ERG S.P.A.

ANNUAL REPORT 2010

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LETTER TO THE SHAREHOLDERS

Distinguished Shareholders:

2010 was a very important year for ERG, thanks both to the strong growth in operating profits over the previous year, even in an environment characterised by still penalising and uncertain international energy scenarios, and to the attainment of major strategic objectives, representing yet another forward step in our industrial path.

In 2010, consistently with the policy of forging alliances with top tier international operators that has always distinguished us, we launched another important joint venture, with Total Italia, in the Integrated Downstream sector.
TotalErg, officially operating since 1 October 2010, is the third largest operator in Italy in the distribution of petroleum products, with about 12% market share and over 3,300 service stations: hence, the partnership with Total enabled both partners to achieve a significantly stronger position on the market and to share their assets and expertise.
In addition to expanding the offering of services and products to its customers, TotalErg, which is currently in the process of completing the integration, will enable to attain significant economic benefits, creating value for its shareholders thanks to the high potential for managerial and operating synergies.

Although it was in fact closed during the first quarter of 2011, worthy of mention is also the exercise of last January's put option for 11% of the capital of ISAB S.r.l. As a result of the transaction, which took place on 1 April, ERG collected EUR 241 million from LUKOIL, reducing its share in ISAB S.r.l. from 51% to 40%. The transaction enables the Group to continue to maintain a significant industrial role in Coastal Refining, thanks to a governance that remained unchanged, whilst strengthening its financial structure, consistently with our multi-energy strategy.

The Energy sector was characterised by two major achievements: the start of commercial operations of ERG Power's electric power plant, associated with the closing of the related Project Financing, and the return to full operation of ISAB Energy's generation Train 1 in late May, ahead of the schedule set out in the reconstruction plan following the accident of October 2008.

As a result of the successful completion of the performance tests, both trains of the ERG Power plant, for a total installed power of about 480 MW, started full commercial operations in April; the co-generation CCGT plant is located in the Priolo industrial area.
Also in April, a pool of primary Italian and international banks disbursed EUR 330 million to ERG Power S.r.l., wholly controlled by the ERG Group, to finance the plant, as a result of the fulfilment of all conditions precedent prescribed by the project financing agreement signed in December 2009.
The banking system's support demonstrated the validity of the project, all the more appreciable in the current challenging economic environment.

With regard instead to ISAB Energy, as mentioned, last May, after successfully completing all operating tests, generation train 1 resumed operations: the electric power generation plant thus resumed operating at 100% of its generating capacity, with a total power of 528 MW.
The complete re-start of ISAB Energy, together with the full commercial capacity of the ERG Power plant, enabled us to optimise the industrial set-up required by our targets in the generation of thermoelectric energy.

The implementation of our multi-energy strategy also continued through important transactions in the Renewable Energies sector, where the Group intends to continue to invest.
In July, ERG Renew closed the agreement for the acquisition of 100% of the share capital of IVPC Power 5 S.r.l. (currently, ERG Eolica Adriatica S.r.l.), owner of two wind farms, one in Molise (40 MW) and one in Puglia (62 MW), just completed and already operational, with high productivity in terms of hours/year; as a result of this acquisition, ERG Renew increased its installed power reaching 310 MW, of which 246 MW in Italy.
The will to grow in the renewable energies sector and the consolidated excellent relationship with Lukoil, matured in the joint management of the ISAB refinery, led to the signature, in July, of a Memorandum of Understanding between ERG Renew and LUKOIL with the purpose of sharing basic requirements and conditions for a collaboration in the renewable energies sector, in particular in the wind power segment; the intention is to seek out business opportunities mainly in Eastern European countries and in Russia and, in this regard, the collaboration will be able to leverage Lukoil's thorough knowledge and solid industrial presence in those areas.
Lastly, continuing with the renewable energies sector, 2010 ended with one last transaction: in December, ERG promoted a voluntary public tender offer on all shares of common stock of ERG Renew not in its possession, with the goal of obtaining the delisting of the company. Following the conclusion of the tender offer on 18 February 2011 and direct purchases on the market, today ERG holds 94.98% of ERG Renew and will proceed with delisting in upcoming months.
The offer is fully consistent with ERG's broader plan – which it has been implementing for some time with the Joint Ventures with LUKOIL and Total – aimed at optimising the invested capital among the different sectors where the Group operates directly and indirectly and with the goal of achieving greater flexibility to continue the development of energies from renewable sources.
Following the creation of the joint ventures with Lukoil and Total, and the new industrial size reached in the thermoelectric sector, in early 2010 the Group announced its organisational and corporate restructuring, completed in July.
The control chain was shortened by merging the two sub-holdings ERG Raffinerie Mediterranee and ERG Power & Gas into ERG S.p.A., which was then organised in two business units, respectively for the Refining & Marketing and Power & Gas sectors, together with a General Corporate Head Office. ERG Renew instead maintains its position as a subsidiary operating in the renewable energy sources sector.
The principles inspiring the reorganisation were the optimisation of decision-making processes and improvement in managerial efficiency; the ultimate goal is to provide the Group with a structure that is consistent with its activities and capable of "nimbly" exploiting any opportunity that may arise as a result of the expected global recovery.

Examining our 2010 results in the Refining & Marketing sector, while they did grow over the previous year, they continue to be affected by the weak refining scenarios, still depressed by the worldwide recession.
With regard to Coastal Refining, in 2010 modifications took effect that were linked to the improvement of the flexibility of the refinery, both in operational terms, with particular reference to hydrogen procurement, and in commercial terms. Additionally, we completed – according to schedule – the work to upgrade the assets for the production of transport diesel, whilst the program of investments to improve equipment efficiency continued, along with the planned further work in the Health, Safety and Environment areas.
The recession that heavily impacted the Refining sector in early 2009 compromised the scenario that had enabled the ISAB Refinery, until that time, to be one of the best performing plants in the Mediterranean; the analysis we carried out in 2009 clearly showed that the area of greatest weakness in the performance of the ISAB Refinery was that of fixed costs.
With the goal of effectively anticipating the rapid changes in economic and geopolitical scenarios, to minimise risk and adapt to change, in mid-2009 ERG launched the broad and challenging project known as "Sprint", to achieve a 15% reduction in fixed costs by 2012 and make all internal processes more efficient and streamlined, revising the organisation and involving all resources in a major plant requalification goal; obviously, always keeping in mind the Group's other priority objective in terms of safeguarding Health, Safety and Environment. 18 months after the project was launched, we are proud that our results have exceeded expectations, and in fact we are applying the concept to other sectors as well, e.g. the Isab Energy plant.

Lastly, we would like to remember that 2010 was the second year of the Safety Project.
All indicators showed an improvement in safety: for the first time in at least 12 years, the target of Zero Injuries was reached in Isab; environmental accidents and local alarms were halved.
The positive results from all Group operations are the consequence of an extended, wide-ranging effort to train all managers, foremen, shift leaders and maintenance, internal communication and audit supervisors.

During the year, investments for about EUR 51 million were made in Integrated Downstream; most of them involved the Network for development activities such as construction of new service stations, reconstructions, new lease agreements, enhancement of existing service stations, and for the improvement of Health, Safety and Environment aspects; of these investments, about EUR 21 million were made in the fourth quarter by the newly incorporated TotalErg.

Results in the Power segment, which grew strongly with respect to last year, benefited from the full operating condition of the ERG Power plants from April onwards and of the ISAB Energy plants from May onwards.
Additional, the "Hydrogen Project" investment, aimed at the construction of a membrane plant that starting from the gas that fuels the ISAB Energy plant produces hydrogen to be supplied to the adjacent ISAB Refinery, was completed and started service in July 2010.
Hydrogen availability is strategic to enable the Refinery to produce fuels with low sulphur content and hence with reduced environmental impact.

Lastly, with regard to Renewable Energies results, the sector recorded a significant increase in the production of energy from wind power, also thanks to the contribution of the assets acquired in July, which in their first months of operation fully confirmed the expected quality.

For 2011 we expected improving results overall, even in the presence of planned maintenance shut-downs of the ISAB Energy plant and of the ISAB Refinery, thanks to an estimated gradual recovery in refining margins and a marked increase in the contribution from renewable energies, thanks to the recently acquired assets and to the commissioning of the wind farms of Fossa del Lupo and Ginestra, due to take place during the year.

We believe that the improvement of the economic results but also, and perhaps most importantly, all the transactions completed in recent years to consolidate and strengthen the Group's industrial role, are a significant factor attesting our constant commitment to business development and value creation for all our stakeholders.

EDOARDO GARRONE
Chairman

ALESSANDRO GARRONE
Chief Executive Officer

CORPORATE BODIES

HONORARY CHAIRMAN

RICCARDO GARRONE

BOARD OF DIRECTORS

CHAIRMAN

EDOARDO GARRONE

DEPUTY CHAIRMAN

PIETRO GIORDANO

GIOVANNI MONDINI

CHIEF EXECUTIVE OFFICER

ALESSANDRO GARRONE

DIRECTORS

MASSIMO BELCREDI
(INDEPENDENT)

LUCA BETTONTE [1]

LINO CARDARELLI
(INDEPENDENT)

ALDO GAROZZO

GIUSEPPE GATTI

ANTONIO GUASTONI
(INDEPENDENT)

PAOLO FRANCESCO LANZONI
(INDEPENDENT)

GRAZIELLA MERELLO [2]

BOARD OF STATUTORY

CHAIRMAN

MARIO PACCIANI

STANDING AUDITORS

LELIO FORNABAIO

PAOLO FASCE

MANAGER RESPONSIBLE (LAW 262/05)

GIORGIO CORAGGIOSO

INDEPENDENT AUDITORS

DELOITTE & TOUCHE S.P.A.

(1) Corporate General Manager
(2) Executive Director appointed to oversee the functioning of the Internal Control System

ERG IN A FEW WORDS

RETAIL MARKET SHARE - ITALY**

12.0%

SERVICE STATIONS**

3,322

EMPLOYEES AT YEAR-END

714

MAXIMUM MARKET CAPITALISATION
MILLION EURO

1,628

ELECTRICITY PRODUCTION
MILLION KWH

6,688

CRUDE OIL PROCESSING IN THE REFINERIES
THOUSAND BARRELS/DAY

194

NET GROUP INCOME AT REPLACEMENT COST
MILLION EURO

(20)

INVESTMENTS
MILLION EURO

201

GROUP DEBT AT 2010 YEAR-END
MILLION EURO

723

EBITDA AT ADJUSTED REPLACEMENT COST*
MILLION EURO

305

CONSOLIDATED REVENUES
MILLION EURO

7,899

NET INVESTED CAPITAL
MILLION EURO

2,614

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

** TotalErg results, joint venture with TOTAL for the portion attributable to ERG (51%)

THE HISTORY OF ERG

ORIGINS, DEVELOPMENT, INTEGRATION

The history of the ERG Group started on 2 June 1938 when the Podestà of Genoa granted the license for "trading products derived from petroleum and tar" to Edoardo Garrone, grandfather of the current Chairman Edoardo.

Thus was founded Edoardo Garrone's individual concern: for the company, which became a refinery in the early post-war years, a die was chosen as a symbol (from the Italian word "Dado", nickname for Edoardo, which also means "die"); its faces bear a three-letter acronym. The initials of Edoardo Garrone Refinery written on the faces of the die read... ERG.

After the war, in a country that had to be rebuilt from the ground up, the great demand for energy, exacerbated by the utterly devastated condition of electrical plants, found in petroleum the most suitable energy source to meet national needs thanks to its low price, availability and procurement flexibility.

The refining activity, thanks to the favourable economic environment and the excellent geographic position of the plants, thus became strategic for ERG.

After consolidating its standing in Italy, in 1956 the company signed the first major international agreement with British Petroleum which, subsequently and for several years, held a significant minority stake in ERG's share capital.

In 1963, the annual processing capacity of the refinery had already reached 6.5 million tonnes.

In 1971, ERG joined other private groups as a shareholder of ISAB, founded to build a large refinery in Sicily and, in 1985, in view of the planned shut-down of the San Quirico Refinery, it took control of ISAB with a stake that grew over the years and reached 100% in 1997.

After developing its activities mostly in the refining sector, the Company started to grow nationwide also in the commercial distribution sector, where it was already active with its own network of service stations in North-western Italy.

This strategy was implemented in two stages: in a first stage, in 1984, through the acquisition of the entire roadside network – 780 facilities – of ELF in Italy and, in a second stage, in 1986, with the acquisition of Chevron Oil Italiana.

With the latter transaction, ERG took over control of 1,700 additional distribution stations: this was the start of the ERG Network, recognisable, on all roads in Italy, by its trademark three panthers.

More recently, in late 1993, an agreement between ERG and Edison Mission Energy, one of the world's foremost energy producers, led to the inception of ISAB Energy, whose mission was the construction of the first Italian heavy oil gasification plant for the generation of clean electric power. The innovative industrial project received about 1,900 billion lire of Project Financing, which was unprecedented in Italy.

FROM LISTING TO 2000

From 1995 onwards, the Garrone family gave the Group's Management full responsibility for running the Group. A wide-ranging transformation process was thus started on a company that for nearly 60 years had been a family-owned and run business.

Through a rationalisation of the corporate structure and aggressive re-focusing on the core business of energy, ERG prepared its listing on the Stock Market to create the conditions for more efficient funding of the new development phase that awaited it.

The global offer consisted of a public offer for subscription and sale of 70.25 million shares in Italy and a private placement of 30.75 million shares reserved for domestic and foreign institutional investors. In October 1997, ERG stock was listed on the Electronic System of the Italian Stock Markets.

On 18 April 2000, the ISAB Energy plant was commissioned: it is the first Italian plant and the third in the world for the gasification of petroleum residues and the generation of electric power. Its gross capacity is 512 MW and its estimated production is between 3 and 4 billion kWh per year, covering over 1.5% of the entire domestic demand for electric power. ERG a petroleum company, thus became a company active in the energy industry in the broadest sense.

THE PRESENT

In October 2002, ERG Raffinerie Mediterranee was incorporated (72% ERG, 28% ENI), to manage one of the largest and most efficient refining sites in Europe, obtained through the merger and integration of ERG's ISAB Refinery and the former AGIP refinery, both in Priolo.
The two refineries were integrated through the construction of a system of pipelines and other works to upgrade and improve production efficiency and environmental compatibility to allow the new 'survivor' to be positioned at a very high competitive level in the international scenario.
In late 2002, Alessandro Garrone was appointed Chief Executive Officer of ERG. In 2003, Riccardo Garrone left ERG's chairmanship after forty years. He was replaced by his first-born son Edoardo.

On 23 December 2004, the Edoardo Garrone Foundation was setup as a natural continuation of the involvement of the Garrone and Mondini families, as well as of the companies of the ERG Group, in the social and cultural arena.
The main activities of the Foundation involve the organisation of seminars and conferences and the preparation and publication of studies and research.
The goal is to give a significant contribution to making culture, art and science readily available and understandable, as well as to cooperate actively in ethical, fair projects.

ERG's multi-energy strategy and its commitment to alternative energies developed further in 2005 with Ionio Gas S.r.l., incorporated with equal stakes by ERG Power & Gas S.p.A. and Shell Energy Italia S.r.l., which will design, build, run and maintain a terminal for the reception and regasification of Liquefied Natural Gas at the ISAB North Plant Refinery in Priolo.

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

In 2006, it acquired 51.33% of the share capital of Enertad S.p.A., a listed company active in the generation of electric power from renewable sources; in 2007, this stake rose to 68.38%. The acquisition of the stake in Enertad was a decisive step in the strategies pursued by the Group to expand and consolidate its position in the renewable energies sector.
In May 2008 a partial split of ERG Power & Gas enabled it to integrate into Enertad the Group's activity in the renewable energies sector; as a result of the transaction, ERG's stake in Enertad reached 77.4% of the share capital.
Simultaneously with the acquisition of the ERG Power & Gas assets in the renewable energies sector, Enertad changed its name to ERG Renew, thus marking the completion of an integration and reorganisation process meant to turn ERG Renew into the ERG Group company that is dedicated to the development of activities in the field of energy generation from renewable sources.

2008 was the year of the agreement with LUKOIL, one of the most important agreements in the Group's history; through the incorporation of the "Newco" ISAB S.r.l. (51% Raffinerie Mediterranee and 49% LUKOIL), it led to a solid partnership in coastal refining operations.

The agreement, announced on 24 June 2008 and closed on 1 December 2008, entailed transferring to the Newco the business unit of ERG Raffinerie Mediterranee that includes all the assets of the ISAB Refinery in Priolo.
This major joint venture confirms the Group's strategy, distinguished, in the past as in the present, by agreements with top tier international partners, which have always provided significant opportunities for development and growth.
Entirely consistently with a multi-energy strategy aimed at optimising invested capital among the different sectors, the transaction assured financial resources and enabled to strengthen the group's financial structure, providing the necessary flexibility to be able to exploit any new development opportunities in the various areas of operation, in Italy and abroad.
The partnership with LUKOIL, a leading integrated company in the petroleum and gas sector worldwide, enhanced the managerial skills in the plants with significant benefits for the competitiveness and efficiency of the refinery and it also provide potential benefits in terms of synergies and access to new markets.

In 2009 ERG, thanks to an agreement with Vodafone Italia, entered the market of virtual mobile telephony as an operator: thus, ERG Mobile was founded and ERG Petroli became the first oil company with a dedicated, customised SIM, marketed through the ERG fuel distribution Network.

In November 2009, ERG Power S.r.l. was established with share capital fully underwritten and paid in by ERG Nuove Centrali S.p.A.: the incorporated company was assigned the new co-generation electric power plant (480 MW) located inside the North area of the Priolo (SR) site; it has been operational since April 2010.

Consistently with the policy of forging alliances with top tier international operators, which has always distinguished the Group's history, in early 2010 TotalErg was launched: it is a joint venture resulting from the merger of ERG Petroli and Total Italia.
TotalErg (51% ERG – 49% Total), officially operating since 1 October 2010, is the third largest operator in Italy in the distribution of petroleum products, with about 12% market share and over 3,300 service stations: hence, the partnership with Total enabled both partners to achieve a significantly stronger position on the market and to share their assets and expertise.
Thanks to the high potential for managerial and operating synergies, TotalErg, in addition to expanding the offering of services and products to its customers, will enable to attain significant economic benefits, creating value for its shareholders.

In 2010, the ERG Group also made sizable investments in the Renewable Energies sector: in June, through the agreement with IVPC S.a.s. (closed in July) for the acquisition of the entire share capital of IVPC Power 5 S.r.l., owner of two wind farms with an installed power of 102 MW. Thanks to the acquisition, ERG Renew increased installed power from 208 MW to 310 MW (of which 246 MW in Italy).

At the beginning of 2011, ERG exercised the put option on 11% of ISAB S.r.l. reducing its share in ISAB S.r.l. from 51% to 40%. The transaction enables the Group to continue to maintain a significant industrial role in Coastal Refining, thanks to a governance that remained unchanged, whilst strengthening its financial structure, consistently with our multi-energy strategy.

From petroleum operator to multi-energy Group, ERG is continuing to blaze its trail in the energy business and, even in the face of challenging scenarios, its history attests its enterprising vision able to anticipate changes and exploit new opportunities, always keeping as its primary objective the creation of sustainable value for its stakeholders.

REPORT
ON OPERATIONS

INTRODUCTION

The Consolidated Financial Statements as of and for the year ended 31 December 2010 have been prepared in accordance with the International Accounting Standards issued by the International Accounting Standards Board (IASB) and approved by the European Union, inclusive of all international standards that have undergone interpretation (International Accounting Standards – IAS) and the interpretations of the International Financial Reporting Interpretation Committee (IFRIC) and of the previous Standing Interpretations Committee (SIC). This document has been audited by the independent auditor Deloitte & Touche S.p.A. in accordance with CONSOB (Italian Stock Exchange Regulator) regulations.

ERG GROUP REORGANISATION

As a result of the merger by takeover of the companies ERG Raffinerie Mediterranee S.p.A. and ERG Power & Gas S.p.A. into the parent company ERG S.p.A., which took place on 1 July 2010, ERG S.p.A. was reorganised in two divisions, Refining & Marketing and Power & Gas, together with a General Corporate Head Office.
ERG Renew maintains its position as a subsidiary company operating in the renewable energy sources industry.
Therefore, starting from the Interim Financial Report at 30 September 2010, the description of the businesses comprises the following four areas: Refining & Marketing, Power & Gas, Renewable Sources and Corporate.

The new structure is aimed at optimising decision processes and improving management efficiency, providing the Group with a new organisation that is consistent with its business portfolio and suitable for enabling it to take advantage of the opportunities that will present themselves following the expected global economic recovery.

ACQUISITION OF ERG EOLICA ADRIATICA

From 23 July 2010 on, the company ERG Eolica Adriatica S.r.l. was fully consolidated; it is the owner of two wind farms, one in Molise (40 MW) and one in Puglia (62 MW), with an EBITDA contribution of about EUR 13 million and with an impact of about EUR 280 million on the Group's net financial indebtedness.

TOTALERG JOINT VENTURE

1 October was the effective date of the merger by takeover of Total Italia S.p.A. into ERG Petroli S.p.A. which took on the name of TotalErg S.p.A.
The agreement between the shareholders calls for shared Governance and the operating autonomy of the Joint Venture. ERG's and TOTAL's stakes in the company are respectively 51% and 49%.

In particular, ERG brought to the Joint Venture the assets and liabilities related to the **Integrated Downstream business in Italy**[1] with the exclusion of ERG's marketing activities in Sicily.

For additional details, please refer to the sections "Strategy" and "Significant events during the year".

1 Integrated Downstream in Italy represents, in these Financial Statements, the disposal group prescribed by IFRS 5 and it comprises the assets and liabilities of ERG Petroli S.p.A. and of its subsidiaries

For better understanding of the 2010 data commented herein, the main impacts of the joint venture are discussed below:

- the reduction in net financial indebtedness by about EUR 359 million, of which 258 for the deconsolidation of the branch involved in the joint venture and 101 million collected as a result of ERG's sale of the 12% share of the joint venture to achieve the shares of 51% (ERG) and 49% (Total). The present document also indicates the adjusted indebtedness which takes into account ERG's portion (51%) of net TotalErg indebtedness post-merger;
- a capital gain of EUR 63 million as a result of the fair value recognition of the new shareholding and the subsequent sale of a 12% share. The capital gain is considered a non recurring item and therefore it is not reflected in the "Net Group Profit (Loss) at current values".

In order to enhance the understandability of the operating performance of the Integrated Downstream business, its results are shown at adjusted replacement cost[2], which reflects, for ERG's 51% shareholding, TotalErg's fourth quarter results[3].

2 For the definition and reconciliation of results to adjusted replacement cost, please refer to the section "Alternative Performance Indicators".

3 TotalErg data refer to its Consolidated Financial Statements, including the contribution of its own investee companies

BUSINESS DESCRIPTION

The ERG Group, also through its own subsidiaries and joint ventures with primary international operators, operates in the following segments:

- **REFINING & MARKETING**

  The Group is active in the segment of **Coastal Refining** through the joint venture with LUKOIL which controls the ISAB refinery in Priolo, one of the main sites in the Mediterranean both in terms of capacity (320 thousand barrels/days) and in terms of complexity (Nelson index 9.3) and in **Integrated Downstream**, through TotalErg, joint venture with Total, with a network of about 3,300 sales outlets (about 12% market share) and fuel sales of 4.4 million m^3/year, and through ERG Oil Sicilia (EOS), company that received as a result of a split on 1 April 2010 the business unit comprising the assets of ERG Petroli S.p.A. in Sicily.
  TotalErg also operates in the **Refining** segment (Raffineria di Roma, wholly owned, and Raffineria Sarpom of Trecate, with a 26% share).

- **POWER & GAS**

  The Group is active in the production and marketing of thermoelectric energy, steam and gas. ERG's main shareholdings in the segment are:

  – ISAB Energy S.r.l.: generation of electricity with a power plant (528 MW), fuelled by a gas obtained from a complex process of gasification of asphalt originating from the ISAB Refinery in Priolo (Sicily);

  – ERG Power S.r.l.: this company owns the North Plant of the Priolo site (480 MW), comprising the combined cycle plant fuelled with natural gas and the existing counter-pressure plants.

