it/export/sites/snam-rp/it/investor-relations/debito_credito_rating/file/Snam_Climate_Action_and_Transition_bonds_Report_2021.pdf

PART III: SUSTAINABILITY QUALITY OF THE ISSUANCE



A. CONTRIBUTION OF THE SUSTAINABILITY-LINKED BONDS AND TAXONOMY-ALIGNED BONDS TO THE UN SDGs

Based on the assessment of the sustainability quality of the Sustainability-Linked Bonds and Taxonomy-Aligned Bonds Eligibility Criteria and using a proprietary methodology, ISS ESG assessed the contribution of the Snam's Sustainable Finance Framework to the Sustainable Development Goals defined by the United Nations (UN SDGs).

This assessment is displayed on 5-point scale (see Annex 2 for methodology):










Significant Obstruction	Limited Obstruction	No Net Impact	Limited Contribution	Significant Contribution
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Each of the Sustainable Finance Framework's Use of Proceeds categories has been assessed for its contribution to, or obstruction of, the SDGs²⁵:

USE OF PROCEEDS	CONTRIBUTION OR OBSTRUCTION	SUSTAINABLE DEVELOPMENT GOALS
Carbon & Emission Reduction Projects (in the context of conversion of existing natural gas networks to hydrogen) <i>Projects generating a direct gain in energy efficiency/emissions reduction (e.g., replacement of old generation boilers)</i>	Significant Contribution	
	Limited Contribution²⁶	
Carbon & Emission Reduction Projects (in the context of conversion of existing natural gas networks to hydrogen) <i>Projects not generating a direct gain in energy efficiency/emissions reduction (e.g., installation of leak detection system)</i>	Significant Contribution	

²⁵ This SDG assessment differs from ISS ESG SDG Solutions Assessment (SDGA) methodology due to the fact that the issuer has aligned with the Technical Screening Criteria of the EU Taxonomy Climate Delegated Act (June 2021).

²⁶ This project category is assessed as having a significant contribution to SDG 7 and 13, beyond the SDGA proprietary methodology.

<p>Retrofit of gas transmission network <i>Replacement of existing pipelines with new hydrogen-ready pipelines</i></p>	<p>Significant Contribution</p>	<p>13 CLIMATE ACTION </p>
<p>Advanced Biomethane</p>	<p>Significant Contribution</p>	<p>13 CLIMATE ACTION  7 AFFORDABLE AND CLEAN ENERGY </p>
<p>Hydrogen Hydrogen fueling stations for trains</p>	<p>Significant Contribution</p>	<p>13 CLIMATE ACTION </p>
<p>Hydrogen Electrolysers for the production of hydrogen and construction of hydrogen plants</p>	<p>Significant Contribution</p>	<p>13 CLIMATE ACTION </p>
<p>Hydrogen Hydrogen Fuel Cells</p>	<p>Significant Contribution</p>	<p>13 CLIMATE ACTION  7 AFFORDABLE AND CLEAN ENERGY </p>
<p>Electricity generation from photovoltaic plants</p>	<p>Significant Contribution</p>	<p>7 AFFORDABLE AND CLEAN ENERGY  13 CLIMATE ACTION </p>

B. ALIGNMENT OF THE ELIGIBILITY CRITERIA WITH THE EU TAXONOMY

ISS ESG assessed the alignment of Snam's project selection process and company policies for the nominated Use of Proceeds project categories, with the relevant Technical Screening Criteria (Climate Change Mitigation), Do Not Significant Harm Criteria and Minimum Social Safeguards requirements of the EU Taxonomy Delegated Act²⁷ (June 2021), based on information provided by Snam. Where Snam's project details and policies fully meet the Criteria requirements, a tick is shown in the table below, for the ISS ESG assessment against the Criteria requirements.

Snam's nominated categories overlap with the following economic activities in the EU Taxonomy for Substantial Contribution to Climate Change Mitigation:

3.2 Manufacture of equipment for the production and use of hydrogen

4.1 Electricity generation using solar photovoltaic technology

4.13 Manufacture of biogas and biofuels for use in transport and of bioliquids


4.14 Transmission and distribution networks for renewable and low-carbon gases

6.14 Infrastructure for rail transport



Note: In order to avoid repetition, the evaluation of the alignment of Snam's assets to the Do No Significant Harm Criteria (DNSH) to Climate Change Adaptation is given in Section B.6. Similarly, the evaluation of the alignment to the DNSH to Protection and Restoration of Biodiversity and Ecosystems is given in Section B.7. These are applicable to all of the above activities.

²⁷https://ec.europa.eu/info/law/sustainable-finance-taxonomy-regulation-eu-2020-852/amending-and-supplementary-acts/implementing-and-delegated-acts_en

B.1 3.2 – Manufacture of equipment for the production and use of hydrogen (Electrolysers and construction of hydrogen plants)

EU TAXONOMY REQUIREMENT	GREEN PROJECTS OWN PERFORMANCE AND SELECTION PROCESSES	ANALYSIS AGAINST REQUIREMENT
1. SUBSTANTIAL CONTRIBUTION TO CLIMATE CHANGE MITIGATION – TECHNICAL SCREENING CRITERIA		
<p>The economic activity manufactures equipment for the production of hydrogen compliant with the Technical Screening Criteria set out in Section 3.10 of the EU Taxonomy Annex and equipment for the use of hydrogen, included below.</p> <p>The activity complies with the life-cycle GHG emissions savings requirement of 73.4% for hydrogen [resulting in life-cycle GHG emissions lower than 3tCO₂e/tH₂] and 70% for hydrogen-based synthetic fuels relative to a fossil fuel comparator of 94g CO₂e/MJ in analogy to the approach set out in Article 25(2) of and Annex V to Directive (EU) 2018/2001.</p> <p>Life-cycle GHG emissions savings are calculated using the methodology referred to in Article 28(5) of Directive (EU) 2018/2001 or, alternatively, using ISO 14067:2018 or ISO 14064-1:2018.</p> <p>Quantified life-cycle GHG emission savings are verified in line with Article 30 of Directive (EU) 2018/2001 where</p>	<p>Snam has not yet identified any project under this category. However, the company commits to only include in its financing projects which manufacture electrolysers that can produce hydrogen in a way that meets the relevant Technical Screening Criteria for EU Taxonomy activity 3.10 (Manufacture of hydrogen). Snam will report on how its customers comply with the EU Taxonomy requirement in its annual reporting.</p>	

<p>applicable, or by an independent third party.</p> <p>Where the CO₂ that would otherwise be emitted from the manufacturing process is captured for the purpose of underground storage, the CO₂ is transported and stored underground, in accordance with the technical screening criteria set out in Sections 5.11 and 5.12, respectively, of the EU Annex on Climate Change Mitigation (TSC).</p>		
<p>2. CLIMATE CHANGE ADAPATION – DO NO SIGNIFICANT HARM CRITERIA</p>		
<p>GENERIC CRITERIA FOR (2)</p>	<p>See B.6</p>	<p>✓</p>
<p>3. WATER – DO NO SIGNIFICANT HARM CRITERIA</p>		
<p>Environmental degradation risks related to preserving water quality and avoiding water stress are identified and addressed with the aim of achieving good water status and good ecological potential as defined in Article 2, points (22) and (23), of Regulation (EU) 2020/852, in accordance with Directive 2000/60/EC of the European Parliament and of the Council and a water use and protection management plan, developed thereunder for the potentially affected water body or bodies, in consultation with relevant stakeholders. Where an Environmental Impact Assessment is carried out in accordance with Directive 2011/92/EU of the European Parliament and of the Council and includes an assessment of the impact on water in</p>	<p>The water supply and discharge of Snam's activities represent a non-material environmental aspect, both for the quantities used and for the type of withdrawals and discharges. However, the Company considers water a primary good to be preserved and in this sense is committed to containing consumption and reducing environmental impacts on the territory. Snam pays attention to the design and decommissioning of gas pipelines, in order to ensure their construction respecting the environment and the biodiversity of the territories in which they are built, adopting compensation practices if the impacts are inevitable. From the design stage of the network, Snam undertakes to implement all the measures necessary to avoid or minimize the impacts associated with its works: where applicable, these are assessed in environmental and safety terms through the Environmental Impact Assessments (EIA) or Integrated Environmental Authorization (AIA), Snam also evaluates the direct and indirect economic and social effects on the territory and local communities with Social Impact Assessment tools and methodologies, through the adoption of a regionalized Input-Output model.</p>	<p>✓</p>

<p>accordance with Directive 2000/60/EC, no additional assessment of impact on water is required, provided the risks identified have been addressed.</p>		
<p>4. CIRCULAR ECONOMY – DO NO SIGNIFICANT HARM CRITERIA</p>		
<p>The activity assesses the availability of and, where feasible, adopts techniques that support:</p> <p>(a) reuse and use of secondary raw materials and re-used components in products manufactured;</p> <p>(b) design for high durability, recyclability, easy disassembly and adaptability of products manufactured;</p> <p>(c) waste management that prioritises recycling over disposal, in the manufacturing process;</p> <p>(d) information on and traceability of substances of concern throughout the life cycle of the manufactured products</p>	<p>To effectively manage waste production, Snam adopts a production cycle enabling the transformation of waste into a resource to be reused. 95% of the waste produced belongs to the waste category non-hazardous and 32% of the waste deriving from the production activities was sent for recovery.</p> <p>Snam states that the financed projects will be assessing the availability of and, where feasible, adopting techniques that support: (a) reuse and use of secondary raw materials and re-used components in products manufactured; (b) design for high durability, recyclability, easy disassembly and adaptability of products manufactured; (c) waste management that prioritises recycling over disposal, in the manufacturing process; (d) information on and traceability of substances of concern throughout the life cycle of the manufactured products.</p> <p>On a best efforts basis, Snam through its partners, if any, will commit to comply, where relevant, with the top class requirements in terms of efficiency and waste management; Snam confirms that the solutions adopted at that time will represent the best available technology. As per EU GBS requirements, the company will include, in the annual report, information on how Snam and its partners comply with points a), b), c), and d).</p>	
<p>5. POLLUTION – DO NO SIGNIFICANT HARM CRITERIA</p>		
<p>The activity does not lead to the manufacture, placing on the market or use of: (a) substances, whether on their own, in mixtures or in articles, listed in Annexes I or II to Regulation (EU) 2019/1021 of the European Parliament and of the Council, except in the</p>	<p>The Regulations mentioned in the criteria are entirely applicable in Italy, where Snam operates for the purpose of this specific category. Directive 2011/65/EU has been transposed to the Italian legislative system. Once the projects under this category have been selected, the company commits to comply with Directive 2011/65/EU and the Regulations listed in the criteria.</p>	

case of substances present as an unintentional trace contaminant;

(b) mercury and mercury compounds, their mixtures and mercury-added products as defined in Article 2 of Regulation (EU) 2017/852 of the European Parliament and of the Council;

(c) substances, whether on their own, in mixture or in articles, listed in Annexes I or II to Regulation (EC) No 1005/2009 of the European Parliament and of the Council;

(d) substances, whether on their own, in mixtures or in articles, listed in Annex II to Directive 2011/65/EU of the European Parliament and of the Council, except where there is full compliance with Article 4(1) of that Directive;

(e) substances, whether on their own, in mixtures or in an article, listed in Annex XVII to Regulation (EC) 1907/2006 of the European Parliament and of the Council, except where there is full compliance with the conditions specified in that Annex;

(f) substances, whether on their own, in mixtures or in an article, meeting the criteria laid down in Article 57 of Regulation (EC) 1907/2006 and identified in accordance with Article 59(1) of that Regulation, except where their

<p>use has been proven to be essential for the society;</p> <p>(g) other substances, whether on their own, in mixtures or in an article, that meet the criteria laid down in Article 57 of Regulation (EC) 1907/2006, except where their use has been proven to be essential for the society.</p>		
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6. ECOSYSTEMS – DO NO SIGNIFICANT HARM CRITERIA

<p>GENERIC CRITERIA FOR (6)</p>	<p>See B.7</p>	<p>✓</p>
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B.2 4.1 – Electricity generation using solar photovoltaic technology (Production of electricity from photovoltaic plants)

