

■ Background information

Snam Rete Gas S.p.A. is an Italian company listed on the Milan stock exchange with its registered office at Piazza Santa Barbara 7, San Donato Milanese (MI). It is controlled by Eni S.p.A., which holds 52.54% of the share capital. The group's business activities consist of the transportation, storage and distribution of natural gas and the regasification of liquefied natural gas (LNG). These activities are carried out via its integrated infrastructure in Italy.

■ Basis of presentation

The consolidated financial statements have been prepared in line with the International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (IASB) and endorsed by the European Commission under the procedure referred to in article 6 of Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 and pursuant to article 9 of Legislative Decree 38/2005.

The consolidated financial statements include the financial statements of Snam Rete Gas S.p.A and the companies directly or indirectly controlled thereby, from the date on which control was acquired until the date on which it ceased, influencing the financial and management decisions of these companies in order to obtain the corresponding benefits. Non-significant subsidiaries outside the scope of consolidation, companies under joint control, associates and other investments are accounted for as described in the section on equity investments.

Consolidated companies, non-consolidated subsidiaries, companies under joint control, associates and other significant investments, governed in accordance with art. 126 of Consob resolution 11971 of 14 May 1999, as subsequently amended, are indicated separately in the document entitled "Significant shareholdings and investments of Snam Rete Gas S.p.A at 31 December 2009", which is an integral part of these notes. The same document also reports changes in the scope of consolidation during the year.

The annual financial statements of consolidated companies and the consolidated financial statements have been audited by the independent auditors PricewaterhouseCoopers S.p.A.

The board of directors approved the financial statements of Snam Rete Gas at 31 December 2009 at its meeting on 10 March 2010.

The figures in the financial statements and corresponding notes are in millions of euros.

■ Consolidation procedures

■ Investments in consolidated companies

Assets, liabilities, expense and income of companies consolidated on a global line-by-line basis are recognised in the consolidated financial statements. The carrying amount of investments is offset against the share of equity of investees. The equity of investees is determined by allocating their current value on the acquisition date to individual assets and liabilities. Any residual difference compared with the acquisition cost, if positive, is recorded as an asset under "Goodwill"; if negative, it is recorded in the income statement.

Business combinations whereby the companies concerned are ultimately controlled by the same company or companies either before or after the combination, and such control is not temporary, are classified as transactions "under common control".

These operations are not governed by either IFRS 3 or other IFRSs. In the absence of a benchmark accounting standard, the choice of accounting standard for the transaction in question – for which significant influence on future cash flows cannot be proven – is based on the prudence concept, entailing the application of the continuity criterion of net asset values. Assets are measured at their book value according to the accounting records of the company acquired prior to the transaction or other values shown in the consolidated financial statements of the common parent, where available. Where the transfer values are higher than these historical values, the surplus is eliminated by adjusting the equity of the acquiring entity.

The portion of equity and profit attributable to minorities is recorded under a special heading; the portion of equity attributable to minorities is determined based on the current values assigned to the assets and liabilities on the date of acquisition of control, excluding any goodwill associated therewith.

Gains and losses arising on the disposal of equity interests in consolidated companies are taken to the income statement based on the amount of the difference between the selling price and the corresponding share of equity transferred.

The financial closing of all consolidated companies is 31 December.

■ Intragroup transactions

Profits on transactions between consolidated companies not yet realised with third parties are derecognised, as are intragroup receivables, payables, income and expense, guarantees, commitments and risks.

Intragroup losses are not eliminated as they are considered representative of the reduced value of the asset sold.

■ Accounting policies

The main accounting policies adopted to prepare the consolidated financial statements are described below.

■ Current assets

Cash and cash equivalents

Cash and cash equivalents include petty cash and on-demand bank deposits, as well as other liquidity investments with a term of less than three months. If in euros, these investments are carried at their nominal amount, which equals their fair value. If they are in a different currency, they are recognised at the closing spot rate.

Trade and other receivables

Trade and other receivables are initially recognised at fair value and subsequently at amortised cost¹ using the effective interest method. When there is an objective indication of impairment, the asset is recognised at the present value of the expected future cash flows by recognising an impairment loss. Objective evidence is tested considering, inter alia, significant contractual breaches, major financial difficulties and the insolvency risk of the counterparties. Impairment losses are recognised in the income statement. If the reasons for the impairment are no longer valid in future years, the impairment loss is reversed and the asset restated at the value which would have been obtained had the amortised cost method been used without recognising any impairment loss.

Recognition and derecognition of financial assets

Financial assets are recognised in the balance sheet when the company becomes a party to the related agreements. Financial assets sold are derecognised when the right to receive the cash flows is transferred together with all the risks and rewards of ownership.

Inventories

Inventories, including compulsory stocks posted to non-current assets under "Inventories – Compulsory stocks", are recognised at the lower of purchase or production cost and net realisable value, this being the amount the company expects to obtain from their sale in the normal course of business. Cost is determined using the weighted average cost method. Risks and benefits associated with ownership are not transferred on the sale and repurchase of strategic gas. Therefore, these transactions are not recorded as changes in inventory.

