

ERG S.P.A. MANAGEMENT REPORT

ANNUAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2008



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ERG S.P.A.
ANNUAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2008

LETTER TO THE SHAREHOLDERS

Dear Shareholders,

The year 2008 was a very important one for ERG, as regards both our expansion strategy, which featured a major partnership agreement, and our economic and financial results, which showed a strong growth over the previous year in all business sectors.

The history of the ERG Group has always been characterised by agreements with leading international partners which, with respect to specific objectives, have represented major growth opportunities: following on from this positive experience in terms of alliances, during the year we saw the realisation of the joint venture with LUKOIL, one of the world's foremost companies in the oil and gas sector, whose management in recent years has achieved significant industrial and financial results.

In addition to being consistent with our multi-energy strategy oriented towards optimising the capital invested in the various business sectors, the partnership with LUKOIL will enhance the plants' management skills with major benefits for the refinery's competitiveness and efficiency and, more generally, we consider it can offer advantages in terms of both synergies and access to new markets.

Again in reference to our development strategy and hence in anticipation of new operations, we wish to underline the significance of this partnership for the consolidation of the Group's financial structure, during a particularly difficult period for the credit market owing to the international financial crisis which deteriorated progressively during the year and still now continues to be the focal point of all the world's leading governments.

Bearing in mind one of our principal objectives, namely shareholder value creation, we therefore consider it extremely relevant to report the capital gain of around Euro 900 million realised as a result of the transaction, which enabled us to pay shareholders an additional dividend of Euro 0.5 per share, together with the ordinary dividend of Euro 0.4 per share; the liquidity promptly received following the transaction, in addition to strengthening our equity structure, as mentioned, will provide the necessary financial flexibility to enable us to take advantage of other possible growth opportunities in our business areas, consistently with the Group's strategic policies.

The 2008 results were generally positive owing to the favourable oil scenario and to the new ISAB Refinery plant configuration, albeit the latter part of the year was affected by the October incident at the ISAB Energy power plant.

In fact, the incident was followed by a total shutdown of the power plant for most of the last quarter, with major negative repercussions on the economic results of both ISAB Energy and the ISAB Refinery, due to the reduction in asphalt quantities sold during a propitious period for this product.

However, by the end of the year it was possible to recover one of the two production trains representing 50% of the plant's production capacity. The timing required to restart the second train is still being assessed: based on a preliminary estimate, it should be possible to keep the timing to within the 20 months maximum insurance indemnity period for consequential damages.

Regarding the amount of the indemnity, in March 2008 an agreement was reached with Assicurazioni Generali S.p.A. providing for an overall reimbursement currently quantified as Euro 280 million via a series of payments on account; according to the agreed plan, by the end of 2009 approximately 50% of the total amount will be paid, which is deemed sufficient to cover the plant reconstruction costs.

Again in reference to the Thermoelectric Power Generation sector, the NuCe Nord power plant is expected to come on stream during the second half of 2009; the investment, via the production of low environmental impact electricity, will help to reduce the emissions level with electricity capacity available also for sale to the market.

In the area of Coastal Refining, results were favourably affected by an improved oil scenario with respect to 2007 and the strengthening of the Dollar against the Euro.

The sector's investment plan continued, especially as regards interventions designed to enhance performance in terms of safety, operativeness and profitability.

The agreement with LUKOIL envisages, for the immediate future, a plan to optimise the ISAB Refinery with a view to consolidating its leading role in the Mediterranean.

With regard to the Integrated Downstream division, alongside the positive results, the service station network restyling project continued and is scheduled for completion during 2009.

As part of the network's commercial development strategy, with a view to enhancing the quality of the service and therefore the customer loyalty relationship, in October 2008 ERG Petroli launched the "ERG Più" fidelity card which, in April 2009, was joined by the "ERG Mobile" range. The first oil company to enter the virtual mobile telephony market, with a dedicated and personalised SIM and a new brand, ERG Petroli will market the new range through its fuel distribution network; the synergy between the two products – the fidelity card programme and the rechargeable SIM – will offer immediate advantages to regular customers. The commitment to distinguish ERG sales outlets through the offer of constantly innovative and quality services therefore continues.

In the sector of power generation using renewable energy sources, via the partial demerger of ERG Power & Gas, effective as from 1 October 2008, it was possible to integrate within Enertad the Group's operations in the renewable energy sector; as a result of this transaction, ERG achieved control of 77.4% of ERG Renew's share capital.

Coinciding with its acquisition of the ERG Power & Gas renewable energy assets, Enertad in fact changed its company name to ERG Renew, effectively marking the completion of the process of integration and reorganisation whereby ERG Renew was to become the ERG Group company dedicated to the development of activities in the field of power generation using renewable energy sources.

During 2008, ERG Renew completed the construction of the Faeto wind farm in Apulia, which will become fully operational during the first half of 2009 and the Vicari wind farm in Sicily, which came on stream last December. Moreover, expansion works have been completed on the Troia San Vincenzo wind farm in Apulia, which became fully operational as from January 2009.

The moratorium imposed in June by the Region of Calabria caused a slowdown in preparations for the commencement of civil works at the Fossa del Lupo wind farm; these activities should be able to start during the first half of 2009.

The sector's 2008 results were penalised by non-recurring factors, as a result of the decision to adopt more certain criteria when evaluating the effective possibility to immediately implement investments, in view of the continuing difficulties inherent in the existing authorisation procedures.

With regard to its new 2009-2012 Business Plan, ERG Renew chose to adopt an extremely rigorous and effectual approach that takes into account a situation made even more complex by the continuing regulatory uncertainty and the ongoing financial crisis: our commitment will be focused above all on projects that are already authorised and *cantierabili*, in other words where commencement of works has already been approved. The further consolidation in renewables as regards Italy and geographical diversification by entering new Countries will be the main guiding principles for our growth strategy.

Lastly, as regards the joint-venture project with Shell for the construction of an LNG regasification terminal in Sicily, Ionio Gas has obtained EIA approval; although this achievement in itself marks a step forward in the project, there are still considerable difficulties to be overcome, primarily concerning complex and sluggish authorisation procedures.

In keeping with a way of doing business that is primarily and constantly sustainable over time, but also due to a particular moment of reflection following the incident at the ISAB Energy

power plant, last March we launched the “Safety Project” (Progetto Sicurezza), aimed at stepping up the achievement of performances, in the area of safety, in line with those of the sector’s best international benchmarks. The project will have a duration spanning several years and will be particularly delicate since, by targeting an improvement in the behaviour, culture and approach of all ERG employees towards Safety, it will require not only an endeavour in terms of procedures and systems but first and foremost an effort concerning people and involving people.

It is important to emphasise that we interpret safety according to its broader meaning of “protection” vis-à-vis the company’s employees, plants and assets, the territory, the environment and the interests surrounding our production and commercial operations.

Hence today, just as seventy years ago, the focus is on people as constant value: in fact, during the celebrations in 2008 to mark the Group’s seventieth anniversary, we frequently had occasion to look back over the fundamental landmarks of a history filled with successes, work, but above all people.

With the same passion as in the beginning but drawing on the sound experience of a long entrepreneurial history, we shall take on the commitments of the years to come, continuing to ensure the growth and expansion of our Group.



EDOARDO GARRONE
Chairman

A handwritten signature in black ink, appearing to read 'Edoardo Garrone'.



ALESSANDRO GARRONE
Chief Executive Officer

A handwritten signature in black ink, appearing to read 'Alessandro Garrone'.

CORPORATE BODIES

BOARD OF DIRECTORS

HONORARY CHAIRMAN

RICCARDO GARRONE

CHAIRMAN

EDOARDO GARRONE

DEPUTY CHAIRMAN

PIETRO GIORDANO

GIOVANNI MONDINI

CHIEF EXECUTIVE OFFICER

ALESSANDRO GARRONE

DIRECTORS

MASSIMO BELCREDI

(Independent)

LINO CARDARELLI

(Independent)

ALDO GAROZZO

GIUSEPPE GATTI

ANTONIO GUASTONI

(Independent)

PAOLO FRANCESCO LANZONI

(Independent)

GIAN PIERO MONDINI

GUIDO SEBASTIANO ZERBINO

BOARD OF STATUTORY AUDITORS

CHAIRMAN

MARIO PACCIANI

STANDING AUDITORS

FABRIZIO CAVALLI

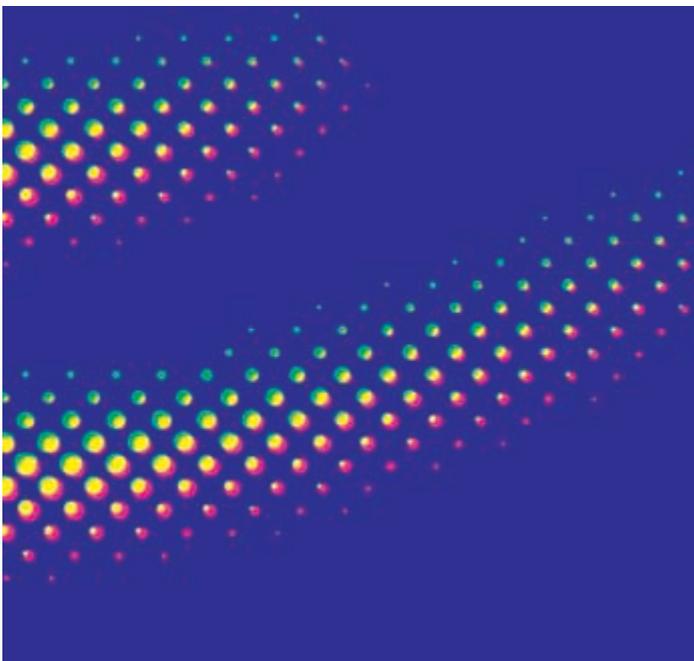
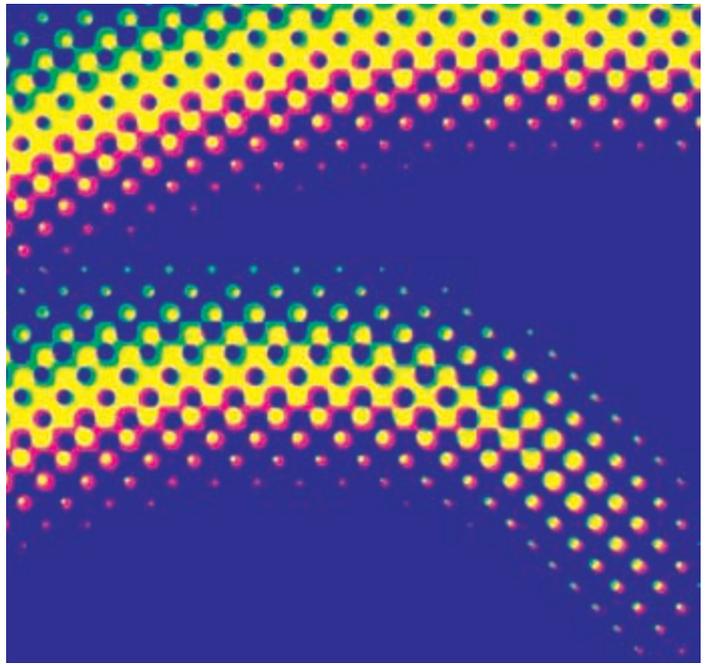
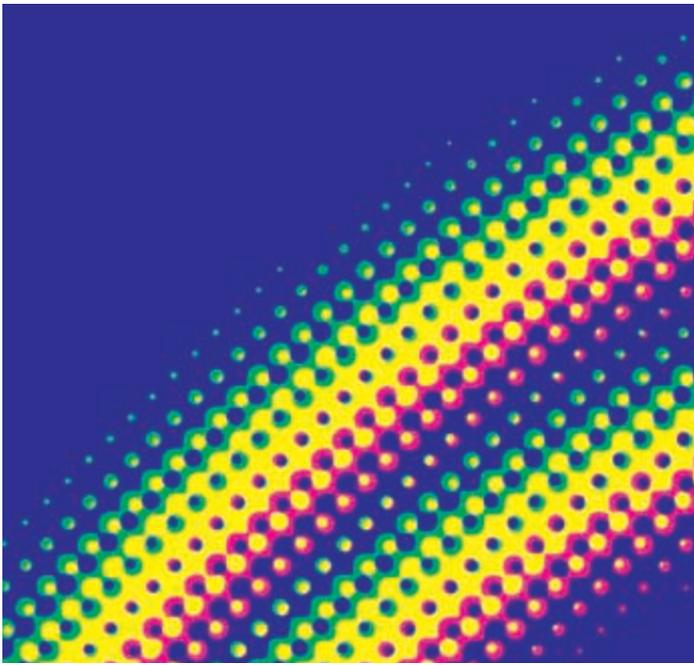
PAOLO FASCE

**MANAGER RESPONSIBLE
(LAW 262/05)**

LUCA BETTONTE

EXTERNAL AUDITORS

RECONTA ERNST & YOUNG S.P.A.



ERG IN A FEW WORDS

RETAIL MARKET
SHARE - ITALY

6.9%

SERVICE
STATIONS

1,973

EMPLOYEES
AT YEAR-END

1,580

MAXIMUM MARKET
CAPITALISATION
MILLION EURO

2,357

ELECTRICITY
PRODUCTION
MILLION KWH

5,189

CRUDE OIL
PROCESSING
IN THE REFINERIES
THOUSAND
BARRELS/DAY

326

NET GROUP INCOME
AT REPLACEMENT
COST*
MILLION EURO

84

INVESTMENTS
MILLION EURO

351

GROUP DEBT
AT 2008 YEAR-END
MILLION EURO

274

EBITDA AT ADJUSTED
REPLACEMENT COST*
MILLION EURO

540

CONSOLIDATED
REVENUES
MILLION EURO

11,563

NET INVESTED
CAPITAL
MILLION EURO

2,299

* the results at replacement cost do not include gains (losses) on inventory and non characteristic items. EBITDA at adjusted replacement cost takes into account, for the portion pertaining to ERG (51%), the added contribution from the results of ISAB S.r.l. (company created in joint venture with LUKOIL effective as from 1 December 2008)

ERG'S HISTORY

Origins, Development and Integration

The history of the ERG Group commenced on 2 June 1938, when the Podestà of Genoa granted Edoardo Garrone, grandfather of the current Chairman Edoardo, a licence for "marketing products derived from the processing of crude oil and coal tar".

This led to the formation of Edoardo Garrone's firm in Via Romairone, San Quirico, Genoa. The trade mark chosen for the company, which became a refinery shortly after the end of the Second World War, was a dice (in Italian "dado" from "Dado", affectionate diminutive of Edoardo), with a three-letter acronym reproduced on its faces. The initials of "Edoardo Raffineria Garrone" written on the faces of the dice spell ... ERG.

Following the war, in a country in need of total reconstruction, the huge power requirement, which was accentuated by the devastation of the power stations, resulted in crude oil becoming the most suitable energy source to satisfy the national requirements for economy, availability and flexibility of supplies.

The refining business, thanks to the favourable situation and the fortunate geographical position of the plants, thus became strategic for ERG.

Having consolidated its role in Italy, the company reached its first important international agreement in 1956 with British Petroleum, which subsequently for some years held a significant minority stake in ERG.

By 1963, the refinery's annual processing capacity had already reached 6.5 million tonnes.

In 1971 ERG, along with other private groups, became a shareholder of ISAB, a company formed to construct a large refinery in Sicily and, in 1985, in anticipation of the closure of the San Quirico refinery, it assumed control of ISAB with a shareholding that grew over the years until, in 1997, it reached 100%. Having developed its business predominantly in the refining sector, the company also began to grow nationally in the commercial distribution sector, where, however, it was already present with its own service

station network in north-western Italy.

This strategy was implemented in two phases: the first, in 1984, through the acquisition of ELF Italiana's entire service station network – 780 facilities – and the second, in 1986, through the acquisition of Chevron Oil Italiana.

With the latter transaction ERG obtained control of a further 1,700 service stations. Thus the ERG Network was formed, recognisable, on all Italian roads, by the trademark of three rampant panthers.

More recently, at the end of 1993, following an agreement between ERG and Edison Mission Energy, one of the world's major power producers, ISAB Energy was formed: this company was destined to construct the first Italian gasification plant using heavy oil products for the production of clean power. The innovative industrial project was financed by a Project Financing of about 1,900 billion Lire, which had no precedent in Italy.

From flotation to the year 2000

Starting from 1995 the Garrone family assigned full responsibility at Group level to the company's management. This initiated the extensive process of transforming what was, for almost 60 years, a family owned and managed business.

Through a rationalisation of its corporate structure and decisive refocusing on the core energy business, ERG prepared for listing on the Stock Market with a view to creating the conditions for a more efficient financing of the new development phase that awaited.

The global offer comprised a public offer for the subscription and sale in Italy of 70.25 million shares and a private placement of 30.75 million shares reserved for Italian and foreign institutional investors. ERG's shares were admitted to listing on the Italian Electronic Stock Market in October 1997.

The ISAB Energy power station came into operation on 18 April 2000: it was the first Italian plant, the third in the world, for the gasification of crude oil residues and elec-

tricity production. It had a gross capacity of 512 MW and an estimated output of between 3 and 4 billion kWh/year, equal to over 1.5% of the entire national electricity requirement. ERG, from a petroleum company, began operating in the energy sector in a broader sense.

Today

ERG Raffinerie Mediterranee was formed in October 2002; this company was entrusted with the management of one of the largest and most efficient refineries in Europe, achieved through the merger and integration of ERG's ISAB Refinery with the former AGIP refinery, both located in Priolo (Syracuse).

The integration of the two refineries took place through the construction of an oil pipeline system and other works to adapt and improve production efficiency and environmental compatibility, so as to give the new "supersite" a highly competitive positioning in the international scenario.

Alessandro Garrone was appointed as Chief Executive Officer of ERG at the end of 2002. In 2003, after forty years, Riccardo Garrone resigned his position as Chairman of ERG. His place was taken by his eldest son Edoardo.

The "Fondazione Edoardo Garrone" was set up on 23 December 2004, as a natural development of the commitment of the Garrone and Mondini families and the ERG Group companies in the social and cultural field.

The Foundation's main activities concern the organisation of seminars and conferences and the performance and publishing of studies and research.

Its purpose is to effectively contribute to the dissemination, enjoyment and understanding of culture, art and science as well as to actively cooperate in ethical and solidarity-inspired projects.

ERG's "multi-energy" strategy and its commitment to alternative energy saw a further enhancement in 2005 with the establishment of Ionio Gas S.r.l., a 50-50 joint venture between ERG Power & Gas S.p.A. and Shell Energy Italia S.r.l. for the design, construc-

tion, management and maintenance of a terminal to receive and regasify Liquefied Natural Gas at the ISAB Impianti Nord Refinery in Priolo.

In 2005, ERG was included in the MIDEX Index within Borsa Italiana's Blue Chip segment. The move from the STAR to the Blue Chip segment took place following the significant increase in stock market capitalisation of ERG's shares.

In 2006, ERG acquired a 51.33% equity interest in Enertad S.p.A., a listed company that operates in the sector of electricity generation from renewable sources; in 2007 the stake held was increased to 68.38%. The acquisition of the Enertad shareholding constituted a decisive step within the scope of strategies pursued by the Group aimed at enhancing and consolidating its position in the field of renewable energy.

In May 2008, the partial demerger of ERG Power & Gas paved the way for integration within Enertad of the Group's operations in the renewable energy sector; as a result of this transaction, ERG achieved control of 77.4% of Enertad's share capital.

Coinciding with acquisition of the ERG Power & Gas renewable energy assets, Enertad changed its company name to ERG Renew, effectively marking the completion of the process of integration and reorganisation whereby ERG Renew was to become the ERG Group company dedicated to the development of activities in the field of power generation using renewable sources.

2008 was the year of the agreement with LUKOIL, one of the most momentous agreements signed in the history of the Group which, via the creation of a "Newco" ISAB S.r.l. (51% ERG Raffinerie Mediterranee and 49% LUKOIL), led to the formation of a strong partnership in coastal refining activities.

The agreement, announced on 24 June 2008 and concluded on 1 December 2008, provided for assignment to the Newco of the ERG Raffinerie Mediterranee division comprising all assets of the ISAB Refinery in Priolo.

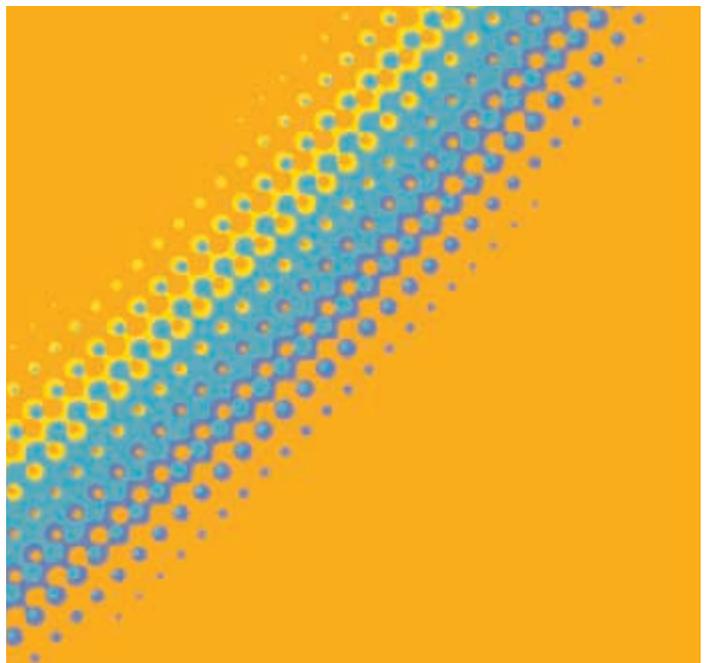
This important joint venture confirms the

Group's strategy, which has featured in the past and continues to feature agreements with major international partners who have always represented significant opportunities for development and growth.

Totally in keeping with a multi-energy strategy oriented towards optimising the capital invested in the various sectors of activity, this transaction guaranteed financial resources that will allow the Group to consolidate its equity structure, ensuring the flexibility required to be able to take ad-

vantage of possible new opportunities for development in its different areas of operation, both in Italy and abroad.

The partnership with LUKOIL, one of the world's leading integrated companies in the oil and gas sector, will enhance the plants' management skills implying major advantages for the refinery's competitiveness and efficiency, in addition to offering potential benefits in terms of synergies and access to new markets.



INTRODUCTION

The Consolidated Annual Report and Accounts for the year ended 31 December 2008 have been prepared in accordance with the International Accounting Standards issued by the International Accounting Standards Board (IASB) and approved by the European Union, inclusive of all international standards that have undergone interpretation (International Accounting Standards – IAS) and the interpretations of the Interna-

tional Financial Reporting Interpretations Committee (IFRIC) and of the previous Standing Interpretations Committee (SIC). The Consolidated Annual Report and Accounts have been audited by the external auditor Reconta Ernst & Young S.p.A. in accordance with CONSOB (Italian Stock Exchange Regulator) regulations. The results of this audit will be published as soon as they become available.

LUKOIL DEAL

On 1 December ERG closed the agreement with LUKOIL for an important partnership in coastal refining.

On that date, contribution by ERG Raffinerie Mediterranee S.p.A. of all assets of the ISAB Priolo Refinery to the newco ISAB S.r.l. was completed, and 49% of the capital of the newco was transferred to LUKOIL in exchange for a consideration of Euro 1.44 billion, of which Euro 0.60 billion was paid in December 2008 and Euro 0.84 billion, plus interest, in February 2009.

To facilitate interpretation of the figures for 2008 presented in this Report, we point out the highlights of this transaction, as follows:

- the reduction in net invested capital by about Euro 0.55 billion, or 49% of the going concern contributed to ISAB S.r.l.;
- the reduction in net financial debt by about Euro 1.44 billion, including Euro 0.60 billion for cash received in December 2008;
- recognition of capital gain realised as a result of the sale of 49% of the ISAB equity investment, in the amount of Euro 0.89 billion. The gain is considered an extraordinary item and is consequently not included in "Group earnings at replacement cost";

- the positive impact on financial components in the amount of Euro 102 million arising from liquidation of the collar transaction hedging part of the oil inventories at the ISAB Refinery;
- the prospective reduction in operating revenues and costs resulting from the reduced quantity of petroleum products that will be processed based on the production capacities contractually envisaged for the ERG Group under the processing agreement with ISAB compared to the quantity previously processed when the plants were directly operated and fully owned. This reduction was not significant in 2008 as it concerned only the month of December.

To assist understanding of business performance as regards Coastal Refining, the results of this business are also shown at their adjusted replacement cost⁽¹⁾, which takes into account, for ERG's 51% equity interest, the December 2008 results of ISAB S.r.l., whose contribution to non-adjusted values is represented in the equity-based measurement of the investment.

For more details, reference is made to the comments in the chapter "Significant events during the year".

(1) for the definition and reconciliation of results to adjusted replacement cost, reference is made to the chapter "Alternative performance indicators"

BUSINESS DESCRIPTION

ERG S.p.A., listed on the Milan Stock Exchange, operates in the following business segments:

● **COASTAL REFINING:** through its subsidiary ERG Raffinerie Mediterranee (ERG Med), it acquires and processes crude oil, and sells refined products on the cargo market. Crude oil is processed at the ISAB Priolo Refinery owned by the ISAB S.r.l. joint venture (51% ERG Med – 49% LUKOIL), one of the most important refineries on the Mediterranean in terms of capacity (320 thousand bbl/day) and complexity (Nelson index 9.3).

● **INTEGRATED DOWNSTREAM:** through its subsidiary ERG Petroli S.p.A., ERG is active in marketing of petroleum products, principally in Italy through its retail and wholesale network. The company's principal assets are represented by a retail network of some 2,000 service stations (accounting for about 7% of the market in Italy), major investments in two refineries, at Treccate and Rome, with a combined capacity of about 60,000 bbl/day, and the logistics system.

● **THERMOELECTRIC POWER GENERATION:** ERG produces and sells thermoelectric power, steam and gas through its subsidiary ERG Power & Gas. The main operating subsidiaries of ERG Power & Gas are:

- ISAB Energy S.r.l. (51% ERG Power & Gas, 49% IPM) generates electricity at a 528 MW capacity power plant fuelled by syngas, which is made from the gasification of asphalt originating from the ISAB Refinery;
- ISAB Energy Services S.r.l. (51% ERG Power & Gas, 49% IPM) is the operating

and maintenance company of the utilities and electric power and steam plants at the Group's Priolo site;

- ERG Nuove Centrali S.p.A. (100% ERG Power & Gas) owns the North Power Plant, which currently has an operating capacity of about 150 MW and uses fuel oil and fuel gas as its feedstock. The North Power Plant is currently undergoing re-powering. At the end of this process, it will be fuelled by natural gas, with a final estimated installed capacity of 480 MW. Up until 30 September 2008, ERG Nuove Centrali owned the South Power Plant which has an operating capacity of around 100 MW and is fuelled mainly by natural gas;
- Ionio Gas (50% ERG Power & Gas) is a joint venture with Shell Energy Italia for the development of a liquid natural gas regasification plant at Priolo, Sicily.

● **RENEWABLE ENERGY SOURCES:** ERG generates electricity from renewable sources through its subsidiary ERG Renew ⁽¹⁾ (77.4% owned by ERG as from 1 October 2008), listed on the Milan Stock Exchange, which has an installed capacity of 199 MW in the wind sector (including 144 MW in Italy and 55 MW in France), and 2 MW of capacity in the mini-hydropower sector.

Following the sale to LUKOIL of 49% of the ISAB Refinery, ERG ⁽²⁾ refining today accounts for approximately 12% of total Italian actual balanced-technical capacity and is the third largest operator in this sector in Italy.

Sales of petroleum products on the domestic market cover about 9% of Italian consumption.

ERG sales of electricity account for about 2% of the domestic market.

(1) following the resolution of the Extraordinary Shareholders' Meeting that took place on 30 June 2008, with effect from 18 July 2008 Enertad S.p.A. changed its corporate name to ERG Renew S.p.A.

(2) ERG means ERG S.p.A. and the companies included in the consolidation area



COASTAL REFINING

ERG RAFFINERIE MEDITERRANEE

- 51% ISAB REFINERY

INTEGRATED DOWNSTREAM

ERG PETROLI

- DISTRIBUTION NETWORK
- EQUITY INVESTMENTS:
TRECCATE REFINERY
ROME REFINERY

THERMOELECTRIC POWER GENERATION

ERG POWER & GAS

- ISAB ENERGY
- ERG NUOVE CENTRALI
- IONIO GAS

RENEWABLE ENERGY SOURCES

ERG RENEW

- 201 MW INSTALLED

STRATEGY

ERG's strategy is to become a diversified "multi-energy" Group, whose main objective is to create lasting value by increasing profitability and continuously reducing its dependence on volatile exogenous factors, also through a balanced management of its portfolio.

Over the past few years the Group has been reorganised into three main business areas each dedicated to a specific market, with a view to consolidating and developing the activities of each business area within its own particular market.

● **COASTAL REFINING:** in a joint venture with LUKOIL, one of the world's leading petroleum companies, in the Priolo area ERG owns 51% of a major oil refining complex, leader in the Mediterranean in terms of size and complexity, integrated with Power Generation and chemical activities, reflecting ERG's strategy to achieve high conversion and efficient refining capable of flexibly processing more profitable crudes in order to obtain high value-added products. ERG

continues to pursue a plant improvement strategy that will allow it to promptly adjust to changes in world oil demand, which is growing and is more and more oriented towards "transportation fuels", diesel in particular.

● **INTEGRATED DOWNSTREAM:** ERG pursues an ongoing process of organisational enhancement of its network, through acquisitions and investments to upgrade its plants with a view to improving its structural position vis-à-vis the market leaders. In pursuing this objective, ERG's strategy entails looking for opportunities for further expansion through acquisitions and joint ventures, and maximising the profitability of the retail network as well as improving its long-term sustainability. All of these objectives are realised via a sales force structure increasingly focused on customer satisfaction and investments for the structural improvement of sales outlets. This strategy includes the restyling programme for over 1,600 service stations, which is now nearing completion.

● **THERMOELECTRIC POWER GENERATION:** ERG aims to operate on the electricity and gas markets through the management and repowering of existing electrical assets. Improvement of the electricity business encompasses the aim of entering the Italian gas market as a stable operator over the long-term, giving maximum priority to the design and construction of the Liquefied Natural Gas (LNG) regasification

terminal within the Priolo/Augusta/Melilli industrial complex.

● **RENEWABLE ENERGY SOURCES:** ERG is pursuing the development of electric Power Generation from renewable sources, particularly focusing on the wind power sector, its objective being to become one of the leading operators in Italy and to continue growth abroad.

ERG STOCK MARKET PERFORMANCE

On 30 December 2008, the reference price for ERG (Midex) stock was Euro 8.51, down by 33.9% with respect to 31 December 2007, as compared with a 40.2% downturn in the European sector index (Stoxx Energy Index) and 48.7% in the Mibtel index.

On 9 March 2009 the reference price of ERG (Midex) stock was Euro 9.19, 8.0% higher than at the end of 2008, as compared with a 23.4% reduction in the European sector index (Stoxx Energy Index) and 30.2% in the Mibtel index.

Set out below are some figures relating to the prices and volumes of ERG shares during the period 1 January 2008 - 30 December 2008:

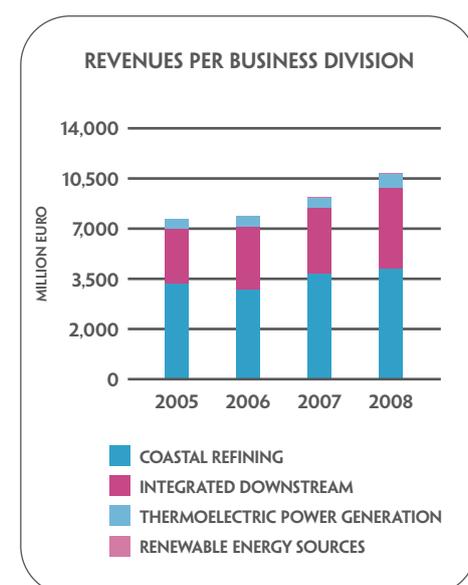
SHARE PRICE	EURO
REFERENCE PRICE AT 30/12/08	8.51
HIGH (24/06/08) ⁽¹⁾	16.90
LOW (29/12/08) ⁽¹⁾	8.40
AVERAGE PRICE	12.25

SHARE PRICE	EURO
REFERENCE PRICE AT 09/03/09	9.19
HIGH (18/02/09) ⁽¹⁾	10.40
LOW (2/01/09) ⁽¹⁾	8.55
AVERAGE PRICE	9.31

(1) the lowest and highest prices recorded during the day's trading and therefore not the same as the official reference prices on the date concerned

(1) the lowest and highest prices recorded during the day's trading and therefore not the same as the official reference prices on the date concerned

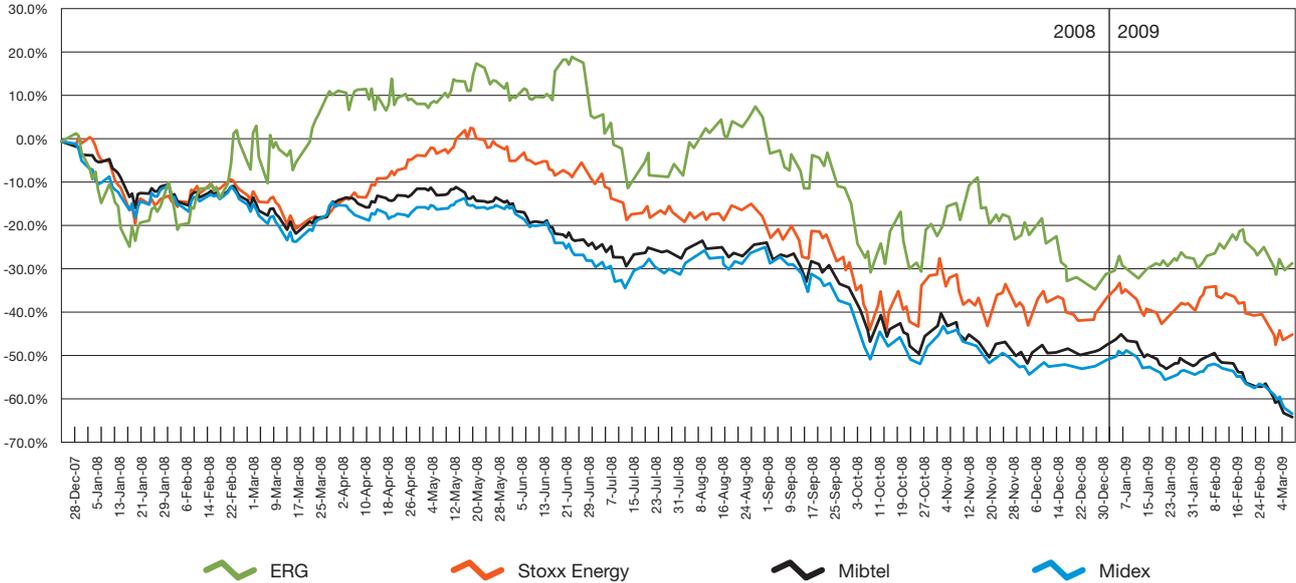
VOLUMES TRADED	NO. OF SHARES
HIGHEST DAILY VOLUME (24/06/08)	9,889,890
LOWEST DAILY VOLUME (10/12/08)	119,213
AVERAGE VOLUME	1,343,497



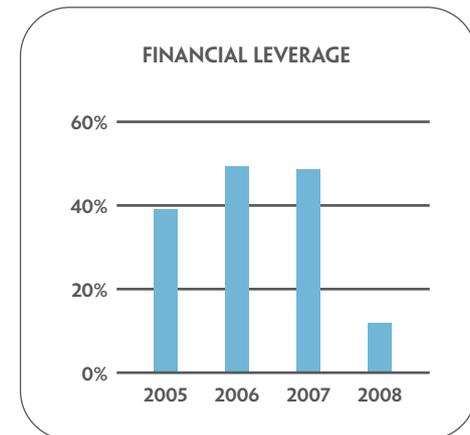
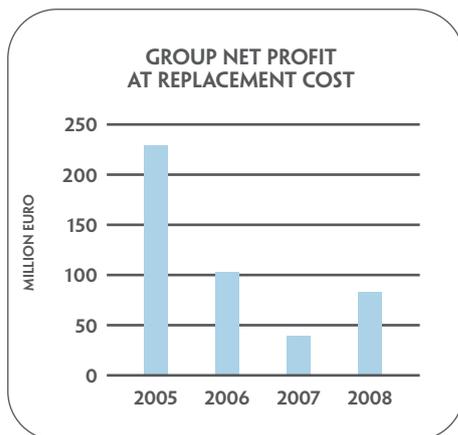
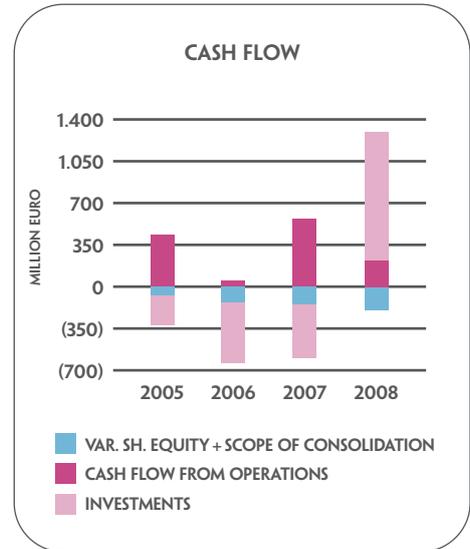
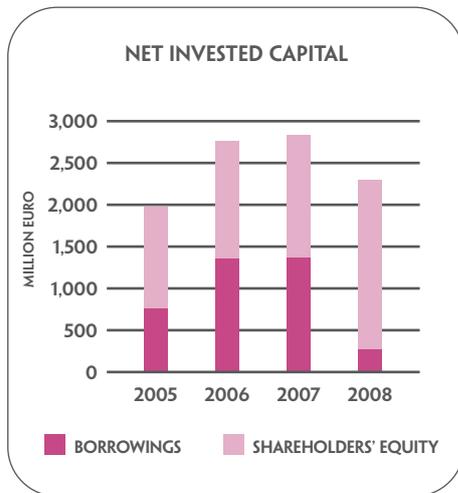
Market capitalisation as at 30 December 2008 was approximately Euro 1,279 million (Euro 1,936 million at the end of 2007).

