

snam rete gas



Report on Corporate Governance  
and Ownership Structure 2010

Snam Rete Gas oversees regulated activities in the gas sector in Italy and is fully aware of their importance to society.

The company adopts and is committed to maintaining and enhancing a corporate governance system that is in line with international best practice.

This system is able to manage the difficult situations in which the company has to work and the challenges it must face with regard to sustainable development.

With a view to creating sufficient value to meet the expectations of shareholders, the corporate governance system defines all the rules that govern and dictate the management and control of the company, ensuring the distribution of roles and entitlements among those who contribute to the company's operations through the allocation of duties, responsibilities and decision-making powers.

#### BACKGROUND

Snam Rete Gas S.p.A. was founded on 15 November 2000.

The company became operational on 1 July 2001, inheriting the natural gas transportation and dispatching and the liquefied natural gas regasification operations from Snam S.p.A. (now Eni S.p.A.).

On 30 June 2009, the company bought the entire share capital of Italgas, Italy's leading natural gas distributor, and Stogit, the country's biggest operator in the natural gas storage sector.

Snam Rete Gas shares have been listed on the Italian stock market since 6 December 2001.

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## Glossary

- a) **Code of Corporate Governance:** the code of self-governance for listed companies approved in March 2006 by the Corporate Governance Committee and sponsored by Borsa Italiana S.p.A.
- b) **Consob Communiqué:** Consob Communiqué no. DEM/11012984 of February 24<sup>th</sup> 2011 “*Requests for information pursuant to Article 114, paragraph 5, of Legislative Decree no. 58 of February 24<sup>th</sup> 1998, on the remuneration, self-evaluation of the administrative body and succession plans – Recommendations on the information on compensation provided for by Article 78 of Regulation no. 11971 of May 14<sup>th</sup> 1999 as amended*”.
- c) **Consob:** *Commissione Nazionale per le Società e la Borsa* [National Commission for Listed Companies and the Stock Exchange].
- d) **Subsidiaries:** The subsidiaries of Snam are:
- Direct Subsidiaries: GNL Italia S.p.A., Società Italiana per il Gas S.p.A – Italgas, Stoccaggi Gas Italia S.p.A - Stogit.
  - Indirect Subsidiaries: Compagnia Napoletana di Illuminazione e Scaldamento col Gas S.p.A – Napoletanagas; Rete Gas Roma S.r.l., Servizi Territori Aree Penisole S.p.A. - Seteap
- e) **Directive 2009/73/EC:** Directive of the European Parliament and Council of July 13<sup>th</sup> 2009 relative to common rules for the domestic natural gas market and which annuls the previous Directive 2003/55/EC.
- f) **Shareholders' Rights Rules:** Legislative Decree no. 27 of January 27<sup>th</sup> 2010, going into force on March 20<sup>th</sup> 2010, containing “*Implementation of Directive 2007/36/EC, relative to the exercise of some rights of shareholders of listed companies*”, published in the Official Gazette on March 5<sup>th</sup> 2010.
- g) **Issuer:** Snam.
- h) **Combined Independent Committee:** the decision-making body (committee) created by the Board of Directors of Snam on July 27<sup>th</sup> 2010, intended for joint management of natural gas transportation and dispatching, distribution, storage and regasification activities pursuant to Article 9 of the Consolidated Unbundling Regulation.
- i) **Unbundling Regulation** Electricity and Gas Authority Resolution no. 11 of 2007, as amended and supplemented.
- j) **Issuer Regulations:** Regulations issued by Consob with Resolution no. 11971 of 1999 as amended and supplemented on the subject of issuers.
- k) **Market Regulations:** the Regulations issued by Consob with Resolution no. 16191 of 2007 as amended and supplemented on the subject of markets.
- l) **Related-Party Transaction Regulations:** Regulations issued by Consob with Resolution no. 17221 of March 22<sup>nd</sup> 2010 as amended and supplemented on the subject of related-party transactions.
- m) **Report:** this report on corporate governance and ownership structure pursuant to Article 123-*bis* of the TUF.
- n) **The Company's Website:** [www.snamretegas.it](http://www.snamretegas.it)
- o) **Snam or Company:** Snam Rete Gas S.p.A
- p) **Financial Instruments:** financial instruments as defined in Article 180 of the TUF.
- q) **Consolidated Unbundling Regulation or TIU:** Annex A) to the Unbundling Regulation.
- r) **TUF:** Legislative Decree no. 58 of February 24<sup>th</sup> 1998 – Consolidated Finance Act.

## Information on corporate governance

### General principles

Since its inception, Snam has had a corporate governance system in line with international best practices; in other words, a set of rules which govern and inform the Company's management and control, defining the distribution of roles and rights among those involved in the company by allocating duties, responsibilities and decision-making powers, as well as ensuring compliance with relevant legislation, codes of ethics and of conduct, internal procedures and regulations. In line with the values upheld in the Code of Ethics, integrity and transparency are the principles which Snam pursues in delineating an administration and control structure commensurate with the size and complexity of its operational structure, adopting an adequate and effective internal control system, and communicating with shareholders and other stakeholders. Special care is given to updating the information available on the Company's Website.

The corporate governance system is geared toward the objective of creating value for shareholders, out of an awareness of the social relevance of the activities in which the Company is engaged, namely environmental protection, personal health and safety, worker protection and equal opportunity, cooperation with local and national communities where the Company is present and, in general, the interests of all stakeholders. The corporate governance system is based, above all, on the guidelines contained in the Code of Corporate Governance (which Snam has upheld since listing on the Stock Exchange in 2001) and on the recommendations set out by Consob. Specific attention is paid to compliance with the Unbundling Regulation, while considering the specifics of the activities carried out by Snam and its Subsidiaries, which are subject to the regulation of the Electricity and Gas Authority particularly the rules on functional unbundling. The corporate governance system generally takes international best practices as a reference.

The complete corporate governance framework of Snam is described in detail in the Report prepared pursuant to Article 123-*bis* of the TUF and approved by the Board of Directors on March 2<sup>nd</sup> 2011. This report is also posted in the *corporate governance* section on the Company's Website.

### Corporate governance system and rules

Snam adopts the traditional administration and control system, which features:

- a Board of Directors which runs the company;
- a Board of Statutory Auditors, called upon to:
  - oversee observance of the laws and By-laws, as well as respect for the principles of proper administration in the conduct of company activities;
  - ensure the adequacy of the organisational structure, the internal control system and the administrative/accounting system of the Company;
- the Shareholders' Meeting, in both ordinary and extraordinary sessions, competent for discussing, among other things:
  - appointment and dismissal of the members of the Board of Directors and the Board of Statutory Auditors, as well as their respective compensation and responsibilities;
  - approval of the financial statements and allocation of earnings;
  - purchase and disposal of treasury shares;
  - amendment of the By-laws;
  - issues of convertible bonds.

Audit of the company's financial statements is entrusted to a specialised company registered in a special Register and appointed by the Shareholder's Meeting on the basis of a supported proposal from the Board of Statutory Auditors.

## By-laws

The Extraordinary Shareholders' Meeting of Snam held on April 27<sup>th</sup> 2010 updated the wording of the By-laws to the increasingly specific and detailed indications of the legal and regulatory framework in question [prompted as well by European provisions].

Consistent with the Company's current scope, the areas and content of the various activities on the subject have been explained in a more direct manner, along with a clearer and more precise statement of its intention to exercise the relationship of control between Snam and its Subsidiaries. In 2010, it completed the process of reorganisation begun the previous year with the full takeover of Italgas and Stogit; Snam can therefore qualify itself as the most important entity within Europe in the regulated activity sector, which includes its presence through Subsidiaries in the natural gas transportation, distribution, storage, regasification and metering sectors.

The Company's By-laws in fact set forth the direct and/or indirect engagement, in Italy and abroad, including through direct or indirect equity investments in companies, entities or enterprises, in regulated activities involving transportation, dispatching, distribution, regasification and storage of hydrocarbons, as well as any other economic activity that is linked through whatever degree of importance to one or more of the activities mentioned above, including the production of hydrocarbons associated with activities for storage thereof, the storage of other gases, the activity of energy metering, as well as the management of organised gas markets; all in observance of the concessions provided for by law.

From another standpoint, including for purposes of ensuring the utmost transparency in its activities, the Company decided to immediately implement both the compulsory and some of the optional provisions, introduced by the Shareholders' Rights Rules, including the indications in "*Representative appointed by companies with listed shares*". These new provisions apply as of the Ordinary Shareholder's Meeting called for 13 and 14 April 2011. The objective is to encourage shareholder participation in corporate affairs, especially minority shareholders and foreign shareholders or shareholders living abroad.

## Code of Ethics

On June 27<sup>th</sup> 2008, the Board of Directors approved a new Code of Ethics which replaces the previous code of conduct adopted as of the Company's listing on the Stock Exchange and which incor-

porates the most modern guidelines on business ethics and sustainability in a manner that is fully consistent with the objective of including all the values that the Company recognises, accepts and shares, as well as the responsibilities that it assumes inside and outside the company.

The Code of Ethics consists of its counterpart code from parent Eni S.p.A., which it includes in its entirety along with a special Addendum which considers the specifics of the activities carried out by Snam and its Subsidiaries, which are subject to regulation by the Electricity and Gas Authority. Special emphasis is given to relationships with Snam shareholders and the market, the authorities, customers, local communities and the territory.

The Code requires all activities to be performed in accordance with the law, in a context of fair competition, honesty, integrity, correctness and good faith, respecting the legitimate interests of customers, employees, shareholders, commercial and financial partners and the communities in which the company operates. Snam employees, regardless of position and without exception, are required to comply with and ensure compliance with these standards as part of their duties and responsibilities. Belief in acting in the interests of the company in no way justifies conduct which deviates from such standards.

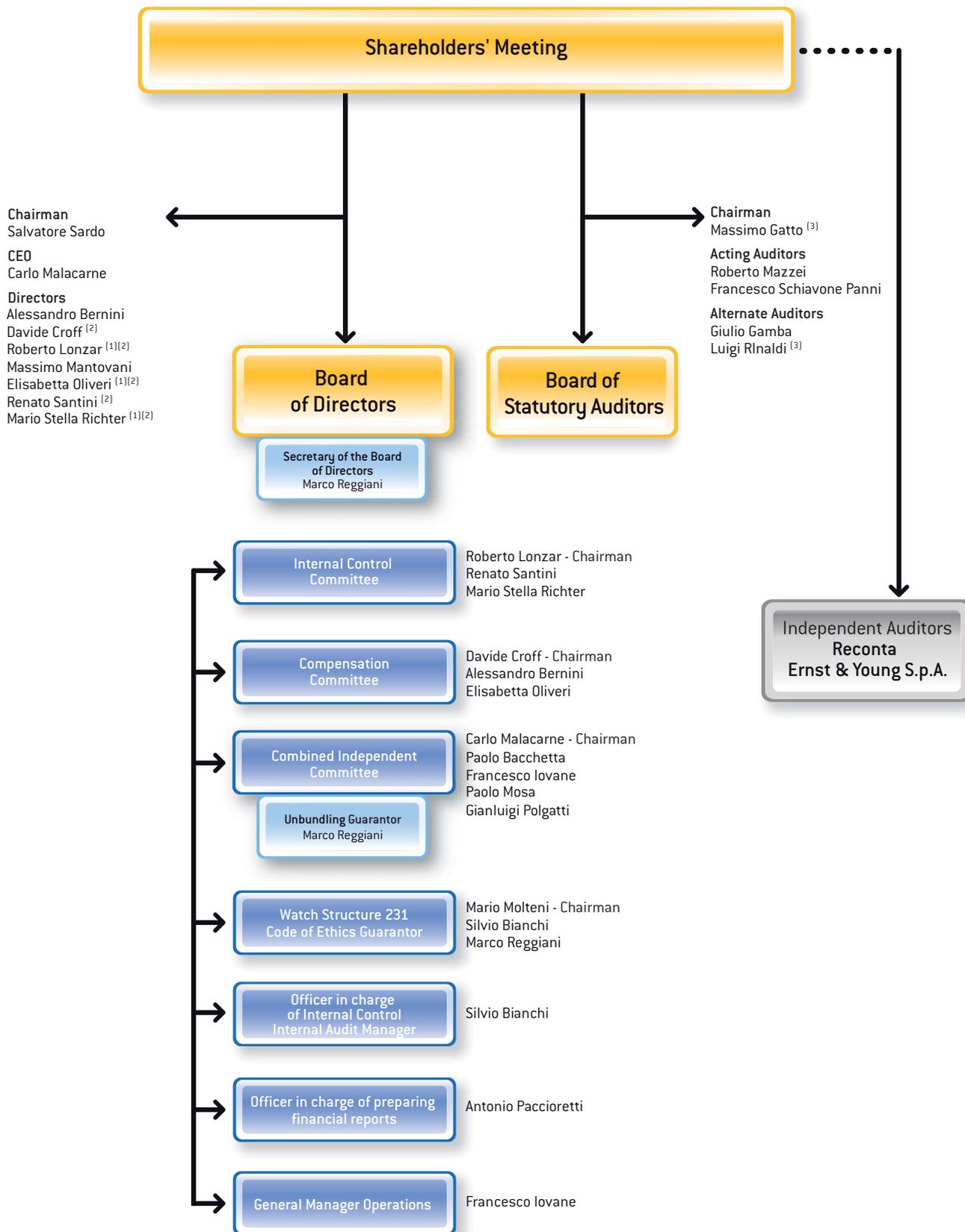
The Board of Directors has assigned Watch Structure 231 to act as Code of Ethics Guarantor, to respond to the following issues:

- requests for clarification and interpretation of the principles and content of the Code,
- suggestions on the application of the Code,
- reports alleging direct and indirect Code violations.

## Sustainability

Sustainability is an integral part of the Snam governance model and drives a process of improvement built around issues which emerge from dialogue with stakeholders and comparison with future energy scenarios. The Board of Directors has taken a central role in defining sustainability policies and approving the Report on Sustainability. The corporate governance system is a specific assessment criterion taken into consideration in the *Gas Distribution Utilities* sector, by the *Dow Jones Sustainability Index*. For further information, please refer to the Report on Sustainability and to the Sustainability section on the Company's Website.

## Summary chart



<sup>(1)</sup> Members designated by minority list.

<sup>(2)</sup> Independent Directors

<sup>(3)</sup> Directors designated by minority list

## Information on the ownership structure<sup>1</sup>

### Structure of share capital

The table shows the structure of the share capital of Snam at December 31<sup>st</sup> 2010.

Share Class	No. of shares	Percentage of share capital [%]	Market where listed	Rights and obligations
Ordinary shares	3,570,832,994.00	100	Italian Regulated Market	The shares are indivisible, and each share is entitled to one vote. Owners of shares may exercise the corporate and property rights attributed, in observance of the limits set by current regulations.

In particular:

- The company has not issued other financial instruments granting the right to subscribe newly issued shares.
- Snam shares are listed in the FTSE MIB index of Borsa Italiana, which is among the top stock indices worldwide (Stoxx Europe, S&P Europe, MSCI Europe), and one of the two major sustainability indices (DJSI World) Dow Jones Sustainability World Index and FTSE4Good Index.
- At December 31<sup>st</sup> 2010 there were 194,184,651 treasury shares, equal to 5.44% of the share capital. The floating capital is 42.02%.
- Information about share-based incentive plans (stock option, stock grant, etc.) including increases in the share capital is contained in the Snam report on operations and in the information

documents prepared pursuant to Article 84-*bis* of the Issuer Regulations, posted on the Company's Website.

### Restrictions on the transfer of shares and voting rights

The By-laws have no provisions in this regard

### Significant shareholdings

The table shows shareholders owning interests greater than 2% of the share capital of Snam at December 31<sup>st</sup> 2010 (based on information available and notices received pursuant to the Issuer Regulations).

