Main factors of the regulatory framework

The transportation and regasification of LNG and the storage and distribution of natural gas 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 stipulate, in particular, that the revenue 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 capital invested for regulatory purposes (regulatory asset base, RAB) through the application of a rate of return for the same;
- amortisation and depreciation, covering capital expenditure;
- operating costs for the year.

For development investments aimed at upgrading infrastructure, the increase in the 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 2013.

REGULATORY FRAMEWORK AS AT 31 DECEMBER 2013

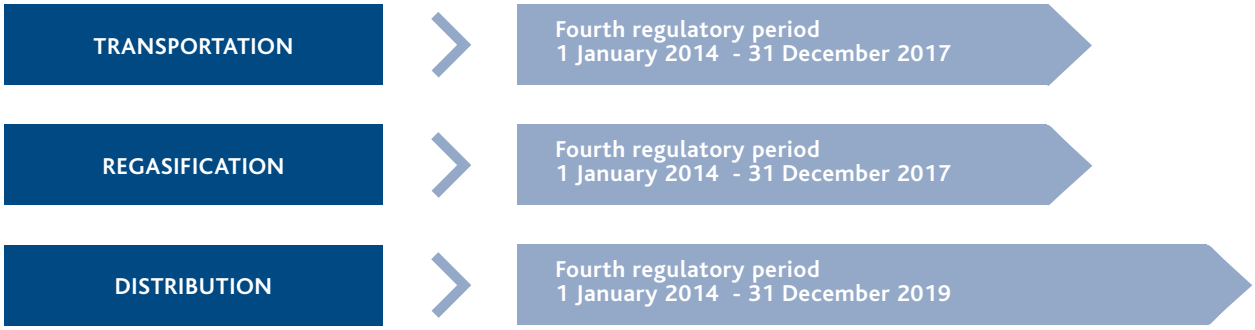
	TRANSPORTATION	REGASIFICATION	STORAGE	DISTRIBUTION
End of regulatory period	End of third regulatory period: 31 December 2013	End of third regulatory period: (a) 31 December 2013	End of third regulatory period: 31 December 2014	End of third regulatory period: (b) 31 December 2013
Calculation of net invested capital recognised for regulatory purposes (RAB)	Revalued historical cost	Revalued historical cost	Revalued historical cost Deduction of restoration costs	Revalued historical cost Parametric method for centralised assets
Return on net invested capital recognised for regulatory purposes (pre-tax WACC)	6.4% (transportation) 6.9% (metering)	7.6% Transitional period: 1 October 2012- 31 December 2013 8.2%	6.7%	7.6% (distribution) 8% (metering) Transitional period: 1 January 2013 - 31 December 2013 7.7% (distribution) 8% (metering)
Extra return on new investments	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)	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%)	4% over 8 years (on expansions of existing capacity) 4% over 16 years (on development of new storage sites)	2% over 8 years (on replacements of pipelines or cast iron and renovations of odorisation systems)
Efficiency factor (X FACTOR)	2.1% on operating costs	0.5% on operating costs	0.6% on operating costs	3.2% on distribution operating costs 3.6% on metering operating costs Transitional period: 1 January 2013 - 31 December 2013 2.4% on distribution operating costs 2.8% on metering operating costs

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

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

REGULATORY FRAMEWORK FROM 1 JANUARY 2014

Through Resolutions 438/2013/R/gas, 514/2013/R/gas and 573/2013/R/gas, the Electricity and Gas Authority defined new tariff criteria for the fourth regulatory period, for natural gas regasification, transportation and distribution, respectively.
The main tariff components based on the regulatory framework in force as at 1 January 2014 are set out below.



	TRANSPORTATION	REGASIFICATION	DISTRIBUTION
Calculation of net invested capital recognised for regulatory purposes (RAB)	Revalued historical cost	Revalued historical cost	Revalued historical cost Parametric method for centralised assets
Return on net invested capital recognised for regulatory purposes (pre-tax WACC)	6.3% for investments made by 31 December 2013 7.3% for investments made after 31 December 2013	7.3% for investments made by 31 December 2013 8.3% for investments made after 31 December 2013	6.9% (distribution) 7.2% (metering)
Extra return on new investments	1% over 7 years (on investments in developing the regional network) 1% over 10 years (in investments in developing the national network) 2% over 10 years (on investments to develop entry capacity)	2% over 16 years (new terminals or increasing capacity at existing terminals by more than 30%)	Incentives for service quality
Efficiency factor (X FACTOR)	2.4% on operating costs	Recovery of operating costs by terminal (% to be defined by subsequent order from the Electricity and Gas Authority)	1.7% on distribution operating costs

For more information on the new tariff criteria for the fourth regulatory period, please see the "Business segment operating performance – Regulation" section.

Natural gas transportation

FINANCIAL RESULTS

Natural gas transportation revenue totalled €1,986 million, up by €84 million (4.4%) compared with 2012. This increase was due essentially to the contribution of investments made in 2011 (+€102 million), the effects of which were partly offset by lower volumes of gas transported (-€20 million) and tariff updating (-€16 million). Higher revenue from tariff components offset in costs (+€19 million) also contributed to the increase in transportation revenue.

Adjusted EBIT[10], which excludes special items[11], totalled €1,228 million in 2013, up by €93 million (+8.2%) on the previous year. The higher transportation revenue (+€65 million) and lower operating costs (+€90 million) resulting mainly from changes to the provisions for risks and charges (+€49 million) were partly offset by higher depreciation, amortisation and impairment losses (-€34 million), owing mainly to the entry into service of new infrastructure, and by the reduction in other revenue and income (-€30 million).

10 EBIT is analysed by considering only those components that have changed it, since the application of the gas sector tariff rules generates revenue and cost items that offset each other: modulation, interconnection and balancing. Specifically, balancing revenue that is offset in the operating costs related to withdrawals of gas from storage totalled €80 million (€44 million in 2012) and referred to sales of natural gas for the purpose of balancing the gas system.

11 Information on the nature of the special item and the reconciliation of EBIT with adjusted profit can be found under the heading "Reconciliation of EBIT and net profit with adjusted EBIT and adjusted net profit" in the "Financial review" section.

KEY PERFORMANCE INDICATORS

(€ million)	2011	2012	2013	Change	% Change
Core business revenue (*)	1,945	1,916	**2,003**	87	4.5
- of which natural gas transportation revenue	*1,867*	*1,902*	***1,986***	*84*	*4.4*
Operating costs (*)	387	478	**375**	(103)	(21.5)
EBIT	1,137	1,135	**1,217**	82	7.2
- of which special items			***11***	*11*	
Adjusted EBIT	1,137	1,135	**1,228**	93	8.2
Technical investments (*)	892	700	**672**	(28)	(4.0)
- of which with a greater return	*709*	*557*	***516***	*(41)*	*(7.4)*
- of which with a basic rate of return	*183*	*143*	***156***	*13*	*9.1*
Net invested capital at 31 December (**)	10,686	11,116	**11,370**	254	2.3
Volumes of natural gas injected into the national gas transportation network (billions of cubic metres)	78.30	75.78	**69.01**	(6.77)	(8.9)
Transportation network (kilometres in use)	32,010	32,245	**32,306**	61	0.2
- of which national network	*9,080*	*9,277*	***9,475***	*198*	*2.1*
- of which regional network	*22,930*	*22,968*	***22,831***	*(137)*	*(0.6)*
Employees in service at 31 December (number)	2,755	1,978	**1,952**	(26)	(1.3)

(*) Before consolidation adjustments.
(**) The 2012 figure was restated following the retrospective application of the new provisions of IAS 19.

OPERATING REVIEW

TECHNICAL INVESTMENTS

(€ million)	2011	2012	2013	Change	% Change
Development	**601**	**426**	**367**	**(59)**	**(13.8)**
Investments with **a greater return of 3%**	495	340	**277**	(63)	(18.5)
Investments with **a greater return of 2%**	106	86	**90**	4	4.7
Maintenance and other	**291**	**274**	**305**	**31**	**11.3**
Investments with **a greater return of 1%**	108	131	**149**	18	13.7
Investments with **a basic rate of return**	183	143	**156**	13	9.1
	892	**700**	**672**	**(28)**	**(4.0)**

Technical investments in 2013 totalled €672 million, a decrease of €28 million (-4.0%) compared with 2012 (€700 million).
The 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 rates of return[12].
A total of 76.8% of investments are expected to benefit from a greater return.

The main investments with **a greater return of 3%** (€277 million) were:
- upgrading of transportation infrastructure in the Po Valley national network (€137 million);
- upgrading of infrastructure for importing to Sicily from the south of Italy (€46 million);
- new transportation infrastructure on the Adriatic coast (€33 million).

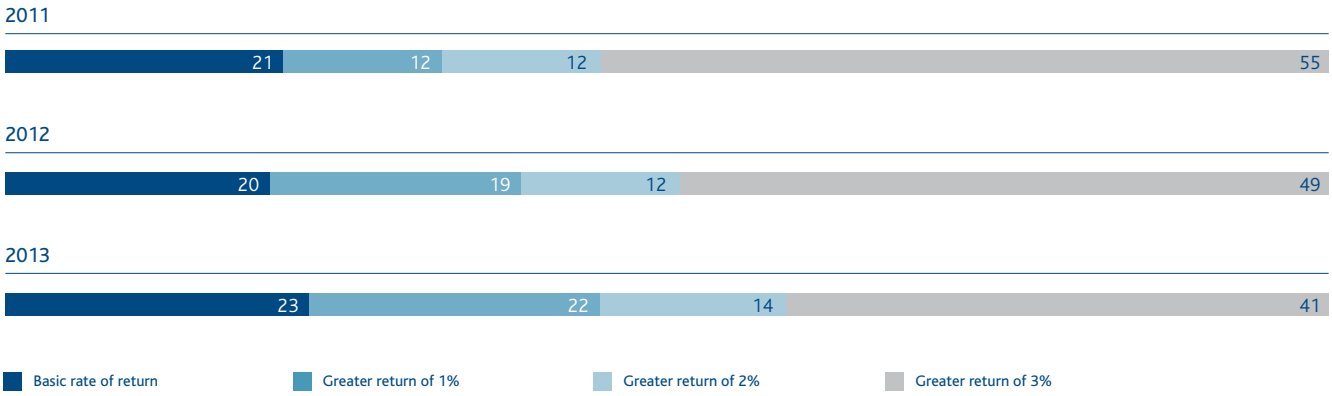
The main investments with **a greater return of 2%** (€90 million) concerned several projects to upgrade the regional and national network, including the construction of methane pipelines in Calabria (€17 million).

