In relation to the gain generated from the sale of the "Steel" business of Euro 20.9 million, it should be noted that at December 31, 2005, Enertad SpA, which adopted Italian GAAP permitting the valuation of the investments alternatively under the cost or equity method, revalued the investment in Enertad France Sas by Euro 15 million, increasing its value from Euro 35.7 million under the cost method, to Euro 50.7 million, under the equity method. Given that, from the half-year accounts at June 30, 2006, Enertad SpA adopts the international accounting standards IAS/IFRS and as these only provide for the valuation of the investments under the cost method, the company, in the preparation of the reconciliation schedules between the shareholders' equity in accordance with Italian GAAP and in accordance with IAS/IFRS at December 31, 2005, reversed the revaluation of the investment in Enertad France Sas described above, restating the value to the original Euro 35.7 million; (ii) a write-down of its investment in Sodai Italia SpA of Euro 12.4 million following the impairment test made at December 31, 2006, as already commented upon in section 5 "Income statement" of the present Directors' Report. This write-down was necessary following the negative responses and difficulties encountered in recent months in the finalisation of the authorisation on enlargement projects of some water purification plants for the treatment of special liquid waste; (iii) a non-recurring risk provision of Euro 3 million relating to the extraordinary sales operations, to the write-down of some receivables and some disputes; (iv) non-recurring costs of a little over Euro 1 million principally relating to the public purchase offer of ERG for Euro 0.6 million and charges relating to the implementation project of the organisational model as per Law 231 for Euro 0.1 million; (v) balance of income taxes for the year, current and deferred taxes, equal to Euro 7.5 million.

The **net financial position** was a cash position of Euro 56.6 million, an improvement of Euro 59 million compared to December 31, 2005.

3.4.1 Corporate boards

During 2006, the Control Committee met on March 21, April 10, April 12, September 7 and November 9; on June 14 and on December 15, the Remuneration Committee met.

3.4.2 Self-governance, conduct and ethical Codes

The company adopted the New Self-Governance Code recommended by the Italian Stock Exchange in March 2006, which will be applied during 2007. The "Annual Report on Corporate Governance relating to the year 2006" was prepared in accordance with the guidelines of the Self-Governance Code issued in 2002 (press release of December 15, 2006).
The company has also updated the "Internal dealing" Code, the Ethical Code and adopted the Code of conduct for Directors. 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 published within the same terms for publication of the annual accounts.

3.4.3 Investments held by Directors, Statutory Auditors and General Directors

The members of the Board of Directors, executives with strategic responsibility as well as spouses not legally separated and minor children, directly or through controlled companies, trust companies or interposed persons, as resulting from the shareholder register, from communications received and from other information acquired by the members of the Board of Directors, from the general directors and from executives with strategic responsibilities, do not hold shares of the issuer or shares or holdings in its subsidiaries.

3.4.4 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 at market conditions 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.

Reference should be made to the notes of the separate financial statements for a detailed analysis of these transactions and their relative values compared to the total assets and liabilities and total costs and revenues of the separate financial statements.

3.4.5 Treasury shares or quotas held in holding companies

In compliance with article 2428, paragraph 2, point 3 of the Italian Civil Code, at December 31, 2006, the Company did not own any treasury shares or shareholdings in holding companies.

3.4.6 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, the company did not acquire or sell any treasury shares or shareholdings of its holding companies.

3.4.7 Legislative Decree No. 196/2003 Protection for Privacy

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, on March 29, 2007, the company prepared the so-called "Programmed Document on security", identifying and applying the necessary implementations to the security system which the company intends to adopt in compliance with the regulations.

3.4.8 Proposal for the allocation of the result for the year

Dear Shareholders,

the financial statements at December 31, 2006 of your company, prepared in accordance with international accounting standards, ended the year with a loss of Euro 2,876,344, that we propose to carry forward in the reserve "Retained retainings (accumulated 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 the notes thereto.

Milan, March 21, 2007

For the Board of Directors
The Chairman
Prof. Giuseppe Gatti

3.5 Transition to International Financial Reporting Standards (IFRS) by the Parent Company Enertad SpA

3.5.1 General considerations

In accordance with Legislative Decree No. 38/2005, listed companies, from the year 2006, must prepare the parent company's financial statements (non-consolidated) applying the International Accounting Standards IAS/IFRS as approved by the European Union.

Consequently, in the preparation of the annual report at December 31, 2006, Enertad SpA took into consideration the new regulations for the preparation of the parent company's accounts. The consolidated accounts of the EnerTad Group were prepared in accordance with international accounting standards IAS/IFRS from the year ended December 31, 2005.

