

SNAM RETE GAS - 2008 FIRST QUARTER RESULTS

- **Profit €133 million +12.7%**
- **EBIT €255 million +4.5%**
- **Gas injected into the transportation network of 25.25 billion cubic metres +7.3%**
- **Investments €217 million +133.3%**

San Donato Milanese, 23 April 2008 – The board of directors of Snam Rete Gas approved the (unaudited) consolidated results for the first quarter of 2008 yesterday.

Carlo Malacarne, CEO of Snam Rete Gas, made the following comments on the results:

“The first quarter of 2008 has seen significant growth in investments, more than double the figure for the same period of 2007, and a rise in the volume of gas transported. This was driven by steady growth of demand in the thermoelectric sector and greater consumption by residential customers. The company recorded higher EBIT and profit for the period, up 4.5% and 12.7%, respectively”.

Key financial figures

(€m)

	First quarter			Change	Change %
	2007	2007	2008		
Core business revenue	1,790	460	484	24	5.2
Operating costs	357	97	110	13	13.4
Amortisation, depreciation and impairment losses	489	119	120	1	0.8
EBIT	1,022	244	255	11	4.5
Net financial expense	200	49	55	6	12.2
Profit	594	118	133	15	12.7
Investments	728	93	217	124	133.3
Net invested capital	9,389	8,951	9,386	435	4.9
Equity	3,507	3,583	3,620	37	1.0
Net financial debt	5,882	5,368	5,766	398	7.4
Free cashflow	184	128	116	(12)	(9.4)

Financial highlights

- ❖ Transportation revenue: €476 million +5.5%; the improvement is due to the contribution of the investments made in 2006 (+€20 million) and greater volumes of gas transported (+€1 million), partly offset by the updated transportation tariffs (-€7 million);
- ❖ Controllable fixed costs: €51 million, unchanged with respect to the first quarter of 2007.
- ❖ Investments: €217 million (+133.3%). Capital expenditure mainly related to development of the transportation network and the upgrading of the import system from North Africa.
- ❖ Net financial debt: €5,766 million; down €116 million on 31 December 2007.
- ❖ Leverage (Net financial debt/Net invested capital): 61.4% (62.6% at 31 December 2007).

Key operating figures

	2007	First quarter		Change	Change %
		2007	2008		
Natural gas injected into the National Gas Pipeline (billions of cubic metres)	83.28	23.54	25.25	1.71	7.3
- on behalf of Eni	52.39	15.54	15.30	(0.24)	(1.5)
- on behalf of other operators	30.89	8.00	9.95	1.95	24.4
Regasification of liquefied natural gas (LNG) (billions of cubic metres)	2.38	0.69	0.61	(0.08)	(11.6)
- on behalf of Enel Trade	1.25	0.37	0.35	(0.02)	(5.4)
- on behalf of Eni	1.11	0.32	0.26	(0.06)	(18.8)
- on behalf of other operators	0.02				
Gas Pipeline Network (kilometres in use)	31,081	30,898	31,081	183	0.6
National Network	8,548	8,479	8,528	49	0.6
Regional Network	22,533	22,419	22,553	134	0.6

Operating highlights

- ❖ Gas injected into the transportation network +1.71 billion cubic metres (+7.3%); the increase is linked to the growth in domestic demand for natural gas.
- ❖ Regasification of liquefied natural gas -0.08 billion cubic metres (-11.6%).

Outlook

- ❖ **Gas demand in Italy**
Domestic natural gas demand is forecast to grow at an average annual rate of more than 2% in the four year period from 2008 to 2011, thanks to the significant contribution of thermoelectric consumption. Such growth is expected to be faster in 2008 due to the mild weather conditions which affected gas consumption in 2007.
- ❖ **Investments**
The company plans to invest €4.3 billion in the 2008-2011 period, approximately €1 billion of which is expected to be spent in 2008. The amount of investments relate to projects to upgrade the Italian natural gas transportation infrastructure and are part of a development program necessary to facilitate market growth and improve the system's safety and flexibility.
- ❖ **Efficiency**
Snam Rete Gas will continue to pursue its operating efficiency objective in 2008, mainly by optimising its organisational and technological structures.