EU TAXONOMY REQUIREMENT	GREEN PROJECTS OWN PERFORMANCE AND SELECTION PROCESSES	ANALYSIS AGAINST REQUIREMENT
1. SUBSTANTIAL CONTRIBUTION TO CLIMATE CHANGE MITIGATION – TECHNICAL SCREENING CRITERIA		
The activity generates electricity using solar PV technology.	<p>In 2020, the Group recorded a significant increase in the number of plants for the production of renewable energy, which reached 2,360 units (+32% compared to 2019), and in the total installed capacity, which rose from 1,129 kW to 5,122 kW. The total energy produced was equal to 22,125 MWh.</p> <p>Snam's commitment and investments in this area have resulted in the achievement of the target set for 2020 for the annual production of electricity from photovoltaic plants: a target of 860 MWh, largely exceeded by the year's production of 872 MWh.</p>	✓
2. CLIMATE CHANGE ADAPATION – DO NO SIGNIFICANT HARM CRITERIA		
GENERIC CRITERIA FOR (2)	See B.6	✓
3. WATER – DO NO SIGNIFICANT HARM CRITERIA		
N/A	N/A	N/A
4. CIRCULAR ECONOMY – DO NO SIGNIFICANT HARM CRITERIA		
The activity assesses availability of and, where feasible, uses equipment and components of high durability and recyclability and that are easy to dismantle and refurbish.	To effectively manage waste production, Snam adopts a production cycle enabling to transform waste into a resource to be reused. 95% of the waste produced belongs to the waste category non-hazardous and 32% of the waste deriving from the production activities was sent for recovery.	✓
5. POLLUTION – DO NO SIGNIFICANT HARM CRITERIA		
N/A	N/A	N/A
6. ECOSYSTEMS – DO NO SIGNIFICANT HARM CRITERIA		
GENERIC CRITERIA FOR (6)	See B.7	✓

B.3 4.13 Manufacture of biogas and biofuels for use in transport and of bioliquids (Advanced biomethane)

EU TAXONOMY REQUIREMENT	GREEN PROJECTS OWN PERFORMANCE AND SELECTION PROCESSES	ANALYSIS AGAINST REQUIREMENT
1. SUBSTANTIAL CONTRIBUTION TO CLIMATE CHANGE MITIGATION – TECHNICAL SCREENING CRITERIA		
<p>Agricultural biomass used for the manufacture of biogas or biofuels for use in transport and for the manufacture of bioliquids complies with the criteria laid down in Article 29, paragraphs 2 to 5, of Directive (EU) 2018/2001. Forest biomass used for the manufacture of biogas or biofuels for use in transport and for the manufacture of bioliquids complies with the criteria laid down in Article 29, paragraphs 6 and 7, of that Directive.</p> <p>Food-and feed crops are not used for the manufacture of biofuels for use in transport and for the manufacture of bioliquids.</p> <p>The greenhouse gas emission savings from the manufacture of biofuels and biogas for use in transport and from the manufacture of bioliquids are at least 65 % in relation to the GHG saving methodology and the relative fossil fuel comparator set out in Annex V to Directive (EU) 2018/2001.</p>	<p>Snam would like to finance the construction of new biomethane plants with a total capacity of 64 megawatts. Snam's "<i>biogasdoneright</i>" is supervised by Consorzio Italiano Biogas (CIB), which aims to implement carbon negative systems and operates in line with Italian legislative decrees. It is worth noting that the activity of manufacturing biogas will only take place in Italy. Based on the adoption of the Legislative Decree applying EU Directive 2018/2001 to internal regulation (approved by the Cabinet of Ministers on 4th November 2021²⁸), Italy has adhered to the Directive. However, the Directive is not officially enforced until the President of the Republic has not formally signed it.</p> <p>Snam commits to finance through the UoP section of this Framework only the Biomethane plants which comply with the specific paragraphs of the EU Directive 2018/2001 mentioned in the Technical Screening Criteria on the left. Plants which will be not compliant with the Directive will be excluded from the scope of the Framework. Snam will report on how it complies with the EU Taxonomy requirement in its annual reporting.</p>	<p style="text-align: center;"></p>

²⁸ <https://www.politicheeuropee.gov.it/it/comunicazione/notizie/cdm-4-novembre-2021/>

<p>Where the manufacture of biogas relies on anaerobic digestion of organic material, the production of the digestate meets the criteria in Sections 5.6 and criteria 1 and 2 of Section 5.7 of the EU Taxonomy Annex, as applicable.</p> <p>Where the CO₂ that otherwise would be emitted from the manufacturing process is captured for the purpose of underground storage, the CO₂ is transported and stored underground in accordance with the technical screening criteria set out in Sections 5.11 and 5.12 of the EU Taxonomy Annex.</p>	<p>Once the Directive is applicable in Italy, Snam commits to comply with the relevant paragraphs, thereby making the category fully aligned with the EU Taxonomy. Therefore, this does not represent an obstacle to ensure full alignment with the EU GBS on a “best efforts” basis, as the standard set 5 years’ time for any asset to fully align with the EU Taxonomy (provided that there is a clear action plan for the alignment).</p>	
2. CLIMATE CHANGE ADAPATION – DO NO SIGNIFICANT HARM CRITERIA		
GENERIC CRITERIA FOR (2)	See B.6	✓
3. WATER – DO NO SIGNIFICANT HARM CRITERIA		
GENERIC CRITERIA FOR (3)	See B.1, point 3.	✓
4. CIRCULAR ECONOMY – DO NO SIGNIFICANT HARM CRITERIA		
N/A	N/A	N/A
5. POLLUTION – DO NO SIGNIFICANT HARM CRITERIA		
<p>For biogas production, a gas-tight cover on the digestate storage is applied. For anaerobic digestion plants treating over 100 tonnes per day, emissions to air and water are within or lower than the emission levels associated with the best available techniques (BAT-AEL) ranges set for anaerobic treatment of waste in the latest relevant</p>	<p>The Decision (EU) 2018/1147 and Regulation EU 2019/1009 are in force in the entirety of the European Union. Snam commits to comply with the Decision and the Regulation mentioned above.</p>	✓

best available techniques (BAT) conclusions, including the best available techniques (BAT) conclusions for waste treatment²⁹. No significant cross-media effects occur. In case of anaerobic digestion of organic material, where the produced digestate is used as fertiliser or soil improver, either directly or after composting or any other treatment, it meets the requirements for fertilising materials set out in Component Material Categories (CMC) 4 and 5 for digestate or CMC 3 for compost, as applicable, in Annex II to Regulation EU 2019/1009 or national rules on fertilisers or soil improvers for agricultural use.

6. ECOSYSTEMS – DO NO SIGNIFICANT HARM CRITERIA

GENERIC CRITERIA FOR (6)

See B.7



²⁹ Implementing Decision (EU) 2018/1147.


B.4 4.14 Transmission and distribution networks for renewable and low-carbon gases (Replacement of pipeline hydrogen ready)

EU TAXONOMY REQUIREMENT	GREEN PROJECTS OWN PERFORMANCE AND SELECTION PROCESSES	ANALYSIS AGAINST REQUIREMENT
1. SUBSTANTIAL CONTRIBUTION TO CLIMATE CHANGE MITIGATION – TECHNICAL SCREENING CRITERIA		
<p>1. The activity consists in one of the following:</p> <p>(a) construction or operation of new transmission and distribution networks dedicated to hydrogen or other low-carbon gases;</p> <p>(b) conversion/repurposing of existing natural gas networks to 100% hydrogen;</p> <p>(c) retrofit of gas transmission and distribution networks that enables the integration of hydrogen and other low-carbon gases in the network, including any gas transmission or distribution network activity that enables the increase of the blend of hydrogen or other low carbon gasses in the gas system;</p> <p>2. The activity includes leak detection and repair of existing gas pipelines and other network elements to reduce methane leakage.</p>	<p>Snam has not yet identified any project under the specific category. The company commits to only finance reconversion activities that are compliant with point 1 and 2 on the left. Snam will report on how it complies with the EU Taxonomy requirement in its annual reporting.</p>	<p style="text-align: center;">✓</p>
2. CLIMATE CHANGE ADAPATION – DO NO SIGNIFICANT HARM CRITERIA		
GENERIC CRITERIA FOR (2)	See B.6	<p style="text-align: center;">✓</p>
3. WATER – DO NO SIGNIFICANT HARM CRITERIA		
GENERIC CRITERIA FOR (3)	See B.1, point 3	<p style="text-align: center;">✓</p>
4. CIRCULAR ECONOMY – DO NO SIGNIFICANT HARM CRITERIA		

N/A	N/A	N/A
5. POLLUTION – DO NO SIGNIFICANT HARM CRITERIA		
Fans, compressors, pumps and other equipment used which is covered by Directive 2009/125/EC of the European Parliament and of the Council ³⁰ comply, where relevant, with the top class requirements of the energy label, and with implementing regulations under that Directive and represent the best available technology.	The Directive 2009/125/EC is in force in Italy. The operations for this category will exclusively be located in Italy. Snam commits to comply with the Directive.	✓
6. ECOSYSTEMS – DO NO SIGNIFICANT HARM CRITERIA		
GENERIC CRITERIA FOR (6)	See B.7	✓

³⁰ Directive 2009/125/EC of the European Parliament and of the Council of 21 October 2009 establishing a framework for the setting of ecodesign requirements for energy-related products (OJ L 285, 31.10.2009, p. 10).

B.5 6.14 Infrastructure for rail transport (Hydrogen fueling stations)

EU TAXONOMY REQUIREMENT	GREEN PROJECTS OWN PERFORMANCE AND SELECTION PROCESSES	ANALYSIS AGAINST REQUIREMENT
1. SUBSTANTIAL CONTRIBUTION TO CLIMATE CHANGE MITIGATION – TECHNICAL SCREENING CRITERIA		
<p>The activity complies with one or more of the following criteria:</p> <p>a) the infrastructure (as defined in Annex II.2 to Directive (EU) 2016/797 of the European Parliament and of the Council) is either :</p> <p>(i) electrified trackside infrastructure and associated subsystems: infrastructure, energy, on-board control-command and signalling, and trackside control-command and signalling subsystems as defined in Annex II.2 to Directive (EU)2016/797;</p> <p>(ii) new and existing trackside infrastructure and associated subsystems where there is a plan for electrification as regards line tracks, and, to the extent necessary for electric train operations, as regards sidings, or where the infrastructure will be fit for use by zero tailpipe CO2 emission trains within 10 years from the beginning of the activity: infrastructure, energy, on-board control-command and signalling, and trackside control-command and signalling subsystems as defined in Annex II.2 to Directive (EU)2016/797;</p> <p>(iii) until 2030, existing trackside infrastructure and</p>	<p>Snam will finance hydrogen fueling stations to be used for hydrogen powered trains. The category is part of the associated subsystems of rail transport infrastructure, and, as such, complies with the technical screening criteria. The infrastructure is not dedicated to the transport or storage of fossil fuels.</p>	<p style="text-align: center;"></p>

<p>associated subsystems that are not part of the TEN-T network and its indicative extensions to third countries, nor any nationally, supranationally or internationally defined network of major rail lines: infrastructure, energy, on-board control-command and signalling, and trackside control-command and signalling subsystems as defined in Annex II.2 to Directive (EU) 2016/797;</p> <p>(b) the infrastructure and installations are dedicated to transshipping freight between the modes: terminal infrastructure and superstructures for loading, unloading and transshipment of goods;</p> <p>(c) infrastructure and installations are dedicated to the transfer of passengers from rail to rail or from other modes to rail.</p> <p>2. The infrastructure is not dedicated to the transport or storage of fossil fuels.</p>		
<p>2. CLIMATE CHANGE ADAPATION – DO NO SIGNIFICANT HARM CRITERIA</p>		
<p>GENERIC CRITERIA FOR (2)</p>	<p>See B.6</p>	<p>✓</p>
<p>3. WATER – DO NO SIGNIFICANT HARM CRITERIA</p>		
<p>GENERIC CRITERIA FOR (3)</p>	<p>See B.1, point 3</p>	<p>✓</p>
<p>4. CIRCULAR ECONOMY – DO NO SIGNIFICANT HARM CRITERIA</p>		
<p>At least 70% (by weight) of the non-hazardous construction and demolition waste (excluding naturally occurring material defined in category 17 05 04 in the European List</p>	<p>Snam has not yet identified any project under this specific category. The issuer commits to incorporating this criterium into their eligibility selection criteria.</p>	<p>✓</p>

of Waste established by Decision 2000/532/EC) generated on the construction site is prepared for reuse, recycling and other material recovery, including backfilling operations using waste to substitute other materials, in accordance with the waste hierarchy and the EU Construction and Demolition Waste Management Protocol³¹. Operators limit waste generation in processes related construction and demolition, in accordance with the EU Construction and Demolition Waste Management Protocol and taking into account best available techniques and using selective demolition to enable removal and safe handling of hazardous substances and facilitate reuse and high-quality recycling by selective removal of materials, using available sorting systems for construction and demolition waste.