In relation to this, in order to provide sufficient understanding of the effects of the transition to the new standards for the parent company, the balance sheet and income statement relating to the Parent Company Enertad SpA - attached to the annual report at December 31, 2006 – also includes the information required in accordance with international accounting standard IFRS 1 "First-time adoption of the International Financial Reporting Standard" with particular reference to the reconciliations required as per paragraphs 39 and 40 of the standard. In particular, the following is presented:

> A reconciliation of the shareholders' equity and of the result at the end of the previous year, determined in accordance with the criteria utilised for the financial statements of the previous year, compared to the value utilised applying international accounting standards;

> The reconciliations required by paragraphs 39 and 40 of the IFRS 1 "First-time adoption of the International Financial Reporting Standard" (as interpreted by paragraph IG 63 of the Implementation Guidance to the standard), together with explanatory notes of the criteria and of the accounts contained in the reconciliations.

In the present paragraph the following is provided, with reference to the financial statements of the parent company Enertad SpA:

> The description of the principal differences between Italian GAAP (previously used) and IAS/IFRS standards.

> The accounting treatment chosen by the Company in relation to the accounting options contained in the IAS/IFRS standards.

> The exemptions permitted by IFRS 1 and used by the Company.

> The information required by CONSOB communication No. 14990 of April 14, 2005 with reference to the reconciliation of the shareholders' equity at January 1, 2005, at December 31, 2005 and of the result for the year ended December 31, 2005, applying Italian GAAP and IFRS respectively.

> The detail of the effects of the transition to IAS/IFRS on the balance sheet at December 31, 2005 and on the income statement for the year 2005.

3.5.2 Principal differences between Italian GAAP used previously and IAS/IFRS standard

The accounting standards adopted by Enertad SpA for the transition of the parent company's financial statements to the international accounting standards IAS/IFRS are those utilised by the Enertad Group for the preparation of the consolidated financial statements for the year ended December 31, 2005; reference should therefore be made to these consolidated financial statements.
IFRS 1 governs the procedures for the transition to the new accounting standards. They provide that at the transition date to the IAS/IFRS (January 1, 2005, in consideration of the requirements of the European Union) separate financial statements are prepared for the parent company Enertad SpA. These financial statements were prepared in accordance with the following criteria:

> All of the assets and liabilities specifically required to be recognised by IAS/IFRS were recorded, even where this recognition was not permitted by Italian GAAP;

> No assets and liabilities were recognised that are not permitted by the new IAS/IFRS standards;

> Reclassifications were made of all accounts not in compliance with the IAS/IFRS standards.

> In accordance with IFRS 1.25, as Enertad SpA adopts the IAS/ IFRS standards for the first time in the parent company's financial statements for the year 2006, having already adopted these standards for the preparation of the consolidated financial statements

as at December 31, 2005, the assets and liabilities recorded in the parent company's financial statements prepared in accordance with IFRS criteria at January 1, 2005 were recognised at the same values of those recorded in the consolidated financial statements at the same date, except for the investments and the other accounts eliminated in the Group consolidated financial statements. This implies that for the parent company's financial statements the choices made remain unchanged in application of IFRS 1 (IFRS 1.13 and IFRS 1.26) in the Group consolidated financial statements at January 1, 2004 (transition date previously utilised for the consolidated financial statements).

In accordance with IFRS 1, the effect of these adjustments resulting from the first-time application of IAS/IFRS were recorded in a separate equity reserve.
The principal differences between the IAS/IFRS standards and the previous standards are summarised below:

Equity investments: with reference to the accounting principles of the investments, while Italian GAAP permitted the valuation of the investments alternatively under the cost method or the equity method (adopted by Enertad SpA from the preparation of the financial statements as at December 31, 2005 relating only to the investment in Enertad France Sas), the IAS/IFRS standards only permit the valuation at cost, reduced for any permanent loss in value determined with reference to the future expected cash flows of the investment.

Derivative instruments: according to Italian GAAP 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. In particular, with reference to the derivative instruments held by the Company, they are classified in the category "Cash flow hedge"; and therefore:

> 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 IAS/IFRS standards the current value of the option exercisable by minority interests with Enertad SpA for the sale of shares held in non-listed subsidiaries, is determined as the current value of the amount paid of the option and measured as a component of the cost of acquisition of the investment. With reference to the previous accounting standards, this option was recorded in the memorandum account for the notional value.

Bonds: according to Italian GAAP, 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 for 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 embedded financial instruments (convertible bonds) must be separated between the payable and 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 relating 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 equity account.

