Letter to the shareholders and stakeholders

To our Shareholders and Stakeholders,

Lorenzo Bini Smaghi
Chairman

Carlo Malacarne
CEO

In 2014, Snam once again posted good results, despite the ongoing economic crisis, temporary factors related to weather conditions and, in particular, a fall in consumption in the thermoelectric sector, which resulted in a decrease in gas consumption in Italy for the fourth consecutive year. Domestic demand for gas fell from 83.10 billion cubic metres in 2010 to 61.94 billion cubic metres in 2014 (similar levels to those recorded in the late 1990s), a reduction of 25.5% since 2010 that will be difficult to absorb in the short term. In this context, with falling domestic production and a high dependency on imported gas, Snam focused its development strategy on interconnection capacity and the integration of European gas networks, in line with the long-term strategy recently outlined by the European Union. These objectives drive our development and represent a necessary challenge in order to guarantee secure supplies and greater liquidity within the gas system, which is essential if Italian gas prices are to be structurally aligned with those of the major European countries.

In light of this, in addition to further upgrading gas infrastructure in Italy as part of a wider initiative to facilitate interconnection between European networks, in 2014 Snam completed a major international transaction of strategic importance for our country. December 2014 saw the completion of Snam's acquisition of 89% of the economic rights in Trans Austria Gasleitung GmbH (TAG) in exchange for an amount of €505 million, settled through a capital increase by Snam. TAG owns the Austrian section of the gas pipeline that runs from Russia to Italy via Ukraine, Slovakia and Austria, which is expected to satisfy the majority of Italy's gas import requirements.

The transaction, which follows the recent acquisition of a 45% stake in France's TIGF and a 31.5% stake in Interconnector UK as part of a joint venture with Belgian firm Fluxys, as well as the signing in early 2014 of a memorandum of understanding with Fluxys with a view to pursuing opportunities for growth in Europe, will strengthen the group's position as one of Europe's leading infrastructure operators. Snam now has a new key asset in the East-West energy corridor, including in terms of potential reverse flow to central Europe.

Snam also pursued the measures it began in 2013 to improve its financial structure and align it with business needs in terms of loan terms and interest rate exposure, with significant results in reducing the overall cost of borrowing. At 31 December 2014, fixed-rate debt represented 69% of total financial debt, compared with 49% at the end of 2012 and 64% at the end of 2013; bond issues accounted for 76% of debt. Snam placed new bonds worth a total of €1.7 billion in 2014, providing further proof of international investors' confidence in our business model.

Thanks to our continual focus on operating and financial efficiency, we were again able to achieve strong results in 2014, which is even more impressive given that it was the first year of the new (fourth) regulatory period for the natural gas transportation, regasification and distribution segments. EBITDA and EBIT totalled €2,776 million and €1,973 million respectively, more or less in line with the previous year. Net profit was €1,198 million, up 30.6% compared with 2013. This increase was due mainly to the fall in income taxes as a result of the adjustment to deferred taxes following the recent declaration of the unconstitutionality of the additional corporation tax known as the "Robin Hood Tax" levied on the natural gas transportation and distribution segments, as well as improved financial management and the contribution from assets recognised as part of the business development strategy.

Snam shares closed 2014 at an official price of €4.11, up by 1.9% compared with the price of €4.04 recorded at the end of the previous year, a greater increase than that of Italy's FTSE MIB share index (+0.2%). This reflects investors' confidence in the Company's solid fundamentals and its capacity to generate sufficient operating cash flows to cover the financial requirements for planned investments and to support

an attractive dividend policy, in line with the group's strategic plan.
In 2014, Snam's stock, which was already listed on the world's biggest sustainability indices, including the Dow Jones Sustainability World Index, the FTSE4Good Index, the Climate Disclosure Leadership Index (CDLI) and the various ECPI and Vigeo indices, joined the MSCI indices and the United Nations Global Compact 100 (GC 100), which represents the 100 companies that stand out most worldwide in terms of both attention to sustainability issues and financial performance. Snam is one of only five Italian companies on the GC 100.
With reference to the values that form the basis of the group's strategy and corporate conduct, Snam's achievements in 2014 included winning a "Financial Statements Oscar" in the "Listed Companies and Large Businesses" category. This recognition represents further confirmation of the effectiveness of the group's reporting model and of the numerous communication and stakeholder relations tools used, from the Annual Report to the Sustainability Report, and from the Remuneration Report to the Report on Corporate Governance.
In a changing energy context and with the challenges Snam is preparing to tackle over the next few years, it is essential that we pay careful attention to the evolving situation of gas markets and the energy sector in general. Snam's sizeable investment plan, which is intended to upgrade Italy's gas infrastructure in line with the system's needs whilst simultaneously pursuing international development, aims to promote ever deeper integration of European networks and to consolidate Snam's role as one of the continent's leading integrated operators. To pursue this goal, Snam must take further steps to strengthen its role as a facilitator of the gas system in order to develop and provide integrated services, through the coordinated use of different infrastructures that can satisfy customers' service needs in terms of both flexibility and logistics.

11 March 2015

for the Board of Directors

The Chairman | The CEO

CORPORATE BODIES

BOARD OF DIRECTORS (*)

Chairman

Lorenzo Bini Smaghi [1]

Chief Executive Officer

Carlo Malacarne [1]

Directors

Sabrina Bruno [2][3]

Alberto Clô [1][2]

Francesco Gori [2][3]

Andrea Novelli [1]

Elisabetta Oliveri [2][3]

Pia Saraceno [1][2]

Yunpeng He [4]

BOARD OF STATUTORY AUDITORS (*)

Chairman

Massimo Gatto [5]

Statutory auditors

Leo Amato [6]

Stefania Chiaruttini [6]

Alternate auditors

Maria Gimigliano [6]

Luigi Rinaldi [5]

CONTROL AND RISK COMMITTEE

Francesco Gori - Chairman

Sabrina Bruno

Andrea Novelli

Pia Saraceno

APPOINTMENTS COMMITTEE

Alberto Clô - Chairman

Lorenzo Bini Smaghi [7]

Elisabetta Oliveri

REMUNERATION COMMITTEE

Elisabetta Oliveri - Chairman

Andrea Novelli

Pia Saraceno

INDEPENDENT AUDITORS (**)

Reconta Ernst & Young S.p.A.

(*) Appointed by the Shareholders' Meeting on 26 March 2013 and in office until the date of the Shareholders' Meeting called to approve the financial statements at 31 December 2015.

(**) Role conferred by the Shareholders' Meeting on 27 April 2010 for the period 2010-2018.

(1) Candidate directors on the list presented by shareholder CDP Reti S.p.A.

(2) Independent directors pursuant to TUF and the Code of Corporate Governance.

(3) Candidate directors on the list presented jointly by minority shareholders.

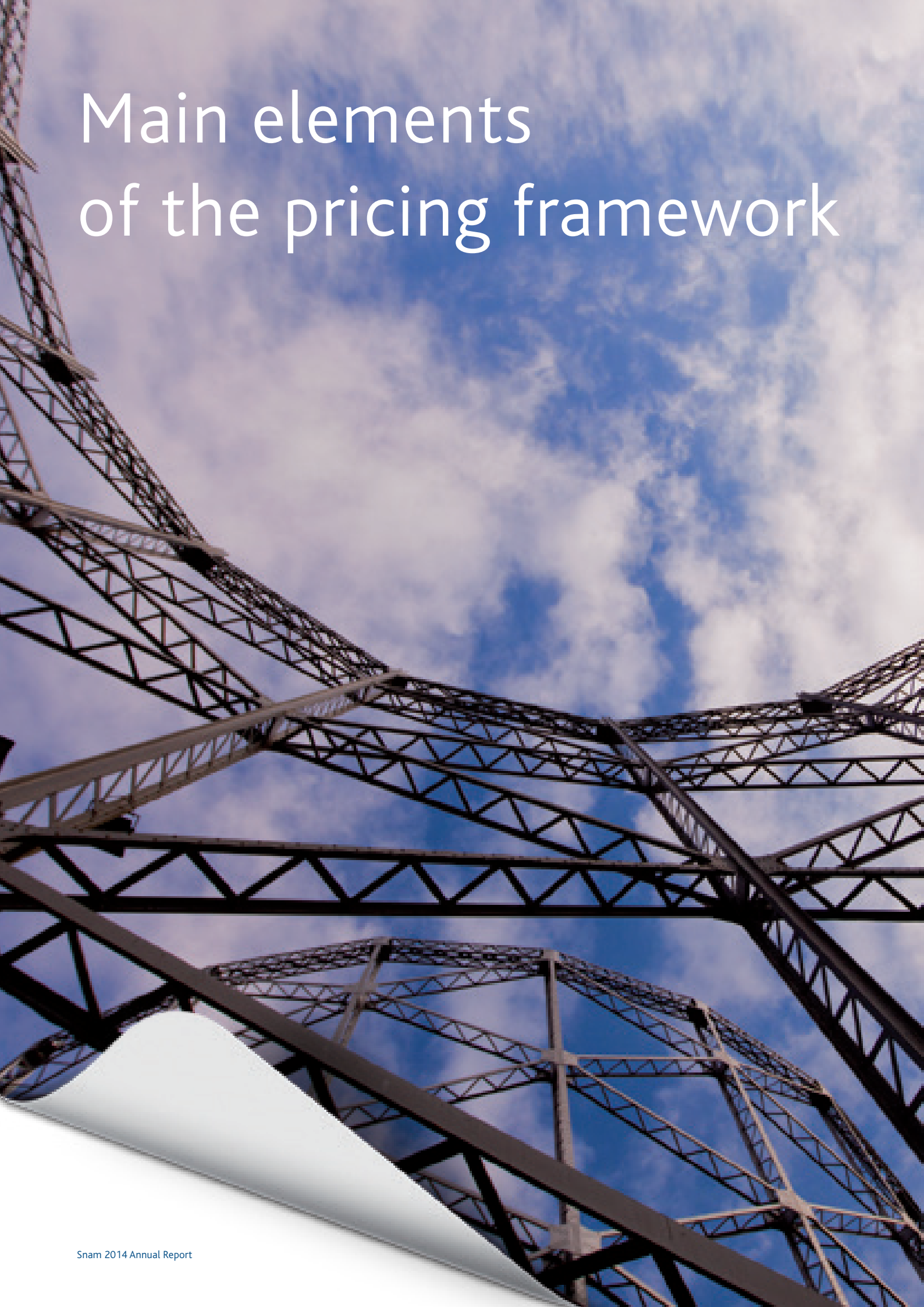
(4) Co-opted by the Board of Directors on 26 January 2015 to replace Roberta Melfa, who stood down on 18 November 2014. Appointed by shareholder CDP Reti S.p.A. based on the shareholder agreements drawn up following the acquisition of an equity investment in CDP RETI by State Grid Europe Limited. In office until the date of the Shareholders' Meeting called to approve the financial statements at 31 December 2015.