The investments with **a greater return of 1%** (€149 million) involved projects aimed at maintaining adequate safety and quality levels at the facilities, including:
- installing new turbocompressors at the Messina compression station in Sicily (€23 million);
- work on avoiding interference with other infrastructures (the Tangenziale Est Esterna di Milano road, the BreBeMi motorway and the Pedemontana motorway) or third-party property (€27 million).

Investments with a **basic rate of return** (€156 million) include the replacement of assets and plants, the implementation of new IT systems and the development of existing ones, and the acquisition of other core operating assets, including property investment.

12 Through Resolution 514/2013/R/gas, the Electricity and Gas Authority defined the new criteria for determining transportation tariffs for the fourth regulatory period (2014-2017), the main features of which, particularly with reference to investments, are discussed in the "Regulation" section below.

INVESTMENT PROPORTIONS BY TYPE OF RETURN (%)



GAS DISTRIBUTION ON THE NATIONAL TRANSPORTATION 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

(billion m^3)	2011	2012	2013	Change	%Change
From imports	70.27	67.61	**61.53**	(6.08)	(9.0)
Domestic output	8.03	8.17	**7.48**	(0.69)	(8.4)
Total gas injected into the network	**78.30**	**75.78**	**69.01**	**(6.77)**	**(8.9)**
Net balance of withdrawals from/injections into storage (*)	(0.89)	(1.51)	**0.49**	2.00	
Total availability of natural gas	**77.41**	**74.27**	**69.50**	**(4.77)**	**(6.4)**

(*) 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 2013 was 69.50 billion cubic metres, down 4.77 billion cubic metres (-6.4%) compared with 2012.

The quantities of gas issued by the national transportation network decreased by 8.9%, to 69.01 billion cubic metres (75.78 billion cubic metres in 2012), due to reduced imports (-6.08 billion cubic metres; -9.0%) and national production (-0.69 billion cubic metres; -8.4%), partly offset by greater net withdrawals from storage (+2.00 billion cubic metres).

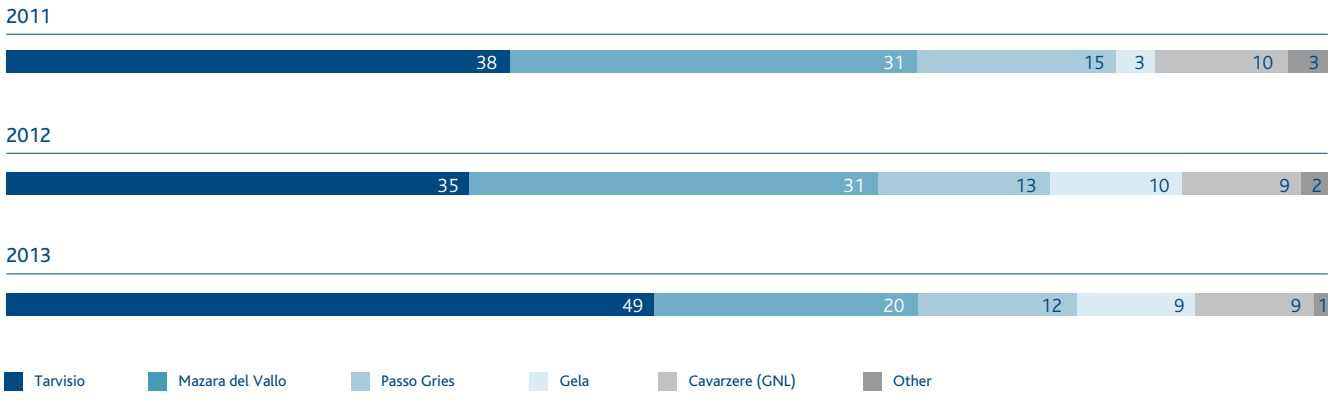
The analysis of imports by entry point is as follows:

IMPORTS BY ENTRY POINT

(billion m³)	2011	2012	2013	Change	%Change
Entry points					
Tarvisio	26.45	23.85	**30.26**	6.41	26.9
Mazara del Vallo	21.55	20.82	**12.46**	(8.36)	(40.2)
Gries Pass	10.86	9.03	**7.49**	(1.54)	(17.1)
Gela	2.34	6.47	**5.70**	(0.77)	(11.9)
Cavarzere (LNG)	7.02	6.17	**5.35**	(0.82)	(13.3)
Livorno (LNG)			**0.21**	0.21	
Panigaglia (LNG)	1.89	1.12	**0.05**	(1.07)	(95.5)
Gorizia	0.16	0.15	**0.01**	(0.14)	(93.3)
	70.27	**67.61**	**61.53**	**(6.08)**	**(9.0)**

Imports were down by -6.08 billion cubic metres, due mainly to lower volumes injected at the Mazara del Vallo (-8.36 billion cubic metres; -40.2%), Gries Pass (-1.54 billion cubic metres; -17.1%) and Gela (-0.77 billion cubic metres; -11.9%) entry points and to lower volumes injected by the Panigaglia and Cavarzere regasification terminals (-1.07 billion cubic metres and -0.82 billion cubic metres respectively). These factors were partly offset by higher imports from Russia at the Tarvisio entry point (+6.41 billion cubic metres; +26.9%) and by the opening in October of the new Livorno regasification terminal, which injected 0.21 billion cubic metres into the network.

NATURAL GAS INJECTED INTO THE NETWORK BY ENTRY POINT (% OF TOTAL GAS INJECTED)



VOLUMES OF NATURAL GAS INJECTED INTO THE NETWORK BY USER

(billion m³)	2011	2012	2013	Change	%Change
Eni	35.12	36.29	**37.56**	1.27	3.5
Enel Trade	9.34	8.43	**6.99**	(1.44)	(17.1)
Other	33.84	31.06	**24.46**	(6.60)	(21.2)
	78.30	**75.78**	**69.01**	**(6.77)**	**(8.9)**

WITHDRAWALS OF NATURAL GAS

(billion m³)	2011	2012	2013	Change	% Change
Redelivery to the domestic market	76.69	73.49	69.05	(4.44)	(6.0)
Exports and transit (*)	0.42	0.38	0.28	(0.10)	(26.3)
Consumption and emissions attributable to Snam Rete Gas	0.27	0.27	0.25	(0.02)	(7.4)
Unaccounted-for gas (UFG) and other changes (**)	0.03	0.13	(0.08)	(0.21)	
Total withdrawals of natural gas	**77.41**	**74.27**	**69.50**	**(4.77)**	**(6.4)**

(*) Includes exports to the Republic of 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 unaccounted-for gas (UFG).

The natural gas withdrawn from the national transportation network in 2013 (69.50 billion cubic metres) is mainly: (i) for redelivery to users at the network exit points (69.05 billion cubic metres); (ii) exports and transit (0.28 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 (0.25 billion cubic metres).

RECONCILIATION OF THE GAS WITHDRAWN FROM THE NETWORK AND ITALIAN DEMAND

(billion m³)	2011	2012	2013	Change	% Change(*)
Quantities withdrawn	**77.41**	**74.27**	**69.50**	**(4.77)**	**(6.4)**
Exports (-) (**)	(0.42)	(0.38)	(0.28)	0.10	(26.3)
Gas injected into the regional networks of other operators	0.06	0.05	0.05		
Other consumption (***)	0.87	0.97	0.80	(0.17)	(17.5)
Total Italian demand	**77.92**	**74.91**	**70.07**	**(4.84)**	**(6.5)**

(*) The percentage change is calculated with reference to the figures in cubic metres.
(**) Includes transit and exports to the Republic of San Marino.
(***) Includes the consumption of the LNG regasification terminals, the consumption of the compression stations for storage and the production treatment stations.

