

Financial review



INCOME STATEMENT

	(€ millions)	2007	2008	2009	Change	% change
Core business revenue		1,790	1,902	2,438	536	28.2
Other income		78	8	30	22	
- of which non-recurring		71				
Total revenue		1,868	1,910	2,468	558	29.2
Operating costs (*)		(357)	(399)	(581)	(182)	45.6
- of which non-recurring		5				
EBITDA		1,511	1,511	1,887	376	24.9
Amortisation, depreciation and impairment		(489)	(489)	(613)	(124)	25.4
EBIT		1,022	1,022	1,274	252	24.7
Adjusted EBIT (**)		946	1,022	1,274	252	24.7
Net financial expense		(200)	(226)	(217)	9	(4.0)
- of which non-recurring		10				
Net income from equity investments				22	22	
Pre-tax profit		822	796	1,079	283	35.6
Income taxes		(228)	(266)	(347)	(81)	30.5
- of which non-recurring and other special items		66				
Net profit (***)		594	530	732	202	38.1
Adjusted net profit (****)		442	530	732	202	38.1

(*) Operating costs comprise the items "Purchases, services and other costs" and "Personnel expense" from the consolidated financial statements.

(**) To reconcile EBIT and net profit for 2007 with the corresponding adjusted values, see page 37 of the directors' report in the consolidated financial statements for 2007.

(***) Net profit is attributable to Snam Rete Gas.

Net profit

Net profit for 2009 amounted to €732 million, an increase of €202 million, or 38.1%, compared with 2008. The rise is attributable to: (i) higher EBIT (+€252 million) because of the associated effects of consolidating the acquired companies; (ii) income from equity investments (+€22 million), relating

mainly to shares of the results for the period of subsidiaries and affiliates valued using the equity method; (iii) lower net financial expense (+€9 million) due mainly to a significant reduction in market interest rates. These positive factors were partially offset by an increase in income taxes (-€81 million) brought about by higher pre-tax profit (+€283 million).

Analysis of consolidated income statement items**Total revenue**

	(€ millions)	2007	2008	2009	Change	% change
Core business revenue		1,790	1,902	2,438	536	28.2
Business segments						
Transportation		1,769	1,882	1,865	(17)	(0.9)
Regasification		43	37	36	(1)	(2.7)
Distribution				406	406	
Storage				161	161	
Consolidation adjustments		(22)	(17)	(30)	(13)	76.5
Other income		78	8	30	22	
Total revenue		1,868	1,910	2,468	558	29.2

Core business revenue (€2,438 million) increased by €536 million, or 28.2%, compared with 2008 as a result of consolidating Italgas and Stogit.

Revenues from the transportation business segment (€1,865 million, net of consolidation adjustments) fell by €17 million mainly because of lower transportation revenue (-€19 million), owing to a reduction in the volume of natural gas carried (-€53 million) and updated tariffs (-€18 million), the effects of which were partially offset by the

contribution of investments made in 2007 (+€57 million). Transportation revenues in financial year 2009 (€1,848 million) include recognition by the Electricity and Gas Authority of higher costs incurred in buying fuel gas in the thermal year 2007-2008 (€34 million; €11 million less than the grant relating to the thermal years 2005-2006 and 2006-2007 and recorded in the financial statements for 2008.

Transportation revenue by shipper is analysed in the following table.

	(€ millions)	2007	2008	2009	Change	% change
Eni		1,165	1,081	934	(147)	(13.6)
Enel Trade		234	254	245	(9)	(3.5)
Others		511	603	734	131	21.7
Fines and revenue adjustment		(101)	(74)	(47)	27	(36.5)
Additional payment to cover higher gas purchasing costs			45	34	(11)	(24.4)
Disruption fee pursuant to resolution nos. 297/05 and 277/07		(50)	(34)	(42)	(8)	23.5
Regional network transportation fee pursuant to resolution no. 45/07 - Equalisation		(2)	(8)	(10)	(2)	25.0
		1,757	1,867	1,848	(19)	(1.0)

⁽¹⁸⁾ The Electricity and Gas Authority's resolution ARG/gas 135/09, published on 28 September 2009, extended for the period 1 October 2009 – 31 December 2009 the validity of gas transportation and dispatch tariffs approved for the thermal year 1 October 2008 – 30 September 2009.

⁽¹⁹⁾ This payment follows resolution VIS 8/09, published on 5 February 2009, 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 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.

Revenue from the regasification business (€36 million) refers to payment for the regasification of liquefied natural gas (LNG) at the Panigaglia (SP) LNG terminal. Revenues from the natural gas distribution business segment (€406 million), and relating to the period 1 July - 31 December 2009, relate primarily to payments for the natural gas distribution service (€394 million). These 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.

Revenues from the natural gas storage business segment (€161 million, net of consolidation adjustments), and relating to the period 1 July - 31 December 2009, refer primarily to payment for storage services (€158 million, of which €124 million and €34 million respectively refers to modulation and strategic storage).

Revenue - Regulated and non-regulated activities

(€ millions)	2007	2008	2009	Change	% change
Revenue from regulated activities	1,778	1,887	2,423	536	28.4
Transportation	1,757	1,867	1,848	(19)	(1.0)
Regasification	21	20	21	1	5.0
Distribution			407	407	
Storage (*)			147	147	
Revenue from non-regulated activities	90	23	45	22	95.7
	1,868	1,910	2,468	558	29.2

(*) Net of revenue for the modulation service provided to Snam Rete Gas S.p.A.

Revenue from regulated activities (€2,423 million, net of consolidation adjustments) relates to transportation (€1,848 million), regasification (€21 million), distribution (€407 million) and storage (€147 million) of natural gas.