(5) Candidate statutory auditors on the list presented jointly by minority shareholders.

(6) Candidate statutory auditors on the list presented by shareholder CDP Reti S.p.A.

(7) Appointed by the Board of Directors on 17 December 2014 to replace Roberta Melfa, who stood down.

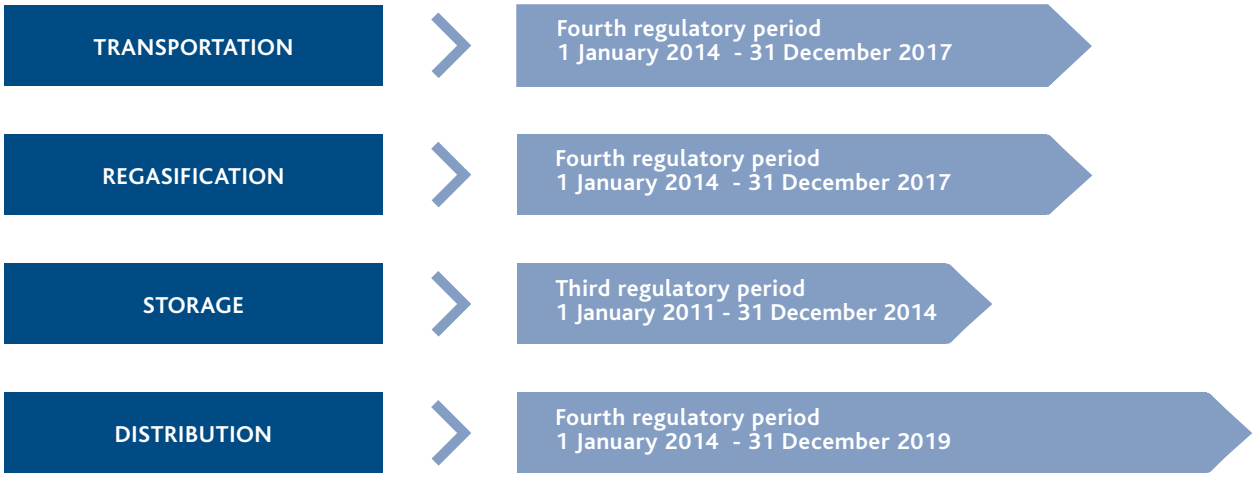
Main elements of the pricing framework



The transportation and regasification of LNG and the storage and distribution of natural gas are regulated by the Electricity, Gas and Water Authority (AEEGSI), in operation since 1997 and responsible for the regulation of the national electricity, natural gas and water 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 is 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.
Through Resolutions 438/2013/R/gas, 514/2013/R/gas and 573/2013/R/gas, the AEEGSI defined the tariff criteria for the fourth regulatory period, in force from 1 January 2014, for natural gas transportation, regasification and distribution, respectively. The third regulatory period for storage came to an end on 31 December 2014.



The following graphic shows 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 2014[19].

	TRANSPORTATION*	REGASIFICATION*	STORAGE	DISTRIBUTION*
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)*	6.3% 2014 - 2015	7.3% 2014 - 2015	6.7% As of 1 January 2015: 6.0%	6.9% (distribution) 2014 - 2015 7.2% (metering) 2014 - 2015
Additional return on new investments	1% over 7 years (regional network development investments) 1% over 10 years (national network development investments) 2% over 10 years (entry point development investments) WACC +1% on new investments carried out after 31 December 2013 to offset the regulatory lag	2% over 16 years (new terminals or increasing capacity at existing terminals by more than 30%) WACC +1% on new investments carried out after 31 December 2013 to offset the regulatory lag	4% over 8 years (on expansions of existing capacity) 4% over 16 years (on the development of new storage fields) As of 1 January 2015 Receipt of 20% of revenues over and above those recognised arising from bankruptcy procedures over 8 years	Incentives relating to service quality
Efficiency factor (X FACTOR)	2.4% on operating costs	0% on operating costs	0.6% on operating costs As of 1 January 2015: 1.4% on operating costs	1.7% on distribution operating costs 0.0% on metering operating costs

* The tariff framework in force provides for the WACC to be revised halfway through the regulatory period.

Information on the tariff criteria for each of the regulated activities can be found under "Business segment operating performance – Tariff regulations".

19 For the storage sector, the graphic also shows the primary tariff components in force as of 1 January 2015, the start date of the fourth regulatory period (1 January 2015 - 31 December 2018), pursuant to Resolution 531/2014/R/gas.

LINEA
1

Natural gas transportation

KEY PERFORMANCE INDICATORS

(€ million)	2012	2013	2014	Change	% Change
Total revenue (*)	2,062	2,075	**2,087**	12	0.6
- of which regulated	*1,948*	*2,066*	***2,065***	*(1)*	
Operating costs (*)	478	375	**402**	27	7.2
EBIT	1,135	1,217	**1,196**	(21)	(1.7)
Adjusted EBIT	1,135	1,228	**1,196**	(32)	(2.6)
Technical investments	700	672	**700**	28	4.2
- of which with a greater return (**)	*557*	*516*	***700***	*184*	*35.7*
- of which with a basic rate of return	*143*	*156*		*(156)*	*(100.0)*
Net invested capital at 31 December	11,116	11,370	**11,877**	507	4.5
Natural gas injected in the national gas transportation network (billions of cubic metres) (***)	75.78	69.00	**62.28**	(6.72)	(9.7)
Gas transportation network (kilometres in use)	32,245	32,306	**32,339**	33	0.1
- of which national network	*9,277*	*9,475*	***9,559***	*84*	*0.9*
- of which regional network	*22,968*	*22,831*	***22,780***	*(51)*	*(0.2)*
Installed power in the compression stations (MW)	864.1	866.9	**893.9**	27	3.1
Employees in service at 31 December (number)	1,978	1,952	**1,874**	(78)	(4.0)

(*) Before consolidation adjustments.
(**) Investments in 2014 include a flat-rate WACC to offset the regulatory lag (1 percentage point higher than the base WACC of 6.3%).
(***) Data for 2014 are correct as at 31 January 2015. Data for 2013 have been aligned with data published by the Ministry of Economic Development.

RESULTS

Total revenue amounted to €2,087 million, up by €12 million, or 0.6%, compared with 2013 (€2,075 million). Net of components offset in costs[20], total revenue amounted to €1,917 million, up by €30 million, or 1.6%, compared with the previous year.

Regulated revenue amounted to €2,065 million, of which €2,020 million related to fees for the natural gas transportation service (+€34 million, or 1.7%) and €45 million related to income from natural gas sales made in order to balance the gas system (-€35 million). Transportation revenue, net of components offset in costs, amounted to €1,895 million, up by €17 million, or 0.9%, compared with the previous year. The contribution from investments made in 2012 (+€86 million) was partly offset by tariff updating (-€56 million) and lower volumes of gas transported (-€6.72 billion cubic metres; -€9 million)[21].

20 Applying gas segment tariff regulations generates revenue components that are offset in costs: modulation, interconnection and balancing. Specifically, balancing revenue that is offset in the operating costs related to withdrawals of gas from storage totalled €45 million (€80 million in 2013) and referred to sales of natural gas for the purpose of balancing the gas system.

21 This includes the positive effect of applying the commodity revenue guarantee mechanism to the volumes in question. The tariff criteria in force for the fourth regulatory period (1 January 2014 - 31 December 2017) are described under "Tariff regulations".

EBIT amounted to €1,196 million, down by €21 million, or 1.7%, compared with the previous year. Higher revenue (+€30 million) was more than offset by the rise in operating costs (-€45 million, net of components offset in revenue), due mainly to higher provisions for risks and charges (-€48 million) in relation primarily to commercial balancing activities, and by the increase in amortisation and depreciation (-€6 million), attributable mainly to the entry into service of new infrastructure.

OPERATING REVIEW

TECHNICAL INVESTMENTS

Third regulatory period						Fourth regulatory period		
2012			2013			2014		
Type of investment	Greater return (%) (*)	€ million	Type of investment	Greater return (%) (*)	€ million	Type of investment	Greater return (%) (**)	€ million
Development of new import capacity	3.0%	340	Development of new import capacity	3.0%	277	Development of new import capacity	2.0%	303
Development of the national network	2.0%	13	Development of the national network	2.0%	3	Development of the national network	1.0%	
Development of the regional network	2.0%	73	Development of the regional network	2.0%	87	Development of the regional network	1.0%	67
Security and quality	1.0%	131	Security and quality	1.0%	149			
Replacement and other		143	Replacement and other		156	Replacement and other		330
		700			672			700

(*) Compared with a real pre-tax WACC of 6.3%.
(**) Compared with a real pre-tax WACC of 6.3% plus 1% to offset the regulatory lag.

Technical investments in 2014 amounted to €700 million, an increase of €28 million, or 4.2%, compared with 2013 (€672 million).

Investments were classified in accordance with Resolution 514/2013/R/gas of the Electricity, Gas and Water Authority, which identified various categories of projects with different rates of return[22].

The breakdown of investments by category for 2013 was defined by the Authority when it approved the tariff proposals for 2015, and the breakdown for 2014 will be submitted to the Authority when it approves the tariff proposals for 2016.

The main development investments subject to **a greater return of 2.0%** (€303 million) concern:

- as part of the initiative to support the market in the north-west of the country, and to make it possible to reverse the physical transportation flows at the interconnection points with northern Europe (€211 million): (i) the continuation of the construction works for the Zimella-Cervignano pipeline; (ii) the delivery of materials and the construction of the Mortara regulating facilities for the Cervignano-Mortara pipeline; (iii) the delivery of materials and the start of construction works for upgrading the Poggio Renatico power station; (iv) the continuation of the works relating to construction of the Poggio Renatico-Cremona pipeline; (v) the delivery of materials and the start of construction works on the new hubs at Minerbio and Sergnano; (vi) the delivery of materials for the Minerbio-Poggio Renatico pipeline; and (vii) the continuation of planning for the new Sergnano and Minerbio power stations.