This press release on the unaudited consolidated figures for the first quarter of 2008 complies with the requirements of article 154-ter of the “Testo Unico della Finanza” (TUF) for interim financial reporting. Financial information relating to the profit and loss and to the balance sheet data have been prepared in accordance with the International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB) and endorsed by the European Commission using the procedure as per article 6 of EU Regulation no. 1606/2002 of the European Parliament and Council of 19 July 2002. The income statement figures relate to the first quarters of 2008 and 2007. The balance sheet data refers to 31 March 2008 and 31 December 2007. The format of the interim financial statements reflects that of the schedules presented in the directors' reports on the half year and annual reports.

The consolidated first quarter report includes the interim financial statements of Snam Rete Gas S.p.A. and its wholly-owned subsidiary GNL Italia S.p.A..

Given their materiality, amounts are expressed in millions of Euros.

Pursuant to paragraph 2, article 154-bis of the “Testo Unico della Finanza”, the manager in charge of financial reporting, Antonio Paccioretti, states that the financial information included in this press release complies with the relevant documentation, accounting ledgers and records.

Disclaimer

This press release includes forward-looking statements, especially in the section on the group's outlook about future gas demand, investment plans and future performance. Such statements by their very nature are subject to risk and uncertainty as they depend on the fact that certain events and developments will take place. The actual results may differ from those communicated due to different reasons, such as foreseeable trends in demand, offer and natural gas prices, general macro-economic conditions, the effect of new energy and environment legislation, the successful development and implementation of new technologies, changes in the stakeholders' expectations and other changes in business conditions.

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Results for the first quarter of 2008

Consolidated income statement

(€m)

2007		First quarter		Change	Change %
		2007	2008		
1,790	Core business revenue	460	484	24	5.2
78	Other revenue and income		1	1	
71	<i>including: non-recurring</i>				
1,868	Total revenue	460	485	25	5.4
(357)	Operating costs	(97)	(110)	(13)	13.4
5	<i>including: non-recurring</i>				
1,511	EBITDA	363	375	12	3.3
(489)	Amortisation, depreciation and impairment losses	(119)	(120)	(1)	0.8
1,022	EBIT	244	255	11	4.5
(200)	Net financial expense	(49)	(55)	(6)	12.2
10	<i>including: non-recurring</i>				
822	Profit before tax	195	200	5	2.6
(228)	Income taxes	(77)	(67)	10	(13.0)
66	<i>including: non-recurring</i>				
594	Profit (*)	118	133	15	12.7

(*) The profit for the period is wholly attributable to the shareholders of Snam Rete Gas.

EBIT¹ recorded for the first quarter of 2008 amounts to €25 million, up €1 million or 4.5% on the same period of 2007, mainly due to the increase in transportation revenue (€4 million, net of the items netted against costs), positively affected by investments (+€20 million) and higher volumes of gas transported (+€1 million) and negatively impacted by the updated transportation tariffs (-€7 million). The higher transportation revenue was partly offset by the increase in operating costs (€2 million, net of the items netted against revenue), due to the rise in variable costs for the purchase of fuel gas used by the compression stations (-€7 million) and greater provisions for risks and charges (-€4 million).

The **profit** (€133 million) increased by €15 million (12.7%) compared to the same period of 2007 due to the higher EBIT (+€1 million) and lower income taxes (+€10 million), mainly attributable to the modifications introduced by the 2008 Budget Law, partly offset by higher net financial expense (-€6 million).

Non-recurring significant events and transactions

No non-recurring significant events and transactions took place either during the first quarter of 2008 or 2007.

¹ EBIT is analysed by considering only those elements that have led to a change therein, as application of the gas sector tariff regulations generate costs and revenue which are netted.

Revenue

Total revenue (€185 million) increased by €25 million, principally due to the higher natural gas transportation revenue due to the contribution of the investments made in 2006 (+€20 million) and greater volumes of transported gas (+€1 million). It was adversely affected by the updated transportation tariffs (-€7 million). Regasification revenue (€6 million) is unchanged from the first quarter of 2007.

Operating costs

The operating costs (€10 million) increased by €3 million on the same period of 2007. This change is mainly due to the greater variable costs related to the fuel gas used by the compression stations, following the higher volumes of gas used (€7 million), and higher provisions for risks and charges for litigation (€4 million).

