ISAB Energy

ANNUAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2013

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CORPORATE BODIES

BOARD OF DIRECTORS [1]

CHAIRMAN

PIETRO TITTONI

DEPUTY CHAIRMAN

GIUSEPPE GATTI

DIRECTORS

SALVATORE GALATI
HIROYUKI KOGA
PAOLO LUIGI MERLI

BOARD OF STATUTORY AUDITORS [2]

CHAIRMAN

LUIGI FERRARA

STANDING AUDITORS

MARIO PACCIANI
PIERDOMENICO RUNDO

EXTERNAL AUDITORS

DELOITTE & TOUCHE S.P.A.

(1) Appointed by the Shareholders' Meeting of 12 December 2013
(2) Appointed by the Shareholders' Meeting of 16 April 2012

INTRODUCTION

ISAB Energy S.r.l., 51% owned by ERG S.p.A. and 49% by IPM Priolo B.V. (Holland) as at 31 December 2013, owns the Integrated Gasification Combined Cycle (IGCC) plant located in Priolo Gargallo (Syracuse, Sicily), as well as the annexed membrane plant for the production of hydrogen that is allocated to the adjacent refinery of ISAB S.r.l., which was a subsidiary of ERG S.p.A. until 30 December 2013 and has no longer been a part of the ERG Group since 31 December 2013. Construction of the IGCC plant was financed by means of non-recourse Project Financing (fully repaid early, at the end of 2013).

KEY FINANCIAL FIGURES

The following data are expressed in euro. In the tables, where data are shown in millions of euro, the totals may differ from the sum of the amounts listed.

(EUR MILLION)	2013	2012
TOTAL REVENUES	570	568
EBITDA	**161**	**136**
EBIT	109	87
PROFIT (LOSS) FROM ORDINARY OPERATIONS	**106**	**83**
NET PROFIT (LOSS) FOR THE YEAR	**58**	**44**
CASH FLOW FROM OPERATIONS	**110**	**56**
CASH FLOW FROM INVESTMENT ACTIVITY	(10)	(14)
CASH FLOW FROM SHAREHOLDERS' EQUITY	(15)	–
CHANGE IN NET FINANCIAL DEBT	**85**	**42**
TOTAL SHAREHOLDERS' EQUITY	528	485
NET FINANCIAL DEBT	(31)	54
NET INVESTED CAPITAL	**498**	**539**

OPERATIONAL DATA

		2013	2012
INVESTMENTS	EUR MILLION	**10**	**14**
EMPLOYEES AT END OF PERIOD	UNIT	–	–
ELECTRICITY OUTPUT USING SYNGAS	KWH MILLION	**4,127**	**4,021**
ELECTRICITY OUTPUT USING GASOIL	KWH MILLION	15	56
ELECTRICITY SALES	KWH MILLION	**4,142**	**4,077**

MARKET INDICATORS

	2013	2012
SELLING PRICE (EUR/MWH)		
PUN [1]	62.99	75.48
CIP 6	118.70	122.70

(1) single domestic price - Source: GME S.p.A.

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REPORT ON OPERATIONS

SALES

Sales of electricity generated by the Company totalled 4,142 GWh in 2013 (4,077 GWh in 2012). The entire output was sold, under a 20-year contract, to the Italian national grid operator (Gestore dei Servizi Energetici, GSE).
All of the output was sold at a price set according to the CIP 6/92 agreement. The increase in output was due to the good overall performance of the plant.

COMMENTS ON THE RESULTS FOR THE YEAR

The 2013 Financial Statements, expressed in Euro, show a profit of EUR 58.4 million (compared to EUR 44.0 million in 2012), after amortization and depreciation of EUR 52.5 million (EUR 48.6 million in 2012).
The increased profit is a consequence of the greater production and of the better overall performance of the plant, which more than offset the reduction in the sale price.
These Financial Statements have been externally audited by Deloitte & Touche S.p.A.

EVENTS DURING THE YEAR

Recognition of waiver on reference efficiency starting from 2010
On 9 May 2013, the GSE formally notified the Company of the recognition of the right to the waiver in accordance with Article 3, Paragraph 6 of the Ministry of Economic Development Decree of 20 November 2012 (this benefit had already been assumed in setting the sale price in the 2012 financial statements for the output accrued during that year).

Extension of deadline for CIP 6 early termination applications
On 29 November 2013, the Ministry of Economic Development decree of 30 September 2013 was published in the Official Gazette; the decree extended the deadline to submit an application for early termination of CIP 6 agreements for plants like the one belonging to our Company.

Definition of price balances on sales of 2008 Electricity output
On 29 November 2013, the AEEG with its Resolution no. 553/2013, completed the process of determining the equalisation AFC for the year 2008: said resolution had a positive effect with respect to the estimates made by the Company in previous years, allowing to record EUR 2 million of higher sales, EUR 1 million of higher costs and the elimination of the contingent liability quantified as EUR 3 million in the provisions for risks, with a total net impact before taxes of approximately EUR 4 million.

Early repayment of project financing
On 13 December 2013, the Company proceeded with the early repayment of the project financing, obtaining the release of the guarantees originally provided (among them, the pledge of 100% of share capital, the mortgage on the land and the special lien on the plant).

Closing put option of ERG S.p.A. on the remaining 20% share of ISAB

On 30 December 2013, the parent company ERG S.p.A. closed the transaction relating to the exercise of the put option for the final remaining share of 20% of the capital held in the ISAB S.r.l. refinery.

As a result of the transaction, the LUKOIL Group holds 100% of the capital of ISAB S.r.l.

With regard to the preliminary agreements, subject to conditions precedent, signed on 30 December 2013 between IPM Priolo B.V., IPM IES B.V. and ERG S.p.A. and between the latter and ISAB S.r.l., please refer to the paragraph "**Extraordinary transactions**" of this Report, which precedes the "Business outlook".

REGULATORY FRAMEWORK

The most important provisions affecting the energy sector during 2013 are described below.

GENERAL

National Energy Strategy (Strategia Energetica Nazionale, SEN)

The National Energy Strategy (SEN) was approved by an inter-ministerial decree (by the Ministry of Economic Development and Ministry for the Environment, Land and Sea).

In fact, it is not an operational instruction, but it provides energy guidelines and objectives to 2020.

The SEN assigns high priority to the promotion of energy efficiency, with the target of a 24% reduction in primary energy consumption; initiatives in this direction will be stimulated by incentives of EUR 800 million per year, with expected savings, by 2020, of over EUR 8 billion per year thanks to the reduction in fuel imports.

Another strategic objective is to transform Italy into the Southern European gas market hub, with the consequent expected decrease by EUR 7-8 per MWh in the price of natural gas (alignment to the European market) and savings of more than EUR 4 billion per year in final customers' bills by 2020.

With regard to the development of renewable energies, the electricity output of renewable sources is expected to increase to approximately 120-130 TWh per year, versus a PAN (National Action Plan for Renewable Energy) target of 100 TWh.

Also on the electricity front, the SEN calls for the development of infrastructures and market instruments for the ultimate alignment of Italian electricity prices to the European average; they are essentially focused on greater integration of renewable sources in the electricity market, with expected benefits of approximately EUR 3 billion per year by 2020 in terms of electrical bills.

Other significant objectives set by the SEN are the reorganisation of refining and of the fuel distribution network, the development of domestic hydrocarbon production and a generalised streamlining of the institutional governance system of the energy system, mainly through the expansion of the State's exclusive competence in this matter.

Publication and start of public consultations on the EU climate/energy strategy to 2030

The European Commission started a public consultation process by publishing the Green Paper on 27 March 2013. This paper is a preview of the guidelines for the formation of the new energy/climate framework to 2030. The Commission has clarified that the EU's new approach will have to:

- set up models that will take into account the economic crisis;
- provide a basis to promote the attainment of a new international agreement on climate change (post Kyoto);
- be consistent with the target to be achieved:
  - a 40% reduction in greenhouse gases by 2030;
  - 30% of final energy consumption represented by renewable energies.

With reference to the ETS system, the Commission:

- reaffirms the exclusive centrality of the ETS as an instrument to achieve the emission reduction target;
- laments that, as matters stand, the system does not provide sufficient incentive for investments in low carbon technologies;
- deems that this failure may, if left unresolved, lead to the proliferation of national initiatives to the detriment of the single market.

With reference to the objective of the development of renewable energies:
- the Commission fears that the prolonged economic crisis, which is leading to a substantial reduction in incentive schemes, may compromise the EU's capability to meet its mandatory 2020 targets;
- areas of improvement are identified in overcoming, through new market designs, the technical limitations of renewable energies (intermittence and storage, cooperation between member States and cost effective solutions).

Final approval of Back Loading
On 16 December, the council of the European Union gave its final approval to the text previously produced by the European Parliament and aimed at clarifying the Commission's authority, following its publication of an impact assessment of the decision and the absence of increased risk of offshoring for the industries most exposed to the Carbon Leakage risk, to proceed with the temporary removal of a total amount of quotas of 900 million. The removed quotas will then be reintroduced before the end of the 3rd period (2020). In the meeting of January 2014, the Climate Change Committee (CCC) of the Council will have to determine the pace and respective annual quotas of the removal and subsequent reintroduction. They are expected to be subtracted in 2014-2016 and returned in a shorter time interval, between 2019 and 2020.

Italian Law No. 98 of 9 August 2013, converting Law Decree no. 69 of 21 June 2013, "Urgent provisions for the re-launch of the economy" ("To-Do Decree")
In the **electrical-energy sector**, the following major measures were introduced:
- the revision of the procedures for determining CIP 6 rates, now pegged to gas market prices. For 2013, the weight of the wholesale spot market price of natural gas is gradually set to increase in the indexing formula applied to determine the value of the avoided fuel cost (AFC) component; it will reach 100% from 2014 onwards;
- on the front of the higher income tax, or IRES ("Robin tax") for producers of energy from renewable sources, the reduction of enforcement thresholds to EUR 3 million for revenues and EUR 300 thousand for taxable income.

The **environmental provisions** pertain, in particular, to updates regarding the definition of "by-product" and the use of excavation soils and rocks for small construction sites and for works not subjected to VIA or AIA. Additionally, a definition is provided of the conditions under which contaminated groundwater is deemed akin to industrial waste water and thus regulated by Part III of Italian Legislative Decree 152/06 (Water discharges), allowing their treatment in existing industrial facilities.

Italian Law no. 97 of 6 August 2013, "Instructions for fulfilling the obligations deriving from Italy's membership in the European Union" (so-called 2013 European Law) which prescribes amendments to Part VI of the Environmental Code, containing rules for the indemnification of environmental damages.

THERMOELECTRIC POWER

Italian Ministerial Decree of 24 April 2013 published on the Official Gazette of 18 May 2013, setting the equalisation value for the year 2012 of the avoided fuel cost (AFC) component, on which the CIP 6 rate depends. The Equalisation Fund for the Electricity Sector (CCSE) then published the consequent values of CIP 6 sale prices for the 2012 balance and 2013 advances.

AEEG Resolution 553/2013 whereby the Authority established that the value of the avoided fuel cost (AFC) for the year 2008 for electricity collected by the GSE in accordance with the CIP order 6/92 is 33.9 cent/m^3. This brings AFC values to range between 6.75 cent/kWh and 7.70 cent/kWh, depending on the type of facility and convention, and hence a reimbursement of between 0.20 and 0.23 cent/kWh.

Italian Ministerial Decree of 30 September 2013 published on the Official Gazette of 29 November 2013, "Amendment to Schedule 2 of the Decree of 23 June 2011 and extension of the terms for participating in the application for early termination of CIP 6 agreements for plants using process fuels or residues or recovered energy", extending to 30 September 2014 the deadline for filing applications for the early termination of CIP 6 agreement and updating the parameters for calculating the compensation due to producers participating in the scheme.

Italian Legislative Decree no. 30 of 13 March 2013, implementing the Directive 2009/29/CE relating to the EC system for trading CO_2 emission quotas ("Emission trading" Directive) for the 2013-2020 time interval. The law implements the changes introduced by the aforesaid EC directive, prescribing that quotas shall be allocated by auctions; for thermoelectric plants, the allocation shall be, with a few exception, by full auctioning, whereas for plants in sectors other than thermoelectric, a gradual transition to full auctioning is provided. The decree also defines the procedures for managing the auctions, which shall take place with harmonised rules, established at the EC level, providing for a significant portion of the proceeds deriving from the auctions to be allocated to the Ministry of the Environment for mitigation policies and to promote adaptations to climate changes (e.g., the reduction in greenhouse gas emissions, the development of renewable sources and of energy efficiencies, the provision of incentives for environmentally safe CO_2 capture and geological storage).

AEEG Resolution no. 621/2013, whereby the Authority recognises the charges, for CIP 6 producers, that derive from the obligation to purchase green certificates for the year 2012 (referred to the productions from non-renewable sources of the year 2011): the recognition is carried out in accordance with Title II, point 7-bis, of the CIP Order no. 6/92, on the basis of the criteria defined by resolution no. 113/06.

AEEG Resolution no. 216/2013, whereby the Authority recognises the charges, for CIP 6 producers, that derive from the obligation to purchase green certificates for the year 2011 (referred to the productions from non-renewable sources of the year 2010): the recognition is carried out in accordance with Title II, point 7bis, of the CIP Order no. CIP6/92, on the basis of the criteria defined by resolution no. 113/06.

AEEG Resolution 217/2013, whereby the Authority determined the charges deriving from the obligation to purchase green certificates for the year 2010, referred to the production of the year 2009 to be recognised to ISAB Energy S.r.l. as a CIP 6 producer.

AEEG Resolutions no. 196/2013 and 293/2013, whereby the Authority implements the second phase of the reform of the economic conditions for the performance of the natural gas protection service starting from 1 October 2013, including the revision of the QVD component relating to retail marketing. Additional procedures for implementing the second phase of the 2013 natural gas reform were defined by the Authority with Resolution no. 293/2013.

AEEG Resolution 262/2013, whereby the Authority defined the criteria for determining the price for remunerating capacity for the period between 1 January 2012 and 31 December 2013, which Terna must recognise no later than 30 June 2013 (for the year 2012) and no later than 30 November 2013 (for the year 2013).

AEEG Resolution 307/2013, which reiterates the Authority's intention to reimburse the CO_2 charges borne by plants under CIP 6 agreement also for the third phase of the ETS. The resolution defines the procedures and quantification of the reimbursements for the 2013-2015 time interval and refers to another, separate, instruction, the quantification for the subsequent periods.

AEEG Resolution 481/2013, whereby the Authority recognises to producers under CIP 6 agreements the charges deriving from participation in the Emission Trading System (ETS) for the year 2012.

EFFECTS ON THE COMPANY

With reference to the above, we point out in particular the comments already made in the chapter "Events during the year", and we make reference to the comments provided in the paragraph "Factors affecting the results of operations", below.

BUSINESS SECTOR

ENERGY AND OTHER UTILITIES

ISAB Energy S.r.l. generates electricity using gas produced by gasification of heavy residues originating from feedstock processing at the nearby refinery of ISAB S.r.l.
This electricity is sold to the GSE (Italy's national grid operator) at CIP 6 tariffs. In this respect, it should be recalled that the Ministry of Industry, applying the "Bersani decree" (Legislative Decree of 16 March 1999), ordered the transfer to GSE, effective 1 January 2001, of the rights and obligations of ENEL S.p.A. as regards energy purchases from third-party domestic providers. The plant, with a capacity of 528 MW, produced 4,142 GWh in the year 2013.
It should be noted that, starting from July 2010, the plant for the production of hydrogen, a gas supplied to the adjacent refinery of ISAB S.r.l., was started up. It has a capacity of 20,000 Nm^3/h and supplied 9,831 tons in the period.

FACTORS AFFECTING THE RESULTS OF OPERATIONS

The Company's results are partially subject to changes due to the consistent index-linking contained in the electricity sales price contract and the purchase of raw materials.
The selling price of electricity produced by the Company is regulated by Interministerial Price Committee Order no. 6 of 29 April 1992 (known as CIP 6/92).
ISAB Energy S.r.l. sells electricity to GSE as part of a multi-year CIP 6/92 agreement. As of the end of 2008, the electricity price increase regime – as part of the CIP 6/92 agreement – was ended.
The selling price is established, inter alia, by specific methods decided by the Italian Electricity & Gas Authority (AEEG), which updates mechanisms for calculating one of the components of the selling price Avoided Fuel Cost (AFC).
The AFC is partly linked to changes in the price of natural gas.
Feedstock is purchased from ISAB S.r.l. (in which ERG S.p.A. held a 20% equity interest until 30 December 2013) under a multi-year take-or-pay contract. The price is also indexed to the avoided fuel cost, and consequently, to the trend in the natural gas price.
In this regard, we specify that for the purposes of these Financial Statements, for the determination of the AFC component:

- AEEG Resolution no. 558/2013 provided a positive resolution to the process for defining the balance AFC of the year 2008 after the settlement of the dispute pertaining to AEEG Resolution no. 154/08 and ARG/elt Resolution no. 50/09;
- for the Company's plant, the reference specific consumption (0.215 m^3/kWh, corresponding to a reference efficiency of 48.5%), to be adopted from 2010 onwards, was confirmed; it was officially recognised to the company by the GSE with its notice of 9 May 2013, which allowed the request for waiver filed by the company in accordance with Ministerial Decree of 20 November 2012;
- concerning the year 2013, the methodological criteria indicated in the AEEG Opinion no. 503/2013 which contains the proposal to the Minister of Economic Development for the definition of the procedures for updating the AFC and which incorporates the provisions of the To-Do Law Decree (no. 69/2013) as converted by Law no. 98 of 9 August 2013. This determination was carried out while awaiting the official definition of the calculation methods by a dedicated Ministerial Decree of the Ministry of Economic Development.

With regard to the current uncertainty of the regulatory framework pertaining to the AFC and the assumptions underlying the estimate for the year 2013, refer to that noted in the section "Regulatory risk" which is present within the chapter "Risks and uncertainties".

In addition, in the Official Gazette no. 280 of 29 November 2013, the Ministerial Decree of 30 September 2013 of the Ministry of Economic Development was published, amending Schedule 2 of the Decree of 23 June 2011 and extending to 30 September 2014 the deadline for filing the application for voluntary early termination of CIP 6 agreements for plants using process fuels or residual or recovered energies.

NATIONAL ELECTRICITY MARKET

	2013	2012
DOMESTIC ELECTRICITY MARKET (1) (GWH)		
DEMAND	317,144	328,220
PUMPING CONSUMPTION	2,389	2.689
IMPORT/EXPORT	42,153	43,103
INTERNAL GENERATION (2)	277,380	287,806
OF WHICH		
THERMOELECTRIC	*182,528*	*207,329*
RENEWABLE ENERGY SOURCES	*94,852*	*80,477*

(1) estimated data for 2013
(2) output net of consumption for ancillary services

Electricity demand[3] of the domestic electrical system in 2013 amounted to 317.1 TWh, in decline (-3.4%) compared to the values recorded in 2012. This decrease is due to the economic recession that is affecting the Country, with a contraction in consumption that started in the last quarter of 2011 and persisted both in 2012 and through 2013. With regard to Sicily, the reference market for the ERG Group, the decrease in demand with respect to 2012 was equal to 2.4%, i.e. from 21.6 TWh to 21.1 TWh.
In the same period, net domestic production of electricity was equal to 277.4 TWh, a 3.6% decrease with respect to the previous year, while the net balance of foreign trade reported net imports for 42.2 TWh, a slight decrease with respect to 2012. Of total (net) domestic production, 66% came from thermoelectric plants while the remaining 34% was generated from renewable sources; these data, if compared to the previous year, point to a significant decrease in production from thermoelectric sources (-12%), linked both to the decline in energy demand and to the greater contribution of renewable sources (+18%), in particular hydroelectric (+21%) thanks to the heavy rains of the first half of 2013, but also wind (+12%) and photovoltaic (+19%).