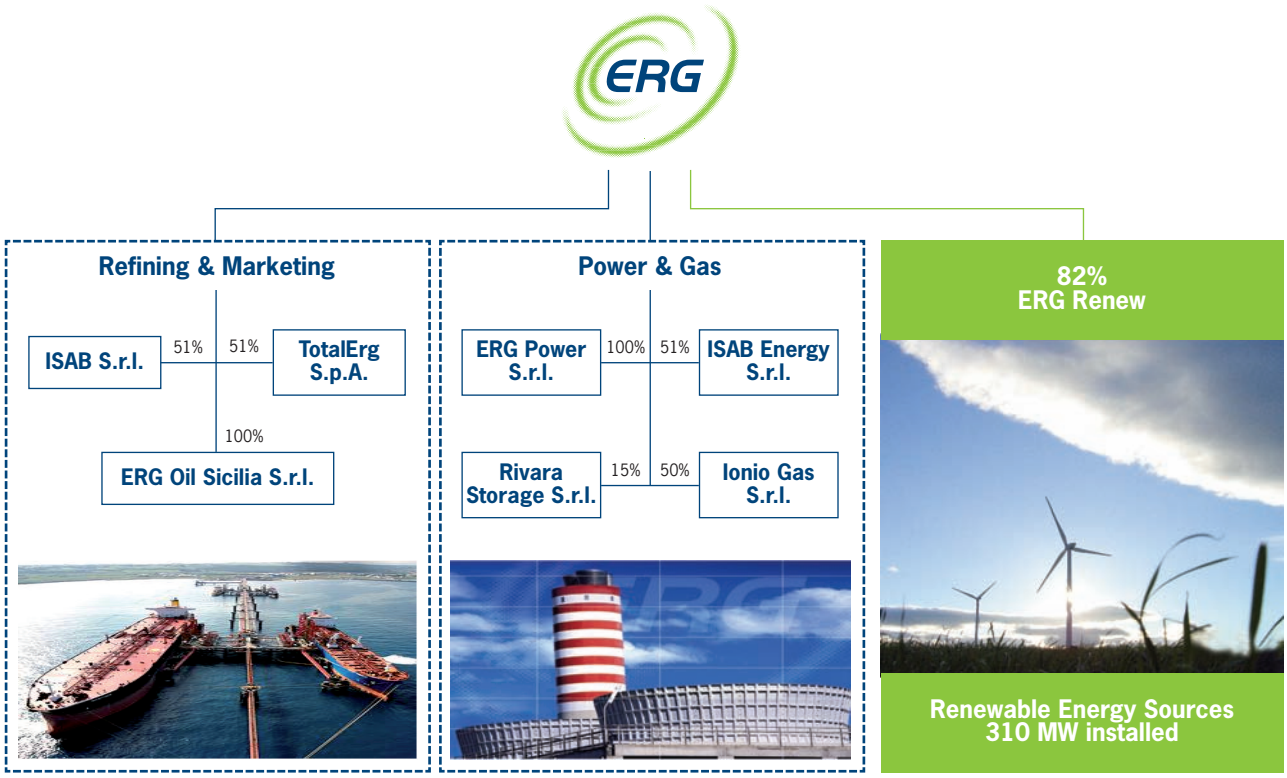
  Projects under study:

  – Ionio Gas S.r.l.: a joint venture with Shell Energy Italia for the development of a liquefied natural gas regasification plant in the Priolo site.

  – ERG Rivara Storage S.r.l. (15% ERG, 85% Independent Gas Management - Independent Resources Group): company for the construction and operation of an underground natural gas storage site in Rivara in the Municipality of San Felice sul Panaro – Modena.

- **RENEWABLE ENERGY SOURCES**

  Through the subsidiary ERG Renew, it operates in the generation of electricity from renewable sources with 310 MW installed in the wind power sector, of which 157.8 in Puglia, 40 in Molise, 37.5 in Sicily, 1.6 in Liguria and 64 MW in France. Two wind farms, for a total of 101.8 MW are included, which belong to ERG Eolica Adriatica S.r.l. (formerly IVPC Power 5 S.r.l.) whose acquisition was completed in July 2010.


ERG
Refining & Marketing
ISAB S.r.l.
51%
51%
TotalErg S.p.A.
100%
ERG Oil Sicilia S.r.l.
Power & Gas
ERG Power S.r.l.
100%
51%
ISAB Energy S.r.l.
Rivara Storage S.r.l.
15%
50%
Ionio Gas S.r.l.
82%
ERG Renew
Renewable Energy Sources
310 MW installed

STRATEGY

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

- REFINING & MARKETING: in **Coastal Refining**, in a joint venture with LUKOIL, leader in the Mediterranean area in terms of size and complexity, ERG continues to pursue its strategy of continuous improvement of plant efficiency and flexibility. In **Integrated Downstream** ERG pursues a continuous structural improvement process to maximise the profitability of the sales channel and improve long term sustainability. In this environment, on 1 October 2010 ERG executed an agreement with the French group Total for the merger of Total Italia into ERG Petroli, a new entity that took the name of TotalErg. The new company is the third largest Italian operator in Marketing, with a Retail market share exceeding 12%, about 3,322 service stations, an Inland refining capacity of about 116,000 barrels per day, a significant presence in the Wholesale and Specialties businesses and a significant logistical organisation. The joint venture will enable ERG to strengthen its competitive position on the market, achieving significant commercial and cost synergies, in partnership with one of the world's largest players in the oil industry. Within the merger, ERG spun off its marketing activities in Sicily, which were split in the new (100% owned) subsidiary ERG Oil Sicilia (EOS), operational since 1 April 2010. EOS is a primary operator in Sicilian marketing, with over 300 service stations and 15% retail market share at the regional level, with significant presence in the wholesale market and a logistical system connected with the ISAB Refinery in Priolo.

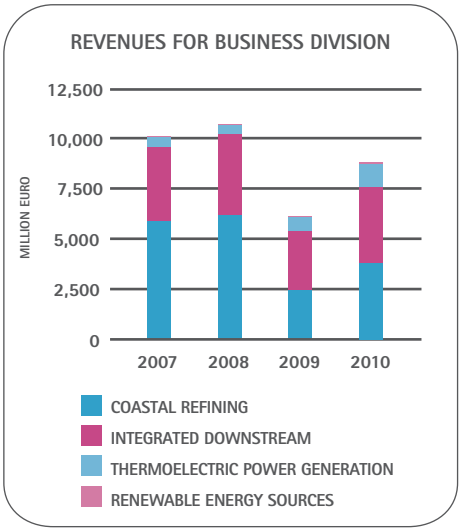
- POWER GENERATION – THERMOELECTRIC: ERG's goal is to maximise the value of its electrical assets, the IGCC plant of ISAB Energy (51% ERG), operational since 2000 through the so-called CIP6 convention with 20-year duration, and the new CCGT plant of the ERG Power subsidiary, in full commercial operations since April 2010, with installed power of about 480 MW, which provides utilities to the industrial customers of the Priolo site and merchant electrical power. ERG also pursues the objective of entering the gas infrastructure sector through two projects that are currently in the permitting stage: Ionio Gas, a project joint venture with Shell for the regasification of Liquefied Natural Gas (LNG) within the Priolo industrial site, and ERG Rivara Storage, a project joint-venture with Indipendent Resources Plc (IRG) for natural gas storage in Northern Italy.

- **POWER GENERATION – RENEWABLE SOURCES**: through its subsidiary ERG Renew, listed on the Milan Stock Exchange, ERG is developing its business to generate electricity through renewable sources, with a particular focus on the wind segment. Its strategic plan aims to consolidate its presence on the domestic market to become one of the leading operators in Italy, as confirmed by the acquisition of ERG Eolica Adriatica S.r.l. (formerly IVPC Power 5 S.r.l.), and at the same time expand its activities abroad, in markets that offer conditions favourable to growth in terms of market potential and the regulatory framework. In addition to the French market, where ERG Renew already has a significant presence, the focus is also in the areas of Eastern Europe that have high development potential. The goal is to built, in the medium term, a diversified, geographically balanced asset portfolio, also in order to optimise regulatory risk management. On 14 December, ERG launched a Tender Offer on all ERG Renew shares, aimed at its delisting, with the strategic goal of providing it with more adequate financial, organisational and managerial flexibility, useful to carry out its strategic plan and to achieve and exceed, more rapidly, the current investment and market positioning goals through organic growth and/or acquisitions.

ERG'S STOCK MARKET PERFORMANCE

On 30 December 2010 the closing price of ERG's shares (Blue Chips) was EUR 10.45, 8% higher than at the end of 2009, as compared with a 1.2% decline in the European sector index (Stoxx Energy Index) and an 11.5% decline in the FTSE All Share index.

Figures relating to the prices and exchange volumes of ERG's shares during the period 2 January 2010 - 30 December 2010 are set out below:



PRICE OF THE SHARE	EUR
REFERENCE PRICE AS OF 30.12.10	10.45
HIGHEST PRICE (04/0610) (1)	10.83
LOWEST PRICE (02/12910) (1)	8.96
AVERAGE PRICE	9.92

(1) lowest and highest prices recorded during trading on that day, hence not matching the official and reference prices on the same date

TRADED VOLUMES	N° SHARES
GREATEST VOLUME (05/16/10)	2,076,289
SMALLEST VOLUME (05.08.10)	74,554
AVERAGE VOLUME	344,063

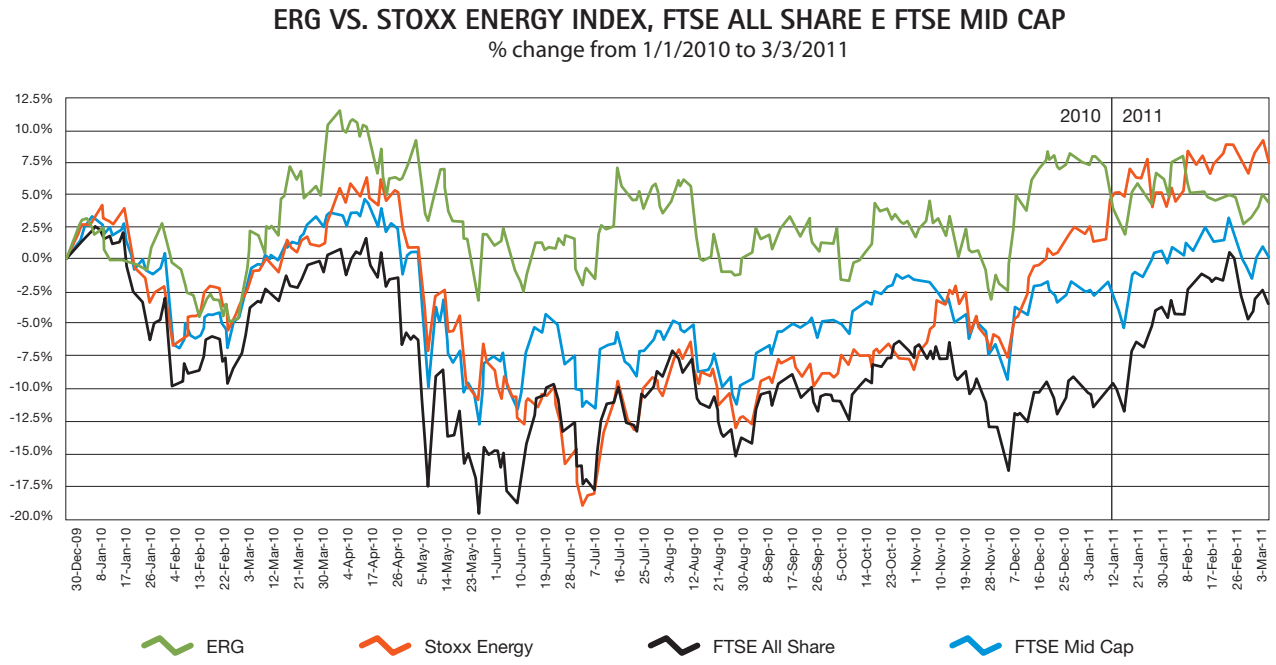
Market capitalisation on 31 December 2010 was approximately EUR 1,571 million (EUR 1,455 million at the end of 2009).

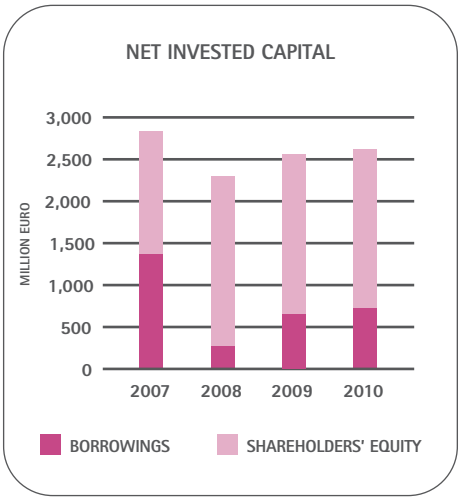
On 2 March 2011 the closing price of ERG's shares (Blue Chips) was EUR 10.12, 3.2% lower than at the end of 2010, as compared with a 6.1% rise in the European sector index (Stoxx Energy Index) and a 9.2% rise in the FTSE All Share index.

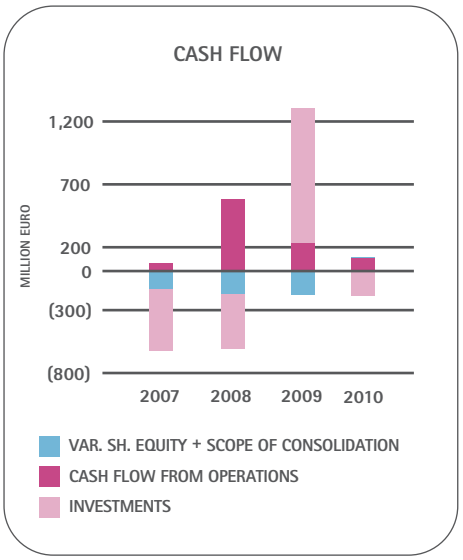
SHARE PRICE	EUR
REFERENCE PRICE AS OF 03/02/11	10.12
HIGHEST PRICE (02/01/11) (1)	10.74
LOWEST PRICE (01/10/11) (1)	9.77
AVERAGE PRICE	10.15

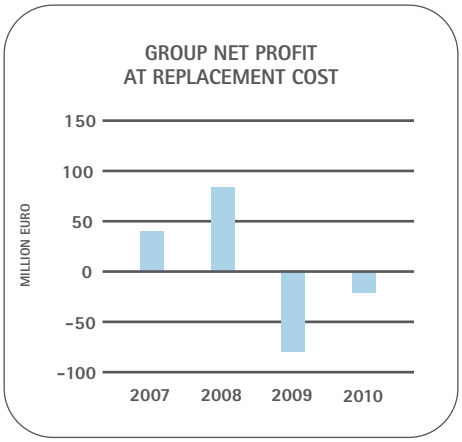
(1) lowest and highest trading prices recorded during the day, hence not matching the official and reference price on the same date

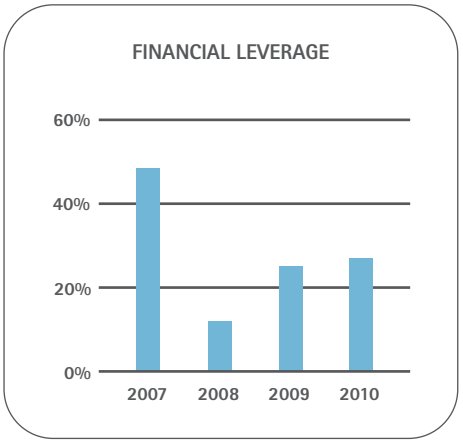
ERG'S SHARE PRICE PERFORMANCE COMPARED TO LEADING INDICES (NORMALISED)











PERFORMANCE HIGHLIGHTS

(EUR MILLION)		YEAR 2010	YEAR 2009
MAIN INCOME STATEMENT DATA			
TOTAL REVENUES[1]		7,899	6,237
EBITDA		238	229
EBITDA AT REPLACEMENT COST [2]		**213**	**22**
EBITDA AT ADJUSTED REPLACEMENT COST [3]		**305**	**92**
EBIT AT REPLACEMENT COST [2]		**59**	**(115)**
EBIT AT ADJUSTED REPLACEMENT COST [3]		**86**	**(92)**
NET INCOME		43	45
OF WHICH GROUP NET INCOME		*10*	*7*
GROUP NET PROFIT AT ADJUSTED REPLACEMENT COST [4]		**(20)**	**(80)**
MAIN FINANCIAL DATA			
NET INVESTED CAPITAL		**2,614**	**2,591**
SHAREHOLDERS' EQUITY		1,891	1,929
TOTAL NET FINANCIAL INDEBTEDNESS		723	662
OF WHICH NON RECOURSE PROJECT FINANCING [5]		*793*	*324*
FINANCIAL LEVERAGE		28%	26%
TOTAL ADJUSTED NET FINANCIAL INDEBTEDNESS [6]		1,082	586
OPERATING DATA			
CAPITAL EXPENDITURES [7]	EUR MILLION	**201**	**347**
EMPLOYEES AT THE PERIOD END	UNITS	714	1,579
REFINERY PROCESSING [8]	THOUSANDS OF TONNES	**8,934**	**8,977**
REFINERY PROCESSING [8]	THOUSANDS OF BARRELS/DAY	194	180
ELECTRIC POWER GENERATION	MILLIONS OF KWH	**6.688**	**3,009**
TOTAL SALES OF ELECTRIC POWER	MILLIONS OF KWH	7,502	4.459
EXPORTS OF PETROLEUM PRODUCTS [8]	THOUSANDS OF TONNES	**4,179**	**3,907**
ITALIAN RETAIL SALES[8]	THOUSANDS OF TONNES	1,592	2,000
RAW MATERIAL AND PRODUCT INVENTORIES	THOUSANDS OF TONNES	623	904

		FOURTH QUARTER 2010
TOTALERG100% OPERATING DATA		
ITALIAN RETAIL SALES	THOUSANDS OF TONNES	840
ITALIAN RETAIL MARKET SHARE [9]	GASOLINE + DIESEL	**12.0%**
AVERAGE QUANTITY SUPPLIED	MC/PV AT PERIOD END	3,322

		YEAR 2010	YEAR 2009
MARKET INDICATORS			
BRENT DATED	USD/BARREL	79.50	61.68
EUR/USD RATE	EUR/USD	1,326	1,395
EMC REFINING MARGIN	USD/BARREL	0.33	0.63
REFERENCE PRICE OF ELECTRICITY [10]	EUR/MWH	64.12	63.72

For the definition and reconciliation of results to adjusted replacement cost, please refer to the section "Alternative Performance Indicators"
(1) net of excise taxes
(2) not including inventory gains (losses) and non recurring items
(3) they also include the contribution of ISAB S.r.l. (joint venture with LUKOIL) results, for the portion attributable to ERG (51%)
(4) does not include inventory gains (losses), non-recurring items and related applicable theoretical taxes. Values also match adjusted values
(5) including cash and cash equivalents
(6) it also includes the contribution of ISAB S.r.l. (joint venture with LUKOIL) and TotalErg (joint venture with Total) results, for the portion attributable to ERG (51%)
(7) in tangible and intangible fixed assets
(8) they include the operating data of the integrated Downstream segment for the first nine months of 2010
(9) estimated data
(10) Single National Price

PERFORMANCE HIGHLIGHTS BY SEGMENT

(EUR MILLION)	YEAR 2010	YEAR 2009
REVENUES FROM ORDINARY OPERATIONS		
REFINING & MARKETING	9,175	6,475
POWER & GAS	1,384	998
RENEWABLE ENERGY SOURCES	73	50
CORPORATE	16	23
INTRA-SEGMENT REVENUES	(1,712)	(1,435)
TOTAL ADJUSTED REVENUES [1]	**8,935**	**6,111**
EBITDA		
REFINING & MARKETING	46	45
POWER & GAS	254	55
RENEWABLE ENERGY SOURCES	39	23
CORPORATE	(33)	(32)
EBITDA AT ADJUSTED REPLACEMENT COST [2]	**305**	**92**
ISAB S.R.L. 51% CONTRIBUTION AT ADJUSTED REPLACEMENT COST	*(80)*	*(69)*
TOTALERG 51% CONTRIBUTION AT REPLACEMENT COST	*(13)*	*–*
EBITDA AT REPLACEMENT COST [2]	**213**	**22**
INVENTORY GAINS (LOSSES)	62	86
NON CHARACTERISTIC ITEMS	(38)	121
EBITDA	**238**	**229**
AMORTISATION, DEPRECIATION AND WRITE-DOWNS		
REFINING & MARKETING	(107)	(98)
POWER & GAS	(75)	(54)
RENEWABLE ENERGY SOURCES	(33)	(27)
CORPORATE	(4)	(4)
AMORTISATION AND DEPRECIATION AT ADJUSTED REPLACEMENT COST [2]	**(220)**	**(183)**
ISAB S.R.L. 51% CONTRIBUTION AT ADJUSTED REPLACEMENT COST	*52*	*46*
TOTALERG 51% CONTRIBUTION AT REPLACEMENT COST	*14*	*–*
AMORTISATION AND DEPRECIATION AT REPLACEMENT COST [2]	**(154)**	**(137)**
EBIT		
REFINING & MARKETING	(61)	(53)
POWER & GAS	179	1
RENEWABLE ENERGY SOURCES	5	(4)
CORPORATE	(37)	(36)
EBIT AT ADJUSTED REPLACEMENT COST [2]	**86**	**(92)**
ISAB S.R.L. 51% CONTRIBUTION AT ADJUSTED REPLACEMENT COST	*(28)*	*(23)*
TOTALERG 51% CONTRIBUTION AT REPLACEMENT COST	*1*	*–*
EBIT AT REPLACEMENT COST [2]	**59**	**(115)**
CAPITAL EXPENDITURES ON TANGIBLE AND INTANGIBLE FIXED ASSETS		
REFINING & MARKETING	100	116
POWER & GAS	77	200
RENEWABLE ENERGY SOURCES	89	89
CORPORATE	4	2
TOTAL ADJUSTED CAPITAL EXPENDITURES [3]	**270**	**407**
ISAB S.R.L. CAPITAL EXPENDITURES (51%)	*(49)*	*(60)*
TOTALERG CAPITAL EXPENDITURES (51%)	*(21)*	*–*
TOTAL CAPITAL EXPENDITURES	**201**	**347**

For the definition and reconciliation of results to adjusted replacement cost, please refer to the section "Alternative Performance Indicators".

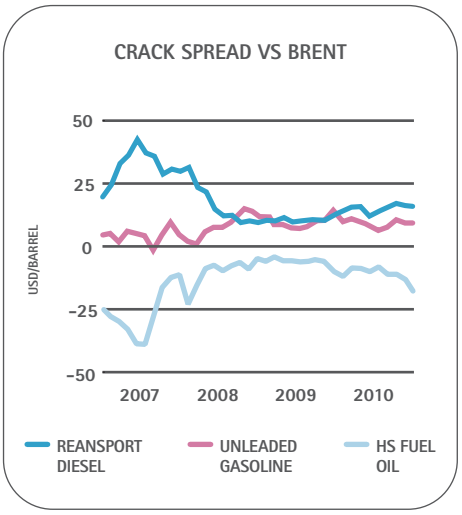
(1) adjusted revenues take into account 51% of revenues generated by the ISAB S.r.l. and TotalErg S.p.A. joint ventures
(2) replacement cost results do not include inventory gains (losses) and non recurring items. Adjusted values also include the contribution, attributable to ERG (51%), of the results of ISAB S.r.l. and TotalErg S.p.A.
(3) they take into account 51% of the capital expenditures effected by ISAB S.r.l. and TotalErg S.p.A.

SALES

PETROLEUM PRODUCTS

Total sales of the Refining & Marketing division amounted to 10.5 million tonnes, of which 60% were on the domestic market, i.e. 5.7% of national consumption (6.3% in 2009) and the remaining 40% was abroad.

The breakdown of the volumes of ERG petroleum product sales by distribution channel is shown in the following table. The data contained in the table include the contribution of the Integrated Downstream sales only for the first nine months and the contribution of the sales of Downstream in Sicily and of Coastal Refining for the entire year.



(THOUSAND OF TONNES)	YEAR 2010	YEAR 2009
REFINING AND LOGISTICS		
EXPORTS VIA SHIP	4,101	3,641
DELIVERIES TO THE DOMESTIC MARKET	3,584	3,417
TOTAL REFINING AND LOGISTICS	**7,685**	**7,058**
MARKETING		
DOMESTIC RETAIL MARKET	1,592	2,000
DOMESTIC WHOLESALE MARKET	1,175	1,640
WHOLESALE EXPORT	78	140
ABROAD	–	126
TOTAL MARKETING	**2,844**	**3,906**
TOTAL PETROLEUM PRODUCTS	**10,529**	**10,964**

TOTALERG SALES

(THOUSAND OF TONNES)	4TH QUARTER 2010
REFINING AND LOGISTICS	
EXPORTS VIA SHIP	259
DELIVERIES TO THE DOMESTIC MARKET	904
TOTAL REFINING AND LOGISTICS	**1,163**
MARKETING	
DOMESTIC RETAIL MARKET	840
DOMESTIC WHOLESALE MARKET	740
WHOLESALE EXPORT	14
TOTAL	**1,594**
TOTAL PETROLEUM PRODUCTS	**2,757**

POWER GENERATION

The following table illustrates ERG Group's electricity sales:

(GWH)	YEAR 2010	YEAR 2009
POWER GENERATION		
ISAB ENERGY S.R.L.	3,331	2,002
ERG POWER & GAS S.P.A.	3,718	2,135
ERG RENEW S.P.A.	453	322
TOTAL	**7,502**	**4,459**

Steam sales to industrial plants at the Priolo/Melilli site totalled 2,270 thousand tonnes (2,157 thousand in 2009), of which 1,516 thousand tonnes to ISAB S.r.l.

In 2010, within the gas marketing activity, ERG sold EUR 406 million Sm^3 (standard cubic meters) of gas (420 in 2009), of which 274 million to ISAB S.r.l. (269 in 2009).

COMMENTS ON THE YEAR'S PERFORMANCE

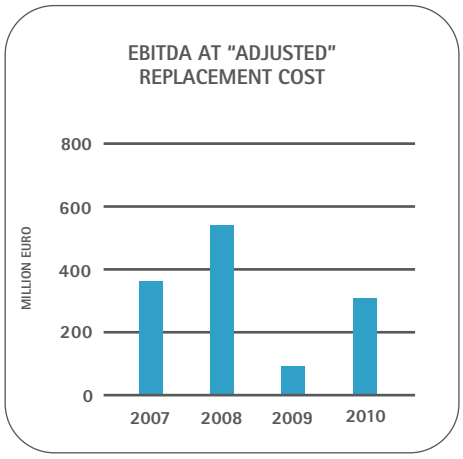
In 2010, **total revenues** were EUR 7,899 million, increased relative to 2009 mainly as a result of the higher sales prices and of the planned maintenance shutdown of the ISAB refinery in the first half of 2009.
The **EBITDA at adjusted replacement cost** (1) came in at EUR 305 million, compared with EUR 92 million in 2009. The increase is a result of the following factors:

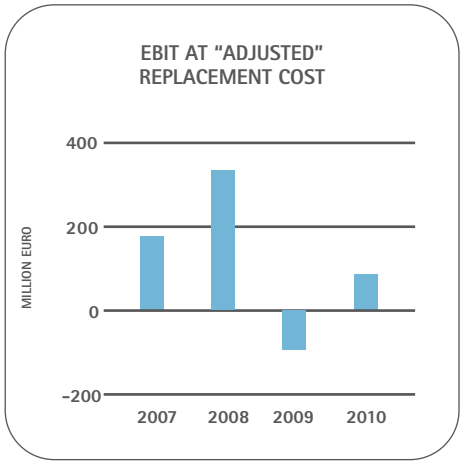
- REFINING & MARKETING: EBITDA of EUR 46 million (EUR 45 million in 2009) still penalised by an unfavourable scenario in the Refining segment, offset by a greater contribution from Marketing;

- POWER & GAS: EBITDA of EUR 254 million, greatly increased with respect to the EUR 55 million of 2009, mainly thanks to the generation of energy by the new ERG Power plants, supported by a favourable trend in energy prices in Sicily and to the return to operations of Train 1 of the ISAB Energy plant;

- RENEWABLE ENERGY SOURCES: the EBITDA is EUR 39 million (EUR 23 million in 2009), higher than in 2009 mainly thanks to the greater generation of energy during the period and the consolidation, starting on 23 July, of the company ERG Eolica Adriatica S.r.l., partly offset by provisions for risks and charges, and, to a lesser extent, by greater limitations on injections into the domestic network.