Recurring fixed costs (€1 million) are in line with the first quarter of 2007 following the €2 million decrease in personnel expense, due to the greater portion thereof absorbed by investing activities, offset by the rise in external costs (mostly for maintenance).

At 31 March 2008, the workforce numbered 2,329 (2,355 at 31 March 2007).

Amortisation, depreciation and impairment losses

Amortisation and depreciation (€120 million) increased by €1 million on the first quarter of 2007. Investments of €17 million are nearly entirely related to transportation infrastructure under construction.

Net financial expense

Net financial expense (€55 million) increased by €6 million compared to the same period of 2007, due to the higher interest expense caused by the rise in average borrowing for the period and the higher average cost of such borrowing. Financial expense of €6 million was capitalised in the period compared to €4 million in the first three months of 2007. The average borrowing cost was approximately 4.16% (3.95% in the first quarter of 2007).

Income taxes

Income taxes (€67 million) decreased by €10 million compared to the same period of 2007, mainly due to the modifications introduced by the 2008 Budget Law, applicable from 1 January 2008, partly offset by the higher pre-tax profit.

The tax rate is 33.5% compared to 39.5% in the first quarter of 2007. The decrease is due to the reduction in the IRES and IRAP rates.

Reclassified consolidated balance sheet

The reclassified consolidated balance sheet combines the assets and liabilities of the legally-required balance sheet format included in the annual and half year reports in accordance with their function, split into the three basic functions: investment, operations and financing.

Company management holds that this format presents information useful for investors as it allows identification of the sources of financing (own and third party funds) and the application of such funds for non-current assets and working capital.

The reclassified balance sheet format is used by management to calculate the key leverage ratios.

Reclassified consolidated balance sheet (*)

(€m)

	31.12.2007	31.03.2008	Change
Property, plant and equipment	9,957	10,122	165
Intangible assets	41	41	
Net payables for investments	(212)	(220)	(8)
Non-current assets	9,786	9,943	157
Net working capital	(368)	(529)	(161)
Provisions for employee benefits	(29)	(28)	1
Net invested capital	9,389	9,386	(3)
Equity	3,507	3,620	113
Net financial debt	5,882	5,766	(116)
Coverage	9,389	9,386	(3)

(*) Reference should be made to the paragraph on the reconciliation of the reclassified balance sheet with the legally-required balance sheet in the section on "Comments on the results" in the directors' report to the 2007 financial statements.

Net invested capital (€9,386 million) decreased by €3 million compared to 31 December 2007, mainly due to the reduction in net working capital (-€61 million) partly offset by the rise in non-current assets (+€157 million).

Non-current assets (€9,943 million) increased by €157 million, mainly due to: (i) investments (+€217 million); (ii) reclassification from inventories of pipes purchased for investing activities but not yet used to construct plants (+€74 million); (iii) amortisation and depreciation (-€120 million); and (iv) grants received from private bodies during the period (-€6 million).

Net working capital decreased by €61 million, mainly due to: (i) higher tax payable (-€74 million), following the recognition of the IRES and IRAP payable for the three months; (ii) greater accrued and deferred income (-€35 million) following the adjustment of revenue to the ceiling set by the Authority; (iii) the change in fair value of the hedging derivatives (-€9 million); and (iv) collection of the first instalment of the repayment by the Sicilian Regional Authorities of the amounts paid in 2002 by Snam Rete Gas for the tax on title to pipelines (-€16 million).

Equity

Equity (€3,620 million) increased by €113 million including the profit for the period (+€33 million), partly offset by the fair value loss on derivatives (-€20 million, net of the related tax effect).

At 31 March 2008, Snam Rete Gas had 195,468,950 treasury shares (equal to 9.99% of share capital) for a total amount of €794 million, equal to an average price of €4.06 per share.

The market value² of the treasury shares at 31 March 2008 is €790 million.

² Calculated by multiplying the number of treasury shares by the period-end official price (€40.04 per share, -7.62% compared to 31 December 2007).

