

SNAM RETE GAS S.p.A.

**EXTRAORDINARY SHAREHOLDERS' MEETING OF 17 – 18 MARCH 2009
ON FIRST AND SECOND CALL, RESPECTIVELY**

**Board of Directors' report on proposal in relation to the Item on the
Shareholders' Meeting Agenda**

Item 1

**Delegation of authority to the Board of Directors, pursuant to Article 2443 of the
Italian Civil Code, to increase the Company's share capital through contribution in cash,
by way of a divisible increase, for a maximum amount of euros 3,500,000,000.00**

Shareholders,

Since the IPO that took place in 2001, Snam Rete Gas has pursued a strategy aimed at focusing on its core business, through the organic growth in natural gas transportation activities, which is also confirmed by the current four-year plan that foresees technical investments of approximately 4.3 billion euros. The company monitors also possible opportunities for growth through external lines in the other regulated businesses in the Italian gas sector, in line with the objective of substantially maintaining the typical risk/return profile of its gas transportation activities.

The financial markets have always appreciated Snam Rete Gas for the soundness of its business, the visibility of its cash flow generation, its attractive dividend policy and its significant growth in profits, as a result of maximising operational efficiency and developing gas transportation infrastructures.

Now, after eight years of operating in regulated activities, the company has achieved a significant level of operational efficiency which is recognised by the market, but has limited opportunities for further improvement. As a result, the growth in profits over the medium term is specifically supported by incentives on new investments which, nonetheless, are unable to ensure a growth rate in line with that of some of the leading comparable companies at European level.

That being said, Eni S.p.A. and Snam Rete Gas, within the framework of a shared strategy aimed at rationalising their regulated operations managed in Italy which, in addition to the Snam Rete Gas business, also involve Italgas S.p.A. and Stoccaggi Gas Italia S.p.A. (Stogit S.p.A.), and in consideration of the autonomy of their respective industrial activities, assessed the opportunity of transferring Eni's entire investment (100% of capital) in the two companies to Snam Rete Gas.

Italgas S.p.A., together with subsidiary Napoletana Gas and associated companies (Toscana Energia, AES Torino, ACAM Gas, Umbria Distribuzione Gas, Metano Sant'Angelo Lodigiano, Metano Arcore, Metano Borgomanero and Metano Casalpusterlengo) is the leading operator in the distribution of natural gas in Italy, with over 1,200 active licences and approximately 40,000 km of pipelines.

The Authority for Electricity and Gas of Italy (the "AEEG") recently updated the regulatory framework for gas distribution for the third regulatory period (1 January 2009 – 31 December 2012), confirming a 7.6% rate of return on invested capital in real terms before taxes.

Stogit S.p.A. is the leading operator in natural gas storage in Italy. It manages eight storage fields in Lombardy, Emilia-Romagna and Abruzzo, under licence, with a total capacity of approximately 8.5 billion cubic metres available for the seasonal modulation service. In addition to the quantities of gas which are instrumental to the operation of the storage fields, Stogit owns approximately 5.1 billion cubic metres of natural gas, which is stored as strategic reserves.

The current regulatory period for storage activities, which began in April 2006, will expire on 31 March 2010. The regulatory framework shows many similarities with that for transportation activities: the value of invested capital (RAB) is defined using the revalued historical cost method and is remunerated at a real rate, before taxes, of 7.1%. Furthermore, an investment incentive system is in force, aimed at developing storage capacity, which provides a bonus of 4% on the base rate of return, for a period of 8 or 16 years, depending on the type of investment.

Based on the framework outlined above, the Board of Directors of Snam Rete Gas approved the purchase of the shares representing the entire share capital of Italgas S.p.A. and Stogit S.p.A. from Eni.

The underlying rationale for this operation can be summarised as follows:

1. creation of a single, integrated operator in regulated activities in the Italian gas sector, the first one in Europe in terms of regulatory asset base (RAB);
2. coherence with the strategy announced by Snam Rete Gas, which includes among its goals the maintenance of the current business risk profile in consideration of the characteristics of the regulatory framework for distribution and storage activities, which present similarities with that of transportation;
3. potential improvements in the outlook for growth of the regulated activities managed;
4. mitigation of the regulatory risk perceived by the market, linked to the periodic updating of the regulatory framework by the AEEG: the presence of Snam Rete Gas in regulated businesses, currently limited to transmission and regasification of LNG, would be extended to the activities of storage and distribution;
5. integration of natural gas transportation, distribution and storage, which allows the company to pursue the objective of value creation for the shareholders, thanks to the generation of significant synergies;
6. this operation positions Snam Rete Gas as the sole player in the centre of the integrated gas system in Italy, providing benefits to all the stakeholders involved: end customers and shippers, suppliers, authorities and institutions, organisations and associations, municipalities and local communities, as well as shareholders and investors.

The prices for purchasing the entire share capital of Italgas S.p.A. and Stogit S.p.A. amount to 3,070 million euros and 1,650 million euros, respectively, for a total value of the operation of 4,720 million euros, to be paid upon the closing of the cash acquisition.

Mediobanca, in the role of financial advisor of Snam Rete Gas, issued a fairness opinion in which it confirmed that the above mentioned amounts of 3,070 million euros for Italgas S.p.A. and 1,650 million euros for Stogit S.p.A. are fair in economic-financial terms.

The company intends to finance this operation in part through a share capital increase in cash, offered as an option to shareholders, and for the remaining part through a loan which, in line with the centralised group finance framework and following in-depth benchmarking analyses, will be granted by Eni for a cash amount of up to a maximum of 1,300 million euros. The terms and conditions of the loan proposed by Eni are in line with market conditions for companies with creditworthiness comparable to that of Snam Rete Gas S.p.A.