In 2013, the average value of the PUN (single domestic price) was 62.99 Euro/MWh, down by 17% compared to the value of the previous year (75.48 Euro/MWh). Said decline is mostly a result of the marked reduction in the cost of natural gas in a very weak demand environment.

IGCC PLANT

In 2013, electricity output amounted to 4,142 GWh, up compared to 4,077 GWh of the same period of 2012. The increase reflects a better overall performance of the plant. The plant's capacity utilization increased from 88% in 2012 to 90% in 2013.
The energy produced within the contractual capacity (532 MW) was sold at the provisional price of 107.4 Euro/MWh.
During this period, the gross operating margin was equal to EUR 161 million, an improvement compared to the previous year (EUR 136 million); this was due to both increased production and to the good overall performance of the plant, in spite of the lower selling price.

3 Including network losses and net of electric energy for pumping.

INVESTMENTS

In 2013 the Company made investments of EUR 10.3 million (EUR 14.1 million in 2012).
During the year, the project for the construction of the system for cleaning torch exhaust gases, in accordance with the environmental prescriptions established in the "Integrated Environmental Authorisation" (AIA). Additionally, investments continued to be focused on increasing the operating efficiency and reliability of the plants, and the interventions necessary for Health, Safety and the Environmental requirements.

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

Our Company is subject to management and coordination by ERG S.p.A.
This activity concerns, *inter alia*:

- definition of business strategies as well as the corporate governance system and shareholder structures;
- determination of general common policies pertaining to human resources, accounting, Financial Statements, taxation, finance, risk management, communications, institutional relations, environment, safety and security.

We specifically highlight the following decisions taken within the scope of ERG S.p.A.'s management and co-ordination:

- review and approval of the 2013 investment Budget;
- quarterly forecasting of progress in relation to the annual investment budget;
- renewal of the option for the domestic tax consolidation of ERG S.p.A. 2013-2015 and adoption of the related participation Regulations;
- review and approval of the 2014 investment Budget;
- schedule of meetings of corporate bodies for the year 2014.

RISKS AND UNCERTAINTIES

The ERG Group has initiated the implementation of an integrated risk management model that is based on a direct systematic approach for identifying priority risks, evaluating potential negative effects and any opportune mitigation actions that must be initiated.

In this realm, the primary risks that have been identified, monitored and managed by ISAB Energy are as follows:

- Market risks;
- Liquidity risk;
- Industrial accident risks;
- Regulatory risk;
- Credit risk;
- Sales volumes risk.

MARKET RISK

Market risk includes interest rate risk (changes in future interest rates that could result in higher costs for the company) and price risk (unexpected changes in the prices of raw materials- feedstock, services, energy etc.).
In accordance with its own market risk management policies, ISAB Energy utilizes hedging financial instruments in order to manage the relative volatilities; despite these hedging operations, fluctuations in exchange and interest rates as well as in price could moreover have a negative impact on the economic and financial results of the Company.

LIQUIDITY RISK

Liquidity risk consists in the impossibility to comply with payment commitments due to the difficulty in collecting funds or liquidating assets within the market. As of the date of this report, because it is part of the ERG Group, the Company assures sufficient coverage of its financial requirements through cash flow generation, shareholders' equity and lines of credit from various counterparties.

RISKS OF INDUSTRIAL ACCIDENTS

The risk of industrial accidents consists of potential damages to industrial production facilities of the Company relating to cases of fire, explosions, emissions and other unexpected and dangerous factors.
Due to the characteristics typical of the industrial production facilities used by the Company and of the logistics structure, damage may occur relating to cases of fire, explosions, emissions and other unexpected and dangerous factors.
Such events may have negative effects on the Company's results and financial position.
The Company mitigates these risks by adopting appropriate plant management policies aimed at achieving levels of safety and operating excellence in line with the best industrial practices. In addition, as part of the activities coordinated at the Group level, it uses the insurance market to transfer its industrial risks to third parties, assuring a high degree of protection for its facilities, including as a result of business interruption.
Notwithstanding its existing level of insurance cover, the company could incur costs exceeding the maximum values of such cover, owing to the difficulties experienced by the international insurance market in raising adequate capital.

REGULATORY RISK

Regulatory risk consists of changes in norms of local, national and international nature which could affect business operations.

The activities of the Company are subject to multiple norms and regulations which could result in negative effects on business operations.

With regard to this risk, constant monitoring activities as well as constructive communication with international, national and local institutions are conducted in order to promptly assess any regulatory changes that are implemented and conduct operations that minimize their economic impact.

In particular, it should be noted that – for the year 2013 – there is uncertainty in relation to the yet undefined regulatory framework that will be applicable to the avoided fuel cost (AFC) component.

To obtain the best possible estimate of the AFC for 2013, the methodological criteria indicated in the AEEG Opinion no. 503/2013 which contains the proposal to the Minister of Economic Development for the definition of the procedures for updating the AFC and which incorporates the provisions of the To-Do Law Decree (no. 69/2013) as converted by Law no. 98 of 9 August 2013. This determination was carried out while awaiting the official definition of the calculation methods by a dedicated Ministerial Decree of the Ministry of Economic Development.

CREDIT RISK

Credit risk consists in the possibility of insolvency (default) and/or the loss of creditworthiness on the part of the counterparty. There does not appear to be a significant risk towards exposure to credit risk since the opposite parties that the Company deals with are financially strong and reliable.

SALES VOLUME RISK

Sales volume risk consists in fluctuations in the quantities of sales contracts. This risk affects production and the sale of electricity and can be linked to an interruption in the supply of feedstock.

HEALTH, SAFETY AND ENVIRONMENT

The protection of persons' health and safety and the safeguard of the environment are priorities in the ERG Group's enterprise culture: the prevention and management of the connected risks, therefore, are central in the implementation of the Group's HSE Policy.

HEALTH AND SAFETY

In 2013, the objective of updating the Guidelines for the Integrated Management of Health, Safety and the Environment within the Group was achieved.

These documents are applicable to ERG S.p.A. and to all Subsidiaries and they represent:

- the expression of the principles set out in the Group's HSE Policy in the relevant issues and processes;
- the useful tool for the enforcement of shared directions at all Group sites;
- the reference for a homogeneous, coordinated HSE Integrated Management System (Sistema di Gestione Integrato, SGI).

The issue process saw the active participation of all company functions involved in the management of these issues, and the approval by the top management in the course of a dedicated Sustainability Committee meeting; the Guidelines, issued in May 2013, became operational on 1 July 2013.

The articulation of the contents of the aforesaid Guidelines, supported by an internal working group, pertained in particular to:

– the wide adoption of rules of behaviour with reference to workers' obligations under Italian Legislative Decree 81/08, to compliance with the procedures of the adopted SGI and to the policy of no alcohol, no smoking, no mood-altering drugs and rules for safe driving;
– the definition and adoption of uniform criteria for the assignment of appointments, powers and duties for professionals having HSE responsibilities;
– the implementation of an internal reporting and communication process, uniform for all Group Companies, with respect to relevant information and incidents;
– the definition of shared directions in the management of suppliers in HSE terms, with particular reference to the qualification phase, to the management of sub-contracts, to the verification of field performance and to compliance with contractual requirements.

Additionally, within the Group, training on workplace health and safety matters continued at all organisational levels, with the involvement of the various affected professionals; in particular, the training of managers and executives entailed, in accordance with the contents of the Agreement between the State and Regions of 21 December 2011, focusing on issues of communication and workers' sensitisation to safety issues.

ENVIRONMENT

During the year 2013, area remediation activities continued at the plant of ISAB Energy which is part of the "Site of national interest of Priolo", in compliance with applicable regulations. Confirming the fact that environmental issues remain a central element in the Group's strategy of sustainable development within the territory, ISAB Energy consolidated and intensified the operations for the implementation of safety measures in relation to groundwater, by pumping them and recovering them within the production cycle: the actions carried out enabled to achieve a substantial improvement, over time, in the quality of ground water, which is monitored periodically.

The IGCC plant of ISAB Energy achieved significant targets for the improvement of its environmental performance, thanks to the completion of the adoption of the "best available techniques" in the industry, defined at the EC level, consistently with the provisions of the Integrated Environmental Authorisation, issued in accordance with the EC Directive Integrated Pollution Prevention and Control (IPPC) In particular, ISAB Energy started some actions to optimise emissions to the torch system. Moreover, periodic, in-depth inspections carried out by the control Bodies enabled to confirm full compliance with the prescriptions, in addition to the accuracy and reliability of monitoring and control activities, in particular for atmospheric emissions and water discharges.

MANAGEMENT AND CERTIFICATION SYSTEMS

Consistently with the Group's health, safety and environmental Policy, in 2013 the certification by ISAB Energy Services for the activities carried out at the ISAB Energy site was renewed.

Additionally, ISAB Energy, as owner of the assets, renewed its certification according to the ISO 14001 standard.

Detailed analysis of all issues relating to health, safety and the environment will form an integral part of the ERG Group's annual Sustainability Report.

HUMAN RESOURCES

As of 31 December 2013, ISAB Energy S.r.l. had no employees on its books.
The main company activities relate to services from group companies, such as the Operation and Maintenance of the plants managed by ISAB Energy Services S.r.l. and management, administration and financial services managed by the parent company ERG S.p.A.

PRIVACY - SECURITY POLICY DOCUMENT

During 2013, the Company invested adequate resources in maintaining high levels of application of the Privacy Code (Legislative Decree 196/2003) as well as of the provisions issued by the Authority for the Protection of Personal Data by promoting and updating, in particular, its security policies for the purposes of guaranteeing an adequate level of protection of the personal data subject to handling.

SUMMARY FINANCIAL STATEMENTS

INCOME STATEMENT

(EUR THOUSAND)	2013	2012
REVENUES FROM ORDINARY OPERATIONS	549,073	546,928
OTHER REVENUES AND INCOME	20,583	21,425
TOTAL REVENUES	**569,656**	**568,353**
COST OF PURCHASES	(313,009)	(315,085)
CHANGES IN INVENTORIES	1,542	(547)
SERVICE COSTS AND OTHER OPERATING COSTS	(97,100)	(116,774)
PERSONNEL EXPENSES	–	–
EBITDA	**161,089**	**135,947**
AMORTIZATION, DEPRECIATION AND WRITE-DOWNS	(52,461)	(48,623)
EBIT	**108,629**	**87,324**
NET FINANCIAL INCOME (EXPENSES)	(3,039)	(4,041)
NET INCOME (LOSS) FROM EQUITY INVESTMENTS	–	–
PROFIT (LOSS) FROM ORDINARY OPERATIONS	**105,589**	**83,283**
NET EXTRAORDINARY INCOME (EXPENSES)	10	(302)
PROFIT BEFORE TAXES	**105,600**	**82,981**
INCOME TAXES	(47,229)	(38,943)
PROFIT (LOSS) FOR THE YEAR	**58,371**	**44,039**

REVENUES FROM ORDINARY OPERATIONS

Revenues were generated from the sale of electricity to the GSE, which amounted to approximately EUR 492 million from sales carried out in 2013. The differences from previous years total a less than significant amount (EUR +2 million in revenues as a result of the definition of the balance on 2008 output and EUR -2 million in revenues for the recognition of a lower balance on the 2012 output).

The item is also related – for approximately EUR 58 million, to the sale of hydrogen, minor products and utilities.

OTHER REVENUES AND INCOME

Besides the rental income and sundry revenues for services to affiliate companies, other revenues and income also include the expected refund (totalling EUR 13 million), under the CIP 6/92 agreement, of the costs incurred in association with the obligations introduced under emissions trading regulations for emissions of carbon dioxide in excess of the National Allocation Plan (NAP3 2013), in addition to the full release of the risk provision allocated in previous year in relation to the determination of the AFC value for the year 2008, i.e. EUR 3 million.

COST OF PURCHASES

Purchase costs mainly refer to supplies of feedstock, other fuel oils, oxygen, electricity and nitrogen.

SERVICE COSTS AND OTHER OPERATING COSTS

Services received consist of maintenance, insurance, commercial, technical, general and advisory services.

AMORTISATION, DEPRECIATION AND WRITE-DOWNS

This item includes technical and economic depreciation (EUR 48 million) of tangible assets and amortization (EUR 5 million) of intangible assets. No write-downs were computed, since the required conditions did not hold true.

NET FINANCIAL INCOME (EXPENSES)

Financial expenses accrued during 2013 related to interest expenses of EUR 2.0 million on loans, additional bank charges and intermediation fees totalling EUR 0.2 million and differentials payable on derivatives of EUR 0.8 million.

INCOME TAXES

Current corporate income tax (IRES) totalled EUR 47.6 million, including EUR 13.2 million due in respect of the 10.5% surtax ("Robin Tax").
Current regional business tax (IRAP) has been quantified at EUR 6.4 million.
This item also includes a minor charge for deferred taxes totalling EUR 6.8 million, which includes the reversal of one fifth of the taxation over a five-year period of the tax gain for IRES purposes resulting from the insurance payout for direct damage at the IGCC plant.
It should be noted that Italian Law no. 148/2011 of 14 September 2011 introduced a temporary increase of the additional IRES rate from 6.5% to 10.5% for the years 2011, 2012 and 2013.

BALANCE SHEET

Below we present reclassified Balance Sheet data compared with those for the previous financial year.

(EUR THOUSAND)	12/31/2013	12/31/2012
FIXED ASSETS	462,831	504,962
WORKING CAPITAL	85,188	89,443
END-OF-SERVICE EMPLOYEE PAYMENTS (TFR)	–	–
OTHER ASSETS	31,808	40,328
OTHER LIABILITIES	(82,075)	(95,764)
NET INVESTED CAPITAL	**497,752**	**538,970**
SHAREHOLDERS' EQUITY	528,337	484,966
MEDIUM/LONG-TERM FINANCIAL DEBT	48,657	74,647
NET SHORT-TERM FINANCIAL DEBT	(79,241)	(20,644)
SHAREHOLDERS' EQUITY AND FINANCIAL DEBT	**497,752**	**538,970**

As of 31 December 2013 net invested capital amounted to approximately EUR 498 million, a decrease of around EUR 41 million.
Below we analyse the most significant changes occurring in the position at 31 December 2013 and at 31 December 2012.

FIXED ASSETS

(EUR THOUSAND)	12/31/2013	12/31/2012
INTANGIBLE ASSETS	8,694	13,337
TANGIBLE ASSETS	454,131	491,620
EQUITY INTERESTS AND LONG-TERM INVESTMENTS	5	5
TOTAL	**462,831**	**504,962**

WORKING CAPITAL

(EUR THOUSAND)	12/31/2013	12/31/2012
INVENTORIES	13,667	12,129
TRADE RECEIVABLES	176,372	261,875
TRADE PAYABLES	(104,851)	(184,561)
TOTAL	**85,188**	**89,443**

The figure for inventories, in relation to the spare parts component, is shown net of a write-down provision of approximately EUR 5 million (of which EUR 4 million made in previous years) to reflect obsolescence. This amount was deemed to be appropriate as of 31 December 2013.
The decrease in trade receivables – amounting to approximately EUR 86 million – is substantially due to the decrease in receivables from the National Grid Operator for sales of electricity (EUR -83 million).
More specifically, with regard to receivables relative to sales of electricity, the following is noted:

1. the 2013 allocation of a positive balance with respect to advance prices invoiced during the year for an amount of approximately EUR 46.8 million (EUR -30.7 million compared to the 2012 estimate of the similar balance of EUR 77.5 million);
2. receivables relative to sales made in the months of November and December 2012 which were invoiced as advances and which were not yet collected as of the end of 2013, totalling 76.4 million (EUR -0.7 million compared to the similar 2012 receivable which only referred to the months of November and December 2012 and amounted to EUR 77.1 million).
3. absence of receivables for adjustment of the advance price of the year 2013 (EUR -31.5 million compared to December 2012, in view of the collection, in January 2013, of the balances on the 2012 advance price);
4. receivables of EUR 9 million relating to price balances pertaining to the sales of electricity that took place in 2008 (compared to an estimate of EUR 5 million at the end of 2012);
5. the settlement, in 2013, of credit notes totalling EUR 21.3 million for 2010, partly offset by the assessment of invoices to be issued for an amount of EUR 8.0 million in connection with the expected benefit of the exemption on the two-year period of start-up of operations for the plant (for a net amount of EUR +13.3 million compared to 2012);
6. the collection of EUR 36.6 million of receivables relating to the price balance on the 2011 production (of which EUR 26.3 million invoiced in December 2012, with collection in January 2013, and assessments of additional EUR 10.2 million collected as a result of the recognised benefit of the aforesaid exemption).

With regard to receivables for green certificate refunds – totalling EUR 35.8 million (EUR -1.1 million compared to EUR 36.9 million in 2012), the expected collection of 2011 and 2012 production receivables allocated in the previous year should be noted in addition to the assessment, during the course of the year, of additional receivables relating to the 2013 production totalling EUR 11.1 million and to the 2011 production for an additional amount of EUR 1.6 million.

Short-term trade receivables decreased by approximately EUR 79.7 million, of which EUR 46.0 million relating to lower payables for purchases of Green Certificates and emission rights and EUR 33.6 million to lower payables pertaining to the purchase of asphalt from ISAB S.r.l. (also as a result of the aforesaid equalisations on the AFC).

OTHER ASSETS

(EUR THOUSAND)	12/31/2013	12/31/2012
SHORT-TERM TAX RECEIVABLES	10,306	8,175
OTHER SHORT-TERM RECEIVABLES	13,279	19,318
SHORT-TERM ACCRUED INCOME AND PREPAID EXPENSES	4,412	7,525
MEDIUM/LONG-TERM TAX RECEIVABLES	3,812	5,310
TOTAL	**31,808**	**40,328**

OTHER LIABILITIES

(EUR THOUSAND)	12/31/2013	12/31/2012
SHORT-TERM TAX PAYABLES	2,524	12,865
OTHER SHORT-TERM PAYABLES	34,619	29,411
SHORT-TERM ACCRUED EXPENSES AND DEFERRED INCOME	64	1,113
OTHER PROVISIONS FOR LIABILITIES AND CHARGES	44,869	52,375
TOTAL	**82,075**	**95,764**

The other assets mainly regard receivables for the refund (under CIP 6/92 arrangements) of costs incurred in relation to emission trading regulations for CO_2 emissions exceeding the allocations for 2013 (i.e., approximately EUR 13 million), to the prepaid insurance premiums applicable in the future (about EUR 4 million), deferred tax receivables (amounting to EUR 8 million) and receivables from the parent company for group VAT (EUR 6 million). The other liabilities are mostly referred to the payable to the tax consolidator for the corporate income tax (IRES) (EUR 35 million) and to the other provisions (EUR 45 million), which mainly include:

- the Provision for deferred taxes of EUR 32.0 million, which decreased mainly on account of the release of one fifth of deferred tax liabilities posted to reflect IRES taxation over five years (from 2009 to 2013) of the portion of the insurance payout received in 2009 and comprising, in tax terms, a capital gain on the value of the assets that were destroyed and indemnified;
- the Provision for cyclical maintenance (which during the year featured an allocation of EUR 3.1 million and thus shows a positive net balance of EUR 12.7 million).