ERG SHARE PRICE PERFORMANCE COMPARED TO LEADING INDICES (NORMALISED)

ERG SHARE PRICE PERFORMANCE VS. STOXX ENERGY INDEX, MIBTEL AND MIDEX
 % growth for the period 1/1/2008 - 9/3/2009



ERG Stoxx Energy Mibtel Midex



OPERATIONAL AND FINANCIAL HIGHLIGHTS

	FY 2008	FY 2007	FY 2006	
MAIN ECONOMIC DATA (MILLION EURO)				
TOTAL REVENUES ⁽¹⁾	11,563	10,206	9,303	
EBITDA	117	552	442	
EBITDA AT REPLACEMENT COST ⁽²⁾	536	361	463	
ADJUSTED EBITDA AT REPLACEMENT COST ⁽³⁾	540	361	463	
EBIT AT REPLACEMENT COST ⁽²⁾	335	176	305	
ADJUSTED EBIT AT REPLACEMENT COST ⁽³⁾	336	176	305	
NET PROFIT (LOSS)	649	192	194	
OF WHICH GROUP NET PROFIT (LOSS)	646	171	153	
GROUP NET PROFIT (LOSS) AT REPLACEMENT COST ⁽⁴⁾	84	39	103	
MAIN FINANCIAL DATA				
NET INVESTED CAPITAL	2,299	2,837	2,754	
SHAREHOLDERS' EQUITY	2,024	1,459	1,398	
TOTAL NET FINANCIAL DEBT	274	1,378	1,356	
OF WHICH NON-RECOURSE PROJECT FINANCING ⁽⁵⁾	234	280	318	
FINANCIAL LEVERAGE	12%	49%	49%	
OPERATIONAL DATA				
INVESTMENTS ⁽⁶⁾	MILLION EURO	351	380	365
EMPLOYEES AT END OF PERIOD		1,580	2,825	2,820
PROCESSING AT THE REFINERIES	THOUSAND TONNES	16,351	19,607	18,681
PROCESSING AT THE REFINERIES	THOUSAND BARRELS/DAY	326	393	376
ELECTRIC POWER PRODUCTION	MILLION KWH	5,189	5,604	5,098
ELECTRICITY SALES	MILLION KWH	4,560	4,819	4,561
EXPORT OF PETROLEUM PRODUCTS	THOUSAND TONNES	8,112	9,967	7,812
DOMESTIC RETAIL SALES	THOUSAND TONNES	1,950	1,991	2,019
DOMESTIC RETAIL MARKET SHARE ⁽⁷⁾	GASOLINE + DIESEL	6.9%	6.9%	6.9%
DOMESTIC RETAIL OUTLETS AT END OF PERIOD	NUMBER OF OUTLETS	1,973	1,959	1,968
AVERAGE THROUGHPUT ⁽⁸⁾	M ³ /OUTLETS AT END OF PERIOD	1,235	1,274	1,295
INVENTORY OF RAW MATERIALS AND PRODUCTS	THOUSAND TONNES	1,537	2,833	2,630
MARKET INDICATORS				
BRENT DATED	USD/BARREL	97.12	72.37	65.10
EURO/USD EXCHANGE RATE	EURO/USD	1.471	1.370	1.256
EMC REFINING MARGINS	USD/BARREL	3.95	3.31	3.04
ELECTRICITY REFERENCE PRICE	EURO/MWH	86.99	70.99	74.75

(1) net of excise taxes

(2) EBITDA and EBIT at replacement cost do not include inventory gains (losses) and non characteristic items

(3) adjusted EBITDA and EBIT at replacement cost also include contribution of ISAB S.r.l. results (a joint venture with LUKOIL since 1 December 2008) for the portion allocable to ERG (51%), whose contribution to income at non-adjusted replacement cost is represented by measurement of the investment at equity

(4) Group net profit at replacement cost does not include inventory gains (losses), non characteristic items and applicable theoretical taxes. The values also correspond to the adjusted ones

(5) net of cash and cash equivalents

(6) investments in tangible and intangible fixed assets

(7) estimated data

(8) calculated on the basis of the size of the retail network at the end of the period

HIGHLIGHTS BY DIVISION

(MILLION EURO)	FY 2008	FY 2007	FY 2006
REVENUES FROM ORDINARY OPERATIONS:			
COASTAL REFINING	7,587	7,143	6,118
INTEGRATED DOWNSTREAM	4,625	3,708	3,629
THERMOELECTRIC POWER GENERATION ⁽¹⁾	1,191	861	830
RENEWABLE ENERGY SOURCES ⁽¹⁾	45	37	9
CORPORATE	26	23	19
INTERDIVISIONAL REVENUES	(1,976)	(1,606)	(1,476)
TOTAL	11,498	10,166	9,128
EBITDA:			
COASTAL REFINING ⁽²⁾	230	117	149
INTEGRATED DOWNSTREAM	145	87	127
THERMOELECTRIC POWER GENERATION ⁽¹⁾	181	166	207
RENEWABLE ENERGY SOURCES ⁽¹⁾	17	19	7
CORPORATE	(33)	(28)	(27)
ADJUSTED EBITDA AT REPLACEMENT COST ⁽³⁾	540	361	463
51% CONTRIBUTION OF ISAB S.R.L. AT REPLACEMENT COST	(5)	–	–
EBITDA AT REPLACEMENT COST ⁽³⁾	536	361	463
GAINS (LOSSES) ON INVENTORY	(364)	221	(28)
NON CHARACTERISTIC ITEMS ⁽⁴⁾	(54)	(31)	7
TOTAL	117	552	442
AMORTISATION, DEPRECIATION AND WRITE-DOWNS:			
COASTAL REFINING ⁽²⁾	(70)	(62)	(53)
INTEGRATED DOWNSTREAM	(52)	(48)	(44)
THERMOELECTRIC POWER GENERATION ⁽¹⁾	(60)	(60)	(55)
RENEWABLE ENERGY SOURCES ⁽¹⁾	(20)	(13)	(2)
CORPORATE	(3)	(3)	(3)
ADJUSTED AMORTISATION/DEPRECIATION AT REPLACEMENT COST ⁽³⁾	(204)	(185)	(157)
51% CONTRIBUTION OF ISAB S.R.L. AT REPLACEMENT COST	3	–	–
AMORTISATION/DEPRECIATION AT REPLACEMENT COST ⁽³⁾	(201)	(185)	(157)
EBIT:			
COASTAL REFINING ⁽²⁾	161	55	96
INTEGRATED DOWNSTREAM	93	39	83
THERMOELECTRIC POWER GENERATION ⁽¹⁾	121	106	152
RENEWABLE ENERGY SOURCES ⁽¹⁾	(4)	6	4
CORPORATE	(35)	(31)	(29)
ADJUSTED EBIT AT REPLACEMENT COST ⁽³⁾	336	176	305
51% CONTRIBUTION OF ISAB S.R.L. AT REPLACEMENT COST	(1)	–	–
EBIT AT REPLACEMENT COST ⁽³⁾	335	176	305
INVESTMENTS IN TANGIBLE AND INTANGIBLE FIXED ASSETS:			
COASTAL REFINING ⁽²⁾	67	118	185
INTEGRATED DOWNSTREAM	86	77	36
THERMOELECTRIC POWER GENERATION ⁽¹⁾	141	149	140
RENEWABLE ENERGY SOURCES ⁽¹⁾	52	33	2
CORPORATE	5	4	3
TOTAL	351	380	365
INVESTMENTS OF ISAB S.R.L. (51%)	4	–	–
ADJUSTED INVESTMENTS ⁽⁵⁾	354	380	365

(1) starting with FY 2008 Power Generation data are reported in the Thermoelectric Power Generation and Renewable Energy Sources divisions. The data for comparable periods have been restated to reflect this change

(2) considering the sale of 49% of the investment in ISAB S.r.l., a company owned by the ISAB Refinery, the results at adjusted replacement cost reflect the results of ISAB S.r.l. (a joint venture with LUKOIL since 1 December 2008) for the portion owned by ERG (51%)

(3) EBITDA and EBIT at replacement cost do not include inventory gains (losses) and non characteristic items. The adjusted values also include the contribution of ISAB S.r.l. (a joint venture with LUKOIL since 1 December 2008) results for the portion owned by ERG (51%)

(4) reference is made to the comments in the chapter "Alternative performance indicators" for the definition and details of non characteristic items

(5) the adjusted investments reflect 51% of the investments made by ISAB S.r.l. starting from December 2008

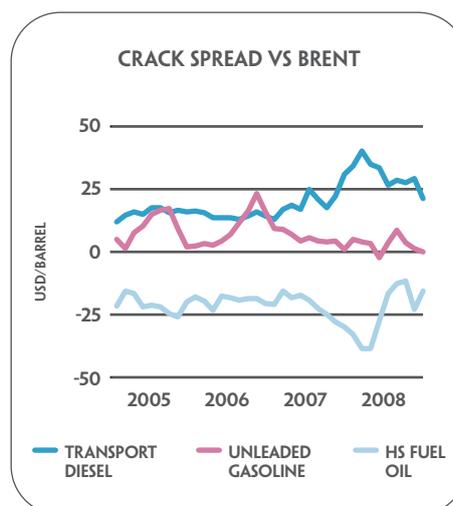
SALES

PETROLEUM PRODUCTS

Total sales amounted to 16.6 million tonnes, of which 49% abroad and the remaining 51% in the domestic market (8.1% of domestic consumption vs. 8.9% in 2007).

The reduction in national market share stemmed principally from higher exports during the period. 64% of sales were handled directly by the Coastal Refining division, with the Integrated Downstream division handling the remaining 36%.

The following table shows the breakdown of ERG petroleum product sales by distribution channel:



(THOUSAND TONNES)	FY 2008	FY 2007	FY 2006
REFINING AND LOGISTICS			
CARGO EXPORT	7,642	9,486	7,331
HOME MARKET SUPPLY	4,670	5,627	5,996
TOTAL REFINING AND LOGISTICS	12,312	15,113	13,327
MARKETING			
DOMESTIC RETAIL MARKET	1,950	1,991	2,019
DOMESTIC WHOLESALE MARKET	1,843	1,804	1,936
WHOLESALE EXPORT	119	117	137
ABROAD	351	365	345
TOTAL MARKETING	4,263	4,276	4,436
TOTAL PETROLEUM PRODUCTS	16,575	19,389	17,763

POWER GENERATION

The following table illustrates ERG Group electricity sales:

(MILLION KWH)	FY 2008	FY 2007	FY 2006
POWER GENERATION			
ISAB ENERGY	3,435	3,809	4,001
ERG NUOVE CENTRALI PLANTS	853	832	526
ERG RENEW/ERG EOLICA	272	178	34
TOTAL	4,560	4,819	4,561

Steam sales to industrial plants at the Priolo/Melilli site totalled 1,132 thousand tonnes (1,372 in 2007).

During 2008, 388 GWh of electricity and 44.5 Sm³ (standard cubic metres) of gas were also sold by ERG Power & Gas.

COMMENTS ON THE RESULTS FOR THE YEAR

Revenues totalled Euro 11,563 million in 2008, up 13% from the corresponding period of the previous year in consequence of higher average sale prices.

EBITDA ⁽¹⁾ at replacement cost was Euro 540 million, compared with Euro 361 million in 2007. Growth reflects the following factors:

● **COASTAL REFINING:** EBITDA of Euro 230 million (Euro 117 million in 2007). In spite of the negative impact of appreciation by the Euro against the dollar, shutdown of the SDA plant after the accident at ISAB Energy, and the reduction in processing capacity in December after the LUKOIL deal, the growth in EBITDA reflects improved prospects on the petroleum market, the full use of plants, and the complete benefit stemming from investments and the new refinery set-up;

● **INTEGRATED DOWNSTREAM:** EBITDA of Euro 145 million, which was significantly higher than in the previous year (Euro 87 million in 2007) due to improved margins, particularly in the second half of the year, for sales and refining activities and greater availability of refinery plants;

● **THERMOELECTRIC POWER GENERATION:** EBITDA of Euro 181 million at replacement cost, up from the Euro 166 million in 2007, mainly due to improved results at ISAB Energy in spite of lower production due to the accident that occurred in October 2008;

● **RENEWABLE ENERGY SOURCES:** EBITDA at replacement cost in this division totalled Euro 17 million (Euro 19 million in 2007). The slight decrease from the same period of 2007, in spite of the contribution made by the French wind farms acquired in October 2007, reflects the calmer atmospheric conditions at Italian wind farms and the negative impact of AEEG Resolution 48/08.

EBIT at replacement cost ⁽¹⁾ was Euro 336 million (Euro 176 million in 2007) after amortisation, depreciation and write-downs of Euro 204 million (Euro 185 million in 2007).

Group net income at replacement cost amounted to Euro 84 million (Euro 39 million in 2007).

Group net income was Euro 646 million (Euro 171 million in 2007), and reflects:

- net income of Euro 913 million for the LUKOIL deal ⁽²⁾;
- inventory losses, net of allocable tax effects, of Euro 232 million (gains of Euro 152 million in 2007);
- other non-recurring negative items for Euro 119 million ⁽²⁾, mainly for write-downs of assets, provisions for risks and clean-up costs.

The Group's net income also reflects the negative impact of taxes, in the amount of about Euro 4 million, stemming from adjustment of tax rates in consequence of Law 133/08 (Robin Tax) and the negative impact of about Euro 4 million stemming from recalculation of deferred tax liabilities at the beginning of the year and reversal of the deferred income tax reserve exceeding the substitute tax of 16% that must be paid pursuant to the same law on the difference between the LIFO value and weighted average cost value of year-end inventories.

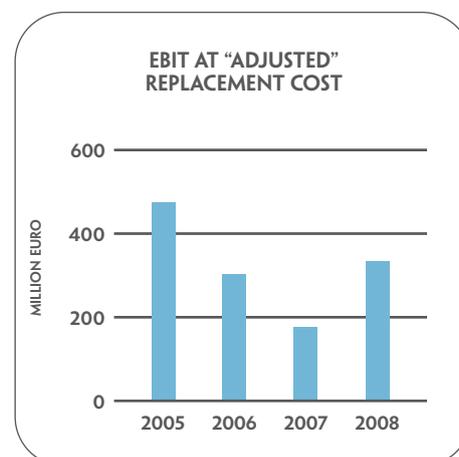
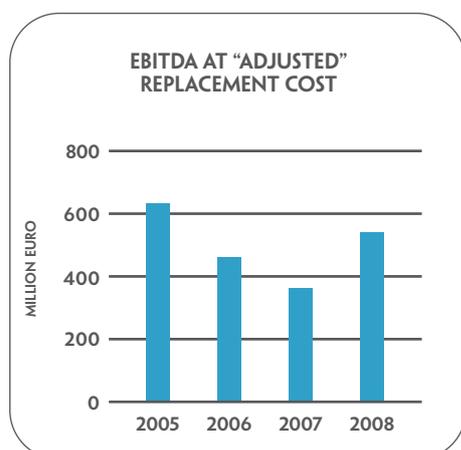
Adjusted Group investments totalled Euro 354 million in 2008 (Euro 380 million in 2007), including 20% in Coastal Refining (31%), 24% in Integrated Downstream (20%), 40% in the Thermoelectric Power Generation division (39%) and 15% in the Renewable Energy Sources division (9%).

The decrease in **net financial debt** from 31 December 2007 is tied principally to the sale of 49% of ISAB S.r.l. to LUKOIL, which had a positive impact on the net financial position of the ERG Group for a total of about Euro 1.5 billion, including Euro 0.7 billion collected in 2008 and the remainder, plus interest, collected on 17 February 2009.

Net of this effect, there was an increase in net financial debt, mainly due to the investments made during the period and the trends in working capital, dividends paid and the buyback of treasury stock, which

was only partly offset by the cash flow from ordinary operations. Generally speaking, the level of indebtedness as at 31 December, compared with the year's average level, reflected the advance payment of excise duties⁽³⁾ and advance payment of VAT for the month of December.

- (1) reference is made to the comments in the chapter "Alternative performance indicators" for the definition and reconciliation of results at replacement cost
- (2) reference is made to the comments in the chapter "Alternative performance indicators" for a breakdown of non characteristic items
- (3) in accordance with the Italian Ministerial Decree of 19 November 2008, on 29 December 2008 ERG paid excise duties totalling Euro 75 million for the first half of December (the amount of excise duties paid in December 2007 was Euro 68 million)



SIGNIFICANT EVENTS DURING THE YEAR

SALE OF 49% ISAB S.R.L. TO LUKOIL

On **24 JUNE** ERG announced that it had reached agreement with LUKOIL on an important partnership in the area of Coastal Refining, through the creation of a "newco": ERG Raffinerie Mediterranee, a wholly owned subsidiary of the ERG Group, granted the newco a branch of business consisting of all the assets of the ISAB Refinery at Priolo, Sicily, for a total capacity of 320,000 barrels a day, the thermoelectric plants located at the Impianti Sud (south plant site), with an installed capacity of 99 MW, and minimum operating inventory capacity of crude oil and petroleum products totalling 745 thousand tonnes.

The two shareholders are responsible for procurement of their crude oil and sale of their refined product allotments so that each of them can achieve their individual business objectives.

According to the agreement, the new com-

pany is 51% owned by the ERG Group and 49% by the LUKOIL group. In exchange for purchase of 49% of the newco, Lukoil is paying ERG Raffinerie Mediterranee Euro 1,347.5 million as the pro-rated consideration for the granted assets, excluding the amount of minimum operating inventory, which was measured at the average prices for the month prior to the closing date of the deal, 1 December 2008. The implied value of 100% of the contributed assets, excluding the market value of the minimum operating inventory, is therefore Euro 2,750 million, subject to a reduction of Euro 15 million following the agreements reached in February 2009. The agreement also gives ERG Raffinerie Mediterranee a put option for its 51% equity stake. The strike price for 100% of the assets contributed to the newco (not including the minimum operating inventory) will be the fair market value within a collar that envisages a cap of Euro 2,750 million and a floor of Euro 2,000 million.

The new company is managed by the two

shareholders pursuant to shareholder agreements that call for 50-50 joint governance on principal business decisions and an operating agreement in view of assuring operating independence and efficiency. The partners in this joint venture share the objective of further development and upgrading of the refinery over the next several years consistently with the information recently released to the market.

As agreed at the previous **6 NOVEMBER** meeting in Moscow, the deal was closed in Genoa on **1 DECEMBER**. On that date, contribution by ERG Raffinerie Mediterranee S.p.A. of all assets of the ISAB Refinery to the newco ISAB S.r.l. was completed, and 49% of the capital of the newco was transferred to LUKOIL. After title to the shareholding was transferred, LUKOIL paid Euro 600 million as the first instalment on the agreed price. Pursuant to the subsequent agreements, payment of the balance, including the minimum operating inventory (valued at the average of November prices) and accrued interest were made in a single instalment on **17 FEBRUARY 2009**.

The ISAB company created from the joint venture with LUKOIL has been operating since 1 December, and operates the Priolo Refinery in Sicily.

The deal was submitted for review by the European Antitrust Commission, which gave its approval by finding that it did not violate European antitrust regulations.

ISAB ENERGY ACCIDENT

On **13 OCTOBER** an accident occurred in a boiler at the ISAB Energy plant, causing a fire on one of the two electric Power Generation lines.

The plant emergency plan made it possible to extinguish the fire immediately and secure the plant. One of the two powertrains, corresponding to 50% of the plant's production capacity, came back on line on **18 DECEMBER**. The 260 MW of newly available power output will make it possible to produce about 2 TWh of electricity in all of 2009. The timeline for restoration of the second powertrain is still being determined, but it is expected that it will remain offline for all of 2009. On the basis of a preliminary estimate,

it appears that the time necessary to restart the second powertrain will not exceed the maximum insurance indemnity period of 20 months for consequential damages. In this connection, it is considered that the insurance should be sufficient to guarantee coverage of direct and consequential damages, minus the applicable deductibles.

SIGNIFICANT EVENTS IN THE INTEGRATED DOWNSTREAM DIVISION

On **4 MARCH** ERG carried out a securitisation of trade receivables for an average amount of Euro 150 million. This transaction, arranged in cooperation with Natixis (Mandated Lead Arranger) and The Bank of Tokyo-Mitsubishi UFJ, Ltd, provides for the assignment on a revolving basis of trade receivables pertaining to ERG Petroli S.p.A. and has a duration of five years.

On **29 OCTOBER** Saras Energia S.A. (Saras Group) and ERG Petróleos S.A. (ERG Group) signed an agreement for acquisition by Saras Energia of 81 ERG Petróleos service stations located in Spain. The 81 service stations have an average volume of about 2.5 million litres/year, in line with the average volume on the Spanish retail market.

The transaction, which is expected to be finalised in the first quarter of 2009, was concluded for Euro 42 million.

On **19 DECEMBER** the extraordinary shareholders' meetings of Gestioni Europa S.p.A. and its 100% owned subsidiary Gestioni Europa Due S.p.A. approved the merger of the subsidiary with the parent company. The effective date of the merger was 1 January 2009.

SIGNIFICANT EVENTS IN THE THERMOELECTRIC POWER GENERATION DIVISION

On **23 JANUARY** the Council of State published its decision accepting the arguments put forward by the Italian Electricity and Gas Authority (AEEG) and rejecting the reasoning previously set out in the Lombardy TAR

judgment of 2007. By way of this decision, AEEG Resolution 249/2006, which lays down new rules for calculating the CIP 6 “avoided fuel cost” tariff component, became enforceable again already as from 2007. The Group companies affected by the decision recognised the economic effects of this decision on their results in their 2007 financial statements.

On **6 MARCH** ERG announced its entry into the free electricity market with the sale to end customers of 650 million kWh of electricity supplies for the whole of 2008.

On **24 APRIL** ERG Power & Gas signed a partnership agreement with Independent Resources (IRG) for development of the natural gas depot at Rivara, in the Province of Modena.

In exchange for an investment of Euro 9.5 million, ERG subscribed to a 15% equity stake in the company ERG Rivara Storage S.r.l., incorporated on **24 JUNE**, to which all assets for the project were contributed. ERG will also dispose of a portion of the storage capacity.

The Rivara depot, which is of strategic importance to the Italian and European natural gas system, will have a nominal capacity of 3.2 billion cubic metres of working gas and the capacity to supply over 32 million cubic metres/day on the national gas pipeline system.

After the required authorisations have been obtained, the site is scheduled to begin operations in 2013.

On **1 JULY** the company ERG Power & Gas started operating on the IPEX organised market of wholesale trade of electric power, acquiring ownership of electricity dispatch contracts for injection and offtake.

SIGNIFICANT EVENTS IN THE RENEWABLE ENERGY SOURCES DIVISION

On **25 JANUARY** the deed was drawn up for the full demerger of ERG Cesa Eolica S.p.A., a joint venture between Acciona and ERG Power & Gas, whereby the said company assigned all of its assets, with effect from 1 February 2008, to two beneficiary

companies, Acciona Eolica Cesa Italia S.r.l. (shareholder: Acciona) and ERG Eolica S.r.l. (shareholder: ERG).

On **29 FEBRUARY** the company Green Vicari S.r.l. executed the Project Financing agreement for a total of Euro 59 million with Mediocredito Centrale and BNL-BNP Paribas. This loan was obtained to finance construction of the wind farm at Vicari (37 MW).

On **12 MAY** the Board of Directors of ERG S.p.A. approved the deal that, through partial demerger of ERG Power & Gas, will permit integration in Enertad of Group activities in the renewable energy sector.

In compensation for the demerged assets, the deal envisages that Enertad carry out a capital increase, granting 37,789,734 newly issued shares to ERG, the sole shareholder of ERG Power & Gas. Following this transaction, ERG now controls 77.4% of the share capital of Enertad, compared with its previous shareholding of 68.4%.

The Board of Directors also expressed its intention to exercise its pre-emptive right to the capital increase up to a maximum of Euro 200 million, including any additional paid-in capital, that will be proposed to the Enertad Shareholders' Meeting.

The capital increase is intended to finance the plan for developing activities in the renewable energy sector.

On **30 JUNE** the Extraordinary Shareholders' Meeting of Enertad approved the project for partial demerger of ERG Power & Gas in favour of Enertad and consequent assignment of 37,789,734 newly issued shares to ERG S.p.A., the sole shareholder of the demerged company.

Pursuant to Section 2443 Italian Civil Code, the Shareholders' Meeting also resolved to grant the Board of Directors a delegation of authority to increase the share capital to Euro 200 million, including any additional paid-in capital, to be offered as a rights issue to shareholders.

Finally, the Shareholders' Meeting changed the company name to ERG Renew.

On **18 JULY** the new name ERG Renew S.p.A. became fully effective following registration of the resolution approved by the Extraordinary Shareholders' Meeting of

Enertad S.p.A. held on 30 June 2008 which approved the change in company name.

On **10 SEPTEMBER** ERG Renew and Permasteelisa reached an agreement to enter new-generation photovoltaic energy via participation in a project for research and development of a cutting-edge technology to produce non-silicon-based solar panels. Partners in the project will be the Universities of Rome Tor Vergata, Ferrara, and Turin, which will handle the research, as well as another industrial partner, the Australian company Dyesol, through its Italian affiliate Dyesol Italia, a leader in the materials and technology supply sector.

On **25 SEPTEMBER** the Board of Directors of ERG Renew approved the supplement to the Prospects on 19 June 2008, concerning the project for demerger of ERG Power & Gas renewable energy assets to the benefit of ERG Renew, in view of listing the shares issued to service the demerger pursuant to Article 57(1) of the CONSOB Issuers Regulation 11971/99.

The Board of Directors also decided to postpone the planned capital increase for which it had received a five-year delegation of authority by the Shareholders' Meeting on 30 June 2008. This decision was prompted largely by the crisis on the financial markets.

On **1 OCTOBER** ERG Renew issued 37,789,734 ordinary shares following the capital increase in consequence of the demerger of ERG Power & Gas to the benefit of ERG Renew.

As a result of this stock issue ERG S.p.A. owns 102,667,268 shares (compared with 64,877,534 shares owned before), representing 77.387% (68.381% previously) of the share capital of ERG Renew, corresponding to 132,666,675 ordinary shares with a par value of Euro 1 each.

On **10 OCTOBER** ERG Renew (ERG Group), via its subsidiary EnerFrance, signed an agreement with the French group GSEF for acquisition of a 50% stake in Cita Wind and five project companies owned by the GSEF Group.

Cita Wind, a company active in the development of wind farms in Northern France, started business in 2004 and currently has projects for 288 MW in its portfolio, of which

168 MW at an advanced stage of development and 120 MW at a preliminary stage of development.

EnerFrance paid GSEF about Euro 3 million, inclusive of 50% of development costs relating to 2008. The agreement also envisaged increasing EnerFrance's initial equity interest from 50% to 90% in the project companies once authorisations have been obtained, with payment of a further amount in Euro/MW that will be based on the future productivity of the plants.

On **16 OCTOBER** ERG Renew and Trenitalia signed a settlement agreement concerning exercise of the put option held by Trenitalia on 49% of SODAI Italia S.p.A., for a value of Euro 17.5 million that was recognised in previous financial years, which Trenitalia had exercised on 22 May 2007. ERG Renew had objected that exercise of this option was unlawful, arguing that there was no contractual premise for doing so. It consequently started the arbitration process envisaged in the agreement. The settlement agreement resulted in transfer to ERG Renew of the share owned by Trenitalia S.p.A. for a reduced price of Euro 16.7 million, with compensation of legal and arbitration expenses.

On **12 NOVEMBER** the subsidiary EnerFrance initialled an agreement with the company VSB Energies Nouvelles, the French affiliate of the German group WSB, which is active on the renewable energy sources market, for acquisition of a wind power project in Brittany (for a capacity of 9 MW) and another south of Paris (for a capacity of 20 MW).

The total price to be paid is expected to be Euro 6 million.

On **12 DECEMBER**, in connection with demerger of the renewable energy assets of ERG Power & Gas in favour of ERG Renew, which took effect last 1 October, the disclosure published on 19 June 2008 pursuant to Articles 70 and 71-bis of the Issuers Regulation was made available to the public together with the document itself. This update was drafted and published following the equivalence finding issued by CONSOB on 11 December 2008, for exemption from the obligation to publish a prospectus for listing of the 37,789,734 ERG Renew shares issued to service the demerger. These shares were

then listed for trading with the same characteristics and same rights as the previously outstanding ERG Renew shares.

OTHER SIGNIFICANT EVENTS

On **22 JANUARY** the Board of Directors of ERG S.p.A., acting in accordance with the Shareholders' Meeting resolution of 27 April 2007, approved the purchase of a maximum number of 1,444,544 treasury shares, equal to 0.9610% of share capital, to service the current long-term incentive plan.

The operation was completed on **25 JANUARY** with purchase of the maximum number of shares envisaged in the Board of Directors' resolution at a weighted average price of Euro 10.23 for a total value of Euro 14,778,808.

On **19 MARCH** the Consorzio Priolo Servizi (Priolo Services Consortium) completed purchase of shareholder assets that have been managed by the consortium since 1 May 2008. The purchase was realised

through the grant of these assets by ERG Raffinerie Mediterranee and Syndial and sale by ERG Nuove Centrali and Polimeri.

On **24 APRIL** the ERG S.p.A. Shareholders' Meeting confirmed Mario Pacciani as Chairman of the Statutory Board of Auditors and Paolo Fasce as Standing Auditor, and filled the last vacant seat on the Board of Statutory Auditors by appointing Lelio Fornabaio as Alternate Auditor.

The Shareholders' Meeting also confirmed Aldo Garozzo as Director, who was appointed by resolution of the Board of Directors on 10 March 2008, pursuant to Section 2386(1).

Commemorating the 70th anniversary of ERG, on **13 NOVEMBER** the ERG Board of Directors appointed Riccardo Garrone as Honorary Chairman of the company, in recognition of the key contribution he made to the development and prestige of the Group.

REGULATORY FRAMEWORK

The most important events that characterised the energy sector in 2008 were:

Publication of the 2008 Italian National Budget Act: this act contains numerous interesting provisions, from the reform of regulations for renewable energy sources, to granting the Electricity and Gas Authority (AEEG) full powers in regard to "avoided fuel costs," to introduction of the institute of class action lawsuits in Italian law. Furthermore, a variable excise tax on fuels was enacted, the "Mister Prezzi" price regulatory mechanism was introduced, and the regulations governing tenders for gas concessions were amended.

In particular, a series of measures was introduced to promote renewable energy sources and revision of their incentive mechanism, while also envisaging numerous implementing provisions for the new measures, including a Ministerial Decree amending the directives applicable to incentives for electric power generated from

renewable energy sources (amendment to the Ministerial Decree of 24 October 2005) and the terms and conditions for transition from the previous rules to the new ones.

An annual increase of +0.75% in the mandatory quota of green certificates (Legislative Decree 79/99) was introduced for the period 2007-2012 (the annual increase applicable in the previous period was +0.35%), differentiation in the incentive system based on plant size (an all-inclusive fixed rate system was introduced for small plants with a rating of less than 1 MW, and less than 200 kW if wind power; the green certificate system was confirmed with several modifications for large plants), differentiation by source through the introduction of multiplier coefficients defined by technology (1 in the case of wind power) to be applied to the production qualified to benefit from issuance of green certifications, a 15-year duration of the incentive period for plants powered by renewable sources that come on line after 31 December 2007 (12 years if

they come on line during the period between 1 April 1999 and 31 December 2007), and the withdrawal of expired green certificates by the GSE at the average price recorded by the GME in the previous year. The aggregate benchmark value of 180 Euro/MWh for the three-year period 2008-2010 was set. The GSE uses this benchmark to calculate the price of green certificates in its possession, by subtracting the average price for sale of the electric power generated by renewable energy source plants and withdrawn by the GSE in the previous year (the “dedicated withdrawal” system). In Resolution 24/08, issued on 26 February, the AEEG set the dedicated withdrawal price for 2007 in the amount of Euro 67.12/MWh. Therefore, the value of green certificates in the possession of the GSE that must be withdrawn in March 2012, was Euro 112.88/MWh (net of VAT) in 2008.

Amendment to Consolidated Law on the Environment: publication of Legislative Decree 04/2008 in the Official Gazette of 29 January 2008, amending the Environmental Code (Legislative Decree 152/2006). This new legislative decree entirely rewrites the rules applicable to the Environmental Impact Report (“VIA”) and the Environmental Strategy Report (“VAS”) and sets specific deadlines for the VIA, from 150 days to a maximum of 330 days for more complex works. It eliminated the no answer-tacit rejection provision of the VIA, i.e. the automatic mechanism by which the request was considered automatically rejected if no answer was given. If the deadlines are not met, the report will be subject to review by the Council of Ministers. Furthermore, the new Article 252 bis was introduced in regard to site clean-up. It envisages identifying “sites of paramount public interest” for the purposes of “implementing programmes and measures for industrial conversion and productive economic development”. Through the Programme Agreement mechanism, “projects for clean-up of contaminated land and water and targeted actions for productive economic development will be implemented”. Finally, the decree establishes the hierarchy of waste management priorities: reduction, reuse, recycling, and new rules for consortia.