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 costs for the share capital increase that, in accordance with the Italian GAAP, are capitalised and amortised, according to IAS/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-time 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 company's sector, 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 that can be allocated to the development process. The research and development costs, recorded under intangible assets on the basis of Italian accounting principles, which do not satisfy the requisites of the IAS/IFRS principles 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 Company 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 assignment date is recorded in the income statement as a cost. Subsequent changes in the current value to the assignment 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 and is based on a constant quota criteria over the period between the vesting date and that of maturity and is directly recorded to equity.

3.5.3 Accounting treatment chosen by the Company in relation to the accounting options contained in the IAS/IFRS standards.

In line with the valuation criteria already adopted in the preparation of the financial statements in accordance with Italian GAAP, in the valuation of the tangible and intangible fixed assets, the Company has opted for the Cost model, after the initial cost recognition, net of amortisation/depreciation and any loss in value arising.

3.5.4 Exemptions permitted by IFRS 1 and used by the Company

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

Measurement of intangible and tangible fixed assets: the Company has availed of the option 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, 2005, in line with the requisites of IFRS 1.

Business combinations: IFRS 3 provides that business combinations are accounted for using the "purchase method", recording the assets and liabilities at their relative fair value at the acquisition date. The Company, 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. These 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.

3.5.5 Reconciliation of Italian GAAP previously utilised compared to the IAS/IFRS

The reconciliations between the shareholders' equity and the result, determined in accordance with Italian GAAP, and those calculated in accordance with IAS/IFRS, were prepared only for the purposes of the transition process for the preparation of the parent company's financial statements of Enertad SpA at December 31, 2006 according to IAS/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 result of Enertad SpA in conformity with IAS/IFRS.

The data contained in the present document were audited in accordance with the indications contained in CONSOB Communication No. DEM/6064313 of July 28, 2006. The auditors' report dated September 19, 2006 was attached to the half-year report as at June 30, 2006.

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

	Balance 1.1.05	Incentive plan	Derivative financial instruments	Profit (loss)	Balance 31.12.05
Shareholders' equity as per Italian GAAP	**173,755**			**(18,897)**	**154,858**
IFRS CHANGES:					
Reversal of intangible assets not capitalised					
- Accessory charges on share capital increase	(5,557)			1,530	(4,027)
- Other intangible assets capitalised	(569)			220	(349)
sub- total	**(6,126)**			**1,750**	**(4,376)**
Adjustments relating to the valuations of investments in subsidiary companies					
- Reversal valuation under the equity method of Enertad France Sas				(15,000)	(15,000)
Other adjustments					
- Valuation of financial instruments	(253)		168		(85)
- Valuation of convertible bonds	(200)				(200)
- Personnel costs for incentive plan		203		(203)	
sub- total	**(453)**	**203**	**168**	**(203)**	**(285)**
Correlated fiscal effect					
total IFRS changes	(6,579)	203	168	(13,453)	(19,661)
Shareholders' equity as per IFRS	**167,176**	**203**	**168**	**(32,350)**	**135,197**

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 Company, 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.

3.5.6 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.

Intangible assets:

At January 1, 2005: A reduction of intangible assets of Euro 6,126 thousand. The impact is due for Euro 5,557 thousand to the cost for the share capital increase and for Euro 569 thousand to research and development costs which no longer satisfy IFRS for their capitalisation.

At December 31, 2005: A reduction of the amortisation of Euro 1,750 thousand and a reduction of the net equity before the fiscal effect of Euro 4,376 thousand.

Equity investments:

At January 1, 2005: no effect.

At December 31, 2005: a reduction of Euro 15 million from extraordinary income and net equity at December 31, 2005 deriving from the effect of the valuation of the investment in Enertad France Sas under the equity method before the fiscal effect.

Derivative instruments:

For the Company, this relates to interest rate risk management derivative instruments (cash flow hedge) which must be recorded in the parent company's financial statements and valued at the relative fair value. This accounting method results in, with reference to the date of January 1, 2005, an increase in the financial payables and a reduction of the net equity before the fiscal effect of Euro 253 thousand, as these instruments comply with the hedging strategy for which they were agreed. The increase in the financial payables and the reduction in net equity before the fiscal effect, at December 31, 2005 is Euro 85 thousand.

Bonds:

For the Company, this relates to convertible bonds, therefore an embedded financial instrument with an option in the bond which converts the payable into capital. The accounting method, as described in the section "Principal difference between Italian GAAP used previously and IFRS" results in, with reference to January 1, 2005:

> the recording of the bonds at amortised cost, which results in an increase in the financial payable and a reduction in the net equity before the fiscal effect of Euro 200 thousand;

> the recording of the option value granted to the subscribers of the convertible bond to convert the payable into capital, with no effect on the net equity as the option refers to a capital instrument and not a payable instrument.

The effect at January 1, 2005 is confirmed at December 31, 2005 without any impact on the income statement.