During the period, of note is the full release of the provisions for risks allocated in previous year with reference to the suspended definitive quantification of the 2008 AFC by the AEEG, whose allocation was no longer necessary as a result of the settlement of the matter, which occurred in 2013, as described above.

NET FINANCIAL POSITION

The following table shows the medium/long-term financial debt of ISAB Energy S.r.l.

(EUR THOUSAND)	12/31/2013	12/31/2012
MEDIUM/LONG-TERM BANK BORROWING	–	36,903
OTHER MEDIUM/LONG-TERM FINANCIAL PAYABLES	48,657	52,221
CURRENT PORTION OF MORTGAGES AND LOANS	–	(14,477)
TOTAL	**48,657**	**74,647**

The breakdown of the short-term financial debt (cash and cash equivalents) is as follows:

(EUR THOUSAND)	12/31/2013	12/31/2012
SHORT-TERM BANK BORROWING	–	14,477
OTHER SHORT-TERM FINANCIAL PAYABLES	7,593	5,119
SHORT-TERM FINANCIAL PAYABLES	**7,593**	**19,595**
CASH AND CASH EQUIVALENTS	(86,835)	(40,239)
OTHER SHORT-TERM FINANCIAL RECEIVABLES	–	–
SHORT-TERM FINANCIAL RECEIVABLES	**(86,835)**	**(40,239)**
TOTAL	**(79,241)**	**(20,644)**

The amount of cash and cash equivalents consists of liquidity freed at the end of the period as a result of the early repayment of the Project Financing agreement, which took place at the end of December 2013.

An analysis of the change in net financial debt during the periods under review shows the following:

(EUR THOUSAND)	2013	2012
CASH FLOW FROM OPERATIONS		
CASH FLOW FROM CURRENT OPERATIONS	104,000	89,659
CHANGES IN OPERATING ASSETS AND LIABILITIES	5,931	(33,933)
TOTAL	**109,931**	**55,726**
CASH FLOW FROM INVESTMENTS		
INVESTMENTS	(10,343)	(14,076)
DISINVESTMENTS	–	–
TOTAL	**(10,343)**	**(14,076)**
CASH FLOW FROM SHAREHOLDERS' EQUITY		
CAPITAL INCREASE	–	–
CAPITAL CONTRIBUTIONS	–	–
DIVIDENDS PAID	(15,000)	–
OTHER CHANGES IN SHAREHOLDERS' EQUITY	–	–
TOTAL	**(15,000)**	**–**
CHANGE IN NET FINANCIAL DEBT	**84,588**	**41,650**
NET FINANCIAL DEBT AT BEGINNING OF YEAR	**(54,003)**	**(95,654)**
CHANGE DURING THE YEAR	**84,588**	**(41,650)**
NET FINANCIAL DEBT AT CLOSE OF YEAR	**30,585**	**(54,003)**

TREASURY SHARES AND INVESTMENTS IN PARENT COMPANIES AND OTHER COMPANIES

ISAB Energy S.r.l. does not own any treasury shares, shares in parent companies or equity investments in the companies included in the parent companies' chain of control.
The Company owns a 5% equity interest in the company Industria Acqua Siracusana S.p.A., which is a consortium company that manages industrial waste water at the Priolo Gargallo (Syracuse) site.

BRANCHES AND OFFICES

ISAB Energy S.r.l. has its registered office in Priolo Gargallo (Syracuse, Sicily).
The Company has no secondary offices.

TRANSACTIONS WITH PARENT COMPANIES, GROUP COMPANIES AND OTHER RELATED PARTIES

Based on the indications of relevant CONSOB (the Italian stock market regulator) communications, no transactions come within the resulting definition that concerned major operations, except for the transactions – under market conditions – with parent companies and affiliates in relation to the operations detailed below.
ISAB Energy S.r.l. acquires the main raw material necessary for production from ISAB S.r.l. (the company that manages the ISAB refinery, in which the shareholder ERG S.p.A. held a 20% equity investment until 30 December 2013) under a multi-year take-or-pay contract. At the same time, it sells some raw materials and ancillary services to the same company. Transactions between the two companies also feature certain agreements in place for the supply of industrial and general services, such as medical assistance and the fire prevention service.
In addition, the Company purchases CO_2 emission rights and the green certificates necessary to meet regulatory obligations from shareholders (or from companies in their groups that they indicate).
The Company receives from the parent company ERG S.p.A. also the supplies of methane gas necessary for the operation of the plant and, from companies associated with the minority shareholder, the supply of electricity for the operation of the same plant.
The Company also receives other general services from ERG S.p.A. (such as IT services in addition to the remuneration of directors and management directly employed by the parent company).
The fees for these services are detailed in the Notes to the Accounts.
Dealings between the Company and the affiliate ISAB Energy Services S.r.l. are instead mostly regulated by the Operation & Maintenance agreement, which assigns the role of plant operator and maintenance firm (including the hydrogen production plant) to ISAB Energy Services S.r.l.
For the sake of complete disclosure, it should be pointed out that dealings with ISAB S.r.l., an investee of ERG S.p.A. until 30 December 2013 which has no longer been a part of the ERG Group since 31 December 2013, are reported:

- to "affiliated companies" for dealings pertaining to the income statement;
- to "third party companies" for dealings pertaining to the balance sheet.

The schedule below shows the overall set of economic relations that took place over the year with related parties.

(EUR THOUSAND)	INCOME			EXPENSES		
	SALES	OTHER SERVICES	FINANCIAL	PURCHASES	OTHER SERVICES	FINANCIAL
PARENT COMPANIES						
ERG S.P.A.	235	244	–	42,459	3,415	1,035
AFFILIATE COMPANIES						
ERG NUOVE CENTRALI S.P.A.	–	–	–	–	–	167
ERG POWER S.R.L.	–	–	–	–	–	–
ISAB S.R.L.	48,640	763	–	179,822	4,481	–
ISAB ENERGY SERVICES S.R.L.	–	3,329	–	–	25.446	–
ISAB ENERGY SOLARE S.R.L.	–	31	–	–	–	–
OTHER RELATED PARTIES *						
GDF SUEZ ENERGIE S.P.A.	–	–	–	25,521	–	–
IPM PRIOLO B.V.	–	–	–	–	–	728
IPM ENERGY TRADING LTD	57	–	–	31	–	–

Also contains the costs for purchases from TotalErg S.p.A. (a company established as a joint venture by parent company ERG S.p.A.) amounting to 286 thousand Euro, for minor supplies of lubricants and similar products
* Other related parties refer to the minority shareholder IPM Priolo B.V. or to companies belonging to the IPM group

The schedule below shows the overall set of relations involving capital that took place over the year with related parties.

(EUR THOUSAND)	RECEIVABLES			PAYABLES		
	TRADE	SUNDRY	FINANCIAL	TRADE	SUNDRY	FINANCIAL
PARENT COMPANIES						
ERG S.P.A.	58	5,847	–	24,975	34,463	32,302
AFFILIATE COMPANIES						
ISAB ENERGY SERVICES S.R.L.	2,478	–	–	22,838	–	–
OTHER RELATED PARTIES *						
GDF SUEZ ENERGIE S.P.A.	–	–	–	4,566	–	–
ISAB S.R.L.	4,894	–	–	31,075	–	–
IPM PRIOLO B.V.	–	–	–	–	–	23,948

Also contains the costs for purchases from TotalErg S.p.A. (a company established as a joint venture by parent company ERG S.p.A.) amounting to 54 thousand Euro, for minor supplies of lubricants and similar products
* Other related parties refer to the minority shareholder IPM Priolo B.V. or to companies belonging to the IPM group

EXTRAORDINARY TRANSACTIONS

AGREEMENT FOR THE SALE OF THE ISAB ENERGY PLANT AND EARLY TERMINATION OF CIP 6
On 30 December 2013, the Shareholder ERG S.p.A. announced it had reached an agreement with IPM Priolo B.V. for the acquisition of the equity investment, amounting to 49% of share capital in our company, owner of the IGCC electricity generating plant, and in the affiliate ISAB Energy Services S.r.l. (in this case the agreement is between ERG S.p.A. and IPM IES B.V.), plant maintenance and operation company. The same agreement provides for the acquisition, by ERG Renew S.p.A., of 49% of the affiliate ISAB Energy Solare S.r.l. currently held by Princemark Limited, owner of a 1 MW photovoltaic plant.

At the same time, ERG S.p.A. signed with ISAB S.r.l., controlled by the LUKOIL Group, a preliminary agreement for the sale of the ISAB Energy S.r.l. and ISAB Energy Services S.r.l. business units, consisting mainly of the IGCC production plant and of the personnel for its operation and maintenance, which shall be completed only upon the early termination of the CIP 6/92 agreement.

The validity of the agreements signed by ERG S.p.A. with minority shareholders of ISAB Energy S.r.l., ISAB Energy Services S.r.l. and ISAB Energy Solare S.r.l., on one side, and ISAB S.r.l., on the other side, is subject to the approval, by the competent Antitrust Authority, of the acquisition of the equity investments and of the sale of the business units of ISAB Energy S.r.l. and ISAB Energy Services S.r.l. and to the acceptance by the GSE of the early termination of the CIP6/92 agreement for the Company's plant, effective from 1 July 2014.
The two transactions are expected to be closed by the second quarter of 2014.

SIGNIFICANT EVENTS OCCURRING AFTER THE END OF THE FINANCIAL YEAR

On **15 January 2014**, the Shareholders' Meeting of the Company voted to distribute EUR 45 million in dividend, paid to the shareholders in January, together with the payment of the main "subordinate" payables in accordance with the project financing agreement in force until December 2013.

BUSINESS OUTLOOK

The business outlook is conditioned by the conditions precedent that regulate the extraordinary transactions described above, and by the time frame of their possible completion.
In this regard, two possible scenarios can be outlined.
If the conditions precedent do not hold true, the Company will continue to operate the IGCC in 2014 with the same productive and regulatory structure set out by the CIP 6/92 agreement.
In particular, the year 2014 will see the company engaged in the general shutdown for planned maintenance, which will be carried out in the second part of the year; the plant's production is thus expected to be lower than in 2013. With regard to the sale price of electricity, a significant decline is expected, as a consequence of the foreseeable decline in the value of the Avoided Fuel Cost (AFC) of the sale price of electricity. As a result of the combined effect

of the two dynamics, in the outlined scenario, the results for 2014 are expected to be lower, overall, than in 2013, albeit still positive.

If the conditions precedent are fulfilled, the Company will instead manage the IGCC plant with the current facility and regulatory organisation only for the first half of 2014, subsequently selling to ISAB S.r.l. the entire business unit consisting of the plant and the related operating contracts. In this scenario, the profitability of the first half of 2014 will be tied to the performance of the plant during the period and to the expected evolution of the reference regulatory framework, as indicated above. The price recognised by the GSE for the early termination of the CIP 6/92, together with the price agreed with ISAB S.r.l. for the remuneration of the sold business unit, will allow the full recovery of the carrying amounts of the company assets at the date of execution of the transactions. The Company's subsequent operations will essentially concentrate on the financial definition of the balance sheet items remaining from previous operations, which will not be included in the sold business unit.

BOARD OF DIRECTORS' PROPOSAL

Dear Shareholders,

We close this report by inviting you to:

- approve the financial statements for the year ended 31 December 2013, which show a net profit of EUR 58,370,702;
- carry forward the entire net profit of EUR 58,370,702, obtained in the year 2013.

Genoa, 12 February 2014

On behalf of the Board of Directors
The Chairman
Pietro Tittoni

ISAB ENERGY S.R.L.
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2013

STATUTORY FINANCIAL
STATEMENTS

BALANCE SHEET

ASSETS

(EUR)		12/31/2013		12/31/2012
A) DUE FROM SHAREHOLDERS, PORTION UNCALLED		–		–
B) FIXED ASSETS				
I INTANGIBLE ASSETS				
1) START-UP AND EXPANSION COSTS		–		–
2) RESEARCH, DEVELOPMENT AND ADVERTISING COSTS		–		–
3) PATENTS AND INTELLECTUAL PROPERTY RIGHTS		–		–
4) CONCESSIONS, LICENCES, TRADEMARKS AND SIMILAR		105,060		130,725
5) GOODWILL		–		–
6) INTANGIBLE ASSETS IN COURSE OF ACQUISITION AND PAYMENTS ON ACCOUNT		473,970		318,104
7) OTHER		8,115,363		12,888,268
TOTAL		**8,694,393**		**13,337,097**
II TANGIBLE ASSETS				
1) LAND AND BUILDINGS		12,951,244		13.119,735
2) PLANT AND MACHINERY		431,863,036		460,979,849
3) INDUSTRIAL AND COMMERCIAL EQUIPMENT		3,278		5,606
4) OTHER GOODS		213,870		282,395
5) TANGIBLE ASSETS IN COURSE OF ACQUISITION AND PAYMENTS ON ACCOUNT		9,099,815		17,232,317
TOTAL		**454,131,242**		**491,619,902**
III LONG-TERM INVESTMENTS				
1) EQUITY INVESTMENTS IN:				
A) SUBSIDIARIES		–		–
B) ASSOCIATED COMPANIES		–		–
C) PARENT COMPANIES		–		–
E) OTHER COMPANIES		5,165		5,165
		5,165		**5,165**
2) RECEIVABLES	DUE WITHIN 12 MONTHS:		DUE WITHIN 12 MONTHS:	
A) DUE FROM SUBSIDIARIES	–	–	–	–
B) DUE FROM ASSOCIATED COMPANIES	–	–	–	–
C) DUE FROM PARENT COMPANIES	–	–	–	–
D) DUE FROM OTHERS	–	–	–	–
		–		**–**
3) OTHER SECURITIES		–		–
4) TREASURY SHARES		–		–
TOTAL		**5,165**		**5,165**
TOTAL FIXED ASSETS (B)		**462,830,800**		**504,962,163**

(EUR)		12/31/2013		12/31/2012
C) CURRENT ASSETS				
I INVENTORIES				
1) RAW MATERIALS, ANCILLARY MATERIALS AND CONSUMABLES		12,813,965		11,423,194
2) WORK IN PROGRESS AND SEMI-FINISHED GOODS		–		–
3) CONTRACT WORK IN PROGRESS		–		–
4) FINISHED PRODUCTS AND GOODS		853,485		702,229
5) ADVANCES		–		3,929
TOTAL		**13,667,450**		**12,129,352**
II RECEIVABLES	O/W DUE AFTER 12 MONTHS:		O/W DUE AFTER 12 MONTHS:	
1) DUE FROM CUSTOMERS	–	173,835,615	–	259,315,387
2) DUE FROM SUBSIDIARIES	–	–	–	–
3) DUE FROM ASSOCIATED COMPANIES	–	–	–	–
3BIS) DUE FROM AFFILIATE COMPANIES	–	2,478,361	966,882	2,470,144
4) DUE FROM PARENT COMPANIES	–	5,905,121	–	5,058,157
4BIS) TAX RECEIVABLES	–	69,232	–	2,699
4TER) PREPAID TAXES	3,811,878	8,201,529	5,310,090	8,514,012
5) DUE FROM OTHERS	–	13,278,979	–	19,317,635
TOTAL		**203,768,836**		**294,678,034**
III FINANCIAL ASSETS				
1) EQUITY INVESTMENTS IN SUBSIDIARIES		–		–
2) EQUITY INVESTMENTS IN ASSOCIATED COMPANIES		–		–
3) EQUITY INVESTMENTS IN PARENT COMPANIES		–		–
4) OTHER EQUITY INVESTMENTS		–		–
5) TREASURY SHARES		–		–
6) OTHER SECURITIES		–		–
TOTAL		**–**		**–**
IV CASH AND CASH EQUIVALENTS				
1) BANK AND POSTAL DEPOSITS		86,834,711		40,238,744
2) CHEQUES		–		–
3) CASH ON HAND AND EQUIVALENTS		66		139
TOTAL		**86,834,777**		**40,238,883**
TOTAL CURRENT ASSETS (C)		**304,271,063**		**347,046,269**
D) ACCRUALS AND DEFERRALS				
– ACCRUED INCOME		–		–
– PREPAID EXPENSES		4,411,529		7,525,239
TOTAL ACCRUED INCOME AND PREPAID EXPENSES (D)		**4,411,529**		**7,525,239**
TOTAL ASSETS		**771,513,392**		**859,533,671**

LIABILITIES

(EUR)			12/31/2013		12/31/2012
A) SHAREHOLDERS' EQUITY					
I. SHARE CAPITAL			5,165,000		5,165,000
II. SHARE PREMIUM RESERVE			–		–
III. REVALUATION RESERVE			–		–
IV. LEGAL RESERVE			1,033,000		1,033,000
V. RESERVE FOR TREASURY SHARES IN PORTFOLIO			–		–
VI. STATUTORY RESERVES			–		–
VII. OTHER RESERVES:			–		–
1) RESERVE PURSUANT TO LAW 266/05			28,708,574		28,708,574
VIII. RETAINED EARNINGS (LOSSES)			435,059,463		406,020,861
IX. PROFIT (LOSS) FOR THE YEAR			58,370,702		44,038,602
TOTAL SHAREHOLDERS' EQUITY (A)			**528,339,740**		**484,966,037**
B) PROVISIONS FOR RISKS AND FUTURE LIABILITIES					
1) PROVISIONS FOR PENSIONS AND SIMILAR OBLIGATIONS			–		–
2) PROVISIONS FOR TAXES, INCLUDING DEFERRED TAXES			32,128,217		39,622,183
3) OTHER			12,741,092		12,752,480
TOTAL PROVISIONS FOR RISKS AND FUTURE LIABILITIES (B)			**44,869,309**		**52,374,664**
C) END-OF-SERVICE EMPLOYEE PAYMENTS (TFR)			**–**		**–**
D) PAYABLES		O/W DUE AFTER 12 MONTHS:		O/W DUE AFTER 12 MONTHS:	
1) BONDS		–	–	–	–
2) CONVERTIBLE BONDS		–	–	–	–
3) PAYABLES TO SHAREHOLDERS FOR LOANS		48,657,026	56,250,461	52,221,488	57,325,732
4) BANK BORROWINGS		–	–	22,425,870	36,902,525
5) DUE TO OTHER LENDERS		–	–	–	–
6) ADVANCES		–	–	–	–
7) TRADE PAYABLES		–	56,984,165	–	150,445,598
8) NOTES PAYABLE		–	–	–	–
9) DUE TO SUBSIDIARIES		–	–	–	–
10) DUE TO ASSOCIATE COMPANIES		–	–	–	–
10BIS) DUE TO AFFILIATE COMPANIES		–	22,891,915	–	12,261,801
11) DUE TO PARENT COMPANIES		–	59,437,814	–	51,122,510
12) TAX PAYABLES		–	2,523,621	–	12,865,273
13) DUE TO SOCIAL SECURITY INSTITUTIONS		–	(152)	–	(114)
14) OTHER PAYABLES		–	155,885	–	156,169
TOTAL PAYABLES (D)			**198,243,710**		**321,079,494**

