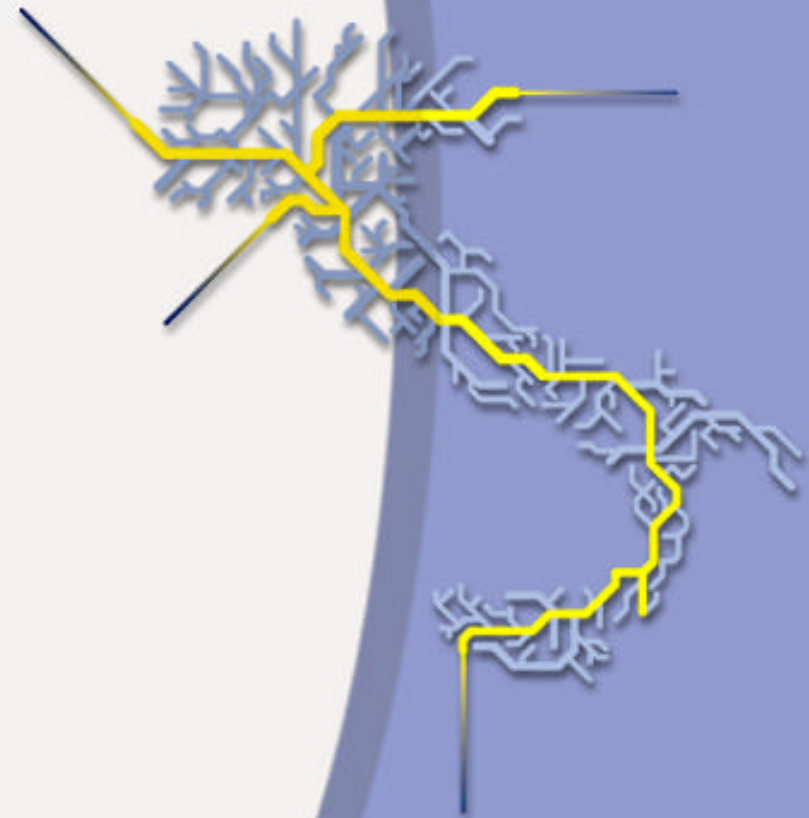


Flame European Gas 2002  
*Strategies for Survival in a Changing Energy Market*  
Amsterdam, 20 March 2002



**Snam**  
Rete Gas

To what extent will owning pipes  
be a profitable business in future?  
Evaluating the experience of  
Snam Rete Gas



Salvatore Russo, *Chairman and CEO*



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**The restructuring of the Italian gas market**

**The experience of Snam Rete Gas**

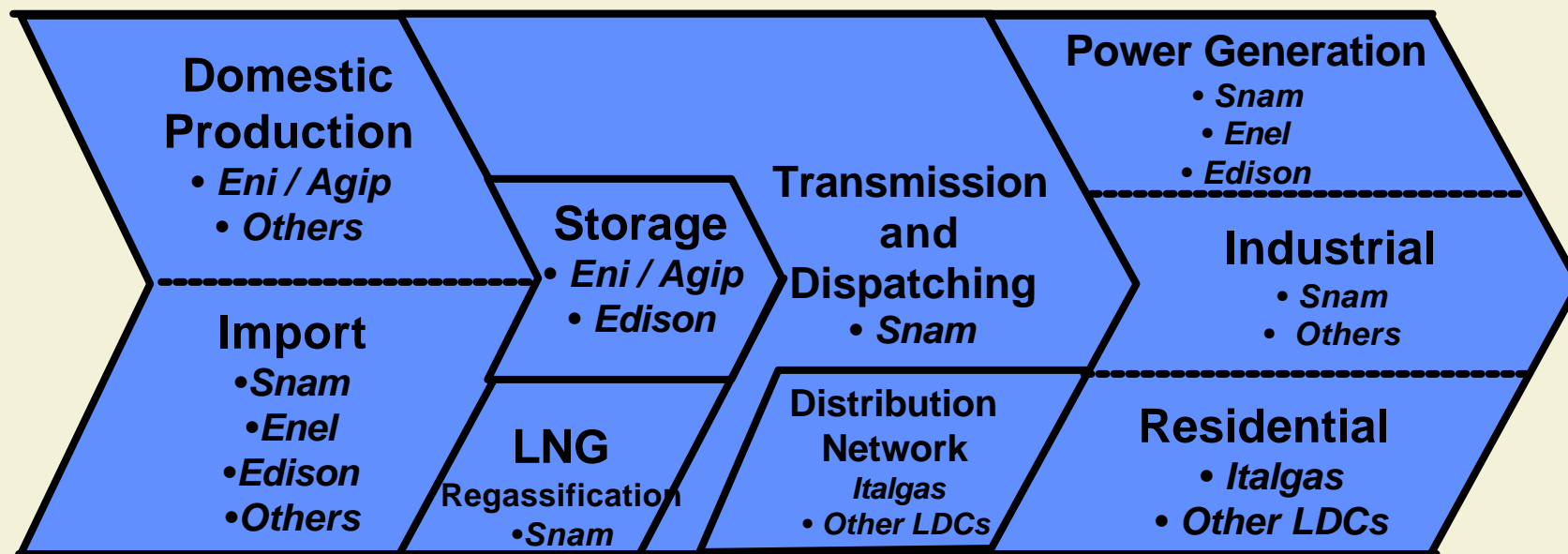
**To what extent will owning pipes be  
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## Supply