As per EU GBS requirements, the issuer will report annually on the Taxonomy alignment and will finance, under this Framework, assets that adopt techniques leading to a reuse, recycling and other material recovery of at least 70% (by weight) of the non-hazardous construction and demolition waste generated on the construction site.

5. POLLUTION – DO NO SIGNIFICANT HARM CRITERIA

Where appropriate, given the sensitivity of the area affected, in particular in terms of the size of population affected, noise and vibrations from use of infrastructure are mitigated by introducing open trenches, wall barriers, or other measures and comply with Directive 2002/49/EC of the European Parliament and of

The Directive 2002/49/EC is in force in Italy. The operations for this category will exclusively be located in Italy. Snam commits to comply with the Directive.



³¹ EU Construction and Demolition Waste Protocol(version of [adoption date]: https://ec.europa.eu/growth/content/eu-construction-and-demolition-waste-protocol-0_en).

the Council³². Measures are taken to reduce noise, dust and pollutant emissions during construction or maintenance works.

6. ECOSYSTEMS – DO NO SIGNIFICANT HARM CRITERIA


GENERIC CRITERIA FOR (6)

See B.7



³² Directive 2002/49/EC of the European Parliament and of the Council of 25 June 2002 relating to the assessment and management of environmental noise (OJ L 189, 18.7.2002, p. 12).

B.6 Generic Criteria for DNSH to Climate Change Adaptation

EU TAXONOMY TECHNICAL SCREENING CRITERIA	GREEN PROJECTS OWN PERFORMANCE AND SELECTION PROCESSES	ANALYSIS AGAINST REQUIREMENT
<p>2. CLIMATE CHANGE ADAPTATION – DO NO SIGNIFICANT HARM CRITERIA</p>		
<p>GENERIC CRITERIA FOR DNSH TO CLIMATE CHANGE ADAPTATION</p> <p>The physical climate risks that are material to the activity have been identified from those listed in the table in Section II (of the Delegated Act) by performing a robust climate risk and vulnerability assessment with the following steps:</p> <p>(a) screening of the activity to identify which physical climate risks from the list in Section II (of the Delegated Act) may affect the performance of the economic activity during its expected lifetime;</p> <p>(b) where the activity is assessed to be at risk from one or more of the physical climate risks listed in Section II (of the Delegated Act), a climate risk and vulnerability assessment to assess the materiality of the physical climate risks on the economic activity;</p> <p>(c) an assessment of adaptation solutions that can reduce the identified physical climate risk.</p>	<p>Snam’s Enterprise Risk Management model covers eight types of impact, some of which are determined by risk owners (operational impacts: Economic, Industrial/Business, Asset), others by specialist departments (impacts: Financial, Legal/Compliance/Governance, Reputational, HS/Environment, Market). Lastly, in addition to the Governance and Environment impacts, the Social impact has been defined in connection with the continuous and increasing integration of ESG aspects within the Enterprise Risk Management (ERM) framework and will be incorporated into the model in 2021.</p> <p>Risks identified via the ERM process are classified as financial, operational, legal and non-compliance, and strategic, including risks related to ESG issues that these may contain.</p> <p>Current and prospective risks and opportunities associated with Snam’s corporate strategy are identified, assessed and monitored through the ERM model. The process of identifying, assessing and managing climate change risks and opportunities is fully integrated into the ERM model.</p> <p>The ERM process is repeated on a regular basis (quarterly for critical risks) and is designed, among other things, to foster a corporate culture of risk and to make informed decisions.</p> <p>Snam’s ERM department applies a risk prioritisation and clustering process to identify the risks that have emerged and the related impacts on the business.</p> <p>The risks identified through the ERM process are classified as financial risks, operational risks, legal and non-compliance risks and strategic risks,</p>	<p style="text-align: center;"></p>

The climate risk and vulnerability assessment is proportionate to the scale of the activity and its expected lifespan, such that:

(a) for activities with an expected lifespan of less than 10 years, the assessment is performed, at least by using climate projections at the smallest appropriate scale;

(b) for all other activities, the assessment is performed using the highest available resolution, state-of-the-art climate projections across the existing range of future scenarios consistent with the expected lifetime of the activity, including, at least, 10 to 30 year climate projections scenarios for major investments.

For new activities and existing activities using newly-built physical assets, the economic operator integrates the adaptation solutions that reduce the most important identified physical climate risks that are material to that activity at the time of design and construction and has implemented them before the start of operations. The adaptation solutions implemented do not adversely affect the adaptation efforts or the level of resilience to physical climate risks of other people, of nature, of cultural heritage, of assets and of other economic activities; are

which, in turn include the risks related to climate change. All risks and opportunities are assessed and prioritised based on probability and impact, applied according to different types.

Through the use of the ERM model, after identifying the risky events that could affect the Company's targets, the importance of each event is determined through a prioritisation matrix that shows the probability of occurrence of the event and its impacts. Each risk is assessed according to different types of qualitative and quantitative impact, some operational (industrial/business, economic, asset) and others specialist (financial, legal, HSE, reputational and market).

The time horizons for the analysis of risks and opportunities related to climate change are short-term, medium-term and long-term.

consistent with local, sectoral, regional or national adaptation strategies and plans; and consider the use of nature-based solutions or rely on blue or green infrastructure to the extent possible.


The climate projections and assessment of impacts are based on best practice and available guidance and take into account the state-of-the-art science for vulnerability and risk analysis and related methodologies in line with the most recent Intergovernmental Panel on Climate Change reports, scientific peer-reviewed publications, and open source or paying models. For existing activities and new activities using existing physical assets, the economic operator implements physical and non-physical solutions ('adaptation solutions'), over a period of time of up to five years, that reduce the most important identified physical climate risks that are material to that activity. An adaptation plan for the implementation of those solutions is drawn up accordingly.

B.7 Generic Criteria for DNSH to Protection and Restoration of Biodiversity and Ecosystems

EU TAXONOMY TECHNICAL SCREENING CRITERIA	GREEN PROJECTS OWN PERFORMANCE AND SELECTION PROCESSES	ANALYSIS AGAINST REQUIREMENT
6. PROTECTION AND RESTORATION OF BIODIVERSITY AND ECOSYSTEMS – DO NO SIGNIFICANT HARM CRITERIA		
<p>GENERIC CRITERIA FOR DNSH TO PROTECTION AND RESTORATION OF BIODIVERSITY AND ECOSYSTEMS</p> <p>An Environmental Impact Assessment (EIA) or screening has been completed in accordance with Directive 2011/92/EU. Where an EIA has been carried out, the required mitigation and compensation measures for protecting the environment are implemented.</p> <p>For sites/operations located in or near biodiversity-sensitive areas (including the Natura 2000 network of protected areas, UNESCO World Heritage sites and Key Biodiversity Areas, as well as other protected areas), an appropriate assessment, where applicable, has been conducted and based on its conclusions the necessary mitigation measures are implemented.</p>	<p>For all the projects, especially those that have not yet been identified, Snam commits to respect the EU Directive on Environmental Impact Assessment (2014/52/EU) and Strategic Environmental Assessment (20021/42/EC). Where required by European, national or location legislation, Environmental Impact Assessment have been/will be conducted.</p> <p>Regarding pipelines (also those H-ready) from the design stage of the network, Snam undertakes to implement all the measures necessary to avoid or minimize the impacts associated with its works: where applicable, these are assessed in environmental and safety terms through the Environmental Impact Assessments (EIA) or Integrated Environmental Authorization (AIA Autorizzazione Impatto Ambientale for plants), at the end of which the administrations in charge, both at central and local level, issue the authorizations for the start of the activities. Following the design and decommissioning phases of the pipelines, Snam initiates a series of operations aimed at restoring the pre-existing plant and morphological conditions, ensuring the stability and natural balance of the surrounding habitat and promoting the biological functionality of the area. With specific regard to biodiversity assure Snam has also set an important target in its ESG scorecard, a tool meant to monitor 22 kpi with a 3-year span target in relevant ESG areas. For what concerns biodiversity Snam set a target meant to restore more than 99% of the natural and semi-natural areas involved in the construction of the pipeline routing. (link scorecard).</p> <p>Snam also oversees its activities through environmental management systems certified according to the ISO 14001: 2015 standard.</p>	<p style="text-align: center;"></p>

B.8 Minimum Social Safeguards

ISS ESG assessed the alignment of the due diligence and selection processes in place with the EU Taxonomy Minimum Social Safeguards as described in Article 18 of the Taxonomy Regulation³³. The results of this assessment are applicable for every Project Category financed under this framework and are displayed below:

EU TAXONOMY REQUIREMENT	GREEN PROJECTS OWN PERFORMANCE AND SELECTION PROCESSES	ANALYSIS AGAINST REQUIREMENT
<p>Alignment with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights, including the principles and rights set out in the eight fundamental conventions identified in the Declaration of the International Labour Organisation on Fundamental Principles and Rights at Work and the International Bill of Human Rights.</p>	<p>The due-diligence process put in place by the issuer includes a check on compliance with local laws and regulations. Snam only operates in the European Union. Its main relevant presence is in Italy.</p> <p>Snam’s Human Rights Policy is based on the Fundamental Conventions of the ILO, and the OECD Guidelines for Multinational Enterprises. Snam only operates and owns assets in countries that have ratified the ILO core conventions.</p> <p>On top of that, Snam officially adheres to the UN Guiding Principles on Business and Human Rights³⁴.</p>	<p style="text-align: center;"></p>

³³ <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32020R0852>

³⁴ https://www.snam.it/en/Sustainability/snam_commitments/human_rights.html

PART IV: ISSUANCE CREDIBILITY OF THE KPI AND SPT FOR SUSTAINABILITY-LINKED BONDS

1. KPI 1: Methane emissions

1.1. KPI selection

KPI selected by the issuer

FROM ISSUER'S FRAMEWORK

- **KPI 1:** Absolute reduction of natural gas emissions (CH₄ measured in Mm³)
- **SPT 1:** 55% reduction in CH₄ Emissions reduction by 2025 against a 2015 baseline

Long-term goal: Achieve carbon neutrality by 2040 within Scope 1 and 2

Rationale: With the aim to achieve the ultimate goal of playing a key role in the energy transition and with a long-term vision consistent with its purpose and European objectives, Snam is committed to reach carbon neutrality by 2040 and provide a strong contribution to the decarbonisation of the system through the development of green gases and, in particular, hydrogen. In order to substantiate and trace the path towards Net Zero Carbon, Snam has planned clear intermediate steps in the short and medium term.

Baseline: 49.74Mm³

Baseline year: 2015

2025 goal: 22.5 Mm³ equiv. to -55% reduction from 2015 baseline

Scope: This KPI covers the CH₄ emissions derived from Snam's various businesses such as transport, storage and regasification. Methane (CH₄) emissions³⁵ arise from the release of natural gas into the atmosphere, from normal plant operation, from the connection of new gas pipelines and the maintenance activities, or from accidental spills occurring at infrastructures.

Materiality and relevance

Climate protection and contribution to the energy transition is considered as a key ESG issue faced by the Gas & Electricity Network Operators sector according to key ESG standards³⁶ for reporting and ISS ESG assessment. In particular, methane emissions are a key source of GHG emissions from gas distribution networks.

