

Corporate Governance



Governance structure

Since its inception, Snam Rete Gas has had a corporate governance system in line with international best practices, that is, a set of rules that governs and guides the company's management and control. It establishes the allocation of roles and rights among the persons involved in the company by assigning duties, responsibilities and decision-making powers. It also ensures compliance with the law, codes of conduct, internal procedures and regulations. The corporate governance system's aim is to create value for the shareholders, aware of the social role played by the company, especially with respect to protecting the environment, the health and safety of people, labour rights, guaranteeing equal opportunities, working with the local and national communities in which it is based and, generally, in the interests of all the stakeholders.

Snam Rete Gas' system is based on the guidelines set out in the Code of Conduct for Listed Companies proposed by the Committee for Corporate Governance of Listed Companies, with the relevant recommendations made by CONSOB (National Commission for Listed Companies and the Stock

Exchange) as well as international best practices. The company's board of directors had already complied with the aforesaid guidelines with its resolution of 27 July 2001 and, subsequently, the amendments and integrations made to the Code in July 2002. It complied with the new Code issued on 14 March 2006 with its resolution of 11 December 2006.

In 2007, Snam Rete Gas won the "Financial statements Oscar for corporate governance", a competition organised by FERPI (Federazioni Relazioni Pubbliche Italiana - Italian PR organisation) in which the major listed and unlisted Italian companies participate. This demonstrated its ongoing commitment to align its corporate governance system with the international best practices. The reason given for its adjudication was that it *"has provided itself with a corporate governance structure that envisages a clear view of the company players' rights, a concise definition of roles and high quality information. The following are remarkable: the proper composition of the board of directors, the clear definition of responsibilities and functional organisation of the internal control system and the timeliness in updating to the most recent version of the Code of Conduct issued by Borsa Italiana and the guidelines of the Sarbanes Oxley Act"*.

As required by the current regulations, the disclosures about the company's corporate governance system are given below. Reference was made to the "Guide to writing the corporate governance report" issued by Assonime and Emittenti Titoli S.p.A. in February 2004.

Organisation

The company's organisational structure is traditional and consists of:

- a board of directors which administers the company;
- a board of statutory auditors required to (i) monitor compliance with the laws and deed of incorporation along with correct administration standards for running the company; and (ii) checking the adequacy of the orga-

nisational structure, internal control system and administrative-accounting system;

- shareholders that meet in ordinary or extraordinary meetings to discuss: (i) the appointment or dismissal of members of the boards of directors and statutory auditors and their related remuneration and responsibilities; (ii) the approval of the financial statements and allocation of profit; (iii) the repurchase and sale of treasury shares; (iv) changes to the bylaws; and (v) the issue of convertible bonds.

Independent auditors are engaged to audit the company's financial statements. They are included in the Consob register and are specifically engaged by the shareholders after being advised by the board of statutory auditors.

Shareholding structure and Information about the ownership structure pursuant to article 123 - bis of the Consolidated Finance Act (at 31 December 2007)

SHARE CAPITAL

At 31 December 2007, the company's share capital is as follows:

	No. of share	Percentage of share capital (%)	Stock exchange	Rights and obligations
Ordinary shares	1,956,318,100	100	Italian regulated market	The shares are indivisible and each share gives the right to one vote. Shareholders may exercise the share and equity rights given to them by current legislation, within the relevant limits.

The company has not issued other financial instruments that give the right to subscribe newly issued shares.

Greater information about the share based incentive plans (stock option plans, stock grant plans, etc), which involve (bonus) increases in the share capital is given in the directors' report on the separate financial statements of Snam Rete Gas S.p.A. and the communications prepared in accordance with article 84-bis of the Consob Issuer Regulation, posted on the website www.snamretegas.it.

RESTRICTIONS TO THE TRANSFER OF SHARES AND VOTING RIGHTS

Article 7 of the company's bylaws states: "Until expiry of the

natural gas transportation and dispatching tariff regulation period, immediate after that which ends on 30 September 2005, to be determined with a resolution by the relevant Authority, the exercise of voting rights and those rights other than equity rights tied to the shares that make up more than 15% of the share capital composed of shares with voting rights in ordinary shareholders' meetings purchased after the official listing of the company on the stock exchange by a government or a state body or by parties directly or indirectly, controlled by them, or by parties that directly or indirectly, via subsidiaries or associates, import or export natural gas into or from Italy and by their parents, is subject to the written approval of the company's board of directors.

The board's approval of the transaction is required in

the cases provided for by paragraphs 1 and 2 of the Italian Civil Code, also for parties other than the company.

The calculation of the above percentage considers rights related to shares owned by an individual entity or by its group, ie, the party (which does not have to be a legal entity) that controls it, the subsidiaries and joint ventures as well as associates and their subsidiaries. It also considers rights related to shares held via trustees and/or nominees and shares held by parties other to those described that have agreements with them relating to the exercise of voting rights affecting the company.

The purchase of shares in quantities that lead to the exceeding of the above 15% ceiling shall be communicated to the company in writing in order to obtain the approval of the board of directors.

Such approval is communicated in writing to the shareholder within 60 days from receipt by the company of the above communication. It is irrevocable. Approval may be withheld only in the interests of the company.

Should the approval be withheld or before the period of 60 days lapses or the shareholder not make the required communication as per paragraph 4 of this article, the voting right and non-equity rights for the shares exceeding 15% of the share capital cannot be exercised.

The provisions set out in this article cease to be effective when decrees about special powers provided for by paragraphs 1 and 1bis, article 2 of Law no. 474 of 30 July 1994 are enacted with respect to the company."

KEY SHAREHOLDERS

According to the information available and communications received in accordance with Consob resolution no. 11971/99, the shareholders holding more than 2% of the company's share capital at 31 December 2007 are:

Shareholder	% of share capital	
	31.12.2006	31.12.2007
Eni S.p.A.	50.04	50.03
Snam Rete Gas S.p.A.	6.26	9.99
Pictet Asset Management	4.05	4.05
Banca d'Italia	2.25	2.25

Snam Rete Gas holds 195,468,950 treasury shares, including 731,000 (net of 69,000 shares assigned to managers for stock option/stock grant plans) repurchased in 2005 (€ 3 million) and 194,737,950 repurchased in 2006 and the first five months of 2007 (€ 791 million), equal to 9.99% of the share capital. The repurchases of 2006 and the first five months of 2007

were made on the basis of the shareholders' resolution taken in the meeting of 10 November 2005. The meeting authorised the board of directors, pursuant to article 2357 of the Italian Civil Code, to repurchase a maximum of 194,737,950 ordinary Snam Rete Gas shares with a nominal value of € 1.00 each at not less than their nominal value and not more than 5% higher than the trade price on the stock exchange day before each repurchase for a total amount of € 800 million. The transaction was to take place on the stock exchange managed by Borsa Italiana S.p.A. within 18 months from the date of the resolution.

GEOGRAPHICAL DISTRIBUTION OF SHAREHOLDING STRUCTURE

Based on the legally-required communications and information available to the company, a breakdown of the shareholding structure by geographical area is as follows:

Shareholding structure	(%) of share capital
Italy (*)	73.75
Mainland Europe	15.94
USA and Canada	5.48
UK and Ireland	4.02
Rest of the world	0.81
	100

(*) This figure includes retail investors and treasury shares.

SHARES WITH SPECIAL RIGHTS

The company has not issued shares that give special control rights.

INVOLVEMENT BY EMPLOYEES IN THE SHAREHOLDING STRUCTURE: MECHANISM FOR THE EXERCISE OF VOTING RIGHTS

The bylaws establish that the company makes the space necessary for the communication and performance of the activities for the collection of proxies of employees that hold shares in the company or of its subsidiaries to the shareholder associations, which meet the requirements of the relevant legislation using the methods and terms agreed each time with their legal representatives.

SHAREHOLDER AGREEMENTS

The company is not aware of agreements among its

shareholders nor have any such agreements been published pursuant to the law.

APPOINTMENT AND SUBSTITUTION OF DIRECTORS AND CHANGES TO THE BYLAWS

Reference should be made to the paragraph on the appointment, composition and length of term of office of the board of directors (later in this report) for information about the appointment and substitution of directors.

The sections on the roles and duties of the board of directors and the shareholders' meetings (later in this report) give information on changes to the bylaws.

PROXIES TO INCREASE THE SHARE CAPITAL AND AUTHORISATION TO REPURCHASE TREASURY SHARES

The board of directors does not currently have proxies to increase the share capital pursuant to article 2443 of the Italian Civil Code. The bylaws establish that the company can issue bonus shares (also special category shares) in accordance with article 2349 of the Italian Civil Code.

The company does not have any plans to repurchase treasury shares pursuant to article 2357 and following articles of the Italian Civil Code.