Clean-ups – Programme Agreement for

the Priolo site and CIPE (Inter-Ministerial Economic Planning) Resolution 61/2008: in November, the Quality of Life Department at the Ministry of Environment completed definition of a Programme Agreement for clean-ups at the Priolo site, in accordance with similar Agreements already initiated at other sites, in order to define opportunities and procedures for settlement of the pending administrative dispute, and obtaining restoration of the areas’ lawful uses. The details of the terms, conditions and costs of the settlements to the owners of the areas included in the site are still being defined.

European Union energy – environment – climate change package: a European-level agreement was reached in December on the 20/20/20 climate-energy package, which envisages, by the year 2020, reducing CO₂ emissions by 20% from their 1990 levels, reducing energy consumption by 20% from the forecast trend level for that year, generation of 20% of energy needs from renewable energy sources, and the promotion and use of biofuels, which will have to account for 10% of all automotive fuel consumption by 2020. For Italy, this translates into a binding target of 17% for domestic consumption supplied by renewable energy sources by 2020, against 5.2% in 2005.

Furthermore, the package envisages:

- revision of the European Union Emissions Trading Scheme – EU-ETS: starting from 2013, Member States will auction all quotas that will not be assigned gratuitously, and the European Commission will determine and publish the estimated amount of quotas to be auctioned; the Commission will also adopt a regulation for the timing, management and other aspects of auctioning the quotas to ensure that the auctions are open, transparent, harmonised and non-discriminatory;
- in the area of renewable energy sources, it envisages mandatory national targets for the individual Member States to promote the use of renewable energy sources in the electric power, heating and air conditioning, and transport sectors to ensure that the EU target of raising the quota of renewable energy to 20% of total energy consumption is met. Furthermore, the Italian government’s request to insert a clause for revision in

2014 was accepted. This clause applies only to the mechanisms for co-operation between Member States, but does not impact the European target of 20% by 2020 or the national targets. Therefore, the Member States must submit national action plans to achieve the assigned targets, while the Commission will be in charge of assessing them and taking action against those Member States that are not in compliance;

- suppliers of fuels are obligated to reduce greenhouse gas emissions produced during the entire life cycle of fuels by up to 10% in 2020.

National CO₂ Allocation Plan for 2008-2012: with approval of Resolution 20/2008, the Decision for assignment of CO₂ quotas for 2008-2012 is executed; the assignments coincide with the allocations already envisaged in the previous assignment schemes for December 2007 and February 2008. The “Regulation for New Entries and Closures” is appended to the Decision. This sets out detailed definitions for the terms and conditions of assignment and the sector methods used to determine the CO₂ quotas available for “new entry” plants and management and rules for plants undergoing closure.

Reimbursement for costs to purchase CO₂ for CIP 6 plants: publication in June of AEEG Resolution ARG/elt 77/08: “Criteria for recognition pursuant to Title II (7bis) of CIP Order 6/92, of the costs stemming from application of Directive 2003/87/EC,” according to which are determined the criteria for full reimbursement of the costs incurred by the owners of CIP 6 plants for purchase of the CO₂ quotas during the first (2005-2007) and second period (2008-2012) period of the emission trading Directive.

Conversion into law, with amendments, of Decree Law 112 of 25 June 2008, entitled “Urgent Measures for Economic Development, Simplification, Competitiveness, Stabilisation of Public Finances and Tax Equalisation”: the Decree Law was converted into Law 133 of 6 August, published in Official Gazette no. 195 of 21 August 2008 – Ordinary Supplement no. 196. The law envisages a series of important measures for the sector:

- restoration of the 33% IRES (corporate income tax) rate for all categories of energy enterprises indicated in the measure (including refiners of petroleum, producers and distributors of petroleum products, electric power, and gas); the 5.5% surcharge (“Robin Tax”) is applied exclusively on those firms with revenues exceeding Euro 25 million, excluding those companies that operate in the renewable energy sources sector;
- different measurement of inventories for oil companies (switch from the LIFO system to FIFO or weighted average cost system);
- establishment of an Authority (“Garante”) represented by the AEEG in order to ensure compliance with the ban on transferring the higher tax to consumer prices;
- mandatory application of the “VAT sterilisation” mechanism that was already envisaged as an option in the 2008 Italian National Budget Act;
- postponement of the effective date of the class action law (not before 30 June 2009);
- Article 83 bis, subsections 17-22 envisages complete deregulation of the fuel distribution network in response to the observations made by the European Commission in the infraction proceeding initiated in 2005. Following enactment of Law 133, as cited above, the European Commission, definitively halted the infraction proceeding last November.

The AEEG has issued several implementing resolutions to monitor the ban on transferring the surcharge to the final prices of sold products, by obligating the affected parties to comply with a series of reporting requirements.

Ministerial Decree in implementation of the 2008 Italian National Budget Act on renewable energy sources of 18 December 2008, entitled “Incentives for the production of electric power from renewable energy sources, pursuant to Article 2(150) of Law 244 of 24 December 2007”: the decree identifies the operating mechanisms for implementing the new incentive systems, defines the terms and conditions for transition from the old to the new mechanisms, envisages initial revision of the criteria for allocation of the incentives to retrofitting of

existing plants. In particular, the decree corrects certain criticalities in the 2008 Italian National Budget Act through modification of the mechanism used to define prices and the terms and conditions for withdrawal of green certifications for production through 2010. Article 15 envisages that: "In order to ensure gradual transition from the old to the new incentive mechanisms, in the three-year period 2009-2011, by June the GSE shall withdraw, on request by the holders, the green certificates issued for production applicable to the years through 2010, excluding those for cogeneration plants combined with distance heating. The price for withdrawal of these certificates is the average market price of the three-year period preceding the year in which the request for withdrawal is filed."

Decree Law 185 of 29 November 2008 (Anti-Crisis Decree Law): this decree law, entitled "Urgent measures to support families, work, employment and businesses, and aimed at reorganising the national strategic situation in response to the crisis" specifically envisages in Article 3 (Freezing and reduction of rates):

- a revision of market rules in order to limit price rises for electric power. The modifications, to be determined in subsequent regulations, will affect the operating rules for wholesale energy markets (Day Before Market, Adjustment Market and Dispatching Services Market);
- the adoption of measures, through action by the MSE (Ministry of Economic Development), following consultation with the AEEG, to eliminate any anomalies in the formation of zone prices and promote competition in the production and supply of energy, and monitoring by AEEG of electric power and gas price trends, by adopting appropriate measures so that these prices benefit from any reductions in the prices of petroleum products;
- the possibility for the MSE to divide the relevant network into no more than three macro-zones.

The decree was converted into Law 2 of 2009.

Ruling by the Council of State on AEEG Resolution 249/06: ruling on the merits at its 22 January 2008 hearing, the Council of

State accepted the appeal by the Electricity & Gas Authority (AEEG) by reinstating Resolution 249/06, which had been voided by the Lombardy Regional Administrative Tribunal (TAR) in May 2007, regarding revision of the "avoided fuel cost" rate component.

In April, with AEEG Resolution ARG/elt 49/08 "Determination of the Equalisation Payment for FY 2007 of the avoided fuel cost envisaged in Title II(2) of the Interministerial Price Committee Order 6/92 of 29 April 1992," the Electricity and Gas Authority set the equalisation payment for 2007 and the amount of the prepayment for 2008, which are equal to each other, for the avoided fuel cost pursuant to CIP 6/92, confirming the terms and procedures envisaged in Resolution 249/06 in consequence of the decision by the Council of State.

Update of CEC finding: publication of Resolution ARG/elt 154/08 of 21 October 2008: "Adjustment of average price of conventional fuel for determination of the avoided fuel cost pursuant to Title II(2) of the Interministerial Price Committee Order 6/92 of 29 April 1992," where the Authority decided that the average price of fuel for the CEC determination of prices for pick-up of CIP 6 energy starting from 2008 is adjusted, confirming the method of Resolution 249/06, by modifying certain criteria for quantification of the benchmark conventional fuel.

Reduction in fuel excise taxes: the interministerial decree that reduced fuel excise taxes by 1.683 eurocent/litre was published in the Official Gazette of 20 March.

Biofuel: three ministerial decrees were issued to complete the regulatory framework governing biofuel:

- Decree 100 of 23 April 2008, containing penalties for failure to comply with the obligation to sell biofuel;
- Decree 110 of 29 April 2008, containing the criteria, terms and conditions for implementing mandatory sale of a minimum amount of biofuel on Italian territory;
- Decree 156 of 3 September 2008 concerning the terms and conditions for application of the reduced excise tax on biodiesel.

BUSINESS DIVISIONS

COASTAL REFINING

REFERENCE MARKET

	FY 2008	FY 2007	FY 2006
CRUDE OILS (USD/BARREL)			
BRENT CRUDE OIL PRICE ⁽¹⁾	97.12	72.37	65.10
BRENT/URAL DIFFERENTIAL ⁽²⁾	3.01	2.87	4.15
BRENT/AZERI LIGHT DIFFERENTIAL	(1.99)	(0.89)	(0.26)
PRODUCTS (USD/TONNE)			
TRANSPORT DIESEL PRICE	936	661	600
UNLEADED GASOLINE PRICE	833	686	610
FUEL OIL PRICE	456	340	280
CRACK SPREAD (USD/BARREL)			
TRANSPORT DIESEL – BRENT	28.33	16.10	15.31
GASOLINE – BRENT	2.69	9.60	7.99
HIGH SULPHUR FUEL OIL – BRENT	(25.2)	(19.0)	(21.0)
MARGIN INDICATORS			
EMC (USD/BARREL) ⁽³⁾	3.95	3.31	3.04
EMC (EURO/BARREL) ⁽³⁾	2.69	2.42	2.42
EURO/USD EXCHANGE RATE	1.471	1.370	1.256

SOURCE PLATT'S

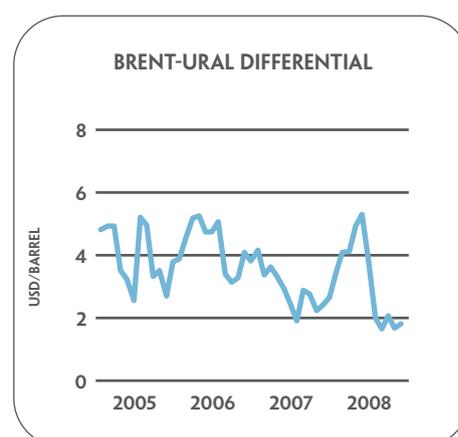
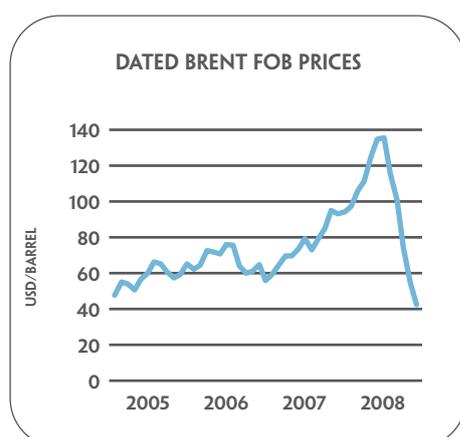
(1) BRENT DATED: BENCHMARK LIGHT CRUDE OIL, ON MEAN FOB BASIS

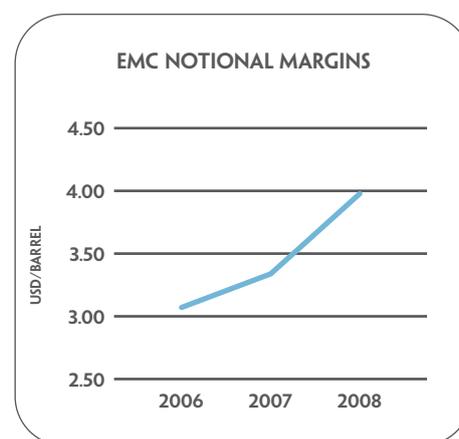
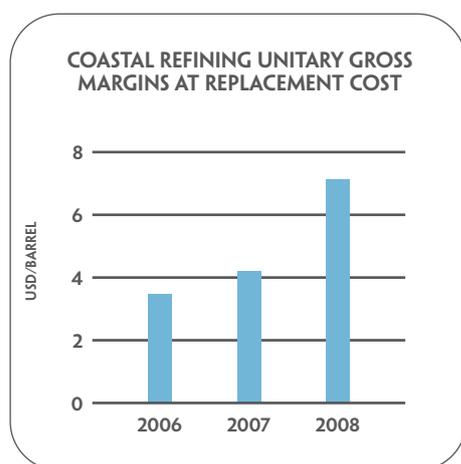
(2) URAL: BENCHMARK HEAVY CRUDE OIL, ON MEAN CIF BASIS

(3) VALUE OF THE EMC NOTIONAL MARGIN ON FOB BASIS, OBTAINED FROM A 50-50 MIX OF URAL AND AZERI LIGHT CRUDES, THE EMC NOTIONAL MARGIN REFERS TO A COMPLEX REFINERY CHARACTERISED BY CATALYTIC CONVERSIONS DEDICATED TO THE PRODUCTION OF GASOLINE (FLUID CATALYTIC CRACKING PLANT)

Crude oil price: in the first half of 2008, raw material prices steadily rose to record highs at the beginning of July, and then started to fall even more precipitously than they

had risen, closing the year at levels far below those at the beginning of the year. The average annual price of Brent crude for 2008 was over USD 97/bbl, much higher





(+34%) than the average price for 2007. The maximum quotation of USD 144.22/bbl was reached on 4 July, while the minimum value of USD 33.66/bbl was reached on 24 December.

The Brent/Ural differential changed little for the previous year (+USD 3.0/bbl compared with USD 2.9/bbl in 2007). Azeri Light, which has higher yields than Brent crude in intermediate distillates, appreciated sharply in price, consistently with the rise in diesel prices against Brent crude prices.

Products: FY 2008 was characterised by a significant firming of diesel with respect to Brent crude, driven by strong demand in the middle of the year, corresponding to low stocks, and in the last quarter, by the specific change in automotive fuel (when the maximum allowed sulphur content fell from 50 to 10 ppm).

In contrast, the crack spread of gasoline with respect to Brent crude fell markedly from its 2007 levels due to the severe downturn

in demand in the United States. This was partly due to high retail prices during the first half of the year and, in the second half, the effects of the financial crisis and sharp slowdown in Western country economic growth. Gasoline prices rose only during the hurricane season in the Southern United States (September and early October), before falling back to their average for the year.

Industry refining margins (EMC): refining margins in the Mediterranean as measured in dollars were higher than in 2007. Overall, the EMC (FCC) notional benchmark margin benefited more from the appreciation in diesel than it was penalised by the depreciation of gasoline prices against Brent crude. In contrast, the margin in Euro was penalised by weakening of the dollar, which reached its historic minimum against the Euro in the middle of the year.

HIGHLIGHTS OF COASTAL REFINING RESULTS

(MILLION EURO)	FY 2008	FY 2007	FY 2006
REVENUES FROM THIRD PARTIES	6,189	5,943	5,014
INTERDIVISIONAL REVENUES	1,397	1,200	1,103
REVENUES FROM ORDINARY OPERATIONS	7,587	7,143	6,118
EBITDA AT REPLACEMENT COST ⁽¹⁾	226	117	149
AMORTISATION, DEPRECIATION AND WRITE-DOWNS	(67)	(62)	(53)
EBIT AT REPLACEMENT COST ⁽¹⁾	159	55	96
INVESTMENTS IN TANGIBLE AND INTANGIBLE FIXED ASSETS	67	118	185

(1) THE ILLUSTRATED FIGURES DO NOT INCLUDE

- INVENTORY GAINS (LOSSES) OF -240 IN 2008, +170 IN 2007 AND -31 IN 2006

- THE NON CHARACTERISTIC ITEMS INDICATED IN THE CHAPTER "ALTERNATIVE PERFORMANCE INDICATORS", TO WHICH REFERENCE IS MADE FOR MORE DETAILS

Revenues in 2008 were higher than in 2007, due to higher prices and in spite of lower production and sales volumes, mainly attributable to the new refinery configuration and, limited to the month of December, sale of 49% of the refinery to LUKOIL. EBITDA at replacement cost in 2008 was higher than in 2007, due both to the higher

unitary refining margin, in spite of the SDA plant shutdown from 13 October to 18 December following the accident at ISAB Energy, and to lower fixed costs.

HIGHLIGHTS OF RESULTS OF ISAB S.R.L. ⁽¹⁾

(MILLION EURO)	FY 2008	FY 2007	FY 2006
EBITDA AT REPLACEMENT COST ⁽²⁾	9	-	-
AMORTISATION, DEPRECIATION AND WRITE-DOWNS	(6)	-	-
EBIT AT REPLACEMENT COST ⁽²⁾	3	-	-
INVESTMENTS IN TANGIBLE AND INTANGIBLE FIXED ASSETS	8	-	-

(1) THE COMPANY BECAME OPERATIONAL ON 1 DECEMBER 2008

(2) THE ILLUSTRATED DATA DO NOT INCLUDE THE INVENTORY LOSSES OF EURO 6 MILLION IN 2008

We report that, as at 31 December 2008, ISAB S.r.l. has a positive net financial position of around Euro 108 million.

HIGHLIGHTS OF ADJUSTED COASTAL REFINING RESULTS

To facilitate interpretation of Coastal Refining results in light of the previously men-

tioned effects of the LUKOIL deal, the results of this business are also shown at their adjusted replacement cost, which reflect, for the 51% ERG shareholding, the December 2008 results of ISAB S.r.l., whose contribution to non-adjusted values is represented in the equity measurement of the investment.

(MILLION EURO)	FY 2008	FY 2007	FY 2006
ADJUSTED EBITDA AT REPLACEMENT COST	230	117	149
ADJUSTED AMORTISATION, DEPRECIATION AND WRITE-DOWNS	(70)	(62)	(53)
ADJUSTED EBIT AT REPLACEMENT COST	161	55	96
ADJUSTED INVESTMENTS IN TANGIBLE AND INTANGIBLE FIXED ASSETS	70	118	185

MARGINS AND PROCESSING

	FY 2008	FY 2007	FY 2006
INDUSTRY REFINING MARGINS AT ADJUSTED REPLACEMENT COST ⁽¹⁾ OF ERG COASTAL REFINING			
USD/BARREL	7.13	4.21	3.50
EURO/BARREL	4.85	3.07	2.78
EURO/TONNE ⁽²⁾	35.2	22.4	20.4
PROCESSED VOLUMES (KTONS) ⁽³⁾	13,253	16,631	15,528

(1) EXPRESSED NET OF VARIABLE PRODUCTION COSTS (PRINCIPALLY COSTS FOR UTILITIES), THEY DO NOT INCLUDE INVENTORY GAINS (LOSSES) AND NON CHARACTERISTIC ITEMS, AND FROM DECEMBER 2008 THEY INCLUDE THE CONTRIBUTION ALLOCABLE TO ERG (51%) OF ISAB S.R.L.

(2) BARREL/TONNE CONVERSION FACTOR OF 7.267 IN 2008, 7.297 IN 2007 AND 7.322 IN 2006

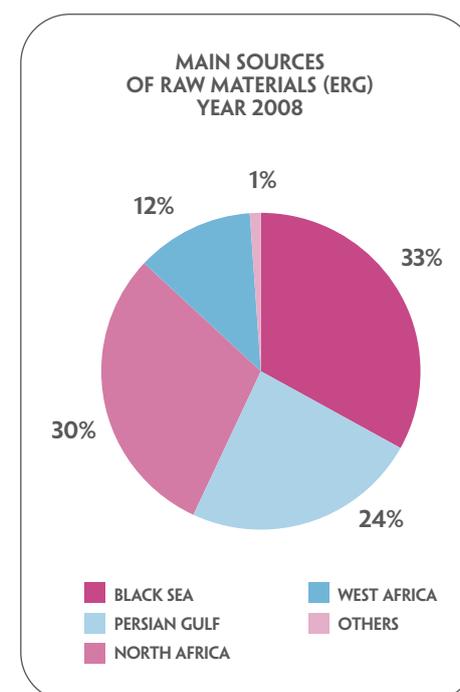
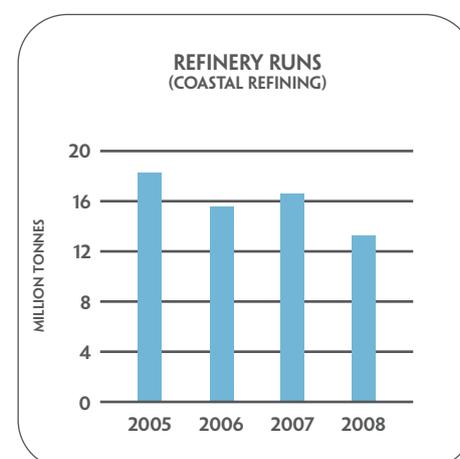
(3) STARTING FROM DECEMBER 2008 THE VOLUMES PROCESSED FOR ERG AT THE ISAB REFINERY ARE 51% OF PROCESSING CAPACITY

The gross unitary refining margins in Euro/barrel in 2008 are higher than those for 2007, in spite of the negative impact of appreciation of the Euro against the dollar and shutdown of the SDA plant following the accident at ISAB Energy. The principal causes of this increase in margins are:

- the new configuration of the ISAB Refinery following complete integration of the Impianti Nord and Impianti Sud sites, which permitted further streamlining of feedstock loading;
- the profitability of the new catalytic cracking loading plant;
- more favourable oil market situation for conversion margins, especially from March on.

The reduction in processing volumes in 2008 from 2007 was caused mainly by the new refinery configuration, which reduced marginal topping processing and simultaneously increased conversion capacity. This difference was also impacted by higher processing volumes of residue, which saturates the capacity of conversion plants with less topping, in consequence of economic choices that were partly dictated by the lower profitability of topping crude oil. For the month of December only, the sale of 49% of the ISAB Refinery to LUKOIL also had an impact.

The API grade in 2008 (31.65) was lower than in 2007 (32.3), mainly on account of increased processing of residue.



PROCUREMENT AND PROCESSING YIELDS

In 2008 the areas of origin of raw materials were: Black Sea 33% (39% in 2007), North Africa 30% (27%), Persian Gulf 24% (23%), West Africa 12% (6%), and others 1% (5%).

The reduction in supplies from the Black Sea and the increase in supplies from North Africa (essentially Libya) and West Africa reflect the higher profitability of the latter crude oils.

(THOUSAND TONNES)	FY 2008		FY 2007		FY 2006	
RAW MATERIALS:						
CRUDE OIL ⁽¹⁾	11,076	83.6%	14,725	88.5%	12,702	89.9%
RESIDUES AND OTHER SEMI-FINISHED PRODUCTS	2,177	16.4%	1,906	11.5%	1,425	10.1%
TOTAL PROCESSING ⁽¹⁾	13,253	100.0%	16,631	100.0%	14,126	100.0%
BLENDING ADDITIVES	510		542		1,096	
TOTAL RAW MATERIALS ⁽¹⁾	13,763		17,173		15,222	
PRODUCTION:						
FUEL GAS	100	0.8%	100	0.6%	61	0.4%
LPG	206	1.6%	293	1.8%	237	1.6%
NAPHTHA	490	3.7%	764	4.6%	838	5.7%
GASOLINE	2,512	19.2%	2,951	17.9%	2,473	16.8%
JET FUEL	183	1.4%	468	2.8%	557	3.8%
DIESEL	6,353	48.5%	7,533	45.8%	6,281	42.8%
VACUUM DIESEL	728	5.5%	297	1.8%	365	2.5%
FUEL OIL	1,348	10.3%	2,738	16.6%	2,581	17.6%
IGCC PLANT FEEDSTOCK	793	6.1%	883	5.4%	937	6.4%
SULPHUR	93	0.7%	101	0.6%	83	0.6%
OTHER PETROCHEMICAL PRODUCTS	305	2.3%	317	1.9%	270	1.8%
TOTAL PRODUCTION	13,110	100.0%	16,445	100.0%	14,684	100.0%
CONSUMPTION AND LOSSES	652		728		539	

(1) RAW MATERIALS AND TOPPING FED SEMI-FINISHED PRODUCTS

The reduced level of processing from 2007 is due to the new configuration of the refinery completed in the second half of 2007 and the economic decision to process higher quantities of residue and, only in the month of December, the sale of 49% of the ISAB Refinery to LUKOIL.

The lower production of feedstock at the IGCC plant is attributable to the lower demand by ISAB Energy following the accident in October 2008.

INTEGRATED DOWNSTREAM

REFERENCE MARKET

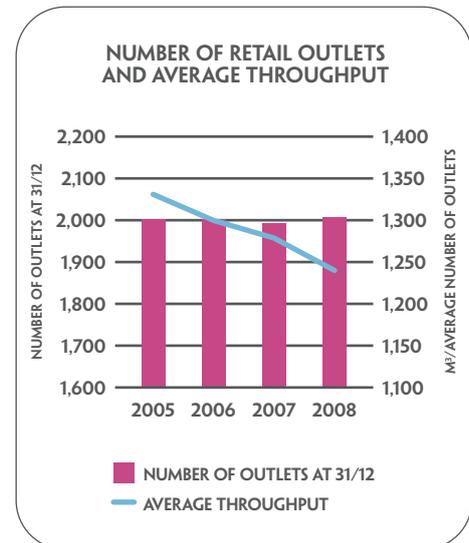
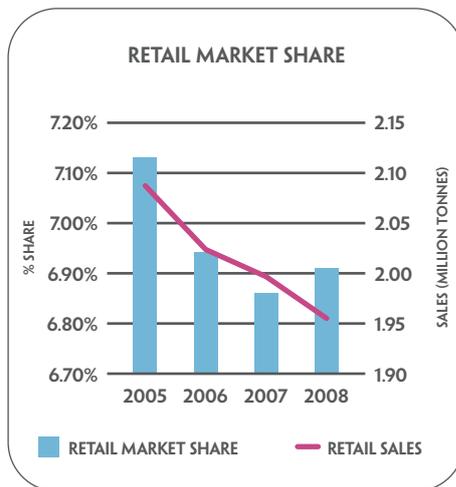
	FY 2008	FY 2007	FY 2006
ITALIAN RETAIL MARKET (CONSUMPTION TREND) ⁽¹⁾	-2.9%	0.0%	0.1%
GASOLINE	-6.8%	-5.8%	-6.1%
DIESEL	-0.1%	4.4%	5.4%
ITALIAN WHOLESALE MARKET (CONSUMPTION TREND) ⁽¹⁾	-0.5%	-4.8%	0.2%
GASOLINE	7.4%	2.5%	-3.8%
DIESEL	-1.2%	-0.1%	1.9%
HEATING GAS OIL	0.3%	-20.6%	-12.7%

(1) ESTIMATED FIGURES FOR THE CHANGES FROM THE SAME PERIOD OF THE PREVIOUS YEAR

Italian retail market: domestic consumption of gasoline and diesel during the year decreased by 2.9% overall on the retail market from 2007; in particular, the demand for gasoline decreased in contrast with largely unchanged demand for diesel.

Italian wholesale market: overall wholesale demand for diesel decreased in 2008 from 2007.

Refining: reference is made to the section on Coastal Refining for information on this market. However, the characteristics of Inland Refineries as compared with Coastal Refining can produce different results in individual periods due to market changes.



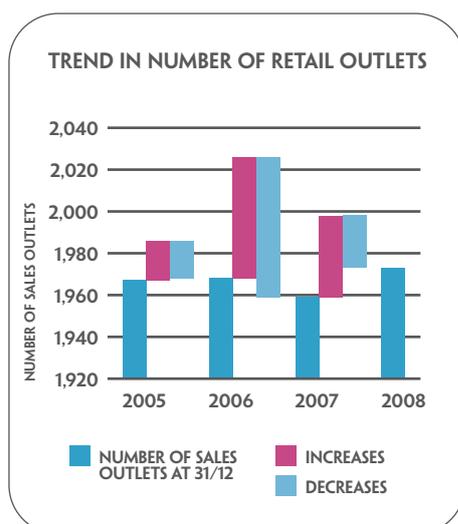
SUMMARY OF THE MAIN RESULTS

(MILLION EURO)	FY 2008	FY 2007	FY 2006
REVENUES FROM THIRD PARTIES	4,497	3,630	3,531
INTERDIVISIONAL REVENUES	128	78	98
REVENUES FROM ORDINARY OPERATIONS	4,625	3,708	3,629
EBITDA AT REPLACEMENT COST ⁽¹⁾⁽²⁾	145	87	127
AMORTISATION, DEPRECIATION AND WRITE-DOWNS ⁽²⁾	(52)	(48)	(44)
EBIT AT REPLACEMENT COST ⁽¹⁾⁽²⁾	93	39	83
INVESTMENTS IN TANGIBLE AND INTANGIBLE FIXED ASSETS	86	77	36

(1) THEY DO NOT INCLUDE INVENTORY GAINS (LOSSES) OF -124 IN 2008, +51 IN 2007 AND +3 IN 2006

(2) THEY DO NOT INCLUDE THE NON CHARACTERISTIC ITEMS INDICATED IN THE CHAPTER "ALTERNATIVE PERFORMANCE INDICATORS"; TO WHICH REFERENCE IS MADE FOR MORE DETAILS

EBITDA was higher than in the previous year due to improved margins, particularly in the second half of the year, for sales and refining activities and greater availability of refinery plants.



MARKETING

Retail network

In 2008, ERG retail sales fell (-2.2%) from the same period a year earlier, in the face of a general contraction in demand (-2.9%). The market share of ERG for fuel was 6.9% (7.5% for gasoline and 6.5% for diesel), up slightly from its share in 2007 (6.9%, of which 7.5% for gasoline and 6.4% for diesel). Unit margins for both gasoline and diesel were higher in 2008 than in 2007. Starting from this year, products containing biofuel additives are being sold in compliance with legal requirements. At 31 December 2008, planned

work on the restyling of 1,506 service stations had been completed. As at 31 December 2008 ERG's Italian retail network consisted of 1,973 outlets (1,959 as at 31 December 2007). This increase included 39 new outlets and 25 no longer active.

Wholesale network

ERG operates on the wholesale market by selling petroleum products mainly to companies that in turn resell them to end users on their own local markets.

ERG diesel sales changed only slightly from the previous year (+1%), with a market share of 8.3%.

Unit margins were up in 2008 from 2007. Starting from this year, products containing biofuel additives are being sold on the wholesale market as well, in compliance with legal requirements.

Abroad

Spain

In 2008 the sales of ERG Petroleos S.A., a company operating on the Spanish retail and wholesale markets, totalled 351 thousand tonnes (18% gasoline and 82% diesel), down 4% from the previous year (domestic retail sales -0.9% and domestic wholesale sales -6.6%).

At 31 December 2008 the Spanish retail network was comprised of 99 outlets, of which 66 owned by ERG (39 directly managed by ERG Gestión Ibérica S.L.). On 29 October 2008 Saras Energia S.A. (Saras Group) and ERG Petróleos S.A. (ERG Group) signed an agreement for acquisition by Saras Energia of 81 ERG Petróleos service stations.

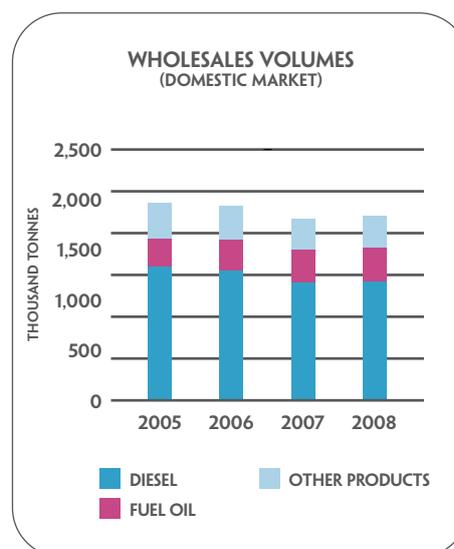
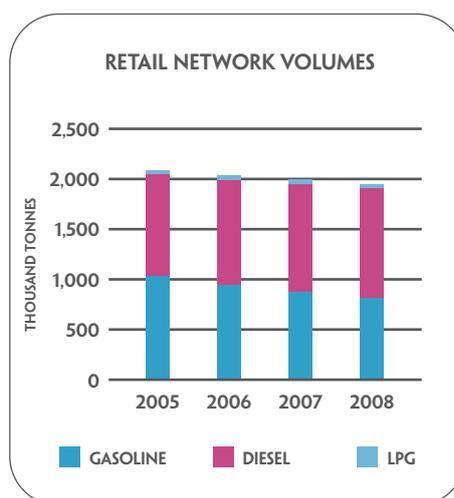
Switzerland

ERG Petroli Suisse S.A., an ERG Petroli company that operates on the Canton Ticino retail market with 16 service stations, sold about 17 thousand tonnes of fuel, up 24% from the previous year in spite of the steep decline in sales during the last quarter (-12%), due to appreciation of the Swiss franc against the Euro and the closing of a service station.

INLAND REFINERIES

The Inland Refineries, located in two of the areas featuring the greatest intensity of consumption in Italy, have a total annual balanced distillation capacity, as far as ERG's share is concerned, of 3.2 million tonnes (approximately 60 thousand barrels/day) and differ according to the type of conversion. The Rome Refinery is equipped with thermal conversion, whereas the Sarpom Refinery is equipped with catalytic conversion, capable of producing higher quantities of light distillates. Moreover, while the Sarpom Refinery uses essentially light crude oils with low sulphur content, the Rome Refinery uses mainly heavier crude oils.

MARGINS AND PROCESSING

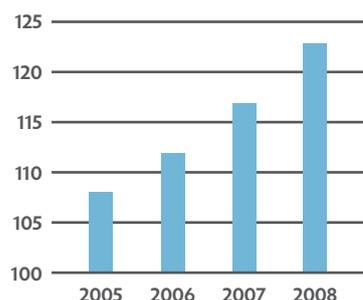


	FY 2008	FY 2007	FY 2006
UNIT CONTRIBUTION MARGINS AT REPLACEMENT COST⁽¹⁾ OF ERG'S INLAND REFINERIES			
USD/BARREL	6.21	3.48	3.59
EURO/BARREL	4.22	2.54	2.86
EURO/TONNE ⁽²⁾	31.1	18.8	21.2
VOLUMES PROCESSED (KTONNES)	3,098	2,976	3,153
OF WHICH			
SARPOM (TRECATE)	1,911	1,972	1,991
ROME	1,187	1,004	1,162

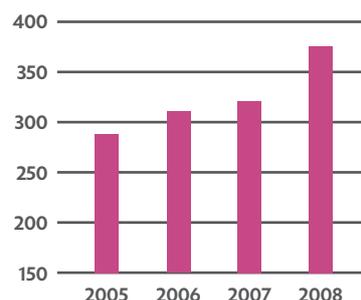
(1) GROSS UNIT MARGINS AT REPLACEMENT COST, SHOWN NET OF VARIABLE PRODUCTION COSTS (MAINLY COSTS FOR UTILITIES), DO NOT INCLUDE INVENTORY GAINS (LOSSES)

(2) BARREL/TONNE CONVERSION FACTOR OF 7.376 IN 2008, 7.386 IN 2007 AND 7.414 IN 2006

SALES OUTLETS WITH C-STORES AT 31/12



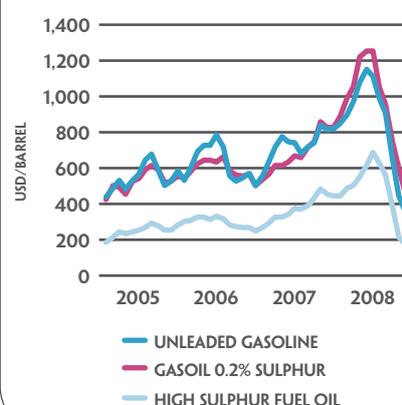
SALES OUTLETS WITH POST-PAY AT 31/12



In 2008 unitary contribution margins were up from 2007, due to favourable conditions on the petroleum market and a particularly profitable selection of crudes.