ISS ESG finds that natural gas emissions reduction KPI selected by the issuer are:

- **Relevant** to issuer's business, because fugitive, pneumatic and vented methane emissions resulting from leakages from pipeline/valves, regulated equipment (valves controlled by means of compressed gas discharge) and scheduled maintenance activities, which include venting or depressurization, are potent greenhouse gases for which Snam is paid to transport.

³⁵ Methane emissions are measured in m³ and then converted in CO₂eq and for the conversion the CO₂eq was assessed in accordance with the instructions of the most recent Intergovernmental Panel on Climate Change (IPCC) "Fifth Assessment IPCC Reports" that assigned methane a Global Warming Potential (GWP) of 28.

³⁶ Key ESG Standards include SASB and TCFD, among others.

Hence, lower rates of fugitive, pneumatic and vented emissions lead to higher rates of transmission efficiency through the distribution network.

- **Core** to the Snam's business, because reducing such emissions would require operational and technological changes such as gas recompression interventions in the line, interventions with tapping machines (technology that allows detaching from operating pipelines for new connections without interrupting services), the use of Leak Detection and Repair (LDAR) technologies and other initiatives to replace network components.
- **Material** to Snam from an ESG perspective. Methane emissions are a key ESG topic for this sector. Data provided by Snam's 2020 Sustainability Report³⁷ shows that the CH₄ emissions account for 48% of its Scope 1 emissions in 2020, partly due to the high global warming potential of methane.

Consistency with overall company's sustainability strategy

One of Snam's sustainability goals is to reduce its GHG emissions and to undertake climate action. An important part of delivering this goal would be to reduce its methane emissions, which although is shorter lived than CO₂, is up to 28 times as potent in terms of global warming potential³⁸. The company is focusing on additional investments for the maintenance and programs to recover more than 40% of natural gas that is otherwise emitted from its networks. Therefore, ISS ESG finds that the KPI selected by the issuer is consistent with the overall company's sustainability strategy.

Measurability

- **Scope and perimeter:** The KPI selected covers all methane emissions from all Snam Group's scope of consolidation, excluding its Italian and international subsidiaries that are minority or otherwise jointly owned by Snam.
- **Quantifiable and externally verifiable:** The KPI selected is measurable and quantifiable. Snam is a signatory to the 'Methane Guiding Principles' and the 'Oil and Gas Methane Partnership 2.0' and will use the industry standard in measuring and reporting its methane emissions. The KPI selected is externally verifiable because it will be calculated using industry standards and independently verified by an external verifier (qualified provider of third-party assurance or attestation services).
- **Externally verified:** Before the issuance, the methane emissions have not been verified by a third party.
- **Benchmarkable:** By using the Methane Guiding Principles³⁹ and the OGMP industrial practices for measuring and reporting, the KPI is directly comparable with the relevant data reported by Snam's industry peers and relevant external references.

Opinion on KPI selection: ISS ESG finds that the KPI 1 selected is core, relevant and material to Snam's business model and consistent with its sustainability strategy. It is appropriately measurable,

³⁷https://www.snam.it/export/sites/snam-rp/repository/ENG_file/investor_relations/reports/annual_reports/2020/2020_sustainability_report.pdf

³⁸ https://ar5-syr.ipcc.ch/ipcc/resources/pdf/IPCC_SynthesisReport.pdf (page 87 related to GWP)

³⁹ [Snam sustainability report 2020](#)

quantifiable, externally verifiable and benchmarkable. The KPI historical data has not been verified by an external party.

1.2. Calibration of SPT 1

SPT set by the issuer

FROM ISSUER'S FRAMEWORK⁴⁰

Sustainability Performance Target: 55% absolute reduction in CH₄ emissions by 2025 against a 2015 baseline.

Sustainability Performance Target Trigger: The trigger will be Snam's failure to satisfy this SPT by December 31, 2025.

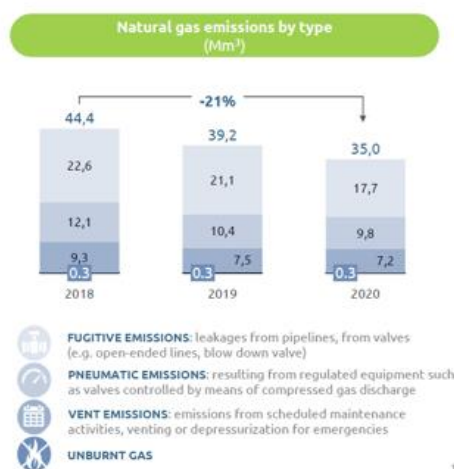
Sustainability Performance Target Observation Date: December 31, 2025

2015 Baseline: Approx. 50Mm³ of CH₄

Rationale: The SPT is in line with Snam's Net Zero Carbon strategy by 2040. In order to substantiate and trace the path towards Net Zero Carbon, Snam has planned clear intermediate steps in the short and medium term including natural gas emissions reduction by 55% by 2025, which is more ambitious than the recommended target of the UNPE Oil & Gas Methane Partnership initiative (OGMP) for 2025 and more ambitious than the one proposed by the Global Methane at COP26.

Risks to the target:

- Delays and inefficiencies in the construction / commissioning of dual fuel installations;
- Delays and inefficiencies in the implementation of initiatives aimed at reducing methane emissions (e.g. in-line gas recompression, replacement of pneumatic valves, LDAR initiative; and
- Failure to implement the hypotheses on the transport scenarios for green gases (e.g. biomethane, hydrogen) due to the external context or to the lack of technological adaptation of the network with reference to its capability to transport hydrogen.

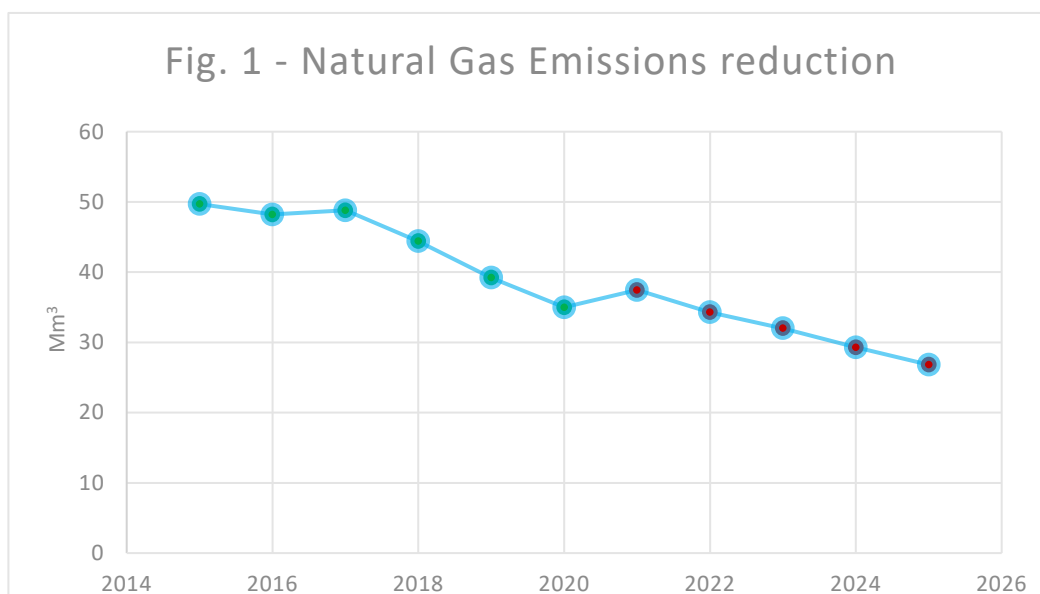


Source: Snam Sustainable Finance Framework as of November 2021

⁴⁰ This table is displayed by the issuer in its Sustainable Finance Framework and have been copied over in this report by ISS ESG for clarity.

Ambition

Against company's past performance



Snam's historical figures (in green) for 2015, 2018, 2019 and 2020 are given in Snam's Framework (version 29/11/2021) and projected figures (in red) for 2021 and 2023 are provided in Snam's sustainability report. 2020, 2022, 2024 and 2025 projected figures have been computed thanks to the Compound Annual Growth Rate (CAGR) between 2020 and 2025 of 8.5% and are included for illustrative purposes. Therefore, they do not represent actual targets by Snam.

Figure 1 shows that CH₄ emissions have varied over the years. In 2021, the emissions were slightly higher than 2020. Despite this increase, methane emissions' annualised reduction rate between 2015 and 2020 stands at 7% and by Dec. 2020 methane emissions were already down by 30% compared to the baseline year. The projected compounded annual growth rate between 2021 and 2025 of 12% shows that by 2025 Snam would be able to reduce its methane emissions by 46% vs. 2015 to 26.8 Mm³.

In contrast, the SPT 1 aims for a 55% reduction in natural gas between 2015 and 2025, therefore the annualised reduction rate of 7.7% per year is slightly faster than the 7% yearly reduction between 2015 and 2020.

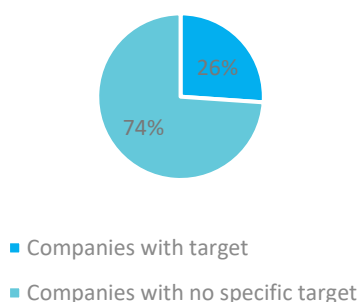
In this context and compared to the baseline year, SPT 1 set by Snam is perceived by ISS ESG as ambitious against the company's past performance. The calculation presents limitations, due to the fact that Snam's historical data was not verified by an external party. However, Snam's Sustainability Report has been verified by an external party through a limited audit.

Against company's sectorial peers

ISS ESG conducted a benchmarking of the SPT 1 against the Gas and Electricity Network Operators group, only including the companies involved in the Gas Utilities in the ISS ESG Universe, which includes 23 companies, as of October 2021.

As of October 2021, ISS ESG evaluates Snam as a good performer in terms of methane emissions reduction targets against its peers. Indeed, within the peer group, only 6 companies, including Snam, have public methane emissions reduction targets. Among these 6 companies, the SPT 1 set by Snam belongs to the 2 most ambitious SPTs in terms of magnitude. Therefore, Snam is within the top 10% of its industry.

Figure 2. Gas network Operators -
Methane emissions reduction
targets



Sources: ISS ESG, as of 10.10.2021

ISS ESG concludes that the SPT 1 set by the issuer is ambitious compared to its industry peer group, in terms of magnitude of its methane emission reduction target.

Against international targets

Paris Agreement

The Paris Agreement does not have a separate target for methane emissions and has an overall target of net zero emissions in the “second half of the century”. This overall target would also imply net zero methane emissions in the same timeframe. It is not possible to benchmark the SPT 1 against the Paris Agreement directly. However, whilst Snam does not have a long-term target for its methane emissions specifically, it has a general long-term target for carbon neutrality in 2040 Scope 1 and 2, which will cover the methane emissions too.

Other International targets

The Mineral Methane Initiative (MMI)⁴¹ within the Oil and Gas Methane Partnership (OGMP) aims to promote deep cuts in the methane emissions from the production, transmission, and distribution of mineral methane including the following goals relating to the oil and gas sectors:

- 45% emissions reductions in methane emissions over estimated 2015 levels by 2025;

⁴¹ http://ogmpartnership.com/sites/default/files/files/OGMP_20_Reporting_Framework.pdf

- 60-75% reductions by 2030; or alternatively
- a 'near zero' emissions intensity, such as the OGCI collective average target for upstream operations of 0.25% by 2025;

The Global Methane Pledge⁴², an international initiative put forward by the US and the EU to reduce methane emissions, commits at the UNFCCC Climate Change COP26 summit in Glasgow to cut methane emission levels by 30% by 2030 from 2020 levels. The SPT of 55% reduction in methane emissions between 2015-2025, which is equivalent to a 42% reduction versus 2020 level, is more ambitious than the OGMP goals and the Global Methane Pledge.

ISS ESG finds that the SPT is more ambitious than OGMP's recommended target for 2025 and the Global Methane Pledge recommended targets. The benchmark selected by the issuer is provided by an independent third party based on a methodology established in the industry.

