NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

BACKGROUND INFORMATION

Snam is an integrated group that conducts activities regulated by the gas segment and is a significant European operator in terms of regulatory asset base (RAB) in its sector.
The parent company, Snam 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). At 31 December 2013, Cassa Depositi e Prestiti (CDP), via CDP Reti S.r.l.[1], held 30% of the share capital of Snam S.p.A.

1) Basis of presentation

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards (hereinafter "IFRS" or "international accounting standards") issued by the International Accounting Standards Board (IASB) and adopted by the European Commission pursuant to Article 6 of Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of 19 July 2002 and to Article 9 of Legislative Decree 38/2005.
The consolidated financial statements are prepared in consideration of future continuing business using the historical cost method, taking into account value adjustments where appropriate, except the items which, according to IFRS, must be measured at fair value, as described in the measurement criteria.
The consolidated financial statements include the financial statements of Snam S.p.A. and of companies over which the Company has the right to exercise direct or indirect control from the date of acquisition until the date when such control is relinquished, determine financial and operational decisions, and obtain the benefits thereof.
The exclusion from the scope of consolidation of some subsidiaries, which are not significant either individually or collectively, had no material[2] effect for the purposes of correctly representing the equity, financial and economic position of the Group. These investments are valued according to the criteria indicated in the section "Equity investments".
Consolidated companies, non-consolidated subsidiaries, companies under joint control, associates and other significant equity investments are indicated separately in the appendix "Shareholdings, associates and equity investments of Snam S.p.A. at 31 December 2013", which is an integral part of these notes. The same appendix also reports the change in the scope of consolidation which took place during the year.
The financial statements at 31 December 2013, approved by the Board of Directors of Snam at its meeting of 27 February 2014, have undergone an audit by the independent auditors Reconta Ernst & Young S.p.A. As the main auditor, Reconta Ernst & Young is entirely responsible for auditing the Group's consolidated financial statements. In the limited cases in which other auditors are involved, it assumes responsibility for the work that they carry out.
Given their size, amounts in the financial statements and respective notes are expressed in millions of euros.

2) Consolidation principles

Equity investments in consolidated companies

The assets, liabilities, income and expenses of fully consolidated companies are incorporated fully in the consolidated financial statements; the book value of the equity investments is eliminated against the corresponding portion of shareholders' equity.
Business combinations are recognised using the acquisition method. The consideration transferred in a business combination is determined at the date on which control is assumed, and equals the fair value of the assets transferred, the liabilities incurred or assumed, and any equity instruments issued by the acquirer. Costs directly attributable to the transaction are posted to the income statement when they are incurred.

1 CDP Reti S.r.l. is wholly owned by CDP S.p.A.

2 According to the framework of the international accounting standards: *"information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements"*.

The shareholders' equity of these investee companies is determined by attributing to each asset and liability its current value at the date of acquisition of control. If positive, any difference from the acquisition cost is posted to the asset item "Goodwill"; if negative, it is posted to the income statement.
The shares of equity and profit attributable to minority interests are recorded in the appropriate items of shareholders' equity and the income statement. Where total control is not acquired, the share of equity attributable to minority interests is determined based on the share of the current values attributed to assets and liabilities at the date of acquisition of control, net of any goodwill ("partial goodwill method"). Alternatively, the full amount the goodwill generated by the acquisition is recognised, therefore also taking into account the portion attributable to minority interests ("full goodwill method"). In this case, minority interests are expressed at their total fair value including the attributable share of goodwill[3]. The choice of how to determine goodwill (partial goodwill method or full goodwill method) is made based on each individual business combination transaction.
If control is assumed in successive stages, the acquisition cost is determined by adding together the fair value of the equity investment previously held in the acquired company and the amount paid for the remaining portion. The difference between the fair value of the equity investment previously held and the relative book value is posted to the income statement. Moreover, when control is assumed, any components previously booked as other components of comprehensive income are recognised in the income statement.
Where equity investments are acquired subsequent to the acquisition of control (acquisition of minority interests), any positive difference between the acquisition cost and the corresponding portion of equity acquired is posted to shareholders' equity of the Group. Similarly, the effects of selling minority interests without loss of control are posted to shareholders' equity. Otherwise, the selling of interests entailing loss of control requires the posting to the income statement of: (i) any capital gains or losses calculated as the difference between the consideration received and the corresponding portion of consolidated shareholders' equity transferred; (ii) the effect of the revaluation of any residual equity investment maintained, to align it with the relative fair value; and (iii) any amounts posted to other components of comprehensive income relating to the former subsidiary. The value of the equity investment maintained, aligned with the relative fair value at the date of loss of control, represents the new book value of the equity investment, and therefore the reference value for the successive valuation of the equity investment according to the applicable valuation criteria[4].
Business combinations whereby the investing companies are definitively controlled by the same company or companies before and after the transaction, and where such control is not temporary, are classed as transactions under common control.
Such transactions are not governed by IFRS 3 or by other IFRS. In the absence of a reference accounting standard, the selection of an accounting standard for such transactions, for which a significant influence on future cash flows cannot be established, is guided by the principle of prudence, which dictates that the principle of continuity be applied to the values of the net assets acquired. The assets are measured at the book values from the financial statements of the companies being acquired predating the transaction or, where available, at the values from the consolidated financial statements of the common ultimate parent. Where the transfer values are higher than such historical values, the surplus is eliminated by reducing the shareholders' equity of the acquiring company.
All financial statements of consolidated companies close at 31 December.

Intragroup transactions

Unrealised gains from transactions between consolidated companies are eliminated, as are receivables, payables, income, expenses, guarantees, commitments and risks between consolidated companies. The portion pertaining to the Group of unrealised gains with companies valued using the equity method are eliminated. In both cases, intragroup losses are not eliminated because they effectively represent impairment of the asset transferred.

3 The adoption of the partial or full goodwill methods is also used in the case of business combinations that entail recognition in the income statement of negative goodwill ("gain on bargain purchase").

4 The same applies in the case of disposals entailing the loss of combined or associated control.

3) Measurement criteria

The major measurement criteria adopted for the preparation of the consolidated financial statements are described below.

CURRENT ASSETS

Recording and elimination of financial assets

Financial assets are recorded on the balance sheet when the Company becomes a party to agreements related to such assets. Financial assets sold are eliminated from balance sheet assets when the right to receive cash flows is transferred together with all risks and benefits associated with ownership.

Cash and cash equivalents

Cash and cash equivalents include the values of cash, on demand deposits, as well as other short-term financial investments with a term of under three months, which are readily convertible into cash and are subject to a negligible risk of variance of their value.
If denominated in euros, these entries are recorded at nominal value, corresponding to fair value, and if in other currencies, they are recorded at the exchange rate in effect at the end of the period.

Trade and other receivables

Trade and other receivables are valued when the comprehensive fair value of the costs of the transaction (e.g. commission, consultancy fees, etc.) are first recognised. The initial book value is then adjusted to account for repayments of principal, any impairment losses and the amortisation of the difference between the repayment amount and the initial recorded amount. Amortisation is carried out using the effective internal interest rate which represents the rate which would make the present value of projected cash flows and the amount recorded initially equal at the time of the initial recording ("amortised cost method"). Where there is actual evidence of impairment, the impairment loss is calculated by comparing the book value with the current value of anticipated cash flows discounted at the effective interest rate defined at the time of the initial recognition, or at the time of its updating to reflect the contractually defined repricing. There is objective evidence of impairment when, *inter alia*, there are significant breaches of contract, major financial difficulties or the risk of the counterparty's insolvency. Receivables are shown net of provisions for impairment losses; this provision, which is previously created, may be used if there is an assessed reduction in the asset's value or due to a surplus. If the reasons for a previous write-down cease to be valid, the value of the asset is restored up to the value of applying the amortised cost if the write-down had not been made. The economic effects of measuring at amortised cost are recorded in the "Financial income (expense)" item.
Trade receivables can be transferred through factoring operations. The transfers can be with or without recourse. Transfers without recourse entail neither risk of recourse nor liquidity risk and therefore involve the write-off of receivables on transfer to the factoring company. Transfers with recourse do not transfer the credit risk or liquidity risk; therefore the receivables remain entered in the balance sheet until payment of the due amount. In such case, any advanced payments made by the factoring company are entered under payables to other lenders.

Inventories

Inventories, including compulsory inventories, are recorded at the lower of purchase or production cost and the net realisation value, which is the amount that the Company expects to receive from their sale in the normal course of business. The cost of natural gas inventories is determined using the weighted average cost method. The sale and purchase of strategic gas do not involve the effective transfer of risks and benefits associated with ownership, and thus do not result in a change in inventories.

Other current assets

Other current assets are measured at the time of first recognition at fair value and later on at amortised cost (see "Trade and other receivables" above).

NON-CURRENT ASSETS

Property, plant and equipment

Property, plant and equipment is recognised at cost and recorded at the purchase or production cost including directly allocable ancillary costs needed to make the assets available for use. When a significant period of time is needed to make the asset ready for use, the purchase or production cost includes the financial expense which theoretically would have been saved during the period needed to make the asset ready for use, if the investment had not been made.

If there are current obligations to dismantle and remove the assets and restore the sites, the book value includes the estimated (discounted) costs to be incurred at the time that the structures are abandoned, recognised as a counter-entry to a specific provision. The accounting treatment for revisions in these cost estimates, the passage of time and the discount rate are indicated in the paragraph "Provisions for risks and charges".

Property, plant and equipment may not be revalued, even through the application of specific laws.

The costs of incremental improvements, upgrades and transformations to/of property, plant and equipment are posted to assets when it is likely that they will increase the future economic benefits expected from the asset.

Starting at the time that utilisation of the asset begins, or should have begun, property, plant and equipment is regularly depreciated on a straight-line basis over its useful life defined as an estimate of the period for which the asset will be used by the Company. When the tangible asset consists of several major components, each with a different useful life, each component is depreciated separately. The amount to be depreciated is the book value reduced by the projected net sales value at the end of the asset's useful life if this is significant and can be reasonably determined. Land is not depreciated, even if purchased in conjunction with a building; neither is property, plant and equipment held for sale (see the section below, "Assets held for sale and discontinued operations".

Any changes to the depreciation plan, arising from revision of the useful life of an asset, its residual value or ways of obtaining economic benefit from it, are recognised prospectively.

Depreciation rates are reviewed each year and are altered if the current estimated useful life of an asset differs from the previous estimate. The effects of these changes are recognised prospectively in the income statement.

Freely transferable assets are depreciated during the period of the concession or of the useful life of the asset if lower.

The costs of replacing identifiable components of complex assets are allocated to balance sheet assets and depreciated over their useful life. The remaining book value of the component being replaced is allocated to the income statement. Ordinary maintenance and repair expenses are posted to the income statement in the period when they incurred.

When events occur leading to the assumption of impairment of property, plant and equipment, its recoverability is tested by comparing the book value with the related recoverable value, which is the fair value adjusted for disposal costs (see "Measurement at fair value" below) or the value in use, whichever is greater.

Value in use is determined by discounting projected cash flows resulting from the use of the asset, and if they are significant and can be reasonably determined, from its sale at the end of its useful life, net of any disposal costs. Cash flows are determined based on reasonable, documentable assumptions representing the best estimate of future economic conditions which will occur during the remaining useful life of the asset, with a greater emphasis on outside information. Discounting is done at a rate reflecting current market conditions for the time value of money and specific risks of the asset not reflected in the estimated cash flows. The valuation is done for single assets, or for the smallest identifiable aggregate of assets which generates independent incoming cash flow resulting from ongoing use ("cash-generating unit"). If the reasons for write-downs no

longer apply, the assets are revalued and the adjustment is posted to the income statement as a revaluation (recovery of value). The revaluation is applied to the lower of the recoverable value and book value before any write-downs previously carried out, and reduced by depreciation provisions which would have been allocated if the write-down had not taken place.
Compulsory inventories are included under non-current assets in the item "Compulsory inventories".
Assets under finance leases, or under agreements which may not take the specific form of a finance lease, but call for the essential transfer of the benefits and risks of ownership, are recorded at the lower of fair value less fees payable by the lessee or the present value of minimum lease payments, including any sum payable to exercise a call option, under property, plant and equipment as a counter-entry to the financial debt to the lessor. The assets are depreciated using the criteria and rates used for property, plant and equipment. When there is no reasonable certainty that the right of redemption can be exercised, the depreciation is made in the shortest period between the term of the lease and the useful life of the asset.
Leases under which the lessee maintains nearly all of the risks and benefits associated with ownership of the assets are classified at operating leases..

Intangible assets
Intangible assets are those assets without identifiable physical form which are controlled by the Company and capable of producing future economic benefits, as well as goodwill when purchased for consideration. The ability to identify these assets rests in the ability to distinguish intangible assets purchased from goodwill. Normally this requirement is satisfied when: (i) the intangible assets are related to a legal or contractual right, or (ii) the asset is separable, i.e. it can be sold, transferred, leased or exchanged independently, or as an integral part of other assets. The Company's control consists of the power to utilise future economic benefits deriving from the asset and the ability to limit others' access to the asset.
Intangible assets are recorded at cost, which is determined using the criteria indicated for property, plant and equipment. They may not be revalued, even through the application of specific laws.
Intangible assets with a finite useful life are regularly amortised over their useful life, meaning the estimate of the period during which the assets will be used by the Company. The recoverability of their book value is tested by using the criteria indicated in the section "Property, plant and equipment".
Goodwill and other intangible assets with an indefinite useful life are not amortised. The recoverability of their book value is tested at least annually, and whenever events occur leading to an assumption of impairment. Goodwill is tested at the level of the smallest aggregate, on the basis of which the Company's management directly or indirectly assesses the return on investment including goodwill. When the book value of the cash-generating unit, including the goodwill attributed to it, exceeds the recoverable value, the difference is subject to impairment, which is attributed by priority to the goodwill up to its amount; any surplus in the impairment with respect to the goodwill is attributed pro rata to the book value of the assets which constitute the cash-generating unit. Goodwill write-downs cannot be reversed.
Technical development costs are allocated to the balance sheet assets when: (i) the cost attributable to the intangible asset can be reliably determined; (ii) there is the intent, availability of financial resources and technical capability to make the asset available for use or sale; and (iii) it can be shown that the asset is capable of producing future economic benefits.
Intangible assets include service concession agreements between the public and private sectors for the development, financing, management and maintenance of infrastructures under concession in which: (i) the grantor controls or regulates the services provided by the operator through the infrastructure and the related price to be applied; (ii) the grantor controls any significant remaining interest in the infrastructure at the end of the concession by owning or holding benefits, or in some other way.

Based on the terms of the agreements, the operator holds the right to use the infrastructure, which is controlled by the grantor, for the purposes of providing the public service[5].
The value of storage concessions, which is determined as indicated by the Decree of the Ministry of Production Activities of 3 November 2005, is allocated to the item "Concessions, licences, trademarks and similar rights", and is not amortised.

Grants
Capital grants are recognised when there is reasonable certainty that the conditions imposed by the granting government agencies for their allocation will be met, and they are recognised as a reduction to the purchase price or production cost of their related assets. Operating grants are recognised in the income statement on an accruals basis, consistent with the relative costs incurred.

Equity investments
Investments in subsidiaries not included in the scope of consolidation, in subsidiaries controlled jointly with other shareholders and in associates are accounted for using the equity method.
In the case of assumption of an association (joint control) in successive phases, the cost of the equity investment is measured as the sum of the fair value of the interests previously held and the fair value of the consideration transferred on the date on which the investment is classed as associated. The effect of revaluing the book value of the investments previously held at assumption of association is posted to the income statement, including any components recognised under other components of comprehensive income.
In applying the equity method, investments are initially recognised at cost and subsequently adjusted to take into account: (i) the participant's share of the results of operations of the investee after the date of acquisition, and (ii) the share of the other components of comprehensive income of the investee. Dividends paid out by the investee are recognised net of the book value of the equity investment. For the purposes of applying the equity method, the adjustments provided for the consolidation process are taken into account (also see the "Principles of consolidation" section). If there is objective evidence of impairment, recoverability is tested by comparing the book value with the related recoverable value determined using the criteria indicated in the section "Property, plant and equipment".
When there is no significant impact on the balance sheet, financial position and income statement, subsidiaries not included in the scope of consolidation, subsidiaries controlled jointly with other shareholders and associates are accounted for at cost adjusted for impairment. When the reasons for the write-downs carried out no longer apply, equity investments are revalued up to the amount of the write-downs applied with the effect posted to the income statement under "Other income (expense) from equity investments".
Other equity investments entered under non-current assets are measured at fair value with allocation of the impact to the shareholders' equity reserve for "Other components of comprehensive income"; changes in fair value which are recognised in shareholders' equity are posted to the income statement at the time of write-down or sale. When equity investments are not listed in a regulated market, and fair value cannot be reliably determined, such investments are accounted for at cost adjusted for impairment. This impairment cannot be reversed[6].
The parent company's share of any losses of the investee company, greater than the investment's book value, is recognised in a special provision to the extent that the parent company is committed to fulfilling its legal or implied obligations to the subsidiary/associate, or, in any event, to covering its losses.

5 When the operator has the unconditional contractual right to receive cash or other financial assets from the grantor or entity identified by the grantor, the consideration received, or to be received, by the operator for infrastructure construction or improvements is recognised as a financial asset.

6 An impairment loss recognised in an interim period cannot be reversed even if, on the basis of conditions in a subsequent interim period, the impairment loss would have been lower or not recognised.

Assets held for sale and discontinued operations

Non-current assets, and current and non-current assets of disposal groups are classified as held for sale if the relative book value will be recovered through sale rather than through continued use. This condition is regarded as fulfilled when the sale is highly probable and the asset or discontinued operations are available for immediate sale in their current condition. Non-current assets held for sale, current and non-current assets related to disposal groups and directly related liabilities are recognised in the balance sheet separately from the Company's other assets and liabilities.

Non-current assets held for sale are not depreciated, and are accounted for at the lower of book value and the related fair value, less any sales costs (see "Measurement at fair value" below). The classification as "held for sale" of equity investments valued using the equity method implies suspended application of this valuation criterion. Therefore, in this case, the book value is made equal to the value resulting from the application of the equity method at the date of reclassification.

Any difference between the book value and fair value less sales costs is posted to the income statement as an impairment loss; any subsequent recoveries in value are recognised up to the amount of the previously recognised impairment losses, including those recognised prior to the asset being classified as held for sale. Non-current assets and current and non-current assets of disposal groups, classified as held for sale, constitute discontinued operations if, alternatively: (i) they represent an autonomous line of business or geographical area of significant activity; (ii) they are part of a programme to dispose of a major autonomous line of business or geographical area of significant activity; or (iii) they are a subsidiary acquired exclusively for the purpose of resale. The results of discontinued operations, as well as any capital gains/losses realised on the disposal, are disclosed separately in the income statement as a separate item, net of related tax effects.

In the presence of a programme for the sale of a subsidiary that results in loss of control, all assets and liabilities of that subsidiary are classified as held for sale, regardless of the whether it maintains an investment after the sale.

Other non-current assets

Other non-current assets are measured at the time of first recognition at fair value and later on at amortised cost (see "Trade and other receivables" above).

FINANCIAL LIABILITIES, TRADE AND OTHER PAYABLES, OTHER LIABILITIES

Financial liabilities, trade and other payables and other liabilities are initially recorded at fair value less any transaction-related costs; they are subsequently recognised at amortised cost using the effective interest rate for discounting (see "Trade and other payables" above).

Recording and elimination of financial liabilities

Financial liabilities are recorded under balance sheet liabilities when the Company becomes a party to agreements related to such liabilities. Financial liabilities sold are eliminated from balance sheet liabilities when the right to disburse cash flows is transferred together with all risks and benefits associated with ownership.

PROVISIONS FOR RISKS AND CHARGES

Provisions for risks and charges concern costs and charges of a certain nature which are certain or likely to be incurred, but for which the amount or date of occurrence cannot be determined at the end of the year. Provisions are recognised when: (i) the existence of a current legal or implied obligation deriving from a past event is probable; (ii) it is probable that the fulfilment of the obligation will involve a cost; and (iii) the amount of the obligation can be reliably determined. Provisions are recorded at the value representing the best estimate of the amount that the Company would reasonably pay to fulfil the obligation or to transfer it to third parties at the end of the reporting period. Provisions related to contracts with valuable consideration are recorded at the lower of the cost necessary to fulfil the obligation, less the expected economic benefits deriving from the contract, and the cost to terminate the contract.

When the financial impact of time is significant, and the payment dates of the obligations can be reliably estimated, the provision is calculated by discounting the anticipated cash flows in consideration of the risks associated with the obligation at the Company's average debt rate; the increase in the provision due to the passing of time is posted to the income statement under "Financial income (expense)".
When the liability relates to property, plant and equipment (such as dismantling and site restoration), changes in the estimate of the provision are recognised as a counter-entry to the asset to which they relate, up to the book values; any excess is recognised in the income statement. It is charged to the income statement through amortisation.
The costs that the Company expects to incur to initiate restructuring programmes are recorded in the period in which the programme is formally defined, and the parties concerned have a valid expectation that the restructuring will take place.
Provisions are periodically updated to reflect changes in cost estimates, selling periods and the discount rate; revisions in provision estimates are allocated to the same item of the income statement where the provision was previously reported or, when the liability is related to property, plant and equipment (e.g. site dismantlement and restoration), as a counter-entry to the related asset, up to the book value; any surplus is posted to the income statement.
Note 30 of the notes to the financial statements describe contingent liabilities represented by: (i) possible (but not probable) obligations resulting from past events, the existence of which will be confirmed only if one or more future uncertain events occur which are partially or fully outside the Company's control; and (ii) current obligations resulting from past events, the amount of which cannot be reliably estimated, or the fulfilment of which is not likely to involve costs.

EMPLOYEE BENEFITS

Benefits following termination of employment are defined according to plans, including non-formalised plans, which, depending on their characteristics, are classed as "defined-contribution" or "defined-benefit" plans. In defined-contribution plans the Company's obligation is calculated, limited to the payment of state contributions or to equity or a legally separate entity (fund), based on contributions due.
The liability for defined-benefit plans is determined based on actuarial assumptions and is recognised on an accruals basis consistent with the employment period necessary to obtain the benefits.
Actuarial gains and losses relating to defined-benefit plans arising from changes in actuarial assumptions or experience adjustments are recognised in other comprehensive income in the period in which they occur, and are not subsequently recognised in the income statement. When a plan is changed, reduced or extinguished, the relative effects are recognised in the income statement.
Net interest represents the change that the net liability undergoes during the period due to the passing of time. Net interest is determined by applying to the liabilities, net of any assets serving the plan, the discount rate defined for the liabilities; the net interest of defined-benefit plans is recognised under cost of labour in "Employee benefits".
The obligations relating to long-term benefits are calculated using actuarial assumptions; the effects deriving from the amendments to the actuarial assumptions or the characteristics of the benefits are recognised entirely in the income statement.

TREASURY SHARES

Treasury shares are recognised at cost and entered as a reduction of shareholders' equity. The economic effect deriving from any subsequent sales are recognised in shareholders' equity.

REVENUE AND COSTS

Revenue from sales and the provision of services is recognised upon the effective transfer of the risks and benefits typically relating to ownership or on the fulfilment of the service when it is likely that the financial benefits deriving from the transaction will be realised by the vendor or the provider of the service.

