

## Corporate governance report



### 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.

As required by the ruling guidelines, 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 organisational structure, internal controls 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 on the basis of a documented proposal made 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 2008)

### SHARE CAPITAL

At 31 December 2008, the company's share capital is as follows:

Share category	No. of shares	Percentage of share capital	Stock exchange	Rights and obligations
Ordinary shares	1,956,445,600	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.

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 consolidated 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](http://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, immediately 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 article 2359.1/2 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 than 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 if the shareholder does 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 article 2.1/1-bis 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 2008 are:

Shareholder	% of share capital	
	31.12.2007	31.12.2008
Eni S.p.A.	50.03	50.03
Snam Rete Gas S.p.A. (*)	9.99	9.99
Pictet Asset Management	4.05	4.98
Banca d'Italia	2.25	

(\*) The company holds 195,429,850 treasury shares at 31 December 2008 (195,468,950 shares at 31 December 2007).

#### 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 the share capital
Italy (*)	74.46
Continental Europe	11.28
UK and Ireland	9.33
USA and Canada	4.17
Rest of the world	0.77
	<b>100</b>

(\*) 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 make facilities 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 section on the appointment, composition and length of term of office of the board of directors 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 give information on changes to the bylaws.

#### PROXIES TO INCREASE 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.

In its meeting of 12 February 2009, the board of directors resolved to call an extraordinary meeting of the shareholders for 17 March and 18 March 2009, on first and second call, respectively.

In accordance with article 2443 of the Italian Civil Code, the shareholders will be asked to give the board of directors the powers to increase, before 31 December 2010 and in one or more instalments, the company's share capital against payment up to a maximum, including any share premium, of € 3.5 billion. This will take place through the issue of ordinary shares with a nominal value of € 1 (one) each and regular rights to dividends, to be offered, pursuant to article 2441.1 of the Italian Civil Code to those shareholders that opt to buy them. The board of directors will have the widest powers to set the methods, terms and conditions of the transaction, including the share subscription price, the share premium, number of newly issued shares and the related option ratio. 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 ultimate parent Eni are as follows:

- a) Agreements whereby contracts are automatically terminated, especially short-term credit facilities with Eni (these amounted to approximately € 1,023 million at 31 December 2008, 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 € 5,200 million at year end);
  - Interest rate swaps with a nominal amount of € 2,800 million at 31 December 2008;
- c) guarantees issued on behalf of Snam Rete Gas by Eni S.p.A. or by banks using Eni credit facilities as security: these approximated € 32 million at year end.

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 TAKEOVER 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..

## Statement by the board of directors about the existence of the conditions set out in article 37 of Consob resolution no. 16191/07

Article 37.1 of Consob resolution no. 16191/07 (Regulation on markets) 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 their interests, with the company that manages them or with another group company. The board of directors certifies with an analytically justified 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 numerical adequacy 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".*

Article 2.6.2.13 of the Rules of the markets organised and managed by Borsa Italiana S.p.A. expressly states that: *"Companies shall provide the market with a statement by the board of directors about the existence (or inexistence) of the conditions as per article 37 of Consob resolution no. 16191/07 in the directors' report when their annual financial statements are being approved".*

On 12 February 2009 and like in the previous year, the directors confirmed that the company met the requirements set out in article 37.1 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 it: a) has complied with the disclosure requirements set by article 2497-bis of the Italian Civil Code; b) negotiates terms with its customers and suppliers independently; c) has a centralised treasury arrangement with its ultimate 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 article 148.3 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 are met by the centralised treasury arrangement with Eni S.p.A. as all the treasury transactions and 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

In its meeting of 1 December 2001, the board of directors adopted Eni's Code of Conduct believing it important to adopt the values that the company recognises, accepts and shares and the obligations with its stakeholders. A Code of Conduct watchbody and committee were also set up to ensure implementation of the Code.