Measurability & comparability

- **Historical data:** The issuer provided relevant historical data by setting the baseline year of its SPT to 2015 and provided yearly methane emissions data available for 2015, 2018, 2019 and 2020, which is in line with the SLBP of providing at least historical data for 3 years. Yet, the past performance has not been verified by a third-party.
- **Timeline:** The issuer defined a precise timeline related to the SPT 1 achievement, including the target observation date, the trigger event, and the frequency of SPTs measurement.

Supporting strategy and action plan

Methane emissions amounted to 35.0 million m³ in 2020, down 11% compared to 39.2 million m³ in 2019 and -21% compared to 2018, given continued efforts with:

- gas recompression interventions in the line,
- interventions with tapping machines (technology that allows detaching from operating pipelines for new connections without interrupting service),
- the use of Leak Detection and Repair (LDAR) technologies to monitor the emitting components in our facilities and intervene on leaks and other initiatives to replace network components.

In addition, the Group continued the campaign to install ball valves in about 350 plants over three years, leading to a reduction of about 3.87 million m³ in total.

As part of new actions, an investment plan has also been defined that will allow for the maintenance and development of programs to recover more than 40% of natural gas from maintenance activities as an average over 5 years, for each year until 2023.

The supporting strategy and action plan contemplated by Snam is aligned with recommendations released by the Oil and Gas Methane Partnership (OGMP) 2.0. Besides, Snam has launched a new

⁴² <https://www.ccacoalition.org/en/resources/global-methane-pledge>

research activity within the European Gas Research Group (GERG) on top-down and bottom-up reconciliation methodologies for measuring emissions.

Opinion on SPT calibration: *ISS ESG finds that SPT 1 calibrated by Snam is ambitious against the company's past performance (with limitations due to the lack of verified historical data) and also when compared to peers in the Gas Network Operators sector practices in terms of defining a public methane reduction target. The SPT 1 is ambitious against the international targets such as the OGMP's standards and the Global Methane Pledge. SPT 1 is set in a clear timeline, benchmarkable against the Methane Guiding Principles and supported by a strategy and action plan.*

2. KPI 2: Scope 1 and 2 greenhouse gas emissions (tCO₂eq)

2.1. KPI selection

KPI selected by the issuer

FROM ISSUER'S FRAMEWORK

- **KPI 2:** Absolute direct (Scope 1) and indirect (Scope 2) GHG emissions (expressed in tCO₂eq)
- **SPT 2:** GHG Emissions Reduction (Scope 1 and 2) by 40% in 2027 against a 2018 baseline
- **SPT 3:** GHG Emissions Reduction (Scope 1 and 2) by 50% in 2030 against a 2018 baseline

Long-term goal: Achieve carbon neutrality by 2040 within Scope 1 and 2 GHG emissions⁴³

Rationale: With its Net Zero Carbon strategy, Snam envisages concrete actions and significant investments for a gradual reduction in direct and indirect Scope 1 and 2 GHG emissions, in line with the commitments defined in the Paris Agreement to limit the rise in global temperature to no more than 1.5°C compared pre-industrial levels, until carbon neutrality is achieved in 2040.

Baseline: 1,529 ktCO₂eq

Baseline year: 2018

Scope:

Scope 1 GHG emissions cover methane emissions resulting from Snam's various businesses such as transport, storage, and regasification; emissions due to Snam's direct consumptions such as natural gas used in the combustion of industrial processes and for heating offices, and other fuels such as diesel, gasoline, and LPG; Emissions of HFC used in the air conditioning systems.

Scope 2 GHG emissions cover indirect emissions for the production of electricity and steam produced by third parties and which Snam uses for its own activities.

Materiality and relevance

Climate protection and contribution to the energy transition is considered as a key ESG issue faced by the Gas & Electricity Network Operators sector according to key ESG standards⁴⁴ for reporting and ISS ESG assessment. Companies of this sector are highly energy intense. Snam has a 3.7 billion EUR investment plan to make their infrastructure appropriate for carrying hydrogen and is therefore planning to transport gas which increasingly comes from lower carbon sources. It is important that such developments are paired with the decarbonisation of Snam's own operations accordingly, to demonstrate its commitment to the energy transition and the industry's climate goals.

ISS ESG finds that the GHG emissions reduction KPI 2 selected by the issuer is:

- **Relevant** to Snam's business as its industry is highly GHG-emitting and exposed to climate change mitigation solutions (e.g., regulatory risks, consumer preferences, fuel switching, electrification of energy supplies, modernizing equipment, and innovations to existing energy, transportation and industrial systems). Such pressures on the energy system will be increasing in the coming decades. According to the International Energy Agency's World Energy Outlook

⁴³ Snam will implement offsetting projects from 2040, only for the emissions that cannot be eliminated according to the best available technologies.

⁴⁴ Key ESG Standards include SASB and TCFD, among others.

for 2021, the energy sector is responsible for almost three-quarters of the anthropogenic emissions that have already pushed global average temperatures 1.1 °C higher since the pre-industrial age, with visible impacts on weather and climate extremes. All stakeholders in the energy sector have to contribute solutions for climate change⁴⁵. In particular, Snam's reductions of its direct emissions and electricity consumption are relevant to showcasing its climate ambition.

- **Core** to the Snam's business as the emissions reduction measures affects key processes and operations that are core to the business model of the issue, such as installation of new electric compressors in the gas booster and storage plants, replacement of heaters with new ones with higher efficiency, replacement of pneumatic instrumentation / valves with advanced technology minimizing gas leakage and development of new green gases such as biomethane and hydrogen.
- **Moderately material**⁴⁶ to Snam's business model and sustainability profile if used individually on a financial instrument as a stand-alone KPI, but **material** if integrated with KPI 3 on the same financial instrument. As the levers to achieve the targets for Scope 1 & 2 are very different than the ones for Scope 3, the issuer has set individual targets for its GHG emissions:
 - The KPI is material to the company's direct operations, because it focuses on Scope 1 & 2 emissions covering 100% of activities by the company at Group level globally. However, scope 1 & 2 emissions represent 58% of Snam's GHG footprint⁴⁷. The KPI does not cover the entire corporate value chain, as it does not include the company's Scope 3 emissions, representing 42%⁴⁸ of the company's overall GHG emissions as of 2020. Therefore, the KPI is deemed not material to the Corporate Value Chain of the company as per ISS ESG's methodology.
 - It is worth noting that KPI 3 addresses indirect GHG emissions throughout the value chain (i.e., Scope 3 emissions), which represent an estimated 42% of total emissions of the company. Therefore, 2 and 3 together would be considered fully material if they are integrated in the same financial instrument and both linked to the bond characteristics. As the issuer covers emissions across the value chain in two individual KPIs, the end results will be material to Snam's entire business model and sustainability profile.

Consistency with overall company's sustainability strategy

In Snam new Strategic Plan to achieve net zero carbon by 2040, the company has included a series of clear decarbonization targets, which aim to reduce its Scope 1 and Scope 2 emissions by 50% by 2030 compared to 2018. The company is also committed to defining a reduction plan for its main Scope 3 emissions categories, including the mapping of GHG emissions and sharing best practice for all

⁴⁵ <https://www.iea.org/reports/world-energy-outlook-2021/executive-summary>

⁴⁶ Material to the company's direct operations, but not material to the entire corporate value chain (covering around 58% of Snam's overall GHG emissions). As the SBTi requires companies to include Scope 3 in their target if Scope 1 and 2 emissions account for less than 60% of the total GHG footprint, Snam's KPI is considered to be slightly below this threshold. As such, its KPI for Scope 1 and 2 emissions is assessed as "moderately material" on a stand-alone basis.

⁴⁷ As of 2020 data.

⁴⁸ ISS ESG bases this analysis on the issuer's own emissions reporting and makes no comment on the quality or consistency of the issuer's Scope 1, 2 or 3 emissions reporting, either in relation to GHG Protocol, or to established norms for the issuer's sector. ISS ESG notes that the level of disclosure in Scope 3 reporting may be different between companies in the same sector and does not undertake any benchmarking of an issuer's reporting.

companies in its supply chain. This KPI is further supported by Snam's target on methane emissions reduction (55% by 2025).

Therefore, ISS ESG finds that the KPI selected by the issuer is consistent with the overall company's sustainability strategy.

Measurability

- **Scope and perimeter:** The KPI 2 selected covers the Scope 1 and 2 GHG emissions of all Snam Group's scope of consolidation, excluding its Italian and international subsidiaries that are minority or otherwise jointly owned by Snam.
- **Quantifiable and externally verifiable:** The KPI 2 selected is measurable and quantifiable. The methodology for calculating the KPI 2 is in accordance with the GHG Protocol, and also includes emissions offsets attributed to purchased renewable electricity/Guarantee of Origin certificates (GoOs). Indirect emissions are calculated with both market-based and location-based approaches. The KPI selected is externally verifiable thanks to the various standards and protocols mentioned above and the data will be verified by a qualified external auditor.
- **Externally verified:** Historical data has not been verified.
- **Benchmarkable:** By referring to commonly acknowledged GHG accounting standards and protocol, the KPI is comparable with the data reported by other companies and against past performance. Benchmarking of the SPT in relation with this KPI has been analysed in the following section.

Opinion on KPI selection: ISS ESG finds that the KPI 2 selected is core and relevant to the issuer's business model and sustainability profile. Snam's KPI covers 58% of the company's total GHG footprint, because it does not include the Scope 3 GHG emissions, which represent a 42% of the company's overall GHG emissions⁴⁹ as of 2020. In light of this, KPI 2 is considered moderately material, as it is material to the company's direct operations, but it does not cover the entire corporate value chain⁵⁰. The KPI 2 is consistent with its sustainability strategy of carbon neutrality by 2040. It is appropriately measurable, quantifiable, externally verifiable and benchmarkable. However, it has not been externally verified. It covers all the Scope 1 and 2 GHG emissions resulting from the operations and activities of Snam.

2.2. Calibration of SPT 2 and 3

SPT set by the issuer

FROM ISSUER'S FRAMEWORK⁵¹

⁴⁹ ISS ESG bases this analysis on the issuer's own emissions reporting and makes no comment on the quality or consistency of the issuer's Scope 1, 2 or 3 emissions reporting, either in relation to GHG Protocol, or to established practices for the issuer's sector.

⁵⁰ The SBTi prescribes that companies should cover Scope 3 emissions in case Scope 1 and 2 emissions account for less than 60% of the total GHG footprint. See footnote 6 for more information.

⁵¹ This table is displayed by the issuer in its Sustainable Finance Framework and have been copied over in this report by ISS ESG for clarity.

Sustainability Performance Target 2: Absolute Scope 1 and 2 greenhouse gas emissions to decrease by 40% by 2027 from the 2018 baseline (equiv. to 917.4ktCO₂e).

Sustainability Performance Target 3: Absolute Scope 1 and 2 greenhouse gas emissions to decrease by 50% by 2030 from the 2018 baseline (equiv. to 764.5ktCO₂e).

Sustainability Performance Target Triggers: failure to satisfy the applicable SPTs of the relevant KPI incorporated in each specific Sustainability-Linked instrument by the agreed target observation dates (listed below).

Sustainability Performance Target Observation Date 2 and 3: December 31, 2027, and December 31, 2030

2018 Baseline: 1,529 ktCO₂e

Strategic 2040 Goal and selection of methodology for calculating the SPT: This SPT aligns with Snam's 2040 Goal to achieve carbon neutrality. Methodology for calculating the SPT is in line with the GHG protocol.

Rationale: The SPT is in line with Snam's NetZero Carbon strategy by 2040. In order to substantiate and trace the path towards Net Zero Carbon, Snam has planned clear intermediate steps in the short and medium term including GHG scope 1 & 2 emissions reduction by 50% by 2030.

Factors that support the achievement of the target:

- Measures to contain methane (CH₄) emissions, through the modernisation, efficiency and maintenance of the network, and the reduction of carbon dioxide (CO₂) emissions mainly through the conversion of compressor stations to dual fuels, thus replacing gas turbo-compressors with electric compressors, and thus increasing the use of green electricity.
- Integrating hydrogen into the existing infrastructure and thus enabling its use, about half of the investments envisaged in the Strategic Plan will be geared towards continuing the adaptation of the existing network to hydrogen ready, which is already ca. 70% ready today. Snam is also installing the first hybrid turbine capable of operating with 10% hydrogen at the Istrana (TV) power plant.