Revenue from non-regulated activities (€45 million, net of consolidation adjustments) relates mainly to technical services (€17 million), income from renting and

maintaining fibre-optic cables (€9 million) and capital gains on tangible asset sales (€7 million).

Other revenue

Other revenue (€30 million) relates mainly to capital gains on tangible asset sales (€7 million), net revenues from redemption of energy efficiency certificates (€4 million) and income from real estate investments (€3 million).

Operating costs

(€ millions)	2007	2008	2009	Change	% change
Business segments					
Transportation	347	388	399	11	2.8
Regasification	35	30	27	(3)	(10.0)
Distribution			147	147	
Storage			38	38	
Consolidation adjustments	(25)	(19)	(30)	(11)	57.9
	357	399	581	182	45.6

Operating costs (€581 million) increased by €182 million, or 45.6%, compared with 2008, owing essentially to

the associated effects of consolidating Italgas and Stogit.

(20) Information on the regulatory framework for the natural gas distribution business can be found in the section "Operating review – Natural gas distribution - Regulation".

Operating costs in the transportation business segment (€399 million, net of consolidation adjustments) increased by €11 million mainly because of higher provisions to risks and charges (+€20 million) and higher fixed costs (+€4 million), owing in particular to greater expense for termination benefits. These factors were partly offset by a reduction in

variable costs (-€13 million) on the back of lower fuel gas acquisition expense, owing mainly to a reduction in consumed gas volumes (-€16 million), partly offset by increased costs for the recharging by third-party operators of the transportation service on their networks (so-called interconnection; +€5 million).

Operating costs – Regulated and non-regulated activities

(€ millions)	2007	2008	2009	Change	% change
Costs of regulated activities	355	395	567	172	44
Controllable fixed costs	207	209	352	143	68.4
Variable costs	102	135	117	(18)	(13.3)
Other costs	46	51	98	47	92.2
Costs of non-regulated activities	2	4	14	10	
	357	399	581	182	45.6

Operating costs of regulated activities

Controllable fixed costs²¹ (€352 million) comprise recurring personnel expense (€182 million) and external costs (€170 million).

The following tables analyse the workforce in service at 31 December 2009 (6,187 people) by business segment and professional status.

(number)	2007	2008	2009	Change	% change
Business segments					
Transportation	2,270	2,252	2,254	2	0.1
Regasification	87	93	87	(6)	(6.5)
Distribution			3,545	3,545	
Storage			301	301	
	2,357	2,345	6,187	3,842	

(number)	2007	2008	2009	Change	% change
Professional status					
Executives	62	65	121	56	86.2
Managers	255	265	493	228	86.0
Office workers	1,250	1,241	3,320	2,079	
Manual workers	790	774	2,253	1,479	
	2,357	2,345	6,187	3,842	

The variable costs (€117 million) refer essentially to the costs of fuel gas used to supply compressor stations and gas emissions from the network and the plants (€110 million in total). Other costs (€98 million) relate primarily to charges that are

offset in revenue (essentially interconnection charges and costs for the modulation service provided by Stogit in the first half of the year), to net provisions for risks and charges, and to concession costs.

⁽²¹⁾ For a definition of controllable fixed costs, see the "Glossary" in this report.

Amortisation, depreciation and impairment losses

	(€ millions)	2007	2008	2009	Change	% change
Amortisation and depreciation		489	489	613	124	25.4
Business segments						
Transportation		485	485	499	14	2.9
Regasification		4	4	4		
Distribution				75	75	
Storage				35	35	
Impairment						
		489	489	613	124	25.4

Amortisation, depreciation and impairment losses (€613 million) increased by €124 million compared with 2008, owing to amortisation and depreciation in the natural gas distribution (€75 million) and storage (€35 million) busi-

ness segments. The increase in amortisation and depreciation in the transportation business segment (+€14 million), owing to the introduction of new infrastructures, also contributed to the rise.

EBIT

	(€ millions)	2007	2008	2009	Change	% change
Business segments						
Transportation		1,015	1,017	974	(43)	(4.2)
Regasification		7	5	5		
Distribution				203	203	
Storage				92	92	
		1,022	1,022	1,274	252	24.7

EBIT in 2009 amounted to €1,274 million, an increase of €252 million, or 24.7%, compared with 2008 owing essentially to the change in consolidation scope, with the natural gas distribution and storage business segments contributing €203 million and €92 million respectively. EBIT²² in the transportation business fell by €43 million, or 4.2%, compared with 2008 mainly because of: (i) lower transportation revenue (-€25 million, net of components that are offset in costs); (ii) greater amortisation and depreciation (-€14 million) owing to the introduction of new transportation infrastructures; (iii) higher operating

costs (-€6 million, net of components that are offset in revenue) following greater provisions for risks and charges (-€19 million) and an increase in fixed costs (-€4 million), the effects of which were partially offset by reduced variable costs for fuel gas used to supply compressor stations and gas emissions from the network and the plants (+€16 million), against smaller quantities of gas used.

The return on invested capital (ROI) was 10% (10.6% in 2008)²³.

(²²) EBIT is analysed by considering only those elements that have led to a change therein, as application of the gas sector tariff regulations generates cost and revenue items which offset each other.

(²³) The ROI for financial year 2009 is not representative of performance insofar as, following the acquisitions, EBIT includes the associated effects of consolidating the acquired companies in the second half of the year.

