

## ■ NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### Current assets

#### 1 Cash and cash equivalents

Cash and cash equivalents of €36 million (below €1 million as at 31 December 2008) are current account deposits at the parent company Eni.

The increase of €36 million compared to 31 December 2008 was due to cash equivalents deriving from companies entering the scope of consolidation and the parent company's increased cash.

#### 2 Trade and other receivables

Trade and other receivables of €916 million (€452 million as at 31 December 2008) are broken down as follows:

(€ millions)	31.12.2008	31.12.2009
Trade receivables	417	738
Receivables from investment/divestment activities	12	32
Financial receivables		
- Held for operations		2
Other receivables	23	144
	<b>452</b>	<b>916</b>

Receivables are stated net of the provision for impairment losses of €33 million (€1 million as at 31 December 2008). The change in the provision during the year is shown below:

(€ millions)	Balance at 1.1.2009	Accruals	Utilisation	Change in the scope of consolidation (*)	Balance at 31.12.2009
Trade receivables	1			28	29
Receivables from investment/divestment activities				4	4
	<b>1</b>			<b>32</b>	<b>33</b>

(\*) Includes the net carrying amount of the impairment losses deriving from companies acquired on the closing date of the purchase transaction. The breakdowns of assets and liabilities recognised as a result of the consolidation of Italgas and Stogit and the closing date of the acquisition transaction (30 June 2009) is shown in note no. 22 "Other information".

Trade receivables of €738 million (€417 million as at 31 December 2008) refer essentially to the following sectors: transportation (€359 million), distribution (€325 million) and natural gas storage (€38 million).

Receivables from investment/divestment activities of €32 million (€12 million as at 31 December 2008) refer to public and private sector contributions, posted for investment activities, and receivables from transfer of plant, property and equipment.

Other receivables of €144 million (€23 million as at 31 December 2008) are broken down as follows:

(€ millions)	31.12.2008	31.12.2009
IRES credits for national consolidated tax	3	13
Group VAT credit		1
Other credits:		
- Cassa Conguaglio Settore Elettrico		71
- VAT instalments	17	36
- Instalments to suppliers	3	9
- Other		14
	<b>20</b>	<b>130</b>
	<b>23</b>	<b>144</b>

Receivables from the Cassa Conguaglio Settore Elettrico (Electricity Equalisation fund) (€71 million) are related essentially to the redemption of energy efficiency certificates<sup>6</sup> (€65 million).

The residual item "Other", in the amount of €14 million, is essentially for receivables from the government (€4 million) for local taxes.

Other receivables deriving from consolidation of the companies bought amount to €94 and €6 million, respectively, for the natural gas distribution and storage sectors.

The fair value of trade and other receivables corresponds to the carrying amount.

There are no receivables in currencies other than the euro. Receivables from related parties are shown in note no. 31 "Related-party transactions". Information on credit risk is provided in note no. 23 "Guarantees, commitments and risks – Credit risk".

### 3 Inventories

Inventories of €411 million (€128 million as at 31 December 2008) are broken down in the table below.

(€ millions)	31.12.2008			31.12.2009			Change
	Gross Amt.	Impairment Losses	Net Amt.	Gross Amt.	Impairment Losses	Net Amt.	
Raw materials, consumables and supplies	135	(7)	128	68	(6)	62	(66)
Finished products and merchandise				348		348	348
Work being ordered				1		1	1
	<b>135</b>	<b>(7)</b>	<b>128</b>	<b>417</b>	<b>(6)</b>	<b>411</b>	<b>283</b>

Inventories of raw materials, consumables and supplies (€62 million) primarily include: (i) spare parts for gas pipeline networks (€26 million), distribution networks (€17 million) and storage facilities (€3 million); (ii) natural gas purchases to supply the transport network compression plants (€12 million).

Inventories of finished products and merchandise (€348 million) concern the stored natural gas present in the storage system.

Inventories are stated net of the provision for impairment losses of €6 million (€7 million as at 31 December 2008), set up to take into account slow outgoing materials activity.

The increase of €283 million compared to 31 December 2008 is due primarily to inventories deriving from the consolidation of the acquired companies as at 31 December 2009 (€351 and €17 million respectively for natural gas storage and distribution activities). This increase was partially absorbed by transferring the following to "Property, plant, and equipment": (i) the functional natural gas for operation of the transportation network (€59 million)<sup>7</sup>; (ii) warehoused materials, essentially tubing and the respective accessory materials, intended for investment activities and not yet employed in plant construction activities (€34 million).

Inventories have not been pledged as collateral or to guarantee liabilities. There are no inventories recognised at net realisable value.

<sup>(6)</sup> With reference to this aspect, Legislative Decree 164 of 23 May 2000 provides that natural gas distribution companies set consumption reduction and energy savings targets through procedures to increase energy efficiency and that, depending on the results achieved, they are to be awarded so-called Energy Efficiency Certificates (instituted by the Ministerial Decrees of 20 July 2004). Energy efficiency targets can be met either by implementing energy efficiency policies or by purchasing the Energy Efficiency Certificates of other parties. Once the energy efficiency target is met, extinguishment of the Energy Efficiency Certificates triggers redemption by the Cassa Conguaglio Settore Elettrico from special funds created by a distribution tariff increase.

<sup>(7)</sup> Specifically, functional gas for the operation of a methane pipeline can be distinguished as the Initial Line Pack (IL), which is the quantity of gas input into the network when a methane pipeline is put into operation (not recoverable economically), and the Operating Line Pack, defined as the difference between the total amount of functional gas for operation of the methane pipeline and the IL.

#### 4 Current income tax assets and other current tax assets

Current income tax assets of €2 million (€1 million as at 31 December 2008) comprise the IRAP tax credit. Other current tax assets, in the amount of €5 million (€2 million as at 31 December 2008) mainly comprise the VAT credit (€2 million) and the methane gas consumption tax credit (€1 million) due to greater instalments paid. Taxes for the year are discussed in note no. 28 "Income tax".

#### 5 Other current assets

Other current assets of €67 million (€52 million as at 31 December 2008) are broken down as follows.

(€ millions)	31.12.2008	31.12.2009
Accrued income on regulated business	45	62
Derivatives:		
- Fair value of derivatives	3	
- Accrued interest income on derivatives	2	
	5	
Other current assets:		
- Discounts receivable	2	5
	52	67

Accrued income from regulated business of €62 million comprises the current share of assets recognised due to recognition by the Electricity and Gas Authority of greater expenses borne for the purchase of fuel gas during the 2005-2006, 2006-2007 and 2007-2008 thermal years<sup>8</sup>.

### Non-current assets

#### 6 Property, plant and equipment

Property, plant and equipment of €16,025 million (€10,549 million as at 31 December 2008) are broken down as follows:

(€ millions)								
31.12.2008	Net original amount	Investments	Amortisation	Disposals	Other changes	Net final amount	Gross final amount	Provision for amortisation and depreciation (*)
Land	94	3			2	99	99	
Buildings	162	1	(7)		15	171	222	51
Plant and equipment	8,905		(440)	(6)	877	9,336	12,445	3,109
Industrial and commercial equipment	17	9	(6)	(1)	1	20	45	25
Other assets	18	2	(8)	(1)	6	17	76	59
Assets being built and payments on account	761	1,003			(858)	906	906	
	9,957	1,018	(461)	(8)	43	10,549	13,793	3,244

(\*) Of which impairment losses are €6 million.

<sup>(8)</sup> This payment is the result of resolution VIS 8/09 whereby the Authority acknowledged the company's greater expenses for the 2005-2006 and 2006-2007 thermal years (€45 million overall). In resolution ARG/Gas 184/09, the Authority acknowledged the company's additional costs for the 2007-2008 thermal year (€34 million), postponing until subsequent resolutions the determination of the acknowledgment of additional costs for the period from 1 October 2008 - 31 December 2009.

(€ millions)

31.12.2009	Net original amount	Investments	Amortisation	Change in scope of consolidation	Disposals	Other changes	Net final amount	Gross final amount	Provision for amortisation and depreciation (*)
Land	99	9		39	(2)		145	145	
Buildings	171	20	(10)	245	(2)	5	429	655	226
Plant and equipment	9,336	65	(535)	3,588	(13)	878	13,319	19,655	6,336
Industrial and commercial equipment	20	72	(26)	295	(6)	7	362	732	370
Other assets	17	1	(8)	1		3	14	82	68
Assets being built and payments on account	906	1,051		643	(1)	(843)	1,756	1,756	
	<b>10,549</b>	<b>1,218</b>	<b>(579)</b>	<b>4,811</b>	<b>(24)</b>	<b>50</b>	<b>16,025</b>	<b>23,025</b>	<b>7,000</b>

(\*) Of which impairment losses are €7 million.

Property, plant and equipment (€16,025 million) mainly refers to infrastructure for the natural gas transportation (€10,940 million), distribution (€3,573 million) and storage (€1,423 million) business segments.

The increase of €5,476 million, compared to 31 December 2008, was due primarily to the change in the scope of consolidation.

Investments of €1,218 million<sup>9</sup> (€1,018 million as at 31 December 2008) refer to the natural gas transportation (€901 million), distribution<sup>10</sup> (€164 million), storage (€146 million) and LNG regasification (€7 million) business segments and include the capitalisation of financial expenses of €24 million (€26 million in 2008).

The interest rate used for capitalisation of the financial expenses was 3.03% (4.18% in 2008).

Amortisation and depreciation (€579 million) refers to the technical economic depreciation determined based on the useful life or the residual possible use of the assets by the company.

The main depreciation coefficients adopted on an annual basis are in the following ranges:

	Annual technical economic rate (%)
<b>Buildings</b>	
- Buildings	2-2.5 or higher depending on residual life
<b>Plant and equipment</b>	
- Methane pipelines	2.5 or higher depending on residual life
- Gas distribution networks	2
- Gas diversion units	2
- Pipelines	2-2.5
- Treatment and compression plants	4 - 5 or higher depending on residual life
- LNG plants	4 or higher depending on residual life
- Storage wells	1.66
- Other plants	2.5-12.5
<b>Industrial and commercial equipment</b>	4-35
<b>Other assets</b>	10-25

Change in scope of consolidation, in the amount of €4,811 million, includes the net carrying amount of property, plant and equipment deriving from the acquisition of Italgas and Stogit on the closing date of the transaction (30 June 2009). Disposals of €24 million comprise some components of compression plants, methane pipeline sections and distribution channels (€13 million overall), as well as the disposal of meters as part of the replacement plan in progress (€5 million).

<sup>(9)</sup> For further information on the year's investments, see the chapter "Operating Review" of the Director's report.

<sup>(10)</sup> The investments made in natural gas distribution and storage refer to the period from 1 July-31 December 2009. The investments made before the closing of the acquisition transaction are included in "Change in scope of consolidation".

Other changes of €50 million mainly comprise: (i) the transfer to “Inventories” of the functional natural gas for the operation of the gas pipeline network (+€59 million) and tubing and the respective accessory materials bought for investment activities not yet employed in the construction of plants (+€34 million); (ii) the revision of site dismantlement and restoration cost estimates (+€21 million); and (iii) contributions during the period (-€67 million).

Government grants related to assets and contributions of other parties deducted from the net amount of property, plant and equipment amounted to €456 million (€79 million as at 31 December 2008) and €507 million (€164 million as at 31 December 2008), respectively. At 31 December 2009, government grants expected to be collected amounted to €8 million (€5 million as at 31 December 2008).

Plant and equipment includes site dismantlement and restoration costs of €186 million recognised primarily for remediation and restoration of natural gas storage sites (€180 million).

The changes to amortisation and depreciation over the financial year are summarised summarised below:

					(€ millions)
Provision for amortisation and depreciation	31.12.2008	Increases	Decreases	Change in scope of consolidation	31.12.2009
Buildings	51	11	(2)	166	226
Plant and equipment	3,109	534	(16)	2,709	6,336
Industrial and commercial equipment	25	26	(50)	369	370
Other assets	59	8	(1)	2	68
	<b>3,244</b>	<b>579</b>	<b>(69)</b>	<b>3,246</b>	<b>7,000</b>

Property, plant and equipment fully amortised and still in use amounted to €478 million.

Leased assets amounted to €14 million (the gross amount totalled €21 million). The main financial leasing transactions refer to properties used for maintenance.

The amount of existing contractual commitments for the acquisition of property, plant and equipment, as well as for the supply of goods and services for their construction is stated in no. 23 “Guarantees, commitments and risks”.

Property, plant and equipment by business segment are broken down as follows:

			(€ millions)
Net property, plant and equipment by business segment	31.12.2008		31.12.2009
<b>Gross property, plant and equipment</b>			
<b>Business segments</b>			
- Transportation	13,681		14,613
- Regasification	112		119
- Distribution			6,331
- Storage			1,962
<b>Total</b>	<b>13,793</b>		<b>23,025</b>
<b>Provision for amortisation and depreciation</b>			
- Transportation	(3,218)		(3,673)
- Regasification	(26)		(30)
- Distribution			(2,758)
- Storage			(539)
<b>Total</b>	<b>(3,244)</b>		<b>(7,000)</b>
<b>Net property, plant and equipment</b>			
- Transportation	10,463		10,940
- Regasification	86		89
- Distribution			3,573
- Storage			1,423
	<b>10,549</b>		<b>16,025</b>

## 7 Compulsory inventories

*Compulsory inventories*, to the amount of €405 million, included minimal quantities of natural gas which storage companies are required to hold pursuant to Decree by the President of the Republic no. 22 of 31 January 2001. The inventories include 5,009 million standard cubic metres of natural gas, the overall amount of which is set annually by the Ministry of Economic Development.

## 8 Intangible assets

*Intangible assets* of €741 million (€39 million as at 31 December 2008) are broken down as follows:

									(€ millions)
31.12.2008	Net original amount	Investments	Amortisation	Disposals	Other changes	Net final amount	Gross final amount	Provision for amortisation and depreciation	
<b>Finite useful life intangible assets</b>									
- Development costs							3	3	
- Patents and industrial property rights	28		(27)		22	23	284	261	
- Assets being built and payments on account	12	26			(22)	16	16		
- Other intangible assets	1		(1)				20	20	
	<b>41</b>	<b>26</b>	<b>(28)</b>			<b>39</b>	<b>323</b>	<b>284</b>	
<b>31.12.2009</b>									
	Net original amount	Investments	Amortisation	Change in scope of consolidation	Disposals	Other changes	Net final amount	Gross final amount	Provision for amortisation and depreciation
<b>Finite useful life intangible assets</b>									
- Development costs		1	(2)			1		17	17
- Patents and industrial property rights	23	1	(30)	24		37	55	492	437
- Concessions, licences, trademarks and similar rights		1	(2)	664			663	820	157
- Other intangible assets								24	24
- Assets being built and payments on account	16	33		3		(38)	14	14	
<b>Indefinite useful life intangible assets</b>									
- Goodwill				9			9	9	
	<b>39</b>	<b>36</b>	<b>(34)</b>	<b>700</b>			<b>741</b>	<b>1,376</b>	<b>635</b>

Patents and intellectual property rights of €55 million (€23 million as at 31 December 2008) mainly include information systems used for operations.

Concessions, licenses, trademarks and similar rights (€663 million) refer primarily to concessions for engaging in natural gas storage operations.

Assets under development and payments on account of €14 million (€16 million as at 31 December 2008) refer primarily to information systems and applications used for operations which are currently being built, the usefulness of which was valued at 31 December 2009.

