

Trends in the segments of operation





Main factors of the pricing framework

The transportation, storage and distribution of natural gas and regasification of LNG are regulated by the Electricity and Gas Authority, in operation since 1997 and responsible for the regulation of the national electricity and natural gas markets. Among its functions are the calculation and updating of the tariffs, and the provision of rules for access to infrastructure and for the delivery of the relative services.

The tariff systems for the four business segments are based on shared principles and provide, in particular, that the revenues used to formulate tariffs are determined in such a way as to ensure that operators' costs are covered and that return on invested capital is fair. There are three categories of recognised cost:

- the cost of net invested capital for regulatory purposes (regulatory asset base, RAB) through application of a rate of return for the same;
- amortisation and depreciation, covering capital expenditure;
- operating costs.

For development investments aimed at upgrading infrastructure, the increase in rate of return varies according to the investment type.

The following are the primary tariff components for each of the regulated activities carried out by Snam, based on the regulatory framework in force as at 31 December 2012.



	TRANSPORTATION	REGASIFICATION	STORAGE	DISTRIBUTION
End of regulatory period	<ul style="list-style-type: none"> • 31 December 2013 	<ul style="list-style-type: none"> • 30 September 2012 <i>Transitional period:</i> 1 October 2012 - 31 December 2013 ^(a) 	<ul style="list-style-type: none"> • 31 December 2014 	<ul style="list-style-type: none"> • 31 December 2012 <i>Transitional period:</i> 1 January 2013 - 31 December 2013 ^(b)
Calculation of net invested capital recognised for regulatory purposes (RAB)	<ul style="list-style-type: none"> • Revalued historical cost 	<ul style="list-style-type: none"> • Revalued historical cost 	<ul style="list-style-type: none"> • Revalued historical cost • Deduction of restoration costs 	<ul style="list-style-type: none"> • Revalued historical cost • Parametric method for centralised assets
Return on net invested capital recognised for regulatory purposes (pre-tax WACC)	<ul style="list-style-type: none"> • 6.4% (transportation) • 6.9% (metering) 	<ul style="list-style-type: none"> • 7.6% <i>Transitional period:</i> • 8.2% 	<ul style="list-style-type: none"> • 6.7% 	<ul style="list-style-type: none"> • 7.6% (distribution) • 8% (metering) <i>Transitional period:</i> • 7.7% (distribution) • 8% (metering)
Incentives on new investments	<ul style="list-style-type: none"> • 1% over 5 years (on safety investments) • 2% over 7/10 years (on investments to develop capacity) • 3% over 10/15 years (on investments to develop entry capacity) 	<ul style="list-style-type: none"> • 2% over 8 years (on expansions of existing terminals by less than 30%) • 3% over 16 years (on expansions of existing terminals by more than 30%) 	<ul style="list-style-type: none"> • 4% over 8 years (on expansion of existing capacity) • 4% over 16 years (on the development of new storage fields) 	<ul style="list-style-type: none"> • 2% over 8 years (on replacement of pipelines or cast iron and renovations of odorisation systems)
Efficiency factor (X FACTOR)	<ul style="list-style-type: none"> • 2.1% on operating costs 	<ul style="list-style-type: none"> • 0.5% on operating costs 	<ul style="list-style-type: none"> • 0.6% on operating costs 	<ul style="list-style-type: none"> • 3.2% on distribution operating costs • 3.6% on metering operating costs
Gas demand	<ul style="list-style-type: none"> • 15% of revenues exposed to change in demand 	<ul style="list-style-type: none"> • 10% of revenues exposed to change in demand 	<ul style="list-style-type: none"> • No exposure to change in demand 	<ul style="list-style-type: none"> • No exposure to change in demand

(a) With Resolution 237/2012/R/gas, the Electricity and Gas Authority extended the criteria for determining regasification tariffs for the transition period 1 October 2012 - 31 December 2013.
(b) With Resolution 436/2012/R/gas, the Electricity and Gas Authority extended the criteria for determining distribution tariffs for the transition period 1 January 2013 - 31 December 2013.

The Snam logo, featuring a stylized globe with the word 'SNAM' inside, is positioned in the upper right quadrant of the page. A horizontal line extends from the right side of the globe logo across the page.

SNAM

Natural gas transportation



Introduction

On 1 January 2012, the transaction transferring the "Transportation, dispatching, remote control and metering of natural gas" business unit from Snam S.p.A. (formerly Snam Rete Gas S.p.A.) to Snam Rete Gas S.p.A. (formerly Snam Trasporto S.p.A.), a wholly owned company and transportation system operator on a continuing basis from 1 January 2012, came into effect.

The new ownership structure, which came into force on 1 January 2012, places Snam S.p.A. at the head of the Group, holding 100% of the share capital of the four operating companies (Snam Rete Gas S.p.A., GNL Italia S.p.A., Stogit S.p.A. and Italgas S.p.A.), which are responsible, respectively, for the management and development of natural gas transportation, regasification, storage and distribution activities. Snam S.p.A. is also responsible for strategic planning, management, coordination and control.

Since 1 January 2012, information about the parent company Snam S.p.A. has been reported in the corporate segment⁸. Until 31 December 2011, this information, not reported separately, was included within the "Natural gas transportation" segment, reflecting the activities hitherto carried out by the parent company.

⁸ In accordance with IFRS 8 "Operating segments", the corporate segment does not represent an operating segment. Therefore, the operating segments subject to separate reporting are the same as in 2011 (natural gas transportation, regasification, storage and distribution).

RETE GAS

KEY PERFORMANCE INDICATORS

(€ million)	2010	2011	2012	Change	% change
Core business revenue (*) (**)	1,929	1,945	1,916	(29)	(1.5)
- of which natural gas transportation revenue	1,873	1,867	1,902	35	1.9
Operating costs (*) (**)	343	387	478	91	23.5
EBIT	1,185	1,137	1,135	(2)	(0.2)
Investments	902	892	700	(192)	(21.5)
- of which with incentives	763	709	557	(152)	(21.4)
- of which without incentives	139	183	143	(40)	(21.9)
Net invested capital at 31 December	10,404	10,686	11,119	433	4.1
Volumes of natural gas injected into the national gas transportation network (billions of cubic metres)	83.31	78.30	75.78	(2.52)	(3.2)
Transportation network (kilometres in use)	31,680	32,010	32,245	235	0.7
- of which national network	8,894	9,080	9,277	197	2.2
- of which regional network	22,786	22,930	22,968	38	0.2
Employees in service at 31 December (number)	2,636	2,755	1,978	(777)	(28.2)

(*) Before consolidation adjustments.

(**) 2011 data include: (i) revenue deriving from the chargeback to subsidiaries of the costs incurred for services provided centrally by the parent company (€62 million); and (ii) income deriving from renting and maintaining fibre optic telecommunications cables (€10 million). Starting on 1 January 2012 and in line with the new ownership structure of the Snam Group, the costs and revenue arising from the management of the businesses are allocated to the corporate segment.

Financial results

Natural gas transportation revenue totalled €1,902 million, up by €35 million, or 1.9%, compared with 2011. This increase was due mainly to the contribution of investments made in 2010 (+€93 million), the effects of which were partly offset by tariff updating (-€58 million) and lower volumes of natural gas transported (-€8 million). Higher revenue from tariff components offset in costs (+€8 million) also contributed to the increase in transportation revenue.

EBIT for 2012 was €1,135 million, down by €2 million, or 0.2%, compared with 2011. Higher transportation revenues (+€27 million, net of the components offset in costs) were more than offset by higher operating costs (-€16 million, net of the components offset in revenues) as a result of higher net provisions for risks and charges (-€27 million), which were partly offset by lower capital losses on eliminations of fixed assets (+€10 million), and of higher amortisation and depreciation (-€14 million), owing mainly to the entry into service of new infrastructure.

Operating review

INVESTMENTS

(€ million)	2010	2011 (*)	2012	Change	% change
Development	671	601	426	(175)	(29.1)
Investments with 3% incentive	456	495	340	(155)	(31.3)
Investments with 2% incentive	215	106	86	(20)	(18.9)
Maintenance and other	231	291	274	(17)	(5.8)
Investments with 1% incentive	92	108	131	23	21.3
Investments with no incentive	139	183	143	(40)	(21.9)
	902	892	700	(192)	(21.5)

(*) Some projects previously included in categories of investments with a 2% incentive were classified as investments with 3% incentive. The corresponding amounts for 2011 were reclassified accordingly.

Investments in 2012 amounted to €700 million, a decrease of €192 million, or 21.5%, compared with 2011 (€892 million).

