economic performance

The economic scenario and the results achieved during the year, the share capital increase and the acquisition, the market and future plans.

Disclosure on management approach

The Planning, Administration, Finance and Control Manager responds to key questions

Has the economic crisis influenced the operations of the company?

The key event of 2009 was the acquisition of Italgas and Stogit, which made Snam Rete Gas a leading operator at European level. The integration with those two companies, beginning in the second half of the year, has enabled us to reach an operating profit that has grown by 25% and a net profit that has increased by 38% over 2008. In a general context of contracting energy demand, our limited exposure to the economic situation as a result of the structure of regulation has allowed us to mitigate the economic impact of the crisis, with a small reduction, of around 2%, in the operating margin of the transmission activity.

What were the reasons for acquiring Italgas and Stogit?

With this operation we have created a single group that operates in the regulated gas activities in Italy. We are the biggest group in continental Europe in terms of capital invested for regulatory purposes (RAB) and with a limited business risk profile. We will be able to increase the creation of value through the development of infrastructures, the sharing of know-how, the improvement of efficiency and the implementation of industrial economies of scope and scale. And we are also taking account of sharing the cultural values deriving from the common membership of Eni.

Will the financial structure be modified?

Our objective is to maintain the current asset structure and financial flexibility in the medium to long term.

How has the market reacted?

The market has appreciated the industrial and strategic reasons for the operation, which is geared towards sustaining the company's growth. All this represents a tangible and significant opportunity for the creation of value for our shareholders.

How did the increase in capital come about?

The increase in share capital, which was implemented via the issue of shares offered as an option to Snam Rete Gas shareholders based on the number of shares owned, saw the exercising of 1,756,673,448 stock options in the option offer period, which began on 27 April 2009 and concluded on 15 May 2009. Overall 1,610,283,994 new-issue ordinary Snam Rete Gas shares were subscribed, or 99.75% of the 1,614,292,394 shares offered. The non-exercised option rights, numbering 4,372,800 rights, which were valid for subscribing 4,008,400 new ordinary shares, were offered by Snam Rete Gas on the stock exchange from 21 to 27 May 2009. All the rights have been exercised. Overall therefore 1,614,292,394 new-issue ordinary shares were subscribed, or 100% of the shares offered.

What guidelines is Snam Rete Gas assuming with the market after the merging of Italgas and Stogit?

The merging with Stogit and Italgas enables Snam Rete Gas to confirm a solid and significant investment plan, of around € 64 billion (net of expected contributions) in consolidated terms in the 2010-2013 four-year period, geared towards developing the gas system in Italy and sustaining and increasing the company's opportunities for growth in the medium and long term.

More in depth, what are the plans for transmission and regasification areas?

In these sectors we want to meet the requirements associated with development and gas demand in the medium to long term and increase the flexibility and safety of the transmission system in Italy, improving at the same time the quality of the transmission service without leaving out our contribute to the creation of a European gas hub.

It is expected that the planned measures will enable the company to increase, in the period under consideration, the number of kilometres in the national transmission network (31,531 kilometres in 2009) by around 4% and, in 2013, to increase the installed power in the compressor stations by around 21% over 2009 levels (857 MW in 2009).

And what's about the distribution area?

We want to optimise the portfolio of concessions in order to maximise its profitability and to work on improving the quality of the gas distribution service.

The planned measures will enable the company to continue sustaining the development of the business with an estimated light growth in the number of users in 2013 of around 8% compared to 2009 (5.8 million users in 2009).

There is still the storage area…

For the storage area we are going to work on improving the overall safety and flexibility of the storage system, through increasing the modulation service capacity and managing the peak capacity, and on optimising the balancing and favouring the liquidity of the gas system in Italy.

It is expected that the projects specified in the plan will bring an increase in the modulation capacity of around 35% in the period under consideration (8.9 billion standard cubic metres in 2009) and an increase, in the four-year period, of around 13% of the peak capacity (270 million standard cubic metres in 2009).

Financial markets

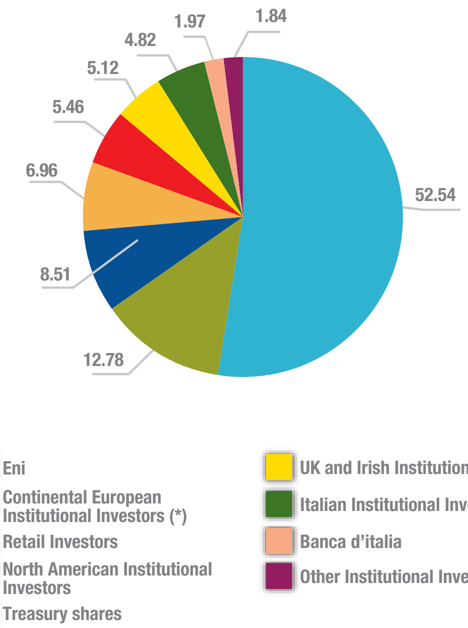
In 2009 there was a widespread recovery of the share values of all the main world stock exchanges, compared to the minimum levels registered at the beginning of the year,. The performance seen at the end of the year on the main European stock exchanges were as follows: Dow Jones Stoxx Index 50 +24.1%, FTSE 100 in London +22.1%, DAX in Frankfurt +23.9% and CAC 40 in Paris +22.3%. The Italian stock market showed a recovery in line with the other European stock exchanges: the FTSEMIB index, which includes the 40 biggest companies in terms of share capitalisation listed in the Italian stock market, saw an increase of 19.5% and the FTSE Italia All-Share index, which includes all the listed companies, recorded an increase of 19.2%.