Investments in intangible assets of €36 million (€26 million as at 31 December 2008) refer to the natural gas transportation (€25 million), distribution (€8 million) and storage (€3 million) business segments and mainly involve internal information system development projects.

Amortisation of intangible assets amounted to €34 million (€28 million as at 31 December 2008).

The main amortisation coefficients adopted on an annual basis are the following:

	%
Patents and industrial property rights	20-33
Other intangible assets	20 or depending on the contract's duration

Changes in the scope of consolidation of €700 million include the net carrying amount of intangible assets deriving from the acquisition of Italgas and Stogit and refer mainly: (i) for finite useful life intangible assets, to storage concessions (€655 million) and, to a lesser extent, to gas distribution service concessions (€9 million); (ii) for indefinite life intangible assets, to the goodwill recognised at the time of the acquisition by Italgas of 100% of the shares of Siciliana Gas S.p.A (€9 million).

The recoverability of the amount of goodwill was verified by discounting the expected cash flows determined for the most recent market scenario. The assumptions adopted take current interest rate levels into account.

There are no finite useful life intangible assets held for disposal or temporarily inactive or pledged as collateral or to guarantee liabilities.

The amount of the existing contractual commitments for the acquisition of intangible assets and for the supplying of services associated with their implementation are stated in note no. 23, "Guarantees, commitments and risks".

The market value of the tangible assets, including compulsory inventories, and intangible assets is approximately €20.9 billion and has been estimated consistent with the recognised value of such assets for purposes of remuneration by the Electricity and Gas Authority.

#### 9 Investments valued by the equity method net of other investments

*Investments valued by the equity method* (€301 million) and *other investments* (below €1 million) involve investments deriving from the acquisition of Italgas and are broken down as follows:

	Original amount	Change in scope of consolidation	Capital gains on valuation by equity method	Capital losses on valuation by equity method	Final amount
Investments valued by the equity method					
Investments in jointly controlled entities		230	19		249
Investments in associates		49	2		51
Investments in subsidiaries		1			1
		<b>280</b>	<b>21</b>		<b>301</b>

(€ millions)

Capital gains from valuation by the equity method of €21 million mainly refer to the companies A.E.S. S.p.A (€12 million) and Toscana Energia S.p.A (€7 million).

The net amount of the investments valued by the equity method refers to the following companies:

(€ millions)	31.12.2009	
	Net amount	% owned by the shareholder
<b>Subsidiaries valued by equity method</b>		
- Servizi Territori Aree e Penisole S.p.A	1	70.00%
<b>Total subsidiaries</b>	<b>1</b>	
<b>Jointly controlled entities</b>		
- Toscana Energia S.p.A	138	49.38%
- Azienda Energia e Servizi Torino S.p.A	105	49%
- Metano Borgomanero S.p.A	2	50%
- Metano S.Angelo Lodigiano S.p.A	1	50%
- Metano Casalpusterlengo S.p.A	1	50%
- Metano Arcore S.p.A	1	50%
- Umbria Distribuzione Gas S.p.A	1	45%
<b>Total jointly controlled entities</b>	<b>249</b>	
<b>Associates:</b>		
- ACAM Gas S.p.A	47	49%
- Acqua Campania S.p.A	4	35.20%
<b>Total associates</b>	<b>51</b>	
	<b>301</b>	

Investments in subsidiaries, jointly controlled entities and associates of Snam Rete gas S.p.A can be found in the "Subsidiaries, associates and significant equity investments of Snam Rete Gas S.p.A at 31 December 2009" appendix to the notes to the financial statements.

	Original amount	Change in scope of consolidation	Provision for depreciation	(€ millions)
				Final amount
<b>Other investments</b>				
<b>Investments in subsidiaries</b>				
- Com. e S.V. Gas & Power S.r.l (in liquidation)		1	(1)	
		<b>1</b>	<b>(1)</b>	
<b>Investments in other companies</b>				
- Inversora del Aconcagua S.A		1	(1)	
		<b>1</b>	<b>(1)</b>	
		<b>2</b>	<b>(2)</b>	

Investments in subsidiaries are valued at cost adjusted for losses in value. Investments in other companies are valued at cost adjusted for loss in value because their fair value cannot be determined reliably.

**10 Other non-current assets**

Other non-current assets of €34 million (€3 million as at 31 December 2008) are broken down as follows:

(€ millions)	31.12.2008	31.12.2009
Accrued income from regulated activities		21
Derivatives:		
- Fair value of derivatives		3
Other non-current assets:		
- Rediscounting		2
- Security deposits	3	6
- Other assets		2
	<b>3</b>	<b>10</b>
	<b>3</b>	<b>34</b>

Accrued income from regulated activities of €21 million refers to the non-current portion of assets recognised in view of the acknowledgment by the Electricity and Gas Authority of the greater expenses borne for the purchase of fuel gas during the 2005-2006, 2006-2007 and 2007-2008<sup>11</sup> thermal years.

Reference should be made to note no. 15 "Other current liabilities" for information on the fair value of derivatives.

**11 Assets held for sale and directly related liabilities**

Assets held for sale (€25 million) refer to a building complex, owned by Italgas, no longer functional for its business, as a result of the commitments deriving from the contract for the purchase of Italgas by Eni<sup>12</sup>.

Assets held for sale and directly related liabilities (€11 million) include environmental provisions for the expenses involved in the property's restoration.

**Current liabilities****12 Short-term financial liabilities**

Short-term financial liabilities of €1,585 million (€1,023 million as at 31 December 2008) are denominated entirely in euro and refer to lines of credit with Eni S.p.A.

The increase, compared to 31 December 2008, of €562 million is due mainly to financial liabilities from the consolidation of the acquired companies of €396 and €110 million respectively for the natural gas distribution and storage business segments.

Short-term financial liabilities include floating rate loans only. The average rate on short-term financial debts for 2009 was 0.90%<sup>13</sup> (4.18% in 2008).

At 31 December 2009, there were no breaches of loan agreements.

**13 Trade and other payables**

Trade and other payables of €1,106 million (€536 million as at 31 December 2008) are broken down as follows:

(€ millions)	31.12.2008	31.12.2009
Trade payables	161	471
Payables for investment activities	298	429
Other payables	77	206
	<b>536</b>	<b>1,106</b>

(<sup>11</sup>) For further information, see the comments in note no. 5 "Other current assets".

(<sup>12</sup>) Information on commitments assumed by the parties at the time of the closing of the purchase transaction is provided in note no. 23 "Guarantees, commitments and risks – Commitments deriving from the purchase contract of Eni for Italgas and Stogit".

(<sup>13</sup>) The average rate for the debt of the acquired companies was calculated for the second half of the year.

The increase in trade and other payables (€570 million) was due primarily to the consolidation of the acquired companies (€567 million, of which €343 and €224 million respectively were for the natural gas distribution and storage business segments).

Trade payables of €471 million (€161 million as at 31 December 2008) mainly refer to the natural gas transportation (€167 million), distribution (€151 million) and storage (€147 million) business segments.

Payables for investment activities of €429 million (€298 million as at 31 December 2008) refer mainly to the natural gas transportation (€304 million), storage (€69 million) and distribution (€54 million) business segments.

Other debts of €206 million (€77 million as at 31 December 2008) are broken down as follows.

(€ millions)	31.12.2008	31.12.2009
IRES payables for national tax consolidation	3	36
Group VAT payables	40	8
Other payables:		
- Payables to employees	13	45
- Payables to the Cassa Conguaglio Settore Elettrico	9	44
- Payables to pension and social security institutions	7	25
- Payables to governments		18
- Payments on account and advances	4	17
- Other	1	13
	<b>34</b>	<b>162</b>
	<b>77</b>	<b>206</b>

Payables to the Cassa Conguaglio Settore Elettrico (Electricity Equalisation fund) of €44 million were mainly for: (i) payments owed due to Electricity and Gas Authority resolutions no. 45/07 (Equalisation) and no. 277/07 (interruptibility fee) for the transportation business (€23 million); (ii) payments for the distribution business (€19 million) due mainly to the accessory tariff components provided for by ARG/gas resolution no. 159/08 (energy savings, quality of gas services, equalisation imbalances and disadvantaged user accounts).

Payables to the government (€18 million) primarily involve payables to municipalities for concession fees (for the distribution business).

The fair value measurement of trade and other payables does not produce material effects considering the short period of time elapsing between the start of the debt and its maturity.

Payables to related parties are described in note no. 31 "Related-party transactions".

#### **14** Current income tax liabilities and other current tax liabilities

*Current income tax liabilities* of €5 million (€1 million as at 31 December 2008) refer to IRAP payables (€4 million) and IRES payables (€1 million) for companies which have not adopted Eni's national tax consolidation regime.

*Other current tax liabilities* of €18 million (€4 million as at 31 December 2008) refer mainly to employee IRPEF withholding (€10 million) and VAT payables (€7 million) for companies which have not adhered to the Eni Group's VAT.

Current income tax liabilities and other current tax liabilities deriving from the consolidation of the acquired companies amount to €5 and €15 million respectively.

Taxes for the year are discussed in note no. 28 "Income tax".

**15 Other current liabilities**

Other current liabilities of €187 million (€52 million as at 31 December 2008) are broken down as follows:

(€ millions)	31.12.2008	31.12.2009
Deferred and accrued income from regulated activities	25	117
Derivatives:		
- Fair value of derivatives	25	60
- Accrued interest income on derivatives		5
	<b>25</b>	<b>65</b>
Other current liabilities:		
- Accrued expenses on advance revenue and income	2	5
	<b>52</b>	<b>187</b>

Deferred and accrued income from regulated activities (€117 million) refer to the natural gas transportation (€108 million) and storage (€9 million) businesses and are for the current portion of the greater revenues invoiced compared to the ceiling established by the Electricity and Gas Authority, and for the penalties charged to shippers which have exceeded their capacity allowances. These payments will be returned to shippers as provided for in Electricity and Gas Authority resolution no. 166/05 and no. 50/06 relative to the natural gas transportation and storage businesses, respectively.

Information on the fair value of derivatives outstanding as at 31 December 2009 is summarised below.

(€ millions)	31.12.2008		31.12.2009	
	Assets	Liabilities	Assets	Liabilities
Interest Rate Swap - Cash flow hedge	3	(44)	3	(76)
Less:				
- Non-current portion		19	(3)	16
<b>Current portion</b>	<b>3</b>	<b>(25)</b>		<b>(60)</b>

The fair value of hedging derivatives, as well as their classification among assets/liabilities beyond 12 months (non-current) or as assets/liabilities within 12 months (current) were determined taking valuation models widely used in the financial field and using year end market parameters.

Changes in fair value deducted from shareholders' equity in 2009, net of the respective tax effects, amounted to €21 million (€78 million as at 31 December 2008).

The ineffective portion of hedging derivatives deducted as an expense on the income statement under "Financial Expense/Income – Derivatives" amounted to €2 million (€2 million in 2008).

At 31 December 2009, Snam Rete Gas had nine cash flow hedging derivatives outstanding. The characteristics of these contracts, as well as their respective market value are shown below:

Type of contract	Contract effective date	Contract maturity date	Duration (years)	Nominal amount (€ millions)		Rate sold	Rate bought	Market value (€ millions)	
				31.12.2008	31.12.2009			31.12.2008	31.12.2009
Interest rate swap	01.10.2002	30.09.2009	7	500		euribor	fixed rate 2.73% plus FOI inflation rate	(6)	
Interest rate swap	19.10.2004	19.10.2009	5	300		euribor	fixed rate		1
Interest rate swap	24.11.2005	24.11.2010	5	700	700	euribor	fixed rate	(6)	(14)
Interest rate swap	24.11.2005	24.11.2015	10	500	500	euribor	fixed rate	(4)	(18)
Interest rate swap	26.03.2007	26.03.2012	5	500	500	euribor	fixed rate	(17)	(23)
Interest rate swap	20.03.2008	20.03.2011	3	300	300	euribor	fixed rate	(7)	(9)
Interest rate swap	30.06.2009	28.01.2016	7		700	euribor	fixed rate		(10)
Interest rate swap	30.09.2009	30.09.2011	2		500	euribor	fixed rate		(4)
Interest rate swap	19.10.2009	19.10.2011	2		300	euribor	fixed rate		(3)
Interest rate swap	02.12.2009	02.12.2013	4		350	euribor	fixed rate		2
Interest rate swap	02.12.2009	02.12.2015	6		200	euribor	fixed rate		1
				<b>2,800</b>	<b>4,050</b>			<b>(39)</b>	<b>(78)</b>

In these contracts, the company agrees with the counterparties to swap, at certain due dates, the difference between the floating rate and the fixed rate, or inflation-indexed rate, calculated on the nominal amount in question.

## Non-current liabilities

### <sup>16</sup> Long-term financial liabilities and current portion of long-term liabilities

The breakdown of net financial debt, according to the format used in the management report, is as follows:

(€ millions)	31.12.2008			31.12.2009		
	Current	Non-current	Total	Current	Non-current	Total
<b>Financial liabilities</b>			<b>6,237</b>			<b>9,986</b>
Short-term financial liabilities	1,023		1,023	1,585		1,585
Long-term financial liabilities	14	5,200	5,214	915	7,486	8,401
<b>Financial receivables and cash equivalents</b>			<b>(1)</b>			<b>(37)</b>
Financial receivables not held for operations		(1)	(1)		(1)	(1)
Cash and cash equivalents				(36)		(36)
	<b>1,037</b>	<b>5,199</b>	<b>6,236</b>	<b>2,464</b>	<b>7,485</b>	<b>9,949</b>

### Long-term financial liabilities

Long-term liabilities, including the short-term portion, of €8,401 million (€5,214 million as at 31 December 2008) are broken down as follows:

(€ millions)	31.12.2008			31.12.2009		
	Short-term portion	Long-term portion	Total	Short-term portion	Long-term portion	Total
Parents	13	5,200	5,213	914	7,485	8,399
Other financial backers	1		1	1	1	2
	<b>14</b>	<b>5,200</b>	<b>5,214</b>	<b>915</b>	<b>7,486</b>	<b>8,401</b>

The increase in financial liabilities of €3,187 million was due primarily to the financial liabilities acquired due to the change in the scope of consolidation on the closing date of the purchase transactions (€1,344 million, of which €537 and €807 million respectively refer to the natural gas distribution and storage business segments) and to the new long-term loans taken out with parent Eni S.p.A (€1,850 million overall).