Current tax assets (liabilities)

Current tax assets (liabilities) are recognised at the amount expected to be recovered (paid) from/to the tax authorities, using the enacted or substantially enacted rates at the reporting date of the statement.

Other current assets, other non-current assets

Other current assets and other non-current assets are initially recognised at fair value and subsequently measured using the aforesaid amortised cost method.

■ Non-current assets

Property, plant and equipment

Property, plant and equipment are measured at cost and recognised at purchase or production cost including all directly-related ancillary expenses incurred to make the asset available for use. When the asset will not be ready

⁽¹⁾ Under the amortised cost method, the initial carrying amount is adjusted to reflect principal repayments, any impairment losses and amortisation of the difference between the repayment amount and initial carrying amount. Amortisation is calculated using the effective internal interest rate which discounts the present value of expected future cash flows to their present value at initial recognition.

for a considerable period of time, the purchase or production cost includes the financial expense which would theoretically have been saved during the period required to make the asset ready for use, had the investment not been made. The purchase or production cost is net of government grants related to assets, which are recognised when it is reasonably certain that the eligibility conditions set by the government bodies will be met, and net of grants from other parties recognised on an accruals basis against the related costs.

When the company has a present obligation to dismantle and remove assets and return sites to their original condition, the carrying amount includes the (discounted) estimated costs to be incurred, recognised as a balancing entry in a specific provision. The treatment of revisions to these estimates, the time value of money and the discount rate are detailed in the section on "Provisions for risks and charges".

Revaluation is not allowed, not even pursuant to specific laws.

Property, plant and equipment, once they are available for use or should have been available for use, are depreciated on a straight-line basis over their estimated useful lives, this being an estimate of the period of time over which the asset will be used by the company. When an asset is composed of several significant components with different useful lives, each component is depreciated separately. The amount depreciated is the carrying amount of an asset less its recoverable amount at the end of its useful life, if material and reasonably determinable. Land is not depreciated, even when purchased together with a building, nor are assets held for sale (see section below on "Non-current assets held for sale").

Improvement costs are capitalised when they meet the criteria for recognition as assets.

The cost of replacing identifiable components of complex assets is capitalised under assets and depreciated over the useful life of the component. The residual carrying amount of the replaced component is expensed. Ordinary maintenance and repair costs are expensed in the financial year in which they are incurred.

When events take place which indicate that an asset may be impaired, its recoverable amount is reviewed by comparing the carrying amount to the recoverable amount, being the higher of the asset's fair value less the costs of disposal and value in use.

In the absence of a binding agreement, fair value is estimated on the basis of observable prices in an active market, recent transactions or the best information available to reflect the amount the company could obtain from the sale of the asset.

Value in use is determined by discounting the cash flows expected to be derived from the continuing use of the asset and, if material and reasonably determinable, after deducting the costs of disposal at the end of its useful life. Cash flows are determined using reasonable and documented assumptions representing the best estimate of the future economic conditions during the residual useful life of the asset, giving greatest weight to external indicators. They are discounted using a rate which reflects the current market valuation of the time value of money and the specific risks of the asset not reflected in the estimated cash flows.

The measurement is performed for each asset or cash-generating unit. If the reasons for the impairment loss are no longer valid, the assets are revalued and the adjustment taken to the income statement as a reversal of impairment. The reversal is carried out at the lower of the recoverable amount and carrying amount including previously recognised impairment losses and less depreciation which would have been charged had the impairment not been recognised.

Compulsory stocks are posted to non-current assets under "Inventories – Compulsory stocks".

Leases

Assets acquired under finance leases are recognised at fair value, net of the payable to the lessor or, if smaller, at the present value of the minimum payments due for the lease, under property, plant and equipment as a balancing entry to the financial payable due to the lessor when the company holds substantially all the risks and rewards of ownership.

The assets are depreciated applying the criteria and rates adopted for property, plant and equipment, unless the lease term is shorter than the assets' useful lives determined using the aforesaid rates and there is no reasonable certainty that ownership will be transferred upon the natural expiry of the contract. In this case, the depreciation period is the same as the lease term.

Intangible assets

Intangible assets are identifiable assets without physical substance controlled by the entity and able to generate future economic benefits. They include goodwill acquired against consideration. The definition of an intangible asset requires it to be identifiable to distinguish it from goodwill. This identifiability criterion is generally met

when: (i) the intangible asset arises from contractual or other legal rights; or (ii) the asset is separable, in other words, it is capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged either individually or together with other assets. An entity controls an asset if it has the power to obtain the future economic benefits flowing from the underlying resource and to restrict the access of others to those benefits.

Intangible assets are recognised at cost determined using the same methods used for property, plant and equipment. Revaluation is not allowed, not even pursuant to specific laws.

Intangible assets with finite lives are amortised on a straight-line basis over their useful lives, this being the period of time over which an asset is expected to be used by the entity. They are tested for impairment using the criteria set out in the section on "Property, plant and equipment".

