



> Annual Report
and Financial Statements
as at December 31, 2005

Enertad SpA

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Share capital Euro 94,865,881.00 fully paid-in
Reg. N. at the Tribunal of Milan: 1078902
Fiscal Code 00276450632
VAT N. 09077420157

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> 2. Corporate officers

Board of Directors

Russo Salvatore	<i>Chairman & Managing Director</i>
Panella Paolo	<i>Vice Chairman & Managing Director</i>
Bonamigo Mario	<i>Director</i>
Cimoli Giancarlo	<i>Director</i>
Colleoni Gastone	<i>Director</i>
Loli Giorgio	<i>Director</i>
Monti Ernesto	<i>Director</i>

Board of Statutory Auditors

de Ruvo Marco	<i>Chairman of the Board of Statutory Auditors</i>
della Fontana Alessandro	<i>Standing Auditor</i>
Tavormina Carlo	<i>Standing Auditor</i>
de' Mozzi Myrta	<i>Alternate auditor</i>
Messina Gioacchino	<i>Alternate auditor</i>

Secretary to the Board of Directors

Lodola Danilo

Independent Auditing Firm

Deloitte & Touche SpA

> 3. Director's report on operations for
the year ended december 31, 2005

3. Director's report on operations for the year 2005

Dear Shareholders,

the present report, prepared in conformity with the provisions of the Civil Code and Consob recommendations, includes the following:

- > Board of Directors' Report on Operations;
- > Financial statements (parent company and consolidated):
 - > Balance sheet
 - > Income statement
 - > Notes to the parent company and consolidated financial statements
- > Supplementary schedules.

The Directors' Report on operations was prepared in accordance with article 2428 of the Civil Code and Consob regulations. The disclosures required by Consob recommendations, the nature of the delegated powers conferred to directors and the composition of the Board of Directors with indication of the office held are also provided.

In the preparation of the financial statements for the year ended December 31, 2005, the balance sheet and income statement formats were utilised as per articles 2423ter, 2424, 2424bis, 2425 and 2425bis of the Civil Code and as per article 2427 of the Civil Code in relation to the notes to the financial statements.

The consolidated financial statements at December 31, 2005 were prepared in accordance with International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB) and adopted by the European Commission, as per article 6 of Regulation No. 1606/2002 of the European Parliament and Council of July 19, 2002.

The consolidation scope of the Enertad Group is defined in accordance with the regulations contained in Legislative Decree No. 127/91.

3.1 Summary of the results

The consolidated financial statements at December 31, 2005 were prepared in accordance with international accounting standards (IAS/IFRS). The financial statements at December 31, 2004 were appropriately adjusted for comparative purposes.

During 2005, the strategic and operational activities continued towards the implementation of the guidelines set out in the industrial project 2004-2008. This project has the objective of placing the Enertad Group as a leading operator at national level in the renewable sources of energy (in particular in the "Wind" and "Waste-to-energy" businesses, where the highest growth is expected) and in environmental services.

Consolidated Ebit of the Enertad Group at December 31, 2005 was Euro 8.4 million, an improvement of Euro 9.8 million compared to the Ebit in 2004 (Euro -1.4 million).

From an operational viewpoint, this improvement is due to the growth in the "Wind" business following the entry into production of the new wind park at Troia San Vincenzo and the recovery of efficiency and profitability in the "Waste-to-energy" business, which more than compensated the decrease in profitability in the "Steel" business and in the "Waste management" business. Non-operating charges of Euro 3.8 million impacted on this result. They related to write-downs and extraordinary provisions (Euro 11 million in 2004).

The **consolidated net result** of the Enertad Group at December 31, 2005 was Euro -11.9 million, an increase of Euro 8.2 million compared to the loss of Euro 20.1 million in 2004.

The **net financial debt** of the Enertad Group at December 31, 2005 was Euro 235.5 million, an increase of Euro 70.4 million compared to December 31, 2004. This was principally as a result of investments in the "Wind" business.

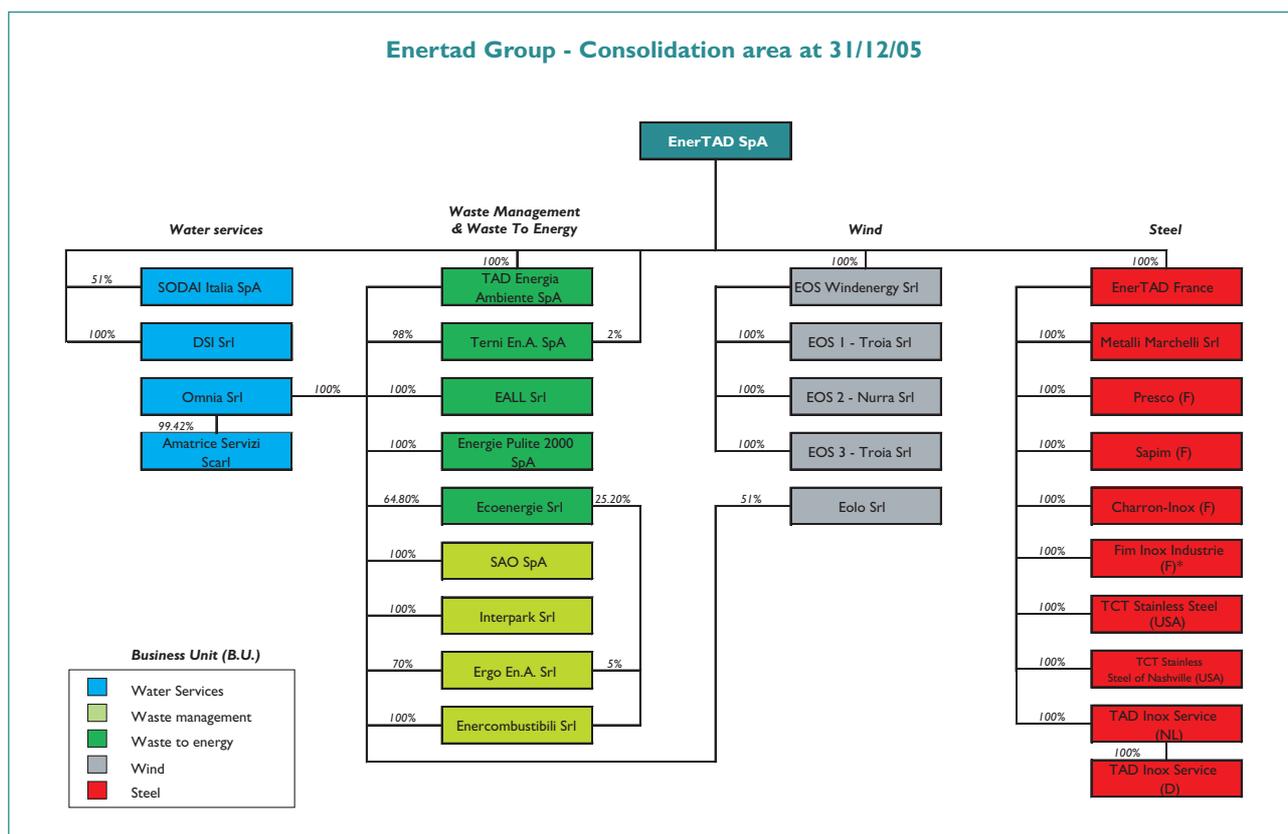
	(€/000)		
	2005	2004	Changes
Current financial assets	45,348	81,445	(36,097)
Current financial liabilities	(170,423)	(90,107)	(80,316)
Current financial position	(125,075)	(8,662)	(116,413)
Non-current financial assets	11,824	9,875	1,949
Non-current financial liabilities	(122,224)	(166,218)	43,994
Non-current financial position	(110,400)	(156,343)	45,943
Net debt	(235,475)	(165,005)	(70,470)
<i>of which project financing non recourse</i>	(103,820)	(62,247)	(41,573)
<i>% project financing</i>	44%	38%	

Note: the table, which is IAS compliant, has a different classification in order for a better understanding and comparison with the previous year

During 2005, the **consolidation area** changed compared to 2004. In particular, the company Eos3-Troia Srl was included in the consolidation, which is owner of the wind park at Troia San Cireo – Foggia. Secondly, the company Fim Inox Industrie was included, acquired by the subsidiary Enertad France SA on August 31 to complete the distribution structure in France.

The company Enersistema Srl, which was incorporated into Enercombustibili Srl, is no longer included in the consolidation scope. This is a part of the cost reduction plan and simplification of the organisational structure which commenced in 2004.

Enertad Group - Consolidation area at 31/12/05



3.2 Results of the Enertad Group

3.2.1 Income Statement

For a better understanding of the Group's performance the Ebitda line has also been included in the table below, which is not contained in the income statement format required by international accounting standards (IAS/IFRS).

	2005	2004	Changes
			(€/000)
Net revenues	292,964	282,757	10,207
Ebitda	29,348	24,745	4,603
% on revenues	10.0%	8.8%	45.1%
Depreciation, amortisation, provisions & write-downs	(20,991)	(26,185)	5,194
Ebit	8,357	(1,440)	9,797
Financial income and charges	(13,433)	(11,984)	(1,449)
Property income and charges			
Non-operating charges and equity investments	(994)	(473)	(521)
Profit/(loss) before taxes	(6,070)	(13,897)	7,827
Income taxes	(5,837)	(6,532)	695
Net profit/(loss) for the year	(11,907)	(20,429)	8,522
Minority interest	47	312	(265)
Group net profit/(loss) for the year	(11,860)	(20,117)	8,257

1. Revenues from sales and services for the year 2005 amount to Euro 293 million, an increase of Euro 10.2 million (+3.6%) compared to 2004. This increase is principally due to the "Wind" (+467.3%) and "Waste-to-energy" (+19.2%) businesses, which compensated the lower revenues in the "Waste management" business (-26.1%).

	(€/000)		
	2005	2004	Changes
Wind	11,500	2,027	9,473
Waste-to-energy	34,065	28,572	5,493
Waste management	14,457	19,557	(5,100)
Water services	8,416	8,113	303
Other income	222	709	(487)
Sub-total energy and environment sector	68,660	58,978	9,682
Steel	224,304	223,779	525
Total	292,964	282,757	10,207

- > **“Wind”**. The increase of Euro 9.5 million in revenues in the “Wind” business in 2005 compared to that of 2004 - increasing from Euro 2 million to Euro 11.5 million - was as a result of the entry into service of the Troia San Vincenzo wind park (installed power of 38 MW from 19 wind-turbines of 2MW's each). However, it should be noted these revenues were produced from an increasing number of wind-turbines in the first quarter and that the park reached full capacity in April. In addition, the technical capacity of the plants was marginally reduced in May and June in order to undertake contractual test runs. Finally, of the 19 wind-turbines installed, only 18 were active during the nine months due to technical problems relating to one wind-turbine.

Revenues in the wind business were generated by the Viticuso park, belonging to the company Eolo Srl (installed power in 2004 up to 9 MW), whose production was lower than capacity due to operating problems on the wind-turbines (now resolved) and to the limitation to 3.5 MW of the transmission line (the completion of the new line is expected in 2006). The contribution of the new wind-park at Troia San Cireo was marginal (installed power of 30 MW distributed from 15 wind-turbines of 2 MW each) due to the gradual entry into production of 7 wind-turbines in December:

	Troia San Vincenzo	Eolo (Viticuso)	Troia San Cireo
Production (MWh)			
2005	63,241	5,875	605
2004	1,206	4,630	-
Changes	62,035	1,245	605

The revenues relating to the green certificates were made based on the GRTN reference price of Euro 108.92 per MWh, which was communicated by the operator on November 4, 2005 (in 2004, the green certificate was valued at Euro 89.6 per MWh).

- > **“Waste-to-energy”**. The revenues in the “Waste-to-energy” business in 2005 amounted to Euro 34.1 million, an increase of Euro 5.5 million (+19.2%) compared to 2004. This positive performance is due firstly to the increase in the CIP6 tariffs, from Euro 184.20 per MWh in 2004 to Euro 200.70 per MWh in 2005. Secondly, to more continual and efficient waste-to-energy plant operations. In particular, in EALL Srl the energy production sold increased by 21.3% compared to 2004 in spite of a programmed stoppage in July of 18 days for the installation of a new concept overheating machine.

In relation to the waste-to-energy plant at Terni En.A., the loss of production in the first half of the year compared to the same period in 2004 due to operating problems (resolved) and to the insufficient availability of adequate quality pulper (waste paper) was more than compensated by the level of activity in the second half of the year at full capacity levels.

	EALL plant	TERNI EN.A. plant	Total plants
Energy Sold (MWh)			
2005	80,037	70,564	150,601
2004	65,970	71,888	137,858
Changes	14,067	(1,324)	12,743
Change %	21.3%	(1.8%)	9.2%
Revenues from electricity sold (€/000)			
2005	16,062	14,360	30,422
2004	12,150	13,242	25,392
Changes	3,912	1,118	5,030
Change %	32.2%	8.4%	19.8%

- > **“Waste management”**. The revenues in the “Waste management” business, which decreased from Euro 19.6 million in 2004 to Euro 14.5 million in 2005 (-26.1%), were impacted by the consistent decrease in the quantities of waste conferred to the “Le Crete” landfill of Orvieto, belonging to the company SAO SpA, which decreased from 143,506 tonnes in 2004 to 90,572 tonnes in 2005. This was principally caused by the lower volume of waste transferred from the Napoli 3 area, characterised by higher unitary revenues in the first four months of 2004 and which, however, were of an extraordinary nature.

In addition, SAO was unable to benefit from the transfer of solid urban waste to the landfill at Orvieto by the 9 Municipalities of the ATO 2 (24,000 tonnes on an annual basis of 58 €/t) which, in accordance with the agreements signed with the Municipalities should have commenced in July 2005. In fact, following the implementation of the provisions of Decree 115 of June 30, 2005, this accord is now expected to be effective as of March 2006.

	2005	2004	Changes
Waste conferred to Le Crete Landfill (tonnes)			
RSU	36,385	45,678	(9,293)
Special	47,710	93,723	(46,013)
Waste	3,861	3,389	472
FORSU	2,616	716	1,900
TOTAL	90,572	143,506	(52,934)
Net revenues from conferment (Euro/000)	3,831	9,349	(5,518)

The above decrease in revenues was only in part compensated by the improvement in revenues from the plant at Paliano (FR) for the production of CDR, belonging to the company Enercombustibili Srl, due to the increase in the quantity of waste (dry urban waste) and the higher percentage of special waste.

	2005	2004	Changes
Waste conferred to Paliano (tonnes)	99,802	65,729	34,073
% special waste	41.0%	35.9%	
% dry waste	59.0%	64.1%	
CDR Produced at Paliano (tonn)	84,353	53,439	30,914
Revenues from waste conferred (€/000)	4,876	2,345	2,531

- > **“Water services”**. The revenues from “Water services” amounted to Euro 8.4 million, an increase of Euro 0.3 million compared to 2004. The net increase is due to the company Sodai Italia SpA, which entered the consolidation area in April 2004 and increased its revenues to Euro 4 million in 2005 (Euro 2.7 million in 2004), and DSI which closed 2005 with revenues of Euro 0.4 million, with an increase of a similar amount as revenues in 2004 were from transactions with other Group companies. These increases have largely been off-set by the performance of Omnia, which saw a decrease in revenues of Euro 1.4 million (-29.2%) - decreasing from Euro 4.8 million in 2004 to Euro 3.4 million in 2005.
- > **“Steel”**. The revenues from the “Steel” business amounted to Euro 224.3 million, in line with 2004 (Euro 223.8 million). The performance of the business was characterised on the one hand by an increase in prices, and on the other by a decrease in volumes following a fall in international demand. During 2005, the “Steel” business sold approximately 77,000 tonnes compared to 81,000 tonnes in 2004, a decrease of 4.9%.

	2005	2004	Changes
Italy	13,705	15,703	(1,998)
France	97,097	104,121	(7,024)
Holland / Germany	56,583	48,444	8,139
United States	36,165	34,299	1,866
Other countries	20,754	21,212	(458)
TOTAL	224,304	223,779	525

2. The consolidated gross operating margin (EBITDA) for the year 2005 was Euro 29.3 million, an increase of Euro 4.6 million (+18.6%) compared to 2004. The significant increase in the "Wind" and "Waste-to-energy" businesses partly compensated the decrease in margins in the "Steel and "Waste management" businesses:

	2005	2004	Cge.	Cge. %
Wind	9,765	682	9,083	1331.8%
Waste-to-energy	12,946	5,720	7,226	126.3%
Waste management	(2,678)	1,784	(4,462)	(250.1%)
Water services	(1,183)	(2,015)	832	(41.3%)
Holding *	(4,394)	(4,164)	(230)	5.5%
Sub-total energy and environment sector	14,456	2,007	12,449	620.3%
Steel	14,892	22,738	(7,846)	(34.5%)
Total	29,348	24,745	4,603	18.6%

(*) Includes the revenues and costs of Enertad SpA and of the sub-holding TAD Energia Ambiente SpA which provides technical and admin. services to the "waste management" and "waste-to-energy" businesses and some companies in the "Water services" business. The costs of sub-holdings Enertad France S.A. ("steel" business), Eos Windenergy Srl ("wind" business) are included in the results of their businesses. Enertad France S.A. ("steel" business), Eos Windenergy Srl ("wind" business) are included in the results of their respective businesses.

- > **"Wind"**. The increase in EBITDA of Euro 9.1 million compared to 2004 is principally due to the entry into production of the Troia San Vincenzo wind park in April 2005. The parks Eolo (Viticuso) and Troia San Cireo contributed marginally to this increase.
- > **"Waste to energy"**. The EBITDA in the "Waste-to-energy" business amounted to approx. Euro 12.9 million, an increase of Euro 7.2 million compared to 2004.

The EBITDA of the waste-to-energy plant of EALL Srl was in line with budget, thanks to a satisfactory technical performance consequent of the technical improvements made at the end of 2004 and a higher level of CIP6 tariffs, in spite of the long programmed stoppage with the installation of a new overheating machine, while the EBITDA of the waste-to-energy plant at Terni En.A. was negatively impacted in the first half of the year by the problems already reported under revenues.

The waste-to-energy plant business was also negatively impacted by non-recurring land reclamation costs (Euro 1.2 million), incurred by the company Energie Pulite 2000 (a project company created for a waste-to-energy plant at Venezia Giulia – the project was abandoned due to authorisation problems).

	2005	2004	Changes
EALL plant	8,161	4,216	3,945
Terni EN.A. plant	6,096	1,767	4,329
Other projects	(1,311)	(263)	(1,048)

- > **"Waste management"**. The EBITDA in the "Waste management" business amounted to Euro -2.7 million, a decrease of Euro 4.5 million compared to 2004. The principal cause was the performance of the company SAO SpA (EBITDA of Euro -0.3 million in 2005 compared to Euro +3.7 million in 2004) for the reasons reported under revenues. In addition, Enercombustibili Srl recorded an EBITDA of Euro -2.4 million, in line with 2004. It was impacted by a long-term contract agreed in previous years and still in force relating to the conferment of dry waste at a tariff that does not remunerate all costs. In the first half of the year, the EBITDA of Enercombustibili was Euro -1.6 million, while in the second half of the year (Euro -0.8 million), the following structural improvements were made: (i) increase in the percentage of special waste for CDR production (from an average percentage on volumes of 39% in the first-half year to 43% in the second-half year) which also resulted in savings in the treatment of the waste; (ii) special waste treatment at higher prices (from 76 €/t in the first-half year to 98 €/t in the second-half year, thanks to the treatment of plastic waste from Corepla).
- > **"Water services"**. The EBITDA in the "Water services" business in 2005 was Euro -1.2 million, a recovery compared to the 2004 figure of Euro -2 million. The improvement is attributable to the company Sodai Italia SpA, which increased EBITDA from Euro 0.3 million in 2004 to Euro 0.5 million in 2005. The positive result of Sodai was in contrast to the negative EBITDA performance in the other companies of the business unit, although with an improvement of Euro 0.6 million compared to 2004, which included extraordinary charges, now reclassified under operating costs.
- > **"Steel"**. The EBITDA in the "Steel" business, equal to Euro 14.9 million, decreased by Euro 7.8 million compared to 2004 due to the previously mentioned reduction in the volumes sold and to lower margins, in line with the sector.
- > **"Holding"**. The negative EBITDA in 2005 of Euro 4.4 million is substantially in line with that of 2004 (Euro -4.2 million). The deterioration of Euro 0.2 million is due to charges relating to personnel leaving incentives.

3. Personnel. The personnel numbers increased by a total of 17, from 807 at December 31, 2004 to 824 at December 31, 2005; this change is due to the rationalisation actions that commenced at the end of 2004 in all of the energy and environment activities (with a total reduction of 28), while in the "Steel" business there was an increase of 45 following the acquisition of the company Fim Inox sas.

	(Units)		
	at 31/12/05	at 31/12/04	Changes
Wind	4	2	2
WTE & Waste management	201	222	(21)
Water services	96	103	(7)
Holding	28	30	(2)
Sub-total energy and environment sector	329	357	(28)
Steel	495	450	45
Total	824	807	17

4. Amortisation and depreciation

Amortisation and depreciation amounted to Euro 17.2 million, an increase of Euro 2 million compared to 2004. The increase is almost exclusively related to the depreciation of tangible fixed assets.

In relation to the amortisation/depreciation criteria adopted reference should be made to the notes to the accounts.

	(€/000)		
	2005	2004	Changes
Depreciation tangible assets			
Wind	2,391	168	2,223
Waste-to-energy	8,058	8,249	(191)
Waste management	2,823	3,213	(390)
Water services	543	536	7
Holding	472	34	438
Sub-tot. energy and environ. sector	14,287	12,200	2,087
Steel	2,672	2,720	(48)
Total	16,959	14,920	2,039
Amortisation intangible assets			
Wind	4	1	3
Waste-to-energy	26	14	12
Waste management	8	14	(6)
Water services	8	11	(3)
Holding	107	90	17
Sub-tot. energy and environ. sector	153	130	23
Steel	63	123	(60)
Total	216	253	(37)
Total depreciation and amortisation	17,175	15,173	2,002

For the depreciation of fixed assets, the principal amount relates to the "Wind" business, which during the year began the depreciation of the 19 wind-turbines in the Troia San Vincenzo wind park, with a resultant increase in depreciation of Euro 2.2 million – from Euro 0.2 million in 2004 to Euro 2.4 million in 2005.

5. Provisions & write-downs. During 2005, the Group incurred write-downs and provisions of Euro 3.8 million compared to Euro 11 million in 2004 (-65%).

	(€/000)		
	2005	2004	Changes
Wind	75	-	75
Waste-to-energy	387	2,189	(1,802)
Waste management	430	3,123	(2,693)
Water services	45	5,735	(5,690)
Holding	2,903	2,903	0
Sub-total energy and environment sector	3,840	13,950	(10,110)
Steel	(24)	(36)	12
Total	3,816	13,914	(10,098)

- > **“Waste-to-energy”**: a provision was made of Euro 0.2 million for an arbitral procedure taken by a company.
- > **“Waste management”**: a provision of Euro 0.3 million was made by SAO SpA against environmental claims by the municipality of Orvieto relating to previous years.
- > **“Holding”**: (i) Enertad S.p.A. incurred costs of Euro 0.3 million, which the Milan Court awarded to a company for an injunction.
 (ii) In view of the impairment test made by the company Sodai Italia SpA, which confirms the carrying value in Enertad S.p.A., it was considered appropriate, based on the expected delays in some of the authorisation processes relating to the extension of the platforms, to consider the minimum value indicated by the consultant. Therefore, a write-down of Euro 1 million was made on the goodwill relating to this investment.
 (iii) The final value of the binding offer for the sale of 100% of the investment in Enertad France SA will probably result in a loss. Therefore, on a prudent basis, a write-down of Euro 1.2 million was made on the goodwill relating to this investment.
 (iv) Finally, a total of Euro 0.4 million was charged to the income statement relating to costs capitalised on industrial projects which are not certain to produce future revenues.