22 The main tariff components are described in the "Tariff regulations" section.

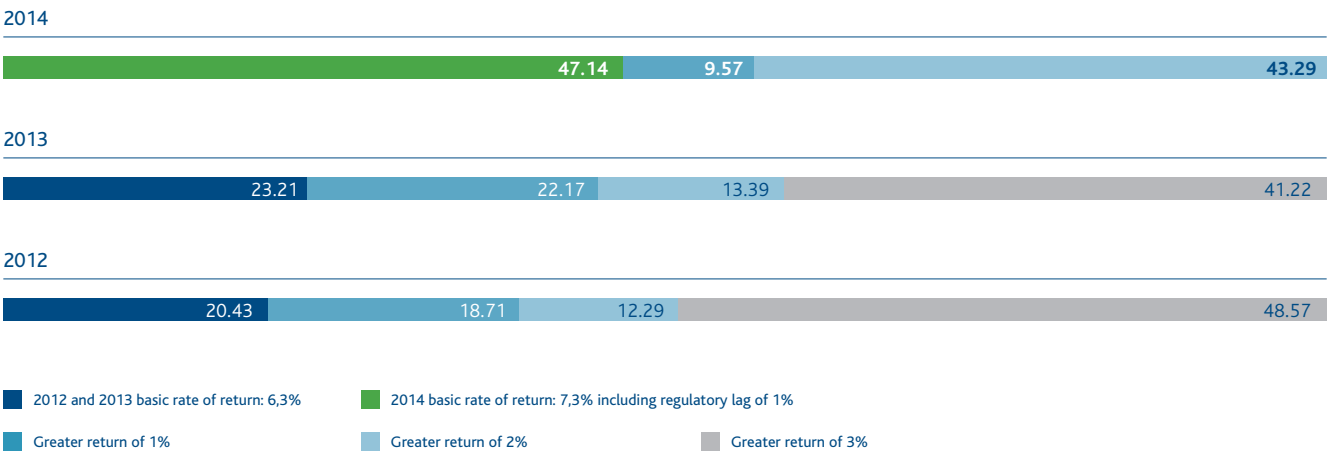
- as part of the projects to upgrade the transportation network from the entry points in southern Italy (€85 million): (i) the delivery of materials and the continuation of renovation work at the Enna power station in Sicily; (ii) the delivery of materials and construction works relating to the Biccari-Campochiaro pipeline, in the Campania, Puglia and Molise regions; and (iii) the delivery of materials for connection points for the Massafra-Biccari pipeline, in the Puglia and Basilicata regions.

The main development investments with **a greater return of 1.0%** (€67 million) relate to a number of works to upgrade the network and to connect to new regional and national redelivery points, including:

- construction works on pipelines and associated connections, as part of the natural gas conversion project in Calabria (€11 million);
- the delivery of materials and the start of construction works on the Gavi-Pietralavezzara pipeline (€11 million) in Piedmont.

Investments with a **basic rate of return** (€330 million) concern works aimed at maintaining security and quality levels at plants (€227 million), projects relating to the development of new information systems and the implementation of existing ones (€45 million), the acquisition of other key operating assets, including real estate investments (€28 million), and compensation for third parties (€26 million).

INVESTMENT PROPORTIONS BY TYPE OF RETURN (%)



DISTRIBUTION ON THE NATIONAL GAS TRANSPORTATION NETWORK[23]

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 m³)	2012	2013(*)	2014	Change	% Change
Gas injected into the network by entry point	67.61	61.54	55.36	(6.18)	(10.0)
Domestic output	8.17	7.46	6.92	(0.54)	(7.2)
Total gas injected into the network	75.78	69.00	62.28	(6.72)	(9.7)
Net balance of withdrawal/introduction into storage (**)	(1.51)	0.48	(0.86)	(1.34)	
Total availability of natural gas	74.27	69.48	61.42	(8.06)	(11.6)

(*) The 2013 figures have been aligned with those published by the Ministry of Economic Development.
(**) Understood as the balance between the withdrawals from (+) and injections into (-) the storage system expressed gross of consumption for injection/withdrawal.

Natural gas availability in Italy (61.42 billion cubic metres), equal to the sum of gas injected into the national transportation network and the net balance of withdrawals from/injections into storage, shows a reduction of 8.06 billion cubic metres (-11.6%) compared with 2013. This decrease was due to lower volumes of gas injected into the network by entry point (-6.18 billion cubic metres; -10.0%), lower domestic output (-0.54 billion cubic metres; -7.2%) and net injections into storage in 2014 (-0.86 billion cubic metres), versus net withdrawals from storage in 2013 (+0.48 billion cubic metres in 2013).

The breakdown of imports by entry point is as follows:

GAS INJECTED INTO THE NETWORK BY ENTRY POINT

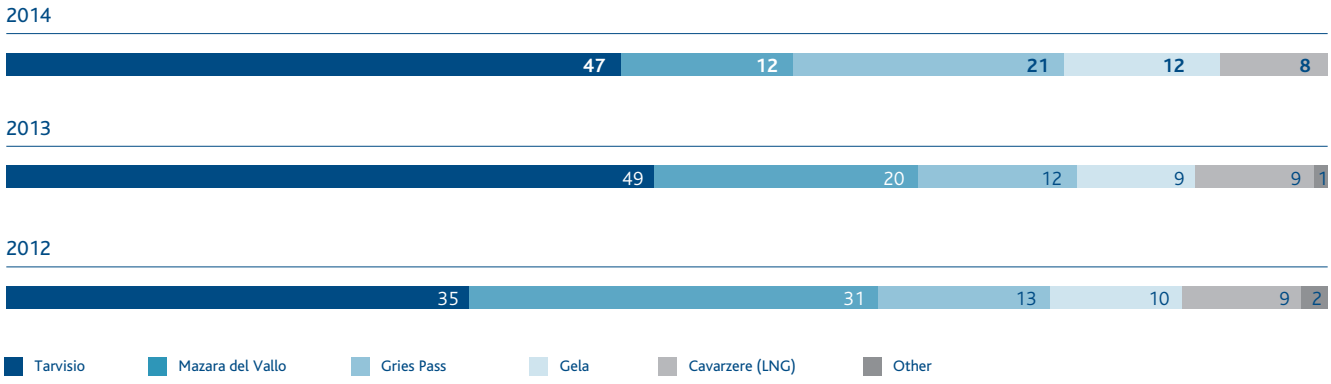
(billion m³)	2012	2013	2014	Change	% Change
Entry points (*)					
Tarvisio	23.85	30.26	26.15	(4.11)	(13.6)
Gries Pass	9.03	7.49	11.43	3.94	52.6
Mazara del Vallo	20.82	12.46	6.78	(5.68)	(45.6)
Gela	6.47	5.70	6.51	0.81	14.2
Cavarzere (LNG)	6.17	5.35	4.47	(0.88)	(16.4)
Panigaglia (LNG)	1.12	0.06	0.02	(0.04)	(66.7)
Livorno (LNG)		0.21		(0.21)	(100.0)
Gorizia	0.15	0.01		(0.01)	(100.0)
	67.61	61.54	55.36	(6.18)	(10.0)

(*) Entry points connected with other countries or with LNG regasification plants.

23 The figures relating to natural gas volumes for 2014 are correct as at 31 January 2015.

The reduction in the volumes of gas injected into the network by entry point (-6.18 billion cubic metres; -10.0%) was due mainly to lower volumes injected at the Mazara del Vallo entry point (-5.68 billion cubic metres; -45.6%), the Tarvisio entry point (-4.11 billion cubic metres; -13.6%) and the Cavarzere regasification terminal (-0.88 billion cubic metres; -16.4%), the effects of which were partly offset by higher volumes injected at the entry points of Gries Pass (+3.94 billion cubic metres; +52.6%) and Gela (+0.81 billion cubic metres; +14.2%).

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



VOLUMES OF NATURAL GAS INJECTED INTO THE NETWORK PER USER

(billion m³)	2012	2013	2014	Change	% Change
eni	36.29	37.54	38.26	0.72	1.9
Enel Trade	8.43	6.99	4.94	(2.05)	(29.3)
Other	31.06	24.47	19.08	(5.39)	(22.0)
	75.78	69.00	62.28	(6.72)	(9.7)

WITHDRAWALS OF NATURAL GAS

(billion m³)	2012	2013	2014	Change	% Change
Redelivery to the domestic market	73.49	69.05	60.97	(8.08)	(11.7)
Exports and transit (*)	0.38	0.28	0.28		
Consumption and emissions attributable to Snam Rete Gas	0.27	0.25	0.18	(0.07)	(28.0)
Unaccounted-for gas (UFG) and other changes (**)	0.13	(0.10)	(0.01)	0.09	(90.0)
Total withdrawals of natural gas	74.27	69.48	61.42	(8.06)	(11.6)

(*) Includes exports to the Republic of San Marino.
(**) Includes the change in 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 2014 (61.42 billion cubic metres) is mainly destined for: (i) redelivery to users at network exit points (60.97 billion cubic metres; -11.7%); (ii) exports and transit (0.28 billion cubic metres), mainly to Slovenia; and (iii) consumption by the compression stations and gas emissions from the network and from Snam Rete Gas plants (0.18 billion cubic metres).

RECONCILIATION OF THE GAS WITHDRAWN FROM THE NETWORK AND ITALIAN DEMAND

(billion m³)	2012	2013(*)	2014	Change	% Change(**)
Quantities withdrawn	**74.27**	**69.48**	**61.42**	**(8.06)**	**(11.6)**
Exports (-) (***)	(0.38)	(0.28)	**(0.28)**		
Gas injected into the regional networks of other operators	0.05	0.05	**0.05**		
Other consumption (****)	0.97	0.82	**0.75**	(0.07)	(8.5)
Total Italian demand	**74.91**	**70.07**	**61.94**	**(8.13)**	**(11.6)**

(*) The 2013 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 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.