Goodwill and other intangible assets with an indefinite life are not amortised. They are tested for impairment at least once a year and whenever events take place which indicate that an asset may be impaired. Goodwill is tested for impairment considering the smallest cash-generating units on which basis management directly or indirectly assesses the return on the investment including the goodwill. Impairment losses are not reversed. Negative goodwill is taken to the income statement.

The costs of technological developments are capitalised when: (i) the cost attributable to the intangible asset can reliably be determined; (ii) the company has the intention, the financial resources and technical ability to make the asset ready for use or sale; and (iii) it can be shown that the asset is able to generate future economic benefits. Storage concessions, as indicated by the Italian Ministry of Production with its decree of 3 November 2005, are recognised under the heading "Concessions, licences, trademarks and similar rights" and are not amortised.

Equity investments

Investments in non-consolidated subsidiaries, companies under joint control and associates are accounted for using the equity method. If there is objective evidence of impairment (see "Current assets"), they are tested for impairment by comparing the carrying amount to the related recoverable amount, determined based on the criteria indicated in the section on "Tangible assets".

When there is no significant impact on equity, cash flow or performance, non-consolidated subsidiaries, companies under joint control and associates are measured at cost, adjusted to take account of impairment losses. When the reasons for the impairment loss cease to exist, investments accounted for using the cost method are revalued and the result – which may not exceed the original impairment – is taken to the income statement under "Other income (expense) from equity investments".

Other equity investments recognised as non-current assets are measured at fair value and the result posted to "Other items of comprehensive income". Changes in fair value of equity are taken to the income statement upon the sale or impairment of the asset. For equity investments not listed on a regulated market where fair value cannot be reliably determined, these are measured at cost, adjusted to take account of impairment; impairment losses are not reversed.²

Non-current assets held for sale

Non-current assets (or groups of assets being dismantled) where the carrying amount will be recovered mainly through their sale, rather than through ongoing use, are classified as held for sale. Non-current assets held for sale and the liabilities directly associated therewith are recognised in the balance sheet separately from other assets and liabilities of the entity.

Non-current assets held for sale are not depreciated and are measured at the lower of carrying amount and fair value, less the costs of disposal.

Any difference between the carrying amount and fair value less the costs of disposal is recognised as an impairment loss in the income statement; any subsequent reversals are recognised provided they do not exceed the original impairment loss, including those recognised prior to the asset being classified as held for sale.

⁽²⁾ An impairment loss made during the year is not reversed, even if, based on the conditions existing in the following period, the impairment loss would have been lower or non-existent.

■ Financial liabilities, trade and other payables, other liabilities

Financial liabilities, trade and other payables and other liabilities are initially recognised at fair value, increased by any transaction costs. They are subsequently measured at amortised cost and discounted using the effective interest method.

Recognition and derecognition of financial liabilities

Financial liabilities are recognised in the balance sheet when the company becomes a party to the related agreements. Financial liabilities sold are derecognised when the right to receive the cash flows is transferred together with all the risks and rewards of ownership.

■ Provisions for risks and charges

Provisions for risks and charges relate to certain or probable costs and charges, the due date or amount of which is uncertain at the balance sheet date. Provisions are made when: (i) an entity has a present obligation (legal or constructive) as a result of a past event; (ii) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and (iii) a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision should be the best estimate of the amount that the entity would reasonably expect to pay in order to settle the obligation or to transfer it to third parties at the balance sheet date. When the effect of the time value of money is material and the obligation settlement date can be estimated reliably, the provision is discounted to present value; the increase in the provision due to the time value of money is recognised as "Interest expense".

When the liability relates to an item of property, plant and equipment (e.g. dismantling and restoration of sites), the amount of the provision is recognised as a balancing entry in the carrying amount of the asset to which it relates. This amount is then taken to the income statement along with the asset's depreciation.

Costs expected to be incurred for restructuring are recognised in the year in which the restructuring plan is formally defined and a valid expectation has been raised among the parties concerned that the restructuring will effectively take place.

The provisions are periodically adjusted to reflect changes in the cost estimates, realisation times and the discount rate. Changes in estimates are taken to the same item of the income statement which previously included the provision or, when the liability relates to property, plant and equipment (e.g. dismantling and restoration), with a balancing entry under the asset to which it refers.

The notes to the consolidated financial statements disclose the contingent liabilities consisting of: (i) possible (but not probable) obligations arising from past events and whose existence will be confirmed only by the occurrence or otherwise of one or more uncertain future events not wholly within the control of the entity; and (ii) present obligations which arise from past events, the amount of which cannot be estimated reliably or settlement of which will probably not require an outflow of resources.

■ Employee benefits

Post-employment benefit plans are classified as either defined contribution plans or defined benefit plans. Under defined contribution plans, an entity pays fixed contributions to the state or to a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions.

A defined benefit liability is determined based on actuarial assumptions, net of any plan assets, and is recognised in the year in which the benefit vests. The liability is assessed by independent actuaries.