Net financial debt and Leverage

	31.12.2007	31.03.2008	(€m) Change
Financial liabilities	5,883	5,767	(116)
Current financial liabilities	1,367	1,097	(270)
Current portion of non-current financial liabilities	15	19	4
Non-current financial liabilities	4,501	4,651	150
Financial receivables and cash and cash equivalents	(1)	(1)	
Financial receivables (*)	(1)	(1)	
Cash and cash equivalents	-	-	-
	5,882	5,766	(116)

(*) The balance of two current accounts has been reclassified from "Cash and cash equivalents" at 31 December 2007 to "Financial receivables" at 31 March 2008 as their use is restricted.

Net financial debt amounted to €5,766 million, a decrease of €116 million on 31 December 2007. The net cash flow from operating activities (+€393 million) covered the financial requirements for net investment outlays (€277 million) and also decreased net financial debt by €116 million. The smaller cash flows of equity (€241 million) is due to the smaller outflows for the repurchase of treasury shares as the buy back plan was completed on 2 May 2007.

Non-current financial liabilities of €4,651 million make up 81% of net financial debt (77% at 31 December 2007). The average maturity of the non-current financing is roughly four and a half years (four years at 31 December 2007).

Fixed rate and floating rate payables at period end made up 58% and 42% of the total financial debts, respectively. All the financial liabilities are due to Eni S.p.A. and they are all denominated in Euros.

The leverage ratio, the ratio of net financial debt to net invested capital, is 61.4% (62.6% at 31 December 2007).

None of the financial liabilities are subject to covenants.

Reclassified consolidated cash flow statement and changes in net financial debt

The reclassified cash flow statement set out below summarises the legally-required format. It shows the opening and closing cash and cash equivalents and the change in net financial debt during the period. The two statements are reconciled through the free cash flow, ie the cash surplus or deficit left over after servicing capital expenditure. The free cash flow closes either: (i) with the change in cash and cash equivalents for the period, after adding/deducting all cash flows related to financial liabilities/assets (taking out/repayment of loans) and equity (payment of dividend/capital injections); or (ii) with the change in net financial debt for the period, after adding/deducting the debt flows related to equity (payment of dividend/capital injections), to the changes in the opening and closing balances related to changes in exchange rates.

Reclassified consolidated cash flow statement

(€m)

31.12.2007	First quarter	
	2007	2008
594 Profit	118	133
<i>Adjusted by:</i>		
488 - Amortisation, depreciation and other non-monetary components	122	127
426 - Interest and income taxes	125	122
1,508 Cash flows from operating activities before changes in working capital	365	382
2 Change in working capital due to operating activities	16	62
(576) Interest and income taxes paid	(47)	(51)
934 Net cash flows from operating activities	334	393
(727) Investments in property, plant and equipment and intangible assets	(82)	(286)
1 Disinvestments		1
(24) Net payables related to investing activities	(124)	8
184 Free cash flow	128	116
627 Change in financial liabilities	113	(116)
(811) Cash flows of equity	(241)	
0 Net cash flows for the period/year	0	0
184 Free cash flow	128	116
(811) Cash flows of equity	(241)	
(627) Change in net financial debt	(113)	116

Performance

Transportation and regasification of natural gas

Quantities of natural gas injected into the national gas network

(billions of m³)

2007 Volumes injected	First quarter		Change	%
	2007	2008		
9.78 National production	2.54	2.25	(0.29)	(11.4)
73.5 Imports	21.00	23.00	2.00	9.5
24.04 Tarvisio (Russia)	7.07	7.61	0.54	7.6
22.52 Mazara del Vallo (Algeria)	6.89	7.05	0.16	2.3
15.12 Gries Pass (North Europe)	4.16	5.13	0.97	23.3
9.24 Gela (Libya)	2.14	2.56	0.42	19.6
0.2 Gorizia (Russia)	0.05	0.04	(0.01)	(20.0)
2.38 Panigaglia (GNL)	0.69	0.61	(0.08)	(11.6)
83.28	23.54	25.25	1.71	7.3

Gas injected into the national transportation network in the first quarter of 2008 increased by 1.71 billion cubic metres, or 7.3%, to 25.25 billion cubic metres. This growth reflects the rise in domestic demand for natural gas during the three months, mainly from the residential and thermoelectric sectors.