6. The Ebit for the year 2005 amounted to Euro 8.4 million, an increase of Euro 9.8 million compared to 2004, which ended with a negative Ebit of Euro 1.4 million.

	(€/000)		
	2005	2004	Changes
Wind	7,295	512	6,783
Waste-to-energy	4,475	(4,334)	8,809
Waste management	(5,939)	(4,564)	(1,375)
Water services	(1,779)	(8,294)	6,515
Holding	(7,876)	(4,692)	(3,184)
Sub-tot. en. and envir. sector	(3,824)	(21,372)	17,548
Steel	12,181	19,932	(7,751)
Total	8,357	(1,440)	9,797

7. Net financial charges. For the year 2005 the net financial charges amount to Euro 13.4 million, an increase of Euro 1.4 million (+12.1%) compared to 2004. This increase is due to the increase in debt from Euro 165 million at December 31, 2004 to Euro 235.5 million at December 31, 2005.

8. Share of investments valued under the equity method. During 2005, the charges for the valuation of investments and liquidations amounted to Euro 1 million, an increase of Euro 0.5 million compared to 2004. This amount includes Reclas (in liquidation) of Euro 0.4 million and AmeaTaD of Euro 0.2 million, both valued at equity and no longer at cost as in 2004. In addition, the account includes the losses from the liquidations of the companies Ecofuels Srl and Cerveteri Ambiente Srl.

9. The income taxes for 2005 amount to Euro 5.8 million, a decrease of Euro 0.7 million compared to 2004. The income taxes principally relate to the “Steel” business which accounted for over Euro 4 million, integrated by Euro 0.3 million for the effect of the different tax rates applied in France compared to those applied in Italy. In addition, a total of Euro 0.6 million relate to the fiscal effect of non-deductible costs and Euro 0.9 million to IRAP regional tax. The total gross income taxes described above, amounting to Euro 8 million, were partly compensated by Euro 2.2 million due to the group tax consolidation deriving from the losses of some companies.

The total income taxes for the year consist of current taxes of Euro 3.9 million, deferred tax income of Euro 1.3 million and deferred tax charge of Euro 0.6 million.

3.2.2 Balance sheet

	(€/000)		
	at 31/12/05	at 31/12/04	Changes
A. Fixed assets	326,947	278,184	48,763
Tangible fixed assets	225,538	179,113	46,425
Intangible assets	93,912	91,011	2,901
Financial assets	7,497	8,060	(563)
B. Working capital	62,681	53,827	8,854
Inventories	45,080	49,020	(3,940)
Trade receivables	81,314	80,194	1,120
Other assets	33,655	25,236	8,419
Trade payables	(57,957)	(61,883)	3,926
Provision for risks and charges	(18,935)	(16,609)	(2,326)
Other liabilities	(20,476)	(22,131)	1,655
C. Capital employed less current liabilities (A+B)	389,628	332,011	57,617
D. Employee leaving indemnity	(2,365)	(2,101)	(264)
E. Capital employed less current liabilities and employee leaving indemnity (C+D)	387,263	329,910	57,353
financed by:			
F. Own funds	(151,788)	(164,905)	13,117
Parent Company share	(144,152)	(157,295)	13,143
Minority interest	(7,636)	(7,610)	(26)
G. medium/long term loans	(110,400)	(156,343)	45,943
H. Net short term debt	(125,075)	(8,662)	(116,413)
Short-term bank payables	(118,277)	(30,932)	(87,345)
Liquid assets and short-term financial receivables	(6,798)	22,270	(29,068)
Total debt (G+H)	(235,475)	(165,005)	(70,470)
I. Total (F+G+H)	(387,263)	(329,910)	(57,353)

Note: the table, which is IAS compliant, has a different classification in order for a better understanding and comparison with the previous year

The financial structure of the Enertad Group reports a net capital employed of Euro 387.3 million (Euro 329.9 million at December 31, 2004), which is covered 39% by own capital (50% at December 31, 2004) and 61% by net financial debt (50% at December 31, 2004).

Fixed assets at December 31, 2005 amount to Euro 326.9 million, an increase of Euro 48.8 million compared to December 31, 2004. The increase in fixed assets relates almost exclusively to tangible fixed assets (Euro +46.4 million) relating to new investments in the "Wind" business. These investments total Euro 62 million and principally relate to the wind parks at Troia San Vincenzo and Troia San Cireo.

	(€/000)
Tangible fixed assets	2005
Net values at January 1	179,113
Investments	62,017
Capitalisation and reclass.	(161)
Disposals	(458)
Depreciation	(16,956)
Write-downs	(962)
Change in consolidation area	(192)
Other movements	3,137
Total net values at end of year	225,538
Changes	46,425

The net increase in intangible assets (Euro +2.9 million) refers to the "Wind" business, relating to the purchase of the San Cireo wind park (goodwill), and the start-up investments on other projects (other intangible assets).

	(€/000)
Intangible assets	2005
Net values at January 1	91,011
Investments	2,709
- Goodwill (wind)	1,809
- Other intangible assets	900
Capitalisation and reclass.	(17)
Disposals	
Depreciation	(218)
Write-downs	(2,200)
of which Goodwill	(2,200)
Change in the consolidation scope	1,487
of which Goodwill	1,501
Other movements	1,140
Total net value at year end	93,912
Changes	2,901

Group **investments** in 2005 amounted to Euro 64.7 million, more than double compared to 2004. This increase is due almost entirely to the "Wind" business as previously described.

	(€/000)	
	2005	2004
Tangible and intangible asset investments		
Wind	55,209	18,438
Waste-to-energy	2,319	2,501
Waste management	1,540	6,241
Water services	1,223	519
Holding	396	123
Sub-total energy and environment sector	60,687	27,822
Steel	4,041	2,731
Total	64,728	30,553

Amortisation and depreciation in 2005 totalled Euro 17.2 million, principally composed as follows: i) Euro 12.4 million relating to plant and machinery, ii) Euro 3.1 million relating to land and buildings, iii) Euro 0.5 million relating to industrial equipment and iv) Euro 0.2 million relating to licenses, trademarks and patents.

Financial fixed assets decreased by Euro 0.6 million. This decrease is principally due to the net equity valuations of the companies Reclas, AmeaTad, Recupera and Sorepla and the sale of the investment in the company Volsca Ambiente SpA.

	(€/000)	
	2005	2004
Financial assets	7,497	8,060
- Equity Investments	2,330	2,544
- Other equity investment	4,263	4,263
- Investments available-for-sale	904	1,253
Changes	(563)	

The **working capital** of the Enertad Group increased by Euro 8.9 million, from Euro 53.8 million at December 31, 2004 to Euro 62.7 million at December 31, 2005.

	(€/000)		
Working capital	at 31/12/05	at 31/12/04	Changes
Inventories	45,080	49,020	(3,940)
<i>of which steel business</i>	42,792	48,380	(5,588)
Trade receivables	81,314	80,194	1,120
<i>of which steel business</i>	46,778	43,219	3,559
Other assets	33,655	25,236	8,419
<i>of which steel business</i>	2,936	3,665	(729)
Trade payables	(57,957)	(61,883)	3,926
<i>of which steel business</i>	(29,513)	(31,125)	1,612
Provision for risks and charges	(18,935)	(16,609)	(2,326)
<i>of which steel business</i>	(566)	(3,968)	3,402
Other liabilities	(20,476)	(22,131)	1,655
<i>of which steel business</i>	(5,816)	(10,347)	4,531
TOTAL	62,681	53,827	8,854
of which steel business	56,611	49,824	6,787

In particular, net inventories decreased in 2005 by Euro 3.9 million, amounting to Euro 45.1 million at December 31, 2005. Of this decrease, Euro 5.6 million was due to the reduction in inventories in the "Steel" business.

Trade receivables at December 31, 2005 amount to Euro 81.3 million, an increase of approx. Euro 1.1 million compared to December 31, 2004. Included within this net increase was an increase in the "Steel" business of Euro 3.6 million.

Trade payables at December 31, 2005 amount to Euro 58 million, a decrease of Euro 3.9 million compared to Euro 61.9 million at December 31, 2004. The net decrease includes a decrease of Euro 1.6 million in the "Steel" business.

At December 31, 2005, **total net equity** amounted to Euro 151.8 million, of which Euro 144.1 million relates to the Parent Company. Compared to December 31, 2004 there was a net decrease of Euro 13.1 million due to the loss in the year and the decrease in the fair value reserves of the derivative instruments hedging the interest rate risk.

	Saldo al 31/12/2004	Destinazione utile di periodo	Stock option	Var. Riserva Conversione	Fair value derivati	Adeguamenti terzi	POC Utile/(Perdita) di periodo	Saldo al 31/12/2005
Capitale sociale	94,866							94,866
Riserve Legali	1,388							1,388
Riserve Conversione	(3,595)			1,788				(1,807)
Riserva Cash - Flow Hedge (derivati di copertura)					(394)			(394)
Riserva First Time IAS Adoption (derivati non di copertura)	(22)				(2,681)			(2,703)
Altre Riserve	84,776	(20,117)						64,659
Stock option			203					203
POC							(200)	(200)
Utili Periodo	(20,117)	20,117					(11,860)	(11,860)
Patrimonio Gruppo	157,296							144,152
Patrimonio Terzi	7,610					26		7,636
Patrimonio Netto Totale	164,906							151,788

The **derivative products** of the Enertad Group at December 31, 2005 principally relate to the management of the non-recourse debt (project financing) of the waste-to-energy plants of EALL Srl and Terni En.A. SpA, the wind park at Troia San Cireo and the medium/long-term loans. The Group undertakes derivative operations for hedging purposes.

With the adoption of IAS/IFRS, Enertad S.p.A. has defined the guidelines for financial operations, which require the qualification of the maximum interest rate risk limit for the Group companies.

In particular, with the full application of IAS 39 (which requires not only the hedging intention of the financial instrument but also its effectiveness in relation to the strategy and objectives), the Company applied more stringent criteria and in line with the new regulations. It was necessary to ensure that the details and structure of the Group's contracts in force at the transition date were in compliance with the new standards for all of its derivative products.

This analysis was undertaken within the transition from the previous standards to IAS/IFRS, utilising the exemption permitted by IFRS 1 to apply IAS 39 as of January 1, 2005, and was completed towards the end of the year: It was concluded that some derivative products, due to their complex profile, were not hedging instruments. For this reason, the fair value of the hedged derivative instruments, which have a total notional value of Euro 77.5 million (see table below), was recorded in the "cash-flow hedge" reserve, recording the changes in the fair value in the year in equity, while the fair value of products not hedged was recorded in the "first-time IAS adoption" reserve and the changes in the fair value in the year were recorded in the income statement.

In relation to derivative instruments not considered as hedges, the Company will monitor any changes in the fair value on a quarterly basis, with the intention of closing the contracts on their normal expiry dates. However, where appropriate market conditions arise, these contracts may be settled. In 2005 and in the first months of 2006 these instruments contributed positively to the income statement (Euro 0.9 million in 2005).

	(€/000)	
	Notional at 31/12/05	Notional at 31/12/04
Interest Rate Swap (IRS)	65,474	30,350
relating to "Wind" business	43,220	-
relating to "Waste to energy" business	10,254	14,350
rel. to med./long term loans	12,000	16,000
Interest Rate Collar	12,000	16,000
rel. to med./long term loans	12,000	16,000
Total	77,474	46,350

The consolidated net debt at December 31, 2005 amounted to Euro 235.5 million, an increase of Euro 70.4 million compared to December 31, 2004, when the net debt amounted to Euro 165 million.

	(€/000)		
	at 31/12/05	at 31/12/04	Changes
Current financial assets	45,348	81,445	(36,097)
Holding companies	3,343	37,172	(33,829)
Group companies	33	1,051	(1,018)
Third parties			
Cash and banks	38,334	16,222	22,112
Cash and equivalent under pledge	3,638	27,000	(23,362)
Current financial liabilities	(170,423)	(90,107)	(80,316)
Holding companies	(62)	(62)	
Group companies		(80)	80
Third parties	(168,183)	(89,965)	(78,218)
Derivative instruments	(2,178)		(2,178)
CURRENT FINANCIAL POSITION	(125,075)	(8,662)	(116,413)
Non-current financial assets	11,824	9,875	1,949
Group companies			
Third parties	11,824	9,875	1,949
Non-current financial liabilities	(122,224)	(166,218)	43,994
Group companies			
Third parties	(106,274)	(151,408)	45,134
Derivative instruments	(15,950)	(14,810)	(1,140)
NON-CURRENT FINANCIAL POSITION	(110,400)	(156,343)	45,943
NET FINANCIAL POSITION	(235,475)	(165,005)	(70,470)

Note: the table, which is IAS compliant, has a different classification in order for a better understanding and comparison with the previous year

This increase is due to the short-term position, which increased by Euro 116.4 million compared to December 31, 2004, but compensated by an improvement in the medium/long-term debt of Euro 45.9 million. This change in the short-term position is due to the reclassification of the bond of Euro 76.1 million due in November 2006 under current financial liabilities, which at December 31, 2004 was classified under medium/long-term financial liabilities.

Current financial assets from the parent company Fintad International SA amount to Euro 3.3 million, a decrease of Euro 33.8 million compared to December 31, 2004. The shareholder loans receivable were guaranteed by irrevocable and unconditional bank sureties with maturity on November 30, 2005. Enertad S.p.A. requested the repayment of the loan from the parent company FinTAD International SA in June 2005. Having undertaken all actions for the recovery of the loan, Enertad S.p.A. executed the bank surety and thus received Euro 35.7 million on November 8, 2005.

Group liquidity, equal to Euro 38.3 million, increased by Euro 22.1 million compared to Euro 16.2 million at December 31, 2004. This increase is principally due to the above-mentioned execution of the bank surety and the repayment of a loan of Euro 7.7 million, in July 2005, by the subsidiary Enertad France SA to the Parent Company. Enertad France SA increased its medium/long-term bank debt following this repayment.

The **liquidity under pledge** decreased to Euro 3.4 million (Euro -23.4 million compared to December 31, 2004). This liquidity consists of a pledge at the Banca dell'Etruria e del Lazio provided in 2004 in favour of the supplier Repower System AG to guarantee the payments for the supply of the wind-turbines installed in the Troia San Vincenzo wind park. The payments made to the supplier during 2005 reduced the value of the guarantee by a similar amount and, consequently, the pro rata liquidity under pledge.

Current financial liabilities to third parties increased by Euro 78.2 million compared to December 31, 2004, increasing from Euro 90 million to Euro 168.2 million. This increase is principally due to the reclassification of the bond of Euro 74.6 million due in November 2006 and which at December 31, 2004 was classified under medium/long-term financial liabilities.

With the transition from Italian GAAP to IAS/IFRS, the **financial instruments** measured at fair value are also included under current financial liabilities. The Enertad Group had 10 derivatives at the year end, all hedging interest rate risks.

Non-current financial assets from third parties at December 31, 2005 amount to Euro 11.8 million, an increase of Euro 1.9 million compared to December 31, 2004. These assets principally relate to insurance capitalisation policies of Euro 9.1 million, taken out in order to satisfy the contractual guarantees on the eventual acquisition of the 49% of the company Sodai Italia SpA held by Trenitalia. A guarantee of Euro 1.9 million provided to GRTN for the construction of the electric sub-station at the Troia San Vincenzo park is also included.

The increase of Euro 1.9 million compared to December 31, 2004 relates to over Euro 1.7 million of annual premiums paid on the policy relating to the above-mentioned Trenitalia operation.

Non-current financial liabilities to third parties amount to Euro 106.3 million, decreasing by Euro 45.1 million. This net decrease is due on the one hand, to the decrease resulting from the reclassification to current liabilities of the convertible bond of Euro 74.6 million due in November 2006, and on the other, to the increase in project financing for the wind parks at Troia San Vincenzo and Troia San Cireo which saw a drawdown of funds. Therefore, these financial liabilities relate to the portion of the following loans due over twelve months: (i) project financing of the "Waste-to-energy" and "Wind" businesses of Euro 103.8 million, (ii) a residual amount of Euro 16 million relating to a pool contract with Banca Popolare di Milano, Capitalia and Efibanca and (iii) the previously mentioned loan of Euro 10 million provided in June 2005 by a pool of French banks to Enertad France SA, which was utilised for Euro 7.7 million to repay a loan to the Parent Company and Euro 2.3 million to acquire the company Fim Inox Industrie sas.

In accordance with the new IAS/IFRS standards, the put option granted to Trenitalia on its 49% holding in the company Sodai Italia SpA, to be exercised in the period between April 1 and May 31 of the years 2007, 2008 and 2009, were classified under non-current financial payables, as they consist of **financial derivatives**.

3.2.3 Actions undertaken to implement the industrial and strategic plan

The Directors, in view of the financial situation outlined above, considered that it was necessary to implement an action plan which would also include the following additional objectives:

- > the re-equilibrium of the equity and financial structure;
- > the simplification of the business portfolio and focus on the development of renewable energy;
- > the implementation of an investment programme in accordance with the 2005-2008 Industrial Plan.

The actions programmed can be summarised as follows:

- > The Board of Directors, meeting on April 12, 2006, approved the possibility of a share capital increase in the region of Euro 45 million and authorised the Chairman and Managing Director to present a proposal. In relation to this, a primary banking institution will underwrite, together with other parties, the full subscription of the share increase.
- > The Company, assisted by the advisor Rothschild, has placed the "Steel" business for sale. In relation to this process, at the beginning of March 2006 the Company received several binding offers for the purchase of 100% of the subsidiary Enertad France S.A.S., in which the activities of this business are carried out. On March 17, exclusive negotiations began with an international operator which was considered to have made the best offer and which would guarantee a payment close to the consolidated book value (approximately Euro 55 million). The negotiations are in a very advanced stage and it is expected that the closing and payment will be completed in the first half of 2006.
- > Minor activity and non-strategic assets are in the course of being sold in the "water treatment" and "waste management" businesses (which include the sale of the company Omnia and its subsidiary/associate companies with the closing expected once the antitrust procedures are completed by the purchaser).
- > The Company received a binding offer on February 28, 2006 for the purchase of a significant part of the "waste-to-energy/waste management" business from a leading national operator. This binding offer, which is valid until April 29, 2006 and which is currently being evaluated, would also result in a payment close to the consolidated book value which, at the minimum level of the offer, would result in a cash inflow estimated at around Euro 40 million.
- > The Company expects a significant increase in profitability from its "core" business through:
 - High production and profitability levels in the wind sector consequent of the recent investments in this sector (77 MW at full production capacity from March 2006).
 - The reaching of full production capacity in the waste-to-energy plants in the second half of 2005. This performance was confirmed in the first quarter of 2006.

The above actions are characterised by various elements of uncertainty which are also related to the completion of the negotiations which are still ongoing and the completion of the normal technical and legal verifications. However, the Directors have approved the necessary resolutions and actions to complete all, or at least some, of the operations required to permit the successful conclusion of the above-mentioned actions and thus within a timeframe for the repayment of the convertible bond of Euro 74.6 million due in November 2006, as well as to undertake, as permitted by the actual financial resources made available, the investments contained in the plan.

Consequently, the parent company financial statements and the consolidated financial statements were prepared on a going concern basis.

3.2.4 Most important operational events in 2005

On April 29, 2005, the Shareholders' Meeting of Enertad SpA appointed Mario Bonamigo as a new non-executive member of the Board of Directors, replacing Carlo Mazzi, a non-executive director who resigned in February.

In addition, the Shareholders' Meeting appointed a new Board of Statutory Auditors, whose term of office had expired with the approval of the financial statements for the year 2004, and consisting of: Marco de Ruvo (Chairman), Alessandro della Fontana and Carlo Tavormina (Standing members), Myrta de' Mozzi and Gioacchino Messina (Alternate members), that will remain in office for the three-year period 2005, 2006 and 2007 and until the approval of the financial statements as at December 31, 2007.

On September 12, 2005, the Board of Directors of Enertad S.p.A. approved the half-year report of the company and of the Group as at June 30, 2005.

On November 10, 2005, the Board of Directors of Enertad S.p.A., in relation to the restructuring and simplification of the business portfolio which provides for the focus on and development of the renewable energy businesses and in some related environmental activities as well as the financial restructuring of the Company and support the investment programme, approved the mandate of its financial advisor Rothschild to search for possible buyers of the activities in the "Steel" business of the subsidiary Enertad France SA.

Also in relation to the focus on the strategies of Enertad S.p.A., the Board of Directors decided not to contribute to further share capital increases in the company Ansaldo Fuel Cells SpA (AFCO), while continuing to consider the company a strategic investment. In relation to this, contractual amendments were made with the majority shareholders of AFCO (Iritech SpA and Fincantieri SpA) in which Enertad S.p.A. will reduce its shareholding from 10.3% to 4.8%; at December 31, 2005, the investment of Enertad S.p.A. in AFCO decreased to 6.71% and the company expects to reach the minimum agreed 4.8% in 2006.

In 2005, in addition, the following important operating events took place:

- > **“Wind”**: on March 17, 2005, the business unit of the wind-park Troia San Cireo was acquired with a power of 30 MW in 15 wind-turbines. In September, a project financing contract was signed with Efibanca as arranger. At the end of the 2005, there were 7 wind-turbines already in production.
In April, the wind park at Troia San Vincenzo (38 MW) was operating at full production with 19 wind-turbines. However, during the year, one of the wind-turbines experienced technical problems which restricted the normal production of electricity. The payment for this wind-turbine to the supplier Repower was suspended in order to guarantee that the supplier will find a solution to these problems.
Finally, during the second half of the year authorisation was obtained for the extension of the Troia San Vincenzo park from 38 to 42 MW.
- > **“Waste-to-energy”**: the waste-to-energy plant of EALL underwent a programmed stoppage in July of 18 days for the installation of a new concept overheating machine in order to improve operating efficiency and reliability. A second programmed stoppage of 5 days took place in October. For the waste-to-energy plant at Terni En.A. the smoke control system was improved and permitted: (i) the gradual increase of the average electricity production level and (ii) the utilisation of a more economic fuel mix, principally pulper
- > **“Waste management”**: On March 9, 2005, an agreement was signed between SAO SpA, the Umbria region and the municipalities concerned for the protocol of understanding relating to the remodelling of the solid waste flows in the municipalities of the ATO 2 to the Orvieto landfill, that will result in an increase in volumes of solid urban waste conferred to the Orvieto landfill of approximately 24,000 tonnes/year. The subsidiary SAO SpA, in March 2005, sold its 38% investment in Volsca Ambiente SpA., which it no longer considered strategic.
- > **“Water services”**: the design and realisation activities of the investments requested by the Lazio Region for the renewal of the authorisation for the use of the DSI plant at Frosinone were carried out. Sodai Italia SpA has completed the preparatory activity for the authorisation of new platforms at Milan, Voghera and Melfi. In relation to this reference should be made to section 5 of the Income Statement “Write-downs and provisions”.
In relation to Group rationalisation, in September the transport and reclamation activities of the company Omnia Srl were transferred to the company Interpark Srl belonging to the “Waste management” business and operating in the transport sector. In December, Omnia Srl sold to DSI Srl, belonging to the “Water services” business, its construction, maintenance and drinking water and purification plant restructuring business.
- > **“Steel”**: in August, the subsidiary Enertad France SA finalised the acquisition of 100% of the company Fim Inox Industrie sas for a price of Euro 2.3 million. This acquisition will facilitate the distribution of steel for the company in the Paris area.

