

Operating review



Introduction

The criteria for setting tariffs for the transportation, distribution and storage of natural gas, as well as for the regasification of LNG, are established by the Electricity and Gas Authority.

The table below shows the major pricing elements for each of the regulated activities carried out by Snam Rete Gas, on the basis of the regulatory framework as at 31 December 2009⁽⁷⁾,

⁽⁷⁾ It should be noted that new regulatory criteria for the natural gas transportation business segment came into force on 1 January 2010 for the third regulatory period (1 January 2010 – 31 December 2013). For more information on the regulatory framework for each business segment, see the relevant “Regulation” section.

	TRANSPORT	REGASIFICATION	DISTRIBUTION	STORAGE
Calculation of net invested capital recognised for regulatory purpose (RAB)	<ul style="list-style-type: none"> Re-valued historical cost 	<ul style="list-style-type: none"> Re-valued historical cost 	<ul style="list-style-type: none"> Re-valued historical cost Parametric method for centralised revenues 	<ul style="list-style-type: none"> Re-valued historical cost
Remuneration of net investment capital recognised for regulatory purposes (WACC pre-tax)	<ul style="list-style-type: none"> 6.7% 	<ul style="list-style-type: none"> 7.6% 	<ul style="list-style-type: none"> 7.6% (distribution) 8% (metering) 	<ul style="list-style-type: none"> 7.1%
INCENTIVES of new investments	<ul style="list-style-type: none"> 1% for 5 years (on investments in security) 2% for 7/10 years (on investments in capacity development) 3% for 10/15 years (on investments in entry capacity development) 	<ul style="list-style-type: none"> 2% for 8 years (on upgrading existing terminals less than 30%) 3% for 16 years (on upgrading existing terminals more than 30%) 	<ul style="list-style-type: none"> 2% for 8 years (on substitutions of cast-iron pipes and renewal of odourisation systems) 	<ul style="list-style-type: none"> 4% for 8 years (on upgrading existing capacities) 4% for 16 years (on development of new storage sites)
Efficiency factor (X FACTOR)	<ul style="list-style-type: none"> 2% on operating costs 2% on amortisation and depreciation 3,5% on commodity components 	<ul style="list-style-type: none"> 0.5% on operating costs 	<ul style="list-style-type: none"> 3.2% on distribution operating costs 3.6% on metering operating costs 	<ul style="list-style-type: none"> 2% on operating costs 1.5% on amortisation and depreciation

The following sections show the key performance indicators for each business segment⁸. As indicated previously, the associated effects of consolidating Italgas and Stogit are recorded from 30 June 2009, the completion date of the transaction. For purposes of fully assessing operating performance in each business segment, the operating performance of the natural gas distribution and storage business segments is analysed with reference to the entire 2009 financial year. Comparative information is shown for 2008.

Natural gas transportation

The service of transporting natural gas

Natural gas transportation is an integrated service that consists of moving gas from the national network entry points⁹

to the regional network redelivery points, where the gas is delivered to users of the service.

Snam Rete Gas allocates transportation capacity to companies upon their request. As shippers, these companies have the right to inject and withdraw, at any time during the thermal year, at the entry and exit points of the national network, the redelivery points of the regional network and the virtual trading point¹⁰, respectively, a quantity of gas not greater than the daily capacity allocated. The gas injected into the national network comes from imports and, to a lesser extent, national production.

Natural gas from abroad is injected into the national network at seven entry points where the network joins up with the import pipelines (Tarvisio, Gorizia, Gries Pass, Mazara del Vallo and Gela) and the LNG regasification terminals

⁽⁸⁾ The business segments (natural gas transportation, LNG regasification, natural gas distribution and storage) are identified, in line with internal reporting, by management, and refer to the respective primary activities of Snam Rete Gas, GNL Italia, Italgas and its subsidiaries and Stogit.

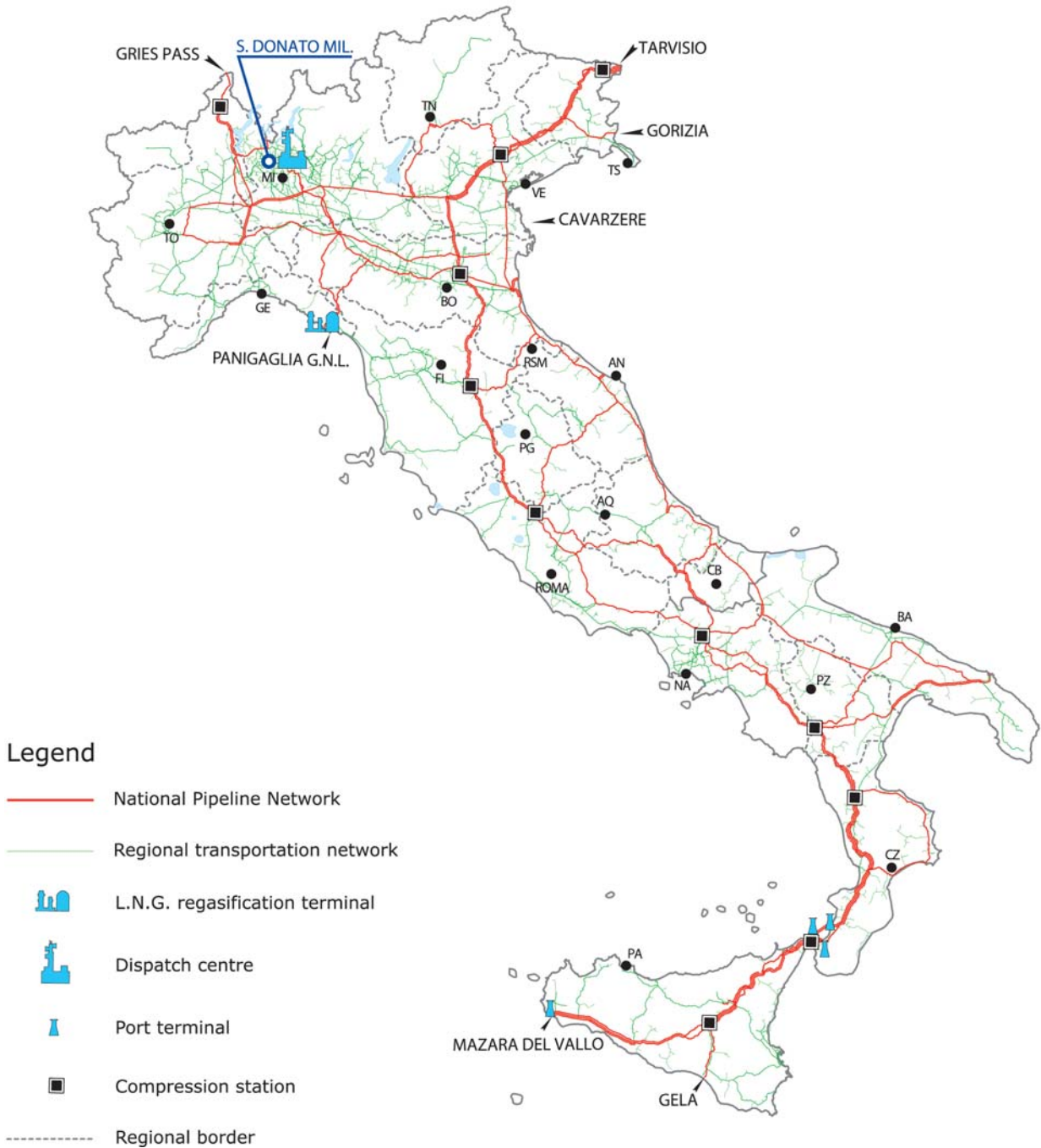
⁽⁹⁾ The criteria for defining the national network are set out in the Decree of the Industry, Trade and Craftwork Ministry of 22 December 2000, as required by Legislative Decree no. 164 of 23 May 2000 (the "Letta" Decree).