The breakdown of financial liabilities with parents, including the short-term portion (€8,399 million), is as follows:

Lender	Currency	Amount	Fixed Rate (F)		Type of Repayment	Disbursement date	Maturity date	Residual term (years/ months)
			Variable Rate (V)					
(€ millions)								
<b>Long-term loans</b>								
Eni (a) (b)	€	500	F		At expiry	27.05.2002	30.09.2011	1y 9m
Eni (a) (b)	€	300	F		At expiry	19.10.2004	19.10.2011	1y 10m
Eni (a)	€	700	F		At expiry	24.11.2005	24.11.2010	11m
Eni (a)	€	500	F		At expiry	24.11.2005	24.11.2015	5y 11m
Eni (a)	€	500	F		At expiry	26.03.2007	26.03.2012	2y 3m
Eni	€	200	F		At expiry	11.06.2007	11.06.2012	2y 5m
Eni	€	300	F		At expiry	20.06.2007	20.06.2012	2y 6m
Eni	€	200	F		At expiry	18.07.2007	18.07.2012	2y 7m
Eni	€	350	F		At expiry	20.12.2007	14.11.2017	7y 11m
Eni (a)	€	300	F		At expiry	20.03.2008	20.03.2011	1y 3m
Eni	€	400	F		At expiry	28.10.2008	14.11.2013	3y 11m
Eni	€	200	F		At expiry	18.12.2008	16.09.2011	1y 9m
Eni (a)	€	700	F		At expiry	30.06.2009	28.01.2016	6y 1m
Eni (a)	€	350	F		At expiry	02.12.2009	02.12.2013	3y 11m
Eni (a)	€	200	F		At expiry	02.12.2009	02.12.2015	5y 11m
<b>Total fixed rate</b>		<b>5,700</b>						
Eni (Line of credit)	€	1,500	V		Revolving (c)	24.11.2005	17.11.2014	4y 11m
Eni	€	200	V		At expiry	16.09.2005	16.09.2010	9m
Eni	€	185	V		At expiry	15.12.2005	15.12.2012	3y
Eni (Line of credit)	€	200	V		Revolving (c)	09.05.2007	09.05.2012	2y 4m
Eni	€	300	V		At expiry	30.06.2009	28.01.2016	6y 1m
Eni (d)	€	300	V		Amortized (e)	30.12.2009	15.12.2029	20y
<b>Total variable rate</b>		<b>2,685</b>						
<b>Total long-term loans</b>		<b>8,385</b>						
Accrued expenses		14						
		<b>8,399</b>						

(a) Floating rate loans converted through interest rate swap contracts into fixed-rate loans.

(b) The original maturity date of the loans was extended for two years, from 2009 to 2011.

(c) The revolving lines of credit provide that the loan granted be reinstated as it is repaid.

(d) Borrowed from the European Investment Bank (EIB).

(e) Loan to be repaid in constant instalments of capital and that provides for a pre-amortisation period.

At 31 December 2009, the revolving line of credit was drawn in full (likewise at 31 December 2008).

No financial liabilities subject to covenants exist.

There were no breaches of outstanding loan agreements on the date of the financial statements.

Long-term financial liabilities (€7,486 million) are shown below with their respective maturities:

(€ millions)	Maturity	At 31 December		Long-term maturity				After	Total long
		2009	2010	2011	2012	2013	2014		
Parent	2029	8,399	914	1,300	1,585	750	1,500	2,350	7,485
Other lenders	2014	2	1				1		1
		<b>8,401</b>	<b>915</b>	<b>1,300</b>	<b>1,585</b>	<b>750</b>	<b>1,501</b>	<b>2,350</b>	<b>7,486</b>

Long-term financial liabilities, including the short-term portion, are broken down showing the respective average rate for the period. All the financial liabilities are denominated in euros.

(€ millions)	Amount at 31.12.2008	Average rate	Amount at 31.12.2009	Average rate (*)
	5,214	4.2%	8,401	3.5%
	<b>5,214</b>	<b>4.2%</b>	<b>8,401</b>	<b>3.5%</b>

(\*) The average rate for the debt of the acquired companies was calculated for the second half of the year.

The composition of the long-term financial liabilities by type of interest rate is as follows:

(€ millions)	31.12.2008		31.12.2009	
	Amount	%	Amount	%
At fixed rate	3,713	71	5,716	68
At variable rate	1,501	29	2,685	32
	<b>5,214</b>	<b>100</b>	<b>8,401</b>	<b>100</b>

Floating rate financial liabilities (€2,685 million) increased by €1,184 million compared to 31 December 2008 primarily as a result of debts deriving from the change in the scope of consolidation on the closing date of the purchase transaction for Italgas and Stogit (€586 million) and due to the granting of two new loans by parent Eni S.p.A (€600 million overall, of which €300 million was used by the company to finance part of the acquisition transaction, to be repaid in 2016, and €300 million borrowed from the European Investment Bank, to be repaid starting in 2015 until 2029).

Fixed-rate financial liabilities (€5,716 million) increased by €2,003 million primarily as a result of the granting of three new floating rate loans with parent Eni S.p.A (€1,250 million overall), converted through interest rate swap derivative contracts into fixed-rate loans, and debts of the companies joining the scope of consolidation on the closing date of the acquisition transactions (€758 million).

The fixed-rate financial liabilities include loans taken out at floating rate converted into fixed-rate loans through interest rate swap (IRS) contracts entered into on an overall notional amount of €4,050 million.

Shown below is an itemisation of net financial debt, including related-party transactions.

(€ millions)	31.12.2008			31.12.2009		
	Current	Non-current	Total	Current	Non-current	Total
A. Cash and cash equivalents				36		36
B. Securities not instrumental to operations						
<b>C. Cash (A+B)</b>				<b>36</b>		<b>36</b>
<b>D. Financial receivables not held for operations</b>		<b>1</b>	<b>1</b>		<b>1</b>	<b>1</b>
E. Short-term financial liabilities to banks						
F. Long-term financial liabilities to banks						
G. Bonds						
H. Short-term financial liabilities to associates	1,023		1,023	1,585		1,585
I. Long-term financial liabilities to associates	14	5,200	5,214	914	7,485	8,399
L. Other short-term financial liabilities						
M. Other long-term financial liabilities				1	1	2
<b>N. Gross financial debt (E+F+G+H+I+L+M)</b>	<b>1,037</b>	<b>5,200</b>	<b>6,237</b>	<b>2,500</b>	<b>7,486</b>	<b>9,986</b>
<b>P. Net financial debt (N-C-D)</b>	<b>1,037</b>	<b>5,199</b>	<b>6,236</b>	<b>2,464</b>	<b>7,485</b>	<b>9,949</b>

**17 Provisions for risks and charges**

Provisions for risks and charges of €669 million (€52 million as at 31 December 2008) are broken down in the table below:

(€ millions)								
31.12.2008	Opening balance	Accruals	Increases over time	Utilisation		Other changes	31.12. 2008	
				for expenses	for excesses			
Provision for litigation risks	42					(7)	35	
Provision for site dismantlement and restoration	21		1				(10)	12
Provision for departure incentives	4				(3)			1
Other provisions	3	1						4
	<b>70</b>	<b>1</b>	<b>1</b>		<b>(3)</b>	<b>(7)</b>	<b>(10)</b>	<b>52</b>

  

31.12.2009	Opening balance	Accruals	Increases over time	Utilisation		Change in scope of consolidation	Other changes	31.12. 2009
				for expenses	for excesses			
Provision for site dismantlement and restoration	12		9			374	21	416
Provision for future CCSE expenses		27				66		93
Provision for litigation risks	35	16		(1)	(2)	25		73
Provision for environmental expense risks			2	(5)		61	1	59
Provision for departure incentives	1			(1)				
Other provisions	4	8		(1)		17		28
	<b>52</b>	<b>51</b>	<b>11</b>	<b>(8)</b>	<b>(2)</b>	<b>543</b>	<b>22</b>	<b>669</b>

The change in the scope of consolidation of €543 million includes the amount of provisions for risks and charges deriving from the acquisition of control of Italgas and Stogit on the transaction closing date.

The provision for site dismantlement and restoration (€416 million) was recognised primarily due to expenses which are expected to be borne for the removal of natural gas storage facilities and for site restoration (€403 million).

The provision for future expenses with the Cassa Conguaglio Settore Elettrico (€93 million) refers to penalties for the storage business charged to users exceeding their capacity allowances and which will be returned by the Cassa Conguaglio Settore Elettrico as provided for in Electricity and Gas Authority resolution no. 50/06.

The provision for litigation risks (€73 million) includes the expenses that the company estimates it will bear for pending litigation.

The provision for environmental expense risks (€59 million) primarily includes expenses for environmental remediation of soil, as provided for in Law no. 388/00, and additional projects, primarily the treatment of solid waste, for the distribution business.

Other changes (€22 million) primarily refer to revised cost estimates for site dismantlement and restoration.

Other funds (€28 million) primarily refer to expenses that the company expects to bear for: (i) employee incentive, mobility, tax relief and bonus plans (€10 million); (ii) expenses deriving from the memorandum of understanding with consumer associations for household meters involved in the distribution business (€7 million); and (iii) local tax disputes (€3 million).

**18 Provisions for employee benefits**

Provisions for employee benefits of €107 million (€29 million as at 31 December 2008) are broken down as follows:

(€ millions)	31.12.2008	31.12.2009
Employee post-employment benefits	21	83
Supplementary Healthcare Fund for Eni Managers (FISDE)	1	5
Other provisions for employee benefits	7	19
	<b>29</b>	<b>107</b>

The increase of €78 million compared to 31 December 2008 was due to the consolidation of the acquired companies (€78 million) (of which €74 and €4 million, respectively, were for the natural gas distribution and storage business segments).

The provision for severance pay of €83 million is governed by art. 2120 of the Civil Code and is an estimate of the obligation, determined on the basis of actuarial techniques, relative to the amount payable to employees upon termination of the employment relationship. The indemnity, paid in the form of capital, is equal to the sum of the accruals calculated on the compensation items paid as a result of the employment relationship and adjusted up to the time of termination.

The amount of post-employment benefits (TFR), considered for liability and cost purposes, is deducted from any portion paid to pension funds.

The Supplementary Healthcare Fund for Eni group managers (FISDE) of €5 million includes estimated expenses for contributions to be paid to the supplementary healthcare fund for managers in service and in retirement. The amount of the liability and the healthcare cost for the supplementary healthcare fund for managers of Eni are determined in keeping with the contribution that the company pays for retired managers.

Other provisions for employee benefits of €19 million refer to estimated expenses for deferred cash incentives allotted to company managers, as well as expenses for seniority bonuses, specifically the bonuses paid to employees achieving 25 years' seniority in the company.

The provisions for employee benefits and a reconciliation of the related liabilities may be analysed as follows:

(€ millions)	2008				2009			
	Post-Em- ployment Benefits	FISDE	Others	Total	Post-Em- ployment Benefits	FISDE	Others	Total
<b>Opening balance of present value of liabilities</b>	21	1	6	28	21	1	7	29
Change in consolidation scope					61	5	12	78
Current cost			2	2			3	3
Interest cost	1			1	3		1	4
Actuarial gains/(losses)					3			3
Benefits paid	(1)		(1)	(2)	(3)		(4)	(7)
<b>Closing balance of present value of liabilities</b>	21	1	7	29	85	6	19	110
Unrecognised actuarial gains/(losses)					(1)			(1)
Unrecognised past service cost					(1)	(1)		(2)
<b>Net liabilities on provisions for employee benefits</b>	21	1	7	29	83	5	19	107

Costs relating to liabilities for employee benefits recognised in profit or loss (€17 million) may be analysed as follows:

(€ millions)	2008				2009			
	Post-Em- ployment Benefits	FISDE	Others	Total	Post-Em- ployment Benefits	FISDE	Others	Total
Current cost	7		1	8	10		3	13
Interest cost	1			1	3		1	4
	8		1	9	13		4	17

The main actuarial assumptions applied to measure the year-end liability are described below:

(%)	Post-Employment Benefits	FISDE	Others
<b>2008</b>			
Discount rates	6	6	5.5 - 6
Inflation rate	2.5	2.5	2.5
<b>2009</b>			
Discount rates	5	5	5 - 5.2
Inflation rate	2	2	2

The demographic charts drawn up by the state general accounting office (RG48) are used for the actuarial assumptions. The effects of a 1% change in the actuarial assumptions about the cost of health insurance are not significant for FISDE purposes.

### 19 Deferred tax liabilities

Deferred tax liabilities of €934 million (€487 million as at 31 December 2008) are shown net of deferred tax assets that can be netted of €454 million (€127 million as at 31 December 2008). There are no deferred tax assets that cannot be netted.

(€ millions)	31.12.2008	Provisions	Utilisations	Change in consolidation scope	Other changes	31.12.2009
Deferred tax liabilities	614	5	(49)	815	3	1,388
Deferred tax assets	(127)	(33)	21	(297)	(18)	(454)
	<b>487</b>	<b>(28)</b>	<b>(28)</b>	<b>518</b>	<b>(15)</b>	<b>934</b>

The change in consolidation scope of €518 million comprises the net carrying amount of the deferred tax liabilities (€815 million) and of the deferred tax assets (€297 million) deriving from subsidiaries entering the consolidation scope. Deferred tax liabilities of €934 million are analysed as follows per type of tax:

(€ millions)	31.12.2008			31.12.2009		
	IRES	IRAP	Total	IRES	IRAP	Total
Deferred tax liabilities	547	67	614	1,248	140	1,388
Deferred tax assets	(114)	(13)	(127)	(405)	(49)	(454)
	<b>433</b>	<b>54</b>	<b>487</b>	<b>843</b>	<b>91</b>	<b>934</b>

Deferred tax liabilities and deferred tax assets are determined using the IRES and IRAP tax rates of 27.5% and 3.9%, respectively (same rates as in force in 2008).

The deferred tax liabilities and assets are analysed as follows based on the nature of the more significant temporary differences which led to the net deferred tax liabilities:

(€ millions)	31.12.2008	Provisions	Utilisations	Change in consolidation scope	Other changes	31.12.2009
<b>Deferred tax liabilities</b>						
- Excess and accelerated depreciation and amortisation	596		(40)	429		985
- Italgas property, plant and equipment revaluation			(5)	245		240
- Site dismantlement and restoration	2		2	47	2	53
- Capitalisation of financial expense	10		(1)	6		15
- Deferred tax gains		5	(2)	2		5
- Excess impairment loss on receivables	3			1		4
- Finance leases	2					2
- Derivative contracts valuation					1	1
- Others	1		(3)	85		83
	<b>614</b>	<b>5</b>	<b>(49)</b>	<b>815</b>	<b>3</b>	<b>1,388</b>
<b>Deferred tax assets</b>						
- Contractual and loss provision contributions	(31)		2	(105)		(134)
- Site dismantlement and restoration	(4)	(3)	1	(109)	(2)	(117)
- Non-deductible provisions for risks and charges	(14)	(20)	6	(61)		(89)
- Revenue adjustments	(41)		6			(35)
- Non-deductible amortisation and depreciation	(24)	(9)	5	(7)		(35)
- Derivative contracts valuation	(11)				(9)	(20)
- Employee benefits	(2)	(1)		(2)		(5)
- Others			2	(13)	(8)	(19)
	<b>(127)</b>	<b>(33)</b>	<b>22</b>	<b>(297)</b>	<b>(19)</b>	<b>(454)</b>
<b>Net deferred tax liabilities</b>	<b>487</b>	<b>(28)</b>	<b>(27)</b>	<b>518</b>	<b>(16)</b>	<b>934</b>

Both the deferred tax assets and deferred tax liabilities have a long-term nature.

Other changes (€16 million) mainly relate to deferred tax assets recognised on the change in fair value of hedge derivatives (€8 million) and on the additional transaction expenses for the capital increase (€7 million).

Note 28 "Income taxes" gives information about the taxes for the financial year.

## 20 Other non-current liabilities

The *other non-current liabilities* of €243 million (€256 million as at 31 December 2008) are analysed as follows:

(€ millions)	31.12.2008	31.12.2009
Deferred and accrued income from regulated activities	210	201
<b>Derivatives:</b>		
- Fair value of derivatives	19	16
	<b>19</b>	<b>16</b>
<b>Other non-current liabilities:</b>		
- Deferred and accrued revenue and income	27	25
- Guarantee deposits		1
	<b>27</b>	<b>26</b>
	<b>256</b>	<b>243</b>

The data on the derivatives are provided in note 15 "Other current liabilities".