As regards the activities carried out by Snam, the moment of recognition of the revenue coincides with the provision of the service.
The allocations of revenue relating to services partially rendered are recognised by the fee accrued, as long as it is possible to reliably determine the stage of completion and there are no significant uncertainties over the amount and the existence of the revenue and the relative costs; otherwise they are recognised within the limits of the actual recoverable costs.
Property, plant and equipment not used in concession services, transferred from customers (or realised with the assets transferred from customers) and functional to their connection to a network for the provision of a supply are recognised at fair value as a counter-entry to the revenue in the income statement. When the agreement stipulates the provision of multiple services (e.g. connection and supply of goods), the service for which the asset was transferred from the customer is checked and, accordingly, the disclosure of the revenue is recognised on connection or for the shorter of the term of the supply and the useful life of the asset.
Revenue is recorded net of returns, discounts, allowances and bonuses, as well as directly related taxes.
Since they do not represent sales transactions, exchanges between goods or services of a similar nature and value are not recognised in revenue and costs.
The costs are recognised when they relate to goods and services sold or consumed during the period or by systematic allocation, or when it is not possible to identify their future use.
Costs relating to emissions shares, calculated based on market prices, are disclosed in the amount of the carbon dioxide emission share in excess of the quotas assigned; the costs of the purchase of the emission rights are capitalised and disclosed as intangible assets net of any negative balance between emissions made and quotas assigned. Earnings relating to emissions quotas are disclosed at the point of realising the earnings by the transfer. In the case of transfers, if applicable, the emission rights purchased are considered sold first. The monetary receivables assigned in place of the free assignment of emissions quotas are disclosed as a counter-entry to the "Other income" item in the income statement.
Fees relating to operating leases are charged to the income statement for the duration of the contract.
Costs for the acquisition of new knowledge or discoveries, investigations into products or alternative processes, new techniques or models, the design and construction of prototypes, or incurred for other scientific research or technological developments, which do not meet the conditions for disclosure under balance sheet assets, are considered current costs and charged to the income statement for the period that they are incurred.
Costs sustained for share capital increases are recorded as a reduction of shareholders' equity, net of taxes.

STOCK OPTION

Personnel expenses include, consistent with the substantial nature of the remuneration that they comprise, stock options assigned to executives. The cost is determined with reference to the fair value of the option assigned to the executive at the time of making the commitment and is not subject to any subsequent adjustment; the portion due for the year is determined pro rata temporis over the period to which the incentive refers (the "vesting period")[7]. The fair value is represented by the value of the option determined by applying appropriate valuation techniques which take account of the conditions of exercise of the option, the current share value, the expected volatility and the risk-free interest rate, and is recorded with a counter-entry in the "Other reserves" item.

EXCHANGE RATE DIFFERENCES

The assets and liabilities included in the balance sheet are represented in the currency of the main economic environment in which the Company operates. The consolidated data are represented in euros, which is the working currency of the Company and the Group.
Revenue and costs relating to transactions in currencies other than the working currency are recognised at the exchange rate in effect on the day when the transaction was carried out.

7 The period between the date of making the commitment and the date on which the option may be exercised.

Monetary assets and liabilities in currencies other than the working currency are converted into euros by applying the exchange rate in effect on the reporting date, with attribution of the effect to the income statement. Non-monetary assets and liabilities in currencies other than the working currency and valued at cost are recognised at the initially recorded exchange rate; when the measurement is made at fair value or recoverable or realisable value, the exchange rate used is the one in effect on the date of determination of the value.

DIVIDENDS RECEIVED

Dividends are recognised at the date of the resolution passed by the Shareholders' Meeting, unless it is not reasonably certain that the shares will be sold before the ex-dividend date.

DISTRIBUTION OF DIVIDENDS

The distribution of dividends to the Company's shareholders entails the recording of a payable in the financial statements for the period in which distribution was approved by the Company's shareholders or, in the case of interim dividends, by the Board of Directors.

INCOME TAXES

Current income taxes are calculated by estimating the taxable income. Regarding corporate income tax (IRES), Snam has exercised the option to join the national tax consolidation scheme for the Group companies, in which all the consolidated companies are officially included. The projected payable is recognised under "Current income tax liabilities". Receivables and payables for current income taxes are recognised based on the amount which is expected to be paid/recovered to/from the tax authorities under the prevailing tax regulations and rates or those essentially approved at the reporting date.

Regional production tax (IRAP), net of payments made on account, is recognised under the item "Current income tax liabilities"/"Current income tax assets".

Deferred and prepaid income taxes are calculated on the timing differences between the values of the assets and liabilities entered in the balance sheet and the corresponding values recognised for tax purposes, based on the prevailing tax regulations and rates or those essentially approved for future years. Prepaid tax assets are recognised when their recovery is considered probable; specifically, the recoverability of prepaid tax assets is considered probable when taxable income is expected to be available in the period in which the temporary difference is cancelled, allowing the activation of the tax deduction.

Prepaid tax assets and deferred tax liabilities are classified under non-current assets and liabilities and are offset at individual company level if they refer to taxes which can be offset. The balance of the offsetting, if it results in an asset, is recognised under the item "Prepaid tax assets"; if it results in a liability, it is recognised under the item "Deferred tax liabilities". When the results of transactions are recognised directly in equity, prepaid and deferred current taxes are also posted to equity.

DERIVATIVES

Derivatives are assets and liabilities recognised at fair value using the criteria set out under "Valuations at fair value". If there is objective evidence of impairment, the derivatives are disclosed net of the allocation made to the relative provision for impairment losses. The fair value of derivative liabilities is adjusted to take into account the issuer's non-performance risk (see "Valuations at fair value" below).

Derivatives are classified as hedging instruments when the relationship between the derivative and the hedged item is formally documented and the effectiveness of the hedge, verified periodically, is high. When hedging derivatives hedge the risk of changes in the fair value of the hedged instruments ("fair value hedge"; e.g. hedge of the risk of fluctuations in the fair value of fixed-rate assets/

liabilities), the derivatives are recognised at fair value with attribution of the effects on the income statement; by the same token, the hedged instruments are adjusted to reflect in the income statement the changes in fair value associated with the hedged risk, regardless of the provision of a different valuation criterion generally applicable to the instrument type. When derivatives hedge the risk of changes in cash flows from the hedged instruments ("cash flow hedge"; e.g. hedge of changes in cash flows from assets/liabilities due to fluctuations in interest rates or exchange rates), the changes in the fair value of the derivatives are initially recognised in the shareholders' equity reserve for other components of comprehensive income and subsequently attributed to the income statement in the same way as the economic effects produced by the hedged operation. Changes in the fair value of derivatives which do not satisfy the requirements to be classed as hedging instruments are recognised in the income statement. Specifically, changes in the fair value of non-hedging interest rate and currency derivatives are recognised in the income statement item "Financial income (expense)".

VALUATIONS AT FAIR VALUE

Fair value is the price that would be obtained by selling an asset or the price that would be paid to transfer a liability in a regular market transaction (i.e. not in a forced liquidation or an underpriced sale) as at the valuation date (the exit price).

The fair value of an asset or liability is determined by adopting the valuations that market operators would use to determine the price of the asset or liability. A fair value valuation also assumes that the asset or liability would be traded on the main market or, failing that, on the most advantageous market to which the Company has access.

The fair value of a non-financial asset is determined by considering the capacity of market operators to generate economic benefits by using the asset to its maximum or best use or by selling it to another market participant capable of using it in such a way as to maximise its value.

The fair value valuation of a financial or non-financial liability, or of an equity instrument, takes into account the quoted price for the transfer of an identical or similar liability or equity instrument; if this quoted price is not available, the valuation of the corresponding asset held by a market operator as at the valuation date is taken into account. The determination of the fair value of a liability takes into account the risk that the Company may not be able to honour its obligations ("non-performance risk").

When determining fair value, a hierarchy is set out consisting of criteria based on the origin, type and quality of the information used in the calculation. This classification aims to establish a hierarchy in terms of reliability of the fair value, giving precedence to the use of parameters that can be observed on the market and reflect the assumptions that market participants would use when valuing the asset/liability. The fair value hierarchy includes the following levels: (i) Level 1: inputs represented by (unmodified) quoted prices on active markets for assets or liabilities identical to those that can be accessed as at the valuation date; (ii) Level 2: inputs, other than the quoted prices included in Level 1, that can be directly or indirectly observed for the assets or liabilities to be valued; (iii) Level 3: inputs that cannot be observed for the asset or liability.

In the absence of available market quotations, the fair value is determined by using valuation techniques suitable for each individual case that maximise the use of significant observable inputs, whilst minimising the use of non-observable inputs.

SEGMENT INFORMATION

The information about business segments has been prepared in accordance with the provisions of IFRS 8 "Operating segments", which requires the information to be presented in a manner consistent with the procedures adopted by the Company's management when taking operational decisions. Consequently, the identification of the operating segments and the information presented are defined on the basis of the internal reporting used by the Company's management for allocating resources to the different segments and for analysing the respective performances.

An operating segment is defined by IFRS 8 as a component of an entity: (i) that engages in business activities from which it may earn revenue and incur expenses (including revenue and expenses relating to transactions

with other components of the same entity); (ii) for which the operating results are regularly reviewed by the entity's most senior decision-makers for purposes of making decisions about resources to be allocated to the segment and assessing its performance; and (iii) for which separate financial information is available.
The declared operating segments are as follows: (i) natural gas transportation; (ii) liquefied natural gas (LNG) regasification; (iii) natural gas storage; and (iv) natural gas distribution. They relate to activities carried out predominantly by Snam Rete Gas, GNL Italia, Stogit and Italgas, respectively.

4) Financial statements[8]

The items on the balance sheet are classified as "current" and "non-current", while those on the income statement are classified according to their nature.
The statement of comprehensive income shows the integrated income statement of income and expense which is disclosed directly in shareholders' equity through the express IFRS provisions.
The statement of changes in the items of shareholders' equity reports the total income (expense) for the financial year, shareholder transactions and the other changes in shareholders' equity.
The statement of cash flows is prepared using the "indirect" method, adjusting the profit for the period from non-monetary components.
It is considered that these statements adequately represent the Group's situation with regard to its balance sheet, income statement and financial position.

5) Changes to accounting criteria

The 2013 financial year saw the entry into force of the provisions of IAS 19, "Employee Benefits", approved by the European Commission with Regulation (EU) No. 475/2012 of 5 June 2012. The new provisions stipulate, *inter alia*: (i) the obligation to recognise actuarial gains and losses in the statement of comprehensive income, removing the possibility of adopting the "corridor method". Actuarial gains and losses recognised in the statement of comprehensive income are not subsequently reported on the income statement; (ii) the representation of the expected return on plan assets and the interest cost in a single aggregate known as "net interest", calculated by applying the discount rate to net defined-benefit liabilities; and (iii) the obligation to recognise on the income statement the effects arising from changes to plan arrangements ("past service costs") fully in the year in which such changes were made. These new IAS 19 measures, to be applied retrospectively as if the changes had always been in place, resulted in the restatement of the balance sheet items as at 1 January 2012 and 31 December 2012 and on the 2012 statement of comprehensive income.
In relation to the Snam Group's existing defined-benefit plans (severance pay, or TFR, and the supplementary healthcare provision for Company executives of Eni, or FISDE), the restatement of these balances was as follows: (i) as at 1 January 2012, an increase of €2 million in employee benefit liabilities and a reduction of €1 million in shareholders' equity, net of tax effect; and (ii) as at 31 December 2012, an increase of €21 million in employee benefit liabilities and a reduction of €14 million in shareholders' equity, net of tax effect.
The effects of these changes mainly apply to the recognition of unrecognised actuarial gains and losses, which are recorded in other components of comprehensive income.

6) Use of estimates

The application of generally accepted accounting principles for the preparation of financial statements and interim reports involves management making accounting estimates based on complex and/or subjective judgements, estimates based on past experience and assumptions regarded as reasonable and realistic on the basis of the information known at the time of the estimate.

8 The financial statements are the same as those adopted in the 2012 Annual Report, except for the statement of comprehensive income, in which, due to the entry into force of the amendments to IAS 1, "Presentation of the financial statements", the components of comprehensive income are consolidated based on the possibility of their reclassification in the income statement in accordance with the reference IFRS provisions ("reclassification adjustments").

The use of these accounting estimates has an influence on the book value of the assets and liabilities and on the information about potential assets and liabilities at the reporting date, as well as the amount of revenue and costs in the reference period. The actual results may differ from the estimated results owing to the uncertainty that characterises the assumptions and the conditions on which the estimates are based.
Details are given below about the critical accounting estimates involved in the process of preparing the financial statements and interim reports, since they involve a high degree of recourse to subjective judgements, assumptions and estimations regarding matters that are by nature uncertain. Any change in the conditions forming the basis of the judgements, assumptions and estimations used could have a significant impact on subsequent results.

Impairment losses

Assets are impaired when events or changes in circumstances give cause to believe that the book value is not recoverable. The events which may give rise to an impairment of assets include changes in business plans, changes in market prices or reduced use of plants. The decision on whether to apply an impairment and the quantification of any such impairment depend on the assessments of management concerning complex and highly uncertain factors, such as future price trends, the impact of inflation and technological improvements on production costs, production profiles and conditions of supply and demand on a global or regional scale.
The impairment is determined by comparing the book value with the related recoverable value, represented by the greater of the fair value, net of disposal costs, and the usage value, determined by discounting the expected cash flows deriving from the use of the asset. The expected cash flows are quantified in light of the information available at the time of the estimate, on the basis of subjective judgements regarding future trends in variables – such as prices, costs, the rate of growth of demand and production profiles – and are updated using a rate that takes account of the risk inherent in the asset concerned.
Goodwill and other intangible assets with an indefinite useful life are not subject to amortisation; the recoverability of their book value is verified at least once a year and in any case whenever any event occurs which might involve impairment. With reference to goodwill, the verification is carried out at the level of the smallest aggregate (cash-generating unit) to which the goodwill can be reasonably and consistently attributed; this unit represents the basis on which management assesses, directly or indirectly, the return on investment.
When the book value of the cash-generating unit, including the goodwill attributed to it, exceeds the recoverable value[9], the difference is subject to impairment, which is attributed by priority to the goodwill up to its amount. Any surplus in the impairment with respect to the goodwill is attributed pro rata to the book value of the assets which constitute the cash-generating unit.

Site dismantlement and restoration

Snam incurs significant liabilities associated with obligations of removal and dismantlement of plants or parts of plants. Estimating future dismantlement and restoration costs is a complex process and requires the assessment and judgement of the Company's management in placing a value on the liabilities which will be incurred many years in the future for complying with dismantlement and restoration obligations, which often cannot be completely defined by laws, administrative regulations or contractual clauses. In addition, these obligations are affected by constant changes in technology and in dismantlement and restoration costs, as well as the constant growth of political and public awareness regarding matters of health and protection of the environment.
The criticality of estimates of dismantlement and restoration costs also depends on the accounting method used for these costs, for which the current value is initially capitalised together with the cost of the asset to which they relate, offset against the provision for risks and charges. Subsequently, the value of the provision for risks and charges is updated to reflect the passing of time and any changes in the estimation as a result of

9 For the definition of 'recoverable value', please see "Property, plant and equipment".

changes in expected cash flows, the timing of their realisation and the discount rates applied. The determination of the discount rate to be used both in the initial valuation of the cost and in subsequent valuations is the result of a complex process which involves subjective judgements on the part of the Company's management.

Business combination

The reporting of business combination transactions involves the attribution, to the assets and liabilities of the acquired company, of the difference between the acquisition cost and the net book value. For the majority of assets and liabilities, the attribution of the difference is carried out by recognising the assets and liabilities at their fair value. The unattributed portion, if positive, is recognised as goodwill; if negative, it is attributed to the income statement. In the attribution process, Snam draws on the available information and, for the most significant business combinations, on external valuations.

Environmental liabilities

Snam is subject, in relation to its activities, to numerous laws and regulations on the protection of the environment at European, national, regional and local level, including the laws which implement international conventions and protocols relating to the activities carried out. With reference to this legislation, when it is probable that the existence and amount of a large liability can be reliably estimated, provisions are made for the associated costs.

While the Company does not currently believe that there will be any particularly significant negative effects on its financial statements due to non-compliance with environmental legislation, including taking account of the interventions already made, the possibility can nevertheless not be ruled out that Snam might incur substantial additional costs or responsibilities, since with the current state of knowledge it is impossible to foresee the effects of future developments, in view of factors such as: (i) the potential for contaminations emerging; (ii) the refurbishment in progress and to be followed and the other possible effects arising from the application of the laws in force; (iii) the possible effects of new laws and regulations for environmental protection; (iv) the effects of any technological innovations for environmental cleansing; and (v) the possibility of disputes and the difficulty of determining the possible consequences, including in relation to the liability of other parties and to possible compensation payments.

Provisions for employee benefits

Defined-benefit plans are valued on the basis of uncertain events and actuarial assumptions which include, *inter alia*, the discount rates, the expected returns on the assets servicing the plans, the level of future remuneration, the retirement age and future trends in the healthcare expenses covered.

The principal assumptions used for the quantification of post-employment benefits are determined as follows: (i) the discount and inflation rates representing the base rates at which the obligation to employees might actually be fulfilled are based on the rates which mature on high-quality bonds and on inflation expectations; (ii) the level of future remuneration is determined on the basis of elements such as inflation expectations, productivity, career advancement and seniority; (iii) the future cost of healthcare services is determined on the basis of elements such as present and past trends in healthcare costs, including assumptions regarding the inflationary growth of costs, and changes in the health of the participating employees; and (iv) the demographic assumptions reflect the best estimates of trends in variables such as mortality, turnover, invalidity and others in relation to the population of the participating employees.

The differences between the actual and expected costs and between the actual returns and interest income on the assets servicing the plan are verified in the normal manner and are defined as actuarial profits or losses. Actuarial gains and losses relating to defined-benefit plans are recognised in the statement of comprehensive income.

Actuarial assumptions are also used for determining obligations relating to long-term benefits; to this end, the effects arising from changes to the actuarial assumptions or the characteristics of the benefit are recognised entirely on the income statement.

Provisions

In addition to recognising environmental liabilities and obligations to remove property, plant and equipment and restore sites, and liabilities relating to employee benefits, Snam makes provisions relating mainly to legal and tax disputes. The estimation of the provisions for these purposes is the result of a complex process involving subjective judgements on the part of the Company's management.

7) Recently issued IFRS

Accounting standards and interpretations issued by the IASB/IFRIC and approved by the European Commission

Commission Regulation (EU) No. 183/2013 of 4 March 2013 approved the amendments set out in the document "Government Loans – Amendments to IFRS 1", which introduces an exception to the retrospective application of IFRSs for First-time Adopters, on the basis of which government loans must be evaluated prospectively, on the transition date, in accordance with the provisions of IFRS 9, "Financial Instruments" (IAS 39 for entities that have not yet applied IFRS 9) and IAS 20, "Accounting for Government Grants and Disclosure of Government Assistance". The entity may choose to apply the aforementioned provisions retrospectively if the information required for such application was available at the time the government loan was initially recorded. The new provisions will take effect from financial years starting on or after 1 January 2013.

Commission Regulation (EU) No. 301/2013 of 27 March 2013 approved the amendments set out in the document "Annual Improvements to IFRSs – 2009-2011 Cycle", which contains changes of an essentially technical and editorial nature to international accounting standards. The new provisions will take effect from financial years starting on or after 1 January 2013.

Commission Regulation (EU) No. 313/2013 of 4 April 2013 approved the amendments set out in the document "Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance (Amendments to IFRS 10, IFRS 11 and IFRS 12)", which provides some clarifications and simplifications of the transition requirements of IFRS 10, IFRS 11 and IFRS 12. The new measures will take effect from financial years starting on or after 1 January 2014.

Commission Regulation (EU) No. 1174/2013 of 20 November 2013 approved the amendments set out in the document "Amendments to IFRS 10, IFRS 12 and IAS 27", which provides clarifications concerning the definition of the scope of consolidation for companies classified as investment entities. The provisions contained in the document will take effect from financial years starting on or after 1 January 2014.

Commission Regulation (EU) No. 1374/2013 of 19 December 2013 approved the amendments set out in the document issued by the IASB on 27 June 2013, "Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36)". The amendment concerns disclosure of the recoverable value of assets that have been impaired, where the recoverable value is based on the fair value less costs of disposal. The new provisions will take effect from financial years starting on or after 1 January 2014.

Commission Regulation (EU) No. 1375/2013 of 19 December 2013 approved the amendments set out in the document "Novation of Derivatives and Continuation of Hedge Accounting", which introduces an exception to the requirement for the discontinuation of hedge accounting in circumstances when a hedging instrument is required to be novated to a central counterparty as a result of laws or regulations. The new provisions will take effect from financial years starting on or after 1 January 2014.

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

On 20 May 2013, the IASB issued "IFRIC 21: Levies", an interpretation of IAS 37, "Provisions, Contingent Liabilities and Contingent Assets", which clarifies that the recognition of a liability for the payment of levies (other than those falling under the scope of other standards, such as income taxes pursuant to IAS 12, and other than fines and penalties arising from infringements of the law) takes place when the activity that triggers the payment of the levy, as identified by the relevant fiscal regulations, takes place.

According to the IASB, the provisions set out in the aforementioned document shall take effect for financial years beginning on or after 1 January 2014. However, since the provisions in question have not yet been approved by the European Commission, the date on which they come into effect may be postponed.
On 21 November 2013, the IASB issued the document "Defined Benefit Plans: Employee Contributions (Amendments to IAS 19 Employee Benefits)". The amendments to IAS 19 allow (but do not require) contributions paid by employees or third parties that are independent of the number of years of service to be recognised as a reduction in the current service cost for the period, instead of attributing these contributions across the entire time period in which the service is rendered.
On 12 December 2013, the IASB issued the document "Annual Improvements to IFRSs – 2010-2012 Cycle".
The provisions contained in the document made amendments to: (i) IFRS 2, amending the definition of 'vesting condition'; (ii) IFRS 3, stating that a contingent consideration classified as an asset or liability should be valued at its fair value as at each reporting date; (iii) IFRS 8, primarily requiring that information be provided concerning the valuation elements and criteria considered when determining the degree of aggregation of operating segments as presented in the financial statements; (iv) the Basis of Conclusions of IFRS 13, confirming the possibility of accounting for short-term receivables and payables for which the implicit interest rate has not been stated at their face value, if the effect of not discounting is immaterial; (v) IAS 16 and IAS 38, clarifying the methods to be used to determine the gross book value of assets, in the event of a revaluation following the application of the revaluation model; and (vi) IAS 24, specifying that an entity is related to the reporting entity if the entity (or a member of the group it belongs to) provides key management personnel services to the reporting entity (or to its parent company).
On the same date, the IASB issued the document "Annual Improvements to IFRSs – 2011-2013 Cycle". The provisions contained in the document made amendments to: (i) the Basis of Conclusions for IFRS 1, clarifying the definition of IFRS "in force" for First-time Adopters; (ii) IFRS 3, clarifying that it excludes from its scope the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself; (iii) IFRS 13, clarifying that the scope of the exception defined in paragraph 48 of IFRS 13 includes all contracts accounted for within the scope of IAS 39, regardless of whether they meet the definition of financial assets or financial liabilities as defined in IAS 32; and (iv) IAS 40, clarifying the interrelationship of IFRS 3 and the principle.
According to the IASB, the provisions set out in the aforementioned document shall take effect for financial years beginning on or after 1 July 2014. However, since the provisions in question have not yet been approved by the European Commission, the date on which they come into effect may be postponed.
On 30 January 2014, the IASB issued the document "IFRS 14 Regulatory Deferral Accounts", the interim standard for the Rate-regulated Activities project. The document's scope includes First-time Adopters which, according to the provisions of IFRS 14, are allowed to continue recognising amounts related to rate-regulated activities in accordance with the previous standards. In order to improve comparability with entities that already applied IFRS, the standard requires that the effect of this accounting method be presented separately from the other items. The provisions contained in the aforementioned documents will take effect from financial years starting on or after 1 January 2016.
On 19 November 2013, the IASB issued the document "IFRS 9 Financial Instruments - Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39", with the relative Basis for Conclusions and Guide to Application. These documents: (i) introduce a substantial revision of the accounting methods for hedging transactions; (ii) with regard to IFRS 9, which requires that changes in the fair value of liabilities designated at fair value recognised in the income statement, consisting of profits or losses resulting from changes in the entity's credit risk, be attributed to "Other components of comprehensive income", allow this regulatory provision to be applied prior to the application of the other provisions of IFRS 9; and (iii) eliminate the indication of 1 January 2015 as the date of compulsory entry into force of IFRS 9.