## Infrastructure

## Sales to end-users





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## The new gas Decree: May 2000



### Market Opening (eligibility)

- LDCs; End-Users >0,2 Bcm: Immediate
- All Customers Eligible, 2003
- Incumbent Max Market Share 50%, 2003

### Supply Side Competition

- EU Imports: Open
- non-EU Imports: Open/Ministerial Authorization
- Incumbent max input: 75%, 2002 (61%, 2009)

### Open/non discriminatory access to infrastructures

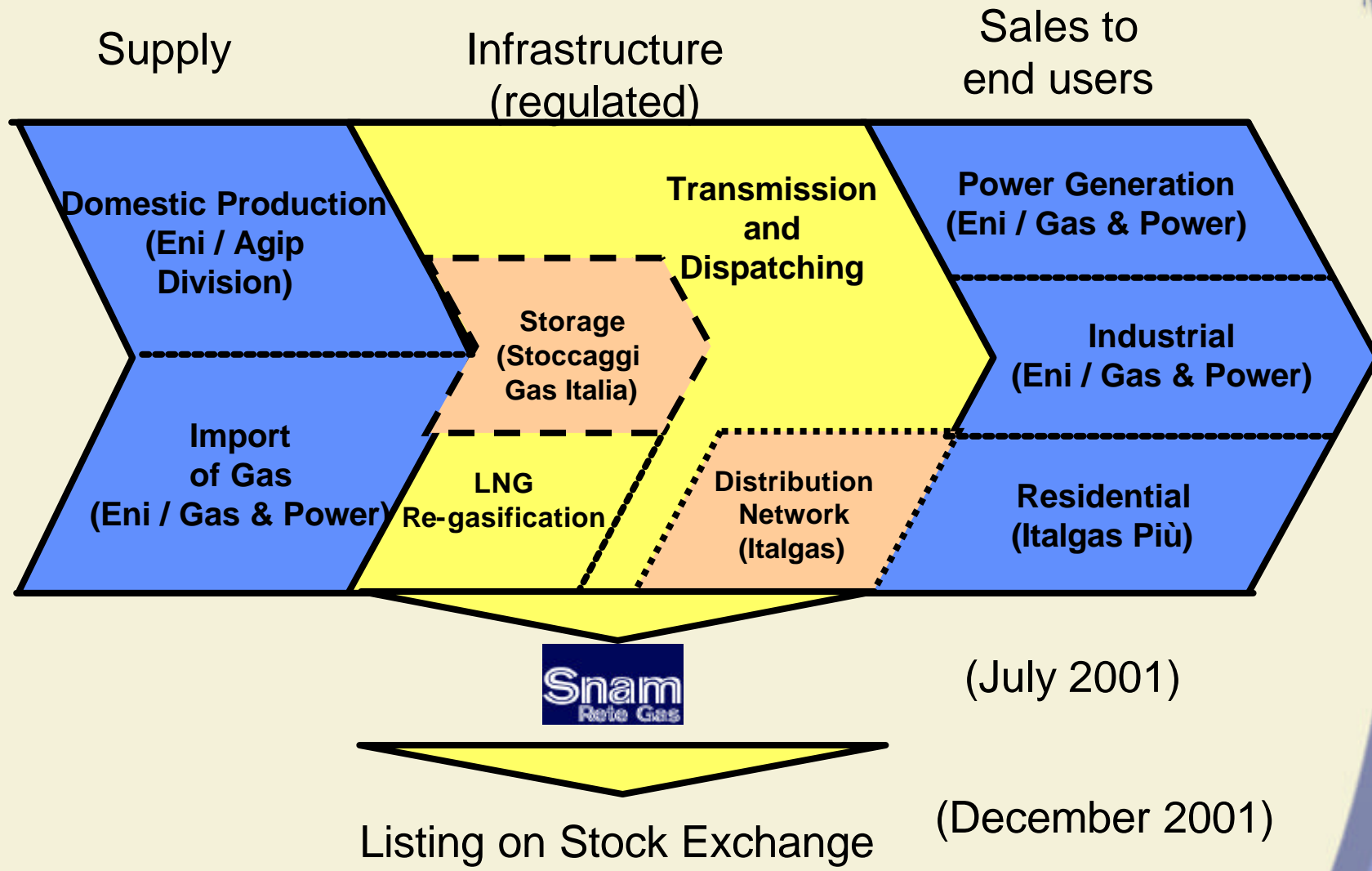
- Open Access to all Eligibles
- Regulated Tariffs and Access Rules
- Legal Unbundling 2002