(EUR)	12/31/2013	12/31/2012
E) ACCRUALS AND DEFERRALS		
– ACCRUED EXPENSES	–	25,400
– DEFERRED INCOME	63,634	1,088,076
TOTAL ACCRUALS AND DEFERRALS (E)	**63,634**	**1,113,476**
TOTAL LIABILITIES	**243,176,653**	**374,567,634**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**771,513,392**	**859,533,671**
MEMORANDUM ACCOUNTS		
1) GUARANTEES GIVEN		
A) SURETIES		
– ON BEHALF OF SUBSIDIARIES	–	–
– ON BEHALF OF THIRD PARTIES	530,500	508,500
	530,500	**508,500**
B) ENDORSEMENTS	–	–
C) OTHER PERSONAL GUARANTEES	–	–
D) OTHER SECURED GUARANTEES	–	–
	–	**–**
	530,500	**508,500**
2) OTHER MEMORANDUM ACCOUNTS		
A) THIRD-PARTY ASSETS	–	–
B) GROUP COMMITMENTS	325,000	325,000
C) RISKS	–	–
D) OTHER	10,148,130	11,376,033
	10,473,130	**11,701,033**
TOTAL MEMORANDUM ACCOUNTS	**11,003,630**	**12,209,533**

INCOME STATEMENT

(EUR)	2013	2012
A) PRODUCTION VALUE		
1) REVENUES FROM SALES AND SERVICES	549,072,845	546,927,757
2) CHANGES OF INVENTORIES OF WORK IN PROGRESS, SEMI-FINISHED AND FINISHED PRODUCTS	151,256	181,930
3) CHANGES IN CONTRACT WORK IN PROGRESS	–	–
4) INCREASE IN FIXED ASSETS UNDER CONSTRUCTION	692,853	464,367
5) OTHER REVENUES AND INCOME		
- SUNDRY	20,582,894	21,425,339
- CAPITAL CONTRIBUTIONS	–	
	20,582,894	**21,425,339**
TOTAL PRODUCTION VALUE (A)	**570,499,848**	**568,999,393**
B) PRODUCTION COSTS		
6) RAW MATERIALS, ANCILLARY MATERIALS, CONSUMABLES AND GOODS	(313,701,520)	(315,549,340)
7) SERVICES	(66,971,309)	(68,722,161)
8) LEASES AND RENTAL EXPENSES	(529,236)	(531,549)
9) PERSONNEL EXPENSES		
A) SALARIES AND WAGES	–	–
B) SOCIAL SECURITY CONTRIBUTIONS	–	–
C) END-OF-SERVICE EMPLOYEE PAYMENTS (TFR)	–	–
D) PENSIONS AND SIMILAR EXPENSES	–	–
E) OTHER COSTS	–	–
	–	**–**
10) AMORTIZATION, DEPRECIATION AND WRITE-DOWNS		
A) AMORTIZATION OF INTANGIBLE ASSETS	(4,944,250)	(3,268,187)
B) DEPRECIATION OF TANGIBLE ASSETS	(47,516,532)	(45,354,619)
C) OTHER WRITE-DOWNS OF FIXED ASSETS	–	–
D) WRITE-DOWNS OF RECEIVABLES INCLUDED IN CURRENT ASSETS AND CASH AND CASH EQUIVALENTS	–	–
	(52,460,781)	**(48,622,807)**
11) CHANGE IN RAW MATERIALS, ANCILLARY MATERIALS, CONSUMABLES AND GOODS	1,390,770	(728,780)
12) PROVISIONS FOR LIABILITIES	–	–
13) OTHER PROVISIONS	(3,105,612)	(3,950,131)
14) OTHER OPERATING EXPENSES	(26,493,567)	(43,570,207)
TOTAL PRODUCTION COSTS (B)	**(461,871,255)**	**(481,674,974)**
DIFFERENCE BETWEEN PRODUCTION VALUE AND PRODUCTION COSTS	**108,628,594**	**87,324,419**

(EUR)	2013	2012
C) FINANCIAL INCOME AND EXPENSES		
15) INCOME FROM EQUITY INVESTMENTS		
– FROM SUBSIDIARIES	–	–
– FROM ASSOCIATED COMPANIES	–	–
– FROM OTHER COMPANIES	–	–
– TAX CREDIT ON DIVIDENDS	–	–
	–	**–**
16) OTHER FINANCIAL INCOME		
A) FROM RECEIVABLES INCLUDED UNDER FIXED ASSETS		
– FROM SUBSIDIARIES	–	–
– FROM ASSOCIATED COMPANIES	–	–
– FROM PARENT COMPANIES	–	–
– OTHER	–	–
	–	**–**
B) FROM SECURITIES INCLUDED UNDER FIXED ASSETS	–	–
C) FROM SECURITIES INCLUDED UNDER CURRENT ASSETS	–	–
D) INCOME OTHER THAN THE ABOVE		
– FROM SUBSIDIARIES	–	–
– FROM ASSOCIATED COMPANIES	–	–
– FROM PARENT COMPANIES	–	–
– FROM AFFILIATE COMPANIES	–	–
– OTHER	42,053	123
	42,053	**123**
	42,053	**123**
17) INTEREST AND OTHER FINANCIAL EXPENSES PAID TO		
– SUBSIDIARIES	–	–
– ASSOCIATED COMPANIES	–	–
– PARENT COMPANIES	(1,035,404)	(903,768)
– AFFILIATE COMPANIES	(166,882)	(413,929)
– OTHER	(1,834,185)	(2,644,385)
	(3,036,471)	**(3,962,082)**
17BIS) FOREIGN EXCHANGE GAINS AND LOSSES	(44,759)	(79,066)
TOTAL FINANCIAL INCOME AND EXPENSES (C)	**(3,039,177)**	**(4,041,025)**

(EUR)	2013	2012
D) VALUE ADJUSTMENTS TO FINANCIAL ASSETS		
18) REVALUATIONS		
A) OF EQUITY INVESTMENTS	–	–
B) OF LONG-TERM INVESTMENTS	–	–
C) OF SECURITIES INCLUDED UNDER CURRENT ASSETS	–	–
	–	**–**
19) WRITE–DOWNS		
A) OF EQUITY INVESTMENTS	–	–
B) OF LONG-TERM INVESTMENTS	–	–
C) OF SECURITIES INCLUDED UNDER CURRENT ASSETS	–	–
	–	**–**
TOTAL VALUE ADJUSTMENTS TO FINANCIAL ASSETS (D)	**–**	**–**
E) EXTRAORDINARY INCOME AND EXPENSES		
20) EXTRAORDINARY INCOME		
– GAINS ON DISPOSALS	–	–
– NON-RECURRING INCOME	–	–
– SUNDRY	–	–
	–	**–**
21) EXTRAORDINARY EXPENSES		
– LOSSES ON DISPOSALS	–	–
– TAXES FROM PRIOR YEARS	10,172	(302,043)
– NON-RECURRING CHARGES	–	–
– SUNDRY	–	–
	10,172	**(302,043)**
TOTAL EXTRAORDINARY INCOME AND EXPENSES (E)	**10,172**	**(302,043)**
PROFIT BEFORE TAXES	**105,599,589**	**82,981,351**
22) CURRENT, DEFERRED AND ADVANCE INCOME TAXES FOR THE YEAR	(47,228,887)	(38,942,748)
23) NET PROFIT (LOSS) FOR THE YEAR	**58,370,702**	**44,038,602**

NOTES TO THE ACCOUNTS

CASH FLOW STATEMENT

(EUR THOUSAND)	2013	2012
CASH FLOW FROM OPERATIONS (A)		
– NET PROFIT (LOSS) FOR THE YEAR	58,371	44,039
– AMORTIZATION, DEPRECIATION AND WRITE-DOWNS	52,461	48,623
– NET CHANGE IN DEFERRED TAXES	(6,833)	(6,995)
– NET CHANGE IN PROVISIONS FOR RISKS AND FUTURE LIABILITIES	(11)	1,829
– NET CHANGE IN END-OF-SERVICE EMPLOYEE PAYMENTS (TFR)	–	–
– NET CHANGE IN WRITE-DOWN PROVISIONS	–	–
– NET CAPITAL LOSSES (GAINS)	13	2,164
CASH FLOW FROM CURRENT OPERATIONS	**104,000**	**89,659**
CHANGES IN OPERATING ASSETS AND LIABILITIES		
– INVENTORIES	(1,538)	547
– TRADE RECEIVABLES	85,503	(140,620)
– TRADE PAYABLES	(79,710)	57,649
– OTHER SHORT-TERM ASSETS	8,207	12,662
– OTHER SHORT-TERM LIABILITIES	(6,532)	35,830
	5,931	**(33,933)**
TOTAL	**109,931**	**55,726**
CASH FLOW FROM INVESTMENTS (B)		
– INVESTMENTS IN INTANGIBLE ASSETS	(260)	(338)
– INVESTMENTS IN TANGIBLE ASSETS	(10,083)	(13,737)
– INVESTMENTS IN FINANCIAL ASSETS	–	–
– DISINVESTMENTS OF INTANGIBLE ASSETS	–	–
– DISINVESTMENTS OF TANGIBLE ASSETS	–	–
– DISINVESTMENTS OF LONG-TERM INVESTMENTS	–	–
TOTAL	**(10,343)**	**(14,076)**
CASH FLOW FROM FINANCING ACTIVITIES (C)		
– INCREASE (DECREASE) IN MEDIUM/LONG-TERM FINANCIAL PAYABLES	(25,990)	(16,222)
– INCREASE (DECREASE) IN SHORT-TERM FINANCIAL PAYABLES	(12,002)	(25,325)
– DIVIDENDS PAID	(15,000)	–
– INCREASE (REPAYMENT) OF EQUITY	–	–
TOTAL	**(52,992)**	**(41,547)**
NET CASH FLOW FOR THE YEAR (A+B+C)	**46,596**	**104**
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**40,239**	**40,135**
NET CASH FLOW FOR THE YEAR	**46,596**	**104**
CASH AND CASH EQUIVALENTS AT END OF YEAR	**86,835**	**40,239**

NATURE OF THE COMPANY

ISAB Energy S.r.l. owns the industrial gasification and cogeneration facility known as the IGCC (Integrated Gasification Combined Cycle) plant, which is located in the municipality of Priolo Gargallo (Syracuse, Sicily). The plant is designed to generate electricity using refinery processing residues, as well as the annexed membrane plant for the production of hydrogen for provision to the adjacent refinery belonging to ISAB S.r.l. a company in which ERG S.p.A. had an equity interest until 30 December 2013.

CRITERIA FOR THE PREPARATION OF THE FINANCIAL STATEMENTS

The financial statements for the year ended 31 December 2013 have been drawn up in compliance with the laws regulating their preparation, interpreted and supplemented according to the accounting standards issued by the Italian Accounting Profession (Consigli Nazionali dei Dottori Commercialisti e degli Esperti Contabili) and by the Italian Accounting Committee (Organismo Italiano di Contabilità).

The financial statements comprise the Balance Sheet, Income Statement and Notes to the Accounts, as well as the Directors' Report on Operations.

Comparative figures at 31 December 2012 are given for all balance sheet and income statement items. Figures are compared with those for the same items from the previous year. If, in order to provide greater clarity or precision, it is necessary to adopt different accounting methods, figures for the previous year are correspondingly reclassified in order to ensure a homogenous basis for comparison.

In particular, it should be pointed out that both in the financial statements and in the comment tables of the Notes to the Accounts, dealings with ISAB S.r.l. (an investee of ERG S.p.A. until 30 December 2013 that is no longer a part of the ERG Group) are reported:

- to "affiliated companies" for dealings pertaining to the income statement;
- to "third party companies" for detailing pertaining to the balance sheet.

To ensure transactions with Group Companies are clearly presented and highlighted, sub-items 3-bis) and 10-bis) detailing receivables from and payables to affiliated companies have been included in the Balance Sheet tables. Please see the Report on Operations for a breakdown of these items.

Comments on the most significant changes and more detailed analyses of the items under comparison are provided in the comments of the Report on Operations.

All amounts in the Balance Sheet and Income Statement have been rounded to the nearest euro. The difference compared with the precise value down to eurocents has been taken to the Income Statement under extraordinary income and expenses, if referring to the Income Statement, or under Shareholders' Equity Reserves, if referring to the Balance Sheet.

For the sake of greater clarity of presentation, all amounts in the Notes to the Accounts have been rounded to the nearest thousand euro. Consequently, in some tables, total amounts may differ slightly from the sum of the figures listed.

The financial statements for the year ended 31 December 2013 have been externally audited by Deloitte & Touche S.p.A.

ACCOUNTING STANDARDS AND VALUATION CRITERIA

The following accounting standards and valuation criteria are intended to give a true and fair view of the company's financial position and operating results for the year, in accordance with articles 2423 et seq. of the Italian Civil Code. The valuation of items was based on the general principle of prudence and the accruals principle, on the assumption that the group is a going concern and the substance over form principle introduced by Legislative Decree no. 6 of 2003. No exceptions to the accounting standards set out in Article 2423 of the Italian Civil Code have been made; furthermore, pursuant to paragraph two, Article 2423-bis of the Civil Code, the same valuation criteria have been used as in the previous year.
We specify below the accounting standards used and the valuation criteria applied.

INTANGIBLE ASSETS

Intangible assets are recorded at purchase cost for intangibles deriving from externalities or at production cost for those carried out internally. The recognition of the cost includes directly-attributable charges, which incorporate strictly-correlated financial expenses incurred up to the asset completion date.
These values are reduced annually and charged to the Income Statement by using the amortization process on a straight-line basis, according to their useful life, taking into account their residual possibility of use.
Start-up and expansion costs are recorded with the consent of the Board of Statutory Auditors and they are amortised over five financial years.
In general, intangible assets are amortised over a period of up to five years except for:

- licences for industrial processes amortised according to the contract term agreed with the licensor;
- software licences amortised over three years;
- the contribution to ENEL for installing power lines to connect the IGCC plant amortised over the expected period of use;
- project financing charges and expenses amortised over the residual duration of the loans obtained.

An intangible fixed asset which, on the closing date, is worth less over time than the value determined through the amortization process, is correspondingly written down; this impairment is reversed in subsequent years if the reasons for the impairment no longer apply.

TANGIBLE ASSETS

Tangible assets are recorded at their historical purchase or production cost and shown net of provisions for depreciation and write-downs.
The cost of assets includes directly-attributable additional charges and the financial expenses incurred during their construction and until they become part of the company production process.
Tangible assets recorded on the Balance Sheet have not been subject to revaluation.
Expansion, modernisation and conversion costs, and costs for maintenance that increase production capacity or useful life are capitalised and depreciated in relation to the residual useful life of the asset to which they refer.
Ordinary non-incremental maintenance and repair costs are charged to the Income Statement in the financial year in which they are incurred.
Depreciation rates are determined by applying the principle of prudence and in line with the estimated residual useful life, and are fully consistent with the rates used in previous years.

The table below breaks down depreciation rates by category of tangible asset, and shows the related level of depreciation reached as of the Balance Sheet date.

	%	DEGREE OF DEPRECIATION 12/31/2013
INDUSTRIAL BUILDINGS	3.77	44%
LIGHTWEIGHT CONSTRUCTIONS	10.00	94%
IGCC COMPLEX PLANTS	5.40	67%
INDUSTRIAL EQUIPMENT	10.00	99%
OFFICE FURNITURE AND MACHINERY	11.99	100%
SUNDRY AND SMALL EQUIPMENT	9.99	100%
ELECTRONIC MACHINERY	20.00	100%

Tangible assets that, at the end of the financial year, are worth less over time than the value determined through the depreciation process, are correspondingly written down; this impairment is reversed in subsequent years if the reasons for the impairment no longer apply.

EQUITY INVESTMENTS

Equity investments are booked on the Balance Sheet at purchase or subscription cost. This value is proportionally written down in the event of impairment and restored if the conditions that had led to the previous impairment fail.

INVENTORIES

Raw material inventories are shown at the lower of purchase cost, calculated using the LIFO (Last In – First Out) method with annual reviews, and replacement cost, determined on the basis of an analysis of reference market trends.
Inventories of ancillary materials and consumables are shown at the lower of their weighted average cost and replacement cost.
Finished products are measured at the lower of their production cost and the estimated realisable value on the reference market.
Goods produced internally are measured based on the cost of the raw materials used plus the processing costs.
In the event of obsolescence or slow turnover of materials, carrying amounts are written down through the creation of a specific provision to directly reduce stock.

RECEIVABLES AND PAYABLES

Receivables and payables are recognised at their nominal value. In the case of receivables, this value is written down to their presumed realisable value through allocation, if necessary, to a specific impairment provision, shown in the financial statements to directly reduce the item in question.
Receivable and payable transactions in foreign currency arising during the year are converted into euro at the exchange rate prevailing on the transaction date. The difference between this value and the amount actually paid or received is recorded in the Income Statement under financial income and expenses.
Foreign exchange differences resulting from the adjustment of foreign exchange receivables and payables to year-end exchange rates, compared with the rate prevailing on the transaction date, are charged to the Income Statement, under financial income and expenses in the item C 17-bis. In the presence of profits for the year, any income arising from cash leg is allocated to a specific non-distributable reserve until it is actually realised.

CASH AND CASH EQUIVALENTS

They are booked at their nominal value with bank and post-office deposits and cash on hand recorded separately.

ACCRUALS AND DEFERRALS

Accrued income and prepaid expenses, and accrued expenses and deferred income are posted on an accrual accounting basis, as specified in article 2424-bis of the Italian Civil Code. Accruals and deferrals measure the income and expenses whose accrual is anticipated or deferred with respect to ready cash; they are not related to the date of payment or collection of the relevant income and expenses that occur across two or more financial periods and are entered on an accrual basis.

PROVISIONS FOR RISKS AND FUTURE LIABILITIES

Provisions for risks and future liabilities are intended to cover specific liabilities that are certain or probable, but whose amount or date of occurrence is uncertain at the end of the financial year. Contingent liabilities are recorded in the Balance Sheet and in the provisions when they are deemed likely and the amount of the relevant expense can be reasonably estimated.
In assessing said provisions, the general principle of prudence and the accruals principle are observed and no generic risk funds, lacking economic justification, are created.
The risks for which the occurrence of a liability is only possible or for which the deriving charge cannot be estimated objectively are reported in the Notes to the Accounts, without setting aside a provision for risks and charges.
Risks of a remote nature are not taken into account.

CYCLICAL MAINTENANCE

Provisions for cyclical maintenance are made in respect of ordinary maintenance activities carried out periodically at extended time intervals, with the objective of spreading over a number of years, according to the accruals principle, the costs relating to the wear and tear of assets that occurred in the years prior to the year in which maintenance is carried out.
Provisions to this fund are made when the following conditions are in place:

a) maintenance is to be carried out at pre-established or reasonably foreseeable intervals;
b) there is reasonable certainty that the asset will continue to be used by the company until the next maintenance plan;
c) the maintenance cycle cannot be replaced by more frequent ordinary maintenance activities;
d) the maintenance cycle with multi-year intervals cannot be replaced by a series of annual cyclical activities, whose costs are systematically charged to the year in question.

Provisions for periodic cyclical maintenance work are made pro rata temporis for each year, based on an estimate of costs to be incurred and the multi-year cyclical maintenance programs for the IGCC plant.

DERIVATIVE INSTRUMENTS

Derivative instruments are financial instruments through which the company manages the risks arising from interest rate fluctuations.
Any premium paid at the signing of the contract is recorded under "Deferred income" and charged to the Income Statement depending on the period of validity of the contract ("*pro-rata temporis* method");
Income and expenses relevant to the regular settlements of such contracts are credited or charged to the Income Statement on an accrual accounting basis. The fair value of hedging instruments on the reporting date is disclosed in the Notes to the Accounts.
For instruments that do not perfectly hedge in accordance with the reference accounting standards, a risk fund is made for hedging any negative fair value on the reporting date.