Investments were classified in accordance with Resolution ARG/gas 184/09 of the Electricity and Gas Authority, which identified various categories of projects with different incentive levels.

A total of 80% of investments are expected to benefit from incentive-based returns. The breakdown of investments by category for 2011 and 2012 will be submitted to the Authority when it approves the tariff proposals for 2013 and 2014. The breakdown for 2014 may differ from that in the current regulatory period, which ends on 31 December 2013.

The main investments with a **3% incentive** (€340 million) were:

- upgrade of transportation infrastructure in Valle Padana (€183 million);
- upgrade of import infrastructure in Sicily and Calabria (€48 million);
- new transportation infrastructure on the Adriatic coast (€27 million);
- connection of the Offshore LNG Toscana (OLT) regasification terminal at Livorno (€26 million);
- completion of construction work on the Palaia-Collesalveti gas pipeline in Tuscany (€16 million).

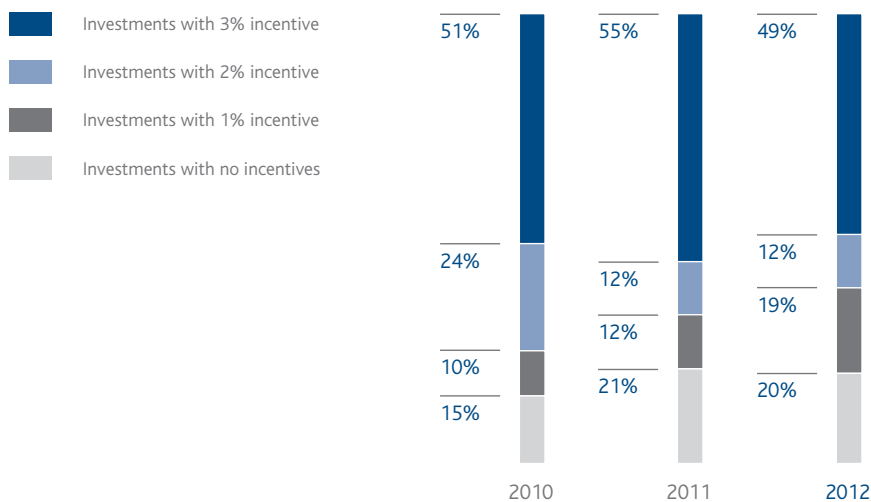
The main investments with a **2% incentive** (€86 million) were:

- natural gas projects in Calabria (€15 million);
- completion of construction works on the methane pipeline connecting the Edison Gas storage plant in Collalto, Veneto (€7 million).

The main investments with a **1% incentive** (€131 million) involved projects aimed at maintaining adequate safety and quality levels at the plants.

Investments with no incentives (€143 million) included projects to replace assets and plants, as well as projects relating to the implementation of new IT systems, the development of existing assets and the purchase of other key operating assets.

SHARE OF INVESTMENTS BY INCENTIVE (% of total investments)



Transportation on the national gas network

Gas volumes are expressed in standard cubic metres (SCM) with a traditional higher heating value (HHV) of 38.1 MJ/SCM. The basic figure is measured in energy (MJ) and obtained by multiplying the physical cubic metres actually measured by the relative heating value.

AVAILABILITY OF NATURAL GAS

(billions of m ³)	2010	2011	2012	Change	% change
From imports	75.17	70.27	67.61	(2.66)	(3.8)
Domestic output	8.14	8.03	8.17	0.14	1.7
Total gas injected into the network	83.31	78.30	75.78	(2.52)	(3.2)
Net balance of withdrawals from/injections into storage (*)	(0.64)	(0.89)	(1.51)	(0.62)	69.7
Total availability of natural gas	82.67	77.41	74.27	(3.14)	(4.1)

(*) Understood as the balance between the withdrawals from (+) and injections into (-) the storage system expressed gross of consumption per injection/withdrawal.

The availability of natural gas in Italy in 2012 was 74.27 billion cubic metres, down by 3.14 billion cubic metres (-4.1%) compared to 2011.

Volumes of gas injected into the national transportation network fell by 3.2% to 75.78 billion cubic metres (78.30 billion cubic metres in 2011). The reduction in imports (-2.66 billion cubic metres; -3.8%) was offset only partly by an increase in domestic production (+0.14 billion cubic metres; +1.7%).

Natural gas injected into the national network from domestic production fields or their collection and treatment centres was 8.17 billion cubic metres, up by 0.14 billion cubic metres (+1.7%) compared with 2011.

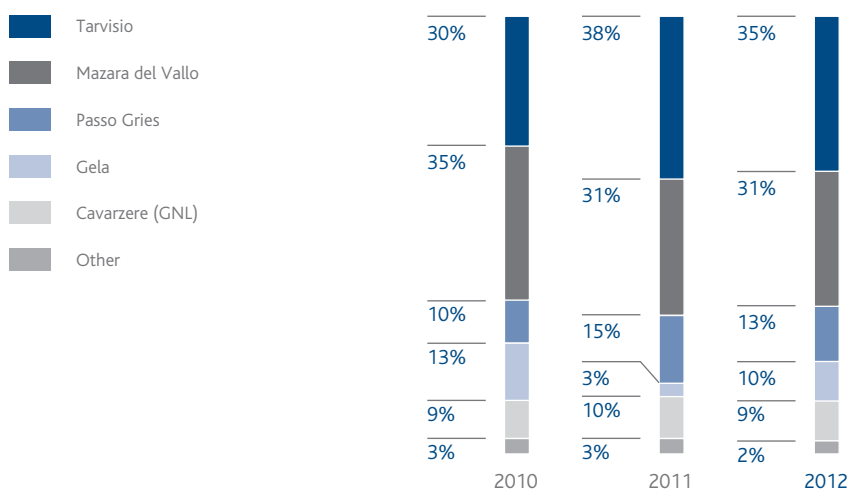
The analysis of imports by entry point is:

IMPORTS BY ENTRY POINTS

(billions of m ³)	2010	2011	2012	Change	% change
Entry points					
Tarvisio	22.49	26.45	23.85	(2.60)	(9.8)
Mazara del Vallo	26.29	21.55	20.82	(0.73)	(3.4)
Gries Pass	7.83	10.86	9.03	(1.83)	(16.9)
Gela	9.41	2.34	6.47	4.13	
Cavarzere (LNG)	7.04	7.02	6.17	(0.85)	(12.1)
Panigaglia (LNG)	1.98	1.89	1.12	(0.77)	(40.7)
Gorizia	0.13	0.16	0.15	(0.01)	(6.3)
	75.17	70.27	67.61	(2.66)	(3.8)

Examination of imports by entry point shows lower volumes injected at Tarvisio (-2.60 billion cubic metres; -9.8%) owing to the fall in imports from Russia, at Gries Pass (-1.83 billion cubic metres; -16.9%), at Mazara del Vallo (-0.73 billion cubic metres; -3.4%) and at the Cavarzere and Panigaglia regasification terminals (-0.85 billion and -0.77 billion cubic metres respectively), offset by higher imports at Gela (+4.13 billion cubic metres), which was affected by the Libya crisis in 2011.

NATURAL GAS INJECTED INTO THE NETWORK BY ENTRY POINT (% the total introduced)



VOLUMES OF NATURAL GAS INJECTED INTO THE NETWORK BY USER

(billions of m ³)	2010	2011	2012	Change	% change
eni	35.45	35.12	36.29	1.17	3.3
Enel Trade	10.34	9.34	8.43	(0.91)	(9.7)
Other	37.52	33.84	31.06	(2.78)	(8.2)
	83.31	78.30	75.78	(2.52)	(3.2)

WITHDRAWALS OF NATURAL GAS

(billions of m ³)	2010	2011	2012	Change	% change
Redelivery to the domestic market	81.54	76.69	73.49	(3.20)	(4.2)
Exports and transit (*)	0.54	0.42	0.38	(0.04)	(9.5)
Consumption and emissions attributable to Snam Rete Gas	0.47	0.27	0.27		
Gas not accounted for and other changes (**)	0.12	0.03	0.13	0.10	
Total withdrawals of natural gas	82.67	77.41	74.27	(3.14)	(4.1)

(*) Includes exports to San Marino.

(**) Includes the change of the network capacity. In the energy report compiled by Snam Rete Gas, the natural difference between the quantity of gas metered at the entrance to the network and the quantity of gas metered at the exit, due to the technical tolerance of the metering devices, is traditionally defined as the Unaccounted-For Gas (UFG).