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# Eni gas sector reorganization November 2000



(July 2001)

(December 2001)



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## Progress toward liberalization



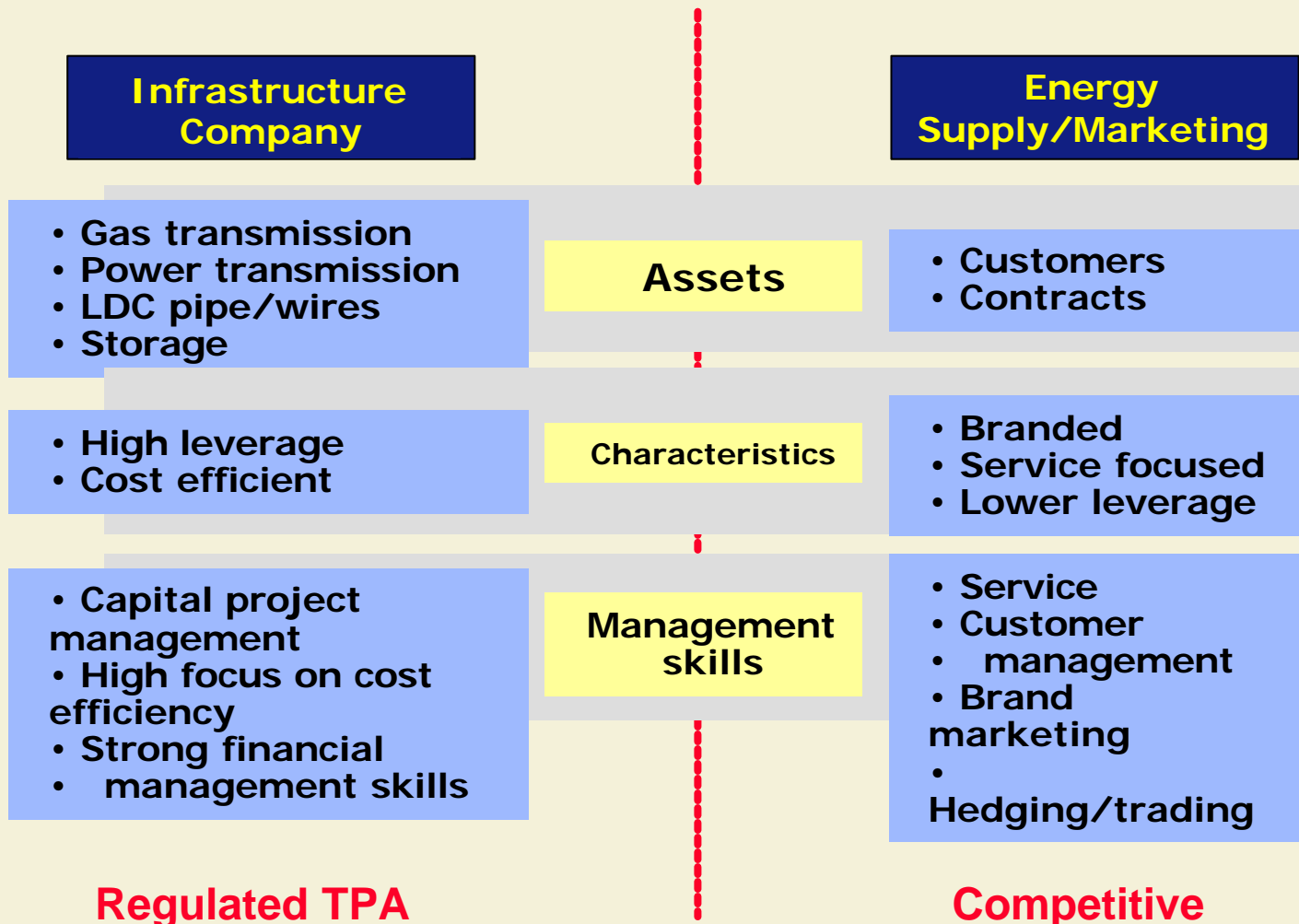
### The Gas Decree

### Today

<b>Market Opening (eligibility)</b>	<ul style="list-style-type: none"><li>• LDCs; End-Users &gt;0,2 Bcm: Immediate</li><li>• All Customers Eligible, 2003</li><li>• Incumbent Max Market Share 50%, 2003</li></ul>	<ul style="list-style-type: none"><li>• 65% eligible immediately</li><li>• All from Jan 2003</li></ul>
<b>Supply Side Competition</b>	<ul style="list-style-type: none"><li>• EU Imports: Open</li><li>• non-EU Imports: Open/Ministerial Authorization</li><li>• Incumbent max input: 75%, 2002 (61%, 2009)</li></ul>	<ul style="list-style-type: none"><li>• Oct 1, 2001:</li><li>• 27 Importers granted access to Import Entry Points</li><li>• Several non-EU Authorizations</li></ul>
<b>Open/non discriminatory access to infrastructures</b>	<ul style="list-style-type: none"><li>• Open Access to all Eligibles</li><li>• Regulated Tariffs and Access Rules</li><li>• Legal Unbundling 2002</li></ul>	<ul style="list-style-type: none"><li>• 27 Shippers</li><li>• Tariff Systems in place</li><li>• Access Code in progress</li><li>• Legal Unbundling in place</li><li>• Listing of Snam RG</li></ul>