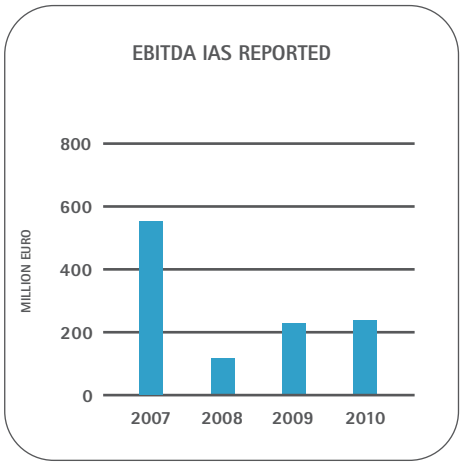
EBIT at adjusted replacement cost[1] was EUR 86 million (EUR -92 million in 2009) after amortisation, depreciation and write-downs amounting to EUR 220 million (EUR 183 million in 2009).
Group EBIT at replacement cost is negative by EUR 20 million, better than the negative result of EUR 80 million of 2009.
Group EBIT was EUR 10 million (EUR +7 million in the third quarter 2009) and it was affected by inventory gains, net of the related tax effects, for EUR +53 million (EUR +64 million in 2009) after amortisation, depreciation and write-downs amounting to EUR 191 million (EUR 161 million in 2009).
In 2010, **adjusted Group capital expenditures** totalled EUR 270 million (EUR 407 million in 2009), of which 37% in Refining & Marketing (28%), 28% in Power & Gas (49%) and 33% in the Renewable Energy Sources segment (22%).

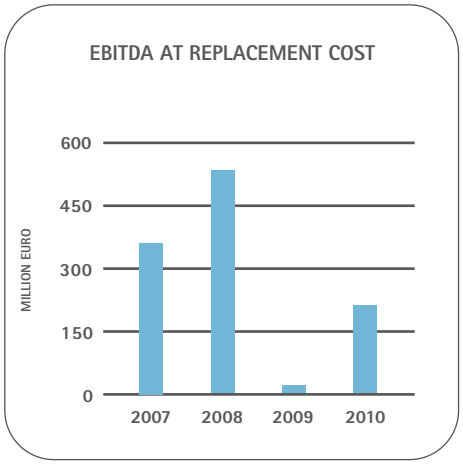




1 For the definition and reconciliation of results to adjusted replacement cost, please refer to the section "Alternative Performance Indicators"."

Net financial indebtedness was EUR 723 million, an increase of EUR 61 million increase compared with the 31 December 2009 figure.
The higher indebtedness relative to 31 December 2009 is mainly due to the acquisition of ERG Eolica Adriatica S.r.l. (EUR 280 million), to the capital expenditures made, partly offset by the cash flow of the year and by the changes in working capital as a result of greater volumes, in particular in the Thermoelectric and Renewable Sources segments. Additionally, of note is the decreased indebtedness linked to the effects of the TotalErg joint venture which caused the deconsolidation of the indebtedness of ERG Petroli S.p.A. and of its subsidiaries and the collection of the equalisation payment of EUR 101 million.
Adjusted net financial indebtedness, which includes the portion attributable to ERG (51%) of the positive net financial position of the ISAB S.r.l. and TotalErg joint ventures, was EUR 1,082 million (EUR 586 million as at 31 December 2009).
The higher indebtedness relative to 31 December 2009 is due to the acquisition of ERG Eolica Adriatica S.r.l. (EUR 280 million), to the capital expenditures made and to the dividends distributed, partly offset by the cash flow of the year and by the changes in working capital as a result of greater volumes.





SIGNIFICANT EVENTS DURING THE YEAR

REFINING & MARKETING

On **27 January 2010** ERG and TOTAL signed an agreement to create a joint venture operating in Italy in the refining and marketing segment. The shareholder agreement calls for shared Governance and the operating autonomy of the joint venture. The shares of ERG and TOTAL in the new companies were respectively set to 51% and 49%.
The joint venture, resulting from the merger of ERG Petroli and TOTAL Italia, is named TotalErg and it operates under the dual brand ERG and TOTAL. By becoming one of the foremost operators in Italy in the distribution of petroleum products, with a Retail market share of about 12%, TotalErg aims to optimise the management of its production plants in this segment, according to medium and long term trends in the refining market, and its top priority is to attain excellent results in the operations, environment and safety fields. The joint venture also aims to manage the various logistic infrastructures contributed by the shareholders. TOTAL's aviation marketing and AS 24 card and ERG's refining and marketing businesses in Sicily were not transferred to the joint venture.

On **1 February 2010**, as part of the joint venture with TOTAL, ERG S.p.A. set up the company ERG Oil Sicilia S.r.l. which received, effective 1 April 2010, following the partial demerger of ERG Petroli S.p.A., the business unit consisting of the assets and business activities in Sicily, including 309 service stations in the region.

On **21 May 2010** the European Commission expressed its favourable opinion, from the Antitrust viewpoint, on the TotalErg joint venture.

1 October 2010 was the effective date of the merger by incorporation of Total Italia S.p.A. into ERG Petroli S.p.A. which took on the name of TotalErg S.p.A.
On the same date, TotalErg S.p.A. and a pool of six primary Italian and international banks signed a committed credit line for a total of EUR 900 million, in addition to EUR 60 million overdraft, with a maturity of twelve months, in order to make the company financially autonomous immediately. The loan is not secured by collateral or shareholder support and its purpose is the repayment of all existing lines and the coverage of the financial requirements of the first year of operations.

On **12 October 2010** Polimeri Europa S.p.A. served notice to ERG S.p.A. of a lawsuit before the Court of Milan, with the first hearing set to May 2011, claiming damages allegedly caused by the 30 April 2006 fire in the Priolo Refinery. The Company will formulate the most appropriate objections and, if warranted, it will make use of its insurance coverage.

POWER & GAS

On **31 March 2010** the second of the two trains comprising the repowering of the North Plants of ERG Power S.r.l., which had been in service since the initial months of 2010, definitively passed all operating trials contemplated by the Project Financing conditions. Consequently, the entire plant started commercial operations starting on 1 April (Commercial Operation Date).

On **12 April 2010** the deciding Services Committee, chaired by the Sicily Region, upon acknowledging that all opinions given by the competent Administrations are positive, declared to be in favour of the project for the construction of the regasification terminal of Ionio Gas S.r.l., providing some prescriptions that mainly pertain to safety and environmental protection aspects.

On **26 April 2010** a pool of primary Italian and international banks lent EUR 330 million to ERG Power S.r.l. following the fulfilment of all conditions precedent prescribed by the Project Financing agreement executed in December 2009. The amount of the loan, whose amortisation plan will end in 2021, is to be used to finance the new cogenerating electric power plant CCGT, which started full commercial operation on 1 April 2010.

On **27 May 2010** after successfully completing all operating trials, production train 1 of ISAB Energy, damaged by the accident of 13 October 2008, definitively resumed commercial operations, earlier than scheduled. Therefore, the entire electric power plant resumed operations at 100% of production capacity, with a total power of 528 MW.

On **6 July 2010**, the membrane plant for the production of hydrogen associated to the gasification section of the ISAB Energy plant completed the test cycles prescribed by current regulations and it started commercial service.

RENEWABLE ENERGY SOURCES

On **2 March 2010** the Board of Directors of ERG Renew S.p.A. approved the 2010-2013 Business Plan, which calls for investments totalling EUR 254 million and an installed power of 429 MW by the end of 2013.

On **22 June 2010** ERG Renew reached an agreement with IVPC S.a.s. for the acquisition of the entire share in the company IVPC Power 5 S.r.l., owner of 2 wind farms, one in Molise (40 MW) in commercial operation since 2010 and one in Puglia (61.8 MW) which started commercial operation in June 2010, for a total installed capacity of 102 MW.

On **30 June 2010** ERG Renew signed the agreement with a primary industry operator for the sale of the shares held in the company Ecopower S.r.l. and I.S.E.A. S.r.l. related to the Mini-hydro segment.

On **12 July 2010** it was disclosed that ERG Renew and LUKOIL had signed a Memorandum of Understanding with the purpose of sharing the basic prerequisites and conditions for a collaboration in the market of renewable energy sources, in particular in the wind segment. The two companies will mainly be active in the search for business opportunities in East European Countries and in Russia.

On **23 July 2010** ERG Renew increased its share from 12.4% to 24.7% in the Dyepower Consortium, set up to carry out research and development work in the so-called organic photovoltaic segment.

On **23 July 2010** ERG Renew, through its sub-holding ERG Eolica Italia S.r.l. closed the acquisition of 100% of the share capital of IVPC Power 5 S.r.l. The Shareholders' Meeting of IVPC Power 5, held at the same time as the closing, resolved to change the name of the company to ERG Eolica Adriatica S.r.l. and to move the registered office to Genoa. The value of the acquisition, in terms of asset value (excluding the net working capital) is EUR 224 million, i.e. about EUR 2.2 million per MW, of which about EUR 175 million funded by non-recourse Project Fnancing, already extant and disbursed by a group of primary Italian and international banks. As a result of this acquisition, ERG Renew increased its installed power by 102 MW, from 208 MW to 310 MW, of which 246 MW in Italy.

On **30 July 2010** ERG Renew, as a result of the agreement of 30 June for the sale of the shares held in the companies Ecopower S.r.l. and I.S.E.A. S.r.l. producers of hydroelectric energy, closed the sale of the share in I.S.E.A. S.r.l. The sale of the share held in the company Ecopower S.r.l. had already been completed on 30 June.

CORPORATE

On **28 January 2010** the ERG Group announced that in 2010 it would change its organisational structure as a result of the incorporation of the joint venture with TOTAL in Integrated Downstream and of the joint venture with LUKOIL in Coastal Refining (which took place in 2008), and in view of the finalisation of the strategic investments of ERG Power and ISAB Energy. The chain of control is reduced, through the merger of the two sub-holdings ERG Raffinerie Mediterranee S.p.A. and ERG Power & Gas S.p.A. into ERG S.p.A., effective on 1 January 2010 for accounting purposes. ERG S.p.A. is then organised in two Divisions: Refining & Marketing for the Oil segment and Power & Gas for electrical power generation and marketing and gas trading, with the General Corporate Office. ERG Renew will retain its position as a subsidiary company operating in the renewable energies segment. The new organisation is aimed at optimising decision-making processes and improving management efficiency, providing the Group with a new organisation that is consistent with its asset portfolio and capable of exploiting the opportunities that will be presented by the expected global economic recovery.

On **1 July 2010**, the merger of the companies ERG Raffinerie Mediterranee S.p.A. and ERG Power & Gas S.p.A. into ERG S.p.A. took effect.

On **11 November 2010** the Board of Directors of ERG S.p.A. approved, adopting it, a specific internal procedure, effective from 1 January 2011, aimed at assuring the transparency and the substantial as well as procedural correctness of the transactions with related parties completed by the Company either directly or through its subsidiaries.

On **14 December 2010** the Board of Directors of ERG S.p.A. made the decision to promote a voluntary public offering involving all common stock of ERG Renew S.p.A. not in its possession, at the price of EUR 0.97 per share. The goal of the Offering is the delisting of the stock, to enable the ERG Group to benefit from a more adequate financial, organisational and managerial flexibility, useful to carry out its strategic plan and more rapidly to reach its current investment and market positioning targets through internal and external growth, possibly also by means of acquisitions.

CORPORATE AFFAIRS

On **2 March 2010** Raffaele Tognacca resigned as Chairman and Director of ERG Renew; the Board of Directors appointed Mr. Pietro Muti to replace the resigning Director and appointed Mr. Pietro Giordano as Chairman of the Board of Directors.

On **13 April 2010** the Shareholders' Meeting of ERG Renew S.p.A. upon approval of the Financial Statements as at 31 December 2009 confirmed the appointment of Mr. Pietro Giordano as Chairman of the Board of Directors and of Mr. Pietro Muti as Director. The Board of Directors, which met at the end of the Shareholders' Meeting, appointed Mr. Vittorio Garrone as Executive Director in charge of overseeing the functioning of the Internal Control System.

On **15 April 2010** the Shareholders' Meeting of ERG S.p.A. upon approval of the Financial Statements as at 31 December 2009 appointed the new Board of Statutory Auditors until the approval of the financial statements as at 31 December 2012 and it confirmed the appointment of the Corporate General Manager, Mr. Luca Bettonte, who had already been appointed by the Board of Directors on 15 December 2009.

On **28 June 2010** the Shareholders' Meeting of ERG Petroli S.p.A. and the subsequent Board of Directors, in view of the upcoming start of the TotalErg joint venture from 1 October onwards, appointed Mr. Pier Francesco Pinelli as Chairman and Mr. Claudio Spinaci as Managing Director.

On **1 October 2010** the Shareholders' Meeting of TotalErg, following the resignation of all members of the Board of Directors, appointed a new Board of Directors in line with the new shareholding structure. The Board of Directors met at the end of the Shareholders' meeting and appointed Mr. Pier Francesco Pinelli as Chairman and Mr. Claudio Spinaci as Managing Director.

REGULATORY FRAMEWORK

The most important events that took place in the energy industry in 2010 were:

- **Clean ups - Programme Agreement for the Priolo Site**
  In 2010 the Italian Ministry of the Environment and Attorney General's Office continued to work out details for the settlement procedures and costs that the parties concerned may agree to on a voluntary basis in relation to the Programme Agreement for clean-ups at the Priolo site. The agreement, which was signed by the institutions in November 2008 and recorded by the Italian "Corte dei Conti" in April 2009, concerns the clean-up and environmental restoration of the Priolo site.
  The ERG Group companies present at the site (and the other operators affected) are monitoring the development of activities by the Ministry in relation to the requirements, conditions and operating procedures applied in the Programme Agreement.
  The ISAB S.r.l. joint venture, owner of refining plants situated in Priolo, is assessing whether to adhere to said Programme Agreement, stipulating a settlement agreement and at the same time submitting a specific plan to render safe and clean up the areas of the Refinery and, for this purpose, it recently sent a non-binding expression of interest to the Ministry of the Environment.
  In this perspective, in 2010 work continued on the preparation of the aforesaid plan, which ISAB would intend to submit to the Ministry of the Environment, in case of actual participation in the Programme Agreement.
  In connection with the above, ERG on the basis of the 2008 ISAB joint venture agreements pertaining to environmental expenses, deeming it likely that a settlement agreement would be signed, recorded in these Financial Statements provisions for environmental expenses amounting to EUR 25 million, corresponding to its own share of currently estimated expenses.

- **Internal user networks**
  On 24 November 2009, with Resolution **ARG/elt 175/09** the Energy Authority started a procedure aimed at identifying owners of internal user networks (so-called RIU) per Article 33 of Law 99 of 23 July 2009 (so-called Development Law). Final customers connected to said networks are not subject to additional charges (so-called system charges) that are instead incurred by customers connected to internal networks not classified as RIU.
  On 30 April, the Authority published its **Resolution ARG/elt 52/10 "Identification of internal user Network in accordance with Article 33 of Law 99 of 23 July 2009"**; subsequently, on 10 May, it published its **Resolution ARG/elt 66/10 "Amendments to the Resolution of the Authority for Electrical Energy and Gas ARG/elt 52/10 of 12 April 2010"**; this resolution finally included the ERG internal network among the list of Internal User Networks in accordance with the Development Law.

- **Resolution AEEG ARG/elt 5/10 on the conditions for the dispatching of electrical energy generated by non programmable renewable sources**
  Resolution ARG/elt 5/10 regulates:
  - the revision of the method for calculating missed wind energy generation as a result of dispatching orders imparted by Terna since 1 January 2010;
  - the definition of the network services to which wind generation units are subject;
  - the criteria for selecting the wind generation units to be made compliant with Annex A17 and to remote detachment devices;
  - the programming and forecasting of non programmable units.

  In Resolution ARG/elt 5/10, the AEEG confirms its intention to maintain the guidelines and operating proposals expressed in 2009.

- **Law Decree 72 of 20 May 2010, "Urgent Measures for the extension of environmental and road transportation terms and for the allocation of CO_2 emission quotas" (converted with Law 111/2010, published in the Italian Official Gazette no. 167 of 20 July 2010)**

  The Law Decree, converted into Law without substantial changes, in its Article 2 provides urgent measures on CO_2 emissions and, in particular, on the coverage of the CO_2 quotas for newly commissioned plants; it tasks the AEEG to recognise the credits due with reference to prices of quotas on European markets (by 31 March of each year in relation to the quotas for the previous calendar year); credits will derive from the proceeds of the auctions of carbon dioxide (CO_2) quotas post-2013, as provided by Directive 2003/87/CE amended by Directive 2009/29/CE. In this regard, an additional decree is expected from the Minister of the Economy and Finance, with the concurrence of the Ministers for Economic Development and the Environment and the safeguard of Land and Sea, which will set the procedures for the payment of said proceeds into the State treasury and their subsequent reallocation to the applicable expenditure items, and one or more decrees are also expected from the Minister of the Economy and Finance, with the concurrence of the Ministers for economic development and the environment and the safeguard of land and sea, to establish the procedures for reimbursing the credits, also in relation to actual revenues.
  Lastly, the law, *inter alia*, repeals the measures per Paragraphs 18 and 19 of Article 27 of the Development Law, pertaining to the transfer of the obligation to purchase Green Certificates (CV) from conventional energy producers and importers to the holders of a dispatching contract for off-take with Terna (sellers).

- **Law Decree 78 of 31 May 2010, "Urgent Measures for financial stabilisation and economic competitiveness" converted with Law 122 of 30 July 2010**

  The law contains, among others, a provision for the return to the obligation for the GSE to repurchase unsold Green Certificates starting from the 2011 accrual year, within the ordinary three-year expiration of the certificates (2014) at the average price recorded the year prior to expiration (2013). All this is subject to the GSE's commitment to reduce the total economic burden deriving from the withdrawal of the Green Certificates by 30% relative to the expense incurred in 2010, starting from 2011, expecting that at least 80% of the reduction will derive from containment of excess Green Certificates. By decree of the Ministry of Economic Development, in concurrence with the Ministry of Finance and taking into consideration the input of the AEEG, by 31 December the procedures for attaining said goals should have been defined.

- **AEEG Resolution ARG/elt 35/10 "Calculations concerning the admissibility, pursuant to Title II, 7-bis of CIP Resolution 6/92, of charges resulting from Article 11 of Legislative Decree No. 79/99 for 2008"**

  On the issue of the reimbursements of Green Certificates pertaining to the 2007 production (2008 obligation) for CIP 6 that do not meet cogeneration ability parameters, this provision, in line with the consultation document that preceded it, sets the value (Vm) of the Green Certificate to be reimbursed at 60.10 EUR/MWh.
  With reference to the aforesaid resolution, the Group recorded higher proceeds by about EUR 4 million than were ascertained in previous years.

- **AEEG Resolutions PAS 8/2010 and 9/2010 and Decree of 12 July 2010, published on 23 July on the Ministry's website.**

  With the aforesaid decree, the Ministry of Economic Development set the equalisation payment, for 2009, of the avoided fuel cost (CEC) for CIP 6 plants on the basis of the proposals contained in Authority Resolution PAS 8/2010 (dated 23 April but published subsequently to the MSE Ministerial Decree). Resolution PAS 9/10 (also dated 23 April) instead

contains the Authority's proposals on the definition of the procedures for updating the CEC advance payment and equalisation payment values starting from 2010. Among them is a differentiation in the values of specific consumption depending on the two-year period of commissioning of the plants (values previously defined by AEEG Resolution 81/99), unless any waivers are recognised.
The overall impact for the Group was not significant.

- **Council of State Decision 9569/2010 filed on 29 December 2010**
  Whereby, *inter alia*, the Council of State confirms the previous decision by the Regional Administrative Court of Lombardia on the recognition of the expenses linked to the purchase of green certificates in accordance with the provisions of AEEG Resolution 113/06.

- **Resolution ARG/Elt 125/10: Amendments to the Consolidated Connections Regulations (TICA)**
  With this resolution, the Authority for Electrical Energy and Gas introduced some changes in terms of technical and economic conditions for connection to networks with third party connection obligations for production plants.
  However, some provisions in the regulations made the connection procedure more burdensome, with particular reference to the guarantees to be paid for the Network capacity reservation service.
  In particular, certain associations and several operators impugned the set of provisions that impose the issue of a new guarantee every year, the enforcement of the surety in all cases in which, even without the operator's misconduct, the authorisation procedure ends negatively and, lastly, the indiscriminate enforcement of 70% of all sureties provided whenever the applicant withdraws.

- **Guidelines for the authorisation process for plants powered by renewable energy sources in accordance with Article 12 of Legislative Decree 387/2003**
  With the Decree of 10 September 2010, the Guidelines per Article 12 of Legislative Decree 387/2003 for the authorisation of plants powered by renewable energy sources were published in Italian Official Gazette no. 219 of 18 September 2010.
  The Guidelines took effect after fifteen days from their publication in the Official Gazette, whilst Regions will have to amend accordingly their respective regulations no later than ninety days from that date. If they do not, the national Guidelines will have effect for ongoing procedures, with the exception of complete connection solution projects, for which the prescribed environmental opinions have been rendered.

- **Community Law 2009**
  On 12 May 2010, the Senate gave its final approval, at its fourth reading, to the Community Law 2009 which sets out the principles and direction criteria the Government will have to apply to implement Directive 2009/28/CE, on the promotion of the use of energy from renewable sources. In accordance with Article 17, letter d), in view of simplifying authorisations, plants for the generation of electrical energy from renewable sources with generation capacity not exceeding 1 MW (electrical) shall be subject to the obligation to report the start of activities. It is stressed that the rule, in itself, is not immediately applicable but it does represent one of the principles for the implementation of the aforesaid directive 2009/28/CE, which will be incorporated in Italian laws with an appropriate legislative decree that should have been adopted by 5 December 2010. In this regard, we point out that on 30 November 2010 the Council of Ministers approved the draft legislative decree for the implementation of Directive 2009/28/CE. The Draft received the conditional

favourable opinion of the Joint Conference on 25 January 2011, of the Productive Activities and Environment Committees of the Chamber of Deputies on 9 February 2011 and of the Industry Committee of the Senate on 16 February 2011. The Draft will have to be revised, also according to the aforesaid consultative opinions of the Committees, and again presented in the Council of Ministers for final approval.

IMPACTS ON THE GROUP

With reference to the above, no further impacts on the 2010 results of the Group were noted beyond those detailed in the comments on individual events.

BUSINESS SEGMENTS

REFINING & MARKETING

As a result of the Group's new organization, the results of the Coastal Refining and Integrated Downstream segments are included in the Refining & Marketing segment.
The breakdown of EBITDA at adjusted replacement cost and of the capital expenditures between the various activities of the Refining & Marketing business was as follows:

(EUR MILLION)	YEAR 2010	YEAR 2009
EBITDA AT ADJUSTED REPLACEMENT COST		
COASTAL REFINING	(31)	(43)
INTEGRATED DOWNSTREAM	77	88
TOTAL	**46**	**45**
ADJUSTED CAPITAL EXPENDITURES ON TANGIBLE AND INTANGIBLE FIXED ASSETS		
COASTAL REFINING	50	62
INTEGRATED DOWNSTREAM	51	54
TOTAL	**100**	**116**

COASTAL REFINING

REFERENCE MARKET (1)

	YEAR 2010	YEAR 2009
CRUDE OILS (USD/BARREL)		
BRENT CRUDE PRICE (2)	79.50	61.68
BRENT/URAL DIFFERENTIAL (3)	1.36	0.73
BRENT/AZERI LIGHT DIFFERENTIAL	(1.72)	(1.31)
PRODUCTS (USD/TONNE)		
TRANSPORT DIESEL PRICE	683	533
UNLEADED GASOLINE PRICE	729	583
FUEL OIL PRICE	437	346
CRACK SPREAD (USD/BARREL)		
TRANSPORT DIESEL - BRENT	12.01	9.82
GASOLINE - BRENT	7.85	8.18
ATZ FUEL OIL - BRENT	(10.71)	(7.26)
MARGIN INDICATORS		
EMC (USD/BARREL) (4)	0.33	0.63
EMC (EUR/BARREL) (4)	0.25	0.45
EUR/USD EXCHANGE RATE	1.326	1.395

Source Platt's
(1) average values in period
(2) Brent Dated: reference light crude, on mean FOB basis
(3) Ural: reference heavy crude, on mean CIF basis
(4) value of the "notional" EMC contribution margins with FOB returns obtained with a 50% mix of the Ural and Azeri Light crudes. The EMC notional margins refers to a complex refinery characterised by catalytic conversions oriented to gasoline production (Fluid Catalytic Cracking plant)

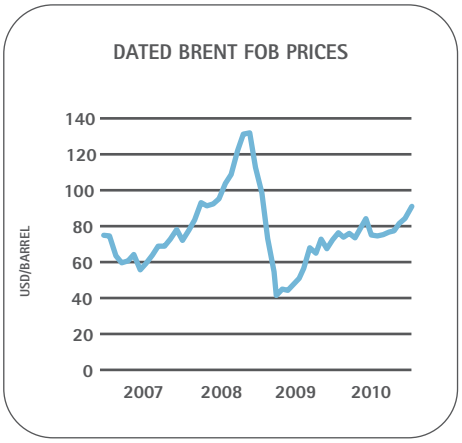
Crude price

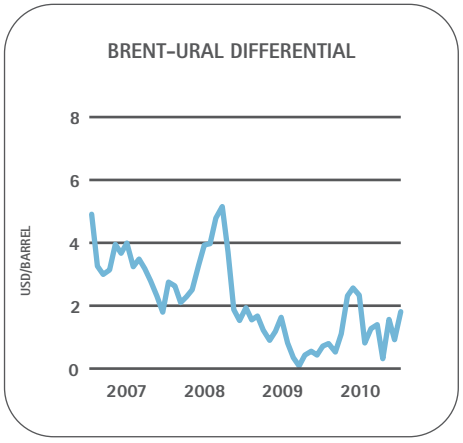
In 2010, the mean price of oil (Brent) was USD 79.5/barrel. The rise in the price of crude oil by nearly USD 18/barrel, recorded in 2010 relative to 2009, in spite of the increased production both in OPEC and non-OPEC countries, reflects the significant increase in oil demand, i.e. +2.7 million barrels/day relative to 2009, which brought back oil consumption above the 2008 values (87.4 million barrels/day versus 86.1 in 2008).