CHANGE OF CONTROL CLAUSE

The different agreements existing and that can be terminated or adapted following the change of control of Snam Rete Gas by its parent Eni are as follows:

- a) Agreements whereby contracts are automatically terminated, especially short-term credit facilities with Eni (these amounted to approximately € 1,371 million at 31 December 2007, including the credit facilities of the subsidiary GNL Italia);
- b) Agreements whereby the counterparty can terminate the contract in advance:
 - Medium to long-term credit facilities with Eni (these amounted to € 4,500 million at year end).
 - Interest rate swaps with a notional amount of € 2,850 million at 31 December 2007.

The effect of the early termination of the loan agreements, guarantees and derivatives is the risk that Snam Rete Gas is unable to obtain loans and financing from other sources at the same conditions as those currently applied.

Moreover, the early termination of the fixed rate loans and interest rate swaps takes place at fair value, which may differ from their carrying amount, at the termination date.

Snam Rete Gas also has agreements with other Eni

group companies for the provision of services and trade union agreements for additional healthcare and pension assistance for employees. Should there be a change in control over Snam Rete Gas by Eni, other counterparties may need to be identified to obtain such services and assistance.

COMPENSATION FOR DIRECTORS IN THE CASE OF THEIR RESIGNATION, DISMISSAL OR TERMINATION OF THE CONTRACT FOLLOWING A PUBLIC PURCHASE BID
The company does not have any specific procedure for this.

MANAGEMENT AND COORDINATION

Snam Rete Gas S.p.A. is managed and coordinated by Eni S.p.A..

Conditions that prevent the listing of shares of subsidiaries controlled and managed by another company (article 37 of Consob resolution no. 16191/07 - Market regulations)

Paragraph 1, article 37 of Consob resolution no. 16191/07 (Market regulations) states that, with respect to the conditions that prevent the listing of shares of subsidiaries managed and coordinated by another company: "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, which does not reflect its interests, with the company that manages it or with another group company. The administering body certifies with an explanatory document that such arrangement reflects its interests and this is verified by the supervisory body; and d) do not have enough independent directors to ensure that they have a significant weight during board decisions. In order to assess independence and the adequacy of the number of such directors, the general criteria set by the regulated stock exchange management companies are considered along with the best practices established by the code of conduct drawn up by such management companies or by sector associations".

Paragraph 2, article 39 of the same decree also states that: "Listed companies as per articles 36 and 37 must comply with the regulations set out therein within 18 months from their effective date. They shall send Consob the adopted alignment plan and calendar on a timely

basis and shall communicate to the market the essential details of the plan as per paragraphs 2 and 3, article 66 of the regulations adopted by Consob with resolution no. 11971/1999 and subsequent amendments. The financial document required by article 82 of such regulation includes the information related to implementation of the plan *...omissis ...*”.

On 12 February 2008, the directors checked that the company met the requirements set out in paragraph 1, article 37 of Consob resolution no. 16191/07 for the listing of shares of subsidiaries managed and coordinated by another company on an Italian regulated market as: a) it has complied with the disclosure requirements set by article 2497-*bis* of the Italian Civil Code; b) it negotiates terms with its customers and suppliers independently; c) it has a centralised treasury arrangement with its parent Eni S.p.A. which meets its interests; and d) the board of directors has nine members, five of whom meet the independence requirements set for statutory auditors as per paragraph 3, article 148 of Legislative decree no. 58 of 24 February 1998 and article 3 of the Code of Conduct.

The board of directors also represented that the company's interests were met by the centralised treasury arrangement with Eni S.p.A. as all the treasury transactions and medium to long-term financing agreements are agreed independently by Snam Rete Gas and take place at market conditions.

This representation was confirmed by the board of statutory auditors.

Code of Ethics

The board of directors has adopted the Eni group's Code of Conduct believing it important to adopt the values that the Group recognises, accepts and shares and the obligations with its stakeholders.

This ensures that activities performed comply 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.

All Snam Rete Gas employees, regardless of position and without exception, are required to comply and ensure compliance with these standards as part of their duties and responsibilities. Acting in the interests of the company in no way justifies conduct which deviates from such standards.

The company set up a code of conduct committee to ensure implementation of the Code of Conduct. Its members include the director of general affairs, direc-

tor of human resources and organisation and the internal audit director. The manager in charge of relations with the authorities and associations was appointed as the Code of Conduct watch body on 25 July 2007.

The committee reports regularly to the board of directors on the status of its work.

The code of conduct committee and the Code of Conduct watch body met three times during 2007 with the participation of all the members.

They examined reports of alleged violations of the Code, assessed and implemented measures to ensure the widespread communication and awareness of the Code and the reference structures (committee and watch body) both within and outside the company.

The board of directors

ROLES AND DUTIES

The board of directors is the central player in the company's corporate governance system. Further to carrying out those responsibilities that cannot be delegated to others by law, it:

- a) sets strategies and objectives, including sustainability policies after consulting the CEO. Reviews and approves the company's business plans as well as strategic agreements;
- b) reviews and approves the company's and group's budgets;
- c) examines the subsidiaries' annual financial statements;
- d) reviews and approves the quarterly and half yearly interim reports of the company and its subsidiaries drawn up in line with current legislation. Reviews and approves the sustainability report;
- e) defines the corporate governance system and rules. Adopts rules that ensure transparency and substantial and procedural correctness of transactions with related parties and transactions involving a director either directly or through a nominee, after consulting the audit committee. Adopts a procedure to manage and communicate internal information, especially privileged information;
- f) sets up internal committees which advise and assist the board of directors, appointing the members, establishing their remuneration and duties and approving their regulations;
- g) receives reports every six months from these internal committees;
- h) monitors the company's performance considering information received from the chairman, CEO and audit committee in particular, evaluating situations of conflict of interest and, also, periodically comparing actual and forecast figures;
- i) assigns and revokes powers to/from the chairman

and CEO, setting their limits and application and establishing their remuneration after consulting the relevant committee and board of statutory auditors. It may give instructions to the relevant bodies and suggest transactions covered by the powers. The chairman and CEO report to the board and the board of statutory auditors at least quarterly about their activities and the key transactions performed by the company and its subsidiaries that affect the company's financial position and results of operations. They also report on atypical and/or unusual transactions and related party transactions. Information is made available promptly when the directors have a direct interest in the transaction, third parties are involved or the transaction could be affected by the company which manages and coordinates Snam Rete Gas;

- j) advised by the CEO, takes decisions about:
- acquisitions, disposals, sales and contributions of companies or business units (including rent and usufruct), investments and properties worth more than € 2.5 million;
 - contracts for the sale of goods and/or services used for commercial and administration purposes by the company for amounts greater than € 1 billion and/or a term of longer than 15 years;
 - contracts for the purchase and sale and exchange of chattels, also comprising those included in public registers, contracts for advertising space and time, rental and lease, intellectual property services, services, hire, transport 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 lessor for finance leases of buildings for more than € 2.5 million and/or a term of longer than 15 years and chattels also included in public registers in Italy and abroad for more than € 50 million and/or a term of longer than 15 years;
 - granting of loans to non-Eni group companies;
 - sureties and other forms of personal guarantee, letters of patronage, in relation to commitments taken on or to be taken on by companies in which the company directly or indirectly holds an investment, of more than € 30 million and, in all cases, if the amount is not proportional to the investment held therein;
 - sureties given to guarantee commitments taken on or to be taken on by the company with third

- parties, for more than € 30 million;
- k) appoints and dismisses the general managers and deputy general managers after consulting the CEO and chairman, setting their related powers;
- l) appoints and dismisses the manager in charge of financial reporting after consulting the CEO and chairman and obtaining approval from the board of statutory auditors and gives him/her adequate powers and instruments;
- m) appoints and dismisses the audit committee head after consulting the chairman and audit committee and sets his/her remuneration in line with the company's remuneration policies;
- n) ensures that an employee to handle investor relations has been appointed;
- o) defines the criteria for remuneration of senior management after reviewing the proposals made by the relevant committee, implements the share or financial instrument based plans approved by the shareholders;
- p) defines the guidelines of the organisational, administrative and accounting structure of the company and its subsidiaries. Assesses the adequacy of such structure as drawn up by the CEO, focusing on the management of conflicts of interest;
- q) after reviewing the proposals made by the audit committee, sets the guidelines for the internal control system, so as to ensure the identification, measurement, management and monitoring of the key risks of the company and its subsidiaries. Annually checks the adequacy, efficiency and proper working of the internal control system, monitored by the chairman;
- r) issues orders about the exercise of voting rights at meetings of shareholders of its subsidiaries and the roles/appointments of the members of the subsidiaries' internal bodies, based on the CEO's proposals;
- s) draws up proposals to be submitted to the shareholders in their meetings;
- t) reviews and decides upon other issues that the directors with powers wish to draw to the attention of the board, when such issues are of particular importance and sensitivity.

The bylaws also give the board of directors the authority to resolve on proposals related to:

- mergers as per articles 2505 and 2505/*bis* of the Italian Civil Code, also in the case of demergers, again in the cases provided for by the aforesaid articles;
- the opening, changing and closing of secondary offices;
- the reduction in the share capital when a shareholder withdraws therefrom;



- the adequacy of the bylaws and regulations;
- the transfer of the registered offices within Italy.