The board of directors approved the new Code of Ethics on 27 June 2008 which incorporates the more recent guidelines about ethics and sustainability. It also appointed the supervisory body as the watchbody.

The Code provides 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 code of conduct committee met three times from 1 January to 27 June 2008 with the participation of all the members. After 27 June, the supervisory body met six times with full attendance. As well as examining reports of alleged violations of the Code, it assessed and implemented new measures to ensure maximum circulation and awareness of the new Code of Ethics, both within and outside the company.

The committee reports every six months to the board of directors on the status of its Code of Ethics.

## 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 strategic, business and financial 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 consolidated interim reports required by 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 duties and approving their regulations;

- g) receives information 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 (from the financial statements and interim reports compared to the budget);
- i) assigns and revokes proxies to/from the chairman and CEO, setting their limits and application and establishing their remuneration for the proxies after consulting the relevant committee and board of statutory auditors. It may give instructions to the relevant bodies and suggest transactions covered by the proxies. 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 slots 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 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, giving him adequate powers and instruments;
- m) appoints and dismisses the internal control head after consulting the CEO and audit committee, setting his 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 examining the proposals made by the audit committee, sets the guidelines for the internal controls, 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 controls, supervised by the CEO;
- 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 draft resolutions to be submitted to the shareholders in their meetings;
- t) reviews and decides upon other issues that the directors with proxies 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 branch offices;
- the reduction in the share capital when a shareholder withdraws therefrom;
- the compliance of the bylaws with regulations;
- the transfer of the registered offices within Italy.

In its meeting of 11 March 2009, 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.

During 2009, the board of directors will again evaluate the size, composition and working of the board itself and its committees in accordance with the provisions of the Code of Conduct. It will avail of the services of Egon Zehnder, an external specialist. Its findings will be presented in the next update of this report.

#### 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-appointed. 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. On 27 January 2009, Consob issued resolution no. 16779 which set this percentage as 1%. 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 background, 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 the deadline set by the ruling legislation at the company's registered offices, Borsa Italiana S.p.A. and are posted on the company's website ([www.snamretegas.it](http://www.snamretegas.it)). The list proce-



ture 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 re-appoint 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 consecutively 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 are assigned to the candidates of each of these lists, using the established sequence. The scores thus assigned to the candidates of the different lists are included in a single list showing the scores obtained in decreasing order. Those persons with the highest scores are 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 independence 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 them. 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 presented 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 Airoldi, 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. In their meeting of 8 May 2007, the directors give him suitable proxies. They also reconfirmed Carlo Malacarne as CEO giving him the related powers and proxies for the management of the company except for those that by law cannot be delegated and those reserved for the board. The board also appointed Francesco Iovane as Operations General Manager giving him the related operating proxies on 8 May 2006. Pursuant to article 23 of the bylaws, the chairman and CEO 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' curricu-

la vitae are available on the company's website. Except for the chairman and CEO, all the directors are non-executive, and some are independent as well, 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 2009, the board of directors noted that no reasons for non-compatibility and ineligibility existed for the directors and that they and the general manager 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 Airoldi, Davide Croff, Roberto Lonzar, Roberto Lugano and Renato Santini meet 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 directors when verifying the independence requirements. These directors are considered to be independent, pursuant to article 3 of the Code of Conduct, given that:

- 1) 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 did they hold in the previous 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 (eg, via a subsidiary in which they hold a key position or as partners of a professional firm or consultancy firm), they do not have, and did not have 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 were not 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 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 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 article 148.3 of the same decree. The independent directors will assess when or whether to call meetings of independent directors alone.