Net financial expense

(€ millions)	2007	2008	2009	Change	% change
Financial expense related to net financial debt	(240)	(276)	(166)	110	(39.9)
- Charges on short- and long-term financial debt	(240)	(276)	(166)	110	(39.9)
(Expense) Income from derivative contracts	14	27	(66)	(93)	
- Fair-value adjustment	(1)	(2)	(2)		
- Difference in interest accrued in the period	15	29	(64)	(93)	
Other financial (expense) income	8	(3)	(9)	(6)	
- Accretion discount	(1)	(1)	(11)	(10)	
- Other net financial income (expense)	9	(2)	2	4	
Financial expense capitalised	18	26	24	(2)	(7.7)
	(200)	(226)	(217)	9	(4.0)

Net financial expense (€217 million) fell by €9 million compared with 2008 following a significant reduction in market interest rates, the effects of which were partly offset by higher average net financial debt owing primarily to the consolidation of Italgas and Stogit, charged to the income statement from 1 July 2009, and to the financing of the acquisition.

The average borrowing cost was approximately 2.9%²⁴ (4.2% in 2008).

In the 2009 financial year, €24 million of financial charges were capitalised (this figure was €26 million in 2008). The reduction of €2 million is attributable to lower market interest rates.

Income (Expense) from equity investments

The table below shows an analysis of net income from equity investments (€22 million):

(€ millions)	2009
Valuation effect with the equity method	21
Capital gains from sale of equity investments	3
Other expenses	(2)
	22

Net income from equity investments refers to: (i) the share of net results for the period of subsidiaries and associates valued using the equity method (€21 million) in the natural

gas distribution business segment; (ii) the capital gain (€3 million) from the sale to Eni S.p.A of the stake held by Italgas (17.77%) in Toscana Energia Clienti S.p.A.

Income taxes

(€ millions)	2007	2008	2009	Change	% change
Current taxes	397	291	402	111	38.1
(Advanced) deferred taxes					
Deferred taxes	(41)	(37)	(44)	(7)	18.9
Advanced taxes	(30)	12	(11)	(23)	
Use of deferred-tax fund	(98)				
	(169)	(25)	(55)	(30)	
Tax rate (%)	27.7	33.4	32.2	(1.2)	
	228	266	347	81	30.5

⁽²⁴⁾ The acquired companies' average cost of borrowing was calculated with reference to the second half of the year.

Income taxes (€347 million) increased by €81 million, or 30.5%, compared with 2008. This was due mainly to higher pre-tax profit (+€283 million) following the change in consolidation scope.

The tax rate was 32.2%, compared with 33.4% in financial year 2008.

Reclassified balance sheet

The reclassified consolidated balance sheet combines the assets and liabilities of the compulsory format

included in the annual report and the half-year report in accordance with their function, usually split into the three basic functions: investment, operations and financing.

Management believes this format is useful for investors as it allows identification of the sources of financing (own and third-party funds) and the application of such funds for fixed and working capital.

The reclassified consolidated balance sheet format is used by management to calculate the key leverage and profitability (ROI and ROE) ratios.

RECLASSIFIED BALANCE SHEET (*)

(€ millions)	31.12.2008	31.12.2009	Change
Fixed capital	10,302	17,077	6,775
Property, plant and equipment	10,549	16,025	5,476
Compulsory inventories		405	405
Intangible assets	39	741	702
Equity investments		301	301
Financial receivables held for operations		2	2
Net payables for investments	(286)	(397)	(111)
Net working capital	(464)	(1,332)	(868)
Provisions for employee benefits	(29)	(107)	(78)
Assets held for sale and directly related liabilities		14	14
NET INVESTED CAPITAL	9,809	15,652	5,843
Equity (including minority interests)			
- attributable to Snam Rete Gas	3,573	5,702	2,129
- attributable to minority shareholders		1	1
	3,573	5,703	2,130
Net financial debt	6,236	9,949	3,713
COVERAGE	9,809	15,652	5,843

(*) Reference should be made to the paragraph on the reconciliation of the reclassified consolidated balance sheet with the legally required consolidated balance sheet.

Fixed capital (€17,077 million) increased by €6,775 million compared with 31 December 2008, due essentially to the change in consolidation scope on 30 June 2009

(+€6,110 million).

Changes in property, plant and equipment and intangible assets (+€6,178 million) are analysed below:

(€ millions)	Property, plant and equipment	Intangible assets	Total
Balance at 31 December 2008	10,549	39	10,588
Investments	1,218	36	1,254
Change in consolidation scope	4,811	700	5,511
Amortisation, depreciation and impairment	(579)	(34)	(613)
Transfers, eliminations and divestments	(24)		(24)
Other changes	50		50
Balance at 31 December 2009	16,025	741	16,766

Investments in 2009 amounted to €1,254 million, of which €172 million and €149 million respectively related to the natural gas distribution and storage business segments²⁵. The change in consolidation scope of €5,511 million comprises the carrying amount at 30 June 2009 of property, plant and equipment and intangible assets from the acquisition of Italgas and Stogit - equal to €3,566 million and €1,945 million respectively. Other changes (+€50 million) relate essentially to: (i) the

transfer, from the item "Inventories", of gas for use in the transportation network (+€59 million)²⁶; (ii) the transfer from the warehouse of goods (essentially pipes and their accessories) destined for investment activities and not yet used for constructing plants (+€34 million, net of goods used for investment activities); (iii) the revision of estimates for the abandonment and restoration of sites (+€21 million). These factors were partly offset by grants for the period (-€67 million).