In its meeting of 13 March 2008, the board of directors checked the adequacy of the company's organisational, administrative and accounting structure. The company does not have any strategically important subsidiaries.

In the same meeting, the board of directors also evaluated the size, composition and working of the board itself and its committees in accordance with the provisions of the Code of Conduct. It availed of the services of Egon Zehnder, an external specialist. The assessment showed that the board of directors continues to be highly efficient and to work well.

APPOINTMENT, COMPOSITION AND LENGTH OF TERM OF OFFICE

The board of directors has a variable number of members ranging from five to nine. This number is decided by the shareholders in the meeting which appoints them. The directors have a maximum term of office of three years and may be re-elected. Article 16 of the bylaws establishes a voting list mechanism for the appointment of directors in order to ensure the presence of directors representing the minority shareholders.

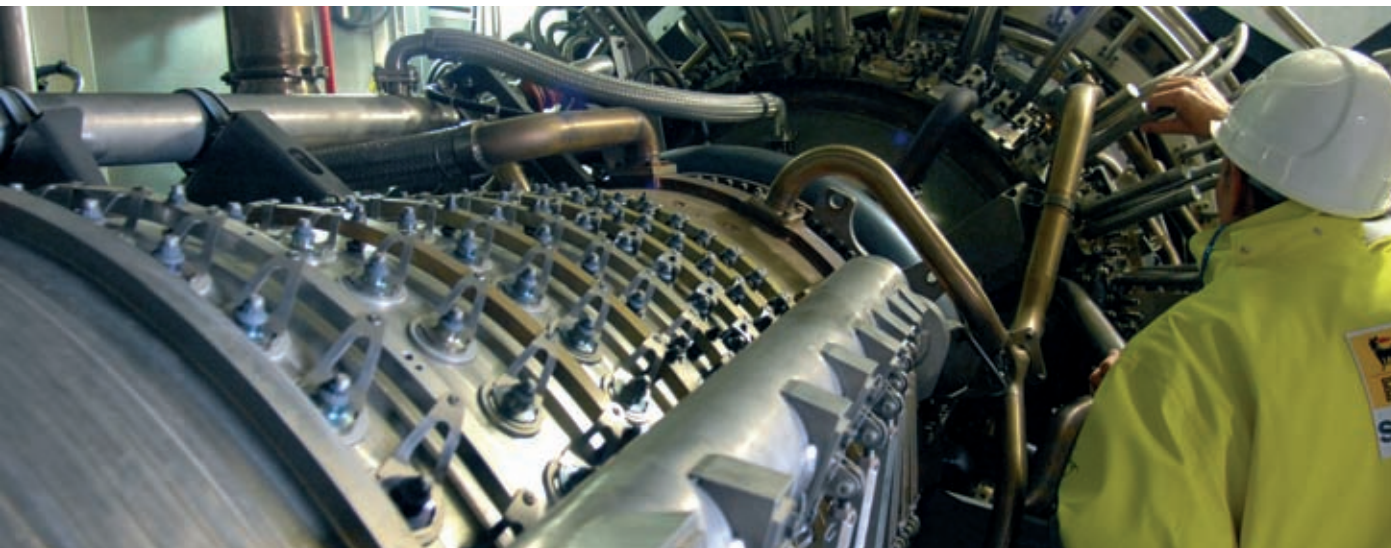
Shareholders may individually or in a grouping with other shareholders, making up at least 2% of the shares with voting rights at ordinary meetings (or another percentage set or allowed by the relevant law and regulations), present lists. Each shareholder may present individually or in a grouping just one list as per the legally and Consob-established regulations and each candidate may be present once. Non-compliance can lead to ineligibility. The lists are presented by the shareholders and lodged at the company's registered

office at least fifteen days before the date of the first call of the meeting. They are also published in accordance with the legally and Consob-established regulations for the election of members of boards of directors and statutory auditors. The lists specify the candidates with the independence requirements set for statutory auditors of listed companies. The lists for the appointment of directors, with the relevant information about their characteristics, information about those with the necessary independence requirements (set by the bylaws) and names of the shareholders that presented the lists and their investment in the company are made available to the public on a timely basis and within with deadline set by the ruling legislation at the company's registered offices, Borsa Italiana S.p.A. and are posted on the company's internet site (www.snamretegas.it). The list procedure is only necessary when the entire board of directors is being replaced. The bylaws establish that when there is no longer a majority in office, the entire board falls from office and a meeting of the shareholders is to be called as soon as possible by the board to reappoint a new board.

When the number of board members is less than seven, at least one director, or when it is more than seven, at least three directors must meet the independence requirements set for statutory auditors of listed companies. The voting list mechanism is structured in such a way that the required number of independent directors is appointed.

Directors are elected as follows:

- a) seven tenths of the directors are taken from the list that has obtained the majority of the shareholders' votes in consecutive order in the order in which they are included in the list with rounding to the smaller number, in the case of a fraction of less than one;



b) the remaining directors are taken from the other lists that are not in any way linked, even indirectly, to the shareholders that presented or voted for the list that won the most votes. Therefore, the votes from these lists are subsequently divided by one or two or three depending on the consecutive number of directors to be elected. The scores obtained will be assigned to the candidates of each of these lists, using the established sequence. The scores thus assigned to the candidates of the different lists will be included in a single list showing the scores obtained in decreasing order. Those persons with the highest scores will be elected. If more than one candidate obtains the same score, the candidate from the list that has not elected any director or that has elected the smallest number of directors is elected. If none of these lists has elected a director or they have all elected the same number of directors, the candidate whose list has obtained the greatest number of votes is elected. If lists have the same number of votes and scores, the entire meeting of shareholders will vote again and the candidate who receives the simple majority of the votes is elected;

c) if, following application of the aforesaid procedure, the minimum number of independent directors required by the bylaws is not appointed, a vote score is calculated to be given to each candidate of the different lists, using the procedure set out in letter b); a number of those candidates not yet taken from the lists as per letters a) and b), who have the independent requirements and have the highest score are elected to meet the minimum requirements for the number of independent directors set by the bylaws. They replace the non-independent directors with

lower scores. If there are not enough candidates to ensure compliance with the minimum number of independent directors, the shareholders vote to replace those candidates without the independence characteristics with the lower scores by the legally-required majority vote;

d) the shareholders vote to appoint directors that for any reason have not been appointed using the above procedure using the legally-required majority vote in order to ensure that the composition of the board of directors complies with the law and bylaws.

All the candidates must meet the reputation requirements set by the current legislation.

The board regularly assesses the directors' independence and reputation and checks the inexistence of reasons for ineligibility and non-compatibility. Should one of these requirements no longer be met or there are reasons for a director's ineligibility or non-compatibility, the board states that the director is no longer fit for office and replaces him/her. It may also request the director in question to take steps to eliminate the reason for non-compatibility within a set deadline and if this is not complied with, the director falls from office.

The board of directors, appointed by the shareholders in their meeting of 26 April 2007, currently has nine members: Alberto Meomartini (chairman, reconfirmed by the shareholders), Carlo Malacarne (CEO), and Giuseppe Airoldi, Davide Croff, Roberto Lonzar, Roberto Lugano, Massimo Mantovani, Massimo Mondazzi and Renato Santini (directors). Alberto Meomartini, Carlo Malacarne, Davide Croff, Massimo Mantovani, Massimo Mondazzi and Renato Santini were appointed from the list pre-

sented by the shareholder Eni S.p.A.. The list specifically stated that Davide Croff and Renato Santini meet the independence requirements set by the bylaws. Giuseppe Airoidi, Roberto Lonzar and Roberto Lugano were appointed from the list presented by ARCA SGR S.p.A..

The term of office of the board will expire with the meeting called to approve the financial statements as at and for the year ending 31 December 2009. As well as the duties established by current legislation and the bylaws, the chairman supervises external and institutional relations, internal audit and relations with authorities and associations activities. In their meeting of 8 May 2007, the directors give him suitable powers. They also reconfirmed Carlo Malacarne as CEO giving him the related powers and powers for the management of the company except for those that by law cannot be delegated and those reserved to the board. The board also appointed Francesco Iovane as Operations General Manager giving him the related operating powers on 8 May 2006. Pursuant to article 23 of the bylaws, the chairman and managing director may represent the company.

The directors and statutory auditors report to the other directors and board of statutory auditors on all interests they may have in a specific company transaction either directly or on behalf of third parties. The directors' curricula vitae are available on the company's internet site. Except for the chairman and managing director, all the directors are non-executive in order to ensure that they can influence board decisions in terms of their number and authority. The presence of independent directors on both the board of directors and related internal committees ensures the adequate monitoring of the interests of all the shareholders.