The board of directors resolved the following about the accumulation of duties: a) an executive director shall 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 shall not hold the following posi-

tions in addition to their 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 (or member of another control body) 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.
	Chairman of board of statutory auditors	Genertel S.p.A. Simgenia SIM S.p.A.
	Director	Banca Sara S.p.A. Finanziaria Internazionale Alternative Investment SGR S.p.A.
	Supervisory director	Generali Investment S.p.A.
	Chairman of BoD	Quarzo CL S.r.l.
Roberto Lugano	Director	Aeffe S.p.A.
Renato Santini	Director	PBF S.r.l.
	Standing statutory auditor	Marazzi Group S.p.A.
	Standing statutory auditor	Perennius Capital Partners SGR

The board of directors verified that the number of positions as director or statutory auditor held by the directors 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 2009. It 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 eight times during 2008. An average 88.9% of the directors attended with the participation of an average approximate 85.6% 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, who no longer has an employment relationship with the company, consists of a fixed portion and a variable component tied to attainment of company objectives. The remuneration of the CEO, general manager and other key managers<sup>32</sup> 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 proxies while that of the general manager and other key managers 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 (upgrades/greater responsibilities).

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 2008 was calculated using the company's 2007 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 116% 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 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, applied in the three years from 2006 to 2008, consists of a deferred cash 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 2006. The plan's objective is to balance the cash 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 cash incentive assigned in 2008 may be paid three years later depending on attainment of the annual EBITDA (actual vs. budget on a constant basis) objectives defined for the three years (2008 to 2010). The stock options assigned in 2008 may be exercised three years later depending on the average Total Shareholders' Return - (TSR)<sup>33</sup> positioning of the Snam Rete Gas share compared to that of the other six main European utilities companies listed on regulated markets, calculated on an annual basis in the three years from 2008 to 2010. 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 2008 remuneration is shown in the following table considering the fixed and variable parts received and long-term incentive assigned.

	Chairman (*)	CEO	General manager	Other key managers
Fixed part	100%	43%	51%	55%
Variable part (tied to results)	0%	24%	20%	20%
Long-term incentives (tied to results)**	0%	33%	29%	25%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

(\*) The chairman has had a consultancy contract with the company since 1 January 2008 under which he receives a fixed fee and a variable component tied to attainment of company objectives.

(\*\*) Measurement of the present value of the deferred cash 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 key managers; (ii) the involvement of the directors, general manager and key managers 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 key managers.

The disclosures in points (i) and (ii) are also given in the notes to the separate financial statements of Snam Rete Gas S.p.A..

<sup>(32)</sup> Managers who make up the company's management board with the CEO and general manager.

<sup>(33)</sup> 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 coupon date.

## Corporate, operating and organisational separation (unbundling) for gas transportation and dispatching operators part of groups of undertakings

Directive 2003/55/EC of 26 June 2003 revised the rules for accounting unbundling and transparency and imposed the corporate, operating and organisational unbundling of gas transportation, storage, LNG and distribution operators which are part of groups of undertakings.

The Electricity and Gas Authority introduced specific operating unbundling obligations in Italy with its Unified Document attached to resolution no. 11/07 of 18 January 2007 and subsequent amendments, in order to enact the European directive's guidelines.

The operating unbundling as set out in the Unified Document entailed the allocation of independent decision-making and organisation powers to each of the natural gas transportation, dispatching, regasification, stocking and distribution businesses, separating them from the other gas businesses. Accordingly, the unbundled activities are managed by an "Independent operator", a function set up within the company which performs these activities (the "Unbundled company").

The members of the Independent operator function (ie, all the Unbundled company's directors) were to be independent from the interests of the company part of a group of undertakings (ie, employees of the Unbundled company or independent third parties).

Resolution no. 253/07 of 4 October 2007 introduced article 11.5 of the Unified Document whereby it was possible for not all the directors of the Unbundled company to be part of the Independent operator, as long as:

- the Unbundled company's bylaws state that its business object will include the encouragement of competition, efficiency and adequate service quality levels;
- the directors of the Unbundled company, who do not meet the independence requirements set out by the Authority in its resolutions, do not have operational or decision-making powers for sales transactions;
- a specific organisational structure (CEO or executive committee) exists as part of the Unbundled company's Independent operator, which expresses binding opinions for all the board of directors' decisions about management and organisational aspects of the unbundled operating business and approval of the development plan.