Shareholders	% of share capital 31.12.09	Percentage of share capital [%]
Eni S.p.A.	52.54	52.54
Snam	5.46	5.44
Pictet Funds (Europe) SA	2.90	-----

[1] The Consob Communiqué requires: (a) all listed companies to provide a complete and detailed chart of any compensation which would be due to the Directors in the event of early termination of the relationship. In this regard, please refer to paragraph 3.3.6 "Compensation in the event of early termination of the relationship" in the Report; (b) the 38 Italian companies belonging to the FTSE MIB index to inform the market of the existence of any plans for the succession of the executive Directors, indicating the bodies and individuals involved in preparing them. In this regard, please refer to paragraph 3.3.7 "Succession plans" of the Report.

## Geographical breakdown of shareholders

The table shows the geographical breakdown of shareholders at December 31<sup>st</sup> 2010 (based on notices provided for by regulations and information available to the Company).

Shareholders	Percentage of share capital [%]
Italy	73.51
Continental Europe	12.28
UK and Ireland	4.56
USA and Canada	7.36
Rest of the World	2.29
<b>Total</b>	<b>100.00</b>

## Shares which confer special rights

No shares conferring special rights have been issued.

## Mechanism for exercising voting rights in a possible employees share ownership system.

There is no provision for an employee share ownership plan.

## Shareholder agreements

Snam is not aware of any shareholder agreements or other agreements between shareholders (nor are any such agreements disclosed by law).

## Change of control clauses

Snam and its Subsidiaries are parties to significant agreements (which may be disclosed without causing serious harm to the Company), which become effective, are amended or extinguished in the event of a change of control over Snam by Eni S.p.A. In particular:

- a) the automatic cancellation of the short-term loan agreement with Eni S.p.A. (as at December 31<sup>st</sup> 2010, these loans amounted overall, including loans to Subsidiaries, to approximately €1,844 million) and guarantees issued on behalf of Snam and its Subsidiaries by Eni S.p.A. or by banks against Eni S.p.A. At December 31<sup>st</sup> 2010, the existing guarantees amounted overall to approximately €73 million.
- b) The option for the parent (Eni S.p.A.) to accelerate the agreement:
  - Medium-/long-term loans. At December 31<sup>st</sup> 2010, they amounted overall to €8,485 million.
  - Derivatives hedging interest rate fluctuations (Interest Rate Swap - IRS – €6,535 million).

The acceleration of loan agreements, guarantees and derivatives would expose Snam and its Subsidiaries to the risk of not being able to obtain financing from other sources under the same conditions as the current ones. In addition, the acceleration of fixed-rate loans and IRS would take place at the fair value current at the time of acceleration, which may differ from the carrying value.

- c) Snam and its Subsidiaries also have other agreements with Subsidiaries of Eni S.p.A. related to service agreements and union agreements regarding comprehensive healthcare and complementary pensions for employees.

In the event of a change of control, it may become necessary to look for other counterparties for the performance of such services and benefits.

## Authorisations to increase share capital and repurchase treasury shares

The Board of Directors does not have authorisations to increase the share capital pursuant to Article 2443 of the Italian Civil Code. The By-laws provide that the Company may issue shares, including special classes of shares, to be allotted as a bonus pursuant to Article 2349 of the Italian Civil Code. No share ownership plans pursuant to Articles 2357 *et seq.* of the Italian Civil Code are underway.

## Management and coordination activity

Snam and its Subsidiaries are subject to the management and coordination of Eni S.p.A.

### Statement by the Board of Directors

The issue of the “*statement by the Board of Directors regarding the existence of the conditions referred to in Article 37 of the Market Regulations*” is considered. Article 37, paragraph 1 of the Market Regulations, as amended by Resolution no. 17221 of March 12<sup>th</sup> 2010 related to the conditions which prevent the listing of shares of Subsidiaries managed and coordinated by another company provides that “*The shares of subsidiaries managed and coordinated*

by another company cannot be traded on an Italian regulated market when such companies:

- a) have not complied with the disclosure requirements of Article 2497-bis of the Italian Civil Code;
- b) cannot independently negotiate terms with customers and suppliers;
- c) have a centralised treasury arrangement with the company which manages them or with another group company and such arrangement is not in their interest. The board of Directors must issue a supported statement to the effect that any such arrangement is in its interest, and this must be verified by the supervisory body
- d) do not have an Internal Control Committee composed by independent Directors as defined in paragraph 1-bis. If instituted, the other committees recommended by the codes of corporate governance promoted by stock exchange management companies or by industry associations shall also be composed by independent Directors. Subsidiaries managed and coordinated by another Italian or foreign company with shares listed on regulated markets must also have a board of Directors composed by a majority of independent Directors. For purposes of this subparagraph, Directors holding the office of Director in the managing and coordinating company or entity or in listed companies which are subsidiaries of such company or entity do not qualify as independent Directors. Companies adopting the dual management and supervisory board system are required, however, to create an Internal Control Committee within the supervisory board which meets the following requirements: i) at least one member must be a Director elected by the minority, if any; ii) all committee members must be independent pursuant to paragraph 1-bis.”<sup>2</sup>.

At its February 9<sup>th</sup> 2011 meeting, the Board of Directors confirmed that the Company meets the requirements listed in paragraph 1 of Article 37 of the Market Regulations for the listing of shares of companies managed and coordinated by another company on an Italian regulated market as it:

- a) has complied with the disclosure requirements provided for in Article 2497-bis of the Italian Civil Code;

- b) is able to negotiate terms independently with customers and suppliers;

- c) has a centralised treasury arrangement with its ultimate parent Eni S.p.A. (the company exercising unitary management) which is in its interest.

The fact that all decisions regarding treasury and finance transactions are agreed independently by Snam and take place at arm's length demonstrates that they are in the company's interest.

The statement by the Board of Directors that the centralised treasury arrangement between Snam and its ultimate parent Eni S.p.A. is in the company's interest was confirmed by the Board of Statutory Auditors.

- d) the Board of Directors is composed by nine members, five of which meet the requirements for independence as stipulated for statutory auditors by Article 148, paragraph 3 of the TUF and by Article 3 of the Code of Corporate Governance, which the Company upholds. It has an Internal Control Committee exclusively composed by Directors which meet the abovementioned requirements for independence. No independent Director holds the office of Director at Eni S.p.A. or at another listed subsidiary of Eni S.p.A. The Remuneration Committee is composed by non-executive Directors, the majority of whom are independent. It is worth noting that item IV.2 of Resolution no. 17221 of March 12<sup>th</sup> 2010, as amended by Resolution no. 17389 of June 23<sup>rd</sup> 2010, sets forth that when first applied: “Companies with listed shares that are managed and coordinated on the date of entry into force of this resolution or which acquire that status by October 1<sup>st</sup> 2010 shall comply with the provisions of Article 37, paragraph 1, letter d), in the amended wording of this resolution, within thirty days as of the first shareholders' meeting called after October 1<sup>st</sup> 2010 for the replacement of the management board or the supervisory board”. Therefore, considering the time periods provided for compliance by the Consob regulation, the current composition of the Remuneration Committee is not in compliance with the provisions of Article 37, paragraph 1, letter d) in the part which provides that “If instituted, the other committees recommended by the codes of corporate governance promoted by stock exchange management companies or by industry associations shall also be composed by independent Directors.”

[2] Paragraph 1-ter of the same article provides that “Companies with listed shares that come to be managed and coordinated by another company shall comply with the provisions of Article 37, paragraph 1, letter d) within thirty days of the first shareholders' meeting for replacement of the board of Directors or the supervisory board” In addition, item no. 13 of Article 2.6.2 of the Market Regulations provides that “Companies shall provide the market with a statement by the board of Directors concerning the existence or lack of the conditions referred to in Article 37 of Consob Resolution no. 16191/2007 in the report on operations when their annual financial statements are approved”.

## Board of Directors

### Role and functions

The Board of Directors is the central player in the Snam corporate governance system and is vested with the broadest powers of ordinary and extraordinary administration of the Company, and, in particular, it is authorised to carry out any acts it considers expedient to the implementation and achievement of the corporate object, except for any acts which fall by law or by the By-laws to the Shareholders' Meeting.

At its meeting on April 30<sup>th</sup> 2010, in addition to those powers which cannot be delegated by law, the Snam Board of Directors assigned itself the following powers pursuant to Article 2381 of the Italian Civil Code:

- a) setting strategic guidelines and objectives for the Company and the Group, including sustainability policies, upon recommendation from the CEO. Reviewing and approving strategic, business, financial and infrastructure development plans for the Company and the Group, in accordance with unbundling regulations, as well as the Company's strategic agreements;
- b) reviewing and approving the Company and consolidated budgets;
- c) reviewing the annual financial statements of Subsidiaries;
- d) reviewing and approving the quarterly and half-yearly reports of the Company and the consolidated interim reports required under current legislation; reviewing and approving the sustainability report;
- e) defining the system and rules of corporate governance for the Company and the Group; in particular, after consulting the Internal Control Committee, adopting rules to ensure the transparency and substantial and procedural correctness of transactions with related parties and transactions involving a Director, either on his own behalf or on behalf of a third party, as well as a procedure to manage and disclose corporate information, especially privileged information;
- f) setting up internal committees which advise and assist the Board of Directors, appointing members, establishing their duties and ratifying the rules of procedure;
- g) receiving information every six months from these internal committees;
- h) monitoring operating performance, particularly by taking into consideration information received from the Chairman, CEO and Internal Control Committee, paying particular attention to any conflicts of interest and periodically comparing actual results and results from financial statements and interim reports with the budget;
- i) granting and revoking powers for the Chairman and CEO, setting a limit on such powers and deciding how they may be exercised; establishing remuneration connected with these powers upon recommendation from the relevant committee and the Board of statutory auditors. It may issue instructions to the relevant bodies and suggest transactions covered by the powers. The Chairman and CEO report to the Board of Directors and to the Board of statutory auditors at least once a quarter on their activities and the key transactions performed by the Company and its Subsidiaries which affect the income statement and balance sheet. They also report on atypical and/or unusual transactions and related-party transactions. Information must be made available promptly when the Directors have a direct interest in the transaction, when third parties are involved or when the transaction could be affected by the company which manages and coordinates activities;
- j) reviewing and approving transactions by the Company and its Subsidiaries, upon recommendation from the CEO, that have a significant strategic impact or a considerable effect on the income statement and balance sheet of the Company and the Group. Compliance with confidentiality regulations relating to commercial relationships between the subsidiary and the Company or third parties is unaffected in all cases. The following operations are considered significant:
  - acquisitions, sales, disposals and transfers of companies or business units (including rent and usufruct), mining securities, concessions, contracts, properties and/or equity investments worth more than €50 million;
  - contracts for the sale of goods and/or services used for commercial and administration purposes by the Company and its Subsidiaries for amounts greater than €1 billion and/or for a term of more than 15 years;

- contracts for the purchase and sale and exchange of chattels, also comprising those included in public registers, contracts for advertising slots and time; contracts for rental and lease, intellectual property services, services, hire, transportation and courier, tender, insurance as the insured party, brokerage and representation, mandate, commission, agency, sales concession, deposit, subcontracting, use on a free-loan basis, publishing and printing, usufruct, use and residential, purchase and sale, hire, lease and rental of hardware and software or computerised systems for more than €50 million and/or a term of longer than 15 years;
  - as the lessee in property finance leases for amounts greater than €2.5 million and/or for a term of more than 15 years and chattels, including those listed in public registers in Italy and elsewhere, for amounts greater than €50 million and/or for a term of more than 15 years;
  - granting of loans by the Company and its Subsidiaries to non-Eni group companies;
  - sureties and other forms of personal guarantee, in addition to letters of patronage, in relation to commitments assumed or to be assumed by companies in which the Company directly or indirectly holds an equity investment of more than €30 million and in any event if the amount is not proportional to the investment held therein;
  - sureties given to guarantee commitments assumed or to be assumed by the Company with third parties, for more than €30 million;
- k) appointing and dismissing the general managers upon recommendation from the CEO and approval from the Chairman, granting them the related powers;
- l) appointing and dismissing the Officer in charge of preparing financial reports, upon recommendation from the CEO, ratification from the Chairman and approval from the Board of statutory auditors, granting him the necessary powers and resources;
- m) appointing and dismissing, upon recommendation from the CEO, ratification from the Chairman and consultation with the Internal Control Committee, the internal audit Manager and the Officer in charge of internal control, setting their compensation in line with the Company's remuneration policy;
- n) ensuring that an investor relations manager has been appointed;
- o) defining the criteria for compensation of senior executives after reviewing the proposals made by the relevant committee, and implementing compensation plans based on shares or securities approved by shareholders;
- p) defining the basic guidelines of the organisational, administrative and accounting structure of the Company and its Subsidiaries; assessing the adequacy of the organisational, administrative and accounting structure as drawn up by the CEO, particularly with regard to how conflicts of interest are handled;
- q) after examining proposals made by the Internal Control Committee, setting the guidelines for the internal control system so as to ensure the identification, metering, management and monitoring of the key risks of the Company and its Subsidiaries; performing an annual review of the adequacy, efficiency and effectiveness of the internal control system under the supervision of the CEO;
- r) adopting decisions concerning the exercise of voting rights at meetings of shareholders of its Subsidiaries and the appointment of members of Subsidiaries' internal bodies, based on the CEO's proposals;
- s) drawing up draft resolutions to be submitted to shareholders at meetings;
- t) reviewing and deliberating on other issues that executive Directors wish to draw to the attention of the Board, when such issues are of particular importance and sensitivity.

The By-laws also give the Board of Directors the authority to adopt decisions on proposals concerning:

- mergers pursuant to Articles 2505 and 2505-*bis* of the Italian Civil Code, as well as those mentioned for demerger, in cases mentioned in such provisions;
- institution, modification and elimination of secondary offices;
- the reduction in share capital when a shareholder withdraws;
- compliance of the By-laws with regulatory provisions;
- the transfer of the registered office within Italy.

### Delegated bodies

The Shareholder's Meeting of April 27<sup>th</sup> 2010 appointed Salvatore Sardo as Chairman and the Board of Directors' Meeting of April 30<sup>th</sup> 2010 also assigned the following duties, powers and authorisations to him. In addition to the responsibilities attributed to him by law and by the By-laws, the Chairman shall have the following powers:

- to be the Company's legal representative and to deal with institutional bodies and authorities, together with the CEO;
- summon and chair Board meetings and set their agendas together with the CEO. Guide, oversee and coordinate Board activities, ensuring proper function and adequate disclosure by Directors. Verify the implementation of Board decisions;
- consult the Internal Control Committee, assess and contribute to the CEO's suggestions to the Board regarding the appointment, dismissal and remuneration of the Officer in charge of internal control and the internal audit officer;
- assess and contribute to the CEO's suggested appointments of general managers, the Officer in charge of preparing financial reports and members of the Watch Structure pursuant to Legislative Decree no. 231 of June 8<sup>th</sup> 2001, to be put before the Board.

Lastly, at the same meeting, the Board of Directors appointed Carlo Malacarne as CEO, conferring to him all functions and powers not reserved for the Board or the Chairman by law, the By-laws or Board deliberation.

Pursuant to Article 19 of the By-laws, the Chairman and the Chief Executive Office represent the Company.

### Assessment of the adequacy of the organisational, administrative and accounting structure

The Board of Directors, in implementing the provisions of the Civil Code and the Code of Corporate Governance at its meeting on March 2<sup>nd</sup> 2011, assessed the organisational, administrative and accounting structure as commensurate with the size and type of activity engaged in by Snam and its Subsidiaries.

### Assessment of the size, composition and functioning of the Board of Directors and its Committees

In accordance with the provisions of the Code of Corporate Governance, the Board of Directors had an assessment made of the size, composition, and functioning of the Board itself and of its Committees, by engaging Egon Zehnder International, a specialised external consultant. The assessment process was carried out mainly through:

- questionnaire as a basis for evaluation and interview with each Director, structured differently from previous years: (i) by an “empirical” approach, as well as a general assessment; and (ii) with a special focus on Board dynamics;
- analysis, evaluation and presentation to the Board.