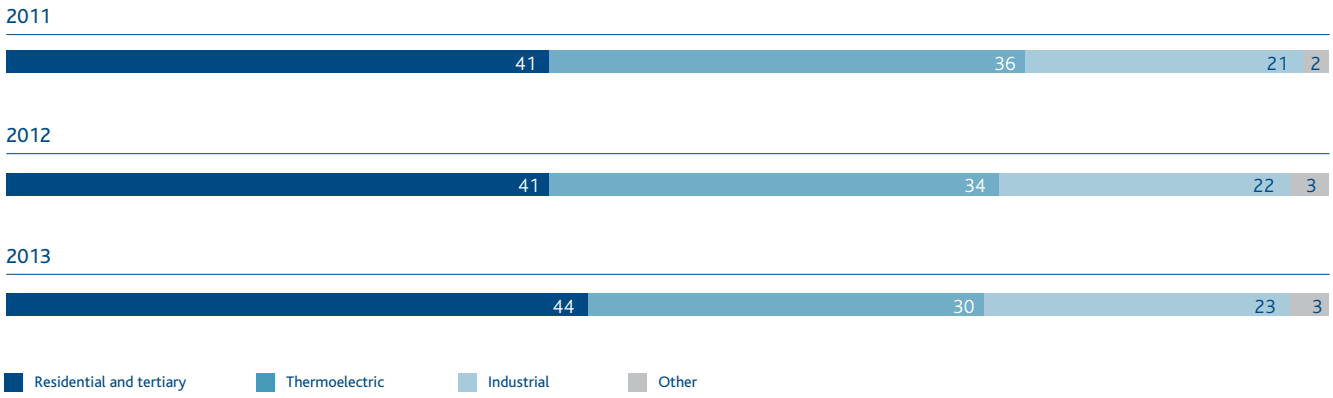
DEMAND FOR GAS IN ITALY

(billion m³)	2011	2012(*)	2013	Change	% Change(**)
Residential and tertiary	30.82	31.00	30.77	(0.23)	(0.7)
Thermoelectric	28.21	25.29	21.16	(4.13)	(16.3)
Industrial (***)	17.04	16.64	16.27	(0.37)	(2.2)
Other (****)	1.85	1.98	1.87	(0.11)	(5.5)
	77.92	**74.91**	**70.07**	**(4.84)**	**(6.5)**

(*) The 2012 figures have been aligned with those 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 was 70.07 billion cubic metres in 2013, down by 4.84 billion cubic metres (-6.5%) compared with 2012. This decrease, which occurred in all sectors, mainly reflected lower consumption in the thermoelectric sector (-16.3%), due to a contraction in electricity demand and simultaneous growth in the production of energy from renewable sources (mainly hydroelectric, wind and photovoltaic power), in the industrial sector (-2.2%), due to a downturn in output, and in the residential and tertiary sector (-0.7%), due to weather trends.
Adjusted for weather effect, gas demand was 70.43 billion cubic metres, down 3.91 billion cubic metres (-5.2%) compared with 2012 (74.34 billion cubic metres).

GAS DEMAND BY SECTOR (% OF TOTAL GAS DEMAND)

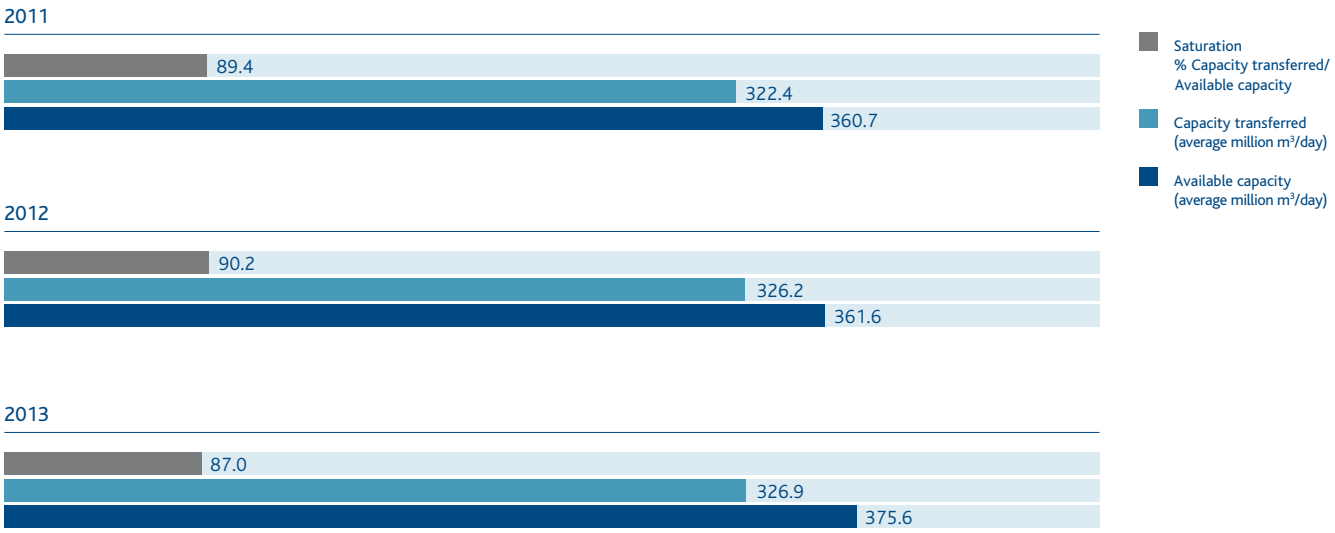


TRANSPORTATION CAPACITY

(million of m³/average per day)	Calendar year 2011			Calendar year 2012			Calendar year 2013		
Entry points	Transportation capacity	Allocated capacity	Saturation (%)	Transportation capacity	Allocated capacity	Saturation (%)	Transportation capacity	Allocated capacity	Saturation (%)
Tarvisio	115.0	111.4	96.9	114.4	109.7	95.9	**113.6**	**105.8**	**93.2**
Mazara del Vallo	103.0	92.1	89.4	103.0	87.8	85.2	**102.9**	**86.7**	**84.3**
Gries Pass	64.7	58.1	89.8	64.4	61.8	96.0	**64.4**	**57.4**	**89.1**
Gela	33.8	27.4	81.1	35.6	31.2	87.6	**35.5**	**29.9**	**84.2**
Cavarzere (LNG)	26.4	24.7	93.6	26.4	23.9	90.5	**26.4**	**21.0**	**79.5**
Livorno (LNG)							**15.0**	**15.0**	**100.0**
Panigaglia (LNG)	13.0	8.3	63.8	13.0	11.3	86.9	**13.0**	**11.0**	**84.6**
Gorizia	4.8	0.4	8.3	4.8	0.5	10.4	**4.8**	**0.1**	**2.1**
	360.7	**322.4**	**89.4**	**361.6**	**326.2**	**90.2**	**375.6**	**326.9**	**87.0**

The transportation capacity of the network again covered all user demand in 2013. Average transportation capacity provided in 2013 was 375.6 million cubic metres on average per day. In addition to the aforementioned capacities which concern the entry points interconnected with foreign countries and the LNG terminals, a transportation capacity totalling 33 million cubic metres on average per day is available at the domestic production entry points.
With regard to overall allocated capacity in calendar year 2013, commercial supply at the connection points with European countries increased from 1 April 2013, due to the sale of daily capacity products. These have made the Italian gas system more flexible, and also accessible to operators with short-term or spot gas supply contracts.
Snam Rete Gas has produced its long-term plan for transportation capacity, which was submitted to the Ministry of Economic Development on 24 June 2013 and published in the Business and Services section of the Snam Rete Gas website (www.snamretegas.it).
Lastly, ISO 9001 certification has been confirmed for the transportation capacity definition process.

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 Ga 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 6.4% in real terms before taxes.

The new investment provides 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 revenue associated with new investments is recognised from the second year following that in which the costs were incurred ("spending") and is 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 15% of the revenue in question, which is updated for inflation and reduced by an annual recovery coefficient set at 2.1%. 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).

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 515/2012/R/gas – "Approval of the tariff proposals for the natural gas transportation and dispatching service 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 the greater return in investment).

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 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 transportation system operators and costs arising from the implementation of Resolution ARG/gas 45/11.

Resolution 514/2013/R/gas – "Regulation criteria for natural gas transportation and dispatching tariffs for the 2014-2017 period".

With this resolution, published on 15 November 2013, the Electricity and Gas Authority defined the regulation criteria for natural gas transportation tariffs for the 2014-2017 regulatory period.

The valuation of the net capital invested (RAB) is based on the revalued historical cost method. The return rate (WACC) of net capital invested was set at 6.3% in real terms, before taxes, for investments made up to 31 December 2013, and at 7.3% in real terms, before taxes, for investments made after that date, in order to mitigate the impact of the "regulatory lag" in the recognition of new investments made in the year n, which are incorporated into the tariff for the year n+2. A revision of the WACC will also be introduced halfway through the regulatory period via an update solely of the return from risk-free assets.

New investments made from 1 January 2014 onwards will earn a greater return that is between 1-2% higher than the variable basic rate (WACC), depending on the type of investment, for a period of 5-10 years.

The method for updating the price cap tariffs is applied only to revenue relating to operating costs, which is updated for inflation and reduced by an annual recovery coefficient set at 2.4%. 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). Amortisation and depreciation are calculated based on the useful economic and technical life of the transportation infrastructure.

The current methodology for determining the capacity/commodity split was confirmed, providing for capacity revenue to cover capital costs (return and amortisation and depreciation) and commodity revenue to cover recognised operating costs. A mechanism was introduced to guarantee commodity revenue, which provides for the adjustment of revenue that is either 4% higher or 4% lower than the base commodity revenue.

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

Fuel gas is treated as a pass-through cost which is payable in kind by users.

Lastly, the Authority calculated the amount payable to the Company for higher costs incurred due to the implementation of measures introduced by Legislative Decree 93/11 and Resolution ARG/gas 45/11 as €6.5 million.

Resolution 603/2013/R/gas – "Approval of the tariff proposals for natural gas transportation and dispatching for 2014 and RTTG amendments".

With this resolution, published on 20 December 2013, the Electricity and Gas Authority approved the natural gas transportation, dispatching and metering tariffs for 2014.

The tariffs were determined on the basis of recognised core revenue, equal to €1,969 million (of which around €135 million related to a greater return on development investments).

The RAB as at 31 December 2012 for transportation, dispatching and metering amounted to €14.8 billion.

DEFINITIVE CERTIFICATION OF SNAM RETE GAS S.P.A.

Resolution 515/2013/R/gas – "Definitive certification of Snam Rete Gas S.p.A. as a transportation system operator for natural gas under the ownership unbundling regime following an opinion issued by the European Commission on 13 September 2013, C(2013) 5961".

With this resolution, published on 15 November 2013, the Electricity and Gas Authority adopted its final decision to certify Snam Rete Gas S.p.A. as a transportation system operator, pursuant to Article 9, paragraph 1 of Directive 2009/73/EC. The Electricity and Gas Authority's decision certifies Snam Rete Gas's compliance with the ownership unbundling model. Moreover, in order to introduce temporary measures to ensure a high level of transparency and prior disclosure for the Authority, the latter imposed an obligation to maintain – temporarily and as an exceptional measure – the position of Head of Compliance. In accordance with Resolution 515/2013/R/gas, at its meeting on 6 December 2013 the Board of Directors of Snam Rete Gas appointed the Head of Compliance.