The increase in demand was so sizable that the production increase was also accompanied by a reduction in inventories, both on the ground and en route.

The differential of the Ural crude relative to Brent widened by 0.64 USD/barrel, but is offset only a part of its lesser value due to the drop in the crack spread of fuel oil, in which this crude is rich. This was a result of the severe contraction in availability recorded in the Mediterranean, about 870 thousand barrels/day, i.e. about 240 thousand barrels/day less than in 2009; the contraction is mostly due to the severe reduction in loadings from the Ukrainian harbour of Yuzhnj. More in general, however, the entire area of Ural loadings in the Black Sea suffered in favour of the opening of the new export route to the Far East (+300 thousand barrels/day in 2010), with a substantial stability in Northern Europe loadings.

The differential of the Azeri Light crude rose by 0.40 USD/barrel, reflecting the rise in the price of diesel, in which this crude is rich, and more in general the context of greater stress on crude within the Mediterranean area (reduced availability of Ural and Iranian crude) with substantially stable availability in the Mediterranean.





Products

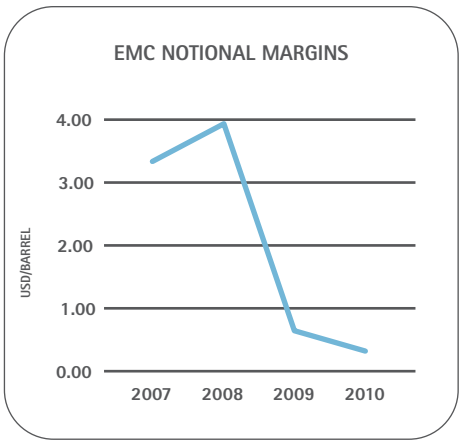
Transport diesel crack-spread is marginally higher than 12 Dollars, over two Dollars per barrel better than the 2009 average and remaining stably above these values between August and year end, with peaks above 14 USD/barrel, fully reflecting the demand recovery that took place in 2010. This rise was partly offset by product inventories, both on land and en route, that reached the highest levels in recent years and that were progressively reduced.

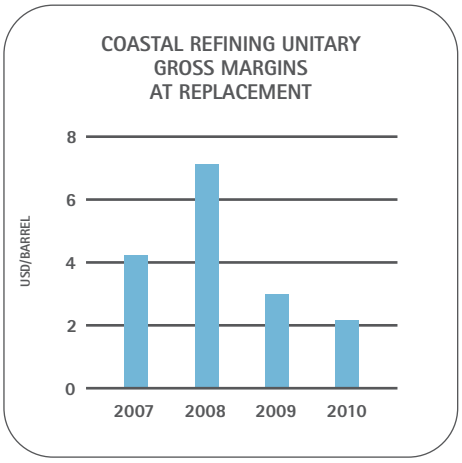
During the year, the average crack-spread of gasoline was lower than in 2009, in spite of a highly volatile performance with peak values between 11 and 12 USD/barrel, reached both in March and in October.

With regard to ATZ fuel oil, there was a strong decrease (the crack-spread dropped by more than USD 3/barrel) as a result of the growing replacement with gas and in general with other non-oil energy sources within the sector of electrical energy generation and for industrial purposes.

Moreover, in the European area, the greater availability of the product, deriving from the increased processing levels in the second part of the year, also had its impact.

In the Mediterranean, the product found its final balance thanks to a constant and regular outflow from the Far East, the main market for the sale of this product.





Industry refining margins (EMC)

In 2010, the contribution margin in the Mediterranean (notional EMC reference margin) was practically halved, from 0.63 to 0.33 USD/barrel. The steep rise in the price of crude was not satisfactorily offset by the rise in product crack spreads.

Moreover, the margin calculated according to the EMC method reflected, in this case negatively, the main peculiarities on which it is based:

– the prices of the reference crudes, Azeri and Ural, as mentioned above, underwent in the first case a significant rise, in the second case a highly marginal decrease relative to the decrease in the value of ATZ fuel oil;
– the maximum production yields of gasolines, in a year when this product was, on average, even weaker than in 2009.

HIGHLIGHTS OF ADJUSTED COASTAL REFINING PERFORMANCE (1)

To enhance the understandability of Coastal Refining performance, the results of this business for FY 2010 and FY 2009 are shown at their adjusted replacement cost, which reflects, for the 51% equity interest held by ERG, the results of ISAB S.r.l., whose contribution to income at non-adjusted replacement cost values is represented in the measurement of the investment under the equity method of accounting.

(EUR MILLION)	YEAR 2010	YEAR 2009
REVENUES FROM THIRD PARTIES	3,790	2.557
INTRA-SEGMENT REVENUES	1,256	968
ADJUSTED REVENUES FROM ORDINARY OPERATIONS	**5,047**	**3,525**
EBITDA AT ADJUSTED REPLACEMENT COST	**(31)**	**(43)**
ADJUSTED AMORTISATION, DEPRECIATION AND WRITE-DOWNS	(53)	(46)
EBIT AT ADJUSTED REPLACEMENT COST	**(84)**	**(90)**
ADJUSTED CAPITAL EXPENDITURES ON TANGIBLE AND INTANGIBLE FIXED ASSETS	50	62

(1) the illustrated figures do not include:
- gains (losses) on inventory equal to +18 in 2010 and +32 in 2009
- the non-recurring items indicated in the section "Alternative Performance Indicators", to which reference should be made for further details

Revenues in 2010 were higher than in 2009 as a result of the significant rise in the prices of the products and, to a lesser extent, for the smaller volumes due also to the planned maintenance shutdown made in 2009.

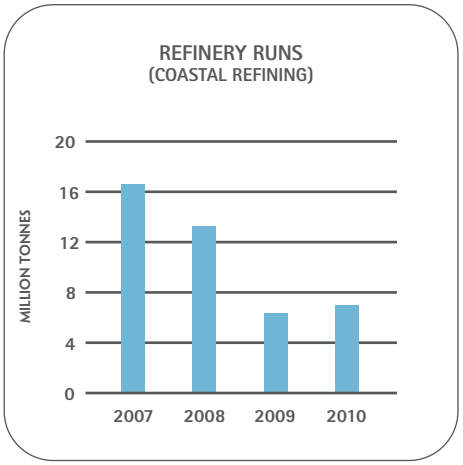
EBITDA at adjusted replacement cost in 2010 was higher than in 2009 thanks to the better performance of the plants following the shutdown of 2009 and to the lower fixed prices, which more than offset the negative effects of an unfavourable scenario on margins.

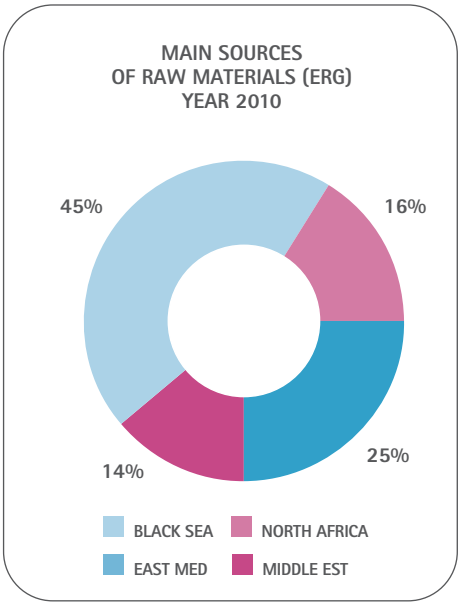
MARGINS AND PROCESSING

	YEAR 2010	YEAR 2009
UNIT CONTRIBUTION MARGINS AT ADJUSTED REPLACEMENT COST [1] OF ERG COASTAL REFINING		
USD/BARREL	2.12	2.88
EUR/BARREL	1.60	2.07
EUR/TONNE [2]	11.7	15.1
PROCESSED VOLUMES (KTONS)	**7,043**	**6,277**

(1) expressed net of variable production costs (principally costs for utilities), they do not include inventory gains (losses) and non-recurring items, and they include ERG's contribution of ISAB S.r.l. (51%)
(2) barrel/tonne conversion factor was equal to 7.336 in 2010 and 7.301 in 2009

The unitary contribution margins in EUR/barrel of 2010 are lower than those of 2009 by effect of the negative scenario, especially in the third quarter, only partly offset by better plant yields.
The increased processing work is mainly a consequence of the planned maintenance shutdown of the first quarter 2009.
The API degree of 2010 (33.2) is higher than in 2009 (32.6) mainly as a result of the increased processing work, by economic choice, on crude oil and of the reduced processing work on residue.





HIGHLIGHTS OF PERFORMANCE OF ISAB S.R.L.

The following data refer to 100% of the company.

(EUR MILLION)	YEAR 2010	YEAR 2009
EBITDA AT REPLACEMENT COST (1)	**156**	**136**
AMORTISATION, DEPRECIATION AND WRITE-DOWNS	(101)	(90)
EBIT AT REPLACEMENT COST (1)	**55**	**46**
CAPITAL EXPENDITURES ON TANGIBLE AND INTANGIBLE FIXED ASSETS	96	117

(1) the data reported do not include gains (losses) on inventories of +36 in 2010 and +34 in 2009

Note that as at 31 December 2010, ISAB S.r.l. reported a positive net financial position of around EUR 75 million, versus EUR 119 million as at 31 December 2009.

PROCUREMENT AND PROCESSING YIELDS

In 2010, the areas of origin of the raw materials were: Black Sea 45% (47% in 2009), East Med 25% (32%), North Africa 16% (21%) and Middle East 14% (0%). In particular, it should be noted that the increase in quantities from the Black Sea, which took place the past two years, is specifically linked to the increased profitability of light crudes.

(THOUSANDS OF TONNES)	YEAR 2010		YEAR 2009	
CONSUMPTION				
CRUDE OIL (1)	6,025	*85.5%*	5,192	*82.7%*
RESIDUES AND SEMI-FINISHED PRODUCTS	1,019	*14.5%*	1,085	*17.3%*
TOTAL PROCESSING (1)	**7,045**	***100.0%***	**6,277**	***100.0%***
PRODUCTS FOR MIXING	173		110	
TOTAL CONSUMPTION (1)	**7,217**		**6,387**	
PRODUCTION				
FUEL GAS	35	*0.5%*	33	*0.5%*
LAP	131	*1.9%*	123	*2.0%*
NAPHTHA	335	*4.9%*	140	*2.3%*
GASOLINES	1,408	*20.6%*	1,312	*21.8%*
JET FUEL	45	*0.7%*	32	*0.5%*
DIESELS	3,515	*51.5%*	3,235	*53.7%*
VACUUM DIESEL	363	*5.3%*	117	*1.9%*
FUEL OIL	415	*6.1%*	688	*11.4%*
IGCC PLANT CHARGE	461	*6.8%*	249	*4.1%*
SULPHUR	50	*0.7%*	43	*0.7%*
OTHER PETROCHEMICAL PRODUCTS	67	*1.0%*	55	*0.9%*
TOTAL PRODUCTION	**6,826**	***100.0%***	**6,027**	***100.0%***
SELF CONSUMPTION AND LOSSES	**392**		**360**	

(1) raw materials and topping fed semi-finished products

The increased processing work of 2009 is mainly a consequence of the planned maintenance shutdown of the first quarter 2010.
The higher yield in vacuum diesel is linked to the profitability of the sale of this product in 2010. Differences on the returns of the other distilled products (mainly naphtha and diesels) are mainly due to the quality of the processed crudes relative to 2009. The higher sales of charge to the IGCC plant (with consequent lower yield of fuel oil) is linked to the return to operations of gasification Train 1 that took place in June 2010.
The incidence of consumption and losses (5.7%) on the processed volumes was slightly lower than the values of 2009 (6.0%) thanks to the better performance of the plants that already benefit from ongoing energy conservation actions.

INTEGRATED DOWNSTREAM

REFERENCE MARKET

	YEAR 2010	YEAR 2009
ITALIAN RETAIL MARKET (CONSUMPTION TREND) (1)	**-1.6%**	**-1.0%**
GASOLINE	-6.0%	-3.8%
DIESEL	1.0%	0.9%
ITALIAN WHOLESALE MARKET (CONSUMPTION TREND) (1)	**-7.2%**	**-6.4%**
GASOLINE	11.8%	5.4%
DIESEL	-2.6%	-5.1%
HEATING OIL	-4.8%	-2.5%

(1) estimated figures for the changes from the same period of the previous year

Italian Retail Market: in 2010, the Retail market recorded a 1.6% decrease in consumption relative to 2009; specifically, there was a decrease in the demand for gasoline (-6.0%), a slight increase in diesel (+1.0%), and a strong increase in LPG consumption, i.e. 11.3%.

Italian Wholesale Market: in 2010, Wholesale demand for diesel (automotive, marine and agricultural) was lower than in 2009 (-2.6%); this change is due to the contraction in demand for agricultural diesel (-4.9%) and transport diesel (-2.0%).
With regard to heating oil, too, the market exhibited a continuous contraction (-4.8% from the previous year).

Refining: with regard to the reference market, please see the indications provided for coastal Refining. However, the characteristics of Inland Refineries as compared with Coastal Refining can produce different results in individual periods due to market changes.

SUMMARY OF THE MAIN ADJUSTED INTEGRATED DOWNSTREAM PERFORMANCE ITEMS

To make it easier to comprehend the operating performance of the Integrated Downstream segment, the 2010 results of this business are shown at adjusted replacement cost, which reflects, for ERG's shareholding (51%), the consolidated fourth quarter results of the TotalErg joint venture.

The details of the 2010 performance are as follows:

- performance of the first nine months of the Integrated Downstream, as previously reported and discussed in the interim Report as at 30 September 2010 (including the contribution of the Downstream activities in Sicily);
- TotalErg performance of the fourth quarter 2010 for the ERG share (51%);
- fourth quarter performance of the Downstream activities in Sicily.

(EUR MILLION)	YEAR 2010	YEAR 2009
REVENUES FROM THIRD PARTIES	3,901	2,801
INTRA-SEGMENT REVENUES	226	149
REVENUES FROM ORDINARY OPERATIONS	**4,128**	**2,950**
EBITDA AT REPLACEMENT COST (1) (2)	**77**	**88**
AMORTISATION, DEPRECIATION AND WRITE-DOWNS (2)	(54)	(52)
EBIT AT REPLACEMENT COST (1) (2)	**23**	**36**
CAPITAL EXPENDITURES ON TANGIBLE AND INTANGIBLE FIXED ASSETS	51	54

(1) not including gains (losses) on inventory of +45 in 2010 and +53 in 2009
(2) not including non-recurring items indicated in the section "Alternative Performance Indicators" to which reference should be made for further details

In 2010, the EBITDA of about EUR 77 million was down with respect to 2009 (EUR 88 million), mainly due to the negative result of Refining which more than offset the positive contribution of Restiani (EUR 4 million) and the positive result of Marketing, also as a result of the lower costs associated with the launch of ERG *Mobile* in the first half of 2009.

The breakdown of EBITDA at adjusted replacement cost is as follows:

	YEAR 2010
EBITDA AT ADJUSTED REPLACEMENT COST	
INTEGRATED DOWNSTREAM IN ITALY (FIRST NINE MONTHS)	62
DOWNSTREAM IN SICILY (FOURTH QUARTER)	3
TOTALERG (51%) IN THE FOURTH QUARTER	13
TOTAL	**77**

INTEGRATED DOWNSTREAM PERFORMANCE OF THE FIRST NINE MONTHS

In the **first nine months** of 2010, the EBITDA of about EUR 62 million was down with respect to 2009, mainly due to the negative result of Refining which more than offset the positive contribution of Restiani and the positive result of Marketing, also as a result of the lower costs, by EUR 7 million, associated with the launch of ERG *Mobile* in the first half of 2009.

For more details, please refer to the comments in the interim Report on operations as at 30 September 2010.

DOWNSTREAM IN SICILY

Downstream activities in Sicily are carried out through ERG Oil Sicilia (EOA), a company that became operational on 1 April 2010 within the performance of the agreements for the incorporation of TotalErg, and into which flowed all the assets of ERG Petroli present in the Region. ERG Oil Sicilia operates both in the Retail and in the Wholesale market. As at 31 December 2010, the ERG Oil Sicilia network comprised 309 service stations, with fourth quarter sales of 75.1 thousand tonnes for Retail, and 84.5 thousand tonnes for Wholesale.

HIGHLIGHTS OF THE PERFORMANCE OF TOTALERG IN THE FOURTH QUARTER 2010

The following data refer to 100% of the company.

(EUR MILLION)	4TH QUARTER 2010
EBITDA AT REPLACEMENT COST (1) (2)	**25**
AMORTISATION, DEPRECIATION AND WRITE-DOWNS (2)	(27)
EBIT AT REPLACEMENT COST (1) (2)	**(2)**
CAPITAL EXPENDITURES ON TANGIBLE AND INTANGIBLE FIXED ASSETS	40

(1) not including gains (losses) on inventory of EUR +10 million in 2010
(2) not including non recurring items amounting to EUR 37 million, mainly related to costs linked to the integration of ERG and Total activities

Performance for the quarter was affected by the extraordinary shutdown of the Sarpom Refinery and by product provisioning problems on the Rome Refinery, caused by the adverse weather conditions that characterised the period, hampering the regular supply of products in the area.

Retail network

The Network, resulting from the joint venture between Total and ERG, is the third operator in the Italian market. In the **fourth quarter**, the fuel sales of the TotalErg network amounted to about 816 thousand tonnes, with 12% market share in Italy.
As at 31 December 2010, the TotalErg Network in Italy comprises 3,322 sites.
In the fourth quarter, joint marketing activities were started, such as the convergence of the two customer loyalty programs "ERG Più" and "Total per voi" (Total for you) as well as exhibiting the new TotalErg brand at service stations.

Wholesale network

TotalErg operates on the Wholesale market by selling petroleum products mainly to companies that in turn resell them to end users on their own local markets and directly to consumers through the Restiani and Eridis subsidiaries.
In the **fourth quarter**, TotalErg diesel sales, including heating oil, amounted to about 448 thousand tonnes with 12.1% market share. During the quarter, sales were affected by the extraordinary shutdown of the Sarpom refinery and by product availability problems on the Rome Refinery, caused by the adverse weather conditions that hampered the regular supply of products in the area. The segment benefited from the performance of Restiani S.p.A., a company that operates in the marketing of petroleum products and heat management services for private users in the Northwest area. This company, with respect to the same period of the previous year, achieved a lower result in the petroleum product marketing business, whilst with regard to Energy services linked to Heat Management, the results are improving thanks to the contribution of the new customers acquired in the 2009 – 2010 season.
The TotalErg Wholesale scope of consolidation includes the company Eridis S.r.l. a wholly-owned subsidiary. This company operates in the marketing of petroleum products and heat management services for private users in the Northwest area and, since 1 January 2010, it has been active in the marketing of consumer petroleum products in Central-Southern Italy.

Abroad

Switzerland

As at 31 December 2010 TotalErg was present in Switzerland in the Retail market with 18 service stations, and in the Wholesale market through the sale of gasoline and diesels to resellers.
In the **fourth quarter**, Retail sales amounted to about 3.7 thousand tonnes while Wholesale sales amounted to about 13.7 thousand tonnes.

Specialties

TotalErg operates in the Specialties segment through the sale of lubricants (of which it purchases the bases, which it then mixes with additives in its own plant in Savona and in third party plants), of bitumen, both normal and modified (produced by its own Refineries), and of LPG, which it sells both directly and through the company TotalGaz, a wholly owned subsidiary.

In the **fourth quarter**, lubricant sales amounted to 11.8 thousand tonnes, with a total market share of 10.9% comprising several sale channels, including automotive manufacturers, retail, industrial, resellers and road transportation companies.

With regard to bitumen and LPG, the volumes sold were respectively 48.8 and 29.0 thousand tonnes, both affected by the shutdown of the Sarpom refinery and by the reduced work on the Rome Refinery due to provisioning constraints caused by inclement weather and, for bitumen alone, by a market contraction, particularly in the Rome area.

INLAND REFINERIES

The Inland Refineries, located in two of the areas featuring the greatest intensity of consumption in Italy, have a total annual balanced distillation capacity, as far as TotalErg's share is concerned, of 6.0 million tonnes (approximately 120 thousand barrels/day) and differ according to the type of conversion. The Rome Refinery is equipped with thermal conversion, whereas the Sarpom Refinery is equipped with catalytic conversion, capable of producing greater quantities of light distillates. Both refineries mainly process low sulphur content oil from the Mediterranean basin and West Africa; high sulphur content oil is also processed at both refineries to produce bitumen.

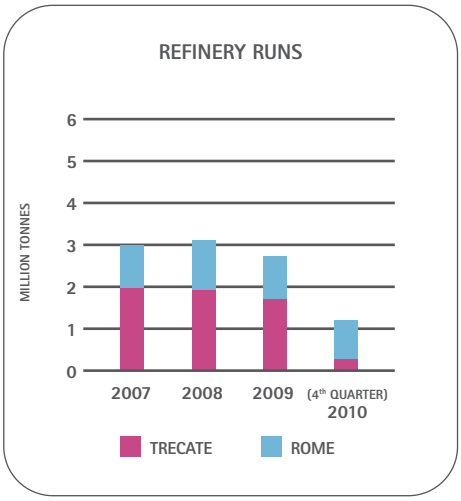
MARGINS AND PROCESSING

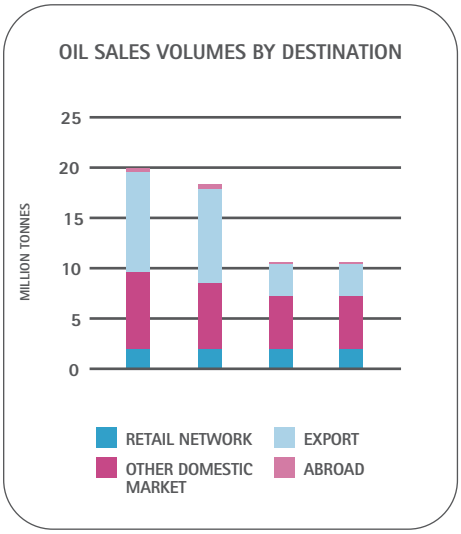
	4TH QUARTER 2010
UNIT CONTRIBUTION MARGINS AT REPLACEMENT COST (1) TOTALERG INLAND REFINERIES	
USD/BARREL	1.48
EUR/BARREL	1.09
EUR/TONNE (2)	8,0
PROCESSED VOLUMES (KTONS)	**1.255**
OF WHICH	
SARPOM (TRECATE)	328
ROME	927

(1) the unitary contribution margins at replacement cost, net of variable production costs (mainly utility costs) do not include gains (losses) on inventory
(2) barrel/ton conversion factor equal to 7.303 in 2010 and 7.379 in 2009

The processing of TotalErg refineries in the **fourth quarter** amount to 1,255 thousand tonnes and they were affected by the unplanned shutdown of the main primary distillation plant of the Sarpom refinery from 1 September to 17 November, as well as by the production slowdown of the Rome Refinery due to crude provisioning problems because of the inclement sea and weather conditions from mid-November to mid-December.

Unitary contribution margins were also affected by the shutdown of the Sarpom refinery, but they benefited from a good performance of the Rome Refinery plants, recorded following the planned shutdown in May.





REFERENCE MARKET

	YEAR 2010	YEAR 2009
ITALIAN ELECTRICITY MARKET (GWH) (1)		
DEMAND	326,165	320,268
IMPORT	43,944	44,959
INTERNAL GENERATION (2)	286,531	281,107
OF WHICH		
THERMOELECTRIC	222,157	216,087
CIP 6	36,939	44,011
SALE PRICES (EUR/MWH)		
PUN (3)	64.12	63.72

(1) Terna estimates
(2) output net of consumption for auxiliary services
(3) Single National Price

The domestic demand for electrical power[1] of the electrical system in 2010 amounted to 326,165 GWh. This figure is 1.8% higher than in 2009 and marks a moderate recovery in electric power consumption, partially offsetting the drop recorded in 2009.
During 2010, 66.8% of demand coverage was provided by thermoelectric generation, 15.1% by hydroelectric generation, 4.6% by geothermal, wind and photovoltaic generation and for the remaining 13.5% by the net balance of exchanges with foreign countries.
Net internal electric power generation, amounting to 286,531 GWh, grew by 2.8% over 2009 (281,107 GWh), while the net balance of exchanges with foreign countries provided imports for 43,944 GWh, down 2.3% from 2009. Generation from CIP 6 plants in 2010, estimated at 36,939 GWh, was down 16.1% from 2009.
In 2010, electric power demand concentrated more in the North of the Country (149.4 TWh, i.e. 45.8% of the entire domestic demand), whilst in Sicily, the reference market area for the ERG Group, electric power consumption in 2010 was 21.7 TWh, up 1% from 2009 (21.5 TWh).