⁽¹⁰⁾ Virtual point where shippers can trade gas injected into the national network on a daily basis.

(Panigaglia and Cavarzere). Domestically produced gas is injected into the 67 entry points¹¹ located at the production fields or their collection and treatment centres. The storage facilities are also connected to the transportation network (two virtual entry/exit points for the storage hubs). Gas leaving the national network is transported on the

regional network to the redelivery points, from where it is withdrawn by the shippers. Snam Rete Gas is Italy's leading domestic transporter and dispatcher of natural gas, with more than 31,500 km of high- and medium-pressure pipelines (around 94% of the entire transportation infrastructure).

Snam Rete Gas - Network infrastructure



(¹¹) Number of entry points at 31 December 2009.

Key performance indicators	(€ millions)	2007	2008	2009	Change	% change
Core business revenue (*)		1,769	1,882	1,865	(17)	(0.9)
Operating costs (*)		347	388	399	11	2.8
EBIT		1,015	1,017	974	(43)	(4.2)
Net profit		589	528	530	2	0.4
Investments		725	1,038	926	(112)	(10.8)
- of which with incentives		614	916	793	(123)	(13.4)
- of which without incentives		111	122	133	11	9.0
Net invested capital at 31 December		9,312	9,736	10,060	324	3.3
Volumes of natural gas injected into the gas transportation network (billions of cubic metres)		83.28	85.64	76.90	(8.74)	(10.2)
Transportation network (km in use)		31,081	31,474	31,531	57	0.2
- of which national network		8,548	8,779	8,871	92	1.0
- of which regional network		22,533	22,695	22,660	(35)	(0.2)
Employees in service at 31 December (number)		2,270	2,252	2,254	2	0.1

(*) Before consolidation adjustments

Results

EBIT for 2009 was €974 million, down only slightly (-4.2%) on 2008 despite a substantial fall in gas demand (-8%) and the subsequent reduction in transported gas volumes (-10.2%). The weaker performance of the segment was due essentially to lower transportation revenue, higher operating costs, relating for the most part to greater provisions for

risks and charges, and an increase in amortisation and depreciation after the introduction of new transportation infrastructure.

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Investments in 2009 amounted to €926 million, a decrease of €112 million, or 10.8%, compared with 2008.

Investments	(€ millions)	2007	2008	2009	Change	% change
Development		526	813	692	(121)	(14.9)
Investments with incentive of 3%		302	578	451	(127)	(22.0)
Investments with incentive of 2%		224	235	241	6	2.6
Maintenance and others		199	225	234	9	4.0
Investments with incentive of 1%		88	103	101	(2)	(1.9)
Investments without incentive		111	122	133	11	9.0
		725	1,038	926	(112)	(10.8)

Investments are classified in accordance with resolution ARG/gas no. 184/09 of the Electricity and Gas Authority, which identified various project categories each with a different incentive level¹².

It is foreseen that 86% of investments benefit from incentive-based remuneration. The breakdown of investments in 2009 by category will be submitted to the Authority when the tariffs are approved for 2011.

The main investments with a **3% incentive** were:

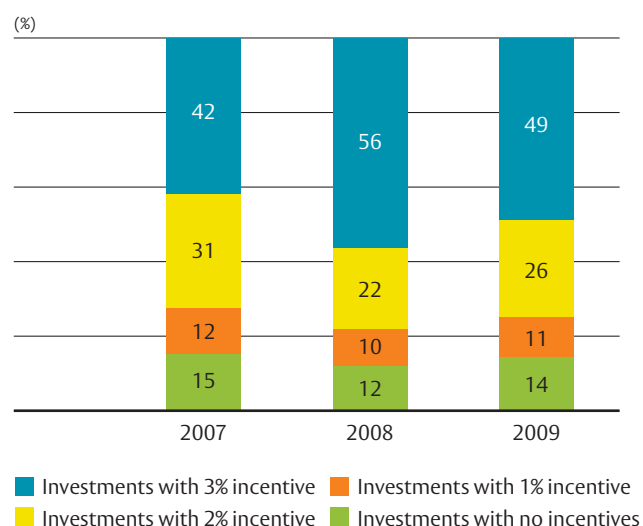
- as part of the project for the new transportation infrastructure along the Adriatic side (€158 million), the pur-

chase of materials to construct the Massafra-Biccari pipeline in Puglia and Basilicata;

- as part of the project to upgrade the import infrastructure in Sicily and Calabria (€128 million): (i) construction of the Montalbano-Messina and Enna-Montalbano pipelines in Sicily, and the Rende-Tarsia pipeline in Calabria; (ii) completion works on the Mazara-Menfi and Tarsia-Morano pipelines in Sicily and Calabria respectively; (iii) first instalments relating to supply of the turbo compressor at the Montesano station;

⁽¹²⁾ The investment incentives are the same as for the second regulatory period.

- as part of the project to improve the import infrastructure from the North East (€49 million): (i) installation of the new 24-MW turbo compressor to upgrade the Malborghetto station in Friuli Venezia Giulia; (ii) construction of the Tarvisio-Malborghetto pipeline and assembly of the gas cooler at the Istrana station;
- as part of the project to upgrade the transportation infrastructure in the Po Valley with an aim to increase import capacity (€31 million): (i) detailed design and materials for constructing the Poggio Renatico-Cremona pipeline in Emilia Romagna and Lombardy; (ii) spare parts and finishing works on the Poggio Renatico station;

Breakdown of investments by incentive (% of total investments)


The main investments with a **2% incentive** were:

- as part of the project to upgrade the transportation infrastructure in the Po Valley with an aim to increase national transportation capacity (€49 million): (i) materials for constructing the Cremona-Sergnano pipeline in Lombardy; (ii) design of the Zimella-Cervignano pipeline in Veneto and Lombardy;
- upgrading the pipeline network in South Piedmont (€22 million), including construction of the Cherasco-Cuneo and Oviglio-Ponti pipelines and completion works on the Mortara-Alessandria and Alessandria-Oviglio pipelines.

The main investments with a **1% incentive** involved several projects aimed at maintaining adequate safety and quality levels at the stations. With a €14 million expense in 2009, the project to replace the TC 1-2-3 units at the Messina station was particularly significant, with design activities and the first instalments relating to the supply of turbo compressors.

The investments **without incentive** include projects to replace assets and plants, as well as projects relating to the implementation of new IT systems, the development of existing ones and the purchase of other key operating assets.

Status of national gas transportation network

Natural gas availability

The availability of natural gas in Italy in 2009 was 77.68 billion cubic metres, down by 6.84 billion cubic metres, or 8.1%, compared with 2008.

Natural gas availability	(billions of m ³)	2007	2008	2009	Change	% change
From imports		73.50	76.52	68.67	(7.85)	(10.3)
From national production		9.78	9.12	8.23	(0.89)	(9.8)
Total gas injected into the network		83.28	85.64	76.90	(8.74)	(10.2)
Net storage withdrawals (injections) (*)		1.25	(1.12)	0.78	1.90	
Total natural gas availability		84.53	84.52	77.68	(6.84)	(8.1)

(*) The balance between withdrawals from (-) and injections into (+) storage.

Natural gas withdrawals	(billions of m ³)	2007	2008	2009	Change	% change
Redelivery to the domestic market		83.30	83.34	76.66	(6.68)	(8.0)
Exports		0.48	0.60	0.48	(0.12)	(20.0)
Snam Rete Gas consumption and emissions		0.39	0.42	0.34	(0.08)	(19.0)
Unaccounted-for gas and other changes (*)		0.36	0.16	0.20	0.04	25.0
Total natural gas withdrawals		84.53	84.52	77.68	(6.84)	(8.1)

(*) Includes the line pack variation. A definition of "Unaccounted-for gas" can be found in the forthcoming paragraph "Natural gas withdrawals".