The portion of actuarial gains and losses to be recognised for each defined benefit plan deriving from changes in the actuarial assumptions or the plan conditions are recognised in the income statement on a pro rata basis for the average remaining working life of the employees participating in the plan, if and to the extent that their net value unidentified at the previous balance sheet date exceeds the greater of 10% of the plan liability and 10% of the fair value of the plan assets (corridor approach).

Long-term benefit obligations are determined using actuarial assumptions. The effects of changes in the actuarial assumptions or in the nature of the benefit are recognised in full in the income statement.

■ Stock option plans and stock grant plans

Given the remuneration characteristics of such plans, personnel expense includes the cost of the stock grants and stock options allocated to executives. The cost is determined considering the fair value of the option assigned to

the employee when the obligation is assumed and is not subsequently adjusted, while the cost for the year is calculated on the basis of the vesting period³ on an accruals basis. The fair value of stock grants is the market price of the share at the date of the obligation, less the present value of the dividends expected during the vesting period. The fair value of stock options is the value of the option which considers the vesting conditions, the share's market price, expected volatility and risk-free rate. Changes in the fair value of stock grants and stock options are recognised in "Other reserves".

■ Treasury shares

Treasury shares are recognised at cost and deducted from equity. Gains or losses deriving from their subsequent sale are recognised in equity.

■ Revenue and costs

Revenue from sales and the provision of services is recognised when the significant risks and rewards of ownership are effectively transferred or the service effectively provided.

In relation to the activities carried out by Snam Rete Gas, the company recognises revenue when it provides its services and when the risk of loss is transferred to the buyer.

Revenue from services in progress is recognised for the consideration accrued, when it is possible to reliably determine the stage of completion of the contract and the amount and existence of the revenue and related costs are certain. Otherwise, it is recognised to the extent that the incurred costs are recoverable.

Revenue is recognised net of returns, discounts, allowances and bonuses and directly related taxes. The exchange of goods or services similar in nature or value does not lead to the recognition of revenue and costs as it does not represent a sales transaction.

Costs are recognised when they relate to goods and services sold or used during the year or on a systematic basis when their future use cannot be identified.

Costs relating to emissions quotas, determined based on average prices on the main European stock exchanges at year-end, are recognised solely for carbon dioxide emissions exceeding the quotas assigned. Income from emissions quotas is recognised on their disposal.

Operating lease payments are expensed over the lease term.

Costs incurred to acquire new knowledge or discoveries, to study alternative products or processes, new techniques or models, or for the design and construction of prototypes, or costs incurred for other scientific research or technological development which cannot be capitalised, are treated as a current expense and recognised as an expense when they are incurred.

Costs incurred for capital increases are deducted from equity, net of the related tax effect.

■ Grants received

Government grants related to assets are recognised when there is the reasonable certainty that the company will meet the conditions established for their receipt. They are recognised as a reduction in the purchase or production cost of the related asset. The grant is taken to profit or loss as a smaller depreciation charge on a straight-line basis considering the useful life of the asset to which it directly relates.

Grants received from private bodies are recognised on an accruals basis and directly matched against the expense incurred.

■ Exchange rate gains (losses)

Assets and liabilities are reported in the currency of the primary economic environment in which the parent operates. The consolidated figures are given in euros, the parent and group's functional currency.

Revenue and expense arising from foreign currency transactions are recognised at the spot rate ruling on the day the transaction takes place.

Foreign currency assets and liabilities are translated into euros using the closing spot rate and taking any gains or losses to the income statement. Non-monetary assets and liabilities in currencies other than the euro measured

⁽³⁾ The period of time between the date when the obligation is assumed and the date on which the shares are allotted, for stock grant plans, and the period of time between the date when the obligation is assumed and the date on which the option may be exercised, for stock option plans.

at cost are recognised using the initial recognition exchange rate. When measured at fair value, recoverable or realisable amount, they are translated using the spot rate ruling at the measurement date.

■ Dividends received

Dividends are recognised when approved by the relevant shareholders, unless the company is reasonably certain that the related shares will be sold before the ex dividend date.

■ Dividend distribution

Distribution of dividends to shareholders requires the recognition of a payable in the consolidated financial statements of the year in which the distribution is approved by the shareholders themselves or, in the case of an interim dividend, by the board of directors.

■ Income taxes

Current income taxes are calculated by estimating the taxable income. Since financial year 2004, and together with Eni S.p.A., the company has opted for the national tax consolidation scheme for IRES (corporation tax). This allows IRES to be calculated using a tax base equal to the sum of the positive and negative tax bases of each company included in the scheme.

The financial terms, responsibilities and mutual obligations between Eni S.p.A. and the other group companies included in the scheme are defined in the "Regulation for participation in the national consolidated tax scheme for Eni group companies" whereby: (i) subsidiaries with taxable income transfer to Eni the financial resources corresponding to the additional tax liability arising from their participation in the scheme; and (ii) those subsidiaries with tax losses receive financial resources equal to the resulting tax saving obtained by Eni S.p.A., if and to the extent that they have forecast future profits which would have allowed, had the consolidated tax scheme not existed, the recognition of deferred tax assets. Accordingly, the related tax, net of advances and withholdings, is recognised under "Trade and other payables"/"Trade and other receivables".