After the survey, Egon Zehnder International made the following assessment: *“Based on the comments gathered and the comparative analysis performed, we confer a rating of Compliance by Snam with the guidelines of the Code of Corporate Governance. We are of the opinion that this new Board is on a positive track toward consolidating its functioning and it expresses a decided interest in seizing starting points for operational improvement”.*

Considering the results of the activity of assessment of the Board of Directors and its Committees conducted by Egon Zehnder International, the Board of Directors expressed a broadly positive opinion on March 2<sup>nd</sup> 2011 on the size, composition and functioning of the Board and of its Committees.

### Appointment, composition and term of office

The Company is managed by a Board of Directors composed by no less than five members and no more than nine; their number and their term of office are decided by the Shareholders’ Meeting at the time of appointment.

The By-laws provide for a voting list mechanism for the appointment of Directors in order to ensure that minority shareholders are represented in the Board. The Board of Directors is appointed by the Shareholders’ Meeting based on the lists submitted by the shareholders, in which candidates must be listed by a consecutive number. Lists are filed at the registered office by the twenty-fifth day prior to the date of the Shareholders’ Meeting called to decide on the appointment of the members of the Board of Directors and made available to the public by the methods provided for by law and by Consob regulations, at least twenty-one days prior to the date of the Shareholders’ Meeting.

Each shareholder may submit or be involved in submitting only one list and may vote on only one list, according to the terms provided for by the abovementioned legal and regulatory provisions. Each candidate may run as a candidate on only one list, subject to ineligibility. Only shareholders who alone or together with other shareholders represent 2% or are the owners overall of another percentage of shares stipulated by Consob regulations shall be entitled to submit lists. For this purpose, on January 26<sup>th</sup> 2011, in Resolution no. 17633, Consob set the aforesaid percentage at 1%.

The ownership of the minimum percentage necessary for the submission of lists is determined considering the shares registered in the shareholder’s favour on the date on which the lists are filed at the Company. For purposes of corroborating ownership of the number of shares necessary for the submission of lists, shareholders must produce the respective certification issued in accordance with the law by authorised intermediaries by the deadline provided for publication of the lists by the Company.

Pursuant to By-laws provisions, which improve upon legal provisions, at least one Director, if the Board is composed by no more than seven members, or at least three Directors, if the Board has more than seven members, must meet the independence requirements for statutory auditors of listed companies. Candidates meeting the aforesaid independence requirements must be specifically identified on the lists. All candidates must also meet the honesty requirements provided for by current provisions.

Together with each list, subject to its inadmissibility, a *curriculum vitae* must be filed for each candidate and the candidates’ statements accepting their candidacy and certifying, under their own cognisance, the lack of grounds for ineligibility or conflict of interest, as well as the fact that they satisfy the honesty and possible independence requirements. The Directors appointed must inform the Company of any loss of the independence and honesty requirements, as well as the occurrence of causes of ineligibility or conflict of interest.

The Board shall periodically evaluate the independence and honesty of the Directors, as well as the lack of grounds for ineligibility or conflict of interest. In the event a Director does not meet or ceases to meet the independence or honesty requirements declared or legally required or if grounds for ineligibility or conflict of interest should exist, the Board shall dismiss the Director and replace him or ask him to desist from the reason for conflict of interest within a pre-determined time period, subject to dismissal from office.

Directors are elected as follows:

- a) seven-tenths of the Directors to be elected are taken from the list receiving the majority of the shareholders’ votes in the consecutive order in which they appear on the list, rounding down to the lowest whole number, if the number is a fraction;
- b) the remaining Directors are taken from the other lists, which may not be associated in any way, even indirectly, to shareholders who have submitted or voted for the list which came in first in number of votes; for that purpose, the votes won by said lists will be divided successively by one, two or three, depending on the consecutive number of Directors to be elected. The quotients thus obtained are assigned progressively to candidates from each of these lists, according to the order shown in them. The quotients thus assigned to candidates from the different lists are arranged in a single decreasing gradation. Those obtaining the highest quotients will be elected. If several candidates obtain the same quotient, the candidate from the list which has not yet elected any Director or that has elected the smallest number of Directors will be elected. If none of these lists has yet elected a Director or if all have elected the same number of Directors, the candidate from the list obtaining the

greatest number of votes will be elected. If the voting on lists is tied and the quotient is also tied, a new vote by the entire Shareholders' Meeting will be held, and the candidate winning a simple majority of votes will be elected;

- c) if, after following the procedure described above, the minimum number of independent Directors required by the By-laws is not elected, the quotient of votes to be attributed to each candidate on the different lists is determined, according to the system indicated in letter b); candidates not yet taken from the lists pursuant to letters a) and b) which meet the independence requirements and have won the highest quotients, in the number necessary to ensure observance of the By-laws, will be elected. They shall replace the non-independent Directors with the lowest quotients. If there are not enough candidates to ensure the minimum number of independent Directors, the Shareholders' Meeting shall vote, by statutory majority, to replace those candidates who did not meet the independence requirements and had the lowest quotients;
- d) for the appointment of Directors not appointed for any reason by the above procedure, the Shareholders' Meeting shall decide by statutory majority so as to ensure that the composition of the Board of Directors is consistent both with the law and the By-laws.

In any case, additional binding legal provisions, including regulatory rules, remain unchanged.

Directors may be appointed for a period not to exceed three financial years, which term expires on the date of the Shareholders' Meeting called to approve the financial statements for the last year of their term of office, and they may be re-elected.

The list voting mechanism applies only for the replacement of the entire Board of Directors. Even during its term of office, the Shareholders' Meeting may change the number of members on the Board of Directors, provided it is within the limit set forth in paragraph one of Article 13, with regard to respective appointments. The term of office of Directors thus elected shall expire with those in office. If one or more Directors come to be lacking during the financial year, their replacement shall be provided for pursuant to Article 2386 of the Italian Civil Code. If the majority of Directors is lacking, the entire Board shall be understood to resign, and the Shareholders' Meeting must be called without delay by the Board of Directors in order to replace it.

The Shareholders' Meeting of April 27<sup>th</sup> 2010 set the number of Directors at nine and their term of office at three financial years expiring on the date of the Shareholders' Meeting called to approve the individual financial statements at December 31<sup>st</sup> 2012. The current Directors are: Salvatore Sardo, Carlo Malacarne, Alessandro Bernini, Davide Croff, Roberto Lonzar, Massimo Mantovani, Elisabetta Oliveri, Renato Santini and Mario Stella Richter. The same Shareholders' Meeting appointed Salvatore Sardo as Chairman.

In this regard:

- Salvatore Sardo, Carlo Malacarne, Alessandro Bernini, Davide Croff, Massimo Mantovani, and Renato Santini are the Directors who were candidates on the list submitted by shareholder Eni S.p.A.
- Roberto Lonzar, Elisabetta Oliveri and Mario Stella Richter are Directors who were candidates on the lists submitted jointly by certain minority shareholders.

- For Directors Davide Croff, Roberto Lonzar, Elisabetta Oliveri, Renato Santini and Mario Stella Richter, the list specifically indicated that they meet the independence requirements set forth in the By-laws.

The *curriculum vitae* of the Directors are available on the Company's Website. Below is a brief summary:

#### **Salvatore Sardo**

Born in Turin in 1952.

He received his Bachelor's Degree in Economic Sciences from the University of Turin, and is an Official Auditor of Court Accounts and Experts. On November 4<sup>th</sup> 2008 he became Chief Corporate Operations Officer of Eni S.p.A. reporting directly to the Chief Executive Officer.

On September 1<sup>st</sup> 2005 he became Human Resources and Business Services Director of Eni S.p.A. Previously, after a stint at Coopers & Lybrand as auditor where he acquired the title of Supervisor, he held positions of responsibility in different business areas, including Procurement, Services and Security Director of Enel S.p.A. He is a Director of Saipem.

#### **Carlo Malacarne**

Born in Pavia in 1953.

With a Bachelor's Degree in Electronic Engineering, and after a brief period at Società Selecontrol, he began his career at Snam S.p.A. in the gas transportation department. Subsequently, as Telecommunications and Process Systems Director, he assisted Eni Group's telecommunications systems in meeting their reorganisation objectives. In March 1998, he was appointed Construction Manager tasked with ensuring investments engaged in both in Italy and abroad were executed properly. In July 1999, he was appointed Italy Network Operations Manager.

After the incorporation of Snam Rete Gas S.p.A., in July 2001 he was appointed General Manager of Company Operating Activities and Chairman of the Board of Directors of GNL Italia S.p.A.

He has served as Chief Executive Officer of Snam Rete Gas since May 2006.

#### **Alessandro Bernini**

Born in Borgonovo Val Tidone (PC) in 1960.

Since 1981, he has worked at Ernst&Young, where he rose through the ranks to hold Senior, Supervisor, Manager and Partner positions. During the same period, he has taught at the Universities of Pavia and Parma in post-graduate master's degree courses.

On September 1<sup>st</sup> 1996, he held the position of Administration, Finance and Control Manager of the Eni Group, and subsequently Group Chief Financial Officer at Saipem S.p.A.

As of August 1<sup>st</sup> 2008, he is CFO of the Eni Group.

#### **Davide Croff**

Born in Venice in 1947.

He received his degree in Economics and Commerce from Università Cà Foscari di Venezia and specialised in Economics at Pembroke College at Oxford University.

His roles have included that of President of Permasteelisa S.p.A. He is a Cavalier of the Great Cross of the Italian Republic.

He is a member of the Assonime Board and is on the Council for the United States and Italy.

### Roberto Lonzar

Born in Trieste in 1953.

He received his degree in Economics and Commerce from the University of Trieste.

He is an auditor and is active as a chartered public accountant.

He serves as Statutory Auditor at various companies, including: Genertellife S.p.A., Genertel S.p.A., Simgenia SIM S.p.A., and TBS Group S.p.A.

He is a Director at Finanziaria Internazionale Alternative Investment SGR S.p.A. and a member of the Supervisory Board of Generali Investments S.p.A.

### Massimo Mantovani

Born in Milan in 1963. He has a graduate degree in law and a Masters in Law (LLM) from the University of London. He is licensed to practice law in Italy and in England as a solicitor.

In 1993, he joined the legal department of Snam S.p.A., and subsequently became General Counsel Legal Affairs of the Gas & Power Division.

In October 2005, he assumed the position of General Counsel Legal Affairs at Eni S.p.A.

Since 2005, he has been a member of the Watch Structure of Eni S.p.A.

### Elisabetta Oliveri

Born in Varazze (SV) in 1963.

She graduated with honours in electronic engineering from the University of Genoa.

She is President and Founder of the "Fondazione Furio Solinas Onlus" foundation. She is a Cavalier of Merit of the Italian Republic.

### Renato Santini

Born in Bologna in 1960.

He is a graduate of the University of Bologna with a degree in Economics and Commerce, and earned a Masters in Accounting and Finance (M.S.C.) from the London School of Economics and Political Science.

He is active as a Chartered Public Accountant and Auditor, as well as a professor of Business Finance at the Bachelor's Degree Programme in Economics and Professions (CLEP) and in Financial Planning at the Master's Degree Program in Economics and Professions (CLaMEP) at the University of Bologna.

He serves on the decision-making and supervisory board of various companies and foundations.

### Mario Stella Richter

Born in Rome in 1965.

He is a law graduate of Università La Sapienza di Roma and earned a Masters in Law from Columbia University in New York.

As of 2000 he has taught commercial law, including at the school of law at the Università Tor Vergata di Roma since 2006.

Since 1992, he has been admitted to the Rome Bar (Court of Cassation since 2001) and is the author of some 130 books and publications.

At a meeting on April 30<sup>th</sup> 2010, the Board of Directors appointed Carlo Malacarne as Chief Executive Officer. At the same meeting, Marco Reggiani, General Counsel Legal and Corporate Affairs, was confirmed as Secretary of the Board of Directors; on the same date, the Board adopted Regulations governing its own functioning. As of 2006, Francesco Iovane was appointed Chief Operations Officer with the respective operational authorisations.

Board of Directors meetings are called by the Chairman or, in his absence or incapacity, by the Chief Executive Officer or, in his absence or incapacity, by the most senior Director in age, when he deems it necessary or when requested in writing by at least two Directors. The request must indicate items considered especially important to request that a Board meeting is called. The Board of Directors meets in the place indicated in the meeting notice. The notice is to be sent as a rule at least five days prior to the date of the meeting. At the beginning of a Board meeting, Directors and statutory auditors are required to give notice to the Board of Directors and to the Board of Statutory Auditors regarding any interest they may have on their own behalf or on behalf of third parties in a specific company transaction. In 2010, the Board of Directors met 10 times; the meetings were attended on average by 82.5% of the Directors, and the presence of independent Directors was approximately 87.8% on average.

Except for the CEO, the Board of Directors is composed by non-executive members, and among these by a number of independent members (5) to ensure by both number (majority of Directors) and authority that their opinion can have a bearing on Board decisions. The presence of independent Directors on both the Board of Directors and its committees is also suitable for ensuring proper safeguarding of the interests of all shareholders.

Independence and honesty on the part of the Directors, as well as the lack of grounds for their ineligibility and conflict of interest are assessed after appointment and at least once a year by the Board of Directors, considering the information provided by the interested party or available to the Company.

At a meeting on February 9<sup>th</sup> 2011, the Board set the following guideline on the number of offices a Director may hold<sup>3</sup>:

- a) an executive Director must not hold:
  - i) the office of executive Director at another listed Italian or foreign company, or in a financial, banking, or insurance company or in a company with shareholders' equity in excess of €1 billion, or

[3] Article 1.C.2 of the Code of Corporate Governance issued by Borsa Italiana S.p.A. on March 14<sup>th</sup> 2006, provides that: "Directors shall accept the office when they believe that they can devote the time necessary to the diligent performance of their duties, taking into account the number of offices as Director or statutory auditor held by them in other companies listed on regulated markets (including foreign markets), financial, banking, insurance or large-sized companies. Based on the information received from the Directors, the board must gather and publish each year in the report on corporate governance the offices as Director or statutory auditor held by the Directors in the aforesaid companies", while Article 1.C.3 provides: "The board must express its opinion on the maximum number of offices as Director or statutory auditor in the companies referred to in the previous paragraph (1.C.2 – Ed. Note) which may be considered compatible with effective performance of the office of Director of the issuer. For that purpose, different general criteria depending on the commitment to each role (for executive, non-executive and independent Directors), and the nature and size of the companies in which the offices are held, as well as whether they belong to the issuer's group, in addition to which a Director's participation on Board committees may be taken into account".

- ii) the office of non-executive Director or statutory auditor (or member of another Controlling body) at more than three of the abovementioned companies;
- b) a non-executive Director, including an independent Director, in addition to the office held in the Company, must not hold:
  - i) the office of executive Director at more than two listed Italian or foreign companies, or financial, banking or insurance companies or companies with shareholders' equity in excess of €1 billion or the office of non-executive Director or statutory auditor (or member of another Controlling body) at more than five of the companies indicated, or

- ii) the office of non-executive Director or statutory auditor (or member of another Controlling body) at more than eight of the aforesaid companies.

If the limits indicated are exceeded, the Directors must promptly inform the Board of Directors, which shall evaluate the situation in light of the Company's interest and ask the Director to take the resulting decisions. Based on the statements made by the Directors on the subject of accumulation and the type of companies indicated in the Code of Corporate Governance, as well as the guidelines adopted in this regard by the Board of Directors, the following appears:

Director	Important appointments held pursuant to Article 1.C.3. of the Code of Corporate Governance
Davide Croff	Chairman of the Board of Directors of Permasteelisa S.p.A.
Roberto Lonzar	Principal statutory auditor of Genertellife S.p.A. and TBS Group S.p.A. Chairman of the Board of Statutory Auditors of Genertel S.p.A. and Simgenia SIM S.p.A. Director at Finanziaria Internazionale Alternative Investment SGR S.p.A. Member of the supervisory board in Generali Investments S.p.A.
Renato Santini	Director at PBF Srl. Principal Statutory Auditor of Perennius Capital Partners SGR
Salvatore Sardo	Director at Saipem S.p.A.

At the abovementioned meeting, the Board of Director took note of the statements made by the Directors, the provisions of the Code of Corporate Governance on the accumulation of management and control positions (as well as the Board of Directors' confirmed guidelines on the matter, as already mentioned), and it certified that, except for the CEO, the Directors hold a non-executive role and the number of important appointments pursuant to the rules in question held by said Directors is consistent with effective performance of the administration function at Snam.