The volumes of gas injected into the transportation network fell by 10.2% to 76.90 billion cubic metres. The reduction in volumes injected into the gas transportation network was due to lower imports (-7.85 billion cubic metres or -10.3%), and lower national production (-0.89 billion cubic metres or -9.8%).

The negative balance of around 0.8 billion cubic metres

between gas withdrawals from (-) and injections into (+) the storage system also contributed to the lower volumes injected into the network. The situation was reversed in 2008, when injections into the storage system were 1.12 billion cubic metres greater than withdrawals.

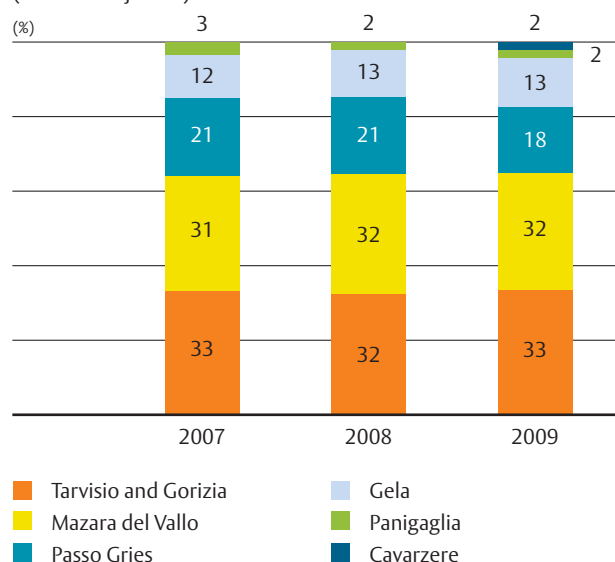
The following is an analysis of imports by entry point:

Imports by entry point	(billions of m ³)	2007	2008	2009	Change	% change
Entry point						
Tarvisio		24.04	24.58	22.92	(1.66)	(6.8)
Mazara del Vallo		22.52	24.77	21.66	(3.11)	(12.6)
Passo Gries		15.12	15.69	12.02	(3.67)	(23.4)
Gela		9.24	9.87	9.17	(0.70)	(7.1)
Cavarzere (GNL)				1.53	1.53	
Panigaglia (GNL)		2.38	1.52	1.32	(0.20)	(13.2)
Gorizia		0.20	0.09	0.05	(0.04)	(44.4)
		73.50	76.52	68.67	(7.85)	(10.3)

Compared with 2008, imports were down 10.3%. Notably, there were smaller imports at the Gries Pass (-23.4%),

Mazara del Vallo (-12.6%) and Tarvisio (-6.8%), the latter affected by the relationship crisis between Russia and Ukraine which meant imports were blocked in January 2009.

Natural gas injected into the network by entry point
(% of total injected)



The reduction in natural gas volumes injected into the network in 2009 (-10.2%) was due mainly to Eni (-23.5%) e Enel Trade (-11.9%).

Natural gas withdrawals

The natural gas withdrawn from the transportation network in 2009 (77.68 billion cubic metres) was destined mainly for: (i) redelivery to shippers at the network exit points (76.66 billion cubic metres); (ii) exports (0.48 billion cubic metres), primarily to Slovenia; (iii) use by the compressor stations and emissions from Snam Rete Gas's network and plants (0.34 billion cubic metres).

The difference between the volume of gas measured at its injection into the network and the volume measured at the exit points (mainly caused by the technical tolerance of the measuring instruments) is generally defined as "unaccounted-for gas" in the energy report drawn up by Snam Rete Gas.

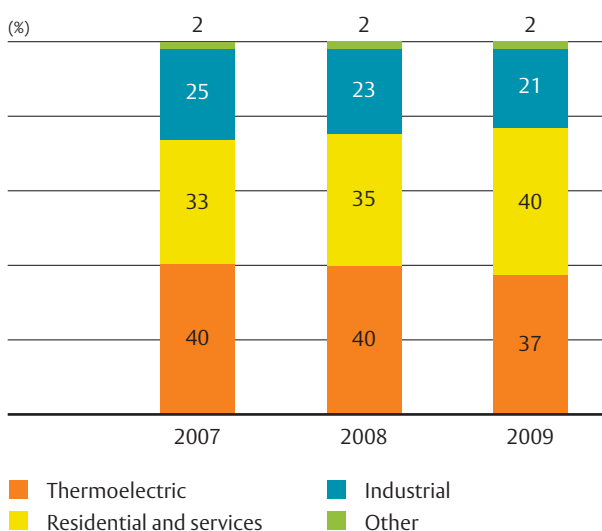
Volumes of natural gas injected into the network by shipper	(billions of m ³)	2007	2008	2009	Change	% change
Eni		52.39	51.80	39.63	(12.17)	(23.5)
Enel Trade		9.36	9.82	8.65	(1.17)	(11.9)
Others		21.53	24.02	28.62	4.60	19.2
		83.28	85.64	76.90	(8.74)	(10.2)

Until 2009, the Authority attributed unaccounted-for gas to the shippers¹³.

The demand for natural gas in Italy in 2009 was 78.13 billion cubic metres, down by 6.75 billion cubic metres, or 8%, compared with 2008 owing to the effects of the economic crisis. The reduction was concentrated mainly in the thermoelectric (-15.5%) and industrial (-14.6%) sectors, although this was partly offset by higher demand from the residential and tertiary sector (+4.9%) owing primarily to weather conditions.

The measures taken to develop and upgrade the transportation infrastructures have led to an increase in the network's transportation capacity to 365.4 million cubic metres per day (+13.8%) at the beginning of the 2009-2010 thermal year.

Gas demand by sector (% of total gas demand)



Reconciliation between volumes withdrawn from the network and domestic demand	2007	2008 (*)	2009	Change	% change
(billions of m ³)					
Volumes withdrawn	84.53	84.52	77.68	(6.84)	(8.1)
Exports (-)	(0.48)	(0.60)	(0.48)	0.12	(20.0)
Gas injected into the regional network of other operators	0.12	0.09	0.08	(0.01)	(11.1)
Other uses (**)	0.73	0.87	0.85	(0.02)	(2.3)
Total demand in Italy	84.90	84.88	78.13	(6.75)	(8.0)

(*) Gas demand was aligned with the data published by the Ministry of Economic Development.

(**) Includes use by the Panigaglia LNG terminal, compression stations for storage and production treatment facilities.

Domestic gas demand	(billions of m ³)			Change	% change
	2007	2008 (*)	2009		
Residential and tertiary	28.18	30.18	31.65	1.47	4.9
Thermoelectric	34.29	33.90	28.66	(5.24)	(15.5)
Industrial (**)	20.89	19.31	16.49	(2.82)	(14.6)
Other	1.54	1.49	1.33	(0.16)	(10.7)
	84.90	84.88	78.13	(6.75)	(8.0)

(*) Gas demand was aligned with the data published by the Ministry of Economic Development.

(**) Includes consumption by the industrial, agricultural and fishery, chemical synthesis and automotive sectors.