MEMORANDUM ACCOUNTS

Memorandum accounts show the amounts of actual risks, commitments and guarantees existing at the reporting date.

Risks relating to personal guarantees or collaterals given for third party debts are indicated in the memorandum accounts for an amount equal to the value of the given security. The amount of the third-party debt guaranteed at the reporting date, if less than the given guarantee, is indicated herein.

Guarantees given in respect of payables recorded in the Balance Sheet are not shown in the memorandum accounts, but are indicated, where necessary, in the Notes to the Accounts, in the comments relating to their balance-sheet items.

Commitments are indicated in the memorandum accounts at their nominal value, determined from the relevant documents; commitments that do not relate to normal company operations are recorded based on the contracts drawn up both towards the suppliers and towards the customers.

Third-party goods and materials for processing and on a sale-or-return basis are recorded at market price at the end of the financial year.

The granted sureties are recorded at the value of the commitment or recorded for an amount totalling the debt to which they refer.

REVENUES AND COSTS

Revenues and costs are recognised in the Income Statement on an accrual accounting basis and are shown net of returns, discounts, rebates and bonuses.

Revenues from sale of electricity are recognised when entering into the electricity network, albeit not invoiced, and are determined by integrating with appropriate estimates those recognised by specific reading tools. These revenues are calculated based on law provisions of the resolutions of the Italian Regulatory Authority for Energy in force during the financial year, making also allowance for temporary adjustment provisions in force.

Benefit of exemption pursuant to Article 3, paragraph 5, of Ministerial Decree of 20 November 2012

Following the Ministerial Decree of 20 November 2012 – which defined the new regulatory framework pertaining to the AFC as of 2010 – as well as the subsequent instructions issued by GSE in December 2012, the Company had been recognized, first of all, the invoicing of sales of electricity (and at the same time of the costs for purchasing asphalt from the affiliate ISAB S.r.l.) on the basis of **efficiency parameters** which are associated with the two-year period of start-up of operations of the plant (1999-2000).

The regulations, however, provided for the possibility of obtaining a partial exemption to this penalization so long as the majority of the costs pertaining to the acquisition and construction of the plant are derived from obligations that were assumed prior to 31 December 1996 (thereby obtaining the possibility to utilize the less penalizing efficiency parameters defined by the Ministerial Decree in relation to the two-year period 1997–1998).

On 21 March 2013, the exemption request, accompanied by all documentation required by Article 3, paragraph 5, of the Ministerial Decree of 20 September 2012 was submitted to GSE, in accordance with the GSE procedure published on 25 January 2013 which, amongst other items, provides for the presentation of a specific report on the part of an audit firm.

On 9 May 2013, the GSE announced the expected acceptance of the exemption request and consequently the Company, during the year, invoiced and collected the amounts from the GSE, and received similar payments from ISAB S.r.l. More in detail, the payment involved the balances relating to the new 2013 advance payment price for supplies provided and received, invoiced at the start of the year, as well as receivables from the GSE amounting to EUR 32 million relating to the balances for the years 2010, 2011 and 2012 and, conversely, payables for the purchase of feedstock from ISAB S.r.l. amounting to approximately EUR 13 million.

FINANCIAL INCOME AND EXPENSES

Interest charges and other financial expenses incurred on the loan obtained from the parent companies and, subsequently, similar charges on the loan received through Project Financing up to the date on which the plant entered into operation (18 April 2000) were capitalised on the value of the financed assets.

Interest charges and financial expenses after that date are charged to Income Statement.

Financial income and expenses are booked on an accruals basis.

EXTRAORDINARY INCOME AND EXPENSES

The item shows the effects of changes in accounting policies, extraordinary events that do not relate to normal company operations and taxes relating to previous financial years arising from disputes with the Tax Authorities.

CURRENT AND DEFERRED INCOME TAXES

Current taxes are calculated on the basis of estimated taxable income, in accordance with the tax laws in force, also taking into account the effects deriving from the adoption of the national tax consolidation system with parent company ERG S.p.A., introduced by the new Italian Consolidated Income Tax Act (Testo Unico delle Imposte sui Redditi).

Prepaid or deferred taxes are calculated on the basis of temporary differences between the value assigned to a certain asset or liability, according to statutory criteria, and the value assigned according to tax criteria, in accordance with the prudence and accruals principles.

Specifically, prepaid taxes are booked if there is reasonable certainty of their recovery through sufficient growth in taxable income in the years in which the reversal of temporary differences that led to the entry will take place, taking into account foreseeable developments in tax consolidation procedures. The tax benefit relating to tax loss carried forward is booked when there is a reasonable expectation that it will be realised in the tax periods in which these losses can be reported.

Deferred tax liabilities are not booked when there exists little possibility that the related payable will arise.

Prepaid or deferred taxes are calculated using the average rate expected for the years in which the temporary differences will be reversed. If it is difficult to determine the average rate for future years, the rate forecast for the subsequent year is applied.

In accordance with Article 2424 of the Italian Civil Code, deferred tax assets are recorded on the Balance Sheet in "Deferred tax receivables" under current asserts, while deferred tax liabilities are booked under "Provisions for risks and future liabilities in the item "Provisions for taxes, including deferred taxes".

ROBIN TAX

The company, operating in the energy sector, is subject in 2013 to a 10.5% additional IRES tax (Robin Tax).

In this regard, note that in 2011, Italian Law no. 148/2011 converting the Italian Law Decree no. 138/2011 – containing urgent measures for the financial stabilisation and economic development of the Country – was approved. The law prescribed the temporary increase of the additional IRES rate from 6.5% to 10.5% for 2011, 2012 and 2013.

INTRAGROUP AND OTHER RELATED-PARTY TRANSACTIONS

During the year, the company entered into commercial, service provision and financial transactions both with parent companies and other group companies, governed by contracts and at arm's length.

On the Balance Sheet, amounts reflect the situation at year-end, while in the Income Statement they are shown according to changes in company control, if any, which occurred during the year.

The most significant transactions are reported below:

- purchases of CO_2 emission rights to be covered pursuant to emissions trading regulations, made by the parent company ERG S.p.A.;
- the purchases of green certificates necessary to meet legal obligations on the part of Shareholders;
- supply of the natural gas necessary to operate the production plant, provided by parent company ERG S.p.A.;
- the supplies of electricity for the production plant, carried out by companies associated with the minority shareholder;
- the supply of feedstock, the raw material used to fuel the IGCC plant, under the Feedstock Supply Agreement of 20 June 1996 (a multi-year take-or-pay contract). This raw material derives from ISAB Impianti Sud refinery processing residues;
- mutual supply of minor products between the company and ISAB S.r.l. (formerly ERG Raffinerie Mediterranee S.p.A.) by virtue of the Minor Products Agreement of 5 April 1996. This includes, but is not limited to, the supply of diesel, gas, fuel oil, steam and heat;
- the supply of hydrogen to the ISAB refinery on the basis of the Hydrogen Supply Agreement of 2 April 2007, and its subsequent amendments.
- the granting of loans originally connected with the Project Financing operation, referred to as "sub-debts", based on the agreements originally reached with the financing banks and sponsors;
- the granting of a loan by ISAB S.r.l. (formerly by ERG Raffinerie Mediterranee S.p.A.), then taken over by ERG S.p.A. at the end of 2012 in order to finance the "Hydrogen Project",
- services rendered by the affiliate ISAB Energy Services S.r.l. under the Operation & Maintenance contract of 5 April 1996, relating to the operation and maintenance of the IGCC plant;
- company staff support functions for commercial, planning and control, asset and investment management, energy management, internal audit and risk management, institutional and international relations, purchase management, information technology, as well as secretarial, legal, administrative and financial activities carried out by the parent company ERG S.p.A. under the service agreement of 1 March 2010;
- flushing oil and fire prevention service by ISAB S.r.l.

The services provided by ISAB Energy S.r.l. concern the performance of information technology activities involving only hosting of the Expert Advanced System for ISAB Energy Services and the rental of office space to the latter and to ERG S.p.A.

The value of intragroup transactions is described in detail farther on in these Notes to the Accounts.

MANAGEMENT AND CO-ORDINATION

The company is subject to management and co-ordination by the parent company ERG S.p.A., with registered offices in Via De Marini 1, Genoa (Italy).

A summary of the main figures from the latest approved financial statements of ERG S.p.A. is attached hereto.

EARLY REPAYMENT OF PROJECT FINANCING

In April 1996, the Company entered into a non-recourse project financing agreement totalling approximately EUR 974 million with a consortium of international banks, to finance the construction of the IGCC plant.

In the last quarter of 2013, the procedure for the early repayment of the loan one year before the maturity date of December 2014 was started with the Agent Bank, setting as a condition the immediate release of all guarantees and pledges made by the Company.

On 13 December 2013, the residual amount of the loan, i.e. approximately EUR 31 million, was

repaid early, whilst on 18 December all guarantees securing the bank loan were released. More specifically, the pledge on 100% of the share capital of the Company was cancelled, along with the other guarantees on the restricted current accounts of the Company and with the senior mortgage and special lien in favour of the bank Intesa Sanpaolo, securing the payment of amounts and the fulfilment of all obligations deriving from the project financing agreement. The mortgage covered the land and the entire IGCC plant. The lien covered the plant, machinery, capital assets, raw materials, work in progress, finished products, inventories and receivables resulting from the sale of such goods;
Lastly, during the period the Bank extinguished the hedging derivative Interest Rate Swap (IRS) related to the aforementioned loan.

USE OF ESTIMATES

The preparation of the financial statements requires estimates and assumptions to be made that have an effect on the asset and liability values stated and on the disclosure relating to the potential assets and liabilities. The development of these estimates implies the use of available information and the adoption of subjective valuations and they are based on experience.
By their very nature, the estimates and assumptions used may vary from period to period and, therefore, it cannot be excluded that in future years the current book values may differ owing to the change in the subjective valuations used.
The main estimates for which the use of subjective valuations is most required were used, among other things, for:

- provisions for bad debts, for inventory obsolescence, amortisation, depreciations and write-downs of assets;
- provisions for risks for liabilities related to legal and tax disputes for a financial disbursement is probable and the resulting amount of loss can be reasonably estimated;
- deferred tax assets, whose recording is supported by the taxability prospects deriving from the expected profitability of the industrial plans and from the renewal provision of tax consolidations;
- recoverability of the value of Intangible Assets.

Such estimates and assumptions are periodically reviewed and the effects of any change are reflected in the Income Statement in the period in which the change occurred.

Lastly, it is necessary to point out how the Company, especially to comply with the CIP 6/92 system, works within a context characterised by particularly complex regulations, both because of its rapid evolution (also as a result of the frequent pronouncements of the Authorities in charge and the initiation of legal disputes by operators), and because of the frequent reference to complex mathematical/financial models. The impact of this risk is mitigated by the existence of specific company functions in charge of analysing sensitive issues and implementing calculation models required for quantifying the regulated phenomena.
In this regard, it should be specified that for the purposes of the present financial statements, to determine the 2013 AFC component, the methodological criteria indicated in the AEEG Opinion no. 503/2013, which contains the proposal to the Minister of Economic Development for the definition of the procedures for updating the AFC and which incorporates the provisions of the To-Do Law Decree (no. 69/2013) as converted by Law no. 98 of 9 August 2013. This determination was carried out while awaiting the official definition of the calculation methods by a dedicated Ministerial Decree of the Ministry of Economic Development.
With reference to Italian Ministerial Decree of 30 September 2013 of the Ministry for Economic Development concerning the voluntary early termination of the CIP6 Agreements for plants using process fuels or residues or energy recoveries, reference is made to the comments provided in the Report on Operations in the chapter dedicated to the reference Regulatory Framework.

BALANCE SHEET ANALYSIS

ASSETS

FIXED ASSETS (EUR 462,831 THOUSAND)

INTANGIBLE ASSETS

	START–UP AND EXPANSION COSTS	CONCESSIONS, LICENCES AND TRADEMARKS	INTANG. ASSETS IN COURSE OF ACQUISITION AND PAYMENTS ON ACCOUNT	OTHER INTANGIBLE ASSETS	TOTAL
HISTORICAL COST	**–**	**12,164**	**318**	**45,761**	**58,243**
AMORTIZATION	–	(12,033)	–	(32,873)	(44,906)
BALANCE AT 12/31/2012	**–**	**131**	**318**	**12,888**	**13,337**
CHANGES DURING THE PERIOD					
ACQUISITIONS	–	–	260	–	260
CAPITALISATION/RESTATEMENT	–	146	(104)	–	42
RESTATEMENTS	–	–	–	–	–
DISPOSALS AND DIVESTMENTS	–	–	–	–	–
AMORTIZATION	–	(171)	–	(4,773)	(4,944)
WRITE-DOWNS	–	–	–	–	–
HISTORICAL COST	**–**	**12,310**	**474**	**45,761**	**58,544**
AMORTIZATION	–	(12,204)	–	(37,645)	(49,850)
BALANCE AT 12/31/2013	**–**	**105**	**474**	**8,115**	**8,694**

In 2013, capitalisations of EUR 146 thousand were carried out relating to the updating of the information system.
Concessions, licences, trademarks and similar rights totalled non-significant amounts (EUR 105 thousand entirely ascribable to the cost of the software user licence) following the completed amortisation of the usage license for the "Texaco" gasification process.
The intangible assets in course of acquisition mainly concern some projects that involve the updating of the IT system.
The other intangible assets at the end of the year refer exclusively to the contribution paid to Enel for the connection of the IGCC plant to the 380 and 150 kW power lines; in view of the early repayment of the project financing, completed in 2013, the amortisation of the related capitalised additional charges was completed).

TANGIBLE ASSETS

	LAND AND BUILDINGS	PLANT AND MACHINERY	INDUSTRIAL AND COMMERCIAL EQUIPMENT	OTHER GOODS	TANG. ASSETS UNDER CONSTRUCTION AND PAYMENTS ON ACCOUNT	TOTAL
HISTORICAL COST	**21,897**	**922,614**	**320**	**2,753**	**17,232**	**964,817**
REVALUATIONS	–	–	–	–	–	–
	21,897	**922,614**	**320**	**2,753**	**17,232**	**964,817**
ECONOMIC/TECHNICAL DEPRECIATION	(8,778)	(461,634)	(315)	(2,471)	–	(473,197)
WRITE-DOWNS	–	–	–	–	–	–
BALANCE AT 12/31/2012	**13,120**	**460,980**	**6**	**282**	**17,232**	**491,620**
CHANGES DURING THE PERIOD						
ACQUISITIONS	–	–	–	–	10,083	10,083
CAPITALISATION/RESTATEMENT	594	17,578	–	1	(18,215)	(42)
DISPOSALS AND DIVESTMENTS	–	(13)	–	–	–	(13)
ECONOMIC/TECHNICAL DEPRECIATION	(763)	(46,680)	(2)	(71)	–	(47,517)
WRITE-DOWNS	–	–	–	–	–	–
HISTORICAL COST	**22,492**	**940,168**	**320**	**2,752**	**9,100**	**974,831**
REVALUATIONS	–	–	–	–	–	–
	22,492	**940,168**	**320**	**2,752**	**9,100**	**974,831**
ECONOMIC/TECHNICAL DEPRECIATION	(9,540)	(508,303)	(317)	(2,540)	–	(520,701)
WRITE-DOWNS	–	–	–	–	–	–
BALANCE AT 12/31/2013	**12,951**	**431,865**	**3**	**212**	**9,100**	**454,131**

The capitalisations of the period refer mostly to the reporting of investments in connection with the planned Health, Safety and Environment initiatives completed during the year.
Tangible assets include the financial expenses incurred up to completion of the construction and capitalised under individual assets. As at 31 December 2013, this item totalled EUR 32,548 thousand, of which EUR 723 thousand related to land and buildings and EUR 31,825 thousand to plant and machinery.
The "Land and buildings" item includes the value, totalling EUR 2,219 thousand and not subject to depreciation, of the area on which the entire IGCC facility stands, while the site of the plants and buildings was allocated to the individual assets to which they refer.
The buildings, all for industrial use and totalling EUR 10,285 thousand, include the entrance and caretaker's lodge, the offices, canteen, warehouse, control room, laboratory, booths and roads, car parks and other related infrastructure.
Moreover, the item also includes the value of EUR 307 thousand related to lightweight constructions, mainly cantilever roofs purchased in 2011.
Accumulated depreciation of EUR 9,540 thousand is broken down between buildings (EUR 8,596 thousand) and light constructions (EUR 945 thousand).
Plant and machinery mainly comprise the industrial gasification and cogeneration plant IGCC (Integrated Gasification Combined Cycle).
The amount of EUR 431,865 thousand refers to plants comprising the power plant (historical cost of EUR 868,062 thousand), transformer substations (historical cost of EUR 64,353 thousand) and auxiliary treatment and purification units (historical cost of EUR 7,752 thousand).

The related accumulated depreciation of EUR 508,303 thousand was applied solely on the basis of the economic/technical life of assets. As regards investments made in 2013, please refer to the "Investments" section in the Report on Operations.
Other property, net of the related depreciation provisions, includes EUR 165 thousand for office furniture and machines, EUR 48 thousand for electronic machinery, and EUR 2 thousand for sundry and minor equipment. Tangible assets under construction and payments on account include investments nearing completion of EUR 9,100 thousand, mainly relating to investments in connection with planned Health, Safety and the Environment initiatives.

LONG-TERM INVESTMENTS (EUR 5 THOUSAND)

This item refers to the cost of acquisition at nominal value of 100 shares, representing 5% of the share capital of Industria Acqua Siracusana S.p.A., which has its registered office in Syracuse (Sicily). As of 31 December 2012, the shareholders' equity of the investee was EUR 108 thousand.

CURRENT ASSETS (EUR 304,271 THOUSAND)

INVENTORIES

	12/31/2013	12/31/2012
RAW MATERIALS	3,787	3,028
ANCILLARY MATERIALS AND CONSUMABLES	9,027	8,395
FINISHED PRODUCTS AND GOODS	853	702
ADVANCES	–	4
TOTAL	**13,667**	**12,129**

The value of the raw materials inventory increased with respect to 31 December 2012 as a result of the increase in quantities in stock at the end of the year, particularly low-sulphur fuel oil and diesel oil. Overall, stocks of raw materials totalled 23,376 tons, compared to 22,215 tons the previous year. The value of raw materials calculated on the basis of current market prices in December 2013 was EUR 14,064 thousand. Based on the measurement of the ancillary materials and consumables, we note that as a result of the analysis of the items that have not changed in the last few years, it was found necessary to adjust the provision for obsolete goods by EUR 523 thousand. At the end of the period, therefore, the provision amounted to EUR 4,667 thousand. The increase in inventories of finished products and goods is attributable to the increase in stocks, primarily vanadium concentrate and, to a lesser extent, sulphur.

RECEIVABLES

	12/31/2013	12/31/2012
CUSTOMER RECEIVABLES	173,836	259,315
RECEIVABLES DUE FROM AFFILIATES	2,478	2,470
RECEIVABLES DUE FROM PARENT COMPANIES	5,905	5,058
TAX RECEIVABLES	69	3
DEFERRED TAX ASSETS	8,202	8,514
OTHER RECEIVABLES	13,279	19,318
TOTAL	**203,769**	**294,678**

The amounts by type of receivable are commented on in detail below.