For consolidated companies which have not joined the national consolidated tax scheme, the estimated IRES liability is posted under "Current tax liabilities".

The regional production activities tax (IRAP) is recognised under "Current tax liabilities"/"Current tax assets", net of advances paid.

Deferred tax assets and liabilities are calculated on the temporary differences between the carrying amount of the assets and liabilities and their tax base. Deferred tax assets are recognised when their recovery is probable.

Deferred tax assets and liabilities are classified as non-current assets and liabilities and are netted at company level wherever possible. If positive, the balance is recognised as a "Deferred tax asset", and if not, as a "Deferred tax liability".

When the results of the transactions are taken directly to equity, the current taxes and the deferred tax assets and liabilities are also taken to equity.

■ Derivatives

Derivatives are assets and liabilities recognised at fair value. They are classified as hedging instruments when the relationship between the derivative and hedged item is formally documented and the hedge, checked periodically, is highly effective. For fair value hedges (e.g. hedging of changes in the fair value of a fixed-rate asset/liability), the derivatives are recognised at fair value with the related gains or losses being taken to profit or loss. The hedged items are similarly adjusted to reflect changes in fair value associated with the hedged risk.

For cash flow hedges (e.g. hedging of changes in cash flows of an asset/liability due to interest rate fluctuations), the changes in fair value of the derivatives are initially recognised in equity and subsequently taken to profit or loss in line with the gains or losses of the hedged transaction.

The company periodically checks that the requirements for hedge accounting under IAS 39 are met.

Changes in the fair value of derivatives which do not qualify as hedges are recorded in the income statement.

■ Segment reporting

Segment reporting is governed by IFRS 8, "Operating segments", which took effect on 1 January 2009. This requires the entity to report financial and descriptive information about its reportable segments in accordance with the methods used by the entity's management to make operating decisions. Therefore, the identification of operating

segments and the information reported are defined on the basis of the internal reporting model used by management to make decisions about resources to be allocated to the segment and assess its performance.

IFRS 8 defines an operating segment as a component of an entity that: (i) engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity); (ii) whose operating results are reviewed regularly by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance; (iii) for which discrete financial information is available.

Following the acquisition of Italgas and Stogit, the reportable business segments are: (i) natural gas transportation; (ii) LNG regasification; (iii) natural gas distribution; (iv) natural gas storage, and relate to the core business activities of Snam Rete Gas, GNL Italia, Italgas and Stogit.

■ Presentation of financial statements

In accordance with the latest version of IAS 1 "Presentation of Financial Statements", ratified by Commission Regulation (EC) No 1274/2008 of 17 December 2008 which came into effect on 1 January 2009, the financial statements of Snam Rete Gas at 31 December 2009 contain, in addition to the "Statement of financial position" reporting the financial performance for the period, the "Statement of comprehensive income" which includes both the financial performance for the period and changes in equity, relating to items which the international accounting standards specifically require to be recorded under components of equity ("Other components of comprehensive income").

Owing to the changes made, the "Statement of changes in equity" reports transactions with shareholders, the total amount of comprehensive income with an indication of the reserves containing other components of comprehensive income, and other changes in equity.

The balance sheet captions are classified as "current" and "non-current", while the income statement captions are classified by nature.

The statement of changes in equity reconciles the opening and closing balances of each equity caption.

The statement of cash flows is presented using the "indirect" method, adjusting the profit for the year by the non-monetary items.

This form of presentation is considered an adequate representation of the group's financial position, financial performance and cash flows.

■ Use of accounting estimates

The use of generally accepted accounting standards in preparing annual and interim financial statements means that management must make accounting estimates based on complex and/or subjective judgements, estimates based on past experience and assumptions considered reasonable and realistic based on information known at the time of the estimate.

The use of these accounting estimates influences the carrying value of assets and liabilities and disclosures about contingent assets and liabilities on the date of the annual financial statements, as well as the amount of revenues and expenses during the period in question. Actual results may differ from estimates due to the characteristic uncertainty of the assumptions and conditions on which estimates are based.

Set out below are the accounting estimates critical to the process of preparing the annual and interim financial statements since they involve great reliance on subjective judgments, assumptions and estimates on matters which by their very nature are uncertain. Changes to the conditions underlying the judgments, assumptions and estimates adopted may have a material effect on subsequent results.

Duration and residual value of assets under concession

The natural gas distribution business is carried out under concessions from local state-owned entities awarding the service. As for the duration of the concessions, Legislative Decree no. 164/00 (Letta Decree) has stipulated that all awards must be tendered for bids by the expiration of the so-called "transitory period" (for the Group no later than 31 December 2012) and that the new duration of concessions may not exceed 12 years. Upon the expiration of concessions, the outgoing operator, in view of the transfer of its own distribution networks, excluding assets

assignable free of charge, is paid a defined indemnity based on industrial estimation criteria.