The directors' independence and reputation and the inexistence of reasons for ineligibility and non-compatibility is assessed after their appointment and at least once a year by the board of directors considering information provided both by themselves and available to the company. In its meeting of 12 February 2008, the board of directors noted that no reasons for non-compatibility and ineligibility existed for the directors and that they meet the reputation requirements established for members of supervisory bodies set by the Ministry for Justice in its Decree no. 162 of 30 March 2000. The same meeting established that the non-executive directors Giuseppe Airoidi, Davide Croff, Roberto Lonzar, Roberto Lugano and Renato Santini met the independence requirements set by current legislation and the Code of Conduct. The board of statutory auditors also checked the correct application of the criteria and procedures adopted by the board of direc-

tors when verifying the independence requirements. These directors are considered to be independent, pursuant to article 3 of the Code of Conduct, given that:

- i) they do not control the company either directly or indirectly, also via subsidiaries, trustees or nominees, they are not able to exercise significant influence thereon and they have not entered into a shareholder agreement whereby one or more parties has control or significant influence over the company;
- ii) they do not hold nor have they held in the last three years key positions with the company or one of its strategically important subsidiaries or joint ventures with the company or a company or body that, together with others via a shareholder agreement, controls the company or is able to exercise significant influence thereon;
- iii) directly or indirectly via subsidiary or company in which they hold a key position or as partners of a professional firm or consultancy firm) they do not have and have not had in the previous year a significant commercial, financial or professional relationship:
 - with the company, one of its subsidiaries or with any of the related key officers;
 - with a party that, either together with others as a party to a shareholder agreement, controls the company, or in the case of companies and bodies, with the related key officer; and are not and have not been in the previous three years, employees of one of the above companies;
- iv) do not receive and have not received in the previous three years, from the company or one of its subsidiaries or parents a significant additional remuneration further to the "fixed" non-executive director's fees for the company, including participation in incentive plans tied to company performance, also in the form of share based payment plans;
- v) have not been directors of the company for more than nine years in the last 12 years;
- vi) do not hold executive directorships in another company in which the an executive director of the company has a position as director;
- vii) are not shareholders or directors of a company or body belonging to the group of the independent auditors engaged to audit the company's financial statements;
- viii) are not close family members of a person in one of the situations described above.

Moreover, in accordance with article 147-ter of Legislative decree no. 58 of 24 February 1998, the directors have the independence requirements established for the statutory auditors by paragraph 3, article 148 of the same decree. The independent directors will assess when or whether to call meet-

ings of independent directors alone.

The board of directors resolved the following about the accumulation of duties: a) an executive director should not hold: i) an executive directorship in another Italian or foreign listed company, or in a financial company, bank or insurance company or a company with equity of more than € 1 billion, or ii) a non-executive directorship or position as statutory auditor (or member of another control body) in more than three of such companies; b) a non-executive, also independent, director should not hold the following positions in addition to his/her position in the company: i) an executive directorship in more than two Italian or foreign listed companies, or financial companies, banks or insurance companies or companies with equity of more than € 1 billion and the position as non-executive director or statutory auditor in more than five of the above companies, or ii) a non-executive directorship or position as statutory auditor (or member of another control body) in more than eight of the above companies. If these limits are exceeded, the directors shall inform the board on a timely basis. The board then assesses the situation, also considering the company's interests, and requests the director in question to take the related decisions. With respect to positions as directors or statutory auditors held by directors in other companies listed on Italian and foreign regulated markets, in financial companies, banks, insurance companies or companies with equity of more than € 1 billion, the following was noted:

Director	Position	Company
Davide Croff	Chairman of BoD	Permasteelisa S.p.A.
Roberto Lonzar	Standing statutory auditor	La Venezia Assicurazioni S.p.A.
	Standing statutory auditor	Genertel S.p.A.
	Standing statutory auditor	Simgenia SIM S.p.A.
		Finanziaria Internazionale Alternative
	Standing statutory auditor	Investment SGR S.p.A.
Renato Santini	Supervisory director	Generali Investment S.p.A.
	Chairman of BoD	Quarzo CL S.r.l.
	Director	PBF S.r.l.
Renato Santini	Standing statutory auditor	Marazzi Group S.p.A.
	Standing statutory auditor	Perennius Capital Partners SGR

The directors verified that the number of positions as director or statutory auditor held by themselves in the above companies is compatible with the effective performance of their duties as directors of Snam Rete Gas in their meeting of 12 February 2008. They also defined the methods for calling meetings. Board meetings are called by the chairman who establishes

the agenda in a communication sent at least five days before that fixed for the meeting, at least 48 hours before urgent meetings and at least 24 hours before extremely urgent meetings.

The directors and statutory auditors receive the documentation and information necessary for them to be able to make informed decisions at the meetings in good time beforehand.

The board of directors met ten times during 2007. An average 90.6% of the directors attended with the participation of an average approximate 89.3% of the independent directors.

The directors' fees are fixed by the shareholders in their meetings while the board of directors sets the chairman's and CEO's remuneration after consulting the remuneration committee and the board of statutory auditors.

The shareholders fixed the gross annual remuneration for the directors as € 30,000 in their meeting of 26 April 2007. They also approved payment of € 500 (gross) as their attendance fee for each committee meeting. The remuneration paid to the chairman, CEO, general manager and other managers with key responsibilities¹⁹, consists of a fixed part, a variable part and a long-term incentive.

The fixed part of the chairman's and CEO's remuneration is based on their powers while that of the general manager and other managers with key responsibilities is calculated considering their positions and responsibilities. Reference is made to market remuneration rates for similar positions in major national and international companies. The remuneration is adjusted annually to reflect merit bonuses (continuity of individual performance) or promotions.

The variable part is paid annually in cash and is tied to attainment of specific company (financial, operating and strategic) and individual (for each business area or function) objectives set for the previous year. The chairman's and CEO's variable part is linked to company objectives. The variable part paid in 2007 was calculated using the company's 2006 objectives approved by the board of directors upon the remuneration committee's proposals, defined on the basis of the strategic plan and annual budget considering investments (50%), operating efficiency (30%) and cash flows from operating activities (20%). The remuneration committee checked the company results, measured on a constant basis, approved by the board of directors. It calculated a variable remuneration of 130% of the base level within a range of the minimum (85%) and the maximum (130%) of the allowed amount.

On 17 March 2006, the board of directors approved the remuneration committee's proposed new long-term

⁽¹⁹⁾ Managers who make up the company's management board with the CEO and general manager.

incentive plan for company managers. Its aim is to increase motivation and loyalty and to tie objectives, actual performances and rewards more closely. The new system, to be applied in the three years from 2006 to 2008, consists of a deferred monetary plan, based on business growth and operating efficiency, and a stock option plan tied to the return for shareholders. It was approved by the shareholders in their meeting of 27 April 2007. The plan's objective is to balance the monetary and share parts of remuneration and to integrate the company's financial/operating performance with the stock market performance in the long term. The deferred monetary incentive assigned in 2007 may be granted three years later depending on attainment of the annual

EBITDA (actual vs. budget on a constant basis) objectives defined for the three years (2007 to 2009). The stock options assigned in 2007 may be exercised three years later depending on the Total Shareholders' Return (TSR)²⁰ positioning of the Snam Rete Gas share compared to that of the other six key European utilities companies listed on regulated markets, calculated on an annual basis in the three years. At the end of each three-year period, the remuneration committee will check the results of the long-term incentive plans and they will be approved by the board of directors.

The 2007 remuneration is shown in the following table considering the fixed and variable parts received and long-term incentive assigned.

	Chairman	CEO	General director	Other managers with key responsibilities
Fixed part	55%	42%	51%	56%
Variable part (tied to results)	21%	25%	21%	20%
Long-term incentives (tied to results) (*)	24%	33%	28%	24%
Total	100%	100%	100%	100%

(*) measurement of the present value of the deferred monetary incentive and fair value of stock options assuming the target results are achieved.

As required by Consob, the directors' report on the consolidated financial statements discloses: (i) the amount of fees paid to the directors and statutory auditors, the general manager and managers with key responsibilities; (ii) the involvement of the directors, general manager and managers with key responsibilities in the stock grant and stock option plans; and (iii) investments held in Snam Rete Gas by the directors and statutory auditors, general manager and managers with key responsibilities. The disclosures in points (i) and (ii) are also given in the notes to the separate financial statements.

Treatment of company information

INFORMATION ON THE CHAIRMAN AND CEO AS PER ARTICLE 19 OF THE BYLAWS

As per article 19 of the bylaws, the chairman and CEO report to the boards of directors and statutory auditors at least quarterly on the general performance, outlook and key transactions performed by the company and its subsidiaries that affect the company's financial position and results of operations. They

also report on transactions in which they or third parties have an interest or that are influenced by the company that manages and coordinates Snam Rete Gas. Special attention is paid to related party transactions, which are disclosed in the notes to the financial statements.