Customer receivables

	12/31/2013	12/31/2012
RECEIVABLES FOR ELECTRICITY SALES	131,776	214,739
OTHER TRADE RECEIVABLES	42,060	44,576
TOTAL	**173,836**	**259,315**

Trade receivables are due from domestic customers, with the exception of EUR 1,101 thousand due from customers within the EU.

Receivables are mainly represented by sales of electricity to the National Grid Operator, which break down as follows:

1. sales of November and December 2013 (EUR 76,396 thousand), collected respectively in January and February 2014;
2. positive balance on sales prices for electricity for the entire year in 2013 (estimated at EUR 46,802 thousand); collection of this balance requires waiting for the Ministry of Economic Development to set the definitive price in 2014;
3. positive balance on the sale prices of 2008 (EUR 8,577 thousand, of which EUR 5,425 thousand were assessed in 2008, and invoiced at the end of 2013 after the definition of the 2008 AFC by the Italian Electricity and Gas Authority).

Other trade receivables mainly relate to the assessment of the estimated partial refund of green certificate costs pursuant to AEEG resolution 113/06 totalling EUR 35,784 thousand (of which EUR 10,672 thousand relating to 2011 production, EUR 13,998 thousand relating to 2011 production, EUR 13,998 thousand relating to 2012 production and EUR 11,114 thousand relating to 2013 production).

Starting from the 2013 financial statements, receivables due from third parties include receivables from the company ISAB S.r.l. (previously reported among receivables from affiliates), which amounted to approximately EUR 4,894 thousand at 31 December 2013 and related to sales of minor products and hydrogen carried out as at the end of 2013, including the related balances.

Receivables due from affiliates

	12/31/2013	12/31/2012
TRADE RECEIVABLES		
ERG NUOVE CENTRALI S.P.A.	–	1,013
ISAB ENERGY SERVICES S.R.L.	2,478	1,457
TOTAL	**2,478**	**2,470**

Receivables due from ISAB Energy Services S.r.l. refer to proceeds recorded on an accruals basis in relation to the exploitation, on the part of the affiliate, of the rights associated with operations pertaining to the energy efficiency of the company's plant.

Receivables due from parent companies (EUR 5,905 thousand)

The item (amounting to EUR 5,058 thousand at 31 December 2012) refers to various receivables amounting to EUR 5,847 thousand and trade receivables of EUR 58 thousand.

Other receivables, in particular, refer to VAT credit for the month of December 2013 which was transferred to the parent company as part of the VAT regime of the Group.

Tax receivables (EUR 69 thousand)

	12/31/2013	12/31/2012
RECEIVABLES DUE FROM TAX AUTHORITIES	69	3
TOTAL	**69**	**3**

Receivables due from the tax authorities were not significant in amount.

Prepaid taxes

	12/31/2013	12/31/2012
DEFERRED TAX ASSETS - IRES (CORPORATE INCOME TAX)	6,206	6,388
DEFERRED TAX ASSETS - IRAP (REGIONAL BUSINESS TAX)	1,995	2,126
TOTAL	**8,202**	**8,514**

Timing differences and related credits for prepaid taxes are summarised in the table below:

		12/31/2013			12/31/2012	
	TAXABLE	IRES	IRAP	TAXABLE	IRES	IRAP
PROVISION FOR CYCLICAL MAINT. (WITHIN 2013)	–	–	–	2,285	868	89
PROVISION FOR CYCLICAL MAINT. (AFTER 2013)	12,741	4,332	497	7,467	2,539	291
WRITE-DOWN OF SPARE PARTS	4,667	1,587	182	4,144	1,575	162
OTHER PROVISIONS	–	–	–	3,000	1,140	117
CAPITALISED FINANCIAL CHARGES	31,594	–	1,232	35,424	–	1,382
OTHER TEMPORARY DIFFERENCES - IRAP	2,160	–	84	2,187	–	85
OTHER TEMPORARY DIFFERENCES - IRES	845	287	–	989	266	–
TOTAL		**6,206**	**1,995**		**6,388**	**2,126**

The prepaid taxes for IRAP relating to the financial expenses component arose in previous years (until the IGCC plant entered into operation) with capitalisations made through the item "Increases in fixed assets under construction": for this reason, this credit will be applied in future years in correlation with the corresponding amortisation. The receivables will mostly be collected in the short term, and to a lesser extent in the medium term mainly in view of certain cyclic maintenance shutdowns scheduled also after 2014 and to a residual extent, in the long term, in relation to the amortisation of capitalised financial expenses.

Other receivables

	12/31/2013	12/31/2012
EMISSIONS TRADING RECEIVABLES	12,575	18,388
SUNDRY RECEIVABLES	8	10
RECEIVABLES DUE FROM SUPPLIERS AND OTHER DEBTORS	696	920
TOTAL	**13,279**	**19,318**

Other receivables mainly concern the assessment of the refund due, pursuant to the AEEG resolution no. 307 of 2013, of the costs incurred for the purchase of the CO_2 quotas relating to the production of the year (similarly to the provisions for NAP2 for 2008-2012 in AEEG resolution no. 77 of 2008 as amended).

CASH AND CASH EQUIVALENTS

	12/31/2013	12/31/2012
BANK AND POSTAL DEPOSITS		
ORDINARY CURRENT ACCOUNTS	85,122	24
PROJECT FINANCING ACCOUNT	1,712	40,214
	86,835	**40,239**
CASH ON HAND AND EQUIVALENTS	–	–
TOTAL	**86,835**	**40,239**

The item essentially consists of the bank deposits, which are no longer restricted as commented in the previous financial statements, since the obligations connected with the Project Financing no longer apply. For changes in the item, please refer to the review of the cash flow statement and of the other items commented herein.

ACCRUED INCOME AND PREPAID EXPENSES

PREPAID EXPENSES

	12/31/2013	12/31/2012
INSURANCE	4,101	7,089
SERVICES AND OTHER SUNDRY FEES	311	437
TOTAL	**4,412**	**7,525**

Insurance prepayments concern the premiums paid in advance for policies covering property and civil liability risks, whose cover extends beyond the financial year under review.
The other prepaid expenses mainly relate to the advance for the “steam” service paid to ISAB S.r.l. (EUR 265 thousand).
These prepaid expenses are expected to be fully reversed in 2014.

The table below shows a breakdown of asset items by due date.

	WITHIN 12 MONTHS	WITHIN 5 YEARS	AFTER 5 YEARS	TOTAL
RECEIVABLES INCLUDED IN CURRENT ASSETS				
DUE FROM CUSTOMERS	173,836	–	–	173,836
DUE FROM AFFILIATES	2,478	–	–	2,478
DUE FROM PARENT COMPANIES	5,905	–	–	5,905
TAX RECEIVABLES	69	–	–	69
DEFERRED TAX ASSETS	4,390	3,304	508	8,202
DUE FROM OTHERS	13,279	–	–	13,279
ACCRUED INCOME AND PREPAID EXPENSES				
PREPAID EXPENSES	4,412	–	–	4,412
TOTAL	**204,368**	**3,304**	**508**	**208,180**

LIABILITIES

SHAREHOLDERS' EQUITY (EUR 528,337 THOUSAND)

SHARE CAPITAL

Share capital, fully paid up, is subscribed as follows:

	CAPITAL	%
ERG S.P.A. - ITALY	2,634,150	51
IPM PRIOLO BV - HOLLAND	2,530,850	49
TOTAL	**5,165,000**	**100**

LEGAL RESERVE (EUR 1,033 THOUSAND)

The legal reserve, created in 2002 following allocation of 2001 earnings, corresponds to one fifth of share capital.

OTHER RESERVES (EUR 28,709 THOUSAND)

This item solely comprises the tax realignment reserve set up following the realignment carried out pursuant to Law 266/2005, net of the related withholding tax paid.

RETAINED EARNINGS (LOSSES CARRIED FORWARD) (EUR 435,059 THOUSAND)

The item decreased as a result of the distribution to Shareholders of dividends amounting to EUR 15,000 thousand as resolved by the Shareholders' Meeting of 28 January 2013, and it subsequently increased since earnings for 2012 (EUR 44,039 thousand) were fully retained, in accordance with the resolution of the Shareholders' Meeting of 18 April 2013.

PROFIT (LOSS) FOR THE YEAR (EUR 58,371 THOUSAND)

The Income Statement for the financial year ended 31 December 2013 shows a profit of EUR 58,371 thousand.

CHANGES IN SHAREHOLDERS' EQUITY

	SHARE CAPITAL	REVALUATION RESERVE	LEGAL RESERVE	RESERVE FOR TAX REALIGNMENT PURSUANT TO LAW 266/2005	RETAINED EARNINGS	NET PROFIT FOR THE YEAR	TOTAL SHAREHOLDERS' EQUITY
BALANCE AT 12/31/2010	**5.165**	**–**	**1.033**	**28.709**	**389,564**	**26,328**	**450,799**
ALLOCATION OF 2010 PROFIT	–	–	–	–	26,328	(26,328)	–
DIVIDENDS PAID	–	–	–	–	(10,000)	–	(10,000)
2011 PROFIT	–	–	–	–	–	128	128
BALANCE AT 12/31/2011	**5,165**	**–**	**1,033**	**28,709**	**405,893**	**128**	**440,927**
ALLOCATION OF 2011 PROFIT	–	–	–	–	128	(128)	–
DIVIDENDS PAID	–	–	–	–	–	–	–
2012 PROFIT	–	–	–	–	–	44,039	44,039
BALANCE AT 12/31/2012	**5,165**	**–**	**1,033**	**28,709**	**406,021**	**44,039**	**484,966**
ALLOCATION OF 2012 PROFIT	–	–	–	–	44,039	(44,039)	–
DIVIDENDS PAID	–	–	–	–	(15,000)	–	(15,000)
2013 PROFIT	–	–	–	–	–	58,371	58,371
BALANCE AT 12/31/2013	**5,165**	**–**	**1,033**	**28,709**	**435,059**	**58,371**	**528,337**

The table below lists the shareholders' equity items and indicates the possible use for each, as well as any tax-related constraints.

	AMOUNT	POSSIBLE USE	AVAILABLE PORTION	UNTAXED PORTION
SHARE CAPITAL	5,165		–	–
LEGAL RESERVE	1,033	B	–	–
TAX REALIGNMENT	28,709	A B C	28,709	28,709
RETAINED EARNINGS (LOSSES)	435,059	A B C	435,059	–
PROFIT (LOSS) FOR THE YEAR	58,371	A B C	58,371	–
TOTAL	**528,337**		**522,139**	**28,709**

Key:
A – for Share capital increase
B – to cover losses
C – for distribution to Shareholders

As indicated above, the early repayment of the project financing removed the restrictions on the distribution of available portions of equity to Shareholders, and on the lien on 100% of share capital. Furthermore, following the elimination of purely tax-driven entries and off-Balance Sheet deductions made pursuant to article 109, paragraph 4 b) of the Consolidated Law on Income Tax, in the event of distribution of the year's earnings and/or reserves, the amount of equity reserves and retained earnings must not fall below the total remaining amount of the negative items deducted off-Balance Sheet. Net of deferred tax provisions, this is estimated to be EUR 62 million for IRES purposes. If this occurs, the amount of reserves and/or profit for the year distributed beyond this minimum level will form part of the company's taxable income.
In accordance with the provisions of Law no. 266 of 23 December 2005 (2006 Budget Law), the company adjusted the fiscal value of assets as of 31 December 2004 to the corresponding higher value shown in the Financial Statements. This realignment related exclusively to the "Plant and machinery" fiscal category and led to the creation of a reserve of EUR 28,709 thousand subject to tax on distribution.
This reserve can be distributed to Shareholders, in which case it will be included in the Company's taxable income or it may be used to cover losses, in which case the Company cannot pay dividends without having first reconstituted the amount.
The Company has not made any allocations for deferred tax liabilities on these provisions as they are not expected to be used in a way that would generate a tax liability.

PROVISIONS FOR RISKS AND FUTURE LIABILITIES (EUR 44,869 THOUSAND)

			CHANGES	
	12/31/2013	12/31/2012	INCREASES	DECREASES
DEFERRED TAX PROVISIONS	32,008	39,154	5	(7,151)
PROVISION FOR CYCLICAL MAINTENANCE	12,730	9,624	3,106	–
PROVISION FOR 10-YEAR INSPECTIONS	11	128	–	(117)
OTHER PROVISIONS	120	3,468	–	(3,348)
TOTAL	**44,869**	**52,375**	**3,111**	**(10,616)**

The main provisions are detailed below.

DEFERRED TAX PROVISIONS

	12/31/2013			12/31/2012		
	TAXABLE	IRES	IRAP	TAXABLE	IRES	IRAP
ACCELERATED DEPRECIATION - IRES	94,142	32,008	–	94,189	32,024	–
ACCELERATED DEPRECIATION - IRAP	–	–	–	17,385	–	678
GAIN FROM PAYOUT FOR DIRECT DAMAGE	–	–	–	16,975	6,450	–
OTHER TEMPORARY DIFFERENCES - IRES	–	–	–	4	2	–
TOTAL		**32,008**	**–**		**38,476**	**678**

Deferred tax provisions as at 31 December 2013 (EUR 32,008 thousand) relate entirely to IRES deferred tax liabilities.
The decrease in deferred IRES taxes (EUR 6,450 thousand) is due to the reversal of the deferred taxes for the period (which correspond to a taxable amount of EUR 16,975 thousand) which had already been allocated in 2009 as a result of the company's decision to defer tax for the years 2010-2013 for IRES in respect of the portion (totalling approximately EUR 69 million) of the non-recurring income arising from the insurance payout received for the reconstruction required following the direct damage to the IGCC plant following the accident that occurred in 2008.
In addition, the reduction to zero of deferred IRAP tax liabilities was mainly due to the reversal of higher tax-driven depreciation applied in previous years.
It should be recalled that, based on IRAP regulations, the recouping for taxation of higher tax depreciation was completed within the 2013 financial year, while in the case of IRES, this recouping will take place when the asset's useful fiscal life ends.

PROVISION FOR CYCLICAL MAINTENANCE

The provision for cyclical maintenance was adjusted with the portions accrued during the year of the expected costs for the "major" shutdowns scheduled in 2014 for some technical units and in 2017 for the remainder.

OTHER PROVISIONS

At 31 December 2013, the other provisions entirely relate to the updated estimate of ICI and IMU costs due to the recalculation of the cadastral income of the Company's plant.
In particular, the decision of the Tax Commission of Palermo of 4 November 2013 (filed on 13 January 2014) declared the matter of the dispute to have ceased and set the new cadastral income of the plant, to a slightly higher amount than previously considered.
Consequently, in the 2013 financial statements the amount of the risk provisions prudentially allocated by the Company in 2012 was reduced, for an amount estimated at approximately EUR 120 thousand (for the period from 2008 to 2013, including penalties and interest).

As a result of the definition of the 2008 AFC by the AEEG, the risk provision (allocated in previous years and totalling EUR 3.0 million) was entirely released.
Lastly, of note is the use of the risk provision allocated in 2009 as a result of the Company's settlement of the IRES, IRAP and VAT assessment for the year 2007 and of the VAT assessment for the year 2008.
By the settlement of the aforesaid assessments, the tax claims originated by the tax audit carried out by the finance police (Guardia di Finanza) on the year 2007, for which said provision had been allocated and with a residual value of EUR 168 thousand at 31 December 2012, were definitively settled.

PAYABLES

Payables break down by macro-category as follows:

	12/31/2013	12/31/2012
PAYABLES TO SHAREHOLDERS FOR LOANS	56,250	57,326
BANK BORROWINGS	–	36,903
TRADE PAYABLES	56,984	150,446
DUE TO AFFILIATES	22,892	12,262
DUE TO PARENT COMPANIES	59,438	51,123
TAX PAYABLES	2,524	12,865
DUE TO SOCIAL SECURITY INSTITUTIONS	–	–
OTHER PAYABLES	156	156
TOTAL	**198,244**	**321,079**

A detailed breakdown of payables is shown below.

PAYABLES TO SHAREHOLDERS FOR LOANS

	12/31/2013	12/31/2012
MAJORITY SHAREHOLDER		
ERG S.P.A. - SUBDEBT IGCC PLANT	24,926	24,168
ERG S.P.A. - SUBDEBT H2 PLANT AND SUNDRY FINANCIAL PAYABLES	7,377	8,958
	32,303	**33,127**
MINORITY SHAREHOLDER		
IPM PRIOLO BV - HOLLAND - SUBDEBT IGCC PLANT	23,948	24,199
	23,948	**24,199**
TOTAL	**56,250**	**57,326**

Starting at the end of 2012, financial payables due to ERG S.p.A. include the loan obtained in the past by ISAB S.r.l. for the hydrogen production plant, whose value at the end of the year totalled EUR 7,377 thousand (principal of EUR 7,118 thousand and interest of EUR 259 thousand).
The previous subordinated loans (sub-debts) and the Project financing relating to the IGCC plant represent the Company's financial liabilities towards its Shareholders, who granted the loans in proportion to their respective holdings in the company's share capital.
The conditions for disbursement and the repayment schedules provide for accrual of interest at a rate equal to the Project Financing interest cost, plus three percentage points, based on

34 six-monthly instalments of equal amounts, starting from the time when the conditions for repayment agreed with the financing banks are in place.
The change in the period is due to the assessment of interest for the period, partially offset by the payment of subordinated interest for 2011, paid to the shareholder IPM Priolo B.V. at the start of the year.
Therefore, the debt position at the end of the year towards the minority shareholder IPM Priolo B.V. is equal to EUR 22,367 thousand for principal and EUR 1,580 thousand for subordinated interests (including EUR 728 thousand accrued in 2013 and EUR 853 thousand accrued in 2012).
The financial payable due to ERG S.p.A. also refers to a loan subordinated to the Project Financing and comprises principal of EUR 23,281 thousand and interest of EUR 1,645 thousand (including EUR 757 thousand accrued in 2013 and EUR 887 thousand accrued in 2012).

BANK BORROWINGS

	12/31/2013	12/31/2012
MORTGAGES AND LOANS		
PROJECT FINANCING ACCOUNT SANPAOLO IMI S.P.A.	–	36,902
TOTAL	**–**	**36,902**

Bank borrowings were reduced to zero in December 2013 as a result of the early repayment of the Project Financing, already mentioned in the introduction to this report.
In addition, during the year the derivative contract (Interest Rate Swap) stipulated in 2010 with the Bank IntesaSanPaolo to hedge the aforementioned Project Financing was also extinguished.

TRADE PAYABLES

Trade payables arise in connection with commercial transactions and are due within the next year.
These are essentially payables that concern the purchase of raw materials used in the production cycle and for services provided.
Starting from the end of 2013, they include trade payables due to ISAB S.r.l. mainly related to the trading of raw materials and services, and price adjustments to these supplies.
Suppliers for investment projects have issued sureties to the company of approximately EUR 1,307 thousand, to guarantee the proper execution and compliance with the schedule of the services ordered.

	12/31/2013	12/31/2012
ITALIAN SUPPLIERS	56,668	149,820
EU SUPPLIERS	227	336
NON-EU SUPPLIERS	89	289
TOTAL	**56,984**	**150,446**

The significant decrease in payables is mainly due to the payment of all payables for Green Certificates relating to previous years (EUR 55.1 million relating to the 2009, 2011 and 2012 productions) and to the payment of balances on purchases of asphalt (EUR 63.8 million relating to the 2010, 2011 and 2012 productions, of which only EUR 30.1 million were offset by the assessment of additional payables in 2013).