In terms of the estimates made by the directors in determining depreciation criteria, the net carrying value of the assets upon the expiration of the concession should not be greater than the aforesaid industrial value.

Impairment losses

Impairment losses on plant, property and equipment and intangible assets are recognised when events or changing circumstances lead to the belief that the carrying value on the financial statements is not recoverable. An impairment loss is determined by comparing the carrying value with the respective recoverable value, represented by whichever is greater between the fair value, net of any disposal expenses, and the usage value adjusted for the expected cash flows deriving from use of the asset. The expected cash flows are quantified in light of the information available at the time of the estimate based on subjective judgments on the trends with future variables – such as prices, expenses, demand growth rates, production profiles – and are discounted using a rate considering the inherent risk of the activity in question.

Site dismantling and restoration

Snam Rete Gas may incur future liabilities for obligations to remove and dismantle plants or parts thereof. Although such obligations are currently remote, in some cases where legal⁴ or constructive⁵ obligations exist, provisions are made for these costs.

Estimating future dismantlement and restoration costs is complex and requires assessment and judgment by corporate management in valuing liabilities to be incurred many years later to fulfil dismantlement and restoration obligations, often not completely set out in laws, administrative regulations, or contractual clauses. In addition, these obligations are affected by the continual updating of dismantlement and restoration techniques and costs, as well as continually changing political and public attitudes toward environmental protection.

Also critical to accounting estimates of dismantlement and restoration expenses is the accounting method used for those expenses for which the present value is initially capitalised together with the cost of the asset with cross-entries to the provision for risks. The provision for risks is subsequently increased to reflect the passage of time, while the original amount of capitalised liability is amortised based on the asset's useful life.

Determination of the discounting rate to be used for the initial and subsequent valuation of the expense is a complex procedure involving subjective judgments by management.

Environmental liabilities

Operations carried out by Snam Rete Gas must comply with many community, national, regional and local environmental protection laws. When it is likely that an expense liability exists on account of such laws and the amount can be estimated reliably, provisions are made for the respective costs.

Although the company does not currently believe that material negative effects on the financial statements will arise from non-compliance with environmental laws, especially considering the work already undertaken, it cannot be ruled out with certainty, however, that Snam Rete Gas could incur further potentially considerable costs or liability, since it is currently impossible to foresee the effects of future developments, taking into account the following factors, among others: (i) the possibility that contamination may emerge; (ii) possible effects deriving from the application of new environmental protection laws and regulations; (iii) the effects of any technological innovations for environmental remediation; and (iv) the possibility of litigation and the difficulty in determining the possible consequences, including in terms of the liability of other parties and possible compensation.

Provisions

Besides providing for obligations to remove property, plant and equipment and restore sites, Snam Rete Gas makes provisions primarily for employee benefits and legal and tax disputes. Estimates of the accruals to be made for these purposes are the result of a complex process involving management's subjective opinions.

⁽⁴⁾ A legal obligation derives from a contract, law or other legal provision.

⁽⁵⁾ A constructive obligation arises when a company generates an expectation for third parties that it will meet its commitments even when not required to do so by law.

Employee benefits

Defined benefit plans are valued considering uncertain events and actuarial assumptions which include, among others, discount rates, expected returns on plan assets, future salary levels, retirement age and future trends with health expenses covered.

The main assumptions used to quantify post-employment benefits are determined as follows: (i) the discount and inflation rates representing the basic rates at which such obligations to employees could actually be performed are based on rates accruing on high-quality bonds (government bonds) and expected inflation; (ii) the level of future compensation is determined based on elements such as expected inflation, productivity, career advancement and seniority; (iii) the future cost of health benefits is determined based on such elements as present and past trends in health benefit costs, including assumptions on growing cost inflation, and changes to the health condition of beneficiaries; (iv) demographic assumptions reflect the best estimate of trends with variables, such as, for example, mortality, turnover and disability and other factors related to the beneficiaries; and (v) the returns on plan assets are determined based on the weighted average expected future yield by investment class (fixed income, equity, or cash).

Actuarial assumptions are adopted also for the determination of obligations for long-term benefits; for this purpose, the effects of changes to actuarial assumptions or to benefit characteristics are posted in full on the income statement.

■ Recently issued accounting standards

Accounting standards, amendments and interpretations issued by the IASB/IFRIC applicable as of 1 January 2009

In regulation no. 2009/1171/EC of 30 November 2009, the European Commission endorsed amendments to IFRIC 9 “Revaluation of embedded derivatives” and to IAS 39 “Financial instruments: recognition and measurement” which clarify the accounting treatment of embedded derivatives by entities making use of reclassification criteria issued by the board in 2008. Companies are applying the amendments to IFRIC 9 and IAS 39 as of 1 January 2009. These provisions are currently not being applied by the Group.