On 27 June 2008, after receiving a formal communication from the ultimate parent Eni S.p.A., the company's board of directors resolved to create an Independent operator function as per article 11 of the Unified Document attached to

the Electricity and Gas Authority's resolution no. 11/07 with the favourable opinion of the board of statutory auditors and as required by article 2497-ter of the Italian Civil Code. This is a monocratic position held by the CEO with an organisational structure as set out in article 11.5.c) of the above Unified Document.

This resolution was based on the evaluation that it would not substantially change the company's corporate governance structure, considering also its position as an Issuer and, therefore, the many interests that this status gives it and legislation with which it has to comply.

In their extraordinary meeting held on 31 July 2008, the shareholders approved the following changes to the company's bylaws in order to comply with resolutions no. 11/07 and no. 253/07 of the Electricity and Gas Authority and set up an Independent operator within the company:

- article 2 - inclusion in its business object of the encouragement of competition, efficiency and adequate quality levels when providing services as required by article 2.2.1 of resolution no. 11/07;
- article 19 - that the board of directors may set up committees, pursuant to article 2381 of the Italian Civil Code, setting the number of the members and powers; also in order to propose bylaws clauses that allow for possible different future evaluations about the Independent operator's activities and structure.

The Authority published resolution no. ARG/COM/132/08 on 26 September 2008. This contained "Guidelines for the preparation of a compliance programme as per Annex A of resolution no. 11/07 about unbundling" (the "Guidelines"). The Independent Operator thus has to plan and update its relevant programme for the attainment of effective operating unbundling in accordance with the timing and implementation limits set, varying from six months to a year from the date of publication of its schedule, depending on the adjustments required to ensure compliance.

## Treatment of company information

### INFORMATION PROVIDED BY 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 financial reporting, which sets out the standards for correctly informing the market, and in the Code of Conduct for Listed Companies.

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:

- communications 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 ultimate parent and subsidiary;
- meetings with market operators, interviews and statements made to mass media;
- procedures for distributing press releases;
- procedures for 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 website ([www.snamretegas.it](http://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, and has approved the related regulations. Snam Rete Gas has not set up an appointment committee, as required by the Code of Conduct for Listed Companies, given that 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 requirements set by the law and bylaws.

#### REMUNERATION COMMITTEE

This committee has three non-executive directors, Giuseppe Airoldi, Davide Croff and Massimo Mondazzi, the first two of whom are independent, as its members. Mr. Airoldi is its 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 is validly called when at least two of its standing members are present and it takes decisions by majority vote of the participants. The Director of Human Resources and Organisation acts as secretary and writes up the meeting minutes.

The committee reports to the board of directors on its activities at least every six months, during presentation of the annual and half year financial statements. It met four times in 2008 (on 12 February, 13 March, 25 June and 29 July) with an average attendance of its members of roughly 85%. It discussed issues related to: (i) extension to the chairman of the protection provided by article 15 of the national labour contract for managers of companies that produce goods and services, including when liability is evoked for tax damage; (ii) achievement of the 2007 company objectives; (iii) the TSR for 2007 and average TSR positioning for the stock grant plan for the three year plan (2005-2007); (iv) the TSR for 2007 for the 2006-2008 stock option plan; (v) the proposed annual cash incentive, tied to the 2007 results, for the CEO; (vi) definition of the 2008 objectives: performance plan and EBITDA index; (vii) definition of the guidelines and remuneration of the non-senior management for bonuses tied to roles and responsibilities; (viii) revision of the benchmark basket for the 2006-2008 stock option plan; (ix) long-term management incentives for the 2006-2008 plan - 2008 roll out: a deferred cash incentive plan and a stock option plan tied to company performance indicators; and (x) proposed change to the CEO's fixed remuneration considering his roles and responsibilities, and implementation of the long-term incentive (stock option plan and deferred incentive).