Transportation capacity	Thermal year 2007-2008			Thermal year 2008-2009			Thermal year 2009-2010		
(millions of m ³ /day)	Available capacity	Allocated capacity	Saturation (%)	Available capacity	Allocated capacity	Saturation (%)	Available capacity	Allocated capacity	Saturation (%)
Entry point									
Tarvisio	112.6	92.2	81.9	106.0	97.8	92.2	119.7	102.8	85.9
Mazara del Vallo	90.7	80.4	88.7	101.8	93.2	91.6	103.6	98.7	95.3
Passo Gries	63.5	59.6	93.8	64.9	60.8	93.7	64.9	59.0	90.9
Gela	30.3	29.5	97.3	30.5	30.5	100.0	33.0	32.9	99.7
Cavarzere (GNL)							26.4	21.0	79.5
Panigaglia (GNL)	13.0	11.4	87.7	13.0	11.4	87.7	13.0	7.2	55.4
Gorizia	4.8	0.5	9.4	4.8			4.8		
	314.9	273.5	86.9	321.0	293.7	91.5	365.4	321.6	88.0

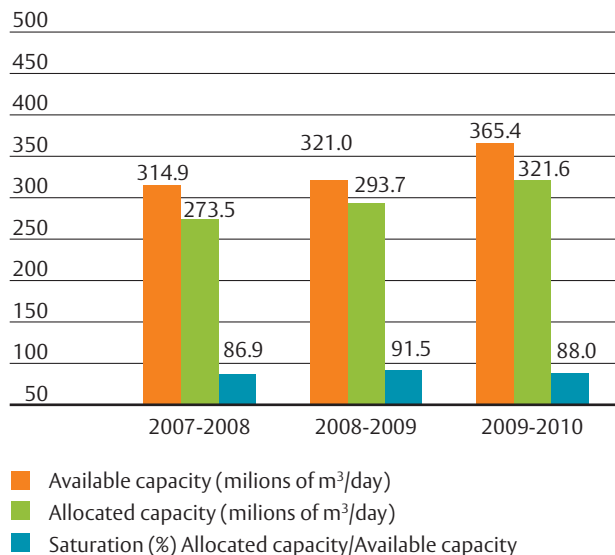
⁽¹³⁾ In accordance with the new tariff criteria for the third regulatory period established by resolution ARG/gas 184/09, from 1 January 2010 the Electricity and Gas Authority's resolution ARG/gas 192/09 laid down new methods for recognising costs relating to unaccounted-for gas and gas needed for the functioning of compressor stations. This information can be found in the forthcoming "Regulation" section.

The rise is due mainly to new transportation capacity available at the entry point connection with the Cavarzere LNG terminal, and to the increase in transportation capacity at Tarvisio, Gela and Mazara del Vallo following the implementation of upgrades to import infrastructures from Russia and North Africa.

The network's available capacity meant that it was able to meet all the shippers' capacity requests for the thermal year 2009-2010, with a rise in allocated capacity of 9.5%. Furthermore, transportation capacity of 35.2 million cubic metres per day is available at the entry points connected with domestic production, in addition to that mentioned above at the entry points connecting with imports and the LNG terminals.

Snam Rete Gas has prepared a long-term schedule of its available transportation capacity, which was communicated to the Economic Development Ministry on 16 June 2009 and published on the Snam Rete Gas website. This document shows capacity data for all the entry points connected with imports and LNG terminals for the thermal year 2009-2010 and subsequent years through to 30 September 2019.

Gas transportation capacity and saturation



Regulation

Resolution nos. 166/05 and 102/08 "Criteria for determining the tariffs for transporting and dispatching natural gas" and "Approval of tariff proposals for natural gas transportation and dispatch fees".

With resolution no. 166/05 "Criteria for determining the tariffs for transporting and dispatching natural gas", published on 30 July 2005, the Electricity and Gas Authority set the criteria for defining natural gas transportation tariffs on

the national and regional networks for the second regulatory period (1 October 2005 – 30 September 2009). The mechanisms in place during the first regulatory period were confirmed for determining tariff levels. Moreover, an invested capital remuneration rate was fixed at 6.7% in real terms before tax. Investments were again incentivised for the second regulatory period by payment of a remuneration rate increased by 1-3 percentage points compared with that paid on existing capital at the end of 2004 (6.7%) and for a duration of between five and 15 years. The increase in the remuneration rate and the duration differ depending on the type of investment. Revenue tied to new investments is recognised from the thermal year after that in which the costs were incurred and are ensured regardless of the volumes transported.

The method applied to update the tariffs (price capping) is applied only to revenue components related to operating costs and amortisation and depreciation which are adjusted for inflation and decreased by a productivity coefficient, set at 2% for the component related to capacity and at 3.5% for that related to volumes transported. The revenue component related to remuneration is determined after the annual adjustment of net invested capital at 31 December 2004 (RAB).

Based on the entry/exit model, the tariff structure has been confirmed for the second regulatory period, except for the fixed fee, which is replaced by a special measuring fee.

The Electricity and Gas Authority approved the natural gas transportation tariffs for the thermal year 2008-2009 with its resolution ARG/gas 102/08 "Approval of tariff proposals for natural gas transportation and dispatch fees, enacting the Authority's resolution no. 166/05 of 29 July 2005", published on 31 July 2008. The tariffs were determined on the basis of updated core revenues, additional revenue of €39 million relating to development investments made in the first regulatory period and additional revenue of €233 million relating to investments made in 2005, 2006 and 2007.

Net invested capital (RAB) at 31 December 2007 was €12.2 billion. The Authority also approved the introduction of an additional fee for the thermal year 2008-2009 to cover the extra costs for fuel gas for compression and network losses.

Resolution ARG/gas 184/09 - "Approval of part II – Regulation of tariffs for transporting and dispatching natural gas for the regulatory period 2010-2013 (RTTG), approval of part III – Regulation of tariffs for natural gas transportation metering for the regulatory period 2010-2013 (RMTG), measures on temporary fees for gas transportation metering for 2010 and modifications to Appendix A of resolution no. 11/07".

With its resolution ARG/gas 184/09, published on 2 December 2009, the Electricity and Gas Authority defined the criteria for setting natural gas transportation and

metering tariffs on the national and regional networks for the third regulatory period (1 January 2010 to 31 December 2013)¹⁴.

The Authority also decided that €33.6 million should be paid to Snam Rete Gas for additional costs incurred during the thermal year 2007-2008 for purchasing fuel gas used to supply compressor stations.

The evaluation of net invested capital (RAB) is carried out using the revalued historical cost method. The remuneration rate (WACC) of the net invested capital was fixed at 6.4% in real terms before tax.

Incentives for new investments were confirmed, with a greater remuneration compared with the floating base rate (WACC), depending on the type of investment, from 1-3 percentage points and for a period of five to 15 years.

The amortisation and depreciation of the transportation infrastructure (pipelines) is calculated on the basis of a useful life of 50 years and is removed from the price-cap mechanism.

Operating costs recognised are determined on the basis of the actual operating costs incurred in 2008 increased by 50% of the higher productivity revenue generated in the second regulatory period.

Fuel gas is recognised as pass-through and excluded from the price-cap mechanism.

The share of revenue related to the volumes of gas actually transported is determined on the basis of recognised operating costs and is equal to around 15% of core revenue.

Resolution ARG/gas 192/09 - "Changes to resolution no. 137/02 of 17 July 2002 for defining the criteria for dealing with non-metered natural gas (self-consumed gas, network losses, line pack and unaccounted-for gas) as part of the balancing service".

With its resolution ARG/gas 192/09, published on 15 December 2009, the Electricity and Gas Authority, enacting the new tariff criteria laid down by resolution ARG/gas 184/09, 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.

Resolution ARG/gas 198/09 - "Approval of tariff proposals for natural gas transportation and dispatch fees and temporary gas transportation metering fees for 2010".

On the basis of the criteria described, the Authority approved transportation, dispatch and metering tariffs for 2010 with its resolution ARG/gas 198/09.

The tariffs were determined on the basis of recognised core revenue of €1,703 million (net of all pass-through costs, including fuel gas and network losses), additional revenue of around €28 million relating to incentives for development investments made during the first regulatory period and revenue of around €23 million associated with system balancing costs.