At the meeting on February 9<sup>th</sup> 2011, based on the statements made by each Director in January 2011, the Board of Directors certified that no grounds for ineligibility, forfeiture and conflict of

interest exist for the Directors and in addition that, pursuant to Article 148, paragraph 4 of the TUF, the Directors, General Manager Operations and Officer in charge of preparing financial reports meet the requirement of honesty established for members of controlling body by regulations issued by the Ministry of Justice, contained in Justice Minister Decree no. 162 of 2000, Article 2.

The same Board meeting also noted that the non-executive Directors, Davide Croff, Roberto Lonzar, Elisabetta Oliveri, Renato Santini and Mario Stella Richter meet the independence requirements stipulated for statutory auditors under Article 148, paragraph 3 of the TUF and Article 3 of the Code of Corporate Governance<sup>4</sup>. The Board of Statutory Auditors verified the proper application of the criteria

(4) Related to independence requirements for Directors, Article 3.C.1 of the 2006 Code of Corporate Governance provides: "...Redacted... a Director does not appear independent, as a rule, in the following cases, which are not to be considered exhaustive:

- a) if he, directly or indirectly, including through subsidiaries, trust companies or an intermediary, controls the issuer or is capable of exercising significant influence on it, or is a party to a shareholder agreement whereby one or more parties may exercise control or significant influence on the issuer;
- b) if he is, or has been in the previous three financial years, an important agent of the issuer, one of its strategically important subsidiaries or of a company subject to common control with the issuer, or of a company or entity which, including with others through a shareholder agreement, controls the issuer or is capable of exercising significant influence over it;
- c) if he has or has had in the previous financial year a significant commercial, financial or professional relationship, directly or indirectly (e.g. through a subsidiary or a company of which he is an important agent, or as a partner at a professional firm or consulting firm):
  - with the issuer, one of its subsidiaries, or with any of its respective important agents;
  - with a party that, including together with others through a shareholder agreement, controls the issuer, or – in the case of companies or entities – with the respective important agents, or he is or in the previous three financial years has been an employee of one of the aforesaid parties;
- d) if he receives, or if in the previous three financial years he has received significant remuneration from the issuer or a subsidiary or parent in addition to the "fixed" salary as a non-executive Director of the issuer, including participation in incentive plans associated with company performance, including share-based plans;
- e) if he has been a Director of the issuer for more than nine years in the last twelve years;
- f) if he holds the office of executive Director at another company in which an executive Director of the issuer has a position as Director;
- g) if he is a shareholder or Director of a company or entity belonging to the network of the company engaged to audit the issuer;
- h) if he is a close family relation of a person who is in the situation described in one of the previous items".

The subsequent Article 3.C.2 which provides: "For purposes of the foregoing, 'important agents' of a company or entity are to be considered as the entity's president, legal representative, chairman of the board of Directors, the executive Directors, and the managers with strategic responsibility of the company or entity in question".

and procedures adopted by the Board of Directors for identifying the Directors' independence requirements. Pursuant to Article 147-ter of the TUF, said Directors meet the independence requirements stipulated for statutory auditors by Article 148, paragraph 3 of the TUF. The independent Directors are evaluating the advisability of planning specific meetings with independent Directors only.

## Remuneration System for Directors, general manager and managers with strategic responsibilities

### Principles

The Snam Remuneration System is defined in keeping with recommendations made by the Code of Corporate Governance, and its purpose is to reinforce values, capabilities and conduct consistent with the company culture and strategy by recognising the responsibilities assigned, results achieved, quality of the professional contribution and potential development of the resource, taking into account the employment markets in question.

The remuneration of the CEO, General Manager and Managers with strategic responsibilities is tied significantly to the economic results achieved by the Company, specifically by determining and implementing variable incentive systems associated with the achievement of economic and financial targets, business and operational development in view to earnings sustainability and the creation of value for shareholders over the medium and long terms, consistent with the Snam's Business Plan.

The Remuneration Systems is supplemented by benefits consisting of goods and services, related primarily to pensions and healthcare.

### Rules

The Directors' compensation is decided by the Shareholders' Meeting.

The remuneration of Directors vested with specific duties (Chairman and CEO) or due to functions performed within Committees is determined by the Board of Directors on a proposal from the *Compensation Committee*, after hearing the opinion of the Board of Statutory Auditors.

The general criteria for compensating the General Manager and Managers with strategic responsibilities<sup>5</sup> are approved by the

Board of Directors, based on proposals made by the *Compensation Committee*, upon examining the indications from the CEO.

### Compensation structure

The Shareholders' Meeting held on April 27<sup>th</sup> 2010 set the gross annual compensation due to each Director at €40,000, plus reimbursement of expenses incurred in the performance of the office;

The Board of Directors resolved to pay annual compensation of €60,000 to the Internal Control Committee Chairman, including the fee stipulated by the Shareholders' Meeting for the office of Director and corresponding to the remuneration set by the Shareholders' Meeting for the Chairman of the Board of Statutory Auditors, as well as the payment of €500 to the Directors for attendance at each meeting of the Committees instituted within the Board.

The Chairman's compensation, as of June 1<sup>st</sup> 2010, is composed by a gross annual fee, including what was resolved by the Shareholders' Meeting on April 27<sup>th</sup> 2010, established by the Board of Directors in keeping with the duties and functions conferred at the meeting on April 30<sup>th</sup> 2010.

The structure of the CEO's remuneration is composed by a fixed component, including the fee set by the Shareholders' Meeting for the office of Director, an annual variable component tied to the achievement of specific company objectives (strategic, economic/financial and operational) set for the previous year and a long-term variable component.

The structure of the remuneration of the General Manager and Managers with strategic responsibilities is composed by:

- i) a fixed component, determined on the basis of the role and responsibilities assigned, with reference to levels adopted for equivalent positions on the market by large domestic and international companies with annual adjustments established for merit (continuity of individual performance) or for promotion (greater role/responsibility);
- ii) an annual variable component tied to the achievement of specific economic, financial and operational objectives;
- iii) a long-term variable component broken down into two incentive plans whose characteristics are similar to those provided for the CEO.

[5] "Managers with strategic responsibilities" are those individuals who have the power and responsibility, directly or indirectly, for planning, management and control of Snam. Managers with strategic responsibilities at Snam, other than Directors or statutory auditors, are the managers required to participate regularly in the Snam Management Committee.

In 2010, the pay mix for the Chairman, CEO, General Manager and other Managers with strategic responsibility was as follows:

	Chairman	CEO	General Manager	Other executives with strategic responsibilities
Fixed compensation	100%	40%	48%	51%
Variable compensation (result-related)		24%	23%	21%
Long-term incentives (result-related) (*)		36%	29%	28%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

\* Maximisation of long-term incentives (discounted) in predicting target results

### Implementation of the variable remuneration systems in 2010

In 2010, the variable remuneration of the CEO was determined with reference to Snam's objectives for 2009 as approved by the Board of Directors, on a proposal by the Compensation Committee. Consistent with the Strategic Plan and the annual budget, it was defined in terms of disbursement per investment (overall weight 40%), approval by the Snam Board of Directors of the Snam-Italgas-Stogit organisational integration project (weight 20%), net cash flow for the year's activity (weight 30%), sustainability (weight 10%) broken down equally between reduction of natural gas emissions and reduction of the accident rate.

The Company earnings, evaluated on a constant basis and verified by the Compensation Committee, were approved by the Board of Directors at a meeting on March 10<sup>th</sup> 2010 and resulted in a performance score of 127 on a scale of 70 (minimum) - 130 (maximum), which is used to determine the variable remuneration to be paid.

In 2009, on a proposal from the Compensation Committee, the Board of Directors approved the 2009-2011 deferred cash incentive plan aimed at all managerial resources with the participation of the CEO and the General Manager. This plan focuses on business growth and operational efficiency and allocates an annual incentive payable in three years based on EBITDA results (actual vs. budget, on a constant basis) as defined for the three-year period in question. In 2010, the Board of Directors approved the second allotment of said Plan.

Again in 2010 no stock option plan was approved and on March 10<sup>th</sup> 2010 the Board of Directors, on a proposal from the Compensation Committee, approved a Long-term Cash Incentive Plan in favour of the CEO, the General Manager and other critical managers (managerial resources whose positions are most directly responsible for company earnings and/or strategic interest). To encourage long-term profitability exceeding that of the sector in general, the Plan allocates an incentive payable in three years based on the change in the adjusted net profit parameter measured in the 2010-2012 three-year period in relative terms compared to six other large European utilities.

### Disbursement of long-term incentive plans allocated in previous years.

In 2010, the vesting period was completed for the long-term incentive plans allocated in 2007, comprising a Deferred Cash Incentive

Plan aimed at managers, and a Stock Option Plan aimed at critical managers (managerial resources whose positions are most directly responsible for company earnings and/or strategic interest). Based on the earnings achieved during the 2007-2009 period, as verified by the Compensation Committee, the Board of Directors determined at its meeting on March 10<sup>th</sup> 2010:

- i) with reference to the Deferred Cash Incentive Plan, the multiplier of 143% to be applied to the amount allocated in 2007, calculated based on Snam's EBITDA the performance achieved during the three-year period in question,
- ii) with reference to the Stock Option Plan, the percentage of 70% of exercisable options to be applied to the number of options allocated in 2007, calculated based on the performance of the Snam share measured in Total Shareholders' Return (TSR) during the three-year period in questions, compared to that of peer group companies.

The CEO and the General Manager participated in both plans.

### Compensation in the event of early termination of the relationship

With reference to item 2.3 of the Consob Communiqué, it is noted that there are no agreements on the subject.

The effects of any termination of the CEO's relationship on rights allocated under an existing incentive plan based on financial instruments or to be paid in cash are described, respectively: i) with respect to the stock option plans allocated until 2008, in the paragraph "Incentive plans for managers with shares of Snam Rete Gas S.p.A." in the notes to the financial statements in the 2010 Financial Report; ii) with respect to the 2009-2011 deferred cash incentive plan and the 2010 long-term cash incentive plans in the paragraph "Long-term incentives allocated to Directors, general managers and managers with strategic responsibilities" in the notes to the financial statements in the 2010 Financial Reportdelle note al bilancio della Relazione finanziaria 2010.

Pursuant to Consob provisions, the Notes to the individual financial statements of Snam indicate: (i) the amount of compensation to members of the management and control bodies, the CEO and the Managers with strategic responsibilities, (ii) the stock options allocated to the administrative and supervisory bodies, to the CEO and to the managers with strategic responsi-

bility (iii) the long-term incentive plan allocated to members of the management body, the General Manager and managers with strategic responsibilities.

The equity investments held in Snam by members of the management and control bodies, the CEO and managers with strategic responsibilities are indicated in the Report on Operations.

### **Succession plans**

With reference to item 3.2 of the Consob Communiqué, Snam does not provide for succession plans for executive Directors due to the nature of the Company's shareholders, and the circumstance that, by law and the By-laws, Directors are appointed by the Shareholders' Meeting on the basis of lists submitted by shareholders.

## Treatment of company information

### Report by the Chairman and CEO pursuant to Article 16 of the By-laws

Pursuant to Article 16 of the By-laws, the Chairman and the CEO report at least quarterly to the Board of Directors and the Board of Statutory Auditors, on the Subsidiaries, overall progress, foreseeable trends, significant economic, financial or asset-related transactions, paying special attention to transactions in which they have an interest either on their own behalf or on behalf of third parties or transactions which are influenced by any party involved in management and coordination activity.

### Update of information processing procedures

On October 27<sup>th</sup> 2010, the Snam Board of Directors approved three inter-related procedures<sup>6</sup>, aimed at the rules governing market abuse or disclosures to the market, so-called internal dealing and registering people with access to confidential information.

#### Disclosures to the market of confidential information and documents concerning Snam and financial instruments it issues

In compliance with the provisions of the TUF and the Issuer Regulations on disclosure of confidential information to the public, the Board of Directors approved the *“Procedure for disclosure to the market of confidential information and documents concerning Snam Rete Gas and the financial instruments issued by it”*. The Procedure also takes into account the guidelines of the *“Market disclosure guide”* prepared by *Forum Ref sull’informativa societaria*, containing the principles of proper market disclosure, as well as the Code of corporate governance for Listed Companies.

The Procedure defines the terms and conditions for:

- disclosure to the market of Snam confidential information, as Issuer, financial instruments listed on regulated markets or financial instruments for which a request was submitted for admission to trading on a regulated market in Italy or in another State of the European Union, as specified by Article 180 of the TUF concerning the Issuer, the Subsidiaries or the financial instruments directly;
- disclosure of confidential information non-issuer Subsidiaries provide to the Issuer to comply with the provisions of the Procedure.

Specifically, the Procedure governs:

- information to be provided to the market, showing and evaluating the requirements of materiality, clarity, homogeneity, informational symmetry, consistency and timeliness;
- relations between Snam, parent company and Subsidiaries;
- meeting with market operators, interviews and statements to the media;
- dissemination of press releases;
- dissemination of information through multimedia tools (*internet, email, CD-Rom, broadcasting*), advertisements;
- delay and objection to the dissemination of information.
- Consob powers and sanctions ;
- retaining and gaining access to documentation.

#### **“Identification of significant parties and disclosing transactions made by them, including through intermediaries, involving shares issued by Snam or other financial instruments associated with them (“Internal Dealing”)”**

In accordance with the provisions of Article 114, paragraph 7, of the TUF and in the Issuer Regulations, the Board of Directors approved

[6] The abovementioned procedures replace those adopted previously by the Board of Directors on March 17<sup>th</sup> 2006 and are posted in the Governance section of the Company’s Website.

the “*Procedure for identifying significant parties and disclosing transactions made by them, including through intermediaries, involving shares issued by Snam or other financial instruments associated with them*” (Internal Dealing Procedure”).

The Procedure contains provisions which govern disclosure obligations and limitations concerning transactions on shares issued by Snam and other financial instruments associated with them, made on their own behalf, by significant persons, i.e., Eni S.p.A, Snam Directors and Principal Statutory Auditors, members of the Combined Independent Committee, the Chief Operations Officer and the managers required to participate regularly in the Management Committee.

The Procedure sets forth the obligation to disclose to the market and to the Consob within five trading days from the day in each calendar year when the overall amount of transactions in absolute terms (sum of the prices paid and collected) is equal to or greater than the equivalent of €5,000. Lastly, the Code prohibits significant persons from carrying out transactions on financial instruments issued by Snam fifteen days prior to Board meetings in which mandatory periodic reports, interim dividend proposals, and the budget are examined or a dividend proposal for the Shareholders’ Meeting is outlined. Transactions which must be considered to verify whether the above-mentioned limits have been exceeded include disposals of shares acquired through stock options and stock grant plans.

#### **Keeping and updating of the Register of persons who have access to confidential information of Snam.**

In accordance with the provisions of Article 115-*bis* of the TUF and in the Issuer Regulations, the Board of Directors approved the procedure for “*Keeping and updating the Register of persons who have access to confidential information of Snam*”. The Register is divided into two sections:

- the first indicates the name or trade name of the persons who have access on a regular basis to confidential information through their work or professional activity or in the functions they perform (Section A),
- the second indicates the name or trade name of the persons who occasionally have access to confidential information through their work or professional activity or in the functions they perform (Section B).

In each section, the persons are grouped into two sub-sections, depending on whether they are employees or independent contractors.

Section A of the Register contains the name or trade name of the:

- a) Snam Directors or Principal Statutory Auditors;
- b) members of the Combined Independent Committee ;
- c) first level of people reporting to the CEO;
- d) independent auditors engaged to audit Snam;
- e) consultants who provide professional work based on a consultancy relationship or paid work with a duration exceeding one year who have access to information.

Section B of the Register contains the name or trade name of the:

- f) employees of Snam who, in relation to specific activities carried out, occasionally have access to information;
- g) consultants who provide their professional activity based on a consultancy relationship or provision of paid work with a duration of less than one year and who have access to information.