There were greater imports from North Europe (+0.97 billion cubic metres), Russia (+0.53 billion cubic metres), Libya (+0.42 billion cubic metres) and Algeria (+0.16 billion cubic metres), partly offset by the downturn in both national production (-0.29 billion cubic metres) and gas injected at the Panigaglia entry point (-0.08 billion cubic metres).

Volumes injected by shipper

(billions of m³)

2007	First quarter		Change	
	2007	2008	Change	%
52.39 Eni	15.54	15.30	(0.24)	(1.5)
9.36 Enel Trade	2.60	2.72	0.12	4.6
7.16 Edison	2.09	2.48	0.39	18.7
3.46 Plurigas	0.80	1.08	0.28	35.0
10.91 Other	2.51	3.67	1.16	46.2
83.28	23.54	25.25	1.71	7.3

Quantities of regasified gas

(billions of m³)

2007	First quarter		Change	
	2007	2008	Change	Change %
1.25 Enel Trade	0.37	0.35	(0.02)	(5.4)
1.11 Eni	0.32	0.26	(0.06)	(18.8)
0.02 Other				
2.38	0.69	0.61	(0.08)	(11.6)

The Panigaglia (SP) LNG terminal regasified 0.61 billion cubic metres of natural gas in the first three months of 2008 compared to 0.69 billion cubic metres in the same period of 2007. Different sized methane tankers unloaded 19 loads compared to 23 in the first quarter of 2007.

Investments

(€m)

2007	First quarter		Change	
	2007	2008	Change	Change %
527 Development	62	164	102	164.5
303 Investments with 3% incentive	30	96	66	220.0
224 Investments with 2% incentive	32	68	36	112.5
201 Maintenance and other	31	53	22	71.0
89 Investments with 1% incentive	14	19	5	35.7
112 Investments with no incentives	17	34	17	100.0
728	93	217	124	133.3

2008 investments³ (€17 million) are more than double the figure for the first quarter of 2007.

The key projects, which have a **3% incentive** compared to the basic remuneration, related to:

- as part of the project to upgrade the infrastructures for imports from North Africa (€71 million): (i) the delivery of materials and construction work for the Montalbano-Messina and Mazara-Menfi pipelines and the Enna station in Sicily, (ii) the delivery of materials for the Rende-Tarsia and the Tarsia-Morano pipeline sections in Calabria, and (iii) construction of the additional work for the Martirano-Rende pipeline in Calabria.
- construction of the Poggio Renatico plant in Ferrara (€4 million)

³ Investments were classified in accordance with Resolution no. 166/05 - "Criteria for the determination of natural gas transportation and dispatching tariffs", issued by the Electricity and Gas Authority on 30 July 2005 that identifies different project categories which have different incentive levels. The allocation of the 2008 investments to the different project categories will be reviewed by the Electricity and Gas Authority during presentation of the tariff proposals for the thermal year 2009-2010.

Investments with a **2% incentive** relate to many projects, the most significant of which are:

- upgrading of the pipeline network in South Piedmont (€5 million); work in the first quarter of 2008 related to the delivery of materials and construction work for the Mortara-Alessandria and Alessandria-Oviglio pipelines;
- upgrading of the Flaibano-Gonars pipeline in Friuli (€5 million).

Investments with a **1% incentive** relate to many projects for the maintenance of adequate safety and quality levels at the plants. The project for the transformation of the Montesano sulla Marcellana plant in Campania required a significant outlay (€2 million in the first quarter of 2008).

Investments without incentives include projects for the replacement of assets and plants that have become obsolete, including the Tarvisio-Malborghetto pipeline (€13 million) and projects for the introduction of new IT systems, the development of existing ones and the purchase of other operating assets.

Post balance sheet events

The Electricity and Gas Authority published resolution no. VIS 41/08 "*Commencement of a preliminary investigation into the correct application of the guidelines for "unaccounted-for-gas" in the natural gas transportation networks in the period from 2004 to 2006*" on 15 April 2008 and commenced a cognitive inquiry in relation to unaccounted-for-gas in the natural gas transportation and storage system.

The inquiry, aimed at obtaining data and information from transportation companies and parties with responsibility for gas measuring, intends to check the correct application of the relevant provisions.

Other information

Litigation

There have been no further developments in litigation with respect to that disclosed in note 21 "Guarantees, commitments and risks - litigation" to the 2007 consolidated financial statements.