The natural gas withdrawn from the National Transportation Network in 2012 (74.27 billion cubic metres) is mainly: (i) for redelivery to users at the network exit points (73.49 billion cubic metres); (ii) exports and transit (0.38 billion cubic metres), mainly to Slovenia; and (iii) consumption by the compression stations and the gas emissions from the network and from Snam Rete Gas plants (0.27 billion cubic metres).

RECONCILIATION OF THE QUANTITIES OF GAS WITHDRAWN FROM THE NETWORK AND ITALIAN DEMAND

(billions of m ³)	2010	2011(*)	2012	Change	% change (**)
Quantities withdrawn	82.67	77.41	74.27	(3.14)	(4.1)
Exports (-)	(0.54)	(0.42)	(0.38)	0.04	(9.5)
Gas injected into the regional networks of other operators	0.06	0.06	0.05	(0.01)	(2.6)
Other consumption (***)	0.91	0.87	0.97	0.10	11.5
Total Italian demand	83.10	77.92	74.91	(3.01)	(3.9)

(*) The demand for gas has been aligned with that published by the Ministry of Economic Development.

(**) The percentage change is calculated with reference to the figures in cubic metres.

(***) Includes the consumption of the LNG terminal at Panigaglia, the consumption of the compression stations for storage and the production treatment stations.

DEMAND FOR GAS IN ITALY

(billions of m ³)	2010	2011 (*)	2012	Change	% change (**)
Residential and tertiary	33.91	30.82	31.19	0.37	1.2
Thermoelectric	30.06	28.21	25.11	(3.10)	(11.1)
Industrial (***)	17.36	17.04	16.63	(0.41)	(2.3)
Other (****)	1.77	1.85	1.98	0.13	7.1
	83.10	77.92	74.91	(3.01)	(3.9)

(*) The demand for gas has been aligned with that published by the Ministry of Economic Development.

(**) The percentage change is calculated with reference to the figures in cubic metres.

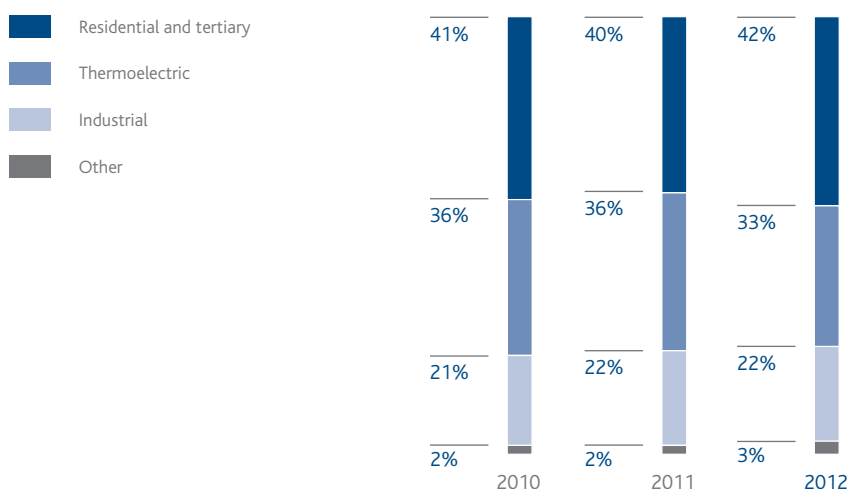
(***) Includes the consumption of the industrial, agricultural and fishing, chemical synthesis and automotive sectors.

(****) Includes exports and other consumption.

Gas demand in Italy in 2012 was 74.91 billion cubic metres, down by 3.01 billion cubic metres (-3.9%) compared with 2011. This fall was due to lower consumption in the thermoelectric (-11.1%) and industrial (-2.3%) sectors, offset in part by higher consumption in the residential and tertiary sector (+1.2%) as a result of weather conditions.

Adjusted for weather effect, natural gas demand decreased by 5.8% compared with 2011.

GAS DEMAND BY SECTOR (% of total gas demand)



TRANSPORTATION CAPACITY

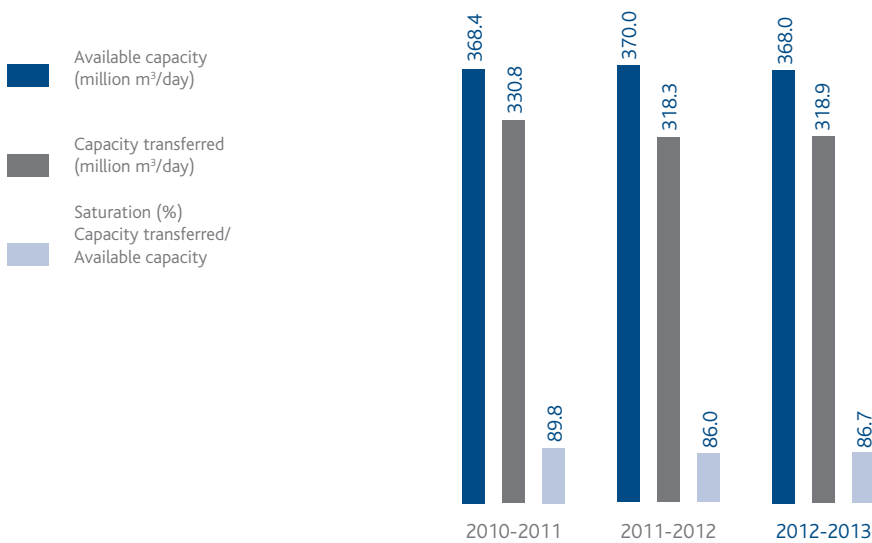
(billions of m ³ /day)	Thermal year 2010-2011			Thermal year 2011-2012			Thermal year 2012-2013		
	Transportation capacity	Capacity transferred	Saturation (%)	Transportation capacity	Capacity transferred	Saturation (%)	Transportation capacity	Capacity transferred	Saturation (%)
Entry points									
Tarvisio	119.2	110.3	92.5	118.8	109.9	92.5	116.8	107.9	92.4
Mazara del Vallo	105.0	98.9	94.2	105.0	88.2	84.0	105.0	86.7	82.6
Gries Pass	64.8	55.0	84.9	64.4	61.7	95.8	64.4	61.6	95.7
Gela	35.2	34.3	97.4	37.6	21.9	58.2	37.6	30.6	81.4
Cavarzere (LNG)	26.4	24.6	93.2	26.4	24.6	93.2	26.4	21.0	79.5
Panigaglia (LNG)	13.0	7.2	55.4	13.0	11.4	87.7	13.0	11.0	84.6
Gorizia	4.8	0.5	10.4	4.8	0.6	12.5	4.8	0.1	2.1
	368.4	330.8	89.8	370.0	318.3	86.0	368	318.9	86.7

The transportation capacity of the network has also covered the entire demand of users for the thermal year 2012-2013. Transportation capacity at the start of thermal year 2012-2013 was 368 million cubic metres per day. The new entry point at Livorno was also created in the thermal year, and its capacity is subject to the conferment request pursuant to Resolution 168/06 of the Electricity and Gas Authority and to the Decree of the Ministry of Economic Development of 24 November 2010. In addition to the above capacities relating to entry points connected with LNG terminals and foreign countries, transportation capacity is also available at entry points connected with domestic production. Domestic production also has access to transportation capacity that is modulated over the year (two periods have been introduced: summer and winter), in order to increase transportation capacity in winter.

Snam Rete Gas has prepared a long-term plan for transportation capacity, which was sent to the Ministry of Economic Development on 29 June 2012 and published on the Business & Services section of the Snam Rete Gas website www.snamretegas.it.

Lastly, ISO 9001 certification has been renewed for the transportation capacity definition process.

GAS TRANSPORTATION CAPACITY AND SATURATION



Regulation

Resolution ARG/gas 184/09 – “Approval of part II - Regulation of tariffs for the natural gas transportation and dispatching service for regulatory period 2010-2013 (RTTG), approval of part III - Regulation of tariffs for the natural gas transportation metering service for regulatory period 2010-2013 (RMTG), provisions on the transitory fee for the gas transportation metering service for 2010 and amendments to Attachment A of Resolution 11/07”.

With Resolution ARG/gas 184/09, published on 2 December 2009, the Electricity and Gas Authority issued the criteria for defining natural gas transportation and metering tariffs on the national and regional transportation networks for the third regulatory period (1 January 2010 - 31 December 2013). The valuation of the net capital invested (RAB) is based on the revalued historical cost method. The return rate (WACC) of net capital invested is set at a real rate of 6.4% before taxes.

The incentives for new investments were confirmed and provide for a higher return compared to the variable base rate (WACC), in relation to the type of investment, from 1% to 3% and for a period from 5 to 15 years. The revenues associated with new investments are paid starting from the second year following that in which the costs were incurred (“spending”) and are guaranteed regardless of the volumes transported.