The financial markets were supported by a climate of greater confidence, based on the progressive intensification of positive signs coming from the evolution of the economic trend, although this improvement was not uniform and it affected various sectors of the economy at different speeds with uncertainties regarding its actual extent.

The improvement of the economic and financial situation also benefited the expansive monetary policies of the Central Banks, which have gradually reduced interest base rates to exceptionally low levels. The improvement also benefited the support and stimulation initiatives implemented by various governments to kick-start consumption and the principal manufacturing sectors.

In this context, the Snam Rete Gas share closed 2009 at an official price of € 3.46, a growth of 6.1% over its previous year value, rectified to take account of the increase in capital. In 2009 on MIBTEL (the telematic stock market of the Italian stock exchange) approximately 2.6 billion Snam Rete Gas shares were traded, with growth in daily trades due to the greater number of shares in circulation (following the increase in share capital) which now stands at approximately 10.1 million shares (compared with 7.3 million shares in 2008).

SHAREHOLDING STRUCTURE (%)



(*) 2.9% held by PICTET FUNDS (Europe) SA

Review of the year

The results of the 2009 financial year incorporate the effects associated with the acquisition, beginning on 30 June 2009, the date the operation was concluded. Therefore the income statement includes the effects of the consolidation of the acquired companies in the second half of the year.

The EBIT (Earnings Before Interests and Taxes) of € 1,274 million shows an increase of 24.7% over 2008 owing to the contribution of the natural gas distribution (€ 203 million) and storage (€ 92 million) sectors following the consolidation of Italgas and Stogit. These effects were partly compensated for by the lower operational performance of the transmission activity (€ -43 million), which was slightly reduced (-4.2%), despite the significant fall in gas demand (-8.0%) and the consequent reduction of the volumes of natural gas transmitted (-10.2%). The regasification activity showed an operating profit of € 5 million, unchanged from 2008.

The net profit amounts to € 732 million, an increase of € 202 million, or 38.1%, over 2008. The increase is due to the higher operating profit (€ +252 million), the recording of net income on holdings (€ +22 million), mainly relating to the company's shares of the results for the period of associated companies evaluated with the net equity method, and the reduction in net financial charges (€ +9 million), which can basically be attributed to the marked reduction in market interest rates. These factors were partly absorbed by the increase in the tax on income (€ -81 million), which was due to the higher profit before tax.

Investments

Technical investments (€ 1,254 million) principally addressed the development and maintenance of the natural gas transmission and regasification infrastructures (€ 933 million). Investments in the natural gas distribution and storage sectors, made as from the acquisition completion date, were respectively € 172 million and € 149 million.

Net financial debt

Net financial debt amounts to € 9,949 million, a € 3,713 million increase compared to 31 December 2008. The increase is essentially due to the effect of acquiring Italgas and Stogit, which also involved the consolidation of their respective net financial debts (€ 2,381 million as at 31 December 2009).
The financial liabilities (€ 9,986 million) are entirely to Eni and are entirely in euro. Long-term financial liabilities (€ 7,486 million) represent 75% of the financial debt (83% as at 31 December 2008). The average term of long-term financing is around 4 years (from a little more than 4 years as at 31 December 2008).
In terms of sources of financial resources, the incidence of the net financial debt on the net invested capital is 63.6%, unchanged from 31 December 2008.

Dividend

The 2009 results, together with the solid capital structure, will enable the Company to offer the next Shareholders' Meeting the distribution of a dividend of € 0.20 per share, of which € 0.06 per share was distributed in October 2009 as advance payment on the dividend, confirming Snam Rete Gas' attractive and sustainable dividend policy. The dividend in full of € 0.14 will be paid starting on 27 May 2010 (coupon detachment at 24 May 2010).

MAIN ECONOMIC INDICATORS (€ million)

	2009
Core business revenues	2,438
Operating costs	581
EBIT	1,274
Net profit	732
Investments	1,254

Breakdown of added value

Snam Rete Gas contributes to sustainable development through the economic growth of the context in which it operates, generating wealth and distributing it to its stakeholders. The added value, which is the wealth the company generates in the course of its activities, was calculated, fitting for Snam Rete Gas Group peculiarities the principles of the Corporate Financial Statements study Group, as the difference between the production value and the intermediate costs associated with it (consumption of raw materials, consumables, costs for services, use of third-party assets, provisions for risk, other provisions, other costs). The Total Added Value net of amortisation is the configuration chosen for these Financial Statements.

The determination of the added value is shown below.

The net global added value is then broken down amongst the different beneficiaries in the following way: (i) employees (direct remuneration consisting of salaries, wages and severance pay, indirect remuneration consisting of social expenditure, as well as costs for personnel-related services (canteen services, travel expenses reimbursement etc.); (ii) Public Administration (income tax); (iii) financial backers (interest for the availability of credit capital); (iv) shareholders (distributed dividends); company (amount of reinvested profit).

In 2009 Snam Rete Gas distributed € 1,536 million (63% of revenues) to its stakeholders. The added value was distributed: 44% to shareholders (€675 million), 22.6% to Public Administration (€347 million), 18.9% to employees (€291 million), 10.8% to financial backers (€166 million), and the remaining 3.7% (€ 132 million) was reinvested in business activities.

GLOBAL ADDED VALUE	
Core business revenues	2,438
Other revenues and income	30
Purchases, provision of services and other costs (*)	384
Net financial expenses	75
Net incomes on equity investments	22
Increases due to internal works – Cost of work and financial expenses	118
Gross global added value	**2,149**
for deduction	
Amortisation and depreciations	613
Net global added value	**1,536**

(*) Net of investments costs

BREAKDOWN OF ADDED VALUE 2009 (%)