3.2.5 Research & development

The Enertad Group does not directly undertake research and development activity. At December 31, 2005, the Group has a holding in the company Ansaldo Fuel Cells SpA of 6.71% that undertakes research, development, design, promotion, production, sales and post sales assistance of equipment, apparatus, complete lines, single components and other similar structures in the production, conservation, transfer and utilisation of energy produced with systems that utilise hydrogen, as well as the provision of technical consultancy within the sector:

3.2.6 Environment, health and security

In accordance with the mission of the company, the certification programme for its activities and for the sites (plants) of the Group continued during 2005. The activities related specifically to the certifications for the management systems of some Group companies in accordance with one or more of the following norms: UNI EN ISO 9001/2000 (quality), UNI EN ISO 14001 (environment), OHSAS 18001:99 (security) and EU Regulation No. 761/01 (EMAS environment).

The following specific activity was carried out in the year:

- > the certification of the environment management system in conformity with the norm UNI EN ISO 14001:2004 and the accreditation to the EMAS Regulation 761/01 by the company Terni En.A. SpA following the successful inspections in May 2005 of the respective certificate and accreditation. The company is awaiting the registration of the site in the EMAS national and European registers;
- > the implementation of the environmental management system in conformity with the norm UNI EN ISO 14001:2004 and EMAS Regulation 761/01 at the company EALL s.r.l.;
- > the maintenance of the integrated management system certified for quality, environment and security in conformity with UNI EN ISO 9001:2000, UNI EN ISO 14001 and OHSAS 18001:99 for SAO S.p.A. and Interpark Srl.

3.2.7 Significant events after the year end

After December 31, 2005, the following important significant events took place:

- > **“Wind”**: at the end of February 2006, the new park at Troia San Cireo reached full production on its 15 wind-turbines for a total installed power of 30 MW. On February 3, 2006, a business unit containing the wind park at Faeto in Puglia (24 MW) was acquired following the approval of the necessary authorisations on January 9, 2006.
- > **“Waste-to-energy” and “Waste management”**: reference should be made to the previous section “Actions undertaken to implement the industrial and strategic plan”.
- > **“Water services”**: on January 20, TAD Energia Ambiente S.p.A. signed a contract for the sale of 100% of Omnia Srl to Acea SpA. The closing will take place once the anti-trust procedures have been completed.
- > **“Steel”**: reference should be made to the previous section “Actions undertaken to implement the industrial and strategic plan”.

3.2.8 Outlook

- > **“Wind”**: with the completed construction of the Troia San Cireo park (30 Mw), from the end of February 2006 the total production amounts to 77 MW (of which 9 MW at the Eolo-Viticuso Park, which will be fully available with the construction of the new transmission line in the second half of the year).
In addition, it is expected that a further 2 new wind-turbines of 2 MW will be installed by the end of the year; which are already authorised and which will increase the installed power at the Troia San Vincenzo wind park from 38 Mw to 42 Mw, and the overall total power to 81 Mw. .
Construction will commence in the second quarter of 2006 at the recently acquired wind park at Faeto (24 MW). Negotiations are ongoing for the project financing on this project.
Finally, activities are ongoing for the completion of the authorisations for other wind parks already optioned of approximately 100 MW and for the finalisation of the acquisition by the first half of 2006.
- > **“Waste-to-energy”**: the recovery of efficiency and margins of the waste-to-energy plants recorded in the final quarter of 2005 is expected to continue and be consolidated following the technological improvements made in the first half of the previous year:
- > **“Waste management”**: for the SAO landfill at Orvieto, an increase is expected in the volumes of waste conferred from the ATO 2-Umbria (which began on March 16, 2006) totalling 24,000 tonnes per year: in the first half of the year; the approval from the Province of Terni (and the relative ATO 4) of the tariff adjustment plan is expected and of the subsequent possibility to acquire special waste at conferment values significantly higher than urban waste.
- > **“Water services”**: while the antitrust procedures are expected to be completed in the first half of 2006 by Acea SpA which purchased 100% of the investment in Omnia SpA, the company Sodai Italia SpA will continue the completion of the authorisation process for the enlargement of some water purification platforms.
- > **“Steel”**: in view of the comments in relation to the actions undertaken to implement the industrial and strategic plan, Enertad S.p.A. expects, following the sale of 100% of the investment in Enertad France SA, to deconsolidate the “Steel” business within the first half of 2006, effective as of January 1, 2006.

The Directors underlined the possibilities that events may arise which are currently unknown, that may influence the realisation of some of the above actions, as well as the possibility that differences may arise in the economic/production forecasts used as the basis for the financial plans of the Group.

3.2.9 Risks and disputes

- > **“Wind”**.
 - **Enertad SpA**: a company gave notice, in May 2005, of an injunction for the payment of an amount of Euro 303,463.15 in addition to legal costs and expenses, that the company considers due from Enertad SpA, based on a mandate for the conclusion of a commercial operation in the wind sector: Enertad SpA, considered that the amount requested from the above-mentioned company is not due, and challenged the above-mentioned injunction. In December 2005, the judge granted a provisional execution of the injunction. The case is still pending.
- > **“Waste to energy”**.
 - **Terni En.A. SpA**: the appeal is still pending, brought by third parties before the Regional Administrative Court of Umbria for the cancellation of some administrative regulations issued, in relation to the waste-to-energy plant at Maratta Bassa, Terni, and including an operational resolution, that approved a minor modification to the project of the plant, which was already judged favourably by the (EIA) Environmental Impact Assessment, confirmed by the Umbria Court and the Council of State.

The appeal is still pending against the resolution adopted by the Provincial Council of Terni before the Regional Administrative Court of Umbria. The resolution approved, according to article 20 of the legislative decree 22/97, the identification of unsuitable areas for waste disposal and recycling plant sites, enforcing pre-defined procedures to be applied to plants already approved and located such as those belonging to Terni En.A. SpA. This resolution places, after a transitory period, some limitations on the plants, such as those belonging to Terni En.A. SpA, that although duly authorised are situated and operate in areas that are considered "pre-dated" and unsuitable in relation to certain criteria.

A civil case is still pending, brought in January 2005, against Terni En.A. SpA by a company that had commercial relations with this latter and that has requested damages, in the amount of Euro 295,015.23, as loss of earnings, due to the anticipated withdrawal from a contractual relationship relating to the conferment of waste.

Terni En.A. S.p.A. obtained an injunction for the payment of Euro 357,975.70, due by a company for the transfer of waste made to the plant in 2004. While the counter-party contested the amount due out-of-court, it did not contest the court order.

Action has been brought against the Italian Ministry for Productive Activity for annulling the Ministerial Decree of May 30, 2005 (MD No. B3/RC/9/142127), with which Provisional Concession Decree No. 100714 of 10/07/2001 was repealed of financing, according to Law no. 488, adopted in the favour of Terni EN.A. S.p.A. During the hearing on December 15, 2005, the company's request for a stay of repeal was rejected.

- **EALL Srl.**: In relation to the waste-to-energy plant at S. Vittore del Lazio, owned by the company EALL Srl, administrative appeals are currently pending, brought by third parties before the Regional Administrative Court of Lazio concerning the Stralcio Plan to manage waste, relating to the offer of a waste-to-energy plant approved by the Lazio Region in January 2002 and by the Managerial Assessors of the Frosinone Region in April 2002, thereby authorising the construction and management of the aforementioned plant. The petition for a precautionary suspension of the resolutions brought forward by the claimants has been rejected by both the Regional Administrative Court of Lazio, and on appeal, by the Council of State.

The appeal is still pending to the Council of State, made by the company, for damages on the cancellation of the sentence with which the Regional Administrative Court of Lazio ruled, against the company, on the administration disputes existing with the municipality of Cervaro and relating to the construction of an electro-duct servicing the plant of San Vittore del Lazio on the land of the municipality, already authorised by the Lazio Region with ruling number 96977/C/1 of June 13, 2001.

The arbitral procedure is still pending, initiated by a third party in December 2004, requiring the implementation by EALL S.r.l. of the Operation and Maintenance contract signed, relating to the San Vittore del Lazio plant, in January 2001 and not considered valid by EALL Srl. The plaintiff requests, in addition to the fulfilment of the contract, general damages from EALL S.r.l. to be paid in a separate ruling. EALL Srl has contested the requests made by the plaintiff.

Proceedings are pending at the Court of Cassino against EALL S.r.l. by a company, acting in subrogation, to evaluate an apparent entitlement of the Municipality Consortium to receive compensation in the amount of Euro 9,916,800.00 as damages following a complaint regarding a breach of contract by Eall. During 2005, the Consortium, which was transformed into a limited company, became joint plaintiff with the company.

- **Energie Pulite 2000 Srl**: the extraordinary recourse to the Head of State is still pending, brought by the municipality of Zoppola in September 2002 for the cancellation of the building concession given for the construction of the thermal-electric station planned at Arzene.

> **"Waste management"**.

- **SAO SpA**: the legal actions seeking the payment of receivables by the company from a municipality relating to services contractually provided for the management of the local waste treatment plant is still pending; the municipality on the other hand has made a request for damages based on the negligence of the management of the above-mentioned treatment plant in which it considers SAO SpA responsible.

It is noted that a preliminary investigation held by the public prosecutor's office in Orvieto is still pending, concerning the landfill managed by SAO S.p.A. and the removal of waste from the Campania Region, currently suspended, and that in July 2004 gave orders for a precautionary measure to be taken to place the landfill under sequestration without impairing its current operation. In March 2006, the conclusion notice of the preliminary investigation was published.

A civil case brought in the Court of Livorno, in October 2004, against the company is still pending, for an amount of Euro 224,268, as compensation for professional activities of planning and preparation of a proposal for the construction and management of a R.S.U. selection and treatment plant, and CDR and FORSU production that SAO SpA presented, in June 2002, to the Municipality of Grosseto in relation to project financing in accordance with law 109/94.

SAO SpA also called upon the other members involved in the tender process and fully contested the action taken, making a counterclaim against the plaintiff company. The other members of the tender process also contested the demands cited several times by the consulting company.

A municipality commenced, in April 2005, a preliminary reconciliation in relation to a proposal of a legal action for non contractual compliance with regard to the cancellation of the contract agreed with SAO SpA on June 17, 2000 for the construction of a waste transfer and selection centre and for the consequent damages suffered. SAO SpA, although contesting the claims of non compliance, has proposed a specific settlement, that, at the present moment, has not yet been accepted by the Municipality, which is currently pursuing the resolution of the contract through the courts.

SAO S.p.A. sub-entered into the civil proceedings already underway by a subsidiary currently in liquidation. The plaintiff company requested that a Municipality be held responsible for the invalid work in relation to a tender contract in 1996 and which has been concluded. They also requested that it be consequently recognised and declared that the plaintiff company should be awarded damages.

Legal action has been taken to recover receivables from a Municipality, for waste disposal and recycling services carried out between March 2002 and March 2005. The Municipality has objected.

Other action pending concerns the recovery of receivables by the company from a Municipal Consortium that disposed of waste from an area outside the region in plants belonging to the company. The transfer of waste was already disrupted in April 2004.

- **Interpark Srl:** The company took legal action to recover receivables from a client company, invoiced in 2004, for a total amount of approximately Euro 85.000. A court order was obtained, against which the counterparty objected.
- **TAD Energia Ambiente SpA:** The case taken by TAD Energia Ambiente SpA in November 2003 is still pending against a supplier to accept and validate the delay in the execution of the tender contract of March 2003 for the construction of a CDR plant at Paliano, as well as other contractual violations. Legal Technical Consultancy is currently underway.

In October 2005, TAD Energia Ambiente started arbitration proceedings in order to recover the sum of Euro 2,400,000 due by a company based on a contract signed in July 2003. The company did not appear before the courts.

The arbitrator, with arbitral award issued on November 30, 2005, ordered the defendant company to pay the sum requested by TAD Energia Ambiente S.p.A., including interest, incidental costs and legal fees.

The consequent action is underway to recover the outstanding debts.

> **“Water services”.**

- **Omnia Srl:** the appeal made by Omnia Srl is still pending relating to the regulations issued by the Municipality of Valmontone in December 2002. This resulted in the suspension of work on the adjustments to the municipal purification plant of Valmontone for the treatment of third party special liquid waste, authorised by the Decree of the Vice Commission for emergency waste in the Lazio Region number 118 of August 1, 2002. In January 2003, the Decree of the Vice Commission for waste emergency in the Lazio Region number 118 of August 1, 2002 was appealed by the municipality of Valmontone, with Extraordinary Recourse to the Head of State and by some residents of Valmontone, with recourse to the Regional Administrative Court of Lazio, a recourse that is still pending. With Decree No. 30, dated April 9, 2003, subsequently recognised by Omnia Srl, the above-mentioned authorisation decree number 118/2002 was revoked. In May 2003, Omnia Srl appealed the above-mentioned regulation 30/2003.

The court of Milan accepted Omnia Srl's proposed motions, during the legal action initiated by the company in January 2004, against a partner consortium company operating in the water sector. Legal action was taken following several disputes among the partners, regarding the allocation of tendering duties to a private group, which the above mentioned consortium company feels it should carry out itself. There remains time for an appeal by the counter-party as the appeal deadline has not yet expired. Moreover, Omnia appealed against several decisions, made by the administrative bodies of the same consortium company and relating to the approval of budgets, which it considers to be in breach of its rights, instigating at the same time liability action against some of the administrators.

- **DSI Servizi Industriali Srl:** In November 2005, The Court of Rome rejected a company's application for the provisional enforcement of a court order for the payment of Euro 343,631.74 from DSI Srl, for waste disposal services carried out in the period prior to DSI becoming part of the Enertad Group. DSI Srl immediately opposed the court order and the case remains pending.

In March 2006, the company commenced arbitration to enforce responsibility deriving from the violation of contractual guarantees made by the counterparty in the contract signed in October 2003, and relating to the 100% sale to Enertad S.p.A., of DSI Srl. Enertad quantified the damages incurred as Euro 1,034,456.65, reserving the right to quantify any further damages, “in course”.

- **Amatrice Servizi Scarl:** Action brought against the deliberations of the Lazio Region by the company concerning the determination of water costs are still pending.

3.3 Results of the parent Company Enertad S.p.A.

Financial Statements Enertad SpA (mln/€)	31/12/05	31/12/04
Revenues and income	3.4	3.7
Net result of Enertad	(18.9)	(8.2)
Net financial position	12.9	49.9

The year 2005 ended with **revenues and income** of Euro 3.4 million, compared to Euro 3.7 million in 2004.

The **net result** was a loss of Euro 18.9 million. This result takes account of: (i) adjustments to financial asset values of Euro 28.1 million, due to the write-down of the investment in TAD Energia Ambiente SpA of Euro 27 million to reduce the book value to its realisable value, and of the investment in DSI Srl of Euro 1.1 million; (ii) partially set-off by extraordinary income relating to the adjustment of the value of the investment in Enertad France Sas to the consolidated net equity at December 31, 2005 of Euro 15 million, following a change in the valuation criteria.

It should be noted that these adjustments have no impact upon the consolidated financial statements of Enertad, as they already include the equity value in the consolidated accounts.

The **net financial position** was a positive amount of Euro 12.9 million with a decrease of Euro 37 million compared to December 31, 2004.

3.3.1 Transition to IAS/IFRS for the parent company

The financial statements as at December 31, 2006 of Enertad SpA will be prepared in accordance with IAS/IFRS in compliance with EU Regulation No. 1606 of 2002 enacted by Parliament and the European Council in July 2002.

The impact on the adoption of the IAS/IFRS will also draw conclusions made from the transition for the consolidated financial statements. Reference should be made to the paragraph "IAS/IFRS information on the Quarterly Report as at March 31, 2005" for an analysis of the impact on the accounts. In relation to the valuation of the investments in subsidiaries, an analysis is ongoing with regard to the effects of the transition to IAS/IFRS.

3.3.2 Corporate boards

During 2005, the Control Committee met on April 4, July 5 and November 10. The Remuneration Committee met on July 5.

3.3.3 Self-governance, conduct and ethical Codes

The company has adopted the Code of Conduct as recommended by Borsa Italiana SpA and has also updated its ethical code. A copy of this Code is available for persons so requiring, at the registered office of the company as well as on the internet site www.enertad.it. The annual Corporate Governance report is also available within the same terms for publication of the annual accounts.

3.3.4 Investments held by Directors, Statutory Auditors and General Directors

None

3.3.5 Transactions with subsidiary, associate and holding companies

Enertad SpA carries out transactions of a commercial and financial nature at normal market conditions with subsidiary and associated companies. These relationships allow for the attainment of advantages deriving from the use of common services and expertise, resulting from the exploitation of Group synergies and the application of Group-wide financial policies.

In particular, these relationships relate to the activities listed below, further detailed in the notes to the financial statements:

- > treasury management, loans and guarantees;
- > administration and legal services;
- > property rental;
- > management of common services;
- > purchase and re-billing of services.

3.3.6 Treasury shares or quotas held in holding companies

In compliance with article 2428, paragraph 2, point 3 of the Italian Civil Code, it is hereby stated that at December 31, 2005 the Company did not own any treasury shares or shareholdings in holding companies.

3.3.7 Treasury shares or quotas in holding companies acquired or sold by the company in the year

In compliance with article 2428, paragraph 2, point 4 of the Italian Civil Code, it is hereby specified that during the year, the company did not acquire or sell any treasury shares or shareholdings of its holding companies.

3.3.8 Disclosure as per Legislative Decree No. 196/2003 “Code on the Protection of Personal Data”

In accordance with the law for the Protection of Personal Data, the Company implemented a review of the security standards imposed by the above-mentioned regulation on the receipt and treatment of personal data relating to employees, customers and suppliers. Therefore, with the preparation of the so-called “Programmed Document on security” the forms of the current protection were described, which will be periodically updated by March 31 of each year, identifying and applying the necessary implementations to the security system which the company intends to adopt in compliance with the regulations.

3.3.9 Proposal for the allocation of the result

Dear Shareholders,

the financial statements at December 31, 2005 of your company closes with a loss of Euro 18,897,051 that we propose to carry forward in the reserve “Retained profits (losses)”.

If you are in agreement, we invite you to approve the directors' report and the financial statements consisting of the balance sheet, income statement and notes thereto.

Milan, March 21, 2006

For the Board of Directors
the Chairman
Salvatore Russo

Glossary

Wind-turbines: Plant capable of transforming the kinetic energy in wind into mechanical energy, which in turn is utilised for the production of electricity.

ATO: Applicable territorial region. In accordance with Legislative Decree 22/97, so-called "Ronchi Law" for the management of urban waste created the ATO's for each applicable territorial region, which normally corresponds to the Province.

CDR: combustion from waste. Its composition is regulated and provides that it may not be constituted utilising the fractions deriving from differentiated waste but may be added for a quota not greater than 50% in industrial waste. The relative regulation also establishes its characteristics in terms of humidity, power, ash, chemical composition and provides for its utilisation in dedicated waste-to-energy and industrial plants, such as cement manufacturing and carbon thermoelectric plants.

Green certificates: Annual certificates attributed to the energy produced from renewable sources from plants entered into production after April 1, 1999. Each certificate has a value equal to or multiples of 100 MWh, is issued by the network operator and is valid only for the year to which it refers.

CIP6: incentive tariff in which the "Gestore della Rete di Trasmissione Nazionale" (GRTN) purchases electricity produced by plants from renewable sources and similar established by regulation CIP6/92.

Energy wind-parks: energy produced from wind.

FORSU: organic fraction from solid urban waste.

Pulper: paper waste

RSAU: solid waste similar to urban waste.

RSU: solid urban waste.

Waste-to-energy plant: plant for the treatment of solid urban waste for the production of electricity.

Waste to energy: transformation process of waste into energy.

Waste management: all activity for the collection, transport and selection of waste.

> 4. Consolidated Balance Sheet

as at December 31, 2005

> 4.1 Consolidated Balance Sheet

(Euro thousands)

	(Note)	31.12.2005	31.12.2004	Change
Tangible assets	(1)	225,538	179,113	46,425
Intangible fixed assets	(2)	93,912	91,011	2,901
Equity investments	(4)	2,330	2,544	(214)
Other investments	(5)	4,263	4,263	
Financial assets	(7)	11,831	9,882	1,949
Other receivables	(8)	4,423	4,914	(491)
Deferred tax assets	(9)	4,148	5,405	(1,257)
Total non-current assets		346,445	297,132	49,313
Inventories	(10)	45,080	49,020	(3,940)
Trade receivables	(11)	81,314	80,194	1,120
Financial receivables from holding companies	(12)	3,343	37,172	(33,829)
Other receivables	(13)	14,293	8,116	6,177
Deferred tax assets	(14)	10,817	7,765	3,052
Equity investments available-for-sale	(15)	904	1,040	(136)
Cash and cash equivalents	(16)	41,972	43,222	(1,250)
Total current assets		197,723	226,529	(28,806)
Assets held for sale	(17)		213	(213)
TOTAL ASSETS		544,168	523,874	20,294
Group Shareholders' Equity		144,152	157,295	(13,143)
Shareholders' equity - Minority interest		7,636	7,610	26
Total shareholders' equity	(18)	151,788	164,905	(13,117)
Employee leaving indemnities	(19)	2,365	2,101	264
Provision for risks and charges	(21)	18,935	16,609	2,326
Financial payables - medium/long term portion	(22)	106,274	151,408	(45,134)
Payables for derivative instruments	(23)	15,950	14,810	1,140
Other payables	(26)	638	75	563
Deferred tax assets	(24)	4,477	3,612	865
Total non-current liabilities		148,639	188,615	(39,976)
Financial payables, current portion	(22)	168,244	90,027	78,217
Payables for derivative instruments	(23)	2,178		2,178
Trade payables	(25)	57,958	61,883	(3,925)
Other payables	(26)	12,682	12,933	(251)
Tax liabilities	(27)	2,679	5,511	(2,832)
Total current liabilities		243,741	170,354	73,387
Liabilities related to activities held for sale				
TOTAL SHAREHOLDERS' EQUITY & LIABILITIES		544,168	523,874	20,294

> 4.2 Consolidated Income Statement

(Euro thousands)

	(Note)	31.12.2005	31.12.2004	Change
Operating revenues				
Revenues from sales of goods and services		292,964	282,756	10,208
Change in inventories of finished products and products in work in progress		(3,750)	1,225	(4,975)
Other operating income and revenues		3,467	2,718	749
Value of production	(29)	292,681	286,699	5,982
Costs of production				
Raw, ancillary and consumable materials and goods for resale	(30)	(173,416)	(170,134)	(3,282)
Services	(31)	(49,078)	(53,810)	4,732
Personnel costs	(32)	(36,834)	(35,480)	(1,354)
Other operating expenses	(33)	(4,005)	(2,530)	(1,475)
Amortisation & Depreciation	(34)	(17,175)	(15,173)	(2,002)
Provisions & write-downs	(35)	(3,816)	(11,012)	7,196
Ebit		8,357	(1,440)	9,797
Net financial income and charges	(36)	(15,328)	(14,442)	(886)
Net income and charges from holding companies	(37)	1,895	2,458	(563)
Income and charges of investments valued under the equity method	(38)	(994)	(473)	(521)
Profit/(loss) before taxes		(6,070)	(13,897)	7,827
Income taxes	(39)	(5,837)	(6,532)	695
Ne profit/(loss) for the year from operating activities		(11,907)	(20,429)	8,522
Result from discontinued activities				0
Net profit/(loss) for the year		(11,907)	(20,429)	8,522
Minority interest		47	312	(265)
Group net profit/(loss) for the year		(11,860)	(20,117)	8,257
Earnings per share				
	(41)			
basic		(0.125)	(0.267)	
diluted		(0.058)	(0.158)	

> 4.3 Consolidated cash flow statement

(Euro thousands)