CURRENT ASSETS

8) Cash and cash equivalents

Cash and cash equivalents of €2 million (€15 million at 31 December 2012) concern current account deposits at banks. They are not subject to any usage restrictions.

9) Trade and other receivables

Trade and other receivables of €2,442 million (€2,048 million at 31 December 2012) comprise:

(€ million)	31.12.2012	31.12.2013
Trade receivables	1,921	**2,268**
Financial receivables:		
- Held for operations	2	**2**
Other receivables	125	**172**
	2,048	**2,442**

These are reported net of the provision for impairment losses of €44 million (€48 million at 31 December 2012). The activity in the provision for impairment losses on receivables during the year is shown below.

(€ million)	Balance at 1.1.2013	Provisions	Utilisations	Other changes	Balance at 31.12.2013
Trade receivables	45	7	**(2)**	(7)	**43**
Other receivables	3			(2)	**1**
	48	**7**	**(2)**	**(9)**	**44**

The provision of €7 million for the financial year refers mainly to the natural gas transportation business segment.
Other changes (-€9 million) relate to the use of the provision for impairment losses to write off bad debts mainly relating to the transportation business segment.
Trade receivables of €2,268 million (€1,921 million at 31 December 2012) mainly refer to the natural gas transportation (€1,158 million), storage (€735 million) and distribution (€356 million) business segments.
Trade receivables relating to the transportation sector (€1,158 million) include receivables arising from the natural gas balancing service (€612 million)[10], in operation since 1 December 2011 pursuant to Electricity and Gas Authority Resolution ARG/gas 45/11. Under this measure, the leading natural gas transportation company (Snam Rete Gas), as Balancing Supervisor, is responsible for procuring the quantities of gas required to balance the system and offered on the market by users through a dedicated platform of the Energy Market

10 Trade receivables include the current value of unpaid receivables and related interest in connection with the balancing service. Due to the timing of the repayments provided for pursuant to Resolution 351/2012/R/gas of the Electricity and Gas Authority, these receivables are due after the next financial year.
Information on the balancing activity and the actions taken by Snam to recover receivables can be found in Note 30, "Guarantees, commitments and risks – Recovering receivables from transportation system users".

Operator, and for financially settling the imbalances of individual users by buying and selling gas on the basis of a benchmark unit price (the "principle of economic merit"). Although the effects of this activity are essentially neutral in terms of the Company's income statement and it does not receive specific compensation for performing this role, the gas sales generated by balancing activities in the 2013 financial year and offset in costs totalled around €2.3 billion.

For the storage business segment in particular, trade receivables (€735 million) mainly relate to fees charged on the use, by users, of strategic gas (€607 million) which, when collected, according to the reference regulatory framework, will be paid into the Electricity Equalisation Fund. To that end, under the regulatory regime preceding the current rules governing balancing[11], some users of the storage service made strategic gas withdrawals without paying the fees set out by the Authority or replacing the amounts withdrawn, accruing a significant debt towards the Company. Considering the applicable regulatory framework (see Resolution ARG/gas 119/10, Article 10, paragraph 5 in Annex A), which leaves the storage company in a neutral position with regard to the effects of the withdrawal of strategic gas by users, against fees for the use of strategic gas not replenished, a liability of equal amount was recognised[12].

Other receivables of €172 million (€125 million at 31 December 2012) comprise:

(€ million)	31.12.2012	31.12.2013
IRES receivables for the national tax consolidation scheme	25	30
Receivables from investment/divestment activities	20	12
Other receivables:		
- Electricity Equalisation Fund	34	60
- Advances to suppliers	13	8
- Other	33	62
	80	130
	125	172

IRES receivables for the national tax consolidation scheme (€30 million) concern receivables with the former parent company, Eni, relating to the IRES refund request resulting from the partial IRAP deduction relating to tax years 2004-2007 (pursuant to Article 6 of Legislative Decree 185 of 28 November 2008, enacted by Law 2 of 28 January 2009) and tax years 2007-2011 (pursuant to Legislative Decree 201/2011).

Receivables from investment/divestment activities (€12 million) concern receivables for public and private grants entered against investment activities (€7 million) and transfers of property, plant and equipment and intangible assets (€5 million).

11 With the regulatory regime preceding the current balancing regulations, i.e. up to 30 November 2011, in order to balance the system as a whole and, consequently, the trade positions of each user, the Company was entitled to access all storage resources available to users.

12 FInformation on strategic gas withdrawals and the actions taken by Snam to recover receivables can be found in Note 30, "Guarantees, commitments and risks – Recovering receivables from storage system users".

Receivables from the Electricity Equalisation Fund (€60 million) relate mainly to additional tariff components in the distribution segment.
Other receivables (€62 million) refer essentially to the natural gas distribution segment and concern receivables from government bodies and receivables associated with the management of energy efficiency certificates.
The fair value measurement of trade and other receivables has no material impact. All receivables are in euros.
Receivables from related parties are described in Note 38, "Related-party transactions". Information on credit risk can be found in Note 30 "Guarantees, commitments and risks – Credit risk".

10) Inventories

Inventories of €156 million (€202 million at 31 December 2012) are analysed in the table below:

	31.12.2012			31.12.2013			
(€ million)	Gross amount	Impairment losses	Net amount	Gross amount	Impairment losses	Net amount	Change
Raw materials, consumables and supplies	147	(6)	141	102	(6)	96	(45)
Finished products and merchandise	61		61	60		60	(1)
	208	(6)	202	162	(6)	156	(46)

Inventories of raw materials, consumables and supplies (€96 million) primarily include: (i) natural gas used for transportation activities (€28 million); and (ii) stock materials relating to the pipeline network (€43 million), the distribution network (€10 million) and storage plants (€9 million).
The inventories of finished products and merchandise (€60 million) refer to the natural gas present in the storage system (739 million standard cubic metres, compared with 759 million cubic metres at 31 December 2012) and do not include compulsory inventories[13], recognised under "Non-current assets" on the balance sheet.
The change in the financial year (-€46 million) relates essentially to the transportation segment (-€44 million) and is attributable to the balance between withdrawals of gas from storage and contributions in kind by service users.
Inventories are stated net of the provision for impairment losses of €6 million (unchanged from 31 December 2012), set up to account for slow-moving materials. Inventories are not collateralised. Inventories do not secure liabilities, nor are they recognised at net realisation value.

11) Current income tax assets and other current tax assets

Current income tax assets of €15 million (€11 million as at 31 December 2012) refer mainly to receivables for higher advance tax payments made in relation to additional IRES (the "Robin Hood Tax") (€7 million) and IRAP receivables (€5 million).
Other current tax assets, amounting to €8 million (€89 million as at 31 December 2012), relate essentially to receivables for indirect taxes (€3 million).
Note 35 "Income taxes" provides information about taxes for the year.

13 The compulsory inventories are described in Note 14, "Inventories – Compulsory inventories".

12) Other current assets

Other current assets of €95 million (€115 million at 31 December 2012) comprise:

(€ million)	31.12.2012	31.12.2013
Accrued income from regulated activities	78	61
	78	61
Other current assets:		
- Prepayments	37	34
	37	34
	115	95

Accrued income from regulated activities of €61 million relates to: (i) the current portion of natural gas transportation revenue invoiced below the restriction established by the Regulator (€56 million); and (ii) the current portion (€5 million) of the assets recorded against the recognition by the Electricity and Gas Authority of additional expenses borne during the second regulatory period (1 October 2005 - 31 December 2009) for the purchase of fuel gas used in the transportation business.

Prepayments (€34 million) refer mainly to the current portion of repayments on up-front fees and substitute tax on revolving credit lines[14] (€30 million) and to insurance premiums (€2 million).

NON-CURRENT ASSETS

13) Property, plant and equipment

Property, plant and equipment of €14,851 million (€14,522 million at 31 December 2012) comprises:

	31.12.2012							
(€ million)	Net opening value	Investments	Amortisation, depreciation and impairment losses	Disposals	Other changes	Net closing value	Gross closing value	Provision for depreciation and impairment losses (*)
Land	150	2			1	153	153	
Buildings	400	2	(15)	(2)	18	403	612	209
Plant and equipment	11,486	2	(478)	(12)	1,225	12,223	17,702	5,479
Industrial and commercial equipment	66	17	(17)	(2)		64	226	162
Other assets	19	1	(6)		15	29	96	67
Non-current assets under construction and payments on account	1,932	888		(3)	(1,167)	1,650	1,650	
	14,053	**912**	**(516)**	**(19)**	**92**	**14,522**	**20,439**	**5,917**

(*) Including impairment losses of €11 million.

14 Up-front fees and substitute tax are to be regarded as "transaction costs" pursuant to IAS 39; the relative charges are spread over the (expected) life of the financial instrument.

(€ million)	31.12.2013 Net opening value	Investments	Amortisation, depreciation and impairment losses	Disposals	Other changes	Net closing value	Gross closing value	Provision for depreciation and impairment losses (*)
Land	153	4			3	160	160	
Buildings	403	3	(12)		39	433	655	222
Plant and equipment	12,223		(496)	(5)	559	12,281	18,234	5,953
Industrial and commercial equipment	64	11	(21)	(1)	1	54	226	172
Other assets	29	1	(9)		13	34	109	75
Non-current assets under construction and payments on account	1,650	877		(3)	(635)	1,889	1,889	
	14,522	**896**	**(538)**	**(9)**	**(20)**	14,851	21,273	6,422

(*) Including impairment losses of €21 million.

Property, plant and equipment (€14,851 million) relates mainly to natural gas transportation (€12,133 million), storage (€2,420 million), distribution (€208 million) and regasification (€87 million) infrastructure.
Investments[15] (€896 million) relate to the transportation (€637 million), storage (€244 million), distribution (€10 million) and regasification (€5 million) segments.
The financial expenses capitalised during the year amounted to €34 million (€38 million in 2012).
Depreciation and impairment losses (€538 million) refers to economic and technical depreciation determined on the basis of the useful life of the assets or their remaining possible use by the Company.
The main annual depreciation rates adopted are included in the following ranges:

	Annual depreciation rate (%)
Buildings	
- Buildings	2-2.5 or greater, depending on residual life
Plant and equipment - Transportation	
- Pipelines	2 or greater, depending on residual life
- Stations	5 or greater, depending on residual life
- Gas reduction/regulation plants	5 or greater, depending on residual life
Plant and equipment - Storage	
- Pipes	2-2.5
- Treatment stations	4 or greater, depending on residual life
- Compression stations	5 or greater, depending on residual life
- Storage wells	1.66
Plant and equipment - Regasification	
- LNG plants	4 or greater, depending on residual life
Other plant and equipment	2.5-12.5
Metering equipment	5 or greater, depending on residual life
Industrial and commercial equipment	10-35
Other assets	10-33

15 The investments for the financial year made by each business segment are described in the "Business segment operating performance" section of the Directors' Report.

Disposals (€9 million) relate exclusively to sections of methane pipelines and some components of compression stations.

Other changes (-€20 million) relate essentially to: (i) the change in surplus pipes purchased for investment purposes and not yet used in production at the plants in relation to the natural gas transportation segment (-€33 million); (ii) grants for the period (-€25 million); and (iii) the change in the estimated (discounted) costs of site restoration and dismantling (+€36 million) in relation to the natural gas transportation and storage segments, which are offset by the recognition of a specific provision[16].

Government grants for capital expenditure and grants from other parties reducing the net value of property, plant and equipment amount respectively to €75 million (€76 million at 31 December 2012) and €257 million (€240 million at 31 December 2012). As at 31 December 2013, there are no uncollected government grants.

The value of plant and equipment includes site dismantling and restoration costs totalling €172 million, relating mainly to natural gas storage (€98 million) and transportation (€71 million) sites.

Summarised below are the changes occurring in provisions for depreciation and impairment losses over the year:

(€ million)	31.12.2012	Increases	Sales and eliminations	31.12.2013
Buildings	209	12	1	**222**
Plant and equipment	5,479	496	(22)	**5,953**
Industrial and commercial equipment	162	21	(11)	**172**
Other assets	67	9	(1)	**75**
	5,917	**538**	**(33)**	**6,422**

Contractual commitments for the purchase of property, plant and equipment, and for the provision of goods and services related to their construction, are disclosed in Note 30 "Guarantees, commitments and risks".

16 Further information can be found in Note 25, "Provisions for risks and charges".

Property, plant and equipment by business segment

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

(€ million)	31.12.2012	31.12.2013
Gross property, plant and equipment		
Business segments		
- Transportation	16,829	**17,447**
- Regasification	132	**136**
- Storage	**2,982**	**3,187**
- Distribution	483	**490**
- Corporate	13	**13**
Total	**20,439**	**21,273**
Provision for depreciation and impairment losses		
- Transportation	(4,876)	**(5,314)**
- Regasification	(43)	**(49)**
- Storage	(717)	**(767)**
- Distribution	(271)	**(282)**
- Corporate	(10)	**(10)**
Total	**(5,917)**	**(6,422)**
Net property, plant and equipment		
- Transportation	11,953	**12,133**
- Regasification	89	**87**
- Storage	2,265	**2,420**
- Distribution	212	**208**
- Corporate	3	**3**
	14,522	**14,851**

14) Compulsory inventories

Compulsory inventories, at €363 million (the same as at 31 December 2012), consist of the minimum quantities of natural gas that the storage companies are obliged to hold pursuant to Presidential Decree 22 of 31 January 2001. The quantities of gas in stock, corresponding to approximately 4.5 billion standard cubic metres of natural gas, are determined annually by the Ministry of Economic Development[17].

17 On 29 January 2014, the Ministry set the strategic storage volume for the 2014-2015 contractual storage year (1 April 2014 to 31 March 2015) at 4.62 billion cubic metres, more or less in line with the figure for the 2013-2014 contractual year (4.60 billion cubic metres). The quota pertaining to Stogit remained unchanged at 4.5 billion cubic metres.

15) Intangible assets

Intangible assets of €4,710 million (€4,593 million at 31 December 2012) comprise:

(€ million)	31.12.2012							
	Net opening value	Investments	Amortisation, depreciation and impairment losses	Disposals	Other changes	Net closing value	Gross closing value	Provision for amortisation and impairment losses (*)
Intangible assets with a finite useful life								
- Service concession agreements (**)	3,618	321	(143)	(929)	900	3,767	6,004	2,237
- Industrial patent rights and intellectual property rights	87	5	(38)	(2)	70	122	663	541
- Concessions, licences, trademarks and similar rights (**)	686		(9)		(18)	659	735	76
- Non-current assets under construction and payments on account	44	57			(70)	31	31	
- Other intangible assets		5				5	52	47
	4,435	**388**	**(190)**	**(931)**	**882**	**4,584**	**7,485**	**2,901**
Intangible assets with an indefinite useful life								
- Goodwill	9					9	9	
	4,444	**388**	**(190)**	**(931)**	**882**	**4,593**	**7,494**	**2,901**

(*) Including impairment losses of €1 million.

(**) The net book value at 31 December 2012 of expenses relating to the distribution service concession (€18 million) was reclassified from "Concessions, licences, trademarks and similar rights" to "Service concession agreements".

(€ million)	31.12.2013							
	Net opening value	Investments	Amortisation, depreciation and impairment losses	Disposals	Other changes	Net closing value	Gross closing value	Provision for amortisation and impairment losses (*)
Intangible assets with a finite useful life								
- Service concession agreements	3,767	319	(181)	(14)	(32)	**3,859**	**6,242**	**2,383**
- Industrial patent rights and intellectual property rights	122	10	(48)		57	**141**	**737**	**596**
- Concessions, licences, trademarks and similar rights	659	1	(2)		1	**659**	**737**	**78**
- Non-current assets under construction and payments on account	31	64			(58)	**37**	**37**	
- Other intangible assets	5					**5**	**53**	**48**
	4,584	**394**	**(231)**	**(14)**	**(32)**	**4,701**	**7,806**	**3,105**
Intangible assets with an indefinite useful life								
- Goodwill	9					**9**	**9**	
	4,593	**394**	**(231)**	**(14)**	**(32)**	**4,710**	**7,815**	**3.105**

(*) Including impairment losses of €1 million.

Concession agreements (€3,859 million) relate to natural gas distribution activities in Italy carried out under the concession system as assigned by local public authorities. Tenders for new natural gas distribution service concessions will no longer be issued by each municipality, but by the 177 multi-municipality minimum geographical areas (known as ATEMs) created by a dedicated Ministerial Decree, published in the Official Gazette in 2011.
Legislative Decree 164/00 stipulated that the new duration of the concessions, which must be put out to tender, may not exceed 12 years.
Industrial patent rights and intellectual property rights of €141 million (€122 million at 31 December 2012) mainly concern information systems and applications in support of operating activities.
Concessions, licences, trademarks and similar rights (€659 million) refer essentially to concessions for the natural gas storage business.
Intangible assets with an indefinite useful life consist only of the goodwill recognised in 2008 following the acquisition by Italgas of 100% of the shares of Siciliana Gas (€9 million).
Investments in intangible assets of €394 million (€388 million at 31 December 2012) refer mainly to: (i) the construction and upgrading of natural gas distribution infrastructure (€319 million); and (ii) investment projects in progress (€64 million), relating mainly to the development of information systems.
Other changes (-€32 million) relate essentially to: (i) grants for the period (-€46 million); and (ii) the acquisition of concessions to exercise natural gas distribution activities (+€14 million).
Government grants for capital expenditure and grants from other parties reducing the net value of intangible assets amounted respectively to €368 million (€343 million at 31 December 2012) and €365 million (€487 million at 31 December 2012) and essentially concern the natural gas distribution segment. At 31 December 2013, uncollected government grants amounted to €1 million (the same as at 31 December 2012).
The main amortisation rates adopted on an annual basis are the following:

	Annual amortisation rate (%)
Service concession agreements	
Infrastructure:	
- Gas distribution network	2
- Gas derivation plants	2.5
- Distribution metering equipment	5-7.5 or greater, depending on residual life
Concession expenses	8.3
Other intangible fixed assets	
- Industrial patent rights and intellectual property rights	20-33
- Other intangible assets	20, or according to the duration of the contract

Existing contractual commitments for the purchase of intangible assets, and of services related to their development, are disclosed in Note 30, "Guarantees, commitments and risks".

Intangible assets by business segment

Intangible assets are broken down by business segment as follows:

(€ million)	31.12.2012	31.12.2013
Gross intangible assets		
Business segments		
- Transportation	423	**456**
- Regasification	2	**3**
- Storage	**795**	**801**
- Distribution	6,234	**6,509**
- Corporate	40	**46**
Total	**7,494**	**7,815**
Provision for amortisation and impairment losses		
- Transportation	(345)	**(369)**
- Regasification	(2)	**(2)**
- Storage	(122)	**(127)**
- Distribution	(2,401)	**(2,574)**
- Corporate	(31)	**(33)**
Total	**(2,901)**	**(3,105)**
Net intangible assets		
- Transportation	78	**87**
- Regasification		**1**
- Storage	673	**674**
- Distribution	3,833	**3,935**
- Corporate	9	**13**
	4,593	**4,710**

Due to the nature of the activities carried out by the Group, or of regulated activities in the gas supply chain, the recoverable value of property, plant and equipment and intangible assets was defined in keeping with the estimated value of net invested capital recognised for such assets for tariff purposes (regulatory asset base, or RAB) by the Electricity and Gas Authority, net of flat-fee components[18], the provision for employee severance pay (TFR) and grants received.
For the purposes of identifying cash-generating units (CGUs) and allocating any goodwill, in accordance with the segmentation defined by the Electricity and Gas Authority for the definition of return on assets, the CGUs are represented by the business units (BUs) that carry out regulated activities in the natural gas transportation, regasification, storage and distribution sectors. For the distribution sector, in view of the specific applicable regulation, the CGUs are identified with ATEMs.
The recoverable value of property, plant and equipment, including compulsory inventories, and intangible assets is around €23.7 billion[19].

18 The RAB is the reference basis for determining service tariffs and, therefore, the cash flows generated by the assets. The value of the RAB is defined using the historical cost method, revalued for fixed capital, and on a flat-fee basis for working capital.

19 Estimated value as at 31 December 2013.

16) Equity-accounted investments

Equity-accounted investments of €1,024 million (€473 million at 31 December 2012) comprise:

	31.12.2012						
(€ million)	Opening value	Acquisitions and subscriptions	Capital gains from measurement using the equity method	Sales and repayments	Decrease owing to dividends	Other changes	Closing value
Investments in entities under joint control	269	133	54		(34)		422
Investments in associates	48		1				49
Investments in subsidiaries	2	2				(2)	2
	319	**135**	**55**		**(34)**	**(2)**	**473**

	31.12.2013								
(€ million)	Opening value	Acquisitions and subscriptions	Capital gains from measurement using the equity method	Capital losses from measurement using the equity method	Sales and repayments	Decrease owing to dividends	Exchange rate conversion differences	Other changes	Closing value
Investments in entities under joint control	422	597	69	(27)	(9)	(81)	(5)	4	**970**
Investments in associates	49		3			(2)			**50**
Investments in subsidiaries	2	2							**4**
	473	**599**	**72**	**(27)**	**(9)**	**(83)**	**(5)**	**4**	**1,024**

Acquisitions and subscriptions (€599 million) mainly concern the acquisition of a 45% stake in TIGF Holding SAS (€597 million[20]). Following an agreement signed on 5 April 2013 with the Total group, on 30 July 2013 TIGF Holding, which is controlled by Snam (45%), Singapore sovereign wealth fund GIC (35%) and EDF (20%, through its fund dedicated to the liabilities from the dismantling of nuclear reactors), acquired (through TIGF Investissements, a wholly owned subsidiary of TIGF Holding) the entire share capital of TIGF, a company involved in the transportation and storage of gas in the south-west of France. TIGF Investissements paid Total around €1.6 billion for the equity acquisition in a deal with an enterprise value of around €2.4 billion.