PAYABLES DUE TO AFFILIATES

	12/31/2013	12/31/2012
TRADE PAYABLES		
ISAB ENERGY SERVICES S.R.L.	22,838	12,166
TOTALERG S.P.A.	54	95
TOTAL	**22,892**	**12,262**

With regard to ISAB Energy Services, the exposure mainly derives from services received on the basis of the Operation and Maintenance contract mentioned above. The increase from the previous year is due to the postponement to January 2014 of the payment of the subordinate fees for the year 2012 (normally paid between December and January of the following years).
The amount payable to TotalErg S.p.A. concerns the supply of lubricant oil.

PAYABLES DUE TO PARENT COMPANIES (EUR 59,438 THOUSAND)

This item (amounting to EUR 51,123 thousand at 31 December 2012 of which EUR 21,868 thousand related to trade payables and EUR 29,255 thousand related to other payables due to the parent company) consists of EUR 24,975 thousand of trade payables and EUR 34,463 thousand of other payables due to the parent company.
The trade payables mainly concern the purchase from ERG S.p.A. of green certificates relating to the production of the current year and of raw materials at the end of the year.
The other payables refer to the IRES payable transferred as part of the group Tax Consolidation, which is equal to the difference between the estimate of the IRES at the end of the year and the advances paid during the year.

TAX PAYABLES (EUR 2,524 THOUSAND)

This item mainly consists of payables for the additional IRES and IRAP taxes – respectively EUR 1,703 thousand and EUR 790 thousand – resulting from the difference between the advances paid during the year and estimated taxes which accrued at the end of the year.
In the previous year, the item also related mainly to the payables for the difference between the advances paid during the year and estimated taxes accrued at the end of the year, but for higher amounts: payables of EUR 8,458 thousand for additional IRES and of EUR 4,004 thousand for IRAP.

OTHER PAYABLES (EUR 156 THOUSAND)

This item (EUR 156 thousand in 2012) mainly relates to the contribution to the expenses of the AEEG for 2001 which has yet to be paid.

ACCRUED EXPENSES AND DEFERRED INCOME (EUR 64 THOUSAND)

The item relates to deferred income pertaining to easement and surface rights mainly between ISAB Energy and Terna (EUR 1,113 thousand in 2012).

The following table shows the breakdown by maturity of the items recorded under liabilities:

	WITHIN 12 MONTHS	WITHIN 5 YEARS	AFTER 5 YEARS	TOTAL
PAYABLES				
DUE TO SHAREHOLDERS FOR LOANS	7,593	48,657	–	56,250
BANK BORROWINGS	–	–	–	–
TRADE PAYABLES	56,984	–	–	56,984
DUE TO AFFILIATES	22,892	–	–	22,892
DUE TO PARENT COMPANIES	59,438	–	–	59,438
TAX PAYABLES	2,524	–	–	2,524
DUE TO SOCIAL SECURITY INSTITUTIONS	–	–	–	–
OTHER PAYABLES	156	–	–	156
ACCRUED EXPENSES AND DEFERRED INCOME				
ACCRUED EXPENSES	–	–	–	–
DEFERRED INCOME	64	–	–	64
TOTAL	**149,650**	**48,657**	**–**	**198,307**

MEMORANDUM ACCOUNTS (EUR 11,004 THOUSAND)

Memorandum accounts refer to raw materials stored at the South plant sites of the refinery owned by ISAB S.r.l. amounting to EUR 10,148 thousand (EUR 11,376 thousand at 31 December 2012), sureties granted on our behalf by banks in favour of third parties of EUR 531 thousand (EUR 509 thousand in 2012) and contractual commitments undertaken of EUR 325 thousand (EUR 325 thousand in the past year as well).

INCOME STATEMENT ANALYSIS

PRODUCTION VALUE (EUR 570,500 THOUSAND)

REVENUES FROM SALES AND SERVICES

	2013	2012
SALES AND SERVICES TO CUSTOMERS		
ELECTRICITY	491,556	488,902
OTHER SERVICES AND SALES	7,891	6,910
	499,447	**495,812**
SALES AND SERVICES TO AFFILIATES		
HYDROGEN	18,071	20,632
HEAT	22,135	23,224
STEAM	7,323	5,252
FLUXING PRODUCT (OIL)	1	1
OTHER SUPPLIES AND SERVICES	2,096	2,006
	49,626	**51,115**
TOTAL	**549,073**	**546,928**

As is more thoroughly discussed in the Report on Operations, revenues from sales were substantially in line with the previous year as a result of the increase in production (due to the good overall performance of the plant), which more than offset the decrease deriving from the lower sale prices compared to the previous year.
Net electricity production totalled 4,142 thousand MWh (4,077 thousand MWh in 2012).

REVENUES FROM SALES OF ELECTRICITY

Revenues consist primarily of **sales of electricity to GSE** (national grid operator) which were significantly affected by recent regulatory developments within an environment of growing uncertainty; for more details, please refer to the Report on Operations. With regard to the impact of the Ministerial Decree of 20 November 2012 – which defined the new regulatory framework pertaining to the AFC as of 2010 – as well as the subsequent instructions issued by GSE in December 2012, please refer to the specific comment entered within the Notes to the Accounts under the section pertaining to applied accounting principles and valuation criteria, particularly the comments under "Revenues and Costs". The sales of electricity for the **year 2013** totalled EUR 491,629 thousand, including the balance of the sales price which was estimated to be positive for EUR 46,802 thousand. With regard to previous years' sales, for the **year 2012** the Ministry of Economic Development Decree of 24 April 2013 slightly lowered the estimates of the Company for the purposes of the financial statements of the previous year, with a final sale price set to 122.1 Euro/MWh versus 122.7 Euro/MWh estimated by the company; consequently, the values recorded in the previous years were adjusted by EUR -2,446 thousand. For the **year 2008,** AEEG Resolution 553/2013/R/eel of 29 November 2013 defined the price balance for 2008 electricity sales at a higher amount than estimated in the 2008 financial statements (additional revenues amounting to EUR 2,373 thousand). Therefore, in the current year 2013 sales revenues were adjusted by a non-significant net amount (EUR -73 thousand, i.e. the net effect of the price balances for sales made in 2012 and in 2008). The above is accompanied by the related effect in terms of raw material acquisition costs (both for 2012 and for 2008) and the full release of the provision for risks on the 2008 AFC, prudentially allocated in previous years to cover the net balance between revenues and costs indexed to the 2008 AFC (a further positive impact of EUR 3,000 thousand recognised among other revenues and income).

REVENUES FROM SALES AND SERVICES OTHER THAN ELECTRICITY

The remainder of revenues from sales to third parties came from the sale of sulphur and vanadium concentrate.
Sales revenues from affiliate companies include revenues from ISAB S.r.l. for the supply of steam, air, water and sundry supplies of minor products in addition to the supply of hydrogen.

CHANGES IN INVENTORIES OF WORK IN PROGRESS, SEMI-FINISHED AND FINISHED PRODUCTS (EUR +151 THOUSAND)

Changes during the year were mainly due to the higher levels of stocks, mainly of vanadium concentrate and, to a lesser extent, of sulphur at the end of the year (in the previous year, this item had increased by EUR 182 thousand because of the greater quantities of sulphur and vanadium concentrate in stock at the end of the year).

INCREASE IN FIXED ASSETS UNDER CONSTRUCTION

	2013	2012
MATERIALS TAKEN FROM INVENTORY	693	464
TOTAL	**693**	**464**

The item relates to the value of spare parts taken from inventory and capitalised as an increase in investments.

OTHER REVENUES AND INCOME

	2013	2012
REFUND OF CO_2 NAP2 COSTS - 2013	12,575	–
REFUND OF CO_2 NAP2 COSTS - 2012	(375)	18,388
REFUND OF CO_2 NAP2 COSTS - 2011	–	(33)
RELEASE OF 2008 AVC PROVISION	3,000	–
SUNDRY REVENUE AND INCOME	5,383	3.070
TOTAL	**20,583**	**21.425**

This item mainly includes the reimbursement of expenses incurred in purchasing the CO_2 quotas provided for in the Emissions Trading regulations, mainly in relation to NAP3 for 2012 (determined on the basis of AEEG Resolution no. 307 of 2013, similarly to the provisions for NAP2 for 2008/2012 in AEEG Resolution no. 77/2008 as amended).
In addition, the provision for the 2008 AFC (EUR 3,000 thousand) was released in full; please refer to the comment on revenues from sales of electricity.
Sundry revenue and income mainly relates to:

- other revenues from the affiliate ISAB Energy Services S.r.l. in relation to the exploitation of energy efficiency initiatives that were implemented on company plants (EUR 2,975 thousand);
- IT hosting services, letting of part of the office building and related telephone services to affiliate company ISAB Energy Services (EUR 353 thousand);
- fees recognised by Terna as remuneration of the instant reduction service per AEEG Resolution no. 513/12 (EUR 285 thousand);
- rent owed by the parent company ERG S.p.A. for the leasing of space in the office building and warehouse (EUR 184 thousand);
- Receivable penalties for the late delivery of raw materials by third party suppliers (EUR 138 thousand);

- sale to the parent company ERG S.p.A. and to companies associated with the minority shareholder of CO_2 emission rights purchased in excess in the previous year (respectively, EUR 59 thousand and EUR 57 thousand);
- fees relating to surface rights received from ISAB Energy Solare (EUR 31 thousand);
- miscellaneous services provided to the affiliate ISAB S.r.l. (EUR 15 thousand).

PRODUCTION COSTS (EUR 461,871 THOUSAND)

COST OF RAW MATERIALS, ANCILLARY MATERIALS, CONSUMABLES AND GOODS

	2013	2012
RAW MATERIALS AND GOODS	303,945	306,491
MATERIALS AND SPARE PARTS	9,395	9,000
SUNDRY MATERIALS AND PURCHASES	361	59
TOTAL	**313,702**	**315,549**

Raw materials and goods purchases related to the supply of:

- oxygen and nitrogen (EUR 74,680 thousand), provided entirely by third parties;
- electricity from third parties (EUR 25,593 thousand);
- natural gas from the parent company ERG S.p.A. (EUR 23,033 thousand);
- gas at the virtual exchange points, in accordance with Article 9 of Legislative Decree 130/2010, totalling EUR 241 thousand;
- other raw materials supplied by the affiliate ISAB S.r.l. totalling EUR 176,640 thousand.

In particular, in 2013 ISAB S.r.l. provided supplies of feedstock of EUR 157,853 thousand; moreover, during the period, previous years' costs were adjusted by non-significant net amounts, due to higher costs (EUR 1,072 thousand) relating to the 2008 AFC and lower costs (EUR 1,019 thousand) relating to the definition of the 2012 AFC. ISAB S.r.l. also supplied fuel oil (EUR 4,454 thousand), LCO (EUR 7,796 thousand), virgin naphtha (EUR 6,400 thousand), diesel (EUR 3,150 thousand), steam (EUR 672 thousand) and LPG (EUR 26 thousand). Other purchases mainly concerned spare parts for maintenance work and ancillary materials and consumables. Ancillary materials included purchases of lubricant oil (EUR 286 thousand) supplied by TotalErg and sulphuric acid (EUR 4 thousand) supplied by ISAB S.r.l.

SERVICE COSTS

	2013	2012
COMMERCIAL AND TRANSPORT SERVICES	4,252	4,360
MAINTENANCE AND OPERATING SUPPORT	10,942	11,337
TECHNICAL, LEGAL AND OTHER SERVICES	1,339	1,414
INSURANCE	15,198	15,960
PERSONNEL SERVICES	88	89
SERVICES SUPPLIED BY PARENT COMPANIES	3,415	3,089
SERVICES SUPPLIED BY AFFILIATES	29,683	29,883
OTHER SERVICES	2,054	2,591
TOTAL	**66,971**	**68,722**

Service costs decreased overall by EUR 1,751 thousand, mainly due to lower insurance costs (by EUR 762 thousand) and to the decrease in maintenance and operating support costs (EUR -395

thousand) due to elements relating to the maintenance costs and availability of the plant.
The services provided by parent companies concern EUR 2,300 thousand for relations with ERG S.p.A. for the carrying out of the corporate functions (plant management, administration and finance, sales, planning and control, IT), EUR 975 thousand of fees and risk premiums on CO_2 purchases in the period and EUR 140 thousand in emoluments to directors and the management directly employed by the parent company. Services provided by affiliate Companies mainly include operation and maintenance of the IGCC plant (EUR 25,447 thousand) by ISAB Energy Services S.r.l. and those received by ISAB S.r.l. (EUR 4,236 thousand), necessary mainly to carry out the fire prevention and flushing services. In accordance with article 149-duodecies of the Issuer Regulations, we point out that "Service costs" also include fees paid to the external auditors Deloitte & Touche S.p.A., for externally auditing services totalling EUR 75 thousand in addition to revaluations and expenses as well as professional services related to the unbundling certification pursuant to AEEG resolution no. 11/2007 and totalling EUR 10 thousand and to the certification of the request for the exemptions per Article 3 of the Ministry of Economic Development Decree of 20 November 2012, amounting to EUR 15 thousand.

As required by article 2427, point 16, of the Civil Code, the table below shows the total remuneration payable to Directors and Statutory Auditors.

DIRECTORS	190
STATUTORY AUDITORS	35

LEASES AND RENTALS

	2013	2012
RENTAL EXPENSES	241	247
HIRE AND LEASING EXPENSES	244	240
ROYALTIES	45	44
TOTAL	**529**	**532**

Payable rents primarily refer to rents and miscellaneous fees, as well as the rental of computers and instruments. Hire and leasing expenses include raw material warehousing costs paid to ISAB S.r.l. (EUR 244 thousand).
Royalties relate entirely to use of MPR Service Inc. USA's Solvent Reclaimer licence.

PERSONNEL EXPENSES

To operate the IGCC industrial complex, the Company uses the services provided by ISAB Energy Services, including as from 2009 some staff members. This item amounts to zero since as from the end of 2009 the Company had no employees on its own payroll.

AMORTISATION, DEPRECIATION AND WRITE-DOWNS

	2013	2012
AMORTISATION OF INTANGIBLE ASSETS	4,944	3,268
DEPRECIATION OF TANGIBLE ASSETS	47,517	45,355
TOTAL	**52,461**	**48,623**

The increase in this item was caused to tangible assets (EUR 2,163, for the capitalisations that took place both in the previous and in the current year) and to intangible assets (EUR 1,676 thousand, as a result of the completion, in 2013, of the amortisation of the additional charges to process financing in view of the completed early repayment).

CHANGES IN INVENTORIES OF RAW MATERIALS, ANCILLARY MATERIALS, CONSUMABLES AND GOODS

	2013	2012
CHANGE IN RAW MATERIALS	759	(1,519)
CHANGE IN MATERIALS AND SPARE PARTS	1,154	(44)
WRITE-DOWN OF SPARE PARTS	(523)	834
TOTAL	**1,391**	**(729)**

Based on an analysis of the items that have not changed in the last few years, it was found necessary to increase the write-downs of inventories of ancillary materials and consumables applied in previous years by EUR 523 thousand.

OTHER PROVISIONS

	2013	2012
PROVISION FOR CYCLICAL MAINTENANCE	3,106	3,950
PROVISION FOR 10-YEAR INSPECTIONS	–	–
TOTAL	**3,106**	**3,950**

OTHER OPERATING EXPENSES

	2013	2012
TAXES AND DUTIES FOR THE YEAR		
CO_2 EMISSION EXPENSES	12,893	18,595
GREEN CERTIFICATES EXPENSES	5,532	15,664
MUNICIPAL TAX ON REAL ESTATE (IMU)	6,594	6,071
SUNDRY TAXES AND DUTIES	648	936
	25,667	**41,265**
SUNDRY OPERATING EXPENSES	**450**	**1,967**
ENTERTAINMENT AND PUBLIC RELATIONS	**363**	**338**
CAPITAL LOSSES	**13**	**–**
TOTAL	**26,494**	**43,570**

The "taxes and duties" item includes costs accrued for the CO_2 quotas to be covered with reference to the emissions in 2013; the latter decreased with respect to 2013 following the significant decrease in acquisition prices which more than offset the increase in the number of rights to acquire following the increased production in the year compared to the previous year. Moreover, it includes expenses for the purchase of green certificates relating to the production of the year 2013; the charges for green certificates were reported net of the partial recovery of costs that were due in accordance with resolution no. 113/06 of the AEEG.
This item also includes the Municipal Tax on Real Estate (IMU, previously ICI) that is primarily paid to the Municipality of Priolo Gargallo, which increased with respect to the previous year due to the higher multiplier coefficient to be applied to calculate the tax.

Lastly, the item "other taxes and duties" includes taxes on waste products (as re-determined in conjunction with the Municipality of Priolo Gargallo) and other rights with lower amounts. Capital losses of non-significant amounts, relating to disposals, were also recognised during the period.

FINANCIAL INCOME AND EXPENSES (EUR -3,039 THOUSAND)

OTHER FINANCIAL INCOME (EUR 42 THOUSAND)

Bank interest receivable (EUR 0 thousand in 2012) mainly relates to current accounts with the bank IntesaSanPaolo.

INTEREST AND OTHER FINANCIAL EXPENSES

	2013	2012
INTEREST CHARGES ON BANK LOANS	86	590
FINANCIAL CHARGES ON BANK LOANS	244	514
INTEREST CHARGES ON IRS	765	685
INTEREST PAYABLE ON OTHER LOANS	1,912	2,154
SUNDRY INTEREST AND FINANCIAL EXPENSES	29	19
TOTAL	**3,036**	**3,962**

The decrease in the overall cost of the finance obtained via Project Financing is attributable to the level of interest rates in 2013 and to the reduction in the debt figure during the year. Interest charges on other loans consist of financial payables owed to the majority shareholder ERG S.p.A. (EUR 1,017 thousand), and to the minority shareholder IPM Priolo BV (EUR 728 thousand).

FOREIGN EXCHANGE GAINS AND LOSSES

	2013	2012
FOREIGN EXCHANGE GAINS	11	3
FOREIGN EXCHANGE LOSSES	(56)	(82)
TOTAL	**(45)**	**(79)**

Foreign exchange differences arose on ordinary payment transactions, mainly to suppliers. The reference currency for the vast majority of the Company's dealings is the euro; a small number of transactions with non-EU suppliers are in other currencies.
The credits and debits in foreign exchange as at 31 December 2013 were adjusted to the exchange rate at the end of the year and the relative gains and losses were recognised in the Income Statement.

EXTRAORDINARY INCOME AND EXPENSES (EUR +10 THOUSAND)

The item, which was negative by EUR 302 thousand in 2012, refers to income deriving from adjustments to receivables as a result of the reimbursement requests filed in 2013 for IRES purposes for the deductibility of the IRAP referred to the cost of labour for previous years.

INCOME TAXES FOR THE YEAR

	2013	2012
CURRENT IRES	47,633	40,457
CURRENT IRAP	6,428	5,500
PREPAID TAXES	312	109
DEFERRED TAXES	(7,146)	(7,114)
TAXES FOR PREVIOUS YEAR	1	(10)
TOTAL	**47,229**	**38,943**

The allocation of income taxes for the year was calculated by taking into account the foreseeable taxable income, determined on the basis of current tax regulations.
Current IRES includes, in addition to the ordinary rate of 27.5%, the additional Robin surtax at 10.5% in 2013 totalling EUR 13,162 thousand (the surtax was allocated at 10.5% in 2012 as well, for an amount of EUR 11,179 thousand).
The prepaid and deferred taxes arose from the timing differences between the statutory results and the taxable results.
The decrease in deferred tax was mainly attributable to the reversal of the portion of the deferred taxes booked in the period as a result of the option exercised by the company to spread the tax contingent item related to the insurance payout for direct damage over five years for IRES purposes (for more details see the comment on deferred tax provisions in the Notes to the Accounts).