#### AUDIT COMMITTEE

The committee members are exclusively non-executive independent directors: Roberto Lugano (chairman),



Roberto Lonzar and Renato Santini. 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 internal audit manager as internal control manager and set his remuneration in line with company policies.

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 internal control 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 set out in their audit reports 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 controls.

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 standing 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 by the committee. The audit committee met eight times in 2008 (18 February, 29 February, 22 April, 27 June, 29 July, 24 September, 29 October and 11 December) with 100% attendance. 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 2008 work programme; (ii) examined the audit reports and findings of the quarterly follow-ups of audit issues; (iii) examined the periodic report on its activities in 2008 and quarterly reports on (anonymous) communications received by Snam Rete Gas and its subsidiaries; (iv) analysed issues related to the separate and consolidated financial statements at 31 December 2007 with the CFO and the independent auditors; (v) analysed transactions undertaken with related parties; (vi) analysed the half year reports of the Manager appointed pursuant to Law no. 262/2005 on the adequacy of internal controls over financial reporting

and compliance of the administrative-accounting procedures. The committee examined the internal control manager's 2008 report in its meeting of 12 February 2009.

During its meetings of 29 July 2008 and 11 March 2009, the committee reported to the board of directors on its activities carried out in the first and second halves of 2008, respectively. As required by the Code of Conduct, the board of directors assessed the adequacy of the internal controls in its meeting of 11 March 2009 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 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 controls 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 article 114.2 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 CFO;
- examination of (anonymous) communications about accounting, internal control 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 27 January 2009, Consob issued resolution no. 16779 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 reappointed. 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 website ([www.snamretegas.it](http://www.snamretegas.it)) on a timely basis and within the time-frame set by the current legislation. 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 meet 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 nine times during 2008. On average, attendance was 89%. One member usually participated in the meetings of the audit committee. Based on the communications received, details of the positions as director or statutory auditor held by the statutory auditors in other companies listed on Italian regulated markets and the number of such positions are given below.

Statutory auditor	Position held in listed companies	Company	Total no. of positions held
Pierumberto Spanò	Chairman of the board of statutory auditors	Astaldi S.p.A.	17
Riccardo Perotta	Chairman of the board of statutory auditors	Gewiss S.p.A.	12
	Standing statutory auditor	Mediolanum S.p.A.	
Roberto Mazzei		-	13



## INDEPENDENT AUDITORS

As required by law, the company's financial statements are audited by independent auditors included in the register held by CONSOB. They are appointed by the shareholders on the basis of a documented proposal by 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, in accordance with article 11 of the bylaws as established by article 126-bis of the TUF, within at least five days of the notice, also jointly, making up at least one fortieth of the share capital, can request that additional matters be added to the agenda, specifying what matters in their request. 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 article 2364.5 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 share-

holder to express its opinion on the matters on the agenda. The regulation is available on the company's website [www.snamretegas.it](http://www.snamretegas.it).

The shareholders met twice in 2008, on 18 April and on 31 July in ordinary and extraordinary meetings, respectively.

In their ordinary meeting, they resolved to approve the 2007 financial statements, the allocation of the profit for the year, distribution of a dividend and the agreement of insurance policies to cover management risks for the directors and statutory auditors.

In their extraordinary meeting, following the resolutions taken by the board of directors and in order to comply with resolutions no. 11/07 and no. 253/07 of the Electricity and Gas Authority about the operating unbundling of the gas transportation business from the other gas businesses and to set up an Independent operator (the CEO), the shareholders approved the following amendments to the company's bylaws:

- (article 2) - inclusion in its business object of the encouragement of competition, efficiency and adequate quality levels when providing services as required by article 2.2.1 of resolution no. 11/07;
- (article 19) - that the board of directors may set up committees, pursuant to article 2381 of the Italian Civil Code, setting the number of the members and powers; also in order to propose bylaws clauses that allow for possible different future evaluations about the Independent operator's activities and structure.