20 This amount represents the total financial outlay incurred by Snam, and includes: (i) the subscription of 45% of the share capital of TIGF Holding SAS (€241 million); (ii) the pro-rata subscription (45%) of a convertible bond issued by TIGF Investissements SAS (€356 million), which was fully recognised by the issuer as an equity instrument pursuant to IAS 32.

Capital gains from measurement using the equity method of €72 million relate essentially to Azienda Energia e Servizi Torino S.p.A. (€36 million), Toscana Energia S.p.A. (€19 million), in relation to the distribution segment, and Gasbridge 1 B.V. and Gasbridge 2 B.V. (€12 million), in which Snam S.p.A. holds an equity investment.
Capital losses from measurement using the equity method of €27 million relate exclusively to TIGF Holding SAS, which was affected by the expenses (mainly stamp duty) incurred by TIGF Investissements in its acquisition of TIGF S.A.
The net value of equity-accounted investments concerns the following companies:

(€ million)	31.12.2012		31.12.2013	
	Net value	% held by shareholder	Net value	% held by shareholder
Jointly controlled entities:				
- TIGF Holding SAS			562	45.00%
- Toscana Energia S.p.A.	161	48.08%	152	48.08%
- Gasbridge 1 B.V. and Gasbridge 2 B.V.	134	50%	127	50%
- Azienda Energia e Servizi Torino S.p.A.	123	49%	126	49%
- Metano Borgomanero S.p.A. (*)	1	50%		50%
- Metano S. Angelo Lodigiano S.p.A.	1	50%	1	50%
- Metano Arcore S.p.A.	1	50%	1	50%
- Umbria Distribuzione Gas S.p.A.	1	45%	1	45%
Total for jointly controlled entities	422		970	
Associates:				
- ACAM Gas S.p.A.	49	49%	50	49%
Total for associates	49		50	
Subsidiaries:				
- Servizi Territori Aree e Penisole S.p.A.	2	92.43%	4	100%
Total for subsidiaries	2		4	
	473		1,024	

(*) In liquidation.

Investments in subsidiaries, companies under joint control and associates can be found in the appendix "Shareholdings, associates and equity investments of Snam S.p.A. at 31 December 2013", which is an integral part of these notes.

Other information on equity investments

The amounts from the most recent financial statements available for non-consolidated subsidiaries, jointly controlled entities and associates, proportionately to the percentage of ownership, are as follows:

	31.12.2012			31.12.2013		
(€ million)	Non-consolidated subsidiaries	Jointly controlled entities	Associates	Non-consolidated subsidiaries	Jointly controlled entities	Associates
Total assets	8	807	65	10	2,080	62
Total liabilities	5	340	13	5	1,067	9
Net revenue		149	11		224	10
EBIT		87	4		58	4
Net profit for the year		50	2		37	2

17) Other non-current assets

Other non-current assets of €147 million (€130 million at 31 December 2012) break down as follows:

(€ million)	31.12.2012	31.12.2013
Accrued income from regulated activities	54	80
Other non-current assets:		
- Prepayments	67	32
- Security deposits	6	14
- Other assets	3	21
	76	67
	130	147

Accrued income from regulated activities (€80 million) concerns the non-current portion of revenue invoiced below the restriction established by the Regulator in the natural gas transportation segment.
Prepayments (€32 million) refer mainly to the non-current portion of up-front fees and substitute tax on revolving credit lines.

18) Assets held for sale and directly related liabilities

Assets held for sale of €23 million (the same as at 31 December 2012) concern a property complex owned by Italgas, for which sales negotiations are under way as a result of the commitments arising from the Italgas purchase agreement with Eni[21].

21 For information on commitments made by the parties, see Note 30, "Guarantees, commitments and risks – Other commitments and risks – Commitments deriving from the agreement to purchase Italgas and Stogit from Eni".

Liabilities directly related to assets held for sale of €7 million (€8 million at 31 December 2012) concern environmental provisions for expenses involved in the restoration of the aforementioned property complex.

CURRENT LIABILITIES

19) Short-term financial liabilities

Short-term financial liabilities of €1,947 million (€505 million at 31 December 2012) are denominated entirely in euros and relate mainly to revolving and non-revolving credit lines with banks (€1,936 million).
The market value of the financial liabilities is analysed in Note 30, "Guarantees, commitments and risks".
At 31 December 2013, Snam had unused uncommitted credit lines worth €0.14 billion.
At 31 December 2013, there were no breaches of loan agreements.

20) Trade and other payables

Trade and other payables of €1,898 million (€1,477 million at 31 December 2012) comprise:

(€ million)	31.12.2012	31.12.2013
Trade payables	764	1,047
Payables for investment activities	406	379
Other payables	307	472
	1,477	1,898

Trade payables of €1,047 million (€764 million at 31 December 2012) relate mainly to the natural gas transportation (€757 million, including €619 million relating to gas balancing activities), storage (€134 million) and distribution (€99 million) business segments.
Payables for investment activities of €379 million (€406 million at 31 December 2012) refer mainly to the natural gas transportation (€186 million), distribution (€96 million) and storage (€65 million) business segments.
Other payables of €472 million (€307 million at 31 December 2012) break down as follows:

(€ million)	31.12.2012	31.12.2013
IRES payables for the national tax consolidation scheme	7	1
Other payables:		
- Payables to the Electricity Equalisation Fund	179	330
- Payables to employees	46	50
- Payables to pension and social security institutions	29	32
- Payables to the government	9	25
- Payments on account and advances	5	5
- Other	32	29
	300	471
	307	472

Payables to the Electricity Equalisation Fund (€330 million) concern accessory tariff components that mainly relate to: (i) the transportation business segment (measures and steps for energy savings and the development of renewable sources in the natural gas sector, fees arising from application of revenue guarantees for the storage service and subsidised tariffs for disadvantaged gas customers), pursuant respectively to Electricity and Gas Authority Resolutions ARG/gas 177/10, ARG/gas 29/11 and ARG/com 93/10 (€208 million), and from the application of Resolutions 351/2012/R/gas and 520/2013/R/gas for the recovery of the resources necessary to cover the expenses connected with the gas system balancing system (€39 million); (ii) the storage segment (coverage of the equalisation imbalances account), pursuant to Resolution 50/06 (€16 million); and (iii) the distribution segment (energy savings, gas service quality, equalisation imbalances and disadvantaged customers), mainly pursuant to Resolution ARG/gas 159/08 (€67 million).
Payables to the government (€25 million) primarily involve payables to municipalities for concession fees for the distribution business.
The fair value measurement of trade and other payables has no material impact given the short period of time between when the payable arises and its due date.
Note 38 "Related-party transactions" contains information about payables due to related parties.

21) Current income tax liabilities

Current income tax liabilities of €95 million (€46 million at 31 December 2012) relate to IRES and additional IRES payables of €92 million and IRAP payables of €3 million.

22) Other current tax liabilities

Other current tax liabilities of €47 million (€28 million at 31 December 2012) comprise:

(€ million)	31.12.2012	31.12.2013
VAT	16	**34**
IRPEF withholdings for employees	12	**12**
Other taxes and duties		**1**
	28	**47**

23) Other current liabilities

Other current liabilities of €88 million (€218 million at 31 December 2012) comprise:

(€ million)	31.12.2012	31.12.2013
Prepaid income from regulated activities	160	**58**
Derivatives:		
- Accruals on derivatives		**1**
Other current liabilities:		
- Deferred and prepaid revenue and income	58	**29**
	218	**88**

Prepaid income from regulated activities of €58 million relates to: (i) the transportation business segment (€41 million) and concerns the short-term portion of revenue invoiced in excess of the restriction established by the Electricity and Gas Authority, and penalties charged to users who exceeded the committed capacity; this amount is to be returned through tariff adjustments pursuant to Resolution 166/05; and (ii) the natural gas storage business segment (€17 million) and concerns payments for balancing and stock replenishment, which are to be returned to service users based on the provisions of Resolution 50/06 of the Electricity and Gas Authority.
Other liabilities (€29 million) relate mainly to the current portion (€26 million) of the higher quantities of fuel gas allocated by users in 2012 pursuant to Resolution ARG/gas 184/09 compared with the quantities actually used in that year, which will be equalised in the next year by reducing the quantities allocated by users.
Information on the fair value of derivatives at 31 December 2013 is summarised below.

(€ million)	31.12.2012		31.12.2013	
	Assets	Liabilities	Assets	Liabilities
Foreign currency derivatives				
Cross currency swap (CCS)				6
Less:				
- Non-current share				6
Current share				

During the course of 2013, a CCS was put in place to hedge the exchange rate risk relating to the issuance of a ¥10 billion bond. The six-year bond has a maturity of 25 October 2019 and a half-yearly coupon with an annual fixed rate of 1.115%. The derivative was used to convert the fixed-rate long-term foreign-currency liability into an equivalent liability in euros.
The fair value of hedging derivatives[22], and their classification as an asset/liability over 12 months (non-current) or an asset/liability within 12 months (current), have been determined using generally accepted financial measurement models and market parameters at the reporting date. The table below shows the characteristics of the CCS, which is designated as a cash flow hedge pursuant to IAS 39, as well as its market value:

Type of contract	Start of contract (date)	End of contract (date)	Duration (years)	Nominal value (€ million)(*) 31.12.2012	Nominal value (€ million)(*) 31.12.2013	Sale exchange rate (¥/€)	Purchase exchange rate (JPY/€)	Market value (€ million) 31.12.2012	Market value (€ million) 31.12.2013
Cross currency swap	25.10.2013	25.10.2019	6		75	Spot	133.98		(7)

(*) Equal to a value of ¥10 billion at an exchange rate of ¥133.98/€.

22 Pursuant to IFRS 13, the determination of fair value takes non-performance risk into account. This risk includes changes in both the counterparty's creditworthiness and that of the issuer.

In relation to such contracts, the Company agrees with its counterparties on the exchange of two capital flows (at the time of entering into the contract and upon the maturity of the underlying financial instrument) and periodic interest flows (on the same dates provided for the hedged item) denominated in different currencies at a predetermined exchange rate.
The table below shows the swaps in place by type, the weighted average exchange rate and the maturity of the transactions. The variable average rates are based on rates at year-end; they are subject to changes which may significantly affect future financial flows.

(€ million)	2012	2013
Purchase at fixed exchange rate/Sell at spot exchange rate – Nominal value (€ million)		75
- Average purchase exchange rate (¥/€)		133.98
- Average sale exchange rate (¥/€)		138.2
- Weighted average maturity (years)		5.6

NON-CURRENT LIABILITIES

24) Long-term financial liabilities and short-term portions of long-term liabilities

Based on the table used in the Directors' Report, net financial debt can be broken down as follows:

(€ million)	31.12.2012			31.12.2013		
	Current	Non-current	Total	Current	Non-current	Total
Financial liabilities			**12,554**			**13,328**
Short-term financial liabilities	505		505	**1,947**		**1,947**
Long-term financial liabilities	110	11,939	12,049	**303**	**11,078**	**11,381**
Financial receivables and cash and cash equivalents			**(15)**			**(2)**
Cash and cash equivalents	(15)		(15)	**(2)**		**(2)**
	601	**11,938**	**12,539**	**2,248**	**11,078**	**13,326**

Long-term financial liabilities

Long-term financial liabilities, including the short-term portions, of €11,381 million (€12,049 million at 31 December 2012) comprise:

(€ million)	31.12.2012			31.12.2013		
	Short-term portion	Long-term portion	Total	Short-term portion	Long-term portion	Total
Banks	29	5,972	**6,001**	**105**	**2,417**	**2,522**
Ordinary bonds	81	5,965	**6,046**	**198**	**8,659**	**8,857**
Other lenders		2	**2**		**2**	**2**
	110	**11,939**	**12,049**	**303**	**11,078**	**11,381**

The reduction in long-term financial liabilities (€668 million) was due to the combined effect of loans taken out and repayments made in 2013.
Loans taken out (€3,808 million) mainly concerned: (i) the issuance of five bonds for a total nominal value of €1,945 million; (ii) the launch of two taps of existing bonds for a total incremental amount of €750 million; (iii) the granting of three loans by the European Investment Bank (EIB), worth €300 million, €283 million and €65 million respectively (floating-rate amortised loans); and (iv) the use of revolving credit lines relating to bilateral loans with third-party banks for a total nominal amount of €225 million.
Repayments (€4,471 million) mainly concerned: (i) the early repayment of a pool loan from third-party banks for a nominal amount of €1,500 million, whose natural expiry was scheduled for 2017; and (ii) revolving credit lines relating to bilateral loans with third-party banks for a total nominal amount of €2,860 million.
The following table provides a breakdown of bonds by issuer and currency, showing the maturity date and the rate of interest:

EURO MEDIUM TERM NOTES (EMTN)

(€ million)

Issuing company	Currency	Nominal amount	Issue discount and accrued interest	Total	Rate (%)	Maturity
Snam S.p.A.	€	1,500	38	1,538	3.875	**2018**
Snam S.p.A.	€	1,250	40	1,290	3.5	**2020**
Snam S.p.A.	€	1,250	12	1,262	2.375	**2017**
Snam S.p.A.	€	1,000	42	1,042	5	**2019**
Snam S.p.A. (*)	€	1,000	18	1,018	4.375	**2016**
Snam S.p.A.	€	1,000	7	1,007	5.25	**2022**
Snam S.p.A.	€	750		750	2	**2015**
Snam S.p.A. (**)	€	500	9	509	3.375	**2021**
Snam S.p.A.	€	300		300	Floating	**2016**
Snam S.p.A.	€	70	1	71	2.625	**2018**
Snam S.p.A. (***)	Yen	70		70	1.115	**2019**
		8,690	**167**	**8,857**		

(*) Bond tapped for an incremental amount of €500 million, with the same interest rate and maturity as the original placement.
(**) Bond tapped for an incremental amount of €250 million, with the same interest rate and maturity as the original placement.
(***) Bond corresponding to ¥10 billion converted into euros at the year-end spot exchange rate. The liability was converted into euro using a cross currency swap.

Financial liabilities to banks (€2,522 million) refer to: (i) revolving credit lines (€1,072 million); and (ii) term loans worth a total of €1,450 million, including €1,350 million[23] relating to EIB funding and €100 million relating to a loan from a private bank, maturing on 29 January 2014.

23 The amount includes two loans agreed with CDP concerning EIB funding for a total of €403 million.

At 31 December 2013, Snam had unused committed revolving credit lines worth approximately €5.2 billion[24]. There were no breaches of loan agreements at the reporting date.
Long-term financial liabilities (€11,381 million, including the short-term portions) are indicated below with their respective maturities:

(€ million)	Value at 31 December		Maturity	Long-term maturity					Total long-term
	2012	2013	2014	2015	2016	2017	2018	After 2018	
Banks	6,001	2,522	105	790	320	20	51	1,236	2,417
Ordinary bonds	6,046	8,857	198	748	1,296	1,247	1,562	3,806	8,659
Other lenders	2	2						2	2
	12,049	11,381	303	1,538	1,616	1,267	1,613	5,044	11,078

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

(€ million)	31.12.2012		31.12.2013	
	Amount	%	Amount	%
At fixed rate (*)	6,048	50	8,559	75
At floating rate	6,001	50	2,822	25
	12,049	100	11,381	100

(*) At 31 December 2013, fixed-rate loans referred almost exclusively to bonds.

At 31 December 2013, Snam had medium- and long-term loans from a pool of national and international banks. Some bilateral loan agreements were also entered into with these banks. The main medium- to long-term financial payables are also subject, inter alia, to the usual covenants imposed in international market practice, e.g. financial covenants and negative pledge, pari passu and change of control clauses.
Specifically, the pool loans and most of the bilateral loans are subject, inter alia, to:

- a financial covenant stipulating compliance by Snam with a set ratio of net financial debt to RAB, as defined in the loan agreements;
- a negative pledge covenant pursuant to which Snam and the Group subsidiaries are subject to limitations in terms of pledging real property rights or other restrictions on all or part of the respective assets, shares or merchandise, and/or documents representing merchandise; this covenant is subject to set expiry dates and to exceptions on restrictions whose creation and/or existence is explicitly permitted.

Snam also had the following in place at 31 December 2013:

- medium- and long-term loan agreements with Cassa Depositi e Prestiti S.p.A. concerning EIB funding. The loans are subject to obligations in line with the provisions applicable to the other medium- and long-term bank loans described above;
- medium- and long-term loans taken out with the EIB, which are subject to contractual clauses in line with those described above, with the exception of the financial covenant.

24 In January and February 2014, as part of the process of optimising its debt structure, Snam reduced its available committed long-term credit lines by €0.5 billion.

At 31 December 2013, the financial liabilities subject to these restrictive clauses amounted to approximately €3.7 billion.

Failure to comply with the covenants established for these loans – in some cases only when this non-compliance is not remedied within a set time period – and the occurrence of other events, such as cross-default events, some of which are subject to specific threshold values, may result in Snam's failure to comply and could trigger the early repayment of the relative loan.

Bonds, worth a nominal €8,690 million, refer to securities issued under the Euro Medium Term Notes programme. The covenants set for the programme's securities reflect international market practices and relate, inter alia, to negative pledge and pari passu clauses. Specifically, under the negative pledge clause, Snam and its significant subsidiaries are subject to limitations in relation to the creation or maintenance of restrictions on all or part of their own assets or inflows to guarantee present or future debt, unless this is explicitly permitted.

Failure to comply with these covenants – in some cases only when this non-compliance is not remedied within a set time period – and the occurrence of other events, such as cross-default events, some of which are subject to specific threshold values, may result in Snam's failure to comply and could trigger the early repayment of the relative loan.

In 2013, all the checks on the financial covenants required under the contracts confirmed compliance with the covenants.

The market value of the long-term financial liabilities is analysed in Note 30, "Guarantees, commitments and risks".

Below are details of net financial debt showing related-party transactions.

(€ million)	31.12.2012			31.12.2013		
	Current	Non-current	Total	Current	Non-current	Total
A. Cash and cash equivalents	15		15	2		2
B. Securities						
C. Cash (A+B)	**15**		**15**	**2**		**2**
D. Financial receivables not held for operating activities						
E. Short-term financial liabilities to banks	364		364	1,936		1,936
F. Long-term financial liabilities to banks	27	5,572	5,599	102	2,017	2,119
G. Bonds	81	5,965	6,046	198	8,659	8,857
H. Short-term financial liabilities to related parties	141		141	11		11
I. Long-term financial liabilities to related parties	2	400	402	3	400	403
L. Other short-term financial liabilities						
M. Other long-term financial liabilities		2	2		2	2
N. Gross financial debt (E+F+G+H+I+L+M)	**615**	**11,939**	**12,554**	**2,250**	**11,078**	**13,328**
O. Net financial debt (N-C-D)	**600**	**11,939**	**12,539**	**2,248**	**11,078**	**13,326**

25) Provisions for risks and charges

Provisions for risks and charges of €837 million (€757 million at 31 December 2012) are analysed in the table below:

(€ million)					Utilisations			
31.12.2012	Opening balance	Changes in estimates	Provisions	Increases due to passing of time	against charges	for excess	Other changes	31.12.2012
Provision for site dismantlement and restoration	306	122		11				439
Provision for environmental risk and charges	63		5		(5)		71	134
Provision for litigation	77		10			(11)		76
Other provisions	81		50		(7)		(16)	108
	527	**122**	**65**	**11**	**(12)**	**(11)**	**55**	**757**

(€ million)					Utilisations			
31.12.2013	Opening balance	Changes in estimates	Provisions	Increases due to passing of time	against charges	for excess	Other changes	31.12.2013
Provision for site dismantlement and restoration	439	36		12	(2)			**485**
Provision for environmental risk and charges	134	8	6	1	(4)			**145**
Provision for litigation	76		12		(1)	(24)		**63**
Other provisions	108		41		(9)		4	**144**
	757	**44**	**59**	**13**	**(16)**	**(24)**	**4**	**837**

Other changes in the estimate (-€44 million) relate essentially to: (i) site dismantling and restoration expenses (+€62 million) relating to natural gas transportation infrastructure; and (ii) revised estimates of site dismantling and restoration costs for natural gas storage (-€28 million) due to higher than expected discount rates.

"Other provisions" (€41 million) relate mainly to the estimated expenses for termination benefits (€26 million) recognised as part of the employee redundancy programme pursuant to Law 223/1991 and subsequent provisions. The one-year programme involves a total of around 300 Group employees.

The provision for site dismantling and restoration (€485 million) was recognised primarily due to expenses which are expected to be incurred for the removal of facilities and the restoration of sites in the natural gas storage (€402 million) and transportation (€77 million) business segments.

The provision for environmental risk and charges (€145 million) mainly included costs for environmental soil reclamation, pursuant to Law 471/1999, as subsequently amended, primarily for the disposal of solid waste, in relation to the distribution business.

The provision for litigation (€63 million) included costs which the Company has estimated it will incur for existing lawsuits.
Other provisions (€144 million) relate essentially to: (i) expenses that may arise from the commercial balancing activity and referring to counterparty risks relating to the entry of new operators into the natural gas market (€40 million); (ii) expenses recognised to offset the item "Change in inventories", arising from the difference between the estimated quantities of Unaccounted-For Gas (UFG), which the Company expects to calculate definitively in the four years from 2014 to 2017, and the forecast quantities that will be granted in kind by users as required by Resolution 514/2013/R/gas (€40 million); and (iii) the estimated expenses relating to termination benefits (€26 million).

26) Provisions for employee benefits

Provisions for employee benefits of €124 million (€129 million at 31 December 2012) can be broken down as follows:

(€ million)	31.12.2012	31.12.2013
Employee severance pay (TFR) (*)	99	94
Supplementary healthcare provision for Company executives of Eni (FISDE) (*)	8	8
Other employee benefit provisions	22	22
	129	124

(*) The figures recorded at 31 December 2012 were restated following the retrospective application of the new provisions of IAS 19. The effects of this restatement are described in Note 5, "Changes to accounting criteria".

The provision for employee severance pay (TFR) of €94 million is governed by Article 2120 of the Italian Civil Code and represents the estimated liability determined on the basis of actuarial procedures for the amount to be paid to employees at the time that the employment is terminated. The principal amount of the benefit is equal to the sum of portions of the allocation calculated on compensation items paid during the employment and revalued until the time that such relationship is terminated. In accordance with changes to the law introduced from 1 January 2007, severance pay to be accrued is earmarked for pension funds or the fund set up at the Istituto Nazionale Previdenza Sociale (INPS) [National Social Security Institute] or, for businesses with less than 50 employees, may be kept within the business. This means that a significant part of severance pay to be accrued is classified as a defined-contribution plan since the company's only obligation is to pay the contributions to the pension fund or to INPS. Liabilities related to severance pay pre-dating 1 January 2007 remains a defined-benefit plan to be valued using actuarial methods.
The supplementary healthcare provision for Company executives of Eni (FISDE) of €8 million includes the estimate of costs (determined on an actuarial basis) related to contributions to be paid to the supplementary healthcare provision benefiting current and retired executives.
FISDE provides financial supplementary healthcare benefits to Eni Group executives and retired executives whose most recent contract of employment was as an executive with the Eni Group. Executives of the Snam Group appointed up to October 2012 are registered under FISDE. Snam executives appointed after that date are registered with a supplementary healthcare fund classified as a defined-contribution plan. The Snam Group is also looking into the possibility of identifying a Group-wide supplementary healthcare fund. FISDE is funded through the payment of: (i) contributions from member companies; (ii) contributions from individual members for themselves and their immediate family; and (iii) ad hoc contributions for specific benefits.
The amount of the liability is determined by taking the contribution paid by the Company as a reference, as an approximate estimate of the healthcare costs incurred by the fund.