The method for updating the price cap tariffs is applied to revenue relating to operating costs and is equal to approximately 15% of the revenues in question, which are updated with inflation and decreased by an annual recovery coefficient set at 2.1% (3.5% in the previous regulatory period). The revenue components which are related to returns and amortisation and depreciation are determined on the basis of the annual update of net capital invested (RAB). In particular, in the third regulatory period, the amortisation and depreciation is deducted from the price-cap mechanism and calculated on the basis of the useful economic and technical life of the transportation infrastructure, which is 50 years.

The tariff structure is based on an entry/exit model and was confirmed for the third regulatory period as well, together with the capacity fee for the metering service.

Finally, fuel gas is treated as a pass-through cost which is payable in kind by the users and is excluded from the price-cap mechanism.

Resolution ARG/gas 178/11 – “Approval of the tariff proposals for natural gas transportation and dispatching, and the transitory fee for the gas transportation metering service for 2012 in implementation of the provisions set forth in Resolution ARG/gas 184/09 issued by the Electricity and Gas Authority on 1 December 2009”.

The Authority approved the transportation, dispatching and metering tariffs for 2012 by Resolution ARG/gas 178/11.

The tariffs were determined on the basis of the base revenues which amounted to €1,862 million, net of the third-party portion (of which approximately €113 million relates to development investment incentives and approximately €41 million to revenue associated with system balancing costs).

The actual revenues for 2012 will have to take account of the increase in volumes transported compared to the base amount of 75.7 billion cubic metres.

The RAB as at 31 December 2010 for transportation, dispatching and metering amounts to around €13.7 billion.

Resolution 403/2012/R/gas – “Certification of Snam Rete Gas S.p.A. as an Independent Transmission Operator for natural gas following an opinion issued by the European Commission on 1 August 2012, C (2012) 5333”.

The Electricity and Gas Authority has completed the process of certifying Snam Rete Gas as an Independent Transmission Operator for natural gas, confirming the functional unbundling of the vertically integrated undertaking, as provided for by the EU Third Energy Package (Directive 2009/73/EC) and Decree 93 of 1 June 2011 transposing it into law.

The certification (Resolution 403/2012/R/gas) was adopted after the European Commission issued a favourable opinion on the preliminary certification adopted by the Authority (Resolution 191/2012/E/gas).

In its final decision, the Authority confirmed all the prescriptions and recommendations handed down to Snam Rete Gas by the preliminary certification decision in order to ensure the Company's management of transportation infrastructure is neutral in relation to its interests in production and supply activities. As a result of the certification, Snam Rete Gas S.p.A. is authorised to operate in the natural gas transportation sector, in Italy and in the rest of Europe. Following the ownership unbundling of Snam Rete Gas from eni, as defined by the Prime Ministerial Decree, the Authority shall begin a new certification process.

Resolution 515/2012/R/gas – “Approval of the proposals for the natural gas transportation and dispatching service tariffs and the transitory fee for the gas transportation metering service for 2013.”

With this Resolution, published on 6 December 2012, the Authority approved the transportation, dispatching and metering tariffs for 2013.

The tariffs were determined on the basis of recognised core revenue, equal to €1,952 million (of which around €129 million related to incentives for investment). The actual revenues in 2013 will have to take account of the increase in volumes transported compared to the base amount of 75.7 billion cubic metres.

The RAB as at 31 December 2011 for transportation, dispatching and metering amounts to around €14.3 billion.

With this Resolution, the Authority initiated a process, which should be completed by 30 October 2013, aimed at the possible recognition of charges incurred by transportation companies for implementing measures introduced by Legislative Decree 93 of 1 June 2011 concerning the certification of transmission system operators and costs arising from the implementation of Resolution ARG/gas 45/11.

Balancing service – Electricity and Gas Authority Resolutions: ARG/gas 45/11; ARG/gas 155/11; 351/2012/R/gas

With effect from 1 December 2011, natural gas balancing activities became operational pursuant to Resolution ARG/gas 45/11 of the Electricity and Gas Authority, which made Snam Rete Gas, as the major transmission system operator (TSO), the Balancing Supervisor. This role requires Snam Rete Gas to procure the quantities of gas required to balance the system and offered on the market by users through a dedicated platform of the Energy Market Operator, and to financially settle the imbalances of individual users by buying and selling gas on the basis of a benchmark unit price (the 'principle of economic merit'). Snam Rete Gas, in its capacity as Balancing Supervisor, issued invoices for more than €2 billion in 2012 and received invoices for the same amount from users of the balancing service.

The regulations contain specific clauses guaranteeing the neutrality of the Balancing Supervisor, and they identify the Cassa Conguaglio Settore Elettrico (Electricity Equalisation Fund) as the entity ultimately responsible for paying to the Balancing Supervisor (i.e. Snam Rete Gas) any sums not collected from users. Specifically, the initial regulation laid down by the Electricity and Gas Authority with Resolution ARG/gas 155/11 stated that users had to provide specific guarantees to cover their exposure and, where Snam Rete Gas had performed its duties diligently and had not been able to recover the costs related to provision of the service, these costs would have been recovered through a special fee determined by the Electricity and Gas Authority. This Resolution, with reference to the income statement items pertaining to the balancing system, stipulated that the Balancing Supervisor would receive from the Electricity Equalisation Fund the value of receivables unpaid by the end of the month following the month in which notification was given⁹. In light of the fact that the regional administrative court of Lombardy provisionally voided this system of guarantees for the period between 1 December 2011 and 31 May 2012¹⁰, some users sold huge quantities of gas and obtained their supplies from the balancing market, failing to pay due amounts and therefore building up a significant debt to Snam Rete Gas which reached around €400 million during the year.

With Resolution 282/2012/R/gas, published on 6 July 2012, the Authority began an explorative investigation into the methods of provision of the balancing service between 1 December 2011 and 31 May 2012, due for completion within 120 days of the start of the investigation. With Resolution 444/2012/R/gas, the Authority extended this period to 23 October 2012 and extended the investigation by 60 days.

With Resolution 351/2012/R/gas of 3 August 2012, the Electricity and Gas Authority changed the rules on the repayment terms established in Resolution 155/11. Specifically, Resolution 351/2012/R/gas defined the methods for recovering receivables pertaining to the balancing system in the period 1 December 2011 - 31 May 2012, ordering payment in instalments over a minimum of 36 months and with a maximum monthly payment of €6 million, providing also for recognition of the interest accrued in favour of Snam Rete Gas, for which settlement will occur after the nominal amount of the receivables has been paid. In 2012, the Electricity Equalisation Fund paid Snam Rete Gas a total of €13 million.

In December 2012, Snam Rete Gas sold on a non-recourse notification basis its receivable from the Electricity Equalisation Fund arising from coverage of user balancing service costs, pursuant to Resolution 351/2012/R/gas of 3 August 2012, for a nominal amount of €300 million, which refers only to the principal.

Snam Rete Gas has initiated all actions necessary for the recovery of receivables relating to income statement items pertaining to the balancing system.

Snam Rete Gas has also initiated legal proceedings to recover receivables from users in arrears after having terminated the relevant transportation contracts due to non-payment.

⁹ Given to the Electricity Equalisation Fund by the Balancing Supervisor once invoices become four months overdue.

¹⁰ The guarantees were reintroduced by Electricity and Gas Authority Resolution 181/2012/R/gas, with effect from 1 June 2012.

PRISMA - European Capacity Platform – integrating Italy with the major European markets

On 4 December 2012 in Leipzig, Snam Rete Gas and leading European sector operators agreed to enter the share capital of PRISMA - European Capacity Platform GmbH¹¹, an international project that will enable 19 European gas transportation operators in seven countries (Italy, Austria, Belgium, Denmark, France, Germany and the Netherlands) to offer transportation capacity through a single shared electronic platform from April 2013.

The project deliberately comes in before the European Network Code is implemented in 2014 in order to encourage the harmonisation of service provision and access rules and to facilitate the creation of the internal natural gas market.

The European Network Code, drafted by ENTSOG (European Network of Transmission System Operators for Gas), establishes the methods for allocating transportation capacity at interconnection points between the systems of EU Member States (Network Code on Capacity Allocation Mechanisms - CAM NC), providing for auction mechanisms. By signing up to the project, Snam Rete Gas is pursuing its goal of encouraging Italy's integration with the major European markets in line with the principles of the EU's Third Energy Package.