Deferred and accrued income from regulated activities (€201 million) relate to the non-current portion of the greater revenue invoiced and fines for transportation services charged to shippers which exceeded their capacity allowance as provided for in resolution no. 166/05 of the Electricity and Gas Authority.

## 21 Equity

Equity at 31 December 2009 of €5,703 million (€3,573 million as at 31 December 2008) is analysed as follows:

(€ millions)	31.12.2008	31.12.2009
<b>Snam Rete Gas equity</b>		
Share capital	1,956	3,570
Legal reserve	391	391
Share premium reserve	116	1,978
Consolidation reserve		(1,586)
Cash flow hedge reserve	(31)	(52)
Other reserves	795	794
Retained earnings	768	870
Profit for the year	530	732
<i>less:</i>		
- Treasury shares	(794)	(792)
- Interim dividend	(158)	(203)
	<b>3,573</b>	<b>5,702</b>
<b>Capital and reserves of minority interests</b>		
Napoletana Gas		1
	<b>3,573</b>	<b>5,703</b>

### Share capital

At 31 December 2009, the fully subscribed and paid-up share capital of Snam Rete Gas S.p.A. consists of 3,570,768,494 ordinary shares with a nominal value of €1 (1,956,445,600 as at 31 December 2008).

The increase of €1,614,322,894 over 31 December 2008 is due to: (i) the issuance of 1,614,292,394 shares with a nominal value of €1, resolved by the board of directors on 23 March 2009 as a result of the delegation conferred to it by the extraordinary shareholders' meeting of 17 March 2009 to increase, against payment, the share capital of Snam Rete Gas S.p.A., in one or more instalments, up to a maximum of €3.5 billion, including the premium, by the issuance of shares with a nominal value of €1 each, with regular rights, to be offered as an option to the shareholders in the proportion of the number of shares held; (ii) the issuance of 30,500 shares with a nominal value of €1 for subscription by the managers who signed on to the 2004 stock option plans.

As of that date, commitments existed to allot 568,000 shares for the stock option plans to be carried out by increasing share capital.

Information on the commitments assumed for the stock option plans is given in the section on "Compensation and other information" in the management report for the financial statements of the year.

The key shareholders with stakes of more than 2% in Snam Rete Gas are:

- Eni S.p.A., which holds 52.54% of the share capital;
- PICTET FUNDS S.A., which holds 2.90% of the share capital.

The shareholders are identified using the shareholder register, communications and other available information.

Snam Rete Gas, through its portfolio of treasury shares (194,886,225 shares at 31 December 2009) holds an approximate 5.46% stake in the share capital.

### Share premium reserve

The share premium reserve at 31 December 2009 amounts to €1,978 million, increasing €1,862 million over 31 December 2008 due to: (i) the issuance of 1,614,292,394 shares with a share premium of €1.15 as resolved by the board of directors on 23 March 2009 (€1,857 million); (ii) the disposal by auction, on the securities exchange, of the option rights not exercised during the option offering period (€3 million); and (iii) the reclassification of the corresponding part from the reserve for treasury shares in portfolio to the cost of the treasury shares exercised by the managers who signed on to the stock option plans (€2 million).

### Consolidation reserve

The consolidation reserve (€-1,586 million) includes the value deriving from the difference between the acquisition cost of the Italgas and Stogit stakes (€4,513 million, including the additional transaction expenses and the price adjustment in relation to the agreements reached at transaction closing) and the respective equity pertaining to the Group as of the date of finalising the transaction (€2,004 and 923 million, respectively, for Italgas and Stogit).

During the second half of 2009 the consolidation reserve increased €1 million due to the effects of the price adjustment mechanisms resulting from the agreements reached upon signing the Stogit acquisition agreement<sup>14</sup>.

### Cash flow hedge reserve

(€ millions)	Amount
<b>Reserve at 31.12.2007</b>	<b>47</b>
Transfer of reserve to income statement	(21)
Other changes	(57)
<b>Reserve at 31 December 2008</b>	<b>(31)</b>
Transfer of reserve to income statement	47
Other changes	(68)
<b>Cash flow hedge reserve at 31 December 2009</b>	<b>(52)</b>

The cash flow hedge reserve (€-52 million) includes assessment, net of the related tax effect, of the fair value of the cash flow hedge derivatives relating to interest rate swap contracts used by the Company to convert financing obtained at a floating rate into financing at a fixed rate.

### Other reserves

Other reserves, at €794 million, mainly include the reserve for treasury shares in portfolio, involving 194,886,225 treasury shares in portfolio at 31 December 2009 (€792 million).

### Retained earnings

Retained earnings (€870 million) increased by €102 million due to: (i) the allocation of undistributed profit from financial year 2008 (+€125 million); (ii) posting of additional transaction expenses for the capital increase (-€23 million, net of related tax effect).

<sup>(14)</sup> For more information, see note 23 "Commitments, risks and guarantees – Commitments deriving from acquisition of Italgas and Stogit from Eni".

## Treasury shares

The treasury shares in portfolio at 31 December 2009 are analysed in the following table:

Period	Number of shares	Average cost (EUR)	Total cost (million EUR)	Share capital (%)
Acquisitions				
2005	800,000	4.399	3	0.02
2006	121,731,297	3.738	455	3.41
2007	73,006,653	4.607	336	2.04
	<b>195,537,950</b>	<b>4.061</b>	<b>794</b>	<b>5.48</b>
Less treasury shares allotted/sold:				
- Allotted free under 2005 stock grant plans	(39,100)			
- Sold under 2005 stock option plans	(69,000)			
- Sold under 2006 stock option plans	(543,625)		(2)	
<b>Treasury shares in portfolio at 31 December 2009</b>	<b>194,886,225</b>		<b>792</b>	<b>5.46</b>

At 31 December 2009, commitments exist for the allotting of 6,942,700 treasury shares for the stock option plans.

At 31 December 2009, the market value of treasury shares is approximately €674 million<sup>15</sup>.

Further information on the stock option plans is provided in the section "Compensation and other information" in the management report for the financial statements of the year.

## Interim dividend

The interim dividend of €203 million reflects the interim dividend for financial year 2009 at €0.06 per share resolved by the board of directors in its meeting of 29 July 2009 in accordance with art. 2433-bis, paragraph 5 of the Italian Civil Code. The interim dividend was made available for payment from 22 October 2009 with an ex-dividend date set at 19 October 2009.

## Dividends

On 24 April 2009 the ordinary shareholders' meeting of Snam Rete Gas S.p.A. resolved to distribute an ordinary dividend of €0.14 per share, to complete the distribution commenced with the 2008 interim dividend of €0.09 per share. The balance of the dividend (€247 million) was made payable from 21 May 2009 with an ex-dividend date of 18 May 2009.

In its meeting of 29 July 2009, the board of directors approved the distribution of a 2009 interim dividend of €0.06 per share, excluding treasury shares held by the company at the ex-dividend date, to be taken from the 2009 profit; the interim dividend (€203 million) was made payable from 22 October 2009 with an ex-dividend date set at 19 October 2009.

In its meeting of 10 March 2010, the board of directors proposed to the shareholders' meeting called on for 27 and 28 April 2010, on first and second call respectively, the distribution of an ordinary dividend of €0.20 per share. The outstanding dividend of €0.14 per share will be made payable from 27 May 2010, with an ex-dividend date of 24 May 2010.

<sup>(15)</sup> Calculated by multiplying the number of treasury shares by the official share price at 31 December 2009 (€3.46 per share).

## 22 Other information

### Business combination transactions

On 30 June 2009 the contract was finalised for the acquisition, from Eni, of 100% of the share capital of Italgas S.p.A., major operator in the natural gas distribution business and of Stogit S.p.A., major Italian operator in natural gas storage. The cost of the transaction, €4,512 million (including the ancillary costs of €3 million), was financed by a capital increase through issuing shares offered under option to Snam Rete Gas shareholders for €3,474 million, including a share premium, and by taking out new loans from the ultimate parent Eni S.p.A. for the remainder.

<b>Italgas and Stogit acquisition cost</b>	(€ millions)
Italgas acquisition cost	2,922
Stogit acquisition cost	1,587
Ancillary acquisition expenses	3
Stogit acquisition price adjustment (*)	1
	<b>4,513</b>

(\*) Includes the price adjustment effects, recognised as a result of the agreements reached upon signing the Stogit acquisition agreement. For more information, refer to note 23 "Commitments, risks and guarantees – Commitments deriving from acquisition of Italgas and Stogit from Eni".

Determination of the cost, amounting to €2,922 and €1,587 million for Italgas and Stogit respectively, was done by using the methods commonly followed in market practice, on the international level as well, for transactions of this nature and for companies active in the industry involved.

In particular, the Discounted Cash Flow (DCF) method was used, based on discounting cash flows, as well as the Sum of the Parts (SOTP) method, or else the Regulatory Asset Base (RAB) method, based on the net invested capital value as defined by the Electricity and Gas Authority for tariff purposes.

The valuable consideration is subject to potential future adjustments for both acquisitions and the amount thereof has not been considered in determining transaction closing price given the objective difficulty of forecasting based on the information available. The information relating to the adjustment mechanisms for the acquisition prices is provided in note 23 "Guarantees, commitments and risks – Commitments deriving from the Italgas and Stogit acquisition agreement".

### Values attributed to assets and liabilities acquired

The assets and liabilities deriving from consolidating the acquired companies, included in the consolidated financial statements of Snam Rete Gas using the predecessor values method, were recognised at the carrying amounts in the balance sheets as at 30 June 2009 that were approved by the Directors of the acquired companies. The following shows the assets and liabilities acquired as at the date of finalising the transaction.

(€ millions)	Italgas Group	Stogit	Total
<b>Current assets</b>	<b>267</b>	<b>391</b>	<b>658</b>
Cash and cash equivalents	38		38
Trade and other receivables	200	45	245
Inventories	21	346	367
Current income tax assets	1		1
Other current tax assets	2		2
Other assets	5		5
<b>Non-current assets</b>	<b>3,853</b>	<b>2,356</b>	<b>6,209</b>
Property, plant and equipment	3,524	1,287	4,811
Compulsory inventories		411	411
Intangible assets	42	658	700
Equity investments valued by equity method	280		280
Other equity investments	2		2
Other assets	5		5
<b>Assets held for sale</b>	<b>37</b>		<b>37</b>
<b>Acquired assets</b>	<b>4,157</b>	<b>2,747</b>	<b>6,904</b>
<b>Current liabilities</b>	<b>983</b>	<b>506</b>	<b>1,489</b>
Short-term financial liabilities	614	261	875
Short-term portion of long-term financial liabilities	2	6	8
Trade and other payables	351	210	561
Current income tax liabilities	7	1	8
Other current tax liabilities	8	1	9
Other liabilities	1	27	28
<b>Non-current liabilities</b>	<b>1,157</b>	<b>1,318</b>	<b>2,475</b>
Long-term financial liabilities	535	801	1,336
Provisions for risks and charges	99	444	543
Provisions for employee benefits	74	4	78
Deferred tax liabilities	449	69	518
<b>Liabilities directly attributable to assets held for sale</b>	<b>12</b>		<b>12</b>
<b>Acquired liabilities</b>	<b>2,152</b>	<b>1,824</b>	<b>3,976</b>
<b>Acquired equity</b>	<b>2,005</b>	<b>923</b>	<b>2,928</b>
- attributable to Snam Rete Gas	2,004	923	2,927
- attributable to minority interests	1		1

The difference between the acquisition cost (€4,513 million, including additional transaction expenses and the price adjustment to be credited to Eni as provided for in the acquisition agreement) and the book value of the acquired companies' equities at 30 June 2009 (€2,928 million) led to a decrease of €1,585 million in consolidated equity.

The results of financial year 2009 include the economic effects of consolidating Italgas and Stogit as from the acquisition date, i.e. in the second half of 2009. The net profit registered in the second half of 2009 from the natural gas distribution and storage business areas amounted to €148 million and €52 million, respectively.

Just for the reporting purposes required by IFRS 3 "Business Combinations", it is indicated that, if both of the acquisitions had taken place at the beginning of the financial year, the revenue and net profit of the Snam Rete Gas Group would have been €3,050 and €927 million, respectively<sup>16</sup>.

<sup>(16)</sup> The net profit registered in the first half of 2009, at €126 and €69 million, respectively, for the Italgas Group and for Stogit, is included in the respective equities as of the acquisition date.

## 23 Guarantees, commitments and risks

Guarantees, commitments and risks of €2,428 million (€912 million as at 31 December 2008) comprise:

(€ millions)	31.12.2008			31.12.2009		
	Other personal guarantees	Risks and commitments	Total	Other personal guarantees	Risks and commitments	Total
<b>Other personal guarantees given on its own behalf:</b>						
- Ultimate parents	32		32	50		50
<b>Collateral</b>						
- Third parties		...				
<b>Commitments</b>						
Commitments for the purchase of goods and services		880			1,168	1,168
Other					1	1
<b>Risks</b>						
- Third party assets on deposit					1,191	1,191
- Risks for litigations					18	18
	<b>32</b>	<b>880</b>	<b>912</b>	<b>50</b>	<b>2,378</b>	<b>2,428</b>

### Guarantees

Other personal guarantees (€50 million) mainly relate to hold harmless letters issued to Eni S.p.A. for sureties issued on behalf of Snam Rete Gas, mainly performance bonds.

### Commitments

As at 31 December 2009 commitments with suppliers to purchase and services for investments in property, plant and equipment and intangible assets under construction/development amount to €1,168 million.

### Risks

Third party goods on deposit (€1,191 million) relate to natural gas deposited in the storage systems (approximately 6.0 billion standard cubic metres).

This amount was determined by applying the estimated unit repurchase cost of approximately €0.20 per standard cubic metre to the deposited gas. The actual commitment is in line with the nominal amount.

Risks related to compensation and litigation (€18 million) relate to third party claims for compensation arising from ongoing litigation. The risk that the group will be required to pay is low.

Guarantees, commitments and risks contributed by the acquirees amount to €1,257 million.

### Commitments deriving from the acquisition of Italgas and Stogit from Eni

#### Acquisition of Italgas

The acquisition price for Italgas is subject to adjustment mechanisms applicable also after the execution date. Specifically, the price will be adjusted by an amount equal to the difference between the provisional combined value of RAB at 31 December 2007 of Italgas and some of its subsidiaries, determined to be €4,560 million as set out by Eni in the acquisition contract, and the RAB of Italgas and the same subsidiaries at the same date approved by the Electricity and Gas Authority.

The acquisition price for Italgas will also be adjusted to reflect the benefits deriving from the sale by Italgas to Eni of a property which it owns and no longer uses for its operating activities.

*Acquisition of Stogit*

The acquisition price for Stogit may be adjusted, to reflect the different value compared to the present value, which may be recognised by the Electricity and Gas Authority for the tariff period from 1 April 2014 to 31 March 2018, for natural gas volumes owned by Stogit at the share transfer date and included in the assets making up its RAB.