Revenues for 2010 will take into account the growth in transported volumes compared with the benchmark value, taken as 75.7 billion cubic metres.

The share of revenues associated with transportation capacity is guaranteed and is equal to around 85% of core revenue.

RAB at 31 December 2008 for the transportation, dispatch and metering business was €12.8 billion.

Resolution VIS 8/09 - "Closure of the preliminary investigation begun with the Electricity and Gas Authority's resolution VIS 41/08 of 15 April 2008 into the correct application of forecasts about unaccounted-for gas in the natural gas transportation network in the period 2004-2006".

With its resolution VIS 8/09, published on 5 February 2009, the Electricity and Gas Authority concluded its preliminary investigation to acquire information on unaccounted-for gas in the transportation system between 2004 and 2006, and began a fact-finding investigation on the levels of service and maintenance at several of the transportation network's metering stations. The inquiry was scheduled to close on 30 September 2009, but resolution VIS 96/09 extended it until 31 March 2010.

(¹⁴) Resolution ARG/gas 135/09 of the Authority, published on 28 September 2009, extended the validity of tariffs approved for the 2008-2009 thermal year to the period 1 October 2009 - 31 December 2009.

Liquefied Natural Gas (LNG) regasification

The service of regasifying LNG

Natural gas injected into the transportation network also comes from the Panigaglia (La Spezia) LNG terminal, owned by the group company GNL Italia, which is able to regasify 17,500 cubic metres of LNG a day. This means that it injects more than 3.5 billion cubic metres of natural gas a year into the transportation network, at maximum oper-

ating conditions. The regasification service includes unloading the LNG from the tankers, storing it for the period necessary for vaporisation, regasifying it and injecting it into the gas transportation network at the entry point in Panigaglia. The service can be either continuous for the entire thermal year or provided on a spot basis. Auxiliary services, such as correcting the calorific power of natural gas to comply with the quality requirements for its injection into the transportation network (correcting the Wobbe index), are also available.

Key performance indicators	(€ millions)	2007	2008	2009	Change	% change
Core business revenue(*) (**)		43	37	36	(1)	(2.7)
Operating costs (**)		35	30	27	(3)	(10.0)
EBIT		7	5	5		
Net profit		5	2	2		
Investments		3	6	7	1	16.7
Volumes of LNG regasified (billions of cubic metres)		2.38	1.52	1.32	(0.20)	(13.2)
Tankers loads (number)		73	42	38	(4)	(9.5)
Employees in service at 31 December 2009 (number)		87	93	87	(6)	(6.5)

(*) Core business revenue includes the recharging to customers of costs relating to the natural gas transportation service provided by Snam Rete Gas S.p.A. For purposes of the consolidated financial statements, these revenues, together with transportation costs, are charged to GNL Italia S.p.A to show the scale of the operation.

(**) Before consolidation adjustments

Results

EBIT for 2009 was unchanged from 2008, at €5 million.

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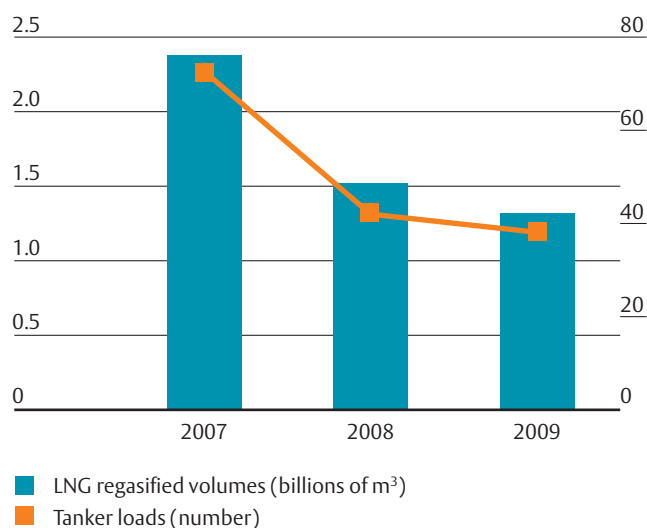
In 2009, the Panigaglia (SP) LNG terminal regasified 1.32 billion cubic metres of natural gas (compared with 1.52 billion cubic metres in 2008), unloading 38 tankers - of which five were on a spot basis (compared with 42 loads in the previous year - of which one was on a spot basis).

Regulation

Resolution ARG/gas 92/08 "Criteria for defining tariffs for the regasification service and amendments to resolution nos. 166/05 and 11/07".

The Electricity and Gas Authority defined the tariff criteria for the regasification service for the third regulatory period (1 October 2008 to 30 September 2012) in this resolu-

Volumes of LNG regasified and number of tanker loads



Quantities of LNG regasified by shipper	(billions of m³)	2007	2008	2009	Change	% change
Enel Trade		1.25	1.23	1.01	(0.22)	(17.9)
Eni		1.11	0.29	0.10	(0.19)	(65.5)
Others		0.02		0.21	0.21	
		2.38	1.52	1.32	(0.20)	(13.2)

tion published on 9 July 2008.

It substantially confirmed the mechanisms in place during the second period for determining the core revenue, including the net invested capital remuneration rate of 7.6% in real terms before tax. With respect to the tariff structure, the breakdown of revenue between a regasification capacity component and a regasified volumes component was maintained, but the ratio was changed from 80/20 in the second regulatory period to 90/10.

Tariffs are updated with a price-cap methodology applied only to the operating costs component, with a productivity recovery coefficient of 0.5%.

The revenue component related to remuneration and amortisation and depreciation is updated using an annual recalculation of invested capital and additional revenue arising from incentives received for investments made in previous regulatory periods.

New investments were incentivised by payment of a remuneration rate between one and three percentage points higher than that on existing capital at the end of 2007 and for a duration of up to 16 years. The increase in the remuneration rate and the duration differ depending on the type of investment.

Resolution ARG/gas 102/09 "Approval of tariff proposals for the regasification service in the thermal year 2009-2010 for GNL Italia S.p.A and Terminale GNL Adriatico S.r.l, enacting the Electricity and Gas Authority's resolution ARG/gas 92/08 of 7 July 2008".

The Electricity and Gas Authority approved the tariffs for the thermal year 2009-2010 for the regasification service offered by GNL Italia, as required by resolution ARG/gas 92/08, with this resolution published on 29 July 2009. Tariffs were determined on the basis of core revenue of €24.6 million. Net invested capital (RAB) at 31 December 2008 was €101.2 million.

Resolution ARG/gas 147/09 - "Approval of a proposed amendment to the regasification code prepared by Gnl Italia S.p.A for managing the regasification service following the temporary and partial unavailability of regasification capacity at the Panigaglia terminal".

With its resolution ARG/gas 147/09, published on 19 October 2009, the Electricity and Gas Authority approved an update to the Regasification Code relating to operational aspects of the terminal concerning the reduction in regasification capacity for the thermal years 2009-2010 and 2010-2011 following the necessary shutdown of one of the vaporisers at the plant for technical checks.