	(Note)	31.12.2005	31.12.2004
Operating activities			
Result of operating activities		8,357	(1,440)
Adjustments for:			
depreciation of tangible assets		16,956	14,920
write-down for loss in value of tangible fixed assets		412	
amortisation on intangible assets		214	253
write-down for loss in value of intangible fixed assets		2,273	10,554
(gain) / loss on disposal of fixed assets		206	30
provisions for personnel incentive plans		203	
charge / (utilisation) of provisions		(95)	3,161
Total adjustments		20,169	28,918
Change in working capital			
(increase) / decrease in inventories		6,928	(6,918)
(increase) / decrease in trade and other receivables		(3,950)	(5,262)
increase / (decrease) in trade and other payables		(6,468)	(1,419)
Total changes in working capital		(3,490)	(13,599)
Cash flow generated from operating activities		25,036	13,879
Income taxes paid		(9,885)	(9,034)
Interest paid		(16,051)	(15,998)
Net cash flow generated from (used in) operating activities		(900)	(11,153)
Investing activities			
Interest received		1,925	2,143
Purchase /sale of financial assets		(1,946)	(6,447)
Disposal of shareholdings in other companies		309	
Purchase of holdings in subsidiaries			
payments made with liquid funds or cash equivalents		(763)	
liquid funds or cash equivalents of the equity investments acquired		(8)	205
Total effect of the purchase of holdings in subsidiaries	(6)	(771)	205
Purchase of shareholdings in other companies		(720)	(4,263)
Tangible and intangible asset investments		(64,726)	(35,195)
Receipt from the sale of tangible and intangible assets		787	372
Net cash flow generated from (used in) investing activities		(65,142)	(43,185)
Financing activities			
Exchange gains / (losses)		(143)	87
Payables for finance leases		(382)	
Repayment loans		(31,076)	(22,200)
New loans received		67,851	2,350
Repayment of bonds		(42)	
Repayment of financial receivables from holding companies		35,724	9,607
Increase in share capital			69,045
Net cash flow generated from (used in) financing activities		71,932	58,889
Net increase/(decrease) in cash and cash equivalents		5,890	4,551
Beginning net debt	(28)	(15,953)	(20,484)
Effect of the changes in foreign exchange rates		(111)	(20)
Closing net debt		(10,174)	(15,953)
Comprised of			
bank and postal accounts		41,922	43,180
cash-in-hand and cash equivalents		50	42
bank overdrafts		(52,146)	(59,175)
Closing total net debt		(10,174)	(15,953)
Of which cash and cash equivalents not available for use		3,638	27,000

> 4.4 Statement of change in consolidated shareholders' equity

(Euro thousands)

	Share capital	Legal reserve	Translation reserve	Others reserves	Profit/(loss) for the year	Group shareholders' equity	Min. interest shareholders' equity	Total shareholders' equity
Balance at January 1, 2004	62,619	1,388	(2,716)	42,728	5,263	109,282	924	110,206
Allocation of the 2003 net result				5,263	(5,263)			
Change in the translation reserve			(879)			(879)		(879)
Increase in share capital	32,247			36,762		69,009	41	69,050
Change in the consolidation scope							6,957	6,957
Net result 2004					(20,117)	(20,117)	(312)	(20,429)
Balance at December 31, 2004	94,866	1,388	(3,595)	84,753	(20,117)	157,295	7,610	164,905
Effect of the application of IAS 32 and 39 at January 1, 2005				(3,626)		(3,626)		(3,626)
Allocation of the 2004 net result				(20,117)	20,117			
Change in the translation reserve			1,788			1,788		1,788
Change in the fair value of the hedging instruments				351		351		351
Personnel cost for incentive plan				204		204		204
Other changes							73	73
Net result 2005					(11,860)	(11,860)	(47)	(11,907)
Balance at December 31, 2005	94,866	1,388	(1,807)	61,565	(11,860)	144,152	7,636	151,788

> 4.5 Statement of total consolidated gains and losses recorded in 2005

(Euro thousands)

	2005	2004
Gains/(losses) recorded directly to the cash flow hedge	351	
Gains/(losses) recorded directly for incentive plan	203	
Gains/(losses) recorded directly to translation reserve	1,788	(879)
Gains/(losses) recorded directly to group net equity	2,342	(879)
Group net result	(11,860)	(20,117)
Group gains/(losses) recorded in the year	(9,518)	(20,996)

> 4.6 Notes to the Consolidated Financial Statements

General

Enertad SpA (the Company) is a limited liability company incorporated in Italy at the Milan Company's Registry Office and listed on the Milan Stock Exchange. The Group operates in the production of electricity from renewable sources, environmental services and the transformation and distribution of stainless steel products. The main activities of the Company and of the subsidiaries (the Group) are described in the paragraph "other information" (Segment information).

The present financial statements are expressed in Euro as this is the currency in which the majority of the operations of the Group are carried out.

Summary of the principle accounting standards

The consolidated financial statements are prepared in accordance with the requirements of the Issuers' Regulations of the Stock Exchange Authority (CONSOB) and in accordance with the criteria established by the International Financial Reporting Standards (IFRS) issued by the International Accounting Standard Board (IASB) and adopted by the European Commission in article 6 of the EU Regulation No. 1606/2002 of the European Parliament and Council of July 19, 2002, and the documents of the International Financial Interpretations Committee (IFRIC).

The financial statements were prepared on the basis of the historical cost criteria, except for the revaluation of some financial instruments.

In the transition to the IAS/IFRS standards, the Group has availed of the following exemptions contained in IFRS 1:

Measurement of intangible and tangible fixed assets: the Group has availed of the choice to use the book value of the above-mentioned assets, determined in accordance with the previous accounting standards, as replacement of the cost at January 1, 2004, in line with IFRS 1.

Business combinations: IFRS 3 provides that the business combinations are accounted for using the "purchase method", recording the assets and liabilities at their relative fair value at the acquisition date. The Group, in conformity with IFRS 1, did not apply in retrospective manner IFRS 3 to the business combinations before the transition date to IAS/IFRS standards, that are therefore recorded at the same values determined on the basis of the previous accounting standards with the prior verification and recording of any loss in value.

Financial instruments: as an exception to the general retrospective application of the IAS/IFRS standards, IFRS 1 permits the application of IAS 39 from the financial statements commencing as of January 1, 2005. The Group has therefore decided to apply this exemption applying IAS 39 for the measurement and recording of derivative instruments on interest rate management risk, in addition to the derivative implied from the conversion of bonds, as from the preparation of the consolidated financial statements for the year 2005 and the relative interim accounts from the half-year report as at June 30, 2005.

In relation to the presentation of the financial statements, the Enertad Group presents the balance sheet with separate indications of current and non-current assets and liabilities, while the income statement is classified in accordance with the nature of the revenues and costs, a format considered more representative than the so-called classification by function. The format chosen in fact reflects the internal and management reporting systems of the Group's business. The cash flow statement was prepared using the "indirect" method. The amounts are reported in thousands of Euro.

The main accounting policies adopted are shown below.

Consolidation criteria

The consolidated financial statements include the financial statements of the parent company and its subsidiaries (the subsidiaries), and are prepared as at December 31 each year. Control is considered to be obtained when the parent company has the power to determine the financial and operational policies of a company so as to obtain benefits from its activities.

The financial statements used in the consolidation at the end of the year are those prepared by the respective Boards of Directors. The results of subsidiaries acquired or sold during the year are included in the consolidated income statement from the date of acquisition until the date of sale. Where necessary, adjustments are made to the accounting standards of subsidiaries in order to apply uniform Group accounting policies. The consolidation of the financial statements of subsidiary companies is made using the line-by-line consolidation method, recording the full amounts of assets, liabilities, costs and revenues of the individual companies, and eliminating the book value of the investments held by the Company against the relative shareholders' equity. The minority share interests in the subsidiaries consolidated are recorded separately in shareholders' equity. This minority interest is determined based on the percentage held in the fair value of the assets and liabilities recorded at the original acquisition date and in the changes in shareholders' equity after this date. The gains and losses, where not insignificant, not yet realised deriving from intra-group operations between companies in the consolidation scope are eliminated, as are all significant payables and receivables, costs and revenues between Group companies.

Business Combinations

Business combinations are recorded in accordance with the purchase method. The cost of the business combination is measured as the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group, in exchange for control of the company acquired, plus any costs directly attributable to the business combination. The identifiable assets, liabilities, and contingent liabilities of the company acquired, which are in compliance with the recording requirements of IFRS 3, are recorded at their fair value at the acquisition date. Goodwill acquired in a business combination is recognised as an asset and initially measured at its cost - being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. The minority interests in the companies acquired are initially measured at the fair value of the assets, liabilities and contingent liabilities recognised. Minority holdings and those in non-operating subsidiaries or of insignificant value are measured at cost.

Equity investments in associated companies

An associated company is a company in which the Group has significant influence, (but not full or joint control), through the participation in financial and operating policy decisions of the investee. The results and the assets and liabilities of the associated companies are recorded in the consolidated financial statements using the equity method, except for those classified as available-for-sale. In accordance with this method, investments in associated companies are initially recognised in the balance sheet at cost, adjusted thereafter for the post-acquisition change in the investor's share of net assets of the investee, net of any impairment loss of the individual companies. Any excess of the investor's share of the net fair value of the associate's identifiable assets, liabilities and contingent liabilities over the cost of the investment at the acquisition date is recognised as goodwill. The goodwill is included in the carrying value of the investment and is subject to an impairment test.

Non-current assets available-for-sale

The non-current assets (and group of assets held for sale) classified as available-for-sale are measured at the lower of carrying value and market value, net of costs to sell. Non-current assets (and group of assets held for sale) are classified as available-for-sale when it is expected that their carrying value will be recovered through a sales operation instead of in their utilisation in the operations of the business. This condition is applicable only when the sale is highly probable, the asset (or group of assets) is available for immediate sale in its current conditions and the management has undertaken a commitment to sell, which should take place within 12 months from the date of classification of this account.

Investments in joint ventures

The entities incorporated based on agreements providing joint control are qualified as joint ventures. The Group records joint ventures using the equity method or the proportional consolidation method. In this final instance, the percentage pertaining to the Group of the assets, liabilities, costs and revenues of the company jointly controlled are integrated line-by-line with the equivalent accounts of the consolidated financial statements. With regard to operations undertaken between a company of the Group and a joint controlled company, the profits and the losses not realised are eliminated equal to the percentage pertaining to the Group in the joint controlled company, with the exception of non-realised losses that constitute a reduction in the value of the asset transferred.

Revenue recognition

Revenues are recorded when it is possible to reliably determine the value and it is probable that the relative economic benefits will be received by the Group. According to this type of operation, the revenues are recognised on the basis of the specific criteria indicated below.

Sale of goods

Revenues are recorded when the significant risks and benefits of the ownership of the assets are transferred to the purchaser.

Services rendered

Revenues are recorded with reference to the stage of completion of activities, on the basis of the same criteria for contract work-in-progress. Where it is not possible to reliably determine the value of revenues, they are recognised up to the costs incurred which are considered will be recovered. In particular, the revenues from the sale of electricity are recognised at the moment of input into the electricity network, but not yet invoiced, and are determined using appropriate estimates based on specific meter reading instruments. These revenues are calculated based on the regulations issued by the Electricity Authority in force during the period, while taking into account the current equalisation regulations; these revenues may, therefore, be subject to changes, currently not quantifiable, after the preparation of the financial statements, as they have retrospective effect.

Revenues from the integrated water service are determined in relation to the quantities supplied in the year even if no meter reading or invoicing has taken place at the balance sheet date.

Interest income is recognised in accordance with the accruals principle, based on the amount lent and the effective interest rate applicable.

Dividends are recorded when the right of the shareholders to receive the payment arises.

Public Grants

The public grants obtained against investments in plant are recorded in the income statement over the period of the relative costs. The operating grants (provided for immediate financial assistance to the company or compensation for expenses and the losses incurred in a previous year) are fully charged to the income statement when the conditions for their recording have been satisfied.

Leasing

Leasing contracts are classified as finance lease contracts when the terms of the contract are such that they substantially transfer all of the risks and benefits of ownership to the lessee. All the other leases are considered operating leases.

The assets subject to finance lease contracts are recorded as assets of the Group at their fair value at the acquisition date, or, if lower, at the current value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet under liabilities for finance leases. The lease payments are divided between a capital portion and an interest portion in order to apply a constant interest rate on the residual liability. The financial charges are charged directly in the income statement, unless they are attributed to specific assets, in which case they are capitalised in accordance with the general Group policies on financial charges.

The rental charges are recorded in the income statement in constant quotas over the duration of the contract.

Employee benefits

The benefits guaranteed to employees paid on the termination of employment or thereafter through defined benefit plans (such as: employee leaving indemnity and additional months) or other long-term benefits are recognised over the period the right matures. These provisions and benefits are not financed. The cost of the benefits in the various plans is determined separately for each plan using the projected unit credit method making actuarial valuations at the end of each year.

On the basis of this criteria, a future projection must be made of the amount matured in order to estimate the amount to be paid at the moment of the termination of employment and then discounted, using the "projected unit credit method", to take into account the period of time which will pass before the actual payment. The Group constantly monitors the employee leaving indemnity liability, calculated in accordance with the above-

mentioned criteria, and at the same time calculates the liability to personnel in accordance with the provisions of article 2120 of the civil code. In consideration of the high level of uncertainty of the estimates connected to salaries and employee movements, as well as the insignificance in absolute terms of the amounts in the financial statements and of the difference between the liability calculated in accordance with the two methods, the Group has recorded the employee leaving indemnity provisions in accordance with article 2120 of the civil code.

Share-based payments (stock option)

From 2005, the Group recognises additional benefits to some members of senior management through stock option plans, used to provide incentive and maintain management loyalty. The total current value of stock options at the vesting date is recorded in the income statement as a cost. Subsequent changes in the current value to the vesting date do not have an effect on the initial value. The remuneration cost, corresponding to the current value of the options, is recognised under personnel costs at constant quotas over the period between the vesting date and that of maturity, with direct recording to equity.

Financial expenses

The financial charges directly attributable to the acquisition, construction or production of fixed assets requiring a significant period of time before they are ready for use or sale, are included in the costs of these fixed assets, up to the moment in which they are ready for use or sale. The revenues received from the temporary investment of liquidity obtained from the above-mentioned loans are deducted from the capitalised interest. All other financial expenses are recognised in the income statement when incurred.

Income taxes

The income taxes for the year represent the total of current and deferred taxes.

Current taxes are based on the result in accordance with current fiscal laws and, for the companies adhering, to the national consolidated fiscal regime. The assessable fiscal result differs from the result recorded in the income statement as it excludes positive and negative components that will be assessable or deductible in other periods and also includes accounts that are never assessable or deductible. The liability for current income taxes is calculated using the current rates.

Deferred taxes are the taxes that are expected to be paid or recovered on the temporary differences between the carrying value of the assets and liabilities in the financial statements and the corresponding fiscal value resulting from the calculation of the assessable income, recorded in accordance with the liability method.

Deferred tax liabilities are generally recorded for all the temporary assessable differences, while deferred tax assets are recorded based on the probability that the future assessable results will permit the use of the temporary deductible differences. These assets and liabilities are not recognised if the temporary differences derive from goodwill (or negative goodwill) or from the initial recognition (not in business combination) of other assets or liabilities in operations which do not have an impact on the accounting result or on the assessable fiscal result.

Deferred tax liabilities are recognised on the temporary assessable differences relating to investments in subsidiary, associated and jointly controlled companies with the exception of the Group being capable of controlling the elimination of these temporary differences and the probability existing that this latter will not be eliminated in the foreseeable future.

The amount of the deferred taxes asset is reviewed at each balance sheet date and reduced when the existence of sufficient assessable income to permit the recovery of all or part of these assets is no longer probable.

Deferred taxes are calculated based on the fiscal rates that are expected to be in force at the moment of the realisation of the asset or the extinction of the liability. Deferred taxes are recognised directly in the income statement with the exception of those relating to accounts directly recognised in equity, in which case the relative deferred taxes are also recognised in equity.

Deferred tax assets and liabilities are compensated when they refer to income taxes due to the same fiscal authority and the Group intends to pay the amount on a net basis.

Tangible fixed assets

Tangible fixed assets are recorded at cost, including directly allocated additional costs and those necessary for bringing the asset to the condition for which it was acquired, net of the relative depreciation provision and any accumulated loss in value. The cost includes the costs of the dismantling of and removal of the asset and the reclamation costs of the site where the building is located, if in accordance with the requirements of IAS 37. The assets composed of components, of significant amounts, with a different useful life are considered separately in the determination of depreciation. Land, both constructible and relating to civil and industrial buildings, is not depreciated in that it has an unlimited useful life. Depreciation is calculated, on a straight line basis, based on the estimated useful life of the assets applying the following rates:

Land and buildings 2.5% - 5%

Plant and machinery 3.5% - 20%

Industrial and commercial equipment 10% - 15%

Other fixed assets 15% - 20%

Plant and machinery under construction for production purposes or for purposes not yet determined are recorded at cost, net of write-downs for loss in value. Costs include any professional fees, and for some assets, the financial charges capitalised in compliance with the Group accounting policies. The depreciation of these assets, as for all fixed assets, begins when the assets are available for use. Leased assets held are depreciated based on the estimate of their useful life as is the case for owned assets or, if lower, on the basis of the expiry terms in the lease contract. The gains and losses deriving from the sale or disposal of assets are determined as the difference between the sales revenue and the net book value of the asset and are charged to the income statement for the year.

Intangible fixed assets

Research costs are recognised in the income statement in the year in which they are incurred.

Intangible assets internally generated are recorded in assets only if all of the following conditions apply:

- > the asset is identifiable (as, for example, software or new processes),
- > it is probable that the asset created will generate future economic benefits;
- > the development costs of the asset can be measured reliably.

When the assets generated internally may not be recorded in the balance sheet, the development costs are recognised in the income statement in the year in which they are incurred. The assets internally generated are amortised on a straight-line basis over their useful life; they are re-examined on an annual basis and any changes are applied to future charges.

Trademarks and patents are recognised at purchase cost and are amortised on a straight-line basis over their expected useful life.

Loss in value (“Impairment”)

At each balance sheet date, the Group reviews the carrying value of its intangible and tangible assets to determine if there are indications that these assets have incurred a loss in value. Where these indications exist, the recoverable amount of these assets is estimated to determine the amount of the impairment loss. Where it is not possible to estimate the recoverable amount of an asset individually, the Group makes the estimate of the recoverable amount of the cash-generating unit to which the asset belongs, this being defined as the legal entity and sector of activity.

The recoverable amount is the higher between the net sales price and the value in use. In the valuation of the value in use, the estimated future cash flows are discounted on a pre-tax basis that reflect the market assessment of the actual time value of money and the risks specific to the asset. If the recoverable amount of an asset (or of a cash-generating unit) is estimated to be lower than the relative carrying value, the carrying value of the asset is reduced to the lower recoverable value. A loss in value is recognised in the income statement immediately, unless the asset is represented by land or buildings (other than investment property) stated at revalued values, in which case the loss is allocated to the respective revaluations reserve.

When a write-down is no longer required to be maintained, the carrying value of the asset (or of the cash-generating unit) is increased to the new value deriving from the estimate of its recoverable value, but not above the net carrying value that the asset would be had the write-down for the loss in value not being made. A reversal of an impairment loss for an asset shall be immediately recognised in the income statement, unless the asset is carried at revalued amount, in which case it shall reduce the revaluation reserve.

Inventories

Inventories are measured at the lower of cost and net realisable value. Costs include direct materials and where applicable, labour; general production expenses and other costs that are incurred in bringing the inventories to their present location and condition. The cost is calculated using the weighed average cost method. The net realisable value is represented by the estimated sales price less the estimated costs to completion and the costs to sell. The write-down of inventories, based on their nature, is made in specific provisions, recorded as a reduction of assets in the balance sheet and as a change in inventories in the income statement.

Financial Instruments

Financial assets and liabilities are recorded in the financial statements when the Group has the contractual obligations of the instrument.

Trade receivables and other assets

Trade receivables are stated at the nominal value reduced by a bad debt provision to reflect the estimate of the losses on receivables.

The estimate of the amounts considered non-recoverable is made when it is considered probable that the company will no longer be capable of recovering the entire amount of the receivable. The trade receivables refer to the amounts invoiced that, at the date of the present document, have still to be collected as well as the portion of revenues relating to the year but invoiced after the year-end.

Financial assets

Financial assets are recognised at the trading date and are initially measured at cost, including the transaction costs.

After initial recognition, the financial assets that the Group has the positive intention and ability to hold to maturity are stated at amortised cost, net of impairment loss to reflect losses in value. The amount of the discount or of the premium deriving from the acquisition of a financial asset held to maturity is determined together with the other investment income over its duration, so as to calculate a constant return on the investment.

The financial assets other than those held to maturity are classified as held for trading or available-for-sale, and are measured at the end of each period at fair value. When the financial assets are held for trading, the gains and losses deriving from the fair value are recorded in the income statement of the period. For the financial assets available-for-sale, the gains and losses deriving from the fair value are directly recorded in equity until they are sold or have incurred a loss in value; in this case, the total gains or losses previously recorded in equity are recorded in the income statement of the period.

Cash and cash equivalents

This account includes cash and bank current accounts and deposits repayable on demand and other highly liquid short-term financial investments, readily convertible into cash and that do not have a significant risk of a change in value.

Financial liabilities

They are measured at amortised cost. In particular, the costs incurred for the acquisition of loans (transaction costs) and any issue discounts or premiums are directly recorded as an adjustment to the nominal value of the loan. Net financial charges are re-determined on the basis of the effective interest rate.

Interest bearing bank loans and overdrafts are recognised based on the amounts received, net of direct costs. The financial charges, including the premiums to be paid on maturity or repayment, are recorded on the accruals basis and are added to the carrying value of the instrument where they are not paid in the period in which they mature.

Convertible bonds

Convertible bonds are financial instruments composed of a liability component and an equity component. At the issue date, the fair value of the liability component is estimated using the current market interest rate for similar non-convertible bonds.

The difference between the net amount received from the issue and the fair value assigned to the liability component, which represents the implicit option to convert the bonds into shares of the Group, is included in the equity as a capital reserve.

The issue costs are divided between the liability component and the equity component based on their respective carrying values at the issue date. The part relating to equity is recorded directly as a reduction.

Trade payables

Trade payables, which mature within the normal commercial terms, are recognised at their nominal value.

Instruments representative of shareholders' equity

Instruments representative of shareholders' equity issued by the Company are recognised based on the amount received, net of the direct issuing costs.

Derivative instruments

Derivative instruments are initially recognised at cost, and adjusted to fair value at subsequent balance sheet dates.

The changes in the fair value of the derivative instruments which are designated to cover future cash flows relating to contractual obligations of the Company and to expected operations are recorded directly in equity. If the contractual obligations or the expected future operations which are hedged result in the recording of an asset or liability, when the asset or liability is recorded, the gains or losses associated which were directly recorded in equity are included in the initial measurement of the acquisition cost and of the carrying value of the asset or of the liability.

For the coverage of financial flows which do not result in the recording of an asset or of a liability, the amounts which are recorded directly in equity will be included in the income statement in the same period in which the contractual obligation or the expected future operation hedged is recorded in the income statement, for example, when an expected sale actually takes place.

The changes in the fair value of the derivative instruments that are not qualified as hedges are recognised in the income statement when they arise. The hedge accounting method is abandoned when the hedging instrument has matured, is sold, terminates, or is exercised, or it is no longer considered as a hedge. In this case, the accumulated gains or losses of the hedging instrument directly recorded in equity are maintained until the expected operation occurs. If it is expected that the hedged operation will not occur, the accumulated gains or losses recorded directly in equity are transferred to the income statement.

The sales options in non-listed companies exercisable by minority shareholders are recorded at the current value of the total amount paid of the option and are measured as a component of the purchase cost of the investment.