Net working capital

	(€ millions)	31.12.2008	31.12.2009	Change
Trade receivables		417	738	321
Inventories		128	411	283
Tax receivables (*)		6	21	15
Other assets (*)		25	145	120
Deferred tax liabilities		(487)	(934)	(447)
Provisions for risks and charges		(52)	(669)	(617)
Trade payables		(161)	(471)	(310)
Accrued and deferred income from regulated business revenue		(190)	(235)	(45)
Derivative instruments		(39)	(78)	(39)
Tax payables		(48)	(67)	(19)
Other liabilities (*)		(63)	(193)	(130)
		(464)	(1,332)	(868)

(*) Tax receivables of €2 million have been reclassified from "Other assets" (at 31 December 2008) to "Tax receivables".

Net working capital (-€1,332 million) decreased by €868 million compared with 31 December 2008, mainly as a result of the change in consolidation scope on 30 June 2009, which led to the recognition of net liabilities of €948 million, and of operating changes in the period (+€80 million)²⁷. These changes are due mainly to: (i) higher trade receivables (+€160 million), relating essentially to the natural gas distribution segment; (ii) smaller deferred tax liabilities (+€71 million), particularly following the return of deferred taxes relating to amortisation and depreciation carried out - purely for tax purposes - in previous financial years; (iii) the increase in other assets (+€39 million) owing mainly to higher receivables from the Electricity Equalisation Fund for the redemption of

energy efficiency certificates in the distribution business segment, as well as a higher December VAT advance to ultimate parent Eni S.p.A. These positive changes were partly offset by: (i) higher provisions for risks and charges (-€74 million), owing particularly to the fund for dismantling and restoring sites in the storage business segment, as well as to the recognition of provisions for environmental funds and disputes; (ii) a reduction in the fair value of derivative instruments (-€39 million) as a result of lower market interest rates.

The reduction of inventories (-€84 million), owing mainly to the factors shown in the previous item "Property, plant and equipment", also contributed to lower net working capital.

⁽²⁵⁾ Investments made by the acquired companies refer to the period 1 July-31 December 2009. Investments made by these companies before the acquisition completion date are included in the item "Change in consolidation scope".

⁽²⁶⁾ Gas used for the functioning of a pipeline is divided into the Initial Line Pack (IL), which is the quantity of gas injected into the network when a pipeline comes into service (this is not economically recoverable), and the Operating Line Pack, which is the difference between the total quantity of gas used for the functioning of the pipeline and the IL.

⁽²⁷⁾ Changes for the distribution and storage business segments relate to the second half of the year.

Assets held for sale and directly related liabilities

Assets held for sale and directly related liabilities relate to a real-estate complex owned by Italgas (€14 million, net

of environmental provisions for charges relating to restoration work on the property)²⁸.

Statement of comprehensive income

(€ millions)	2008	2009
Net profit	530	732
Other components of comprehensive income		
Change in fair value of cash flow hedge derivatives (effective share)	(108)	(29)
Tax effect of the other components of comprehensive income	30	8
Total other components of comprehensive income, net of tax effect	(78)	(21)
Total comprehensive income	452	711
attributable to:		
- Snam Rete Gas	452	711
- Minority shareholders		
	452	711

Equity

(€ millions)		
Equity at 31 December 2008		3,573
<i>Increases owing to:</i>		
- Share capital increase (*)	3,474	
- Comprehensive income for 2009	711	
- Other changes	3	
		4,188
<i>Decreases owing to:</i>		
- Difference between acquisition cost of equity investments and book equity of Italgas e Stogit (**)	(1,585)	
- Additional expense for the share capital increase (***)	(23)	
- Distribution of balance of 2008 dividend	(247)	
- Distribution of interim 2009 dividend	(203)	
		(2,058)
Equity including minority interests at 31 December 2009		5,703
attributable to:		
- Snam Rete Gas		5,702
- Minority shareholders		1
		5,703

(*) Includes the share premium of €1,860 million, of which €3 million relates to collecting unexercised options.

(**) Includes the price adjustment effect (€1 million), recognised following the agreements signed during the acquisition of Stogit. For more information, see note 23 "Commitments, risks and guarantees - Commitments arising from the acquisition of Italgas and Stogit from Eni" of the notes to the consolidated financial statements.

(***) Net of the tax effect.

At 31 December 2009, Snam Rete Gas had 194,886,225 treasury shares²⁹ (compared with 195,429,850 at 31 December 2008), equal to 5.46% of the share capital. Their market value at 31 December 2009 was €674 million³⁰.

Note 21 "Equity" to the consolidated financial statements gives information about the individual equity items and changes therein compared with 31 December 2008.

(²⁸) Note 23 "Guarantees, commitments and risks - Commitments arising from the acquisition of Italgas and Stogit from Eni" of the notes to the consolidated financial statements provides information on the parties' commitments.

(²⁹) Treasury stock transactions carried out in financial year 2009 are shown in the section "Other information - Stock option plans" of the directors' report.

(³⁰) Calculated by multiplying the number of treasury shares by the year-end official price of €3.46 per share.

Reconciliation of the profit for the year and equity of Snam Rete Gas S.p.A with their consolidated equivalents

(€ millions)	Profit for the year		Equity	
	2008	2009	31.12.2008	31.12.2009
Separate financial statements for Snam Rete Gas S.p.A	528	530	3,557	7,068
Profit for the year of companies included in the consolidation scope	2	181		
Excess equity in separate financial statements, including profit or loss for the year, compared with the carrying amount of equity investments in consolidated companies			16	(1,387)
Consolidation adjustments for:				
- Valuation of equity investments using equity method		21		21
Minority interests				1
Consolidated financial statements	530	732	3,573	5,703

Net financial debt and leverage

Leverage shows a company's degree of indebtedness and is the ratio of net financial debt to net invested capital. It is

one of the key ratios used to gauge the soundness and efficiency of a company's financial position.