The acquisition contract also includes hedging mechanisms in order that Eni keeps the risks and/or benefits which may arise from:

- the increase in value of the gas owned by Stogit at the date of transfer of the shares compared to that currently recognised by the Electricity and Gas Authority in the case of the (partial) sale of such gas, should certain volumes no longer be necessary for the concessions and, thus, become available for sale. In financial year 2009, following the sale by Stogit of around 12 million cubic metres of natural gas to Snam Rete Gas, the capital gain owed to Eni, recognised as an increase in the investments cost, amounts to €1 million.
- the possible sale of storage capacity which may become available for sale and is no longer regulated, or from the sale of concessions held by Stogit at the time of transfer of the shares which could be mostly used for storage activities which are not regulated.

*Rome urban area and the "Romana gas" business unit*

Following the sale by the French company Suez S.A. (now GdF-Suez S.A. after their merger) of its Belgium subsidiary Distrigaz, Eni agreed to sell Suez, on the basis of preliminary negotiations with Italgas, the latter's distribution activities in the Rome urban area together with other gas and electricity business assets. On 29 May 2008, the related preliminary agreements were signed, including the sales terms for the gas distribution activities. The final agreement for such gas distribution activities was entered into by Italgas and GdF-Suez on 30 October 2008.

The transaction relates to the business unit which distributes gas in the municipalities of Rome, Fiumicino, Ciampino, Marino, Grottaferrata, Rocca di Papa and Frascati (the concession for Rome expires on 31 December 2009), including the distribution networks (spanning roughly 5,300 km) and the related systems, approximately 1.3 million delivery points (equal to approximately 28% of the users served), together with roughly 800 employees.

The set price, based on 31 December 2008, is €1,018 million.

The contract provides that execution of the transaction shall take place with the transfer by Italgas of the business unit to Rete Gas Roma S.r.l. (a newco set up on 26 November 2008 wholly owned by Italgas) and is subject to attainment of approval by the Rome municipality authorities of transfer of the concession before 30 June 2009, which date the buyer may extend to 31 August 2009.

The Rome municipal authorities agreed to the transfer of the concession contract to Rete Gas Roma with its communication no. 1231 of 25 June 2009, acknowledging Italgas' intention to transfer its entire investment in this company to GdF-Suez. The concession covers the distribution of gas in Rome.

On 6 July 2009, the Rome mayor subsequently specified that this communication is the sole document necessary to legitimately and effectively express the municipal authority's consent to the transaction and that the town council would be informed thereof.

However, on 13 July 2009, GdF-Suez informed Italgas that it did not believe that the conditions for transfer of the Rome urban area gas distribution activities had been met in the established timeframe. Therefore, it decided not to continue with finalisation of the acquisition as set out in the contract agreed by the parties on 30 October 2008.

Snam Rete Gas is evaluating the contract's content to assess what actions could be taken to best protect its interests.

## BUSINESS RISK MANAGEMENT

### Introduction

The main corporate risks identified, monitored and, where specified below, managed by Snam Rete Gas are as follows:

- (i) market risk deriving from exposure to interest rate fluctuations;
- (ii) credit risk deriving from the possibility of counterparty default;
- (iii) liquidity risk deriving from a lack of financial resources required to meet short-term commitments.

With reference to the other risks which characterise this activity, reference is made to the contents of the management report for the consolidated financial statements, under "Elements of risk and uncertainty".

### MARKET RISK

#### Interest rate fluctuation risk

Fluctuations in interest rates affect the market value of a company's financial assets and liabilities as well as its net financial expense. The Group aims to minimise interest rate risks while pursuing financial structure objectives laid down in its business plans.

The interest rates of some of the Snam Rete Gas' loans are indexed to market benchmark rates, particularly the Euro Interbank Offered Rate (EURIBOR). In order to limit the risk connected with interest rate volatility, Snam Rete Gas uses derivative instruments – notably interest rate swaps (IRS) – to manage the balance between fixed-rate and floating-rate debt. The fair value of such interest-rate derivatives is calculated systematically on the basis of market prices provided by the major specialised info providers. Snam Rete Gas does not have derivative contracts held for trading or speculative purposes.

As described in the section on "Liquidity risk", Snam Rete Gas currently raises funds solely through its ultimate parent, Eni S.p.A. Should Eni S.p.A sell its controlling stake in Snam Rete Gas, there is no guarantee that the latter would be able to obtain loans and financing from other sources under the same conditions as those currently in force.

#### Derivatives

##### *Nominal values of derivatives*

The nominal value of a derivative is the contractually agreed amount considered when exchanging the related gains and losses. This amount is expressed in monetary terms.

The nominal values of derivatives, summarised below, do not represent the amounts exchanged by the parties and, therefore, do not constitute a measure of the company's exposure to credit risk, which is represented by the positive market value (fair value) of the contracts at the end of financial year, reduced by any general clearing arrangements. Amounts exchanged are calculated on the basis of the nominal amounts and the conditions of derivatives relating to interest rates.

##### *Interest rate risk management*

At 31 December 2009 Snam Rete Gas has nine interest rate swaps in existence for a nominal value of €4,050 million (€2,800 million as at 31 December 2008).

The characteristics of these contracts are analysed below:

Contract type	Contract start (date)	Contract expiry (date)	Term (years)	Nominal value		Rate sold	Rate purchased	Market value	
				31.12.2008	31.12.2009			31.12.2008	31.12.2009
								(€ millions)	
Interest rate swap	01.10.2002	30.09.2009	7	500		euribor	Fixed rate of 2.73% over FOI inflation rate	(6)	
Interest rate swap	19.10.2004	19.10.2009	5	300		euribor	Fixed rate	1	
Interest rate swap	24.11.2005	24.11.2010	5	700	700	euribor	Fixed rate	(6)	(14)
Interest rate swap	24.11.2005	24.11.2015	10	500	500	euribor	Fixed rate	(4)	(18)
Interest rate swap	26.03.2007	26.03.2012	5	500	500	euribor	Fixed rate	(17)	(23)
Interest rate swap	20.03.2008	20.03.2011	3	300	300	euribor	Fixed rate	(7)	(9)
Interest rate swap	30.06.2009	28.01.2016	7		700	euribor	Fixed rate		(10)
Interest rate swap	30.09.2009	30.09.2011	2		500	euribor	Fixed rate		(4)
Interest rate swap	19.10.2009	19.10.2011	2		300	euribor	Fixed rate		(3)
Interest rate swap	2.12.2009	2.12.2013	4		350	euribor	Fixed rate		2
Interest rate swap	2.12.2009	2.12.2015	6		200	euribor	Fixed rate		1
				<b>2,800</b>	<b>4,050</b>			<b>(39)</b>	<b>(78)</b>

In such contracts, the Company agrees with the counterparties to exchange, at fixed dates, the difference between a floating rate and a fixed rate or inflation-indexed rate calculated using the reference nominal value.

The interest rate cash flows and their impact on profit or loss are substantially the same, except for capitalised interest expense, which is taken to the income statement by amortising/depreciating the asset to which it refers.

The following table shows the weighted average of interest rates and expiry dates of the existing swaps. The average floating rates are based on the year-end rates and may undergo changes which could significantly affect future cash flows.

A comparison between the average rates purchased and sold is not indicative of the result of the existing derivatives. Determination of this result is done by considering the underlying transaction.

	2008	2009
Purchasing fixed rate / Selling floating rate - Nominal value (€ million)	2,300	4,050
Weighted average rate purchased (%)	3.53	3.07
Weighted average rate sold (%)	3.85	0.71
Weighted average expiry (years)	3.22	3.33
Purchasing inflation-indexed rate / Selling floating rate - Nominal value (€ million)	500	
Weighted average rate purchased (%)	4.43	
Weighted average rate sold (%)	2.97	
Weighted average expiry (years)	0.76	

The effects on equity and profit at 31 December 2009 are shown below, assuming a change of +/-10% in interest rates.

	Profit or loss for the period		Equity	
	Financial year 2009		31.12.2009	
(€ millions)	+10%	-10%	+10%	-10%
<b>Floating rate loans</b>				
Effect of changes in interest rates	(3)	3		
<b>Floating rate loans converted into fixed-rate loans via an IRS</b>				
Effect of changes in interest rate on fair value of hedging derivatives - effective portion - pursuant to IAS 39 (*)			31	(32)
Capitalised financial expense	...	...		
<b>Effect on profit before tax</b>	<b>(3)</b>	<b>3</b>	<b>31</b>	<b>(32)</b>
Tax effect	1	(1)	(9)	9
	<b>(2)</b>	<b>2</b>	<b>22</b>	<b>(23)</b>

(\*) Changes in the interest rate do not affect profit or loss. Therefore, changes in the fair value of derivatives arising from the decline in the interest rate only affect equity.

## CREDIT RISK

Credit risk is the company's exposure to potential losses arising from counterparties' failing to fulfil their obligations. Default or delayed payment may have a negative impact on the financial balance and results of Snam Rete Gas.

The Group provides business services to a small number of operators in the gas sector, the largest of which by revenue is Eni S.p.A. The rules for customer access to the services offered are established by the Electricity and Gas Authority and set out in the Network Codes. For each type of service, these documents explain the rules regulating the rights and obligations of the parties involved in providing said services and have contractual conditions which reduce the risk of non-compliance by customers. In particular, the Codes provide for guarantees to partly cover obligations where the customer does not possess a credit rating issued by one of the leading international agencies.

Snam Rete Gas did not have significant cases of counterparty non-compliance.

The Group's maximum exposure to credit risk at 31 December 2009 is limited to the carrying amount of the financial assets recognised in the balance sheet.

Impaired receivables totalled €29 million (€1 million as at 31 December 2008) and are due from third parties. Overdue receivables that have not been impaired, because their collection is not deemed critical, amount to €34 million (€13 million as at 31 December 2008). The criteria used to verify the presence of impairments are indicated in the description of the valuation criteria.

No material credit risks arose. However, at 31 December 2009, roughly 72% of receivables (31 81% as at 31 December 2008) are due from its highly-rated key customers, including its ultimate parent, Eni S.p.A., from which 50% of total receivables are due (50% as at 31 December 2008).

## LIQUIDITY RISK

Liquidity risk represents the risk that, because financial resources may not be available (funding liquidity risk) or it may be impossible to convert assets into cash on the market (asset liquidity risk), the company cannot meet its payment commitments. This may affect profit or loss should the company be obliged to incur extra costs to meet its commitments or, in extreme cases, lead to insolvency and threaten the company's future as a going concern. The Group's objective is to have a financial structure (in terms of leverage ratio and ratios of medium-to-long-term debt and fixed-/floating-rate debt to total debt) which ensures an adequate level of liquidity for the Group, minimising the related opportunity cost and maintaining a balance between the term and composition of its debt in line with business objectives.

Snam Rete Gas currently raises funds solely through its ultimate parent, Eni S.p.A. Under the agreements made, Eni S.p.A. can request the early repayment of loans should it lose its controlling stake in Snam Rete Gas.

At present, the Company believes that cash flows from business operations and the current financial and capital structure can reasonably allow access to a wide range of forms of financing through the capital market and banks at normal market conditions.

Financial liabilities, not discounted to present value, including the short-term portion and unaccrued interest<sup>17</sup>, may be broken down by expiry date as follows:

(€ millions)	Within 12 months		Between 2 and 5 years		More than 5 years	
	2008	2009	2008	2009	2008	2009
Financial payables (*)	1,203	2,754	3,762	5,975	2,118	2,611
Trade and other payables	493	1,062				
	<b>1,696</b>	<b>3,816</b>	<b>3,762</b>	<b>5,975</b>	<b>2,118</b>	<b>2,611</b>

(\*) For financial payables with floating rates that are hedged by cash flow hedge derivatives, the cash flow includes the effect of the hedging derivatives.

### Other information on financial instruments

The carrying amount of financial instruments and their relative effects on profit or loss and on equity may be analysed as follows:

(€ millions)	Carrying amount		Income (expense)			
			Income statement		Equity	
	2008	2009	2008	2009	2008	2009
<b>Hedging financial instruments</b>						
Effective portion of hedge pursuant to IAS 39	(44)	(73)	29	(64)	(78)	(21)
Ineffective portion of hedge pursuant to IAS 39	3		(2)	(2)		
<b>Receivables and payables and other assets/liabilities measured at amortised cost</b>						
Trade and other receivables	435	872	2	2		
Trade and other payables	(493)	(1,062)				
Financial payables	(6,237)	(9,986)	(250)	(142)		

The following presents a comparison between the carrying amount of long-term financial liabilities and the respective market value. This information is not provided for other financial assets/liabilities because the carrying amount is almost equivalent to the market value.

The market value of the long-term financial liabilities, including the short-term portions, was determined using the discount rates defined on the basis of the market interest rates at 31 December 2009.

(€ millions)	31 December 2008		31 December 2009	
	Carrying amount	Market value	Carrying amount	Market value
Financial payables	5,214	5,289	8,401	8,561

The following table shows, for each category of financial instrument measured at fair value in the balance sheet format, the levels of hierarchy for fair value<sup>18</sup> attributed to the valuations made.

(€ millions)	31 December 2009		Total
	Level 1	Level 2	
Hedge derivatives		(73)	(73)

<sup>(17)</sup> With respect to cash flows of accrued interest, maximum use of credit lines of €1,700 million has been assumed up to expiry of the lines (2012 and 2014).

<sup>(18)</sup> The changes to IFRS 7 made by IAS in March 2009 and approved in November 2009 require distinguishing valuations at fair value on the basis of a classification based on three levels (fair value hierarchy) defined by considering the materiality of the inputs used in the valuation process. In particular, this standard provides for the following levels: (i) Level 1: Valuations made on the basis of quoted prices (and not subject to change) on active markets for the same financial assets or liabilities; (ii) Level 2: Valuations made on the basis of input, differing from the quoted prices as referred to in the previous point, which, for the assets/liabilities submitted for valuation, are indirectly observable; and (iii) Level 3: Inputs not based on observable market prices.

## LITIGATION

Several Companies of the Snam Rete Gas Group are involved in civil and administrative proceedings and legal actions related to their normal business activities. According to the information currently available and considering the existing provisions for risks, it is believed that these proceedings and actions will not have material adverse effects on the financial statements. The key proceedings are summarised below.

### Penal cases

#### *Italgas S.p.A.*

In May 2007 Italgas received notice of a search and seizure proceeding within the framework of case no. 11183/06 RGNR brought by the Public Prosecutor at the Milan Court. The record was also served upon the chairman of the Company. The charge alleged unlawful conduct starting in 2003 relating to the use of gas measurement equipment, the payment of excise duties, the billing of customers and relations with the Supervisory Authority.

Among other things, the charges include violation of Legislative Decree no. 231 of 8 June 2001, which provides for administrative liability of a company for crimes committed by its employees in the interest of or to the advantage of the company itself.

On 3 February 2009 the Public Prosecutor of Milan gave notice of a request to extend the period for preliminary investigation on Italgas to 7 October 2009. The Company is cooperating with the appropriate authorities in this investigation.

#### *Snam Rete Gas - Judiciary investigations on gas measuring*

The Public Prosecutor at the Milan Court has commenced a criminal case on the issue of gas measuring and the legitimacy and reliability of what are referred to as the Venturi meter measuring systems. This has involved several companies active in the gas sector.

Snam Rete Gas and certain of its managers are also involved in the case and the Mazara del Vallo measuring system has been placed under precautionary seizure; the Company is under investigation pursuant to articles 24 and 25-ter of Legislative Decree no. 231/2001.