The Register is a single register kept by the Manager of Snam’s Corporate Systems, Human Resources and Services, who sets forth the criterion and methods to adopt for keeping, managing and gathering information contained in the Register, so that it can be easily accessed, managed, consulted, extracted and printed. He relies on the Organisation Manager to keep and update the Register.

## Committees instituted by the Board of Directors

To perform its duties efficiently, the Board appointed the Compensation Committee and the Internal Control Committee. A Nominating Committee, as provided for by the Code of Corporate Governance, was not appointed since the appointment of Directors is carried out at Shareholders' Meetings based on lists submitted by shareholders, who pre-select the candidates and verify that they satisfy the requirements of the law and the By-laws. A Combined Independent Committee was also appointed pursuant to Article 16 of the By-laws.

### Compensation committee

The Compensation Committee is composed by three non-executive Directors: Davide Croff, Elisabetta Oliveri and Alessandro Bernini, the first two of which are independent. Director Davide Croff chairs the Committee.

The Committee was appointed to the Board of Directors on February 26<sup>th</sup> 2002, with its operation governed by specific Regulations available on the Company's Website and approved by the Board of Directors on 8 May 2006. The regulations stipulate the Committee's composition, method of operation, powers and means.

The Committee makes proposals to the Board of Directors on the remuneration of chief executive Directors and members of the Board Committees, and examines the suggestions of the CEO on: (i) Annual and long-term incentive plans; (ii) general criteria for the remuneration of managers with strategic responsibilities; and (iii) objectives and results of Performance and Incentive Plans. The Committee expresses the opinions required by the procedure on transactions with related parties within the time periods provided for by the procedure, or in the case of transactions involving the remuneration of Directors, statutory auditors and managers with strategic responsibilities.

The Compensation Committee met 6 times in 2010, with the participation of 94.4% of its members and specifically made propos-

als to the Board on: a) 2009 Snam earnings and the 2010 Snam targets for purposes of the annual and long-term incentive plan; b) the annual compensation allocated to the Chairman, fixed compensation, and, on the basis of results for 2009, the variable compensation of the CEO; c) criteria of the remuneration policy for managers with strategic responsibilities; d) determination of the 2010 long-term cash incentive plan for the CEO, to replace the Snam stock option plan, e) implementation of the 2010 long-term cash incentive plan, to replace the stock option plan for critical managers; and f) implementation of the 2010 deferred cash incentive plan and its allocation to the CEO.

### Internal Control Committee

The Internal Control Committee is exclusively composed by independent non-executive Directors as defined by the Code of Corporate Governance: Roberto Lonzar, Renato Santini and Mario Stella Richter. Director Roberto Lonzar chairs the Committee.

The Committee provides proposals and advice to the Board relative to oversight functions on the overall progress of the company's operations. At least one member of the Committee must have adequate accounting and financial experience, as evaluated by the Board of Directors at the time of appointment. The Board of Directors deemed that the majority of the Committee's members possess adequate accounting and financial experience.

At a meeting on June 10<sup>th</sup> 2010, the Board of Directors approved the new *"Regulations for the Internal Control Committee of Snam Rete Gas"*, prepared by the Internal Control Committee. The Regulations are divided into four sections: composition and appointment, functioning, duties and powers of the Committee. The Committee performs the following functions:

- evaluates, together with the Officer in charge of preparing financial reports and the independent auditors, the proper use of accounting standards and their consistency for pur-

- poses of preparing the consolidated financial statements;
- on request from the Chairman or CEO, expresses its opinion on specific aspects involved in identifying the main business risks, as well as the planning, implementation and management of the internal control system;
- examines the work plan prepared by the Internal Audit Manager, as well as the periodic reports he prepares at least every six months on the activity carried out;
- performs additional duties assigned to it by the Board of Directors, in particular expressing an opinion on the rules governing the transparency and substantial and procedural correctness of transactions with related parties and those in which a Director has an interest, either on his own behalf or on behalf of a third party;
- reports to the Board, at least every six months, upon approval of the financial statements and the half-yearly financial report, on the activity carried out and the adequacy of the internal control system;
- expresses its opinion on proposals for the appointment, removal and remuneration of the Internal Audit Manager and the Officer in charge of internal control put forth by the CEO, by agreement with the Chairman, to the Board of Directors, consistent with the company's remuneration policy;
- evaluates the observations contained in audit reports from the Internal Audit unit, communications of the Board of Statutory Auditors and individual members of the said Board, reports and management letters by the independent auditors, the half-yearly report by the Watch Structure/ Code of Ethics Guarantor, as well as inquiries and examinations carried out by third parties.

The Company Chairman, CEO and principal members of the Board of Statutory Auditors are invited to attend the Committee meetings. Other individuals who are not Committee members may be invited to attend by the Committee Chairman, specifically company managers responsible for managing important corporate activities which are relevant for purposes of the overall effectiveness and efficiency of the internal control system. The Committee meetings are validly sitting with the presence of the majority of the members in office and resolves by an absolute majority of the attendees. In 2010, the Committee met nine times, with an average participation of 96.2% of its members carrying out the activities provided for in the Regulations.

With reference to its role of supervising the activities of Internal Auditing, as assigned to it by the *Guidelines of the Board of Directors of Snam on Internal Auditing*, the Committee has:

- analysed and approved the schedule of audit activities;
- examined the quarterly reports prepared by the Internal Audit Manager on the progress of the audit schedule, the main results of the audits performed during the period and the follow-up on corrective actions agreed with management based on the observations emerging from the controls carried out;
- analysed the quarterly reports in light of comments received from Snam and Subsidiaries on their merits, verifica-

tions in this regard, the respective results and, when comments are deemed well-founded, measures adopted by the Company;

- examined the methodological elements and the results of the integrated risk assessment project performed by Internal Auditing during the second half of the year, which covered the entire scope of intervention consisting of Snam and the Subsidiaries with the majority of voting rights;
- indicated, based on the details emerging from the risk assessment, the guidelines for preparing the proposed 2011 audit schedule, to be submitted to the Board of Directors.

In addition, pursuant to the abovementioned Guidelines, the Committee has evaluated the remuneration of the Internal Audit Manager based on the elements provided by the Compensation Committee Chairman, and has expressed its opinion in this regard to the Board of Directors.

With regard to administrative responsibility pursuant to Legislative Decree no. 231 of June 8<sup>th</sup> 2001, the Committee together with the Watch Structure has examined the activities carried out in its role overseeing the implementation of, and adherence to, the Model 231 requirements by Snam, including as Code of Ethics Guarantor. The Committee also analysed the Management System Guideline issued by Eni and incorporated by Snam in "*Composition of the Supervisory Bodies and performance of the pertinent activities, in support of Eni S.p.A. subsidiaries*".

Pursuant to compliance with the provisions of Law no. 262 of 2005 on safeguarding investors and the financial market rules, the Committee together with the Officer in charge of preparing financial reports has examined the half-yearly report on the adequacy of the Corporate Reporting Control System and on the observance of administrative and accounting procedures.

The Committee has also analysed issues involved in the half-yearly financial report and the 2010 financial statements with the managers of the audit company Reconta Ernst & Young and with the Planning, Administration, Finance and Control Manager.

Special attention was paid during the second half of 2010 to relationships with related parties, namely activities carried out by the Company for the drafting of the procedure "*Transactions with interests by Directors and statutory auditors and transactions with related parties*" in accordance with the instructions in Consob Resolution no. 17221 of March 12<sup>th</sup> 2010 and its subsequent Communiqué of September 24<sup>th</sup> 2010.

In particular, the Committee, with the support of the General Counsel Legal and Corporate Affairs, followed the steps for preparing the procedure, and provided starting points and suggestions for outlining the document which assigns specific duties and responsibilities to the Committee itself, since it was identified by the Board of Directors as the committee composed by

independent Directors as required by Consob rules. At a meeting on November 30<sup>th</sup>, the Committee accordingly expressed an opinion in favour of the final draft of the procedure, which was approved the same day by the Board of Directors.

With respect to regulatory issues, the Committee has examined certain internal procedures subsequently approved by the Board of Directors concerning aspects relevant from the standpoint of the internal control system and specifically:

- market abuse procedures, already in force and amended to reflect the organisational changes resulting from the acquisition of Italgas and Stogit (see paragraph 4.2);
- the *“Guidelines for identifying the administration and control systems, composition and designation of members of the corporate bodies of companies partially owned by Snam Rete Gas S.p.A.”*.

Lastly, at a meeting on February 9<sup>th</sup> 2011, the Committee examined the Snam Officer in charge of internal control’s 2010 Report on information obtained and activities carried out during the period in question. The Internal Control Committee did not detect significant irregularities and found no signs of particular weakness in Snam’s internal control system.

The Committee reported to the Board of Directors, at its meetings on July 27<sup>th</sup> 2010 and March 2<sup>nd</sup> 2011, on the activities carried out in the first and second half of 2010, respectively. At the meeting on March 2<sup>nd</sup> 2011, the Board of Directors, as provided for by the Code of Corporate Governance, deemed the internal control system adequate, based on the report by the Internal Control Committee.

## Combined Independent Committee

The Consolidated Unbundling Regulation provides that pursuant to Article 9 of the Unbundling Regulation, natural gas storage, regasification, transportation, dispatching, distribution and metering activities may be managed jointly, and are not subject to functional unbundling obligations.

This provision essentially implements Article 15 of Directive 2003/55/EC, confirmed by Article 29 of Directive 2009/73/EC, according to which the separation of transmission system operators and distribution system operators shall not impede the operation of a combined gas management system comprising transportation, regasification, storage and distribution.

At a meeting on July 27<sup>th</sup> 2010, Snam’s Board of Directors created the Combined Independent Committee, a decision-making body (committee pursuant to Article 16.1 of the By-laws) dedicated to jointly managing regulated activities involving natural gas transportation and dispatching, distribution, storage and regasification. The Committee is composed by individuals that, *pro-tempore*, hold the office of:

- CEO of Snam;
- CEO of GNL Italia;
- CEO of Italgas;

- CEO of Stogit;
- General Manager Operations of Snam;

The Board of Directors granted the Combined Independent Committee all powers for the performance of its functions. The Combined Independent Committee adopted its own operating regulations on July 28<sup>th</sup> 2010.

The CEO of Snam chairs the Combined Independent Committee and represents the organisational structure, part of the Combined Independent Committee itself, dedicated to expressing binding opinions to the Board of Directors, in accordance with and for the purposes set forth in Article 11.5, letter c) of the Consolidated Unbundling Regulation, for all decisions adopted by the said body concerning managerial and organisational aspects of the business activity, as well as for the approval of the development plan referred to in paragraph 11.1, letter b), item i) of the Consolidated Unbundling Regulation.

The Combined Independent Committee :

- has approved the *“Strategic Planning Procedure”*, which provides that the Combined Independent Committee make use of the contributions of the corporate functions of Snam and the Subsidiaries in preparing the Annual and Multi-Year Infrastructure Development Plan to be submitted for approval by the Snam Board of Directors and sent simultaneously to the Electricity and Gas Authority.
- in accordance with the provisions of Determination no. 6/2010 of the Electricity and Gas Authority’s Tariff Department Manager, on November 26<sup>th</sup> 2010, as part of the functional unbundling obligations, it sent the following to the Electricity and Gas Authority:
  - status reports on the activities carried by Snam and the Subsidiaries, indicating that they are subject to functional unbundling, and the census of the parties assigned as member of the Combined Independent Committee or administrator not belonging to the Combined Independent Committee, and Guarantor overseeing the proper management of commercially sensitive information;
  - the Compliance Programme, as well as the Annual Report on the measures adopted in implementing the Compliance Programme.
- in accordance with the provisions of Article 11.1, letter b) ii) of the Consolidated Unbundling Regulation, at a meeting on February 4<sup>th</sup> 2011, it examined and defined Snam’s Annual and Multi-Year Infrastructure Development Plan and on February 7<sup>th</sup> 2011, it sent it to the Board of Directors for approval, and to the Electricity and Gas Authority.

## Unbundling Guarantor

In accordance with the provisions of Article 15.1 of the Consolidated Unbundling Regulation, on 22 October 2010 the Combined Independent Committee appointed the Snam’s General Counsel Legal and Corporate Affairs as Guarantor to oversee the proper management of commercially sensitive information in business activities. He is responsible, among other things, for ensuring

that the obligations involved in managing the data and information obtained in carrying out the activities are observed, and for preparing, jointly with the Combined Independent Committee, the required portions of the Compliance Programme referred to in Article 12.2 of the Consolidated Unbundling Regulation as well as those of the Annual Report referred to in Article 12.3 of the same act, relative to information management.

At the same time, the Combined Independent Committee approved the *“Procedure for access to commercially sensitive in-*

*formation”* governing access to commercially sensitive information obtained by Snam and Subsidiaries in carrying out natural gas transportation and dispatching, regasification, storage and distribution activities. The procedure makes reference to:

- i) information available to parties who rely on the infrastructure operated by Snam and its Subsidiaries, through the exercise of their business;
- ii) information on the infrastructure operated by Snam and its Subsidiaries which, based on information asymmetry, offers a competitive edge to the party possessing it.

# Corporate, functional and organisational separation

## Principles

EU natural gas law has introduced precepts regarding the corporate, functional and organisational separation of natural gas transportation, dispatching, distribution, storage and regasification system operators, belonging to vertically integrated business groups. Functional unbundling obligations are incumbent on the controlling shareholder (Eni) as a vertically integrated company in the natural gas sector, operating not only in the field of mining and sales, but also in transportation and dispatching infrastructure activities, the regasification of liquefied natural gas, storage and distribution through Subsidiaries. These latter activities are subject therefore to obligations of functional unbundling from production and sale activities.

These rules (see Unbundling Regulation or TIU) require granting decision-making and organisational independence to each of the regulated activities concerning natural gas transportation, dispatching, regasification, storage and distribution, thereby separating them administratively from other gas activities (especially from gas production and supply activities).

For this purpose, regulated activities must be administered by an "Independent Committee" formed within the company engaging in that activity. Therefore, the Electricity and Gas Authority has amended and supplemented the provisions set forth in the Consolidated Unbundling Regulation, stipulating that regulated activities may be managed jointly, and need not be subject to functional unbundling obligations and entrusted to a "Combined Independent Committee" (see paragraph 5.4).

## Rules

To ensure observance of the functional unbundling of gas production and supply activities, in accordance with regulatory provisions, Snam and Subsidiaries ("Unbundled Companies") enjoy decision-making and organisational independence in the management,

maintenance and development of infrastructure according to the following principles:

- Unbundled Companies manage their activities according to the criteria of efficiency, economy, neutrality and non-discrimination among all users of their infrastructure, whether these parties belong to Eni or to third parties;
- the annual and multi-year infrastructure development plan and the corporate budget are prepared by the Unbundled Companies observing regulatory instruments and the preparation standards provided by Eni, as well as the financial objectives set by it (which typically include the determination of an annual total investment amount, debt limits and profitability targets for activities engaged in by the Unbundled Companies);
- all commercial and operational decisions regarding the management and maintenance of the infrastructure of the Unbundled Companies, as well as decisions on individual investments which do not exceed the approved Infrastructure Development Plan or the parameters which form the basis thereof, are assumed by the Unbundled Companies in question from time to time, without any involvement by Eni structures;
- the Unbundled Companies are not obligated to acquire goods or services from Eni or its subsidiaries. Procurement of such goods and services by the Unbundled Companies must adhere to the principles of economy and efficiency;
- remuneration and incentives for personnel of the Unbundled Companies are not based on the earnings of the vertically integrated company.

Eni's management and control over Unbundled Companies must observe the goal of functional unbundling by ensuring the managerial and organisational independence of the Unbundled Companies.

## Directive 2009/73/EC

By March 3<sup>rd</sup> 2011, European Union member states are required to transpose the so-called Third Energy Package, which revokes Direc-

tive 2003/55/EC and introduces new provisions on the separation of natural gas transportation system operators from other gas industry activities.