1 Including network losses and net of the electric power used for pumping

SUMMARY OF THE MAIN PERFORMANCE ITEMS

(EUR MILLION)	YEAR 2010	YEAR 2009
REVENUES FROM THIRD PARTIES	1,171	700
INTRA-SEGMENT REVENUES	214	297
REVENUES FROM ORDINARY OPERATIONS	**1,384**	**998**
EBITDA AT REPLACEMENT COST (1)	**254**	**55**
AMORTISATION, DEPRECIATION AND WRITE-DOWNS (1)	(75)	(54)
EBIT AT REPLACEMENT COST (1)	**179**	**1**
CAPITAL EXPENDITURES ON TANGIBLE AND INTANGIBLE FIXED ASSETS	77	200

(1) the data shown do not include non-recurring items indicated in the section "Alternative Performance Indicators" to which reference should be made for further details

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

	YEAR 2010	YEAR 2009
EBITDA AT REPLACEMENT COST		
ISAB ENERGY / ISAB ENERGY SERVICES	167	66
ERG POWER & GAS DIVISION/ERG POWER PLANTS	87	(11)
TOTAL	**254**	**55**

SALES OF ELECTRIC POWER

	YEAR 2010	YEAR 2009
SALES (GWH)		
TOTAL SALES	**7,049**	**4,137**
ISAB ENERGY S.R.L.	3,331	2,002
ERG POWER & GAS DIVISION	3,718	2,135
OF WHICH TO ISAB S.R.L.	*218*	*179*
GENERATION (GWH)		
TOTAL GENERATION	**6,234**	**2,687**
OF WHICH ISAB ENERGY S.R.L.	*3,331*	*2,002*
OF WHICH ERG POWER S.R.L.	*2,903*	*685*
SALE PRICES (EUR/MWH)		
CIP 6	95.4	90.9

ISAB ENERGY

The results of ISAB Energy are partly subject to changes in market conditions, due to the index linking of prices contained in electric power sale and raw material purchase contracts. The selling prices of electric power generated by ISAB Energy are regulated by Interministerial Price Committee Order no. 6 dated 29 April 1992 (CIP 6/92).
ISAB Energy has been party to a twenty-year agreement with the GSE (national grid operator) since 2000. Pursuant to this agreement, the price is partly tied to the avoided cost component of fuel that reflects the changes in natural gas prices. Feedstock, main charge used for the generation of electric power, is purchased from ISAB S.r.l. with a multi-year "take or pay" agreement, and it is also linked to trends in natural gas prices.

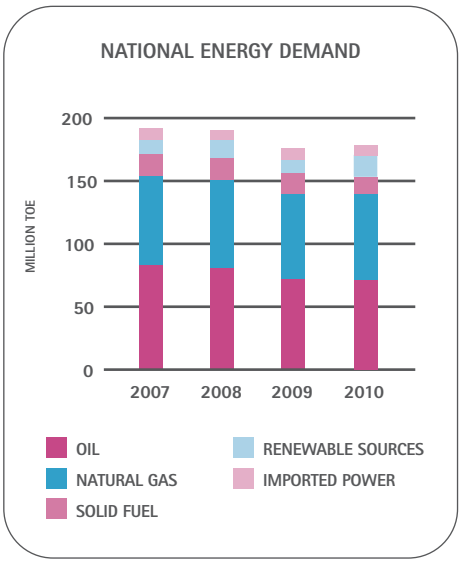
In 2010, electric power generation was 3,331 GWh (2,002 GWh in 2009), with 72% utilisation factor (43% in 2009). The marked improvement in the utilisation factor is due to the full recovery, which occurred progressively during the first half of 2010, of the plant's generation capacity, which had been reduced to half the installed capacity throughout 2009 as a result of an accident occurred on 13 October 2008.
EBITDA at replacement cost for 2010, which was EUR 167 million (EUR 66 million in 2009) includes accrued insurance indemnification, collected in 2009, to cover indirect damages incurred for EUR 45 million (EUR 78 million in 2009) resulting from the aforementioned accident.

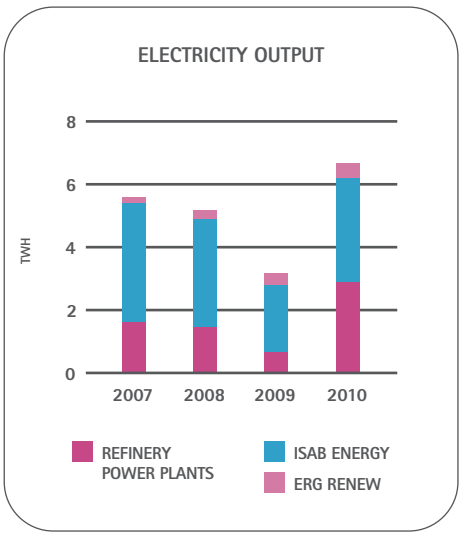
For the purposes of the present Annex, the calculation criteria and the general methodology prescribed by AEEG resolution 249/06 in compliance with the provisions of resolution AEEG PAS 9/10 were applied, awaiting resolution of the complex dispute pertaining to resolutions 154/08 and 50/09, currently pending before the Council of State.

Lastly, net financial indebtedness as at 31 December 2010 of the company ISAB Energy, consolidated on a line-by-line basis, was about EUR 86 million.

ERG POWER & GAS DIVISION AND ERG POWER

In 2010, ERG Power's total electric power generation was 2,903 GWh, whilst the 2009 generation by ERG Nuove Centrali S.p.A. (owner of the assets transferred to ERG Power S.r.l. on 1 January 2010) was 685 GWh. The increased generation is essentially due to the progressive start of operations (between the ending months of 2009 and the initial months of 2010) of the new combined cycle cogeneration plant in the North plant, whose net generation was 2,683 GWh in 2010 (243 GWh in 2009).





About 7% of total generation was utilised to cover the consumption of the ISAB S.r.l. North Refinery. Net steam supply by ERG Power plants to the Priolo industrial site was about 2,270 thousand tonnes, whereof about two thirds were for the North Plants of the ISAB Refinery.

Financial Year 2010 saw a sharp improvement in the economic results relative to 2009 as a consequence of the increased generation of power intended for the market by the new, high efficiency cogeneration plant, in a scenario where prices were still favourable in the Sicily electric area and where new, long-term agreements were implemented for the supply of utilities to the customers of the Priolo multi-company site.
Also confirmed in 2010 is the consolidation of marketing activities in the free market of electric energy aimed at forming a stable portfolio of end customers to consolidate generation margins.
The replacement cost results of the period are also affected by provisions for about EUR 12 million, referred in particular to an overdue receivable linked to the start-up phases of the electric energy and gas trading activities in an unfavourable economic and financial environment. In this regard, the Group is undertaking every possible recovery initiative, also of a legal nature.

RENEWABLE ENERGY SOURCES

The ERG Group operates in the renewable energy source segment through ERG Renew, a company listed on the Milan Stock Exchange, of which the Group has owned 94.6% since 18 February 2011 following the Public Offering on the entire share capital of ERG Renew.
The performance of ERG Renew is based mainly on the wind power generation business. Wind farms consist of wind-power generators that can transform the kinetic energy of wind into mechanical energy, which is used in turn to generate electricity. Aside from the availability of the plants, the performance expected from each wind farm is obviously influenced by the wind speed profile of the site on which the wind farm is located.
The economic performance is also influenced by electricity selling prices and by the price of green certificates.

REFERENCE MARKET [1]

	YEAR 2010	YEAR 2009
ITALIAN RENEWABLE ENERGIES MARKET [2] (GWH)		
GENERATION FROM RENEWABLE SOURCES [3]	64,374	65,020
OF WHICH WIND POWER	*8,374*	*6,484*
FRENCH RENEWABLE ENERGIES MARKET [2] (GWH)		
GENERATION FROM RENEWABLE SOURCES [4]	75,404	67,660
OF WHICH WIND POWER	*9,534*	*6,653*
SALE PRICES (EUR/MWH)		
PUN (ITALY) [5]	64.12	63.72
FEED IN TARIFF (FRANCE) [6]	85.09	85.68

(1) estimated output for December
(2) output net of consumption for auxiliary services
(3) sources considered: hydroelectric, geothermal, wind power, and photovoltaic energy
(4) sources considered: hydroelectric and wind power
(5) Single National Price
(6) 2006 base rate of 82 EUR/MWh pursuant to the 10 July 2006 decree of the French Ministry of Economic Affairs, Finance and Industry. The rate is adjusted annually for inflation

In December 2008, the implementing decree of the 2008 Finance Law on incentive schemes for renewable energy sources with the goal of contributing to stabilise the market of green certificates. The Decree prescribes, for green certificates related to production from 2006 to 2010, the right, at the producer's request, of withdrawal the following year by the GSE at a price equal to the weighted average of the prices accrued on the market managed by the GME (Electric Energy Market Manager) in the three years prior to the year of repurchase.

SUMMARY OF THE MAIN PERFORMANCE ITEMS

		YEAR 2010	YEAR 2009
OPERATING RESULTS			
REVENUES FROM THIRD PARTIES		72	50
INTRA-SEGMENT REVENUES		–	–
REVENUES FROM ORDINARY OPERATIONS		**73**	**50**
EBITDA AT REPLACEMENT COST (1)		**39**	**23**
AMORTISATION, DEPRECIATION AND WRITE-DOWNS (1)		(33)	(27)
EBIT AT REPLACEMENT COST (1)		**(5)**	**(4)**
CAPITAL EXPENDITURES ON TANGIBLE AND INTANGIBLE FIXED ASSETS		89	89
OPERATING DATA			
GENERATION (THOUSANDS OF MWH)		453	322
OF WHICH			
ITALY		*336*	*215*
FRANCE	*117*	*108*	
VALUATION OF GREEN CERTIFICATES (EUR/MWH)			
2010 GREEN CERTIFICATES		87.25	–
2009 GREEN CERTIFICATES		–	88.37

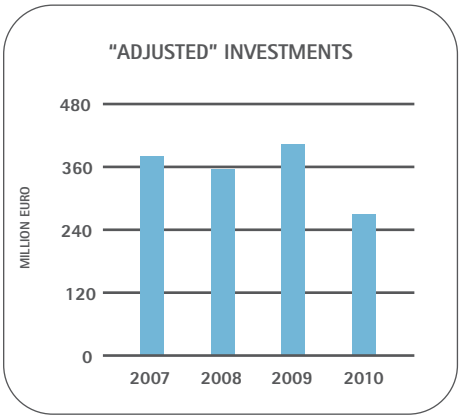
(1) not including non-recurring items indicated in the section "Alternative Performance Indicators" to which reference should be made for further details

2010 consolidated revenues were higher than in 2009.
ERG Renew electric energy prices in Italy were lower (-1.5%), green certificate prices were slightly lower (-1.2%), and electric energy output was higher, thanks both to the consolidation of the wind farms of ERG Eolica Adriatica (92 thousand MWh in 2010), starting from 23 July 2010, and to windier weather conditions in spite of greater limitations in the other farms.
Wind farm production in France was 116.8 GWh, 8.5% higher than in the same period of 2009 thanks to the commissioning of the Plogastel farm in 2010.
The consolidated EBITDA in 2010 amounted to about EUR 39 million, higher than in 2009 due to the greater production of the period and to the consolidation of ERG Eolica Adriatica from July 2010 onwards, in spite of risk provisions for EUR 3.9 million due mainly to extraordinary maintenance work in the Vicari farm and to credit write-offs in the wind power segment.

CAPITAL EXPENDITURES

The adjusted 2010 figure for capital expenditures by the ERG Group in 2010 was EUR 270.4 million (EUR 406.8 million in 2009), including EUR 16.7 million for intangible fixed assets (EUR 23.1 million in 2009) and EUR 253.6 million for tangible fixed assets (EUR 391.3 million in 2009).

The breakdown of capital expenditures by business segment is shown in the following table:



(EUR MILLION)	YEAR 2010	YEAR 2009
REFINING & MARKETING (1)	100	116
POWER & GAS	77	200
RENEWABLE ENERGY SOURCES	89	89
CORPORATE	4	2
TOTAL	**270**	**407**

(1) the capital expenditures in Refining & Marketing include 51% of the capital expenditures effected by ISAB S.r.l. and, starting from 1 October 2010, 51% of the capital expenditures effected by TotalErg S.p.A.

REFINING & MARKETING

- With regard to **Coastal Refining**, in 2010 modifications took effect that were linked to the improvement of the flexibility of the refinery, both in operational terms, with particular reference to hydrogen procurement, and in commercial terms.
  The interventions for the enhancement of the production of transport diesel were also completed according to schedule, while the planned further interventions for the additional extension of the working life of the equipment continued with particular reference to the North Plants site, and the planned further interventions for Health, Safety and Environment and for the improvement of the efficiency of the equipment continued as well.
- With regard, instead, to **Integrated Downstream**:
  - in the first nine months capital expenditures for about EUR 30 million were made, most of which (about EUR 22 million) involved the Retail Network. In particular, in the Network, EUR 13 million were used for development activities (new sales outlets, reconstructions, new dealerships, sales outlets enhancement, etc.) and about EUR 8 million were destined to Health, Safety and Environment maintenance and improvement investments. Lastly, as at 30 September 2010 the ERG Network in Italy comprised 2,017 stations (1,950 as at 31 December 2009); the change included 79 new facilities and 12 no longer active ones. The increase by 67 new service stations is made up by the entry into the Network of 8 company service stations (4 on motorways and 1 hypermarket) and 59 leased stations;
  - in the last quarter of 2010, capital expenditures for about EUR 21 million were made, of which EUR 20.6 pertained to the 51% of TotalErg, most of which (about EUR 11 million) involved the Retail Network. In particular, in the Network, EUR 9 million were used for development activities (new service stations, reconstructions, new dealerships, sales outlets enhancement, etc.) and about EUR 8 million were destined to Health, Safety and Environment maintenance and improvement investments. Lastly, as at 31 December 2010 the TotalErg Network as a whole comprised 3,322 service stations (of which 1,282 are leased).

POWER & GAS

In 2010 ISAB Energy completed the reconstruction of the production train damaged in the accident of 13 October 2008, which returned to commercial service in late May, about one month earlier than the completion schedules.
The "Hydrogen Project" investment, aimed at the construction of a membrane plant that starting from the gas the fuels the ISAB Energy plant produces hydrogen to be supplied to the adjacent ISAB Refinery, was completed and started service in July 2010.
Hydrogen availability is strategic to enable the refinery to produce fuels with low sulphur content (hence with reduced environmental impact).
With regard to ERG Power, since April, as a result of the start of commercial operations of the second module of the CCGT, the new plant with an installed power of about 480 MW became fully operational. In August, ERG Power placed the "turnkey" order for revamping the water demineralisation plant that supplies treated water for the processes of the Priolo production site.

RENEWABLE ENERGY SOURCES

With regard to the Ginestra (Benevento) wind farm, installation was completed for 19 wind turbines (out of a total of 20) and the wind farm will be commissioned during the first half of 2011. While construction of the Fossa del Lupo wind farm (90 MW) is behind schedule, it continues with the goal of completing the entire farm by 2011; as at 31 December 2010, the installation of 21 wind turbines had been completed (out of 36). Construction of the Plogastel farm was completed in April 2010, ahead of the schedule set out in the 2010-2013 Plan, and therefore the farm is already fully operational. With regard to the Greneville farm, authorisation is expected in 2011, i.e. later than originally expected.

The following table shows a breakdown of capital expenditures by type.

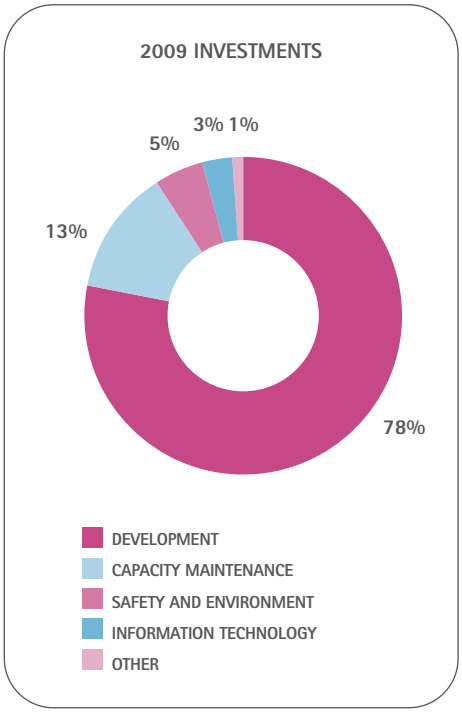
(EUR MILLION)	YEAR 2010	YEAR 2009
DEVELOPMENT	194	320
CAPACITY MAINTENANCE	41	52
SAFETY AND ENVIRONMENT	20	22
INFORMATION TECHNOLOGY	13	11
OTHER	2	3
TOTAL	**270**	**407**

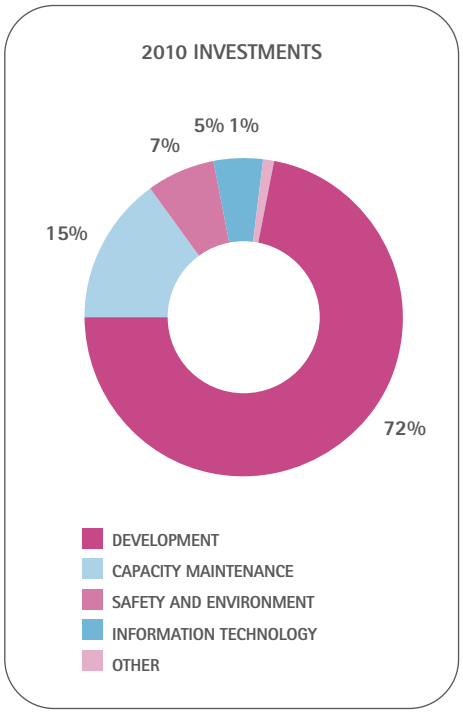
Of total capital expenditures, 72% was dedicated to development; the Power Generation division accounted for 76% of this, the Coastal Refining division for 10% and the Integrated Downstream division for 14%.
Capital expenditures on **capacity maintenance** went to Coastal Refining (51%), Power Generation (26%) and Integrated Downstream (23%), while capital expenditures on **safety and the environment** were allocated to Coastal Refining (35%), Integrated Downstream (42%) and Power Generation (22%).

As for capital expenditures on **information technology**, the following projects were completed or are in progress, in accordance with schedules:
- system for the automatic feeding and valuing of crude oil and finished products inventories;
- system for the operating support of the trading oil management;
- Group Management Reports and Financial Planning;

– upgrade and enhancement of the automatic data acquisition and management system for measuring wind farm production;
– SAP project and interfaced systems supporting the merger of ERG Raffinerie Mediterranee and ERG Power & Gas into ERG S.p.A.;
– information system of ERG Oil Sicilia for all "go live" features.

It should be noted that within the new IT strategy, the management of technological infrastructures was outsourced and the migration of the application environment from ERG owned systems to the outsourcer's systems was completed.





RISKS AND UNCERTAINTIES

ERG identifies and evaluates all types of risk associated with its activities, adopting appropriate methods aimed at optimising the management of risk (conscious acceptance, elimination, reduction, transfer) and safeguarding shareholder value.

To this end, in previous years ERG has adopted risk management principles and procedures in line with the best international practices, notably defining a formal risk management policy approved by the Company's Board of Directors and specific responsibilities for a risk committee and risk management department.

In 2009, the Risk Office – established as part of the Internal Control System recommended by the Corporate Governance Code for Listed Companies – began operating. It is tasked with ensuring, in strict coordination with the Company's businesses and staff functions, the existence and implementation of procedures, processes and all the controls put in place to identify, evaluate and manage the major risks attached to the Group's activities, according to instructions by senior management and by the Internal Control Committee, in compliance with currently prevailing laws and regulations.

In keeping with the growing complexity in the competitive environment in which the ERG Group operates, with new business development taking place in difficult economic conditions, in 2009, ERG launched a strategy aimed at implementing an integrated risk management model based on internationally recognised principles of Enterprise Risk Management (ERM), with particular reference to the COSO framework (promoted by the Committee of Sponsoring Organisations of the Treadway Commission), under which an initial Enterprise Risk Assessment and ERM model were established, which were formally approved by the Parent Company's Board of Directors.

Within the framework of this ERM model, whose operational implementation was partially slowed in 2010 to take in adequate consideration the impacts of the changes to the organisation and structure of the Group that took place as a result of the inception of the TotalErg joint venture and of the merger of the subholdings ERG Raffinerie Mediterranee and ERG Power & Gas into ERG S.p.A., ERG has defined key methodological criteria for mapping and evaluating risks, the roles of the individuals involved in the process, and the timeframes and mechanisms for coordination and reporting, with the aim of prioritising risks based on an evaluation of the potential impact, the probability of the risk materialising and the level of control, so as to work towards linking the risk management process to planning and normal business activity.

In conjunction with the development and implementation of the Enterprise Risk Management model, ERG has also redefined the role of the Finance Risk Management department, which is tasked provide specialised support in the evaluation of financial, insurance and market risk management operations, to monitor compliance with the related policies and manage insurance policies. This department has launched projects aimed at optimising market risk management policies.

With regard to the Refining & Marketing Division, in 2010 a specific analysis and benchmarking project led to a partial revision of the risk management strategy, in particular with the introduction of V@R (Value at Risk) as an instrument to manage the risk associated with inventory level, expressed in millions of EUR and monitored through specific computer systems.

In relation to the activity of the Power & Gas Divisions, in 2009 a specific risk management strategy based on the definition of risk capital amounting to millions of EUR that the company must manage in the context of a pre-defined industrial, non-speculative policy.

For both Divisions, a regular monitoring of exposures and a predefined process of reporting to the Risk Committee and to the Company's Senior Management also enable constantly to control risk levels and to manage any critical issues.

The structured approach characterised by the adoption of ERM methodologies, which over the

medium term will make it possible to generate value through a more conscious, formalised and integrated risk management process, is based on an "industrial" business philosophy, in keeping with the history of the Group, whose goal is to minimise financial, credit, liquidity and operational risks; in line with this approach, in the management of financial and market risks, ERG uses derivatives such as options, forwards and swaps, but solely for hedging, and not speculative, purposes. For greater detail on the financial risks and derivatives used by ERG, see the relevant comment in the Notes to the Consolidated Financial Statements.
In 2010, the ERG Group, having placed particular emphasis on the management of risks connected with Health, Safety and the Environment, continued its activities associated with the Safety Project, a multi-year project that involves all Group staff, with the aim of changing the culture of individuals in relation to the management of these aspects, through a formalised and detailed process to analyse the current situation, identify areas for improvement and manage a structured training and investment programme.

The major risks identified are described below:

- **RISKS RELATED TO GENERAL ECONOMIC CONDITIONS**
  The Group's operations, equity and financial position can be affected by multiple factors forming the macroeconomic framework, including changes in gross national product, the unemployment rate, interest rate and foreign exchange rate trends, mainly between the EUR and Dollar, and the cost of raw materials, particularly petroleum raw materials and energy commodities.
  In 2010, tensions on financial markets generated, among other factors, by crisis phenomena that manifested themselves in other States had severe repercussions on financial institutions and industrial firms and, more generally, on the overall performance of the economy which, while it showed some positive signs of improvement during the year, did not start a recovery that can be defined as substantial and ongoing.
  The significant and widespread deterioration in market conditions was accentuated by severe and generalised difficulty in gaining access to credit, for both consumers and businesses, even in the presence of a good supply of liquidity.
  Meanwhile, uncertainties persist as to whether the measures implemented by governments and monetary authorities in response to the situation described above will be capable of restoring the conditions to overcome the situation in reasonable times. Should such conditions of marked weakness and uncertainty be protracted for a significant time interval, the Group's activity, strategies and outlook could be negatively conditioned; on the other hand, any negative consequences on the Group's economic and financial situation are currently mitigated by the availability of equity generated in particular by the collection of the price of the LUKOIL joint venture of 2008.

- **RISKS RELATED TO CONDITIONS ON THE REFERENCE MARKET**
  The ERG Group operates principally in sectors that are historically subject to high levels of criticality and extreme cyclicity. Its performance is significantly influenced by the prices of crude oil and petroleum products, as well as by the prices of the energy commodities that are linked to the prices of the oil industry, determined by international supply and demand and subject to numerous other exogenous factors, among which are noteworthy the financial speculation phenomena that characterised the industry. Fluctuations in the prices of crude and petroleum products, influenced by the persistence of a still unfavourable economic situation, caused a significant impact on the Group's performance, in particular for the Refining & Marketing Division, and therefore it is possible that the continuation of these conditions may cause further negative effects on ERG's future economic and financial performance.
  As an operator in the energy sector, the Group needs a continuous supply of crude oil and

natural gas for its activities. Crude oil and natural gas are largely supplied by countries that are normally subject to greater political, social and economic uncertainties than those found in countries with consolidated economic and/or political stability.

- **RISKS CONNECTED WITH FLUCTUATIONS IN FOREIGN CURRENCY EXCHANGE, INTEREST RATES AND PRICES**

  The Group operates on the domestic and international markets in the Energy sector. This exposes it to market risks connected with fluctuations in currency exchange rates (particularly to the US Dollar), interest rates and prices, which are particularly volatile in the case of petroleum and energy commodities.