11 This name, effective from 1 January 2013, replaces Trac-X Transport Capacity Exchange GmbH.



Liquefied Natural Gas (LNG) regasification



KEY PERFORMANCE INDICATORS

(€ million)	2010	2011	2012	Change	% change
Core business revenue (*) (**)	35	34	34		
- of which LNG regasification revenue	24	23	23		
Operating costs (**)	24	23	25	2	8.7
EBIT	7	7	5	(2)	(28.6)
Investments	3	3	3		
Volumes of LNG regasified (billions of cubic metres)	1.98	1.89	1.12	(0.77)	(40.7)
Tanker loads (number)	54	50	31	(19)	(38.0)
Employees in service at 31 December (number)	70	74	78	4	5.4

(*) Core business revenue includes the chargeback to Customers of expenses relating to the natural gas transportation service supplied by Snam Rete Gas S.p.A. For the purposes of the consolidated financial statements this revenue is eliminated, together with transportation costs, under GNL Italia S.p.A. in order to represent the substance of the operation.

(**) Before consolidation adjustments.



Financial results

Revenue from LNG regasification amounted to €23 million, in line with the figure recorded in 2011. The revenues relate to the capacity fees¹² (€22 million, against €21 million in 2011) and the variable fees associated with the volumes of LNG regasified (€1 million, against €2 million in 2011).

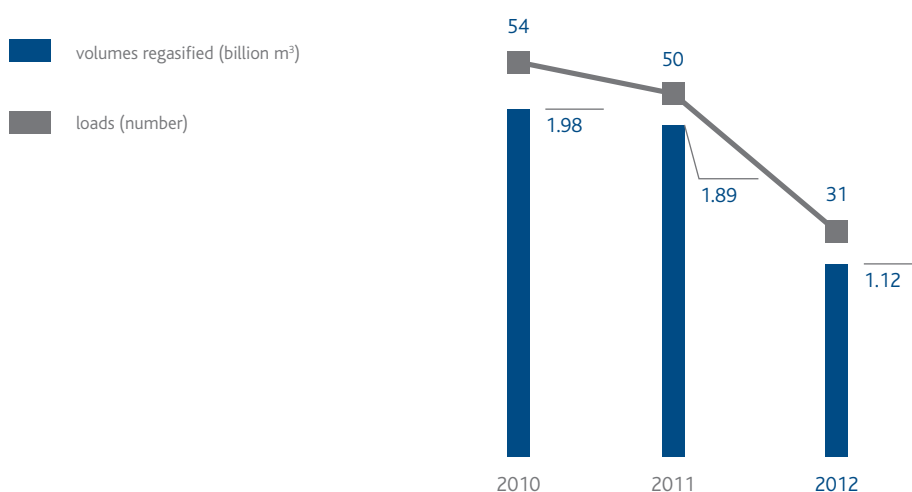
EBIT totalled €5 million, down by €2 million, or 28.6%, compared with 2011, mainly as a result of the increase in operating costs (-€2 million) due primarily to excess use in 2011 of part of the provisions for risks following the resolution of disputes concerning local taxes.

¹² Capacity fees include revenue related to the regasification commitment for an annual volume of LNG and a share of revenue related to the activity of docking and unloading methane tankers.

Operating review

During 2012, the LNG terminal at Panigaglia (SP) regasified 1.12 billion cubic metres of natural gas (1.89 billion cubic metres in 2011), unloading 31 methane tankers of various types (50 in 2011).

VOLUMES OF REGASIFIED LNG AND NUMBER OF LNG TANKER LOADS



Investments

Investments in 2012 totalled €3 million (the same as in 2011) and mainly involved projects for maintaining plant system safety.

Legislative provisions

Extension of the permit to operate the GNL Italia regasification plant

Legislative Decree 179 of 18 October 2012, which was converted with amendments into Law 221 of 17 December 2012, concerning "Further urgent measures for the growth of the country" (the "Development Decree"), extended the duration of concessions to build and operate the LNG regasification terminals currently in operation.

Specifically, Article 34, paragraph 19 of the aforementioned Decree stipulates that the plants for which extension and development projects are in the authorisation phase shall continue to be operated until the authorisation procedures underway are completed, pursuant to the original right of concession, the expiry date of which shall be understood to be deferred automatically until the aforementioned completion.

On the basis of these provisions, the original permit to build and operate the Panigaglia plant, which was issued to GNL Italia S.p.A. in 1968, and which, following the extension of 1992, would have expired on 21 May 2013, shall be understood to be extended until the conclusion of the authorisation procedure concerning the expansion of the site's regasification capacity, which is still under way.

Regulation

Resolution ARG/gas 92/08 – “Criteria for the determination of the tariffs for the regasification service and amendments to Resolution 166/05 and Resolution 11/07”.

With Resolution ARG/gas 92/08, published on 9 July 2008, the Electricity and Gas Authority defined the tariff criteria for the regasification service applicable for the third regulatory period (1 October 2008 – 30 September 2012).

The mechanisms already in effect in the second regulatory period were confirmed for determining the base revenues, including the real return on net invested capital of 7.6% before taxes. In regard to the tariff structure, the breakdown of revenues into a regasification capacity component and a regasified volumes component was maintained at a ratio of 90/10.

The tariffs are updated using the price cap methodology applied only to the component relating to operating costs, with a productivity recovery coefficient of 0.5%.

The revenue component relating to the return and amortisation and depreciation is updated on the basis of an annual recalculation of invested capital and additional revenues from the incentives for investments realised in prior regulatory periods.

Incentives for new investments involve the payment of a return increased by three percentage points over the base rate (WACC), for a duration up to 16 years. Both the increase in the rate of return and the duration are differentiated depending on the type of investment.

Resolution ARG/gas 107/11 – “Approval of the tariff proposals for the regasification service for thermal year 2011-2012 for GNL Italia S.p.A. and Terminale GNL Adriatico S.r.l., in implementation of Resolution ARG/gas 92/08 issued by the Electricity and Gas Authority on 7 July 2008”.

With this provision, which was published on 2 August 2011, the Electricity and Gas Authority approved the tariffs for the regasification service provided by GNL Italia for thermal year 2011-2012, pursuant to Resolution ARG/gas 92/08.

The tariffs were set on the basis of the base revenues of €26 million. The actual revenues must take into account the regasified volumes and the contractual capacities. The net capital invested as at 31 December 2010 (RAB) was equal to around €0.1 billion.

Resolution 237/2012/R/gas – “Extension of the criteria for determining regasification tariffs for the transition period October 2012 - December 2013”.

With this resolution, which was published on 8 June 2012, the Authority extended the current tariff criteria for the regasification service for the transition period from 1 October 2012 to 31 December 2013, specifically providing for the real pre-tax rate of return on invested capital to be updated from 7.6% to 8.2%.

Resolution 312/2012/R/gas – “Approval of the tariff proposals for the regasification service for the transition period October 2012 - December 2013 for GNL Italia S.p.A. and Terminale GNL Adriatico S.r.l.”.

With this resolution, which was published on 27 July 2012, the Authority approved the tariffs for the regasification service offered by GNL Italia for the transition period from October 2012 to December 2013. The tariffs were determined based on reference annual revenues of around €28 million and the recognition of increased expenses resulting from local taxes following the resolution of disputes. The actual revenues must take into account the regasified volumes and the contractual capacities. As at 31 December 2011, the RAB for regasification activities was around €0.1 billion.

Natural gas storage



KEY PERFORMANCE INDICATORS

(€ million)	2010	2011	2012	Change	% change
Core business revenue (*)	355	372	401	29	7.8
- of which natural gas storage revenue	349	372	401	29	7.8
Operating costs (*)	63	64	69	5	7.8
EBIT	218	255	270	15	5.9
Investments	252	296	233	(63)	(21.3)
- of which with incentives	218	258	194	(64)	(24.8)
- of which without incentives	34	38	39	1	2.6
Net invested capital at 31 December	2,258	2,642	2,820	178	6.7
Concessions (number)	10	10	10		
- of which operational (**)	8	8	8		
Natural gas moved through the storage system (billions of cubic metres)	15.59	15.31	15.63	0.32	2.1
- of which injected	8.00	7.78	8.43	0.65	8.4
- of which withdrawn	7.59	7.53	7.20	(0.33)	(4.4)
Available storage capacity (billions of cubic metres):	14.2	15.0	15.2	0.2	1.3
- of which available (***)	9.2	10.0	10.7	0.7	7.0
- of which strategic	5.0	5.0	4.5	(0.5)	(10.0)
Employees in service at 31 December (number)	279	278	307	29	10.4

(*) Before consolidation adjustments.

(**) With working gas capacity for modulation services.