In this regard, the Company wishes to state that:

- the reliability of the Venturi meter measuring system, especially the unit at Mazara del Vallo, the entry point into Italy for the importation of Algerian gas by pipeline, which was designed and set up based on the meter system of the Venturi type at the beginning of the eighties and subsequently extended in 1994, has been confirmed by some of the most recognised Italian and international metrology institutions;
- the Mazara del Vallo measuring unit was authorised by the Ministry of Finance both in the import start-up stage as well as in the subsequent upgrading stage;
- Venturi meter measuring units are currently used throughout the world, including Europe, in Great Britain, Germany, France, Austria and Norway;
- In Italy the process of approving this type of measuring instrument has been in progress for more than a decade, with the positive outcome of the technical procedure in December 1999. The urgent need to finalise this process has been reiterated by Snam Rete Gas to the former Ministry of Industry, now the Ministry of Economic Development.

The company is cooperating with the relevant authorities and is confident about the reliability of the measuring system used at the Mazara del Vallo station. It has full trust in the judiciary and is confident that the outcome of its investigations will confirm the propriety of its conduct.

In November 2009, Notice of Conclusion of Preliminary Investigations was received, within the context of the aforementioned broader criminal case relating to the gas measuring system, concerning a strand pertaining particularly to tax issues deemed of a criminal nature.

Some managers and department heads (including some no longer employed by the company) have become subject to investigation on various matters.

The period under investigation is a time span that, in total, covers the years from 2003 to 2007, relating primarily to annual natural gas consumption reports and to assessment and/or payment of excise duties on natural gas, as well as to possible obstruction of supervisory duties.

With the help of independent external experts, the administrative, tax and community aspects have been examined more closely. As a result, assured by the opinions given, Snam Rete Gas maintains that the allegations made are unfounded and therefore considers the risk of a subsequent negative impact on it to be unlikely.

### **Civil and administrative cases**

#### *Snam Rete Gas - Recovery of amounts for improper withdrawals of gas*

Eni S.p.A. has involved Snam Rete Gas S.p.A. in civil proceedings against End Customers for the recovery of amounts for improper withdrawals of gas by them, asserting that they did not behave in compliance with the role attributed to them by the Network Code.

Snam Rete Gas believes that it has always acted correctly and in full compliance with the terms of the transportation contract, the Network Code, related application procedures and, in general, the legal and technical rules of conduct. It has consulted an independent legal expert who confirms that it is not probable that the claim for compensation will prevail and, indeed, presents the conviction that any criticism brought against its conduct is unfounded.

### **Tax cases**

#### *GNL Italia S.p.A. - Local Property Tax (ICI)*

With respect to the litigation concerning the ICI between the subsidiary GNL Italia S.p.A., the municipal authorities of Portovenere and the La Spezia Territorial Agency, it is noted that the La Spezia Provincial Tax Commission:

- by ruling no. 136/7/08 of 18 December 2008, granted the claims made by the Territorial Agency that the conditions for the application of the ICI tax are fulfilled with respect to GNL Italia as well;
- by ruling no. 83/07/2009 of 9 April 2009, accepted the allegations made by GNL Italia, recognising that the greater tax determined by the municipal authorities of Porto Venere was due from 2007.

The Company, awaiting the rulings to achieve final effectiveness, has not posted any use of the risks provision which appears in the financial statements in the amount of €2.8 million.

#### *Stoccaggi Gas Italia S.p.A. - Local Property Tax (ICI)*

On 26 February 2009 the Company submitted two appeals to the Chieti Provincial Tax Commission against the assessment notices from the Territorial Agency of the Province of Chieti and from the municipal authorities of Cupello with respect to the applicability of the ICI to the Company's compression plant. For this litigation, the Company has already posted a provision of €1.3 million in the financial statements.

Considering the uncertainty as to application of the rules and the mutual intent of the parties to resolve the matter, on 23 December 2009 the Company and the municipal authorities of Cupello signed a settlement agreement under which the Company paid the sum of €143,864.50 to the municipality.

### **Guarantor Authority for Competition and the Market (Antitrust)**

#### *Italgas*

On 6 May 2009 the Guarantor Authority for Competition and the Market gave notice to Italgas as to the commencement of an investigation with the aim of determining the possible existence of an abuse of dominant position in violation of art. 82 of the EU Treaty. The investigation, which also involves other companies doing business in the gas sector, arose from an allegation by an operator, also active in the gas sales sector, as to supposed impediments and dilatory conduct adopted by Italgas in carrying out the operational and commercial switching process for enabling the transition of the customers of one sales company to another sales company. The investigation should be completed by 30 June 2010.

In order to determine the precise context of the content of the allegation from the operator, on 26 May 2009 Italgas accessed the record of the proceeding. On 6 August 2009 Italgas presented undertakings in accordance with art. 14-ter of Law no. 287/90 for the purpose of eliminating the supposed wrongful conduct.

The investigation should be closed with their acceptance by the Antitrust Authority.

*Stoccaggi Gas Italia S.p.A*

The conclusions from the fact-finding investigation conducted by the Guarantor Authority for Competition and the Market and by the Electricity and Gas Authority published this past 3 June wound up a process which had started in November 2007.

The scope of the fact-finding investigation was: (i) to investigate the presence of possible obstacles to the development of new storage capacity in economic or strategic terms; (ii) to evaluate the existence of mechanisms for flexibility as alternatives to storage and the access to them by new entrants; and (iii) to analyse the context of standards and regulations and to evaluate their impact on the dynamics of competition in the industry. Stogit, having received express, formal requests for documents and information, provided all of the data and documents requested in July 2008 and, as a result of further requests, some further details in October 2008.

In the conclusions of the investigation, the Authorities recognised that the conduct of Stogit had been in line with the provisions of the rules and regulations defined, without prejudice to other operators, and that the framework of rules in force for balancing the system and for access to the use of storage capacity has a significant influence on the possibilities of accessing the gas sales market, particularly for industrial and thermoelectric customers.

**Electricity and Gas Authority**

*Snam Rete Gas - Investigation on violation of the regulation on availability of natural gas higher heating value measurements*

On 2 September 2009, the Electricity and Gas Authority with resolution no VIS 85/09 began a formal investigation for the issuance of an administrative fine against Snam Rete Gas for violating article 11, paragraphs 2 and 4, of resolution no. 185/05 relating to the regulation on availability of natural gas higher heating value measurements. As of now, the amount of liability cannot be determined.

**Environmental regulations**

The risks related to the impact of the activity of Snam Rete Gas on the environment, health and safety are described in the paragraph "Operational Risk" of the management report. In particular, with respect to environmental risk, while Snam Rete Gas believes that it operates in substantial compliance with the laws and regulations and considering the adjustments made to comply with environmental regulations and actions already taken, it cannot exclude with certainty that Snam Rete Gas may incur costs or liabilities, which could even be significant.

The fact is, it is difficult to foresee the repercussions of eventual environmental damage, partially due to new laws or regulations which may be introduced for environmental protection, the impact of eventual innovative technologies for environmental clean-ups, possible litigation and difficulty in determining the possible consequences, also with respect to other parties' liability and any possible insurance compensation.

**Emission Trading**

The European Emission Trading Scheme (ETS) has been in operation since 1 January 2005. In that regard, on 27 November 2008 the National Emissions Trading Scheme Commission (Minambiente – Mse) issued resolution no. 20/2008 setting forth the allotment of emissions allowances to existing facilities for the five-year period 2008-2012. For that period, emissions allowances have been allotted to Snam Rete Gas equivalent to about 5.0 million tonnes of carbon dioxide, including the forecasts for new entrant facilities.

In financial year 2009 carbon dioxide emissions at the facilities of Snam Rete Gas were, overall, lower than the emissions allowances allotted. Compared to the 0.7 million tonnes of carbon dioxide emitted into the atmosphere, 1.0 million had been allotted in emissions allowances, including allowances allotted for new entrant facilities, with a surplus of about 0.3 million tonnes.

**Other commitments and risks**

Other commitments and risks are as follows:

- commitment to Enel Trade S.p.A. and Eni S.p.A. to redeliver 1,091,997.40 GJ (gigajoules) of natural gas stored at the Panigaglia regasification facility awaiting regasification;
- commitment to Italtrading S.p.A. to purchase 63,000 GJ (gigajoules) of natural gas in the period from 1 January 2010 to 31 January 2010;
- commitment made to Eni S.p.A. on 1 July 2001, in the contribution of the gas transportation, dispatching and regasification business acquired, to employ three people currently on leave when they return.

## Introduction

The results for 2009 include the associated effects of consolidating Italgas and Stogit as from 30 June 2009, the completion date of the transaction. Consequently, the income statement includes the effects of consolidating the companies acquired in the second half of 2009.

### 24 Revenue

The main revenue components are analysed below. The reasons for the biggest changes can be found in the “Financial review” section.

(€ millions)	2008	2009
Core business revenue	1,902	2,438
Other income	8	30
	<b>1,910</b>	<b>2,468</b>

Core business revenue (€2,438 million) is shown net of the following items:

(€ millions)	2008	2009
Additional fees for the distribution service (*)		96
Interruptibility fee pursuant to resolution nos. 297/05 and 277/07 (**)	34	42
Regional network transportation fee pursuant to resolution no. 45/07 - Equalisation	8	10
	<b>42</b>	<b>148</b>

(\*) Distribution tariffs mainly include: (i) an additional component (UG2) aimed at reducing service costs for low-level-consumption end customers pursuant to resolution ARG/Gas no. 64/09; (ii) an additional component to cover compulsory insurance for end customers of the residential/commercial gas distribution service pursuant to resolution ARG/Gas no. 152/03. These fees are passed on in equal amount to the Electricity Equalisation Fund.

(\*\*) Resolution no. 297/05, published by the Electricity and Gas Authority on 29 December 2005, set up a “Fund for the promotion of interruptibility in the gas system” at the Electricity Equalisation Fund. The measure was introduced to assist the reduction in gas consumption and promote the use of the interruptibility clause for gas supplies to industrial customers. The fund was swelled by the 3.7% increase in transportation tariffs for the thermal year 2006-2007. The Authority’s resolution no. 277/07, published on 31 October 2007, introduced a variable unit fee with effect from 1 January 2008 to increase the variable unit fee as per resolution no. 166/05. The amounts collected by the company are paid to the Electricity Equalisation Fund.

An analysis of core business revenue, broken down into regulated and non-regulated business revenue, is shown below:

### Revenue

(€ millions)	2008	2009
Natural gas transportation	1,867	1,848
Liquefied Natural Gas (LNG) regasification	20	21
Natural gas distribution		407
Natural gas storage		147
<b>Revenue from regulated activities</b>	<b>1,887</b>	<b>2,423</b>
<b>Revenue from non-regulated activities</b>	<b>23</b>	<b>45</b>
	<b>1,910</b>	<b>2,468</b>

Core business revenue is analysed by business segment in note 30 “Segment reporting”. Snam Rete Gas generates its revenue exclusively in Italy.

## Revenue from regulated activities

### *Natural gas transportation*

Transportation revenue (€1,848 million) relates to fees for this service, mainly from Eni S.p.A (€934 million) and Enel Trade S.p.A (€245 million).

The volumes of natural gas carried in the transportation network in 2009 amounted to 76.90 billion cubic metres (85.64 billion cubic metres in 2008; -10.2%).

Transportation revenue<sup>19</sup> includes: (i) recognition by the Electricity and Gas Authority of higher costs incurred in buying fuel gas in the thermal year 2007-2008<sup>20</sup> (€34 million); (ii) recharging to shippers the costs of interconnecting the company's and third-party operators' networks (€31 million)<sup>21</sup>.

In the thermal year 2008-2009, seven operators were interconnected to the transportation network (unchanged from 2007-2008).

### *Natural gas distribution*

Distribution revenue (€407 million) relates to fees for this service, mainly from Eni S.p.A (€297 million) and Enel Energia S.p.A (€12 million).

The group's network distributed 7.54 billion cubic metres of natural gas during 2009.

Distribution revenues were defined on the basis of the Electricity and Gas Authority's resolution no. 159/08, which stipulated their constant spread over a period of months on the basis of a pre-established amount set when the tariffs are approved – known as the Total Revenue Limit (TRL) – and no longer tied to the seasonal nature of volumes distributed<sup>22</sup>. At 31 December 2009, the group transported the gas of 166 retail companies in its distribution networks, compared with 132 companies at 31 December 2008.

### *Natural gas storage*

Storage revenue (€147 million) relates to fees for modulation and strategic storage services, mainly from Eni S.p.A (€54 million) and Enel Trade S.p.A (€23 million).

During 2009, 16.52 billion cubic metres of natural gas moved through the storage system.

At 31 December 2009, the group provided natural gas modulation and storage services for 56 companies, compared with 48 companies at 31 December 2008.

### *LNG regasification*

Regasification revenue (€21 million) relates to payment for the regasification of liquefied natural gas (LNG) at the Panigaglia (SP) LNG terminal. It consists of fees from Enel Trade S.p.A (€15 million) and Eni S.p.A (€6 million).

1.32 billion cubic metres of LNG were regasified in 2009, compared with 1.52 billion cubic metres in 2008 (-13.2%).

## Revenue from non-regulated activities

Revenue from non-regulated activities (€45 million) mainly comprises: (i) services to third parties in the natural gas transportation sector, notably designing, building and maintaining facilities (€5 million); (ii) technical, engineering and IT support services for third parties in the natural gas distribution sector (€12 million); (iii) renting to and maintaining fibre-optic telecoms cables (€9 million) for a telecoms operator to which Snam Rete Gas also provides maintenance services; (iv) capital gains from the sale of tangible assets (€7 million).

<sup>(19)</sup> The Electricity and Gas Authority's resolution no. ARG/gas 135/09 extended for the period 1 October 2009 – 31 December 2009 the validity of approved gas transportation and dispatch tariffs for the thermal year 2008/2009.

<sup>(20)</sup> These payments follow resolution no. VIS 8/09, with which the Authority recognised to the company the higher expense for the thermal years 2005-2006 and 2006-2007 (€45 million in total), deferring to subsequent rulings the determination of the payment for the thermal years 2007-2008 and 2008-2009. With resolution no. ARG/gas 184/09, the Authority stipulated that the additional costs incurred by the company in the period 1 October 2008 – 31 December 2009 shall be defined in a subsequent ruling.

<sup>(21)</sup> Where the transportation service involves the networks of one or more operators, resolution no. 166/05 of the Electricity and Gas Authority and subsequent amendments states that the principal operator shall bill shippers for the service and allocate the appropriate share to the other operators.

<sup>(22)</sup> Information on the regulatory framework for the natural gas distribution business can be found in the section "Operating review – Natural gas distribution – Regulation" of the directors' report in the consolidated financial statements

## Other revenue and income

Other revenue and income (€30 million) can be analysed as follows:

(€ millions)	2008	2009
Capital gains on disposals of tangible assets	1	7
Income from sales of energy efficiency certificates (*)		4
Income from property investments		3
Contractual fines and other income from commercial agreements	1	2
Compensation for damages	2	1
Other income	4	13
	<b>8</b>	<b>30</b>

(\*) Income from the sale of energy efficiency certificates is shown net of purchase costs.

Other income (€13 million) relates mainly to revenue for plant safety and income from recharging costs incurred on behalf of third parties.

## <sup>25</sup> Operating costs

The key items making up operating costs are analysed below. The reasons for the biggest changes can be found in the “Financial review” section of the directors’ report.