BALANCING SERVICE

Exploratory investigation into gas balancing service provision methods

With Resolution 282/2012/R/gas, published on 6 July 2012, the Electricity and Gas Authority began a preliminary investigation into settlement relating to balancing and action taken to safeguard the system in the period from 1 December 2011 to 31 May 2012. With Resolution 444/2012/R/gas, the Electricity and Gas Authority extended the period of the preliminary investigation until 28 October 2012. With Resolution 351/2012/R/gas, the Electricity and Gas Authority also identified measures to manage the charges presented by Snam Rete Gas, linking the calculation of the portion of the charges owing to the Balancing Supervisor to the outcome of the preliminary investigation process.

The preliminary investigation ended with Resolution 144/2013/E/gas; subsequently, with Resolution 145/2013/R/gas of 5 April 2013, the Authority launched an ad hoc procedure to calculate the portion of the charges owing to Snam Rete Gas as "total outstanding receivables" and to assess the changing situation.[13]

A communication from the Electricity and Gas Authority on the results of the investigation is pending.

POST-BALANCE SHEET EVENTS

Resolution 9/2014/S/gas – "Launch of punitive proceedings against Snam Rete Gas S.p.A. for non-compliance with Resolution 292/2013/R/gas".

With this resolution, published on 27 January 2014, the Electricity and Gas Authority provided for the launch of punitive proceedings against Snam Rete Gas S.p.A. for non-compliance with Resolution 202/2013/R/gas. The proceedings aim to ascertain whether or not delays exist in provisions relating to the enactment of amendments to the Network Code established with Resolution 292/2013/R/gas.

The duration of the investigation has been set at 120 days, starting on the notification date of the provision, and the final provision must be adopted in the following 90 days. Snam Rete Gas will cooperative fully and provide all the elements required to demonstrate the legitimacy of its operations.

13 More information about the receivables arising from the balancing service can be found in Note 9 to the notes to the consolidated financial statements, "Trade and other receivables".

Liquefied Natural Gas (LNG) regasification

FINANCIAL RESULTS

LNG regasification revenue amounted to €22 million, down €1 million compared with 2012. The revenue relates to the capacity fees[14] (€21 million, compared with €22 million in 2012) and the variable fees associated with the volumes of LNG regasified (€1 million, unchanged compared with 2012).
EBIT amounted to €5 million, unchanged compared with 2012. The reduction in regasification revenue was fully offset by the reduction in operating costs (+€1 million, net of components offset in revenue[15]), due essentially to lower variable costs as a result of the reduction in volumes regasified.

14 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.

15 Costs that are offset in revenue refer mainly to costs for the transportation service provided by Snam Rete Gas that GNL charges back to its customers (€9 million and €11 million respectively in 2013 and 2012).

KEY PERFORMANCE INDICATORS

(€ million)	2011	2012	2013	Change	% Change
Core business revenue (*) (**)	34	34	**31**	(3)	(8.8)
- of which LNG regasification revenue	*23*	*23*	***22***	*(1)*	*(4.3)*
Operating costs (**)	23	25	**21**	(4)	(16.0)
EBIT	7	5	**5**		
Technical investments	3	3	**5**	2	66.7
Volumes of LNG regasified (billions of cubic metres)	1.89	1.12	**0.05**	(1.07)	(95.5)
Tanker loads (number)	50	31	**1**	(30)	(96.8)
Employees in service at 31 December (number)	74	78	**79**	1	1.3

(*) Core business revenue includes the chargeback to the Customers of the charges relating to the natural gas transportation service supplied by Snam Rete Gas S.p.A. For 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.

OPERATING REVIEW

During 2013, the LNG terminal at Panigaglia (SP) regasified 0.05 billion cubic metres of natural gas (1.12 billion cubic metres in 2012), unloading 1 methane tanker (31 in 2012).
The reduction in volumes regasified was due to the global trend in demand for LNG, which resulted in particularly strong demand in the markets of the Far East, to the detriment of the European market.

TECHNICAL INVESTMENTS

Technical investments in the 2013 financial year totalled €5 million (€3 million in 2012) and mainly concerned development investments (€2 million), which related to measures aimed at improving the usage factor of the production plants, and investments intended to maintain plant system safety (€3 million).

REGULATION

Resolution ARG/gas 92/08 – "Criteria for determining regasification service tariffs 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 in order to determine the base revenues, including the rate of return on net capital invested of 7.6%, in real terms, before taxes. With regard to the tariff structure, the breakdown of revenue 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 revenue from the higher rate of return for investments realised in prior regulatory periods.
New investments are remunerated by the payment of a return increased by up to three percentage points over the base rate (WACC), for a period of up to 16 years. Both the increase in the rate of return and the duration are differentiated depending on the type of investment.

Resolution 237/2012/R/gas – "Extension of the criteria for determining regasification tariffs for the transition period October 2012 - December 2013".
With this resolution, 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, 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 revenue of around €28 million and the recognition of increased expenses resulting from local taxes following the resolution of disputes. As at 31 December 2011, the RAB for regasification activities was around €0.1 billion.

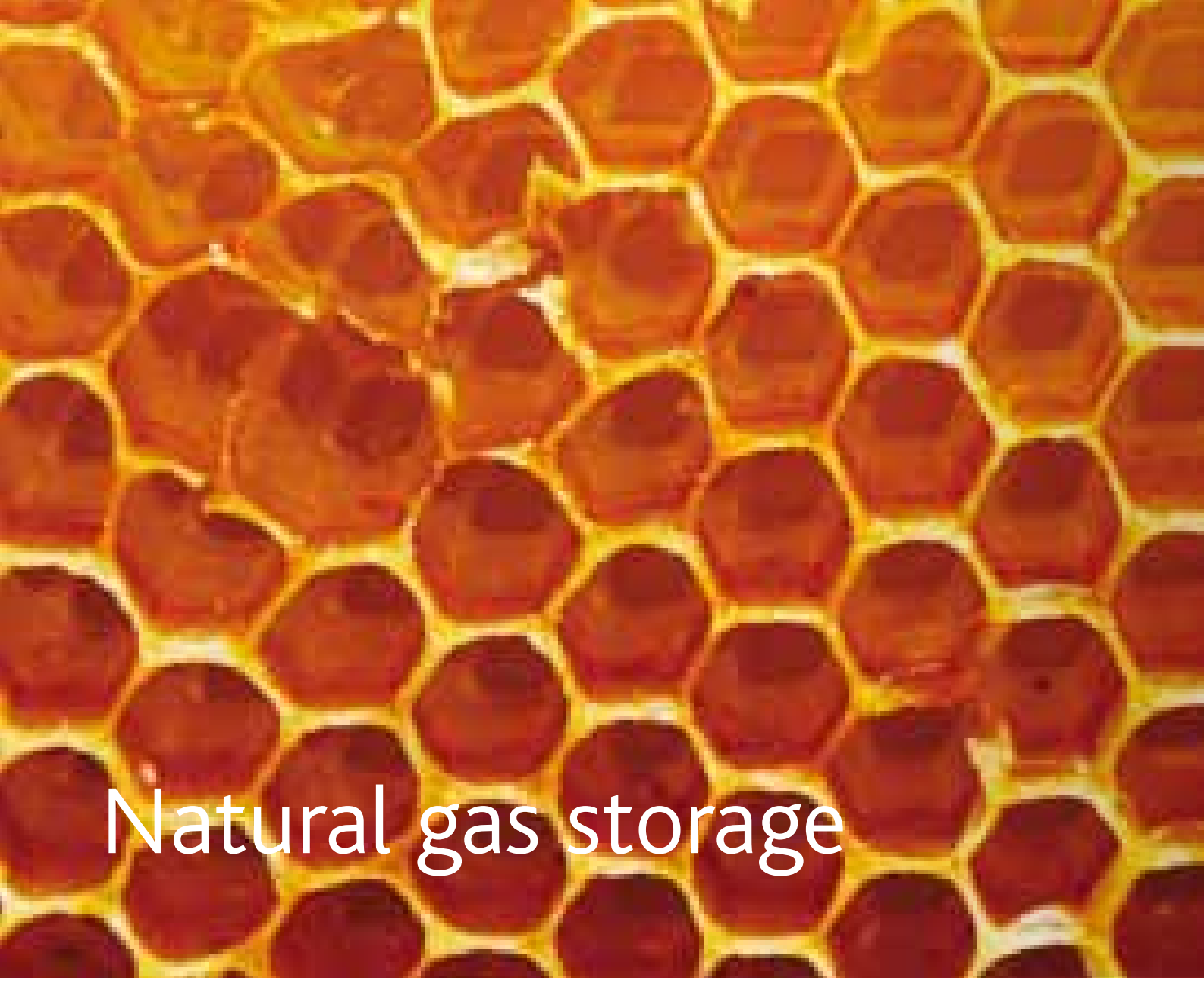
Resolution 438/2013/R/gas – "Regulation criteria for liquefied natural gas regasification tariffs for the 2014-2017 period".
With this resolution, published on 9 October 2013, the Authority defined the criteria for regasification service tariffs applicable in the fourth regulatory period (1 January 2014 - 31 December 2017). For the purposes of determining the relevant revenues, the mechanisms already in force for the third period were essentially confirmed. The return rate of net capital invested (WACC) was set at 7.3% in real terms, before tax, for investments made up to 31 December 2013, and at 8.3% in real terms, before tax, for investments made after that date, in order to mitigate the impact of the "regulatory lag" in the recognition of new investments made in the year n, which are incorporated into the tariff for the year n+2. A revision of the WACC was also introduced halfway through the regulatory period via an update solely of the return from risk-free assets.
With regard to the tariff structure, 100% of the total revenue is allocated to the capacity component (90% to capacity and 10% to commodity in the third regulatory period). The tariffs are updated using the "price cap" method, applied exclusively to the component relating to operating costs. 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 revenue from the higher rate of return for investments realised in prior regulatory periods.
New investments made from the 2014 financial year onwards aimed at expanding the regasification capacity of existing terminals by more than 30% or building new terminals will earn a rate that is two percentage points higher than the basic WACC, for a period of 16 years.
The guarantee factor for covering revenue is set at 64% of total revenue.