### Legal Unbundling





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# The Snam Rete Gas Business Model



***BUSINESS CONCEPT***

***VALUE DRIVERS***

***REGULATION***

***SHAREHOLDERS' VALUE***



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# The Snam Rete Gas Business Concept





## A large and young network

- Snam Rete Gas has a total network length of 29,670km (96% of total Italian system)
- 70% of national network less than 20 years old

### Year 2001

- Snam Rete Gas national network
- Snam Rete Gas regional network
- Others
- Entry points

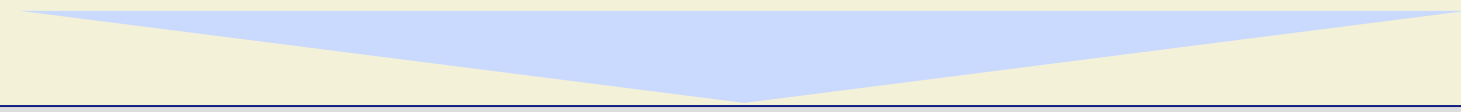




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# The Snam Rete Gas Business Concept





## Alignment of interests between Regulator and Snam RG

### Medium term

- Open access to new entrants
- Stimulate efficiency and reduce costs

### Long term

- Infrastructure growth
- Market stability

Management Independence assuring non discrimination

**A continuous and constructive dialogue**



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# The Snam Rete Gas Business Concept





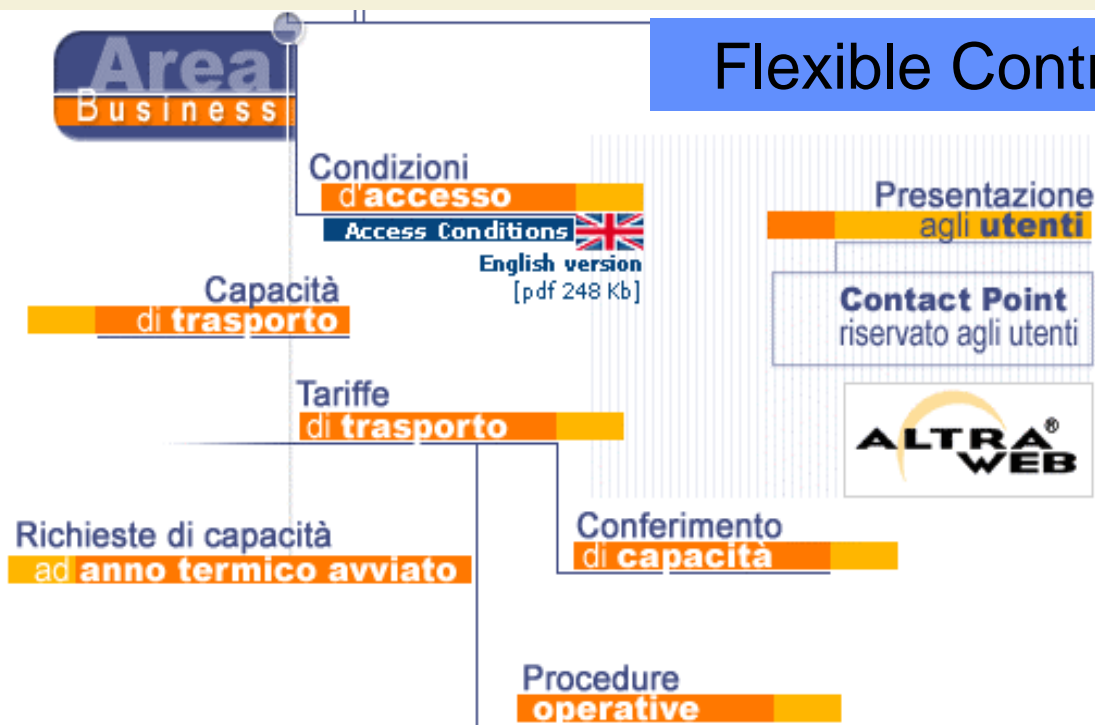
Facilitate access to the system

Training and Education

Common Software Platform

Flexible Contractual Arrangements

[www.snamretegas.it](http://www.snamretegas.it)