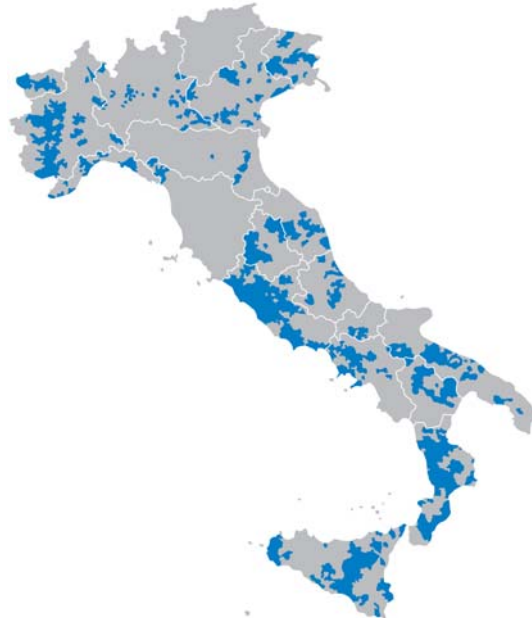
Natural gas distribution

The service of distributing natural gas

The natural gas distribution business operates on a local authority concession basis, through Italgas and its subsidiaries and associates, and involves distributing gas through local pipelines from delivery points at the city gates to the end customers (households, businesses etc.) via redelivery points on the distribution network. By transporting gas through municipal networks, the distribution service is performed on behalf of retail companies authorised to sell to end customers. Italgas distributes natural gas using an integrated infrastructure comprising units for withdrawing gas from the transportation network, pressure reduction stations, local transportation and distribution networks, gas service pipes and redelivery points consisting of technical equipment featuring meters at the end customer (households, commercial and tertiary businesses, and small industrial companies).

Italgas is the leading domestic distributor of natural gas in Italy, with 1,441 municipal concessions and a high-and medium-pressure transportation network of around 50,000 km.

Italgas - Municipal concessions



Introduction

As indicated previously, the associated effects of consolidating Italgas are recorded from 30 June 2009, the completion date of the transaction.

For purposes of fully assessing operating performance,

the operating performance of the distribution business segment is analysed with reference to the entire 2009 financial year. Comparative information is shown for 2008.

Key performance indicators ¹⁵	(€ millions)	2008	Of which Acqua Campania	2009	Change	% change
Core business revenue		764	49	802	38	5.0
Operating costs		353	52	291	(62)	(17.6)
EBIT		323	5	398	75	23.2
Net profit		228		275	47	20.6
Investments		288		334	46	16.0
Net invested capital at 31 December		3,237	(20)	3,419	182	5.6
Gas distributed (millions of cubic metres)		7,431		7,537	106	1.4
Distribution network (km)		49,410		49,973	563	1.1
Active meters (number)		5,676,105		5,770,672	94,567	1.7
Customers - Retail companies (number)		132		166	34	25.8
Employees in service at 31 December (number)		3,732	66	3,545	(187)	(5.0)

Results

Core business revenue was €802 million, an increase of €87 million, or 12.2%, compared with 2008. The increase was due to higher natural gas distribution revenues as a result of new tariff calculation methods and a different way of recognising revenues for the thermal year, applicable as of the third regulatory period (1 January 2009 - 31 December 2012)¹⁶. Natural gas distribution revenues in 2009 amounted to €776 million, an increase of €87 million, or 12.6%, compared with financial year 2008.

EBIT in 2009 was €398 million, an increase of €80 million, or 25.2%, compared with 2008. The improved operating performance was due to higher core business revenue (+€87 million) and lower operating costs (+€10 million), attributable primarily to smaller personnel expense. These effects were partly offset by a reduction in other revenue (-€10 million), owing essentially to lower net income from energy efficiency certificates¹⁷ and higher amortisation and depreciation (-€7 million).

⁽¹⁵⁾ For purposes of a like-for-like comparison, the forthcoming financial review does not take into account the 2008 results of Acqua Campania S.p.A, a company no longer fully consolidated as of 2009. It should be noted, however, that following the valuation of Italgas's equity investment in Acqua Campania S.p.A using the equity method, net profit and equity attributable to Snam Rete Gas are unchanged. Furthermore, the figures for 2008 have been reclassified in the same way as those for 2009, showing: (i) operating costs net of expenses for the acquisition of energy efficiency certificates (€21 million), recorded as a decrease in relative income; (ii) distribution revenues net of tariff-related expenses (€17 million), recorded in 2008 under operating costs.

⁽¹⁶⁾ With its resolution no. 159/08, the Electricity and Gas Authority introduced a new way of determining gas distribution tariff, applicable from 1 January 2009 and for the entire four years of the regulatory period (i.e. until 2012). The main variation is the method used to determine revenue owed to gas distributors for their services. Before the above resolution was introduced, this revenue was determined using the tariffs set by the Authority for the volumes actually distributed in the period under review. Now, however, total revenue for each year of the regulatory period is a pre-set amount decided when the tariff requests are approved, called the Total Revenue Limit (TRL), being the maximum remuneration recognised by the Authority for each operator to cover its costs. Any positive or negative differences between the TRL and the revenue arising from the amounts invoiced for the volumes actually distributed to the retail companies are settled using an equalisation mechanism with receivables and payables due from and to the Electricity Equalisation Fund.

⁽¹⁷⁾ Legislative Decree no. 164 of 23 May 2000 stipulates that natural gas distribution firms set consumption reduction and energy savings targets to be met through raising energy efficiency, and that they are awarded energy efficiency certificates (established by the ministerial decrees of 20 July 2004) depending on the results achieved. The energy efficiency targets can be met either by implementing energy efficiency policies or by purchasing certificates from other parties. Once the energy efficiency target is met, cancelling the certificates triggers repayment by the Electricity Equalisation Fund on the basis of dedicated funds built up through distribution tariff increases.

Net profit (€275 million) increased by €47 million, or +20.6%, compared with 2008, due largely to the combined effect of the following: (i) the aforementioned increase in EBIT (+€80 million); (ii) higher income from equity investments (+€13 million) relating mainly to shares of the results for the period of subsidiaries and affiliates valued using the equity method; (iii) lower net financial expense (+€11 mil-

lion) on the back of reduced market interest rates; (iv) higher income taxes (-€57 million) as a result of more pre-tax profit.

Operating review

Investments (before grants) came to €334 million, an increase of €46 million, or 16%, on the figure of €288 million for 2008.

Investments	(€ millions)	2008	2009	Change	% change
Network maintenance		138	194	56	40.6
Network extensions and upgrades		103	92	(11)	(10.7)
New networks		6	17	11	
Other investments		41	31	(10)	(24.4)
		288	334	46	16.0

Network maintenance investments (€194 million) mainly involved renovating sections of obsolete pipes by replacing cast-iron pipes, especially in Rome's municipal network, and stepping up the meter replacement programme.

Network extension and upgrade investments (€92 million) mainly involved extending existing networks in response to commitments arising from concession contracts and building new infrastructures, particularly in Calabria.

Other investments (€31 million) related mainly to property and IT investments.

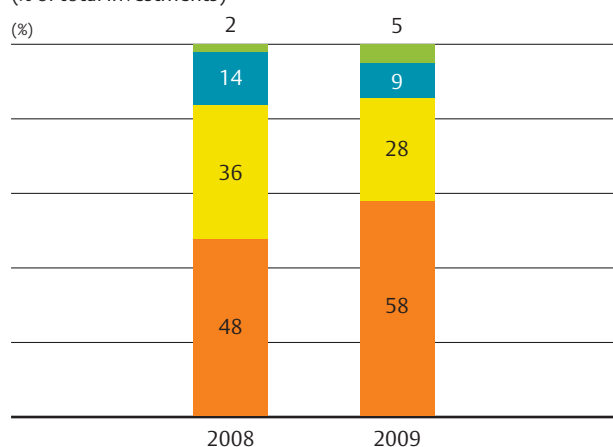
Gas distribution

The volume of gas distributed in 2009 was 7,537 million cubic metres, an increase of 106 million cubic metres, or 1.4%, compared with 2008, due essentially to weather conditions and network development.

At 31 December 2009, the group had concessions for gas distribution services in 1,441 municipalities (compared with 1,438 at 31 December 2008) with 5,770,672 active meters at gas delivery points to end customers (households, businesses, etc.), compared with 5,676,105 at 31 December 2008.