Resolution 604/2013/R/gas – "Tariff provisions for the regasification service for 2014, for the companies GNL Italia S.p.A., Olt Offshore LNG Toscana S.p.A. and Terminale GNL Adriatico S.r.l.".
With this resolution, published on 20 December 2013, the Authority approved tariffs for the regasification service provided by GNL Italia for 2014.
The tariffs were set on the basis of the base revenue of €27.6 million. Effective revenue must take account of contractual capacities. The net capital invested as at 31 December 2012 (RAB) was around €0.1 billion.

OTHER PROVISIONS

Ministerial Decree of 13 September 2013 – Amendments to the emergency plan, in accordance with Annex 2 of the Decree of 19 April 2013, relating to the emergency plan to handle unfavourable events for the natural gas system (Official Gazette No. 232 of 3 October 2013) and Ministerial Decree of 18 October 2013 – Terms and conditions for a peak shaving service during the winter period of the 2013-2014 thermal year (Official Gazette No. 258 of 4 November 2013).
With the Decree of 13 September 2013, the Ministry of Economic Development introduced changes concerning the rules for dispatching in emergency conditions and the security obligations of the national natural gas system. Specifically, a "peak shaving" measure was introduced in relation to the usage of LNG stocks. This measure may be activated by using partially used regasification terminals or dedicated LNG tanks. New measures were also introduced to increase gas imports via pipelines connected directly to the Italian gas transportation network, as well as via regasification terminals, including through contractual options for deferred deliveries. With a subsequent Decree of 18 October 2013, the Ministry defined the general conditions for the performance of the peak shaving service by regasification companies and for the allocation of the costs arising from the performance of the service.

Resolution 471/2013/R/gas of the Electricity and Gas Authority – "Provisions for the management of the peak shaving service during the winter period of the 2013-2014 thermal year".
With this resolution, published on 20 December 2013, which transposes the provisions introduced by the Decrees of the Ministry of Economic Development of 13 September 2013 and 18 October 2013, the Authority defined the procedures for the management of the peak shaving service in the event that it is implemented during the winter period of the 2013-2014 thermal year by regasification companies and the Balancing Supervisor, the procedures for amending the regasification codes and the procedures for estimating the costs to be incurred for performing the service.



Natural gas storage

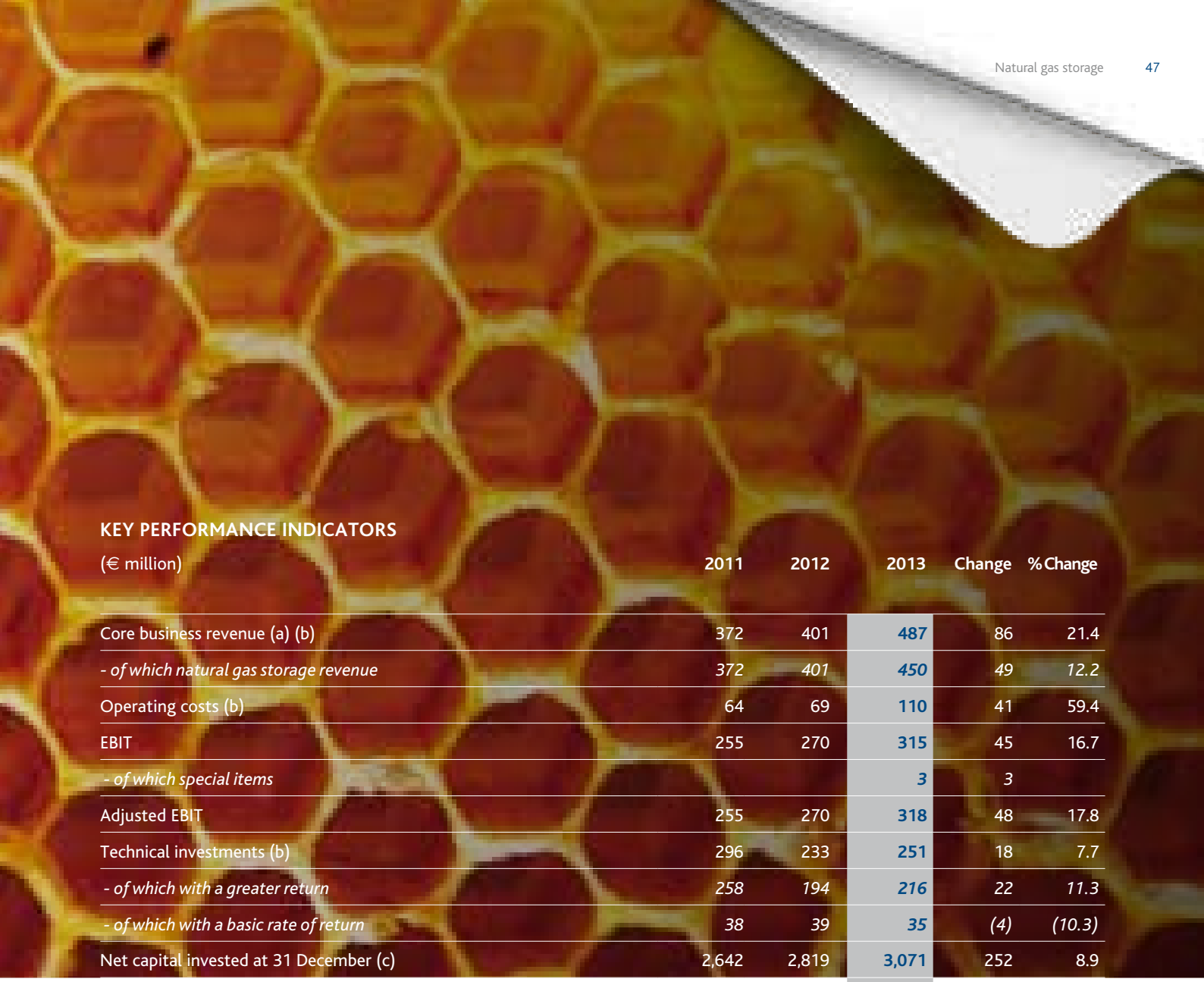
FINANCIAL RESULTS

Natural gas storage revenue totalled €450 million[16], up €49 million (12.2%) compared with 2012. The increase was due essentially to the investments made in 2011 (+€47 million). Storage revenue refers to modulation storage (€386 million; +15.2%) and strategic storage (€62 million; +1.6%).
Adjusted EBIT, which excludes special items[17], amounted to €318 million in 2013, up by €48 million, or 17.8%, compared with 2012. The increase was due to higher storage revenue (+€48 million, net of revenue offset in costs) and to operating cost control (+€1 million, net of items offset in revenue[18]).

16 Including payments totalling €2 million received from Eni in addition to storage revenue for the thermal year 1 April 2012 - 31 March 2013 (€5 million for the thermal year 1 April 2011 - 31 March 2012) in respect of the contractual agreements signed by Eni and Stogit relating to activities connected to Legislative Decree 130/2010, *"Measures for greater competition in the natural gas market and the transfer of resulting benefits to end users, pursuant to Article 30, paragraphs 6 and 7 of Law 99 of 23 July 2009"*.

17 Information on the nature of the special item and the reconciliation of EBIT with adjusted profit can be found under the heading "Reconciliation of EBIT and net profit with adjusted EBIT and adjusted net profit" in the "Financial review" section.

18 Costs offset in revenue consist mainly of costs relating to the natural gas transportation service provided by Snam Rete Gas S.p.A., which Stogit charges back to its customers (€36 million).



KEY PERFORMANCE INDICATORS

(€ million)	2011	2012	2013	Change	% Change
Core business revenue (a) (b)	372	401	487	86	21.4
- of which natural gas storage revenue	*372*	*401*	*450*	*49*	*12.2*
Operating costs (b)	64	69	110	41	59.4
EBIT	255	270	315	45	16.7
- of which special items			*3*	*3*	
Adjusted EBIT	255	270	318	48	17.8
Technical investments (b)	296	233	251	18	7.7
- of which with a greater return	*258*	*194*	*216*	*22*	*11.3*
- of which with a basic rate of return	*38*	*39*	*35*	*(4)*	*(10.3)*
Net capital invested at 31 December (c)	2,642	2,819	3,071	252	8.9
Concessions (number)	10	10	10		
- of which operational (d)	*8*	*8*	*8*		
Natural gas moved through the storage system (billions of cubic metres) (e)	15.31	15.63	18.42	2.79	17.9
- of which injected	*7.78*	*8.43*	*8.92*	*0.49*	*5.8*
- of which withdrawn	*7.53*	*7.20*	*9.50*	*2.30*	*31.9*
Total storage capacity (billions of cubic metres):	15.0	15.7	15.9	0.2	1.3
- of which available (f)	*10.0*	*11.2*	*11.4*	*0.2*	*1.8*
- of which strategic	*5.0*	*4.5*	*4.5*		
Employees in service at 31 December (number)	278	307	303	(4)	(1.3)

(a) As at 1 April 2013, pursuant to Resolution 297/2012/R/gas of 19 July 2012, core business revenue includes the chargeback to storage users of the costs relating to the natural gas transportation service provided by Snam Rete Gas S.p.A. For the purposes of the consolidated financial statements, this revenue is eliminated, together with transportation costs, under Stogit S.p.A., in order to represent the substance of the operation.
(b) Before consolidation adjustments.
(c) The 2012 figure was restated following the retrospective application of the new provisions of IAS 19.
(d) With working gas capacity for modulation services.
(e) Gas volumes are expressed in standard cubic metres (SCM) with a traditional higher heating value (HHV) of 39.3 MJ/SCM.
(f) Working gas capacity for modulation, mining and balancing services. The figure indicated represents the maximum available capacity and may not be in line with the maximum filling. The 2012 figure includes 0.5 billion cubic metres relating to the capacity made available by the reduction of strategic and non-transferable.