PROCEDURE FOR THE COMMUNICATION OF PRIVILEGED INFORMATION AND DOCUMENTS ABOUT SNAM RETE GAS S.P.A. AND FINANCIAL INSTRUMENTS ISSUED BY IT TO THE MARKET

The board of directors approved the "Procedure for the communication of privileged information and documents about Snam Rete Gas S.p.A. and financial instruments issued by it to the market" in its meeting of 17 March 2006 in line with Legislative decree no. 58 of 24 February 1998 and Consob resolution no. 11971/99 about communications of privileged information to the market. The procedure considers the guidelines included in the "Guidelines for information to be disclosed to the market" prepared by Forum Ref on company disclosures, which sets out the standards for correctly informing the market, and the Code of Conduct for Listed Companies.

⁽²⁰⁾ The TSR measures the total return on a share in a certain period, considering changes in share prices (comparison of the price at the beginning and end of a period) and any dividends distributed at the ex dividend date.

This procedure is in place since 1 April 2006 and is tied to the "Procedure for the identification of relevant persons and communication of transactions performed by them, also via nominees, involving the shares issued by Snam Rete Gas S.p.A. or other related financial instruments" ("Internal Dealing Procedure") and the Procedure for the "Keeping and updating of the list of persons with access to privileged information in Snam Rete Gas S.p.A."

It defines the terms and conditions related to:

- communication of privileged information by Snam Rete Gas to the market;
- communication of information that the non-issuer subsidiaries provide to Snam Rete Gas so that it can comply with the regulations about the issues covered by the procedure.

Specifically, the procedure regulates:

- information to be disclosed to the market, specifying and analysing the requirements of materiality, clarity, similarity, consistency and timeliness;
- relationships between Snam Rete Gas S.p.A., the parent and subsidiary;
- meetings with market operators, interviews and statements made to mass media;
- means of distributing press releases;
- means of distributing information using multi media information instruments (internet, e-mail, cd rom, broadcasting) and advertising;
- delays or opposition to circulating news.

The Procedure is available on the company's internet site (www.snamretegas.it).

Board of directors' committees

In order to efficiently perform its duties, the board has set up two internal committees: the remuneration committee and the internal audit committee. Snam Rete Gas has not set up an appointment committee as required by the Code of Conduct for Listed Companies as the directors are appointed by the shareholders during their meetings using lists presented by themselves. They perform a preliminary selection of candidates and check that they meet the reputation and professional requirements set by the law and bylaws.

REMUNERATION COMMITTEE

Up until the shareholders' meeting of 26 April 2007, this committee had three non-executive directors as members, namely, Giuseppe Airoidi, Roberto Lugano and Salvatore Sardo. The first two were also independent. Giuseppe Airoidi was chairman of the committee. In its meeting of 8 May 2007, the current board of directors appointed Giuseppe Airoidi, Davide Croff and Massimo Mondazzi, non-executive directors, as new members of the remuneration committee, the first two are also independent. Giuseppe Airoidi was confirmed as chairman. The remuneration committee prepares proposals about the



annual remuneration of the chairman and CEO for the board of directors. It also reviews the remuneration criteria for senior management. The shareholders decide the remuneration of the directors while the board of directors decides that of the chairman and CEO. The committee met six times in 2007 (on 21 February, 20 March, 20 April, 20 June, 24 July and 10 December) with an average attendance of its members of roughly 90%. It discussed issues related to:

- i) the TSR for 2006 and average TSR positioning for the stock grant plan for the third three year plan (2004-2006);
- ii) the TSR for 2006 for the 2006-2008 stock option plan;
- iii) changes to the 2004 stock grant plan regulations;
- iv) changes to the stock option plans following payment of an extraordinary dividend;
- v) definition of the 2007 objectives: performance plan and EBITDA index;
- vi) achievement of the 2006 company objectives;
- vii) the proposed annual monetary incentive for the chairman and CEO;
- viii) definition of the guidelines and remuneration of the non-senior management tied to bonuses, roles and responsibilities;
- ix) long-term management incentives for the three years from 2007 to 2009, with a deferred monetary incentive plan and a stock option plan tied to company performance indicators;
- x) proposed change to the chairman's and CEO's remuneration considering their roles and responsibilities;
- xi) proposed redefinition of the chairman's fixed and variable remuneration, valid from 1 January 2008, following the commencement of a contractual relationship with the company.

AUDIT COMMITTEE

This committee was set up on 26 February 2002 to advise the board of directors. Its members are exclusively non-executive

independent directors appointed by the board of directors on 8 May 2007: Roberto Lugano (chairman), Roberto Lonzar and Renato Santini. During the same meeting, the directors checked that all the committee members had adequate experience in accounting and financial subjects as required by the Code of Conduct for Listed Companies.

In its meeting of 20 March 2007, after consulting the audit committee, the board of directors appointed the Audit Manager as audit control Manager and set his/her remuneration in line with companies policies.

On 20 June 2007, the board of directors approved the new internal regulation setting out the members' duties.

Specifically, the committee:

- assists the board of directors with managing and checking the adequacy and working of internal controls and risk management system;
- assesses the audit manager;
- monitors the correct application of the accounting policies used and their consistency when preparing the consolidated financial statements with the assistance of the manager in charge of financial reporting and the independent auditors;
- assesses the recommendations made by the independent auditors, their audit plan and related findings and any recommendations made in their management letter;
- reports to the board of directors at least once every six months on its activities and the adequacy of the internal control system.

The committee can discuss the matters on its agenda when the majority of its members are present. Resolutions are passed by majority vote of those present. The chairman of the board of statutory auditors or a statutory auditor appointed by him takes part in the committee meetings. The company chairman and CEO may also attend as may other persons who are not members if invited to do so by the committee members. The internal audit manager acts as secretary to the committee,

writes up the minutes of its meetings and carries out the duties assigned to him/her by the committee. The audit committee met seven times in 2007 (21 February, 6 March, 20 June, 24 July, 18 September, 22 October and 10 December) with an average attendance of 90%. At least one member of the board of statutory auditors took part. During these meetings, the committee: (i) analysed the organisational structure of the internal audit unit and its 2007 work programme; (ii) examined the periodic report on its activities in 2007; (iii) analysed issues related to the separate and consolidated financial statements at 31 December 2006 with the director of administration, finance and control and the independent auditors; (iv) analysed transactions undertaken with third parties; (v) assessed the extension of the term of engagement of the independent auditors for the three year period from 2007 to 2012 in line with the relevant legislative changes; (vi) analysed the procedures carried out to align the internal control system for company disclosures with the requirements of Law no. 262/2005; and (vii) analysed the findings of the risk assessment project carried out to plan the internal audit procedures for the period from 2008 to 2010.

During its meetings of 18 September 2007 and 13 March 2008, the committee reported to the board of directors on its activities carried out in the first and second half of 2007. As required by the Code of Conduct, the board of directors assessed the adequacy of the internal control system in its meeting of 13 March 2008 considering the information provided by the audit committee.

Board of statutory auditors and Independent auditors

BOARD OF STATUTORY AUDITORS

Pursuant to article 149 of Legislative decree no. 58/1998, the board of statutory auditors monitors compliance with the law



Stefano Dal Pozzolo/Contrasto

and deed of incorporation and with principles of correct administration, the adequacy of the company's organisational structure to carry out its duties, the internal control system and administrative-accounting system. It also verifies the correct implementation of the corporate governance rules set out in the codes of conduct drawn up by the stock market management company or trade associations with which the company states its compliance through communications to the market, the reliability of the system in representing operations correctly and the adequacy of the instructions given by the company to its subsidiaries in accordance with paragraph 2, article 114 of the aforesaid Decree. In order to align its duties with those of the audit committee, the following were transferred to the board of statutory auditors in 2005:

- examination of all instances of fraud involving management or employees with key roles in the internal control system upon notification by the chairman or director of administration, finance and control;
- examination of (anonymous) communications about accounting, internal control system or audit issues.

Each statutory auditor may call meetings of the board of directors while two statutory auditors are needed to call a meeting of the shareholders. The board of statutory auditors consists of three standing members and two alternate members. Article 22 of the bylaws requires that they be appointed by the shareholders using voting lists in order to ensure that the minority shareholders can appoint the chairman and an alternate member. The same article establishes that the legal requirements and the regulations issued by Consob about the election of members of company bodies are to be complied with for the lodging, presentation and publication of the lists.