Provision for risks and charges

Provisions for risks and charges are recorded when the Group has a legal or implicit obligation (that derives from a past event) and a payment of resources is probable to satisfy the obligation and the amount of this payment can be reliably estimated. The provisions are measured on the basis of the best estimate of the costs required to meet the obligation at the balance sheet date, and are discounted, when the effect is significant.

Use of estimates

The preparation of the consolidated annual report, in application of IFRS, requires that estimates and assumptions on the values of the assets and liabilities are made in the financial statements and on the information relating to the assets and potential liabilities at the balance sheet date. The actual results could differ from those estimated. The estimates are utilised to record provisions for risk on receivables, inventory obsolescence, write-down of assets, employee benefits, income taxes and other provisions. The estimates and assumptions are reviewed periodically and the effects of all movements are recognised in the income statement.

Conversion criteria of foreign currencies

The functional currency of presentation adopted by Enertad and its subsidiaries in Europe is the Euro. Foreign currency transactions are recognised, initially, at the exchange rate at the date of the transaction. The assets and liabilities denominated in foreign currencies other than the operational currencies are converted to the functional currency at the exchange rate at the end of the reporting period. All the exchange differences are recorded in the income statement of the consolidated financial statements with the exception of the differences deriving from loans in foreign currencies which were made as a cover of a net investment in a foreign company. These differences are recorded directly in equity until the net investment is sold and at that moment any subsequent exchange differences are recorded in the income statement. The fiscal effect and the receivables attributable to the exchange differences deriving from these kind of loans are also recorded directly in equity. The non-monetary accounts measured at historical cost in foreign currencies are translated using the exchange rate at the date of initial recognition of the operation. The non-monetary accounts recorded at fair value are translated using the exchange rate at the date the value was determined. The functional currency used by the US subsidiaries is the US Dollar. At the balance sheet date, the assets and liabilities of these companies are translated into the presentation currency adopted by the Parent Company at the exchange rate at the balance sheet date, and the income statement is translated using the average exchange rate for the year. The exchange differences arising are directly recorded in a separate equity account. On the sale of a foreign entity, the accumulated exchange differences recorded in the equity reserve are recorded in the income statement.

Balance sheet accounts

I Tangible assets

The details of tangible assets, of the relative depreciation provisions, and of the movements during the year, are shown in the following table:

Category						(€/000)
	Land & buildings	Plant & machinery	Industrial & sales equipment	Other fixed assets	Assets in progress	Total
Gross values						
Balance 31.12.2004	68,391	120,116	5,524	9,455	25,125	228,611
Increases	3,508	24,906	491	835	32,277	62,017
Other reclassifications	7,148	15,980	494		(23,622)	
Changes in the consolidation scope		(80)	61	(245)		(264)
Write-downs		(674)		(10)	(416)	(1,100)
Disposals	(386)	(262)	(194)	(863)		(1,705)
Change in exchange rates	(1)	458	(1)	41	24	521
Other increases	2,784					2,784
Total gross values	81,444	160,444	6,375	9,213	33,388	290,864
Accumulated depreciation						
Balance 31.12.2004	(10,398)	(28,948)	(3,278)	(6,874)		(49,498)
Depreciation	(3,118)	(12,382)	(534)	(922)		(16,956)
Changes in the consolidation area		20	2	50		72
Write-downs		138				138
Disposals	102	237	174	734		1,247
Change in exchange rates		(295)		(34)		(329)
Total accumulated depreciation	(13,414)	(41,230)	(3,636)	(7,046)		(65,326)
Total net values	68,030	119,214	2,739	2,167	33,388	225,538

The principal investments relate to: i) investments in wind-generation plants of Euro 52,481 thousand; ii) investments in waste-to-energy plants of Euro 2,364 thousand; iii) investments in land and buildings of Euro 3,508 thousand; and iv) other investments of Euro 3,664 thousand.

The other increases refer to the changes of the estimate in the post-mortem and filling charges on the landfill owned by the subsidiary SAO SpA. Reference should be made to the note on "Provisions for risks and charges" for further details on these provisions. The net residual value at December 31, 2005 of the total cumulative costs against the obligations on the landfill post-mortem and filling charges amount to Euro 13,189 thousand (Euro 11,285 thousand at December 31, 2004).

The assets scrapped in the year were of insignificant values.

The account "land and buildings" and "plant and machinery" includes Euro 1,056 thousand invested in the industrial site at Arzene (PD), which was non-operating at the balance sheet date.

Tangible assets in progress refer almost exclusively to investments in new wind parks which will enter into full production in the first half of 2006.

In 2005, interest of Euro 708 thousand was capitalised on loans relating to the investments.

The net book values at December 31, 2005 include assets in leasing of Euro 5,947 thousand and assets pledged as guarantees to third parties of Euro 139,009 thousand referring to project financing contracts agreed by the Group companies.

During the year, no internal or external factors arose indicating the need to carry out impairment tests.

2 Intangible assets

The details of intangible assets, of the relative amortisation provisions, and of the movements during the year, are shown in the following table:

Category	Develop. costs	Patents	Concess. licenses & tradem.	Good- will	Assets in progress	(€/000)
						Total
Gross values						
Balance 31.12.2004	2,843	831	655	87,707	22	92,058
Increases from investments	496	133	9	1,809		2,447
Increases (internal costs)	262					262
Other reclassifications		17			(17)	
Write-downs				(2,200)		(2,200)
Changes in the consol. scope		(26)				(26)
Change in exchange rates		(17)	7	1,902		1,892
Other increases				1,140		1,140
Total gross values	3,601	938	671	90,358	5	95,573
Accumulated amortisation						
Balance 31.12.2004	(4)	(584)	(460)			(1,048)
Amortisation	(4)	(133)	(77)			(214)
Changes in the consol. scope		5				5
Change in exchange rates			(3)	(401)		(404)
Total accumulated amortisation	(8)	(712)	(540)	(401)		(1,661)
Total net values	3,593	226	131	89,957	5	93,912

Development costs, industrial patents and trademarks are capitalised at cost. It is estimated that these assets have a limited useful life and are therefore amortised on a straight-line basis as follows:

- > development cost: five years. In particular, they are amortised when the expected revenues arise against the cost capitalised;
- > industrial patents and intellectual property rights: five years;
- > concessions, licences and trademarks: five years. In particular, the amortisation of the concessions is made on a straight-line basis over the residual duration of the concessions to which they refer.

These assets are subject to a verification of the value whenever there are indications of a reduction in value.

In 2005, loan interest of Euro 227 thousand was capitalised, included under development costs, relating to the investments.

The development costs refer to charges incurred for feasibility studies on waste-to-energy plants to be erected in the municipality of Frosinone (Lazio) and the design costs relating to the wind parks.

Goodwill

The movements in the account on the previous year are as follows:

Description	(€/000)
	Amount
Balance 1.1.2004	59,381
Changes year 2004	
Purchases	2,660
Change in the consolidation scope	16,353
Change in exchange rates	(723)
Write-downs	(5,335)
Value of minority shareholders sales option in a non-listed company	14,810
Other changes	561
Balance 31.12.2004	87,707

Prior to January 1, 2004, no write-downs were made for permanent loss in value; the goodwill was subject to amortisation in accordance with the applicable accounting standards. In 2004, presented for comparative purpose, write-downs were made for permanent loss in value on the basis of the different strategic and business forecasts made by the new management.

With reference to the value of the minority shareholders sales option in a non-listed company, reference should be made to the information provided in note No. 23 of the present document.

The movements in 2005 relate to: i) an increase of Euro 1,809 thousand referring to the acquisition of the business unit, completed in March 2005 of the subsidiary Eos 3 Troia Srl, relating to the San Cireo wind park in the municipality of Troia (FG); ii) a net increase of Euro 1,501 thousand relating to the change in the exchange rate applied on the value of the goodwill in US dollars; iii) an increase of Euro 1,140 thousand deriving from the change in the indexation of the sales option of a non-listed company (Sodai SpA) exercisable by minority shareholders. These options, amounting to Euro 14,810 thousand at December 31, 2004 and Euro 15,950 thousand at December 31, 2005, are recorded at the current value of the total amount paid for the option and are valued as a component of the acquisition cost of the investment.

With reference to the value of the minority shareholders sales option in a non-listed company, reference should be made to the information provided in note No. 23 of the present document.

The Group verifies the recoverability of goodwill at least annually.

The recoverable value of the cash-generating units, individually determined within the activities of the Group, is verified through the determination of the value in use. The principal assumptions used for the calculation of the value in use relates to the discount rate, the growth rate, the expectations of changes in sales prices and the trend of the direct costs during the period used for the calculation. The management of the Group has therefore adopted a pre-tax discount rate that reflects current market assessments of the time value of money and risks specific to the different cash-generating units. The growth rates are in accordance with growth forecasts for the industrial sectors in which the Group operates. The changes in sales prices and direct cost are based upon past experience, the market outlook and on the forecast regulatory changes of some activities of the Group.

The Group prepares operating cash flow forecasts based on the most recent budgets approved by the Board of Directors of the consolidated companies, expanded upon by the forecasts for the next four years and determines the terminal value based on a medium/long-term growth rate of each industry.

Following the above analysis, the Group recorded a write-down on goodwill in the steel sector of Euro 1,200 thousand and in the water services sector of Euro 1,000 thousand.

3 Equity investments

List of companies consolidated fully:

Company	Registered offices	% hold	Subsidiary
Enertad SpA	Milan		Parent company
Tad Energia Ambiente SpA	Milan	100.00	Enertad SpA
Steel sector:			
Charron Inox Sas	Marseille- France	100.00	Enertad France Sas
Enertad France Sas	Marseille- France	100.00	Enertad SpA
Fim Inox Sas	Garges Les Gones - France	100.00	Enertad France Sas
Metalli Marchelli Srl	Milan	100.00	Enertad France Sas
Presco Sas	Rognac - France	100.00	Enertad France Sas
Sapim Sas	Montfavet - France	100.00	Enertad France Sas
Tad Inox Service BV	Heerlen - The Netherlands	100.00	Enertad France Sas
Tad Inox Service Gmbh	Bad Schonborn - Germany	100.00	Enertad France Sas
TCT Stainless Steel Inc	Delaware - United States	100.00	Enertad France Sas
TCT Stainless Steel of Nashville Inc	Delaware - United States	100.00	Enertad France Sas
Wind sector:			
Eolo Srl	Atina (Fr)	51.00	Tad Energia Ambiente SpA
Eos 1 Troia Srl	Milan	100.00	Eos Windenergy Srl
Eos 2 Nurra Srl	Milan	100.00	Eos Windenergy Srl
Eos 3 Troia Srl	Milan	100.00	Eos Windenergy Srl
Eos Windenergy Srl	Milan	100.00	Enertad SpA
Waste-to-energy sector:			
Eall Srl	Orvieto (Tr)	100.00	Tad Energia Ambiente SpA
Ecoenergie Srl	Palio (Fr)	90.00	Tad Energia Ambiente SpA
Energie Pulite 2000 Srl	Milan	100.00	Tad Energia Ambiente SpA
Temi En.A. SpA	Temi	100.00	Tad Energia Ambiente SpA
Waste treatment sector:			
Enercombustibili Srl	Frosinone	100.00	Tad Energia Ambiente SpA
Ergo En.A. Srl	Frosinone	75.00	Tad Energia Ambiente SpA
Interpark Srl	Temi	100.00	Tad Energia Ambiente SpA
Sao SpA	Orvieto (Tr)	100.00	Tad Energia Ambiente SpA
Water services sector:			
Amatrice Servizi Scarl	Rieti	99.42	Tad Energia Ambiente SpA
DSI Srl	Frosinone	100.00	Enertad SpA
Omnia Srl	Rieti	100.00	Tad Energia Ambiente SpA
Sodai Italia SpA	Milan	51.00	Enertad SpA

Changes in the consolidation scope:

The following companies were included in the consolidation scope in 2005:

- i) Eos 3 Troia Srl, incorporated in February, 2005 and operating in the wind sector;
- ii) Fim Inox Sas, acquired in August 2005 and operating in the steel sector. In the paragraph "Business combinations", the impact of the business combinations is reported upon.

In addition, the company Ener Sistema Srl in March 2005 carried out a full spin-off with the transfer of a quota of the equity to the newly incorporated company Amer Srl and a part to the company Enercombustibili Srl, a company already fully held by Ener Sistema Srl. Also in March 2005, the full shareholding in the company Amer Srl was sold to third parties at a book value of Euro 10 thousand.

4 Investments measured under the equity method

The balance comprises:

Company	Registered office	% held		Book value	
		31.12.2005	31.12.2004	31.12.2005	31.12.2004
Amea SpA	Paliano (Fr)	33.0%	33.0%	1,596	1,596
Amea Servizi SpA	Paliano (Fr)	33.0%	33.0%	723	724
Ame@tad Srl	Paliano (Fr)	55.0%	55.0%	11	106
Recupera Srl	Paliano (Fr)	90.0%	90.0%	0	59
Sorepla Srl	Paliano (Fr)	90.0%	90.0%	0	59
Total values				2,330	2,544

The following financial data is indicated:

Company	Assets	Liabilities	Net equity	Revenues	Net result
Amea SpA (I)	7,911	4,953	2,958	646	1
Amea Servizi SpA (I)	1,317	493	824	1,853	0
Ame@tad Srl	150	139	11	30	(111)
Recupera Srl	60	78	(18)	0	(40)
Sorepla Srl	60	78	(18)	0	(40)

note (I): figures at December 31, 2004.

The higher carrying values compared to the Group's share of equity are based on the forecasted future profitability of the subsidiaries, which confirms their recoverability.

With regard to the subsidiaries Recupera Srl and Sorepla Srl, the provision for risks and charges reflect a provision against the total differential of Euro 36 thousand between the carrying value and the net equity deficit.

5 Other investments

The balance comprises:

Company	Registered office	% held		Book value	
		31.12.2005	31.12.2004	31.12.2005	31.12.2004
Ansaldo Fuel Cells SpA	Terni	6.7%	10.3%	4,263	4,263
Total value				4,263	4,263

The company Ansaldo Fuel Cells SpA, a minority holding of Enertad SpA, operates in the application development of technologies for the production of fuel cell energy (hydrogen). In 2005, following a share capital increase in which the Group did not participate, the holding was reduced to 6.7%.

The higher carrying value compared to the Group's share of equity is based on the forecasted future profitability which confirms its recoverability.

6 Business combinations

On August 31, 2005, the Group acquired the entire holding in Fim Inox Sas, a company with headquarters in Garges Les Gonnes (France) and operating in the steel sector:

	(€/000)
Description	Amount
Net assets acquired	
Tangible assets	104
Inventories	1,997
Trade receivables	1,817
Tax assets, tax receivables	97
Other receivables	126
Cash and bank assets	2
Provision for risks	(158)
Other payables	(212)
Trade payables	(1,233)
Financial payables	(1,600)
Current account overdrafts	(10)
Tax liabilities, tax payables	(167)
Total net assets purchased	763
Purchased price	763
<i>Price paid</i>	
Cash	763
Total	763

	(€/000)
Description	Amount
Net cash flow from the acquisition:	
Cash payment	(763)
Cash and banks acquired	(8)
Total	(771)

In the period between the date of acquisition (August 2005) and the year-end, Fim Inox Sas contributed to the Group with revenues of Euro 2,692 thousand and pre-tax profits of Euro 206 thousand. If the acquisition had occurred at the beginning of the year, total Group revenues would have amounted to over Euro 5,303 thousand and the pre-tax result would have been Euro 10 thousand.

7 Current financial assets

The balance comprises:

	(€/000)		
Description	31.12.2005	31.12.2004	Changes
Insurance policies	11,167	9,210	1,957
Other securities	657	665	(8)
Others	7	7	0
Total	11,831	9,882	1,949

The account insurance policies of Euro 11,167 thousand is composed as follows:

- > Euro 7,000 thousand for two capital insurance policies with a duration of over five years agreed with the Generali Vita S.p.A., in particular:
 - a) Single premium policy of Euro 1,750 thousand with duration from June 3, 2003 to June 3, 2009;
 - b) Annual premium policy totalling Euro 5,250 thousand with duration from June 3, 2003 to June 3, 2009; the annual premium amounts to Euro 1,750 thousand.
- > Euro 2,100 thousand for a capital insurance policy, agreed with RAS of a single premium with duration from April 1, 2004 to April 1, 2014.

These policies are held as secured pledges in favour of Assicurazioni Generali and RAS, until the obtaining of the sureties in favour of Trenitalia SpA as guarantees of the sales options, exercisable on the Group, of the holding of Trenitalia (49%) in the company Sodai Italia SpA..

- > for Euro 1,860 thousand for a capital insurance policy with Vittoria Assicurazione SpA for the issue of a guarantee in favour of the subsidiary EOS I-Troia Srl, on behalf of GRTN and subsequently transferred to TERNA, for the execution of a public tender for the construction of an electricity sub-station servicing the wind park with a duration from September 15, 2004 to September 15, 2009;
- > for Euro 207 thousand for an annual premium capital insurance policy with RAS SpA for the issue of a guarantee in favour of the subsidiary EOS I-Troia Srl, on behalf of landowners where the wind parks of the company are located. The contract duration is from March 8, 2004 to March 8, 2011; annual premium Euro 103 thousand.

The account other securities concerns equity securities and relates to a restricted deposit as guarantee of a building lease contract.

8 Other receivables

The account comprises:

Description	(€/000)		
	31.12.2005	31.12.2004	Changes
Deposit on Nurra Consortium	2,500	2,500	
Other deposits	319	249	70
Prepayments and accrued income	160		160
CIP 6 extension	1,444	2,165	(721)
Total	4,423	4,914	(491)

The amount of Euro 2,500 thousand refers to a deposit paid by the company Eos 2 Nurra Srl to the Reclamation Consortium of Nurra against the rental contract of the business division agreed on June 9, 2004.

The receivable of Euro 1,444 thousand (Euro 2,165 thousand at December 31, 2004) relates to the capitalisation of the costs incurred in the period when the waste-to-energy plant was not operating (EALL Srl); for this plant the extension of the CIP 6 incentives was obtained, which is recorded in the income statement in correlation to the depreciation on the plant.

9 Deferred tax assets

The details of the movements in deferred tax assets during the year are shown in the following table:

Description	(€/000)					
	Balance 31.12.2004	Income statement		Change in consol. area	Others changes	Balance 31.12.2005
		debit	credit			
Depreciation, amortisation, provisions & write-downs	1,680	(583)	286		113	1,496
Other differences	780	(77)	188			891
Losses carried forward	2,945	(1,204)	20			1,761
Total	5,405	(1,864)	494		113	4,148

At the balance sheet date, the Group had accumulated losses of Euro 35,108 thousand (Euro 20,837 thousand at December 31, 2004), as per the national fiscal consolidation applied by the Group, against which no deferred tax assets were recorded based on a prudent assessment of the capacity to generate future assessable income.

10 Inventories

The account comprises:

	Balance 31.12.2004	Changes in year	Change in consol. scope	Change in exchan. rate	Balance 31.12.2005
Raw material, ancillary and consumables	17,342	(1,712)		791	16,421
Work-in-progress and semi-finished products	1,900	(1,029)		29	900
Finished products and goods for resale	29,778	(4,136)	1,993	124	27,759
Total	49,020	(6,877)	1,993	944	45,080

(€/000)

An amount of Euro 5,811 thousand (Euro 7,314 thousand at December 31, 2004) of inventories are provided as a revolving pledge guarantee on a commercial credit line given to the subsidiary Tad Inox Service Bv.

11 Trade receivables

The account comprises:

Description	31.12.2005	31.12.2004	Changes
Trade receivables	79,237	77,539	1,698
Holding companies	800	798	2
Subsidiaries	317	338	(21)
Associated companies	960	1,519	(559)
Total	81,314	80,194	1,120

(€/000)

The Group considers that the carrying value of trade receivables, net of the bad debt provision, approximates their fair value. A doubtful debt provision was made of Euro 3,088 thousand (Euro 2,042 thousand at December 31, 2004); this provision was determined on the basis of historical data relating to losses on receivables and of the evaluation of the current economic environment.

Trade receivables related to: i) Euro 46,217 thousand receivables in the steel sector; ii) Euro 6,812 thousand receivables from GRTN for the sales of electricity, iii) residual receivables in the environment sector.

The details of receivables from subsidiary, associated and holding companies and the nature of these transactions is described in the paragraph "Operations with related parties".

12 Other financial receivables from holding companies

The account comprises:

Description	31.12.2005	31.12.2004	Changes
Receivable from Fintad International SA	3,343	37,172	(33,829)
Total	3,343	37,172	(33,829)

(€/000)

The above-mentioned financial receivable of Enertad SpA from the parent company at December 31, 2004 was guaranteed by irrevocable and unconditional bank guarantees for a total amount of Euro 35,724 thousand. These guarantees were executed for the entire amount which was collected by the company in November 2005. No other movements took place in the year except for the capitalisation of interest matured at a rate of 6%.

13 Other Receivables

The account comprises:

	(€/000)		
Description	31.12.2005	31.12.2004	Changes
Other receivables from holding companies	1,291	1,291	
Other receivables from subsidiaries	5	5	
Financial receivables from subsidiaries	26	1,044	(1,018)
Advances to suppliers	1,307	1,408	(101)
Other receivables	9,414	1,637	7,777
Prepayments and accrued income	2,250	2,731	(481)
Total	14,293	8,116	6,177

Other receivables:

	(€/000)		
Description	31.12.2005	31.12.2004	Changes
Receivables for green certificates	6,889		6,889
VAT receivables	290	226	64
Receivables from public entities	845	381	464
Receivables for insurance claims	134	130	4
Receivables from Inail	224	196	28
Other receivables	1,032	704	328
Total	9,414	1,637	7,777

Receivables for the green certificates relate to the valuation of the so-called "green certificates" matured by the Group and refers to the production in 2005 of the wind park at Troia San Vincenzo (FG). The valuation of 1,263 certificates refers to the communication received in which GRTN established the offer price for the sale to the market of its green certificates for the year 2005; this price is conventionally taken as the reference for all green certificate sales.

Prepayments and accrued income:

	(€/000)		
Description	31.12.2005	31.12.2004	Changes
Insurance premiums	649	694	(45)
Rental and leases	261	364	(103)
Management & environmental reclamation charges		173	(173)
Surety charges	105	139	(34)
Other prepayments and accrued income	1,235	1,361	(126)
Total	2,250	2,731	(481)

14 Tax receivables

The account includes receivables deriving from operations of a non commercial nature and is represented for the major part by VAT receivables, other tax receivables and payments on account made in the year.