Other employee benefit provisions of €22 million concern long-term benefits connected with deferred cash incentive plans, long-term cash incentive plans (€14 million in total) and seniority plans (€8 million).
The corresponding obligations are determined using an actuarial valuation method and are discounted using a rate defined on the basis of the yields from bonds issued by leading companies. Revaluations of the liability (net asset) are recognised in full in the income statement.
Deferred cash incentive plans are allocated to executives who have met the goals set out in the year preceding the allocation year, and allocate a basic incentive that is disbursed after three years and varies according to the performance achieved by the Company during the course of the three-year period following the time of the allocation.
The long-term incentive plans replacing the preceding stock option allocations involve the payment, three years after being assigned, of a variable cash bonus tied to a measure of Company performance. Obtainment of the benefit is linked to the achievement of certain future performance levels and is conditional on the beneficiary remaining with the Company for the three-year period following the allocation (the "vesting period").
Seniority bonuses are benefits paid upon reaching a minimum service period at the Company, and are paid in kind.
Deferred cash incentive plans, long-term cash incentive plans and seniority bonuses are all classified as other long-term benefits pursuant to IAS 19.
Employee benefit provisions, which are determined by applying actuarial methods, can be broken down as follows[25]:

(€ million)	31.12.2012				31.12.2013			
	TFR	FISDE	Other	Total	TFR	FISDE	Other	Total
Current value of the obligation at the start of the year (*)	**82**	**7**	**20**	**109**	**99**	**8**	**22**	**129**
Current cost			6	6			6	6
Cost in interest	4		1	5	3	1		4
Revaluations (impairment losses)	18	1		19	(5)	(1)		(6)
- Actuarial gains and losses resulting from changes in the financial assumptions	17	1		18	(5)			(5)
- Effect of past experience	1			1		(1)		(1)
Benefits paid	(5)		(5)	(10)	(3)		(6)	(9)
Current value of the obligation at the end of the year (*)	**99**	**8**	**22**	**129**	**94**	**8**	**22**	**124**

(*) The figures recorded at 31 December 2012 were restated following the retrospective application of the new provisions of IAS 19. The effects of this restatement are described in Note 5, "Changes to accounting criteria".

The employee benefit plans recognised by Snam are subject, in particular, to interest rate risk, in the sense that a change in the discount rate could result in a significant change in the liability.

25 The table also provides a reconciliation of liabilities recorded for employee benefit provisions.

Costs related to employee benefit liabilities, which are recognised using actuarial assumptions and recorded in the income statement (€10 million), are broken down as follows:

(€ million)	2012				2013			
	TFR	FISDE	Other	Total	TFR	FISDE	Other	Total
Current cost			6	6			6	6
Interest expense on the obligation	4		1	5	3	1		4
Total	4		7	11	3	1	6	10
- of which recognised under personnel expenses	*4*		*7*	*11*	*3*	*1*	*6*	*10*

Costs for defined-benefit plans recognised under other components of comprehensive income break down as follows:

(€ million)	31.12.2012				31.12.2013			
	TFR	FISDE	Other	Total	TFR	FISDE	Other	Total
Revaluations (impairment losses)								
- Actuarial gains and losses resulting from changes in the financial assumptions	17	1		18	(5)			(5)
- Effect of past experience	1			1		(1)		(1)
Net liabilities recorded in employee benefit provisions	18	1		19	(5)	(1)		(6)

The main actuarial assumptions used to determine liabilities at the end of the year and to calculate the cost for the following year are indicated below:

%	TFR	FISDE	Other
2012			
Discount rates	3	3	1.15 - 3
Inflation rate	2	2	2
2013			
Discount rates	3.45	3.45	1.1 - 3.45
Inflation rate	2	2	2

The discount rate adopted was determined by considering the yields from bonds issued by leading companies in the eurozone with an AA rating.

The table below illustrates the effects of a reasonably possible change[26] in the discount rate at the end of the year:

(€ million)	Discount rate	
	Reduction of 0.5 percentage points	Increase of 0.5 percentage points
Effect on the net obligation	+5	-5

The forecast disbursement for employee benefit plans for the next 10 years is as follows:

FORECAST DISBURSEMENT FOR EMPLOYEE BENEFIT PLANS

(€ million)

Benefits paid by	2014	2015	2016	2017	2018	More than 5 and less than 10 years	Total
TFR	2	3	3	4	5	39	**56**
FISDE					1	2	**3**
Other plans	7	6	7	2		1	**23**
	9	**9**	**10**	**6**	**6**	**42**	**82**

The weighted average duration of obligations for employee benefit plans at the end of the year is nine years. The weighted average duration of obligations for defined-benefit plans (TFR and FISDE) is 10 years.

27) Deferred tax liabilities

Deferred tax liabilities of €727 million (€827 million at 31 December 2012) are stated net of offsettable prepaid tax assets of €575 million (€520 million at 31 December 2012). There are no prepaid tax assets which cannot be offset.

(€ million)	31.12.2012	Provisions	Utilisations	Other changes	31.12.2013
Deferred tax liabilities	1,347	25	(112)	42	**1,302**
Prepaid tax assets (*)	(520)	(64)	48	(39)	**(575)**
	827	**(39)**	**(64)**	**3**	**727**

(*) The figure recorded at 31 December 2012 was restated following the retrospective application of the new provisions of IAS 19. The effects of this restatement are described in Note 5, "Changes to accounting criteria".

26 With regard to FISDE, any changes relating to mortality do not have a significant effect on the liability.

Deferred tax assets and liabilities break down as follows based on the most significant temporary differences:

(€ million)	31.12.2012			31.12.2013		
	IRES	IRAP	Total	IRES	IRAP	Total
Deferred tax liabilities	1,285	62	**1,347**	**1,261**	**41**	**1,302**
Prepaid tax assets	(473)	(47)	**(520)**	**(524)**	**(51)**	**(575)**
Net deferred tax liabilities	**812**	**15**	**827**	**737**	**(10)**	**727**

Deferred tax assets and liabilities break down as follows based on the most significant temporary differences:

(€ million)	31.12.2012	Provisions	Utilisations	Other changes	31.12.2013
Deferred tax liabilities:					
- Excess and advance amortisation and depreciation	1,021	2	(65)		**958**
- Revaluation of property, plant and equipment	196		(13)		**183**
- Capital gains subject to deferred taxation	71	23	(27)		**67**
- Site dismantlement and restoration	27		(6)	42	**63**
- Capitalisation of financial expenses	15		(1)		**14**
- Impairment losses on receivables in excess of tax deductibility	5				**5**
- Financial leasing	1				**1**
- Other	11				**11**
	1,347	**25**	**(112)**	**42**	1,302
Prepaid tax assets:					
- Site dismantlement and restoration	(116)	(4)	4	(42)	**(158)**
- Provision for risks and charges and other non-deductible provisions	(143)	(20)	17		**(146)**
- Non-repayable and contractual grants	(132)	(6)	3		**(135)**
- Non-deductible amortisation and depreciation	(82)	(31)	9		**(104)**
- Employee benefits	(16)	(1)	1		**(16)**
- Income adjustments	(1)				**(1)**
- Other	(30)	(2)	14	3	**(15)**
	(520)	**(64)**	**48**	**(39)**	**(575)**
Net deferred tax liabilities	**827**	**(39)**	**(64)**	**3**	**727**

Prepaid tax assets and deferred tax liabilities are considered to be long term.
Note 35 "Income taxes" provides information about taxes for the year.

28) Other non-current liabilities

Other non-current liabilities of €691 million (€624 million at 31 December 2012) comprise:

(€ million)	31.12.2012	31.12.2013
Prepaid income from regulated activities	281	**286**
Derivatives:		
- Fair value of derivatives		**6**
Other non-current liabilities:		
- Deferred and prepaid revenue and income	314	**311**
- Prepaid contributions for connecting to the transportation network	3	**3**
- Other liabilities	26	**85**
	343	**399**
	624	**691**

Prepaid income from regulated activities (€286 million) relates to: (i) the non-current portion of payments for balancing and stock replenishment invoiced in 2011, 2012 and 2013 (€179 million) to be returned to service users based on the provisions of Resolution 50/06 of the Electricity and Gas Authority, and (ii) the non-current portion of transportation revenue invoiced in excess of the restriction established by the Regulator and penalties charged to service users that exceeded the committed capacity (€107 million); this amount is to be adjusted based on the provisions of Resolution 166/05 of the Electricity and Gas Authority.

Deferred and prepaid revenue and income (€311 million) refers to: (i) fees for the use of strategic gas withdrawn and not replenished by users under the terms of the Storage Code (€295 million); and (ii) the non-current portion of the prepaid fee for the concession to use fibre optic cables given to a telecommunications operator (€16 million).

Other liabilities (€91 million) refer essentially to security deposits paid by users of the balancing service pursuant to Resolution ARG/gas 45/11 (€79 million).

29) Shareholders' equity

Shareholders' equity of €5,994 million at 31 December 2013 (€5,916 million at 31 December 2012) breaks down as follows:

(€ million)	31.12.2012	31.12.2013
Snam shareholders' equity		
Share capital	3,571	**3,571**
Legal reserve	714	**714**
Share premium reserve	1,772	**1,322**
Consolidation reserve	(1,701)	**(1,701)**
Cash flow hedge reserve		**(1)**
Other reserves	12	**5**
Retained earnings	1,131	**1,520**
Reserve for remeasurement of employee benefit plans, IAS 19 (*)	(13)	**(9)**
Net profit	779	**917**
Less:		
- Treasury shares	(12)	**(7)**
- Interim dividend	(338)	**(338)**
	5,915	**5,993**
Capital and reserves attributable to minority interests		
Napoletanagas	1	**1**
	5,916	**5,994**

(*) The figure recorded at 31 December 2012 was restated following the retrospective application of the new provisions of IAS 19. The effects of this restatement are described in Note 5 "Changes to accounting criteria".

Share capital

The share capital as at 31 December 2013 consisted of 3,381,638,294 shares without nominal value (unchanged from 31 December 2012), with a total value of €3,571,187,994 (unchanged from 31 December 2012).

Legal reserve

The legal reserve stood at €714 million at 31 December 2013 (unchanged from 31 December 2012).

Share premium reserve

The share premium reserve at 31 December 2013 totalled €1,322 million (€1,772 million at 31 December 2012). The decrease of €450 million mainly reflects the payment of the balance of the dividend on 2012 profit by the issuer, Snam S.p.A. (€455 million).

Consolidation reserve

The negative consolidation reserve of €1,701 million (unchanged from 31 December 2012) includes the value derived from the difference between the acquisition cost of the Italgas and Stogit shareholdings (€4,628 million, including the additional transaction expenses and price adjustment following the agreements reached at transaction

closing) and the relative shareholders' equity attributable to the Group on the transaction completion date (€2,004 million and €923 million, respectively, for Italgas and Stogit).

Cash flow hedge reserve

The cash flow hedge reserve (-€1 million) includes the fair-value measurement of cash flow hedging derivatives relating to a cross currency swap used by the Company to convert a long-term bond from Japanese yen into euros.

(€ million)	Gross reserve	Tax effect	Net reserve
Reserve at 31.12.12			
Transfer to income statement	5	(2)	3
Changes in 2013	(6)	2	(4)
Reserve at 31.12.13	**(1)**		**(1)**

Other reserves

Other reserves of €5 million (€12 million at 31 December 2012) mainly refer to: (i) the reserve created for the cost of 1,672,850 treasury shares in the portfolio (€7 million); and (ii) the reserve relating to foreign-exchange differences at the end of the period on equity-accounted investments and denominated in currencies other than the euro (-€5 million).

Retained earnings

Retained earnings totalled €1,520 million (€1,131 million at 31 December 2012). The increase of €389 million was due to the allocation of 2012 profit.

Reserve for remeasurement of employee benefit plans, IAS 19

The reserve (-€9 million) was established pursuant to IAS 19 "Employee Benefits", effective from 1 January 2013, and records the unrecognised actuarial gains and losses recognised net of tax effect in items of other comprehensive income.

Treasury shares

The treasury shares in the portfolio are analysed below:

Period	Number of shares	Average cost (€)	Total cost (million €)	Share capital (%) (*)
Purchases				
Year 2005	800,000	4.399	3	0.04
Year 2006	121,731,297	3.738	455	6.22
Year 2007	73,006,653	4.607	336	3.73
	195,537,950	**4.061**	**794**	
Treasury stock allocated/sold to be deducted:				
- granted under the 2005 stock grant plans	(39,100)			
- sold under the 2005 stock option plans	(69,000)			
- sold under the 2006 stock option plans	(1,872,050)			
- sold under the 2007 stock option plans	(1,366,850)			
- sold under the 2008 stock option plans	(968,400)			
- cancelled following resolution by the Extraordinary Shareholders' Meeting	(189,549,700)			
Treasury shares held at 31 December 2013 (**)	**1,672,850**			

(*) The share capital is the same as that of the date of the last acquisition in the year.
(**) For a book value of €7 million.

At 31 December 2013, treasury shares held totalled 1,672,850, equal to 0.05% of the share capital.
At 31 December 2013, there were commitments to grant 545,600 treasury shares for stock option plans. At that date the market value of the shares totalled approximately €7 million[27].

Interim dividend

The interim dividend of €338 million reflects the interim dividend for 2013 of €0.10 per share resolved by the Board of Directors in its meeting of 30 July 2013 in accordance with Article 2433-bis, paragraph 5 of the Italian Civil Code. The interim dividend was made available for payment from 24 October 2013 with an ex-dividend date of 21 October 2013.

Dividends

The Ordinary Shareholders' Meeting of Snam S.p.A. of 26 March 2013 authorised the distribution of an ordinary dividend of €0.15 per share to pay the balance of the 2012 interim dividend of €0.10 per share. The remaining dividend (€507 million) was paid from 23 May 2013, with an ex-dividend date of 20 May 2013.

27 Calculated by multiplying the number of treasury shares by the official share price at 31 December 2013 (€4.04 per share).

In its meeting of 27 February 2014, the Board of Directors proposed to the Shareholders' Meeting convened for 15 April 2014 the distribution of an ordinary dividend of €0.25 per share. The balancing dividend of €0.15 per share, following the 2013 interim dividend of €0.10 per share, will be paid from 22 May 2014, with an ex-dividend date of 19 May 2014 and a record date of 21 May 2014.

30) Guarantees, commitments and risks

Guarantees, commitments and risks of €4,842 million (€6,107 million at 31 December 2012) comprise:

(€ million)	31.12.2012			31.12.2013		
	Other personal guarantees	Commitments and risks	Total	Other personal guarantees	Commitments and risks	Total
Other personal guarantees given on its own behalf:						
- Subsidiaries (*)	130		130	**127**		**127**
- Associates and companies under joint control	21		21			
- Other						
	151		**151**	**127**		**127**
Commitments						
Commitments for the purchase of goods and services		2,082	2,082		**1,675**	**1,675**
Commitments to make equity investments		89	89			
Other		1	1		**3**	**3**
		2,172	2,172		**1,678**	**1,678**
Risks:						
- Third-party assets on deposit		3,402	3,402		**2,640**	**2,640**
- Litigation		382	382		**397**	**397**
		3,784	3,784		**3,037**	**3,037**
	151	**5,956**	**6,107**	**127**	**4,715**	**4,842**

(*) At 31 December 2013, hold-harmless letters issued to Eni in favour of Snam amounted to €10 million.

Guarantees

Other personal guarantees issued in the interest of subsidiaries (€127 million) refer mainly to hold-harmless letters issued in favour of third parties for participation in tenders and concessions relating to the natural gas distribution service (€70 million) and performance bonds (€54 million).

Commitments

At 31 December 2013, commitments with suppliers to purchase property, plant and equipment and provide services relating to investments in property, plant and equipment and intangible assets under construction and development totalled €1,675 million (€2,082 million at 31 December 2012).

Risks

Risks concerning third-party assets on deposit, equal to €2,640 million (€3,402 million at 31 December 2012) relate to about 7.6 billion cubic metres of natural gas deposited at the storage sites by customers of the service. This amount was determined by applying the estimated unit repurchase cost of approximately €0.35 per standard cubic metre (€0.42 at 31 December 2012) to the quantities of gas deposited.

Risks concerning compensation and litigation (€397 million) relate to possible (but not probable) claims for compensation arising from ongoing litigation, with a low probability that the pertinent economic risk will arise.

FINANCIAL RISK MANAGEMENT

Introduction

In 2013, Snam established the Enterprise Risk Management (ERM) unit, which reports directly to the Chief Executive Officer and oversees the integrated process of managing corporate risk for all Group companies.

The main objectives of ERM are to define a risk assessment model that allows risks to be identified using standardised, Group-wide policies and then prioritised, to provide consolidated measures to mitigate these risks, and to draw up a reporting system.

ERM is part of Snam's broader internal control and risk management system.

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

- market risk deriving from exposure to fluctuations in interest and exchange rates;
- credit risk deriving from the possibility of counterparty default;
- liquidity risk arising from not having sufficient funds to meet short-term financial commitments;
- rating risk;
- debt covenant and default risk.

The policies and principles adopted by Snam to manage and control the risks arising from financial instruments (interest rate risk, currency risk, credit risk, liquidity risk, rating risk and debt covenant and default risk) are described below. In accordance with IFRS 7, there are also descriptions of the nature and size of the risks resulting from such instruments.

Information on other operating risks (natural gas price fluctuation risk, operational risk and segment-specific risks) can be found in the "Elements of risk and uncertainty" section of the Directors' Report.

Market risk

Interest rate risk

Fluctuations in interest rates affect the market value of the Company's financial assets and liabilities and its net financial expense. Snam aims to optimise interest rate risk while pursuing its financial objectives. The Snam Group has adopted a centralised organisational model. In accordance with this model, Snam's various departments access the financial markets and use funds to cover financial requirements, in compliance with approved objectives, ensuring that the risk profile stays within defined limits.

At 31 December 2013, 64% of financial debt was fixed rate (49% at year-end 2012) and the remaining 36% was floating rate (51% at year-end 2012).

At 31 December 2013, the Snam Group used external financial resources in the form of bilateral and syndicated loans with banks and other financial institutions, in the form of medium- to long-term loans and bank credit lines at interest rates indexed to the reference market rates, in particular the Europe Interbank Offered Rate (Euribor), and of mainly fixed-rate bonds placed as part of the EMTN programme.

Gross financial debt breaks down into fixed-rate and floating-rate debt as follows:

(€ million)	31.12.2012		31.12.2013	
	Amount	%	Amount	%
At fixed rate (*)	6,189	49	8,559	64
At floating rate	6,365	51	4,769	36
	12,554	100	13,328	100

(*) At 31 December 2013, fixed-rate loans refer exclusively to bonds.

The exposure to interest rate risk at 31 December 2013 is about 36% of the total exposure of the Group (51% at 31 December 2012).
The effects on shareholders' equity and profit at 31 December 2013, compared with the situation at the end of 2012, are shown below, assuming a hypothetical change of +/-10% in interest rates applied over the course of 2013.

(€ million)	Profit for the period		Shareholders' equity	
	2012		31.12.2012	
	+10%	-10%	+10%	-10%
Floating-rate loans	(7)	7		
Effect of interest rate change				
Floating-rate loans converted by IRSs into fixed-rate loans				
Effect of interest rate change on the fair value of hedging derivatives pursuant to IAS 39 – effective share			4	(4)
Effect on pre-tax profit	(7)	7	4	(4)
Tax effect	3	(3)	(2)	2
	(4)	4	2	(2)

(€ million)	Profit for the period		Shareholders' equity	
	2013		31.12.2013	
	+10%	-10%	+10%	-10%
Floating-rate loans				
Effect of interest rate change	(1)	1		
Effect on pre-tax profit				
Tax effect				
	(1)	1		

Currency risk

Snam's exposure to the risk of fluctuations in exchange rates concerns both transaction risk and translation risk. Transaction risk arises from the conversion of commercial or financial receivables/payables into currencies other than the functional currency and results from unfavourable exchange rate fluctuations between the transaction start date and its completion (payment received/made). Translation risk arises from fluctuations in exchange rates of other currencies against the consolidation currency (the euro), which may result in changes to consolidated shareholders' equity. Snam's aim is to minimise transaction risk, partly by using derivatives.

As at 31 December 2013, Snam's foreign-currency items essentially refer to a ¥10 billion bond maturing in 2019 and with an issue-date value of approximately €75 million. The bond has been fully converted into euros by a cross currency swap, with the same notional amount and maturity as the hedged component. This swap is considered to be a cash flow hedge derivative. Snam does not take out currency derivatives for speculative purposes.

The effects on shareholders' equity and profit at 31 December 2013 are shown below, assuming a change of +/-10% in €/¥ exchange rates actually applied during 2013:

(€ million)	Profit for the period (*)		Shareholders' equity	
	2013		31.12.2013	
	+10%	-10%	+10%	-10%
Loans denominated in currencies other than the euro				
Effect of exchange rate change			(6)	8
Effect on pre-tax profit			(6)	8
Tax effect			2	(2)
			(4)	6

(*) The exchange rate change has no effect on the profit for the period since the effects of such a change are offset by the effects of the hedging derivative.

Credit risk

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

For the risk of non-compliance by the counterparty concerning contracts of a commercial nature, the credit management for credit recovery and any disputes are handled by the business units and the centralised Snam departments.

Snam provides business services to a small number of operators in the gas sector, the largest of which by business volume 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, i.e. in documents which explain the rules regulating the rights and obligations of the parties involved in providing said services and contractual clauses which minimise the risk of non-compliance by the clients. In particular, the Codes require guarantees to be provided to partly cover obligations where the client does not possess a credit rating issued by one of the leading international agencies. The regulations also contain specific clauses which guarantee the neutrality of the entity in charge of balancing, an activity carried out from 1 December 2011 by Snam Rete Gas as the major transportation company. In particular, the balancing gives Snam Rete Gas an obligation to acquire, according to criteria of financial merit, the resources necessary to guarantee the safe and efficient movement of gas from entry points to withdrawal points, in order to maintain a constant balance in the network, procure the necessary storage resources for covering imbalances for individual users and adjust the relevant income statement entries.

Snam may, however, incur liabilities and/or losses from the failure of its clients to comply with payment obligations, partly because of the current economic and financial situation, which makes the collection of receivables more difficult and more important.