(€ millions)	31.12.2008	31.12.2009	Change
Financial liabilities	6,237	9,986	3,749
Short-term financial liabilities	1,023	1,585	562
Current share of long-term financial liabilities	14	915	901
Long-term financial liabilities	5,200	7,486	2,286
Financial receivables and cash and cash equivalents	(1)	(37)	(36)
Financial receivables not held for operations	(1)	(1)	
Cash and cash equivalents		(36)	(36)
	6,236	9,949	3,713

Net financial debt amounted to €9,949 million, an increase of €3,713 million compared with 31 December 2008, due to financial requirements relating to: (i) investments in the newly consolidated companies (-€6,693 million, including €4,474 million of outlays³¹, net of cash acquired, and financial liabilities of €2,219 million acquired on the transaction completion date: €1,151 million and €1,068 million for Italgas and Stogit respectively); (ii) net investments for the period (-€1,179 million); (iii) settlement of the 2008 dividend of €0.14 per share, paid from 21 May 2009 (-€247 million) and of the interim 2009 dividend of €0.06 per share, paid from 22 October 2009 (-€203 million). These

factors were partly offset by: (i) net cash flows of equity related to the share capital increase (+€3,443 million, including the share premium and net of outlays to cover additional transaction costs); (ii) cash inflows from operating activities (+€1,164 million).

Long-term financial liabilities of €7,486 million make up 75% of financial debt (83% at 31 December 2008). The average duration of the long-term loans is approximately four years (it was just over four years at 31 December 2008).

A breakdown of the liabilities by type of interest rate at 31 December 2009 is as follows:

(€ millions)	31.12.2008	%	31.12.2009	%	Change
Floating rate	2,524	40	4,270	43	1,746
Fixed rate	3,713	60	5,716	57	2,003
	6,237	100	9,986	100	3,749

All the financial liabilities are due to Eni and they are all in euros.

⁽³¹⁾ Equal to the acquisition price determined when the transaction was completed (€4,512 million), net of acquired cash and cash equivalents (€38 million).

The floating-rate financial liabilities (€4,270 million) increased by €1,746 million compared with 31 December 2008, owing primarily to the change in consolidation scope on 30 June 2009 (€1,461 million) and to taking out two new loans with ultimate parent Eni S.p.A (€600 million in total, of which €300 million is supplied by the European Investment Bank). At 31 December 2009, floating-rate financial liabilities from acquired companies amounted to €1,090 million.

Fixed-rate financial liabilities (€5,716 million) increased by €2,003 million, due mainly to taking out three new floating-rate loans with ultimate parent Eni S.p.A (a total of €1,250 million), converted into fixed-rate loans by interest rate swaps, and to consolidating debts from the acquired companies on completion of the transaction (€758 million). At 31 December 2009, fixed-rate financial liabilities from acquired companies amounted to €1,310 million.

Fixed-rate financial liabilities include floating-rate loans converted into fixed-rate loans by interest rate swaps for a total notional amount of €4,050 million.

Information on financial debt owing to ultimate parent Eni S.p.A can be found in note 16 to the consolidated financial statements.

Leverage - the ratio of net financial debt to net invested capital - was 63.6% (unchanged from 31 December 2008). There are no financial liabilities subject to covenants. There were no breaches of loan agreements at the reporting date.

Reclassified statement of cash flows

The reclassified consolidated statement of cash flows set out below summarises the legally required format. It shows the opening and closing cash and cash equivalents and the change in net financial debt during the year. The two statements are reconciled through the free cash flow, i.e. the cash surplus or deficit left over after servicing capital expenditure. The free cash flow closes either: (i) with the change in cash and cash equivalents for the period, after adding/deducting all cash flows related to financial liabilities/assets (taking out/repayment of loans) and equity (payment of dividends/capital injections); or (ii) with the change in net financial debt for the period, after adding/deducting the debt flows related to equity (payment of dividends/capital injections).

RECLASSIFIED STATEMENT OF CASH FLOWS

(€ millions)	2007	2008	2009
Net profit	594	530	732
<i>Adjusted by:</i>			
- Amortisation, depreciation and other non-monetary components	488	488	622
- Interest, income taxes and other changes	426	490	552
Cash flow from operating activities before changes in working capital	1,508	1,508	1,906
Change to working capital due to operating activities	2	90	(140)
Interest and income taxes received (paid)	(576)	(545)	(602)
Net cash flow from operating activities	934	1,053	1,164
Investments in property, plant and equipment and intangible assets	(727)	(1,097)	(1,225)
Change in consolidation scope			(4,474)
Divestments	1	2	30
Net payables for investments	(24)	74	16
Free cash flow	184	32	(4,489)
Change in financial liabilities	627	354	1,530
Equity cash flow	(811)	(386)	2,995
Net cash flow for the year	0	0	36

(*) Reference should be made to the paragraph on the reconciliation of the reclassified consolidated balance sheet with the legally required consolidated balance sheet.