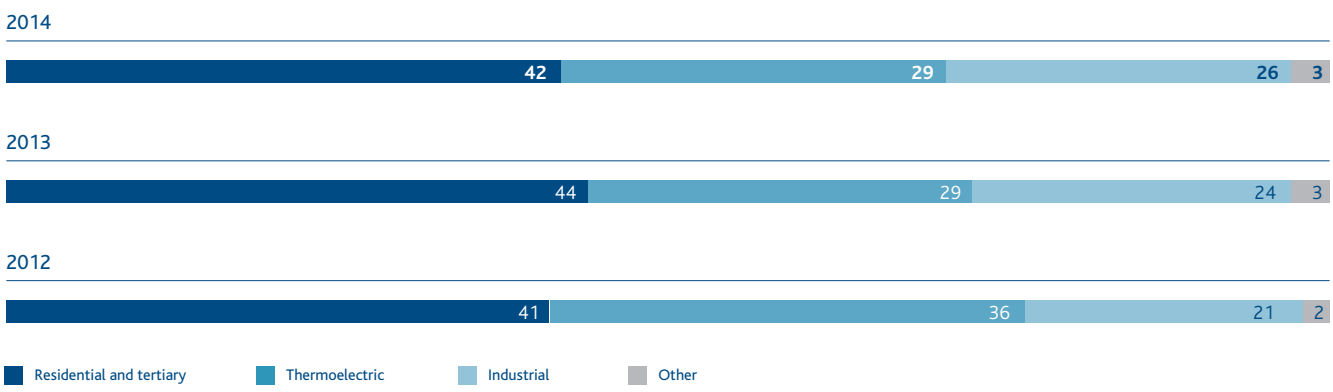
DEMAND FOR GAS IN ITALY

(billion m³)	2012	2013(*)	2014	Change	% Change(**)
Residential and tertiary	31.00	31.09	**25.82**	(5.27)	(17.0)
Thermoelectric	25.29	20.60	**17.73**	(2.87)	(14.0)
Industrial (***)	16.64	16.51	**16.32**	(0.19)	(1.1)
Other (****)	1.98	1.87	**2.07**	0.20	10.8
	74.91	**70.07**	**61.94**	**(8.13)**	**(11.6)**

(*) The 2013 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.
(****) Consumption and losses relating mainly to the natural gas transportation system, the energy system, the upstream sector, storage and LNG plants.

Gas demand in Italy was 61.94 billion cubic metres in 2014, down by 8.13 billion cubic metres (-11.6%) compared with 2013. This decrease, which occurred in all sectors, reflected lower consumption in the residential and tertiary sector (-5.27 billion cubic metres; -17.0%), due mainly to weather trends, and in the thermoelectric sector (-2.87 billion cubic metres; -14.0%), due to a contraction in electricity demand and simultaneous growth in the production of energy from renewable sources (mainly hydroelectric and photovoltaic power).
Adjusted for weather effect, gas demand was 66.97 billion cubic metres, down 3.15 billion cubic metres (-4.5%) compared with 2013 (70.12 billion cubic metres).

GAS DEMAND BY SECTOR (% OF TOTAL GAS DEMAND)

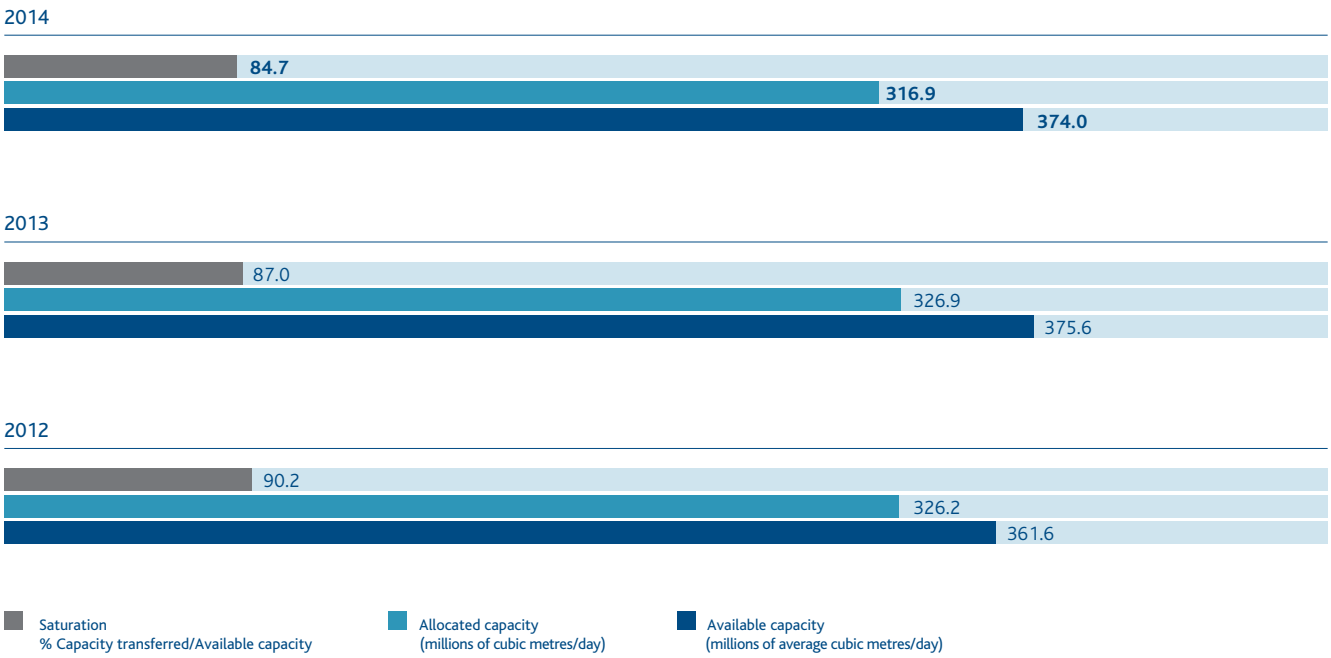


TRANSPORTATION CAPACITY

(million m³/average per day)	Calendar year 2012			Calendar year 2013			Calendar year 2014		
Entry points	Transportation capacity	Allocated capacity	Saturation (%)	Transportation capacity	Allocated capacity	Saturation (%)	Transportation capacity	Allocated capacity	Saturation (%)
Tarvisio	114.4	109.7	95.9	113.6	105.8	93.2	**112.8**	**99.1**	**87.9**
Mazara del Vallo	103.0	87.8	85.2	102.9	86.7	84.3	**102.5**	**86.6**	**84.5**
Gries Pass	64.4	61.8	96.0	64.4	57.4	89.1	**64.4**	**53.7**	**83.4**
Gela	35.6	31.2	87.6	35.5	29.9	84.2	**35.1**	**30.9**	**88.0**
Cavarzere (LNG)	26.4	23.9	90.5	26.4	21.0	79.5	**26.4**	**24.4**	**92.4**
Livorno (LNG)				15.0	15.0	100.0	**15.0**	**15.0**	**100.0**
Panigaglia (LNG)	13.0	11.3	86.9	13.0	11.0	84.6	**13.0**	**7.1**	**54.6**
Gorizia	4.8	0.5	10.4	4.8	0.1	2.1	**4.8**	**0.1**	**2.1**
	361.6	**326.2**	**90.2**	**375.6**	**326.9**	**87.0**	**374.0**	**316.9**	**84.7**

The transportation capacity of the network again covered all user demand in 2014. Average transportation capacity provided in 2014 was 374 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 31 million cubic metres on average per day is available at the domestic production entry points.
Lastly, ISO 9001 certification has been confirmed for the transportation capacity definition process.

TRANSPORTATION CAPACITY AND SATURATION



TARIFF REGULATIONS[24]

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, Gas and Water Authority defined the regulation criteria for natural gas transportation tariffs for the fourth regulatory period (1 January 2014 - 31 December 2017).

The valuation of the net capital invested (RAB) is based on the revalued historical cost method. The rate of return on net invested capital (WACC) 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 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 return that is between 1 and 2 percentage points 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 component relating to the return and amortisation and depreciation is updated on the basis of an annual recalculation of net invested capital (RAB) and additional revenue from the higher rate of return for investments realised in prior regulatory periods. Amortisation and depreciation are calculated based on the useful economic and technical life of the transportation infrastructure.

With regard to tariff structure, 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[25] and Resolution ARG/gas 45/11, "Regulations governing the balancing of economic merit of natural gas", 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, Gas and Water 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, dispatch and metering amounts to €14.8 billion.

24 The Authority's resolutions on punitive and/or investigative proceedings are described in Note 24 to the consolidated financial statements, "Guarantees, commitments and risks - Disputes and other provisions".

25 Legislative Decree n. 93 of 2011 governs the implementation of Directives 2009/72/EC, 2009/73/EC and 2008/92/EC concerning common rules for the internal market in electricity and natural gas and a Community procedure to improve the transparency of gas and electricity prices charged to industrial end users, repealing Directives 2003/54/EC and 2003/55/EC.

Resolution 584/2014/R/gas - "Approval of the revenue recognised for the natural gas transportation and dispatching service for 2015"
With this resolution, published on 28 November 2014, the Authority approved the revenue recognised for the transportation, dispatching and metering service for 2015.
Revenue recognised for the natural gas transportation, dispatching and metering service for 2015 amounted to €1,985 million.
The RAB as at 31 December 2013 for transportation, dispatch and metering amounted to €14.9 billion.

Resolution 608/2014/R/gas - "Approval of the natural gas transportation and dispatching fees for 2015"
With this resolution, published on 12 December 2014, the Authority approved the transportation, dispatching and metering tariffs for 2015, as calculated based on the recognised revenue approved with Resolution 584/2014/R/gas.

POST-BALANCE SHEET EVENTS

Constitutional Court - Ruling 10/2015
On 9 February 2015, with Ruling 10/2015, the Constitutional Court declared the unconstitutionality of Article 81, paragraphs 16, 17 and 18 (the additional corporation tax known as the "Robin Hood Tax") of Decree Law No. 112 of 25 June 2008, "Urgent provisions for economic development, simplification, competitiveness, stabilisation of the public finances and tax standardisation", which was converted into law, with amendments, by Article 1, paragraph 1 of Law No. 133 of 6 August 2008, as subsequently amended. The unconstitutionality takes effect, as set forth in the ruling, from the day after its publication in the Italian Official Gazette, i.e. 12 February 2015. The impact of this ruling on the Snam Group is described in the "Financial review" section.