(***) Working gas capacity for modulation, mining and balancing services. The available capacity is that declared to the Electricity and Gas Authority at the start of thermal year 2011-2012, in compliance with Resolution ARG/gas 119/10.



Financial results

Natural gas storage revenue amounted to €401 million¹³, an increase of €29 million, equal to 7.8%, compared with 2011. The increase is essentially due to the contribution of investments made in 2010 (+€26 million) and the tariff updating mechanisms (+€3 million), whose effects were partly absorbed by the reduction in the volumes of gas moved (-€5 million). Storage revenue refers to modulation storage (€335 million; +10.6%) and strategic storage (€61 million; -7.6%).

EBIT totalled €270 million in 2012, up by €15 million, or 5.9%, compared with 2011. Increased storage revenues (+€26 million, net of revenues offset in costs) were partly offset by the increase in amortisation and depreciation (-€7 million), due mainly to the entry into service of new infrastructure, and by the increase in operating costs (-€2 million, net of components offset in revenues), due mainly to higher provisions for risks and charges.

¹³ Including payments received from eni in addition to storage revenue for the thermal year from 1 April 2011 - 31 March 2012 (€5 million) in respect of the agreement signed between eni and Stogit relating to activities connected to Legislative Decree 130/2010.

Operating review

INVESTMENTS

(€ million)	2010	2011	2012	Change	% change
Development of new fields (4% incentive over 16 years)	144	193	95	(98)	(50.8)
Upgrading of capacity (4% incentive over eight years)	74	65	99	34	52.3
Maintenance and other	34	38	39	1	2.6
	252	296	233	(63)	(21.3)

Investments in 2012 amounted to €233 million, a decrease of €63 million, or 21.3%, compared with 2011.

Investments were classified in accordance with Resolution ARG/gas 119/10 of the Electricity and Gas Authority, which identified various categories of projects with different incentive levels.

A total of 83.26% of these investments are expected to benefit from incentive-based return. The breakdown of investments in 2011 and 2012 by category will be submitted to the Authority when the respective tariff proposals for 2013 and 2014 are approved.

Investments with a 4% incentive over 16 years (€95 million) relate to development activities in progress at the Bordolano and Fiume Treste storage fields, mainly for the injection of cushion gas¹⁴, the acquisition of materials and the execution of work on the plants.

Investments with a **4% incentive over eight years** (€99 million) refer to ongoing activities related to projects to increase pressure, mainly at the Settala, Sabbioncello and Minerbio storage fields.

Maintenance and other investments (€39 million) mainly refer to works for maintaining suitable safety, quality and efficiency levels for plants and projects relating to the implementation of new information systems and adjustments to existing ones.

Natural gas moved through the storage system

The natural gas moved through the storage system in 2012 totalled 15.63 billion cubic metres, up by 0.32 billion cubic metres, or 2.09%, compared with 2011. The increase was attributable mainly to higher injections (+0.65 billion cubic metres; +8.35%) to replenish stocks due to the emergency weather conditions in the first quarter of 2012, which were partially offset by lower withdrawals from storage (-0.33 billion cubic metres; -4.38%).

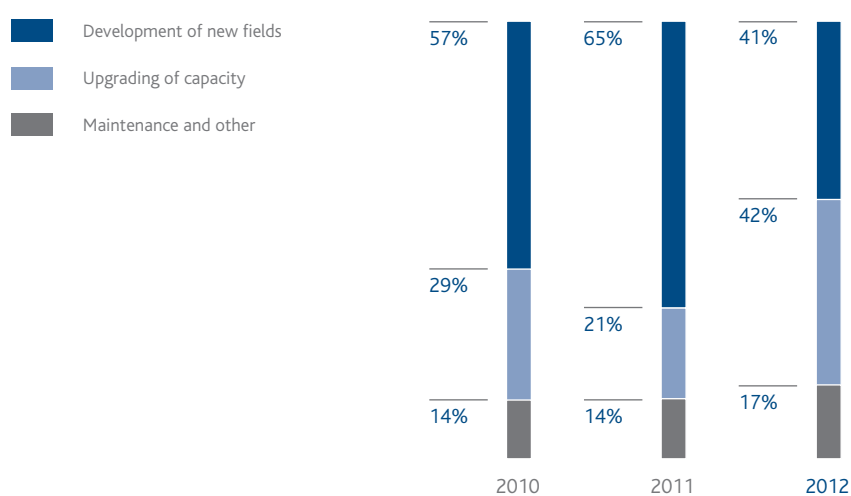
Total storage capacity at 31 December 2012, including strategic storage, was 15.7 billion cubic metres (+0.7 billion cubic metres, or +4.7%), including 10.7 billion cubic metres in available capacity (10 billion cubic metres in thermal year 2011-2012), 4.5 billion cubic metres in strategic storage (5 billion cubic metres in thermal year 2011-2012) and 0.5 billion cubic metres in capacity made available due to reduced strategic storage.

This capacity will be allocated as provided for in Legislative Decree 93 of 1 June 2011, in accordance with the procedures defined by the Ministerial Decree of 15 February 2013 concerning measures on modulation storage, extraction of natural gas, auction procedures and provisions on the safety of the national natural gas system.

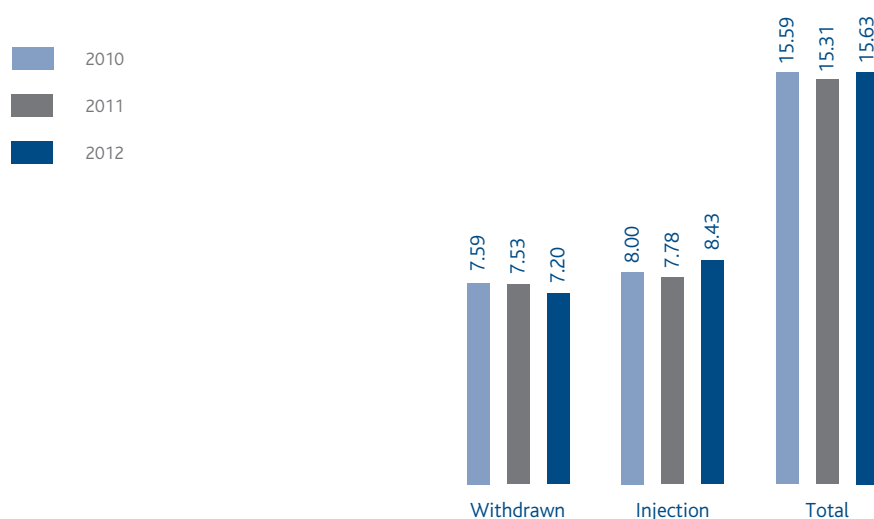
¹⁴ Cushion gas is the minimum quantity of gas present in or injected into reservoirs during storage needed to enable the extraction of the remaining volumes of gas without affecting, over time, the mineral characteristics of the reservoirs themselves.

Under the regulatory regime preceding the current rules governing balancing, some users of the storage service made strategic gas withdrawals without replacing the amounts withdrawn or paying the fees set out by the Authority, accruing a significant debt towards the Company. Considering the current regulatory framework (see Resolution ARG/gas 119/10, Article 10, paragraph 5 in Annex A), which leaves the storage company in a neutral position with regard to the effects of the withdrawal of strategic gas by users, against fees for the use of strategic gas not replenished, a liability of equal amount was recognised¹⁵.

SHARE OF INVESTMENTS BY INCENTIVE (% of total investments)



NATURAL GAS MOVED THROUGH THE STORAGE SYSTEM (billions of m³)



15 In connection with withdrawals by Stogit users of strategic gas that was not subsequently replenished by said users within the time frame provided for by the Storage Code, Stogit has launched a number of actions against the users in question since 2011, including legal proceedings. Specifically, in order to recover the sums owed to it, the Company has requested and obtained two injunctions (for one of which, in the proceedings brought in opposition, provisional enforceability was granted), brought legal proceedings aimed at obtaining an order for payment and initiated summary proceedings for the replenishment of the gas withdrawn, for which a merit hearing is under way. This measure could not be pursued in light of the presentation by the user of an application to initiate an arrangement with creditors, which was accepted by the Court on 24 September 2012.

Regulation

Resolution ARG/gas 119/10 – “Consolidated Act on the regulation of the quality and the tariffs for natural gas storage services for the 2011-2014 period (TUSG): approval of part II “Regulation of natural gas storage service tariffs for the regulatory period 2011-2014 (RTSG)”, measures on the transitory payment for the gas transportation metering service for 2011.

With this resolution, published on 5 August 2010, the Electricity and Gas Authority established the calculation criteria for the storage tariffs for the third regulatory period (1 January 2011 - 31 December 2014).