Risks to the target:

- Delays and inefficiencies in the construction / commissioning of dual fuel installations;
- Delays and inefficiencies in the implementation of initiatives aimed at reducing methane emissions (e.g. in-line gas recompression, replacement of pneumatic valves, LDAR initiative; and
- Failure to implement the hypotheses on the transport scenarios for green gases (e.g. biomethane, hydrogen) due to the external context or to the lack of technological adaptation of the network with reference to its capability to transport hydrogen.

SCOPE 1 AND 2 EMISSIONS

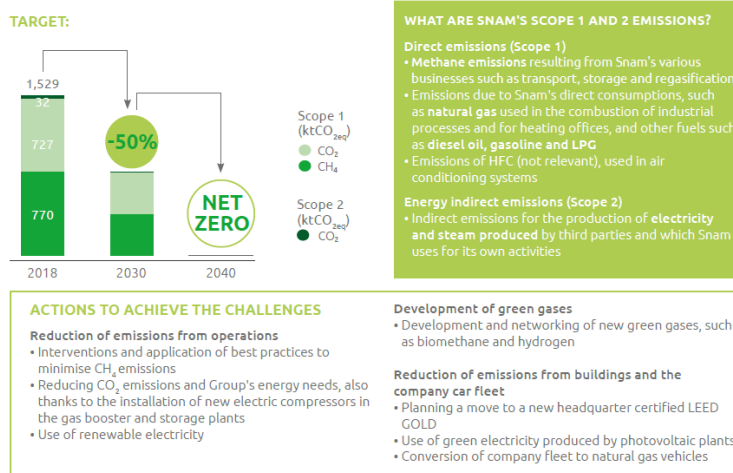


Figure 3. Scope 1 and 2 emissions from 2018 to target date

Source: Snam's Sustainable Finance Framework as of 29/11/2021

Ambition

Against company's past performance

Figure 4. below shows that total Scope 1 and 2 GHG emissions has decreased by 15% between 2018 and 2020 thanks to gas recompression interventions in the line, interventions with tapping machines (technology that allows detaching from operating pipelines for new connections without interrupting service), the use of Leak Detection and Repair (LDAR) technologies and other initiatives to replace network components.

In contrast, SPT 2 aims for a 40% reduction in GHG emissions between 2018 and 2027, with an annualised reduction rate of 4.9% per year between 2020 and 2027. SPT 3 aims for a 50% reduction in GHG emissions between 2018 and 2030, with an annualised reduction rate of 5.21% per year between 2020 and 2030. As such, both future reductions of 40% and 50% between respectively 2018-2027 and 2018-2030 would be less "steep" compared to the KPI's performance over the period 2018-2020.

However, Snam states that it had substantially reduced its Scope 1 and 2 emissions between 2018 and 2020, through the reduction of CH₄ emissions, and the mitigation measures that have been implemented from 2018. The CH₄ reduction initiatives have been accelerated and will provide benefits until 2025; after 2025, these initiatives will have minor impacts on Scope 1 and 2 reduction.

The reduction of Scope 1 and 2 GHG emissions between 2027 and 2030 will also be achieved through (i) the installation of some of the electro-compressors in 9 compressor stations, replacing the existing gas-drive turbocompressors, (ii) with purchase of green certificates; and (iii) the compressors stations

will be dual-fuel with higher efficiency and enabling sector coupling. These measures will reduce the consumption of energy from fossil fuels and consequently the Scope 1 and 2 emissions.

The dual fuel interventions will require large modifications to the existing compressor stations; large investments, and will take some years to be concluded, also considering the need to get special authorizations from public authorities. Therefore, the slower emission reduction rate in 2020-2027 and 2020-2030 compared to 2018-2020 relies on the complexity and increased time to conclude these large investments.

In this context and compared to the baseline year, the SPT 2 and 3 set by Snam are perceived by ISS ESG as ambitious against past performance, because whilst the future annualized reductions are similar to the previous annual reductions, Snam explains that future reductions will be more difficult to achieve than previous reductions. This reasoning is limited by the fact that historical data on GHG emissions has not been verified by an external party.

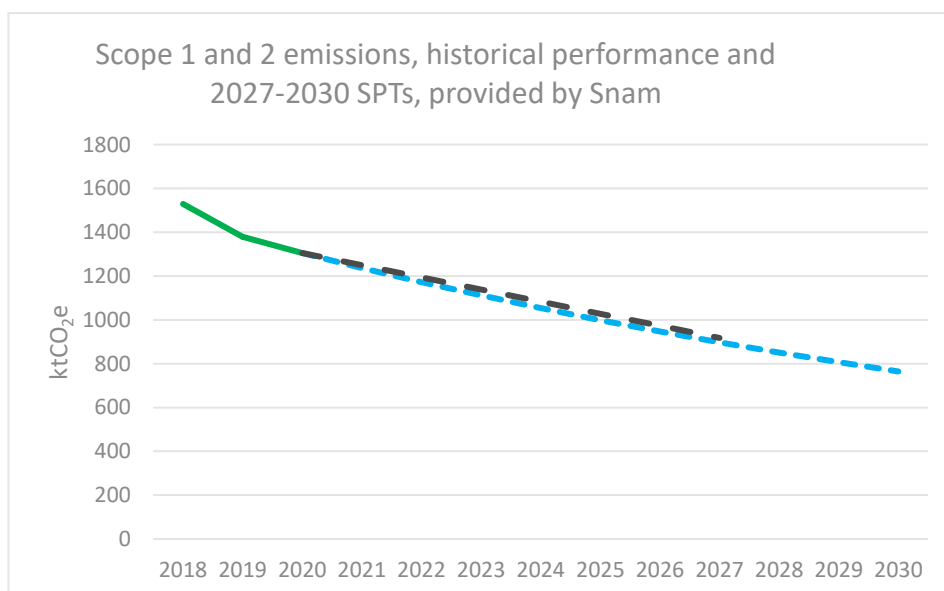


Fig. 4, describing Snam’s past performance (in green), 2027 projections (SPT 2, in black) and 2030 projections (SPT 3, in light blue) ⁵²

Against company’s sectorial peers

ISS ESG conducted a benchmarking of the SPT 2 and 3 against the Gas and Electricity Network Operators group, only including the companies involved in the Gas Utilities in the ISS ESG Universe, which includes 23 companies, as of October 2021.

As of 10.11.2021, ISS ESG evaluates that 12 companies, including Snam, have public GHG emission reduction targets. Among these companies, Snam belongs to the top 2 companies in terms of magnitude for GHG emission reduction levels. Therefore, a simple assessment shows that Snam is

⁵² Note: Forecasted target assuming CAGR2020-2030 of 5.21% and CAGR 2020-2027 of 4.9%. Figures from 2021 until 2029 are included for illustrative purposes and do not represent actual targets by Snam.

within the top 10% of the selected industry group by having public Scope 1 and 2 GHG emissions reduction targets of this magnitude.

ISS ESG concludes that the SPT 2 and 3 set by the issuer are ambitious compared to its peers in the Gas distribution sector in terms of the magnitude of its Scope 1 and 2 emissions reduction targets.

Against international targets

Paris Agreement

Snam has a long-term goal of carbon neutrality by 2040 for its Scope 1 and 2 Greenhouse emissions. The company has made a public commitment to setting a Science Based Targets Initiative (SBTi) validated near-term emissions reduction targets for its Scope 1, 2 and 3 based on the SBTi general methodology, which is one of the most widely used tools at present. ISS ESG considers that an SBTi validation of the SPTs 2 and 3 against the Paris Agreement is not possible yet, since the SBTi methodology for the Oil and Gas sector⁵³ is currently under development. ISS ESG finds that, without the validation of the company's targets by SBTi, or other forms of support by another external organization, it is not currently possible to confirm the level of the SPTs 2 and 3's ambition against the Paris Agreement. However, Snam's engagement to setting SBTi targets using the general methodology implies its commitment to being in line with the Paris Agreement.

Measurability & comparability

- **Historical data:** The issuer provided annual data for 3 years, which meets the SLBP recommendation of providing 3 years of historical data.
- **Timeline:** The issuer defined a precise timeline related to the SPT achievement, including the target observation date, the trigger event and the frequency of SPTs measurement.

Supporting strategy and action plan

To reduce its GHG emission by 2030, Snam has set up actions⁵⁴ to achieve this challenge:

Reduction of emissions from operations:

- Interventions and application of best practices to minimize CH₄ emissions
- Reducing CO₂ emissions and Group's energy needs, also thanks to the installation of new electric compressors in the gas booster and storage plants
- Use of renewable electricity

Development of green gases:

- Development and networking of new green gases, such as biomethane and hydrogen

Reduction of emissions from buildings and the company car fleet:

- Planning a move to a new headquarter certified LEED GOLD

⁵³ Oil and Gas - Science Based Targets

⁵⁴[https://www.snam.it/export/sites/snam-
rp/repository/ENG_file/investor_relations/reports/annual_reports/2020/2020_sustainability_report.pdf](https://www.snam.it/export/sites/snam-
rp/repository/ENG_file/investor_relations/reports/annual_reports/2020/2020_sustainability_report.pdf)

- Use of green electricity produced by photovoltaic plants
- Conversion of company fleet to natural gas vehicles

Opinion on SPT calibration: *ISS ESG finds that the SPT 2 and 3 calibrated by Snam are ambitious against past performance, because whilst the future annualized reductions are similar to the previous annual reductions, Snam explains that future reductions will be more difficult to achieve than previous reductions. The reasoning is limited by the fact that GHG historical data has not been verified. The SPT 2 and 3 are ambitious compared to its industry practices in terms of magnitude of targets set. Snam has committed to the SBTi, and hence the company will be in line with the Paris Agreement. The targets are set in a clear timeline, are benchmarkable and supported by a long-term strategy and action plan.*

3. KPI 3: Scope 3 greenhouse gas emissions (tCO₂eq)

3.1. KPI selection 3

KPI selected by the issuer

FROM ISSUER'S FRAMEWORK⁵⁵

- **KPI 3:** Absolute Indirect Scope 3 Greenhouse gas emissions (tCO₂eq)
- **SPT 4:** GHG Emissions Reduction by -46% in 2030 against a 2019 baseline

Long-term goal: Beyond 2030, Snam will continue to proactively engage with participated companies and suppliers to further reduce Scope 3 emissions and set a concrete pathway for decarbonization with related targets in the long term.

Rationale: In 2020, Snam has committed to reduce other indirect GHG emissions (Scope 3) primarily by working with participated companies and suppliers to reduce emissions throughout the entire value chain, without using carbon offsets. Beyond 2030, Snam will continue to proactively engage with participated companies and suppliers to further reduce Scope 3 emissions in order to achieve carbon neutrality in the longer term. As a continuous effort to integrate ESG attention in the corporate strategy, in the new Strategic Plan 2021-2025 Snam has adopted new targets for Scope 3 GHG emissions reduction.

Baseline: 762 ktCO₂eq

Baseline year: 2019

Scope: Scope 3 emissions

Scope 3: Emissions released along the Company's value chain and related to four emission GHG Protocol categories as associates, fuel-and-energy-related activities (which are not otherwise included as part of the Scope 1 and Scope 2 GHG Emissions), business travels and employee commuting. Overall, considering the 2020 reporting (both Sustainability Report and CDP Climate Change Questionnaire), the GHG Protocol categories included are: Purchased goods and services; Capital goods; Upstream transportation and distribution; Waste generated in operations; Upstream leased assets; Emissions from Fuel-and-energy-related activities (not included in Scope 1 or 2); Business travels; Employee commuting; Investments.

In 2021, the reporting methodology for Scope 3 emissions has been updated following the completion of a project aimed at defining the target for the reduction of indirect emissions and which is an integral part of the decarbonisation strategy already launched by Snam through the definition of targets on direct emissions (Scope 1 and 2). The main change in the methodology regards the recalculation of supplier emissions on the basis of the order placed in the reference year and no longer on the basis of procurement.