Pineto incident
The public prosecutor of Teramo has opened an investigation in relation to the incident that occurred on 6 March 2015 near the town of Pineto, concerning a gas leak in a section of pipeline. The reasons for the leak and subsequent fire are being examined. In the short term, the infrastructure was secured by stopping the gas leak and facilitating the extinguishment of the fire.
Snam Rete Gas is actively cooperating with the relevant authorities.

Liquefied Natural Gas (LNG) regasification

KEY PERFORMANCE INDICATORS

(€ million)	2012	2013	2014	Change	% Change
Total revenue (*) (**)	35	31	**28**	(3)	(9.7)
- of which regulated	*34*	*31*	***25***	*(6)*	*(19.4)*
Operating costs (**)	25	21	**23**	2	9.5
EBIT	5	5		(5)	(100.0)
Net invested capital at 31 December	77	75	**84**	9	12.0
Technical investments	3	5	**7**	2	40.0
- of which with a greater return (***)		3	**7**	4	
- of which with a basic return	3	2		(2)	(100.0)
Volumes of LNG regasified (billions of cubic metres)	1.12	0.05	**0.01**	(0.04)	(80.0)
Tanker loads (number)	31	1	**1**		
Employees in service at 31 December (number)	78	79	**77**	(2)	(2.5)

(*) Regulated revenue includes the recharging to customers of the charges 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 derecognised, together with transportation costs, within GNL Italia S.p.A. in order to represent the substance of the operation.
(**) Before consolidation adjustments.
(***) Investments in 2014 include a flat-rate increase in WACC to offset the regulatory lag (1 percentage point higher than the base WACC of 7.3%).

RESULTS

Total revenue amounted to €28 million, down by €3 million, or 9.7%, compared with 2013. Total revenue, net of components offset in costs[26] and income from sales of boil-off gas[27] on the balancing market, stands at €19 million, down by €3 million compared with the previous year. The reduction was due to lower regasification revenue, mainly as a result of tariff updates[28].

Regulated revenue, which totalled €25 million, included the fees for the regasification service (€19 million; -€3 million) and the recharging to users of charges relating to the natural gas transportation service provided by Snam Rete Gas S.p.A. (€6 million; -€3 million)[29].

EBIT fell by €5 million compared with the previous year, due to a fall in regasification revenue (-€3 million) and higher operating costs (-€5 million, net of components offset in revenue), relating mainly to the cost of purchasing natural gas used to maintain the plant's efficiency.

26 Revenue that is offset in costs refers to revenue generated by the transportation service provided by Snam Rete Gas, which LNG recharges to its customers (€6 million, compared with €9 million in 2013).

27 Recovering boil-off gas involves reusing the vapours formed inside tanks. In light of the plant shutdown, the gas recovered was subsequently injected into the transportation network.

28 The tariff criteria in force for the fourth regulatory period (1 January 2014 - 31 December 2017) are described under "Tariff regulations and other provisions".

29 For the purposes of the consolidated financial statements, this revenue is eliminated, together with transportation costs, within GNL Italia S.p.A. in order to represent the substance of the operation.

OPERATING REVIEW

During 2014, the Panigaglia (SP) LNG terminal regasified 0.01 billion cubic metres of natural gas (0.05 billion cubic metres in 2013).
The decrease in volumes regasified was due to the persistent gas consumption crisis in Europe and to the overall trend in global LNG demand, which has seen particularly strong demand in the markets of the Far East, to the detriment of the European market.

TECHNICAL INVESTMENTS

Investments in 2014 totalled €7 million (€5 million in 2013) and concerned maintenance investments aimed at guaranteeing plant system safety.

TARIFF REGULATIONS

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 year n, which are incorporated into the tariff for year n+2. A revision of the WACC was also introduced halfway through the regulatory period via an update solely of the return on 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 net invested capital (RAB) 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 capacity actually allocated. The net capital invested as at 31 December 2012 (RAB) was equal to around €0.1 billion.

Resolution 335/2014/R/gas - "Tariff provisions for the regasification service for 2015, 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 11 July 2014, the Authority approved tariffs for the regasification service provided by GNL Italia for 2015.
The tariffs were set on the basis of base revenue of €28.1 million. Effective revenue must take account of capacity actually allocated. The net capital invested as at 31 December 2013 (RAB) was around €0.1 billion.

Resolution 466/2014/R/gas - "Provisions for the management of the peak shaving service in the winter period of the 2014-2015 thermal year"
With this resolution, published on 25 September 2014, which transposes the provisions introduced by the Decrees of the Ministry of Economic Development of 18 October 2013 and 27 December 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 2014-2015 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

NATURAL GAS STORAGE

(€ million)	2012	2013	2014	Change	% Change
Total revenue (a) (b)	402	489	**541**	52	10.6
- of which regulated	*396*	*486*	***526***	*40*	*8.2*
Operating costs (a) (b)	69	110	**163**	53	48.2
EBIT	270	315	**318**	3	1.0
Adjusted EBIT	270	318	**318**		
Technical investments	233	251	**240**	(11)	(4.4)
Net invested capital at 31 December	2,819	3,071	**3,286**	215	7.0
Concessions (number)	10	10	**10**		
- of which operational (c)	*8*	*8*	***8***		
Natural gas moved through the storage system (billions of cubic metres) (d)	15.63	18.42	**15.70**	(2.72)	(14.8)
- of which injected	*8.43*	*8.92*	***8.13***	*(0.79)*	*(8.9)*
- of which withdrawn	*7.20*	*9.50*	***7.57***	*(1.93)*	*(20.3)*
Total storage capacity (billions of cubic metres)	15.7	15.9	**15.9**		
- of which available (e)	*11.2*	*11.4*	***11.4***		
- of which strategic	*4.5*	*4.5*	***4.5***		
Employees in service at 31 December (number)	307	303	**291**	(12)	(4.0)

(a) Regulated 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., recorded pursuant to Resolution 297/2012/R/gas as of 1 April 2013. For the purposes of the consolidated financial statements, this revenue is derecognised, together with transportation costs, within Stogit S.p.A. in order to represent the substance of the operation.
(b) Before consolidation adjustments.
(c) Working gas capacity for modulation services.
(d) Gas volumes are expressed in standard cubic metres (SCM) with an average higher heating value (HHV) of 39.3 MJ/SCM and 39.2 MJ/SCM respectively for 2013 and 2014.
(e) Working gas capacity for modulation, mining and balancing services. The figure shown represents the maximum available capacity and may not be in line with the maximum levels achieved. The 2012 figure includes 0.5 billion cubic metres relating to the capacity made available by the reduction of strategic and non-transferable storage.

RESULTS

Total revenue amounted to €541 million, up by €52 million, or 10.6%, compared with 2013. Total revenue, net of components offset in costs[30], amounted to €473 million, an increase of €26 million, or 5.8%.

Regulated revenue (€526 million) comprised €464 million in fees for the natural gas storage service (+€14 million; +3.1%) and €62 million in fees charged back to users relating to the natural gas transportation service provided by Snam Rete Gas S.p.A. (+€26 million). Storage revenue, net of components offset in costs, amounted to €458 million, up by €14 million, or 3.2%, compared with 2013. The contribution from investments made in 2012 (€27 million) was partially offset by tariff updating[31] (-€14 million).

30 These components refer mainly to revenue from the chargeback to storage users of charges relating to the natural gas transportation service provided by Snam Rete Gas S.p.A., pursuant to Resolution 297/2012/R/gas of the Authority.

31 The tariff criteria in force for the third regulatory period (1 January 2011 – 31 December 2014) and the fourth regulatory period (1 January 2015 – 31 December 2018) are described under "Tariff regulations and other provisions".

Non-regulated revenue in 2014 (€15 million) mainly comprised storage fees relating to the 2013-2014 thermal year (€13 million, compared with €2 million relating to the 2012-2013 thermal year), arising from contractual agreements between eni and Stogit as part of activities connected to Legislative Decree 130/2010[32].

EBIT totalled €318 million in 2014, up €3 million, or 1.0%, compared with 2013. Higher revenue (+€26 million) and lower amortisation and depreciation (+€4 million) were partly offset by higher operating costs (-€27 million net of components offset in revenue) due mainly to the impairment loss recorded in relation to strategic gas wrongfully withdrawn by certain users in 2010 and 2011[33] (-€30 million). Excluding the effects of this impairment loss, EBIT was €348 million, an increase of €33 million, or 10.5%, compared with 2013.

OPERATING REVIEW

TECHNICAL INVESTMENTS

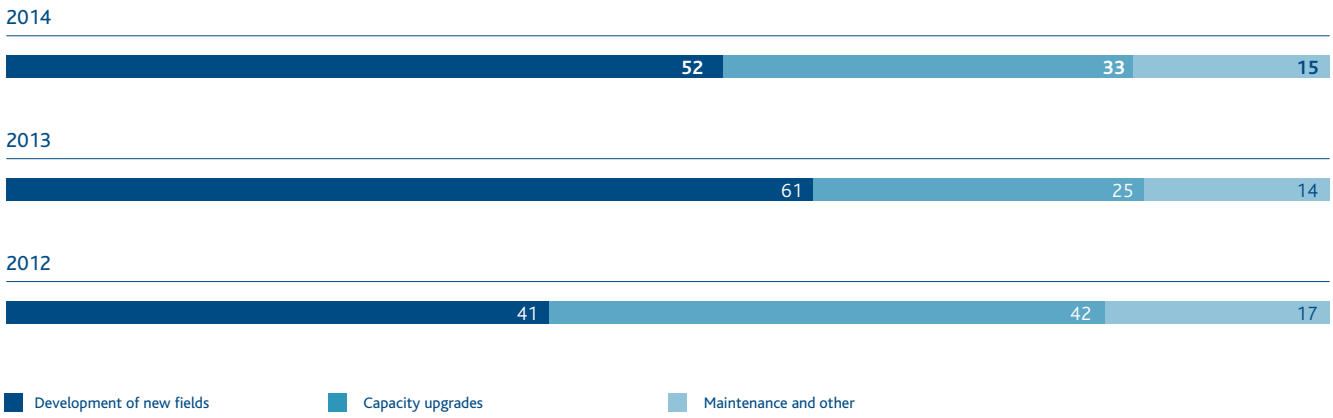
(€ million)	2012	2013	2014	Change	% Change
Development of new fields	95	154	126	(28)	(18.2)
Capacity upgrades	99	62	79	17	27.4
Maintenance and other	39	35	35		
	233	251	240	(11)	(4.4)

Technical investments in 2014 totalled €240 million, a decrease of €11 million (-4.4%) compared with the previous year (€251 million).
Based on the new tariff criteria for the fourth regulatory period (1 January 2015 – 31 December 2018) issued by the Authority with Resolution 531/2014/R/gas, the greater return on investments, equal to 4% for 16 years for investments in the "development of new fields" and 4% for eight years for "capacity upgrading" investments, is recognised exclusively for investments realised by 31 December 2014. As at that date, investments in progress totalled €625 million. For more information on tariff criteria, please see the "Tariff regulations and other provisions" section.
Investments in the **development of new fields** (€126 million) refer mainly to activities involved in the development of the Bordolano and Fiume Treste fields, particularly the drilling of wells, the purchase of materials and the performance of work on the plants.
Capacity upgrading investments (€79 million) refer to the drilling of wells at the Settala and Fiume Treste storage fields and repowering activities at the Minerbio storage field.