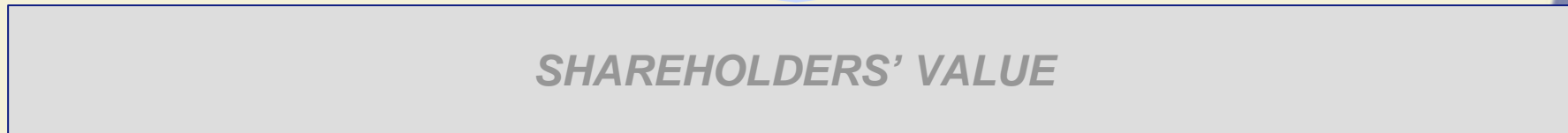




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# The Snam Rete Gas Business Concept







***Strategy***

Core Business Focus

Invest in Expansion

Operating Efficiency

Optimising Capital Structure

***Management Challenges***

New Investment Risk

Beat Regulators' Targets

Manage Relationships with  
the Regulator

Growing Stakeholders'  
Expectations





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# The Snam Rete Gas Business Concept

HIGH CUSTOMERS'  
BENEFITS

CLEAR  
CONFIGURATION

BOUNDARIES WELL  
DEFINED





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# The Snam Rete Gas Business Model



<i>BUSINESS CONCEPT</i>	CUSTOMERS' INTERFACE	CORE STRATEGY	STRATEGIC RESOURCES	STAKEHOLDERS' NETWORK
-----------------------------	-------------------------	------------------	------------------------	--------------------------

<b>VALUE DRIVERS</b>	<b>EFFICIENCY</b>	GROWTH	FINANCIAL STRENGTH	QUALITY & SAFETY
--------------------------	-------------------	--------	-----------------------	---------------------

<i>REGULATION</i>
-------------------

<i>SHAREHOLDERS' VALUE</i>
----------------------------



## ● Personnel

- Streamlined organisation
- Development of additional skills

## ● Processes

- €70 million in leading IT technology
- Preventive maintenance
- Outsourcing initiatives

From 1998 to 2001

23% reduction  
in fixed costs



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# The Snam Rete Gas Business Model



<i>BUSINESS CONCEPT</i>	CUSTOMERS' INTERFACE	CORE STRATEGY	STRATEGIC RESOURCES	STAKEHOLDERS' NETWORK
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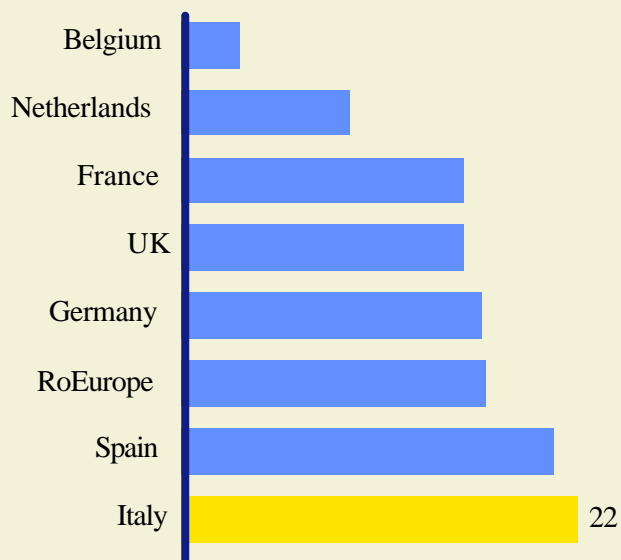
<b>VALUE DRIVERS</b>	EFFICIENCY	<b>GROWTH</b>	FINANCIAL STRENGTH	QUALITY & SAFETY
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*REGULATION*

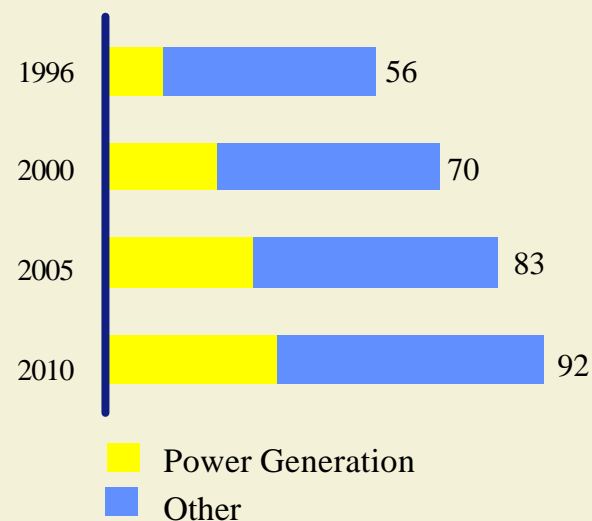
*SHAREHOLDERS' VALUE*



**Absolute volumes growth  
(bcm) 2000-2010**



**Consumption by  
sector (bcm)**



- Italy is the 3rd largest gas market in Europe
- Italy is forecasted to experience the highest absolute growth
- This growth is supported by increasing importance of CCGT