OPERATING REVIEW

TECHNICAL INVESTMENTS

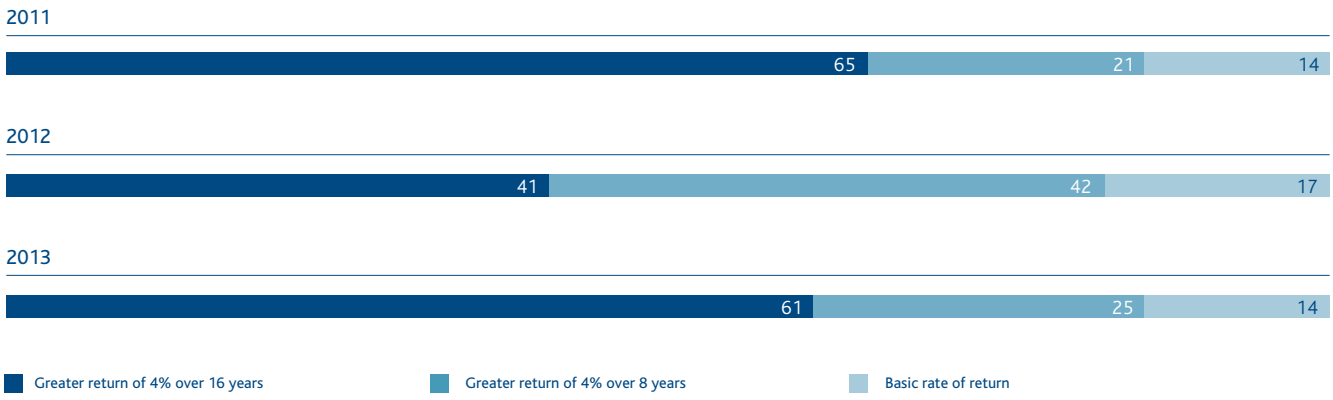
(€ million)	2011	2012	2013	Change	%Change
Development of new fields (greater return of 4% over 16 years)	193	95	154	59	62.1
Upgrading of capacity (greater return of 4% over 8 years)	65	99	62	(37)	(37.4)
Maintenance and other	38	39	35	(4)	(10.3)
	296	233	251	18	7.7

Technical investments in 2013 amounted to €251 million, an increase of €18 million, or 7.7%, compared with 2012. 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 rates of return. A total of 86.0% of investments are expected to benefit from a greater return. The breakdown of investments in 2013 by category will be submitted to the Authority when the tariff proposal is approved for 2015.

Investments with **a greater return of 4% over 16 years** (€154 million) relate mainly to development activities at the Bordolano and Fiume Treste fields for the drilling of wells, the delivery of materials and the execution of work on the plants, as well as to engineering activities relating to the development of the Alfonsine field.

Investments with **a greater return of 4% over eight years** (€62 million) refer to drilling and repowering activities at the Fiume Treste, Sabbioncello, Minerbio and Settala fields.

INVESTMENT PROPORTIONS BY TYPE OF RETURN (% OF TOTAL INVESTMENTS)

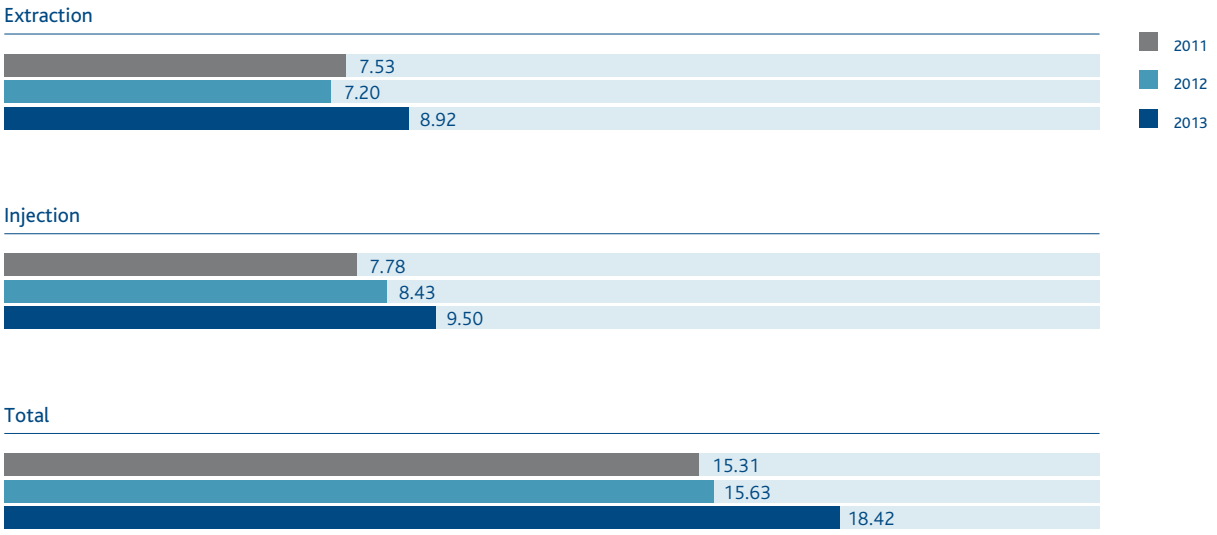


NATURAL GAS MOVED THROUGH THE STORAGE SYSTEM

The volumes of gas moved through the storage system in 2013 amounted to 18.42 billion cubic metres, an increase of 2.79 billion cubic metres (17.9%) compared with the volumes moved in 2012 (15.63 billion cubic metres). The increase was due mainly to higher withdrawals from storage (+2.30 billion cubic metres; +31.9%) as a result of the temperatures recorded in March and April 2013, which were colder than in the corresponding period of the previous year.

Total storage capacity at 31 December 2013, including strategic storage, was 15.9 billion cubic metres (+0.2 billion cubic metres; +1.3%), of which 9.9 billion cubic metres related to available capacity allocated (10.7 billion cubic metres in thermal year 2012-2013), 1.5 billion cubic metres related to available capacity not yet allocated and 4.5 billion cubic metres related to strategic storage (unchanged compared with thermal year 2012-2013)[19].

NATURAL GAS MOVED THROUGH THE STORAGE SYSTEM (BILLIONS OF CUBIC METRES)



WITHDRAWALS OF STRATEGIC GAS RESERVES FROM STORAGE IN 2010-2011

With Resolution 91/2013/S/gas, published on 7 March 2013, the Electricity and Gas Authority initiated proceedings for the adoption of prescriptive measures against the companies Speia S.p.A. and Stogit S.p.A. in relation to possible anomalies in the management of withdrawals of strategic gas reserves in the 2010-2011 thermal year for storage[20].

The proceedings in question resulted from the preliminary investigation launched with Resolutions 282/2012/R/gas and 444/2012/R/gas, with regard to anomalies observed on the balancing market in the period from 1 December 2011 to 23 October 2012, and from the need to carry out an investigation. The purpose of the proceedings is to ascertain the facts concerning withdrawals of strategic gas by Speia during the 2010-2011 thermal year for storage and for the Authority to adopt prescriptive measures to protect one company or the other under combined sanctions, also in derogation of the regulations in force and in order to avoid irregular expense and consequences for end users. The proceedings in question ended with Resolution 463/2013/R/gas, published on 22 October 2013, with which the Electricity and Gas Authority stipulated that it did not have to adopt any provisions with regard to Stogit.

19 On 29 January 2014, the Ministry of Economic Development set the strategic storage volume at 4.62 billion cubic metres for the 2014-2015 contractual storage year (1 April 2014 - 31 March 2015). This was largely in line with the volume set for the 2013-2014 contractual year (4.60 billion cubic metres). The Stogit share of this total was unchanged at 4.5 billion cubic metres.

20 In connection with withdrawals by Speia and other 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. For further information, see Note 30 "Guarantees, commitments and risks" in the notes to the consolidated financial statements.

REGULATION AND OTHER PROVISIONS

Ministerial Decree of 15 February 2013 – Determination of modulation storage capacity and of the methods for distributing and allocating storage capacity (Official Gazette No. 55 of 6 March 2013).
With this decree, the Ministry of Economic Development determined the modulation storage capacity for the thermal year 2013-2014 to be around 6.7 billion cubic metres, to be allocated to civilian customers, prioritised according to supply requirements. The Ministerial Decree also defined the criteria for allocating storage capacity, stipulating that a share of the modulation service capacity (2.5 billion cubic metres) and additional capacity of 1.7 billion cubic metres should be allocated via auction. Lastly, it established the procedures for withdrawing natural gas from the storage system in order to ensure the secure functioning of the natural gas system.

Ministerial Decree of 15 February 2013 – Storage associated with the regasification service and the supply of liquefied natural gas for businesses (Official Gazette No. 59 of 11 March 2013).
With this decree, the Ministry of Economic Development stipulated that a storage capacity of 450 million cubic metres of natural gas would be allocated to industrial business and related consortia to provide them with a direct supply of LNG from abroad, and that a storage capacity of 50 million cubic metres of natural gas would be allocated to regasification users to guarantee the regasification programme should an unforeseeable event occur.