Each shareholder may present individually or in a grouping just one list and vote for just one list in accordance with the regulations set out in the aforesaid laws and regulations. Shareholders may individually or in a grouping with other shareholders, making up at least 2% of the shares with voting rights at ordinary meetings (or another percentage set or allowed by the relevant laws and regulations), present lists. On 29 January 2008, Consob issued resolution no. 16319/08 which set such percentage to be 1%. Each candidate may be present once. Non-compliance leads to ineligibility. The lists consist of two sections: the first sets out the candidates for standing statutory auditor positions while the second gives the names of candidates for the alternate statutory auditors. At least the first name on each section should be a certified auditor and have worked as an auditor for clients that are legally required to have their financial statements audited for not less than three years. They can be re-elected. The lists, together with the information about the candidates and identity of the shareholders presenting them and their investment percentage, are made available to the public at the company's registered offices, Borsa Italiana S.p.A. and posted on the company's internet

site (www.snamretegas.it) on a timely basis. The list procedure is only necessary if the entire board of statutory auditors is being replaced. The board of statutory auditors, appointed by the shareholders on 26 April 2007, comprises the chairman, Pierumberto Spanò, standing statutory auditors, Riccardo Perotta and Roberto Mazzei and alternate statutory auditors Giulio Gamba and Luigi Rinaldi. They have a three year term of office (until approval of the 2009 financial statements). The standing statutory auditors Roberto Mazzei and Riccardo Perotta and the alternate statutory auditor Giulio Gamba were appointed from the list presented by Eni S.p.A.. The chairman Pierumberto Spanò and the alternate statutory auditor Luigi Rinaldi were appointed from the list presented by ARCA SGR S.p.A.. The statutory auditors have the necessary professional and reputation requirements set by the Ministry for Justice in its Decree no. 162 of 30 March 2000. For the purposes of this decree, the subjects strictly related to the company's business are: commercial law, business management and corporate finance. Similarly, the sector pertaining to its business is the engineering sector. The shareholders established the annual remuneration for the statutory auditors in the ordinary meeting of 26 April 2007 for their term of office as € 45,000 and € 30,000 for the chairman and standing statutory auditors, respectively. They also set the attendance fee for each meeting of the board of directors committees as € 500. The statutory auditors may also act as directors or statutory auditors in other companies as so determined by Consob in its regulations. Based on the statements provided to it, the board of statutory auditors checked that all the members met the necessary independence requirement as per article 3 of the Code of Conduct and the law. The statutory auditors' curricula vitae are available on the company's internet site.

The board of statutory auditors met 11 times during 2007. On average, attendance was 91%. One member usually participated in the meetings of the audit committee. Based on the communications received, details of the positions as director and statutory auditor held by the statutory auditors in other companies listed on Italian regulated markets are given below.

Statutory auditor	Position held	Company
Pierumberto Spanò	Chairman of the board of statutory auditors	Astaldi S.p.A.
Riccardo Perotta	Statutory auditor	Eni S.p.A.
	Statutory auditor	Gewiss S.p.A.
	Statutory auditor	Mediaset S.p.A.

INDEPENDENT AUDITORS

As required by law, the company's financial statements are audited by independent auditors included in the CONSOB register. They are appointed by the shareholders upon the advice of the board of statutory auditors.

In their meeting of 26 April 2007, the shareholders extended the term of engagement of the independent auditors, PricewaterhouseCoopers S.p.A., which expired on that date, until 2012.

Shareholders' meetings

Company management and its shareholders meet at the shareholders' meetings when the shareholders, also jointly, making up at least one fortieth of the share capital, can request that additional matters be added to the agenda and specifying what matters in accordance with article 11 of the bylaws as established by article 126 bis of the TUF. This is not allowed for those matters about which the shareholders pass resolutions, as established by law, on proposals made by directors or based on a project or report prepared by them. Additions allowed by the board of directors are made public at least ten days before the date set for the shareholders' meeting in a notice published as established by the bylaws. The shareholders may request information about both matters on the agenda and the company's general performance during their meetings. This information is provided in compliance with the regulations governing price sensitive information. At ordinary meetings, shareholders exercise the powers assigned by article 2364 of the Italian Civil Code while at extraordinary meetings they decide on the issues provided for by article 2365 of the Italian Civil Code as well as those provided for by other laws. Under article 15 of the bylaws, at ordinary meetings, shareholders pass resolutions about the sale, contribution, rent, usufruct and all other arrangements, also as part of joint ventures, or subject to company limits or strategic business units relevant to the gas transportation and dispatching business without prejudice, as per point 5, article 2364 of the Italian Civil Code, to the liability of the directors for actions taken. Resolutions on these matters are adopted, also on second call, with the favourable vote of at least three quarters of the share capital represented at the meeting. Ordinary meetings pass resolutions by majority vote in accordance with the relevant legislation for the other matters of its competence. Extraordinary meetings resolve, on first, second and third call, matters with the favourable vote of at least three quarters of the share capital represented at the meeting. As provided for in the Code of Conduct, meetings are governed by a regulation which requires their ordered and proper running and guarantees the right of each shareholder to express its opinion on the matters on the agenda. The regulation is available on the company's internet site www.snamretegas.it.

The shareholders met in April 2007 in ordinary and extraordinary meetings. During the extraordinary meeting, they approved changes to the bylaws, also pursuant to Law no. 262/05 and Legislative decree no. 303/06. The key changes related to:

- the possibility for the shareholders that represent at least one fortieth of the share capital to request additions to be made to the agenda of the shareholders' meetings (article 11);
- indication of the deadline of at least fifteen days before the date of the meeting of the shareholders for presentation of the lists of candidate directors by the shareholders and reference to the ruling regulations, for the methods used to publish the lists and to set the different capital participation percentages, in addition to that stated in the bylaws for their presentation (article 16);
- indication that at least three or one directors have the legally-required independence requirements depending on the total number of directors (seven or less, respectively); explicit indication in the lists of candidates presented for appointment as directors of those that meet the independence requirements established by law and explicit indication in their statements that they meet such requirements as well as the reputation criterion established by current legislation, and periodic assessment by the board of directors that at least one or three directors, depending on whether there are a total of less or more than five directors on the board, continue to have such characteristics (article 16);
- explicit mention of the board of directors' obligation to check that the general managers meet the reputation requirements (article 19);
- definition of the criteria for appointment of the manager who will prepare the financial reporting and the characteristics that s/he will have to have (article 19);
- reference to the relevant Consob regulations for the filing, presentation and publication of the lists of candidate statutory auditors, for the setting of the different capital participation percentages, with respect to that given in the bylaws for the presentation of the lists, and setting of the limits to the positions that such statutory auditors may hold (article 22);
- appointment of the chairman of the board of statutory auditors from the lists presented by the minority shareholders (article 22);
- possibility for at least one statutory auditor to call directors' meetings and for at least two statutory auditors to call meetings of the shareholders (article 22).

In their ordinary meeting, the shareholders resolved to approve the 2006 financial statements, allocate the profit for the year and distribute the dividend, to appoint directors (after determining their number, term of office and remuneration) and chairman of the board of directors, to appoint statutory auditors and determine the remuneration of the standing statutory auditors and to extend the audit engagement of PricewaterhouseCoopers S.p.A. for the years from 2007 to 2012.

Other control bodies

INTERNAL CONTROL SYSTEM

Snam Rete Gas adopted an internal control system in line with the guidelines in the Code of Conduct for Listed Companies

and with the reference best practices several years ago. The system's scope is to (i) check the adequacy of the different internal processes for efficiency, effectiveness and cost effectiveness; (ii) ensure the reliability and correctness of the accounting entries and protect the company's assets; and (iii) to ensure compliance of the operating procedures with internal and external regulations and company guidelines in order to guarantee a healthy and efficient management system. The board of directors is responsible for the internal control system with the assistance of the internal control committee. It sets the guidelines and periodically checks its adequacy and proper working to ensure that the key business risks are identified and properly managed. The CEO checks that the guidelines drawn up by the board of directors are implemented by designing, managing and monitoring the internal control system. The person in charge of internal controls (the internal audit manager) reports to the chairman in order to ensure his/her independence from the operating activities s/he monitors. S/he reports regularly to the chairman and CEO as well as to the internal control committee and board of statutory auditors at least once every six months (unless circumstances require additional meetings). Management has primary responsibility for applying the control system as the control procedures form an integral part of its management duties. Therefore, the managers must ensure that the environment favours such a control based system and must perform the "line controls", ie the controls performed by an individual operating unit or group company over its processes. The Internal Audit Manager is also in charge of checking the adequacy of the internal control system and that it can reasonably guarantee that the company can attain its objectives economically and efficiently. Accordingly, s/he monitors the controls in place and makes recommendations and suggestions about remedial action to be taken to resolve weaknesses.

ORGANISATION AND CONTROL MODEL IN ACCORDANCE WITH LEGISLATIVE DECREE NO. 231/01 – ADMINISTRATIVE LIABILITY

Legislative decree no. 231 of 8 June 2001 introduced the concept of administrative liability for companies whereby they can be held liable, and therefore penalised, for certain offences committed or attempted in the interests of or to the advantage of the company by its directors or employees. The company's liability is excluded if it has adopted and properly implemented organisation, management and control models before the offences were committed that are suitable to prevent such offences and has set up a supervisory body to oversee the models' working and compliance with the requirements of the Decree.

The board of directors approved the Organisation, management and control model pursuant to the aforesaid Legislative decree in its meeting of 23 April 2004 and appointed a supervisory body.