Incentive plans:

On February 1, 2005, 930,200 shares were assigned to employees on the basis of a long-term incentive plan. The remuneration cost, corresponding to the current value of the options, is recognised under personnel costs and is based on a constant quota criteria over the period between the vesting date and that of maturity (February 1, 2008), recorded directly to equity for Euro 203 thousand at December 31, 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.

BALANCE SHEET (€/000)

	31.12.2005 Italian GAAP	Reclassifications	Adjustments	31.12.2005 IFRS standards
Non-current assets	138,607	(923)	(3,426)	134,258
Current assets	146,510			146,510
Total Assets	**285,117**	**(923)**	**(3,426)**	**280,768**
Shareholders' equity	154,858		(19,661)	135,197
Non-current liabilities	8,542		15,950	24,492
Current liabilities	121,717	(923)	285	121,079
Total shareholders' equity and liabilities	**285,117**	**(923)**	**(3,426)**	**280,768**

INCOME STATEMENT (€/000)

	31.12.2005 Italian GAAP	Reclassifications	Adjustments	31.12.2005 IFRS standards
Total revenues	3,387			3,387
Total costs of production	(10,345)	706	1,547	(8,092)
Result from normal operations	**(6,958)**	**706**	**1,547**	**(4,705)**
Total financial income and charges	74	(922)		(848)
Share of equity investments measured under the equity method	(28,100)			(28,100)
Result before taxes from normal operations	**(34,984)**	**(216)**	**1,547**	**(33,653)**
Income Taxes	1,303			1,303
Loss from normal operations	**(33,681)**	**(216)**	**1,547**	**(32,350)**
Result from discontinued operations	0			0
Extraordinary income and charges	14,784	216	(15,000)	0
Loss for the year	**(18,897)**	**0**	**(13,453)**	**(32,350)**

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

Non-current assets:

(€/000)

Reclassifications:	31.12.2005
Intangible assets	(923)
Total	**(923)**

More specifically:

(€/000)

Intangible assets:	31.12.2005
Transaction costs of a convertible bond recorded as a reduction of the financial payable	(923)
Total	**(923)**

(€/000)

Adjustments:	31.12.2005
Intangible assets	(4,376)
Equity investments	950
Total	**(3,426)**

More specifically:

(€/000)

Intangible assets:	31.03.2005
Transaction costs of share capital increase recorded as a direct reduction of Net Equity	(4,027)
Reversal of research and development costs not capitalised	(349)
Total	**(4,376)**

(€/000)

Equity investments:	31.12.2005
Value of minority share sales option in a non quoted company	15,950
Reversal valuation under the equity method of Enertad France Sa	(15,000)
Total	**950**

Non-current liabilities

(€/000)

Adjustments:	31.12.2005
Payables for derivative instruments	15,950
Total	**15,950**

More specifically:

(€/000)

Payables for derivative instruments:	31.12.2005
Value of minority share sales option in a non-listed company	15,950
Total	**15,950**

Current liabilities:

(€/000)

Reclassifications:	31.12.2005
Current liabilities (interest bearing)	(923)
Total	**(923)**

More specifically:

(€/000)

Current liabilities (interest bearing):	31.12.2005
Transaction costs of convertible bond recorded as a reduction of the financial payable	(923)
Total	**(923)**

(€/000)

Adjustments:	31.12.2005
Current liabilities (interest bearing)	200
Payables for derivative instruments	85
Total	**285**

More specifically:

(€/000)

Current liabilities (interest bearing):	31.12.2005
Valuation of convertible bond options	200
Total	**200**

(€/000)

Payables for derivative instruments:	31.12.2005
Fair value valuation of interest risk hedging contracts	85
Total	**85**

3.5.8 Details to the schedules relating to the effects of the transition to IFRS on the income statement

Costs of production:

(€/000)

Reclassifications:	31.12.2005
Amortisation of convertible bond transaction costs	922
Reclassification of extraordinary charges	(216)
Total	**706**

(€/000)

Adjustments:	31.12.2005
Reversal of amortisation of share capital increase transaction costs	1,530
Reversal of amortisation of intangible assets not capitalised	220
Personnel cost for incentive plan	(203)
Total	**1,547**

Financial income and charges:

(€/000)

Reclassifications:	31.12.2005
Amortisation of convertible bond transaction costs	(922)
Total	**(922)**

Extraordinary income and charges:

(€/000)

Reclassifications:	31.12.2005
Reclassification of extraordinary charges	(216)
Total	**(216)**

(€/000)

Adjustments:	31.12.2005
Reversal valuation under the equity method of Enertad France Sas	(15,000)
Total	**(15,000)**