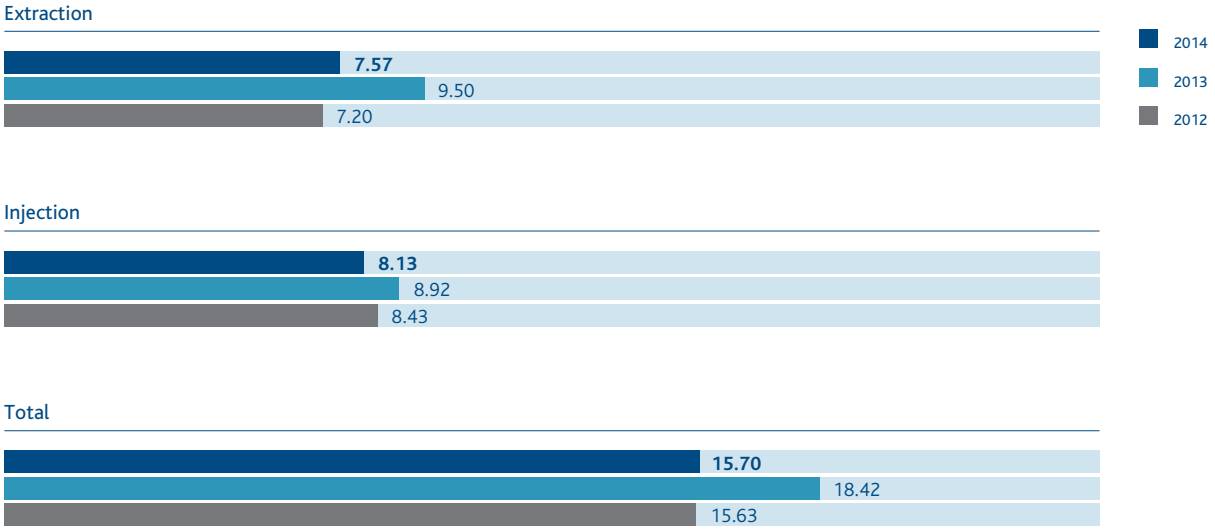
32 *"Measures for greater competition in the natural gas market and the transfer of resulting benefits to end users, pursuant to Article 30, paragraphs 6 and 7 of Law 99 of 23 July 2009".*

33 The impairment loss is a result of recent developments in the bankruptcy proceedings, which have not yet been formally concluded, which suggest that it is unlikely that Stogit will be able to collect the receivables it is owed by users and that the gas wrongfully withdrawn will be replenished. For more information, see Note 9 "– "Inventories" to the consolidated financial statements.

INVESTMENT PROPORTIONS BY TYPE (% OF TOTAL INVESTMENTS)



NATURAL GAS MOVED THROUGH THE STORAGE SYSTEM (BILLONS OF CUBIC METERS)



In 2014, 15.70 billion cubic metres of **natural gas was moved through the storage system**, a reduction of 2.72 billion cubic metres (14.8%) on 2013 (18.42 billion cubic metres). This reduction was attributable to lower withdrawals from storage (-1.93 billion cubic metres; -20.3%) as a result of milder first-quarter temperatures than during the previous year.

The total storage capacity as at 31 December 2014, including strategic storage, was 15.9 billion cubic metres (unchanged since 31 December 2013), of which 11.4 billion cubic metres related to available storage capacity, which was allocated in full for the 2014-2015 thermal year, and 4.5 billion cubic metres related to strategic storage (unchanged compared with the 2013-2014 thermal year)[34].

Thanks to significant investments made to develop new deposits and upgrade existing ones, thereby increasing its volume and delivery point capacity, on 26 October 2014 Stogit exceeded the previous maximum quantity of gas in stock at its storage systems, reaching 11,005 million standard cubic metres.

34 On 26 January 2015, the Ministry of Economic Development set the strategic storage volume at 4.62 billion cubic metres for the 2015-2016 contractual storage year (1 April 2015 – 31 March 2016). This was in line with the volume set for the 2014-2015 contractual year. The quota pertaining to Stogit remained unchanged, at 4.5 billion cubic metres.

TARIFF REGULATIONS AND OTHER PROVISIONS

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, Gas and Water Authority issued the criteria for calculating 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 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 85/2014/R/gas - "Provisions for the allocation of storage capacity for the 2014-2015 thermal year for storage"

The Authority used this resolution, published on 28 February 2014, to govern the organisation of tenders for the allocation of storage capacity for the 2014-2015 thermal year based on the provisions of the Decree of the Ministry of Economic Development of 19 February 2014, "Modulation storage capacity allocation methods, 1 April 2014 - 31 March 2015", to amend the procedures for determining the services available to users during the injection phase, and to make provision for certain interventions relating to the storage capacity allocated pursuant to Legislative Decree 130/10.

Specifically, the resolution makes provision for four tenders per month, from March to September 2014, to allocate capacity for the leading, uniform modulation service. The resolution also provides that users can make available to Stogit, for allocation to third parties, the service capacities to which they are entitled pursuant to Legislative Decree 130/10.

Resolution 144/2014/R/gas - "Provisions on storage capacity financed pursuant to Legislative Decree 130/10"

With this resolution, published on 31 March 2014, the Authority defined the criteria for recalculating the unit access fee pursuant to Resolution ARG/gas 29/11 for the 2013-2014 thermal year for storage.

Resolution 295/2014/R/gas - "Provisions on settlement relating to storage services for the 2014 - 2015 thermal year"

For the 2014-2015 thermal year, this resolution, published by the Authority on 23 June 2014, governs the way in which any differences are eliminated between the revenue recognised by storage companies on the basis of the tariffs approved through Resolution 350/2013/R/gas and those recognised following tenders pursuant to Resolution 85/2014/R/gas.

This mechanism, for the period 1 April 2014 to 31 March 2015, is the same as the one activated by the Authority for the previous year through Resolution 121/2013/R/gas, with the added recovery of revenues arising from the failure to apply the variable storage fee on volumes injected into the network, which Resolution 85/2014/R/gas set at zero starting from 1 April 2014.

Resolution 531/2014/R/gas - "Regulation criteria for natural gas storage service tariffs for the 2015-2018 period"
With this resolution, published on 31 October 2014, the Authority issued the criteria for defining storage service tariffs applicable in the fourth regulatory period (1 January 2015 - 31 December 2018).
The valuation of the net capital invested (RAB) is based on the revalued historical cost method. The capital invested is calculated with reference to the fixed assets recorded in the financial statements at 31 December t-1 (instead of 31 December t-2) in order to reduce the effect of the regulatory time lag. Fixed assets under construction relating to investments realised by 31 December 2014 may be included in the calculation of RAB.
As of 1 January 2015, the calculation of RAB takes into account only realised investments, inclusive of interest expense on assets under construction. The return rate (WACC) of net capital invested for 2015 is set at a real rate of 6% before taxes. A revision of the WACC starting from 2016 is also planned via an update of the return on risk-free assets (average for September 2014 - August 2015) whilst keeping all other parameters unchanged.
For investments realised by 31 December 2014, the incentives in force in the second and third regulatory periods (4% for a period of 8/16 years) will continue to apply. Investments related to the building of additional capacity (on top of what is set forth in the plan under Legislative Decree 130/10) will earn, for eight years, a proportion (20%) of any revenue exceeding that generated from allocating the capacity through auction.
The method for updating the price cap revenue is applied only to the component relating to operating costs, which is updated for inflation and reduced by an annual recovery coefficient, to be set by the Authority in a subsequent order. 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). As in the third regulatory period, the amortisation and depreciation is subtracted from the price-cap mechanism.
A guarantee mechanism will continue to apply to total base revenue.
The regulations governing the setting of fees for the storage service were defined by Authority Resolution 49/2015/R/gas, while the definitive RAB and base revenue pertaining to Stogit for 2015 will be determined with a subsequent order, to be issued by the Authority by 31 July 2015. The 2014 storage service fees and the relevant equalisation mechanisms will continue to apply until the end of the 2014-2015 storage thermal year. The fees determined pursuant to Resolution 49/2015/R/gas will be applicable from 1 April 2015.
On 24 December 2014, Stogit S.p.A. filed an appeal with the administrative courts against Authority Resolution 531/2014/R/gas, with reference in particular to the recognition of the greater return on net invested capital for investments realised by 31 December 2014, with the exception of fixed assets under construction.

Resolution 586/2014/R/gas - "Launch of proceedings for the formation of provisions on regulatory mechanisms for the development of additional national gas system storage point services"
With this resolution, published on 28 November 2014, the Authority launched proceedings to define mechanisms to incentivise the development of additional storage point services.

Consultation document 656/2014/R/gas of 23 December 2014 - "Regulatory mechanisms to incentivise the development of additional national gas system storage point services"
With this consultation document, the Authority set forth its guidelines on procedures for determining incentives for the realisation of additional delivery point capacity services within the storage system, which will apply to investments realised as of 2015.