The Ministerial Decree also defined procedures for the allocation and withdrawal of natural gas in relation to the storage capacity allocated to regasification users or to industrial businesses and related consortia that intend to obtain LNG supplies directly from abroad.
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 fee 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 of net capital invested (WACC) is set at 6.7%, in real terms, before taxes.
The greater returns 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 revenue associated with new investments is recognised from the second year following the one in which the costs were incurred ("spending") and are guaranteed regardless of the volumes of gas 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 revenue in question, which is updated for inflation and reduced 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 313/2012/R/gas – "Approval of company payments and calculation of single payments for storage services and the transitory fee for metering activities for 2013".
With this resolution, 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 recognised reference revenue of €437 million.

Resolution 92/2013/R/gas – "Provisions for the allocation of storage capacity for the 2013-2014 thermal year for storage".
With this resolution, published on 5 March 2013, the Electricity and Gas Authority defined how the auction procedure would be organised and how storage capacity would be allocated for the 2013-2014 thermal year, pursuant to the Decree of the Minister of Economic Development of 15 February 2013 ("Determination of modulation storage capacity and of the methods for distributing and allocating storage capacity").
The Authority postponed, to be dealt with under subsequent measures, provisions for amending the time frames for settlement in order to ensure that storage companies have a revenue flow equivalent to that received under the settlement criteria applicable prior to the provisions introduced by the resolution in question, including in the event that the capacity allocation price is lower than the fees approved by the Authority.

Resolution 121/2013/R/gas – "Urgent provisions on settlement relating to storage services for the 2013-2014 thermal year".
With this resolution, published on 29 March 2013, the Electricity and Gas Authority set out the provisions on settlement relating to storage services for the 2013-2014 thermal year in order to mitigate the possible financial impact for storage companies in the event that, due to the provisions of Resolution 92/2013/R/gas, the storage capacity allocation price is different from the fees approved by the Authority.

Resolution 310/2013/R/gas – "Provisions for the allocation of storage capacity for the 2013-2014 thermal year for storage".
With this resolution, published on 15 July 2013, in order to incentivise the replenishment of storage capacity before the end of the injection phase of the 2013-2014 thermal year, the Electricity and Gas Authority set out the procedures for allocating any remaining storage capacity in accordance with the criteria established by Resolution 92/2013/R/gas for the uniform storage service, setting a reserve price of zero.
The resolution also provided for Stogit to offer said capacity for interim storage services, providing for the injection capacity to be available until the end of the injection phase, the withdrawal capacity to be limited to the central period of the withdrawal phase, and the application of fees to cover transportation costs to be applied only to the period of availability of the services provided.

Resolution 350/2013/R/gas – Approval of business fees and determination of unit fees for the storage service for 2014.
With this resolution, published on 2 August 2013, the Electricity and Gas Authority approved the storage tariffs for 2014. The RAB as at 31 December 2012 for natural gas storage activities was about €3.7 billion. The storage tariffs for 2014 were determined based on recognised reference revenue of around €453 million.

Natural gas distribution

FINANCIAL RESULTS

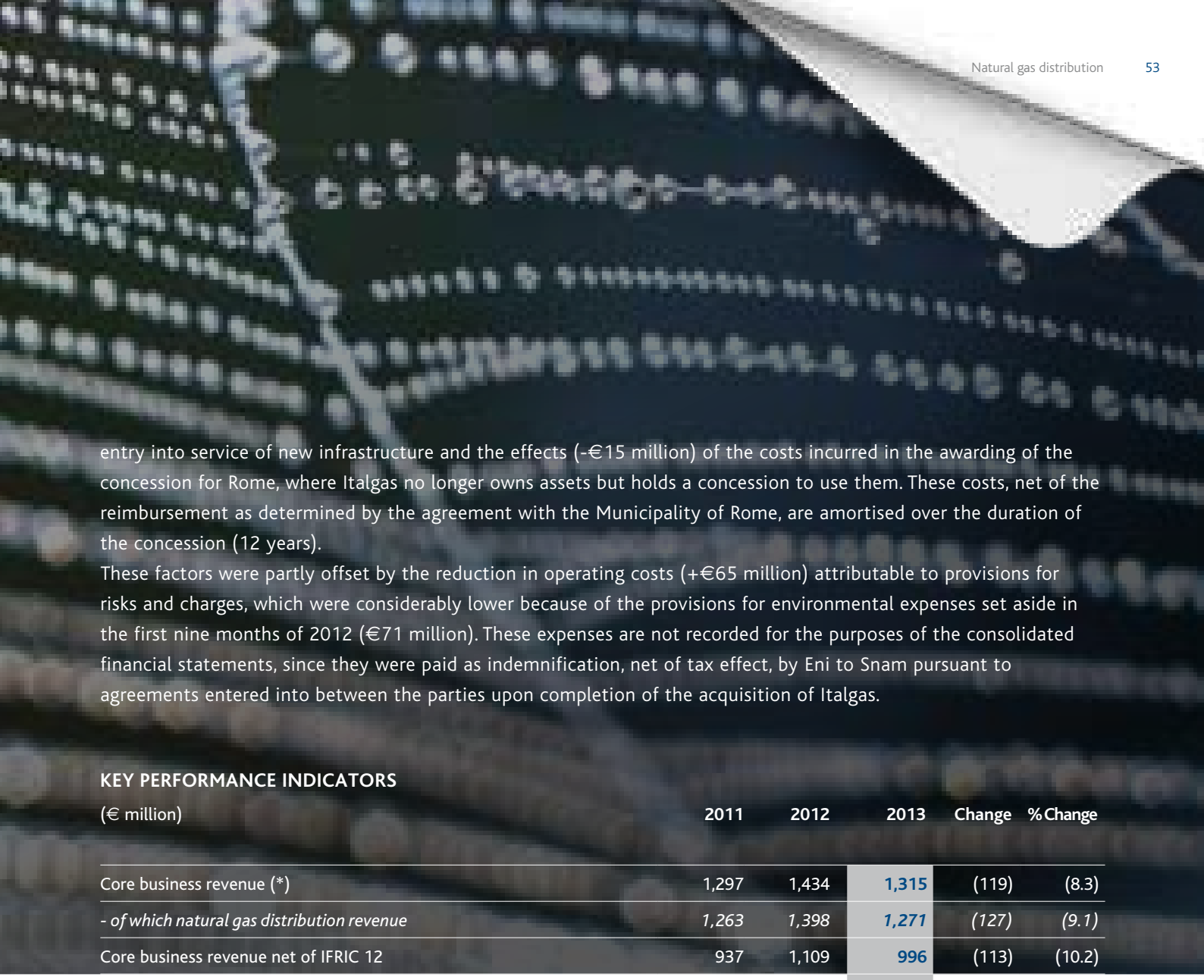
Natural gas distribution revenue amounted to €1,271 million in 2013, a decrease of €127 million, equal to 9.1%, compared with 2012. Excluding revenue from the application of IFRIC 12, distribution revenue decreased by €121 million, or 11.3%. The reduction was due to the effects of the recognition in 2012 of adjustments relating to the 2009-2011 period (€143 million) pursuant to Resolutions 315/2012/R/gas and 450/2012/R/gas of the Electricity and Gas Authority[21], which amended some of the tariff determination criteria for the third regulatory period (2009-2012). These effects were partly offset by higher revenue from tariff updating mechanisms (+€22 million).

Adjusted net profit in 2013, which excludes special items[22], amounted to €516 million, down €110 million, or 17.6%, compared with 2012.

The reduction is mainly due to: (i) lower revenue for the natural gas transmission service (-€121 million); (ii) the reduction in other revenue and income (-€35 million), due mainly to lower capital gains on natural gas distribution concessions; and (iii) higher amortisation, depreciation and impairment losses (-€27 million) due to both the

21 For further details, see the "Regulation" section below.

22 Information on the nature of the special item and the reconciliation of EBIT with adjusted profit can be found under the heading "Reconciliation of EBIT and net profit with adjusted EBIT and adjusted net profit" in the "Financial review" section.



entry into service of new infrastructure and the effects (-€15 million) of the costs incurred in the awarding of the concession for Rome, where Italgas no longer owns assets but holds a concession to use them. These costs, net of the reimbursement as determined by the agreement with the Municipality of Rome, are amortised over the duration of the concession (12 years).

These factors were partly offset by the reduction in operating costs (+€65 million) attributable to provisions for risks and charges, which were considerably lower because of the provisions for environmental expenses set aside in the first nine months of 2012 (€71 million). These expenses are not recorded for the purposes of the consolidated financial statements, since they were 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.

KEY PERFORMANCE INDICATORS

(€ million)	2011	2012	2013	Change	% Change
Core business revenue (*)	1,297	1,434	1,315	(119)	(8.3)
- of which natural gas distribution revenue	*1,263*	*1,398*	*1,271*	*(127)*	*(9.1)*
Core business revenue net of IFRIC 12	937	1,109	996	(113)	(10.2)
- of which natural gas distribution revenue	*903*	*1,073*	*952*	*(121)*	*(11.3)*
Operating costs (*)	633	698	638	(60)	(8.6)
Operating costs net of the effects of IFRIC 12	273	373	319	(54)	(14.5)
EBIT (**)	559	626	505	(121)	(19.3)
- of which special items			*11*	*11*	
Adjusted EBIT (**)	559	626	516	(110)	(17.6)
Technical investments	394	359	358	(1)	(0.3)
Net invested capital at 31 December (***)	3,589	3,850	4,019	169	4.4
Gas distribution (millions of cubic metres)	7,450	7,462	7,352	(110)	(1.5)
Distribution network (kilometres) (****)	52,516	52,586	52,993	407	0.8
Active meters (millions)	5.897	5.907	5.928	0.021	0.4
Employees in service at 31 December (number)	3,005	3,016	3,008	(8)	(0.3)

(*) Before consolidation adjustments.
(**) EBIT for 2012 includes provisions for environmental expenses (€71 million) paid as indemnification, net of tax effect, by Eni to Snam pursuant to contractual agreements entered into when completing the acquisition of Italgas.
(***) The 2012 figure was restated following the retrospective application of the new provisions of IAS 19.
(****) This figure refers to the kilometres of network managed by Italgas.