(€ millions)	2008	2009
Purchases, services and other costs	294	403
Personnel expense	105	178
	<b>399</b>	<b>581</b>

## Purchases, services and other costs

Purchases, services and other costs (€403 million) are analysed below:

(€ millions)	2008	2009
Costs for raw materials, consumables, supplies and goods	448	360
Costs for services	160	228
Costs for use of third-party assets	12	28
Change in inventories of raw materials, consumables, supplies and goods	(99)	16
Net provisions to risks and charges	(6)	17
Other expense	16	34
	<b>531</b>	<b>683</b>
<i>Less:</i>		
Raw materials, consumables, supplies and goods:		
Increase on internal work capitalised in non-current assets - purchases	(215)	(251)
	<b>(215)</b>	<b>(251)</b>
Services:		
Increase on internal work capitalised in non-current assets - services	(22)	(29)
	<b>(22)</b>	<b>(29)</b>
	<b>294</b>	<b>403</b>

Purchases, services and other costs are shown net of the following items:

(€ millions)	2008	2009
Internal consumption of natural gas (*)	7	6
Payments against strategic gas sales (**)		2
	<b>7</b>	<b>8</b>

(\*) Internal consumption of natural gas relates to natural gas used for regasification that is purchased and subsequently recharged to the service user.

(\*\*) The sale and purchase of strategic gas does not involve the effective transfer of risks and benefits associated with the availability of the asset. As such, the transaction has no effect on the income statement.

Costs for raw materials, consumables, supplies and goods (€109 million) are analysed in the following table:

(€ millions)	2008	2009
Natural gas and ancillary costs	150	98
Other costs and materials	298	262
	<b>448</b>	<b>360</b>
<i>Less:</i>		
Increase on internal work capitalised in non-current assets - purchases	(215)	(251)
	<b>233</b>	<b>109</b>

The natural gas and ancillary costs item (€98 million) refers mainly to the cost of buying natural gas used to supply the compressor stations. The reduction of €52 million is due essentially to lower purchases as a result of less gas being used. The other costs and materials (€262 million) relate mainly to the purchase of pipes. Part of these purchases (€34 million) refers to goods bought for investment purposes and not yet used for plant construction.

The increase on internal work capitalised in non-current assets (€251 million) relates primarily to the withdrawal of warehouse goods for investment activities.

Costs for services of €199 million comprise:

(€ millions)	2008	2009
Maintenance services	21	36
Purchase of transportation capacity (interconnection)	27	31
Technical, legal, administrative and professional services	14	25
IT services	12	20
Personnel-related services	11	19
Utilities	9	14
Telecoms services	11	13
Insurance	8	13
Modulation and storage services (*)	22	11
Third-party processing	6	3
Other services	19	43
	<b>160</b>	<b>228</b>
<i>Less:</i>		
Income on internal work capitalised in non-current assets - services	(22)	(29)
	<b>(22)</b>	<b>(29)</b>
	<b>138</b>	<b>199</b>

(\*) For 2009, the cost for the modulation service provided by Stogit S.p.A refers to services provided in the first half of the year because the two parties were financially consolidated as of 1 July 2009.

Maintenance services (€36 million) relate mainly to the maintenance of plants.

The purchase of transportation capacity (€31 million) relates to the transportation service provided by other operators on their networks (interconnection).

Technical, legal, administrative and professional services (€25 million) relate mainly to inspections of pipelines and accounting, administrative and organisational services.

Personnel-related services (€19 million) refer mainly to reimbursements of travel expenses, canteen and training costs. Other services (€43 million) relate mainly to: the use of key vehicles; design, construction and work management services; supervisory and security services; cleaning services; communication services; meter-reading services; and aerial pipeline monitoring services.

Development costs that did not meet the requirements for capitalisation amount to less than €1 million.

Costs for the use of third-party assets (€28 million) are analysed below:

(€ millions)	2008	2009
Instalments, patents and licences	6	20
Leases	5	7
Rent	1	1
	<b>12</b>	<b>28</b>

Instalments, patents and licences (€20 million) relate mainly to fees for natural gas distribution concessions and concessions for pipeline construction and maintenance.

Leases (€7 million) refer mainly to the operating *leases* of buildings for office use.

Payments for non-cancellable *leases* amount to €10 million. Future minimum operating lease payments are as follows:

(€ millions)	2008	2009
<b>Payable within</b>		
1 year	4	3
2 to 5 years	10	6
More than 5 years		1
	<b>14</b>	<b>10</b>

The decrease in inventories of raw materials, other materials, supplies and goods (€16 million) refers to the change in other materials (€6 million, including the change of €34 million in the purchases of pipes and materials held for investment purposes and not yet used for plant construction) and in natural gas used to supply the compressor stations and the LNG regasification terminal (€10 million).

Provisions for risks and charges (€17 million) are attributable mainly to legal disputes. Information about these provisions can be found in note 17 "Provisions for risks and charges".

The other operating expenses (€34 million) are analysed below:

(€ millions)	2008	2009
Capital losses on eliminations and sales of property, plant and equipment	7	16
Duties and indirect taxes	3	7
Methane consumption tax	4	3
Other expense	2	8
	<b>16</b>	<b>34</b>

## Personnel expense

Personnel expense of €178 million is analysed below:

(€ millions)	2008	2009
Wages and salaries	101	184
Social security contributions (pensions and healthcare)	30	58
Defined contribution plan costs	7	13
Other employee benefits	2	4
Other expense	2	13
Less:		
Increase on internal work capitalised in non-current assets - personnel expense	(37)	(94)
	<b>105</b>	<b>178</b>

Costs for the defined contribution plans (€13 million) relate to the post-employment benefits allocated to pension funds or INPS following the changes introduced by the 2007 Budget.

The other employee benefits (€4 million) refer to costs for deferred cash incentives allocated to managers. They are analysed in note 18 "Provisions for employee benefits".

The other expense (€13 million) relates mainly to termination benefits and the ancillary costs (social security contributions and post-employment benefits) that the company expected to incur on the deferred cash incentives allocated to managers, and costs for the stock option plans as part of the management incentive programmes.

The increase on internal work capitalised in non-current assets (€94 million) relates to the part of personnel expense absorbed by investments.

The average number of payroll employees at the consolidated companies, broken down by status, is as follows:

Professional status	31.12.2008	31.12.2009
Executives	64	121
Managers	261	492
Office workers	1,237	3,388
Manual workers	772	2,306
	<b>2,334</b>	<b>6,307</b>

The average number of employees is calculated as the average of monthly figures.

### Incentive plans for employees with Snam Rete Gas shares

On 29 July 2009, the Snam Rete Gas S.p.A board of directors updated the 2006-2008 *stock option* plan, which was approved by the ordinary shareholders' meeting of 26 April 2006 and submitted for implementation by the board of directors on 26 July 2006 (2006 allocation), 24 July 2007 (2007 allocation) and 29 July 2008 (2008 allocation).

This change, in accordance with the plan's implementation regulations, involved the technical adjustment of the strike price and the number of options allocated to members of the plan (distribution of which is subject to achieving pre-set *performance* objectives) as a result of the paid share capital increase approved by the extraordinary shareholders' meeting of 17 March 2009 and completed on 8 June 2009. Evidence of the changes made to the plan is shown below.

	Options outstanding at 29 July 2009 (number)	New options allocated (number)	Total options (number)	Original strike price (€)	New strike price (€)
2006 allocation	1,535,975	336,075	1,872,050	3.542	2.905
2007 allocation	2,083,600	456,300	2,539,900	4.322	3.545
2008 allocation	2,235,000	491,000	2,726,000	4.222	3.463
	<b>5,854,575</b>	<b>1,283,375</b>	<b>7,137,950</b>		

At 31 December 2009, there were 7,510,700 options for the purchase of 7,510,700 ordinary Snam Rete Gas shares with a nominal value of €1. These options relate to the 2003 allocation of 207,500 shares with a strike price of €3.246, the 2004 allocation of 360,500 shares with a strike price of €3.53, the 2005 allocation of 538,000 shares with a strike price of €4.399, the 2006 allocation of 1,328,425 shares with a strike price of €2.905, the 2007 allocation of 2,455,900 shares with a strike price of €3.545 and the 2008 allocation of 2,620,375 shares with a strike price of €3.463. No new stock option plans were issued in 2009.

More information on the share-based incentive plans can be found in the "Fees and other information" section of the directors' report in the separate financial statements.

At 31 December 2009, the average remaining life of the options was 1.5 years for the 2003 plan, 2.6 for the 2004 plan, 3.6 for the 2005 plan, 2.6 for the 2006 plan, 3.6 for the 2007 plan and 4.6 for the 2008 plan.

The *unit fair values* of the options allocated in 2003, 2004 and 2005 were €0.4206, €0.174 and €0.382 respectively. Following the changes to the 2006-2008 stock option plan, the *unit fair values* of the options allocated in 2006, 2007 and 2008 were €0.3973, €0.2127 and €0.2535 respectively.

The following table shows the data used to determine the fair value of the options:

		2004	2005	2006 (*)	2007 (*)	2008 (*)
Risk-free interest rate	(%)	4.20	3.15	2.16	2.52	2.78
Duration	(years)	8	8	6	6	6
Implied volatility	(%)	11.27	14.88	20.94	20.94	20.94
Expected dividends	(%)	5.64	4.55	5.72	5.65	5.54

(\*) The data were determined with reference to 29 July 2009, the date when the board of directors approved the changes to the 2006-2008 stock option plan.

### Fees due to key managers

Fees paid to persons with planning, management and supervision powers and responsibilities, i.e. executive and non-executive directors, general managers and *key managers*, amounted to €5 million (unchanged from 2008) and are analysed below:

(€ millions)	2008	2009
a) Short-term benefits (wages and salaries)	4	4
b) Post-employment benefits		
c) Other long-term benefits		1
d) Severance pay	1	
e) Payment in shares ( <i>stock options</i> )		
	5	5

### Fees due to the directors and statutory auditors

Fees due to directors amounted to €2.7 million and €2.3 million respectively in 2008 and 2009. Fees due to statutory auditors amounted to €0.1 million in 2008 and in 2009.

They include the remuneration and all other salary, social security and pension amounts, due to the directors and statutory auditors for their duties carried out on behalf of Snam Rete Gas S.p.A or its consolidated subsidiaries and associates, which led to a cost for the company.

### Amortisation, depreciation and impairment losses

Amortisation, depreciation and impairment losses of €613 million include:

(€ millions)	2008	2009
Property, plant and equipment	461	579
Intangible assets	28	34
	489	613

More detailed information about depreciation and amortisation can be found in note 6 "Property, plant and equipment" and note 8 "Intangible assets".

## 26 Financial income and expense

### Financial income

Financial income of €7 million refers essentially to accrued interest on trade receivables with customers (€6 million).

### Financial expense

Financial expense of €158 million comprises:

(€ millions)	2008	2009
Interest on financial liabilities	276	166
Other financial expense	5	
- Accretion discount (*)		11
- Other expense		5
Less:		
Increase on internal work capitalised in non-current assets - financial expense	(26)	(24)
	<b>255</b>	<b>158</b>

(\*) This item refers to the increase in provisions to risks and charges, which are shown at updated value under non-current liabilities on the balance sheet.

Interest on financial liabilities (€166 million) refers to interest on loans received from ultimate parent Eni S.p.A.

Other expense (€5 million) refers mainly to interest on accruals and payables for regulated activities.

The increase on internal work capitalised in non-current assets (€24 million) relates to the part of financial expense absorbed by investments.

The interest rate applied to capitalise financial expense was 3.03% (2008: 4.18%).

### Derivatives

Net expense on derivatives (€66 million) can be analysed as follows:

(€ millions)	2008	2009
Income from derivative contracts		
- Interest accrued during the year	29	2
Expense on derivative contracts		
- Interest accrued during the year		(66)
- Fair value adjustment	(2)	(2)
	<b>27</b>	<b>(66)</b>

All derivative contracts outstanding at 31 December 2009 were with ultimate parent Eni S.p.A. Details on these contracts can be found in note 23 "Commitments, guarantees and risks – Managing interest-rate risk".

## 27 Income (expense) from equity investments

Income (expense) from equity investments (€22 million) is analysed below.

(€ millions)	2009
Capital gain from equity-method valuation	21
Other income (expense) from equity investments:	
- Capital gain from sales	3
- Capital loss from cost valuation	(2)
	<b>1</b>
	<b>22</b>

Analysis of capital gains from equity-method valuation (€21 million) can be found in note 9 "Equity investments".

The capital gain from sales (€3 million) concerns the sale to Eni S.p.A of Italgas' 17.77% stake in Toscana Energia Clienti S.p.A.

**28** Income taxes

Income taxes (€347 million) may be analysed as follows:

(€ millions)	2008	2009
<b>Current taxes</b>		
- IRES	233	321
- IRAP	58	81
	<b>291</b>	<b>402</b>
<b>Deferred tax expense and income</b>		
- Deferred tax expense	(37)	(44)
- Deferred tax income	12	(11)
	<b>(25)</b>	<b>(55)</b>
	<b>266</b>	<b>347</b>

Income taxes (€347 million) rose by €81 million compared with the previous year, essentially because of higher pre-tax profit (+€283 million) owing mainly to the effects of consolidating Italgas and Stogit, which was partly offset by the recognition of income deriving from the IRES rebate (-€10 million) corresponding to 10% of the IRAP owed for 2004, 2005, 2006 and 2007, pursuant to Legislative Decree no. 185 of 29 November 2008, converted to law by Law no. 2 of 28 January 2009.

The following table shows the effect of deferred tax income and expense on the consolidated income statement and details of the temporary differences generated during the year.

(€ millions)	2008			2009		
	Temp. Differences		Deferred tax (income) expense	Temp. Differences		Deferred tax (income) expense
	IRES	IRAP		IRES	IRAP	
<b>Deferred tax income</b>						
- Provisions for risks and charges	2	1	(2)	64	62	(20)
- Non-deductible amortisation and depreciation	6	(13)		17	(16)	(4)
- Site dismantling and restoration	1	1		9	9	(2)
- Provisions for employee benefits	2		(1)	2		(1)
- Grants taxed in advance	(4)	(4)	1	(5)	(5)	2
- Use of provisions	(10)	(7)	3	(21)	(17)	6
- Revenue adjustment	(29)	(29)	10	(21)	(21)	6
- Other	(5)	(5)	1	(4)	(4)	2
	<b>(37)</b>	<b>(56)</b>	<b>12</b>	<b>41</b>	<b>8</b>	<b>(11)</b>
<b>Deferred tax expense</b>						
- Excess/accelerated amortisation and depreciation	(82)	(335)	(36)	(85)	(433)	(40)
- Revaluation of Italgas material goods				(15)	(15)	(5)
- Capitalisation of financial expense	(1)	(1)		(1)	(1)	(1)
- Site dismantling and restoration				6	6	2
- Deferred capital gains tax				10	(2)	3
- Revenue adjustment	(4)	(4)	(1)			
- Other	(1)	(1)		(11)	(8)	(3)
	<b>(88)</b>	<b>(341)</b>	<b>(37)</b>	<b>(96)</b>	<b>(453)</b>	<b>(44)</b>
			<b>(25)</b>			<b>(55)</b>

The tax rate was 32.2%, compared with 33.4% in 2008, against a theoretical tax rate of 33.2% (33.4% in 2008).