OTHER PROVISIONS

Law No. 9 of 21 February 2014 - Conversion into law, with amendments, of Decree Law 145 of 23 December 2013
Law No. 9/2014, converting Decree Law No. 145/2013 (known as "Destination Italy"), stipulates that the industrial investors mentioned in Legislative Decree 130/10 must inform the Ministry of Economic Development of their desire to maintain investment in the development of new storage capacity pursuant to said Legislative Decree within 60 days of the Law's issuance. Pursuant to the aforementioned Law, a tender procedure has also been launched for the allocation of new storage capacity, which is reserved for the electricity-generating companies mentioned in Legislative Decree 130/10.
Stogit is obliged only to create new storage capacity in the quantities specified by the industrial investors and allocated to electricity-generating companies during the tender.
There was no request for storage capacity for the thermoelectric sector following the tender conducted by Stogit, while only one industrial investor expressed a desire to maintain investment in the development of physical storage capacity for the additional amount of 3.7 million standard cubic metres.
As a result, the volume of new capacity was reduced from the expected 4 billion cubic metres to the present 2.6 billion cubic metres.

Ministerial Decree of 19 February 2014 - Modulation storage capacity allocation methods, 1 April 2014 - 31 March 2015 (Official Gazette No. 50 of 1 March 2014)
The Ministry of Economic Development used this decree to set the modulation storage capacity for the thermal year 1 April 2014 - 31 March 2015 at approximately 6,950 million cubic metres, to be allocated as a priority (50% of said capacity) to entities directly or indirectly supplying civilian customers. The decree provides for this capacity, together with additional available storage capacity of approximately 1,610 million cubic metres, to then be allocated by way of tenders held throughout the injection period.
The Ministerial Decree also states that 500 million cubic metres of natural gas storage capacity shall be allocated to industrial companies and their consortia, to enable them to offer integrated regasification services aimed at ensuring the direct procurement of LNG from abroad.

POST-BALANCE SHEET EVENTS

Resolution 51/2015/R/gas - "Approval of company storage service revenue for 2015"
With this resolution, published on 13 February 2015, the Authority provisionally approved the core storage service revenue for 2015. The provisionally approved revenue is intended to constitute a reference value that will be used to calculate the storage capacity allocation fees. By 31 May 2015, storage companies will submit to the Authority their definitive core revenue proposals, as calculated using the final annual asset increases for 2014. These proposals will be approved by the Authority within 60 days.

Natural gas distribution

KEY PERFORMANCE INDICATORS

(€ million)	2012	2013	2014	Change	% Change
Total revenue (*) (**)	1,186	1,038	**1,053**	15	1.4
- of which regulated	*1,155*	*1,008*	***1,026***	*18*	*1.8*
Operating costs (*)(**)	373	319	**331**	12	3.8
EBIT (**)	626	505	**477**	(28)	(5.5)
Adjusted EBIT (**)	626	516	**477**	(39)	(7.6)
Technical investments (***)	359	358	**359**	1	0.3
Net invested capital at 31 December	3,850	4,019	**4,368**	349	8.7
Gas distribution (millions of cubic metres) (***)	7,462	7,352	**6,500**	(852)	(11.6)
Distribution concessions (number) (***)	1,435	1,435	**1,437**	2	0.1
Distribution network (kilometres) (***)	52,586	52,993	**55,278**	2,285	4.3
Active meters (millions) (***)	5.907	5.928	**6.408**	0.480	8.1
Employees in service at 31 December (number) (***)	3,016	3,008	**3,124**	116	3.9

(*) From 1 January 2014 and only for the reclassified income statement, revenue from the construction and upgrading of distribution infrastructure entered in accordance with IFRIC 12 and recognised in an amount equal to the costs incurred (€316 million in 2014) is shown as a direct reduction of the respective cost items. The corresponding amounts for previous years (€319 million and €325 million respectively in 2013 and 2012) were reclassified accordingly.
(**) Before consolidation adjustments.
(***) The 2014 operating figures include those attributable to A.E.S.

On 11 July 2014, the Court of Palermo notified subsidiary Italgas of a preventative measure of judicial administration, pursuant to Article 34, paragraph 2 of Legislative Decree 159/2011. This is a temporary measure with a fixed maximum duration, which in this case is six months, and may be extended by no more than six months pursuant to Legislative Decree 159/2011. In view of the extension of the measure, the ongoing inspections by the judicial administration body will be completed and fully implemented on the basis of the outlined programme of measures, the results of which will be assessed when the activities have been concluded.
Information on the progress of the measure can be found in the "Main events" section of this Report.

BUSINESS DEVELOPMENTS

A.E.S. S.p.A.

On 25 June 2014, on the occurrence of the conditions precedent for execution of the demerger plan approved by the Shareholders' Meeting of A.E.S. on 18 April 2014, the deed of demerger for the company's district heating business unit was drawn up, with effect from 1 July 2014.
As of that date, Italgas wholly owns A.E.S., which operates exclusively in the natural gas distribution sector. Through A.E.S., Italgas directly manages the natural gas distribution service in Turin, with a network of 1,337 km of pipelines, 465,668 active redelivery points and 54 million cubic metres transmitted in 2014.

Effects of the transaction

The effects on EBIT of including A.E.S. in Snam S.p.A.'s scope of consolidation, as of 1 July 2014[35], are summarised below:

(€ million)	1 July - 31 December 2014
Total revenue	38
- of which regulated	38
Operating costs	11
EBITDA	27
EBIT	18

METANO ARCORE S.p.A.

With effect from 1 October 2014, Italgas acquired the entire equity investment held by the municipal authorities of Arcore in Metano Arcore S.p.A. (50% of the share capital) for a base auction price of €2.3 million. As of that date, Italgas wholly owns the company, which holds the concession to distribute natural gas in the municipality of Arcore through a network of more than 60 km and approximately 8,700 redelivery points.

On 22 December 2014, with an effective date of 1 January 2015, the notarial deed for the merger of Metano Arcore S.p.A. into Italgas S.p.A., based on the relevant statements of financial position at 30 June 2014 and the merger plan of 21 October 2014, was signed.

SETEAP S.p.A.

On 29 December 2014, with an effective date of 1 January 2015, the notarial deed for the merger of SETEAP S.p.A. (a wholly owned subsidiary of Napoletanagas S.p.A.) into Napoletanagas S.p.A., based on the relevant statements of financial position at 30 June 2014 and the merger plan of 22 September 2014, was signed.

RESULTS

Total revenue amounted to €1,053 million, up by €15 million, or 1.4%, compared with 2013 (€1,038 million). Total revenue, net of components offset in costs[36], amounted to €1,044 million, up by €6 million, or 0.6%, compared with the previous year.

Regulated revenue (€1,026 million) comprised €973 million in fees for the natural gas transmission service, €24 million in fees for related technical services and €6 million in income from the management of energy efficiency certificates. Net of components offset in costs, regulated revenue amounted to €1,017 million, up by €9 million, or 0.9%, compared with 2013. This increase was due to the change in the scope of consolidation (+€38 million), though this was partly offset by tariff updating[37] (-€16 million) and lower capital gains (-€11 million).

35 The share attributable to Snam of the net profit generated by A.E.S. in the first half of 2014, before the demerger, is included in the valuation of the investment using the equity method as at 30 June 2014.

36 These components refer to the revenue (€9 million) resulting from the repayment by the Electricity Equalisation Fund of charges relating to the interruptions to the supply at redelivery points requested by retail companies pursuant to Article 12-bis, Appendix A of the Consolidated Gas Arrears Act (TIMG).

37 The tariff criteria in force during the fourth regulatory period (1 January 2014 – 31 December 2019) can be found in the "Tariff regulation and other provisions" section.

EBIT was €477 million (€505 million in 2013), down by €28 million, or 5.5%. This decrease was due to: (i) higher amortisation and depreciation for the period (-€31 million), resulting mainly from the reduction (from 20 to 15 years) in the useful life of some metering facilities reviewed for tariff purposes by the Electricity, Gas and Water Authority (-€11 million), and the change in the scope of consolidation (-€9 million); (ii) the increase in operating costs (-€3 million, net of components offset in revenue), due essentially to higher provisions for risks and charges for adjustments to facilities[38] (-€20 million), which were partly offset by lower net expense related to the management of energy efficiency certificates (+€14 million). These factors were offset only partly by higher revenue (+€6 million).

OPERATING REVIEW

TECHNICAL INVESTMENTS

(€ million)	2012	2013	2014	Change	% Change
Distribution	**246**	**239**	**231**	(8)	(3.3)
Network maintenance and development	196	187	**180**	(7)	(3.7)
Replacement of cast-iron pipes	50	52	**51**	(1)	(1.9)
Metering	**79**	**83**	**88**	**5**	**6.0**
Other investments	**34**	**36**	**40**	**4**	**11.1**
	359	**358**	**359**	**1**	**0.3**

Technical investments in 2014 amounted to €359 million, an increase of €1 million compared with 2013 (€358 million).

Investments in distribution (€231 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 (€88 million) primarily concerned the meter replacement programme and the remote meter-reading project.

Other investments (€40 million) mainly concerned investments in IT, property and vehicles.

DISTRIBUTION NETWORK

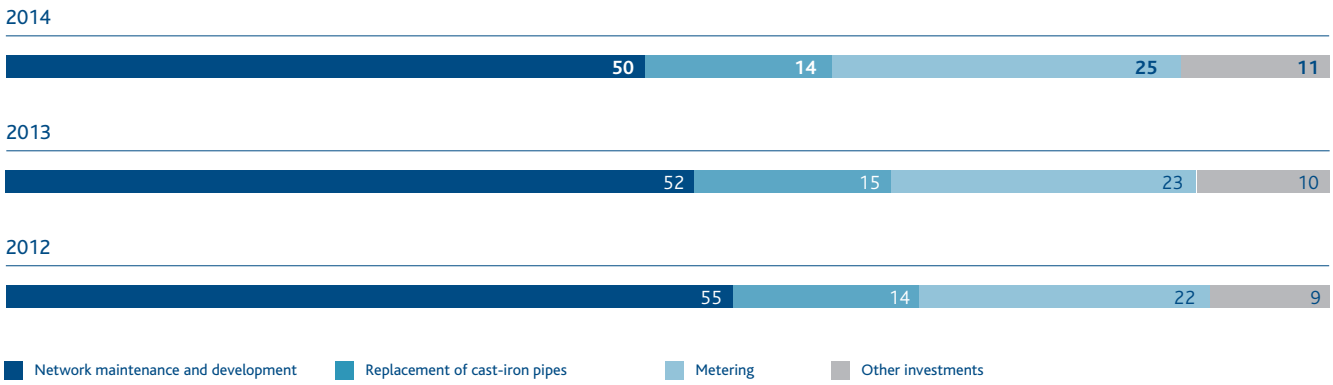
At 31 December 2014, the gas distribution network covered 55,278 km, an increase of 2,285 km compared with 31 December 2013 (52,993 km).