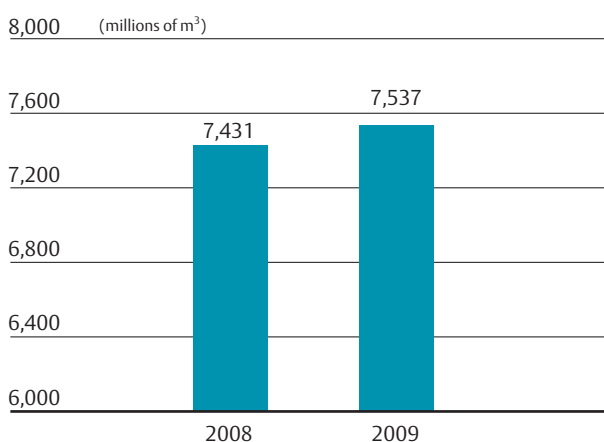
Breakdown by type of investment

(% of total investments)



■ Network maintenance
■ Network extensions and upgrades
■ Other investments
■ New networks

Natural gas distributed



Distribution network

The group's gas distribution network at 31 December 2009 spanned 49,973 km and consisted of different pipes for different pressures:

- main supply pipes (greater than 12 bar);
- medium-pressure pipes (up to 5 bar);
- low-pressure pipes (up to 0.04 bar).

The 563 km increase from 31 December 2008 is due to the balance of increases and decreases in the network. The increases are primarily due to:

- acquisition of the tendered gas distribution concession in the Cerro Maggiore municipality;
- acquisition of the business unit which distributes gas in the Settimo Torinese and Brandizzo municipalities;
- partial acquisition of the business unit which distributes gas in the municipalities of Alimena, Bompietro and Blufi in Palermo and Sperlinga (network to be constructed) and the village of Villadoro in Nicosia, Enna;
- construction of new networks;
- extension of networks to meet commitments deriving from concession contracts;
- service access requests from end customers (households, businesses, etc.).

The decreases are attributable mainly to the sale of gas networks in the Bussolengo, Liscate, Castiglione delle Stiviere and Capriolo municipalities to other operators following discontinuation of distribution services.

Customers

At 31 December 2009, the group transported the gas of 138 retail companies in its distribution networks, compared with 109 companies at 31 December 2008.

Regulation

Resolution ARG/gas no. 159/08 - "Single text for regulating the quality and tariffs of gas distribution and metering services for the regulatory period 2009-2012 (TUDG): approval of part II "Tariff regulation for gas distribution and metering services for the regulatory period 2009-2012 (RTDG). Temporary measures for 2009".

With this resolution, published on 17 November 2008 (and subsequently amended), the Authority defined tariff criteria for distribution and metering services for the third regulatory period, which runs from 1 January 2009 to 31 December 2012. In short, the resolution provides for:

- The recognition of locally invested capital using the revalued historical cost method and of centrally invested capital (non-industrial buildings and other fixed assets) using the parametric method;
- The recognition of operating costs for the distribution business on a parametric basis and differentiated

depending on the size of the company and the density of the network's clientele;

- The recognition of operating costs for the metering and sales businesses using the same parametric components for all companies;
- From 2010, the valuation at standard cost of all investments on the basis of a pricing structure drawn up by the Authority (Modern Equivalent Asset Value (MEAV) methodology, based on the concept of new replacement cost);
- The determination, by the Authority, of reference tariffs for each company, corresponding to recognised costs for remuneration of net invested capital, amortisation and depreciation, and operating costs;
- The subdivision of the national territory into six tariff zones and determination, by the Authority, of the related compulsory tariffs that distributors must charge users of their networks;
- The introduction of an equalisation mechanism, managed by the Authority through the Electricity Equalisation Fund, in order to ensure the equality of revenues generated by each company through the compulsory tariff, which obviously does not reflect the specific costs of each company and the costs recognised to the same company through the reference tariff.

Resolution ARG/gas 79/09 - "Approval of tariffs for gas distribution and metering services for 2009 and start of a fact-finding investigation aimed at checking the data sent by companies to determine the reference tariffs".

With this resolution, published on 30 June 2009 and on the basis of tariff criteria laid down by resolution 159/08, the Electricity and Gas Authority approved compulsory tariffs for the distribution, metering and sale of natural gas for the period 1 July 2009 - 31 December 2009. The approval of reference tariffs for natural gas distribution and metering for each distribution company was established by subsequent resolution ARG/gas 197/09.

It was stipulated that the distribution tariffs approved for the thermal year 2007-2008, and applied provisionally during the first half of 2009, would be applied definitively without recourse to equalisation.

The Authority simultaneously began a fact-finding investigation into the historical cost values of investments and government grants passed on by various operators (including Italgas for purposes of determining the reference tariff for 2009). The inquiry ended in December 2009.

Resolution VIS 169/09 - "Closure of the fact-finding investigation begun under the Electricity and Gas Authority's resolution ARG/gas 79/09 of 30 June 2009 on data transmitted by distributors of natural gas and other gases pursuant to article 7 of the RTDG under the Electricity and Gas Authority's resolution ARG/gas 159/08 of 6 November 2008".

This resolution, published on 23 December 2009, ended the fact-finding investigation begun in June 2009 on the back of resolution 79/09. The Authority asked Italgas to provide more details on government grants relating to a small number (103) of localities.

Resolution ARG/gas no. 197/09 - "Approval of gas distribution and metering tariffs for 2009. Modifications to part II of the single text for regulating the quality and tariffs of gas distribution and metering services for the regulatory period 2009-2012 (TUDG): Other gas distribution tariff measures".

With its resolution 197/09, published on 23 December 2009, the Authority approved the reference tariff for 2009 for all Italgas localities, except those subject to resolution VIS 169/09, for which the Authority determined a provisional reference tariff subject to further checks stipulated by said resolution.

Resolution ARG/gas no. 206/09 - "Update of 2010 tariffs for distributing and metering natural gas and other gases and other tariff measures for natural gas distribution and metering services. Modifications to the RTDG. Correction of errors relating to the Electricity and Gas Authority's resolution ARG/gas 197/09 of 21 December 2009".

With this resolution, published on 29 December 2009, the Electricity and Gas Authority updated the reference tariff for 2010 on the basis of values approved under resolution ARG/gas 197/09 (for Italgas, the localities for which the Authority stipulated further investigation for 2009 were not included). In addition, owing to the delay in defining the price structure for valuing investments at standard cost, the application of the MEAV method for their recognition has been deferred.

Natural gas storage

The service of storing natural gas

The natural gas storage business in Italy operates on a concession basis and fulfils the various requirements between the supply and consumption of gas. Supply is actually fairly constant throughout the year, while demand is hugely seasonal, being much greater in the winter than in the summer. The storage business is broadly split into two phases: (i) injection – generally concentrated between April and October, and consisting of the injection into storage of natural gas from the transportation network; (ii) withdrawal – usually concentrated between November and the following

March, and where natural gas is withdrawn from the field, treated and delivered to users via the transportation network. The storage business uses an integrated infrastructure comprising gas fields, gas treatment centres, compressor stations and the operational dispatch system.

Stogit, the group company that carries out natural gas storage activities, is currently the largest Italian operator and one of the main European players in the sector, with eight operational storage sites spread over Lombardy (four), Emilia Romagna (three) and Abruzzo (one). According to economic and technical efficiency criteria, the company makes available the storage capacities at its disposal by using an integrated system which can satisfy modulation service demands, in accordance with available storage capacity.

Stogit - Presence



Introduction

As indicated previously, the associated effects of consolidating Stogit are recorded from 30 June 2009, the completion date of the transaction. For purposes of fully assessing operating performance, the operating performance of the storage business segment is analysed with reference to the entire 2009 financial year. Comparative information is shown for 2008.