Snam's maximum exposure to credit risk at 31 December 2013 is the book value of the financial assets on its statement of financial position. An analysis of overdue and non-impaired receivables is shown below:

(€ million)	31.12.2012			31.12.2013		
	Trade receivables	Other receivables	Total	Trade receivables	Other receivables	Total
Non-overdue and non-impaired receivables	**1,151**	**114**	**1,265**	**1,526**	**168**	**1,694**
Impaired receivables net of provisions	**8**	**1**	**9**	**27**		**27**
Overdue and non-impaired receivables:						
- 0-3 months overdue	125		125	**21**		**21**
- 3-6 months overdue	21		21	**4**		**4**
- 6-12 months overdue	118	7	125	**8**		**8**
- more than 12 months overdue	498	5	503	**682**	**6**	**688**
Total overdue and non-impaired receivables	**762**	**12**	**774**	**715**	**6**	**721**
	1,921	**127**	**2,048**	**2,268**	**174**	**2,442**

Overdue and non-impaired receivables totalled €721 million (€774 million at 31 December 2012). They include: (i) storage sector receivables (€617 million), relating mainly to the use of strategic gas withdrawn and not replenished in time by users of the service (€609 million); and (ii) transportation sector receivables (€49 million), relating mainly to the natural gas transportation and balancing services. There is no risk of failing to recover receivables from balancing activities and strategic gas use since current regulations include specific mechanisms designed to ensure that the effects of failing to recover said receivables are neutral for the storage company and the Balancing Supervisor.
More information on balancing activities and strategic gas use can be found in Note 30, "Guarantees, commitments and risks".
There were no material credit risks at 31 December 2013. It should be noted, however, that around 40% of trade receivables (38% at 31 December 2012) were with extremely reliable clients, including Eni S.p.A., which represents 22% of total trade receivables (22% at 31 December 2012).

Liquidity risk

Liquidity risk is the risk that new financial resources may not be available (funding liquidity risk) or that the Company may be unable to convert assets into cash on the market (asset liquidity risk), meaning that it cannot meet its payment commitments. This may affect profit or loss should the Company be obliged to incur extra costs to meet its commitments or, in extreme cases, lead to insolvency and threaten the Company's future as a going concern.
Snam's risk management system aims to establish, under the financial plan, a financial structure which ensures an adequate level of liquidity for the group, minimising the related cost and maintaining a balance between the term and composition of its debt in line with business objectives.

As shown in the section "Interest rate risk", when implementing the debt refinancing programme, the Company had access to a wide range of funding sources through the credit system and the capital markets (bonds, bilateral contracts, pool financing with major domestic and international banks and loan agreements with the European Investment Bank (EIB)).
Snam's objective is to gradually achieve a balanced debt structure, in terms of composition between bonds and bank credit and the availability of usable committed bank credit lines, in line with its business profile and the regulatory environment in which it operates.
At 31 December 2013, Snam had unused committed long-term credit lines worth around €5.2 billion[28]. As at the same date, on top of the recourse to the banking system, the Euro Medium Term Notes (EMTN) programme provides for the issue of up to €1.3 billion of additional bonds by 30 June 2014, to be placed with institutional investors.

Rating risk

Moody's confirmed a Baa1 rating for Snam's long-term debt on 18 February 2014, raising the outlook from 'negative' to 'stable'. This follows a similar revision of the outlook for Italian sovereign debt on 14 February.
On 11 July 2013, Standard & Poor's downgraded Snam's long-term debt rating by one notch, from A- to BBB+. This followed a one-notch downgrade of Italy's sovereign debt rating on 9 July 2013 (from BBB+ to BBB with a negative outlook).
Snam's long-term rating is a notch higher than that of Italian sovereign debt. Based on the methodology adopted by the rating agencies, the downgrade by a notch of the current rating of the Italian Republic would trigger a downward adjustment of Snam's current rating by at least a notch.

Debt covenant and default risk

The risk of default consists of the possibility that the loan agreements contain provisions that provide the lender with the ability to activate contractual protections that could result in the early repayment of the loan upon the occurrence of specific events, thereby generating a potential liquidity risk.
At 31 December 2013, Snam has entered into unsecured bilateral and syndicated loan agreements with banks and other financial institutions. Some of these contracts provide, inter alia, for the following: (i) a financial covenant based on which the Company ensures that the relation between the net financial debt and the RAB will not exceed a contractually defined level; (ii) negative pledge commitments pursuant to which Snam and its subsidiaries are limited in the creation of real property rights or other restrictions on all or part of the respective assets, shares or merchandise; (iii) pari passu and change of control clauses; and (iv) limitations on the extraordinary transactions that the Company and its subsidiaries can carry out.
The bonds issued by Snam on 31 December 2013 as part of the Euro Medium Term Notes programme provide for compliance with covenants that reflect international market practices regarding, inter alia, negative pledge and pari passu clauses, but which do not encompass financial covenants.
Failure to meet these covenants, and the occurrence of other events, some of which are subject to specific thresholds, such as cross-default events, may result in Snam's failure to comply and could trigger the early repayment of the relative loan.
All the checks carried out during 2013 on the financial covenants provided for under the contracts in place confirmed that said covenants had been complied with.

28 As part of efforts to optimise its debt structure, in January and February 2014 Snam reduced its available committed long-term credit lines by €0.5 billion.

Future payments for financial liabilities, trade and other payables

The table below shows the amounts of payments contractually owed for financial payables, including interest payments, and the timing of expenditure related to trade and other payables.

(€ million)	Year of maturity						
	2014	2015	2016	2017	2018	Oltre	Total
Financial liabilities							
Long-term financial liabilities	303	1,540	1,620	1,270	1,621	5,064	**11,418**
Short-term financial liabilities	1,947						**1,947**
Interest on financial debt	336	358	329	275	245	535	**2,078**
	2,586	**1,898**	**1,949**	**1,545**	**1,866**	**5,599**	**15,443**
Trade and other payables							
Trade payables	1,047						**1,047**
Other payables and advances	850						**850**
	1,897						**1,897**
	4,483	**1,898**	**1,949**	**1,545**	**1,866**	**5,599**	**17,340**

Other information on financial instruments

In relation to the categories mentioned in IAS 39, Snam has no financial assets held to maturity, available for sale or held for trading. As a result, the financial assets and liabilities all fall within the classification of financial instruments measured at amortised cost.

The book value of financial instruments and their relative effects on results and on equity may be analysed as follows:

(€ million)	Book value		Income (expense)			
			Income statement		Shareholders' equity	
	31.12.2012	31.12.2013	2012	2013	31.12.2012	31.12.2013
Receivables and payables and other assets/liabilities measured at amortised cost						
Trade and other receivables (*)	2,029	**2,426**	(34)	**(1)**		
Financial receivables	2	**2**				
Trade and other payables (*)	(1,470)	**(1,897)**				
Financial payables (**)	(12,554)	**(13,328)**	(363)	**(450)**		
Financial instruments measured at fair value						
Net liabilities for hedging derivatives (**)		**(7)**	(404)	**(6)**	170	**(1)**

(*) The effects on the income statement are recorded under "Purchases, services and other costs" and "Financial income (expense)".
(**) The effects on the income statement are recorded under "Financial income (expense)".

Below is a comparison between the book value and the fair value of short- and long-term financial liabilities.

(€ million)	31 December 2012		31 December 2013	
	Book value	Market value	Book value	Market value
Assets				
Trade and other receivables	2,048	2,048	2,442	2,442
Other financial assets	15	15	2	2
Total financial assets	**2,063**	**2,063**	**2,444**	**2,444**
Liabilities				
Trade and other payables	1,477	1,477	1,898	1,898
Bonds	6,046	6,606	8,857	9,539
Financial liabilities to banks	6,365	6,399	4,458	4,458
Financial liabilities to other lenders	143	143	13	13
Total financial liabilities	**14,031**	**14,625**	**15,226**	**15,908**

The market value of bonds was determined using the official prices at the end of the year.
Financial liabilities to banks are all at floating rate, with the corresponding market value taken as the nominal repayment value.

Market value of financial instruments

Below is the classification of financial assets and liabilities measured at fair value on the statement of financial position in accordance with the fair value hierarchy defined on the basis of the significance of the inputs used in the measurement process. More specifically, in accordance with the characteristics of the inputs used for measurement, the fair value hierarchy comprises the following levels:

a) level 1: prices quoted (and not amended) on active markets for the same financial assets or liabilities;
b) level 2: measurements made on the basis of inputs differing from the quoted prices referred to in the previous point, which, for the assets/liabilities submitted for measurement, are directly (prices) or indirectly (price derivatives) observable;
c) level 3: inputs not based on observable market data.

With regard to the above, the classification of the financial assets and liabilities measured at fair value on the statement of financial position according to the fair value hierarchy concerned derivative financial instruments at 31 December 2013 classified at level 2 and recognised under "Other non-current liabilities" (€6 million).

Litigation

Snam is involved in civil, administrative and criminal cases and legal actions related to its normal business activities. According to the information currently available and considering the existing risks, Snam believes that these proceedings and actions will not have material adverse effects on its consolidated financial statements. The following is a summary of the most significant proceedings; unless indicated otherwise, no allocation has been made for the litigation described below because the Company believes it improbable that these proceedings will have an unfavourable outcome or because the amount of the allocation cannot be reliably estimated.

Criminal cases

Snam Rete Gas S.p.A. – Judiciary investigations into gas metering

In 2006, the public prosecutor at the Milan Court opened a criminal case on the issue of gas metering and the legitimacy and reliability of what are referred to as Venturi meters. This case involved several companies in the gas sector, including Snam Rete Gas (investigated pursuant to Articles 24 and 25-ter of Legislative Decree 231/2001). The notice of conclusion of preliminary investigations was served in November 2009. Some managers and department heads (including persons no longer employed by the Company) were placed under further investigation with regard to various matters.

The period under investigation was a time span that, in total, covered the years from 2003 to 2007, relating, in addition to the issues mentioned above, primarily to annual natural gas consumption reports and to assessment and/or payment of excise duties on natural gas, as well as to possible obstruction of supervisory duties. On 24 January 2012, the preliminary hearing judge ruled that there was insufficient evidence to proceed to a trial of any of those under investigation and simultaneously ordered the release from seizure of the meters. The public prosecutor at the Milan Court filed an appeal against certain parts of this ruling at the Court of Cassation.

On 11 February 2013, the Court of Cassation partially annulled (with remand) the sentence applied only to the violation of Article 40, paragraph 1, letter b) of Legislative Decree 504/95. The Court rejected the rest of the appeal. As a result, the indictments pursuant to Article 472, paragraphs 1 and 2 of the Italian Criminal Code and Article 2638, paragraph 1 of the Italian Civil Code, as well as the indictment pursuant to Legislative Decree 231/2001, no longer applied.

Following the remand implemented by the Court of Cassation, the new preliminary hearing opened on 12 December 2013. On 24 January 2014, with reference to the aforementioned Article 40, paragraph 1, letter b) of Legislative Decree 504/95, the preliminary hearing judge ordered committal to trial only for 2006 and 2007. The hearing is scheduled to begin on 18 April 2014; in the meantime, the defence has filed an appeal with the Court of Cassation.

Snam Rete Gas S.p.A. – Tresana incident

The public prosecutor at the Massa district court has initiated criminal proceedings against unknown persons in relation to an incident that occurred on 18 January 2012 in the Municipality of Tresana (MS). The event in question was a fire resulting from a gas leak, presumably caused by a broken dielectric fitting. The fire resulted in the death of a manual worker who was working for the contracting company and injuries to 10 people, as well as damage to houses and possessions.

The part of the plant affected by the fire and the surrounding area have been seized following an order from the public prosecutor at the Court of Massa, who has also appointed a court expert witness. Snam Rete Gas has appointed its own party expert witnesses.

The court expert witness filed their opinion on 29 November 2012. Following an application by the Company, the public prosecutor ordered the release from seizure of the aforementioned area on 11 November 2013.

Without prejudice to the ascertainment of liability, Snam Rete Gas promptly took action to satisfy, via its insurance company, the initial demands made by the municipal authorities and private parties.

Competition Authority

Italgas S.p.A. – Investigation of the gas distribution segment in Italy

On 13 October 2010, the Competition Authority started an investigation to determine whether Italgas had abused its dominant position, obstructing the Municipalities of Rome and Todi in preparing their calls for tenders for the contracting of gas distribution services.

The decision was taken in light of indications sent to the regulator by two local entities accusing the Company, as gas distribution service concessionaire, of having delayed or refused to give the necessary information to the authorities to prepare calls for tenders for contracting the service.

Italgas contested the charges, justifying its behaviour, both with regard to the delay and the refusal to send certain data and information, and with reference to the existence of a plan to shut out its competitors.
Through measures taken on 14 December 2011, the Competition Authority imposed a penalty on Italgas of approximately €5 million, for having conducted supposedly abusive practices in the context of tenders for the allocation of the gas distribution services held by the Municipality of Rome and the Municipality of Todi.
Under the terms and conditions of law, Italgas paid the fine it was given and, contrary to the order, sought an appeal before the administrative courts. Furthermore, on 16 March 2012 data on private contributions received were submitted to the municipality of Todi, proof of which was subsequently provided to the Competition Authority.
On 11 October 2013, the Lazio regional administrative court handed down a ruling reducing the fine issued to Italgas to a total of around €1.5 million. Now this ruling has become definitive, the Company has taken steps to recover some of the money it has already paid.

Electricity and Gas Authority

Snam Rete Gas S.p.A. – Investigation into violations on the subject of natural gas metering with regard to Snam Rete Gas S.p.A and request for information
Through Resolution VIS 97/11, notified on 15 November 2011, the Electricity and Gas Authority started proceedings to look into whether there were any violations with regard to natural gas metering, relating to alleged irregularities in gas metering with reference to 45 facilities.
Through its subsequent Resolution 431/2012/S/gas of 25 October 2012, the Electricity and Gas Authority opened further proceedings to determine whether there had been violations with regard to natural gas metering, simultaneously joining with the aforementioned investigative proceedings.
Snam Rete Gas S.p.A. has submitted proposals in relation to the alleged conduct, as well as an update on the situation at the regulating and metering facilities in question.
The Electricity and Gas Authority has yet to rule on the admissibility of the proposals.

Snam Rete Gas S.p.A. – Investigation into violation of the regulation on availability of natural gas higher heating value measurements
As a result of the Formal Investigation opened by Resolution VIS 85/09, the Electricity and Gas Authority, by way of Resolution VIS 12/11, issued a fine of €580,000 against Snam Rete Gas for violating the rules imposed on gas transportation companies with respect to the proper measurement and use of natural gas higher heating values (hereinafter HHV). This parameter is needed to determine the actual energy provided to operators on the market or individual sellers.
The Electricity and Gas Authority saw fit to penalise temporary interruption, in limited cases, of the mechanical and chemical reading of the HHV. The Electricity and Gas Authority also found that the violation did not involve any billing infraction and, when determining the amount of the fine, it took into consideration the corrective actions taken by Snam in order to improve the measurement service and to avoid similar negative reflections on its operations in the future.
As well as paying the fine, Snam has appealed to the courts to have the order reviewed. A date is yet to be set for a merit hearing before the Lombardy regional administrative court.

Snam Rete Gas S.p.A. – Resolution 145/2013/R/gas – Proceedings to determine the share of costs arising from outstanding receivables owing to the gas balancing supervisor
By way of Resolution 145/2013/R/gas of 5 April 2013, the Electricity and Gas Authority began *"proceedings to determine the share of costs arising from outstanding receivables owing to the gas balancing supervisor for the period 1 December 2011 - 23 October 2012"*.
The proceedings in question arose from the findings of the exploratory investigation, opened by way of Resolution 282/2012/R/gas, into the methods for regulating the economic aspects of balancing and the steps taken to protect the system relating to the period 1 December 2011 - 31 May 2012. By way of Resolution 444/2012/R/gas, the

Electricity and Gas Authority extended the period under review for the exploratory investigation up to 28 October 2012. Through Resolution 351/2012/R/gas, the Authority also identified measures for managing the costs declared by Snam Rete Gas, determining the share of costs owing to the balancing supervisor on the basis of the outcome of the exploratory investigation.
This investigation was concluded by way of Resolution 144/2013/E/gas, and the Electricity and Gas Authority used Resolution 145/2013/R/gas to rule that dedicated proceedings should be opened to determine the share of the costs owing to Snam Rete Gas with regard to *"fully outstanding receivables"* and to monitor the situation going forward.
We await the results of the Electricity and Gas Authority's investigations.
The Company has made an allocation to the provision for risks and charges.

Snam Rete Gas S.p.A. – Exploratory investigation into gas balancing service provision methods
Through Resolution 282/2012/R/gas of 6 July 2012, the Electricity and Gas Authority opened an exploratory investigation into balancing service provision methods for the period from 1 December 2011 to 31 May 2012. By way of Resolution 144/2013/E/gas, the Electricity and Gas Authority closed the investigation and mandated the heads of the relevant organisational units to conduct their respective follow-up work.

Italgas S.p.A. – Investigation into breaches with regard to information flows relating to gas metering data
With Resolution VIS 73/11 of 13 July 2011, the Electricity and Gas Authority commenced proceedings against three distribution companies, including Italgas, to investigate an alleged breach of provisions on providing information on attempted collections of metering data to the sellers, impose the relevant fines and adopt the necessary prescriptive actions.
On 28 March 2013, by way of Resolution 134/2013/S/gas, the Electricity and Gas Authority confirmed a breach by Italgas and handed down a €58,000 fine for failing to make metering data available to sellers within the agreed time frame. The Company paid this fine within the prescribed deadline.

Italgas S.p.A. – Investigation into breaches regarding gas distribution service quality
On 18 September 2009, by way of Resolution VIS 92/09, the Electricity and Gas Authority opened a formal investigation into alleged breaches regarding gas distribution service quality. Specifically, the alleged breach, on the part of the distributors operating networks with cast-iron pipes featuring hemp- and lead-sealed joints (not yet reconditioned), was failing to replace, renew or decommission a minimum of 30% of said networks by 31 December 2008.
Following the investigation, Resolution VIS 41/11 of the Electricity and Gas Authority, published on 24 March 2011, (i) confirmed that Italgas had complied with its replacement obligation across Italy, but (ii) found that the Company was responsible for failing to comply with said obligation in relation only to the distribution network in Venice, and imposed a fine of €51,000.
Italgas believes it was justified in not complying with the obligation in relation to the Venice network. It has made provision for payment of the fine subject to an appeal, which was submitted to the Lombardy regional administrative court. A date is yet to be set for the merit hearing.

Italgas S.p.A. – Breaches regarding gas distribution service quality
By way of Resolution 33/2012/S/gas of 9 February 2012, the Electricity and Gas Authority ordered the *"Opening of four proceedings to impose financial penalties in relation to gas distribution service quality"* to verify whether there had been breaches of Article 2, paragraph 1 and Article 12, paragraph 7, letter b) of Resolution ARG/gas 120/08 by four natural gas distribution companies, including Italgas S.p.A.
In particular, the Authority claims that, with regard to its Venice plant the Company had failed to comply with the obligation, pursuant to the aforementioned Article 12, paragraph 7, letter b), to renew or replace, by 31 December 2010, at least 50% of the cast-iron pipes with hemp and lead-sealed joints in operation as at 31 December 2003.
We await the results of the Electricity and Gas Authority's investigations.

Stogit S.p.A. – Resolution 91/2013/S/gas – Proceedings for the adoption of prescriptive measures against Speia S.p.A. and Stogit S.p.A. in relation to possible anomalies in the management of gas withdrawals from strategic reserves

With Resolution 91/2013/S/gas, published on 7 March 2013, the Electricity and Gas Authority initiated "*proceedings for the adoption of prescriptive measures against Speia S.p.A. and Stogit S.p.A. in relation to possible anomalies in the management of gas withdrawals from strategic reserves in the 2010-2011 storage thermal year*".

The proceedings resulted from the exploratory investigation that was launched with Resolutions 282/2012/R/gas and 444/2012/R/gas, defined through Resolution 144/2013/E/gas of 5 April 2013, relating to anomalies recorded on the balancing market during the period 1 December 2011 - 23 October 2012, and from the need for an in-depth investigation without prejudice to the right of both companies to defend themselves.

The purpose of the proceedings was to ascertain the facts concerning withdrawals of strategic gas by Speia during the 2010 storage thermal year and for the Authority to adopt prescriptive measures to protect one company or the other through sanctions, notwithstanding applicable regulations and in order to avoid irregular expense and consequences for end users.

The proceedings were brought to a close on 22 October 2013 with the publication of Resolution 463/2013/R/gas, through which the Electricity and Gas Authority ruled that there was no need to take any action against Stogit.

Tax cases

Stoccaggi Gas Italia S.p.A. – Registration

On 30 November 2012, the Milan branch of Italy's Revenue Agency served the Company with notice of a tax assessment for the value adjustment of the transfer by Saipem Energy Services S.p.A. to Stogit of its plant operating maintenance business unit. The assessed transfer value was greater than the declared value owing to a higher goodwill calculation, resulting in an additional €88,000 (approximately) in registration tax, plus fines and interest.

Pursuant to Article 12 of Legislative Decree 218/1997, the Company responded to this order by submitting a tax settlement proposal with a view to establishing whether the grounds exist to definitively resolve the matter. This proposal was not accepted.

The Company has submitted a joint appeal with Saipem S.p.A. to the Milan provincial tax commission, opposing the Milan branch of the Revenue Agency.

The Company has made an allocation to the provision for risks and charges.

Italgas S.p.A. – Direct and indirect taxes

The 2009 general tax audit performed by officials of the Revenue Agency (Piedmont branch, Audit and Collection Sector, Large Taxpayer Office), which ended on 7 December 2012 with the release of the official audit report, resulted in around €1 million of additional IRES, IRAP and VAT, plus penalties and interest. The Company is still working with the Revenue Agency to define the taxable income subject to assessment.

The Company has made an allocation to the provision for risks and charges.

Recovering receivables from users of the transportation system

The balancing service ensures that the network is safe and that costs are correctly allocated between the market operators. Balancing has both a physical and a commercial purpose. The physical balancing of the system consists of the set of operations through which the Dispatching department of Snam Rete Gas controls flow parameters (capacity and pressure) in real time in order to ensure that gas can move safely and efficiently from injection points to withdrawal points at all times. Commercial balancing consists of the activities required to correctly schedule, account for and allocate the transported gas, as well as the fee system that encourages users to maintain a balance between the volumes they inject into and withdraw from the network.

Pursuant to the current balancing regime, which was introduced by Resolution ARG/gas 45/11 and came into effect on 1 December 2011, in its role as Balancing Supervisor, Snam Rete Gas must ensure that it procures

the quantities of gas required to balance the system and offered on the market by users through a dedicated platform of the Energy Market Operator, and, accordingly, it must financially settle the imbalances of individual users by buying and selling gas on the basis of a benchmark unit price (the "principle of economic merit"). The Company must also ensure that it recovers sums owed for the settlement of imbalances from any defaulting users.

The initial regulation laid down by the Electricity and Gas Authority with Resolution ARG/gas 155/11 stated that users had to provide specific guarantees to cover their exposure and, where Snam Rete Gas had performed its duties diligently and had not been able to recover the costs related to provision of the service, these costs would have been recovered through a special fee determined by the Electricity and Gas Authority. This Resolution, with reference to the income statement items pertaining to the balancing system, stipulated that the Balancing Supervisor would receive from the Electricity Equalisation Fund the value of receivables unpaid by the end of the month following the month in which notification was given[29].

Through its subsequent Resolution 351/2012/R/gas, the Electricity and Gas Authority ordered, with effect from 1 October 2012, the application of the variable unit fee CV^{BL} to cover uncollected receivables, and the payment of the expenses to be recovered in monthly instalments of up to €6 million over a minimum of 36 months.

Through Resolution 282/2012/R/gas, as subsequently amended, the Electricity and Gas Authority opened an exploratory investigation into balancing service provision methods for the period 1 December 2011 - 23 October 2012[30]. The investigation was closed by Resolution 144/2013/E/gas of 5 April 2013, when the Electricity and Gas Authority: (i) adopted Resolution 145/2013/R/gas, through which it opened proceedings to determine the share of costs arising from uncollected receivables owing to the gas balancing supervisor for the period 1 December 2011 - 23 October 2012; we are awaiting the results of the Authority's investigations; and (ii) opened six proceedings aimed at establishing whether there have been violations regarding the natural gas balancing service.