Materiality and relevance

Climate action and contribution to the energy transition is considered as a key ESG issue faced by the Gas Network Operators sector according to key ESG standards⁵⁶ for reporting and ISS ESG assessment. Companies of this sector are highly energy intense. Furthermore, the sector is exposed to the energy

⁵⁵ This table is displayed by the issuer in its Sustainable Finance Framework and have been copied over in this report by ISS ESG for clarity.

⁵⁶ Key ESG Standards include SASB and TCFD, among others.

transition, and stronger policies need to be implemented to put global gas demand on a path in line with reaching net-zero emissions by 2050 while still fostering economic prosperity. These include measures to ensure gas is used more efficiently⁵⁷. By including Scope 3 GHG emissions within its 2030's targets, Snam is moving toward a net-zero pathway to 2050.

ISS ESG finds that the KPI 3 selected by the issuer is:

- **Relevant** to Snam's business as its industry is highly GHG-emitting and exposed to climate change mitigation solutions (e.g., regulatory risks, consumer preferences, fuel switching, electrification of energy supplies, modernizing equipment, and innovations to existing energy, transportation and industrial systems). Such pressures on the energy system will be increasing in the coming decades. According to the International Energy Agency's World Energy Outlook for 2021, the energy sector is responsible for almost three-quarters of the anthropogenic emissions that have already pushed global average temperatures 1.1 °C higher since the pre-industrial age, with visible impacts on weather and climate extremes. All stakeholders in the energy sector have to contribute to solutions for climate change⁵⁸. Whilst Scope 3 emissions are not directly under Snam's control, the company does need to work with others across its value chain to reduce them.
- **Core** to Snam's business, because reducing Scope 3 GHG emissions' measures affects key processes and operations that are core to Snam's business model, such as by working with participated companies and suppliers throughout the entire value chain. Snam is implementing additional initiatives by promoting a culture aimed at saving energy, including sustainable mobility initiatives. Snam will not use offsetting or compensating activities to reducing its Scope 3 emissions.
- **Moderately material**⁵⁹ to Snam from an ESG perspective if used individually on a financial instrument as a stand-alone KPI, but material if integrated with KPI 2 on the same financial instrument.
 - As a standalone, KPI 3 is moderately material to Snam's business model and sustainability profile. The KPI is material to the company's entire value chain, as it focuses on the upstream and downstream value chain activities at Group level globally. Moreover, Scope 3 emissions represent around 42% of total GHG emissions generated by Snam. However, the KPI does not cover direct operations where the company has the most immediate impact. Therefore, the KPI 3 is deemed not material to the direct operations of the company as per ISS ESG's methodology.
 - It is worth noting that KPI 2 addresses Scope 1 and 2 emissions which represent an estimated 58% of total emissions of the company and cover the company's direct operations. Together, KPI 2 and 3 would be considered fully material if they are both integrated in the same financial instrument and linked to the bond characteristics. Together, the two KPIs are material to the entire value chain.

⁵⁷ <https://www.iea.org/news/natural-gas-demand-growth-set-to-slow-in-coming-years-but-strong-policy-actions-still-needed-to-bring-it-on-track-for-net-zero-emissions>

⁵⁸ <https://www.iea.org/reports/world-energy-outlook-2021/executive-summary>

⁵⁹ ISS ESG bases this analysis on the issuer's own emissions reporting and makes no comment on the quality or consistency of the issuer's Scope 1, 2 or 3 emissions reporting, either in relation to GHG Protocol, or to established norms for the issuer's sector. ISS ESG notes that Scope 3 reporting may be different between companies in the same sector and does not undertake any benchmarking of an issuer's reporting.

- It is worth noting that Snam's Scope 3 GHG target covers emissions from the value chain (associates, fuel and energy related activities, business travels and employee commuting), and excludes the rest of Scope 3 categories. The scope 3 categories covered by Snam's KPI account for more than two thirds (67%) of total scope 3 emissions. Other Scope 3 emissions categories (specifically related to Snam's supply chain) have been covered by another KPI that is not included in this Framework.
- ISS ESG notes that Snam's reported Scope 3 emissions does not report on the emissions related to the consumption of the gas, in line with industry practices for the gas transmission company sector. According to the International Petroleum Industry Environmental Conservation Association (IPIECA), gas pipeline operators are not required to report use phase emissions resulting from end user. Besides, companies with more than 50% of their revenue from fossil fuel transmission, such as Snam, cannot officially validate targets through the SBTi, whose Oil & Gas methodology is still under development.

Consistency with overall company's sustainability strategy

With the new Towards Net Zero Strategic Plan, the Group has set itself the goal of taking a leading role in the energy transition, thanks to the new businesses (biomethane, hydrogen, energy efficiency, sustainable mobility) and the innovation component, and aims of achieving carbon neutrality by 2040, ahead of the EU target set for 2050.

Whilst the Scope 3 emissions are indirect for Snam, reducing them, contribute to Snam's overall decarbonisation. The company is working on their leverage to potentially reach their target even beyond 2030, Snam will continue to proactively engage with participated companies and suppliers to further reduce Scope 3 emissions and set a concrete pathway for decarbonization with related targets in the long term. Therefore, ISS ESG finds that the KPI selected by the issuer is consistent with the overall company's sustainability strategy.

Measurability

- **Scope and perimeter:** The KPI selected covers all of the entities of Snam Group's scope of consolidation, excluding its Italian and international subsidiaries that are minority or otherwise jointly owned by Snam. Snam's Scope 3 GHG calculations cover emissions from the supply chain, scope 1 and 2 emissions of participated companies, fuel emissions from energy related activities, business travels and employees' commuting and emissions from extraction and network losses of the natural gas and electricity.
- **Quantifiable and Externally verifiable:** The KPI selected is measurable and quantifiable. The methodology for calculating the KPI uses GHG emissions which are calculated in accordance with the Greenhouse Gas Protocol (GHG Protocol). No offsets will be used for the calculation of Scope 3 emissions under this target and in any case before 2040. The KPI selected is externally verifiable thanks to the GHG Protocol mentioned above and the data will be verified by a qualified external auditor. Historical data has not been verified.
- **Externally verified:** Historical data has not been verified.

- **Benchmarkable:** By referring to commonly acknowledged GHG accounting standards and protocol, the KPI is comparable with the data reported by other companies and against past performance. Benchmarking of the SPT in relation with this KPI has been analysed in the following section.

Opinion on KPI selection: ISS ESG finds that the KPI selected is core and relevant and moderately material to the issuer's business model as a standalone KPI (since it does not cover Scope 1 and 2 emissions, which represents around 58% of total GHG emissions). The KPI 3 is consistent with its sustainability strategy which includes Scope 3 emission within its long-term carbon neutrality objective. It is appropriately measurable, quantifiable, externally verifiable and benchmarkable. However, it has not been externally verified.

3.2. Calibration of SPT 4

SPT set by the issuer

FROM ISSUER'S FRAMEWORK⁶⁰

Sustainability Performance Target 4: Reduce Scope 3 GHG emissions by 46% by 2030 from baseline year 2019.

Sustainability Performance Target Trigger: failure to satisfy the applicable SPTs of the relevant KPI incorporated in each specific Sustainability-Linked instrument by the agreed Reference Date.

Sustainability Performance Target Observation Date: December 31, 2030

2019 Baseline: 762 ktCO₂eq

Strategic 2040 Goal and selection of methodology for calculating the SPT: Beyond 2030, Snam will continue to proactively engage with participated companies and suppliers to further reduce Scope 3 emissions in order to achieve carbon neutrality in the longer term.

Rationale: In 2020, Snam has committed to reduce other indirect GHG emissions (Scope 3) primarily by working with participated companies and suppliers to reduce emissions throughout the entire value chain, without using carbon offsets. Beyond 2030, Snam will continue to proactively engage with participated companies and suppliers to further reduce Scope 3 emissions in order to achieve carbon neutrality in the longer term. As a continuous effort to integrate ESG attention in the corporate strategy, in the new Strategic Plan 2021-2025 Snam has adopted new targets for Scope 3 GHG emissions reduction.

Factors that support the achievement of the target:

Suppliers:

- Mapping of greenhouse gas emissions of all suppliers
- Request for compilation, to the most significant suppliers in terms of procurement, of the CDP Supply Chain questionnaire (formerly the Carbon Disclosure Project)

Participated Companies:

- Workshops and training for sharing best practices, also involving their own commercial partners, as well as members
- Launch of awareness-raising projects to encourage participated companies to take action to reduce their methane leakages, pneumatic emissions and to use electricity from renewable sources

⁶⁰ This table is displayed by the issuer in its Sustainable Finance Framework and have been copied over in this report by ISS ESG for clarity.

Risks to the target:

- Difficulties in the application of the emissions reduction plan from affiliates
- Difficulties for suppliers in reducing the environmental footprint

New target on Scope 3 emissions

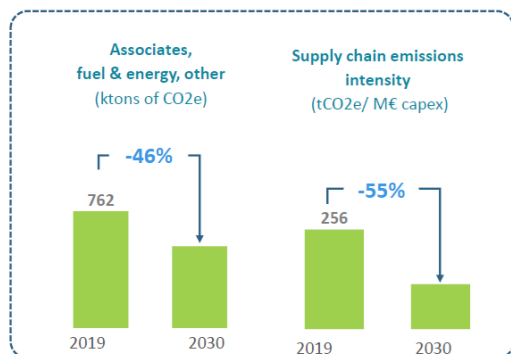


Fig. 5 New Target on Scope 3 emissions.

Source: Snam’s Sustainable Finance Framework as of 29/11/2021

Ambition

Against company’s past performance

The SPT covers Scope 3 emissions data associated to the following categories from the GHG Protocol: Associates, Fuel & Energy related activities, Business Travel, and Employee commuting, equating to 762 tCO₂eq for the year 2019 (baseline). As the company can’t provide more than a year of historical data, ISS ESG concludes that there is limited information available to assess the ambition of the SPT against the company past performance.

Against company’s sectorial peers

ISS ESG conducted a benchmarking of the SPT 4 against the Gas and Electricity Network Operators group, only including the companies involved in the Gas Utilities in the ISS ESG Universe, which includes 23 companies, as of October 2021.

ISS ESG evaluates that 3 companies, including Snam, have public GHG emission reduction targets including Scope 3 GHG emissions. Among these companies, with a CAGR⁶¹ of 4.18%, Snam has set the most ambitious Scope 3 emission target of the selected industry group in terms of magnitude.

ISS ESG concludes that the SPT 4 set by the issuer is ambitious compared to Gas Network Operator practices in terms of defining a GHG Scope 3 emissions reduction target with the largest magnitude.

⁶¹ Compound Annual Growth Rate

Against international targets

Paris Agreement

Snam developed its SPT 4 through the SBTi online tool for Scope 3 emissions, which is based on the SBTi general methodology and which is one of the most widely used tools at present. While other benchmarking tools and scenarios could be used to define the alignment of the SPT with the Paris Agreement, the SBTi tool and analysis is considered credible as it is provided by an independent third party based on a methodology established in the industry.

However, the calibrated target has not yet been verified by the SBTi. ISS ESG considers that an SBTi validation of the SPT 4 against the Paris Agreement is not possible yet, since the SBTi methodology for the Oil and Gas sector⁶² is currently under development.

ISS ESG finds that without the validation of the company's target by SBTi, or other forms of support by another external organization, it is not currently possible to confirm if SPT 4 is in line with the Paris Agreement. However, Snam's engagement to setting an SBTi validated target on its Scope 1, 2 and 3 emissions implies its commitment to be in line with the Paris Agreement.

Measurability & comparability

- **Historical data:** The company discloses information related to its Scope 3 GHG emissions for 2019 and 2020 but has not provided relevant historical data before the baseline year.
- **Timeline:** The issuer defined a precise timeline related to the SPT achievement, including the target observation date, the trigger event and the frequency of SPTs measurement.

Supporting strategy and action plan

A commitment to reduce other indirect GHG emissions (Scope 3) was also declared, primarily by working with participated companies and suppliers to reduce emissions throughout the entire value chain.