Guided by the supervisory body, the company continued the activities provided for by the Model in 2007 focusing on fine-tuning internal procedures, personnel training and the carrying out of specific control programs. It also commenced the procedures required to update the Model to reflect changes in the relevant regulations. The revised Model was approved on 22 February 2008.

The subsidiary GNL Italia approved its Organisation, management and control model on 22 June 2004 and set up its supervisory body. It approved the revised Model, similar to that of Snam Rete Gas, on 7 March 2008. The subsidiary regularly carries out the activities required to implement the Model, especially the control procedures.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Business law and corporate governance models have undergone considerably change in the last few years due to the recent financial scandals. The reasons underlying such events were nearly always related to serious weaknesses in the companies' internal control systems.

The United States commenced a large scale reform of its financial markets with introduction of the Sarbanes-Oxley Act (SOA) in 2002. Italy took similar steps, as did other European countries, and approved Law no. 262 of 28 December 2005 (the "Savings" law) and Legislative decree no. 195 of 6 November 2007 "Implementation of EU Directive 2004/109/EC about the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market".

During 2005 and early 2006, Snam Rete Gas introduced the procedures to align its internal control system with the requirements of the Sarbanes-Oxley Act. This was necessary as it is controlled by Eni S.p.A. which is subject, with its subsidiaries, to SOA, given that it is listed on the New York stock exchange

(NYSE). The company rolled out the controls and related activities in 2006.

In 2007, the internal control system was adjusted to reflect the new regulations introduced by Italian legislation about company disclosures. Specifically:

- internal controls over financial reporting became mandatory, including interim reports;
- a manager in charge of financial reporting was appointed, as required for listed companies.

The law also required the board of directors to supervise the adequacy of the powers and means available to the manager in charge of financial reporting and the effective compliance of the “administrative and accounting procedures”.

On 13 March 2008, the Board of Directors wards the review of the Internal Control Committee verified the adequacy of the Internal Control System and the effective compliance of the “Administrative and accounting procedures”.

MANAGER IN CHARGE OF FINANCIAL REPORTING

The bylaws establish that the board of directors appoints a manager to prepare the company’s financial reporting from among the managers with the required professional characteristics. The board is advised by the oldest CEO and the chairman, after obtaining approval from the board of statutory auditors.

This manager is selected from among managers who have performed the following for at least three years:

- i) administration or control duties or management with a company listed on Italian or other EU member regulated stock exchanges or stock exchanges of other OECD countries that have a share capital of not less than € 2 million; or
- ii) legally required audits for the companies set out in point a); or
- iii) professional duties or university lecturing on financial or accountancy subjects; or
- iv) management duties with state-owned or private bodies active in the financial, accounting or supervisory sectors.

The board of directors checks that the manager in charge of financial reporting has adequate powers and means to perform his/her duties and to ensure that the administrative and accounting procedures are effectively complied with.

In its meeting of 29 October 2007 and in compliance with the professional requirements set by the bylaws, the board of directors appointed Mr. Antonio Paccioretti, the Administration, Finance and Control Director, as Manager in charge of financial reporting as proposed by the CEO, seconded by the chairman and approved by the board of statutory auditors. The board of directors also checked the adequacy of the powers and proxies given to the manager in order that he can carry out his duties.

The manager in charge of financial reporting informed the Board of Statutory Auditors about the adequacy of Internal Control System over financial reporting and the effective compliance of the “administrative and accounting procedures”.

MARKET ABUSE PROCEDURE

Procedure for the identification of relevant persons and communication of transactions performed by them, also via nominees, involving shares issued by Snam Rete Gas S.p.A. or other related financial instruments (“Internal Dealing Procedure”).

On 17 March 2006, the board of directors approved the “Procedure for the identification of relevant persons and communication of transactions performed by them, also via nominees, involving shares issued by Snam Rete Gas or other related financial instruments” (“Internal Dealing Procedure”) in accordance with paragraph 7, article 114 of Legislative decree no. 58 of 24 February 1998 and Consob regulation no. 11971 of 14 May 1999 (the Issuer Regulation). This procedure is in place since 1 April 2006 and is tied to the “Procedure for the communication of privileged information and documents about Snam Rete Gas S.p.A. and financial instruments issued by it to the market” and the Procedure for the “Keeping and updating of the list of persons who have access to privileged information in Snam Rete Gas S.p.A.”. It sets out the regulations governing the information obligation and limitations about transactions involving shares issued by Snam Rete Gas S.p.A. and other related financial instruments, performed on their own behalf, by relevant persons, ie, the chairman, CEO, directors, chairman of the board of statutory auditors and standing statutory auditors of Snam Rete Gas S.p.A., the operations general manager and directors who participate in management body meetings.

According to current legislative requirements, the definition of Relevant Persons includes persons who hold shares equal to at least 10% of the share capital and all other parties that control the listed issuer. These persons are obliged to communicate transactions performed by: spouses, unless legally separated, children, also those of the spouse for whom they provide, and, if living with them for more than a year, parents, relatives and relatives-in-law of the relevant persons (people with close family ties to the relevant person); companies controlled directly or indirectly by the relevant person or one of the persons closely related to him/her; partnerships, the economic interests of which are substantially the same as those of the relevant person or a person closely related to him/her; and trusts set up for the benefit of a relevant person or a person closely related to him/her.

The Procedure requires that communication be made to the market and Consob within five trading days from that on which in each calendar year, the total amount of the transactions that, in absolute terms (sum of amounts paid and collected), is equal to or exceeds € 5,000. The Code also forbids relevant persons from performing transactions on financial instruments issued by Snam Rete Gas S.p.A. during the 15 days before board meetings held to examine the mandatory financial reports, to resolve on interim dividends, the preliminary figures and to resolve on the dividend proposal to be made to the shareholders. The transactions include the sale of treasury shares

acquired as part of stock option and stock grant plans when calculating the total amount. The Procedure is available on the company's internet site (www.snamretegas.it).

Procedure for the "Keeping and updating of the list of persons who have access to privileged information in Snam Rete Gas"

The board of directors drew up a list of the persons who have access to privileged information in Snam Rete Gas S.p.A. in its meeting of 17 March 2006 as required by article 115-bis of Legislative decree no. 58 of 24 February 1998 and Consob regulation no. 11971 (Issuer Regulation). It also approved the procedure for the "Keeping and updating of the list of persons who have access to privileged information in Snam Rete Gas S.p.A.". This procedure is in place since 1 April 2006 and is tied to that related to the "Procedure for the communication of privileged information and documents about Snam Rete Gas S.p.A. and financial instruments issued by it to the market" and the "Procedure for the identification of relevant persons and communication of transactions performed by them, also via nominees, involving the shares issued by Snam Rete Gas S.p.A. or other related financial instruments" ("Internal Dealing Procedure").

The list is split into two sections:

- the first gives the name of the person or company that, based on their work, professional activities or duties, have access to privileged information on a regular basis (Section A) identified as follows: chairman, CEO, Directors, chairman of the board of statutory auditors and standing statutory auditors of Snam Rete Gas S.p.A., Operations General Manager and units reporting directly to the chairman, CEO and Operations General Manager, the independent auditors of Snam Rete Gas S.p.A. and consultants that provide their professional services on a consultancy or contract basis with a contract of more than one year and have access to privileged information;
- the second gives the name of the person or company that, based on their work, professional activities or duties, have access to information occasionally (Section B) identified as follows: Snam Rete Gas S.p.A. employees that, depending on their duties, have occasional access to information and consultants that provide their services on a consultancy or contract basis with a contract of less than one year and have access to information.

The persons are grouped into two sub sections in each section depending on whether they are employees or consultants.

There is just one list and it is kept by the Human Resources and Organisation Unit which sets the criteria and methods to be applied to keep, manage and look for information in the list in order to facilitate access to, management, consulting, extrapolation and printing of the list. The head of personnel and organisation appoints a person to be in charge of keeping and updating the list. This person keeps the list updated, making amendments on the day the related communication is received as per the internal regulations about the protection of personal data.

The list includes the following information about each person: a registration number, registration date, personal data, company to which they belong, reason for inclusion in the list, date of sending communication to the persons about their inclusion, date of amendment of information already included, date of sending communication of amendment, date on which the person is removed from the list, reason for the removal and date of communication of such removal. This information is kept for five years unless the circumstances which lead to its inclusion/amendment in the list are no longer valid/applicable. The Procedure is available on the company's internet site (www.snamretegas.it).