## Drivers

**Gas market growth**

**Strong competitive position**

**Attractive regulatory incentives**

## Short term

**Complete ongoing investment Program**

**System optimization**

## Medium to long term

**New investments to accommodate growth and new shippers' requirements**



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# The Snam Rete Gas Business Model

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--------------------------	------------	--------	-------------------------------	---------------------

*REGULATION*

*SHAREHOLDERS' VALUE*





## **Strong cash flows**

- **Solid remuneration of existing assets**
- **Benefit from expected growth**

## **Debt Management**

- **Scope for optimising capital structure**
- **Scope for optimising debt structure**

## **Flexible capital structure**

**Financing  
ordinary  
business**

**Exploiting  
core growth  
opportunities**

**Capturing  
synergistic  
opportunities**

**Delivering  
attractive  
dividends**



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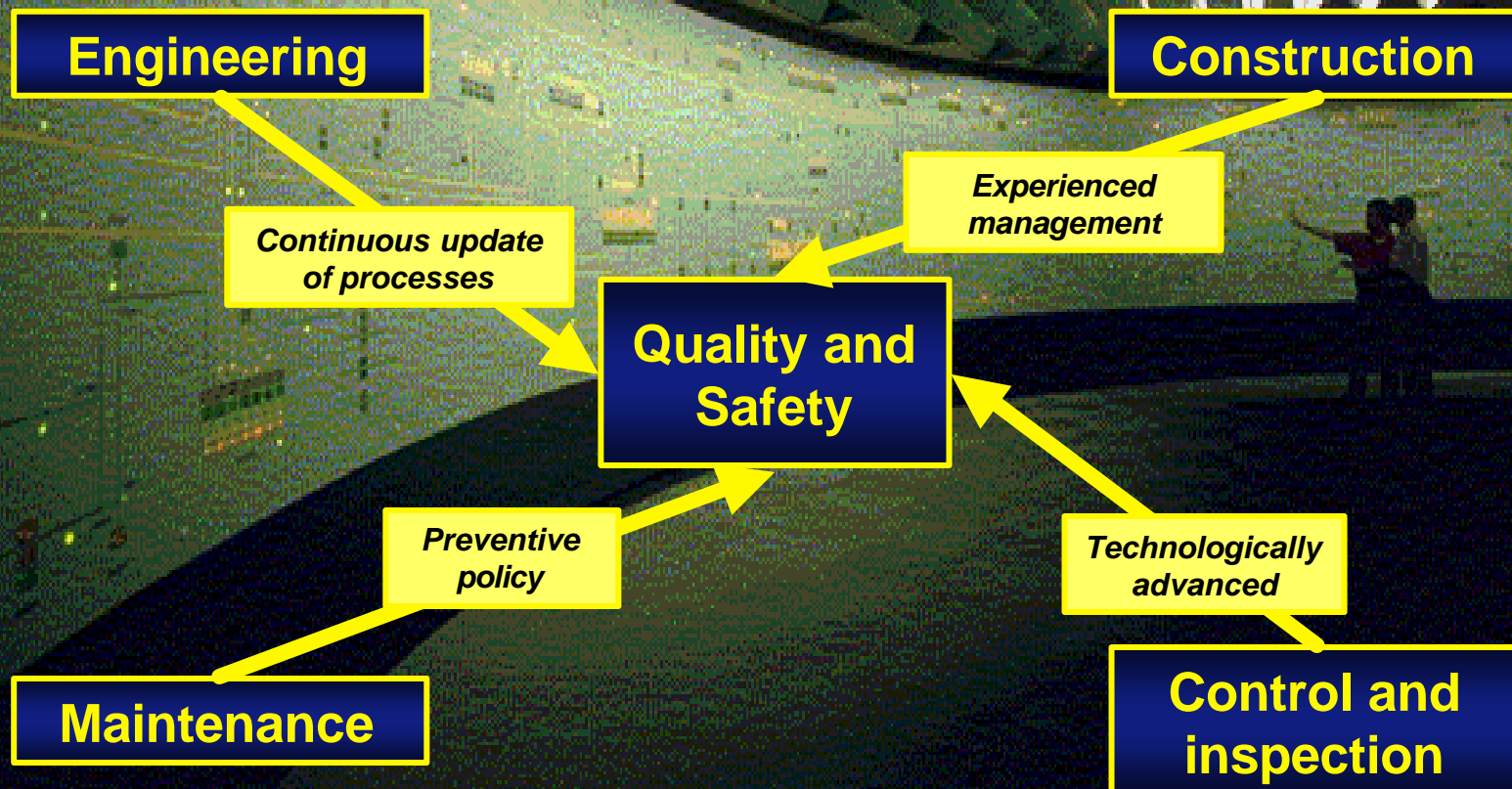