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

  In accordance with its market risk management policies, the ERG Group uses hedging financial instruments to manage this volatility; despite these hedging transactions, sudden changes in currency exchange, interest rates and prices may have a negative impact on the Group's operations and financial position.

- **RISKS RELATED TO INDUSTRIAL ACCIDENTS**

  Owing to the characteristics typical of the ERG Group's industrial production facilities, there is a risk of injury in the event of a fire, explosion, emissions and other unexpected and hazardous factors. Accidents of a certain magnitude could have a negative impact on the Group's operations, equity and financial position.

  The ERG Group mitigates these risks through appropriate plant management policies aimed at pursuing levels of safety and excellence in line with the best industrial practices. Furthermore, the ERG Group transfers its own industrial risk to third parties via the insurance market, thereby providing a high level of protection for its structures, even in the event of an interruption of activity.

  Notwithstanding existing levels of cover, the Group could incur costs that exceed the maximum coverage limits of insurance policies, in case of difficulties experienced by the international insurance market in raising adequate capital.

- **RISKS RELATED TO THE REGULATORY FRAMEWORK AND ENVIRONMENTAL POLICY**

  The activities of the ERG Group are subject to numerous laws and regulations (at local, national and supranational level) that could have a negative impact on the Group's various businesses, particularly those where the regulatory environment can drive the choice of capital expenditures effected (renewable energies and thermoelectric sectors, towards which the Group is adopting a risk management strategy aimed at assessing existing opportunities and, for equal economic attractiveness, to pursue growth in environments characterised by low or reduced riskiness).

  Furthermore, the ERG Group is subject to environmental laws and regulations that in recent years have been subject to greater scrutiny by European Union institutions and consequently, greater restrictions. It has also adopted an environmental policy that is able to comply and favour any stricter environmental standards than those required by current regulations, anticipating their adoptions.

  In this context, ERG publishes a Sustainability Report every year, thereby demonstrating its willingness to be transparent in disclosing, internally and externally, its commitments and the initiatives put in place to create value in a way that is sustainable over time, by protecting the rights of all parties that may be affected by the company's activities.

- **CREDIT RISK**

  Exposure to credit risk, inherent in the possibility of default by a counterparty or in the deterioration of its creditworthiness, is managed by means of appropriate analyses and

evaluations of individual counterparties, with each of these being assigned an internal credit rating (internal-ratings-based approach). The assignment of the rating category provides an estimate of the probability of default by a particular counterparty. A degree of reliability is indicated for each level, which is carefully monitored and must never be exceeded. A specific Function within the Finance Department is tasked with monitoring credit risk exposure and a Credit Committee makes decisions on this matter.
Inherent in the credit risk is also the risk of concentration, in terms of both customers and segments; it is also monitored continuously, however, critical situations have never occurred.
The choice of counterparties for both the industrial and financial transactions underlies the group's high credit ratings.

- **OPERATIONAL RISK**

  The management of operational risks is based on the adoption of the best international standards for the identification, measurement, treatment and monitoring of such risks.
  As regards production processes, particular attention is paid to the prevention and control of the related risks, through the implementation of risk assessments, business impact analyses and the development of a business continuity plan, with the aim of ensuring operational continuity.

- **COMPLIANCE RISKS**

  In view of its status as a publicly listed Company and of the multiplicity of business in which it operates, for ERG the risks connected to compliance of the significant number of regulations disciplining its activities (so-called multi-compliance) have become progressively more important.
  Implementation of an ERM method has meant, in this area, the shift from an approach focused on the specific management of individual compliance risk areas (TUF, Consob, Borsa Italiana, Legislative Decree 81/08, etc.) by specialised internal organisations, to an integrated and coordinated approach.
  Lastly, with regard to the risks related to the company's liability for illegal acts giving rise to criminal offences (pursuant to Italian Legislative Decree 231/01), the management strategy aims at the adoption of high ethical standards, formalised in an Code of Ethics to which all personnel must adhere, and it is focused on prevention through a structured process, consistent with best practices and being integrated with the Enterprise Risk Management process.

HEALTH, SAFETY AND ENVIRONMENT

HEALTH AND SAFETY

Guaranteeing the safety of operations and worker health and protecting the environment are priorities in the financial, social and environmental sustainability of ERG. Risk prevention and management are central in the implementation of this policy.

In 2010, ERG continued the activities of the Safety Project, a long term, broad initiative aimed at the improvement and thorough assimilation of the safety culture. The interdependence of all workers and full compliance with rules and procedures are key elements of this process. The initial phase of the analysis and evaluation of shortcomings with respect to best management practices was followed by the definition and launch of improvement actions, in particular for the Group's industrial sites, such as training/information, safety dialogues and assessment of third party performance. The project, currently in its intermediate stage, will be completed in upcoming years with the aim to maintain its effectiveness over time.

The injury statistics for 2010 show good performance for the Priolo sites, thanks to the achievement of the "zero injury" target by the ISAB Refinery and of a single minor mishap that took place in ISAB Energy.

ENVIRONMENT

In 2010, continuing what had already been done in previous years and in line with applicable laws and regulations, the Group's industrial sites forming part of the "Priolo National Priority Site" (ERG Power, ISAB Energy, the south and north sites of the ISAB refinery) proceeded with actions to secure the areas. The plans and interventions, both ongoing and being defined, are established with the concurrence of the Ministry of the Environment, as the cognisant Authority, and with the support of local Authorities. As in the past, the issue remains a central element in the Group's strategy for sustainable development in the area.

Preliminary activities relating to Integrated Environmental Authorisations were completed for ISAB Energy and ERG Power and instead continued for the ISAB Refinery (South and North Plants). The new Authorisations are issued in accordance with the Community Directive (so-called IPPC - Integrated Pollution Prevention and Control) aimed at the integrated prevention and protection of the environment, and they require the completion of interventions to improve environmental performance, also through process optimisation.

Additionally, in 2010, existing North Plants were repowered thanks to the commissioning of the methane-fuelled combined cycle co-generation plant (CCGT), which replaced the thermoelectric plants fuelled with fuel oil and refinery gas fuel. This investment, in addition to making reliable and flexible the system for the generation of electricity and steam for the customer companies located in the multi-company site, considerably improved environmental performance thanks to a marked reduction in atmospheric emissions of nitrogen oxides, sulphur oxides and dusts.

Lastly, in 2010 ERG made the following fundamental contributions in terms of reducing greenhouse gases in order to achieve national objectives set by the Kyoto Protocol and EU emissions trading directive:

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

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

SAFETY MANAGEMENT AND CERTIFICATION SYSTEMS

The program for the development of effective HSE management systems for the minimisation of specific risks continued; it entails the certification of all the Group's industrial sites in accordance with the international standards ISO 14001 (Environment) and OHSAS 18001 (Health and Safety).

The full unification of the HSE management Systems of the ISAB Refinery was obtained following the integrated Site certification: for the first time, the two management systems (Environment and Health and Safety) were audited simultaneously by the accredited Agency.

The overall level of certification the Group sites achieved in 2010 is 85%.

PRODUCT QUALITY

Action taken to improve product quality followed national and EU guidelines. Use of biofuels, especially biodiesel, was increased, as they contribute to the reduction of greenhouse gas emissions throughout their lifecycle, relative to the fossil components.

A product line aimed at improving energy efficiency is also marketed. The DieselOne fuel has a multi-functional additive mix that prevents the formation of deposits within a vehicle's injection system, helping to bring about full combustion of the product so that it is used more efficiently. The testing programme, which was conducted under internationally-recognised standards, demonstrated that compared to traditional diesel, use of DieselOne leads to an efficiency improvement greater than 2% and to a reduction in carbon dioxide emissions and uncombusted hydrocarbons of 14% and 11% respectively.

The sulphur content of all products sold for automotive use (gasoline and diesel) does not exceed 10 mg/kg.

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

HUMAN RESOURCES

ORGANISATION

As of 31 December 2010, the ERG Group had 714 employees (-865 compared to 31 December 2009), at the end of a year during which 113 employees joined the Group and 177 left. Moreover, during the period 801 persons were excluded by effect of the TotalErg joint venture: on 1 October, the merger of Total Italia S.p.A. into ERG Petroli S.p.A. took effect and led to the inception of the TotalErg joint venture. The company, subject to joint control, is not consolidated line by line but evaluated with the equity method.

Most notably:

- on 1 July 2010, the two sub-holdings ERG Raffinerie Mediterranee S.p.A. and ERG Power & Gas S.p.A. merged into ERG S.p.A., constituting respectively the Refining & Marketing division (58 employees as of 31 December 2010) and the Power & Gas division (64 employees as of 31 December 2010);
- ISAB Energy Services total number of employees decreased by 7 and reached 285 because of the further additional efficiency enhancements in some areas and company processes;
- employee numbers at ERG Renew and its subsidiaries (75 overall) increased by 3.

The average age of employees remained stable at slightly below 42, while in terms of educational levels about 90% of all employees hold either a secondary school diploma or university degree (excluding employees working at the distribution plants and retail/wholesale companies).

To improve operating efficiency and streamline the decision-making process, the overall corporate organisation was rationalised, reducing the number of subsidiaries and creating an efficient organisation that directly manages the oil and power & gas businesses.

The Group's new organisation comprises a single ERG S.p.A. Company, that manages planning and development, management control, corporate finance, operating and strategic finance, personnel, administration and tax, legal and corporate, institutional relations and communication and that directs and oversees its core businesses in operational and financial terms.

Within it:

- the Refining & Marketing division of ERG S.p.A., manages, directly or through joint ventures (ISAB S.r.l., TotalErg S.p.A.), the business in the petroleum product refining, distribution and marketing segments;
- the Power & Gas division of ERG S.p.A., manages, directly or through joint ventures, the electricity and gas generation and marketing business.

ERG Renew remains the specific vehicle through which development is pursued in the renewable energies business, consistently with the Group's medium term business plans.

DEVELOPMENT, TRAINING AND INTERNAL COMMUNICATIONS

In 2010, activities in the Training and Development area were oriented to support business managers in the implementation of the new organisational structure.

The Group's training programs were integrated with the broad use of instruments and methodologies for the optimal employment of resources and for valuing employees in light of the new objectives, of the new processes and of the new organisation. Training processes activated new forms of integration, information exchange, sharing of experiences between business and area managers, aimed at enhancing the effectiveness of the actions to carry out for the construction of performing teams.

About 80 persons, between Senior Managers, business and area managers were involved in training activities that use the empowerment approach, methodology and instruments, each

supported by counselling meetings to focus more closely on individual growth and team work.
Empowerment continued to spread through initiatives carried out by business and area managers directly with their teams and through teambuilding empowerment oriented function/area initiatives.
Internal Communication promoted the dissemination of the new company and professional models, providing personnel with adequate information and motivations, employing procedures, such as enterprise theatre, to promote involvement, objective sharing and active participation in changes.
It assured the direction and coordination of internal communication instruments (house organ, information pages and news on the intranet) aimed at personnel, to develop a distinctive Group style.
It continued to develop personnel relations promoting interaction by implementing consolidated instruments (institutional meetings, events, group meetings), through the use of new communication tools on the "ERGgate" intranet portal, supporting, when required, significant projects and initiatives (reorganisation, empowerment activities) and promoting sharing, collaboration, integration and interaction between Group personnel.

INDUSTRIAL RELATIONS

In 2010, ERG initiated a redundancy procedure for personnel reduction leading to retirement, which ended with an agreement between the parties and which will involve no more than 25 persons.
Moreover, Union Procedures were started and agreement was reached with the Unions to transfer personnel to ERG S.p.A. as a result of the merger by take-over of the subsidiaries ERG Raffinerie Mediterranee and ERG Power & Gas e to TotalErg as a result with the agreement with Total in Integrated Downstream.
These events entailed several meetings between local Unions and the Company, which allowed the parties to hold productive negotiations.

CULTURAL AND SOCIAL ACTIVITIES

ERG AND CULTURE

ERG has a great tradition of support to cultural and social institutions and events, which it also confirmed in 2010. ERG is a founding member and supporter of the Edoardo Garrone Foundation, set up in 2004 and dedicated to the founder of ERG, as a natural continuation of the involvement of the Garrone and Mondini families, as well as of ERG itself, in the social and cultural arena.

A member of the European Foundation Centre that boasts a high-profile Scientific Committee, the Edoardo Garrone Foundation is a not-for-profit cultural foundation that was set up to make a concrete contribution of ideas and resources to research projects and projects for the protection and promotion of art and culture.

The ERG Group is a member of CIVITA, an association actively involved in promoting and management of Italy's cultural heritage and in safeguarding, enhancing and providing access to artistic and cultural assets through exhibitions, cinema and European projects; it is also a founding member of the Magna Charta Foundation.

Created in 2004, the Foundation is dedicated to scientific research, cultural reflection and the preparation of reform proposals on major political issues. An evocative name, Magna Charta, which refers to the conservative liberalism expressed by Anglo-Saxon tradition, without any prejudicial preclusion against the changes imposed by modernity (the "Magna Charta Libertatum", granted by John Lackland to the English Barons in 1215, is considered the first document for the universal recognition of citizens' rights, guaranteeing the principle of legality and justice).

The Magna Charta Scientific Committee, comprising intellectuals, politicians and entrepreneurs, is a lively manifestation of the spirit of openness that distinguishes the Foundation's cultural work.

The activities of the Foundation span ten broad theme areas at the centre of the public debate: possible politics, state reform, market and solidarity, religion and public space, identity and integration, "blue" environmentalism, the frontiers of bio-politics, the educational challenge, democracy and international security, the need for culture.

Confirming a consolidated and fruitful collaboration, in 2010 ERG participated in the organisation of the Festival of Science, held in Genoa from 29 October to 7 November. The keyword for the 2010 edition was "Horizons", an ideal metaphor of the yearning for what is new, unknown and never previously seen.

Within the Festival's many planned events, ERG, as the Main Sponsor, was the protagonist, during the inaugural evening, of the multimedia word "Icarus at the edge of time", a modern fable, capable of illustrating the black hole theory with a simple, readily understandable language that explains the rules of Astrophysics to non-scientists.

Based on the eponymous tale by scientist Brian Greene, the work has music composed by Philip Glass, well known American classic composer, and sets by the two English visual artists "Al and Al", who provide a dynamic representation of space and time thanks to the most innovative digital technologies.

The show was produced by the World Science Festival of New York and by the Southbank Centre of London: the Festival of Science, as co-producer, was able to obtain an exclusive Italian adaptation whose first showing was the one sponsored by ERG.

Within the support provided to all cultural activities promoted in 2010 by Confindustria Genova, ERG, in particular, was the Main Sponsor of the conference entitled "Employment and Competitiveness. Confindustria's proposals for growth, now", held on 24 and 25 September at Genoa's Cotton Warehouses.

The meeting, attended by representatives of the Government, of the Council of Ministries, of local Institutions and of industrial operators, had the main purpose of sharing an interpretation of the current economic scenario to overcome the challenge of the Country's competitiveness by boosting companies' competitiveness, encouraging synergies between the spheres of politics, industry and unions with the aim of rapidly accomplishing innovations in industrial relations.
In 2010, ERG sponsored Confindustria's 40th Conference of Young Entrepreneurs, held 11 and 12 June in Santa Margherita Ligure: an important occasion to debate economic, political and social issues, to confirm the importance of Italian entrepreneurs in the Country's economic and social development and to refocus on young people as a primary value on which to invest.

ERG also sponsored the third edition of the Lecce Festival of Energy (20-23 May 2010), an event that by now has taken on a primary role in the national energy debate and that has been able to draw the best from the industrial system's and institutions' capabilities and orientations to enliven an open, impartial debate arena, able to welcome and constructively value differing visions and positions.
Since 2009, ERG is a supporting member of the National Institute of Ancient Drama (INDA), the Foundation that since 1911 has organised classical shows at the Greek Theatre of Siracusa. The collaboration between ERG and INDA has been ongoing for a few years and the Group's entry as the sole non-governmental member of the Foundation is a major step in the policy of Social Responsibility in Sicily which has, among its other goals, the recognition of the region's precious cultural heritage. The collaboration between ERG and INDA includes the Group's support to national and international initiatives to promote the Foundation's activities. In 2010 ERG was also Main Sponsor of the 46th Cycle of Classical Shows (7 May – 21 June 2010).

Within the convention linking it to the University of Catania, ERG supported a series of Research and Development projects in the sectors connected to its businesses. Moreover, together with the Law Department, ERG organised in the offices of Confindustria Siracusa, from 27 November 2010 to 21 January 2011, the cycle of "Training Meetings on the Environment and Workplace Safety", which drew together technical and legal experts in five seminars on the subject.

ERG also organised the third edition of the Forum entitled "From here to the future, sustainable scenarios for energy and the economy in Sicily" forum (Genoa, 10 October 2010), where institutions, opinion makers and business leaders discussed the development of Sicily' s economy in the near future, with the aim of identifying actions inspired by criteria of sustainability .

ERG AND SOCIAL DEVELOPMENT

Solidarity and social engagement are parts of ERG's value system. With this spirit, the effort is mostly aimed in favour of the social players that are closest to it.

Thus, ERG was the main sponsor of the 6th edition of the "From saying to doing" social responsibility exhibition (Milan, 28-29 September 2010), an opportunity for meetings and discussion between different entities, companies, third sector representatives, citizens and young people, all united in the aim of making social responsibility a key variable in decisions and actions. ERG's activities within the event were its intervention in the Opening Conference and the organisation of a theme Laboratory illustrating the completion of the Oncologic Assistance Network, a CSR initiative in collaboration with ASP in Siracusa.

For the fourth year, ERG confirmed its sponsorship of the Drivemotion event, the project "Safe Driving for the Young", addressed to students who have just obtained their driver's license in Genoese high schools, in tune with the actions provided by the National Road Safety Plan and by the European Commission. It was a sensitisation campaign to educate young drivers to be more responsible and mature, improving their driving skills and control of their car in critical situations and making them aware of their limitations, to the advantage of safe road travel.

In the Siracusa area, ERG supported public Health care through initiatives aimed at improving its services. The Group signed an agreement with the Siracusa ASP for the completion of an Oncologic Assistance Network in the province, supporting in particular the integration of medical and paramedic personnel to be employed in service in three territorial hospitals (Augusta, Lentini and Avola). ERG is thus a partner in the implementation of a model for the prevention and therapy of oncologic illnesses that is considered to be at the forefront for the management and quality of services rendered to citizens. It also supported the activities of the Umberto I Hospital and of the Centro Senologico in Priolo, providing the diagnostic equipment of the facilities operated by the Siracusa ASP.

In Priolo, Melilli and Augusta, ERG contributed to the social activities organised by local authorities for the young and the elderly by funding a series of social events throughout the year.

ERG promoted projects for environmental sustainability and for the appreciation of natural resources and of the historic-archaeological heritage. In particular, it participates in the project of the Natural Reserve of the Priolo Salt Marsh, managed by LIPU, for which in 2010 it funded the construction of a windmill for the sustainable preservation of the water level in the wet area.

In Melilli middle schools, ERG supported the Junior Achievement Italy project "Myself and the economy, Community and Environment", based on a format developed specifically for the program, aimed at stimulating a sustainable link between the economy and local community.

In Priolo, ERG participated with the ISAB Energy plant in the National Electric Power Day (2 October 2010) with the goal of drawing inhabitants of a territory closer to the generating plants that are located on it.

ERG AND SPORT

ERG has renewed its sponsorship of Serie A football team U.C. Sampdoria until 30 June 2011. The two organisations jointly organise and support the "Torneo Ravano ERG", the most important school tournament in Europe, which involves 5,000 children from primary schools in Liguria.

ERG was a "gold sponsor" of the 11th edition of "Sports Stars", a project conceived and organised to promote sports in Liguria, which aims to raise funds for numerous sports clubs and associations, and to provide assistance for the terminally ill.

In the Siracusa area ERG supports the "Trofeo Archimede" and "Trofeo Elettra" competitions, which traditionally involve children from primary and middle schools in all localities throughout the Province of Siracusa. In 2010, the Trophy reached its nineteenth edition and over 500 children from primary and middle schools participated.

ERG also sponsors the Trogylos women's basketball team in the Serie A1 league, which has won two championships (1989 and 2000) and the Champions Cup (1990), and the Siracusa football team, which plays in the First Division.

TREASURY SHARES

As of 31 December 2010, ERG S.p.A. owned 2,100,000 shares for a value of EUR 26.0 million. In accordance with IAS 32, treasury shares are recorded in reduction of the shareholders' equity.

BRANCH OFFICES

ERG S.p.A. has its registered office in Milan and a secondary office and operations in Genoa.

RELATED PARTIES

For information on dealings with related parties, including transactions with unconsolidated shareholdings, see Note 40 of the Consolidated Financial Statements.

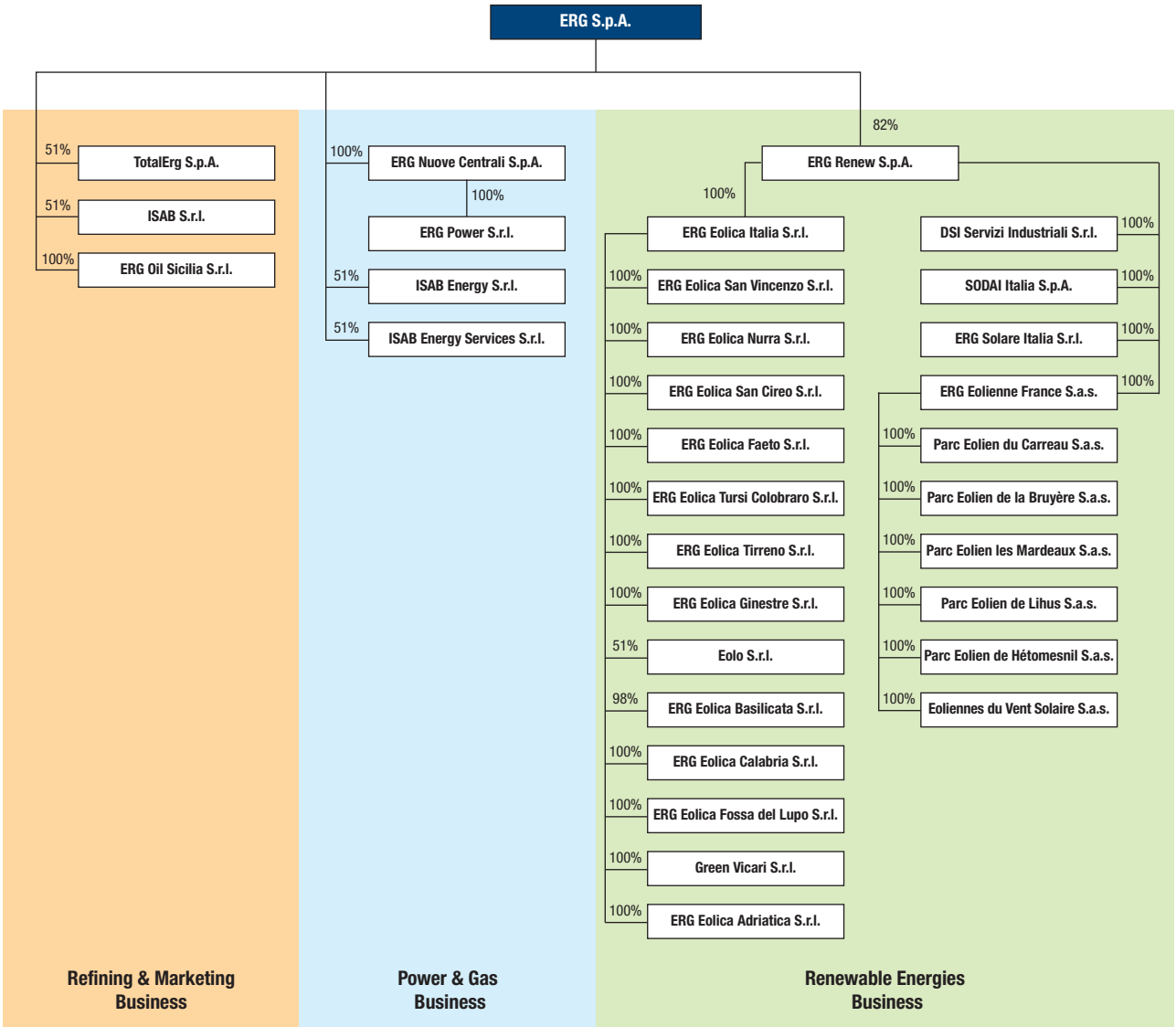
FINANCIAL STATEMENTS

FINANCIAL STATEMENTS

SCOPE OF CONSOLIDATION AND BUSINESS SEGMENTS

The following table shows the companies subject to line-by-line consolidation as at 31 December 2010. The scope of consolidation underwent the following changes with respect to 31 December 2009:

- inclusion of ERG Power S.r.l. [1]
- inclusion of ERG Oil Sicilia S.r.l. [2]
- inclusion of ERG Eolica Adriatica S.r.l. [3]
- exclusion of ERG Petróleos S.A., Gestión Ibérica S.L., I.S.E.A. S.r.l. and Ecopower S.r.l.
- merger by incorporation of ERG Power & Gas S.p.A. and ERG Raffinerie Mediterranee S.p.A. into the parent company ERG S.p.A.
- exclusion of ERG Petroli S.p.A., Gestioni Europa S.p.A., Restiani S.p.A. and Guazzotti S.p.A., as a result of the launch of the TotalErg joint venture [4]



1 company owning the CCGT plant, which it received by transfer on 1 January 2010 from ERG Nuove Centrali S.p.A.
2 company that received by split on 1 April 2010 the business unit comprising the assets of ERG Petroli S.p.A. in Sicily
3 company, acquired on 23 July 2010, owner of two wind farms in Molise and in Puglia for a total installed capacity of 102 MW
4 resulting from the merger by takeover of Total Italia into ERG Petroli which took effect on 1 October 2010

INCOME STATMENT AND STATEMENT OF FINANCIAL POSITION

INCOME STATEMENT

(EUR MILLION)	YEAR 2010	YEAR 2009
RECLASSIFIED INCOME STATEMENT		
REVENUES FROM ORDINARY OPERATIONS	7,812.9	5,982.6
OTHER REVENUES AND INCOME	86.6	254.6
TOTAL REVENUES	**7,899.5**	**6,237.2**
PURCHASE EXPENSES AND CHANGES IN INVENTORY	(6,666.0)	(5,031.9)
COSTS FOR SERVICES AND OTHER OPERATING COSTS	(995.8)	(975.9)
EBITDA	**237.7**	**229.4**
AMORTISATION, DEPRECIATION AND WRITE-DOWNS OF FIXED ASSETS	(190.7)	(161.1)
PROCEEDS FROM SALE OF BUSINESS UNIT	63.4	–
NET FINANCIAL INCOME (EXPENSES)	(38.4)	(17.9)
NET INCOME (LOSS) FROM EQUITY INVESTMENTS	11.0	35.7
PROFIT BEFORE TAXES	**83.0**	**86.1**
INCOME TAXES	(39.6)	(41.3)
PROFIT FOR THE PERIOD	**43.4**	**44.8**
MINORITY INTERESTS	(33.0)	(37.8)
GROUP'S NET PROFIT (LOSS)	**10.4**	**7.0**

REVENUES FROM ORDINARY OPERATIONS

Revenues for 2010 amounted to EUR 7,813 million compared with EUR 5,983 million in 2009. The increase is due to the following:

- increased **Refining & Marketing** revenues, mainly linked to the significant rise in product prices;
- increased **Thermoelectric Energy** revenues, as a result of the higher quantities sold and of the higher sale prices;
- increased revenues from **Renewable Energy Sources**, mainly because of the higher sale volumes as a consequence of increased production capacity and also as a result of the acquisition of ERG Eolica Adriatica S.r.l.