OPERATING REVIEW

TECHNICAL INVESTMENTS

(€ million)	2011	2012	2013	Change	% Change
Distribution	**215**	**246**	**239**	(7)	(2.8)
Network maintenance and development	171	196	**187**	(9)	(4.6)
Replacement of cast-iron pipes (**greater return** of 2%)	44	50	**52**	2	4.0
Metering	**144**	**79**	**83**	**4**	**5.1**
Other investments	**35**	**34**	**36**	**2**	**5.9**
	394	**359**	**358**	**(1)**	**(0.3)**

Technical investments amounted to €358 million in 2013, in line with the figure for 2012 (€359 million).

Investments in distribution (€239 million) mainly involved development projects (extensions and new networks) and the renovation of old sections of pipe, including the replacement of cast-iron pipes.

Investments in metering (€83 million) primarily concerned the meter replacement programme and the remote meter-reading project.

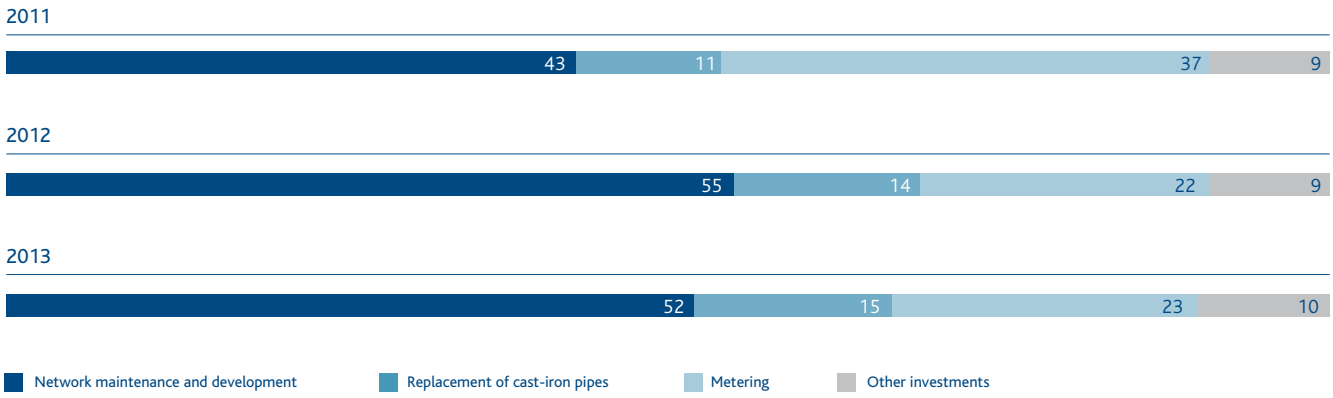
Other investments (€36 million) mainly concerned investments in IT, property and vehicles.

GAS DISTRIBUTION

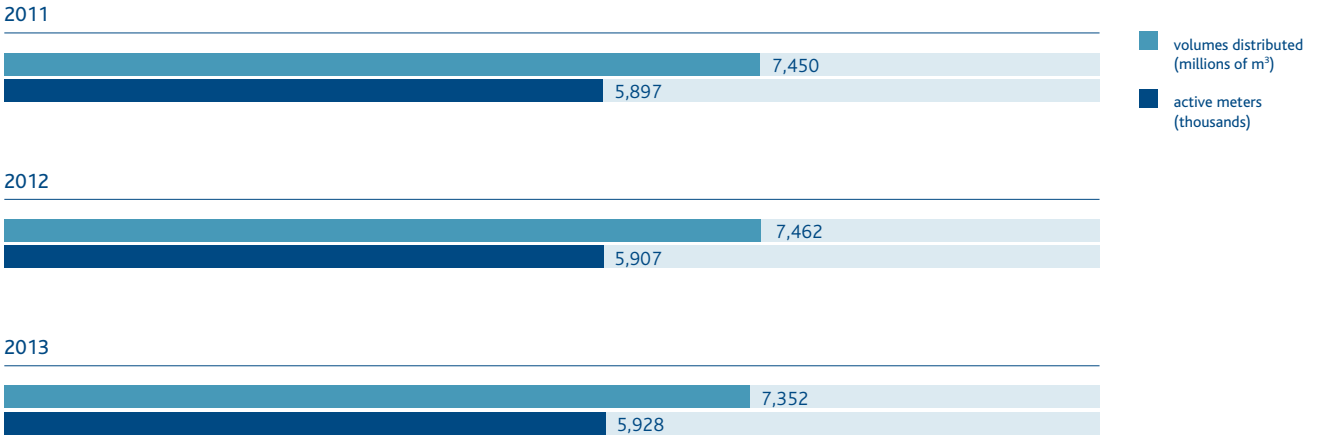
In 2013, 7,352 million cubic metres of gas were distributed, an increase of 110 million cubic metres, or 1.5%, compared with 2012, due mainly to weather conditions.

At 31 December 2013, Snam had concessions for gas distribution services in 1,435 municipalities (unchanged from 31 December 2012), of which 1,344 were in operation (1,337 in 2012) and 91 had networks yet to be completed and/or created (98 in 2012). It had 5,928 million active meters at gas redelivery points to end users (households, businesses, etc.), compared with 5,907 million at 31 December 2012.

INVESTMENT PROPORTIONS BY TYPE (% OF TOTAL INVESTMENTS)



ACTIVE METERS AND GAS VOLUMES



DISTRIBUTION NETWORK

At 31 December 2013, the gas distribution network covered 52,993 kilometres (52,586 kilometres at 31 December 2012). The increase of 407 kilometres compared with 31 December 2012 is due to the construction of new networks, specifically in Calabria, and to the extension of networks for concession commitments.

ISONTINA RETI GAS S.P.A. AND FRAMEWORK AGREEMENT WITH ACEGAS-APS S.P.A.

On 17 April 2013, the Competition Authority blocked the acquisition of 50% of the equity of Isontina Reti Gas S.p.A. by Italgas and the subsequent transfer to said company of some business units of Italgas and Acegas-Aps, on the grounds that it would give Isontina Reti Gas a dominant position that would eliminate or considerably reduce in the long term competition on the market for future tenders for the natural gas distribution concessions in the regions of Gorizia, Trieste, Pordenone and Padua 1.
On 13 June 2013, Italgas filed an appeal against this ruling at the Regional Administrative Court of Lazio.

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 capital invested, amortisation, 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 7.6% in real terms 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 odorisation system in the REMI cabins and the replacement of the cast-iron pipes with hemp- and lead-sealed joints, commissioned after 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 only 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 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"[23] mechanism 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.

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 for the transitional period from 1 January to 31 December 2013, in particular updating the rate of return on invested capital recognised 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.

Resolution 553/2012/R/gas – "Updating of the tariffs for gas distribution and metering services for 2013".

With this resolution, published on 24 December 2012, 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.

Resolution 573/2013/R/gas – "Regulation for natural gas distribution and metering tariffs for the 2014-2019 period".

With this resolution, published on 13 December 2013, the Authority approved the regulation of gas distribution and metering service tariffs for the 2014-2019 regulatory period.

The net capital invested (RAB) of distributing companies is broken down into two categories: capital invested for the site and centralised capital invested. For the assessment of capital invested for the site in the first three years of the regulatory period (2014-2016), the general criterion of assessment of capital invested for the site based on the revalued historical cost method has again been used. Criteria of assessment at standard costs were confirmed for investments relating to the electronic meter installation plan. The parametric method was confirmed for the assessment of centralised capital invested in relation to industrial buildings and property and to other fixed tangible and intangible assets. With regard to centralised assets relating to the remote management systems, the remote meter-reading/remote management costs and the concentrator-related costs incurred by companies will be recognised in tariffs for the first two years of the fourth regulatory period. From 2016 onwards, these costs will be recognised using output-based criteria. The Authority intends to launch a specific procedure in order to assess the possibility of modifying the criteria for assessing new investments from 2017 onwards, so as to facilitate efficient development of the service in the medium-to-long term by introducing standard costs or extending the price-cap methodology to cover capital costs.

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

The WACC of net capital invested (RAB) is set at 6.9% in real terms, before taxes, for the distribution service and at 7.2% in real terms, before taxes, for the metering service. A two-yearly revision of the WACC will also be introduced via an update solely of the return on risk-free activities.
The greater return on investments in the replacement of cast iron with hemp- and lead-sealed joints and in modernising odorisation plants provided for in the previous regulatory period are incorporated into the mechanisms for determining rewards and penalties relating to the security of the natural gas distribution service.
The lag in recognising investments in the third regulatory period will be absorbed by including assets realised in the year t-1 in the value of invested capital.
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).
The method for updating the price cap tariffs is applied solely to revenue relating to operating costs, which are indexed to inflation and reduced by an annual recovery coefficient set, with effect from the end of 2016, at 1.7% for operating costs relating to distribution and at 0% for operating costs relating to metering and marketing. The annual rates of reduction of the unitary costs recognised to cover the operating costs of the distribution, metering and marketing services will be updated by 30 November 2016 with a view to being applied from 1 January 2017 on the basis of a specific procedure to be launched in 2016.
Measures concerning area management tariff regulation will be incorporated into a subsequent provision, to be adopted by March 2014, following further examination and a consultation process.

Resolution 633/2013/R/gas – "Updating of tariffs for 2014 and other measures relating to tariffs for gas distribution and metering services".
With this resolution, published on 27 December 2013, the Authority approved the mandatory tariffs and bi-monthly equalisation prepayment amounts for natural gas distribution and metering services for 2014.