In regulation no. 2009/1165/EC, issued on 27 November 2009, the European Commission endorsed amendments to IFRS 7 “Financial instruments – additional information” and IFRS 4 “Insurance contracts”. The interpretation adds to the disclosures to be provided in financial statements with respect to: (i) the fair value measurement of financial instruments and (ii) liquidity risk. The amendments made to the provisions of IFRS 7 and IFRS 4 are effective as of 1 January 2009. The amendments to IFRS 4 do not apply to the Group.

In regulation no. 2009/824/EC of 9 September 2009, the European Commission endorsed amendments to IAS 39 “Financial instruments – Reclassification of financial assets – Effective date and transitory provisions,” which set out the rules for reclassification of financial assets. These provisions are currently not being applied to the Group.

In regulation no. 70/2009/EC dated 23 January 2009, the European Commission endorsed the document “Improvements to International Financial Reporting Standards” set out by the IASB as part of the annual process “Improvements to IFRS” relative to amendments, essentially of a technical and reporting nature, to existing international accounting standards. The provisions of the regulation are effective as of 1 January 2009 (except for the amendments to IFRS 5 and IFRS 1, which will be applicable as of 1 January 2010).

In regulation no. 69/2009 dated 23 January 2009, the European Commission endorsed the amendment to IFRS 1 “First time adoption of IFRS” and to IAS 27 “Consolidated and separate financial statements – Cost of an investment in a subsidiary, jointly controlled entity or associate”. The amendment provides that for first time adoption of IFRS in separate financial statements, an entity may adopt the deemed cost option to determine the cost of an investment in a subsidiary, associate or joint venture. This interpretation is applicable as of 1 January 2009.

In regulation no. 53/2009/EC of 21 January 2009, the European Commission endorsed the amendment to IAS 32 “Financial instruments – disclosure and presentation” and IAS 1 “Presentation of the financial statement”. The amendments require that some instruments issued by companies and currently classified as liabilities even though they have characteristics similar to ordinary shares be classified as capital. This interpretation is applicable as of 1 January 2009. These provisions do not currently apply to the Group.

Regulation no. 1274/2008 issued by the European Commission on 17 December 2008, endorsed the updated version of IAS 1 “Presentation of financial statements,” which introduces, among other things, the obligation to present a statement of comprehensive profit including the economic result made up of income and expenses that as expressly stipulated in the IFRS provisions are recognised directly under shareholders’ equity. The provisions of the new version of IAS 1 are effective as of 1 January 2009. The effects of such changes are shown in the financial statement forms.

Accounting standards, amendments and interpretations issued by IASB/IFRIC applicable as of 1 January 2010

In regulation no. 1164/2009/EC of 27 November 2009, the European Commission endorsed interpretation IFRIC 18 “Transfer of assets from customers”. The interpretation sets out the methods for recognition and measurement of plant, property and equipment (financial assets) transferred (received for construction or acquisition of instrumental assets), to be utilised in exchange for the provision of services, generally in public utility sectors. The new standards are applicable as of 1 January 2010. The adoption of this interpretation has not had material accounting effects for the Group.

In regulation no. 1142/2009 of 26 November 2009, the European Commission endorsed interpretation IFRIC 17 “Distribution of non-cash assets to owners.” The interpretation sets out the methods for recognition and measurement of dividends made up of non-cash assets and is applicable as of 1 January 2010. This interpretation currently does not apply to the Group.

In regulation no. 2009/839/EC of 15 September 2009, the European Commission endorsed amendments to IAS 39 “Financial instruments – Eligible hedged elements,” setting out eligible hedged elements. The amendments to IAS 39 are applicable as of the start date of the first financial year beginning after 30 June 2009 (for Snam Rete Gas, 1 January 2010). This provision is currently not being applied to the Group.

In regulation no. 636/2009 dated 22 July 2009, the European Commission endorsed interpretation IFRIC 15 "Agreements for the construction of real estate". The interpretation applies to the accounting of revenue from the sale of real estate and specifically for agreements made before the construction work is completed, whether the revenue must be recognised pursuant to IAS 11 "Construction contracts" or IAS 18 "Revenue". This interpretation is applicable as of 1 January 2010. This interpretation currently does not apply to the Group.

In regulation no. 460/2009, the European Commission endorsed IFRIC 16 "Hedges of a net investment in a foreign operation", which clarifies the criteria for recognition and measurement of hedges of net investments in foreign operations. Specifically, the interpretation stipulates, among other things, that hedge accounting may be applied only to the foreign exchange difference between the parent's functional currency and that of its foreign operation and that the hedge may be held by any company in the group, except the hedged foreign operation. The provisions of IFRIC 16 are effective as of 1 January 2010. These provisions do not apply currently to the Group.