# The Snam Rete Gas Business Model





# Quality and Safety are embedded into all Processes





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# The Snam Rete Gas Business Model



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**REGULATION**

*SHAREHOLDERS' VALUE*



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**Regulation:  
balanced and fair**

**Clear transparent  
and stable**

- Transparent mainstream methodology to calculate RAB and revenues
- RPI-X revenue roll forward

**Fair return and  
efficiency targets**

- 7.94% real pre tax return on existing assets
- X-factor: 2%

**Attractive  
incentives**

- Premium on development investments
- Retention of efficiency gains exceeding regulators' target
- Incentives to grow transported volumes

**Long term  
visibility**

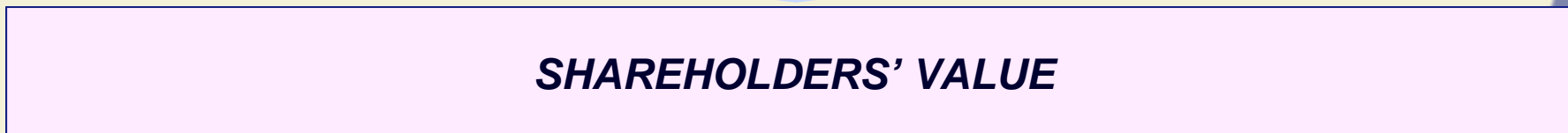
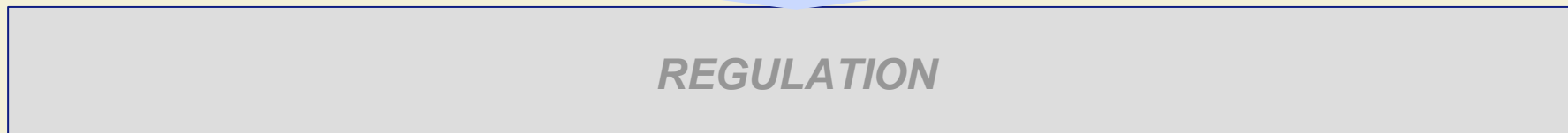
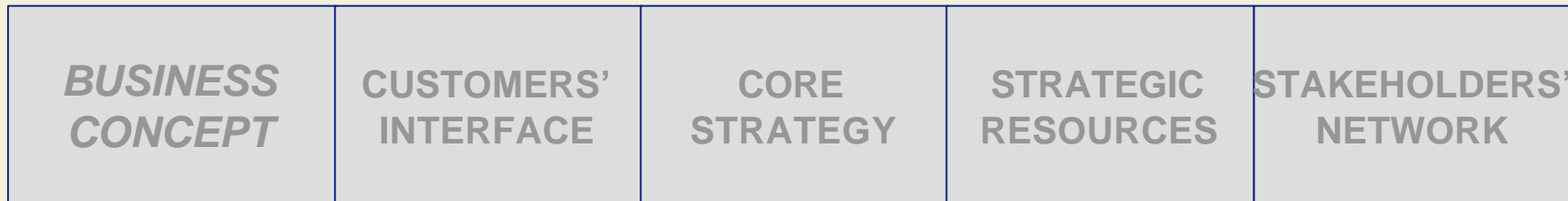
- Four year regulatory period
- Clear rules for calculating future RAB and retention of incentives



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Rete Gas



## The Snam Rete Gas Business Model



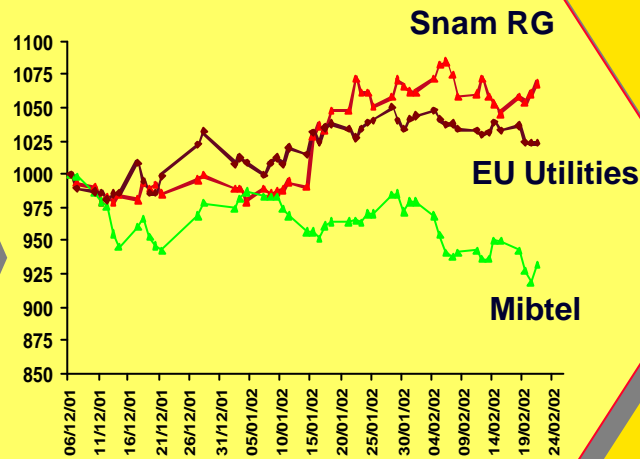


IPO



Today

- 5 Times Offer Subscription
- High quality of Institutional Demand
- 3.2% Premium on RAB