OTHER REVENUES AND INCOME

These consist principally of rental income, insurance indemnifications, gains on disposals, indemnities and expense recoveries.

The decrease relative to 2009 is mainly due to the lower insurance reimbursements of ISAB Energy, as during 2009 there were reimbursements for EUR 205 million for the coverage of direct and indirect damages consequent to the accident of October 2008 (EUR 45 million in 2010). Additionally, in 2009 the item also included the capital gains (EUR 9 million) realised in the period as a result of the sale of the assets in Spain.

PURCHASE EXPENSES AND CHANGES IN INVENTORY

Purchase expenses mainly refer to the purchase of crude oil and other semi-finished products and also include transport and transaction costs.

In 2010 purchase costs were higher than in 2009 by approximately EUR 2,038 million, mainly as a result of higher average prices of raw materials.
With respect to inventories, net of the quantities deconsolidated within the TotalErg joint venture (-935 thousand tonnes), raw materials increased by about EUR 234 million (453 thousand tonnes relative to 31 December 2009) and by about EUR 123 million for finished products (+200 thousand tonnes).
In 2009, raw materials had decreased by about EUR 35 million and finished products had decreased by about EUR 12 million.
It should be noted that on the basis of the weighted average cost method, the inventory change is impacted not only by the exact level of inventories in stock at the end of the period, but also by the variation in raw material and finished product purchase prices.

COSTS FOR SERVICES AND OTHER OPERATING COSTS

Costs for services include processing fees paid to the ISAB Refinery and the Trecate and Rome Refineries, maintenance costs, sales expenses (including the costs for transport of products), utilities costs, consulting costs, insurance costs, marketing costs, and costs for services provided by third parties.
The other operating costs mainly relate to cost of labour, rent, provisions for risks and charges and to taxes other than income taxes.
In 2010, the item includes provisions for environmental expenses pertaining to the Priolo industrial area in reference to the site clean-up programme Agreement .
Net of these allocations, the value is in line with 2009, because the higher processing costs charged back by ISAB S.r.l., the higher distribution and transport costs and the higher provisions for bad debt were partly offset by the lower processing fees for Sarpom and Rome Refinery due to the TotalErg joint venture and by the lower costs for consulting services, utilities and advertising.

AMORTISATION, DEPRECIATION AND WRITE-DOWNS

The increase in depreciation is the consequence of the commissioning of new plants in the Power & Gas and Renewable Sources segments and of the write-downs made as a result of the impairment test performed at year end.

PROCEEDS FROM SALE OF BUSINESS UNIT

The proceeds relate to the capital gain amounting to EUR 63 million realised within the TotalErg joint venture.
For additional details, please refer to the comments provided in the related chapter of the Notes to the Consolidated Financial Statements.

NET FINANCIAL INCOME (EXPENSES)

Net financial expenses totalled EUR 38 million in 2010, compared with EUR 18 million in 2009.
In reference to the change, 2009 had benefited from the impact of the interest income accrued on the receivable from LUKOIL until February 2009 (EUR 6 million) and of exchange rate differences (EUR +12 million) relative to those of 2010 (EUR +8 million).
The change is also linked to:

- lower net interest expense as a result of a lower average market interest rates (EUR +7 million);
- lower interest income deriving from use of the liquidity obtained from the sale of 49% of ISAB S.r.l. to LUKOIL, also by effect of the lower market interest rates (EUR -8 million);
- impact of changes in fair value and in the results of derivative instruments (EUR -7 million).

NET INCOME (LOSS) FROM SHAREHOLDINGS

These consist primarily of the profits of the investee companies valued using the equity method of accounting.

Specifically, this item includes the profits of ISAB S.r.l. and of TotalErg S.p.A. (51% joint venture) and of other subsidiary companies in the Power & Gas segment.

INCOME TAXES

Income taxes in 2010 amounted to EUR 40 million (EUR 41 million in 2009) and comprise EUR 65 million in current and previous years taxes and EUR 26 million in positive deferred taxes.

The tax rate at adjusted replacement cost, derived from the ratio between income taxes and pre-tax profit net of inventory gains/losses and non-recurring items, was high due to the higher IRES rate (34% instead of 27.5%) on the main companies of the Group and to the significant incidence of IRAP on income before taxes, due to the different and higher taxable amount on which it is calculated.

In 2010, it takes into account the Tremonti Ter tax break (amounting to EUR 14 million) on some capital expenditures of the first half, of which about EUR 7 million relate to the Renewable Energy Sources segment.

STATEMENT OF FINANCIAL POSITION

(EUR MILLION)	12/31/2010	12/31/2009
RECLASSIFIED STATEMENT OF FINANCIAL POSITION		
FIXED ASSETS	2,837.2	2,699.3
WORKING CAPITAL	49.8	262.7
EMPLOYEES' SEVERANCE INDEMNITIES	(4.6)	(11.8)
OTHER ASSETS	360.5	469.2
OTHER LIABILITIES	(628.6)	(828.8)
NET INVESTED CAPITAL	**2,614.4**	**2,590.7**
GROUP SHAREHOLDERS' EQUITY	1,740.4	1,782.5
MINORITY INTERESTS	151.1	146.1
NET FINANCIAL INDEBTEDNESS	722.9	662.2
SHAREHOLDERS' EQUITY AND FINANCIAL DEBT	**2,614.4**	**2,590.7**

As of 31 December 2010 net invested capital was EUR 2,614 million.

Financial leverage, which represents the ratio of total net financial indebtedness (including Project Fnancing) and net invested capital, was 28% (26% as of 31 December 2009).

FIXED ASSETS

Fixed assets include tangible, intangible and financial assets. The change in the period was mainly due to the capital expenditures made and to the change in the scope of consolidation and specifically to the acquisition of ERG Eolica Adriatica and to the effects of the TotalErg joint venture.

NET WORKING CAPITAL

Net working capital includes inventory, trade receivables and payables, and excise duties payable.

The decrease relative to 31 December 2009 is mainly linked to the effects of the TotalErg joint venture and to phenomena linked to net working capital dynamics.

OTHER ASSETS

These mostly comprise deferred tax assets, receivables from Tax Authorities for tax prepayments and payments already made against future provision of services.

OTHER LIABILITIES

These mainly concern the deferred tax liabilities calculated on the differences between statutory reporting values and corresponding fiscal values (principally fixed assets and inventories), the estimate of income taxes owed for the period, the provisions for liabilities and charges, excise tax and VAT payables and the deferred income resulting from deferred recognition in the Income Statement of the CIP 6 tariff increase on sales of electricity by subsidiary ISAB Energy.

NET FINANCIAL INDEBTEDNESS

(EUR MILLION)	12/31/2010	12/31/2009
SUMMARY OF THE GROUP'S INDEBTEDNESS		
MEDIUM/LONG-TERM FINANCIAL INDEBTEDNESS	1,221.7	752.0
SHORT-TERM FINANCIAL INDEBTEDNESS	(498.9)	(89.8)
TOTAL	**722.9**	**662.2**

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

(EUR MILLION)	12/31/2010	12/31/2009
MEDIUM/LONG-TERM FINANCIAL INDEBTEDNESS		
MEDIUM/LONG-TERM BANK BORROWINGS	667.6	901.0
CURRENT PORTION OF MORTGAGES AND LOANS	(227.6)	(447.9)
MEDIUM/LONG-TERM FINANCIAL PAYABLES	67.5	54.5
TOTAL	**507.5**	**507.6**
MEDIUM/LONG-TERM PROJECT FNANCING	792.8	324.1
CURRENT PORTION OF PROJECT FINANCING	(78.6)	(79.8)
TOTAL PROJECT FINANCING	**714.2**	**244.3**
TOTAL	**1,221.7**	**752.0**

The medium-long term financial payables refer mainly to interest-bearing loans granted to ISAB Energy S.r.l. by IPM Eagle (EUR 21 million) which, through its subsidiaries, owns 49% of the company. Repayment is subject to the conditions set out in the Project Fnancing agreement. The medium-long term financial payables include, additionally, the liabilities deriving from the fair value valuation of derivative instruments and the medium-long term portion of the financial payables to non consolidated Group companies (mainly ISAB S.r.l.).

The payables for "medium-long term Project Fnancing" are for:

- Loans for EUR 104 million granted to ISAB Energy S.r.l. by a pool of international banks. These loans were originally granted for an amount equal approximately to 90% of the cost of the cogeneration plant;
- EUR 295 million in loans granted to ERG Power S.r.l. for the construction of the new CCGT plant;

- EUR 393 million in loans granted to companies in the Renewable Energy division for the construction of wind farms.

In compliance with IAS 39, the ancillary expenses incurred to obtain the loans were entered in reduction of the payable to which they refer, according to the amortised cost method.

The breakdown of short-term financial indebtedness is shown below:

(EUR MILLION)	12/31/2010	12/31/2009
SHORT TERM FINANCIAL INDEBTEDNESS (CASH AND CASH EQUIVALENTS)		
SHORT-TERM BANK BORROWINGS	527.5	1,095.2
CURRENT PORTION OF MORTGAGES AND LOANS	227.6	447.9
OTHER SHORT-TERM FINANCIAL DEBTS	33.4	93.0
SHORT-TERM FINANCIAL LIABILITIES	**788.5**	**1,636.0**
CASH AND CASH EQUIVALENTS	(1,141.7)	(1,552.7)
SECURITIES AND OTHER SHORT-TERM FINANCIAL RECEIVABLES	(53.4)	(7.8)
SHORT-TERM FINANCIAL ASSETS	**(1,195.1)**	**(1,560.4)**
SHORT-TERM PROJECT FINANCING	78.6	79.8
CASH AND CASH EQUIVALENTS	(170.8)	(245.2)
PROJECT FINANCING	**(92.3)**	**(165.4)**
TOTAL	**(498.9)**	**(89.8)**

Other short-term financial payables mainly comprise:
- Financial payables to non-consolidated companies in the Group (primarily ISAB S.r.l.);
- Short-term payables to companies controlled by IPM Eagle.

The amount of cash and cash equivalents consists of the liquidity arising principally from the collection, in December 2008 and February 2009, of the consideration for the disposal of 49% of ISAB S.r.l and of the restricted bank accounts pursuant to the conditions set out in the Project Fnancing agreements.

Short term financial assets also include short-term securities for use as liquidity.
The decrease in "Securities and other short term financial receivables" refers mainly to a higher temporary utilisation of liquidity at 31 December 2010 in the securities described above.

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

(EUR MILLION)	YEAR 2010	YEAR 2009
CASH FLOWS FROM OPERATING ACTIVITIES		
ADJUSTED CASH FLOWS FROM CURRENT OPERATIONS (1)	67.2	67.7
INCOME TAX PAID	(15.0)	(155.0)
CHANGE IN NET WORKING CAPITAL	(9.2)	151.6
OTHER CHANGES IN OPERATING ASSETS AND LIABILITIES	75.9	28.9
TOTAL	**119.0**	**93.2**
CASH FLOWS FROM INVESTING ACTIVITIES		
NET CAPITAL EXPENDITURES ON TANGIBLE AND INTANGIBLE FIXED ASSETS (2)	(192.6)	(298.7)
NET CAPITAL EXPENDITURES ON FINANCIAL FIXED ASSETS	6.5	(0.4)
TOTAL	**(186.1)**	**(299.1)**
CASH FLOW FROM SHAREHOLDERS' EQUITY		
DIVIDENDS PAID	(80.7)	(133.4)
OTHER CHANGES IN SHAREHOLDERS' EQUITY	0.6	1.7
TOTAL	**(80.1)**	**(131.7)**
CHANGE IN SCOPE OF CONSOLIDATION	**86.5**	**(50.3)**
CHANGE IN NET FINANCIAL INDEBTEDNESS	**(60.7)**	**(387.9)**
INITIAL NET FINANCIAL INDEBTEDNESS	**662.2**	**274.2**
CHANGE DURING PERIOD	***60.7***	***387.9***
ENDING NET FINANCIAL INDEBTEDNESS	**722.9**	**662.2**

(1) item does not include inventory gains (losses), deferral of the CIP 6 tariff increase, current income tax for the period and the 2010 portion of the insurance reimbursements, already collected in 2009
(2) item does not include capitalised costs for cyclical maintenance

Net financial indebtedness was EUR 723 million, a EUR 61 million increase compared with the 31 December 2009 figure (EUR 662 million).
The higher indebtedness relative to 31 December 2009 is mainly due to the acquisition of ERG Eolica Adriatica (EUR 280 million), to the capital expenditures made, partly offset by the cash flow of the year and to the changes in working capital as a result of greater volumes, in particular in the Thermoelectric and Renewable Sources segments. Additionally, of note is the decreased indebtedness linked to the effects of the TotalErg joint venture which caused the deconsolidation of the indebtedness, as at 1 October 2010, of ERG Petroli and of its subsidiaries, of EUR 258 million, and the collection of the equalisation payment of EUR 101 million.

A detailed analysis of capital expenditures effected may be found in the specific section.

ALTERNATIVE PERFORMANCE INDICATORS

In order to enhance understandability of the performance of the business segments, the financial results are also shown at **adjusted replacement cost**, thus excluding gains (losses) on inventories and non-recurring items, and including the contribution, proportionally to ERG's shareholding (51%), of the replacement cost results of the joint ventures ISAB S.r.l. and TotalErg S.p.A.

The results at replacement cost and the results at adjusted replacement cost are indicators that are not defined in the International Financial Reporting Standards (IAS/IFRS). Management deems that these indicators are important parameters for measuring ERG Group's operating performance, and are generally used by petroleum industry operators in their financial reporting.
Since the composition of these indicators is not regulated by the applicable accounting standards, the method used by the Group to determine these measures may not be consistent with the method used by other operators and so these might not be fully comparable.

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

Inventory gains (losses) are equal to the difference between the replacement cost of sold products in the period and the cost resulting from application of the weighted average cost. They represent the higher (lower) value, in the event of price increases (decreases), applied to the quantities corresponding to levels of inventories physically present at the beginning of the period and still present at the end of the period.

Non-recurring items include significant but unusual earnings.

The performance also include the **contribution of the joint ventures ISAB S.r.l. and TotalErg S.p.A. for the portion attributable to ERG (51%)**.
To enhance understandability of the performance of the Refining & Marketing segment, the results of the business are also shown at adjusted replacement cost that takes into account, for the portion attributable to ERG (51%), the results of ISAB S.r.l. and of TotalErg S.p.A., whose contribution to the non-adjusted cost Income Statement is represented by the valuation of the investment under the equity method of accounting.

Consistently with the above, net financial indebtedness is also shown at adjusted replacement cost that takes into account the portion attributable to ERG (51%) of the net financial position of the joint ventures ISAB S.r.l. and TotalErg S.p.A., net of the relevant intra-group items.

TOTALERG JOINT VENTURE – IFRS 5

With reference to the TotalErg joint venture, already commented in the Significant Events, in the Consolidated Financial Statements the results of the investees involved in the joint venture (discontinued operations) are indicated separately in accordance with IFRS 5.
For greater clarity, it was deemed appropriate to report and comment in this Report on Operations the results including also those pertaining to the aforesaid assets and liabilities involved in the joint venture.
The tables that follow provide the reconciliation values.

RECONCILIATION WITH OPERATING RESULTS AT ADJUSTED REPLACEMENT COST

EBITDA

	NOTE	YEAR 2010	YEAR 2009
EBITDA FROM "CONTINUING" OPERATIONS [1]		**153.9**	**93.3**
CONTRIBUTION FROM DISCONTINUED OPERATIONS		*83.8*	*136.1*
EBITDA		**237.7**	**229.4**
EXCLUSION OF INVENTORY GAINS / LOSSES		*(62.4)*	*(85.7)*
EXCLUSION OF NON CHARACTERISTIC ITEMS:			
CORPORATE DIVISION			
- ANCILLARY EXPENSES ON TOTALERG JOINT VENTURE	**1**	*11.3*	*–*
COASTAL REFINING			
- REORGANISATION EXPENSES	**2**	*1.5*	*–*
- ENVIRONMENTAL EXPENSES	**3**	*25.0*	*–*
INTEGRATED DOWNSTREAM			
- ITEMS RELATING TO ERG PETRÓLEOS	**4**	*–*	*(3.6)*
- ENVIRONMENTAL EXPENSES ON SALES OUTLETS	**5**	*–*	*8.3*
POWER & GAS			
- CLEAN-UP AND REMOVAL EXPENSES	**6**	*–*	*0.9*
- ACCIDENT IN TRAIN 1 ISAB ENERGY (INSURANCE REIMBURSEMENT FOR DIRECT DAMAGES)	**7**	*–*	*(127.0)*
EBITDA AT REPLACEMENT COST		**213.2**	**22.3**
ISAB S.R.L. 51% CONTRIBUTION AT ADJUSTED REPLACEMENT COST	**8**	*79.6*	*69.3*
TOTALERG 51% CONTRIBUTION AT REPLACEMENT COST	**9**	*12.5*	*–*
EBITDA AT ADJUSTED REPLACEMENT COST		**305.4**	**91.7**

(1) does not take into account the results of the first nine months of the assets and liabilities involved in the TotalErg Joint Venture and of the ancillary costs that in the consolidated Financial Statements are indicated separately in accordance with IFRS 5

Amortisation, depreciation and write-downs

	NOTE	YEAR 2010	YEAR 2009
DEPRECIATION ON CONTINUING OPERATIONS [1]		**(153.1)**	**(110.3)**
CONTRIBUTION FROM DISCONTINUED OPERATIONS		*(37.6)*	*(50.8)*
DEPRECIATION		**(190.7)**	**(161.1)**
EXCLUSION OF NON CHARACTERISTIC ITEMS:			
INTEGRATED DOWNSTREAM			
- EXPENSES RELATING TO ERG PETRÓLEOS	**3**	*–*	*0.5*
RENEWABLE ENERGY SOURCES			
- DEPRECIATION IN THE WIND POWER BUSINESS	**10**	*36.6*	*23.2*
AMORTISATION AND DEPRECIATION AT REPLACEMENT COST		**(154.1)**	**(137.4)**
ISAB S.R.L. 51% CONTRIBUTION AT ADJUSTED REPLACEMENT COST	**8**	*(51.6)*	*(45.9)*
TOTALERG 51% CONTRIBUTION AT REPLACEMENT COST	**9**	*(13.8)*	*–*
AMORTISATION AND DEPRECIATION AT ADJUSTED REPLACEMENT COST		**(219.5)**	**(183.3)**

(1) does not take into account the results of the first nine months of the assets and liabilities involved in the TotalErg Joint Venture and of the ancillary costs that in the consolidated Financial Statements are indicated separately in accordance with IFRS 5

EBIT

	NOTE	YEAR 2010	YEAR 2009
EBIT AT REPLACEMENT COST		**59.1**	**(115.1)**
ISAB S.R.L. 51% CONTRIBUTION AT ADJUSTED REPLACEMENT COST	**8**	*28.0*	*23.5*
TOTALERG 51% CONTRIBUTION AT REPLACEMENT COST	**9**	*(1.2)*	*–*
EBIT AT ADJUSTED REPLACEMENT COST		**85.9**	**(91.6)**

Group's net profit (loss)

	NOTE	YEAR 2010	YEAR 2009
GROUP'S NET PROFIT (LOSS)		**10.4**	**7.0**
EXCLUSION OF INVENTORY GAINS / LOSSES		*(52.8)*	*(63.9)*
EXCLUSION OF NON CHARACTERISTIC ITEMS:			
EXCLUSION OF EXPENSES ON TOTALERG JOINT VENTURE	**1**	*11.1*	*–*
EXCLUSION OF CAPITAL GAINS ON TOTALERG JOINT VENTURE	**11**	*(62.3)*	*–*
EXCLUSION OF ITEMS RELATING TO ERG PETRÓLEOS	**4**	*7.7*	*(3.1)*
EXCLUSION OF ITEMS RELATING TO "REORGANISATION EXPENSES"	**2**	*1.5*	*–*
EXCLUSION OF TOTALERG NON RECURRING ITEMS	**12**	*12.2*	*–*
EXCLUSION OF 2009 TAX ASSET WRITE-OFF	**13**	*6.2*	*–*
EXCLUSION OF NON RECURRING ITEMS "ENVIRONMENTAL EXPENSES ON SALES OUTLETS"	**5**	*–*	*5.1*
EXCLUSION OF NON RECURRING ITEMS "COASTAL REFINING ENVIRONMENTAL EXPENSES"	**3**	*18.1*	*–*
EXCLUSION OF ITEMS RELATING TO ACCIDENT IN TRAIN 1 ISAB ENERGY	**7**	*–*	*(40.2)*
EXCLUSION OF NON RECURRING ITEMS "DEPRECIATION IN THE WIND POWER BUSINESS"	**10**	*27.8*	*14.9*
EXCLUSION OF OTHER NON RECURRING ITEMS	**14**	*–*	*0.6*
GROUP NET PROFIT AT REPLACEMENT COST (1)		**(20.1)**	**(79.5)**

(1) also corresponds to Group net profit at adjusted replacement cost

Notes

(1) in 2010 ancillary expenses incurred as part of the TotalErg joint venture;
(2) reorganisation costs;
(3) provisions for environmental expenses related to the Priolo industrial area in reference to ongoing negotiations;
(4) in 2010, write-off of the shareholding in ERG Petróleos, an associated company that is no longer operating in 2009 capital gains realised on the disposal of retail outlets in Spain net of related ancillary charges;
(5) in 2009 a provision of EUR 8 million for environmental charges relating to service stations;
(6) removal and clean-up costs relating to the thermoelectric power plants and construction of the new Turbogas facility at the ERG Nuove Centrali North site;
(7) in 2009 insurance indemnification, collected fully during the year, relating to coverage of property damages following the accident that occurred in October 2008 at the ISAB Energy plant;
(8) results at replacement cost for ISAB S.r.l. net of inventory gains (losses) and non-recurring items;
(9) results at replacement cost for TotalErg net of inventory gains (losses) and non-recurring items;
(10) in 2010 and 2009 costs for write-off of assets connected with the renewable energy segment whose recoverability is no longer deemed certain;

(11) capital gain realised within the TotalErg joint venture;
(12) ERG share of the extraordinary expenses incurred in the fourth quarter 2010 by TotalErg for the integration of Total and ERG activities;
(13) write-off of tax assets relating to prior losses, whose recoverability is no longer deemed certain;
(14) the Group's share of the impact arising from other non-recurring items net of the applicable tax charges.

RECONCILIATION WITH ADJUSTED NET FINANCIAL INDEBTEDNESS

	12/31/2010	12/31/2009
ADJUSTED NET FINANCIAL INDEBTEDNESS		
NET FINANCIAL INDEBTEDNESS	**722.9**	**662.2**
NET FINANCIAL POSITION OF ISAB S.R.L.	*(38.3)*	*(60.7)*
NET FINANCIAL POSITION OF TOTALERG	*403.4*	*–*
ELIMINATION OF INTRA-GROUP ITEMS	*(6.0)*	*(15.0)*
ADJUSTED NET FINANCIAL INDEBTEDNESS	**1,082.0**	**586.5**

The adjusted figures for net financial indebtedness take into consideration the portion attributable to ERG (51%) of the net financial position of ISAB S.r.l. and TotalErg, net of the related intra-group items.

RECONCILIATION WITH THE VALUES INDICATED IN THE NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The reconciliation between the reclassified statements reported and commented herein and the values indicated in the Notes to the Consolidated Financial Statements follows.