RECONCILIATION BETWEEN REPORTED AND THEORETICAL TAX CHARGES

IRES		
PROFIT BEFORE TAXES	**105,600**	
THEORETICAL TAXATION (TAX RATE 38%)		**40,128**
TEMPORARY DIFFERENCES TAXABLE IN FUTURE YEARS	(28)	
TEMPORARY DIFFERENCES DEDUCTIBLE IN FUTURE YEARS	3,874	
RECOVERY OF TEMPORARY DIFFERENCES FROM PREVIOUS YEARS	13,568	
PERMANENT TAX CHANGES	2,337	
TAXABLE INCOME (IRES)	**125,350**	
CURRENT IRES		**47,633**
IRAP		
DIFFERENCE BETWEEN PRODUCTION VALUE AND PRODUCTION COSTS	108,629	
COSTS AND REVENUES NOT RELEVANT FOR IRAP PURPOSES	–	
COSTS AND REVENUES RESTATED FOR IRAP PURPOSES	–	
THEORETICAL TAXABLE INCOME FOR IRAP PURPOSES	**108,629**	
THEORETICAL TAXATION (TAX RATE 4,82%)		**5,236**
TEMPORARY DIFFERENCES TAXABLE IN FUTURE YEARS	–	
TEMPORARY DIFFERENCES DEDUCTIBLE IN FUTURE YEARS	3,628	
RECOVERY OF TEMPORARY DIFFERENCES FROM PREVIOUS YEARS	14,333	
PERMANENT TAX CHANGES	6,775	
TAXABLE INCOME (IRAP)	**133,365**	
CURRENT IRAP		**6,428**

NET PROFIT

The Financial Statements for the year ended 31 December 2013 show a profit of EUR 58,371 thousand.

Genoa, 12 February 2014

On behalf of the Board of Directors
The Chairman
Pietro Tittoni

KEY FIGURES FROM THE LATEST APPROVED FINANCIAL STATEMENTS OF ERG S.P.A. THE COMPANY RESPONSIBLE FOR MANAGEMENT AND COORDINATION OF ISAB ENERGY S.R.L.

BALANCE SHEET

(EUR THOUSAND)	12/31/2012	12/31/2011
INTANGIBLE ASSETS	3,401	6,488
GOODWILL	2,777	5,555
PROPERTY, PLANT AND EQUIPMENT	13,944	14,850
EQUITY INVESTMENTS	1,157,704	1,534,883
OTHER FINANCIAL ASSETS	166,960	149,508
DEFERRED TAX ASSETS	31,472	23,560
OTHER NON-CURRENT ASSETS	2,740	1,387
NON-CURRENT ASSETS	**1,378,998**	**1,736,231**
INVENTORY	158,005	265,427
TRADE RECEIVABLES	394,877	505,492
OTHER RECEIVABLES AND CURRENT ASSETS	109,832	120,824
CURRENT FINANCIAL ASSETS	56,973	54,182
CASH AND CASH EQUIVALENTS	840,993	410,829
CURRENT ASSETS	**1,560,680**	**1,356,754**
TOTAL ASSETS	**2,939,678**	**3,092,986**
SHAREHOLDERS' EQUITY	**1,551,592**	**1,615,183**
STAFF SEVERANCE INDEMNITY	1,225	1,273
DEFERRED TAX LIABILITUES	6,011	8,492
PROVISIONS FOR NON-CURRENT LIABILITIES AND CHARGES	10,648	10,649
NON-CURRENT FINANCIAL LIABILITIES	119,685	283,630
OTHER NON-CURRENT LIABILITIES	7,670	6,603
NON-CURRENT LIABILITIES	**145,239**	**310,647**
PREVISIONS FOR CURRENT LIABILITIES AND CHARGES	53,763	51,678
TRADE PAYABLES	583,009	706,688
CURRENT FINANCIAL LIABILITIES	573,207	316,192
OTHER CURRENT LIABILITIES	32,868	92,598
CURRENT LIABILITIES	**1,242,847**	**1,167,156**
TOTAL LIABILITIES	**2,939,678**	**3,092,986**

INCOME STATEMENT

(EUR THOUSAND)	2012	2011
REVENUES FROM ORDINARY OPERATIONS	7,357,143	6,105,827
OTHER REVENUES AND INCOME	21,836	19,834
CHANGES IN PRODUCT INVENTORIES	(129,963)	57,510
CHANGE IN INVENTORIES OF RAW MATERIALS	22,542	(43,298)
COSTS FOR PURCHASES	(6,824,843)	(5,598,476)
COSTS FOR SERVICES AND OTHER COSTS	(542,863)	(639,210)
LABOUR COSTS	(34,232)	(33,019)
EBITDA	**(130,380)**	**(130,831)**
AMORTISATION, DEPRECIATION AND WRITE-DOWNS	(5,506)	(7,250)
GAIN (LOSSES) FROM SALE OF BUSINESS UNIT	(1,630)	–
FINANCIAL INCOME (EXPENSE), NET	(1,097)	25,377
NET INCOME (EXPENSE) FROM EQUITY INVESTMENTS	114,833	98,614
PROFIT (LOSS) BEFORE TAXATION	**(23,780)**	**(14,091)**
INCOME TAXES	45,279	34,019
NET INCOME (LOSS) FOR THE YEAR	**21,499**	**19,928**

REPORT OF THE BOARD OF STATUTORY AUDITORS TO THE SHAREHOLDERS' MEETING FOR THE APPROVAL OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AS AT 31 DECEMBER 2013, IN COMPLIANCE WITH ART. 2429, PAR. 2 OF THE ITALIAN CIVIL CODE.

To the Shareholders' Meeting of ISAB ENERGY S.r.l.

Dear shareholders,
in the year ended as at 31 December 2013, we performed the monitoring activities referred to the Board of Statutory Auditors, in compliance with Art. 2403 of the Italian Civil Code and art. 153 of Italian Legislative Decree no. 58 of 24 February 1998, in accordance with the principles of conduct of the Board of Statutory Auditors in subsidiaries of companies with shares listed on regulated markets, issued by the *Consigli Nazionali dei Dottori Commercialisti e dei Ragionieri* (National Boards of Chartered Accountants), while also taking into account specific applicable legislation Furthermore, in drafting this report, we took into account, where applicable, the instructions provided by CONSOB by means of communication no. DEM/1025564 of 6 April 2001, and its subsequent supplements.
The current Board of Statutory Auditors was appointed by the Shareholders' Meeting of 16 April 2012. The audit was assigned to the firm Deloitte & Touche S.p.A., already tasked with auditing the financial statements of the parent company ERG S.p.A.

Legislative developments
The company has constantly kept us up-to-date on legislative changes in the electricity sector in 2013, shown in detail in the Report on Operations, which sets out the most important provisions, highlighting their impact on Balance Sheet and Income Statement items.

IGCC plant
The company has continued to keep us informed of matters regarding plant operations.
In 2013, the plant produced energy totalling 4,142 GWh, an increase compared to the 4,077 GWh produced in 2012. The increase in production is due to overall better plant performance. The plant's capacity utilization increased from 88% in 2012 to 90% in 2013.

Investments
In the year closed at 31 December 2013, the company made investments totalling EUR 10.3 million. During the course of the year, the project for the realization of the plant for washing gases released to the torch was completed, in compliance with the environmental provisions established in the "Integrated Environmental Authorization" (*Autorizzazione Integrata Ambientale, AIA*). Investments continued to be focused on increasing the operating efficiency and reliability of the plants, and the interventions necessary for health, safety and environmental requirements continued.

Risks
We've been notified of the implementation - on the part of the ERG Group, of which the Company is part - of the integrated risk management model, based on an approach targeted at identifying priority risks, evaluating potential negative effects and pinpointing the most appropriate actions to be taken. In particular, the main areas of risk identified and managed by the Company are risks relating to environmental policies and operating processes as well as credit and financial risks, market risks, and compliance risks with respect to constantly changing legislation, even with the adoption of a Code of Ethics

On 13 December 2013, the company proceeded with the advance reimbursement of the project financing, thereby obtaining the issue of the guarantees which were lent (including the pledge of 100% of the share capital, the mortgage of the land the special lien on the plant).

On 12 December 2013, the shareholders' meeting, following the resignation of Pietro Muti from the office of director and Chairman of the Board of Directors – which, in accordance with Article 17 of the Articles of Association of the company, resulted in the dissolution of the entire Board of Directors – appointed the new Board of Directors, appointing the offices of Chairman and Vice Chairman as well as determining the remuneration of the directors.
The Board of Statutory Auditors has noted that all the directors have accepted their office.

On 15 January 2014, the shareholders' meeting of the company deliberated – upon proposal from the Board of Directors' meeting held on the same date – in favour of the distribution of 45 million in dividends, paid to shareholders during the course of January, along with the payment of the primary subordinated debts, in accordance with the project financing agreement in force until December 2013.

The monitoring activity we performed at meetings of the Board of Statutory Auditors – held at least quarterly – was targeted at verifying compliance with the law, the Articles of Association and the principles of proper administration.
We attended meetings of the company bodies.
We exchanged information with auditing managers regarding the checks and monitoring they performed.
With reference to the activities carried out in 2013, we hereby acknowledge the following:
we held five meetings of the Board of Statutory Auditors, took part in three shareholders' meetings and seven meetings of the Board of Directors, monitoring compliance with the statutory, legislative and regulatory norms that govern the functioning of company bodies, and we certify that no significant resolutions were adopted without the proper prior disclosure of information to shareholders, directors and statutory auditors.
We were regularly kept up-to-date, both by taking part in meetings of the Board of Directors and during our meetings held at least quarterly with Company executives, on the general activities performed by the Company in the sectors it operates in, and on the most significant economic, financial and equity transactions, verifying that the actions resolved and implemented complied with the Law and the Articles of Association and that they were not manifestly imprudent or hazardous, did not involve a potential conflict of interest, were in keeping with the resolutions adopted by the shareholders' meeting and were not as such to compromise the integrity of company assets.
During our regular meetings held with the managers of the company departments and during the course of scheduled meetings with audit managers for the mutual exchange of information, we requested and obtained information that allowed us to gain knowledge and, as regards aspects within the competence of the Board of Statutory Auditors, to monitor and positively assess the Company's organisational structure, acknowledging its capacity to adopt and observe the guidelines and procedures in place in the Group, and in particular:
we were informed of changes to the Company's administrative structure, which we deem to be suitable for the purposes of compliance with the principles of proper administration, and which is structured at Group level and constantly updated in both the parent company and the subsidiaries.
We judged the internal control system to be adequate, which is structured at Group level and constantly updated in both the Parent Company and the subsidiaries.
We verified the adequacy of the administrative-accounting system and its reliability in providing a true representation of operating events.

We ascertained the promptness of the administrative-accounting department in providing the parent company with both the data needed to draft the financial statements and the interim reports, as well as the information required by articles 114 and 115 of Italian Legislative Decree 58/1998.
We acknowledged that the Supervisory Authority's report did not highlight any significantly critical factors during the year for the purposes of the implementation and effectiveness of the Organisation and Management Models pursuant to Legislative Decree 231/2001. The company, by means of the resolution of the Board of Directors of 12 December 2013, incorporated the principles contained within the "Guidelines for compliance with Legislative Decree 231/01 and with the anti-corruption laws for companies of the ERG Group".
Within our area of responsibility, we verified the existence of the professional requirements set forth in the Organisation, Management and Control Model pursuant to Legislative Decree 231 in relation to the party that was assigned the mandate of single-member Supervisory Body, Barbara Rebella, who works within the Internal Audit, Risk and Compliance Division of ERG S.p.A., in replacement of Devan De Paolis.
We noted the attention that management dedicates to matters of workplace health and safety as well as the environment - with particular reference to training, at all organisational levels - and we acknowledged that, during the course of 2013, the objective of updating the Guidelines for the Integrated Management of Health, Safety and the Environment within the Group was attained.

The activities of the Board of Statutory Auditors are performed in accordance with the "Guidelines for meetings and resolutions of the Board of Statutory Auditors" (Guidelines for the organisation of the Board of Statutory Auditors appointed to conduct the regulatory audit, issued by the National Board of Chartered Accountants – *Consiglio Nazionale dei Commercialisti e degli Esperti Contabili* – in February 2012). During our above-mentioned audit, we did not record any transaction that, owing to its nature or size, was atypical or could be defined as unusual, neither with third parties nor Group companies or related parties.
We identified, as in previous years, the existence of ordinary intercompany transactions, verifying the existence and observance of procedures suited to guaranteeing that the transactions in question are duly documented, regulated according to market conditions and are in the company's interest; these transactions are adequately detailed by the directors in the financial statements and in the Report on Operations, to which reference should be made; as regards intercompany service contracts in particular, we agree with the cost chargeback criteria used. No reports were received from shareholders pursuant to Art. 2408 of the Italian Civil Code.
We did not record any omissions, censurable events or irregularities that need to be reported to the competent bodies or mentioned in this report.
The Company is subject to management and coordination on the part of the parent company ERG S.p.A.: these activities include not only the definition of business strategies, but also the following: the specification of strategic guidelines relating to organisational aspects and personnel policies; management of strategic finance and of the Group treasury; tax issues, particularly from a planning perspective; communication policies; and policies relative to the environment, health and safety as well as IT systems.
The advertising obligations set out in the Italian Civil Code were fulfilled; in particular, the Report on Operations details the decisions taken as regards the management and coordination activities of ERG S.p.A., and the Notes to the Accounts report the key data of the financial statements of the aforementioned company.
The company adopts the Tax Consolidation system, pursuant to articles 117 et *sequitur* of the Italian Consolidated Act on Income Taxes (*Testo Unico delle Imposte sul reddito*), with ERG S.p.A. as the consolidating company.

The Security Policy Document is updated in light of the technical and organisational changes introduced to the Group's IT system.
The audit of the financial statements was conducted by Deloitte & Touche S.p.A., already tasked by the parent company ERG S.p.A. to audit its separate and consolidated financial statements.
We reiterate that, during the year, normal relations were maintained with the independent auditing firm, both through formal meetings, also attended by the company's administrative managers, and through informal get-togethers between individual members of the Board and representatives from the independent auditing firm, geared towards the mutual exchange of relevant data and information.
The utmost level of collaboration has always been ascertained, also as regards financial statement preparatory activities, and no significant events or aspects worthy of mention came to light.
In 2013, the independent auditing firm was not only assigned the audit of the accounts and of the financial statements for the year, but also the following tasks:

- drawing up the declaration of compliance of the separate annual accounts for 2012 for the purposes of AEEG (Italian Electricity and Gas Authority) resolution no. 11/2007. A consideration of EUR 10,000.00 was agreed for the latter assignment;
- preparation of a report to be attached to the request for application of the derogations pursuant to Article 3, paragraphs 2, 3 and 4, of the Ministerial Decree of 20 November 2012 of the Ministry of Economic Development, for the purposes of identifying the specific consumption value and the avoided fuel cost. Compensation for this task was equal to EUR 15,000.00.

The Board of Statutory Auditors has verified that the additional tasks assigned to the auditing company are not incompatible with the auditing activities.

As required by Art. 149-*duodecies* of the Issuers' Regulation no. 11971 issued by Consob, in implementation of Italian Legislative Decree no. 58/1998, the fees paid to the independent auditing firm are shown in the Notes to the Accounts.
As regards the monitoring of the financial statements of the year, in respect of which independent auditing firm Deloitte & Touche S.p.A. was responsible for the analytical verification of the contents, we acknowledge that: the Company, as in previous years, drafted the financial statements for the purpose of filing in the Companies Registry in accordance with the Italian accounting standards, moreover preparing periodic reports for the purpose of transmission of the statement of financial position for the preparation of the interim financial positions and of the consolidated financial statements of ERG S.p.A. in accordance with international accounting standards (IAS/IFRS). The legal provisions concerning the formation and structure of the financial statements and the Report on Operations were complied with; the financial statement layouts adopted and the accounting standards, described in the Notes to the Accounts, conform to the legal provisions and are suitable in relation to the company's activities. In drafting the financial statements, the Directors did not depart from the legal provisions; the financial statements correspond to the facts and information the Board of Statutory Auditors gained knowledge of in exercising its monitoring duties and control and inspection powers; the Report on Operations meets the requirements set forth in art. 2428 of the Italian Civil Code and is consistent with the data and results of the financial statements; the report provides comprehensive information on the market, on company activities, on the legislative framework, and in particular, on matters relating to the quantification of the value of the AFC (Avoided Fuel Cost) component in terms of the impact on the financial statements.
The Notes to the Accounts adequately detail changes in items of shareholders' equity, indicating the possibility of use for each of them.

In its Report issued on today's date - in accordance with Art. 14 of Italian Legislative Decree no. 39 of 27/1/2010 and Art. 165 of Italian Legislative Decree no. 58 of 24/2/1998 – the independent auditing firm expressed positive judgments on both the financial statements and on the Report on Operations.

Dear shareholders,
the financial statements for the year ended as at 31 December 2013, which closed with a profit of EUR 58,370,702, were subject to our careful examination and, as regards the contents of this report, also taking into account the judgment expressed by the independent auditing firm, this Board of Statutory Auditors expresses its favourable judgment on the approval of the financial statements for the year ended as at 31 December 2013 as drafted by the directors, and without any objections to the proposal of the directors' in relation to the allocation of profit for the year.

13 February 2014

The Board of Statutory Auditors
Luigi Ferrara
Mario Pacciani
Pierdomenico Rundo

INDEPENDENT AUDITORS' REPORT

Deloitte.

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AUDITORS' REPORT
PURSUANT TO ART. 14 OF LEGISLATIVE DECREE No. 39 OF JANUARY 27, 2010
AND ART. 165 OF LEGISLATIVE DECREE No. 58 OF FEBRUARY 24, 1998

To the Quotaholders of
ISAB ENERGY S.r.l.

1. We have audited the financial statements of ISAB Energy S.r.l. (the "Company") as of December 31, 2013. These financial statements prepared in accordance with the Italian law governing financial statements are the responsibility of the Company's Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

2. We conducted our audit in accordance with the Auditing Standards recommended by CONSOB, the Italian Commission for listed Companies and the Stock Exchange. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

   For the opinion on the prior year's financial statements, the balances of which are presented for comparative purposes as required by law, reference should be made to our auditors' report issued on March 11, 2013.

3. In our opinion, the financial statements give a true and fair view of the financial position of ISAB Energy S.r.l. as of December 31, 2013 and of the results of its operations for the year then ended in accordance with the Italian law governing financial statements.

4. The Directors of ISAB Energy S.r.l. are responsible for the preparation of the report on operations in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency of the report on operations with the financial statements, as required by law. For this purpose, we have performed the procedures required under Auditing Standard n. 001 issued by the Italian Accounting Profession (CNDCEC) and recommended by CONSOB. In our opinion the report on operations is consistent with the financial statements of ISAB Energy S.r.l. as of December 31, 2013.

DELOITTE & TOUCHE S.p.A.

Signed by
Corrado Toscano
Partner

Genoa, Italy
February 13, 2014

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

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ISAB Energy S.r.l. – April 2014
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