CHANGE IN NET FINANCIAL DEBT

(€ millions)	2007	2008	2009
Free cash flow	184	32	(4,489)
Financial payables and receivables of acquired companies			(2,219)
Equity cash flow	(811)	(386)	2,995
Change in net financial debt	(627)	(354)	(3,713)

RECONCILIATION OF THE RECLASSIFIED FINANCIAL STATEMENTS WITH THE LEGALLY REQUIRED FORMATS

Reclassified consolidated balance sheet

(€ millions)

Reclassified consolidated balance sheet items (Where not expressly stated, the component is taken directly from the legally required format)	Notes to the consolidated financial statements	31.12.2008		31.12.2009	
		Partial amount from legally required format	Amount from reclassified format	Partial amount from legally required format	Amount from reclassified format
Fixed capital					
Property, plant and equipment			10,549		16,025
Compulsory inventories					405
Intangible assets			39		741
Equity investments					301
Financial receivables held for operations	(see note 2)				2
Net payables for investments, consisting of:			(286)		(397)
- Payables for investments	(see note 13)	(298)		(429)	
- Receivables for investments/divestments	(see note 2)	12		32	
Total fixed capital			10,302		17,077
Net working capital					
Trade receivables	(see note 2)		417		738
Inventories			128		411
Tax receivables, consisting of:			6		21
- Current income tax assets		1		2	
- Other current tax assets (*)		2		5	
- IRES receivables for national consolidated tax scheme	(see note 2)	3		13	
- Group VAT receivables	(see note 2)			1	
Trade payables	(see note 13)		(161)		(471)
Tax payables, consisting of:			(48)		(67)
- Current income tax liabilities		(1)		(5)	
- Other current tax liabilities		(4)		(18)	
- IRES payables for national consolidated tax scheme	(see note 13)	(3)		(36)	
- Group VAT payables	(see note 13)	(40)		(8)	
Deferred tax liabilities			(487)		(934)
Provisions for risks and charges			(52)		(669)
Derivative instruments	(vedi note 5,10,15,20)		(39)		(78)
Other assets, consisting of:			25		145
- Other receivables	(see note 2)	20		130	
- Other current assets	(see note 5)	2		5	
- Other non-current assets	(see note 10)	3		10	
Accruals from regulated activities, consisting of:			(190)		(235)
- Accruals for regulated activities	(vedi note 5,10)	45		83	
- Deferred and accrued income from regulated activities	(vedi note 15,20)	(235)		(318)	
Other liabilities, consisting of:			(63)		(193)
- Other payables	(see note 13)	(34)		(162)	
- Other current liabilities	(see note 15)	(2)		(5)	
- Other non-current liabilities	(see note 20)	(27)		(26)	
Total net working capital			(464)		(1,332)
Provisions for employee benefits			(29)		(107)
Assets held for sale and directly related liabilities, consisting of:					14
- Assets held for sale	(see note 11)			25	
- Liabilities directly related to assets held for sale	(see note 11)			(11)	
NET INVESTED CAPITAL			9,809		15,652
Equity including minority interests			3,573		5,703
Net financial debt					
Financial liabilities, consisting of:			6,237		9,986
- Long-term financial liabilities		5,200		7,486	
- Current share of long-term financial liabilities		14		915	
- Short-term financial liabilities		1,023		1,585	
Financial receivables and cash and cash equivalents, consisting of:			(1)		(37)
- Other financial assets		(1)		(1)	
- Cash and cash equivalents				(36)	
Total net financial debt			6,236		9,949
COVERAGE			9,809		15,652

(*) Other current tax assets at 31 December 2008 have been reclassified to "Tax receivables" (€2 million).

Reclassified statement of cash flows

(€ millions)

Reclassified items and reconciliation with items from the legally required format	2008		2009	
	Partial amount from legally required format	Amount from reclassified format	Partial amount from legally required format	Amount from reclassified format
Net profit		530		732
<i>Adjusted by:</i>				
Amortisation, depreciation and other non-monetary components		488		622
- Amortisation and depreciation	489		613	
- Net impairment losses (reversal of impairment losses)	1		(22)	
- Change in provisions for risks and charges	(8)		26	
- Change in provisions for employee benefits			(1)	
- Net expense for divestments and eliminations	6		6	
Interest, income taxes and other changes:		490		552
- Interest assets	(32)		(9)	
- Interest liabilities	255		212	
- Income taxes	266		347	
- Other changes	1		2	
Cash flows from operating activities before changes in working capital		1,508		1,906
Changes in working capital due to operating activities:		90		(140)
- Inventories	(33)		54	
- Trade and other receivables	61		(202)	
- Other assets	(43)		(35)	
- Trade and other payables	31		(10)	
- Other liabilities	74		53	
Cash flows from operating activities		1,598		1,766
Interest and income taxes collected (paid):		(545)		(602)
- Interest collected	43		10	
- Interest paid	(252)		(204)	
- Income taxes (paid) received	(336)		(408)	
Net cash flows from operating activities		1,053		1,164
Investments		(1,097)		(5,699)
- Property, plant and equipment	(1,071)		(1,189)	
- Intangible assets	(26)		(36)	
- Change in consolidation scope			(4,474)	
Divestments:		2		30
- Property, plant and equipment	2		18	
- Equity investments			12	
Net payables for investments		74		16
Free cash flow		32		(4,489)
Change in financial payables:		354		1,530
- Taking on long-term financial liabilities	3,564		12,407	
- Repayment of long-term financial liabilities	(2,865)		(10,564)	
- Increase (decrease) in short-term financial liabilities	(345)		(313)	
Equity cash flows		(386)		2,995
Net cash flows for the year		0		36

ELEMENTS OF RISK AND UNCERTAINTY

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 and natural gas purchase price volatility;
- (ii) credit risk deriving from the possibility of counterparty default;
- (iii) liquidity risk deriving from a possible lack of financial resources required to meet short-term commitments;
- (iv) operational risk;
- (v) specific risks related to the business segments in which the group operates.

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 company's loans are indexed to benchmark rates, namely 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 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.