The Directive contains provisions which may affect Snam's corporate governance system. In fact, the Directive provides that Member States which have not already implemented ownership unbundling must adopt one of the following natural gas transportation unbundling models by March 3<sup>rd</sup> 2012:

- Ownership Unbundling ("OU"), or ownership separation of the operator of the transportation system of a vertically integrated company, which may hold only a minority share of the gas transportation network without voting rights while enjoying only property rights;
- the creation of an Independent System Operator ("ISO") to operate the network, or a third party whose ownership is separate from the company that owns the transportation network, which may remain integrated with the production and sale company;
- the creation of an Independent Transmission Operator ("ITO"), which may be part of the vertically integrated company in terms of ownership, thereby ensuring that the network remains independent by means of a much stricter system of restrictions and regulatory authority controls than the legal and functional unbundling currently in force<sup>7</sup>.

It is obviously up to national legislative provisions to approve their own law. In the meantime, in view of the transposition of the Directive, the Electricity and Gas Authority has begun a process consulting on certification procedures (activities the Directive assigns to domestic regulatory authorities), in connection with the above-

mentioned three unbundling models for companies acting as operator of a natural gas transportation system.

On March 3<sup>rd</sup> 2011 the Council of Ministers approved the draft legislative decree which implements Directive 2009/73/EC<sup>8</sup>. To summarise, a larger transportation company is required to comply with the ITO model. On the other hand, as an alternative to the ITO model, smaller transportation companies are to adopt the ISO model with the option to appoint Snam as manager of their transportation system (based on guidelines of the Electricity and Gas Authority). Five years after the decree goes into effect, the Competition Authority ("AGCM") will verify the effectiveness of the model adopted<sup>9</sup>. Once this is done, the Ministry of Economic Development ("MISE") will assess the adoption of different models taking into account the experience of European countries of the same size and with the same market structure. A Vertically Integrated Company may opt for ownership unbundling at any time.

In addition, the draft legislative decree had the following provisions: (i) for distribution operations, the mechanism of corporate and functional unbundling, which was already called for in Directive 2003/55/EC, was confirmed; (ii) for storage operations, revisions to procedures for strategic and modulation storage were introduced, and there is a requirement of corporate unbundling from the company that owns the transportation network when the latter has adopted the ISO model (required for smaller transportation companies); and (iii) for regasification operations, in addition to identifying the duties of the LNG system manager, the principle of separate accounting for LNG operations from other gas industry operations was confirmed.

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[7] For example, the Authority has oversight power over appointments to company management boards and over commercial relations with a vertically integrated company; the Authority also approves commercial and financial agreements entered into with the vertically integrated company. The Directive also imposes the following on the transportation system operator: (i) the prohibition to supply and receive services from the vertically integrated company; (ii) the prohibition to create confusion between the identity of the operator and that of the vertically integrated company; (iii) the obligation to separate the information systems; as well as (iv) to engage a different independent auditor.

[8] The draft decree will then be submitted to the appropriate parliamentary committees and the State-Region Conference to obtain the related opinions. Once a favourable opinion has been obtained, any amended text should be returned to the Council of Ministers for final deliberation, and finally, after being signed by the President of the Republic, it will be published in the Official Gazette. Following publication, it will become law.

[9] With respect to any discriminatory behaviour: access to third parties and investments.

## Board of Statutory Auditors and Independent Auditor

### Board of Statutory Auditors

Pursuant to Article 149 of the TUF, the Board of Statutory Auditors oversees observance of the law and the By-laws, respect for the principles of proper administration, adequacy of the company's organisational structure on issues under its responsibility, the internal control system and the administrative and accounting system, methods for specific implementation of the rules of corporate governance provided for by the codes of conduct drafted by regulated market management companies or by industry associations, which the company declares it upholds by public disclosure, reliability of the latter to properly represent operational events, as well as the adequacy of the company's instructions to Subsidiaries pursuant to Article 114, paragraph 2 of the TUF.

Following the entry into force of Legislative Decree no. 39 of January 27<sup>th</sup> 2010 (*"Implementation of Directive 2006/43/EC relative to the independent audit of annual financial statements and consolidated financial statements, which amends Directives 78/660/EEC and 83/349/EEC, and which revokes Directive 84/253/EEC"*), the Board of Statutory Auditors oversees:

- a) the financial reporting process;
- b) the effectiveness of the internal control, internal audit and, if applicable, risk management system;
- c) the independent audit of annual financial statements and consolidated financial statements;
- d) the independence of the independent auditor or audit company, specifically insofar as the provision of services other than auditing to the entity being audited is concerned.

In this regard, in 2010, the Board of Statutory Auditors met seven times with the independent auditors for a timely exchange of information related to the performance of their respective duties in accordance with Article 2407-*septies* of the Italian Civil Code, as well as the competent Company functions.

Pursuant to Article 20 of the By-laws, Snam's Board of Statutory Auditors is composed by three principal statutory auditors and two

alternates appointed by the Shareholders' Meeting for three financial years. They may be re-elected at the end of the term of office. Similar to that provided for the Board of Directors and in accordance with the applicable provisions, the By-laws set forth that statutory auditors be appointed by list voting, unless they are replaced during a term of office.

Statutory auditors are chosen from among those who meet the professionalism and honesty requirements indicated in Justice Minister Decree no. 162 of March 30<sup>th</sup> 2000. Issues set forth in this decree which relate strictly to the Company's activity include: commercial law, business economics and business finance. Likewise, the sector pertaining strictly to the Company's business is the engineering and geology sector. Statutory auditors may assume duties as members of management and controlling bodies of other companies within the limits set by Consob in its regulations.

The Board of Statutory Auditors is appointed by the Shareholders' Meeting based on the lists submitted by the shareholders, in which candidates must be listed by a consecutive number. The procedures governed by the By-laws shall apply for the filing, submission and publication of lists. Each shareholder may submit or be involved in submitting only one list and may vote on only one list, according to the terms provided for by the abovementioned legal and regulatory provisions.

Only shareholders who alone or together with other shareholders represent at least 2% or are the owners overall of another percentage of shares stipulated by Consob regulations shall be entitled to submit lists. For this purpose, on January 26<sup>th</sup> 2011, in Resolution no. 17633, Consob set the aforesaid percentage at 1%. Each candidate may run as a candidate on only one list, subject to ineligibility.

Lists are broken into two sections: the first for candidates to the office of principal statutory auditor, and the second for candidates to the office of alternate statutory auditor. At least the first candidate in each section must be registered in the register of auditors and must have a minimum of three years experience as an auditor.

Two principal statutory auditors and one alternate statutory auditor are taken from the list that wins the majority of the votes. The other principal statutory auditor and the other alternate statutory auditor are appointed according to the methods in Article 13.5, letter b) of the By-laws for the election of Directors, which are to be applied differently to each of the sections into which the other lists are broken down.

The principal statutory auditor elected by the methods provided for by Article 13.5 letter b) of the By-laws for the election of Directors is appointed Chairman of the Board of Statutory Auditors by the Shareholders' Meeting. In the event of the replacement of a statutory auditor from the list that wins the majority of the votes, he is replaced by the alternate statutory auditor from the same list; in the event of replacement of a statutory auditor from other lists, he is succeeded by the alternate statutory auditor from the those lists.

Lists for appointing statutory auditors, together with information on the candidates' information, as well as a mention of the identity of the shareholders submitting said lists and the percentage of interest owned must be made available to the public at the Company's headquarters, Borsa Italiana S.p.A. and posted on the Company's Website in a timely manner, or within the time periods provided for by current regulations. The list voting procedure applies only for the replacement of the entire Board of Statutory Auditors. Additional binding legal provisions, including regulatory rules, remain unchanged. Outgoing statutory auditors may be re-elected.

Upon notice to the Chairman of the Board of Directors, the Board of Statutory auditors may call Shareholders' Meetings and Board of Directors' meetings. The power to call Board of Directors' meetings may be exercised individually by each member of the Board of Statutory Auditors; power to call Shareholders' Meetings must be exercised by at least two members of the Board.

The Board of Statutory Auditors may also meet by video conference or conference call, provided all attendees can be identified and follow the discussion, examine, receive and send documents and participate in real time in the discussion of the items addressed. A session is considered held if it takes place where the Chairman of the Board of Statutory Auditors and the Secretary, if appointed, are located.

On April 27<sup>th</sup> 2010, the Shareholders' Meeting appointed statutory auditors for a term of three financial years or until the date of the Shareholders' Meeting called to approve the 2012 financial statements: Massimo Gatto: Chairman; Roberto Mazzei and Francesco Schiavone Panni: principal statutory auditors; Giulio Gamba and Luigi Rinaldi: alternate statutory auditors. The Shareholders' Meeting also determined the annual gross compensation due to the Chairman of the Board of Statutory Auditors and to each principal statutory auditor in the amount of €60,000 and €40,000, respectively, plus reimbursement of expenses incurred in the performance of the office. Roberto Mazzei, Francesco Schiavone Panni and Giulio Gamba were elected from the list submitted by Eni S.p.A.; Massimo Gatto and Luigi Rinaldi were elected from the list submitted by minority shareholders.

The Board of Statutory Auditors, based on its statements, has verified that all the members of the Board satisfy the independence

requirements provided for by law, as well as those for Directors contained in Article 3 of the Code of Corporate Governance.

In 2010, the Board of Statutory Auditors met 15 times; the meetings were attended on average by 89% of the statutory auditors. The Board of Statutory Auditors is invited to attend meetings of the Internal Control Committee.

The *curriculum vitae* of the principal statutory auditors are available on the Company's Website. Below is a brief summary:

**Massimo Gatto** was born in Rome in 1963 and is a graduate in economics and commerce from Università La Sapienza di Roma. He is a chartered public accountant, auditor and bankruptcy trustee. Currently, in addition to serving as Chairman of the Board of Statutory Auditors of Snam, he is Chairman of the Board of Statutory Auditors of UniCredit Mediocredito Centrale S.p.A., statutory auditor of Eurofinance 2000 Srl, statutory auditor of Associazione Nazionale per l'Enciclopedia della Banca e della Borsa, alternate statutory auditor of Banca Popolare dell'Etruria e del Lazio, Società Cooperativa S.p.A. and UniCredit Factoring S.p.A.

**Roberto Mazzei** was born in Lamezia Terme in 1962 and is a chartered public accountant and auditor. He is an Associate Professor of Business Finance at the School of Economics of the University of Sassari and has taught in the Finance and Real Estate Department at SDA Bocconi. He is a founding partner of Medinvest International, partially owned by UBI Banca, Allianz, Vittoria, Assicurazioni, Università Bocconi, and other institutional investors. Currently, in addition to being a statutory auditor of Snam, he is President of Istituto Poligrafico e Zecca dello Stato S.p.A.; he also holds offices as Director and statutory auditor at companies of public- and private-sector industrial groups.

**Francesco Schiavone Panni** was born in Rome in 1954 and is a chartered public accountant, auditor and bankruptcy trustee. Currently, in addition to serving as a statutory auditor of Snam, he holds positions on the corporate Boards of companies belonging to the following groups: Eni, Banca d'Italia, B.N.L. S.p.A., EDF EN Italia S.p.A., Cartiere Burgo Marchi S.p.A. and Condotte S.p.A.

## Independent auditors

The audit of the company's financial statements is entrusted by law to independent auditors registered in a special register and appointed by the Shareholder's Meeting on the basis of a supported proposal from the Board of Statutory Auditors.

On April 27<sup>th</sup> 2010, the Shareholders' Meeting approved the proposal to revoke the appointment of PricewaterhouseCoopers S.p.A. as auditors based on an "objective" and sound reason, in an effort to guarantee effective auditing of the company and avoid any misalignment in this role with respect to the ultimate parent company Eni S.p.A.

On the same date, the Shareholders' Meeting appointed Reconta Ernst & Young S.p.A to audit the company for the 2010-2018 period.

## Shareholders' meeting and rights

Shareholder Meetings are privileged corporate meetings between the company's management and its shareholders.

Article 9 of the By-laws, as stipulated by Article 126-*bis* of the TUF, provides that shareholders individually or jointly representing at least one-fortieth of the share capital may, within ten days of publication of the Shareholders' Meeting notice, unless a different time period is provided for by law, request that items be added to the agenda, by indicating the proposed items in the request. Requests must be submitted in writing. Additions to the agenda are not allowed for matters on which the Shareholders' Meeting deliberates by law on Directors' proposals or based on a draft or report prepared by them.

For additions to be allowed by the Board of Directors, notice must be given at least fifteen days prior to the date set for the Shareholders' Meeting, to be published as indicated above, unless a different time period is provided for by law. Shareholders requesting additions to the agenda must prepare a report on the matters they propose to discuss. The report must be received by the Board of Directors by the addition request submission deadline. The Board of Directors makes the report available to the public, together with any of its comments, and posts the addition notice at the same time on the Company Website and other forums provided for by Consob regulations.

The notice may also indicate the date, time and place of the second and third notice of meeting. If this indication does not appear in the notice, the Shareholders' Meeting may be called again in thirty days.

The right to attend Shareholders' Meetings is governed by law, the By-laws and the provisions contained in the notice of meeting. For standing to attend Shareholders' Meeting, legal provisions are observed. Those with voting rights may be represented by written proxy within the legal limits; notice of this proxy may be given by certified email. The respective documents are to be kept at the company.

To facilitate shareholder participation, the By-laws indicate that the company must provide space to shareholder associations which satisfy the pertinent regulatory requirements, according to the terms and conditions agreed from time to time with their legal representatives, for communicating and gathering proxies from employee shareholders of the company and its Subsidiaries.

Shareholders may ask questions about agenda items even prior to a meeting. Questions received before the meeting are answered no later than at the meeting. The information is provided in observance of the rules for price sensitive information.

The Ordinary Shareholders' Meeting carries out the functions provided for by Article 2364 of the Italian Civil Code and the extraordinary meeting, the functions referred to in Article 2365 of the Italian Civil Code, and the functions provided for by other legal provisions.

Pursuant to Article 12 of the By-laws, the Ordinary Shareholders' Meeting authorises resolutions concerning disposal, contribution, leasing, usufruct and any other act of disposition, including those that apply to joint ventures, or subject to business restrictions or strategically relevant business units involving gas transportation or dispatching activity, notwithstanding the Directors' responsibility for the acts carried out, pursuant to Article 2364 no. 5 of the Italian Civil Code. Resolutions in such matters are adopted, even on second notice, by a favourable vote of shareholders representing at least three-fourths of the capital present at the meeting. On other matters under its jurisdiction, the Ordinary Shareholders' Meeting resolves with the majorities stipulated by law.

The Extraordinary Shareholders' Meeting resolves, on first, second and third notice, with a favourable vote by at least three-fourths of the capital present at the meeting. As provided for by the Code of Corporate Governance, the Shareholders' Meeting is governed by meeting regulations which require that Company Shareholder Meetings be held in an orderly and functional manner and ensure the right of each attending shareholder to state his opinion on the items under discussion.

The regulations, which were approved by resolution of the Ordinary Shareholders' Meeting of July 27<sup>th</sup> 2001 and subsequently amended by the Ordinary Shareholders' Meeting on April 27<sup>th</sup> 2004, are available on the Company Website.

In 2010, the Shareholders' Meeting was held on April 27<sup>th</sup> 2010, on both an ordinary and an extraordinary basis. The Ordinary Shareholders' Meeting resolved, among other things to approve the 2009 financial statements, allocate the earnings for the year

and distribute the dividend, determine the number of members of the Board of Directors, as well as their appointment and term of office, appoint the Chairman of the Board of Directors, determine the compensation of the Directors, appoint the statutory auditors and the Chairman of the Board of Statutory Auditors, and determine the remuneration of the Chairman of the Board of Statutory Auditors and the Principal Statutory Auditors. The resolutions adopted by the Extraordinary Shareholders' Meeting are summarised in paragraph 1.3.

## Internal control system

### Principles of the internal control system

Snam long ago adopted an internal control system in accordance with the indications of the Code of Corporate Governance and in line with the best practices in question.

The purpose of the control system is (i) to ensure the adequacy of the different corporate procedures in terms of effectiveness, efficiency and economy; (ii) ensure the reliability and accuracy of the accounting entries and safeguard the company assets; and (iii) ensure conformity in internal and external rules, directives and corporate guidelines aimed at ensuring sound and proper company management.