In order to execute the operation, the Board of Directors intends to submit for your approval the proposal to assign to the Board of Directors itself, pursuant to article 2443 of the Italian Civil Code, the right to increase the share capital in cash, in one or more times and in a divisible manner, on or before 31 December 2010 for a maximum amount (including any share premium) of 3,500,000,000.00 (three billion five hundred million point zero zero) euros, through the issue of ordinary shares with a nominal value of 1.00 (one point zero zero) euro each, bearing regular dividend rights. Said shares are to be offered as an option, pursuant to article 2441, paragraph 1, of the Italian Civil Code, to the entitled parties, with the widest powers for the Board of Directors to establish, in compliance with the limits set forth above, the methods, terms and conditions of the operation, including the power to set the subscription price for the shares, the amount of the share premium, the number of the newly issued shares and the related exchange ratio.

The delegation of authority pursuant to article 2443 of the Italian Civil Code aims at assuring the Board of Directors the required flexibility and prompt ability to execute said capital increase for the purposes set forth above, in a market characterised by uncertainty and volatility.

In this regard, it is currently foreseen that the Board of Directors will shortly use said delegation of authority – once granted – to execute the offer of the shares to be issued, presumably by July 2009, subject to market conditions and the receipt of the required regulatory authorisations and, in any event, after the date of payment of the balance of dividends for Financial Year 2008.

The shareholder Eni S.p.A. has undertaken an irrevocable commitment to fully subscribe the entire portion of the share capital increase pertaining to it.

The remaining portion will be offered to the other shareholders with the assistance of an underwriting syndicate promoted, coordinated and directed by Mediobanca – Banca di Credito Finanziario, in the roles of Global Coordinator and Bookrunner for the share capital increase. Mediobanca has already committed to underwrite the unsubscribed issued shares. The underwriting commitment of Mediobanca – Banca di Credito Finanziario S.p.A. sets forth terms and conditions for this type of operation.

Shareholders,

You are invited to:

- assign the Board of Directors, pursuant to article 2443 of the Italian Civil Code, the power of increasing the company's share capital in cash, to be executed in one or more times and in a divisible manner, on or before 31 December 2010, for a maximum amount, including any share premium, of 3,500,000,000.00 (three billion five hundred million point zero zero) euros, through the issue of ordinary shares with a nominal value of 1.00 (one point zero zero) euro each, bearing regular dividend rights. Said shares shall be offered, pursuant to article 2441, paragraph 1 of the Italian Civil Code, to the entitled parties, with the widest powers for the Board of Directors to establish, in compliance with the limits set forth above, the terms and conditions of the operation, including the power to set the subscription price for the shares, the amount of share premium, the number of the shares to be issued and the related

exchange ratio, as well as to carry out the fulfilments required by current legislation in force on the matter.

- consequently amend Article 5 of the By-laws as follows:

CURRENT TEXT	PROPOSED TEXT
<p style="text-align: center;">ARTICLE 5</p> <p>The Company's share capital is 1,956,445,600.00 (one billion, nine hundred fifty-six million, four hundred and forty-five thousand, six hundred point zero zero) euro divided into 1,956,445,600 (one billion, nine hundred fifty- six million, four hundred and forty-five thousand, six hundred) shares, nominal value 1.00 (one point zero zero) euro each.</p> <p>Share capital increases in kind and through assignment of credits are allowed.</p> <p>The Company may issue shares, including special categories, to allocate for free as per Article 2349 of the Civil Code.</p>	<p style="text-align: center;">ARTICLE 5</p> <p>The Company's share capital is 1,956,445,600.00 (one billion, nine hundred fifty-six million, four hundred and forty-five thousand, six hundred point zero zero) euro divided into 1,956,445,600 (one billion, nine hundred fifty- six million, four hundred and forty-five thousand, six hundred) shares, nominal value 1.00 (one point zero zero) euro each.</p> <p>The Extraordinary Shareholders' Meeting of March 2009 assigned the Board of Directors, pursuant to article 2443 of the Italian Civil Code, the right to increase the share capital in cash, in one or more times and in a divisible manner, on or before 31 December 2010 for a maximum amount, including any share premium, of 3,500,000,000.00 (three billion five hundred million point zero zero) euro, through the issue of ordinary shares with a nominal value of 1.00 (one point zero zero) euro each, bearing regular dividend rights. Said shares shall be offered, pursuant to article 2441, paragraph 1 of the Italian Civil Code, to the entitled parties, with the widest powers for the Board of Directors to establish, in compliance with the limits set forth above, the terms and conditions of the operation, including the power to set the subscription price for the shares, the amount of the share premium, the number of the shares to be issued and the related exchange ratio, as well as to carry out the fulfilments required by the current legislation in force on the matter.</p> <p>Share capital increases in kind and through assignment of credits are allowed.</p> <p>The Company may issue shares, including special categories, to allocate for free as per Article 2349 of the Civil Code.</p>

- grant the authority, effective immediately, to the *pro tempore* Chairman and *pro tempore* Managing Director, to severally carry out all the legal formalities and to make any formal amendments/integrations to the shareholders' resolutions which may be required by the competent authorities, as well as any amendments required upon registration and, in general, to carry out all acts required for the complete execution of said resolutions, with the widest powers necessary and suitable for such purposes, with no exclusions nor exceptions;
- grant the *pro tempore* Chairman and *pro tempore* Managing Director, severally, all the powers necessary to amend the figures contained in the By-laws every time that the Board exerts its delegation of authority, as well as to delete the new paragraph 2 of Article 5 upon expiration of its period of effectiveness.

The Chairman of the Board of Directors

Mr. Alberto Meomartini