Although negatively impacted by the general shutdown of the Sarpom Refinery in late 2008, processing volumes were higher than in 2007. The difference is mainly accounted for by processing at the Rome Refinery, which was impacted in 2007 by the general planned shutdown, while it posted a processing record in 2008.

PLATTS HIGH FOB PRICES



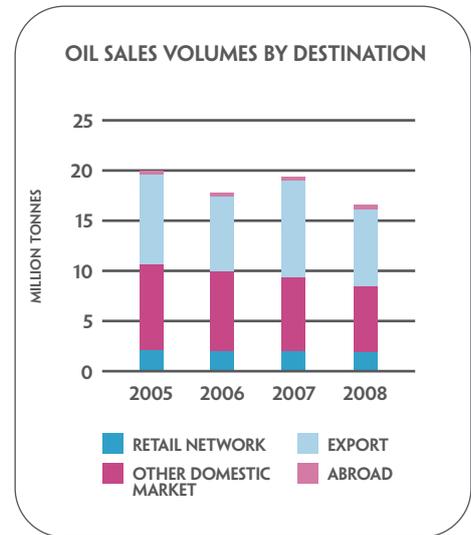
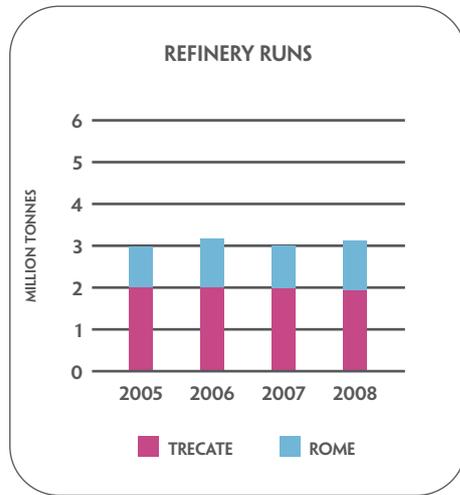
PROCUREMENT AND PROCESSING YIELDS

(THOUSAND TONNES)	FY 2008		FY 2007		FY 2006	
RAW MATERIALS:						
CRUDE OIL ⁽¹⁾	3,098	100.0%	2,976	100.0%	3,153	100.0%
RESIDUES AND OTHER SEMI-FINISHED PRODUCTS	-	0.0%	-	0.0%	-	0.0%
TOTAL PROCESSING ⁽¹⁾	3,098	100.0%	2,976	100.0%	3,153	100.0%
BLENDING ADDITIVES	9		13		15	
TOTAL RAW MATERIALS ⁽¹⁾	3,108		2,989		3,167	
PRODUCTION:						
LPG	126	4.2%	128	4.5%	135	4.5%
NAPHTHA	5	0.2%	23	0.8%	5	0.2%
GASOLINE	594	20.1%	593	20.9%	636	21.1%
JET FUEL	292	9.9%	267	9.4%	208	6.9%
DIESEL	1,173	39.6%	1,061	37.4%	1,227	40.8%
VACUUM DIESEL	77	2.6%	69	2.4%	75	2.5%
FUEL OIL	541	18.3%	549	19.3%	556	18.5%
BITUMEN	150	5.1%	146	5.1%	162	5.4%
SULPHUR	5	0.2%	6	0.2%	6	0.2%
TOTAL PRODUCTION	2,963	100.0%	2,841	100.0%	3,011	100.0%
CONSUMPTION AND LOSSES	145		148		157	

(1) RAW MATERIALS AND TOPPING FED SEMI-FINISHED PRODUCTS

Please refer to the section on Coastal Refining for information on procurement. The Inland Refineries' processing yields differed only marginally from those of the pre-

vious year, as no significant changes occurred in refinery configuration. These minor differences were mainly due to the different types of crude oil processed.



THERMOELECTRIC POWER GENERATION

REFERENCE MARKET

	FY 2008	FY 2007	FY 2006
DOMESTIC ELECTRICITY MARKET (GWH)			
DEMAND	337,642	339,839	337,459
IMPORT	42,997	48,570	46,596
DOMESTIC PRODUCTION ⁽¹⁾	317,894	314,353	314,091
OF WHICH			
THERMOELECTRIC	260,228	265,556	262,167
CIP 6	48,372	53,756	51,699
SELLING PRICE (EURO/MWH)			
SINGLE NATIONAL PRICE ⁽²⁾	86.99	70.99	74.75

(1) OUTPUT GROSS OF CONSUMPTION FOR AUXILIARY SERVICES
(2) SINGLE NATIONAL PRICE

Electricity demand in FY 2008 was 337,642 GWh (-0.7% from 2007).

During the period, 71.4% of domestic supply was covered by thermoelectric generation, 13.3% by hydroelectric generation, 3.6% by geothermal and wind Power Generation, and the remaining 11.7% by foreign sources.

Net output of electricity, 305,540 GWh, rose by 1.4% from the same period of 2007, while

the net balance of imports from outside Italy was 39,566 GWh (-14%). CIP 6 production, estimated to be 48,372 GWh, decreased by 10.0% from the same period of 2007.

During 2008, the demand for electricity was mainly concentrated in Northern Italy (152.7 TWh, accounting for 45.2% of entire domestic demand).

SUMMARY OF MAIN RESULTS

(MILLION EURO)	FY 2008	FY 2007	FY 2006
REVENUES FROM THIRD PARTIES	768	556	574
INTERDIVISIONAL REVENUES	423	306	256
REVENUES FROM ORDINARY OPERATIONS	1,191	861	830
EBITDA AT REPLACEMENT COST ⁽¹⁾	181	166	207
AMORTISATION, DEPRECIATION AND WRITE-DOWNS ⁽¹⁾	(60)	(60)	(55)
EBIT AT REPLACEMENT COST ⁽¹⁾	121	106	152
INVESTMENTS IN TANGIBLE AND INTANGIBLE FIXED ASSETS	141	149	140

(1) THE FIGURES SHOWN HERE DO NOT INCLUDE THE NON CHARACTERISTIC ITEMS INDICATED IN THE CHAPTER "ALTERNATIVE PERFORMANCE INDICATORS", TO WHICH REFERENCE IS MADE FOR GREATER DETAILS

The breakdown of EBITDA at replacement cost between the various Power Generation businesses was as follows:

	FY 2008	FY 2007	FY 2006
MAIN ECONOMIC AND FINANCIAL DATA			
ISAB ENERGY/ISAB ENERGY SERVICES	165	153	195
ERG POWER & GAS/ERG NUOVE CENTRALI	16	13	12
TOTAL	181	166	207

SALES OF ELECTRIC POWER

	FY 2008	FY 2007	FY 2006
SALES (GWH)			
ISAB ENERGY	3,435	3,809	4,001
ERG NUOVE CENTRALI	853	832	526
OF WHICH			
TURBOGAS SUD	378	277	–
IMPIANTI NORD	475	555	526
OPERATIONAL DATA (GWH)			
PRODUCTION OUTPUT	4,917	5,426	5,064
SELLING PRICE (EURO/MWH)			
CIP 6	141.6	123.5	136.0

ISAB ENERGY

The results of ISAB Energy are partly subject to changes in market conditions, due to the index linking of prices contained in electric power sale and raw material purchase contracts.

The sale prices of electric power produced by ISAB Energy are regulated by Interministerial Price Committee Order 6 of 29 April 1992 (i.e. CIP 6/92).

ISAB Energy has a “take-or-pay” contract with the GSE (National Grid) the price of which, for 15 years, is partly linked to the price of natural gas for thermoelectric use. Feedstock is acquired by ISAB S.r.l. with a take or pay contract for the same term that is tied to changes in natural gas prices for thermoelectric use.

In 2008, electric power output was 3,435 GWh (3,809 GWh in 2007), with a utilisation factor of 74% (82% in 2007). The lower out-

put stemmed principally from the accident on 13 October, which halted all production at the power plant. The accident, which did not result in any injuries, caused major damage to Powertrain 1 and minor damage to Powertrain 2 in the plant. The latter returned to service on 18 December.

In 2008 Terna S.p.A. requested production cutbacks for a total of about 23 equivalent days, while the plant underwent a general scheduled shutdown in 2007.

EBITDA at replacement cost in 2008 was Euro 165 million (Euro 153 million in 2007). In regard to the loss, totalling about Euro 50 million due to the costs connected with the new National CO₂ Allocation Plan (Emission Trading), a refund of about Euro 49 million was recognised, as envisaged in CIP 6/92 and confirmed by AEEG Resolution 77/08 of 11 June 2008.

ERG NUOVE CENTRALI PLANTS

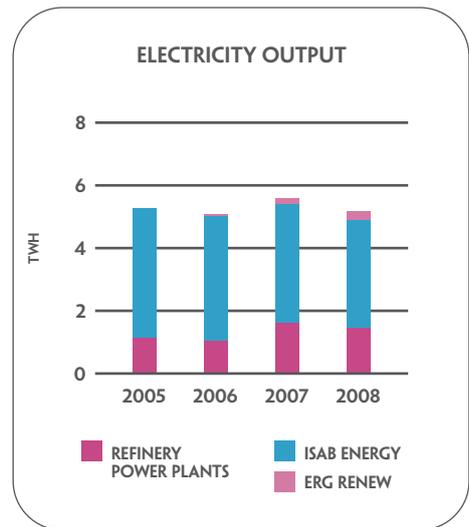
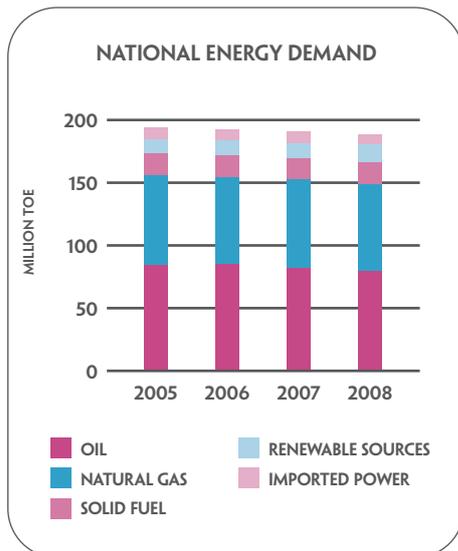
In 2008, the net electricity output of counter-pressure and condensation plants totalled 955 GWh, of which about 48% was used for refinery consumption. Net steam supply was 2,738 thousand tonnes, of which about 65% used for refinery consumption.

At the Impianti Sud site, turbogas electric power output was 573 GWh (502 GWh in 2007), with the excess of 378 GWh being sold on the market.

The results for 2008 were principally impacted by the negative effects of the maintenance and revamping shutdown of unit SA1N3 at Impianti Nord, the reduced availability of condensation groups at Impianti Nord compared with 2007, and the change in the scope of consolidation following sale of Impianti Sud site assets to ERG Raffinerie

Mediterranee effective 1 October 2008. The contribution made by the Turbogas plant at the Impianti Sud in FY 2008 was about Euro 15 million (Euro 14 million in 2007).

Finally, towards the end of the year, ERG Power & Gas increased the number of its contract electricity customers, directly supplying power under its dispatching contract. At the beginning of the thermal year on the gas market, it began supplying end-user customers with gas for industrial and non-industrial use, for an aggregate annual volume of about 200 million Sm³ following its designation as gas shipper in June and specific authorisation by the MSE effective 1 October. From that same date, ERG Power & Gas obtained the right from MSE to import gas from outside the European Union.



RENEWABLE ENERGY SOURCES

The ERG Group operates in the renewable energy source sector through ERG Renew, a company listed on the Milan Stock Exchange, of which the Group owns 77.4% since 1 October 2008 following integration of the Group's renewable energy assets.

The results of ERG Renew are based principally on the wind Power Generation business. The wind farms consist of wind-power

generators that can transform the kinetic energy of wind into mechanical energy, which is used in turn to generate electricity. Aside from the availability of the plants, the results expected from each wind farm are obviously influenced by the wind speed profile of the site on which the wind farm is located.

The economic results are also influenced by electricity selling prices and by the price of green certificates.

REFERENCE MARKET

	FY 2008	FY 2007	FY 2006
DOMESTIC RENEWABLE ENERGY MARKET ⁽¹⁾ (GWH)			
PRODUCTION FROM RENEWABLE SOURCES ⁽²⁾	57,666	48,797	51,924
OF WHICH WIND POWER	6,637	4,184	2,973
RENEWABLE ENERGY MARKET FRANCE ⁽¹⁾ (GWH)			
PRODUCTION FROM RENEWABLE SOURCES ⁽³⁾	68,083	68,304	64,164
OF WHICH WIND POWER	4,835	4,140	2,169
SELLING PRICE (EURO/MWH)			
SINGLE NATIONAL PRICE (ITALY) ⁽⁴⁾	86.99	70.99	74.75
FEED IN TARIFF (FRANCE) ⁽⁵⁾	83.92	82.78	82.00

(1) OUTPUT GROSS OF CONSUMPTION FOR AUXILIARY SERVICES

(2) SOURCES CONSIDERED: HYDROELECTRIC, GEOTHERMAL, WIND POWER, AND PHOTOVOLTAIC ENERGY

(3) SOURCES CONSIDERED: HYDROELECTRIC AND WIND POWER

(4) SINGLE NATIONAL PRICE

(5) 2006 BASE RATE OF 82 EURO/MWH PURSUANT TO THE 10 JULY 2006 DECREE OF THE FRENCH MINISTRY OF ECONOMIC AFFAIRS, FINANCE AND INDUSTRY. THE RATE IS ANNUALLY INDEXED TO INFLATION

On 17 December 2008 the implementing decree of the 2008 Italian National Budget Act was published, setting out the incentive schemes for renewable energy sources. The aim of this decree is to help stabilise the market for green certificates. The decree regulates a more gradual transition from the old to the new scheme. For green certifi-

cates covering production from 2007 to 2010, producers may request withdrawal the year after by the GSE at a price equal to the weighted average of the prices accrued on the market managed by the GME (Gestore del Mercato Elettrico – "Electric Market Operator") during the three years prior to the buyback.

HIGHLIGHTS OF RESULTS

	FY 2008	FY 2007	FY 2006
ECONOMIC RESULTS			
REVENUES FROM THIRD PARTIES	44	37	9
INTERDIVISIONAL REVENUES	2	–	–
REVENUES FROM ORDINARY OPERATIONS	45	37	9
EBITDA AT REPLACEMENT COST ⁽¹⁾	17	19	7
AMORTISATION, DEPRECIATION AND WRITE-DOWNS ⁽¹⁾	(20)	(13)	(2)
EBIT AT REPLACEMENT COST ⁽¹⁾	(4)	6	4
INVESTMENTS IN TANGIBLE AND INTANGIBLE FIXED ASSETS	52	33	2
OPERATIONAL DATA			
PRODUCTION OUTPUT (THOUSAND MWH)	272	178	34
OF WHICH			
ITALY	157	154	34
FRANCE	115	24	–
GREEN CERTIFICATE PRICES (EURO/MWH)			
GREEN CERTIFICATES 2008	98.00	–	–
GREEN CERTIFICATES 2007	98.00	98.00	–
GREEN CERTIFICATES 2006	98.00	98.00	115.00

(1) THEY DO NOT INCLUDE THE NON CHARACTERISTIC ITEMS INDICATED IN THE CHAPTER "ALTERNATIVE PERFORMANCE INDICATORS", TO WHICH REFERENCE IS MADE FOR MORE DETAIL

In 2008 consolidated revenues totalled Euro 44 million, up 18% mainly in consequence of the acquisition of French wind farms and the start-up of the Vicari wind farm (37.5 MW), which offset the lower output of the wind farms at Troia San Vincenzo and Troia San Cireo due to continued modernisation work on the national transmission network by Terna. Following publication of the implementing Ministerial Decree, the green certificates for 2008 production were recognised in the amount of Euro 98/MWh, equal to the weighted average of prices on the GME platform for the years 2006, 2007 and 2008.

EBITDA for FY 2008 totalled about Euro 17 million, down from the previous year. This result was influenced not only by revenues, as illustrated above, but also by the full-year contribution made by the French wind farms, with a positive impact on EBITDA of Euro 8 million, and by the negative impact, amounting to about Euro 2.5 million, of AEEG (Electricity and Gas Authority) Resolution ARG/elt 48/08 which carried out a downward adjustment of the selling price for electricity produced from renewable energy sources and sold during 2007.

INVESTMENTS

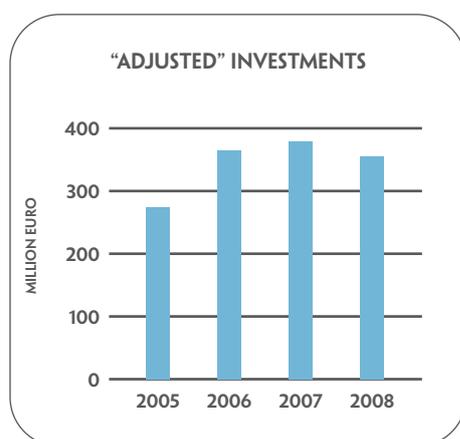
The ERG Group invested a total of Euro 354.5 million (Euro 380.1 million in 2007) in capital projects, including Euro 23.1 million for intangible fixed assets (Euro 21.4 million in

2007) and Euro 331.4 million in tangible fixed assets (Euro 358.6 million in 2007).

The breakdown of investments by business division is shown in the following table:

(MILLION EURO)	FY 2008	FY 2007	FY 2006
COASTAL REFINING ⁽¹⁾	70	118	185
INTEGRATED DOWNSTREAM	86	77	36
THERMOELECTRIC POWER GENERATION	141	149	140
RENEWABLE ENERGY SOURCES	52	33	2
CORPORATE	5	4	3
TOTAL	354	380	365

(1) THE INVESTMENTS IN COASTAL REFINING INCLUDE 51% OF THE INVESTMENTS MADE BY ISAB S.R.L. FROM DECEMBER 2008



COASTAL REFINING

The modifications to the ISAB Refinery Impianti Sud entered service in 2008. These will permit increased conversion of deasphalted oil (DAO) into intermediate distillates with the thermal cracking plant. They will also permit further increases in the production of intermediate distillates at the ISAB Refinery.

Work also continued on the activities envisaged in the development plan, and in particular the preparations for the work that will permit increasing direct processing of air emissions, and the diesel desulphurisation plant at Impianti Sud, which will permit additional boosts in the production of low-sulphur diesel (less than 10 ppm) at the ISAB Refinery.

Work also continued on the projects included in the investment plan to improve

performance in terms of safety, reliability and profitability.

INTEGRATED DOWNSTREAM

Most investments were made on the domestic retail network (about Euro 79 million). Euro 37 million was invested in development activities (new sales outlets, reconstruction, modernisation, etc.), while another Euro 27 million was used to continue restyling of ERG Petroli service stations, which will be completed in 2009. About Euro 15 million was allocated to investments for maintaining and improving health, safety and environmental conditions. Since the beginning of the year, 39 service stations (13 owned by the Group and 26 franchises) were opened on the retail network.

THERMOELECTRIC POWER GENERATION

Construction of the new Impianti Nord plant continued at ERG Nuove Centrali. Work has progressed to the point where the combined cycle is forecast to be started up in the second half of 2009.

The investment will permit replacement of obsolete electric power and steam generation plants with a new plant having a low environmental impact in terms of emissions (SO_x and NO_x) and electric power available for sale on the market. ISAB Energy is proceeding with work on the "Hydrogen" project, which foresees production of hydrogen from membranes for ISAB S.r.l. The new plant

and the amount of hydrogen it can produce is key to production of low sulphur content fuels (and thus with a lower environmental impact) by the refinery.

RENEWABLE ENERGY SOURCES

At ERG Renew, construction on the wind farm at Faeto (Foggia) was completed during the year. It is expected that the commissioning phase will be carried out in the first quarter of 2009, with full operations starting in April 2009. Construction and commissioning of the Vicari wind farm was completed, and full production began at the end of 2008.

Construction work to enlarge the wind farm at Troia San Vincenzo (Foggia) was completed, and it is expected to be fully operational in the first quarter of 2009.

Due to the moratorium imposed in June by

the Region of Calabria, preparations on the civil works for the Fossa del Lupo wind farm are slowing down.

During the third quarter, the Region confirmed the validity of the authorisation granted and the actions implemented by the company once it had obtained said authorisation, which resulted in the start of the definitive drafting of the Final Design. It is expected that the preparatory activities for beginning the civil works will begin in 1H 2009.

The agreement for purchase of wind-power generators at the Ginestra (Benevento) wind farm was signed in July 2008, and it is expected that the civil and electrical work will be contracted out by the end of the first quarter of 2009.

The following table shows the investment breakdown by type:

(MILLION EURO)	FY 2008	FY 2007	FY 2006
DEVELOPMENT	242	256	269
CAPACITY MAINTENANCE	71	86	61
SAFETY AND ENVIRONMENT	24	26	24
INFORMATION TECHNOLOGY	14	7	9
OTHER	4	5	3
TOTAL	354	380	365

Of total investments, 69% was dedicated to **development**. Of this amount, 11% was made in the Coastal Refining division and 72% in the Power Generation division. The remaining 17% was made in the Integrated Downstream division.

Of investments in **capacity maintenance**, 34% went to Coastal Refining, 15% to Power Generation, and the remaining 51% to Integrated Downstream (included Euro 27 million for the restyling of service stations). Investments made in **safety and environment** were made for 43% in Coastal Refining, 40% in Integrated Downstream and the remaining 17% in Power Generation.

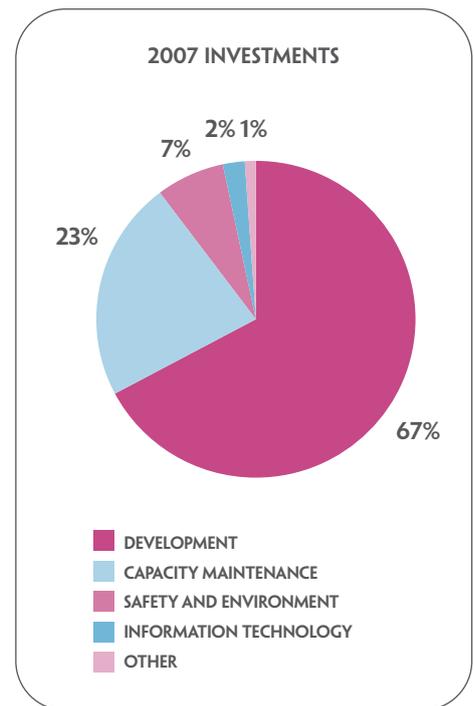
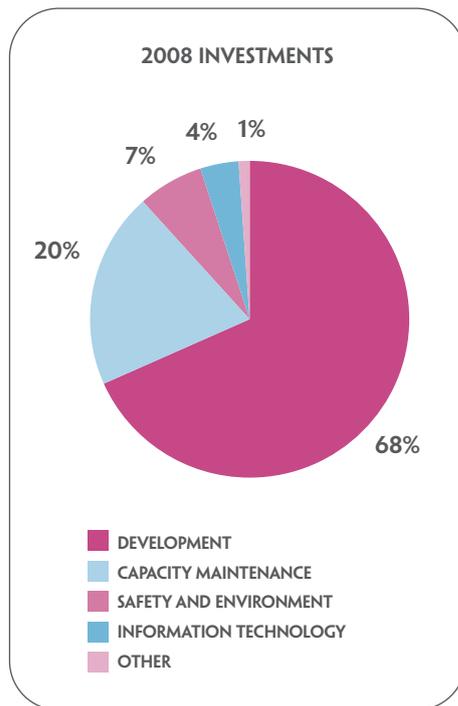
The following projects were completed or are being realised in **information technology**, and on schedule:

- at **ERG S.p.A.**:
 - Group Portal (ERG-GATE): a new internal communication and collaboration

tool amongst all Group resources and the only controlled and centralised access point to application solutions.

- at **ERG Raffinerie Mediterranee**:
 - Refinery Financial Statements (Sigmafine), for which the prototype has been completed and the tuning phase is underway;
 - Smart Plan Foundation, for storage of Refinery technical data;
 - new information system for Priolo Servizi;
 - SIP (Sistema Informativo di Produzione – Production Information System) revision study;
 - ICTS studies in the S&S area (risk management, etc.);
 - study for the creation of a database for data produced by the LP System;
 - the new ISAB information system has also been issued on schedule, as a spin-off of ERG Med's Information System.

- at **ERG Power Gas and ISAB Energy:**
 - Bolina project, which covers all aspects of the billing cycle; the CMR System supporting business customers and the Billing System for monthly bills were completed and put in production;
 - area trading: the System for interconnection with the Italian Energy Exchange (Borsa italiana dell'Energia) IPEX/PCE was set up.
- at **ERG Petroli:**
 - retail project that manages the sale of oil and non-oil products at all Gestioni Europa retail outlets;
 - the technical management Portal Project is also in an advanced stage of development; it foresees implementation of a web-based solution that improves, completes and encompasses all current applications in the technical area, extending its use to stakeholders (suppliers, professionals, etc.).



RISKS AND UNCERTAINTIES

ERG identifies and evaluates all types of risk associated with the Group's activities, adopting appropriate risk management methods, in order to optimise their management (elimination, reduction, transfer) and safeguard shareholder value.

ERG's objective is to minimise the risks identified which mostly concern the following categories: financial, credit, liquidity and operational risks.

The stages and principles governing this activity envisage – within the scope of guidelines established in the Group Policy – a Risk Management function, which measures and monitors risk exposure levels in line with defined objectives.

In managing financial risks, the ERG Group uses financial derivatives such as options, forward transactions and swaps, solely for the purpose of hedging and without assuming any speculative positions, consistent with its "industrial" business philosophy.

For greater detail on the financial risks and derivatives used by ERG, reference is made to the relevant comment in the Notes to Consolidated Financial Statements.

Risks connected with general economic conditions

The Group's operations, equity, and financial position are influenced by the various factors that comprise the macro-economic scenario, including increases or decreases in gross domestic product, the unemployment rate, interest rate and foreign exchange rate trends, principally the Euro-dollar exchange rate, and the cost of raw materials, principally petroleum products.

In 2008, and particularly during the last quarter of the year, financial markets were subjected to intense volatility, with severe repercussions on various financial institutions and, more in general, on the economy as a whole.

The severe, widespread deterioration in market conditions was accentuated by severe, widespread difficulty in obtaining consumer and business credit, causing shortages in liquidity that will also impact the Group's recourse to financing and an increase in financial expenses.

There is no certainty that the measures implemented by governments and monetary authorities in response to this situation can establish the conditions for overcoming the crisis in the foreseeable future. If this situation of marked weakness and uncertainty should continue indefinitely, the Group's activity, strategies and prospects might be negatively impacted, with a consequently negative impact on the Group's operations, equity and financial position.

Risks connected with conditions on the reference market

The ERG Group operates principally in sectors that are historically subject to high levels of criticality and extreme cyclicality. The results of the activity are significantly impacted by the prices of crude oil and petroleum products, which are determined by international supply and demand and subject to many other exogenous factors. The fluctuations in the prices of crude oil and petroleum products have caused major fluctuations in Group results. Therefore, it cannot be ruled out that possible fluctuations might in future have a negative impact on ERG operating and earnings results.

As an operator in the energy sector, the Group needs a continuous supply of crude oil for its activities. Crude oil is largely supplied by countries that are normally subject to greater political, social and economic uncertainties than those found in countries with consolidated economic and political stability.

Risks connected with fluctuations in foreign exchange and interest rates and prices

The Group operates on the domestic and international markets in the energy sector. This exposes it to market risks connected with fluctuations in exchange rates, particularly to the U.S. dollar, interest rates and prices, and particularly the volatility of petroleum commodities.

The ERG Group uses different forms of financing to hedge the financing requirements of its industrial activities. Any changes in interest rates can cause the cost of financing to go up or come down.

Consistently with its market risk hedging policies, the ERG Group uses financial hedging instruments to manage this volatility. In spite of these financial hedge transactions, sudden changes in exchange and interest rates and prices might have a negative impact on the Group's operating and earnings results.

Risks of industrial accidents

Due to the typical characteristics of ERG Group industrial production plants and its logistic organisation, damage could be caused by fire, explosion, emissions and other unexpected and hazardous factors. Incidental events of a certain magnitude might have a negative impact on the Group's equity, earnings, and financial position.

The ERG Group mitigates these risks with adequate plant operating policies aimed at pursuing levels of security in line with the best industrial practices. Furthermore, the ERG Group relies on the insurance market to transfer its own industrial risk to third parties, thereby guaranteeing a high level of protection for its own facilities and organisation, even in the event of an interruption of activity.

In spite of existing coverage, the Group might sustain costs that exceed the maximum coverage limits of insurance policies, according to the difficulty faced by the international insurance market in raising adequate capital.

Regulatory and environmental policy risks

The activities of the ERG Group are subject to numerous laws and regulations (at the local, national, and supranational levels) that might have a negative impact on the Group's

various businesses, particularly those where the regulatory component can drive the choice of investments made.

Furthermore, the ERG Group is subject to environmental laws and regulations that have been subject to greater attention and restriction by institutional bodies in the European Union. The ERG Group has adopted an environmental policy that complies with, encourages and anticipates any tightening of the environmental standards imposed by applicable laws and regulations.

Furthermore, ERG publishes a Sustainability Report every year. Its purpose is to integrate and create economic and financial value for shareholders with the quest for social and environmental value by all ERG Group companies.

Operational risks

Operational risks, among which it is important to mention those arising from the company's liability for torts deriving from a criminal offence (pursuant to Legislative Decree 231/01), are identified, monitored and measured as part of the operational risk management process. The pursuance of objectives thus identified makes it possible to:

- ensure operational continuity and functioning of the production chain by adopting international best practices for industrial risk assessment and management through the performance of Risk Assessments, Business Impact Analyses and implementation of a Business Continuity Plan;
- protect tangible and intangible assets, valuables, professional and intellectual know-how in order to maximise the creation of shareholder value through operational growth.

HEALTH, SAFETY AND ENVIRONMENT

Health and safety

In 2008 several accidents occurred that, while they did not cause severe injuries (injury rates have improved from previous years), underscored the need to take action through specific initiatives. Guaranteeing the safety of operations and worker health and protecting the environment are fundamental to the economic, financial, social and environmental sustainability of ERG. This translates into responsible conduct, both during the management of emergencies and analysis of the causes of accidents and determination of corrective measures. Behavioural aspects and exact compliance with procedures are the areas in which the Group intends to take decisive action over the short/medium-term, consistently with an approach aimed at continuous improvement. In 2009, a series of initiatives will be dedicated to the "human factor", which can have a major impact on further minimising risks.

As required by Legislative Decree 81/08 on workplace health and safety, management systems have been revised, with particular regard to the global and documented assessment of all specific risks for workers in each organisation.

Consistently with its 2008 plans for voluntary promotion of health awareness, ERG has extended the "Preventive Health" project to all employees. Alongside broad-spectrum initiatives to prevent emerging pathologies, including at the territorial level, the project has been elaborated to include clinical-instrumental diagnosis and health education.

Environment

During 2008, consistently with what had already been implemented in previous years and in line with applicable laws and regulations, the Group's industrial sites undertook and completed various activities to analyse and assess restoration work, survey the environment and secure and clean up the top soil and subsoil.

The activities were implemented mainly at the three Priolo sites (ISAB Energy, Impianti

Sud and Nord at the ISAB Refinery), which are part of the "National Interest Site", given the high degree of industrialisation in the area. For this reason, the programmes and actions are assessed and approved by the Ministry of Environment, with the support of local authorities.

This issue is key to the Group's strategy for sustainable development in the area; it is also key to the measures taken to construct new plants and modify existing assets.

In regard to the activities aimed at minimising greenhouse gas emissions, ERG is actively contributing to realisation of the national targets set by the Kyoto Protocol through three important and specific lines of action:

- developing the use of fossil fuel sources with a low intensity of carbon (e.g. natural gas);
- improving the energy efficiency and integration of its own industrial activities (combined cycles and cogeneration);
- developing the use of renewable sources (e.g. wind power).

ERG also participates in the Italian Carbon Fund in order to obtain emission credits by financing projects to reduce emissions, such as the construction of renewable energy source plants outside of Italy (Clean Development Mechanism projects as part of the flexible mechanisms envisaged by the Kyoto Protocol).

Safety management and certification systems

The health, safety and environment initiatives are complemented by the programme for certification of ERG industrial sites that, consistently with the Group Guidelines, aim to develop efficient and effective systems to minimise impact and optimise prevention activities. In this ambit, the recent certification of the ISAB Refinery Impianti Nord in accordance with the OHSAS 18001 standard merits mention. Eighty per cent of all ERG industrial sites were certified in 2008.

Product quality

The lines of action to improve the quality of products are focused on consolidating the marketing of DieselOne, a premium diesel with a high environmental user efficiency

rating, and promoting biofuels in accordance with national statutory obligations.

Starting in 2009, the sulphur content of all products sold for automotive use does not exceed 10 mg/kg.

HUMAN RESOURCES

Organisation

At 31 December 2008 the ERG Group had a total of 1,580 employees (-1,245 from 31 December 2007). At the end of the year, 371 persons had been hired, 457 had left the Group and 1,159 had been transferred to deconsolidated companies, with 1,070 of these being transferred upon start-up of the new company ISAB S.r.l., which was created from the transaction with LUKOIL, as better identified hereunder.

More specifically:

- ERG S.p.A. reported a reduction of 30 employees, due almost entirely to the transfer of activities and resources to the new company ISAB S.r.l.;
- ERG Petroli employment levels remained stable (-2 employees), in a business whose territorial marketing activities were consolidated and storage facility streamlining measures continued. At the ERG Petroli subsidiaries that operate distribution plants, there was a reduction of 13 persons connected with streamlining of service station operations, while employment levels remained stable in Spain (+1 employee);
- ERG Raffinerie Mediterranee employees decreased by 1,146, substantially due to sale of the branch of business represented by the ISAB Refinery at Priolo, Sicily, to the new company ISAB S.r.l. mentioned above (987 employees), to the spin-off of certain activities to the Priolo Servizi consortium company (89 units) and to terminations at the beginning of the year due to reorganisation of different productive areas during the previous year (65 employees);
- ERG Power & Gas increased the number of its employees by 16 as part of con-

tinuing expansion of the gas and electric power business unit; the number of employees at ISAB Energy Services decreased by 70 units, partly due to the transfer of personnel to the new company ISAB S.r.l. (-54 employees) and the remainder mainly due to improvements in the efficiency of certain business areas and processes;

- employment levels at ERG Renew and its subsidiaries remained virtually unchanged (-1 employee overall).

The aforementioned transfers of personnel and normal turnover caused the average age of employees to decrease slightly, to under 42 years, and further improvement in educational levels, with about 88% of all employees holding either a high-school diploma or university degree (net of the employees working at the distribution plants).