The responsibility for the internal control system falls to the Board of Directors, which, with the assistance of the Internal Control Committee, sets the guidelines and periodically verifies its adequacy and effective operation, while making sure that the main business risks are identified and managed appropriately.

The CEO implements the guidelines prepared by the Board of Directors by designing, managing and monitoring the internal control system. As provided for by the Code of Corporate Governance, the Board of Directors nominated the company CEO at a meeting on December 11<sup>th</sup> 2008 as the executive Director in charge of overseeing the functionality of the internal control system.

Applying the control system is the primary responsibility of the functional management insofar as control activities are an integral part of management procedures. Management must therefore foster an environment which encourages controls and must specifically manage "line controls," consisting of all the control activities that individual operating units or companies perform over their own procedures. The Internal Auditing unit is responsible for verifying the adequacy of the internal control system and ensuring that it provides reasonable guarantees that the organisation is able to achieve its objective in an economical and efficient manner; for that

purpose, it monitors the effectiveness of the controls implemented by offering suggestions and corrective actions to management to resolve any weaknesses found.

The internal control system is subject over time to verification and updating, in order to continually ensure its suitability and protect the main areas of risk among the company's activities, with respect to the characteristics of its operating sectors and its organisational configuration, and in keeping with any new legislative or regulatory developments.

### Officer in charge of preparing financial reports

Article 154-bis of the TUF establishes that the By-laws of listed issuers whose Member State of origin is Italy must set forth the professional requirements and the method of appointment of a Officer in charge of preparing financial reports, following a compulsory opinion by the control body.

The Officer in charge of preparing financial reports prepares adequate administrative and accounting procedures for the preparation of the individual financial statements and, where provided, the consolidated financial statements, as well as any other financial report. The authorised administrative bodies and the Officer in charge of preparing financial reports must certify the following items in a special report on the individual financial statements, abbreviated half-yearly statements and, if applicable, the consolidated financial statements:

- a) the adequacy and the effective application of the administrative and accounting procedures for the preparation of the individual financial statements and, where provided, the consolidated financial statements, as well as any other financial report during the period to which the documents refer;
- b) the documents are prepared in accordance with the applicable international accounting standards recognised by the European Community pursuant to EC Regulation no. 1606/2002 of the European Parliament and Council of July 19<sup>th</sup> 2002;
- c) the documents' consistency with the results of the accounting books and entries;

- d) the documents are suitable for providing a true and fair view of the equity, financial and economic position of the issuer and all the companies included in the consolidation scope;
- e) for both the individual and consolidated financial statements, the report on operations includes a reliable analysis of the performance and results of operations, as well as of the standing of the issuer and all companies included in the consolidation, together with a description of the main risks and uncertainties to which they are exposed;
- f) for the abbreviated half-yearly financial statements, that the interim report on operations contains a reliable analysis of the information referred to in paragraph 4 of Article 154-ter.

Article 16 of the By-laws provides that the Board of Directors, on a proposal by the CEO, by agreement with the Chairman, following a favourable opinion by the Board of Statutory Auditors, must appoint the Officer in charge of preparing financial reports from among the individuals which satisfy the professional requirements.

The Officer in charge of preparing financial reports must be chosen from among people who have performed in the following capacity for at least three years:

- a) administration or control or management activity at a company listed on regulated markets in Italy, other states of the European Union or other countries belonging to the OECD which have a share capital of no less than €2 million, or
- b) audit activity at the companies mentioned under letter a), or
- c) professional or tenured university teaching activity in finance or accounting, or
- d) managerial functions at public or private entities with financial, accounting or control responsibilities.

The Board of Directors sees to it that the Officer in charge of preparing financial reports has adequate powers and resources for performing the duties assigned to him, as well as for the effective observance of administrative and accounting procedures.

At a meeting on October 29<sup>th</sup> 2007, the Board of Directors, observing the professional requirements contained in the By-laws, on a proposal by the CEO, by agreement with the Chairman and upon a favourable opinion by the Board of Statutory Auditors, appointed Antonio Paccioretti, Planning, Administration, Finance and Control Manager of Snam, as Officer in charge of preparing financial reports.

At a meeting on March 2<sup>nd</sup> 2011, the Board of Directors also verified the adequacy of the powers and resources at the disposal of the Officer in charge of preparing financial reports to perform the duties assigned, as well as to observe the existing administrative and accounting procedures.

### Officer in charge of internal control

The Board of Directors, upholding the recommendations of the Code of Corporate Governance, at its meeting on April 30<sup>th</sup> 2010 confirmed the appointment of the **Officer in charge of internal control**, identified as the Internal Audit Manager of the Company, who reports to the CEO.

In order to ensure the necessary independence, the appointment, dismissal and compensation of the Officer in charge of internal control are approved by the Board of Directors, which also approves the internal auditing schedule and budget.

The Officer in charge of internal control is:

- in charge of verifying that the internal control system is always adequate, fully operational and working;
- not responsible for any operating area and does not report directly to any operating area manager;
- has direct access to all useful information for performing his job;
- has adequate resources for performing the function assigned to him;
- reports to the CEO, the Internal Control Committee and the Board of Statutory Auditors on the methods whereby risk management is conducted, as well as on the observance of the plans made for their containment and expresses his opinion on the suitability of the internal control system for achieving an acceptable overall risk profile.

The Officer in charge of internal control reports regularly on his actions to the CEO, as well as every six months (unless circumstances require a more timely report) to the Internal Control Committee and the Board of Statutory Auditors.

## Model 231

Legislative Decree no. 231 of June 8<sup>th</sup> 2001 introduced rules of corporate administrative liability, on the basis of which companies may be held liable and consequently punished for offences committed or attempted in the interest or advantage of the company by persons vested with representation, administration or management functions at the entity or at one of its organisational units enjoying financial and functional independence, as well as by persons engaging in management and control of the entity, de facto or otherwise (i.e., top management) or by persons subject to management or oversight by one of the abovementioned parties (i.e., individuals managed by another person).

The Company is not liable if, before an offence is committed, a company has adopted and effectively implemented organisational, management and control models suitable for preventing such offences and if it has instituted a Watch Structure charged with overseeing the functioning and observance of the models.

Accordingly, Snam has adopted the organisational, management and control model pursuant to Legislative Decree no. 231 of 2001 of Eni S.p.A. ("Model 231"), with the respective Watch Structure endowed with independent powers of initiative and control, the structure of which is described below:

- Code of Ethics; the Code represents, among other things, an inviolable general principle of Model 231.
- Risk analysis methodology.
- Duties of the Watch Structure, with the appointment and assignment of functions and powers, as well as a determination of how information flows from and to it.

- Recipients and extension of Model 231, identifying the recipients of Model 231, defining the rules for extending Model 231 to Subsidiaries, and the principles for disclosure to staff and the market, including the adoption of contractual clauses in dealings with third parties, as well as training intended for staff.
- Structure of the disciplinary system, with the determination of penalties commensurate with the violation and applicable in the event Model 231 is violated.
- Control mechanisms, with the identification of general standards of transparency and supply management procedures.
- Rules for updating Model 231, planning a schedule for incorporating innovations when new legislative developments, significant changes in the organisational structure or sectors of activity of the Company, significant violations of Model 231 and/or outcomes of audits on its effectiveness or experience within the public domain in the sector.

Model 231 was approved by resolution of the Board of Directors, after hearing the opinion of the Board of Statutory Auditors.

The task of implementing and updating Model 231 falls to the CEO, by virtue of the powers conferred upon him. However, the task of updating the inviolable general principles of the Model is reserved for the Board of Directors.

The corporate provisions instrumental to the implementation of Model 231 are issued by the competent corporate functions. These provisions contain control mechanisms in compliance with Model 231.

The Subsidiaries have implemented the legal provisions adopting their own organisational, management and control model, commensurate with their specific operations, and appointing their own Watch Structure charged with monitoring that the Model is implemented and applied effectively.

In 2010, a multi-functional "Team 231" was formed to identify and develop the activities necessary for updating the Company and Subsidiaries' Model 231 by incorporating both new legislative developments in the field of application of Legislative Decree no. 231 of June 8<sup>th</sup> 2001, as well as organisational changes resulting from the acquisition of Italgas and Stogit. Team 231 is supported in its activities by PriceWaterhouse Coopers as administrative liability and compliance expert.

### Watch Structure 231

The Watch Structure is composed by the General Counsel Legal and Corporate Affairs, the Internal Audit Manager and by an external member which functions as Chairman.

The Watch Structure performs the following duties, among others:

- a) oversees the effectiveness of Model 231 and monitors the implementation and updating thereof;
- b) examines the adequacy of Model 231 in preventing wrongful conduct;

- c) analyses the long-term maintenance of the solidity and functionality requirements of Model 231;
- d) approves the annual watch activity schedule within the Company's structures and functions, consistent with the internal control system's inspection and audit schedule; examines the results of the activities performed and the respective reporting;
- e) ensures proper information flows with corporate functions and supervisory bodies of the Subsidiaries.

Lastly, the Watch Structure performs the role of Code of Ethics Guarantor.

In performing the assigned duties, the Watch Structure has unlimited access to corporate information for inquiries, analysis and control. There is an information obligation for any corporate function, employee and/or member of the corporate bodies on requests from the Watch Structure, or upon the occurrence of relevant events or circumstances, for purposes of performing the activities for which the Watch Structure is responsible.

The Watch Structure reports on the implementation of Model 231, the emergence of any critical aspects, and on the outcome of the activities carried in performing the duties assigned. Given below is the frequency of reporting:

- i) ongoing, with the CEO, who reports to the Board of Directors in reporting on the performance of the authorisations conferred;
- ii) half-yearly, with the Internal Control Committee and the Board of Statutory Auditors; a half-yearly report is prepared regarding the activity performed, noting the outcome of verifications and the legislative innovations on the administrative liability of entities; at that time, dedicated meetings are organised with the Internal Control Committee and the Board of Statutory Auditors; the half-yearly report is also sent to the Chairman and to the CEO;
- iii) immediately, if particularly material or significant facts are ascertained, with the Internal Control Committee and the Board of Statutory Auditors upon notice to the Chairman and CEO.

"Dedicated information channels" are instituted to facilitate communication and reporting.

In 2010, the Watch Structure met 11 times with all members in attendance.

## Risk management and internal control system in relation to the financial reporting process

The financial information internal control system is the process aimed at providing a reasonable certainty of the reliability<sup>10</sup> of said financial information and of the capability of the financial state-

[10] Reliability (of the information): information characterised by accuracy and compliance with generally accepted accounting principles which meets the legal and regulatory requirements applied.

ment preparation process to produce financial information in keeping with generally accepted accounting principles.

Snam has a set of rules which defines standards, methodologies, roles and responsibilities for the long-term design, institution and maintenance of the internal control system on the corporate information of Snam and the Subsidiaries, as well as for evaluating its effectiveness.

The set of procedures on the corporate information control system has been outlined pursuant to the provisions of Article 154-*bis* of the TUF taking into account the requirements of the U.S. Sarbanes-Oxley Act of 2002 (SOA), to which parent Eni is subject as an issuer listed on the New York Stock Exchange (NYSE), which reflects on Snam as a significant subsidiary.

The internal control model for corporate information adopted by Snam is based on the COSO Report ("Internal Control – Integrated Framework" published by the Committee of Sponsoring Organizations of the Treadway Commission).

In addition to Snam, the control model is applied to companies controlled directly and indirectly by it pursuant to international accounting standards and based on their relevance in the preparation of financial information. Snam Subsidiaries adopt the control model defined as a reference to design and institute their own control system and tailor it to their size and the complexity of the activities they undertake.

The design, institution and maintenance of the control system are ensured by assessing risks, identifying controls and evaluating controls and information flows (reporting).

The risk assessment process follows a top-down approach and is geared toward identifying organisational entities, processes and specific activities capable of generating risks of either unintentional error or fraud which may have material effects on the financial statements.

Identifying the organisational entities which fall within the scope of the financial information control system relies on the contribution of the different entities to specific amounts on the consolidated financial statements (total assets, total financial debt, net revenues, earnings before tax), and considers their relevance for specific procedures and risks. Within the companies whose financial information is relevant to the control system, significant procedures are then identified based on an analysis of quantitative factors (procedures which help determine financial statement items in amounts in excess of a specific percentage of pre-tax profit) and qualitative factors (e.g., the complexity of the accounting treatment of the account; new developments or significant changes in business conditions).

For relevant procedures and activities, risks are identified, i.e., potential events which may compromise the achievement of the

control objectives for financial information (e.g., financial statement assertions). Once identified, risks are evaluated in terms of potential impact and likelihood, based on both quantitative and qualitative parameters and assuming the absence of controls (so-called inherent level assessment). In particular, with reference to the risk of fraud<sup>11</sup>, a dedicated risk assessment is conducted at Snam based on a specific methodology relative to "Anti-fraud programmes and controls."

For those companies, procedures and respective risks considered relevant, a control system has been set up based on two fundamental principles, i.e., disseminating controls to all levels of the organisational structure, consistent with the operational responsibilities assigned and sustaining the controls over time, so that they are integrated and compatible with operating requirements.

The structure of the control system features entity-level controls which operate in a transverse manner across the entity in question (group/individual company) and process-level controls. Entity-level controls are organised in a checklist defined on the basis of the model adopted in the COSO Report, according to five components (control environment, risk assessment, control activity, information systems and communication flows, monitoring activity). Of specific importance are control activities designed to determine the timing for the preparation and disclosure of economic and financial results ("half-yearly and financial statement circular" and the respective calendars); the existence of organisational structures and of a body of regulations appropriate to the achievement of financial reporting objectives (such controls, for example, review and update activities by corporate functions specialising in standards for financial statements and the Group accounting plan); training activities on accounting standards and the internal control system for financial reporting; and, lastly, activities relative to the information system for management of the consolidation process.

Process-level controls are divided into: specific controls, understood as all manual or automated activity intended to prevent, identify and correct errors or irregularities which occur in carrying out operating activities; pervasive controls, understood as structural elements of the control system aimed at defining a general context which encourages proper execution and control of operational activities (such as the segregation of incompatible tasks and general controls on information systems).

Specific controls are identified in special procedures which define both the performance of corporate procedures and so-called "key controls", the absence or lack of implementation of which entails a significant risk of error/fraud on the financial statements which has no chance of being intercepted by other controls.

Both entity-level and process-level controls are subject to evaluation (monitoring) to verify proper design and long-term operational effectiveness; for that purpose, there are ongoing monitoring activi-

[11] Fraud: in connection with the control system, any intentional act or omission resulting in a misleading statement in the reporting.

ties, assigned to the management responsible for relevant procedures/activities, and separate evaluations, assigned to the Internal Auditing unit, which operates according to a pre-established schedule announced by the Officer in charge of preparing financial reports and aimed at defining the scope and objectives of its intervention through agreed audit procedures.

Monitoring activities identify any deficiencies in the financial information control system, which are subject to evaluation in terms of the likelihood of occurrence and the impact on the financial information and based on their materiality, they are qualified as “deficiencies”, “significant weak points” and “material deficiencies”. Deficiencies are considered both individually and in the aggregate with respect to financial statement items or significant information.

The outcome of the monitoring activities is subject to periodic reporting on the status of the control system, which is also provided through information tools designed to ensure that information regarding the adequacy of the design and operation of controls is traceable. Based on this reporting, the Officer in charge of preparing financial reports prepares a half-yearly report on the adequacy and effective application of the control system for financial information shared with the CEO and provided to the Board of Directors, following a report to the Internal Control Committee and Board of Statutory Auditors, upon approval of the draft annual financial statements and the half-yearly financial report, so that watch activities can be carried out, as well as its own evaluations on the internal control system for financial information.

The Officer in charge of preparing financial report’s activity is supported within Snam and the Subsidiaries by different individuals whose duties and responsibilities are outlined in the abovementioned rules. Control activities involve in particular all levels of the organisational structure of Snam and the relevant Subsidiaries, such as business operating managers and function managers, up to administrative managers and CEOs. In this organisational context, the risk owner assumes particular importance as the person who through ongoing monitoring evaluates the design and operation of specific and pervasive controls and supplies information for reports on monitoring activity, as well as any deficiencies found in order to identify appropriate corrective actions in a timely manner.