To reduce the other indirect GHG emissions (Scope 3) along the entire value chain, Snam has set up actions⁶³:

Working with suppliers:

- Mapping of greenhouse gas emissions of all suppliers
- Request for compilation, to the most significant suppliers in terms of procurement, of the CDP Supply Chain questionnaire (formerly the Carbon Disclosure Project) Participated Companies

Working with participated companies:

⁶² [Oil and Gas - Science Based Targets](#)

⁶³ <https://www.snam.it/export/sites/snam->

[rp/repository/ENG_file/investor_relations/reports/annual_reports/2020/2020_sustainability_report.pdf](https://www.snam.it/export/sites/snam-)

- Workshops and training for sharing best practices, also involving their own commercial partners, as well as members
- Launch of awareness-raising projects to encourage participated companies to take action to reduce their methane leakages, pneumatic emissions and to use electricity from renewable sources

No offsets will be used for the calculation of Scope 3 emissions under this target and in any case before 2040.

Opinion on SPT calibration: *ISS ESG finds that the SPT 4 calibrated is ambitious compared to its peers in the Gas Network Operators sector in terms of setting a Scope 3 emissions reduction target with the largest magnitude. There is limited evidence on the ambition against past performance, due to the lack of information available on historical data (two comparable years were provided). Snam has committed to the SBTi, and hence the company will be in line with the Paris Agreement. The target is set in a clear timeline and is supported by a strategy and action plan.*

DISCLAIMER

1. Validity of the SPO: As long as Snam's Sustainable Finance Framework remains unchanged.
2. ISS ESG uses a scientifically based rating concept to analyse and evaluate the environmental and social performance of companies and countries. In doing so, we adhere to the highest quality standards which are customary in responsibility research worldwide. In addition, we create a Second Party Opinion (SPO) on bonds based on data from the issuer.
3. We would, however, point out that we do not warrant that the information presented in this SPO is complete, accurate or up to date. Any liability on the part of ISS ESG in connection with the use of these SPO, the information provided in them and the use thereof shall be excluded. In particular, we point out that the verification of the compliance with the selection criteria is based solely on random samples and documents submitted by the issuer.
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ANNEX 1: Methodology

Assessment of the contribution and association to the SDG

The 17 Sustainable Development Goals (SDGs) were endorsed in September 2015 by the United Nations and provide a benchmark for key opportunities and challenges toward a more sustainable future. Using a proprietary method, ISS ESG identifies the extent to which Snam's Green and Sustainability-Linked Bonds contributes to related SDGs.

ANNEX 2: ISS ESG Corporate Rating Methodology

The following pages contain methodology description of the ISS ESG Corporate Rating.

Methodology - Overview

The ESG Corporate Rating methodology was originally developed by Institutional Shareholder Services Germany (formerly oekom research) and has been consistently updated for more than 25 years.

ESG Corporate Rating - The ESG Corporate Rating universe, which is currently expanding from more than 8,000 corporate issuers to a targeted 10,000 issuers in 2020, covers important national and international indices as well as additional companies from sectors with direct links to sustainability and the most important bond issuers that are not publicly listed companies.

The assessment of a company's social & governance and environmental performance is based on approximately 100 environmental, social and governance indicators per sector, selected from a pool of 800+ proprietary indicators. All indicators are evaluated independently based on clearly defined performance expectations and the results are aggregated, taking into account each indicator's and each topic's materiality-oriented weight, to yield an overall score (rating). If no relevant or up-to-date company information with regard to a certain indicator is available, and no assumptions can be made based on predefined standards and expertise, e.g. known and already classified country standards, the indicator is assessed with a D-.

In order to obtain a comprehensive and balanced picture of each company, our analysts assess relevant information reported or directly provided by the company as well as information from reputable independent sources. In addition, our analysts actively seek a dialogue with the assessed companies during the rating process and companies are regularly given the opportunity to comment on the results and provide additional information.

Analyst Opinion - Qualitative summary and explanation of the central rating results in three dimensions:

- (1) Opportunities - assessment of the quality and the current and future share of sales of a company's products and services, which positively or negatively contribute to the management of principal sustainability challenges.
- (2) Risks - summary assessment of how proactively and successfully the company addresses specific sustainability challenges found in its business activity and value chain, thus reducing its individual risks, in particular regarding its sector's key issues.
- (3) Governance - overview of the company's governance structures and measures as well as of the quality and efficacy of policies regarding its ethical business conduct.

Norm-Based Research - Severity Indicator - The assessment of companies' sustainability performance in the ESG Corporate Rating is informed by a systematic and comprehensive evaluation of companies' ability to prevent and mitigate ESG controversies. ISS ESG conducts research and analysis on corporate involvement in verified or alleged failures to respect recognized standards for responsible business conduct through Norm-Based Research.

Norm-Based Research is based on authoritative standards for responsible business conduct such as the UN Global Compact, the OECD Guidelines for Multinational Enterprises, the UN Guiding Principles for Business and Human Rights and the Sustainable Development Goals.

As a stress-test of corporate disclosure, Norm-Based Research assesses the following:

- Companies' ability to address grievances and remediate negative impacts
- Degree of verification of allegations and claims
- Severity of impact on people and the environment, and systematic or systemic nature of malpractices

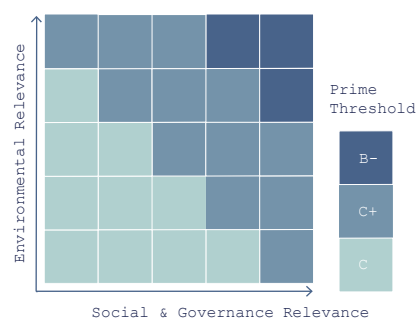
Severity of impact is categorized as Potential, Moderate, Severe, Very severe. This informs the ESG Corporate Rating.

Decile Rank - The Decile Rank indicates in which decile (tenth part of total) the individual Corporate Rating ranks within its industry from 1 (best – company's rating is in the first decile within its industry) to 10 (lowest – company's rating is in the tenth decile within its industry). The Decile Rank is determined based on the underlying numerical score of the rating. If the total number of companies within an industry cannot be evenly divided by ten, the surplus company ratings are distributed from the top (1 decile) to the bottom. If there are Corporate Ratings with identical absolute scores that span a division in decile ranks, all ratings with an equal decile score are classified in the higher decile, resulting in a smaller number of Corporate Ratings in the decile below.

Distribution of Ratings - Overview of the distribution of the ratings of all companies from the respective industry that are included in the ESG Corporate Rating universe (company portrayed in this report: dark blue).

Industry Classification - The social and environmental impacts of industries differ. Therefore, based on its relevance, each industry analyzed is classified in a Sustainability Matrix.

Depending on this classification, the two dimensions of the ESG Corporate Rating, the Social Rating and the Environmental Rating, are weighted and the sector-specific minimum requirements for the ISS ESG Prime Status (Prime threshold) are defined (absolute best-in-class approach).



Industry Leaders - List (in alphabetical order) of the top three companies in an industry from the ESG Corporate Rating universe at the time of generation of this report.

Key Issue Performance - Overview of the company's performance with regard to the key social and environmental issues in the industry, compared to the industry average.

Performance Score - The ESG Performance Score allows for cross-industry comparisons using a standardized best-in-class threshold that is valid across all industries. It is the numerical representation of the alphabetic ratings (D- to A+) on a scale of 0 to 100 with 50 representing the prime threshold. All companies with values greater than 50 are Prime, while companies with values less than 50 are Not Prime. As a result, intervals are of varying size depending on the original industry-specific prime thresholds.

Rating History - Development of the company's rating over time and comparison to the average rating in the industry.

Rating Scale - Companies are rated on a twelve-point scale from A+ to D-:

A+: the company shows excellent performance.

D-: the company shows poor performance (or fails to demonstrate any commitment to appropriately address the topic).

Overview of the range of scores achieved in the industry (light blue) and indication of the grade of the company evaluated in this report (dark blue).

Sources of Information - A selection of sources used for this report is illustrated in the annex.

Status & Prime Threshold - Companies are categorized as Prime if they achieve/exceed the sustainability performance requirements (Prime threshold) defined by ISS ESG for a specific industry (absolute best-in-class approach) in the ESG Corporate Rating. Prime companies are sustainability leaders in their industry and are better positioned to cope with material ESG challenges and risks, as well as to seize opportunities, than their Not Prime peers. The financial materiality of the Prime Status has been confirmed by performance studies, showing a continuous outperformance of the Prime portfolio when compared to conventional indices over more than 14 years.

Transparency Level - The Transparency Level indicates the company's materiality-adjusted disclosure level regarding the environmental and social performance indicators defined in the ESG Corporate Rating. It takes into consideration whether the company has disclosed relevant information regarding a specific indicator, either in its public ESG disclosures or as part of the rating feedback process, as well as the indicator's materiality reflected in its absolute weight in the rating. The calculated percentage is classified in five transparency levels following the scale below.

0% - < 20%: very low

20% - < 40%: low

40% - < 60%: medium

60% - < 80%: high

80% - 100%: very high

For example, if a company discloses information for indicators with a cumulated absolute weight in the rating of 23 percent, then its Transparency Level is "low". A company's failure to disclose, or lack of transparency, will impact a company's ESG performance rating negatively.

ANNEX 3: Quality management processes

SCOPE

Snam commissioned ISS ESG to compile a Sustainable Finance Framework SPO. The Second Party Opinion process includes verifying whether the Sustainable Finance Framework aligns with the GBP, SLBP, and the CTFH administered by ICMA, the GLP and SLLP published by the LMA, the proposed EU GBS and the EU Taxonomy Climate Delegated Act. ISS ESG also assessed the sustainability credentials of Snam's Sustainability-Linked Bonds and Loans, EU Taxonomy Aligned Bonds and any other financing instruments, as well as the issuer's sustainability strategy.

CRITERIA

Relevant Standards for this Second Party Opinion

- ICMA Green Bond Principles, Sustainability-Linked Bond Principles and Climate Transition Finance Handbook
- LMA Green Loan Principles and Sustainability-Linked Loan Principles
- Proposed EU Green Bond Standard
- EU Taxonomy Climate Delegated Act

ISSUER'S RESPONSIBILITY

Snam's responsibility was to provide information and documentation on:

- Sustainable Finance Framework (as of 29/11/2021)
- Eligibility criteria (as of 29/11/2021)
- Documentation of ESG risks management at the framework level (as of 29/11/2021)
- Draft version of the Bond Documentation (as of 25/11/2021)

ISS ESG'S VERIFICATION PROCESS

ISS ESG is one of the world's leading independent environmental, social and governance (ESG) research, analysis and rating houses. The company has been actively involved in the sustainable capital markets for over 25 years. Since 2014, ISS ESG has built up a reputation as a highly-reputed thought leader in the green and social bond market and has become one of the first CBI approved verifiers.

ISS ESG has conducted this independent Second Party Opinion of the Sustainable Finance Framework to be issued by Snam based on ISS ESG methodology and in line with the ICMA Green Bond Principles, Sustainability-Linked Bond Principles and Climate Transition Finance Handbook, the LMA Green Loan Principles and Sustainability-Linked Loan Principles, the proposed EU Green Bond Standard and the EU Taxonomy Climate Delegated Act.

The engagement with Snam took place in from July to November 2021.

ISS ESG'S BUSINESS PRACTICES

ISS has conducted this verification in strict compliance with the ISS Code of Ethics, which lays out detailed requirements in integrity, transparency, professional competence and due care, professional behaviour and objectivity for the ISS business and team members. It is designed to ensure that the

verification is conducted independently and without any conflicts of interest with other parts of the ISS Group.

About ISS ESG SPO

ISS ESG is one of the world's leading rating agencies in the field of sustainable investment. The agency analyses companies and countries regarding their environmental and social performance.

As part of our Sustainable (Green & Social) Bond Services, we provide support for companies and institutions issuing sustainable bonds, advise them on the selection of categories of projects to be financed and help them to define ambitious criteria.

We assess alignment with external principles (e.g. the ICMA Green / Social Bond Principles), analyse the sustainability quality of the assets and review the sustainability performance of the issuer themselves. Following these three steps, we draw up an independent SPO so that investors are as well informed as possible about the quality of the bond / loan from a sustainability perspective.

Learn more: <https://www.isscorporatesolutions.com/solutions/esg-solutions/green-bond-services/>

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