15 Equity investments available-for-sale

The account comprises:

Company	Headquarters	% held		Book value	
		31.12.2005	31.12.2004	31.12.2005	31.12.2004
		(€/000)			
Agesa Srl	Terni	13.8%	13.8%	21	21
Ala Scarl (in liquidation)	Rome	8.0%	8.0%	6	6
Banca di credito coop. di Terni	Terni	-	-	5	5
Banca Popolare di Spoleto	Spoleto	-	-	9	9
Cerveteri Ambiente Srl (in liquidation)	Orvieto		100.0%		0
Ecofuels Srl (in liquidation)	Paliano (Fr)		90.0%		9
Enercom Srl (in liquidation)	Frosinone	100.0%	100.0%	0	3
Enerdepurazioni Scarl	Frosinone	99.8%	99.8%	10	10
Galileo Scarl	Terni		-		3
Medianova Scarl	Terni		-		23
Reclas SpA (in liquidation)	Colfelice (Fr)	14.0%	14.0%	0	389
Rieti Ambiente SpA (in liquidation)	Rieti	49.0%	49.0%	64	64
Socram Ecologia Srl (in liquidation)	Orvieto		100.0%		0
Tad Ambiente Srl (in liquidation)	Terni		100.0%		0
Umbriadue Servizi Idrici Scarl	Terni	34.0%	34.0%	787	428
Utilità SpA	Milan		3.3%		70
Utilità Progetti & Sviluppo Srl	Milan	3.3%		2	
Total value				904	1,040

With regard to the table above:

- > the companies Cerveteri Ambiente Srl (in liquidation), Ecofuels Srl (in liquidation), Socram Ecologia Srl (in liquidation) and Tad Ambiente Srl (in liquidation) completed their respective liquidation procedures during the year and therefore are no longer legal entities. The completion of the liquidation procedures involved costs in the year of Euro 97 thousand;
- > the companies Enercom Srl (in liquidation), Reclas SpA (in liquidation), Ala Scarl (in liquidation) and Rieti Ambiente Srl (in liquidation) began in 2005 and in the first months of 2006 their respective liquidation procedures. It is expected that these procedures will conclude within one year. The costs for the current year of the above-mentioned companies amounts to Euro 415 thousand;
- > the companies Galileo Scarl and Medianova Scarl were sold to third parties at their carrying value;
- > the company Umbriadue Servizi Idrici Scarl is in the finalisation phase of discussions with third party companies for a possible total sale of the Group's shareholding;
- > the company Utilità SpA was involved in its Group re-organisation. Consequentially, Enertad SpA sold its shareholding in the company and subscribed, for the same percentage holding, in the share capital of the new company Utilità & Progetti Srl.

16 Cash and cash equivalents

The account comprises:

Description			(€/000)
	31.12.2005	31.12.2004	Changes
Bank and postal deposits	38,284	16,179	22,105
Restricted bank and postal deposits	3,638	27,000	(23,362)
Cash and cash equivalents	50	43	7
Total	41,972	43,222	(1,250)

This principally relates to the positive balances on bank current accounts whose book value approximates to the fair value of these assets.

The amount of Euro 3,638 thousand refers to a deposit in a restricted account at Banca Popolare dell'Etruria e del Lazio to guarantee the issue of a surety given by the same bank for payments to be made to the supplier Repower System AG, relating to wind turbines for the wind park at Troia – San Vincenzo. The full release of the surety and of the correlated deposit, with an original value of Euro 27,000 thousand, will occur in line with the payments made to the supplier over the coming months and were prevalently refinanced by a project finance operation agreed in March 2005.

17 Assets available-for-sale

The amount in the previous year relates to the value of the shareholding in Volsca SpA, held for 38% by SAO SpA. The holding was sold at the carrying value in March 2005.

18 Share capital and reserves

The Share Capital is represented by 94,865,881 ordinary shares; having a nominal value of Euro 1.00 each, fully subscribed and paid-in.

The account comprises:

	(€/000)		
Description	31.12.2005	31.12.2004	Changes
Share capital	94,866	94,866	
Reserves	62,953	86,141	(23,188)
Translation reserve	(1,807)	(3,595)	1,788
Net profit/(loss) of the Group	(11,860)	(20,117)	8,257
Group Shareholders' Equity	144,152	157,295	(13,143)
Shareholders' equity – minority interest	7,636	7,610	26
Total	151,788	164,905	(13,117)

19 Employee leaving indemnity provision

The provision for employee leaving indemnities is accrued to cover the full liability to employees in accordance with current legislation and labour agreements at the balance sheet date; this is subject to revaluation in accordance with standard indices.

The details of movements in employee leaving indemnities in the year are illustrated in the following table:

	(€/000)				
	Balance	Provision.	Utilisations	Changes	Balance
	31.12.2004			in consol. area	31.12.2005
Executives	195	155	(107)		243
White-collar	736	254	(217)	21	794
Blue collar	1,170	317	(197)	38	1,328
Total	2,101	726	(521)	59	2,365

In consideration of the insignificance in absolute terms of the amounts in the financial statements and of the difference between the liability calculated in accordance with the "project unit credit method", the Group has recorded the employee leaving indemnity provisions in accordance with article 2120 of the civil code.

20 Share-based payments

The company has a stock option plan for executive directors and management of Enertad SpA holding positions directly responsible for the economic and operating results of the Group. The exercise of the option rights can take place three years from the vesting date and for a period not more than five years thereafter; once the options have expired there are no more rights associated to the options vested.

The details of the options not yet exercised in the year can be broken down as follows:

Outstanding at beginning of year		
Vested during year	930,200	3,237
Cancelled during the year	(100,000)	
Exercised during the year		
Expired during the year		
Outstanding at the end of year	830,200	
Exercisable at the end of year	0	

The Board of Directors of Enertad SpA on February 1, 2005 deliberated to execute the first tranche of the stock option plan, vesting a total of 930,200 option rights to eight persons identified in accordance with the criteria defined by the Remuneration Committee and already approved, together with the regulations of the Plan, in the Board of Directors meeting of November 12, 2004. In the same board meeting of February 1, 2005, the Board of Directors also established the subscription price of the new shares, calculated in accordance with the formula in the regulations, and establishing that the exercise price of the options will be equal to Euro 3.237 per share.

The Group recorded a cost for remuneration, corresponding to the current value of the options equal to Euro 204 thousand, under personnel costs on the basis of a constant quota over the period between the vesting date and maturity date.

21 Provisions for risks and charges

The account can be broken down as follows:

						(€/000)
	Balance	Provision	Utilisations	Others	Changes	Balance
	31.12.2004			Changes	cons. area	31.12.2005
Risks for disputes in course	651	1,036	(26)			1,661
Environmental restoration	12,705	650	(357)	2,784		15,782
Other risks	3,253	381	(2,044)	150	(248)	1,492
Total	16,609	2,067	(2,427)	2,934	(248)	18,935

The value of the risk provisions on pending litigation principally regards:

- > an amount of Euro 1,000 thousand refers to an arbitral procedure, initiated by a company in December 2004, requiring the implementation by the subsidiary EALL Srl, of an Operation and Maintenance contract relating to the San Vittore del Lazio plant, which was signed in January 2001 and not considered valid by EALL Srl. The plaintiff requests, in addition to the fulfilment of the contract, general damages from EALL Srl to be paid in a separate ruling. EALL Srl has contested the requests made by the plaintiff;
- > an amount of Euro 300 thousand refers to a notice received from a company, in May 2005, of an injunction for the payment of consultancy services, which the company considers due from Enertad SpA, based on a mandate for the conclusion of a commercial operation. Enertad SpA, considering that the amount requested from the company is not due, challenged the injunction. In December 2005, the judge allowed the provisional execution of the injunction. The case is still pending.

The environmental restoration provision represents the fair value of the obligation to carry out the closure, post-operative management, supervision and control of the landfill owned by SAO SpA. The total costs expected for the restoration of the site are included in the value of fixed assets. Other changes amounting to Euro 2,784 thousand relate to the adjustment made in the year based on the definition of a new expert's valuation made in 2005. The recording in the income statement of the charges capitalised is made over the useful life of the relative asset through the depreciation process. As the liability is estimated based on the current values of the obligations in accordance with current regulations, no discounting was applied.

The provision for other risks relates to various litigation proceedings in course concerning Group companies and taking into account the evaluations of legal consultants who have assisted the Group in the various disputes.

All the risks and disputes in course of the Group are described in the Directors' Report.

22 Financial liabilities

Financial liabilities can be broken down as follows:

	(€/000)					
	Balance 31.12.2005		Balance 31.12.2004		Changes	
	current	non-current	current	non-current	current	non-current
Convertible bonds	76,142		373	74,646	75,769	(74,646)
Bonds			42		(42)	
Shareholder loans	62		62			
Bank payables	79,696	82,613	73,904	54,082	5,792	28,531
Other lenders	12,345	23,661	15,646	22,680	(3,301)	981
Total	168,245	106,274	90,027	151,408	78,218	(45,134)

The loans indicated above have the following re-payment schedules:

	Within 1 year	Between 3 and 5 years	Over 5 years
Convertible bonds	76,142		
Shareholder loans	62		
Bank payables	79,696	59,541	23,072
Other lenders	12,345	16,844	6,817
Total	168,245	76,385	29,889

Convertible bonds:

The convertible bond "Enertad 2003-2006 convertible" for an original amount of Euro 76,500,000 consists of, at December 31, 2005, 17,997,821 convertible bonds with a nominal unitary value of Euro 4.25 for a total nominal value of Euro 76,490,739.25. The bonds are convertible into ordinary shares at a nominal value of Euro 1.00 each, of 1 share for each convertible bond. The interest is payable on May 31 and November 30 of each year from 2003 to 2006. The convertible bonds will be repaid by the Company in one single payment on November 30, 2006.

The interest rate for 2005 was 5.75% and the interest accrual for the month of December amounted to Euro 373 thousand.

Description	(€/000)		
	31.12.2005	31.12.2004	Changes
Nominal value of bonds	76,491	76,491	
Transaction costs recorded as direct reduction	(922)	(1,845)	923
Recording at amortised cost	200		200
Interest rate	373	373	
Total	76,142	75,019	1,123

The regulations of the convertible bond provide for at article 7 "Obligations of the issuer" that the ratio between net debt and own funds, measured at predetermined dates, must be in compliance with various parameters. The Group complied with these obligations throughout the duration of the bond.

Bonds:

The amount refers to a bond loan (performance index linked bond) of an original amount of Euro 51 million with a residual value at December 31, 2004 for 13,907 bonds with a nominal value of Euro 3.00. The payable was repaid on its expiry date of June 30, 2005.

Payables for shareholder loans:

The amount of Euro 62 thousand refers to a payable to MACO Srl, which is a shareholder in the company Eolo Srl, in which the Group has a holding of 51%.

Bank payables:

	(€/000)		
Description	31.12.2005	31.12.2004	Changes
Current account overdrafts	52,146	59,175	(7,029)
Project financing	103,820	62,247	41,573
Advances on bank drafts	3,994	4,096	(102)
Loans on imports		190	(190)
Other loans	2,349	2,278	71
Total	162,309	127,986	34,323

Bank overdrafts represent the financial payables of the Group repayable on demand; the average interest rate for the year was 6.2%. The book value approximates the fair value.

The Group held the following project financing contracts at December 31, 2005:

- > a contract signed in 2003 by EALL Srl for a residual payable of Euro 31,074 thousand. The initial amount of the loan was Euro 42 million with semi-annual instalments with the final repayment due on December 31, 2010. The interest rate is 6 month Euribor + 1.35%. The guarantees provide for the mortgage on the building, special privileges on plant, concessions and receivables in addition to a 100% pledge on the share capital of the company;
- > a contract signed in 2002 by Terni En.a. SpA for a residual payable of Euro 22,874 thousand. The initial amount of the loan was Euro 34 million with semi-annual instalments with the final repayment due on June 30, 2009. The interest rate is 6 month Euribor + 1.25%. The guarantees provide for the mortgage on the building, special privileges on plant, concessions and receivables - in addition to a 100% pledge on the share capital of the company;
- > a contract signed in 2005 by Eos 1-Troia Srl, the balance of which at December 31, 2005 was Euro 29,429 thousand. The loan provides for a credit line of Euro 36 million. The first repayment is due on June 30, 2006; the final repayment is due on December 31, 2013. The interest rate is 5.3% up to the acceptance of the final approval certificate and thereafter will be equal to 5.05%. The guarantees provide for the mortgage on the surface rights, special privileges on assets, 100% pledge on the share capital of the company in addition to a comfort letter from Enertad SpA;
- > a contract signed in 2005 by Eos 3-Troia Srl, of which the balance at December 31, 2005 was Euro 20,443 thousand. The loan provides for a credit line of Euro 34 million for an installed power of 30 MW increasing to Euro 43 million for a further 10 MW. The first repayment is due on June 30, 2007; the final repayment is due on December 30, 2014. The interest rate is Euribor at 6 months + 1.6% up to the acceptance of the final approval certificate and thereafter will be Euribor at 6 months + 1.45%. The guarantees given provide for a mortgage on fixed assets, special privileges on assets, 100% pledge on the share capital of the company in addition to a comfort letter from Enertad SpA.

Financial payables for advances on bank drafts relate to drafts presented as at December 31, 2005 with an average rate in the year of 2.4%.

Other lenders:

The characteristics of the principal loans received by the Group from other lenders are as follows:

- > a pool loan granted to Enertad SpA with a residual value of Euro 16,050 thousand to be repaid in equal instalments on June 30, 2006 and 2007. The loan is guaranteed by sureties issued by the holding companies Tad Fin SpA and Fintad International SpA, in addition to a 50% pledge on the share capital of TAD Energia ambiente SpA. The loan is at a variable rate of Euribor 6 months increased by 2.10%;
- > a pool financing loan granted to Enertad France Sas at a residual value of Euro 10,000 thousand, with semi-annual instalments and constant capital repayments amounting to Euro 714 thousand, beginning March 30, 2006 and ending September 30, 2012. The loan is guaranteed by a 100% pledge on the share capital of Fim Inox Sas and of Sapim Inox Sas. The loan is at a variable rate of Euribor 3 months increased by 1%.

The balance includes Euro 5,569 thousand of payables relating to finance leases as follows:

	(€/000)
Finance leases	Balance at 31.12.2005
Leases commit. within one year	817
Leases commit. within five years	2,347
Leasing commit. over five years	4,839
Total leases	8,003
Future finance charges	(2,434)
Total lease payables	5,569

The Group principally acquires tangible assets under finance leases exclusively for its activities in the steel sector; in addition to vehicles and equipment; in fact almost all of the payable, Euro 5,291 thousand, relates to real estate operations. The average duration of these contracts is approximately 13 years, the interest rates are fixed on the signing of the contract and the average effective interest rate was 5.5%. The finance lease payables are guaranteed to the lessor through the rights on the asset in leasing and the book value approximates to their fair value.

23 Payables for derivative instruments

Derivative instruments and accounting of hedging operations

The liabilities of the Group are exposed primarily to financial risks related to changes in interest rates. The Group uses derivative instruments to manage the risk of fluctuations in interest rates which primarily relate to interest rate swap and interest rate option contracts which may involve a combination of these instruments. In particular, the Group policy is to convert a part of its variable interest rate payables to a fixed interest rate or maintain a variable base with a cap on the interest rate in order to normalise financial expenditures. These instruments are designated as "cash flow hedges".

The use of these instruments is centralised by the parent company Enertad SpA, which evaluates the financial risks and defines the relative hedging. The parent company operates directly on the market on behalf of the subsidiary companies which are then required to sign the contract. The derivative contracts are agreed with primary banks in order to reduce to a minimum the risk of contractual non compliance. The Group does not use derivative instruments for trading purposes.

The exposure to interest rate movements has reached a significant level due to the development of the project financing initiatives in some subsidiaries operating in the wind and "waste-to-energy" sectors and the medium/long-term loans.

All the derivative instruments are measured at fair value, in accordance with IAS 39.

The Group has therefore defined a strategy for the management of the interest risk movements aimed at the normalisation of the financial payments relating to the interest rate movements. The Group's management of the derivative instruments in 2005 was in accordance with this strategy.

Utilised instruments

The table below shows the current derivative instruments held by the companies of the Group:

				(€/000)
Contracting company	Issuing bank	Contract	Notional	Expiry
Enertad SpA	Banca di Roma	Other	12,000	30.06.07
Enertad SpA	Bipop - Carire	IRS	12,000	30.06.07
EALL Srl	Intesa	Other	10,862	31.12.09
EALL Srl	Intesa	Other	16,225	31.12.10
Ergo En.A. Srl	Unicredit	Other	6,000	23.03.08
Terni En.A. Srl	Intesa	IRS	10,254	30.06.09
Eos 3-Troia Srl	Efibanca	IRS	17,000	31.12.14
Eos 3-Troia Srl	Efibanca	IRS	4,610	31.12.14
Eos 3-Troia Srl	BBVA	IRS	17,000	31.12.14
Eos 3-Troia Srl	BBVA	IRS	4,610	31.12.14
Total			110,561	

The main details of each contract are provided below

Enertad SpA – issuing bank Banca di Roma

A fixed range (2.10%-4.45%) within which the variable rate (Euribor 6 months) may fluctuate. Above this range, the rate becomes fixed (floor 2.90%, cap 4.60%).

Enertad SpA – issuing bank Bipop - Carire

Provides for the transformation of the variable rate of the loan (Euribor 6 months) into a fixed rate (3.295%).

Eall Srl – issuing bank Intesa

The first derivative provides for the payment of a variable rate (Euribor 12 months + 2.75%) with a cap of 6.45%. There is a floor of 5.50% which activates only if the Euribor 12 months is lower than 2.00%.

The second derivative provides for the substitution of the rate (Euribor 6 months) with a variable rate related to the performance of the USD Libor 6 months with a cap of 4.90%. There is a possibility for an increase in the cap to 8.00% only if the USD Libor 6 months is above 7.75%.

Ergo En.A. Srl – issuing bank Unicredit

Two ranges were identified in which the rate (Euribor 6 months) becomes fixed:

- from March 2005 to March 2006: range 1.90%-3.50%; fixed rate 2.60%

- from March 2006 to March 2008: range 2.30%-3.80%; fixed rate 3.30%

Outside of the range, the rate becomes variable, increased by a spread equal to 1% where it is above the cap. Where the Euribor 6 months is lower than the floor, a spread of 0.5% is applied in the first range and no spread in the second range.

Terni En.A. Srl – issuing bank Intesa

The derivative has replaced the variable rate used in the project finance, (Euribor 6 months) with a fixed rate (4.33%).

Eos 3 Troia Srl – issuing bank Efibanca and BBVA

The contracts, with a notional value equal to Euro 17 million relate to the first lot of the investment in the wind park, replacing the variable rate used in the project finance (Euribor 6 months) with a fixed rate (3.30%).

The contracts, with notional value equal to Euro 4.61 million relate to the second lot of the investment in the wind park, replacing the variable rate used in the project finance (Euribor 6 months) with a fixed rate (3.35%).

The fair value at January 1, 2005 and at December 31, 2005 was as follows:

(€/000)					
Contracting company	Issuing bank	Fair value 1.1.2005	Fair value 31.12.2005	Recorded in equity	Recorded in P&L
Enertad SpA	Banca di Roma	(64)	(23)	41	
Enertad SpA	Bipop - Carire	(189)	(62)	127	
EALL Srl	Intesa	(1,134)	(903)		231
EALL Srl	Intesa	(1,450)	(826)		624
Ergo En.A. Srl	Unicredit	(97)	(55)		42
Terni En.A. Srl	Intesa	(492)	(275)	217	
Eos 3-Troia Srl	Efibanca		(7)	(7)	
Eos 3-Troia Srl	Efibanca		(10)	(10)	
Eos 3-Troia Srl	BBVA		(7)	(7)	
Eos 3-Troia Srl	BBVA		(10)	(10)	
Total		(3,426)	(2,178)	351	897

Sales options of minority interests of non-listed investments:

In accordance with IAS/IFRS standards, the current value of the option exercisable by minority interests with our Group for the sale of shares held in non-listed subsidiaries is determined as the current value of the amount paid of the option and, for consolidation purposes, valued as a component of the cost of acquisition of the investment. With reference to the current accounting principles, this option is recorded in the memorandum account for the nominal value and as an adjustment of the consolidation difference when a permanent loss in value exists. For the accounting method utilised to establish the value of the option, reference should be made to note No. 2 of the present document.

24 Deferred tax liability

The details and movements of deferred tax liabilities in the year are illustrated in the following table:

Description	Balance 31.12.2004	Income statement		Change in consol. area	Others changes	Balance 31.12.2005
		debit	credit			
Depreciation, amortisation, provisions & write-downs	2,886	511		6	279	3,682
Gains	648		(79)			569
Other differences	78	148				226
Total	3,612	659	(79)	6	279	4,477

25 Trade payables

The account comprises:

Description			Changes
	31.12.2005	31.12.2004	
Trade payables	56,125	59,870	(3,745)
Holding companies	1,034	952	82
Subsidiaries	84	725	(641)
Associated companies	87	130	(43)
Group companies	628	206	422
Total	57,958	61,883	(3,925)

The amounts refer principally to purchases of a commercial nature and other costs relating to operating activities. The carrying value of trade payables approximates their fair value.

The trade payables relate for Euro 29,431 thousand (Euro 31,114 thousand at December 31, 2004) to trade payables in the steel sector and residual payables in the environment sector.

The details of payables to subsidiary, associated and holding companies and the nature of these transactions is described in the paragraph "Operations with related parties".

26 Other payables

Other payables include Euro 638 thousand non-current liabilities and Euro 12,682 thousand non-current liabilities. The total balance can be broken down as follows:

Description			Changes
	31.12.2005	31.12.2004	
Advances received		52	(52)
Financial payables to subsidiaries		80	(80)
Other payables to subsidiaries	80	5	75
Other payables to associated companies		1	(1)
Other payables to Group companies		10	(10)
Social sec. institutions	1,983	1,933	50
Other payables	8,304	6,933	1,371
Accruals and deferred income	2,953	3,994	(1,041)
Total	13,320	13,008	312

Other payables:

	(€/000)		
Description	31.12.2005	31.12.2004	Changes
Employees	1,513	2,164	(651)
Directors and statutory auditors	427	454	(27)
Payables to public entities	2,882	216	2,666
Payables to personnel for vacation days	2,283	1,935	348
Payables for spin-off		164	(164)
Payables for purchase of business divisions	157	400	(243)
Other payables	1,042	1,600	(558)
Total	8,304	6,933	1,371

Accrued liabilities and deferred income:

	(€/000)		
Description	31.12.2005	31.12.2004	Changes
Grants for plant	1,708	3,020	(1,312)
Insurance policies	70	104	(34)
Other accruals and deferred income	1,175	870	305
Total	2,953	3,994	(1,041)

27 Tax liabilities

The account principally includes the payable for current taxes matured at December 31, 2005, the withholding taxes paid in January 2006 and other minor taxes.