The valuation of the net capital invested (RAB) is based on the revalued historical cost method. The return rate (WACC) of net capital invested is set at a real rate of 6.7% before taxes.

The incentives for new investments were confirmed and provide for a higher return compared to the base rate (WACC), amounting to 4% for a period of eight years for extending existing capacities and for a period of 16 years for developing new fields. The revenues associated with new investments are paid starting from the second year following the one in which the costs were incurred (“spending”) and are guaranteed regardless of the volumes transported.

The method for updating the price cap tariffs is applied only to revenue relating to operating costs and is equal to approximately 18% of the revenues in question, which are updated for inflation and decreased by an annual recovery coefficient set at 0.6%. The revenue components which are related to returns and amortisation and depreciation are determined on the basis of the annual update of net capital invested (RAB). Specifically, in the third regulatory period, the amortisation and depreciation is subtracted from the price-cap mechanism.

With this resolution, for the purposes of applying the tariffs, the calendar year is taken as a reference rather than the thermal year and the single tariff is confirmed nationally along with the revenue equalisation mechanism.

Resolution ARG/gas 106/11 – “Approval of company payments and calculation of single payments for storage services and the transitional payment for the gas transportation metering service for 2012, implementing the Electricity and Gas Authority Resolutions ARG/gas 119/10 of 3 August 2010 and ARG/gas 29/11 of 23 March 2011”.

With this resolution, published on 2 August 2011, the Electricity and Gas Authority approved the storage tariffs and the transitory metering payments for 2012, established on the basis of a RAB at 31 December 2010 equivalent to around €3.2 billion with associated revenue of €388.6 million.

Resolution 185/2012/R/gas – “Mechanism for adjustment of storage site restoration costs and amendments to Annex A to the resolution of the Electricity and Gas Authority of 3 August 2010, ARG/gas 119/10”.

With this resolution, published on 10 May 2012, the Authority defined a mechanism for adjusting any differences arising from the total restoration provision paid to the storage company and the costs actually sustained for restoration of the storage sites.

Resolution 313/2012/R/gas – “Approval of company payments and calculation of single payments for storage services and the transitional payment for metering activities for 2013”.

With this resolution, which was published on 27 July 2012, the Authority approved the storage tariffs for 2013. The RAB as at 31 December 2011 for natural gas storage activities was around €3.5 billion. The storage tariffs for 2013 were determined based on reference revenues of €437 million.



Natural gas distribution



KEY PERFORMANCE INDICATORS

(€ million)	2010	2011	2012	Change	% change
Core business revenue (*)	1,233	1,297	1,434	137	10.6
- of which natural gas distribution revenue	1,197	1,263	1,398	135	10.7
Core business revenue net of the effects of IFRIC 12	884	937	1,109	172	18.4
- of which natural gas distribution revenue	848	903	1,073	170	18.8
Operating costs (*)	640	633	698	65	10.3
Operating costs net of the effects of IFRIC 12	291	273	373	100	36.6
EBIT	455	559	626	67	12.0
Investments	386	394	359	(35)	(8.9)
Net invested capital at 31 December	3,519	3,589	3,859	270	7.5
Gas distribution (millions of cubic metres)	7,953	7,450	7,462	12	0.2
Distribution network (**) (kilometres)	52,530	52,516	52,586	70	0.1
Active meters (millions)	5,848	5,897	5,907	0.010	0.2
Employees in service at 31 December (number)	3,119	3,005	3,016	11	0.4

(*) Before consolidation adjustments.

(**) As of 2012, the figure refers to kilometres of network managed by Italgas. Accordingly, the corresponding values for periods shown for comparative purposes have been restated.



Financial results

Revenue from natural gas distribution amounted to €1,398 million in 2012, an increase of €135 million, or 10.7%, compared with 2011. Excluding revenue from the application of IFRIC 12, distribution revenue recorded an increase of €170 million, or 18.8%. This increase was mainly due to: (i) the positive impact of Electricity and Gas Authority Resolutions 315/2012/R/gas and 450/2012/R/gas¹⁶, which amended some tariff determination criteria for the third regulatory period, specifically by eliminating the effects of the 'gradual' mechanism for the years 2009, 2010 and 2011 (+€143 million); and (ii) tariff updating mechanisms (+€59 million). These effects were partly offset by the recognition in 2011 of greater revenues for the thermal years from 2005-2006 to 2007-2008 (-€32 million)¹⁷.

EBIT generated in 2012 amounted to €626 million and includes allocations to the provisions for environmental expenses (€71 million) paid as indemnification, net of tax effect, by eni to Snam pursuant to agreements entered into between the parties upon completion of the acquisition of Italgas. These expenses are therefore not recognised for the purposes of the consolidated financial statements. The increase of €67 million, or 12.0%, compared with 2011, was due essentially to: (i) increased revenue from natural gas transmission (+€170 million); (ii) an increase in other revenue and income (+€24 million), due principally to the sale of plants transferred to municipalities granting natural gas distribution

¹⁶ For further details, see the "Regulation" paragraph below.

¹⁷ Additional revenues recognised pursuant to Electricity and Gas Authority Resolution ARG/gas 119/11.

mandates; and (iii) greater income from technical distribution services (+€5 million) deriving mainly from the recognition of costs relating to switch readers¹⁸.

These factors were partly offset by: (i) the increase in operating costs (-€100 million), attributable mainly to higher net allocations to the provisions for environmental expenses (-€65 million) and to higher capital losses on disposals of plants transferred to municipalities granting natural gas distribution mandates (-€16 million); and (ii) higher amortisation, depreciation and impairment losses (-€29 million), due to the entry into service of new infrastructure (-€16 million), and to asset write-downs (-€4 million) in relation to write-backs carried out in 2011 (-€9 million).

Operating review

INVESTMENTS

(€ million)	2010	2011	2012	Change	% change
Distribution	237	215	246	31	14.4
Network maintenance and development	196	171	196	25	14.6
Replacement of cast-iron pipes (2% incentive)	41	44	50	6	13.6
Metering (8% remuneration)	112	144	79	(65)	(45.1)
Other investments	37	35	34	(1)	(2.9)
	386	394	359	(35)	(8.9)

Investments in distribution (€246 million) related mainly to renovating sections of pipes by replacing cast-iron pipes, and extending and upgrading the distribution network.

Investments in metering (€79 million) primarily concerned the meter replacement programme and the remote meter-reading project.

Other investments (€34 million) mainly relate to investments in IT, property and other operating assets.

Gas distribution

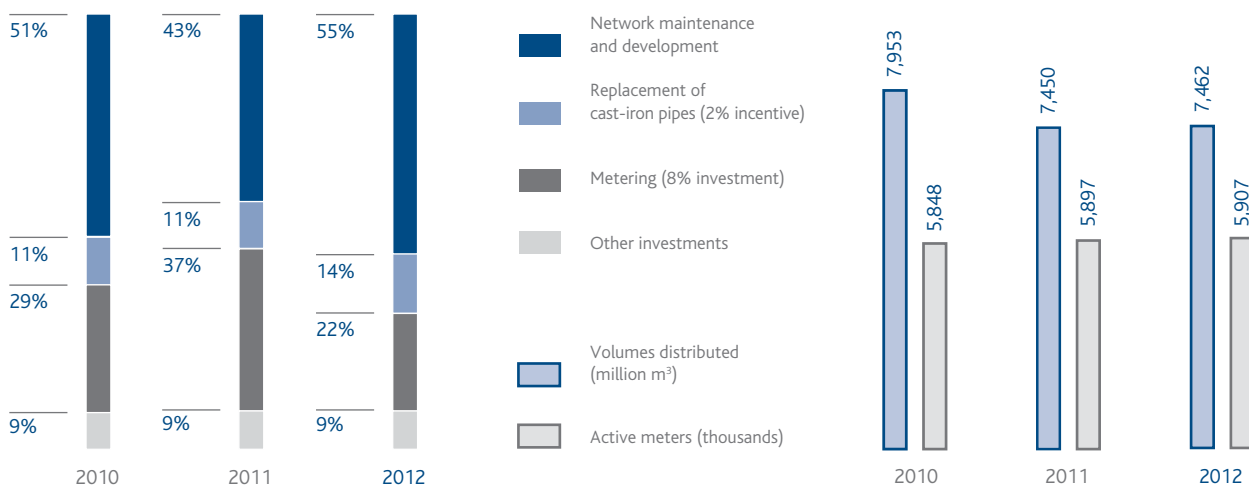
In 2012, 7,462 million cubic metres of gas were distributed, an increase of 12 million cubic metres, or 0.2%, compared with 2011, due mainly to weather conditions.