With reference to the period under investigation, Snam Rete Gas, having terminated the transportation contracts of six users either defaulting on payments or failing to comply with the balancing obligations set forth in the industry regulations and the Network Code, initiated steps to recover the receivables, as described in more detail below, relating to income statement items arising from commercial balancing operations entrusted to Snam Rete Gas in its capacity as balancing supervisor, and also relating to the transportation service.

We initiated steps to recover receivables from six transportation service users. Specifically, the competent legal authorities issued 11 provisional executive orders, of which six related to receivables arising from the balancing service and five to receivables arising from the transportation service. Having received these orders, Snam Rete Gas initiated the necessary executive proceedings, which resulted in the recovery of negligible amounts of the overall debt of the users, partly because of the bankruptcy procedures under way at some of these users.

Subsequently:

- it was not possible to pursue the executive actions against two users because they were involved in bankruptcy procedures, in which Snam Rete Gas immediately participated. In relation to a third user, in addition to the appeals for an injunction, Snam Rete Gas has submitted a request for seizure. Moreover, the appeal, which was originally upheld by the Court, was subsequently overturned in light of the user opening proceedings for an arrangement with creditors, in which Snam Rete Gas immediately participated;
- Snam Rete Gas has agreed repayment plans with two defaulting users for the full recovery of receivables. In addition, one of the users has stopped making the agreed repayments after its shareholders authorised the Company's directors to file for a pre-bankruptcy agreement with creditors;

29 To be presented to the Electricity Equalisation Fund four months after the due date of unpaid invoices.

30 The initial end date of 31 May 2012 was extended to 23 October 2012 by Resolution 444/2012/R/gas.

- in 2013, Snam Rete Gas terminated the transportation contract of a user who had failed to pay outstanding balancing service invoices. The Court of Milan issued a provisional executive injunction ordering the user pay Snam Rete Gas a total of around €14 million, plus interest and expenses. No money has yet been recovered through these executive procedures.

The users in question have appealed against some of these injunctions. Specifically, as well as requesting the suspension of the provisional enforceability and the revocation and/or declaration as null and void of the injunctions themselves, four users have submitted counterclaims requesting that Snam Rete Gas be ordered to compensate them for alleged damage suffered.
Snam Rete Gas, as stated in the provisional executive injunctions issued by the Court, has engaged in proper conduct and complied with the provisions of the transportation contract, the Network Code and, more generally, the applicable legislation.

Recovering receivables from users of the storage system
Withdrawals made from strategic storage, invoiced by Stogit and not replenished by the user under the terms specified by the Storage Code, ascribable to November and December 2010
On 15 June 2011, Stogit appealed to the Court of Milan for an injunction with provisional enforceability relating to invoices for the sale of strategic gas, modulation fees and penalties. The Court of Milan issued the user with an injunction for the amounted requested, plus interest and expenses, without allowing provisional enforceability. The debtor opposed the order. With the case under way, and overturning the decision made at the hearing of 29 June 2012, the Court of Milan applied provisional enforceability to the injunction, issuing an order on 28 August 2012 to reject the user's appeal against this measure.
Using the order that applied provisional enforceability to the injunction, Stogit initiated executive proceedings.
In view of the withdrawals and non-replenishment of strategic gas in January, February and March 2011, Stogit filed a request with the Court of Milan on 30 September 2011 for a second injunction, which was also opposed by the debtor. By way of an order issued on 11 February 2013, the Court of Milan also applied provisional enforceability to this second injunction.
Lastly, following a request for summary proceedings for the replenishment of all gas withdrawn, which resulted in the conviction of the debtor, an order of 30 May 2012 rejected the user's appeal against this conviction.
By way of another order issued on 11 February 2013, the Court of Milan ordered the merging of this case, on account of association, with the others pending before the same judge between the same parties, adjourning the case until the hearing on 4 June 2013 and subsequently until 25 September 2013; at this latter hearing, the case was adjourned until 14 January 2014 for the preliminary statements. Owing to the declaration of bankruptcy brought about by ruling 28/2013 of 19 November 2013 of the Court of Asti, the Court of Milan closed the case at the hearing of 11 December 2013.
In September 2012, the Court of Asti admitted three users to proceedings for a pre-bankruptcy agreement with creditors.
Subsequently, at the request in March 2013 of the three Stogit debtors and other companies in the same group, on 29 March 2013, the Court of Asti revoked the aforementioned pre-bankruptcy procedure and ordered a new one for all the appellant companies.
Under the terms and conditions established by the court-appointed receiver, Stogit formally transmitted and documented the amounts of its receivables with these users, including the respective accrued contractual interest owed.
In addition to the bankruptcy declaration mentioned above, another user was declared bankrupt by the Court of Asti through ruling 31/2013 of 22 November 2013; the pre-bankruptcy procedure is going ahead for this user.

Withdrawals made from strategic storage, invoiced by Stogit and not replenished by the user under the terms specified by the Storage Code, ascribable to the thermal years 2010-2011 and 2011-2012
Stogit filed with the Civil Court of Milan for a payment injunction provisionally enforceable pursuant to Article 186-ter.
At present, following the partial restitution of gas in the wake of legal action brought because of improper withdrawals, Stogit is still owed approximately 23.6 million SCM.
At a hearing on 25 September 2013, the Court set the deadlines for filing testimonies pursuant to Article 183 of the Italian Code of Civil Procedure, and arranged the hearing for preliminary statements for 14 May 2014.

Withdrawals made from strategic storage, invoiced by Stogit and not replenished by the user under the terms specified by the Storage Code, ascribable to October and November 2011
Stogit filed with the Civil Court of Milan for a payment injunction provisionally enforceable pursuant to Article 186-*ter*.
At present, following the partial restitution of gas in the wake of legal action brought because of improper withdrawals, Stogit is still owed approximately 56.0 million SCM.
In light of the absence of the debtor, the case has been adjourned for a final hearing on 13 January 2015.

Environmental regulations

The risks related to the impact of the activities of Snam on the environment, on health and on safety are described in the "Operational risk" section of the Directors' Report. In particular, with respect to environmental risk, while Snam believes that it operates in substantial compliance with the laws and regulations and considering the adjustments to environmental regulations and actions already taken, it cannot be ruled out that Snam may incur costs or liabilities, which could even be significant.
It is difficult to foresee the repercussions of any environmental damage, partially due to new laws or regulations that may be introduced for environmental protection, the impact of any new technologies for environmental clean-ups, possible litigation and the difficulty in determining the possible consequences, also with respect to other parties' liability and any possible insurance compensation.

Other commitments and risks

The other unevaluated commitments and risks are:
Commitments arising from the contract for the acquisition of Italgas and Stogit from Eni
The price determined for the acquisition of Italgas and Stogit is subject to adjustment mechanisms based on commitments made when the transaction was completed, which were also intended to apply after the date of execution.

Acquisition of Italgas

As at 31 December 2013, the remaining commitments from the aforementioned agreements concerned adjusting the Italgas purchase price to take into account part of the costs/benefits from the sale of property owned by Italgas that is no longer part of its operations.

Acquisition of Stogit

The Stogit acquisition price may be adjusted to take into account the different amount that might be recognised by the Electricity and Gas Authority for the tariff period 1 January 2015 - 31 December 2018 relating to the volumes of natural gas owned by Stogit on the share transfer date and which are part of RAB assets.
The agreement also provides for hedging mechanisms to ensure that Eni continues to bear the risks and/or benefits from any sale of natural gas that is no longer required for the functioning of the storage system; any sale of storage capacity that may become freely available on a negotiable rather than regulated basis; or the transfer of concessions held by Stogit at the time of the share transfer that may become dedicated mainly to storage activities which are no longer regulated.

Emission Trading

The greenhouse gas emission authorisation system, which was previously regulated by Legislative Decree 216/2006, was updated and amended by Legislative Decree 30 of 13 March 2013, effective from 5 April 2013, concurrent with the end of the second regulatory period (2008-2013) and the start of the third regulatory period (2013-2020).

The main aim of Legislative Decree 30 of 13 March 2013 was to update laws on greenhouse gas emission authorisations and to continually reduce free emission allowances. The allocation of free greenhouse gas emission allowances for 2013-2020 is regulated by Article 10-bis of Directive 2009/29/EC, which was approved through Decision 2011/278/EC. The allowances allocated to each plant, which under the new rules will be gradually smaller and not constant like in the previous period, are listed in Resolution 29/2013, which was approved on 20 December 2013 by the "National committee for the management of Directive 2003/87/EC and for support in the management of Kyoto Protocol projects".

The Snam Group expects to be allocated a total of approximately 3.76 million tonnes of CO_2 in the third regulatory period, of which 2.57 million tonnes is for Snam Rete Gas, 0.25 million tonnes for GNL Italia and 0.94 million tonnes for Stogit. The amount allocated in the final year of the period is expected to be around 70% less than the first year's allowance.

The most significant changes introduced by Article 25 of Legislative Decree 30 of 13 March 2013 include the introduction of the principle of partial asset transfers: this means that the allocation of free emission allowances will depend on the actual level of plant operation; this is supplementary to the previous legislation's free emission allowance allocation criterion based on installed capacity (i.e. the number of machines installed). In 2013, the carbon dioxide emissions from Snam Group facilities were, overall, lower than the emission permits allocated. Some 0.5 million tonnes of carbon dioxide were emitted into the atmosphere, whereas about 0.7 million tonnes had been allocated in emission permits, including permits for new plants. This meant a surplus of 0.2 million tonnes.

31) Revenue

The key items comprising revenue are described below. The reasons for the most significant changes are given in the "Financial review and other information" section of the Directors' Report.

(€ million)	2012	2013
Core business revenue	3,730	**3,735**
Other revenue and income	216	**113**
	3,946	**3,848**

Core business revenue (€3,735 million) is reported net of the following items, involving tariff components, additional to the tariff, applied to cover expenses of a general nature of the gas system. Amounts received from Snam are paid in full to the Electricity Equalisation Fund.

(€ million)	2012	2013
Additional fees for the distribution service (*)	202	300
Additional fees for the transportation service (**)	324	508
	526	808

(*) These mainly relate to the following fees: RE, to cover the expenses for calculating and implementing energy savings and development of renewable energy sources in the gas sector; (ii) RS as coverage for gas services quality; (iii) UG1, to cover any imbalances in the equalisation system and any adjustments; and GS, to cover the tariff compensation system for economically disadvantaged customers.

(**) These mainly relate to the following fees: (i) GS_T and RE_T, respectively, to cover expenses for compensation for subsidised tariffs to disadvantaged customers in the gas sector and expenses for calculating and implementing energy savings and development of renewable energy sources in the gas sector (€405 million in total); and (ii) CV^{BL}, to cover expenses connected with gas system balancing (€67 million).

Core business revenue includes revenue from the construction and upgrading of natural gas distribution infrastructure linked to concession agreements under IFRIC 12 (€319 million; €325 million in financial year 2012).
Core business revenue is analysed by business segment in Note 37, "Segment information". Snam generates all of its revenue in Italy.

Other revenue and income

Other revenue and income (€113 million) break down as follows:

(€ million)	2012	2013
Income from gas sales for the balancing service (*)	46	80
Capital gains from disposals of property, plant and equipment and intangible assets	45	12
Income from property investments	5	5
Insurance compensation	1	4
Plant safety inspection fee	3	3
Income from disposal of assets no longer necessary for natural gas transportation activities	80	
Contractual penalties and other income relating to commercial contracts	5	
Other income	31	9
	216	113

(*) Revenue from the balancing business, operational since 1 December 2011 and in accordance with Resolution ARG/gas 45/11 of the Electricity and Gas Authority, relates to sales of natural gas made for the purposes of balancing the gas network. The revenue is matched to operating costs linked to withdrawals from the gas storage system.

Capital gains from the disposal of property, plant and equipment and intangible assets (€12 million) basically relate to the disposal of plants to the municipalities that award the natural gas distribution service concessions (€11 million).
Other income (€9 million) mainly relates to income recognised by the Electricity and Gas Authority, linked to the achievement of quality and technical standards and various operating reimbursements relating to the natural gas distribution service.

Revenue from regulated and non-regulated activities

The analysis of revenue from regulated activities (€3,810 million) and non-regulated activities (€38 million) is reported below:

(€ million)	2012	2013
Natural gas transportation	1,946	2,061
Liquefied Natural Gas (LNG) regasification	23	22
Natural gas storage	353	400
Natural gas distribution (*)	1,480	1,327
Revenue from regulated activities	**3,802**	**3,810**
Revenue from non-regulated activities	**144**	**38**
	3,946	**3,848**

(*) Including revenue from the construction and upgrading of natural gas distribution infrastructure.

Revenue from regulated activities

Natural gas transportation

Revenue from regulated activities (€2,061 million) refers mainly to: (i) fees for transportation activities (€1,986), essentially concerning Eni S.p.A. (€1,018 million) and Enel Trade S.p.A. (€272 million); and (ii) income from the sale of gas from balancing (€80 million).

Transport revenue includes the chargeback to users of the costs of connecting the Company's network to that of other operators (€53 million)[31]. During the course of 2013, Snam provided transportation services to 121 companies (105 companies in 2012).

Liquefied Natural Gas (LNG) regasification

Revenue from regulated activities (€22 million) relates to fees for liquefied natural gas (LNG) regasification, carried out at the Panigaglia (SP) LNG terminal, and mainly concerns Enel Trade S.p.A. (€16 million) and Eni S.p.A. (€3 million). During the course of 2013, Snam provided regasification services to 3 companies (4 companies in 2012).

Natural gas storage

Revenue from regulated activities (€400 million) mainly relates to fees for modulation (€336 million) and strategic (€62 million) storage, and mainly concerns Eni S.p.A. (€109 million) and Enel Trade S.p.A. (€28 million).

During the course of 2013, Snam provided natural gas storage services to 118 companies (94 companies at 31 December 2012).

Natural gas distribution

Revenue from regulated activities (€1,327 million) relates essentially to: (i) fees for natural gas distribution services (€952 million) and mainly concerns Eni S.p.A. (€778 million) and Enel Energia S.p.A. (€70 million); (ii) revenue deriving from the construction and upgrading of distribution infrastructures (€319 million), recognised in application of international accounting standard IFRIC 12; (iii) capital gains on the disposal of facilities to the municipalities that award natural gas distribution service concessions (€11 million); and (iv) ancillary and optional services (mostly

31 Where the provision of the transportation service involves the networks of multiple operators, Resolution 166/05 of the Electricity and Gas Authority, as subsequently amended, provides for the principal operator to invoice the users for the service, transferring to the other operators of the transportation networks the portion attributable to them.

"Activation", "Deactivation", "Suspension and Reactivation of the gas supply" and "Moving and removal of meters") and revenue for Authority incentives connected with the achievement of quality and technical standards, relating to the natural gas distribution service (€45 million in total).
During the course of 2013, Snam used its networks to distribute the gas of 218 commercial companies (213 companies at 31 December 2012).

Revenue from non-regulated activities
Revenue from non-regulated activities (€38 million) mainly concerns: (i) the rental and maintenance of fibre optic telecommunications cables (€11 million) leased to a telecommunications operator, for which Snam also provides the maintenance; (ii) technical services (€6 million); and (iii) insurance compensation (€4 million).

32) Operating costs

The key items under operating costs are described below. The reasons for the most significant changes are given in the "Financial review and other information" section of the Directors' Report.

(€ million)	2012	2013
Purchases, services and other costs	786	**672**
Personnel expense	343	**373**
	1,129	**1,045**

Operating costs include costs from the construction and upgrading of natural gas distribution infrastructure linked to concession agreements under IFRIC 12 (€319 million; €325 million in financial year 2012).
The costs from the application of IFRIC 12 are analysed below:

(€ million)	2012	2013
Costs for raw materials, consumables and supplies	21	**26**
Costs for services	199	**189**
Costs for the use of third-party assets	12	**12**
Personnel expense	93	**92**
	325	**319**

Purchases, services and other costs

Purchases, services and other costs (€672 million) break down as follows:

(€ million)	2012	2013
Costs for raw materials, consumables, supplies and goods	233	**147**
Costs for services	497	**503**
Costs for the use of third-party assets	62	**88**
Change in raw materials, consumables, supplies and goods	80	**34**
Net accrual to provisions for risks and charges	54	**4**
Other operating expenses	80	**60**
	1.006	**836**
Less:		
Raw materials, consumables, supplies and goods:		
Increase on internal work – purchases	(144)	**(90)**
	(144)	**(90)**
Services:		
Increase on internal work – services	(76)	**(74)**
	(76)	**(74)**
	786	**672**

Costs for services amount to €429 million and comprise the following:

(€ million)	2012	2013
Construction, planning and coordination of work	170	**171**
IT (Information Technology) services	47	**65**
Purchase of transportation capacity (interconnection)	46	**53**
Maintenance	38	**37**
Technical, legal, administrative and professional services	36	**35**
Personnel-related services	26	**28**
Telecommunications services	21	**24**
Utilities	20	**23**
Insurance	21	**22**
Other services	72	**45**
	497	**503**
Less:		
Increase on internal work capitalised in non-current assets – services	(76)	**(74)**
	(76)	**(74)**
	421	**429**

Development costs which do not satisfy the conditions for recognition under assets in the balance sheet amount to less than €1 million.

Costs for the use of third-party assets (€88 million) break down as follows:

(€ million)	2012	2013
Fees, patents and licences	44	59
Leases and rentals	18	29
	62	88

Fees, patents and licences (€59 million) mainly concern fees paid to concessionary bodies for the operation of natural gas distribution concessions (€49 million).
Leases and rentals (€29 million) mainly relate to charges for operating leases of office buildings and the occupancy of public land.

Future minimum payments due for non-cancellable operating leases break down as follows:

Payable in	2012	2013
1 year	3	4
2 to 5 years	4	4
	7	8

The negative change in raw materials, consumables, supplies and goods (€34 million) is mainly due to the reduction in stock materials (€30 million) connected mainly with the development of natural gas transport networks.

Net allocations to the provisions for risks and charges (€4 million, net of surplus use) relate to: (i) charges related to the difference between the value recognised by the Electricity Equalisation Fund for the cancellation of Energy Efficiency Certificates (TEE)[32] and the estimated cost of acquisition of the certificates on the market, in the context of the natural gas distribution service (€9 million); (ii) the provision for environmental liabilities (€6 million), in accordance with Law 471/99, and further activities mainly relating to waste disposal and asbestos removal. These effects were partly offset by net use of the provisions for litigation risks (-€13 million). Information on provisions for risks and charges can be found in Note 25 "Provisions for risks and charges".

32 Pursuant to the Decree of the Ministry of Economic Development of 20 July 2004, updated and modified from the Decree of 28 December 2012, from 2008 all distributors of electricity and natural gas with at least 50,000 end users connected to the distribution network thereof are entities required to achieve energy savings targets. In order to fulfil the requirements, distributors can implement projects, whether directly, through subsidiaries, or through companies operating in the energy services segments, benefiting the end users who improve the energy efficiency of the technologies installed or of the pertinent practices of usage or even acquire the Energy Efficiency Certificates (TEE), also referred to as "white certificates", from third parties, certifying the achievement of energy savings. Once the energy efficiency target is met, cancelling the excess certificates triggers repayment by the Electricity Equalisation Fund on the basis of dedicated funds built up through distribution tariff increases.

Other operating expenses (€60 million) break down as follows:

(€ million)	2012	2013
Direct and indirect taxes	18	22
Capital losses on the cancellation of property, plant and equipment and intangible assets	33	15
Negative difference from cancellation of Energy Efficiency Certificates (TEE)		9
Accrual to the provision for impairment losses on receivables	14	5
Methane consumption tax	2	2
Other expenses	13	7
	80	60

Personnel expense

Personnel expense of €373 million breaks down as follows:

(€ million)	2012	2013
Wages and salaries	276	282
Social security contributions (pensions and healthcare assistance)	86	88
Employee benefits	11	10
Other expenses	23	53
Less:		
Increase on internal work – personnel expense	(53)	(60)
	343	373

The personnel expense, at €373 million, increased by €30 million. The increase is essentially due to expenses for providing incentives for the departure of employees within the scope of the efficiency measures implemented. The costs borne by Snam are relate to the redundancy programme started during the financial year in accordance with Law 223/91, and referring to the year 2014 (€27 million).

The expenses of employee benefits (€10 million) include: (i) expenses for post-employment benefits (€4 million, of which €3 million relate to defined-contribution plans and €1 million relate to defined-benefit plans); and (ii) expenses for other long-term benefits (€6 million) relating to long-term cash incentive plans[33].

The expenses for defined contribution plans amounted to approximately €19 million.

33 Further information is available in Note 26, "Employee benefit provisions".

The average number of payroll employees included in the scope of consolidation, broken down by status, is as follows:

Professional status	31.12.2012	31.12.2013
Executives	119	117
Managers	554	573
Office workers	3,258	3,255
Manual workers	2,136	2,089
	6,067	6,034

The average number of employees is calculated on the basis of the monthly number of employees for each category.

Incentive plans for executives with Snam shares

At 31 December 2013 there were 545,600 options outstanding to purchase 545,600 ordinary shares of Snam. The options relate to the 2008 allocation, with a strike price of €3.463. No new stock option plans have been issued since 2009.

Changes in the stock option plans at 31 December 2013 are as follows:

	2012			2013		
	No. of shares	Average strike price(€)	Market price (€) (a)	No. of shares	Average strike price(€)	Market price (€) (a)
Options existing at 1 January	**3,151,851**	**3.63**	**3.39**	**2,521,350**	**3.68**	**3.52**
Options exercised during the period	(96,801)	**3.51**	**3.40**	**(1,233,700)**	**3.48**	**3.71**
Options expired during the period (b)	(533,700)	**3.68**	**3.42**	**(742,050)**	**4.16**	**3.50**
Options existing at period end	**2,521,350**	**3.68**	**3.52**	**545,600**	**3.46**	**4.04**
of which exercisable	**2,521,350**	**3.68**		**545,600**	**3.46**	

(a) The market price of shares relating to options assigned, exercised or expired in the period corresponds to the weighted average for the number of shares; their market value (average official price on the Mercato Telematico Azionario in the previous month: (i) the date of the Board of Directors' allocation resolution; (ii) the date of issue into the beneficiary's securities account for the issue/transfer of shares; (iii) the unilateral termination date of employment for expired options; (iv) the date of expiry due to non-exercise under the terms of the Board of Directors' allocation resolution; and (v) the date on which the Board of Directors determines the TSR positioning at the end of the vesting period). The market price of shares relating to options existing at the start and end of the period is correct at period end.

(b) Figures include options expired due to the TSR positioning at the end of the vesting period and options expired due to termination of employment.

The breakdown of options by year of allocation is as follows:

Year of allocation	Options allocated	Options expired	Options exercised	Options outstanding at 31 December 2013
2002	608,500	(21,000)	(587,500)	
2003	640,500		(640,500)	
2004	677,000	(178,500)	(498,500)	
2005	658,000	(589,000)	(69,000)	
2006	2,933,575	(1,061,525)	(1,872,050)	
2007	2,782,800	(1,415,950)	(1,366,850)	
2008	2,726,000	(1,212,000)	(968,400)	545,600
	11,026,375	**(4,477,975)**	**(6,002,800)**	**545,600**

More information about the incentive plans for executives with Snam shares can be found in the "Other information" section of the Directors' Report.