In 2008, action was taken at ERG S.p.A. to streamline the organisational structure. This principally involved:

- the Institutional Relations unit, in view of more effective management of relations with central governmental entities and institutions, connected with regulatory and environmental permit problems;
- the Planning unit, through improved integration of planning, performance assessment and determination/start-up of new business opportunities;
- the Internal Control System, by revisiting roles and responsibilities for more effective control of business risks.

Furthermore, as indicated above, after ISAB S.r.l. was started up, specific activities for the acquisition of goods and services, development and management of information systems, institutional relations and adminis-

trative activities were reallocated to the new company.

The organisation of ERG Raffinerie Mediterranee was heavily revised, with contribution to the new company ISAB S.r.l. of the branch of business comprised by the assets and activities connected with management of the ISAB Refinery at Priolo and subsequent sale of 49% to LUKOIL; this new company, which is substantially independent and operated on a 50-50 basis, is configured as a "service refinery" for the two shareholders.

Following this operation, ERG Raffinerie Mediterranee has refocused on the management of supply processes of raw materials and finished products, planning of the refinery (to the extent of its quota of ownership in the joint-venture), and planning and control of overall activities, while delegating the management of support activities to the other companies of the ERG Group (Administration and Tax, Human Resources Management, etc.).

Marketing activities were further consolidated at ERG Petroli, through the creation of territorial offices at the level of individual business units, in order to support the strategic objective of "customer focus"; in the Procurement Department, reorganisation of the Savona and Trecate depots continued, through the streamlining of certain processes and consolidation of certain staff services shared by the two entities.

The organisation of ERG Power & Gas was also upgraded further to support the development of commercial activity on the electric power and gas market.

At the subsidiary ISAB Energy Services, action was taken to streamline the organisation in order to realise improved efficiency, including investments in automation.

The organisational structure of ERG Renew, a company that acquired all the ERG Group's assets for electric Power Generation from renewable sources, was revised. This was done by setting up a General Management Office with responsibility for the development of wind farms in Italy and Operations and Maintenance, and through organisation of the office responsible for develop-

ment of wind farms outside Italy, in line with major defined development projects.

Development

Implementation of the Group Managerial Development Programme continued in 2008. The annual programmes were also defined on the basis of the results of the 2007 study on climate and human resources management and development tools.

The institutional and managerial training programmes dedicated to newly hired employees and managers were consolidated. Training was offered to executives to develop key managerial skills, relying in part on the support of information system tools. Finally, the Group's new internal communication portal was implemented in order to facilitate the sharing of information and participation in company life.

Industrial relations

During 2008 normal dialectics with the relevant trade union organisations continued, in a non-conflictual climate. In particular, the companies at the Syracuse site (ISAB Energy, ISAB Energy Services and ERG Raffinerie Mediterranee) signed an industrial pact with the labour federations of the various categories of workers to consolidate the constructive dialogue between company and unions and to prevent any trade union tensions outside of and unrelated to the Group from impacting production activity.

ERG, ERG Raffinerie Mediterranee and ISAB Energy Services have signed a specific Labour Agreement for the transfer of employees to the new ISAB company.

Furthermore, during the course of the year, all Group companies signed an agreement with their United Union Representatives ("RSU") for annual extension of the Corporate Productivity Bonus that expired on 31 December 2007.

Finally, at the Savona logistics site, ERG Petroli signed a "Protocol of Understanding" with the local Union Representatives for implementation of a business plan that the company submitted, in order to achieve specific production and reorganisation targets by 2012.

CULTURAL AND SOCIAL ACTIVITIES

ERG and culture

ERG maintained its commitment to the development and sponsorship of cultural activities in 2008.

ERG is a founding member and supporter of the Edoardo Garrone Foundation, set up in 2004 and dedicated to the founder of ERG, as a natural development of the Garrone and Mondini families' involvement, as well as of ERG itself, in the social and cultural field.

A Member of the European Foundation Centre and possessing a high-profile Scientific Committee, the Edoardo Garrone Foundation is a non-profit operating cultural foundation created to make a concrete contribution of ideas and resources to research projects and projects for the protection and promotion of culture.

In 2008, the Foundation's activities have consolidated in terms of quantity but especially in terms of quality. Partly in commemoration of a major anniversary, the 70th year of ERG's foundation, the Foundation decided to collaborate with ERG on a major research project on the Group's history, conducted by a group of scholars and business experts. This project was completed in November 2008 with publication of the book "Dal petrolio all'energia. ERG 1938-2008. Storia e cultura d'impresa" ("From Oil to Energy. ERG 1938-2008. History and Culture of a Company").

In 2008 the Foundation consolidated its activities in the training field. In Syracuse, where it created the "Edoardo Garrone Chair" in 2006 at the Scuola di Alti Studi in Economia del Turismo Culturale (School of Advanced Studies in Cultural Tourism Economics), it organised the third edition of the intensive course in cultural tourism management for new university graduates and professionals working in the sector. At the national level, it took action at elementary schools with the "Scuola Leggendo" (Reading at School) project, aimed at assisting schoolchildren in improving their reading and writing skills with several innovative educational tools. Finally, in collaboration with the Fondazione Sandretto Re Rebaudengo, it organised the second edition of the "Residenza per Giovani Curatori" (Residence for Young Cura-

tors) project, offering training in contemporary art and curatorial practise. This programme is unique in Italy.

In 2008, the Foundation also sponsored several cultural events in Genoa, where it has its own headquarters. It organised art exhibitions, hosting in particular the installation "Cloudy Dunes," by the Argentine artist Tomas Saraceno. Then, in collaboration with the "Teatro dell'Archivolto" theatre, it organised the second edition of the "Lunedì FEG // Le parole tra noi" programme, a series of conversations with several famous personalities in the cultural and performing arts world (Roberto Saviano, Antonio Albanese, Vincenzo Cerami, Marco Travaglio and Lella Costa), curated and moderated by the journalist Giovanna Zucconi.

The ERG Group has a great tradition of supporting cultural institutions and events.

ERG is a member of Civita, an association actively involved in the promotion and management of Italy's cultural heritage and in the safeguarding, enhancement and enjoyment of artistic and cultural assets through exhibitions, cinema and European projects.

In 2008, ERG was the main sponsor of the sixth edition of the Science Festival (Genoa, 23 October – 4 November 2008), whose principal theme was Diversity, a point of encounter for the numerous branches of knowledge, a resource to be used for new contaminations amongst disciplines, a detonator for the passion for science.

During this festival, ERG played a leading role in one of the key events on the programme: on 31 October 2008 the world premiere of the concerto "Something connected with Energy" was performed by Sentieri Selvaggi, directed by Carlo Boccadoro and written by composer Michael Nyman expressly to celebrate the 70th anniversary of ERG.

On this occasion, with the collaboration of the Edoardo Garrone Foundation, a preview was given of the book "Dal Petrolio all'energia – ERG 1938-2008" edited by Paride Ruffa and Ferdinando Fasce (published by Laterza), which surveys the Group's 70 years of history.

The exhibition "Luminescenza" (Lumines-

cence), a multi-media installation dedicated to energy resources, programmed for the entire duration of the Festival, was realised with the iconographic contribution of the ERG Archive.

During 2008 ERG sponsored the project "La musica classica e l'arte incontrano i giovani" (Classical Music and Art Meet Young People), conceived by the Associazione i Musicanti del Castello.

This association aims to create a permanent youth orchestra to offer concerts integrated with lessons at schools. The aim of the initiative is to disseminate the educational and cultural message of music to young people by encouraging them to attend musical events. The project has planned lessons and lectures at high schools in Liguria by members of the orchestra and art history professors.

At Syracuse ERG is the principal sponsor of the series of classical plays organised by the National Institute of Ancient Drama Foundation (Fondazione Istituto Nazionale del Damma Antico) at the Greek Theatre, which is considered one of the most important events for classical theatre worldwide and the most important cultural event in Sicily. ERG also finances research and development projects and scholarships on issues of environmental interest that involve the area where it operates in the Province of Syracuse, offered by the Department of Chemistry at the University of Messina.

In 2008 ERG was the main sponsor of the exhibition "Musei Nascosti" (Hidden Museums), organised by the Syracuse Fine Arts Service, which collected objects from private collections and showed them in public for the first time at the Castello Maniace in Syracuse. ERG also gives support to the Società Siracusana di Storia Patria (Syracuse National History Society) in its project with the University of Catania to create an archive for historic images in the Province of Syracuse.

ERG and social development

Solidarity and social commitment are part of ERG's system of values.

In this spirit ERG supports above all the social realities closest to home. Its many, repeated interventions in Genoa and in the Syracuse area bear witness to this.

ERG has provided support for the projects of Parada Italia, an independent, autonomous association formed in 2006 to continue and develop the project started in Bucharest in 1992 by the French clown Miloud Oukili. Parada's activities are aimed at giving street kids around the world a concrete opportunity by winning their trust through the language of art and giving them a trade.

In 2008 the ERG Group participated in the National Electric Power Day, organised by Assoelettrica, with the opening of the ISAB Energy Cogeneration Power Plant in Sicily (visited on that occasion by over one thousand high-school students) and the EOS 1 - Troia and EOS 3 - Troia wind farms in Puglia. In the Syracuse area, ERG is committed to supporting the public health department through initiatives aimed at improving the service. The Group has signed an agreement with ASL 8 (the local public health unit) in Syracuse to set up a network of oncology clinics in the province, particularly supporting the recruitment of additional medical and paramedic personnel to be employed at three local hospitals (Augusta, Lentini and Avola). ERG has thus become a partner in implementing a system for the prevention and cure of oncological diseases. This programme is considered to be an avant-garde model for the management and quality of services provided to citizens.

ERG supports the activities of the entire youth division of the Unione Sportiva Dilettanti Siracusa (Syracuse Amateur Sports Union), including the Italian national champion team Juniores, which won the season championship for two consecutive seasons. At Priolo ERG contributes to the activity of the Day Centre for the elderly by financing a series of social events throughout the year.

ERG promotes environmental sustainability projects and enhances the value of both natural resources and historical-archaeological assets. In particular, ERG is participating in the Priolo Salt Marshes Nature Reserve project, which is managed by LIPU, for which it financed a bird-watching path. It linked its brand with the principal initiatives for promoting public awareness of the reserve, which is located in the heart of the industrial zone and supported creation of the pamphlet dedicated to the Priolo Salt Marshes Reserve and the Vendicari Reserve.

In 2008 ERG gave its support to street education activities with the "Guida Sicura per i Giovani" and "La Strada siamo noi" projects for schools respectively in Genoa and Syracuse.

ERG and sport

ERG has renewed its sponsorship of the U.C. (Unione Calcio) Sampdoria football team through 30 June 2009. This team participates in Italy's Serie A professional football league. ERG and Sampdoria jointly organise and support the "Torneo Ravano ERG", the most important junior school tournament in Europe, reserved for primary school children.

In the Syracuse area ERG supports the "Trofeo Archimede" and "Trofeo Elettra" trophies, with the traditional participation of secondary schools in all localities throughout

the Province of Syracuse. Over 500 primary and junior secondary school pupils participated in the 2007 edition of the trophy. ERG was one of the sponsors of the 2008 edition of "Stelle nello Sport", a project conceived and organised to promote sport in Liguria.

ERG sponsors the women's basketball team Trogylos, which plays in Serie A1, past winners of the league championship (twice in 1989 and 2000) and the Cupwinners Cup in 1990. ERG also sponsors the Augusta Amateur Sports Association five-a-side football team, which plays in the Serie A league, and other junior clubs in Priolo and Melilli.

In the automotive world, ERG sponsored the Mitsubishi Lancer EVO IX, which won the Italian Championship "Gruppo N" rally with Paolo Andreucci.

TREASURY SHARES

As at 31 December 2008, ERG S.p.A. owned 2,100,000 shares for a value of Euro 26.0 million. In accordance with IAS 32, treasury

shares are recorded as a reduction of shareholders' equity.

BRANCH OFFICES

ERG S.p.A. has its registered office in Milan and its main executive office in Genoa.

RELATED PARTIES

The information on relations with related parties, including transactions with uncon-

solidated equity investments, are found in Note 40 of the Consolidated Annual Report.

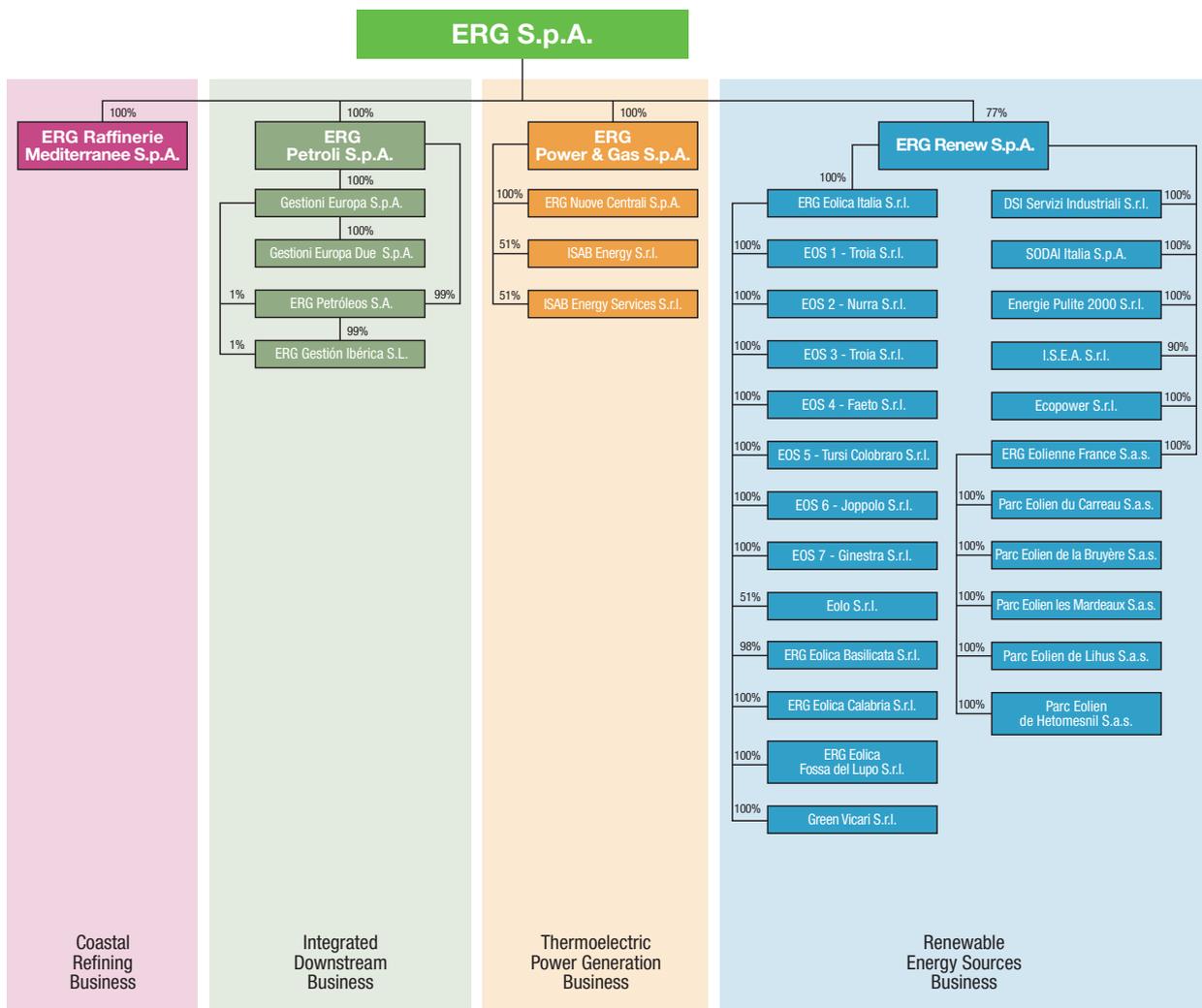
FINANCIAL STATEMENTS

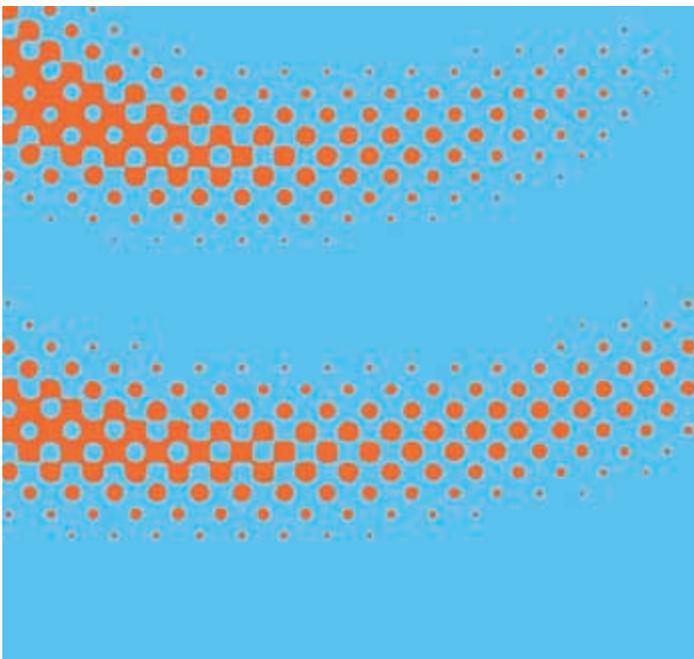
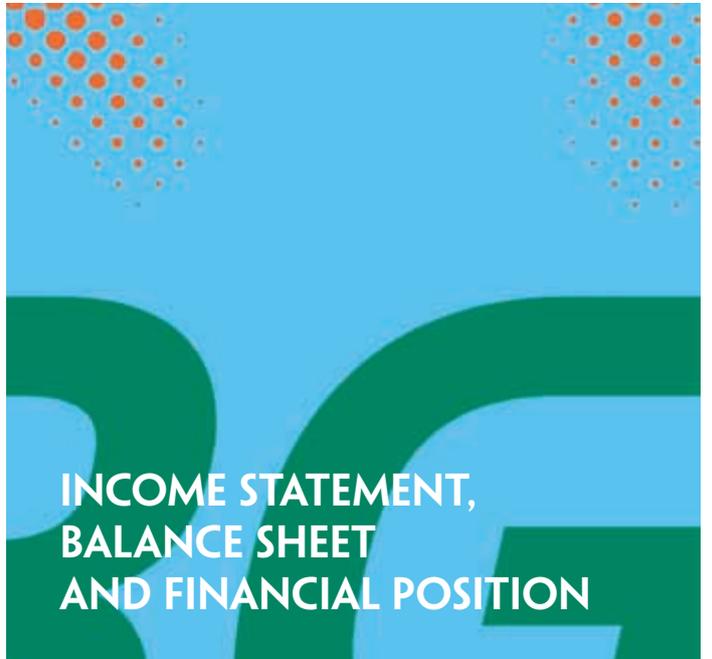
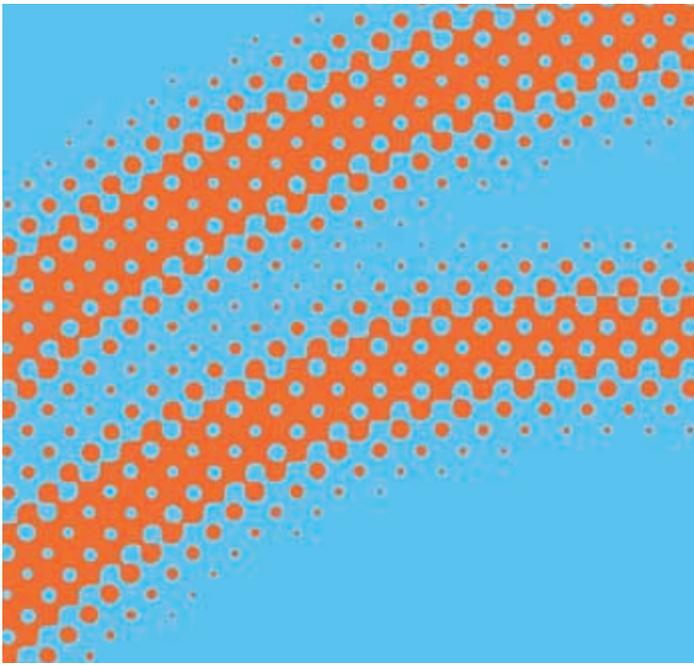
SCOPE OF CONSOLIDATION AND BUSINESS DIVISIONS

The following table shows the companies consolidated on a line-by-line basis that, compared with the previous year, include the companies belonging to ERG Eolica ⁽¹⁾, and which starting from 1 October 2008, following partial demerger of ERG Power & Gas, were placed under the control of ERG Renew S.p.A. together with the companies ISEA S.r.l. and Ecopower S.r.l.

On 1 December, the contribution by ERG Raffinerie Mediterranee S.p.A. of all assets of the ISAB Refinery in Priolo to the newco ISAB S.r.l. was completed, and 49% of the capital of the newco was transferred to LUKOIL. The shareholding in the company ISAB S.r.l., subject to joint control by the two shareholders, is carried at equity.

(1) a company that is 100% owned by ERG Power & Gas, created on 1 February from the total demerger of ERG CESA Eolica (50-50 joint venture between ERG Power & Gas and the Spanish company CESA)





INCOME STATEMENT, BALANCE SHEET AND FINANCIAL POSITION

INCOME STATEMENT

(MILLION EURO)	FY 2008	FY 2007	FY 2006
RECLASSIFIED INCOME STATEMENT			
REVENUES FROM ORDINARY OPERATIONS	11,498.3	10,165.7	9,128.2
OTHER REVENUES AND INCOME	64.4	40.2	175.3
TOTAL REVENUES	11,562.7	10,205.9	9,303.4
COST FOR PURCHASES AND CHANGES IN INVENTORY	(10,486.1)	(8,780.2)	(8,103.2)
COST FOR SERVICES AND OTHER OPERATING COSTS	(959.2)	(874.2)	(758.3)
EBITDA	1175	551.6	442.0
AMORTISATION, DEPRECIATION AND WRITE-DOWNS OF FIXED ASSETS	(362.2)	(185.4)	(157.1)
PROCEEDS FROM SALE OF BRANCH OF BUSINESS	892.4	-	-
NET FINANCIAL INCOME (EXPENSES)	(2.9)	(73.4)	(48.4)
NET INCOME (EXPENSES) FROM EQUITY INVESTMENTS	(0.3)	6.8	3.9
PROFIT BEFORE TAXES	644.5	299.5	240.3
INCOME TAXES	4.5	(107.4)	(46.5)
PROFIT FOR THE PERIOD	649.0	192.1	193.8
MINORITY INTERESTS	(3.0)	(21.2)	(41.0)
GROUP NET PROFIT	646.0	170.9	152.8

REVENUES FROM ORDINARY OPERATIONS

Revenues for the year were Euro 11,498 million, compared with Euro 10,166 million in 2007. Growth reflects the following factors:

- increased revenues from **Coastal Refining** due to higher sales prices in Euro in spite of lower quantities sold;
- increased revenues from **Integrated Downstream**, mainly due to higher sales prices in Euro;
- increased revenues from **Thermoelectric Power Generation**, mainly due to higher sales rates in spite of lower quantities sold;
- increased revenues from **Renewable Energy Sources**, mainly due to the acquisition of French wind farms, which offset the lower revenues from Italian wind farms.

OTHER REVENUES AND INCOME

Other revenues and income consist princi-

pally of rental income, insurance reimbursements, gains on disposals, indemnities and expense recoveries.

The increase from 2007 is mainly due to the gain from third parties connected with grant of the branch of business to the subsidiary Priolo Servizi for about Euro 7 million and the income of about Euro 20 million from emission trading, including about Euro 10 million paid to ISAB Energy as a refund on the costs incurred under the National CO₂ Allocation Plan PNA1 2005-2007.

COST OF PURCHASES AND CHANGES IN INVENTORY

Cost of purchases mainly refer to purchase of crude oil and other semi-finished products. They also include transport and transaction costs.

In 2008 they were about Euro 796 million higher, largely in consequence of higher crude oil prices.

Net of the amounts granted to ISAB S.r.l. (745

thousand tonnes), raw materials inventories decreased by about Euro 274 million (-338 thousand tonnes compared with 31 December 2007) and finished product inventories decreased by about Euro 295 million (-213 thousand tonnes).

The notable decrease in the value of inventories reflects the reduction in crude oil and petroleum product prices. In fact, according to the weighted average cost method, the inventory change is impacted not only by the exact level of inventories in stock at the end of the period, but also by the variation in raw material and finished product purchase prices. Moreover, comparison of inventory values with the respective sale values led to a write-down of about Euro 61 million for raw materials and about Euro 149 million for products.

In 2007 the cost of raw materials rose by about Euro 143 million, and the cost of finished products by about Euro 198 million.

COSTS FOR SERVICES AND OTHER OPERATING COSTS

Costs for services include the processing fees paid to the ISAB Refinery and the Tre-cate and Rome Refineries, maintenance costs, commercial expenses (including the costs for transport of products), utilities costs, consulting costs, insurance costs, marketing costs, and other costs for services provided by others.

The other operating costs mainly consist of labour costs, rental expenses, and taxes other than income taxes.

The approximately Euro 85 million increase in costs is due mainly to higher processing fees, including about Euro 31 million to ISAB S.r.l., which more than offset the lower costs for maintenance and purchase of utilities.

In 2008, this account included certain non characteristic items. In particular:

- supplemental charges of about Euro 23 million incurred as part of the LUKOIL deal;
- about Euro 14 million in charges incurred and expected in connection with the sale and closure of retail outlets in Spain;
- about Euro 10 million for removal and clean-up costs at the thermoelectric power plants and construction of the new Turbogas at the Impianti Nord site of ERG Nuove Centrali (Euro 18 million in 2007);
- costs of about Euro 16 million, net of the

envisaged recoveries, for the obligation of ISAB Energy to acquire green certificates for previous years;

- costs of about Euro 9 million for write-off of assets connected with wind power division projects whose recoverability is no longer deemed certain.

Furthermore, the 2008 costs include Euro 23 million in expenses for site services provided by the subsidiary Priolo Servizi, operative from 1 May.

AMORTISATION, DEPRECIATION AND WRITE-DOWNS

The increase in this account is mainly associated with the write-downs in the wind power division, of which about Euro 95 million following the impairment test on the gains allocated when ERG Renew (formerly Enertad) was acquired. The increase in this account is also due to write-down of the assets damaged in the 13 October 2008 accident that affected Powertrain 2 of the IGCC plant at ISAB Energy and the write-downs of assets in Spain.

PROCEEDS FROM SALE OF BRANCH OF BUSINESS

The proceeds refer to the gain of Euro 892 million realised upon sale of 49% of the subsidiary ISAB, as part of the LUKOIL deal.

NET FINANCIAL INCOME (EXPENSES)

Net financial expenses totalled Euro 3 million in 2008, compared with Euro 73 million in 2007.

This change stemmed mainly from:

- about Euro 12 million in higher net average financial indebtedness and higher interest rates;
- the approximately Euro 5 million negative impact of the fair value of hedging instruments;
- about Euro 7 million in financial expenses connected with the securitisation programme;
- the positive impact of foreign exchange differences, totalling Euro 1 million (Euro -3 million in 2007);
- the negative impact of about Euro 15 million of derivative instruments on refining margins;
- the positive Euro 102 million impact of liquidation of the collar transaction hedging part of the oil inventories at the ISAB Refinery.

NET INCOME (EXPENSES) FROM EQUITY INVESTMENTS

The net income (loss) from equity investments is comprised mainly of the results of companies carried at equity and write-downs of companies carried at cost.

In particular, this item includes the results of ISAB S.r.l. (a 51% joint venture) starting from December 2008.

INCOME TAXES

Income taxes in 2008 totalled Euro 5 million and included Euro 211 million in current taxes and Euro 216 million in deferred tax assets. The values for taxes in 2008 reflect the negative impact of approximately Euro 4 million (including Euro 30 million in current taxes and Euro -26 million in deferred taxes)

stemming from adjustment of tax rates following enactment of Law 133/08 (Robin Tax). On the other hand, the combined effect of recalculation of deferred taxes at the beginning of the year and release of the deferred tax provision in excess of the substitute tax of 16% that must be paid on the difference in inventory value at the end of the year based on the LIFO and weighted average cost methods was positive by Euro 4 million.

The tax rate at adjusted replacement cost, derived from the ratio between income taxes and pre-tax profit net of inventory gains/losses and non characteristic items, was 53%. It was impacted by introduction of the IRES surcharge of 5.5% on oil and energy companies.

BALANCE SHEET

(MILLION EURO)	31/12/2008	31/12/2007	31/12/2006
RECLASSIFIED BALANCE SHEET			
FIXED ASSETS	2,502.5	2,743.8	2,431.7
NET WORKING CAPITAL	299.5	696.4	654.8
STAFF LEAVING INDEMNITIES	(11.4)	(29.6)	(33.1)
OTHER ASSETS	402.5	419.4	480.5
OTHER LIABILITIES	(894.5)	(993.3)	(779.6)
NET INVESTED CAPITAL	2,298.5	2,836.7	2,754.3
GROUP SHAREHOLDERS' EQUITY	1,916.3	1,333.8	1,218.8
MINORITY INTERESTS	108.0	125.3	179.5
NET FINANCIAL DEBT	274.2	1,377.6	1,356.0
SHAREHOLDERS' EQUITY AND FINANCIAL DEBT	2,298.5	2,836.7	2,754.3

At 31 December 2008 net invested capital was Euro 2,299 million. Financial leverage, which represents the ratio of total net financial debt (including Project Financing) and net invested capital, was 11.9% (48.6% at 31 December 2007).

FIXED ASSETS

Fixed assets include tangible, intangible and financial assets. The decrease from the previous year is mainly attributable to sale of 49% of ISAB S.r.l., the owner of the ISAB Refinery, whose investment was measured according to the equity method, and to write-down of the wind power division assets following the impairment test.

NET WORKING CAPITAL

Net working capital includes inventory, trade receivables and payables, and excise duties payable. The decrease in this item stems above all from the decline in the aggregate value of inventories, as a result of the LUKOIL transaction and the reduction in raw materials and finished products prices, and the lower trade receivables that were only partly offset by lower trade payables.

OTHER ASSETS

These comprise above all advance tax credits, receivables from Tax Authorities for tax prepayments and payments already made against future provision of services.

OTHER LIABILITIES

These mainly concern the deferred tax liabilities calculated on the differences between statutory reporting values and corresponding fiscal values (principally fixed assets and inventories), the estimate of income taxes owed for the period, the provisions for liabilities and charges, excise tax

and VAT payables and the deferred income resulting from deferred recognition in the Income Statement of the CIP 6 tariff increase on sales of electricity by subsidiary ISAB Energy.

NET FINANCIAL DEBT

(MILLION EURO)	31/12/2008	31/12/2007	31/12/2006
SUMMARY OF GROUP DEBT			
MEDIUM/LONG-TERM FINANCIAL DEBT	851.5	1,084.4	782.4
SHORT-TERM FINANCIAL DEBT	(577.3)	293.2	573.5
TOTAL	274.2	1,377.6	1,356.0

The following table illustrates the medium/long-term financial debt of the ERG Group:

(MILLION EURO)	31/12/2008	31/12/2007	31/12/2006
MEDIUM/LONG-TERM FINANCIAL DEBT			
CURRENT PORTION OF MEDIUM/LONG-TERM BANK BORROWINGS	958.6	951.7	543.2
CURRENT PORTION OF MORTGAGES AND LOANS	(418.2)	(153.0)	(71.7)
MEDIUM/LONG-TERM FINANCIAL PAYABLES	36.6	22.2	20.7
TOTAL	577.1	820.9	492.2
MEDIUM/LONG-TERM PROJECT FINANCING			
MEDIUM/LONG-TERM PROJECT FINANCING	324.9	367.8	392.7
CURRENT PORTION OF PROJECT FINANCING	(50.4)	(104.4)	(102.5)
TOTAL PROJECT FINANCING	274.4	263.5	290.2
TOTAL	851.5	1,084.4	782.4

The medium/long-term financial payables refer to interest-bearing loans granted to ISAB Energy S.r.l. by ISAB S.r.l. (Euro 12 million) and IPM Eagle (Euro 24 million) which, through its subsidiaries, owns 49% of the company. Repayment is subject to the conditions set out in the Project Financing agreement.

The payables for "non-recourse Project Financing" are for:

- Euro 155 million in loans granted to ISAB Energy S.r.l. by a pool of international banks. These loans were granted at the origin for an amount equal to about 90% of the cost of the co-generation plant;
- Euro 171 million in loans granted to companies in the Renewable Energy Sources division for the construction of wind farms.

The breakdown of short-term financial debt was as shown below:

(MILLION EURO)	31/12/2008	31/12/2007	31/12/2006
SHORT-TERM FINANCIAL DEBT			
SHORT-TERM BANK BORROWING	958.0	437.2	646.0
OTHER SHORT-TERM FINANCIAL PAYABLES	23.8	31.2	29.4
SHORT-TERM FINANCIAL PAYABLES	981.9	468.4	675.4
CASH AND CASH EQUIVALENTS	(653.6)	(93.0)	(94.9)
SECURITIES AND OTHER SHORT-TERM FINANCIAL RECEIVABLES	(864.6)	(98.5)	(34.5)
SHORT-TERM FINANCIAL ASSETS	(1,518.2)	(191.5)	(129.4)
SHORT-TERM PROJECT FINANCING	50.4	104.4	102.5
CASH AND CASH EQUIVALENTS	(91.4)	(88.0)	(75.0)
PROJECT FINANCING	(40.9)	16.3	27.5
TOTAL	(577.3)	293.2	573.5

Other financial payables are mainly comprised by:

- short-term payables to companies controlled by IPM Eagle;
- liabilities arising from fair value measurement of derivatives (Euro 8.5 million);
- financial payables to unconsolidated Group companies.

The securities and other short-term financial receivables refer principally to the financial receivables from LUKOIL for the as yet unpaid portion of the consideration for sale of 49% of ISAB S.r.l. (Euro 842 million) and interest (Euro 4 million). The entire amount was collected in a single payment in February 2009.

This account also includes the assets resulting from fair value measurement of financial instruments and insurance policies entered into by ERG Renew as security on the put option held by Trenitalia on the subsidiary SODAI Italia S.p.A. (Euro 12.6 million) that will be paid in 2009.

The amount of cash and cash equivalents is comprised by the current accounts restricted pursuant to the conditions set out in the Project Financing agreements and the liquidity stemming principally from collection in December 2008 of the first instalment of Euro 600 million of the consideration for the sale of 49% of ISAB S.r.l.