28 Net financial position

The details of the Group net financial position are shown below:

	(€/000)		
Description	31.12.2005	31.12.2004	Changes
Cash and cash equivalents	38,334	16,222	22,112
Current account overdrafts	(52,146)	(59,175)	7,029
Restricted bank and postal accounts	3,638	27,000	(23,362)
Net cash and cash equivalents	(10,174)	(15,953)	5,779
Financial receivables from associated companies	7	7	
Financial receivables from subsidiaries	26	1,044	(1,018)
Financial receivables from holding companies	3,343	37,172	(33,829)
Financial assets	3,376	38,223	(34,847)
TOTAL CURRENT FINANCIAL ASSETS	(6,798)	22,270	(29,068)
Convertible bonds	(76,142)	(373)	(75,769)
Bonds		(42)	42
Shareholders loans	(62)	(62)	
Payables to bank	(27,550)	(14,729)	(12,821)
Other lenders	(12,345)	(15,646)	3,301
Financial payables to subsidiary companies		(80)	80
Payables for derivative instruments	(2,178)		(2,178)
TOTAL CURRENT FINANCIAL LIABILITIES	(118,277)	(30,932)	(87,345)
Financial assets: other receivables	11,167	9,210	1,957
Financial assets: other securities	657	665	(8)
TOTAL NON-CURRENT FINANCIAL ASSETS	11,824	9,875	1,949
Convertible bonds		(74,646)	74,646
Payables to bank	(82,613)	(54,082)	(28,531)
Other lenders	(23,661)	(22,680)	(981)
Payables for derivative instruments	(15,950)	(14,810)	(1,140)
TOTAL NON-CURRENT FINANCIAL LIABILITIES	(122,224)	(166,218)	43,994
Net financial position	(235,475)	(165,005)	(70,470)

Income statement accounts

29 Value of production

The value of production can be broken down as follows:

	(€/000)		
Description	31.12.2005	31.12.2004	Changes
Revenues from sales and services	292,964	282,756	10,208
Change of work-in-progress and finished and semi finished goods	(3,750)	1,225	(4,975)
Other operating income and revenues	3,467	2,718	749
Total	292,681	286,699	5,982

Revenues from sales and services:

Revenues from sales and services relate to the following sectors in which the Group operates :

	(€/000)		
Description	31.12.2005	31.12.2004	Changes
Steel	224,304	223,779	525
Wind-parks	11,500	2,027	9,473
Waste-to-energy	34,065	28,572	5,493
Waste management	14,457	19,557	(5,100)
Water services	8,416	8,113	303
Not allocated	222	708	(486)
Total	292,964	282,756	10,208

Other operating income and revenues:

	(€/000)		
Description	31.12.2005	31.12.2004	Changes
Increase of fixed assets for internal work capitalised	194	162	32
Increase of fixed assets for interest capitalised	935	929	6
Operating grants	274	166	108
Other operating revenues	352	666	(314)
Other income	1,301	536	765
Property income		7	(7)
Gains	362	25	337
Prior year income and similar	181	490	(309)
Prior year charges and similar	(132)	(263)	131
Total	3,467	2,718	749

30 Raw, ancillary and consumable materials and goods for resale

The account is comprised as follows:

	(€/000)		
Description	31.12.2005	31.12.2004	Changes
Raw, ancillary and consumable materials and goods for resale	(170,289)	(176,296)	6,007
Change in inv. of raw, ancillary and consumable materials and goods for resale	(3,127)	6,162	(9,289)
Total	(173,416)	(170,134)	(3,282)

31 Service costs

The account is comprised as follows:

	(€/000)		
Description	31.12.2005	31.12.2004	Changes
Services	(38,568)	(43,328)	4,760
Utilities	(2,766)	(3,408)	642
Various costs	(3,016)	(2,986)	(30)
Use of third party assets	(4,728)	(4,088)	(640)
Total	(49,078)	(53,810)	4,732

32 Personnel costs

The account is comprised as follows:

	(€/000)		
Description	31.12.2005	31.12.2004	Changes
Salaries and wages	(26,093)	(25,060)	(1,033)
Social charges	(8,321)	(7,836)	(485)
Employee leaving indemnities	(727)	(603)	(124)
Pensions and similar obligations	(270)	(234)	(36)
Other costs	(1,423)	(1,747)	324
Total	(36,834)	(35,480)	(1,354)

33 Other operating expenses

The account is comprised as follows:

	(€/000)		
Description	31.12.2005	31.12.2004	Changes
Indirect taxes	(562)	(572)	10
Property charges	(53)	(31)	(22)
Losses on receivables	(1,291)	(534)	(757)
Losses on disposals	(567)	(16)	(551)
Other operating costs	(1,532)	(1,377)	(155)
Total	(4,005)	(2,530)	(1,475)

34 Amortisation & depreciation

The account is comprised as follows:

	(€/000)		
Description	31.12.2005	31.12.2004	Changes
Amortisation of intangible assets	(216)	(253)	37
Depreciation of tangible assets	(16,959)	(14,920)	(2,039)
Total	(17,175)	(15,173)	(2,002)

35 Provisions & write-downs

The account is comprised as follows:

	(€/000)		
Description	31.12.2005	31.12.2004	Changes
Write-down of fixed assets	(2,684)	(10,554)	7,870
Provisions for risks and charges	(1,621)	(521)	(1,100)
Utilisation of provision for risks	489	63	426
Total	(3,816)	(11,012)	7,196

The write-down of fixed assets principally relates to i) a write-down of the goodwill referring to the steel sector for Euro 1,200 thousand, ii) a write-down of the goodwill referring to the water services sector for Euro 1,000 thousand and iii) a write-down of tangible fixed assets in course of Euro 403 thousand which no longer have the requisites for their capitalisation.

36 Financial charges and income

The account is comprised as follows:

	(€/000)		
Description	31.12.2005	31.12.2004	Changes
Financial income	1,981	2,606	(625)
Financial expenses	(17,309)	(17,048)	(261)
Total	(15,328)	(14,442)	(886)

Financial income:

	(€/000)		
Description	31.12.2005	31.12.2004	Changes
Interest and commissions from subsidiaries	56	51	5
Interest and commissions from banks	289	410	(121)
Interest and commissions from others	1,605	1,683	(78)
Gain on sale of equity investments		370	(370)
Exchange gains	31	92	(61)
Total	1,981	2,606	(625)

Financial charges:

	(€/000)		
Description	31.12.2005	31.12.2004	Changes
Interest from group companies		(50)	50
Interest from others	(17,114)	(16,994)	(120)
Losses on sale of equity investments	(20)		(20)
Exchange losses	(175)	(4)	(171)
Total	(17,309)	(17,048)	(261)

Financial charges relate to:

	(€/000)				
Description	Bonds	Banks	Leasing payables	Others	Total 31.12.2005
Others	5,323	11,149	207	435	17,114
Exchange losses				175	175
Losses on sale of investments				20	20
	5,323	11,149	207	630	17,309
Capitalised:		935			935
Development costs		227			227
Land and buildings		258			258
Plant and equipment		450			450

37 Income and charges from holding companies

	(€/000)		
Description	31.12.2005	31.12.2004	Changes
Interest from Fintad International SA	1,895	2,458	(563)
Total	1,895	2,458	(563)

The above amount refers to the capitalisation of the interest matured in the year on the loan receivable by Enertad SpA, calculated at a rate of 6%.

38 Income and charges of investments valued under the equity method

The balance principally relates to: i) a write-down relating to the companies Reclas SpA, Enercom Srl, and Rieti Ambiente Srl totalling Euro 415 thousand; ii) a write-down to adjust the equity valuations in the companies Ame@tad Srl, Recupera Srl, and Sorepla Srl totalling Euro 312 thousand; and iii) a write-down for the companies liquidated in the year of Euro 97 thousand and other companies for the remaining part.

The value in the previous year related almost exclusively to the company Tad Ambiente Srl.

39 Income taxes – current and deferred

The taxes on income were calculated at 33% on the estimated assessable income in the year based on current legislation and in accordance with the national consolidated taxation regime. The income taxes in other jurisdictions were calculated in accordance with applicable rates in those countries.

The details of the account is as follows:

	(€/000)		
Description	31.12.2005	31.12.2004	Changes
Current taxes	(3,934)	(5,827)	1,893
Adjustment to prior year taxes	48	56	(8)
Deferred income tax charge	(1,951)	(761)	(1,190)
Total	(5,837)	(6,532)	695

The reconciliation between the fiscal charges recorded in the consolidated financial statements and the theoretical fiscal rate, based on the theoretical fiscal rates in force in Italy, are the following:

Description	Balance at 31.12.2005
Profit fiscally assessable	17,866
National rate	33.0%
Tax calculated based on the national rate	5,896
Fiscal effect of non-deductible costs	625
Fiscal effect of consolidated tax return	(2,151)
Effect of the different tax rates relating to subsidiaries in different jurisdictions	280
Other differences	304
Income tax recorded in the financial statements excluding IRAP	4,954
IRAP	883
Total	5,837

Other information

40 Information is provided by sector and geographic area

The Group operates in the production of electricity from renewable sources, environmental services and the transformation and distribution of stainless steel products.

The Group is currently organised in five operating divisions. These divisions constitute the basis on which the Group discloses the primary segment information. More specifically:

- > Waste to energy: production of electricity from biomass and combustion deriving from waste-to-energy plants.
- > Wind: energy production from wind.
- > Waste management: treatment, recovery, storage, disposal of urban solid waste and harmful and non-harmful industrial waste.
- > Water services: management of aqueducts, sewerage and purification plants and treatment of civil and industrial waste waters.
- > Steel: transformation and distribution of stainless steel products.

Segment information 2005

								(€/000)
Income Statement	Steel	Wind parks	Waste to energy	Waste management	Water services	Not allocated	Elimination	Total
Sales to third parties	224,304	11,500	34,065	14,457	8,416	222		292,964
Inter-sector sales			1,769	700	673		(3,142)	
Value of production	221,262	12,251	34,410	15,337	8,976	445		292,681
Costs of sector	(210,281)	(4,957)	(29,935)	(21,276)	(11,754)	(6,121)		(284,324)
Segment Ebit	10,981	7,294	4,475	(5,939)	(2,778)	(5,676)		8,357
Financial income and charges		(2,694)	(3,819)				(6,920)	(13,433)
Investment income								
Investment charges							(994)	(994)
Pre-tax profit								(6,070)

								(€/000)
Balance Sheet	Steel	Wind parks	Waste to energy	Waste management	Water services	Not allocated	Elimination	Total
Assets in the sector	137,078	96,866	98,119	80,303	45,630	86,172		544,168
Holdings in associated companies								0
Total assets	137,078	96,866	98,119	80,303	45,630	86,172		544,168
Total liabilities	35,109	59,605	63,068	22,380	3,585	208,633		392,380

								(€/000)
Other Information	Steel	Wind parks	Waste to energy	Waste management	Water services	Not allocated	Elimination	Total
Increases of fixed assets	4,041	55,209	2,319	1,540	1,223	396		64,728
Amortisation of intangible assets	63	4	26	8	8	107		216
Depreciation of tangible assets	2,672	2,391	8,058	2,823	543	472		16,959
Other costs (significant) without financial payments	1,200		387	393	1,000	836		3,816
Loss in value recorded in PL and/or net equity							994	994
Restore value recorded in PL and/or net equity								
Personnel (number of employees)	495	4	66	105	87	67		824

Segment information 2004

								(€/000)
Income Statement	Steel	Wind parks	Waste to energy	Waste management	Water services	Not allocated	Elimination	Total
Sales to third parties	223,779	2,027	28,572	19,557	8,113	708		282,756
Inter-sector sales			1,372	6,673			(8,045)	
Value of production	225,188	2,738	28,717	20,078	8,379	1,599		286,699
Costs of sector	(205,256)	(2,226)	(33,051)	(24,642)	(16,673)	(6,291)		(288,139)
Segment Ebit	19,932	512	(4,334)	(4,564)	(8,294)	(4,692)		(1,440)
Financial income and charges			(3,660)				(8,324)	(11,984)
Investment income								
Investment charges							(473)	(473)
Pre-tax profit								(13,897)

							(€/000)
Balance Sheet	Steel	Wind parks	Waste to energy	Waste management	Water services	Not allocated	Total
Assets in the sector	136,883	35,417	100,876	77,045	48,178	125,475	523,874
Holdings in associated companies							0
Total assets	136,883	35,417	100,876	77,045	48,178	125,475	523,874
Total liabilities	37,728	7,277	71,582	21,906	8,098	212,379	358,970

							(€/000)
Other Information	Steel	Wind parks	Waste to energy	Waste management	Water services	Not allocated	Total
Increases of fixed assets	2,750	22,376	2,604	6,496	729	330	35,285
Amortisation of intangible assets	123	1	14	14	11	90	253
Depreciation of tangible assets	2,720	168	8,249	3,213	536	34	14,920
Other costs (significant) without financial payments			2,156	3,121	5,735		11,012
Loss in value recorded in PL and/or net equity			1,706	2,344	4,338		8,388
Restore value recorded in PL and/or net equity							
Personnel (number of employees)	450	2	70	122	103	60	807

Secondary segmentation: breakdown by geographical area

The Group's activities are located in the following areas:

- > Italy
- > France
- > Holland / Germany
- > United States

The division provided below analyses the sales of the Group in the various markets independently of the origin of the goods, while the book value of the assets and the increases in fixed assets is divided based on their geographic location.

Secondary segmentation 2005:

						(€/000)
Other Information	Italy	France	Netherlands & Germany	Unites States	Other countries	Total
Revenues from customers	82,365	97,097	56,583	36,165	20,754	292,964
Book value of assets	416,051	60,958	38,848	28,311		544,168
Increases of fixed assets	60,826	2,983	428	491		64,728

Secondary segmentation 2004:

						(€/000)
Other Information	Italy	France	Netherlands & Germany	Unites States	Other countries	Total
Revenues from customers	74,578	104,223	48,444	34,299	21,212	282,756
Book value of assets	396,156	55,861	45,035	26,822		523,874
Increases of fixed assets	32,569	977	1,685	54		35,285

41 Earnings per share

The calculation of basic and diluted earnings per share is based on the following data:

	(€/000)	
	31.12.2005	31.12.2004
Net profit	31.12.2005	31.12.2004
Result for the calculation of the basic earnings per share	(11,860)	(20,117)
Dilution effects deriving from potential ordinary shares:		
- interest on convertible bonds	5,323	5,325
Result for the calculation of the diluted earnings per share	(6,537)	(14,792)
Number of shares	31.12.2005	31.12.2004
Average weighted number of shares for the calculation of the basic earnings per share	94,865,881	75,429,446
Dilution effects deriving from potential ordinary shares:		
- convertible bonds	17,997,821	17,997,845
Average weighted number of shares for the calculation of the diluted earnings per share	112,863,702	93,427,291

42 Transactions with related parties

The operations between the company and its subsidiaries, and related companies, were eliminated in the consolidated financial statements and are not shown in these notes.

The operations between Group and other related parties are detailed in the following tables:

Balance Sheet accounts

	(€/000)					
	Trade		Financial		Others	
	Receiv.	Payables	Receiv.	Payables	Receiv.	Payables
Holding companies						
Fintad International SA	50		3,343		1,291	
Tad Fin SpA	750	1,034				
Total holding companies	800	1,034	3,343		1,291	
Subsidiaries						
Ame@Tad Srl	37	6	22			
Enercom Srl in liquidation	206	71				80
Enerdepurazioni Scarl		7	4		5	
Recupera Srl	37					
Sorepla Srl	37					
Total subsidiaries	317	84	26		5	80
Associated companies						
Amea SpA	44	87				
Amea Servizi SpA	6					
Umbriadue Servizi Idrici Scarl	910					
Total associated companies	960	87				
Other group companies						
E-Tad Tecnologie SpA	137					
Tad Immobiliare SpA	491					
Total other group companies		628				

Income Statement accounts:

	(€/000)					
	Revenues from sales & services	Others revenues and income	Services costs	Other operating expenses	Financial income	Financial charges
Holding companies						
Fintad International SA					1,895	
Tad Fin SpA		1	(7)			
Total holding companies		1	(7)		1,895	
Subsidiaries						
Ame@Tad Srl		15	(5)		5	
Cerveteri Ambiente Srl in liquidation					15	
Enercom Srl in liquidation						
Enerdepurazioni Scarl						
Recupera Srl		15				
Socram Ecologia Srl in liquidation					2	
Sorepla Srl		15				
Tad Ambiente Srl in liquidation			(5)		34	
Total subsidiaries		45	(10)		56	
Associated companies						
Amea SpA		19				
Amea Servizi SpA		6	(83)			
Umbriadue Servizi Idrici Scarl	211	69				
Total associated companies	211	94	(83)			
Other group companies						
E-Tad Tecnologie SpA						
Tad Immobiliare SpA			(357)			
Total other group companies			(357)			

43 Remuneration of directors and general managers

The remuneration of directors and general managers is shown in the following table:

	(€/000)	
Description	31.12.2005	31.12.2004
Remuneration	20	13
Non-monetary benefits	41	17
Other benefits	625	389
Total	686	419

The remuneration of directors is fixed by the remuneration committee. The amounts in the previous year relate to the part of the year in which the current directors held office.

44 Operating lease contracts

At the balance sheet date the amount of future lease commitments due by the Group was as follows:

	(€/000)
Operating leases: future lease commitments	Balance at 31.12.2005
Leases commitments within one year	602
Leases commitments within five year	741
Leases commitments over five years	
Total future lease commitments	1,343

The amount of lease payments made during the year was as follows:

	(€/000)
Leasing payments in income statement	Balance at 31.12.2005
Minimum payments	813
Payments based on conditions	
Receipts on sub-rental	
Total lease payments	813

45 Guarantees and potential risks

The total value of guarantees issued by Group companies at the balance sheet date amounts to Euro 55,900 thousand. That amount can be broken down as follows:

- > Euro 23,452 thousand refers to guarantees issued by Group companies in relation to supply contracts for wind parks in construction;
- > Euro 15,264 thousand refers to guarantees issued by Group companies in accordance with regulations in favour of income tax and VAT offices;
- > Euro 17,184 refers to guarantees issued by Group companies in favour of various public entities and relating to the activities of the environmental segment.

The risks and disputes relating to the Group are described in a separate section of the Directors' Report on operations.

The present financial statements represent in a true and fair manner the Group balance sheet and financial position as well as the result for the year.

Appendix I

Transition to the International Accounting Standards (IFRS)

Following the entry into force of European Regulation No. 1606 of July 2002, the Enertad Group, as from January 1, 2005, has adopted the International Accounting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB").

This Appendix shows the reconciliations to the IFRS balance sheets at January 1, 2004 and at December 31, 2004, as well as the income statement for the year of 2004, as required by IFRS 1 – First adoption of IFRS, as well as the explanatory notes.

This information was prepared in relation to the transition process to the IFRS and for the preparation of the consolidated financial statement of the Group at December 31, 2005 in accordance with the IFRS as approved by the European Community.

As required by IFRS 1, this note describes the standards adopted according to IFRS in the preparation of the opening consolidated balance sheet at January 1, 2004, the principal differences compared to the Italian accounting standards used in the preparation of the consolidated financial statements of the Group up to December 31, 2004, as well as the consequent reconciliations between the values published at the time, prepared in accordance with Italian accounting standards and the corresponding values adjusted in accordance with IAS/IFRS.

In addition, the reconciliations required by paragraphs 39 and 40 of the IFRS 1 "First adoption of the International Financial Reporting Standard" (as interpreted by paragraph IG 63 of the Implementation Guidance of the above-mentioned principle), together with explanatory notes of the criteria and of the accounts contained in the reconciliations are included.

In the present paragraph the following is provided:

- > The description of the principal differences between the previously used Italian standards and the IFRS standards.
- > The accounting treatment chosen by the Group in relation to the accounting options contained in the IFRS standards.
- > The exemptions permitted by IFRS 1 and used by the Group.
- > The information required by CONSOB communication No. 14990 of April 14, 2005 with reference to the reconciliation of the shareholders' equity at January 1, 2004, at December 31, 2004 and of the result for the year ended December 31, 2004, applying respectively the Italian accounting standards and those of IFRS.
- > The detail of the effects of the transition to IFRS on the balance sheet at January 1, 2004 and December 31, 2004 and on the income statement for the year 2004.

Except for the considerations mentioned above, the transition to the IFRS standards for the Enertad Group results in a reclassification according to the new format of the balance sheet and income statement previously classified in accordance with Legislative Decree 127/1991. The indication and the amount of these reclassifications are illustrated with the adoption of the reconciliation schedule indicated in the "Implementation Guidance" that accompanies IFRS No. 1 (paragraph IG 63).

Principal differences between Italian Standards used previously and IFRS standards

The IFRS standards do not differ from those used for the preparation of the consolidated financial statements and the interim accounts prepared in accordance with Italian accounting standards except for the following:

Goodwill and consolidation differences: in accordance with the IFRS standards, these accounts are no longer amortised but are valued in order to identify any impairment loss. The application of this procedure results in, except for the effect of the recording of any loss in value, an improvement in the results in future years in that there will be no recording, differing from the Italian accounting standards, of the amortisation.

Derivative instruments: according to the Italian standards the derivative instruments, for the management of the risk of interest rate movements, are represented as "off balance sheet" while in accordance with IAS 39 they must be recorded in the balance sheet and measured at the relative "fair value" even when they are of a hedging nature. More specifically:

- > the profits and losses deriving from the adjustments to the fair value of the hedging instruments (for the part relating to the cover) are recorded directly to equity;
- > the remaining part (not hedged) is recorded directly to the income statement;
- > the amounts recorded in equity are subsequently recorded in the income statement in the period in which the contracts and transactions are expected to have their economic effect.

Sales options of minority interests of non-listed investments: in accordance with the IFRS standards, the current value of the option exercisable by minority interests with our Group for the sale of shares held in non-listed subsidiaries is determined as the current value of the amount paid of the option and, for consolidation purposes, valued as a component of the cost of acquisition of the investment. With reference to the current accounting standards, this option is recorded in the memorandum account for the nominal value and as an adjustment of the consolidation difference when there is a permanent loss in value.

Bonds: according to the Italian accounting standards, the bonds (including convertible or exchangeable) are recorded at their residual nominal value (capital amount); in addition any discounts or premiums on issue, as well as the issue expenses, are deferred and amortised over the period of the loan. In accordance with IAS 39, the value of the bonds without options are determined in accordance with the amortised cost method and thus the fair value net of the capital repayments already made, adjusted on the amortisation (at the effective interest rate) of any differences (such as discounts, premiums, issue expenses and premium reimbursements) to the initial net value received and the repayable value at maturity; on the other hand, the value of the composed financial instruments (convertible bonds) must be divided between the payable and net equity component. In particular, for the convertible bonds into own shares, the value of the payable component is determined as the current value of the future cash flows on the basis of the market interest rates at the moment of the issue of the referred to instruments having the same characteristics but without the option, while the value of the option is determined as the difference between the net value received and the value of the payable component and recorded in a specific account under equity.

Restoration charges: this accounting standard is applicable to the obligations deriving from the closure costs and post operative management cost, surveillance and control of the landfill. In accordance with IAS 37, the initial cost of the fixed asset also includes the costs necessary for the restoration of the site. The corresponding liability is recorded in a liability provision in the balance sheet under provisions for risks and charges, at discounted fair value, against the related assets; the charging to the income statement of the capitalised charge and of the discounted interest component is made over the life of the relative tangible fixed assets through the process of amortisation. For the current accounting standards, this charge was provided in a liability provision in accordance with the accruals concept.

Intangible assets: on the basis of IAS 38 for the recording of intangible assets, the following reclassifications and adjustments were made compared to the previous standards:

- > the leasehold improvements were recorded under tangible fixed assets;
- > the financial accessory charges were reclassified under liabilities as a reduction of the account to which they refer, as a specific "transaction cost", to determine the effective interest rate for the purposes of the valuation of the liability in accordance with the amortised cost criteria;
- > the costs for the share capital increase that, in accordance with the Italian accounting standards, are capitalised and amortised, according to IFRS are recorded, for the total amount, directly as a reduction of the share capital increase and debited to the net equity. The cumulative amortisation at the transition date was recorded as a positive adjustment component of the net equity for the first adoption of the IFRS;
- > the costs of research are charged to the income statement at the moment they are incurred, while the development costs relating to the new initiatives in the sector for the production of renewable sources of energy, that comply with the requisites required by IAS 38 for their capitalisation, are capitalised and subsequently amortised from the commencement of the production activity and over the economic life of the initiative. The development costs capitalised only include the charges incurred and that can be allocated to the development process. The research and development costs recorded under intangible assets on the basis of Italian accounting standards and that do not satisfy the requisites of the IFRS standards previously described are recorded as a reduction of the net equity. In accordance with the provisions of IAS 36, the development costs capitalised under intangible assets shall be subject to an impairment test and shall be recorded as a write-down when the recoverable value of the asset is lower than its inscription value.

Incentive plans: from 2005, the Group recognises additional benefits to some members of senior management through stock option plans. In accordance with the provisions of IFRS 2 – Share-based payments - the total amount of the stock options at the vesting date is recorded in the income statement as a cost. Subsequent changes in the current value to the vesting date do not have an effect on the initial value. The cost for remuneration, corresponding to the current value of the options is recognised under personnel costs on the basis of a constant quota over the period between the vesting date and that of maturity, with direct recording to equity.

Accounting treatment chosen by the Group in relation to the accounting options contained in the IFRS standards.

In line with the measurement criteria already adopted for the purposes of the reconciliation with the Italian accounting standards:

- > Inventories: the method chosen for the cost configuration is that of the weighted average cost.
- > Measurement of intangible and tangible fixed assets: the Group has opted, for the recording of these assets after the initial cost, for the cost model, net of amortisation/depreciation and any loss in value arising.