Regulations nos. 494/2009/EC and 495/2009/EC, dated 3 June 2009, endorsed amendments to IFRS 3 "Business combinations" and IAS 27 "Consolidated and separate financial statements". Among other things, the new provisions of IFRS 3 allow for charging accessory costs to a business combination to the income statement, recognising changes to contingent consideration on the income statement, and the option of recognising the entire amount of goodwill deriving from the transaction, therefore also considering the share attributable to minority interests (i.e. full goodwill method). The new provisions also modify the current criterion of recognition of acquisitions in later phases, allowing for posting on the income statement the difference between fair value on the date of acquisition of control of previously held net assets and the respective carrying amount. The new version of IAS 27 stipulates, among other things, that the effects deriving from the acquisition (transfer) of equity investments held after control is acquired (without loss of control) are to be recognised under shareholders' equity. In addition, the new provisions stipulate that for transfer of part of the equity investments held with resulting loss of control, the investment kept is to be adjusted to the respective fair value with the revaluation to be included under the capital gain (capital loss) on the transfer transaction. The provisions of the new versions of IFRS 3 and IAS 27 are applicable as of financial years starting on or after 1 July 2009 (for Snam Rete Gas: 2010 financial statements).

In regulation no. 254/2009 of 25 March 2009, the European Commission endorsed interpretation IFRIC 12 "Service concession arrangements", which sets out the recognition and measurement criteria to be adopted for arrangements between the public and private sectors for the development, financing, management and maintenance of infrastructure under concessions. Specifically, in cases in which the grantor controls the infrastructure, governing/controlling the characteristics of the services provided, the applicable prices and maintaining a residual interest in the activity, the concession holder's accounting must treat its own interest in the infrastructure either as a right of use of that infrastructure or as a financial asset or as a combination of both depending on the characteristics of the arrangements governing the concession contract. Following the issuance of that interpretation, concession holders who prepare financial statements according to international accounting standards and which fall under the case described above, may not treat assets dedicated to the provision of the service as plant, property and equipment on the balance sheet, regardless of whether they have ownership to them. The provisions of IFRIC 12 are effective as of 1 January 2010.

The application of this interpretation will have the following accounting effects for the Group: (i) on the balance sheet, due to the recognition of the right of use of the infrastructures under concession, reclassification of the net carrying amount of the assets posted on the financial statement as at 31 December 2009, under "Property, plant and equipment," from tangible to intangible assets; (ii) no material effect on the income statement, since the current regulatory and tariff framework does not allow for reliable identification of the margin paid to the operator for infrastructure construction and enhancement and therefore for itemised representation of the margin for management activity.

Accounting standards, amendments and interpretations issued by the IASB/IFRIC applicable as of 1 January 2011

Regulation no. 1293/2009 issued by the European Commission on 23 December 2009 endorsed the amendment of IAS 32 "Classification of rights issues," which clarifies classification on the financial statement of the issuer of instruments granting shareholders the right to acquire issuer equity instruments at a price denominated in a currency other than the issuer's functional currency. These instruments, if offered proportionately to all shareholders for a fixed cash amount, are classified as equity instruments, even if the strike price is denominated in a currency other than the issuer's functional currency.

The amendment of IAS 32 is applicable as of 1 January 2011. These provisions are currently not applied by the Group.

Accounting standards and interpretations issued by the IASB/IFRIC and not endorsed by the European Commission

On 4 November 2009, the IASB issued the new version of IAS 24 "Related Party Disclosures", which: (i) adds to the definition of related parties adding new instances; (ii) for transactions between government-related entities, allows for limiting quantitative information to relevant transactions. The provisions of the new version of IAS 24 are effective as of financial years starting on or after 1 January 2011.

On 12 November 2009, the IASB issued IFRS 9 "Financial Instruments," which amends the criteria for recognition and measurement of financial assets and their respective classification on financial statements. Specifically, the new provisions stipulate, among other things, a model of classification and measurement of financial assets based solely on the following categories: (i) assets valued at amortised cost; (ii) assets valued at fair value. The new provisions also foresee that investments other than in subsidiaries, jointly controlled entities or associates are to be valued at fair value posting the effects on the income statement. If such investments are not held for trading purposes, changes in fair value are allowed to be recognised on the statement of comprehensive income, maintaining on the income statement only the effects associated with dividend distributions. Upon transfer of the investment, posting on the income statement of the amounts recognised on the statement of comprehensive income is not provided. The provisions of IFRS 9 are effective as of financial years starting on or after 1 January 2013.

On 26 November 2009, the IFRIC issued interpretation IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments", which sets out the accounting treatment to be adopted for the extinguishment of a financial liability with the issuance of equity instruments (i.e. debt for equity swap).

Equity instruments issued to extinguish liabilities in whole or in part are valued at their fair value or, if not reliably determinable, at the fair value of the extinguished liability. The difference between the carrying amount of the extinguished financial liability and the fair value of the equity instruments issued is to be recognised on the income statement. The provisions of IFRIC 19 are effective as of financial years starting on or after 1 July 2010 (for Snam Rete Gas, 2011 financial statements).

On 16 April 2009, the IASB issued the document "Improvements to IFRSs" containing essentially technical and editorial changes to the international accounting standards and existing interpretations. The provisions of the document are effective as of 2010.

Currently, Snam Rete Gas is analysing the above standards and interpretations and evaluating whether their adoption will have a material effect on the financial statements.