The change in net financial debt is broken down as follows:

(MILLION EURO)	FY 2008	FY 2007	FY 2006
CASH FLOW FROM CURRENT OPERATIONS:			
ADJUSTED CASH FLOW FROM CURRENT OPERATIONS ⁽¹⁾	516.8	272.6	355.6
PAYMENT OF INCOME TAX	(3.2)	(92.0)	(260.1)
CHANGE IN NET WORKING CAPITAL	(183.8)	220.6	39.1
OTHER CHANGES IN OPERATING ASSETS AND LIABILITIES	(113.6)	172.3	(87.4)
TOTAL	216.3	573.4	471
CASH FLOW FROM INVESTMENTS:			
NET INVESTMENTS IN TANGIBLE AND INTANGIBLE FIXED ASSETS ⁽²⁾	(334.2)	(368.5)	(347.5)
NET INVESTMENTS IN FINANCIAL FIXED ASSETS	(25.3)	(4.0)	(9.7)
SALE OF 49% INVESTMENT IN ISAB S.R.L.	1,442.5	–	–
ENERTAD ACQUISITION	–	(50.9)	(153.8)
ENERFRANCE ACQUISITION	–	(24.9)	–
TOTAL	1,083.0	(448.3)	(511.0)
CASH FLOW FROM SHAREHOLDERS' EQUITY:			
CAPITAL INCREASE	–	–	–
DIVIDENDS PAID	(61.9)	(95.8)	(97.0)
OTHER CHANGES IN SHAREHOLDERS' EQUITY ⁽³⁾	(19.2)	4.3	(16.4)
TOTAL	(81.1)	(91.5)	(113.5)
CHANGE IN SCOPE OF CONSOLIDATION ⁽⁴⁾	(114.8)	(55.2)	(10.0)
CHANGE IN NET FINANCIAL DEBT	1,103.4	(21.6)	(587.4)
NET FINANCIAL DEBT AT THE BEGINNING OF THE YEAR	1,377.6	1,356.0	768.6
CHANGE DURING THE YEAR	(1,103.4)	21.6	587.4
NET FINANCIAL DEBT AT YEAR-END	274.2	1,377.6	1,356.0

(1) ITEM DOES NOT INCLUDE INVENTORY GAINS (LOSSES), DEFERRAL OF THE CIP 6 TARIFF INCREASE, CURRENT INCOME TAX FOR THE PERIOD AND REIMBURSEMENTS NOT YET COLLECTED

(2) THE ITEM DOES NOT INCLUDE CAPITALISED CYCLICAL MAINTENANCE COSTS

(3) INCLUDING EURO -15 MILLION IN 2008 FOR BUYBACK OF TREASURY SHARES.

(4) INCLUDING EURO -77 MILLION IN 2008 FOR CONSOLIDATION OF THE COMPANIES OWNED BY ERG EOLICA, EURO +26 MILLION FROM DECONSOLIDATION OF THE BRANCH OF BUSINESS IN PRIOLO SERVIZI, AND EURO -63 MILLION FROM CONTRIBUTION FOR THE GRANT OF BUSINESS TO ISAB S.R.L., A COMPANY CARRIED AT EQUITY FOLLOWING THE SALE OF 49% TO LUKOIL.

Net cash flow generated from operating activities was positive by Euro 216 million. The negative variation in net working capital is primarily connected with the structural reduction in trade payables following the LUKOIL transaction. On the other hand, the change in other assets and liabilities reflects the growth in receivables for CO₂ quotas and the decrease in VAT payables. It should

be remembered that the notable reduction in the level of debt at 31 December is due above all to the sale to LUKOIL of 49% of ISAB S.r.l.

For a detailed analysis of investments carried out, reference is made to the specific section.

ALTERNATIVE PERFORMANCE INDICATORS

To assist understanding of business performance, the operating results are also shown at **replacement cost**, excluding gains (losses) on inventory and non characteristic items.

The results at **adjusted replacement cost** also include the contribution of ISAB S.r.l. (a joint venture with LUKOIL) results for the portion owned by ERG (51%).

The results at replacement cost and the results at adjusted replacement cost are indicators that are not defined in the International Financial Reporting Standards (IAS/IFRS). Management considers that these indicators are important parameters for measuring ERG Group operating performance, and are generally used by petroleum industry operators in their financial disclosures.

Since the composition of these indicators is not regulated by the reference accounting standards, the method used by the Group to determine these amounts might not be consistent with the method used by other operators and thus might not be fully comparable.

The components used to determine the calculation of results at adjusted replacement cost are described below.

Inventory gains (losses) are equal to the difference between the replacement cost of sold products and the cost resulting from application of the weighted average cost. They represent the higher (lower) value, in

the event of price increases (decreases), applied to the quantities corresponding to inventories physically present at the beginning of the period and still present at the end of the period.

Non characteristic items include significant but unusual earnings.

The results also include the **contribution of ISAB S.r.l. for the portion allocable to ERG (51%)**.

Following the agreements with LUKOIL, previously commented on in the chapter "Significant events during the year", ERG Raffinerie Mediterranee S.p.A. contributed all the assets of the ISAB Refinery in Priolo to the newco ISAB S.r.l. and transferred 49% of the capital of the newco to LUKOIL.

Considering the significant impact of the transaction and in order to facilitate comprehension of the Coastal Refining business operating performance, the disclosure of ISAB S.r.l. (jointly controlled company) 2008 results allocable to ERG (51%) is supplemented as follows: the contribution made by ISAB S.r.l. to the figures that are not adjusted to replacement cost is represented by recognising the investment at equity.

We furthermore report that, starting from the current financial period, the **Operational result** indicator is shown only in connection with economic data at replacement cost and adjusted replacement cost, since this indicator is not a representative measurement in the accounting schedules.

RECONCILIATION WITH OPERATING RESULTS AT ADJUSTED REPLACEMENT COST

EBITDA

	NOTE	FY 2008	FY 2007	FY 2006
EBITDA		117.5	551.6	442.0
<i>NET OF GAINS/LOSSES ON INVENTORY</i>		364.0	(221.0)	27.7
<i>NET OF NON CHARACTERISTIC ITEMS</i>				
COASTAL REFINING				
- GAINS	1	(7.0)	-	-
- SUPPLEMENTAL CHARGES FOR LUKOIL TRANSACTION	2	8.9	-	-
- INSURANCE REFUNDS	3	-	-	(14.3)
INTEGRATED DOWNSTREAM				
- EXPENSES FOR ERG PETRÓLEOS	4	13.6	-	-
THERMOELECTRIC POWER GENERATION				
- CLEAN-UP AND REMOVAL COSTS	5	10.2	17.7	-
- PRIOR YEAR EMISSIONS TRADING / GREEN CERTIFICATES	6	5.8	-	7.3
RENEWABLE ENERGY SOURCES				
- PROVISION FOR CHARGES IN THE WIND POWER DIVISION	7	8.5	-	-
CORPORATE				
- SUPPLEMENTAL CHARGES FOR LUKOIL TRANSACTION	2	14.1	-	-
- OTHER CHARGES	8	-	13.0	-
MAIN ECONOMIC AND FINANCIAL DATA		535.6	361.3	462.6
<i>51% CONTRIBUTION OF ISAB S.R.L.</i>	9	4.6	-	-
ADJUSTED EBITDA AT REPLACEMENT COST		540.3	361.3	462.6

Amortisation, depreciation and write-downs

	NOTE	FY 2008	FY 2007	FY 2006
AMORTISATION AND DEPRECIATION		(362.2)	(185.4)	(157.1)
<i>NET OF NON CHARACTERISTIC ITEMS</i>				
INTEGRATED DOWNSTREAM				
- EXPENSES FOR ERG PETRÓLEOS	4	4.3	-	-
THERMOELECTRIC POWER GENERATION				
- ISAB ENERGY POWERTRAIN 2 ACCIDENT	10	53.9	-	-
RENEWABLE ENERGY SOURCES				
- WRITE-DOWNS IN THE WIND POWER DIVISION	7	103.0	-	-
AMORTISATION AND DEPRECIATION AT REPLACEMENT COST		(201.1)	(185.4)	(157.1)
<i>51% CONTRIBUTION OF ISAB S.R.L.</i>		(3.3)	-	-
ADJUSTED AMORTISATION AND DEPRECIATION AT REPLACEMENT COST		(204.3)	(185.4)	(157.1)

EBIT

	NOTE	FY 2008	FY 2007	FY 2006
EBIT AT REPLACEMENT COST		334.6	175.9	305.4
<i>51% CONTRIBUTION OF ISAB S.R.L.</i>		<i>1.4</i>	<i>-</i>	<i>-</i>
ADJUSTED EBIT AT REPLACEMENT COST		335.9	175.9	305.4

Group net profit

	NOTE	FY 2008	FY 2007	FY 2006
GROUP NET PROFIT		646.0	170.9	152.8
<i>NET OF GAINS/LOSSES ON INVENTORY</i>		<i>232.4</i>	<i>(151.6)</i>	<i>17.4</i>
<i>EXCLUSION OF NON CHARACTERISTIC ITEMS FOR THE "LUKOIL DEAL"</i>				
- GAIN ON SALE OF ISAB S.R.L.	11	(892.4)	-	-
- COLLAR ON TRANSFERRED INVENTORIES	12	(102.0)	-	-
- SUPPLEMENTAL CHARGES	2	23.0	-	-
- INCOME TAXES (TOTAL IMPACT ON CONSOLIDATED RESULTS)		58.4	-	-
<i>EXCLUSION OF NON-RECURRING "ROBIN TAX" ITEMS</i>	13	3.9	-	-
<i>EXCLUSION OF NON-RECURRING "TAX ADJUSTMENT" ITEMS</i>	14	-	-	(60.1)
<i>NET OF NON CHARACTERISTIC ITEMS</i>	15	<i>114.9</i>	<i>20.0</i>	<i>(6.6)</i>
GROUP NET PROFIT AT REPLACEMENT COST ⁽¹⁾		84.1	39.3	103.4

(1) ALSO CORRESPONDS TO GROUP NET PROFIT AT ADJUSTED REPLACEMENT COST

Notes

- (1) gain realised from third parties on the grant of the branch of business to the Priolo Servizi subsidiary
- (2) supplemental charges incurred as part of the LUKOIL deal
- (3) insurance reimbursements for direct damage paid to ERG Raffinerie Mediterranee following the 30 April 2006 fire that was offset by capitalisation of the investments made in the damaged plants
- (4) charges incurred and expected in connection with the sale and closure of retail outlets in Spain, as well as in relation to the write-down of receivables and exit incentives
- (5) removal and clean-up costs at the thermoelectric power plants and construction of the new turbogas at the North Power Plant site of ERG Nuove Centrali
- (6) in 2008 they refer mainly to:
 - the Euro 10.2 million reimbursement paid to ISAB Energy of the costs incurred as part of the PNA1 emission plan;
 - the costs, net of the envisaged recoveries, for the obligation of ISAB Energy to acquire green certificates for previous years;
- (7) costs for write-off of assets connected with wind power division projects whose recoverability is no longer deemed certain. In particular, Euro 95 million of the write-downs refer to the outcome of the impairment test on the gains reported in the ambit of the acquisition of ERG Renew (formerly Enertad) in 2006 (for more details, please see the following paragraph)
- (8) in FY 2007 they refer to the expenses stemming from the settlement reached by ERG S.p.A. with Alerion in December 2007
- (9) results at replacement cost of ISAB S.r.l. net of inventory gains/losses and non characteristic items
- (10) costs connected with the accident on 13 October 2008 at Powertrain 2 of the IGCC of ISAB Energy
- (11) gain realised on sale of 49% of the investment in ISAB S.r.l. to LUKOIL
- (12) positive result of the collar hedging a portion of the oil inventories transferred to ISAB S.r.l. under the LUKOIL deal
- (13) the Group's share of the impact stemming from adjustment of tax rates in consequence of Law 133/08 (Robin Tax) and, in particular, the recalculation of deferred tax liabilities at the beginning of the year and reversal of the deferred income tax reserve exceeding the substitute tax of 16% that must be paid on the difference between the LIFO value and weighted average cost value of year-end inventories
- (14) the Group's share of the impact stemming from the tax adjustment of assets resulting from reversal to the income statement of the deferred income tax reserve allocated in previous years (which entails future tax savings following higher deductible tax depreciation) against payment of the applicable substitute tax in 2006
- (15) the Group's share of the impact stemming from other non characteristic items net of the applicable tax impact

Write-downs in the wind power division

At the end of FY 2008, the wind power plant authorisation process showed signs of extreme fragmentation in regulatory responsibility, with a consequent increase in the burdens of activities and lengthening of the time necessary for obtaining permits.

These problems were compounded by the general lack of standardised rules, notwithstanding an authorisation process that was apparently uniform for the entire nation, on the basis of a framework undermined by the proliferation of local regulations.

Due to the difficulties that have arisen in the attempt to contain the time necessary to obtain permits for new wind farms within limits that could be reasonably estimated, ERG Renew has decided to capitalise the costs only from the time said authorisation has been obtained.

Furthermore, as indicated in the supplement to the Disclosure Document, published by ERG Renew in December 2008, concerning the partial demerger of ERG Power & Gas, the financial market crisis caused a postponement of the cash capital increase and consequent review of the Business Plan in terms of modulation of the investment programme over the plan time frame (2008-2011).

During January and February 2009 – also as a result of the above mentioned significant slowdowns experienced in the procedures to obtain official approvals for the development of wind farms, to be expected also in the future – the business-plan revision process was stepped up, culminating in ap-

proval of a new 2009-2012 Business Plan (approved in March 2009). This plan, in view of the foregoing, is based on the development of wind farm projects that are cantierabili, namely where commencement of works has already been approved, in order to enhance the visibility and certainty of investments.

It should be pointed out that, following postponement of the capital increase caused by the critical situation on the financial markets, ERG Renew 2009 investments will be supported by equity injections, use of bank borrowing, and ERG S.p.A. In February 2009 the latter formally committed to supporting ERG Renew in the investments planned for 2009 up to the amount of Euro 70 million. In reference to the above, the capitalised costs on projects that are no longer contemplated in the ERG Renew group business development plans or whose authorisation processes are deemed to be characterised by timelines that can longer be estimated with certainty have therefore been written down (write-downs of Euro 7 million) and around Euro 8 million have been allocated to the provision for risks and charges.

Moreover, following the impairment test, for which an external expert was engaged in January 2009, the capital gains and goodwill recognised in 2006 in connection with the acquisition of ERG Renew (formerly Enertad) have been written down by approximately Euro 95 million.

SUMMARY OF ERG S.P.A. FINANCIAL STATEMENTS

The statutory individual year-end financial statements of ERG S.p.A. as at 31 December 2008 have been drawn up on the basis of the International Accounting Standards promulgated by the International Accounting Standards Board (IASB) and approved by the European Union, inclusive of all in-

ternational standards that have undergone interpretation (International Accounting Standards – IAS) and the interpretations of the International Financial Reporting Interpretation Committee (IFRIC) and of the previous Standing Interpretations Committee (SIC).

INCOME STATEMENT

(MILLION EURO)	FY 2008	FY 2007	FY 2006
RECLASSIFIED INCOME STATEMENT			
NET INCOME FROM EQUITY INVESTMENTS	318.0	111.6	87.0
NET FINANCIAL INCOME (EXPENSES)	(18.7)	(29.2)	(10.5)
TRADING PROFIT	299.2	82.4	76.5
OTHER OPERATING INCOME	33.6	32.5	26.8
OTHER OPERATING EXPENSES	(83.0)	(76.5)	(56.2)
PROFIT BEFORE TAXES	249.8	38.4	47.1
INCOME TAXES	16.8	28.3	15.0
NET PROFIT	266.6	66.6	62.1

NET INCOME FROM EQUITY INVESTMENTS

The net income from equity investments is composed mainly of dividends paid by the subsidiaries.

In particular, Euro 318 million in dividends was received in 2008 from ERG Raffinerie Mediterranee.

NET FINANCIAL INCOME (EXPENSES)

Net financial expenses decreased mainly due to the change in the fair value of the call option on Enertad shares (exercised in December 2007), only partially offset by the company's greater average debt and the rise in interest rates.

OTHER OPERATING INCOME

The item mainly comprises revenues for services rendered to subsidiaries, as well as the recovery of costs charged back to Group companies.

OTHER OPERATING EXPENSES

Other operating expenses include service costs, lease and rental costs, miscellaneous operating expenses, emoluments, labour costs and depreciation.

The increase in this account is tied principally to the supplement charges incurred as part of the LUKOIL deal (Euro 14 million) and the increase in compensation and labour costs. Costs of Euro 13 million stemming from the settlement made with Alerion in December 2007 were incurred in 2007.

INCOME TAXES

The item includes the balance of taxes deriving from tax consolidation net of amounts to be recouped or to be attributed to Group companies.

The net positive value mainly consists of the IRES tax on ERG S.p.A.'s 2008 tax loss, which is recouped thanks to the tax consolidation mechanism.

BALANCE SHEET

(MILLION EURO)	31/12/2008	31/12/2007	31/12/2006
RECLASSIFIED BALANCE SHEET			
FIXED ASSETS	505.3	502.5	448.4
NET WORKING CAPITAL	(10.5)	(6.9)	(6.1)
STAFF LEAVING INDEMNITIES	(2.4)	(3.2)	(3.9)
OTHER ASSETS	79.5	68.3	53.7
OTHER LIABILITIES	(43.4)	(65.8)	(35.8)
NET INVESTED CAPITAL	528.5	494.9	456.3
SHAREHOLDERS' EQUITY	302.5	109.7	98.7
NET FINANCIAL DEBT	226.0	385.2	357.6
SHAREHOLDERS' EQUITY AND FINANCIAL DEBT	528.5	494.9	456.3

As at 31 December 2008 net invested capital amounted to about Euro 528 million, with an increase of approximately Euro 34 million.

FIXED ASSETS

Fixed assets consist mainly of financial fixed assets.

NET WORKING CAPITAL

Net working capital consists of trade receivables and payables mostly vis-à-vis Group companies.

NET FINANCIAL DEBT

OTHER ASSETS

These consist principally of payables due to Tax Authorities and Group companies in connection with the tax consolidation procedure and Group VAT. The item also includes receivables for advance taxes and prepaid expenses.

OTHER LIABILITIES

These consist principally of payables due to Tax Authorities and Group companies in connection with the tax consolidation procedure and Group VAT.

(MILLION EURO)	31/12/2008	31/12/2007	31/12/2006
SUMMARY OF NET FINANCIAL DEBT			
MEDIUM/LONG-TERM FINANCIAL DEBT	502.2	423.7	270.3
SHORT-TERM FINANCIAL DEBT	(276.2)	(38.5)	87.3
TOTAL	226.0	385.2	357.6

The following table shows the medium/long-term financial debt:

(MILLION EURO)	31/12/2008	31/12/2007	31/12/2006
MEDIUM/LONG-TERM FINANCIAL DEBT			
CURRENT PORTION OF MEDIUM/LONG-TERM BANK BORROWINGS	676.2	671.6	522.8
CURRENT PORTION OF MORTGAGES AND LOANS	(174.1)	(163.6)	(180.9)
OTHER MEDIUM/LONG-TERM FINANCIAL RECEIVABLES	-	(84.4)	(71.6)
TOTAL	502.2	423.7	270.3

The increase in medium/long-term bank borrowings was due to the receipt of new loans obtained during 2008. The decrease in medium/long-term financial receivables is connected with the reclassification under

short-term financial receivables of the loan made by ERG S.p.A. to ERG Raffinerie Mediterranee and reimbursed at the beginning of 2009. The breakdown of short-term financial debt was as shown below:

(MILLION EURO)	31/12/2008	31/12/2007	31/12/2006
SHORT-TERM FINANCIAL DEBT			
SHORT-TERM BANK BORROWING	174.4	84.5	71.6
OTHER SHORT-TERM FINANCIAL PAYABLES	2.1	4.0	7.5
FINANCIAL PAYABLES DUE TO SUBSIDIARIES	205.2	166.0	166.5
GROSS SHORT-TERM FINANCIAL DEBT	381.6	254.6	245.6
CASH AND CASH EQUIVALENTS	(219.5)	(1.1)	(0.2)
SECURITIES AND OTHER FINANCIAL RECEIVABLES	(139.0)	(2.1)	(12.5)
FINANCIAL RECEIVABLES FROM SUBSIDIARIES	(299.3)	(289.8)	(145.5)
SHORT-TERM FINANCIAL ASSETS	(657.8)	(293.0)	(158.3)
TOTAL	(276.2)	(38.5)	87.3

Short-term financial payables and receivables vis-à-vis subsidiaries mainly comprise the balances of the financial current and centralised treasury accounts operated with other Group companies as part of centralised management of Group finance. The short-term financial receivables also include the loan granted by ERG S.p.A. to ERG

Raffinerie Mediterranee that was repaid at the beginning of 2009.

Cash and cash equivalents comprise liquidity temporarily forming following the payment of dividends at the end of 2008.

Other short-term financial payables and receivables include the fair value of derivatives in place at year-end.

The change in net financial debt during the three periods considered is broken down as follows:

(MILLION EURO)	FY 2008	FY 2007	FY 2006
CASH FLOW FROM OPERATING ACTIVITIES:			
ADJUSTED CASH FLOW FROM CURRENT OPERATIONS	267.9	70.6	65.8
CHANGES IN OPERATING ASSETS AND LIABILITIES	(29.5)	14.5	(1.5)
TOTAL	238.4	85.1	64.2
CASH FLOW FROM INVESTMENTS:			
INVESTMENTS	(4.2)	(57.0)	(156.7)
DISINVESTMENTS	(1.3)	–	0.4
TOTAL	(5.4)	(57.0)	(156.2)
CASH FLOW FROM SHAREHOLDERS' EQUITY:			
CAPITAL INCREASE AND ADDITIONAL PAID-IN CAPITAL	–	–	–
DIVIDENDS PAID	(59.3)	(59.9)	(60.1)
OTHER CHANGES ⁽¹⁾	(14.5)	4.2	(10.0)
TOTAL	(73.8)	(55.6)	(70.1)
CHANGE IN FINANCIAL DEBT	159.1	(27.6)	(162.1)
NET FINANCIAL DEBT AT THE BEGINNING OF THE YEAR	385.2	357.6	195.5
CHANGE DURING THE YEAR	(159.1)	27.6	162.1
NET FINANCIAL DEBT AT YEAR-END	226.0	385.2	357.6

(1) OF WHICH EURO -15 MILLION IN 2008 FOR THE PURCHASE OF TREASURY SHARES

NOTES ON THE RESULTS OF THE MAIN NON-CONSOLIDATED SUBSIDIARY AND ASSOCIATE COMPANIES ⁽¹⁾

COASTAL REFINING DIVISION

ISAB S.R.L.

ISAB S.r.l., a joint venture that is 51% owned by ERG Raffinerie Mediterranee and 49% owned by LUKOIL, is owner of the ISAB Refinery in Priolo and processes crude oil on behalf of the two shareholders. The company came into operation in December 2008.

DYNERGY S.R.L.

The company was established in July 2001 and is 37.5% owned by ERG Raffinerie Mediterranee. It provides technical and commercial consulting services to petroleum and petrochemical companies. The company essentially broke even for the financial year at 30 June 2008.

INTEGRATED DOWNSTREAM DIVISION

RETAIL NETWORK

ERG PETROLI (SUISSE) S.A.

The company, 99.45% owned by ERG Petroli S.p.A., operates a network of 16 service stations in the Canton of Ticino. During the financial period it recorded sales volumes above those of the previous year. The company expects to close 2008 with revenues of Euro 0.1 million.

MED OIL S.R.L.

The company, established in December 2003, is 50% owned by ERG Petroli S.p.A. It has 21 service stations located in Central Italy. The company expects to essentially break even at 31 December 2008.

WHOLESALE NETWORK

ELYO ITALIA S.R.L.

The company, 40% owned by ERG Petroli

S.p.A., controls a group of companies operating in the sale of petroleum products and in energy, technology and facility management services.

The company's financial year, which ended on 30 September 2008, posted a consolidated production value of Euro 672.7 million and consolidated net profit of Euro 7.6 million.

ENERPETROLI S.R.L.

The company, 44.4% owned by ERG Petroli S.p.A., is a primary dealer in the Viterbo area, with both retail and wholesale networks. It is expected that the financial year will be closed with net income of about Euro 1 million after amortisation and depreciation for about Euro 2.2 million.

EUROIL S.R.L.

The agreement for acquisition of 100% of the shares of Euroil was signed in FY 2008. The agreement for merger with ERG Petroli S.p.A. was signed on 23 February 2009, effective 1 March 2009. The company currently owns four retail outlets.

The financial year is expected to close with net income of about Euro 0.3 million after amortisation and depreciation for about Euro 0.1 million.

EUROPAM S.R.L.

The company, 24.30% owned by ERG Petroli S.p.A., operates in both wholesale and retail and is developing its energy services sector.

The company ended its financial year on 30 June 2008 with a profit of Euro 1.1 million after deducting depreciation totalling Euro 6.4 million.

LAMPOGAS GROUP

This is a group of three companies, all of which are 46.5% owned by ERG Petroli S.p.A. and are active in Northern Italy in the LPG distribution sector.

It is expected that FY 2008 will close with

(1) data processed in accordance with Italian GAAP

net income of about Euro 1.4 million after amortisation and depreciation for about Euro 2 million.

NATALIZIA PETROLI S.R.L.

The company, 49% owned by ERG Petroli S.p.A., operates in the Lazio and Campania regions. It is expected that FY 2008 will close with net income of about Euro 0.6 million after amortisation and depreciation for about Euro 0.5 million.

LOGISTICS

SIGEA S.P.A.

The company is 65% owned by ERG Petroli S.p.A. and 35% owned by Ecofuel S.p.A. (ENI Group).

SIGEA has a 40% stake in SIGEMI S.r.l., a percentage that corresponds to its share of use of SIGEMI's logistics system. Clean-up of the Arquata site was completed in 2008: certification of completion of clean-up is expected for 2009, after which the sites will be restored. The company expects to close FY 2008 with revenues of about Euro 13.3 million and net income of about Euro 0.2 million.

INLAND REFINERIES

RAFFINERIA DI ROMA S.P.A.

The company, 28.13% owned, manages the Rome Refinery, which during 2008 processed about 4.2 million tonnes of product (approximately 1.2 million tonnes of which were for ERG Petroli).

SARPOM S.P.A.

The company, a 25.86% owned subsidiary, manages the Trecate Refinery, which processed about 6.9 million tonnes of product in 2008 (of which ERG Petroli processed about 1.9 million).

THERMOELECTRIC POWER GENERATION DIVISION

IONIO GAS S.R.L.

The company, 50% owned by ERG Power & Gas, was founded in December 2005 with

the aim of building a regasification plant in the area adjacent to the Priolo Refinery.

In October 2008 the company received the Ministry of Environment decree declaring the environmental compatibility of the project.

The company expects to close 2008 with a loss of approximately 4.3 million.

ESPANSIONE S.R.L.

In FY 2007 ERG Power & Gas acquired a 27.01% share of the company Espansione S.r.l. Soluzioni per l'Energia, which sells electric power on the free market.

The company expects to close 2008 with a net profit of approximately 0.2 million.

ERG RIVARA STORAGE S.R.L.

The company was set up on 24 April 2008 with the English company Independent Resources (IRG) for the purpose of developing the natural gas storage site at Rivara, in the Province of Modena. ERG Power & Gas subscribed 15% of the capital of the company, valued at Euro 9.5 million. The company closed its first financial year at 30 September 2008 with a loss of Euro 0.4 million and expects to close its accounts at 31 December 2008 with a slight loss.

ROMA ENERGIA S.R.L.

The company, 20% owned by ERG Power & Gas, was founded in July 2001 with the aim of building a power station in the area adjacent to the Rome Refinery.

On 1 April 2008 the Extraordinary Shareholders' Meeting resolved to place the company in liquidation, and on 16 December 2008 the Shareholders' Meeting resolved to approve the final liquidation financial statements of the company and the associated allocation plan.

ERG S.P.A.'S MANAGEMENT AND COORDINATION OF SUBSIDIARIES

ERG S.p.A. manages and coordinates the operations of its directly and indirectly controlled subsidiaries. In particular, this activity is represented by:

- definition of business strategies;
- indication of strategic guidelines for organisational aspects and personnel policies at a macro level;
- strategic finance and Group treasury management;
- management of tax-related issues, especially as regards planning;
- management of communication policies and institutional relations;
- management of environmental, health and safety policies;
- centralised management of information systems;
- definition of risk management policies;
- centralised management of corporate obligations;
- legal support for the most significant transactions (Special Projects);
- definition of common policies for internal audit and corporate security;
- definition of guidelines for the preparation of financial statements;
- management of non-oil purchases.

The directly and indirectly controlled companies that are subject to management and co-ordination by ERG S.p.A. as illustrated above are ERG Petroli S.p.A., ERG Raffinerie Mediterranee S.p.A., ERG Power & Gas S.p.A., ERG Nuove Centrali S.p.A., ISAB Energy S.r.l., ISAB Energy Services S.r.l., Gestioni Europa S.p.A., Gestioni Europa Due S.p.A. and SIGEA S.p.A.

ERG S.p.A. also manages and coordinates its subsidiary ERG Renew S.p.A. within an ambit presently represented by the definition of business strategies, indication of strategic guidelines for organisational aspects and personnel policies at a macro level, management of strategic finance, management of communication policies and institutional relations, centralised management of corporate obligations, legal support for the most significant transactions and definition of common policies for internal audit and corporate security.

In 2008, ERG S.p.A. continued managing the various directly and indirectly owned interests, also via service contracts for staff activities, for a total amount of Euro 24.8 million.

It also received services for Euro 0.4 million from ERG Renew S.p.A. and Euro 0.3 million from ERG Raffinerie Mediterranee S.p.A.

ERG S.p.A. manages a centralised treasury (cash pooling) system for some subsidiaries and also maintains financial current account relationships with ERG Petroli S.p.A., ERG Raffinerie Mediterranee S.p.A. and ERG Power & Gas S.p.A.

ERG S.p.A. also manages, as consolidator, the Group VAT and tax consolidation (both domestic and global) with the Group's main subsidiaries.

All transactions refer to ordinary operations and are settled at market rates.

PRIVACY - SECURITY POLICY DOCUMENT

In 2008 the ERG Group duly updated its "Security Policy Document".

SHAREHOLDINGS OWNED BY DIRECTORS, STATUTORY AUDITORS, GENERAL MANAGERS, AND STRATEGICALLY ACCOUNTABLE MANAGERS

Pursuant to applicable CONSOB resolutions, the following table illustrates the equity investments owned by the Directors, Statu-

tory Auditors, General Managers and strategically accountable Managers at the company and its subsidiaries.

NAME	COMPANY	NUMBER OF SHARES HELD AT THE END OF THE PREVIOUS YEAR	NUMBER OF SHARES PURCHASED	NUMBER OF SHARES SOLD	NUMBER OF SHARES HELD AT THE END OF THE CURRENT YEAR
ALESSANDRO GARRONE	ERG S.P.A.	2,000	–	–	2,000
FABRIZIA GIORDANO ⁽¹⁾	ERG S.P.A.	12,725	–	–	12,725
RICCARDO GIORDANO ⁽¹⁾	ERG S.P.A.	12,725	–	–	12,725
GUIDO SEBASTIANO ZERBINO	ERG S.P.A.	2,000	–	–	2,000
STRATEGIC EXECUTIVES	ERG S.P.A.	11,350	–	–	11,350

⁽¹⁾ SON/DAUGHTER OF PIETRO GIORDANO

SIGNIFICANT EVENTS AFTER THE END OF THE FINANCIAL YEAR

On **17 February** ERG reported that it had received Euro 852 million from LUKOIL as the balance of the price for a 49% share of ISAB S.r.l., the company to which all the assets of the ISAB Refinery at Priolo (Syracuse) were contributed. The payment, including accrued interest, was made in advance of what had been previously agreed with LUKOIL and reported in the press release of 6 November 2008.

As a result of this deal, ERG has received a total of Euro 1.6 billion, which includes the income of the hedging on the inventory granted to ISAB S.r.l. The agreement that led to the payment envisages that the starting date for exercise by ERG of its put option on its 51% share in ISAB S.r.l. be postponed for one year with respect to what was previously agreed, and a Euro 15 million reduction in the strike price.

Following payment of the full price, the guarantee and pledge granted by LUKOIL on its 49% share of ISAB S.r.l. under the agreement have expired.

On **25 February** ERG announced that next April it would enter the virtual mobile telephone market as an operator, pursuant to an agreement initialed with Vodafone Italia, and will market these services through its own service station network. ERG Petroli is the first oil company to enter this market with a dedicated, personalised SIM and a new brand: ERG Mobile.

Vodafone Italia will guarantee ERG Petroli access to a full range of services, from voice to text messaging, roaming and data traffic. Furthermore, Vodafone has created the platform that will permit integration of the two companies' systems.

BUSINESS OUTLOOK

RISKS AND UNCERTAINTIES FACING THE BUSINESS OUTLOOK IN 2009

Pursuant to Article 154-ter (4) of the Consolidated Finance Act, and in reference to the estimates and forecasts set out in this section, notice is given that actual results might differ significantly from forecast results due to a plethora of factors, inter alia: future changes in crude oil prices, plant operating performance, the impact of environmental and other regulations on the oil and energy sector, other changes in business conditions, and the actions of competitors.

The business outlook for the principal operating indicators is illustrated as follows.

COASTAL REFINING

In 2009, it is expected that base EMC (FCC) refining margins will be lower than in 2008, mainly due to the decline in global demand for oil. The reduction in margins in the Mediterranean basin should be less acute

than in other regions due to the persistently restricted supply of medium distillates in the Mediterranean. This problem is exacerbated by the new limit on sulphur content (maximum 10 ppm) in automotive fuel that came into effect at the beginning of January, the abundance of locally produced raw material (particularly crude oil from areas not subject to OPEC cuts), and the renewed strength of fuel oil during the first part of the year.

The programmed maintenance shutdown of the ISAB Refinery, which began during the second half of January, was duly completed at the beginning of March. The shutdown involved all the refinery's plants.

INTEGRATED DOWNSTREAM

It is expected that sales volumes on the retail network will improve, albeit with a decline in volumes and margins compared to the average values for 2008. Aggregate retail network results for 2009 will also in-

clude the start-up costs for the new and innovative "ERG Mobile" project, which will expand the range of services offered to customers with mobile telephone products, creating synergies with the existing promotional mix.

On the wholesale network, it is expected that 2008 sales volumes will be consolidated in 2009 and that profit levels will be satisfying, although not at the levels of 2008.

In 2009 it is estimated that refinery processing volumes will be marginally lower than in 2008, with margins forecast to be less favourable than in 2008.