The shareholders also approved the modification of article 10 of the bylaws setting out, pursuant to article 154-ter of Legislative decree no. 58/98, the deadline of 120 days from year end for the approval of the financial statements by the shareholders.

## Other control bodies

### INTERNAL CONTROL SYSTEM

Snam Rete Gas adopted a system of internal controls 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) 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 controls with the assistance of the audit 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 controls. As required by the Code of Conduct for Listed Companies, the board of directors appointed the CEO as the executive director in charge of supervising the working of the internal controls in its meeting of 11 December 2008. The internal audit manager reports to the chairman in order to ensure their independence from the operating activities they monitors. They report regularly to the chairman and CEO as well as to the audit committee and board of statutory auditors at least once every six months (unless circumstances require additional meetings). Management has primary responsibility for applying the internal controls as the control procedures form an integral part of its management duties. Therefore, the managers must ensure that the environment favours such controls and must perform the “line controls”, ie the controls performed by an individual operating unit or group company over its processes. The internal audit unit is in charge of checking the adequacy of the internal controls and that it can reasonably ensure that the company can attain its objectives cost effectively and efficiently. Accordingly, they monitor the controls in place and make 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

This decree introduced the concept of administrative liability for companies whereby they can be held liable, and therefore penalised, for certain crimes committed or attempted in the interests of or to the advantage of the company by senior management and those subject to their direction or supervision. The company's liability is excluded if it has adopted and properly implemented organisation, management and control models before the crimes were committed that are suitable to prevent such crimes and has set up a supervisory body to oversee the model's working and compliance with the requirements of the Decree.

The board of directors approved the organisation, management and control model pursuant to Legislative decree no. 231/2001 in its meeting of 23 April 2004 and appointed a supervisory body.

The model was revised on 22 February 2008 to reflect changes in the related legislation. On 29 July 2008, the board of directors modified the composition of the supervisory body to include an independent third party as its chairman. During 2008, the procedures envisaged by the model continued, led by the supervisory body, especially updating the company procedures, providing training to employees and carrying out specific control programmes. The procedures required to update the model to comply with additional



categories of crimes which extended the scope of Legislative decree no. 231/2001 were also commenced. The subsidiary GNL Italia approved its Organisation, management and control model on 22 June 2004 and set up a supervisory body. The revised model was approved on 7 March 2008, like for Snam Rete Gas. The subsidiary regularly performs the procedures for implementation of the model, concentrating on the control activities.

#### INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

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 “Regulations for the protection of savings and financial market regulations” and Legislative decree no. 195 of 6 November 2007 “Implementation of 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 controls with the requirements of the Sarbanes-Oxley Act. This was necessary as it is controlled by Eni S.p.A. which is subject 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 controls were adjusted to reflect the new regulations introduced by Italian legislation about



financial reporting which Snam Rete Gas is required to comply with as it is listed on the Italian stock exchange. These included, *inter alia*, internal controls over interim reports and the appointment of a manager in charge of financial reporting.

During 2008, the company continued to maintain and upgrade its control system.

On 11 March 2009, the board of directors assessed the adequacy and working of the internal controls and proper compliance of its “administrative and accounting procedures”. Similar assessments had been performed previously by the audit committee and the board of statutory auditors.

#### 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:

- a) 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
- b) legally-required audits for the companies set out in point a); or
- c) professional duties or university lecturing on financial or accountancy subjects; or
- d) 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 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 CFO, 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.

#### 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 article 114.7 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 board 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 them; partnerships, the economic interests of which are substantially the same as those of the relevant person or a person closely related to them; and trusts set up for the benefit of a relevant person or a person closely related to them.