- Included in MIB30 March 18, 2002



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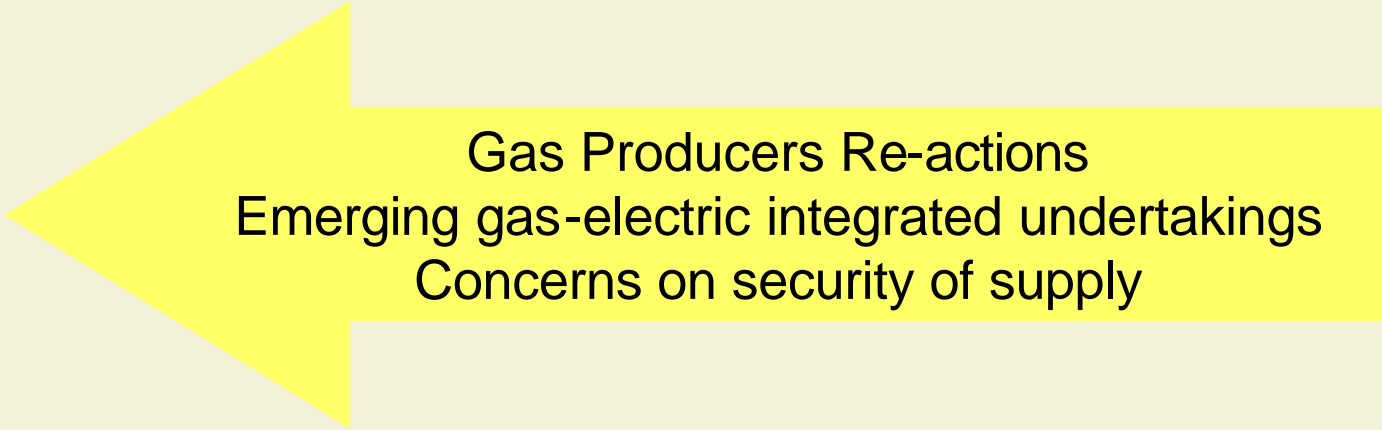
**Gas market liberalization  
in Europe**



## **Contrasting forces at work**



Madrid Forum of Regulators  
UE Commission New Gas Directive  
UE Antitrust



Gas Producers Re-actions  
Emerging gas-electric integrated undertakings  
Concerns on security of supply



EU  
gas

Liberalisation is progressive but heterogeneous in models and timing

## Obstacles

- Insufficient Regulator power/delays
- Inadequate unbundling
- Tariff level/structure
- Balancing/Storage Regime
- Dominant Incumbent
- Cross Border Issues

Austria	
Belgium	
Denmark	
France	X
Germany	
Ireland	
Italy	
Luxembourg	
Netherlands	
Spain	
Sweden	
UK	ity



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Rete Gas



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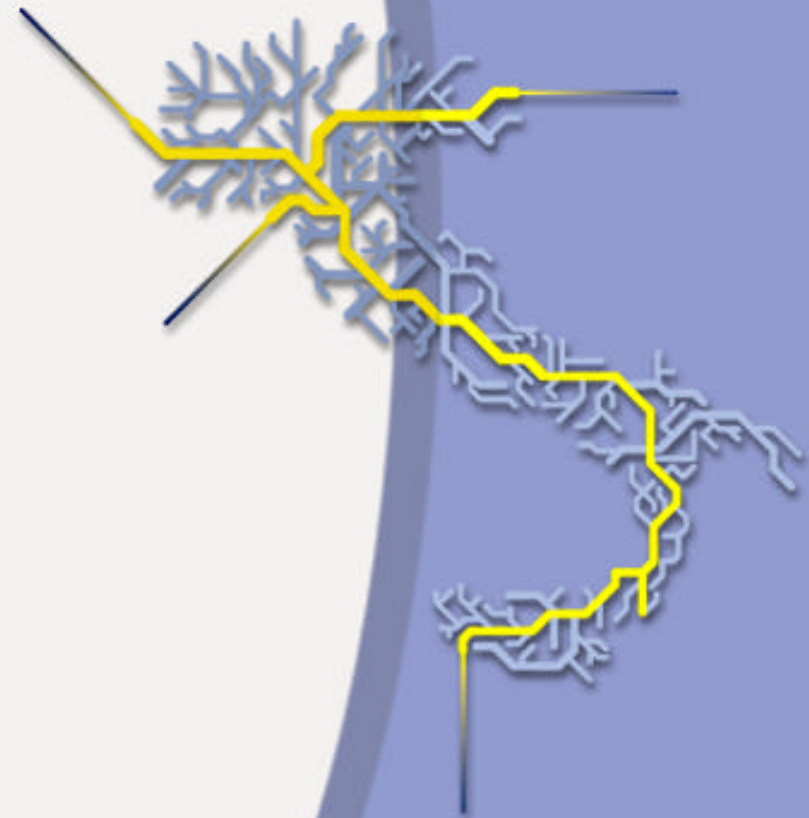
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