THERMOELECTRIC POWER GENERATION

Following the accident that took place on 13 October, Powertrain 2, which came back on line on 18 December, will continue operating throughout 2009, having rescheduled the general shutdown that had originally been planned for this year. Conse-

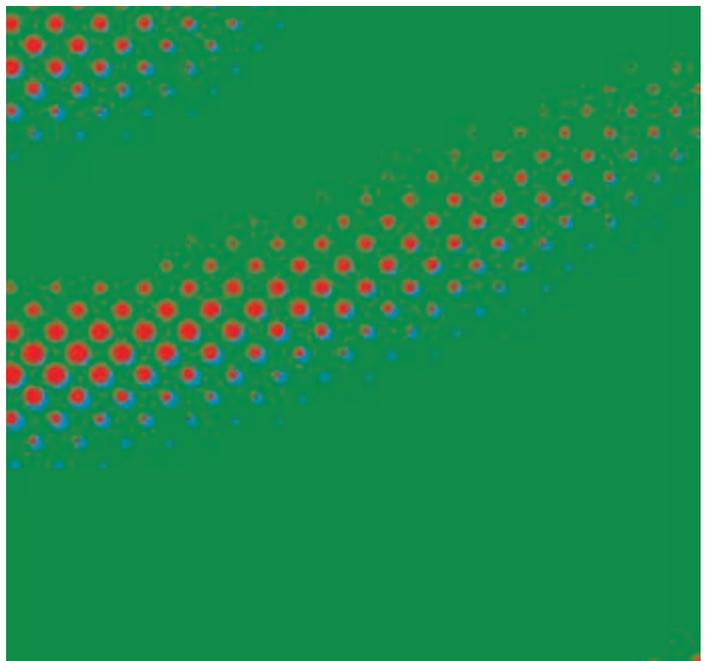
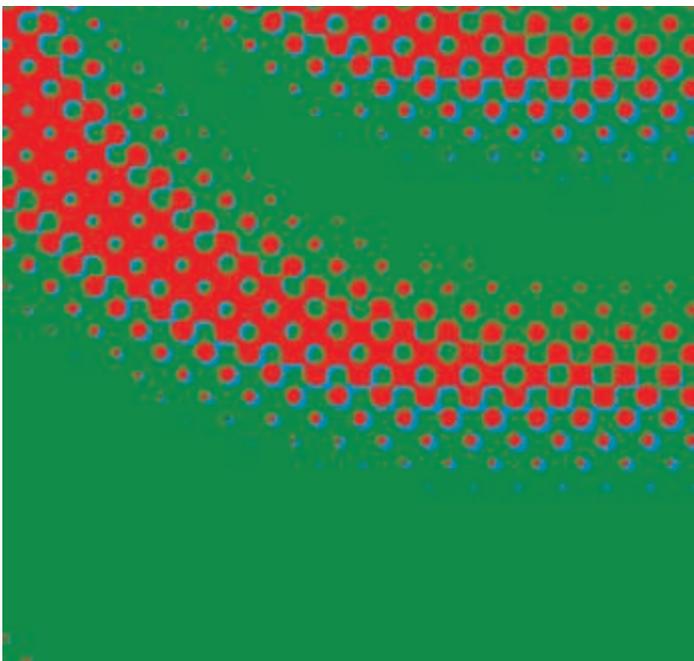
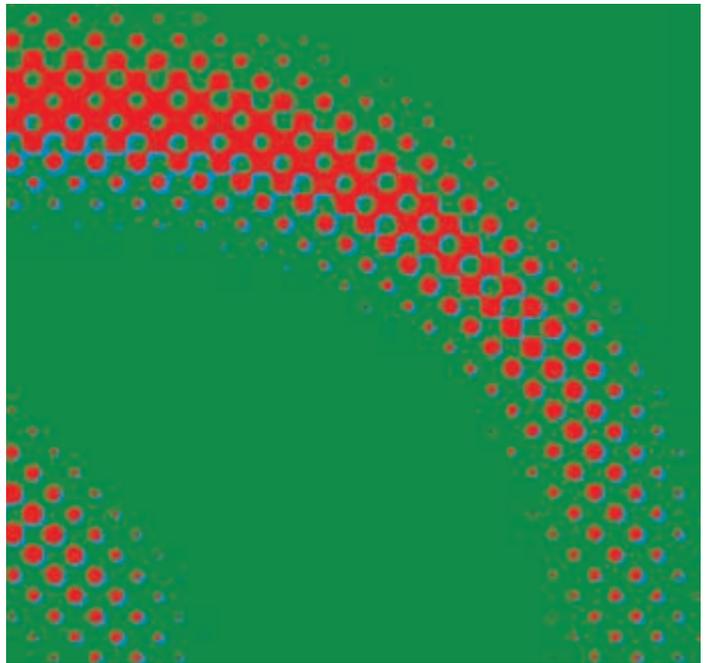
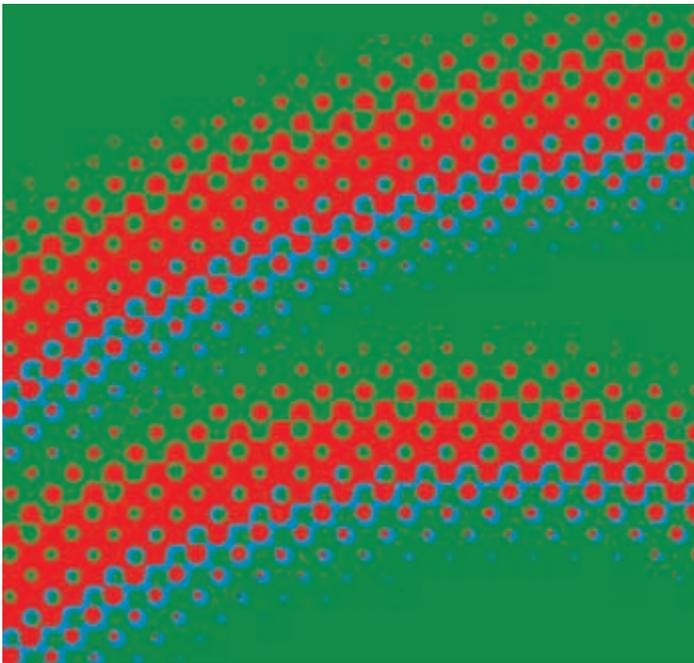
quently, it is estimated that the ISAB Energy output sold to the GSE under the CIP 6 convention in 2009 will be about 2 TWh.

Development of marketing and sales of electric power and gas will continue in FY 2009, both to wholesalers and end customers, pursuing the strategy of expansion in the free market sector.

Moreover, construction work on the new ERG Nuove Centrali Impianti Nord site facility will continue during 2009; based on the progress of construction, the start-up of the combined cycle plant is anticipated during the second half of 2009.

RENEWABLE ENERGY SOURCES

In the wind power division, the full-year contribution to be made by the Vicari wind farm and the start-up of full-scale commercial operation of the Faeto wind farm (24 MW) starting in April 2009, together with expansion of Troia San Vincenzo (4 MW), will translate into a major improvement from the previous year.



**CORPORATE
GOVERNANCE REPORT
MANAGEMENT
INCENTIVE SCHEMES**

CORPORATE GOVERNANCE REPORT

EVOLUTION OF APPROACH

The current governance structure of ERG S.p.A. has been developed over time by gradually introducing into the ERG corporate approach rules of conduct reflecting the most advanced, recognised principles of corporate governance.

Even before the company was listed in October 1997, one of its key features was the focus on a proper relationship between management and shareholders and on ensuring that business operations were directed towards value creation.

This corporate policy was implemented via:

- coordinated delegation of powers within the Board of Directors in such a way as to assure (a) clarity and completeness of executive accountabilities and (b) monitoring of activities and assessment of results achieved;
- regular and adequate reporting to the Board on actions taken in the exercise of powers and of managerial responsibilities;
- adoption of specific procedures to determine remuneration for Directors and management.

Its presence on the stock market has clearly accentuated the company's propensity to base its conduct on the criteria of transparency and correctness. It has also accelerated the process of adapting both house regulations and organisation to meet these criteria.

This corporate policy was therefore put into effect by means of:

- adoption of a Group Compensation Plan to align the interests of management with those of shareholders, and strengthen the relationship between managers and the company in terms of awareness of the importance of ERG

- stock's value and of continuity over time;
- appointment of independent Directors on the Board;
- approval of a Code of Conduct for the Directors of Group companies;
- acceptance of the Italian Corporate Governance Code for Listed Companies since its first edition in 1999, reviewed in 2002;
- ERG's presence from 2001 to 2005 in S-TAR, a segment of the stock market introduced by Borsa Italiana S.p.A. (the company managing the Milan Stock Exchange) to give significant visibility to companies prominent for the special attention paid to corporate governance matters;
- definition of (a) guidelines for the identification and execution of significant transactions and of (b) other governance documents designed to assure transparent and timely management of the Group's relationship with the market;
- introduction of Code of Business Ethics as a tool for defining and communicating ERG's duties and responsibilities towards its stakeholders, as well as being an imperative element of an organisation and management model consistent with the requirements of Italian Legislative Decree 231/2001;
- amendment of the Articles of Association to bring them into line with the regulatory changes introduced by way of the Italian Company Law Reform;
- acceptance of the third edition (2006) of the Italian Corporate Governance Code for Listed Companies.

INFORMATION ON SHAREHOLDINGS AT 31 DECEMBER 2007 (PURSUANT TO ARTICLE 123-BIS OF THE ITALIAN CONSOLIDATED FINANCE ACT)

Share capital structure

	NO. OF SHARES	% OF SHARE CAPITAL	LISTED (INDICATE MARKETS) / UNLISTED	RIGHTS AND OBLIGATIONS
ORDINARY SHARES	150,320,000	100	ITALIAN STOCK EXCHANGE/BLUE CHIPS SEGMENT	
SHARES WITH LIMITED VOTING RIGHTS	-	-		
SHARES WITHOUT VOTING RIGHTS	-	-		

Significant investors in the share capital

DECLARANT	DIRECT SHAREHOLDER	% OF ORDINARY CAPITAL HELD	% OF VOTING CAPITAL HELD
SAN QUIRICO S.P.A.	SAN QUIRICO S.P.A.	55.9420	55.9420
SAN QUIRICO S.P.A.	POLCEVERA S.A.	6.9053	6.9053

Authorisation to increase the share capital and purchase treasury shares

The Board of Directors has the right to issue convertible bonds, in one or more stages, up to an overall maximum amount of Euro 150,000,000 (one hundred and fifty million), even excluding pre-emption rights provided that the bonds to be issued are acquired by institutional investors without subsequent placement with the public market, subject to a conversion ratio determined based on the nominal value of each bond divided by the ERG official price on the day of placement of the bonds, multiplied by a factor between 1.2 and 1.6, over a period of five years from the date of the shareholders' resolution adopted on 29 April 2004, all in observance of the procedure and limits set forth by Article 2420-ter of the Italian Civil Code.

CORPORATE GOVERNANCE

ERG S.p.A.'s corporate governance system complies with the requirements of the Italian Civil Code and of other, specific regulations relating to companies – in particular with those contained in Italian Legislative Decree 58 of 24 February 1998 (the Italian Consolidated Finance Act) – and, overall, reflects adherence to the Italian Corporate Governance Code for Listed Companies in its various editions, which have succeeded each other over the years. ERG corporate governance comprises the Statutory Bodies, the Board committees, and the documents that regulate their operation.

STATUTORY BODIES

BOARD OF DIRECTORS

The current Board of Directors consists of thirteen members appointed by the Shareholders' Meeting held on 28 April 2006 and will hold office until approval of the annual financial statements for the year ending 31 December 2008. In accordance with the Articles of Association, Directors are appointed on the basis of lists presented by sharehold-

ers which, accompanied by information on the personal and professional characteristics of the candidates and the declaration relating to their possession of independence requirements, if appropriate, must be lodged at the Company's registered office at least fifteen days prior to the Shareholders' Meeting. The lists may only be presented by shareholders who, either individually or with other shareholders, represent at least the percentage of share capital established in accordance with the CONSOB regulation prevailing as at the date of convocation of the Shareholders' Meeting (currently 2%). As regards the renewal of the Board of Directors which took place during the Shareholders' Meeting held on 28 April 2006, it should be noted that, whilst the voting list procedure was introduced by way of resolution of the Extraordinary Shareholders' Meeting held on 29 June 2007, the recommendations of the Italian Corporate Governance Code with regard to transparency of the election procedure in appointing the Board of Directors were already observed when appointing the Board of Directors currently in office.

Specifically, the curricula vitae of candidates were lodged at the Company's registered office 15 days prior to the shareholders' meeting and at the same time were published on the website www.erg.it in the Shareholders / Corporate Governance section.

Members:

Riccardo Garrone - *Honorary Chairman*
 Edoardo Garrone - *Chairman*
 Giovanni Mondini - *Deputy Chairman*
 Pietro Giordano - *Deputy Chairman*
 Alessandro Garrone - *Chief Executive Officer*
 Massimo Belcredi - *Director*
 Lino Cardarelli - *Director*
 Aldo Garozzo - *Director*
 Giuseppe Gatti - *Director*
 Antonio Guastoni - *Director*
 Paolo Francesco Lanzoni - *Director*
 Gian Piero Mondini - *Director*
 Guido Sebastiano Zerbino - *Director*

Non-executive Directors:
Riccardo Garrone
Gian Piero Mondini
Guido Sebastiano Zerbino

Independent Directors:
Massimo Belcredi
Lino Cardarelli
Antonio Guastoni
Paolo Francesco Lanzoni

The Board of Directors assessed the independence of the Directors listed above according to the recommendations of the Italian Corporate Governance Code, giving special consideration to the substance over the form and bearing in mind the application criteria set forth therein.

The Board of Directors conducted this assessment in its first meeting subsequent to appointment and periodically proceeds (during the Board meeting called to examine the first quarterly report) to check that these requirements are still valid.

In 2008, the assessment of independence was carried out during the Board meeting on 10 March.

The Board of Statutory Auditors verified the correct application of the criteria and certification procedures adopted by the Board to assess the independence of its members. With regard to the composition of the Board of Directors and the distribution within same of offices and powers, it was not considered necessary to designate a lead independent Director.

Although the independent Directors did not hold their own meetings without the other Directors in 2008, they maintained contact with each other as necessary and regularly consulted with each other in advance on the principal matters examined by the Board of Directors.

OTHER OFFICES HELD BY DIRECTORS:

Edoardo Garrone
Director of Pininfarina S.p.A.

Alessandro Garrone
Director of ERG Renew S.p.A.
Director of YARPA Investimenti SGR S.p.A.
Director of Banca Passadore e C. S.p.A.
Director of MutuiOnline S.p.A.

Massimo Belcredi
Director of Arca SGR S.p.A.
Director of Banca Italease S.p.A.

Lino Cardarelli
Deputy Chairman of Ambromobiliare S.p.A.

Riccardo Garrone
Chairman of Banco San Giorgio S.p.A.
Chairman of Capitalimpresa S.p.A.
Chairman of U.C. Sampdoria S.p.A.

Giuseppe Gatti
Chairman of ERG Renew S.p.A.
Chairman of Iride Mercato S.p.A.
Chairman of Grandi Reti S.c.ar.l.
Director of Actelios S.p.A.

Pietro Giordano
Director of ERG Renew S.p.A.

Antonio Guastoni
Chairman of the Board of Statutory Auditors, Leonardo Alternative SGR S.p.A.
Standing Auditor of Leonardo SGR S.p.A.
Standing Auditor of Grande Jolly S.p.A.
Standing Auditor of Finlombarda SGR
Chairman of the Board of Auditors of the Milan Chamber of Commerce (CCIAA)

Paolo Francesco Lanzoni
Chief Executive Officer of FIN. SAG S.r.l.
Director of Effusia SGR S.p.A.
Director of Finservice S.p.A.
Director of Dolphin Tanker S.p.A.

Other attendees of Board meetings

The head of Administration, Finance and Control attends Board of Directors meetings. Depending on the topics discussed, Group management representatives also take part in the Board meetings.

Directors' remuneration

Directors' remuneration is determined, for each financial year, by the Ordinary General Shareholders' Meeting called to approve year-end financial statements.

The Shareholders' Meeting also fixes the remuneration of the Directors serving on committees within the Board.

The emoluments of the Chairman, Deputy Chairmen, and Chief Executive Officer are determined by the Board of Directors on the basis of a recommendation made by the Nominations and Remuneration Committee.

Powers

The Board of Directors has delegated the Chairman, Edoardo Garrone, to manage, performing the tasks of supervision, direction, and control, the staff functions performed by the Corporate Affairs unit, as regards corporate affairs and internal auditing, and by the Institutional & International Relations

division, giving him all powers to perform the assignment delegated to him.

The Chief Executive Officer, Alessandro Garone, holds the powers of legal representation of the company and all powers of ordinary and extraordinary management. The Board – consistently with the recommendations of the Italian Corporate Governance Code for Listed Companies – has specified that the powers delegated to the CEO must be exercised according to the directives and instructions given to him by the Board.

Frequency of Board meetings

As envisaged by the Articles of Association, the Board of Directors meets on at least a quarterly basis to inform the Board of Statutory Auditors on the Group's activities and on the most important business, financial and capital transactions undertaken by the company or its subsidiaries, and particularly those where there may be a potential conflict of interest.

During the 2008 financial year the Board of Directors held 13 meetings, while for the year 2009 there are expected to be no fewer than 9 meetings.

In 2008, the Board of Directors passed resolutions on 36 different matters and for 33 of these the related informational documentation was transmitted beforehand to Directors and Auditors.

Activities performed

The participation of Directors in the activity of the Board and the Committees during 2008 was high in terms of presence at meetings and actual involvement in the works. In the course of 2008, the Board of Directors performed the activities and responsibilities referred to in application criterion 1.C.1. of the Italian Corporate Governance Code for listed companies in accordance with the role that the Code attributes to the Board of a listed company.

Particularly in regard to sub-indent g) of this application criterion, the Board of Directors meeting held on 13 August carried out a review, partly on the basis of a document prepared for this purpose by the Nominations and Remuneration Committee, of the size, composition and functions of the Board of Directors and Committees. This review concluded with a favourable opinion.

Pursuant to application criterion 1.C.3. of the Italian Corporate Governance Code, the

Board of Directors also acknowledged that, in light of the findings set out in the document prepared by the Nominations and Remuneration Committee, it no longer appears necessary to set a maximum number of management and control positions that Board of Directors members may hold that is different and greater than what they hold on the basis of the information set out in the Report on Corporate Governance.

Furthermore, with a resolution dated 13 February 2003, the Board defined the guidelines for the identification and execution of significant transactions, examination and approval of which – as recommended by the Italian Corporate Governance Code – remain the exclusive responsibility of the Board.

The guidelines – the original text of which was amended for the first time with a Board resolution passed on 6 August 2004 and by subsequent resolutions passed on 13 February and 10 August 2006 – indicate the criteria to be used to identify major significant transactions.

These criteria are quantitative and qualitative, stemming from the specific nature of the parties involved (transactions with related parties and infragroup transactions). The document also identifies the principles of conduct to be applied in execution of transactions, with special reference to transactions initiated by subsidiaries, which must be examined and approved beforehand by ERG S.p.A.'s Board of Directors, and to those with related parties, for which the direct involvement of the Internal Control Committee is required. The Internal Control Committee is called upon, *inter alia*, to evaluate the need or opportunity to obtain the opinion of independent experts and, if so, to name such experts.

BOARD OF STATUTORY AUDITORS

The present Board of Statutory Auditors was appointed by the Shareholders' Meeting held on 27 April 2007 and will remain in office until approval of the Financial Statements for the year ending on 31 December 2009. In compliance with the Articles of Association, the Board of Statutory Auditors is appointed on the basis of lists presented by Shareholders at least 15 days before the Shareholders' Meeting, which must set out the names of candidates in numbered, sequential order.

Candidate lists may only be presented by shareholders who, at the time of presenting the list, are in possession of a shareholding equal to that required for the presentation of lists for the election of directors.

At the time of appointment of the Board of Statutory Auditors presently in office, the shareholding required in order to present the lists was equal to 3% of share capital whereas the current minimum shareholding is 2%. No shareholder may present or vote for more than one list and each candidate may be included in only one list, on pain of ineligibility.

The lists contain not only the information regarding the shareholders that submitted them and the statements made by them pursuant to applicable regulations, but also exhaustive information on the candidates' personal and professional characteristics and their statements pursuant to the Articles of Association.

Candidates cannot be elected to the position of Statutory Auditor unless they possess the requirements of independence, professionalism, and integrity as provided by Article 148 section 3, of the Consolidated Finance Act or if they already hold the position of Standing Auditor in more than five listed companies.

Members:

Mario Pacciani - *Chairman*

Fabrizio Cavalli - *Standing Auditor*

Paolo Fasce - *Standing Auditor*

Umberto Trenti - *Alternate Auditor*

Michele Cipriani - *Alternate Auditor*

Lelio Fornabaio - *Alternate Auditor*

The Board of Statutory Auditors, having evaluated the personal and professional characteristics of each auditor, has concluded that its members can be qualified as independent, also based on the criteria set forth by the Italian Corporate Governance Code for directors.

Other offices held by Statutory Auditors on the Boards of Statutory Auditors of listed companies:

Mario Pacciani

Chairman of the Board of Statutory Auditors of Boero Bartolomeo S.p.A.

Paolo Fasce

Standing Auditor of Boero Bartolomeo S.p.A.

SHAREHOLDERS' MEETINGS

Article 10 of the Articles of Association states that holders of voting rights who, based on the procedures laid down in the notice of meeting, exhibit a pass certificate issued in compliance with current legislation at least two working days before the meeting, shall be entitled to attend the meeting.

Meeting regulation

At the Ordinary Shareholders' Meeting held on 27 April 2001 shareholders approved a regulation governing the proceedings of ordinary and extraordinary shareholder meetings.

Article 14 of our Articles of Association expressly gives the Ordinary Shareholders' Meeting the possibility of adopting a meeting regulation.

BOARD COMMITTEES

The Board of Directors has set up an Internal Control Committee, a Nominations and Remuneration Committee, and a Strategic Committee, all with consultative and propositive functions.

Internal Control Committee

Members:

Massimo Belcredi - *Chairman*

Antonio Guastoni

Paolo Francesco Lanzoni

The members of the Internal Control Committee have adequate experience in accounting and finance.

The Chairman of the Board of Statutory Auditors or another Statutory Auditor takes part in this Committee's work. In addition, the Chairman of the Board of Directors (in his role as director appointed to oversee the functioning of the Internal Control System), the Chief Executive Officer and the Director of Finance, Administration and Control may also participate. Depending on the topics discussed, Group management representatives also take part in the Committee's meetings. The Committee organises its tasks in such a way as to combine comprehensive information flows and efficiency of operation with maximum independence of its members. In particular, the resolution phase takes place in the absence of other parties.

Tasks

The Internal Control Committee has con-

sultative and propositive functions vis-à-vis the Board of Directors and performs the role and responsibilities provided by the Italian Corporate Governance Code.

To enhance its performance of the tasks assigned, the Committee may use external consultants, at the company's expense.

In 2008, the Committee held 10 meetings during which, besides prior review of the Annual Report and Accounts and the half-yearly report, matters relating to the following macro-issues were also discussed: Corporate Governance, the Control System, Italian Law 231/01, Risk Management and Administration Area.

Below are the most relevant issues dealt with by the Committee:

1) Regarding Group Governance

- it carried out the periodic audit of application of Sections 2497 et seq. of the Italian Civil Code, regarding relations between ERG and the parent company San Quirico S.p.A., the scope within which management and co-ordination of ERG is carried out and the list of companies subject to this activity, while proposing to the Board of Directors that it resolve, on the one hand, to further specify the scope within which subsidiaries are actually subject to management and co-ordination and, on the other hand, emphasizing that ERG is not subject to management and co-ordination by the the parent company San Quirico S.p.A.;
- in application of the “Rules of Conduct for Transactions with Related Parties”; it reviewed the partial demerger of ERG Power & Gas (“ERG P&G”) with the beneficiary ERG Renew, submitting its favourable opinion of the formal and technical fairness of the transaction to the Board of Directors, supported by the opinion of an independent expert;
- examined and approved the operating Guidelines for the Internal Control Committee, as amended to reflect inclusion of the position of Chief Financial Officer (CFO) in the parent company's organisational structure and the name change of the listed subsidiary Enertad (now ERG Renew);
- after having taken note of the essential elements of the transfer of assets by ERG Nuove Centrali to ERG Raffinerie Mediter-

raanee, in conformity with the “Rules of Conduct in Transactions with Related Parties”, it expressed its favourable opinion on the transaction, holding that in light of the particular characteristics that distinguish the transaction, expression of an opinion on it by an independent expert was unnecessary.

2) Regarding the Control System

- it examined the final report by the Audit Department in FY 2007 and the plan of activities for FY 2008, taking note of the results of the audits carried out during the 2007 audit and, in particular, the activities carried out in the framework of the project for revision of the Internal Control System, which had already been monitored and agreed to by the Committee during the year;
- in regard to the programme of activities for 2008, it expressed its appreciation for the methods used to define its ambit, particularly in regard to definition of objectives through, inter alia, the elaboration of comparative historic data;
- it prepared a report on the activities carried out by the Committee during the year 2007 and on the adequacy of the Internal Control System and communicated such information to the Board of Directors;
- it examined the project for modification of the Group Internal Control System in compliance with Law 262/05, the conclusions reached in this project and the actions to be taken, and approved its framework and conclusions;
- it approved the general framework of the organisational changes made in the Internal Control System, expressing its appreciation for the enhancements made to the organisation of the risk control system and full compliance with the principle of separating management and risk control that are at the basis of the changes;
- it approved the framework and content of the report by the compliance officer for 2007, while pointing out that the actions taken for complete configuration of the Group's Internal Control System are currently underway and that information about the conclusion thereof can be given in the compliance officer's report for 2008;
- it prepared a report on the activities car-

ried out by the Committee during the first half of 2008 and on the adequacy of the Internal Control System and communicated such information to the Board of Directors;

- it examined the report by the Compliance Officer on activities performed in the first half of 2008, recommending that the structure of the Audit Department be reinforced qualitatively and quantitatively so that a programme of activities could be defined for 2009 that would guarantee adequate monitoring of the principal areas of risk;
- it examined a document containing the salient points of the framework for audit activities in 2009, expressing its approval thereof.

3) Regarding the obligations related to Italian Legislative Decree 231/01

- it examined a document prepared by the Corporate Security Department and approved by the Supervisory Committee, regarding the changes to be made to the Organisation and Management Model of ERG S.p.A. to take account of inclusion in Legislative Decree 231/01 of the criminal offences of market abuse and occupational health and safety;
- it expressed its approval of the revised organisation and Management Model of ERG S.p.A., which amended the Model to include appropriate references to the offences of market abuse and occupational health and safety, and notified the Board of Directors of its approval;
- it examined the report of the Supervisory Committee on the activities carried out in the first half of 2008;
- it examined a document illustrating the programme of activity of Group company Supervisory Committees for 2009.

4) Regarding Risk Management

- it took note of an initial progress report on the "Enterprise Risk Management" project and, in particular, the formal steps that will lead to its conclusion through the approval of policies that must ensure its full operation, while reserving the right to assess them;
- it examined a document prepared by the Risk Management function that is still subject to possible revisions before final approval and which, in addition to a fur-

ther update on the progress of the "Enterprise Risk Management" project, also contains a section detailing hedging of refining margins.

5) Regarding the Administration and Tax Area

- it assessed the correct use of accounting policies in preparing the draft statutory and consolidated financial statements for the period ended 31 December 2007 and informed the Board of Directors accordingly;
- it examined and approved a document prepared by the Controller's Office setting out its assessment of the benefits realised by the company and the Group in consequence of the national and global tax consolidation programme;
- it examined and approved a document prepared by the Controller's Office that sets out the highlights of the intercompany services agreements for FY 2008 and, in particular, the analytical level according to which the criteria for rebilling of services envisaged therein are specified;
- it assessed the correct use of accounting policies in preparing the Half-yearly Financial Report as at 30 June 2008, and informed the Board of Directors accordingly;
- it examined a document prepared by the Administration and Tax Department containing a summary of the principal aspects of the tax consolidation programme at the ERG Group and approved its contents.

Nominations and Remuneration Committee

Members:

Massimo Belcredi

Paolo Francesco Lanzoni

Guido Sebastiano Zerbino

The Chairman and the CEO take part in this Committee's work.

Tasks

The Nominations and Remuneration Committee makes recommendations to the Board regarding the remuneration of the CEO and Directors holding specific offices, as well as recommendations, at the CEO's request, for setting criteria for remuneration of

the company's senior management and for the definition of the Group management incentive scheme.

The Committee also (i) submits to the Board of Directors, where requested, the candidates to the office of Board member in the cases set forth by Article 2386, first paragraph, of the Italian Civil Code, whenever it is necessary to replace an independent director; (ii) assesses, on the specific request of shareholders who intend to submit lists, the independence of the candidates to the role of Director to submit to the shareholders' meeting; and (iii) performs preliminary activities in order to allow the Board of Directors to carry out their annual evaluation regarding the size, composition and functioning of the Board as effectively as possible. To this end, it can express its opinion on the professional figures whose presence in the Board is considered appropriate.

In order to optimise performance of these tasks, the Committee may use the services of outside consultants, paid by the company. Whenever the Committee discusses elaboration of its recommendations for remuneration of the Chairman and the CEO, such persons leave the meeting.

In FY 2008 the Committee, in its previous configuration as the Remuneration Committee, held six meetings where proposals were made to determine the compensation of the Chief Executive Officer and the other Directors who hold seats on the Board of Directors, definition of the objectives for FY 2008 in regard to the short-term incentive system and the creation of value in FY 2007. The Committee also prepared a supporting document for the Board of Directors regarding the Board Performance Review carried out by it, and it examined a preliminary document containing the fundamental elements and operating criteria for a new incentive plan (Long Term Incentive Plan) for Group management.

Strategic Committee

Members:

Edoardo Garrone
Alessandro Garrone
Giovanni Mondini
Pietro Giordano
Giuseppe Gatti
Luca Bettonte

The Committee plays a consultative role and also a role of assistance vis-à-vis the CEO of the holding company and the Board of Directors of the holding company and operating companies.

It performs its work within the scope of the strategies and policies approved by the Board of Directors by defining strategic business and portfolio guidelines, and guidelines and policies on strategic finance and for individual operations of extraordinary finance, monitoring the progress of their implementation over time. The Committee also examines the multi-year strategic plans and the investment budgets of the Group and the operating companies as well as the significant investments at Group level, evaluating their strategic congruence.

RULES OF CORPORATE GOVERNANCE

The rules that are important in terms of their effects on the company's overall corporate governance approach are the following:

- rules for the handling of sensitive and confidential information;
- procedure for public dissemination of statements and information;
- Code of Conduct for Internal Dealing;
- Guidelines for identification and execution of significant transactions;
- Code of Conduct for directors of Group companies;
- subholding company reporting procedure for significant transactions;
- procedure for carrying out transactions with related parties.

Rules for the handling of sensitive and confidential information

The Board of Directors has introduced rules designed to ensure an exhaustive and timely flow of information within the companies forming part of the Group, as well as between the latter and the listed parent company in order to fulfil disclosure obligations concerning price-sensitive information vis-à-vis the market and the market's supervisory bodies.

Specific instructions have also been circulated concerning the handling of confidential information, designed to make employees aware of the liabilities arising from use of such information not compliant with current regulations.

Procedure for public dissemination of statements and information

The Board of Directors, based on a recommendation made by the Internal Control Committee, has adopted a procedure for the public dissemination of statements and information. The aim is to ensure that all announcements and information intended for the market, CONSOB and for Borsa Italiana are the outcome of a formative process that guarantees both timeliness and accuracy. The procedure defines the tasks and responsibilities of the functions involved, identifies the criteria, methods and timing of the various procedural stages, and establishes the appropriate decision-making levels for the dissemination of statements and information.

Code of Conduct for Internal Dealing

With its resolution of 9 August 2007, the Board of Directors adopted a Code of Conduct which aims to give transparency to financial operations carried out by Relevant Persons, namely those persons who, by virtue of their roles within the Group have significant decision-making power or considerable knowledge of the company strategies such as to help them in investment decisions regarding the financial instruments issued by the Company.

The list of addressees of this Code is published on the Company's website.

Guidelines for identification and execution of significant transactions

This is the document – originally adopted with the Board resolution passed on 13 February 2003 and subsequently amended with resolutions passed on 6 August 2004, 13 February and 10 August 2006 – discussed in the section concerning the Board of Directors.

Code of Conduct for directors of Group companies

With a resolution dated 21 March 2000, the Board of Directors adopted a Code of Conduct for directors appointed in Group companies, in order to provide them with uniform rules of conduct for performing their duties within a systematic framework of reference and in observance of Corporate Governance principles.

Bearing in mind, however, the formal aspects inherent in Directors' responsibilities and

the relationship between the individual companies appointing them and the Group, it was decided not to make the Code compulsory, instead accentuating its spirit of moral suasion, the aim of this being to assure that its application, when the Code requires Directors to conduct themselves in specific ways, is the result of spontaneous support for the Code rather than mere performance of a duty.

Subholding company reporting procedure for significant transactions

On 14 March 2006 the Board of Directors passed a resolution introducing a reporting procedure in compliance with which subholding companies – based on a specified approach and timing – inform the parent company of transactions, qualifying as significant according to the guidelines mentioned above, that they have undertaken directly, applying exceptions envisaged in the guidelines.

Procedure for execution of related-party transactions

On 14 March 2006, the Board of Directors passed a resolution adopting principles of conduct which, completing the provisions made in the Guidelines for identification and execution of significant transactions, set out the criteria and approach to be applied in executing related-party transactions. In a resolution on 21 December 2007, the Board of Directors amended the rules of conduct by determining the criteria to be used for identifying the transactions that must be approved on the basis of an opinion by the Internal Control Committee and/or with the assistance of independent experts. The criteria for selecting them were also defined.

OTHER INFORMATION

Set out below is information concerning the Internal Control System, the Supervisory Committee, Investor Relations, the Organisation and Management Model, the independent auditors, the Manager responsible for preparing the company's financial reports, and the management and coordination activity.

The Internal Control System

The Board of Directors passed a resolution on 14 May 2007 identifying the executive

Director appointed to oversee the functioning of the Internal Control System in the person of the Chairman, Edoardo Garrone. Upon the proposal by Mr. Garrone, the person in charge of the Audit function, Carlo Alfredo De Vita, was appointed as head of Internal Control.

The proposal was formulated by the Internal Control Committee following an in-depth preliminary enquiry in terms of both benchmarking and examination of the existing and prospective structure of the Internal Control System.

The Internal Control System operating within the Group is not an autonomous and specific corporate function, but comprises the coordinated operations of various functions to which, within the organisational structure, are assigned the responsibilities pertaining to the overall control activity.

These functions are, above all, the Audit Department and the Administration, Finance and Control Division. They are joined by other functions whose responsibilities include monitoring the compliance of corporate actions with current laws and regulations.

The Director in charge of overseeing the Internal Control System constantly ascertains its overall adequacy, effectiveness and efficiency, also requesting for such purpose the opinion of the Internal Control Committee. The Board of Directors evaluates on an annual basis the functionality of the Internal Control System based on the elements made available to it by the Director in charge of overseeing the functioning of the system and the Internal Control Committee.

In FY 2008 a project initiated in 2007 was completed that defined the Guidelines of the Internal Control System, approved by the Board of Directors on 12 December 2007.

It was designed to rationalise the overall internal control system by mapping and classifying the parties belonging to it, defining the flow chart of the principal reports in the system, and describing the responsibilities and ambits of existing activities.

In the ambit of this project, certain organisational changes were made in 2008, including in particular the establishment of the Risk Office, whose mission is to ensure the implementation of procedures, processes, and series of controls to identify and assess corporate risks and define policies for management thereof.

Supervisory Committee

On 10 March 2005, the Board of Directors of ERG S.p.A. changed the structure of the Supervisory Committee, previously enshrined in the Internal Auditing function, by creating a Committee of five members, i.e. the independent Director Paolo Francesco Lanzoni, as Chairman, and the heads of the company's Auditing, Corporate Security, Human Resources and Legal & Corporate Affairs functions.

The Supervisory Committee, which maintains direct and ongoing relations with the Internal Control Committee, performs its activity at the Parent Company while, in regard to the subholdings, including ERG Renew, a Supervisory Committee was appointed to each, comprised of the independent Director of ERG S.p.A., Paolo Francesco Lanzoni, as Chairman, the Internal Audit Officer of the holding company, Carlo Alfredo De Vita, the Corporate Security Officer of the holding company, Luigi Bricocoli, and the subholdings' respective Human Resources Officers. The Supervisory Committee of ERG S.p.A. met five times in 2008.

Investor relations

The company manages relationships with its shareholders, institutional investors and the market by means of the investor relations function, which is part of the Administration, Finance and Control division. As part of investor relations activities, meetings are regularly arranged both in Italy and abroad with representatives of the financial community. ERG's policy is to provide the fullest possible information on its activities and strategies, also via constant updating and innovation of its website.

