

principles

We consider sustainability to be an integral part of our corporate culture and the engine of a process of ongoing improvement that is transversal across the company and which strengthens the process of growth that must be sustainable, environment respectful and responsible for the territory and its communities.

Governance and Sustainability

The Corporate and Legal Affairs Manager responds to key questions

How does the governance represent a sustainable issue in Snam Rete Gas?

We believe that sustainability contributes to the management of business risks, to the improvement of performance, and to the strengthening of reputation and of intangible asset.

To ensure that sustainability is properly addressed, the Board of Directors has taken a central role in defining sustainability policies and in approving the Sustainability Report. On 20 March 2009 the CEO attributed specific functions to the Steering Committee which, to the extent of its responsibilities, is assigned to supervising company sustainability activities, assessing their consistency with business strategies and ensuring the definition of the sustainable development model, and in particular ensuring the assessment and approval of key indicators and the verification of the Sustainability Report.

What are the essential features of Corporate Governance?

The corporate governance system is developed to create value for shareholders and it takes account of the social relevance of the activities that the company carries out. The system considers safeguarding the environment, personal health and safety, protection of employees and equal opportunities, cooperation with local and national communities and, in general, the interests of all stakeholders, to be of fundamental and non-ignorable importance.

Our corporate governance system is based on the guidelines set out in the Code of Conduct for Listed Companies drawn up by the Committee for Corporate Governance of Listed Companies, with recommendations made by CONSOB (National Commission for Listed Companies and the Stock Exchange) as well as, more generally, international best practices. In this regard, it's noteworthy to remind that the corporate governance system is a specific evaluation criteria considered by Dow Jones Sustainability Index in the Gas Distribution Utilities sector.

	Snam Rete Gas	GNL Italia	Stogit	Italgas
Members of the BoD	9	5	5	5
Independent	5	---	---	1
Non-Executives	7	4	4	4
Minority members	3	---	---	---
Annual meetings	11	4	8	10

Full details of the company's corporate governance system are given in the Report on Corporate Governance and Ownership Structures, which is available on the Snam Rete Gas internet website (www.snamretegas.it).

policy of Sustainable Development

The principles and values from which we have drawn inspiration in our sustainability policy have been published in a document, The "Pol-

icy of Sustainable Development" is a document drawn up and shared in the company and approved by the CEO. In ongoing improvement we recognise a strategic lever for sustainability practices. In the creation of value we identify our commitment to stakeholders

and we consider the natural resources protection a responsible way of conduct that we strive to constantly implement in the activities we carry out. The "Policy of Sustainable Development" is available on the internet website www.snamretegas.it in the Sustainability area.

Business ethics

On 27 June 2008 the Board of Directors of Snam Rete Gas approved the new Code of Ethics, which implements the most advanced guidance in the areas of corporate ethics and sustainability. In 2008 the subsidiary companies adopted the new Eni Code of Ethics integrally. The purpose of the Snam Rete Gas and Eni Codes is to ensure that all activities are performed in compliance with the law, in a climate of fair competition, with honesty, integrity, correctness and in good faith and with due regard to the legitimate interests of customers, employees, shareholders, commercial and financial partners and the communities in which the company operates.

All Snam Rete Gas Group employees, without distinction or exception, have a duty to comply with, and ensure compliance with, these principles in the fulfilment of their duties and responsibilities. Under no circumstances can the conviction of acting for the benefit of the company justify any form of behaviour that contrasts with these principles.

Application of the principles for all companies of the Group is ensured via internal audits and the role of Guarantor of the Code of Ethics is entrusted to a corporate organ, the Supervisory Department, set up pursuant to Italian Legislative Decree no. 231 of 8 June 2001 ("231 Model").

Ex D. lgs 231/01 Model

Italian Legislative Decree no. 231 of 8 June 2001 introduced the concept of corporate administrative liability, whereby companies can be held liable, and therefore penalised, for certain offences committed or attempted in the interests of or to the advantage of the company by its management or employees. The liability of the company is excluded if it has adopted and effectively implemented, before the offences were committed, models of organisation, management and control to prevent these offences, and has set up a supervisory body to oversee the functioning of these models and their compliance with the requirements of the Decree.

All companies of the Snam Rete Gas Group have implemented the law by adopting its organisational, management and control Model, commensurate with its specificity, and appointing a Supervisory Department responsible for monitoring the implementation of the Model and its effective application.

Internal audit

The Internal Audit is responsible for verifying the adequacy of the internal control system and ascertaining that it can reasonably guarantee that the organisation can accomplish its objectives economically and efficiently.