## Snam rules system

In light of the evolving procedures to continually improve the effectiveness and efficiency of the internal control system, following the acquisition of Italgas and Stogit and the completion of the reor-

ganisation process, the Company has adopted its own system of rules. Internally, the Organisational Manual is intended to describe the organisational model, the corporate management system and the functioning of Snam and its Subsidiaries. The four main corporate structures are:

- Snam, which operates in the gas transportation sector;
- GNL Italia, which operates in the liquefied gas regasification business;
- Italgas, which operates in the gas distribution business;
- Stogit, which operates in the gas storage business.

Snam owns 100% of GNL Italia, Stogit and Italgas. Snam is therefore also charged with defining the strategic guidelines and ensuring the control of the Subsidiaries. In defining its own organisational structure, Snam guides itself according to some basic principles, including:

- single and consistent strategic direction and business development;
- unity of vision and efficiency in the regulatory process;
- efficiency and a consistent approach for staff activities, including through the provision of services to operating companies.

In keeping with these principles, the corporate structure centralises certain activities within Snam, related both to the staff and the operations by exploiting principles of efficiency, following a unified approach, and consolidating specific skills. By virtue of the organisational model described and the resulting focus on functions centralised at Snam, the Company has adopted an organisational model which features roles dedicated to support activities, as well as functions geared toward the gas transportation business. Accordingly, Snam provides Subsidiaries with a range of services to centralise and implement investment projects, based on service contracts and the assignment of appropriate powers of representation.

## Anti-Corruption guidelines

At a meeting on 10 February 2010, Snam Board of Directors adopted the “*Anti-Corruption Guidelines*” (incorporating the equivalent policy introduced by parent Eni). In this regard, it also adapted the organisational structure by creating the Snam Anti-Corruption Legal Support Unit, in order to bring existing procedures into compliance, as necessary, and promote the adoption of the new regulations by Subsidiaries, and raise awareness and train staff in the Anti-Corruption rules. The purpose of the Guidelines is to protect and promote Snam’s reputation by introducing a specific system of rules to ensure Snam complies with the best international standards in the fight against corruption.

## Shareholder and investor relations

Snam has adopted a communication policy designed to open an ongoing dialogue with institutional investors, socially responsible investors, shareholders and the market, and to guarantee the systematic dissemination of exhaustive and timely information on its activity, limited solely by the confidentiality requirements which some information may impose. It is for this reason that information is provided to investors, the market and news media through press releases, periodic meetings with institutional investors, the financial community and the press, as well as through the ample documentation continually made available and updated on the Company's Website.

Information regarding reports, events/significant transactions, as well as procedures issued by Snam on corporate governance are disclosed to the public in a timely manner and posted on the Company's Website. Also available on the Website are the Company's press releases, the documentation used in meetings with financial analysts, notices to shareholders, as well as information and documentation on agenda items for Shareholders' Meetings, including the respective minutes.

Relations with the news media are handled by the Institutional Relations and Communications Department. Information of interest to them is available on the Company's Website. Relations with institutional investors, shareholders and financial analysts are handled by the "Investor Relations" unit. Information of interest to them is available on the Company's Website and may be requested by email at the following address: [investor.relations@snamretegas.it](mailto:investor.relations@snamretegas.it).

The Investor Relations section of the Company's Website publishes the online "*Financial Market's Review*", which offers a monthly analysis of the financial markets and utility sector stock trends, as well as Snam shares and the shares of other competitors; and "*News&Facts*", a quarterly publication for individual investors. In 2010, the Investor Relations section of the Company Website added an interactive version of the "Guide for shareholders", which provides a summary of useful information for all shareholders to actively follow their investment in Snam.

## Transactions with related parties

On November 30<sup>th</sup> 2010, with the favourable opinion of the Internal Control Committee, the Board of Directors approved the Procedure *“Transactions with an interest by Directors and Statutory Auditors and Transactions with Related Parties”*.

The Procedure, which adheres substantially to the provisions of the Consob Regulation, takes into account the special nature of the legal and regulatory context in which Snam and its Subsidiaries operate and the assessments of whether or not to adopt certain options provided for in the Regulation and set the so-called relevance thresholds for individual transactions. Specifically, the Procedure also conforms with the Unbundling Regulation, while taking into account the specific nature of the activities engaged in by Snam and its Subsidiaries, which are subject to oversight by the Electricity and Gas Authority (in accordance with Law no. 481 of 1995 and Legislative Decree no. 164 of 2000) and the rules on functional unbundling.

The parties identified as “Related Parties” include not only those indicated in the Regulation, but also the members of the Combined Independent Committee, given that Consob has asked interested issuers for an assessment of the advisability of considering *“parties other than related parties on which to apply the provisions in question, in whole or in part, particularly in light of ownership structures, any relevant contractual or statutory restrictions for purposes of Article 2359, paragraph 1, no. 3) or Article 2497-septies of the Italian Civil Code, as well as sector rules which may apply to them with regard to related parties”*.

A detailed examination process is planned –for transactions with both Related Parties and Parties of Interest – which would (i) identify the timing and (ii) guarantee that information flows are formalised and tracked among the corporate unit responsible for initially determining that the Procedure should be applied (Counsel), the superior unit (Manager of the competent Snam structure), the body responsible for expressing an opinion on the transaction (Internal Control Committee/Compensation Committee) and, lastly, the party which approves the transaction (Board of Directors/CEO/another party’s Directors).

The following guidelines are provided for issuing specific opinions pursuant to approval procedures for “Small Transactions” and “Large Transactions”:

- the Internal Control Committee is identified as the party in charge of issuing the following:
  - for “Small Transactions”, a non-binding opinion must be issued that addresses the company’s interest in carrying out the transaction, as well as the expedience and substantial accuracy of its conditions. In the event of a negative opinion, the company is required to inform the market, at the end of the quarter in question, of the reasons which led it to make the transactions despite this opinion;
  - for “Large Transactions”, which is the exclusive province of the Board of Directors, a reasoned opinion favourable to the company’s interest in carrying out the transaction must be issued, as well as the expedience and substantial accuracy of its conditions. The involvement of the Internal Control Committee or of one or more of its members (delegated by it) is required in both the negotiation phase and the due diligence phase through a complete and timely flow of information, in addition to the option to request information and make observations to the delegated bodies and to the parties in charge of conducting the negotiations and due diligence.
- In both cases, the Committee may be assisted, at the company’s expense, by one or more independent experts of its choice;
- if the Internal Control Committee is not entirely composed by unrelated Directors, the Committee is to be supplemented by a number of unrelated and independent Directors in order of seniority until it is entirely composed by unrelated Directors. If supplementation of this type is not possible, the Internal Control Committee must inform the Board of Directors, which shall engage an independent expert;
- for transactions involving the compensation of Directors, Snam’s statutory auditors and managers with strategic responsibilities (the general manager and managers required to regularly attend the Snam Management Committee), the opinion is to be expressed by the Compensation Committee, composed by non-executive Directors, the majority of which must be independent.

As the parameter of relevance for identifying large or small related-party transactions, Consob has set the threshold of 5% of at least one of several parameters (market capitalisation or shareholders' equity, total assets, total liabilities) as identified in the Regulation. The threshold is lowered to 2.5% for transactions entered into with a listed parent or with parties related to it which are in turn related to the company.

For utmost market transparency, the Procedure adopts a more stringent criterion by setting for all related-party transactions a single threshold for identifying large transactions set at €140 mil-

lion (2.5% is currently about €143 million).

To further safeguard transparency in the market, Snam ensures the utmost material and procedural correctness by voluntarily applying the regime set forth in the Consob Regulation to all transactions entered into by the Subsidiaries with Snam's related parties. This assures adequate and timely information between the Directors of the Subsidiaries and Snam.

The Procedure is posted in the Governance section of the Company's Website.

## Any changes in the corporate governance structure occurring after year-end

No significant changes occurring after the year-end 2010 have been noted.

Attached are the tables indicated in the document "*Guide to compiling the report on corporate governance*" issued in March 2004 by Assonime and Emittenti Titoli S.p.A.

## Annex 1 – Structure of Snam Board of Directors and Committees

Board of Directors					Internal Control Committee		Compensation Committee		Possible Nominations Committee		Possible Executive Committee		
Members	Executive	Non executive	Independent	Percentage (%) of Board Meeting attendance ****	Number of other offices **	***	**** (%)	***	**** (%)	***	****	***	****
<b>Chairman</b>													
Salvatore Sardo (6)		x		100	1								
Alberto Meomartini (1)	x			100									
<b>CEO</b>													
Carlo Malacarne (8)	x			100									
<b>Directors</b>													
Giuseppe Airoldi (2) (*)		x	x	100				x	100				
Alessandro Bernini (7)		x		67				x	75				
Davide Croff (8)		x	x	100	1			x	100			Non-existent	Non-existent
Roberto Lonzar (3) (8)		x	x	90	6	x	100						
Roberto Lugano (2) (*)		x	x	75		x	67						
Massimo Mantovani (8)		x		40									
Massimo Mondazzi (2)		x		50				x	100				
Elisabetta Oliveri (3) (5)		x	x	50				x	100				
Renato Santini (8)		x	x	100	2	x	100						
Mario Stella Richter (3) (4)		x	x	100		x	100						
<b>Number of meetings in 2010</b>				<b>10</b>		<b>9</b>		<b>6</b>					
(*) Indicates that the Director was appointed on a proposal by minority shareholders													
(3) Indicates that the Director was appointed by a list submitted by minority shareholders.													
(**) Indicates the number of Director or statutory auditor offices held by the individual in question in other companies listed on regulated markets, including foreign markets, as well as financial, banking and insurance companies or companies with net assets in excess of €1 billion. Relative to Directors currently in office, the offices indicated were gathered by the Board of Directors on February 9 <sup>th</sup> 2011.													
(***) "X" indicates each Director's membership in the Committees.													
(****) Indicates the percentage of attendance by the Directors at meetings of the Board of Directors and of the Committees instituted within it.													
(1) In office until April 27 <sup>th</sup> 2010; therefore attendances at Board of Directors meetings were calculated on 4 meetings													
(2) In office until April 27 <sup>th</sup> 2010; therefore the percentage of attendance at Board of Directors meetings was calculated on 4 meetings; the percentage of attendance at the Compensation Committee was calculated on 2 Committee meetings and the percentage of attendance at the Internal Control Committee was calculated on 3 meetings.													
(4) Mario Stella Richter was elected as Director by the Shareholders' Meeting on April 27 <sup>th</sup> 2010; therefore the percentage of attendance at Board of Directors' meetings was calculated on 6 meetings; the percentage for the Internal Control Committee was calculated on 6 meetings.													
(5) Elisabetta Oliveri was elected as Director by the Shareholders' Meeting on April 27 <sup>th</sup> 2010; therefore the percentage of attendance at Board of Directors' meetings was calculated on 6 meetings; the percentage for the Compensation Committee was calculated on 4 meetings.													
(6) Salvatore Sardo was elected as Director by the Shareholders' Meeting on April 27 <sup>th</sup> 2010; therefore the percentage of attendance at Board of Directors' meetings was calculated on 6 meetings.													
(7) Alessandro Bernini was elected as Director by the Shareholders' Meeting on April 27 <sup>th</sup> 2010; therefore the percentage of attendance at Board of Directors' meetings was calculated on 6 meetings; the percentage for the Compensation Committee was calculated on 4 meetings.													
(8) Indicates that the Director was confirmed by the Shareholders' Meeting on April 27 <sup>th</sup> 2010.													
Quorum required for the submission of lists for the appointment of the Board of Directors: 1% [See Consob Resolution no. 17633 of January 26 <sup>th</sup> 2011]													
The Nominations Committee, provided for by the Code of Corporate Governance, was not created since the appointment of the Directors is made at the Shareholders' Meeting based on lists submitted by shareholders who pre-select the candidates.													

## Structure of the Combined Independent Committee

Members	Percentage (%) of attendance at the Combined Independent Committee
Carlo Malacarne –CEO Snam S.p.A	100
Paolo Bacchetta- CEO Stogit S.p.A	100
Francesco Iovane -General Manager Operations Snam S.p.A.	100
Paolo Mosa- CEO Italgas S.p.A	100
Gianluigi Polgatti – CEO GNL Italia S.p.A	100
<b>Number of meetings in 2010</b>	<b>4</b>

## Annex 2 – Snam Board of Statutory Auditors

Members	Percentage [%] of attendance of Board of Directors' meetings	Percentage [%] of attendance of Board of Statutory Auditors meetings	Number of other offices [**]
<b>Chairman</b>			
Massimo Gatto (*)	100	100	3
<b>Principal statutory auditors</b>			
Roberto Mazzei (2)	100	73	9
Riccardo Perrotta (1)	75	100	
Francesco Schiavone Panni	83	90	16 (3)
Pierumberto Spanò (1) (***)	100	100	
<b>Number of meetings held in 2010:</b>	<b>10</b>	<b>15</b>	

*Quorum* required for the submission of lists for the appointment of the Board of Statutory Auditors: 1% of the share capital [See Consob Resolution no. 17633 of January 26<sup>th</sup> 2011]

**NOTES**

\* indicates that the statutory auditor was appointed based on lists submitted by minority shareholders.

\*\*\* indicates that the statutory auditor was appointed on a proposal by minority shareholders.

\*\* This column indicates the number of offices as Director or statutory auditor which are held by the individual in question at other companies.

(1) In office until April 27<sup>th</sup> 2010; therefore the percentage of Board of Directors' meetings attended was calculated based on 4 meetings, while the percentage of attendance at Board of Statutory Auditors meetings was calculated on 5 meetings

(2) The percentage was calculated on 10 meetings of the Board of Directors and 15 meetings of the Board of Statutory Auditors insofar as the person was already a member of the Board of Statutory Auditors in the previous three-year period.

(3) including the office of principal statutory auditor at a listed company

## Annex 3 – Other provisions of the Code of Corporate Governance

	YES	NO	Summary of the reasons for any departure from the recommendations of the code
<b>System of authorisations and related-party transactions</b>			
Did the Board of Directors grant authorisations defining their:			
a) limitations	x		
b) method of exercise and	x		
c) reporting frequency?	x		
Has the Board of Directors made reservation of examining and approving transactions with particular economic, equity or financial importance (including related-party transactions)?	x		
Has the Board of Directors defined guidelines and criteria for identifying significant transactions?	x		
Are the abovementioned guidelines and criteria described in the report?	x		
Has the Board of Directors defined special procedures for examining and approving transactions with related parties?	x		
Are the procedures for the approval of related-party transactions described in the report?	x		
<b>Procedure for the most recent appointment of Directors and statutory auditors</b>			
Did the filing of the candidacy for the office of Director take place at least ten days in advance?	x		
Were the candidacies for the office of Director accompanied by exhaustive information?	x		
Were the candidacies for the office of Director accompanied by an indication of eligibility to qualify as independent?	x		
Did the filing of the candidacies to the office of statutory auditor take place at least ten days in advance?	x		
Were the candidacies to the office of statutory auditor accompanied by exhaustive information?	x		
<b>Shareholders' meetings</b>			
Has the company approved regulations for the Shareholders' Meeting?	x		
Are the regulations attached to the report (or is it indicated where it can be accessed/downloaded)?	x		
<b>Internal Control</b>			
Has the company appointed a Officer in charge of internal control?	x		
Is the Officer in charge of internal control hierarchically independent from operating area managers?	x		
Organisational unit charged with internal control	"Internal Auditing" function		
<b>Investor Relations</b>			
Has the company appointed an investor relations manager?	x		
Organisational unit and contact information for the Investor Relations manager	<b>Relations with institutional investors and shareholders: Investor Relations.</b> Piazza Santa Barbara, 7 - 20097 San Donato Mil.se (MI) tel. 02/52067272 - email: investor.relations@snamretegas.it		



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

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snam rete gas

### **Limited Company**

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