Natural gas purchase price fluctuation risk

Transportation business costs incurred for the acquisition of gas needed to supply the compressor stations were

included, until the end of the second regulatory period on 31 December 2009, in general operating costs, and were therefore updated using the price-cap mechanism³². As from the start of the third regulatory period on 1 January 2010, the Electricity and Gas Authority, enacting the new tariff criteria laid down by resolution ARG/gas 184/09, has defined methods for payment in kind, by shippers to transporters, of gas volumes to cover fuel gas, network losses and unaccounted-for gas, owed as a percentage of the volumes respectively injected into and withdrawn from the transportation network. As a result of these measures and taking into account the mechanism for allocating gas to shippers, changes to the purchase price of natural gas are no longer a risk for the group.

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 client 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 minimise the risk of non-compliance by the clients. In particular, the Codes provide for guarantees to partly cover obligations where the client 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.

Although nearly all of the company's receivables are due from a limited number of customers, with ultimate parent Eni S.p.A. representing 50% of trade receivables, there are no risks of credit concentration given their excellent reliability.

LIQUIDITY RISK

Liquidity risk derives from the risk that financial resources may not be available (funding liquidity risk) or the group may be unable to convert assets into cash on the market (asset liquidity risk), meaning that it cannot meet its pay-

⁽³²⁾ Under this mechanism, core revenue components relating to operating costs, amortisation and depreciation are updated with financial statement figures at the start of a regulatory period, while they are updated with inflation and reduced by a productivity coefficient in the subsequent years.

ment 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, minimising the related 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 existing agreements, Eni S.p.A can request the early repayment of loans should it lose its controlling stake in Snam Rete Gas.

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

OPERATIONAL RISK

Snam Rete Gas is required to comply with many rules and regulations for protecting the environment, health and safety at national, regional, local and EU levels. The environmental protection laws generally pertain to verification of and compliance with limits for emitting pollutants into the air, water and the ground, and to correct waste management procedures. Failure to comply with current regulations may result in individual criminal and/or civil sanctions and, in some cases where safety rules are violated, companies may be liable on the basis of a European liability model adopted in Italy through Legislative Decree no. 231/01. It must also be noted that Snam Rete Gas may incur significant costs or liability.

Recent regulations on health and safety in the workplace have introduced new obligations which will impact operations at Snam Rete Gas. In particular, the regulations highlight the value of organisational models aimed at preventing offences in the event of violation of workplace health and safety laws and, therefore, corporate liability. Snam Rete Gas has a policy for health, safety and the environment, which has been consolidated over the years. These issues are managed through organisational provisions and internal instructions establishing responsibilities and the procedures to be adopted when designing, constructing, operating and disposing of all company assets. These measures ensure compliance with the law and internal regulations governing health, safety and the environment. Under the group's organisational structure, unit managers are also responsible for health, safety and environmental issues for their respective activities. Moreover, the systems managing the environment and

the health and safety of employees have been developed in line with international best practices, based on an annual cycle of planning, implementation, control, analysis and target-setting. They are developed and maintained in order to focus on risk prevention, with a view to continuous improvement.

Risks connected with failing to meet infrastructure development objectives

The group's effective ability to develop its infrastructure is subject to many unforeseeable events linked to operating, economic, regulatory, authoritative and competition factors which are outside its control. Therefore, Snam Rete Gas is unable to guarantee that the projects to upgrade and extend its network will be started, completed or lead to benefits in terms of tariffs. Additionally, the development projects may require greater investments or longer timeframes than those originally planned, affecting the group's financial position and results.

Risks deriving from malfunctioning of plants

Managing regulated gas activities involves a number of risks of malfunctioning and unforeseeable service disruptions due to factors which are outside the group's control such as accidents, breakdowns or malfunctioning of equipment or control systems, the underperformance of plants and extraordinary events such as explosions, fires, earthquakes, landslides or other similar events beyond the group's control. These events could also cause significant damage to persons, property or the environment.

Any service interruptions and subsequent compensation obligations could lead to a decrease in revenue and/or an increase in costs. Although the group has taken out specific insurance policies to cover some of these risks, the related insurance cover could be insufficient to meet all the losses incurred, compensation obligations or cost increases.

Risks deriving from the need to manage a significant flow of information to operate regulated services

The regulatory framework in which the company operates stipulates that Snam Rete Gas continually gather and prepare a significant flow of information from its customers. The information received by Snam Rete Gas includes capacity bookings, details of where gas is coming from and going to each day, physical and commercial balancing mechanisms and forecasts about demand and transportation capacity usage. This flow of information, managed by extensive use of IT systems, is large and complex. Therefore, Snam Rete Gas cannot guarantee that its management does not lead to operating and planning difficulties which could affect its business.

Risks deriving from the seasonal nature of the business

The group's business is not affected by seasonal factors which would have a significant impact on its annual or interim financial results.

SPECIFIC RISKS RELATED TO THE BUSINESS SEGMENTS IN WHICH THE GROUP OPERATES

Regulation

Snam Rete Gas operates in the regulated gas sector. The relevant directives and legal provisions issued by the European Union and the Italian government, and the resolutions of the Electricity and Gas Authority, may have a significant impact on the group's operations, results and financial stability. Future changes to European Union or Italian legislative policies may have unforeseeable effects on the relevant legislative framework and, therefore, on the group's operations and results.

Risks connected with the expiry of gas distribution concessions/contracts held by Italgas and its subsidiaries/associates and with the early termination of concessions by concessionary bodies

Risks relating to tenders for new gas distribution concessions

As at 31 December 2009, the group has a portfolio of more than 1,400 natural gas distribution concessions spread throughout Italy. Upon legal expiry of the concessions and contracts held by Italgas and its subsidiaries/associates, or in the event that local authorities terminate the concession early, said authorities must call for tenders for the new gas distribution concessions. As a result of the tender process, Italgas and its subsidiaries/associates may not secure one or more of the new concessions, or they may win the concessions but with less favourable terms than was previously the case. This may have a negative effect on the group's operations and its financial and capital position, despite the receipt of compensation if it fails to renew a concession.