The Internal Audit function, which reports directly to the Chairman to guarantee its independence, performs the following specific duties:

- it ensures the operational, compliance, financial, IT and fraud audit activities, the supervisory activities pursuant to Italian Legislative Decree 231/2001, and the independent monitoring activities envisaged by the corporate information control system for the company;
- for its activities, it maintains relations with the Audit Committee, the Supervisory Body pursuant to Legislative Decree 231/2001, the Board of Statutory Auditors and with the company appointed to audit the financial statements;
- it ensures the management of reports, which may be anonymous, received for any reason from Snam Rete Gas and subsidiaries, and carries out inspections according to the provisions of the corporate procedure issued in September 2006. In 2009, 12 reports were received, of which 4 addressed the Code of Ethics. The resulting investigations conducted did not find any irregularities of note.

Audits are carried out by following a risk-based approach which involves the preliminary analysis of the risks correlated to the process objectives in order to focus the audits on those aspects that are most exposed to risk. The risk assessment analyses also include the risk factors associated with possible fraudulent conduct by employees and/or third parties. At the conclusion of each intervention, any weaknesses in the internal control system are identified along with the corresponding corrective actions agreed with the management. The implementation of corrective actions is regularly monitored via follow-up measures.

Italgas and Stogit, acquired by Snam Rete Gas with effect from 30 June 2009, have their own Internal Audit unit which in 2009 carried out, similarly to Snam Rete Gas, risk-oriented audits, checks of conformance to Legislative Decree no. 231/2001 and monitoring of the corporate information control system.

In particular, during 2009 have been issued 15 audit reports (9 Snam Rete Gas, 3 Italgas and 3 Stogit), 30 reports regarding monitoring of the internal corporate information control system SOA/262 (16 Snam Rete Gas, 10 Italgas and 4 Stogit) and 26 report about check of conformance to Legislative Decree no. 231/2001 (8 Snam Rete Gas, 15 Italgas and 3 Stogit).

Risk management

By its very nature, entrepreneurial activity is deeply associated with risk factors. Prudent management of these risks forms part of a company's solidity and reputation. For Snam Rete Gas the principal risks identified and monitored are those specified below. The reader will, in any case, find a more extensive and careful examination in the Financial Statements and on the Snam Rete Gas website, as for the specific risks of the sectors of activity in which the Group operates.

Market risk

Interest rate fluctuation risk

The Group aims to minimise interest rate risks while pursuing financial structure objectives laid down in its business plans. In order to limit the risk associated with the volatility of interest rates, Snam Rete Gas uses derivative instruments, and in particular Interest Rate Swaps (IRS), to manage the balance between fixed-rate and floating-rate debt. The fair value of such interest-rate derivatives is calculated systematically on the basis of market prices provided by the major info providers. Snam Rete Gas does not have derivative contracts held for trading or speculative purposes.

Natural gas purchase price fluctuation risk

From 1 January 2010 onwards, with the beginning of the third regulation period, the Italian Electricity and Gas Authority has defined methods for payment in kind, by shippers to transporters, of gas volumes to cover fuel gas, network losses and unaccounted-for gas, owed as a percentage of the volumes respectively injected into and withdrawn from the transportation network. As a result of these measures and taking into account the mechanism for allocating gas to shippers, changes to the purchase price of natural gas are no longer a risk for the group.

Credit risk

The Group provides business services to a limited number of gas sector operators, the largest of which by revenue is Eni S.p.A. With the parent company Eni S.p.A. representing 50% of trade receivables, credit risks are not expected in view of their reliability. The rules for customer access to the services offered are established by the Italian Authority for Electricity and Gas, and set out in the Network Codes, and have contractual conditions that reduce the risks of the customers' not fulfilling their obligations. The company did not experience any significant cases of counterparty non-compliance.

Liquidity risk

Liquidity risk is the risk that the company is unable to meet its payment commitments due to an inability to raise new funds or to liquidate assets on the market. The aim of the Group is to have a financial structure which ensures an adequate level of liquidity for the Group, minimising the related cost and maintaining a balance between the term and composition of its debt. Today Snam Rete Gas raises funds solely through its ultimate parent, Eni S.p.A. Under the existing agreements, Eni S.p.A. can request the early repayment of loans should it lose its controlling stake in Snam Rete Gas. At present, the company believes that cash flows from operations and its current financial and capital structure can reasonably allow access to a wide range of financing from the capital market and credit institutions at normal market conditions.

Operational risk

Our activities are subject to the observance of many rules and regulations protecting the environment, health and safety at national, regional, local and EU levels. Failure to observe the current regulations may result in individual criminal and/or civil sanctions and, in some cases where safety rules are violated, companies may be liable on the basis of a European liability model adopted in Italy through Legislative Decree no. 231/2001. The possibility of Snam Rete Gas's incurring costs or liabilities, possibly significant, cannot be definitively ruled out.