38 As a result of the inspections performed, the provisions represent the best estimate of charges relating to adjustments made to facilities in order to guarantee their security.

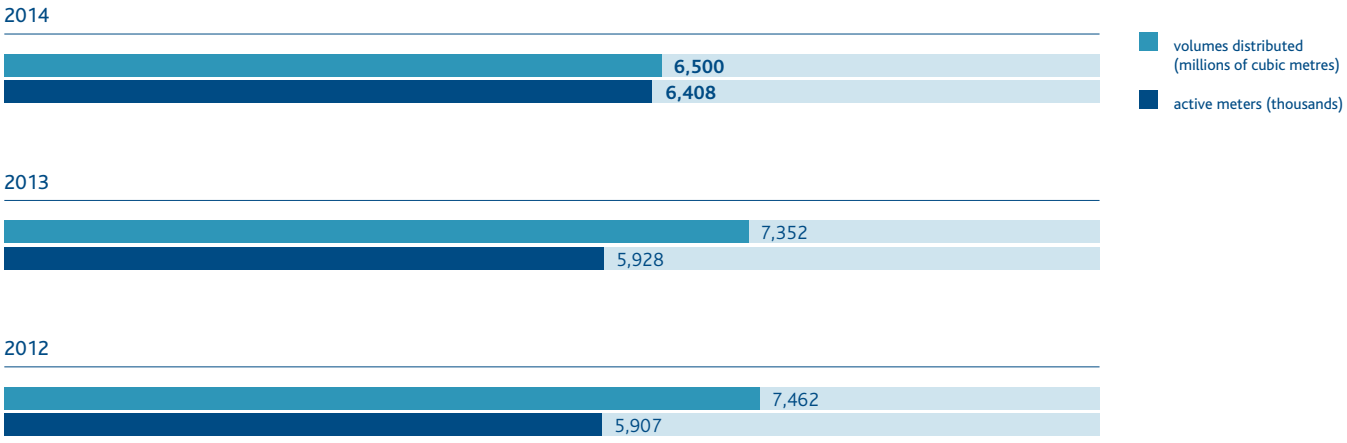
GAS DISTRIBUTION

In 2014, 6,500 million cubic metres of gas were distributed, a decrease of 852 million cubic metres, or 11.6%, compared with 2013, due mainly to weather conditions.
At 31 December 2014, Snam had concessions for gas distribution services in 1,437 municipalities (1,435 at 31 December 2013), of which 1,361 were in operation and 76 had to complete and/or create networks (91 in 2013). It had 6.408 million active meters at gas redelivery points to end users (households, businesses, etc.), compared with 5.928 million at 31 December 2013.

INVESTMENT PROPORTIONS BY TYPE (% OF TOTAL INVESTMENTS)



ACTIVE METERS AND GAS VOLUMES



TARIFF REGULATION[39]

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

39 The Authority's resolutions on punitive and/or investigative proceedings are described in Note 24 – "Guarantees, commitments and risks – Litigation and other provisions" in the Notes to the consolidated financial statements.

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 again used to assess 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, 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.
The return rate (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 higher 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 recognition of 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 unit 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.

Resolution 132/2014/R/gas – "Determination of the provisional reference tariffs for natural gas distribution and metering services, and redetermination of tariff options for other gases for 2014"
With this resolution, published on 28 March 2014, the Authority approved the provisional reference tariffs for natural gas distribution and metering services for 2014.

Resolution 310/2014/R/gas – "Provisions for determining the reimbursement amount for natural gas distribution networks"
With this resolution, published on 27 June 2014, the Authority approved measures to determine the reimbursement amount for gas distribution networks, implementing the provisions of Article 1, paragraph 16 of Decree-Law No. 145 of 23 December 2013, converted, with amendments, by Law No. 9 of 21 February 2014.
This provision stipulates that the awarding local authority shall send documentation containing detailed calculations for the reimbursement amount to the Authority for approval, if the amount is more than 10% higher than the regulatory asset base (RAB) for the area.
The Authority carries out the checks pursuant to Article 1, paragraph 16 of Decree-Law 145/2013 within 90 days

of the date of receipt of the documentation by the contracting entities, ensuring priority according to the schedule provided for the publication of invitations to tender.

Resolution 367/2014/R/gas – "Tariff regulation for gas distribution and metering services for the 2014 - 2019 regulatory period for area management and other tariff-related provisions"

With this resolution, published on 25 July 2014, the Authority defined the tariff regulation for gas distribution and metering services for the 2014-2019 regulatory period, including, by way of the provisions on area management, the measures pursuant to the earlier Resolution 573/2013/R/gas on municipal and supramunicipal management. The provisions on area management are applicable from the award date established in the service agreement signed by the contracting entity and the incoming operator.

The initial value of the local fixed assets transferred for consideration to the incoming operator, as at 31 December of the year before the year in which the concession was awarded by way of a tender process, is calculated, in cases where the incoming operator is different from the outgoing operator, based on the amount mentioned in Article 5 of Decree 226/11 that is reimbursed to the outgoing operator, and, in other cases, based on the value of the local net fixed assets recognised for regulatory purposes.

The amount to be reimbursed at the end of the first area concession period is calculated as the sum of:

- the residual value of existing stock at the start of the concession period, measured for all assets transferred for consideration to the incoming operator in the second concession period in accordance with the amount mentioned in Article 5 of Decree 226/11, which is reimbursed to the outgoing operator for the first area concession, taking into account amortisation, depreciation and the disposals recognised for tariff purposes during the concession period;
- the residual value of new investments realised during the concession period and existing at the end of the period, measured using the revalued historical cost method for the period in which the final amount of the investments is recognised, as specified in Article 56 of the Gas Distribution Tariff Regulation (2013, 2014 and 2015) and as an average of the net value determined using the revalued historical cost method and the net value determined using the standard cost method for the following period.

In order to calculate the annual portion of depreciation and amortisation recognised for tariff purposes, the regulatory useful lives are extended in accordance with the values adopted in Decree 226/11 and in parallel with the awarding of area concessions by way of a tender process.

The operating costs of the distribution service in the case of area management are set by the Authority in accordance with the size and population density of the area in question. For tariff updates in the first two calendar years after the year in which the area concession was awarded by way of a tender process, the annual rate of reduction of the unit costs recognised to cover the operating costs is set at 0%. For subsequent years, the annual rate of reduction will be equal to the old municipal management rate for distribution companies serving more than 300,000 redelivery points.

As of 2014, the Authority defines and publishes: (i) by 15 December each year, the mandatory natural gas distribution and metering service tariffs to be applied in the following year; (ii) by 31 March of year t, the provisional reference tariffs for year t, calculated based on provisional balance sheet figures for year t-1; (iii) by 28 February of year t+1, the definitive reference tariffs for year t, calculated based on final balance sheet figures for year t-1 (rather than by 15 December of year t, as provided for by the earlier Resolution 573/2013).

Resolution 633/2014/R/gas - "Redetermination of the reference tariffs for gas distribution and metering services for 2009 - 2013 and of tariff options for other gases for 2014"

With this resolution, published on 19 December 2014, the Authority, *inter alia*, approved the 2013 reference tariffs for some areas operated by Italgas where the provision of gas began in 2012 but after 22 October 2012, the deadline set by the Authority for sending data for the purpose of calculating tariffs for 2013.

Resolution 634/2014/R/gas – "Updating of the tariffs for gas distribution and metering services for 2015".
With this resolution, published on 29 December 2014, the Authority approved the mandatory tariffs and bi-monthly equalisation prepayment amounts for natural gas distribution and metering services for 2015.

POST-BALANCE SHEET EVENTS

Isontina Reti Gas S.p.A. and framework agreement with Acegas-Aps S.p.A.
On 17 April 2013, the Competition Authority (AGCM) blocked the acquisition of 50% of the share capital 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. According to the AGCM, the deal 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.
Italgas filed an appeal against the measure with the Regional Administrative Court of Lazio. On 20 March 2014, the Court upheld the appeal presented by Italgas, thereby annulling the contested measure. With a ruling of 26 January 2015, the Council of State subsequently supported the substance of the AGCM's measure.

Constitutional Court - Ruling 10/2015
On 9 February 2015, with Ruling 10/2015, the Constitutional Court declared the unconstitutionality of Article 81, paragraphs 16, 17 and 18 (the additional corporation tax known as the "Robin Hood Tax") of Decree Law 112 of 25 June 2008, "Urgent provisions for economic development, simplification, competitiveness, stabilisation of the public finances and tax standardisation", which was converted into law, with amendments, by Article 1, paragraph 1 of Law 133 of 6 August 2008, as subsequently amended. The unconstitutionality of the Article takes effect, as set forth in the ruling, from the day after its publication in the Italian Official Gazette, i.e. 12 February 2015. The effects of this measure on the Snam Group are described in the "Financial review" section.

Investigations carried out by the judicial administrators in the north-east of Italy
In March 2015, Italgas's judicial administrators stated that they were examining documents received from the local fire service in relation to alleged operational faults at some plants in the Veneto region.

Decree Law 192 of 31 December 2014 (known as the "Mille Proroghe Decree") extending the deadline for calls for tenders
On 28 February 2015, the Italian Official Gazette, General Series, No. 49, published Law 11/15 converting into law Decree Law 192 of 31 December 2014, which, among other things, introduces an additional amendment to the deadlines already set forth and extended several times for calls for tenders for gas distribution concessions, stipulating that:

- the deadline for publication of the call for tenders by the contracting entity and for alternative measures by the region will be extended until 11 July 2015 for the areas pertaining to the first group listed under Annex 1 to Ministerial Decree 226 of 12 November 2011;
- the aforementioned extension will not apply to areas in which at least 15% of redelivery points are located in municipalities affected by the earthquakes of 20 and 29 May 2012;
- the deadline beyond which a penalty applies to local authorities pursuant to Article 4, paragraph 5 of Decree Law 69/2013 in the event of failure to comply with the deadline for issuing calls for tenders shall be extended to 31 December 2015 for the first two groups of areas listed under Annex 1 of Ministerial Decree 226/2011.