Risks relating to the right of local authorities to acquire ownership of the gas distribution networks and to quantifying repayment to the outgoing operator

With reference to concessions where Italgas and its subsidiaries/associates also own the gas distribution networks, under interpretation of the regulations on gas distribution networks in the Legislative Decree, the legal system has not clarified whether the company which owns the networks is effectively required to transfer said ownership to the local authorities upon expiry of the conces-

sions and/or contracts. Concessionary bodies and operators also have different interpretations on how to apply criteria for quantifying compensation owing to the outgoing operator and owner of the network pursuant to article 24, paragraph 4, a) and b) of Royal Decree no. 2578 of 15 October 1925 (which stipulates that only the "industrial value" of the system be taken into account, not the profit that the concessionaire stands to lose as a result of failing to renew the concession).

Upon expiry of the concessions and/or contracts, there may therefore be disputes over the amount of compensation owing to Italgas and its subsidiaries/associates; Italgas and its subsidiaries/associates may lose these cases, with subsequent negative effects on the group's operations and financial and capital situations.

Risks relating to gas storage concession ownership

Stogit owns 10 gas storage concessions. One expires on 14 June 2012, eight on 1 January 2017 and one on 6 November 2021. Each concession may be extended by the Ministry of Economic Development no more than twice for a duration of 10 years at a time, pursuant to article 1, paragraph 61 of Law no. 239/2004. If Stogit is unable to retain ownership of one or more of its concessions, or if it renews the concessions but with less favourable terms than was previously the case, there may be negative effects on the group's operations and financial and capital situation.

Risk relating to uncertainty about natural gas reserves

There are several uncertainties surrounding estimations of natural gas reserves in the storage fields where Stogit operates, and therefore their future use and necessary investments. The accuracy of these estimations depends on a certain number of factors, assumptions and variables, among which some of the most important are: (a) the quality of geological, technical and economic data and their interpretation and evaluation; (b) projections for future usage and timeframes for the relevant investment; (c) the stability or otherwise of sector laws and regulations; (d) the actual results of drilling and general production activity in the fields for which Stogit owns a concession which are subsequent to the estimation date and which may cause said estimations to be raised or lowered.

Factors other than those listed above which may influence reserve estimations are beyond Stogit's control and may therefore vary over time. As a result there may be differences between estimated reserves and those actually available for use, which may have negative effects on the group's operations and financial and capital situation.

Risks connected with certain socio-political situations in natural gas production and transit countries

A large part of the natural gas which travels through the transportation network of Snam Rete Gas does, or may, come from or travel through countries which present risks deriving from certain socio-political situations. Importing and transiting natural gas from or through such countries may present risks such as: higher taxes and excise duties; production, export or transportation limits; enforced contract renegotiations; nationalisation or renationalisation of assets; changes to national political and governing systems; changes to commercial policies; monetary restrictions; loss or damage owing to the actions of rebel groups.

If shippers are unable to access the natural gas available in these countries as a result of the aforementioned or similar situations, they may be unable to fulfil their contractual obligations to Snam Rete Gas or there may be a reduction in volumes of gas transported. Such events may therefore have a negative effect on the group's operations and financial and capital situation.

Quantitative information on the risks deriving from financial instruments pursuant to IFRS 7 "*Financial Instruments: Disclosures*" can be found in note 23 "Commitments, guarantees and risks" to the consolidated financial statements.

OUTLOOK

Gas demand

Based on the most recent estimates, domestic natural gas demand is expected to grow by an annual average of more than 2% in the four years from 2010 to 2013. The predicted growth is due to consumption in the thermoelectric sector, which is expected to increase annually by an average of more than 5%.

Smaller increases are predicted in residential, tertiary and industrial consumption.

Investments

The integration of Italgas and Stogit enables Snam Rete Gas to confirm a solid and significant investment plan, equal to around €6.4 billion (net of expected grants) at consolidated level in the four years between 2010-2013, aimed at developing the gas system in Italy and sustaining and increasing the group's growth opportunities in the medium and long term. The main features of the investment plan, by business segment, are as follows:

TRANSPORTATION AND REGASIFICATION

- satisfy the requirements linked to evolving gas demand in the medium and long term, and make the Italian transportation system safer and more flexible;
- continue to improve transportation service quality;
- promote the development of a European gas hub.

The measures planned should allow the company, in the period in question, to increase the length of the transporta-

tion network by around 4% (31,531 km in 2009) and to increase the installed power at its compressor stations by around 20% compared with 2009 (857 MW in 2009).

DISTRIBUTION

- optimise the concessions portfolio to maximise profit;
- continue to improve gas distribution service quality.

The planned measures will enable the company to continue to support the growth of the business, with an estimated light growth of around 8% in user numbers in 2013 compared with 2009 (5.8 million in 2009).

STORAGE

- improve the overall safety and flexibility of the storage system by increasing modulation service capacity and managing point capacity;
- optimise balancing and promote the liquidity of the gas system in Italy.

It is predicted that the planned projects will, in the period in question, increase modulation capacity by around 35% (8.9 billion standard cubic metres in 2009) and point capacity by around 13% (270 million standard cubic metres in 2009).

Efficiency

The integration of Stogit and Italgas will give the company the chance to generate cost synergies of around €40 million in 2010, (calculated, in real terms, on the basis of costs for 2008 and at constant business structure).