Snam Rete Gas has adopted a Health, Safety and Environment policy. The HSE management system is based on organisational regulations which establish the responsibilities and the procedures to be adopted in the planning, implementation, operation and decommissioning stages pertaining to all company activities, the aim being to ensure compliance with the regulations. In the Snam Rete Gas organisational structure, unit managers are required to take responsibility for the health, safety and environmental issues for their respective activities.

Risks connected with failing to meet infrastructure development objectives

The actual possibility of Snam Rete Gas's achieving the development projects on its infrastructure is subject to many unforeseeable events linked to operating, economic, regulatory, authoritative and competition factors, independently of the company's will. Therefore Snam Rete Gas is unable to guarantee that the planned projects to extend and upgrade are actually undertaken, nor, if undertaken, that the projects are successfully concluded or that they enable the achievement of the benefits specified by the tariff system. In addition, the development projects may require greater investments or longer timeframes than those initially estimated, so influencing the financial position and economic results of Snam Rete Gas.

Risks deriving from possible malfunctioning of plants

Managing regulated gas activities implies a series of risks of malfunctioning and unforeseeable service disruptions due to factors which are outside the group's control such as accidents, breakdowns or malfunctioning of equipment or control systems, the underperformance of plants and extraordinary events such as explosions, fires, earthquakes, landslides or other similar events beyond Snam Rete Gas' control. Such events could also cause significant damage to persons, property or the environment.

Any interruptions to service and subsequent compensation obligations could lead to a decrease in revenue and/or cost increases. Although Snam Rete Gas has stipulated specific insurance contracts to cover some of these risks, the related insurance cover could be insufficient to meet all of the losses experienced, compensation obligations or cost increases.

Risks deriving from the need to manage a significant flow of information to operate regulated services

The regulatory framework in which the company operates requires Snam Rete Gas to continually collect and prepare a significant flow of information from its customers. The information sent to Snam Rete Gas includes, among other things, capacity bookings, daily indications of gas provenance and destination, balancing mechanisms both physical and commercial, and forecasts about and transmission capacity usage. This flow of information, which is also managed through the extended use of IT systems, is large and complex and, therefore, Snam Rete Gas cannot guarantee that its management does not lead to operating and planning difficulties with consequences for its activities.

Risks deriving from the seasonal nature of the business

The activity performed by the Group does not present seasonal phenomena that can significantly influence its annual or interim financial results.

Litigation

Several Companies of the Snam Rete Gas Group are involved in civil and administrative proceedings and legal actions related to their normal business activities. According to the information currently available and considering the existing provisions for risks, it is believed that these proceedings and actions will not have material adverse effects on the financial statements. More specifically, the proceedings involve investigations of the Italian judiciary, the Italian Guarantor Authority for Competition and the Market (Autorità Garante della Concorrenza e del Mercato – AGCM), the Electricity and Gas Authority and other regulatory authorities. The table indicates current litigation while, for further details, the reader can refer to the Annual Report.

In 2009, Snam Rete Gas Group was neither fined nor sanctioned for any violation of legislation on the environment.

MAIN CURRENT LITIGATION IN 2009	
Penal cases	
Italgas SpA	Investigation on presumed unlawful conduct relating to the use of gas measurement equipment, the payment of excise duties, the billing of customers and relations with the Supervisory Authority (2007)
Snam Rete Gas S.p.A	Judiciary investigation on the issue of gas measuring and the legitimacy and reliability of what are referred to as the Venturi meter measuring systems, the reason that why the Mazara del Vallo measuring system has been placed under precautionary seizure
Civil and administrative cases	
Snam Rete Gas S.p.A	Involvement in civil proceedings against End Customers for the recovery of amounts for improper withdrawals of gas by them
Tax cases	
GNL Italia S.p.A	Litigation concerning local property tax (ICI)
Stoccaggi Gas Italia S.p.A	Litigation concerning local property tax (ICI)
Guarantor Authority for Competition and the Market (Antitrust)	
Italgas SpA	Possible existence of an abuse of dominant position identified from AGCM (2009)
Stoccaggi Gas Italia S.p.A	Conclusions from the fact –finding investigation (started in 2007) conducted by AGCM that recognise that the conduct of Stogit was in line with the provisions of the rules and regulations defined
Electricity and Gas Authority	
Snam Rete Gas S.p.A	Investigation on violation of the regulation on availability of natural gas higher heating value measurements (2009)