At 31 December 2013, the average remaining life of the options was 0.6 years for the 2008 plan.

The unit fair value of the options allocated in 2003, 2004 and 2005 was €0.4206, €0.174 and €0.382 per share, respectively.

Following the modifications made to the 2006-2008 stock option plan, approved by the Board of Directors on 29 July 2009, the unit fair value of the options allocated in 2006, 2007 and 2008 is €0.3973, €0.2127 and €0.2535 per share, respectively.

The assumptions used to determine the fair value of the options are given below:

		2003	2004	2005	2006	2007	2008
Risk-free interest rate	(%)	3.54	4.20	3.15	2.16	2.52	2.78
Duration (years)	(years)	8	8	8	6	6	6
Implicit volatility	(%)	20.02	11.27	14.88	20.94	20.94	20.94
Estimated dividends	(%)	4.80	5.64	4.55	5.72	5.65	5.54

Remuneration due to key management personnel

The remuneration due to persons with powers and responsibilities for the planning, management and control of the Company, i.e. executive and non-executive directors, general managers and managers with strategic responsibilities ("key management personnel"), in office at 31 December of each financial year, amounts to €5 million and €6 million, respectively, in financial years 2012 and 2013, and breaks down as follows:

(€ million)	2012	2013
Current benefits (wages and salaries)	4	4
Other long-term benefits	1	2
	5	**6**

Remuneration due to directors and statutory auditors

The remuneration paid to directors amounted to €4 million and €3 million, respectively, in financial years 2013 and 2012. Remuneration to auditors amounted to €0.2 million both in financial years 2013 and 2012.
The remuneration includes emoluments and any other amounts relating to pay, pensions and healthcare due for the performance of duties as a director or statutory auditor in Snam and in other companies included in the scope of consolidation, giving rise to a cost for Snam, even if not subject to personal income tax.

Amortisation, depreciation and impairment losses

Depreciation, amortisation and impairment losses amount to €769 million and break down as follows:

(€ million)	2012	2013
Amortisation and depreciation		
Property, plant and equipment	512	**528**
Intangible assets	190	**231**
	702	**759**
Impairment losses		
Tangible assets	4	**10**
	4	**10**
	706	**769**

Depreciation of property, plant and equipment (€528 million) relates to natural gas transportation (€449 million), storage (€59 million), distribution (€15 million) and regasification (€5 million) activities.
Tangible asset impairment losses (€10 million) refer to plants no longer usable for the natural gas transportation segment.
Amortisation of intangible assets (€231 million) essentially relates to natural gas distribution (€199 million), transportation (€24 million) and storage (€5 million) activities.
A more thorough analysis of depreciation, amortisation and impairment losses can be found in Note 13, "Property, plant and equipment" and Note 15, "Intangible assets".

33) Financial expense (income)

Financial expenses (income) amount to €472 million, broken down as follows:

(€ million)	2012	2013
Financial income	(7)	**(15)**
Financial expense	397	**481**
	390	**466**
Derivatives (*)	**404**	**6**
	794	**472**

(*) The amount for 2012 includes charges for the fair value adjustment related to the early termination that took place during 2012 for 12 hedging derivatives entered into with Eni (€335 million).

The net value of financial expense (income) (€466 million) breaks down as follows:

(€ million)	2012	2013
Financial expense related to net financial debt	**401**	**489**
- Interest on bonds	81	**289**
- Interest and other expenses from banks and other lenders	320	**200**
Other financial expense (income)		
- Accretion discount (*)	11	**13**
- Other financial expense	23	**13**
- Other financial income	(7)	**(15)**
	27	**11**
Financial expense capitalised	**(38)**	**(34)**
	390	**466**

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

Financial expense related to net financial debt (€489 million) refers to: (i) interest on 11 bonds (€289 million); (ii) interest expense payable to banks relating to revolving credit lines, uncommitted credit lines and fixed-term loans totalling €144 million (including €33 million relating to the portion pertaining to the year of up-front fees on a term loan of €1.5 billion that was repaid early in the first half of 2013); and (iii) the portion pertaining to the year of up-front fees on revolving credit lines (€28 million) and fees on unused credit lines (€28 million).
Other financial expense (income) at €11 million mainly relates to: (i) the accretion discount of provisions for the abandonment and restoration of storage sites (€12 million); (ii) net interest expense accrued on accruals and deferrals of regulated activities (€5 million); and (iii) the positive effects of the valuation, at the exchange rate of the end of the period, of a bond denominated in Japanese yen (-€5 million).
Financial expenses capitalised (€34 million) relate to the part of financial expense absorbed by investment activities.

Derivatives

Derivatives expense (income) amounts to €6 million and breaks down as follows:

(€ million)	2012	2013
Losses on derivatives:		
- Adjustment to fair value	335	**5**
- Interest accrued during the period	69	**1**
	404	**6**

Losses from fair value adjustment (€5 million) relate to the effects of hedging foreign exchange risk in view of the signing of a Cross Currency Swap contract[34].

34 For further information, see Note 23, "Other current liabilities".

34) Income from equity investments

Income from equity investments (€45 million) is analysed below.

(€ million)	2012	2013
Capital gains from measurement by the equity method	55	72
Capital losses from measurement by the equity method		(27)
	55	45

Details of capital gains/losses from measurement by the equity method can be found in Note 16, "Equity-accounted investments".

35) Income taxes

Income taxes (€690 million) break down as follows:

(€ million)	2012	2013
Current taxes:		
- IRES	586	662
- IRAP	140	131
	726	793
Deferred and prepaid taxes:		
- Deferred	(127)	(87)
- Prepaid	(6)	(16)
	(133)	(103)
	593	690

Income taxes amounted to €690 million, comprised of €793 million in current taxes partially offset by net deferred tax assets totalling €103 million.

The impact of taxes on pre-tax profit for the period is 42.9% (43.2% in 2012) in view of the theoretical tax rate of 33.6% (34.7% in 2012), which is obtained by applying the statutory tax rate of 27.5% (IRES) to pre-tax profit and 3.9% (IRAP) to the net value of production.

The analysis of the difference between the theoretical and actual tax rates is as follows:

%	2012	2013
Theoretical rate	34.7	33.6
Increases (decreases) in theoretical rate:		
- Impact of the application of the IRES Robin Hood Tax (Decree-Law 138/2011, converted into Law 148/2011)	9.5	9.2
- Permanent differences and other factors	(1.0)	0.1
	8.5	9.3
Effective rate	43.2	42.9

Permanent differences and other factors include:
- increase: (i) 0.54 percentage points (€9 million) in the different rates of IRAP; (ii) 0.75 percentage points (€12 million) for the 5% tax on dividends received.
- decrease: (i) 0.56 percentage points (€9 million) in the valuation of equity investments using the equity method; (ii) 0.53 percentage points (€8 million) in the deduction for IRES purposes of 10% of IRAP (deduction in the financial year and refund requests relating to previous financial years).

The analysis of deferred and prepaid taxes, based on the nature of the most significant temporary differences, is given in Note 27 "Deferred tax liabilities", to which we refer.

36) Earnings per share

Basic earnings per share are determined by dividing net profit by the weighted average number of outstanding Snam shares during the year, excluding treasury shares.
Diluted earnings per share are determined by dividing net profit by the weighted average number of outstanding shares during the period, excluding treasury shares, increased by the number of shares which could potentially be issued following the allocation or disposal of treasury shares held for stock option plans. Based on the plans existing as at 31 December 2013, the dilutive effect is in connection with the 2008 year allocations.
The weighted average number of outstanding shares used to calculate diluted earnings per share is 3,378,702,020 and 3,379,543,289 for 2012 and 2013, respectively.

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

	2012	2013
Weighted average number of outstanding shares used to calculate basic earnings	**3,378,676,996**	**3,379,465,365**
Number of potential shares for stock option plans	25,024	**77,924**
Weighted average number of outstanding shares used to calculate diluted earnings	**3,378,702,020**	**3,379,543,289**
Net profit attributable to Snam (€ million)	779	**917**
Basic earnings per share (€ per share)	0.23	**0.27**
Diluted earnings per share (€ per share)	0.23	**0.27**

37) Segment information

The business segments in which Snam operates have been identified on the basis of the criteria adopted for the preparation of operational reporting by senior management when taking business decisions. The business segments identified are transportation, LNG regasification, and natural gas distribution and storage, and they are attributable to the activities carried out, predominantly, by Snam Rete Gas, GNL Italia, Stogit and Italgas, respectively.

(€ million)	Corporate	Transportation and dispatching	Distribution	Storage	Ragasification	Consolidation adjustments	Adjusted non-allocable assets and liabilities	Total
2012								
Net core business revenue (a)	184	1,916	1,434	401	34			**3,969**
Less: inter-segment revenue	(173)	(10)	(1)	(44)	(11)			**(239)**
Revenue from third parties	11	1,906	1,433	357	23			**3,730**
Other revenue and income		142	74	1	1	(2)		**216**
Net accrual to provisions for risks and charges		36	16	2				**54**
Amortisation, depreciation and impairment losses	(2)	(449)	(187)	(63)	(5)			**(706)**
EBIT	6	1,135	626	270	5	69		**2,111**
Equity method valuation effect	1		54					**55**
Directly attributable current assets	67	1,085	558	756	14			**2,480**
Directly attributable non-current assets	209	12,093	4,390	3,301	88			**20,081**
of which:								
- Equity-accounted investments	134		339					**473**
Directly attributable current liabilities	585	3,190	1,098	1,065	19		(3,573)	**2,384**
Directly attributable non-current liabilities	11,973	6,885	1,964	2,049	17		(8,618)	**14,270**
Capital expenditure	7	700	359	233	3	(2)		**1,300**
2013								
Net core business revenue (a)	**182**	**2,003**	**1,315**	**487**	**31**			**4,018**
Less: inter-segment revenue	**(170)**	**(17)**	**(1)**	**(86)**	**(9)**			**(283)**
Revenue from third parties	**12**	**1,986**	**1,314**	**401**	**22**			**3,735**
Other revenue and income	**1**	**70**	**40**	**2**				**113**
Net accrual to provisions for risks and charges		**(12)**	**16**					**4**
Amortisation, depreciation and impairment losses	**(3)**	**(483)**	**(214)**	**(64)**	**(5)**			**(769)**
EBIT	**(8)**	**1,217**	**505**	**315**	**5**			**2,034**
Equity method valuation effect	**(15)**		**60**					**45**
Directly attributable current assets	**73**	**1,305**	**517**	**813**	**10**			**2,718**
Directly attributable non-current assets	**734**	**12,334**	**4,483**	**3,456**	**88**			**21,095**
of which:								
- Equity-accounted investments	**689**		**335**					**1,024**
Directly attributable current liabilities	**2,440**	**2,460**	**767**	**768**	**15**		**(2,072)**	**4,378**
Directly attributable non-current liabilities	**11,119**	**7,698**	**1,899**	**2,373**	**14**		**(9,639)**	**13,464**
Capital expenditure	**7**	**672**	**358**	**251**	**5**	**(3)**		**1,290**

(a) Before elimination of intra-segment revenue.

Revenue is generated by applying regulated tariffs or market conditions. Revenue of the Company is generated entirely in Italy; costs are incurred almost entirely in Italy.

38) Related-party transactions

Snam's related parties are associates and companies under joint control, as well as subsidiaries outside the Group's scope of consolidation, and other companies owned or controlled by the State, particularly by Group companies Eni, Enel and CDP. Transactions with these entities refer to the exchange of assets and the provision of regulated services within the gas sector and, with regard to CDP, the provision of financial resources. Members of the Board of Directors, Statutory Auditors and Snam Group managers with strategic responsibilities, and their families, are also regarded as related parties.

Transactions between Snam and related parties are part of ordinary business operations and are generally settled under market conditions, i.e. the conditions that would be applied between two independent parties. All the transactions carried out were in the interest of the companies of the Snam Group.

Pursuant to the provisions of the relevant legislation, the Company has adopted internal procedures to ensure that transactions carried out by Snam or its subsidiaries with related parties are transparent and correct in their substance and procedure.

Directors and auditors declare their interests affecting the Company and the Group every six months, and/or when changes in said interests occur; they also inform the Chief Executive Officer (or the Chairman, in the case of the Chief Executive Officer), who in turns informs the other directors and the Board of Statutory Auditors, of individual transactions that the Company intends to carry out and in which they have an interest.

Snam is not subject to management and coordination. Snam manages and coordinates its subsidiaries, pursuant to Article 2497 et seq. of the Italian Civil Code.

Within the context of transactions with related parties, within the meaning of the disclosure requirements of Consob Regulation 17221 of 12 March 2010, in the course of 2013, note is made of the determination, on 26 September 2013, between Snam Rete Gas S.p.A. and Eni S.p.A., of the natural gas transportation capacity commitments on the Snam Rete Gas methane pipeline network for thermal year 2013-2014 (the period from 1 October 2013 to 30 September 2014) and for the thermal years between 2015-2016 and 2019-2020 (the period from 1 October 2015 to 30 September 2020).

The finalisation of these commitments, made in line with the procedures defined in the Network Code of Snam Rete Gas S.p.A., results in the calculation, as set forth in the contractual agreements, of the fees for services rendered by applying, for each thermal year of validity, the natural gas transportation and dispatching tariffs approved by the decision of the Electricity and Gas Authority. These fees are estimated at approximately €365 million.

Under Article 13 of the aforementioned Consob Regulation, these agreements are classed as ordinary transactions concluded under market-equivalent or standard conditions since, pursuant to Article 3 of the Procedure: (i) they fall within the scope of normal business operations and the associated financial activities; and (ii) the terms applied are similar to those usually practised with non-related parties for transactions of an equivalent nature, size and risk.

The amounts of related-party transactions of a commercial and financial nature for the 2012 and 2013 financial years are reported below. The nature of the most significant transactions is also stated.

Commercial and other transactions

Name	31 December 2012			2012					
				Costs (a)			Revenue (b)		
(€ million)	Receivables	Payables	Guarantees	Good	Services	Other	Good	Services	Other
Companies under joint control and associates									
- A.E.S. S.p.A.	1	3							
- Servizi Territori Aree Penisole S.p.A.	1								
- Toscana Energia S.p.A.	2	1							
- Other (c)	2							2	
	6	4						1	1
Companies owned or controlled by the State								3	1
- Eni group	447	253	30	11	113	3		1,775	45
- Enel group	90	39				1		385	1
- Anas group	2	5				1		1	
- Ferrovie dello Stato group		1						3	
- Other (c)		2			1				
	539	300	30	11	114	5		2,164	46
Total	545	304	30	11	114	5		2,167	47

(a) Includes costs for goods and services to be used in investment activities.
(b) Before tariff components which are offset in costs.
(c) Individually less than €1 million.

Name	31 December 2013			2013					
				Costs (a)			Revenue (b)		
(€ million)	Receivables	Payables	Guarantees	Good	Services	Other	Good	Services	Other
Companies under joint control and associates									
- TIGF Investissement S.A.	12								
- Servizi Territori Aree Penisole S.p.A.	4								
- A.E.S. S.p.A.	1							1	
- Toscana Energia S.p.A.	1							2	
- Altre (c)	1				1			1	
	19				1			4	
Companies owned or controlled by the State									
- Eni group	538	314	10	15	93	12		1,930	13
- Enel group	112	82						390	
- Cassa Depositi e Prestiti group	4	4		16			16		
- Anas group	2	4				3		1	
- Ferrovie dello Stato group	1					1			
- Finmeccanica group					1				
- Other (c)		1							
	657	405	10	31	94	16	16	2,321	13
Total	676	405	10	31	95	16	16	2,325	13

(a) Includes costs for goods and services to be used in investment activities.
(b) Before tariff components which are offset in costs.
(c) Individually less than €1 million.

COMMERCIAL TRANSACTIONS

Companies under joint control and associates

Transactions with *companies under joint control* and associates relate to the provision of IT services governed by contracts entered into under normal market conditions.

Companies owned or controlled by the State

Relations with other *companies owned or controlled by the State* mainly refer to the Eni group, and concern the provision of regulated gas services relating to transportation, regasification, distribution and storage, on the basis of tariffs established by the Electricity and Gas Authority.

The most significant passive commercial relations with the Eni group include: (i) the planning and supervision of works to build natural gas transportation infrastructure, governed by contracts concluded under normal market conditions; (ii) the provision of electricity and natural gas used in activities connected to the building of storage infrastructure, governed by contracts concluded under normal market conditions; and (iii) the provision of consultancy services and technical and operational assistance relating to storage reservoirs. These transactions are governed by service agreements on the basis of the costs incurred.

Other transactions

As at 31 December 2013, there were liabilities with Eni arising from price adjustment mechanisms, as established by the contract for the purchase of Italgas and Stogit from Eni signed on 30 June 2009, and assets posted in reference to transactions arising from the national tax consolidation scheme in force until 31 July 2012.

Transactions with other companies owned or controlled by the State relate mainly to the Enel group and concern natural gas transportation, regasification, distribution and storage services. These transactions are governed on the basis of tariffs established by the Electricity and Gas Authority.

FINANCIAL TRANSACTIONS

Name	31.12.2012	2012
(€ million)	Payables	Expenses (a) (b)
Companies controlled or owned by the State		
- Cassa Depositi e Prestiti group	402	2
- Eni S.p.A.	141	578
	543	580

(a) Includes financial expense to be used in investment activities.
(b) Includes €404 million relating to expenses on derivatives, of which €335 million relates to the termination of 12 derivatives.

Name	31.12.2013	2013
(€ million)	Payables	Expenses
Companies controlled or owned by the State		
- Gruppo Cassa Depositi e Prestiti	403	11
Jointly controlled entities		
- GasBridge1 B.V. GasBridge 2 B.V.	11	

Companies owned or controlled by the State

The transactions with the Cassa Depositi e Prestiti group relate to the granting of term loans to cover long-term financial requirements. These transactions are governed by contracts entered into under normal market conditions.

Jointly controlled entities

Transactions with Gasbridge 1 B.V. and Gasbridge 2 B.V. refer to financing received and repayable on demand.
For transactions with directors, auditors and key managers, please refer to the information set out in the paragraph relating to compensation in Note 32 "Operating costs".

Impact of related-party transactions or positions on the balance sheet, income statement and statement of cash flows

The impact of related-party transactions or positions on the balance sheet is summarised in the following table:

(€ million)	31.12.2012			31.12.2013		
	Total	Related parties	Share %	Total	Related parties	Share %
Trade and other receivables	2,048	545	26.6	2,442	676	27.7
Short-term financial liabilities	505	141	27.9	1,947	11	0.6
Long-term financial liabilities	12,049	402	3.3	11,381	403	3.5
Trade and other payables	1,477	304	20.6	1,898	405	21.3

The impact of related-party transactions or positions on the income statement is summarised in the following table.

(€ million)	31.12.2012			31.12.2013		
	Total	Related parties	Share %	Total	Related parties	Share %
Core business revenue	3,730	2,167	58.1	3,735	2,326	62.3
Other revenue and income	216	47	21.8	113	28	24.8
Purchases, services and other costs	786	46	5.9	672	61	9.1
Financial expense	397	149	37.5	481	11	2.3
Losses on derivatives	404	404	100.0	6		

Transactions with related parties are generally governed on the basis of market conditions, i.e. the conditions which would be applied between two independent parties.

The principal cash flows with related parties are shown in the following table.

(€ million)	2012	2013
Revenue and income	2,214	2,354
Cost and expense	(46)	(61)
Change in trade and other receivables	(9)	(126)
Change in trade and other payables	48	112
Dividends collected	34	70
Interest paid	(557)	(11)
Net cash flow from operating activities	**1,684**	**2,338**
Investments:		
- Property, plant and equipment and intangible assets	(111)	(81)
- Companies included in the scope of consolidation	44	
- Change in payables and receivables relating to investments	(9)	(5)
- Equity investments	(135)	(597)
Cash flow from investment activities	*(211)*	*(683)*
Divestments		
- Equity investments		9
Cash flow from divestments		*9*
Net cash flow from investment activities	**(211)**	**(674)**
Taking on long-term financial debt	402	3
Repaying long-term financial debt	(8,112)	(2)
Increase (decrease) in short-term financial debt	(2,646)	(130)
Dividends paid	(432)	(326)
Net cash flow from financing activities	**(10,788)**	**(455)**
Total cash flows with related parties	**(9,315)**	**1,209**

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

(€ million)	31.12.2012			31.12.2013		
	Total	Related parties	Share %	Total	Related parties	Share %
Cash flow from operating activities	820	1,684	N/A	1,839	2,338	N.A.
Cash flow from investment activities	(1,351)	(211)	15.6	(1,790)	(674)	37.7
Cash flow from financing activities	544	(10,788)	N/A	(62)	(455)	N.A.

39) Significant non-recurring events and transactions

During the course of 2013, there were no significant non-recurring events and transactions.

40) Positions or transactions deriving from atypical and/or unusual transactions

No positions or transactions deriving from atypical and/or unusual transactions are reported.

41) Publication of the financial statements

The financial statements were authorised for publication, to be carried out in accordance with the law, by the Board of Directors of Snam at its meeting of 27 February 2014. The Board of Directors authorised the Chairman and the Chief Executive Officer to make any changes which might be necessary or appropriate for finalising the format of the document in the period between 27 February 2014 and the date of approval by the Shareholders' Meeting.

42) Post-balance sheet events

Post-balance sheet events are described in the section "Other information" contained in the Directors' Report.

CERTIFICATION OF THE CONSOLIDATED FINANCIAL STATEMENTS PURSUANT TO ARTICLE 154-BIS, PARAGRAPH 5 OF LEGISLATIVE DECREE 58/98 (CONSOLIDATED FINANCE ACT)

1. The undersigned Carlo Malacarne and Antonio Paccioretti, as Chief Executive Officer and Chief Financial Officer of Snam S.p.A. respectively, certify, taking into account Article 154-bis, paragraphs 3 and 4 of Legislative Decree 58 of 24 February 1998:
   - the adequacy, considering the Company's characteristics, and
   - the effective implementation

   of the administrative and accounting procedures for the preparation of the consolidated financial statements during the course of 2013.
2. The administrative and accounting procedures for the preparation of the consolidated financial statements at 31 December 2013 were defined and their adequacy was assessed using the rules and methods in line with the Internal Control – Integrated Framework model issued by the Committee of Sponsoring Organisations of the Treadway Commission, which represents a benchmark framework for the internal control system generally accepted at international level.
3. It is also certified that:
   3.1 The consolidated financial statements at 31 December 2013:
      a) were prepared in accordance with the applicable international accounting standards recognised in the EU pursuant to Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of 19 July 2002;
      b) are consistent with the accounting records and ledgers;
      c) are able to provide a true and fair view of the financial position, results of operations and cash flows of the issuer and of the companies included in the scope of consolidation.

   3.2 The Directors' Report includes a reliable analysis of the operating performance and results, as well as the position of the issuer and of all the companies included in the scope of consolidation, together with a description of the principal risks and uncertainties to which they are exposed.

27 February 2014

Carlo Malacarne
Chief Executive Officer

Antonio Paccioretti
Director of Planning, Administration, Finance and Control