The difference between the theoretical and effective tax rates may be analysed as follows:

(€ millions)	2008			2009		
	Amount	Rate	Tax	Amount	Rate	Tax
<b>Pre-tax profit</b>	<b>796</b>	<b>27.50%</b>	<b>219</b>	<b>1,079</b>	<b>27.50%</b>	<b>297</b>
EBIT	1,022			1,274		
Personnel expense	105			178		
Capitalisation	63			118		
<b>Adjusted EBIT (1)</b>	<b>1,190</b>	<b>3.90%</b>	<b>46</b>	<b>1,570</b>	<b>3.90%</b>	<b>61</b>
<b>Theoretical rate (2)</b>		<b>33.3%</b>	<b>265</b>		<b>33.2%</b>	<b>358</b>
Effect of increases (decreases) compared with theoretical rate						
- Effect of valuing equity investments using equity method				(0.6%)		(6)
- IRES rebate for 10% deduction in previous years' IRAP				(0.9%)		(10)
- Different IRAP rates				0.4%		4
- Other changes		0.1%	1	0.1%		1
<b>Effective rate</b>		<b>33.4%</b>	<b>266</b>		<b>32.2%</b>	<b>347</b>

(1) EBIT (as per IAS financial statements) is adjusted by the following items: personnel expense; capitalisations relating to personnel and financial expense.

(2) The theoretical rate is determined by comparing the IRES and IRAP taxes to pre-tax profit.

## <sup>29</sup> Earnings per share

Basic earnings per share are determined by dividing net profit by the weighted average number of outstanding Snam Rete Gas shares during the year, excluding treasury shares.

Diluted earnings per share are determined by dividing net profit by the weighted average number of outstanding shares during the year, excluding treasury shares, increased by the number of shares that could potentially be issued following the allocation or transfer of treasury shares for the stock option plans.

The weighted average number of outstanding shares used to calculate the diluted earnings per share was 1,761,260,168 and 2,579,506,264 for 2008 and 2009, respectively.

A reconciliation of the weighted average number of outstanding shares used to determine the basic and diluted earnings per share is set out below:

	2008	2009
<b>Weighted average number of outstanding shares for basic earnings (*)</b>	<b>1,760,950,667</b>	<b>2,579,280,194</b>
Potential number of shares for stock option plans	309,501	226,070
<b>Weighted average number of outstanding shares for diluted earnings (*)</b>	<b>1,761,260,168</b>	<b>2,579,506,264</b>
<b>Net profit attributable to Snam Rete Gas (€ millions)</b>	<b>530</b>	<b>732</b>
<b>Basic earnings per share (€)</b>	<b>0.30</b>	<b>0.28</b>
<b>Diluted earnings per share (€)</b>	<b>0.30</b>	<b>0.28</b>

(\*) As required by IAS 33 "Earnings per share", the ordinary shares issued as part of the cost of a business combination have been included in the weighted average number of shares from the date of acquisition of control (30 June 2009).

## <sup>30</sup> Segment reporting

The sectors in which Snam Rete Gas operates have been identified on the basis of criteria adopted for preparing operating reports used by senior management when taking business decisions. Following the acquisition of Italgas and Stogit, the business segments are: (i) Natural gas transportation; (ii) LNG regasification; (iii) natural gas distribution; (iv) natural gas storage. These are the respective primary businesses of Snam Rete Gas, GNL Italia, Italgas and Stogit.

(€ millions)	Transportation and dispatch	Distribution	Storage	Regasifi- cation	Total
<b>2008</b>					
Net core business revenue (a)	1,882			37	1,919
less: inter-segment revenue				(17)	(17)
Third-party revenue	1,882			20	1,902
Other revenue	8				8
Operating costs	(387)			(12)	(399)
Amortisation, depreciation and impairment losses	(485)			(4)	(489)
EBIT	1,017			5	1,022
Directly attributable current assets	615			20	635
Directly attributable non-current assets	10,506			86	10,592
Equity investments valued using the equity method					
Directly attributable current liabilities	1,603			27	1,630
Directly attributable non-current liabilities	6,008			16	6,024
Capital expenditure	1,038			6	1,044
<b>2009</b>					
Net core business revenue (a)	1,865	406	161	36	2,468
less: inter-segment revenue	(1)		(14)	(15)	(30)
Third-party revenue	1,864	406	147	21	2,438
Other revenue	7	19	4		30
Operating costs	(398)	(147)	(24)	(12)	(581)
Amortisation, depreciation and impairment losses	(499)	(75)	(35)	(4)	(613)
EBIT	974	203	92	5	1,274
Equity-method valuation effect		21			21
Directly attributable current assets	544	476	397	20	1,437
Directly attributable non-current assets	11,005	3,925	2,488	89	17,507
Of which:					
- Equity investments valued using the equity method		301			301
Directly attributable current liabilities	2,475	762	551	28	3,816
Directly attributable non-current liabilities	6,559	1,499	1,364	17	9,439
Capital expenditure	926	172	149	7	1,254

(a) Before eliminating inter-segment revenue.

Revenue is achieved by applying regulated tariffs or market conditions. Snam Rete Gas generates its revenue exclusively in Italy, where it also incurs nearly all its costs.

### **31** Related-party transactions

*Snam Rete Gas S.p.A is controlled by Eni S.p.A, which owns 52.54% of its shares.*

Transactions undertaken by Snam Rete Gas with related parties mainly involve the exchange of assets, provision of services and provision and utilisation of financial resources with ultimate parent Eni S.p.A and other subsidiaries and associates of Eni S.p.A, joint ventures and associates, as well as with Enel S.p.A, a state-controlled company, and its subsidiaries. All the transactions are part of ordinary business activities and are generally settled at market conditions, i.e. the conditions that would be applied by two independent parties, and are performed in the interests of the Snam Rete Gas group companies.

The following table details the trade, financial and other transactions with related parties and the nature of the more significant ones.

## Trade and other transactions

(€ millions)

Name	31 December 2009			2009					
	Receivables	Payables	Guarantees	Costs (a)			Revenue (b)		
				Goods	Services	Other	Goods	Services	Other
<b>Ultimate parent</b>									
- Eni S.p.A	423	145	50	92	31	2	1,299	5	
	<b>423</b>	<b>145</b>	<b>50</b>	<b>92</b>	<b>31</b>	<b>2</b>	<b>1,299</b>	<b>5</b>	
<b>Eni subsidiaries</b>									
- Saipem S.p.A		62			71				
- Saipem Energy Services S.p.A		25		2	20				
- Eni Adfin S.p.A (c)		21		24	9				
- Serfactoring S.p.A		14							
- Stoccaggi Gas Italia S.p.A (d)					11				
- Eni Insurance Ltd		1			5				1
- Eni Servizi S.p.A	6	12		1	12	1			
- Enicorporate University S.p.A		1			2				
- Transmediterranean pipeline co. Ltd	1						1	2	
- Eni Hellas S.p.A	3								
- Other (e)	2	2			3	1			
	<b>12</b>	<b>138</b>		<b>27</b>	<b>133</b>	<b>2</b>	<b>1</b>	<b>2</b>	<b>1</b>
<b>Joint ventures and associates</b>									
- Toscana Energia S.p.A	7							1	
- A.E.S. S.p.A	1	3							
- Other (e)	2								
	<b>10</b>	<b>3</b>						<b>1</b>	
<b>State-owned or controlled companies</b>									
- Enel group	47	16			1			292	
- Other (e)	4	6				3			
	<b>51</b>	<b>22</b>			<b>1</b>	<b>3</b>		<b>292</b>	
<b>Total</b>	<b>496</b>	<b>308</b>	<b>50</b>	<b>119</b>	<b>165</b>	<b>7</b>	<b>1</b>	<b>1,594</b>	<b>6</b>

(a) Includes costs for goods and services held for investment.

(b) Before tariff components that are offset in costs.

(c) On 19 November 2009, the shareholders' meeting of Sofid S.p.A voted to change the company name to Eni Adfin S.p.A (Eni Administration and Financial Services S.p.A), with effect from 1 December 2009.

(d) The consolidation of Stogit takes effect from 1 July 2009. Costs incurred by the group with Stogit in the first half of 2009 have therefore not been removed from intra-group transactions.

(e) Individually less than €1 million.

## Ultimate parent

As described elsewhere, the acquisition from Eni of the entire share capital of Italgas and Stogit was completed on 30 June 2009, with payment by Snam Rete Gas of €4,509 million, including €2,922 million for Italgas and €1,587 million for Stogit.

The acquisition is a related-party transaction insofar as: (i) Eni is the controlling shareholder of Snam Rete Gas; (ii) on 12 February 2009, Snam Rete Gas received a commitment letter to sign a contract, before the acquisition completion date, relating to a long-term loan of a maximum of €1,300 million for purposes of paying part of the acquisition cost; (iii) on 12 February 2009, Eni committed to underwrite shares issued during the capital increase.

The most important active commercial agreements with ultimate parent Eni S.p.A concern mainly the provision of regulated gas services relating to transportation, regasification, distribution and storage, on the basis of tariffs established by the Electricity and Gas Authority.

The main passive commercial agreements concern the supply of goods (natural gas and electricity used for operations), consultancy and technical and operational support, on the basis of fees determined using the same criteria as for third-party transactions.

## Subsidiaries of Eni

The most important agreements with Eni's subsidiaries are:

*Saipem S.p.A* for design and project supervision services in relation to the construction of natural gas transportation infrastructure.

*Saipem Energy Services S.p.A* for natural gas storage facility maintenance services<sup>23</sup>.

*Stoccaggi Gas Italia S.p.A* for use of the natural gas storage and modulation service by Snam Rete Gas that forms part of the activities regulated by the Electricity and Gas Authority.

*Serfactoring S.p.A.* for *factoring* transactions performed by Snam Rete Gas suppliers.

Snam Rete Gas also has commercial agreements with special-purpose entities that provide services to Eni group companies, including: (i) *Eni Servizi S.p.A.*, which provides general services such as maintenance of buildings, related structures and facilities, transportation, healthcare, catering, security, supply of non-strategic goods, centralised management of the company's archives and personnel administration; (ii) *Eni Adfin S.p.A.*, which provides accounting and administrative services.

In view of the activities performed and the nature of the relationship (companies controlled entirely or almost entirely by Eni), the services provided by some companies are regulated using tariffs set on the basis of specific costs incurred and the minimum margin to recover general costs and ensure a return on invested capital.

## Joint ventures and associates

Transactions with joint ventures and associates relate to the provision of IT services.

## State-owned or controlled companies

Transactions with state-owned or controlled companies relate mainly to the Enel group, concerning natural gas transportation, regasification, distribution and storage services.

## Financial transactions

Name	31.12.2009			2009	
	Other assets <sup>(a)</sup>	Payables	Other liabilities <sup>(a)</sup>	Expense <sup>(b) (c)</sup>	Income <sup>(d)</sup>
<b>Ultimate parent</b>					
- Eni S.p.A	3	9,984	81	234	2
	<b>3</b>	<b>9,984</b>	<b>81</b>	<b>234</b>	<b>2</b>

(a) Assets and liabilities deriving from the valuation of derivatives.

(b) Includes financial expense for investments.

(c) Includes €68 million related to losses on derivatives.

(d) Relating to derivatives.

## Ultimate parent

Transactions with the ultimate parent Eni S.p.A relate to covering financial requirements, using liquidity and hedging interest-rate risk by using derivative contracts.

Details of the company's transactions with directors, statutory auditors and key managers can be found in the fees section of note 25 "Operating costs".

<sup>(23)</sup> The consolidation of Stogit takes effect from 1 July 2009. Costs incurred by the group with Stogit in the first half of 2009 have therefore not been removed from infragroup transactions.

### Effect of transactions or positions with related parties on the balance sheet, income statement and statement of cash flows

The effect of transactions or positions with related parties on the balance sheet is summarised in the following table.

(€ millions)	31.12.2008			31.12.2009		
	Total	Related parties	Effect (%)	Total	Related parties	Effect (%)
Trade and other receivables	452	289	63.9	916	496	54.1
Other current assets	52	6	11.5	67	1	1.5
Other non-current assets	3	1	33.3	34	3	8.8
Short-term financial liabilities	1,023	1,023	100.0	1,585	1,585	100.0
Long-term financial liabilities	5,214	5,214	100.0	8,401	8,399	100.0
Trade and other payables	536	129	24.1	1,106	308	27.8
Other current liabilities	52	25		187	66	35.3
Other non-current liabilities	256	19	7.4	243	16	6.6

The effect of transactions or positions with related parties on the income statement is summarised in the following table.

(€ millions)	2008			2009		
	Total	Related parties	Effect (%)	Total	Related parties	Effect (%)
Core business revenue	1,902	1,355	71.2	2,438	1,595	65.4
Other revenue	8	4	50.0	30	6	20.0
Purchases, services and other costs	294	203	69.0	403	164	40.7
Financial expense	255	250	98.0	158	142	89.9
Gains (losses) on derivatives	27	27	100.0	(66)	(66)	100.0

Transactions with related parties generally take place at market conditions, i.e. conditions that would be applied between two independent parties.

The main cash flows with related parties are given in the following table.

(€ millions)	2008	2009
Revenue and income	1,359	1,601
Cost and expense	(203)	(164)
Change in trade and other receivables	(1)	(70)
Change in trade and other payables	(46)	(34)
Interest collected	30	4
Interest paid	(250)	(203)
<b>Net cash flows from operating activities</b>	<b>889</b>	<b>1,134</b>
Investments:		
- intangible assets	(1)	(2)
- property, plant and equipment	(83)	(149)
- equity investments		(4,474)
- change in payables and receivables relating to investments	22	17
<i>Cash flow from investments</i>	(62)	(4,608)
Divestments:		
- equity investments		12
- change in receivables relating to divestments	1	
<i>Cash flow from divestments</i>	1	12
<b>Net cash flow from investments</b>	<b>(61)</b>	<b>(4,596)</b>
Taking on long-term financial liabilities	3,564	12,406
Paying back long-term financial liabilities	(2,865)	(10,564)
Increase (decrease) in short-term financial liabilities	(345)	(312)
Capital increases		1,929
Dividends paid	(215)	(250)
<b>Net cash flow from financing activities</b>	<b>139</b>	<b>3,209</b>
<b>Total financial flows with related parties</b>	<b>967</b>	<b>(253)</b>

The effect of cash flows with related parties is shown in the following table:

(€ millions)	31.12.2008			31.12.2009		
	Total	Related parties	Effect %	Total	Related parties	Effect %
Cash flow from operating activities	1,053	889	84.4	1,164	1,134	97.4
Cash flow from investments	(1,021)	(61)	6.0	(5,653)	(4,596)	81.3
Cash flow from financing activities	(32)	139	n.a.	4,525	3,209	70.9

### <sup>32</sup> Non-recurring significant events and transactions

As mentioned in previous sections, the acquisition from Eni of the entire share capital of Italgas and Stogit took place on 30 June 2009. Information on the effects recorded in the financial statements at the transaction completion date can be found in note 22 "Other information – Business combinations".

### <sup>33</sup> Positions or transactions deriving from atypical and/or unusual transactions

No such positions or transactions existed.

### <sup>34</sup> Publication of the consolidated financial statements

The Snam Rete Gas board of directors authorised the consolidated financial statements for publication in its meeting of 10 March 2010. It authorised the chairman and the CEO to make any changes that may be necessary or suitable to complete them during the period of time between 10 March 2010 and the date they are approved by shareholders.