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 exceed € 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 website ([www.snamretegas.it](http://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 Human Resources 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 website ([www.snamretegas.it](http://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 and regularly updated on the company’s website ([www.snamretegas.it](http://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 website. 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 website. Documentation is also sent free of charge to those who request it using the form available on the website. The External Relations and Communications Unit interacts with the media and information of interest to it is available on the internet 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 website and can be requested by emailing [investor.relations@snamretegas.it](mailto: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](mailto: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 ultimate parent) and other subsidiaries and associates of Eni S.p.A. as well as with Enel, a state-controlled 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 S.p.A. and its wholly-owned subsidiary GNL Italia S.p.A.. 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 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 website). 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. 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 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/or its subsidiary every quarter, also via nominees or related parties pursuant to IAS 24. These standards are available on the company's website ([www.snamretegas.it](http://www.snamretegas.it)). This procedure will be revised to comply with the general guidelines to be issued by Consob pursuant to article 2391-bis of the Italian Civil Code.

## 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**

Board of directors	Executive	Non-executive	Independent	****	No. of other positions <sup>(*)</sup>	Internal control committee	Remuneration committee	Possible appointment committee	Possible steering committee
Position				****		****	****	****	****
<b>Chairman</b>									
Alberto Meomartini	x								
<b>CEO</b>									
Carlo Malacarne	x								
<b>Directors</b>									
Giuseppe Airoidi <sup>(*)</sup>	x	x		88		x	100		
Roberto Lonzar <sup>(*)</sup>	x	x		100	7	x	100		
Roberto Lugano <sup>(*)</sup>	x	x		88	1	x	100		
Massimo Mantovani	x			75					
Davide Croff	x	x		75	1		x	75	
Massimo Mondazzi	x			75			x	75	
Renato Santini	x	x		100	3	x	100		
<b>Number of meetings held in 2008:</b>				<b>8</b>		<b>8</b>	<b>4</b>		

Quorum required to present lists for the appointment of a board of directors: 2% of share capital <sup>(1)</sup>

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.

<sup>(\*)</sup> An asterisk indicates whether the director has been appointed by way of a list presented by minority shareholders.

<sup>(\*\*)</sup> This column shows the number of positions held as director or statutory auditor in other companies listed on Italian or foreign regulated markets or in financial 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 2009.

<sup>(\*\*\*)</sup> An "x" in these columns shows the committees to which the each director belongs.

<sup>(1)</sup> 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 27 January 2009, Consob issued resolution no. 16779 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 <sup>(*)</sup>
<b>Chairman</b>			
Pierumberto Spanò <sup>(*)</sup>	100	100	1
Sindaci effettivi			
Roberto Mazzei	88	67	
Riccardo Perotta	100	100	2

**Number of meetings held in 2008: 9**

Quorum required to present lists for the appointment of a board of statutory auditors: 2% of share capital <sup>(1)</sup>

<sup>(\*)</sup> An asterisk indicates whether the statutory auditor has been appointed by way of a list presented by minority shareholders.

<sup>(\*\*)</sup> This column shows the number of positions held as director or statutory auditor in other companies listed on Italian regulated markets.

<sup>(1)</sup> 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 27 January 2009, Consob issued resolution no. 16779 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
<b>Proxy system and related party transactions</b>			
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		
<b>Procedures for the most recent appointments of directors and statutory auditors</b>			
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		
<b>Shareholders' meetings</b>			
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		
<b>Internal controls</b>			
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	Funzione "Internal Audit"		
<b>Investor relations</b>			
Does the company have an Investor Relations Head?	X		
Business unit and references	<p><b>Institutional investors: Investor Relations</b> Piazza Santa Barbara, 7 - 20097 San Donato Mil.se (MI) tel. 02/52038272 - e-mail: investor.relations@snamretegas.it</p> <p><b>Individual investors: Segreteria Societaria</b> Piazza Santa Barbara, 7 - 20097 San Donato Mil.se (MI) tel. 02/52038235 - e-mail: segreteria.societaria@snamretegas.it</p>		