Relationships with shareholders and investors

Snam Rete Gas has adopted a communication policy aimed at ensuring ongoing interaction with its institutional investors, shareholders and the market and the widespread circulation of exhaustive, timely information about its business. The only limit is that of the confidentiality of certain information. Accordingly, information disclosed to the investors, the market and media is made available in press releases, periodic meetings with the institutional investors, the financial community and the press as well as a wealth of documentation available on the company's internet site (www.snamretegas.it). Such information includes the reports, key events/transactions and procedures issued by the company about corporate governance and is made available to the public on a timely basis, also on the internet site. The company's press releases, documentation used during meetings with financial analysts, notices to the shareholders and information and documentation about the matters on the agenda of shareholders' meetings, including the related minutes, are available on the internet site. Documentation is also sent free of charge to those who request it. The External Relations and Communications Unit interacts with the media and information of interest to it is available on the internet site or can be requested using the form available on the site. Relationships with the institutional investors and financial analysts are kept by the Investor relations Unit. Information of interest to them is again available on the internet site and can be requested by emailing investor.relations@snamretegas.it. The company secretary maintains relationships with the shareholders. They can consult the internet site or request information by emailing segreteria.societaria@snamretegas.it.

Relationships with related parties

Transactions undertaken by Snam Rete Gas with related parties, as defined by IAS 24, mainly involve the exchange of assets, provision of services and provision and utilisation of financial resources with Eni S.p.A. (the parent) and other subsidiaries and associates of Eni S.p.A. as well as with Enel, a state-owned

company, and its subsidiaries. All these transactions are part of its ordinary business activities, usually take place at market conditions, ie, those conditions that would be applied between two independent parties, and are performed in the interests of Snam Rete Gas and its wholly-owned subsidiary GNL Italia. The amounts involved in commercial, financial and other transactions with related parties and a description of the nature of the key transactions are given in the notes to the consolidated financial statements. The board of directors approved the "Code of Conduct for transactions with related parties" in its meeting of 24 February 2003 (posted on the company's internet site). This sets out the criteria to be adhered to when undertaking transactions with related parties as well as the terms and conditions to be used to communicate information about them to the board of directors.

Consob resolution no. 14990 of 14 April 2005, which modified the Issuer Regulation introduced with resolution no. 11971/99 and subsequent amendments, eliminated Consob communication no. 2064231 of 30 September 2002 which identified "related parties" and established what the term meant: parties defined as such by the international financial reporting standard dealing with related party disclosures, adopted as per article 6 of EU regulation no. 1606/2002 (IAS 24 Related party disclosures). Paragraph 9 of IAS 24 (letter d) states that related parties (managers with key responsibilities, identified from those who have the power and responsibility, directly or indirectly, for the planning, management and control of the entity's activities including the directors) are the directors, operations general manager and directors that participate in management board meetings. The board of directors reviews transactions between the company and related parties if:

- they are atypical and/or unusual and the amount involved exceeds € 5 million;
- they relate to acquisitions, disposals, sales or contributions

of investments, companies or business units;

- they relate to property worth more than € 2.5 million;
- the related party is one of those listed in letters d), e) and f) of paragraph 9 of IAS 24 and the amount in question exceeds € 0.5 million (€ 0.25 million if the transaction is atypical or unusual).

The board of directors also reviews its subsidiary's transactions with parties related to Snam Rete Gas that could potentially be particularly significant and for which information is to be disclosed to the market in line with Consob requirements. IFRS also require that transactions performed by the company and its subsidiaries with Eni and its subsidiaries be communicated to the boards of directors and statutory auditors each quarter. They also fix the quantitative threshold depending on the nature of the transaction and related party and the information to be communicated. The directors, general managers and managers holding key positions communicate any transactions carried out with Snam Rete Gas S.p.A. and its subsidiary every quarter, also via nominees or related parties pursuant to IAS 24. IFRS are available on the company's internet site (www.snamretegas.it). A new procedure for transactions with related parties and interests of directors will be adopted once Consob, pursuant to article 2391-bis of the Italian Civil Code, has issued the relevant criteria.

Changes to the corporate governance structure after year end

No significant changes have taken place since year end.

The tables mentioned in the "Guide to writing the corporate governance" report issued in March 2004 by Assonime and Emittenti Titoli S.p.A. are given on the following pages.

Annex 1 - Board of directors and committees of Snam Rete Gas

Bord of directors

Position	Bord of directors		Independent	****	No. of other positions **	Internal control committee	Remuneration committee	Possible appointment committee	Possible steering committee
	Executive	Non-executive							
Chairman				****		***	****	****	****
Alberto Meomartini	x								
CEO									
Carlo Malacarne	x			100					
Directors									
Giuseppe Airoldi (*)	x	x	x	100	100	x	100		
Roberto Lonzar (*)	x	x	x	100	6	x	100		
Roberto Lugano (*)	x	x	x	70	86	x	67		Inexistent
Marco Mangiagalli (1)	x			100					
Massimo Mantovani	x			70					
Salvatore Sardo (1)	x			67			67		
Davide Croff (2)	x	x	x	86	1		x	100	
Massimo Mondazzi (2)	x			100			x	100	
Renato Santini (2)	x	x	x	100	3	x	80		
Number of meetings held in 2007				10		7		6	

Quorum required to present lists for the appointment of a board of directors: 2% of share capital. (3)

An appointment committee, provided for by the Code of Conduct, was not set up as the shareholders appoint the directors during their meetings using lists presented by them which provide for the preliminary selection of candidates.

* An asterisk indicates whether the director has been appointed by way of a list presented by minority shareholders.

** This column shows the number of positions held as directors or statutory auditor held in other companies listed on Italian or foreign regulated markets or in foreign companies, banks, insurance companies or companies with equity of more than € 1 billion.

*** With respect to the directors currently in office, their duties were assigned by the board meeting of 12 February 2008.

**** An "X" in these columns shows the committees to which the each director belongs.

***** These columns show the attendance % of each director at the board and committee meetings.

(1) In office as director until 26 April 2007, accordingly, calculation of his attendance was based on three board meetings.

(2) In office as director from 26 April 2007, accordingly, calculation of his attendance was based on seven board meetings.

(3) Article 16 of the bylaws establishes that shareholders may individually or in a grouping with other shareholders, making up at least 2% of the shares with voting rights at ordinary meetings (or another percentage set or allowed by the relevant laws and regulations), present lists. On 29 January 2008, Consob issued resolution no. 16319/08 which set such percentage to be 1%.

Annex 2 - Board of statutory auditors of Snam Rete Gas

Position	% of attendance at board of directors meetings	% of attendance at board of statutory auditors' meetings	No. of other positions**
Chairman			
Pierumberto Spanò (1)	100	100	1
Standing statutory auditors			
Roberto Mazzei	100	86	
Riccardo Perotta	100	100	3
Sergio Galiberti (***)	67	50	
Number of meetings held in 2007: 11			
Quorum required to present lists for the appointment of a board of statutory auditors: 2% of share capital (****)			

* An asterisk indicates whether the statutory auditor has been appointed by way of a list presented by minority shareholders.

** This column shows the number of positions held as director or statutory auditor in other companies listed on Italian regulated market.

*** In office until 26 April 2007. Accordingly, calculation of his attendance was based on four meetings.

**** Article 22 of the bylaws establishes that shareholders may individually or in a grouping with other shareholders, making up at least 2% of the shares with voting rights at ordinary meetings (or another percentage set or allowed by the relevant laws and regulations), present lists. On 29 January 2008, Consob issued resolution no. 16319/08 which set such percentage to be 1%.

Annex 3 - Other guidelines of the Code of Conduct

	YES	NO	Summary of reasons for non-compliance with Code guidelines
Proxy system and related party transactions			
Has the board of directors assigned proxies defining the:			
a) limits	X		
b) operating method, and	X		
c) frequency of the information?	X		
Does the board of directors have the power to review and approve transactions of key economic and financial importance (including transactions with related parties)?	X		
Has the board of directors defined guidelines and criteria to identify significant transactions?	X		
Are the above guidelines and criteria described in the report?	X		
Has the board of directors created specific procedures for the review and approval of related party transactions?	X		
Are the procedures for approval of related party transactions described in the report?	X		
Procedures for the most recent appointments of directors and statutory auditors			
Were the lists for the appointment of directors presented at least ten days in advance?	X		
Was complete information given with the candidate lists?	X		
Were the candidate lists provided with statements of independence of the candidates?	X		
Were the lists for the appointment of statutory auditors presented at least ten days in advance?	X		
Was complete information given with the candidate lists?	X		
Shareholders' meetings			
Has the company approved a regulation?	X		
Is the regulation attached to the report (or are there indications about where it can be obtained/downloaded)?	X		
Internal controls			
Has the company appointed an internal control manager?	X		
Is the manager independent in hierarchical terms from the operating managers?	X		
Business unit in charge of internal control	Internal Audit Unit		
Investor Relations			
Does the company have an Investor Relations Head?	X		
Business unit and references	<p>Institutional investors: Investor Relations Piazza Santa Barbara, 7 - 20097 San Donato Mil.se (MI) tel. 02/52038272 - e-mail: investor.relations@snamretegas.it</p> <p>Individual investors: Segreteria Societaria Piazza Santa Barbara, 7 - 20097 San Donato Mil.se (MI) tel. 02/52038235 - e-mail: segreteria.societaria@snamretegas.it</p>		