The Organisation and Management Model

With resolution of 21 December 2004, the Board of Directors adopted the Organisation and Management Model pursuant to Legislative Decree 231/2001.

The Model has since been periodically updated to adapt it to the regulatory changes subsequently introduced.

The independent auditors

The assignment for the accounting audit relating to the financial years 2006, 2007, and 2008 was granted by the Shareholders' Meeting of 28 April 2006 to Reconta Ernst & Young.

Manager responsible for preparing the company's financial reports

The Chief Financial Officer, Luca Bettonte, was appointed as manager responsible for preparing the company's financial reports in a resolution dated 14 February 2008.

Management and coordination

ERG S.p.A. is a subsidiary of San Quirico S.p.A. which does not however exercise any management and coordination activity over its subsidiary, within the meaning of Articles 2497 et seq. of the Italian Civil Code, also in view of the fact that a provision of its Articles of Association expressly prohibits the company from carrying out management and coordination activities with regard to its subsidiaries.

Acknowledgement of this circumstance is given in the resolution of the ERG S.p.A. Board of Directors dated 10 March 2008.

COMMITMENT

With this statement made by the Board of Directors, ERG wishes to confirm its commitment to:

- pursue as its primary objective, in its formal acts and conduct, creation of shareholder value;

- model its business on total observance of the Group's ethical principles, which are based on that combination of values consisting of personal honesty, correctness of relationships inside and outside the company, and transparency vis-à-vis shareholders, related stakeholders, and the market – as outlined and explained in the Code of Ethics adopted in December 2003;
- assure, by means of constant attention to the ongoing evolution of corporate governance principles, observance of such principles by its organisation, to assure, in turn, transparent and efficient operation of the organisation over time.

The documents concerning Corporate Governance, to which reference is made in this chapter, are available in the Corporate Governance section of our website www.erg.it.

The following tables summarise how the main recommendations of the Italian Corporate Governance Code are adopted and applied within the company.

STRUCTURE OF BOARD OF DIRECTORS AND COMMITTEES

TABLE 1

BOARD OF DIRECTORS				
OFFICE	MEMBERS	EXECUTIVE	NON EXECUTIVE	INDEPENDENT
HONORARY CHAIRMAN ^{A)}	RICCARDO GARRONE		YES	
CHAIRMAN	EDOARDO GARRONE	YES		
DEPUTY CHAIRMAN	GIOVANNI MONDINI	YES		
DEPUTY CHAIRMAN	PIETRO GIORDANO	YES		
CHIEF EXECUTIVE OFFICER	ALESSANDRO GARRONE	YES		
DIRECTOR	MASSIMO BELCREDI			YES
DIRECTOR	LINO CARDARELLI			YES
DIRECTOR ^{B)}	ALDO GAROZZO	YES		
DIRECTOR	GIUSEPPE GATTI	YES		
DIRECTOR	ANTONIO GUASTONI			YES
DIRECTOR	PAOLO FRANCESCO LANZONI			YES
DIRECTOR	GIAN PIERO MONDINI		YES	
DIRECTOR	GUIDO SEBASTIANO ZERBINO		YES	
NUMBER OF MEETINGS HELD DURING THE YEAR IN QUESTION		BOARD OF DIRECTORS 13		
NOTES				
* THE ASTERISK INDICATES WHETHER THE DIRECTOR HAS BEEN DESIGNATED VIA LISTS PRESENTED BY MINORITY SHAREHOLDERS				
** THIS COLUMN SHOWS THE NUMBER OF DIRECTORSHIPS OR STATUTORY AUDITOR APPOINTMENTS HELD BY THE PERSON CONCERNED IN OTHER COMPANIES LISTED IN ITALIAN OR FOREIGN REGULATED MARKETS, IN FINANCIAL/BANKING/INSURANCE COMPANIES, OR IN COMPANIES OF MAJOR SIZE. IN THE ANNUAL CORPORATE GOVERNANCE REPORT ANY SUCH OFFICES ARE INDICATED IN FULL DETAIL				
*** IN THIS COLUMN A "YES" INDICATES A BOARD MEMBER'S MEMBERSHIP OF A GIVEN COMMITTEE				
**** THIS COLUMN INDICATES DIRECTORS' PERCENT ATTENDANCE RESPECTIVELY OF BOD AND COMMITTEE MEETINGS				
A) APPOINTED HONORARY PRESIDENT ON 13/11/2008				
B) IN OFFICE FROM 10/03/2008				

		INTERNAL CONTROL COMMITTEE		NOMINATIONS & REMUNERATION COMMITTEE	
****	NUMBER OF OTHER OFFICES **	***	****	***	****
100%	3				
92%	1				
100%					
100%	1				
100%	4				
85%	2	YES	100%	YES	100%
77%	1				
100%					
92%	4				
100%	5	YES	100%		
100%	4	YES	89%	YES	100%
92%					
100%				YES	100%
		INTERNAL CONTROL COMMITTEE 10		NOMINATIONS & REMUNERATION COMMITTEE 6	

BOARD OF STATUTORY AUDITORS

TABLE 2

OFFICE	MEMBERS	% ATTENDANCE OF MEETINGS OF BOARD OF STATUTORY AUDITORS	NUMBER OF OTHER OFFICES**
CHAIRMAN	MARIO PACCIANI	100%	1
STANDING AUDITOR	FABRIZIO CAVALLI	100%	
STANDING AUDITOR	PAOLO FASCE	100%	1
ALTERNATE AUDITOR	UMBERTO TRENTI	=	=
ALTERNATE AUDITOR	MICHELE CIPRIANI	=	=
ALTERNATE AUDITOR SINCE 24/04/2008	LELIO FORNABAIO	=	=
NUMBER OF MEETINGS HELD DURING THE YEAR IN QUESTION: 11			
QUORUM REQUIRED FOR SUBMITTAL OF LISTS BY MINORITY SHAREHOLDERS FOR THE ELECTION OF ONE OR MORE STANDING AUDITORS (AS PER ART. 148 OF THE ITALIAN CONSOLIDATED FINANCE ACT): 2%			
NOTES			
* THE ASTERISK INDICATES WHETHER THE STATUTORY AUDITOR HAS BEEN DESIGNATED VIA LISTS PRESENTED BY MINORITY SHAREHOLDERS			
** THIS COLUMN SHOWS THE NUMBER OF DIRECTORSHIPS OR STATUTORY AUDITOR APPOINTMENTS HELD BY THE PERSON CONCERNED IN OTHER COMPANIES LISTED IN ITALIAN REGULATED MARKETS. IN THE ANNUAL CORPORATE GOVERNANCE REPORT ANY SUCH OFFICES ARE INDICATED IN FULL DETAIL			

OTHER PROVISIONS OF THE ITALIAN CORPORATE GOVERNANCE CODE

TABLE 3

	YES	NO	SUMMARY OF REASONS FOR ANY DEPARTURES FROM CODE RECOMMENDATIONS
POWER DELEGATION AND RELATED-PARTY TRANSACTION SYSTEM			
HAS THE BOD DELEGATED POWERS DEFINING THEIR	X		
A) LIMITS?	X		
B) METHOD OF EXERCISE?	X		
C) FREQUENCY OF REPORTING?	X		
HAS THE BOD RESERVED AS ITS PREROGATIVE THE REVIEW AND APPROVAL OF TRANSACTIONS PARTICULARLY IMPORTANT IN BUSINESS, CAPITAL AND FINANCIAL TERMS (INCLUDING RELATED-PARTY TRANSACTIONS)?	X		
HAS THE BOD DEFINED GUIDELINES AND CRITERIA FOR IDENTIFICATION OF "SIGNIFICANT" TRANSACTIONS?	X		
ARE THE ABOVE GUIDELINES AND CRITERIA DESCRIBED IN THE REPORT?	X		SUMMARILY
DOES THE BOD HAVE APPROPRIATE PROCEDURES FOR THE EXAMINATION AND APPROVAL OF TRANSACTIONS WITH ASSOCIATED PARTIES?	X		
ARE THE PROCEDURES FOR APPROVAL OF TRANSACTIONS WITH ASSOCIATED PARTIES DESCRIBED IN THE REPORT?	X		SUMMARILY
PROCEDURES FOR MOST RECENT APPOINTMENT OF DIRECTORS AND STATUTORY AUDITORS			
WERE CANDIDACIES FOR DIRECTORSHIP LODGED AT LEAST 10 DAYS BEFOREHAND?	X		
WERE CANDIDACIES FOR DIRECTORSHIP ACCOMPANIED BY EXHAUSTIVE INFORMATION?	X		
WERE CANDIDACIES FOR DIRECTORSHIP ACCOMPANIED BY AN INDICATION OF ELIGIBILITY FOR CLASSIFICATION AS INDEPENDENT DIRECTORS?	X		
WERE CANDIDACIES FOR THE OFFICE OF STATUTORY AUDITOR LODGED AT LEAST 10 DAYS BEFOREHAND?	X		
WERE CANDIDACIES FOR THE OFFICE OF STATUTORY AUDITOR ACCOMPANIED BY EXHAUSTIVE INFORMATION?	X		
SHAREHOLDERS' MEETINGS			
HAS THE COMPANY APPROVED A REGULATION FOR SHAREHOLDERS' MEETINGS?	X		
IS THE REGULATION ATTACHED TO THE REPORT (OR IS IT INDICATED WHERE IT CAN BE OBTAINED/DOWNLOADED)?	X		
INTERNAL CONTROL			
HAS THE COMPANY APPOINTED INTERNAL CONTROLLERS?	X		
ARE THE INTERNAL CONTROLLERS FREE OF HIERARCHICAL RELATIONSHIPS WITH THE HEADS OF OPERATING AREAS?	X		
ORGANISATIONAL UNIT RESPONSIBLE FOR INTERNAL CONTROL (AS PER ART. 9.3 OF THE CODE)		INTERNAL AUDIT	
INVESTOR RELATIONS			
HAS THE COMPANY APPOINTED AN INVESTOR RELATIONS MANAGER?	X		
ORGANISATIONAL UNIT AND CONTACT DETAILS (ADDRESS/TELEPHONE/FAX/E-MAIL) OF INVESTOR RELATIONS MANAGER			INVESTOR RELATIONS – PAOLO MERLI TEL. +39 010/2401376 – FAX +39 010/2401598 E-MAIL: P.MERLI@ERG.IT

MANAGEMENT INCENTIVE SCHEMES

The following information is provided in accordance with CONSOB recommendation 11508 of 15 February 2000.

When the company's shares were first listed on the Stock Exchange, a new Compensation Plan was introduced, designed to align the interests of the management with those of the company and its shareholders, and strengthen their relationship, also in terms of continuity over time.

More specifically, at senior top management level, the plan provided for:

- “basic” compensation partly linked to ERG's share price performance during the year;
- annual “bonuses” linked to “value creation” achieved during the year and calculated in proportion to the entity of value achieved;
- long-term incentive schemes, ascribing benefits to management in proportion to share price performance, once again linked to “value creation” achieved during the period of reference.

The Remuneration Committee (now the Nominations and Remuneration Committee) found it necessary to subject the plan adopted at the time of stock market entry to general review, in order to evaluate its adequacy as regards both the new company structure and the change in the market's sensitivity to the most frequently-used management incentive tools.

To this end, during 2004, using the services of qualified experts, the Committee completed its review of the plan. It did so defining a new short-term incentive system, which envisaged payment to executives and top management, based on a differentiated approach, of annual bonuses, calculated on the basis both of company performance and of achievement of individual goals.

The new short-term incentive system was approved by ERG S.p.A.'s Board of Directors at the meeting held on 12 November 2004 and was applied as from 2005.

In 2005, the Remuneration Committee (now the Nominations and Remuneration Committee), once again drawing on the services of qualified experts, developed the new long-term incentive system, which was approved by ERG S.p.A.'s Board of Directors at its meeting on 5 August 2005.

The new short and long-term incentive schemes are illustrated below.

The short-term incentive plan, approved by ERG S.p.A.'s Board of Directors on 12 November 2004, is based on a number of fundamental objectives that can be summarised as being to:

- introduce a single incentive system comprising both company and individual performance;
- define a market-related benchmark bonus for each scheme participant;
- measure individual performance according to a consistent system of goals and indicators;
- evaluate company performance in terms of value created/destroyed;
- define minimum and maximum bonus thresholds.

The scheme's participants are the Managing Directors of ERG S.p.A. and the subholding companies and all executives and a select number of managers of Group companies.

An individual benchmark bonus is defined for each participant in the scheme. This is the gross amount that the person will receive if both individual goals and company objectives are fully achieved.

For each business area (Corporate, Coastal Refining, Integrated Downstream, Thermo-electric Power Generation and Renewable Energy Sources) a distinct bonus pool is created. The pool is the sum of the individual bonuses of the executives belonging to each area, so as to use performance indicators specific to each individual area.

As regards company objectives, reference is made to each individual area's business

performance based on the following parameters:

- Corporate area: 100% Group Economic Profit (Value Creation);
- Coastal Refining division: 70% divisional EBITDA and 30% Group Economic Profit;
- Integrated Downstream division: 70% divisional EBITDA and 30% Group Economic Profit;
- Thermoelectric Power Generation division: 70% divisional EBITDA and 30% Group Economic Profit;
- Renewable Energy Sources division: 70% divisional EBITDA and 30% Group Economic Profit.

In addition, a distinction is made between top management and executives, so as to assign different risk profiles and enhance the level of sensitivity to the results achieved by the system's participants vis-à-vis top management.

The other characteristic features of the scheme are:

- setting of a cap for bonuses actually paid, corresponding to 200% of the individual benchmark bonus;
- setting of a floor for bonuses actually paid, corresponding to 25% of the individual benchmark bonus;
- allocation of executives to five merit ranges.

The Nominations and Remuneration Committee takes part in the process of implementing the scheme via definition of the annual Group Economic Profit target, checking operating companies' EBITDA targets, and determining the Economic Profit actually achieved.

The key objectives of the long-term incentive scheme, approved, as stated earlier, by the Board of Directors on 5 August 2005, were to:

- encourage decisions that assure sustainable, enduring Value Creation;
- avoid risks of "under-investment";
- increase retention of key people.

The long-term incentive scheme granted registered and non-transferable subscription rights for company shares to be issued in accordance with Art. 2441, paragraph 8, of the Italian Civil Code, or rights to purchase

ERG shares held as treasury shares, to be assigned to certain employees at a price equivalent to the cost of exercising subscription rights for newly issued shares.

The scheme had a 3-year duration, and envisaged the assignment of rights, each year, to be exercised at par, i.e. a price corresponding to the arithmetical average of ERG shares' official prices in the thirty days preceding each assignment of rights.

ERG S.p.A.'s Board of Directors had set at 2.1 million the maximum number of shares, either newly issued or treasury shares, to service the scheme for the entire three-year duration.

If all rights are exercised, and only newly issued shares are attributed against such exercise, the maximum dilution of the share capital of ERG S.p.A. will be 1.4%.

The first assignment, on 3 October 2005, consisted of 648,590 rights assigned at an exercise price of Euro 21.08 to the Chairman and CEO of ERG S.p.A., to Group companies' Managing Directors, and to some selected executives, for a total of 15 people.

The second assignment, on 2 October 2006, consisted of 746,119 rights assigned at an exercise price of Euro 15.61 to the Chairman, two Deputy Chairmen and CEO of ERG S.p.A., to Group companies' Managing Directors, and to some selected executives, for a total of 16 people.

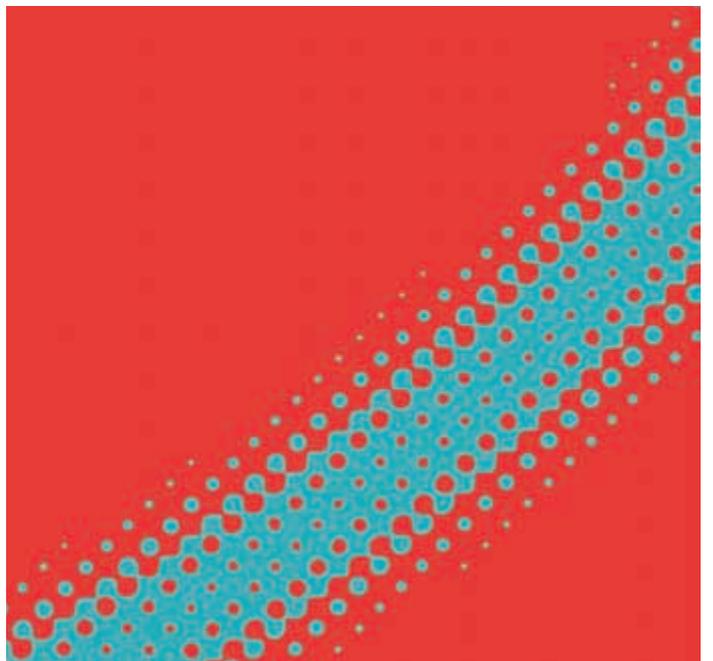
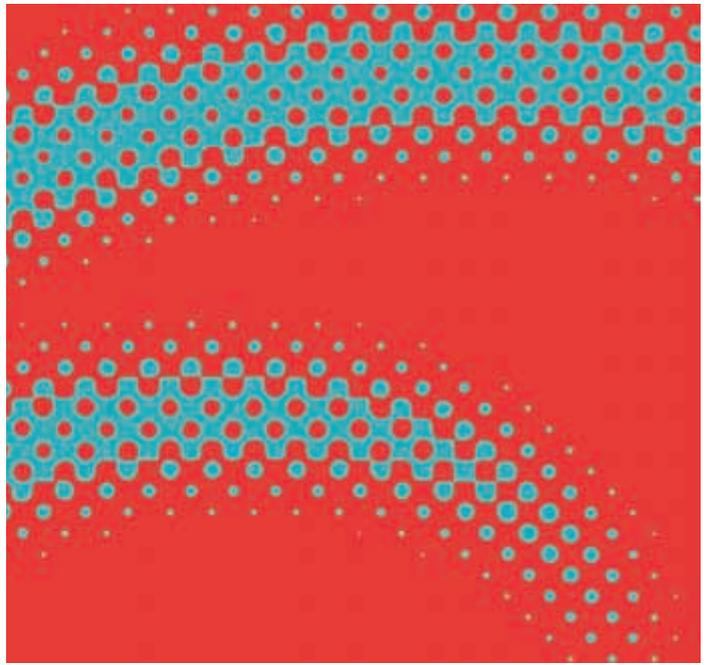
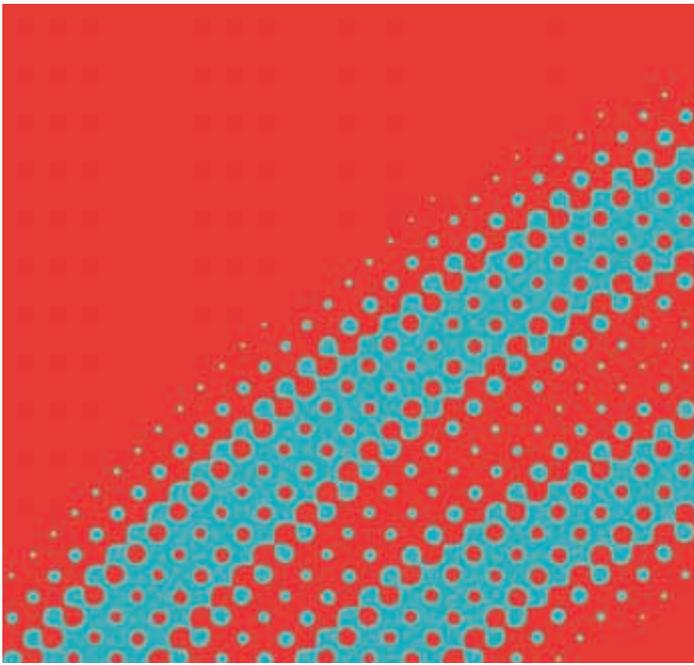
The third assignment, on 1 October 2007, which reflects the waivers of rights submitted in the meantime, consisted of 745,335 rights assigned at an exercise price of Euro 16.06 to the Chairman, two Deputy Chairmen and CEO of ERG S.p.A., to Group companies' Managing Directors, and to some selected executives, for a total of 16 people.

The number of rights to be assigned was determined at the time of assignment by the Board of Directors, on proposal of the Remuneration Committee (now the Nominations and Remuneration Committee), with reference to the Chairman, Deputy Chairmen and the CEO of ERG S.p.A., and by the CEO with respect to the other beneficiaries.

The scheme's regulation contains specific provisions regarding the effects of termination of employment and of dependent self-employment occurring while the options can still be exercised. In this respect it makes a distinction between termination due to (a) voluntary resignation, dismissal for just cause and voluntary redundancy in the case of employees and resignation or revocation in the case of the Chairman and the Managing Directors – in which case the options become totally null and void – (b) termination due to death, permanent disability, compulsory redundancy, expiry without renewal of a dependent self-employment contract or expiry without renewal of appointment in the case of the Chairman and the Managing Directors – in which case the options remain valid and are transferred to heirs in the eventuality of a participant's death.

The scheme also establishes that options have a 3-year vesting period, i.e. they cannot be exercised before three years have elapsed since their assignment, and must be exercised within one year from the date when they become exercisable, or will otherwise lapse. Options cannot in any case be exercised during the period from 10 November to 15 May of each year.

Considering the fact that the three-year long-term incentive programme illustrated hereinabove had expired (although the options granted under it still remained exercisable), the Nominations and Remuneration Committee, with the assistance of an outside consultant, undertook study of a new Long Term Incentive Plan which will be defined and adopted in 2009.



BOARD OF DIRECTORS' PROPOSAL

Shareholders,

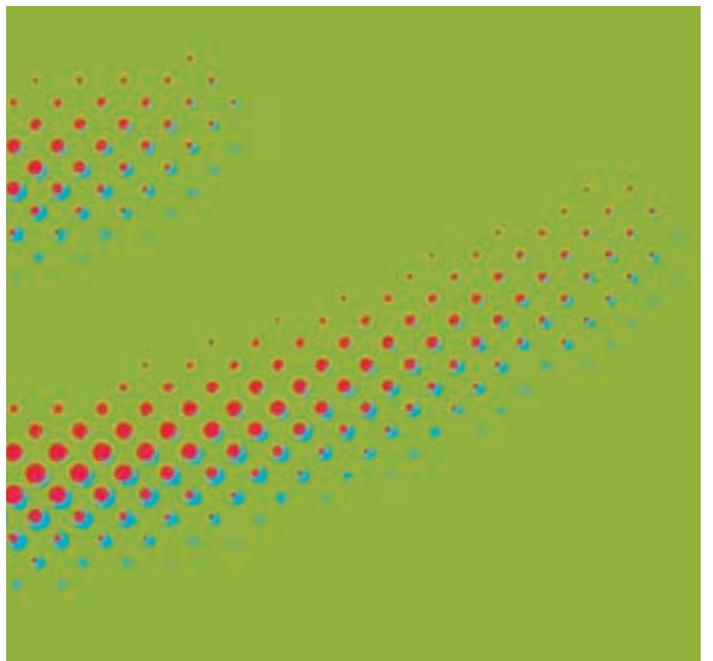
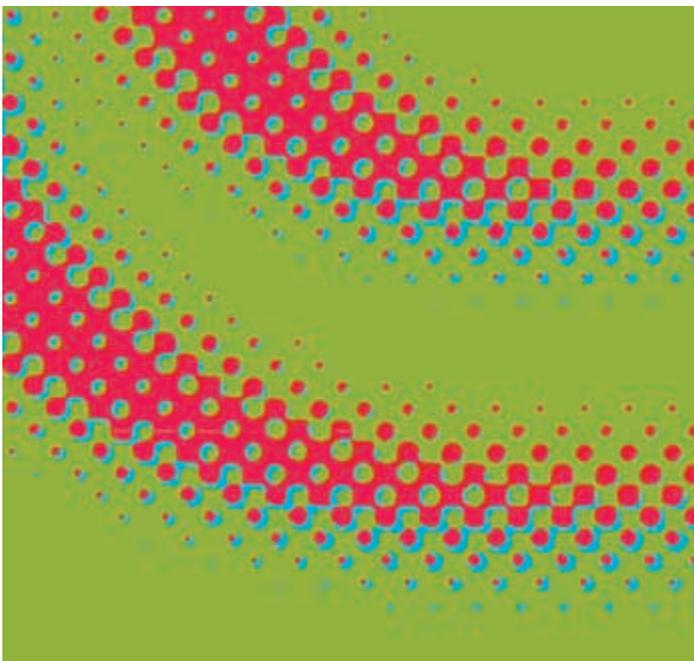
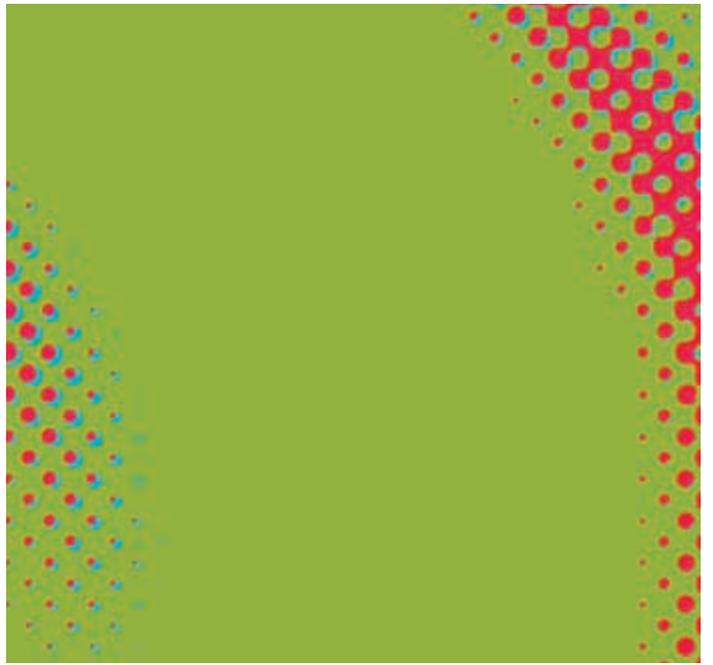
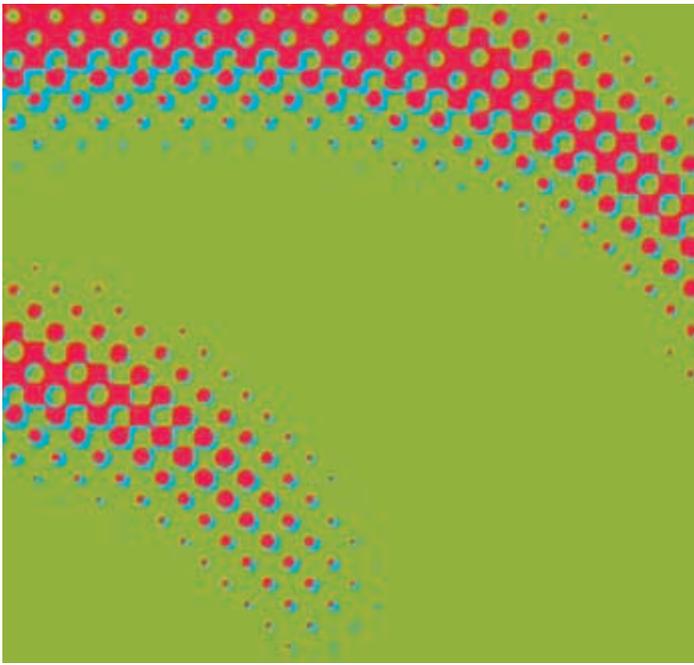
We close this report by inviting you to:

- approve the financial statements of your company for the period ended 31 December 2008 which close with a net profit of Euro 266,581,407.03;
- approve the payment to shareholders of a dividend of Euro 0.90 per share, including a non-recurring component of Euro 0.50 per share following the positive result of the joint venture with LUKOIL. The dividend will be payable for each share with dividend rights outstanding at the coupon detachment date, excluding the company's own shares, in accordance with Article 2357-ter of the Italian Civil Code, via use of the year's earnings;
- allocate the remaining profit for the year to be carried forward as retained earnings;
- approve the payment of the dividend as from 21 May 2009, subject to detachment of coupon as from 18 May 2009.

Genoa, 10 March 2009

On behalf of the Board of Directors
The Chairman
Edoardo Garrone





GLOSSARY

AEROGENERATOR

System capable of converting the kinetic energy contained in wind into mechanical energy, which is in turn used to generate electricity.

AM

Adjustment Market – enables operators to introduce changes to the programmes defined in the Day-Ahead Market (DAM) by way of additional purchase or sale offers.

API

Standard used in the oil sector to measure density, expressed by way of a formula proposed by the American Petroleum Institute.

CIP 6 TARIFF

Tariff paid by the GSE (*Gestore dei Servizi Elettrici* – national grid) to producers of electricity who use renewable and assimilated sources under the terms of the CIP 6/92 provision.

COMBINED CYCLE

A system to maximise the efficiency of power plants by combining gas and steam turbines. The steam is obtained as a by-product of the process to generate electricity using gas turbines.

CO₂

Carbon dioxide. Gas formed by all processes relating to combustion, breathing, decomposition of organic material, due to complete oxidation of the carbon. Carbon dioxide emissions represent approximately 80% of greenhouse gas emissions produced by the European Union.

CRACK SPREAD

The difference between the price of raw materials and the price of the main products expressed in USD/barrel.

C-STORE

Convenience Store – a shop at a service station, offering products and services in a “quick” and convenient manner.

DAM

Day-Ahead Market – trading session on the IPEX (Italian Power Exchange) during which blocks of hours of electricity for the following day are traded.

DESULPHURISATION

Treatment of oil fractions in order to reduce sulphur content in end products.

DSM

Dispatching Services Market – this is the instrument used by Terna S.p.A. to procure the resources required to manage and monitor the system (solution of inter-zone congestion, creation of power reserve, real-time balancing).

EXCISE DUTIES

Indirect taxation on the production or consumption of certain products, including mineral oils or alcohol-based products, known as excise duty or excise tax and corresponding consumption surtax or surtax at the borders. Taxation is due at the time when a petroleum product is produced or imported and is exacted when the product is put on the market for consumption within the country.

“EXPANDER” UNIT

A unit which exploits the difference in the pressure of syngas used by the IGCC plant and allows additional electricity to be generated.

FCC – FLUID CATALYTIC CRACKING - LINE

A catalytic cracking plant with a fluid bed.

FINANCIAL LEVERAGE

$$\frac{\text{Net financial indebtedness}}{\text{Net invested capital}}$$

GAS TURBINE PLANT

Power plant producing electricity using gas turbines.

GREEN CERTIFICATES

Annual certificates assigned for power generated from renewable sources using facilities that have come into operation after 1 April 1999. Each certificate is issued by *Gestore dei Servizi Elettrici S.p.A.* (GSE) in relation to the year's output from renewable sources (estimated figures based on expected output or final figures) and can be used to comply with the renewable energy input obligation as regards the year to which it refers.

HSE (HEALTH, SAFETY, ENVIRONMENT)

Internationally recognised English acronym, used to identify Health, Safety and Environment.

HOT OIL

An oil heating system that allows the transfer of heat to both the IGCC and Solvent Deasphalting plants.

HS FUEL OIL

High Sulphur content fuel.

IAS/IFRS

International Accounting Standards – International Financial Reporting Standards.

IGCC FEEDSTOCK

Heavy residues (asphalt) which are by-products from refining activities and are used as the basis for the generation of electricity at the IGCC plant.

IGCC PLANT

Integrated Gasification Combined Cycle plant, integrated facility for the gasification of refining residues and combined generation of electricity and heat.

IPEX

Italian Power Exchange, the Italian electricity market.

KILOWATT-HOUR (KWH)

A standard of measurement of electrical power equal to the units of 1,000 Watt produced or consumed in one hour. It is also expressed as: Megawatt-hour (MWh) equal to a thousand kWh, Gigawatt-hour (GWh) equal to a million kWh, Terawatt-hour (TWh), equal to a billion kWh.

LIGHT - HEAVY CRUDE OILS

An approximate distinction made to classify the quality of crude oils based on their density in API degrees. This classification also gives some indication of the sulphur content and the yield. Light crude oils have a lower sulphur content and a higher yield in light/medium distillates, and the opposite applies for heavy crude oils.

LPG (LIQUIFIED PETROLEUM GAS)

Mixture of hydrocarbons, primarily butane and propane, which has a gaseous form at ambient temperature and pressure and changes to liquid state if subjected to different conditions of temperature and pressure.

MARGINS (TOPPING REFORMING)

Margins (value of products minus the cost of raw material used) obtained from the processing of crude oil at the primary distribution (Topping) plant and the subsequent processing of virgin naphtha, the lightest fraction coming from the topping process, at the octane upgrading plant (catalytic reforming plant) from which one of the main components of gasoline is obtained.

MW

Million Watts – a unit of measurement of a plant's power generation capacity.

NON-RECOURSE PROJECT FINANCING

Financing for a project which does not require guarantees from the shareholders of the company receiving the loan.

NO_x

Oxides of nitrogen (especially NO and NO₂). Gases mainly produced by the photochemical oxidation of nitrogen in the atmosphere and as a secondary reaction in the high-temperature combustion of fossil fuels. Together with sulphur dioxide (SO₂), they are the cause of acid rain.

OCTANISATION

A refining process which, using catalysers, transforms paraffin and naphthalene hydrocarbons of Virgin Naphtha into components with a high octane count to produce gasoline.

OHSAS 18001

Occupational Health and Safety Assessment Series – internationally recognised standard that sets the requirements for occupational Health and Safety Management Systems. These requirements, applied at company level, are assessed by an external body, qualified to issue the relative Certificate of Compliance (Certification).

POST PAYMENT

Petrol pumps where the customer serves himself and then pays at the cash desk.

REFINING AND ATMOSPHERIC DISTILLATION

Refining: the combination of processes that crude oil goes through to create the desired range of products.

Atmospheric distillation: the first stage of the refining process to separate the products at atmospheric pressure from the crude oil, through heat and the condensation of part of the product (semi-finished) by cooling.

REVAMPING

Refinery interventions to improve or increase the processing capacity.

ROACE

$$\text{Return on average capital employed} = \frac{(\text{EBIT} - \text{notional taxes}) + \text{expenses and income from investments}}{\text{average net invested capital}}$$

ROE

$$\text{Return on equity} = \frac{\text{net profit}}{\text{average shareholders' equity}}$$

SAP SYSTEM

An integrated IT management system, developed by the German company SAP, which covers all company processes.

SOLVENT DEASPHALTING UNIT

A plant which produces asphalt using a solvent extraction process.

SYNTHESIS GAS

Also called Syngas, it is a mix of hydrogen and carbon monoxide produced from the gasification of the asphalt feedstock of the IGCC plant. It powers the turbines to produce electricity.

TECHNICAL BALANCED DISTILLATION

Distillation capacity supported by secondary processing plants able to produce gasoline and diesel according to specific criteria.

TOE (TONNES OF OIL EQUIVALENT)

A conventional unit of measurement, equal to 10 million kcal, used to express the quantity of any energy source, comparing its calorific power to that of crude oil.

TOPPING PLANT

Crude oil refining plant used for atmospheric distillation.

UNIONE PETROLIFERA

The Italian association of oil companies.

VSB VACUUM

Visbreaker Vacuum – a vacuum distillation plant for more thorough drying-out of the Visbreaking plant residues at the ISAB refinery, obtaining products suitable for use as feedstock for other plants.

WIND ENERGY

Energy generated from wind.

ERG S.P.A.

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