Key performance indicators	(€ millions)	2008	2009	Change	% change
Core business revenue (*)		304	344	40	13.2
Operating costs		68	64	(4)	(5.9)
EBIT		172	214	42	24.4
Net profit		83	121	38	45.8
Investments		266	282	16	6.0
Net invested capital at 31 December		1,874	2,093	219	11.7
Concessions (number)		10	10		
- of which operational		8	8		
Natural gas moved through the storage system (billions of cubic metres)		11.57	16.52	4.95	42.8
- of which injected		6.30	7.81	1.51	24.0
- of which withdrawn		5.27	8.71	3.44	65.3
Available storage capacity (billions of cubic metres) (**)		8.6	8.9	0.3	3.5
Customers (number)		48	56	8	16.7
Employees in service at 31 December (number)		303	301	(2)	(0.7)

(*) Before consolidation adjustments

(**) Working gas capacity for modulation, mining and balancing services. The value shown represents the maximum available capacity and may not correspond to the maximum replenishment carried out.

Results

Core business revenue (€344 million) increased by €40 million, or 13.2%, compared with 2008. This rise was due mainly to higher storage revenues (+12.2%) connected with the remuneration of new capital expenditure.

Storage revenue for the 2009 financial year was €341 million, of which €273 million and €68 million respectively related to modulation and strategic storage (€304 million in 2008, of which €241 million and €63 million respectively related to modulation and strategic storage).

EBIT in 2009 was €214 million, an increase of €42 million, or 24.4%, compared with 2008. The improved operating performance was due mainly to higher core business revenue (+€40 million).

Net profit (€121 million) increased by €38 million, or 45.8%, compared with financial year 2008, owing to higher EBIT (+€42 million) and smaller net financial expense (+€13 million) because of lower market interest rates, the

effects of which were partly offset by higher income taxes (-€17 million) as a result of more pre-tax profit.

Operating review

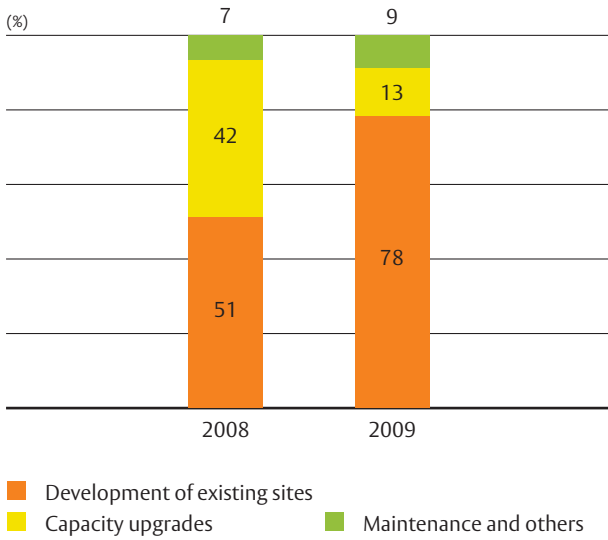
Investments in 2009 amounted to €282 million, an increase of €16 million, or 6.0%, compared with 2008.

Pursuant to resolution no. 50/06 of the Electricity and Gas Authority, relating to the second regulatory period (1 April 2006 - 31 March 2010), incentivising investments means applying a rate of return that is four percentage points higher than the base rate, over eight years for upgrading existing capacity and over 16 years for structural investments.

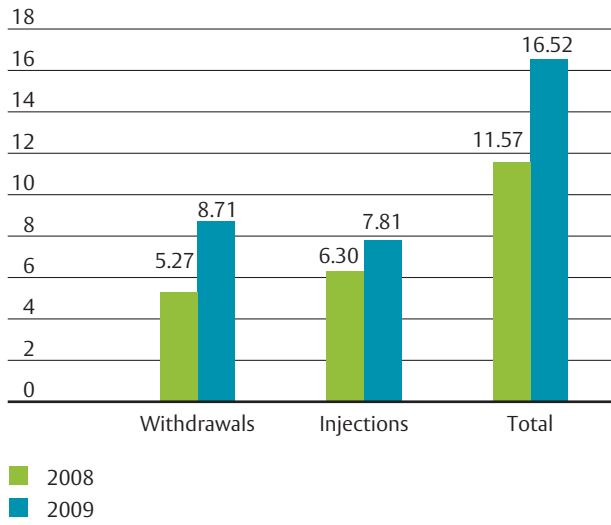
The key investments with an **incentive of 4% over 16 years** involved the development of new levels for the Fiume Treste concession, entailing the predicted first increase in capacity of 150 million standard cubic metres (SCM), made available for the thermal year 2009-2010, compared with a

Investments	(€ millions)	2008	2009	Change	% change
Developments of existing sites		135	221	86	63.7
Investments with an incentive of 4% over 16 years		135	221	86	63.7
Capacity upgrades		111	36	(75)	(67.6)
Investments with an incentive of 4% over 8 years		111	36	(75)	(67.6)
Maintenance and other		20	25	5	25.0
		266	282	16	6.0

Investment breakdown by incentive (% of total investments)



Natural gas moved through the storage system
(billions of cubic metres)



predicted total final volume of 1,100 million SCM. The major investments with an **incentive of 4% over eight years** involved increasing pressure at existing fields and building new gas wells to maximise delivery services.

Natural gas moved through the storage system

Volumes of gas moved through the storage system in 2009 amounted to 16.52 billion cubic metres, an increase of 4.95 billion cubic metres, or 42.8%, compared with 2008. This increase is attributable to:

- significant gas withdrawals relating to the Russian supply crisis in January 2009 and further withdrawals as a result of changing gas market prices;
- subsequent greater injections to restore the volumes withdrawn and gradually replenish the additional capacity made available for the thermal year 2009-2010. The final replenishment of capacity was not total (around 95%).
- considerable withdrawals beginning in October and becoming even greater in December.

The total storage capacity at year-end was 13.9 billion cubic metres, an increase of 1.5% compared with 2008.

Customers

At 31 December 2009, the group provided natural gas storage and modulation services to 56 companies (compared with 48 at 31 December 2008), including 54 companies not belonging to the Eni group.

Regulation

Resolution ARG/gas 50/06 - "Criteria for determining storage tariffs and modifications and additions to the Electricity and Gas Authority's resolutions 119/05 of 21 June 2005 and 166/05 of 29 July 2005" and resolution ARG/gas 38/09 - "Approval of corporate fees and determination of unique fees for the storage business for the thermal year 2009-2010, enacting the Electricity and Gas Authority's resolution 50/06 of 3 March 2006".

With its deliberation 50/06 of March 2006, the Electricity and Gas Authority established criteria for determining storage tariffs for the second regulatory period, which runs until 31 March 2010, by providing for a mixed mechanism of allocated revenue (in terms of capacity) and a price cap (on the commodity itself). A single national tariff was established. With resolution 38/09, published on 30 March 2009, the Authority approved storage tariffs for the thermal year 2009-2010, established on the basis of an RAB equal to €2.8 billion at 31 December 2008.

Resolution ARG/gas 165/09 - "Urgent measures to improve the balancing service and natural gas storage service regulations pursuant to legislative decree no. 78 of 1 July 2009".

With this resolution, published on 3 November 2009 and enacting Legislative Decree no. 78/09 which laid down measures for reducing the cost of energy for businesses, among other things by enabling the regulator to promote front-line and storage services to industrial and thermo-electric end customers, the Electricity and Gas Authority

defined criteria enabling storage providers to offer users of the transportation system on a monthly basis more flexible services, giving the opportunity for the provider to retain a share of the revenues from any service offers

taken up. To this end, Stogit has proposed an update to its own storage code, approved by resolution ARG/gas 178/09, which defines the so-called User Balancing Service.