At 31 December 2012, Snam had concessions for gas distribution services in 1,435 municipalities (1,449 at 31 December 2011), of which 1,337 were in operation and 98 had networks yet to be completed and/or created. It had 5.907 million active meters at gas redelivery points to end customers (households, businesses, etc.), compared with 5.897 million at 31 December 2011.

¹⁸ The Electricity and Gas Authority Resolution ARG/gas 159/08 provided for the introduction of a specific mechanism for standardising meter reading costs, which produces breakeven costs for businesses, taking account of the fact that readings from switch meters will be compulsory but will be provided free of charge.

SHARE OF INVESTMENTS BY INCENTIVE (% of total investments)

ACTIVE METERS AND VOLUMES OF GAS TRANSPORTED



Distribution network

At 31 December 2012, the gas distribution network covered 52,586 kilometres (52,516 kilometres at 31 December 2011). The increase of 70 kilometres is due to the balance of increases and decreases in the network.

The increases are primarily due to:

- construction of new networks, particularly in Calabria;
- extensions of networks to meet commitments deriving from concession contracts.

Distribution concession in the Municipality of Rome Capital

Pursuant to Executive Resolution 1406 of 10 September 2012, the Municipality of Rome awarded Italgas the tender to distribute gas in the municipal region of Rome Capital, securing authorisation to run the biggest concession in Italy by network (almost 5,000 kilometres) and number of users (around 1.3 million redelivery points) for 12 years. The concession was formally granted on 20 November 2012.

The key points of the Italgas offer concerned the extension of the network of around 330 kilometres, the updating of a total of 700 kilometres of existing pipes and structures, the further improvement of the functional characteristics of the gas withdrawal and reduction plants and the replacement of the existing meters with new remote meter-reading devices. In addition to these specific technical activities, the bid also provided for a series of significant interventions aimed at improving energy efficiency of the entire network. With regard to the safety and quality of the service, the Italgas tender offered the highest level of compliance with the obligations set forth by the Electricity and Gas Authority, used as a benchmark standard of service.

During 2012, Italgas and Acea signed an agreement aimed, inter alia, at verifying the possibility of jointly carrying out certain activities related to the distribution of natural gas in the municipal region of Rome. The agreement also entitles Acea to require Italgas to acquire a stake of between 5% and 25% in a newly created company to which the Italgas business unit concerned with distributing gas in the municipality of Rome would be transferred, in compliance with the applicable competition regulations and subject to the obtainment of the necessary authorisations. The consideration for the said stake is to be determined by taking into account, inter alia, the sum paid by Italgas to the Municipality of Rome in exchange for the granting of the concession to distribute gas in the municipal region of Rome.

Regulation

Resolution ARG/gas 159/08 - "Consolidated act on the regulation of the quality and tariffs for natural gas metering and distribution services for the 2009-2012 regulatory period (TUDG): approval of part II, Tariff regulation for gas distribution and metering services for the 2009-2012 regulatory period (RTDG). Temporary measures for 2009".

With this resolution, published on 17 November 2008 (and subsequent amendments), the Authority defined the tariff criteria for the distribution and metering services for the third regulatory period, from 1 January 2009 to 31 December 2012. In summary, the resolution provides for:

- Recognition of the net capital invested for the site by the revalued historical cost method and of the net capital invested with respect to centralised operations (non-industrial buildings and other fixed assets) by the parametric method;
- Recognition of the operating costs of distribution operations on a parametric basis and differentiated depending on company size and density of the customers connected to the network;
- Recognition of the operating costs of metering and sales operations using equal parametric components for all companies;
- Assessment, at standard cost, starting in 2011, of all investments on the basis of a price list defined by the Authority (Modern Equivalent Asset Value (MEAV) method, based on the concept of new replacement cost);
- Calculation by the Authority of the reference tariffs for each company, corresponding to the costs recognised for remunerating net invested capital, amortisation and depreciation, and operating costs;
- Subdivision of the national territory into six tariff areas and calculation by the Authority of the respective mandatory tariffs that distributors must apply to users of their own networks;
- Introduction of an equalisation mechanism, managed by the Authority through the Electricity Equalisation Fund, to guarantee equivalence between the revenue obtained by each company by application of the mandatory tariff, which naturally does not reflect the specific costs of each company and the costs recognised for such company, using the reference tariff.

The return rate (WACC) of net capital invested (RAB) is set at a real rate of 7.6% before taxes for the distribution service and at 8% in real terms before taxes for the metering service.

For the new investments relating to the modernisation of the odourisation system in the REMI cabins and the replacement of the cast-iron pipes with hemp- and lead-sealed joints, commissioned following 31 December 2008, a greater return of 2% over the base rate (WACC) was recognised for a period of eight years.

The method for updating the price cap tariffs is applied to revenue relating to operating costs, which are indexed to inflation and reduced by a fixed annual productivity return coefficient set at 3.2% for operating costs relating to distribution and 3.6% for operating costs relating to metering.

The revenue components which are related to returns and amortisation and depreciation are determined on the basis of the annual update of net capital invested (RAB).

Resolution ARG/gas 195/11 – "Updating of mandatory tariffs for 2012 for the provision of natural gas distribution and metering services and tariff options for the distribution and metering of gas other than natural gas by channelled networks".

With this resolution, published on 30 December 2011, the Authority approved the mandatory tariffs for the year 2012 suspending the calculation of the reference tariffs for 2012, in anticipation of the process for evaluating the amendments due to the tariff regulation in force implemented by Resolution ARG/gas 235/10.

Lastly, the resolution provides for a one-year postponement, starting in 2013, of the introduction of the MEAV method for assessing the standard costs of investments for tariff purposes, pending definition of the pertinent price list by the Authority.

Resolution 315/2012/R/gas – “Amendments to the tariff regulation for the provision of natural gas and other gas distribution and metering services, in compliance with Council of State ruling 2521/2012. Redetermination of the reference tariffs and tariff options for gases other than natural gas for 2009 and 2010” and Resolution 450/2012/R/gas – “Determination of the reference tariffs and redetermination of the tariff options for gases other than natural gas for 2011 and 2012, in compliance with Council of State ruling 2521/2012”.

With these resolutions, the Authority redetermined the reference tariffs for 2009, 2010, 2011 and 2012. With regard to the years 2009, 2010 and 2011, the Authority observed, inter alia, Council of State ruling 2521/2012, which, in particular, stated the unlawfulness of applying the 'gradual' mechanism¹⁹ on the basis of a criterion applied at national level. As a result of these resolutions, in relation to the 2009-2011 period, incremental revenues equal to €143 million were recorded for Italgas, of which €128 million had been collected as at 31 December 2012.

Resolution 436/2012/R/gas – Extension to 31 December 2013 of the period of application of the provisions set out in the “Consolidated Act on the regulation of the quality and tariffs of gas distribution and metering services for the 2009-2012 regulatory period (TUDG)”. Transitional measures for 2013”.

With this resolution, published on 26 October 2012, the Authority extended the current tariff criteria for natural gas distribution services to the transitional period from 1 January - 31 December 2013, in particular updating the rate of return on invested capital for distribution services from 7.6% to 7.7% in pre-tax real terms and updating the components covering operating costs by applying the productivity recovery rates adopted for the determination of the 2012 tariffs, reduced by applying the staggered scale provided for by Resolution 315/2012/R/gas.

With this resolution, published on 6 November 2012, in order to implement Council of State ruling 2521/2012, the Authority determined the reference tariffs for 2011 and 2012.

Resolution 553/2012/R/gas of 24 December 2012 – “Updating of the tariffs for gas distribution and metering services for 2013”.

With this resolution, the Authority determined the reference tariffs and the mandatory tariffs for natural gas distribution and metering services for 2013, in compliance with the transitional provisions defined in Resolution 436/2012/R/gas.

¹⁹ Specifically, this mechanism provided for a gradual adjustment, over the four years of the third regulatory period, of net invested capital and the return thereon, and of the amortised tariff component, in the event of a change of more than 5% nationally between the net invested capital determined according to the new criteria for the third regulatory period and the net invested capital resulting from the update to the net invested capital recognised in the second regulatory period. Since the aggregate change in net invested capital nationally was greater than 5%, the 'gradual' mechanism was applied for all distributing companies. Following the aforementioned ruling, however, the change in net invested capital must now be determined for each individual distributing company, rather than nationally. Consequently, in the event of a change in net invested capital of less than 5%, the relevant tariff adjustments must be fully recognised in relation to the distributing company as of the first year of the regulatory period, rather than being extended over a period of four years.