Exemptions permitted by IFRS I and used by the Group

In the transition to the IFRS standards, the Enertad Group has availed of the following exemptions contained in IFRS I:

Measurement of intangible and tangible fixed assets: the Group has availed of the faculty to utilise the book value of the above-mentioned assets, determined on the basis of the previous accounting standards, as substitution of the cost at January 1, 2004, in line with the requisites of IFRS I.

Business combinations: IFRS 3 provides that business combinations are accounted for using the "purchase method", recording the assets and the liabilities at their relative fair value at the acquisition date. The Group, in conformity with IFRS I, did not apply in retrospective manner IFRS 3 to the business combinations before the transition date to IFRS standards, which are therefore recorded at the same values determined on the basis of the previous accounting standards with the prior verification and recording of any loss in value.

Financial instruments: as an exception to the general retrospective application of the IFRS standards, IFRS I permits the application of IAS 39 from the financial statements commencing as of January 1, 2005. The Group has therefore decided to apply this exemption in applying IAS 39 for the measurement and recording of derivative instruments of interest rate management risk, in addition to the derivative implied from the conversion of bonds, as from the preparation of the consolidated financial statements for the year 2005.

Reconciliation of the Italian standards previously used compared to the IFRS standards

The reconciliations between the shareholders' equity and the result, determined in accordance with the Italian accounting standards, and those calculated in accordance with IFRS, were prepared only for the purposes of the transition process for the preparation of the consolidated financial statements of 2005 according to IFRS adopted by the European Commission; therefore, these reconciliation schedules do not contain comparative data and the necessary explanatory notes that would be required to represent in a true and fair manner the balance sheet, financial position and consolidated result of the EnerTad Group in conformity with IFRS.

It should be noted that the figures presented in the reconciliation schedules constitute the figures published for comparative purposes in the first full consolidated financial statements in accordance with IFRS.

The data contained in the present document were audited in accordance with the indications contained in Consob Communication No. DEM/5025723 of April 15, 2005.

The accounts are shown in the table are before taxes, while the relative fiscal effects are shown cumulatively in a separate adjustment account.

	Saldo 1.1.04	Variazione riserva di conversione	Aumento di Capitale Sociale	Risultato Gruppo	Saldo 31.12.04
	(€/000)				
Group Shareholders' Equity as per Italian accounting standards	111,991	(879)	74,168	(24,411)	160,869
IFRS CHANGES:					
Reversal of intangible assets capitalised					
- Additional charges on share capital increase	(1,927)		(5,160)	1,530	(5,557)
- Other intangible assets capitalised	(781)		311	(470)	
sub- total	(2,708)		(5,160)	1,841	(6,027)
Adjustments relating to goodwill and consolidation differences					
- Reversal of amortisation				4,103	4,103
- Recording of loss in value				(1,572)	(1,572)
sub- total				2,531	2,531
Correlated fiscal effect (*)				(78)	(78)
total IFRS changes	(2,708)		(5,160)	4,294	(3,574)
Group Shareholders' Equity as per IFRS accounting standards	109,283	(879)	69,008	(20,117)	157,295

(*): determined only with reference to IRAP, where applicable, to take account of the amount of the fiscal losses carried forward, resulting from the fiscal consolidation, not recorded on a prudent basis given the generation capacity of future revenues fiscally deductible.

With reference to the application of the valuation criteria contained in IAS 19 in relation to employee benefits ("project unit credit method") to the employee leaving indemnity provision, the Enertad Group, due to the immateriality of the absolute value of the employee leaving indemnity provision compared to total liabilities and equity, have not quantified this amount as it would not be significant in any case.

With reference to the application of IAS 17 to finance lease contracts relating to some subsidiaries, the Enertad Group has not made any adjustments to the "Italian balance sheet" method for these contracts in place at December 31, 2004 in that the effects on the net equity, result and net financial position, are negligible.

Explanatory notes:

As already mentioned, the valuation effect outlined below are before the fiscal effect, and cumulatively recorded in a single line in the reconciliation schedule.

Goodwill and the consolidation differences:

At January 1, 2004: No impact is registered in that the Group, as previously indicated in the paragraph "exemptions permitted by IFRS 1 and used by the Group", chose not to apply in retrospective manner IFRS 3 – business combinations for the operations carried out before the transition date to IFRS; in addition, the verification test of the conditions for capitalisation did not result in the necessity for any adjustment of the value of the consolidation differences recorded on the basis of the Italian accounting standards.

At December 31, 2004: A reduction of the amortisation and an increase in intangible assets of Euro 2,531 thousand. The impact registered is due to the reversal of the amortisation of Euro 4,103 thousand, net of the recognition of adjustments in value of Euro 1,572 thousand of the consolidation differences of some assets due to the application of the capitalisation test on the basis of new profitability forecasts arising during 2004.

Intangible assets:

At January 1, 2004: A reduction of intangible assets of Euro 2,708 thousand. The impact registered is due for Euro 1,927 thousand to the cost for the share capital increase and for Euro 781 thousand to the cost of the research and development that no longer satisfy the requisites of IFRS for their capitalisation.

At December 31, 2004: A reduction of the amortisation of Euro 1,841 thousand and a reduction of the net equity before fiscal effect of Euro 6,027 thousand. The impact is due to the elimination of the amortisation of Euro 1,841 thousand and to the recording as a direct reduction of the net equity of further costs for share capital increases incurred in the year of Euro 5,160 thousand.

Derivative instruments:

As described in the section relating to the "Exemptions permitted by IFRS 1", the Group applies IAS 39 from January 1, 2005.

Bonds:

As described in the section relating to the "Exemptions permitted by IFRS 1", the Group applies IAS 39 from January 1, 2005.

With reference to the CONSOB disclosure requirements, the following reconciliation schedule is provided of the assets and liabilities and of the income statement determined with reference to section IG, implementation guidance, paragraph 63.

	Year 2004 Italian GAAP	Reclass.	Adj.	(€/000) Year 2004 IFRS standards
BALANCE SHEET				
Non-current assets	277,364	8,454	11,314	297,132
Current assets	226,305	224		226,529
Assets available-for-sale	213			213
Total assets	503,882	8,678	11,314	523,874
Shareholders' equity – min. interest	7,610			7,610
Group net equity	160,869		(3,574)	157,295
Non-current liabilities	163,719	10,008	14,888	188,615
Current liabilities	171,684	(1,330)		170,354
Total shareholders' eq. & liabilities	503,882	8,678	11,314	523,874

	Year 2004 Italian GAAP	Reclass.	Adj.	(€/000) Year 2004 IFRS standards
INCOME STATEMENT				
Total revenues	287,699	(998)		286,701
Total cost of production	(291,557)	(956)	4,372	(288,141)
Result from operating activities	(3,858)	(1,954)	4,372	(1,440)
Net financial income and charges	(10,961)	(1,023)		(11,984)
Equity investment income and charges				
Valued under the Net Equity method	(473)			(473)
Pre tax result from ordinary activities	(15,292)	(2,977)	4,372	(13,897)
Income Taxes	(6,469)	15	(78)	(6,532)
Net profit (loss) from ordinary activities	(21,761)	(2,962)	4,294	(20,429)
Net profit (loss) deriving from discontinued activities				
Extraordinary income and charges	(2,962)	2,962		
Net profit (loss) for the year	(24,723)		4,294	(20,429)
Quota pertaining to minority interest	312			312
Group net profit (loss) for the year	(24,411)		4,294	(20,117)

Details to the schedules relating to the effects of the transition to IFRS on the balance sheet

Non-current assets:

	(€/000) 31.12.2004
Reclassifications:	
Tangible fixed assets	9,790
Intangible fixed assets	(3,502)
Trade and other receivables	2,166
Total	8,454

More specifically:

	(€/000) 31.12.2004
Tangible assets:	
Reclassification of leasehold improvements	137
Recording of the restoration provision increasing fixed assts	11,286
Waste-to-energy development activity reclassified to intangible assets	(1,633)
Total	9,790

	(€/000)
Intangible assets:	
Reclassification of leasehold improvements	(137)
Transaction costs on convertible bond recorded as a reduction of the financial payable	(1,845)
Transaction costs on the project financing recorded as a reduction of the financial payable	(763)
Waste-to-energy development activity reclassified from tangible assets	1,633
Payment for CIP 6 contractual extension	(2,166)
Payments on account reclassified to other receivables under current assets	(224)
Total	(3,502)

	(€/000)
Trade and other receivables:	31.12.2004
Payment for CIP 6 contractual extension	2,166
Total	2,166

	(€/000)
Adjustments:	31.12.2004
Intangible fixed assets	11,314
Total	11,314

More specifically:

	(€/000)
Intangible assets:	31.12.2004
Transaction costs on share capital increase recorded as a direct reduction of the Net Equity	(5,557)
Reversal goodwill amortisation and consolidation difference	4,346
Reversal of capitalised costs	(395)
Loss of value of goodwill and consolidation difference	(1,890)
Value of minority share sales option in a non-listed company	14,810
Total	11,314

Current assets:

	(€/000)
Reclassifications:	31.12.2004
Trade and other receivables	224
Total	224

More specifically:

	(€/000)
Trade and other receivables:	31.12.2004
Payments on account reclassified from intangible assets	224
Total	224

Non-current liabilities

	(€/000)
Reclassifications:	31.12.2004
Provisions for risks and charges	12,616
Non-current liabilities (interest bearing)	(2,608)
Total	10,008

More specifically:

	(€/000)
Provision for risks and charges:	31.12.2004
Recording of the restoration provision increasing fixed assets	12,616
Total	12,616

	(€/000)
Non-current liabilities (interest bearing):	31.12.2004
Transaction costs on convertible bond recorded as a reduction of the financial payable	(1,845)
Transaction costs on project financing recorded as a reduction of the financial payable	(763)
Total	(2,608)

	(€/000)
Adjustments:	31.12.2004
Fiscal liabilities	78
Payables for derivative instruments	14,810
Total	14,888

More specifically:

	(€/000)
Tax liabilities:	31.12.2004
Effect IFRS changes	78
Total	78

	(€/000)
Payables for derivative instruments:	31.12.2004
Value of minority share sales option in a non-listed company	14,810
Total	14,810

Current liabilities:

	(€/000)
Reclassifications:	31.12.2004
Trade and other payables	(1,330)
Total	(1,330)

More specifically:

	(€/000)
Trade and other payables:	31.12.2004
Reclassified to provisions for risk and charges of the payable recorded in 2004 for the restoration charges	(1,330)
Total	(1,330)

> 5. Report of the Board of Statutory
Auditors to the Shareholders' Meeting

5.1 Report of the Board of Statutory Auditors on the Parent Company and Consolidated Financial Statements as at December 31, 2005 of EnerTAD SpA

Report of the Board of Statutory Auditors on the statutory financial statements as at December 31, 2005 of EnerTAD SpA

Dear Shareholders,

The present report is prepared in accordance with article 153, paragraph 1 of legislative decree 58/98, taking into consideration CONSOB Communication DEM/1025564 of April 6, 2001.

During the year, we attended the meetings of the Board of Directors; in these meetings and in separate meetings with the Chairman, Vice Chairman, Managing Director, and the Finance, Administration and Control Director, we obtained information on business operations and on the economic, financial and equity operations made including through subsidiary companies.

Through the obtaining of information from the managers of the different departments, from the examination of the documentation transmitted and from the examination of the statutory records, we have reviewed and verified, in relation to our responsibilities, the adequacy of the organisational structure of the company, the internal control system, the administration/accounting system and on the reliability to correctly represent the operations made, as well as the adequacy of the instructions given to the subsidiary companies in order to comply with the obligations of the communication.

In particular we communicate that:

- the company did not undertake any atypical or unusual transactions with infra-group, related or third party companies;
- the transactions with related parties are of a commercial (prevalently referring to holding, administrative and financial activities) and financial nature (centralised treasury management), in the interests of the company, at market prices; the information provided by the directors in the directors' report is adequate;
- no significant transactions were undertaken that were not in conformity with law

or company by-laws, imprudent or risky, in conflict of interest or contrary to resolutions made by the shareholders' meeting or that would compromise the net equity values of the company; the most significant transactions are reported in the director's report on operations;

- in relation to the steel sector, business operated by the sub-holding Enertad France SA, the Board reports that in November 2005 the financial advisor Rotschild was appointed to search for interested buyers for the business;
- there were no significant matters reported in the auditors' report. The auditors' report however recalls the reader's attention to those actions, which by their extraordinary nature are characterised by elements of uncertainty, already undertaken or in the course of implementation by the Directors to guarantee the continuity of operations;
- the directors did not propose the distribution of a dividend;
- no petitions or claims were received as per article 2408 of the civil code;
- the independent audit firm received other assignments relating to: a) support activity in the implementation of the systems and accounting procedures for the application of IAS/IFRS accounting standards, with particular reference to the audit of the opening and closing balance sheet for the year 2004 and the half year reports at June 30, 2005: Euro 15,000; b) verification of the "covenants" relating to the convertible bond at 31.12.2004 and 30.06.2005: Euro 10,000 c) review the working papers of the secondary auditors relating to the audit of Enertad France Sas and its subsidiaries in accordance with Auditing Standard No 600: Euro 25,000; d) verifications on the statement "Preliminary summary of cash inflow and outflow from June 30, 2004 to June 30, 2005": Euro 7000; e) work related to the compilation of the "Modelli Unico 2005 and Modelli 770": Euro 10,100;
- we are not aware of any appointments of a continuative nature with persons related to the independent audit firm;
- in 2005, we did not express any opinions as required by law;

- the Board of Statutory Auditors maintained regular contact with the independent audit firm, through meetings at the registered office of the company, during the course of which it was not necessary to make more detailed investigations;
- the organisational structure and the internal control system are constantly reviewed by the board of statutory auditors and by the Internal Control Committee. During the year, the internal audit function undertook analysis and due diligence on the existing and new procedures concerning the parent company and the subsidiary companies. The work of the internal audit department was supervised and authorised by the internal control committee and the results were reported to the Committee and to the Board of Statutory Auditors;
- in 2005 and at the beginning of 2006 a “Self-Risk assessment” was carried out, preliminary step before the implementation of an organisation and control model in accordance with the requirements of Legislative Decree 231/2001 in relation to “corporate administrative responsibility”;
- the information in relation to the organisational structure and changes during the year are adequately reported in the corporate governance report that also indicates the non significant areas not implemented by the Self Regulation Code;
- the accounting system is adequate and appropriate for the correct representation of the business operations and the instructions given to the subsidiary companies appear adequate. In 2005, a new management reporting system was implemented which covers all of the subsidiaries in the consolidation area;
- there were no important omissions or irregularities noted during the verifications made.

During the year we held nine Board meetings, held periodic meetings with the independent auditors and management of the company. The Board of Directors held ten meetings in the year. The Internal Control Committee held three meetings during the year in April, July and

November. The Chairman of the board of statutory auditors attended these meetings. The Remuneration Committee met once in 2004.

In relation to our responsibility, we have examined the draft parent company and consolidated financial statements prepared by the Board of Directors and the director's report and we have verified compliance with the law that governs their preparation. In relation to the consolidated financial statements, the verifications made by the auditors Deloitte & Touche S.p.A. confirm that the amounts reported in the financial statements correspond to the underlying accounting records of the parent company and the information formally transmitted by its subsidiaries.

The auditors' report dated April 12, 2006 of Deloitte & Touche SpA reports that the consolidation procedures were in accordance with law and good accounting practice.

Based on the verifications made and the information received, there are no significant matters to report upon in the present report.

In consideration of the matters commented upon above we express our favourable opinion for the approval of the financial statements as at December 31, 2005 and the proposal to allocate the result the year.

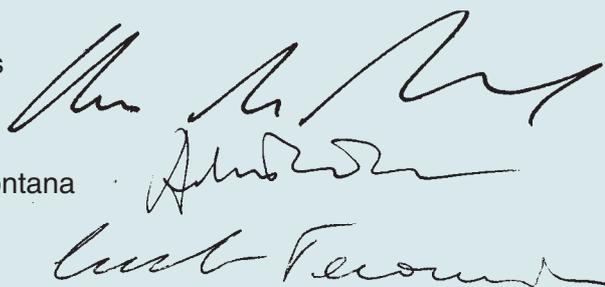
The Board

of Statutory Auditors

Marco de Ruvo

Alessandro Della Fontana

Carlo Tavormina



This report has been translated into English language solely for the convenience of international readers.

5.2 Opinion of the board of statutory auditors on the assignment of the audit of the financial statements to the audit company

OPINION OF THE BOARD OF STATUTORY AUDITORS ON THE ASSIGNMENT OF THE AUDIT OF THE FINANCIAL STATEMENTS TO THE AUDIT COMPANY AND IN ACCORDANCE WITH ARTICLE 159, PARAGRAPH 1, LEGISLATIVE DECREE 58/98

*** **

The Statutory Board of Auditors of EnerTAD S.p.A.

NOTES

- the company is listed on the telematic stock market which is organised and managed by Borsa Italiana S.p.A.;
- on April 12, 2006, the Company's Board of Directors resolved to assign the Statutory and Consolidated Group Financial Statements to an audit firm registered in accordance with art. 161, Legislative Decree 58/98, and more precisely to Deloitte & Touche S.p.A.
- the Company's Shareholders' Meeting has been called for adoption of the relative resolution in accordance with art. 159 of Legislative Decree 58/98.

HAVING REGARD TO

art. 159, paragraph 1 and art 165, paragraph 1 of Legislative Decree 58/98 and also art. 146 of the Consob Issuer Regulations pursuant to resolution No. 11971 of 14 May 1999 and subsequent amendments:

HAVING EXAMINED

the proposal of Deloitte & Touche S.p.A., Audit Firm, of March 20, 2006;

HAVING ESTABLISHED

- that said proposal includes the audit plan for all Financial Statements from 2006 to 2011 with the scope of expressing an opinion in accordance with art. 156 of Legislative Decree 58/98 and that said plan, as well as including the provision of information to Management and the Board of Statutory Auditors, is adequate with regard to the areas of primary interest.
- that said proposal contains an illustration of the assessment procedures set forth by art. 155, paragraph 1, letter A) and b) of Legislative Decree 58/1998 and that these procedures, based on internal company processes risk analysis, are adequate;
- that the Audit Firm under consideration fulfils the statutory requirements of independence and that there are no current incompatibilities.
- that the Audit Firm under consideration has sufficient organisational and technical knowledge for the size and complexity of the task in hand;
- that the remuneration requested is appropriate and in line with the other proposals received;

EXPRESSES

A favourable opinion, in accordance with art. 159, paragraph 1 of Legislative Decree 58/98, with regard to the assignment of the Audit of the Financial Statements for 2006 to 2011 to the Audit Firm Deloitte & Touche S.p.A., pursuant to its proposal of March 20, 2006.

Milan, 12 April 2006

The Board of Statutory Auditors

Marco de Ruvo (Chairman)

A handwritten signature in black ink, appearing to read 'Marco de Ruvo', written in a cursive style.

This report has been translated into English language solely for the convenience of international readers.

> 6. Auditors' report on the financial statements

AUDITORS' REPORT ON THE FINANCIAL STATEMENTS

To the Shareholders of ENERTAD S.p.A.

1. We have audited the consolidated financial statements of EnerTAD S.p.A. (the "Company") and its subsidiaries as of December 31, 2005. These consolidated financial statements are the responsibility of EnerTAD S.p.A.'s Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The consolidated financial statements were prepared for the first time in accordance with International Financial Reporting Standards adopted by the European Union.
2. We conducted our audit in accordance with the Auditing Standards and criteria recommended by CONSOB. Those standards and criteria require that we plan and perform the audit to obtain the necessary assurance about whether the consolidated financial statements are free of material misstatement and, taken as a whole, are presented fairly. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors. We believe that our audit provides a reasonable basis for our opinion.

The consolidated financial statements of the prior period, which are presented for comparative purposes, were prepared in accordance with the same standards with the exception of IAS 32 and 39 which, in accordance with the choice permitted by IFRS 1, were applied from January 1, 2005.

In addition, Appendix 1 to the explanatory notes shows the effects of the transition to the International Financial Reporting Standards adopted by the European Union and the information relating to the reconciliation schedules required by IFRS 1, previously approved by the Board of Directors and published together with the half-year report audited by us, for which reference should be made to our report issued on September 16, 2005.

3. In our opinion, the consolidated financial statements of the EnerTAD Group as of December 31, 2005 are prepared in accordance with International Financial Reporting Standards adopted by the European Union, and give a true and fair view of the financial position and of the results of the EnerTAD Group.

4. For a better understanding of the consolidated financial statements, the following matter is brought to the readers' attention - as further described in the directors' report on operations and notes to the financial statements:

The consolidated financial statements at December 31, 2005 record a net debt position of Euro 235.4 million, which compared to the previous year has increased by approximately Euro 70.5 million due to the investments made, principally in the wind sector, and against a limited generation of cash from Group operating activities. The 2005-2008 industrial plan provides for further investments, necessary for the Group to focus on the core business of the wind sector. In addition, in November 2006 the "EnerTAD 2003-2006 convertible" bond matures amounting to Euro 74.6 million.

The Directors, given the above financial position and the financial commitments for 2006, prepared the financial statements on a going concern basis, in consideration of the programmed activities and operations of an extraordinary nature, some of which are currently being implemented, as follows:

- the Group, assisted by the advisor Rothschild has placed the "Steel" business for sale. At the end of February 2006 the data room was closed which had been available to companies which had expressed an interest in recent months in acquiring 100% of the subsidiary EnerTAD France SA . At the beginning of March, binding offers were received which would guarantee EnerTAD S.p.A. a payment close to the consolidated book value (approximately Euro 53.4 million). Subsequently, exclusive negotiations were opened with one of the bidders, for a period up to April 14, 2006. The Directors report that they are in advanced negotiations and expect to close the operation within the first half of 2006;
- the Group received a binding offer on February 28, 2006 for the purchase of a significant part of the "waste-to-energy/ waste management" business from a leading national operator. This binding offer, which is valid until April 29, 2006 and which is currently being evaluated by the Directors, would also result in a payment close to the consolidated book value which, at the minimum level of the offer, would result in a cash flow estimated at around Euro 40 million;
- on April 10, 2006, the company received from a primary banking institution a commitment to underwrite, together with other parties, the full subscription of a share capital increase of Euro 45.0 million, including the share premium. The Board of Directors on April 12, 2006 approved the operations necessary for this share capital increase and authorised the Chairman and Managing Director to proceed with the consequent actions. In relation to this, the Shareholders' Meeting of August 30, 2002 deliberated to attribute to the Board of Directors the powers, exercisable for a maximum period of five years from the date of the resolution, to increase the paid-in share capital, in one or more tranches, for a maximum nominal amount of Euro 100 million through the issue of a maximum of 100 million ordinary shares. At the date of the present report the residual amount of shares which may be issued based on the above-mentioned powers is Euro 55.2 million.

The above actions undertaken by the Directors are characterised by various elements of uncertainty which are also connected to the completion of the various negotiations and the completion of the normal technical and legal verifications which characterise operations of an extraordinary nature as described above. In relation to this, the Directors have informed us that they have taken the necessary resolutions and actions considered appropriate in order to permit the successful conclusion of the above-mentioned extraordinary actions, or some of them, and thus within a timeframe for the repayment of the convertible bond mentioned above, as well as undertake, as permitted by the actual financial resources made available, the investments contained in the plan.

The positive outcome of this programmed activity is a necessary condition to ensure the continuity of operations, on which the Directors have prepared the consolidated financial statements.

DELOITTE & TOUCHE S.p.A.


Dario Righetti
Partner

Milan, April 12, 2006

This report has been translated into English language solely for the convenience of international readers.