RECLASSIFIED 2010 INCOME STATEMENT

(EUR MILLION)	VALUES INDICATED IN THE CONSOLIDATED FINANCIAL STATEMENTS	REVERSAL OF IFRS 5 RECLASSIFICATIONS	VALUES INDICATED IN THE REPORT ON OPERATIONS
REVENUES FROM ORDINARY OPERATIONS	5,382,9	2,430.0	7,812.9
OTHER REVENUES AND INCOME	77,5	9.0	86.6
TOTAL REVENUES	**5,460.4**	**2,439.1**	**7,899.5**
COSTS FOR PURCHASES AND INVENTORY CHANGES	(4,553.1)	(2,112.9)	(6,666.0)
COSTS FOR SERVICES AND OTHER OPERATING COSTS	(753.4)	(242.4)	(995.8)
EBITDA	**153.9**	**83.8**	**237.7**
AMORTISATION, DEPRECIATION AND IMPAIRMENTS OF FIXED ASSETS	(153.1)	(37.6)	(190.7)
INCOME FROM SALE OF BUSINESS UNIT	–	63.4	63.4
NET FINANCIAL INCOME (EXPENSE)	(45.7)	7.3	(38.4)
NET INCOME (EXPENSES) FROM SHAREHOLDINGS	7.1	3.9	11.0
PROFIT (LOSS) BEFORE TAXES	**(37.8)**	**120.8**	**83,0**
INCOME TAXES	(11.9)	(27.7)	(39.6)
NET PROFIT (LOSS) FROM CONTINUING ACTIVITIES	**(49.7)**	**93.1**	**43.4**
NET PROFIT (LOSS) FROM DISCONTINUED OPERATIONS	*93.1*	*(93.1)*	–
PROFIT (LOSS) FOR THE YEAR	**43.4**	**–**	**43.4**
THIRD PARTY PROFIT (LOSS)	(33.0)	–	(33.0)
NET GROUP PROFIT (LOSS)	**10.4**	**–**	**10.4**

RECLASSIFIED 2009 INCOME STATEMENT

(EUR MILLION)	VALUES INDICATED IN THE CONSOLIDATED FINANCIAL STATEMENTS	REVERSAL OF IFRS 5 RECLASSIFICATIONS	VALUES INDICATED IN THE REPORT ON OPERATIONS
REVENUES FROM ORDINARY OPERATIONS	3,738.5	2,244.1	5,982.6
OTHER REVENUES AND INCOME	250.3	4.3	254.6
TOTAL REVENUES	**3,988.8**	**2,248.5**	**6,237.2**
COSTS FOR PURCHASES AND INVENTORY CHANGES	(3,236.6)	(1,795.3)	(5,031.9)
COSTS FOR SERVICES AND OTHER OPERATING COSTS	(658.9)	(317.1)	(975.9)
EBITDA	**93.3**	**136.1**	**229.4**
AMORTISATION, DEPRECIATION AND IMPAIRMENTS OF FIXED ASSETS	(110.3)	(50.8)	(161.1)
INCOME FROM SALE OF BUSINESS UNIT	–	–	–
NET FINANCIAL INCOME (EXPENSE)	(12.1)	(5.8)	(17.9)
NET INCOME (EXPENSES) FROM SHAREHOLDINGS	20.3	15.4	35.7
PROFIT (LOSS) BEFORE TAXES	**(8.8)**	**94.9**	**86.1**
INCOME TAXES	(0.7)	(40.6)	(41.3)
NET PROFIT (LOSS) FROM CONTINUING ACTIVITIES	**(9.5)**	**54.2**	**44.8**
NET PROFIT (LOSS) FROM DISCONTINUED OPERATIONS	*54.2*	*(54.2)*	–
PROFIT (LOSS) FOR THE YEAR	**44.8**	**–**	**44.8**
THIRD PARTY PROFIT (LOSS)	(37.8)	–	(37.8)
NET GROUP PROFIT (LOSS)	**7.0**	**–**	**7.0**

The column "IFRS reclassifications reversal" shows the results of the investee companies involved in the TotalErg Joint Venture and the related capital gain net of ancillary costs.

ERG S.P.A. FINANCIAL STATEMENTS

The statutory separate year-end financial statements of ERG S.p.A. as of 31 December 2010 have been drawn up on the basis of the Standards issued by the International Accounting Standards Board (IASB) and approved by the European Union, inclusive of all international standards that have undergone interpretation (International Accounting Standards – IAS – and International Financial Reporting Standards – IFRS) and the interpretations of the International Financial Reporting Interpretation Committee (IFRIC) and of the previous Standing Interpretations Committee (SIC).

ERG GROUP REORGANISATION

As a result of the merger by takeover of the companies ERG Raffinerie Mediterranee S.p.A. and ERG Power & Gas S.p.A. into the parent company ERG S.p.A., which took place on 1 July 2010, ERG S.p.A. was reorganised in two divisions, Refining & Marketing and Power & Gas, together with a General Corporate Head Office.

The new structure is aimed at optimising decision processes and improving management efficiency, providing the Group with a new organisation that is consistent with its business portfolio and suitable for enabling it to take advantage of the opportunities that will present themselves following the expected global economic recovery.

Therefore, in this Report on Operations, the figures of the compared periods were reclassified including also the income and expenses and the assets/liabilities of the merged companies.

INCOME STATEMENT

(EUR MILLION)	FY 2010	FY 2009 (PRO-FORMA)
RECLASSIFIED INCOME STATEMENT		
REVENUES FROM ORDINARY OPERATIONS	4,867.8	3,457.1
OTHER REVENUES AND INCOME	20.9	19.4
TOTAL REVENUES	**4,888.7**	**3,476.5**
PURCHASE COSTS AND INVENTORY CHANGES	(4,321.2)	(3,056.2)
COSTS FOR SERVICES AND OTHER OPERATING COSTS	(733.6)	(556.3)
EBITDA	**(166.0)**	**(136.0)**
AMORTISATION, DEPRECIATION AND WRITE-DOWNS OF FIXED ASSETS	(7.0)	(5.4)
PROCEEDS FROM SALE OF BUSINESS UNIT	(3.3)	8.5
NET FINANCIAL INCOME (EXPENSES)	434.9	–
NET INCOME (LOSS) FROM EQUITY INVESTMENTS	108.4	(63.4)
PROFIT BEFORE TAXES	**367.0**	**(196.3)**
INCOME TAXES	31.1	36.5
NET PROFIT (LOSS)	**398.1**	**(159.7)**

REVENUES FROM ORDINARY OPERATIONS

Revenues for 2010 amounted to EUR 4,868 million compared with EUR 3,457 million in 2009. The increase is due to the following:

– increased **Refining & Marketing** revenues, mainly linked to the significant rise in product prices and to the planned maintenance shut-down of the ISAB Refinery, carried out in the first half of 2009;

– the increased revenues of the **Power & Gas** division generated mainly by the increased sales, consistent with the consolidation of the marketing of electricity, other utilities and gas.

OTHER REVENUES AND INCOME

The other revenues are mainly from Group companies and they essentially pertain to revenues for the sale of mandatory inventories, advertising expense recoveries and others.

PURCHASE EXPENSES AND CHANGES IN INVENTORY

Purchase expenses mainly refer to purchases of crude oil and products and they include ancillary expenses and expenses for transport, insurance, commissions, inspections and customs fees. Purchase expenses also include purchase expenses in the thermoelectric business for procurement of electricity, other utilities and natural gas.
It should be noted that on the basis of the weighted average cost method, the inventory change is impacted not only by the exact level of inventories in stock at the end of the period, but also by the variation in raw material and finished product purchase prices.

COSTS FOR SERVICES AND OTHER OPERATING COSTS

Costs for services include processing fees paid to the ISAB Refinery, commercial costs, electricity and natural gas distribution and transport costs, and compensation to ERG Power S.r.l. for the tolling contract.
The other operating costs mainly relate to cost of labour, rent, provisions for risks and charges and to taxes other than income taxes.
The value exceeds the pro-forma figure of 2009 by effect of the higher processing costs charged back by ISAB S.r.l., of the higher distribution and transport costs and of the higher provisions for bad debt.

AMORTISATION, DEPRECIATION AND WRITE-DOWNS

The increase in amortisation and depreciation is a consequence of the new capital expenditures made on software.

NET FINANCIAL INCOME (EXPENSES)

The most significant entries in this item are exchange rate gains and losses, financial income from subsidiaries and bank interest expenses.

PROCEEDS FROM SALE OF BUSINESS UNIT

The net proceeds include the capital gain, amounting to EUR 435 million, realised within the TotalErg joint venture.

NET INCOME (LOSS) FROM SHAREHOLDINGS

These consist primarily of the dividends collected and by the write-downs of some shareholdings.

INCOME TAXES

The item includes the balance of the taxes driving from the recovery of the tax loss of the Company for IRES purposes.

STATEMENT OF FINANCIAL POSITION

(EUR MILLION)	12/31/2010	12/31/2009 (PRO-FORMA)
RECLASSIFIED STATEMENT OF FINANCIAL POSITION		
FIXED ASSETS	1,699.4	952.1
WORKING CAPITAL	(20.5)	53.8
EMPLOYEES' SEVERANCE INDEMNITIES	(1.9)	(2.7)
OTHER ASSETS	96.0	119.1
OTHER LIABILITIES	(125.9)	(92.1)
NET INVESTED CAPITAL	**1,647.1**	**1,030.1**
SHAREHOLDERS' EQUITY	1,657.3	1,315.6
NET FINANCIAL INDEBTEDNESS	(10.3)	(285.5)
SHAREHOLDERS' EQUITY AND FINANCIAL DEBT	**1,647.1**	**1,030.1**

At 31 December 2010 net invested capital was about EUR 1,647 million, up by about EUR 617 million relative to 2009.

FIXED ASSETS

Fixed assets mainly comprise financial fixed assets. The increase relative to the previous year derives mainly from the fair value recognition of the TotalErg shareholding as a result of the joint venture that took effect on 1 October 2010.

NET WORKING CAPITAL

Net working capital comprises trade receivables and payables from and to other Group companies and third parties.

OTHER ASSETS

These mostly comprises deferred tax assets and other receivables from Group companies. The item also includes receivables for tax prepayments and payments already made against future provision of services.

OTHER LIABILITIES

These mainly comprise short-term tax liabilities, payables to other Group companies and other payables. The item also includes the other provisions for liabilities and charges.

NET FINANCIAL INDEBTEDNESS

(EUR MILLION)	12/31/2010	12/31/2009 (PRO-FORMA)
SUMMARY OF NET INDEBTEDNESS		
MEDIUM/LONG-TERM FINANCIAL INDEBTEDNESS	420.5	424.1
SHORT-TERM FINANCIAL INDEBTEDNESS	(430.8)	(709.6)
TOTAL	**(10.3)**	**(285.5)**

The following table illustrates the medium/long-term financial debt.

(EUR MILLION)	12/31/2010	12/31/2009 (PRO-FORMA)
MEDIUM/LONG-TERM FINANCIAL		
CURRENT PORTION OF MORTGAGES AND LOANS	638.9	622.7
MEDIUM/LONG-TERM FINANCIAL PAYABLES	(218.4)	(198.6)
TOTAL	**420.5**	**424.1**

The net short term financial indebtedness is as follows:

(EUR MILLION)	12/31/2010	12/31/2009 (PRO-FORMA)
SHORT TERM FINANCIAL INDEBTEDNESS (CASH AND CASH EQUIVALENTS)		
SHORT-TERM BANK BORROWINGS	729.5	874.7
OTHER SHORT-TERM FINANCIAL DEBTS	1.4	3.2
FINANCIAL PAYABLES TO SUBSIDIARIES	37.7	236.7
SHORT-TERM FINANCIAL LIABILITIES	**768.5**	**1.114.7**
CASH AND CASH EQUIVALENTS	(1.114,9)	(1.483,9)
SECURITIES AND OTHER SHORT-TERM FINANCIAL RECEIVABLES	(50.2)	(5.6)
FINANCIAL RECEIVABLES FROM SUBSIDIARIES	(34.2)	(334.8)
SHORT-TERM FINANCIAL ASSETS	**(1.199,3)**	**(1.824,3)**
TOTAL	**(430.8)**	**(709.6)**

Short term financial payables and receivables to and from subsidiaries mainly comprise the balances of the financial and centralised treasury accounts held with the other companies of the Group within the centralised finance management activity.
The other short-term financial payables also include the fair value of the extant derivatives at year end.

OPERATING NOTES ON THE MAIN NON-CONSOLIDATED SUBSIDIARY AND ASSOCIATED COMPANIES (1)

Ionio Gas S.r.l.

The company, in which ERG Power & Gas S.p.A. (now ERG S.p.A.) owns a 50% stake, was incorporate in December 2005 to build a regasification plant on the area adjacent to the Priolo Refinery.

On 12 April 2010, the Services Committee met and expressed its positive opinion on the project.

The company, which is not yet operational, ended 2010 with a loss of about EUR 0.9 million.

Espansione S.r.l.

In 2007, ERG Power & Gas S.p.A. (now ERG S.p.A.) acquired a 27.01% share in Espansione S.r.l. Soluzioni per l'Energia, operating in the marketing of electricity on the free market.

The company expects to end 2010 with a profit of about EUR 0.1 million.

ERG Rivara Storage S.r.l.

The company was incorporated on 24 June 2008 with the English group Independent Resources (IRG) to develop the natural gas storage site in Rivara, in the Modena province. The share capital subscribed by ERG Power & Gas S.p.A. (now ERG S.p.A.) is 15% for a value of EUR 9.5 million.

The company, not yet operational, ended the financial year on 30 September 2010 with a loss of EUR 0.2 million.

With regard to the ISAB S.r.l. and TotalErg Joint Ventures, please refer to the comments provided in the preceding chapters.

1 data produced on the basis of national accounting standards

MANAGEMENT AND COORDINATION BY ERG S.P.A.

ERG S.p.A. performs management and coordination activity on directly and indirectly controlled companies represented in particular by:

- definition of business strategies;
- indication of strategic lines pertaining to organisational aspects and personnel policies at the macro level;
- management of strategic finance and Group treasury;
- management of tax issues, above all in terms of planning;
- management of communication policies and institutional relations;
- management of environment, health and safety policies;
- centralised management of IT systems;
- definition of risk management policies;
- centralised management of company compliance;
- legal support within the more significant transactions (Special Projects);
- definition of common internal audit policies;
- definition of guidelines for the preparation of the financial statements;
- management of non-oil purchases.

As a result of the extraordinary transactions carried out during the year, currently the directly and indirectly controlled companies on which management and coordination is carried out within the scope described above are: ERG Nuove Centrali S.p.A., ISAB Energy S.r.l., ISAB Energy Services S.r.l., ERG Power S.r.l. and ERG Oil Sicilia S.r.l.

ERG S.p.A. also carried out management and coordination on the subsidiary ERG Renew S.p.A., currently within the scope of the definition of business strategies, the indication of strategic lines relating to organisational aspects and personnel policies at the macro level, the management of strategic finance, the management of tax issues especially in terms of planning, the management of communication policies and institutional relations, the management of environment, health and safety policies, the centralised management of IT systems, the definition of risk management policies, the centralised management of compliance, legal support within the more significant transactions, the definition of common internal audit policies.

In 2010 ERG S.p.A. continued to carry out it management of the various shareholdings, directly and indirectly owned, also through service contracts for staff activities for a total price of EUR 9.5 million.
It also received charge-backs of costs linked to research and development projects for EUR 0.3 million from ERG Renew S.p.A.
ERG S.p.A. provides centralised management of the treasury of some subsidiaries and starting on 25 May 2009 it activated a credit line in favour of ERG Renew S.p.A. In 2010, following the acquisition of ERG Eolica Adriatica S.r.l., the credit line was expanded from the original EUR 231 million to a total amount of EUR 311 million, by granting an additional "Tranche B" to ERG Renew, up to EUR 80 million to be used solely for the acquisition of 100% of the stock of the company in question and for any ancillary costs connected to the acquisition. Said "Tranche B" will expire on 31 December 2015 with a single repayment at maturity, subject to ERG's right to require its early repayment in case of share capital increases in ERG Renew, and a spread of 300 basis points relative to the Euribor rate. The Loan was subsequently granted by ERG Renew to ERG Eolica Italia at the same condition with an additional spread of 5 basis points.

Moreover, ERG S.p.A. manages, as the consolidating entity, the Group VAT and the national tax consolidation with the Group's main subsidiaries.
All transactions pertain to ordinary operations and are at market conditions.

PRIVACY – SECURITY POLICY DOCUMENT

In 2010 the ERG Group duly updated its "Security Policy Document" (DPS) prepared in accordance with Article 34, Paragraph 1, Letter g) of Legislative Decree 196/03 (Privacy Code) in the manners prescribed by the "Technical Regulations on Minimum Security Measures" per Schedule B of the Code. .The DPS is the key instrument through which the Companies of the ERG Group define, promote and update their respective security policies to assure an adequate level of protection of the personal data subjected to treatment, by the responsible managers, with or without the aid of computerised instruments, in full compliance with the provisions of personal data protection regulations.

SHAREHOLDINGS OWNED BY DIRECTORS, STATUTORY AUDITORS, GENERAL MANAGERS, AND MANAGERS WITH STRATEGIC RESPONSIBILITIES

Pursuant to applicable CONSOB Resolutions, the following table illustrates the shareholdings owned by the Directors, Statutory Auditors, General Managers and Executives with strategic responsibilities at the company and its subsidiaries.

FULL NAME	INVESTEE COMPANY	NUMBER OF SHARES OWNED AT END OF THE PREVIOUS YEAR	NUMBER OF SHARES OWNED	NUMBER OF SHARES SOLD	NUMBER OF SHARES OWNED AT END THE YEAR
ALESSANDRO GARRONE	ERG S.P.A.	2,000	–	–	2,000
FABRIZIA GIORDANO (1)	ERG S.P.A.	12,725	–	–	12,725
RICCARDO GIORDANO (1)	ERG S.P.A.	12,725	–	7,700	5,025
DIRIGENTI STRATEGICI	ERG S.P.A.	11,350	–	3,000	8,350
DIRIGENTI STRATEGICI	ERG RENEW S.P.A.	10,000	–	10,000	–

(1) Children of Pietro Giordano

SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

On **3 January 2011** ERG S.p.A. filed with CONSOB the draft document for the public Tender Offer promoted on all common stock representing the entire share capital of ERG Renew S.p.A. non in the possession of ERG S.p.A.

On **13 January 2011** the Board of Directors of ERG Renew S.p.A. approved the notice per Article 103, Paragraph 3, of Legislative Decree 58 of 24 February 1998, pertaining to the voluntary public Tender Offer promoted by the parent company ERG S.p.A. on all the stock of ERG Renew S.p.A. not owned by ERG S.p.A.
The Board of Directors, upon acknowledging the fairness opinion issued by the independent financial advisor Merrill Lynch International, deemed congruous, in financial terms, the price of EUR 0.97 per share proposed by ERG S.p.A.

On **18 January 2011** CONSOB approved the document relating to the public Tender Offer promoted by ERG S.p.A. on all common stock representing the entire share capital of ERG Renew S.p.A. non in the possession of ERG S.p.A. including the notice by ERG Renew S.p.A. per Article 103, Paragraph 3, of Legislative Decree 58 of 24 February 1998.

On **31 January 2011** the Board of Directors of ERG S.p.A. approved the exercise of the put option for an 11% share of ISAB S.r.l.
The transaction is part of the agreement signed in 2008 with LUKOIL, providing for the creation of a Joint Venture for the joint management of the ISAB Refinery of Priolo (Sicily). The agreement provides ERG with a put option for its own share, which can be exercised over 4 years in one or more portions, no more than once every 12 months.
The value of the sale to LUKOIL of the 11% share in ISAB (excluding inventories) is EUR 205 million, net of a reduction of EUR 15 million, as provided by the subsequent amendments to the original agreement of 24 June 2008.
As a result of the transaction, 60% of ISAB will be owned by LUKOIL and 40% by ERG. The Company will continue to be managed by the two shareholders according to the existing shareholder agreements with equally shared governance on major business decisions, and with an operating agreement that assures its autonomy and operating independence.
The closing of the transaction is expected at the end of the first quarter 2011.

On **18 February 2011** ERG S.p.A. announced, after the conclusion of the period of the public Tender Offer promoted on all common stock of the entire share capital of ERG Renew S.p.A. not already in its possession, that it had obtained acceptances for a total of 13,962,309 Shares, i.e. 62.748% of the Shares subject to the Tender Offer and equal to 10.524% of the share capital of the Issuer, for a total value of EUR 13,543,439.73. During the Tender Offer acceptance period, ERG also made purchases outside the Tender Offer for a total of 952,629 Shares, representing 0.718% of the share capital of the Issuer. Therefore, taking into account the Shares handed over in acceptance of the Tender Offer, the Shares already owned as of the initial date of the Tender Offer and those purchased outside the Tender Offer, as at 18 February 2011 the Bidder held a total of 125,557,206 Shares, representing 94.641% of the share capital of the Issuer. Although a share of at least 95% of the share capital of the Issuer was not reached, ERG, deeming the achieved share to be satisfactory, waived the Condition of the Minimum Level of Acceptances prescribed in Paragraph A.1(i) of the Tender Document and announced that it deemed the condition for the effectiveness of the Tender, prescribed in Paragraph A.1.(ii) of the Tender Document, to be fulfilled.
In consideration of the above, ERG deemed the Tender Offer to be effective and therefore it announced that it would purchase all Shares handed over in acceptance of the Tender Offer within the terms per the Tender Document.

BUSINESS OUTLOOK

RISKS AND UNCERTAINTIES FACING THE BUSINESS OUTLOOK

In reference to the estimates and forecasts contained herein, it is pointed out that actual results may differ even significantly from those announced in relation to a plurality of factors, such as: future trends in crude oil prices, the operating performance of plants, the impact of regulations for the oil and energy industry and for the environment, other changes in business conditions and in the action of the competition.

The expected outlook for the main operating and performance indicators is as follows:

REFINING & MARKETING

Coastal Refining

For 2011, worldwide petroleum demand is expected to continue to grow, albeit more slowly than in 2010, once again mainly driven by China and India and, to a lesser extent, by Middle East and South America.

Overall profitability in 2011 is expected to improve relative to 2010, in spite of the reduced processing due to planned shutdown in the first quarter 2011, thanks both to a recovery of the margins scenario, and to a performance improvement in the plants, also by effect of the revamping of the diesel and Vacuum desulphuring plants.

However, the scenario is even more uncertain in light of the recent instability in some North African producer countries.

Integrated Downstream

With regard to the Marketing segment, 2011 profitability is expected to grow relative to the previous year both thanks to the progressive implementation of the synergies linked to the joint venture with Total, and to the better performance of the Retail and Wholesale/Specialties businesses.

Profitability is also expected to increase for inland Refineries thanks to an improvement in the petroleum scenario and to the improvement of the Rome Refinery's performance, assured by the interventions carried out on the plant during 2010 (whose initial results were already noted in the fourth quarter of the year) and of Sarpom, which in 2010 was affected by an unplanned shutdown.

Overall, for the Integrated Downstream segment the results are expected to be slightly higher than those of 2010.

It should also be noted that as at 1 October 2010 the "TotalErg" joint venture operation came into force.

POWER & GAS

In 2011, activities in the Power & Gas business will be aimed at consolidating the electrical power and gas marketing portfolios with the goal of containing their risks while providing an adequate level of coverage of the generation margins. The year 2011 will fully benefit from the final configuration of the production plants, as both the ISAB Energy plant and the North plant of ERG power are completely available at their full production capacity, although the production from ISAB Energy will be affected by the planned maintenance shutdown.

Consequently, the Power & Gas segment is expected to maintain a satisfactory profitability level, albeit lower than in 2010, also in light of an expected reduction in the generation margins of gas fuelled plants.

RENEWABLE ENERGY SOURCES

In the wind power business in Italy, during 2011 the wind farms of Ginestra (40MW) and Fossa del Lupo (90MW) will be commissioned, thus contributing, together with the consolidation of the two wind farms of ERG Eolica Adriatica for the entire year, to increase wind power generation relative to 2010, in spite of the expected persistence of the limitations to the transfer of electric energy into the national transmission grid.

In the wind power business in France, during 2011, the Greneville park should complete the authorisation procedure, albeit later than scheduled in the plan.

Genoa, 3 March 2011
On behalf of the Board of Directors
The Chairman

Edoardo Garrone

REPORT ON GOVERNANCE AND OWNERSHIP

REPORT ON GOVERNANCE AND OWNERSHIP

THE PATH

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

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

This corporate policy was implemented via:

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

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

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

- amendments to the Articles of Incorporation in compliance with the regulatory changes introduced by the Company Law Reform and to legal provisions on Shareholders' Rights;
- adoption of a Code of Business Ethics as a tool for defining and communicating ERG's duties and responsibilities towards its stakeholders, as well as being an imperative element of an organisation and management model consistent with the requirements of Italian Legislative Decree no. 231/2001;
- acceptance of the Italian Corporate Governance Code for Listed Companies since its first edition in 1999, most recently reviewed in 2010;
- approval of a Code of Conduct for the directors of Group companies – revised on 12 November 2009;
- appointment of independent directors to the Board;
- adoption of a Group Compensation Plan to align the interests of management with those of shareholders, and strengthen the relationship between managers and the company in terms of awareness of the importance of the stock value and its continuity over time;
- definition of Guidelines for the identification and execution of significant transactions – revised on 14 December 2010 – and of other governance documents designed to assure transparent and timely management of the Group's relationship with the market;
- amendment of the Articles of Incorporation to bring them into line with the regulatory changes introduced by the Italian Company Law Reform and by law provisions on the matter of Shareholders' Rights;
- adoption of an Enterprise Risk Management Model, with the objective of identifying, as exhaustively as possible, the risks inherent in the ERG Group's full range of business activities;
- adoption of a specific procedure to assure the transparency and substantial and procedural correctness of transactions with related parties carried out by ERG S.p.A. directly or through its subsidiaries;

- ERG's presence from 2001 to 2005 in Star, a segment of the stock market introduced by Borsa Italiana S.p.A. (the company managing the Milan Bourse) to give significant visibility to companies prominent for the special attention paid to corporate governance matters.

INFORMATION ABOUT THE OWNERSHIP STRUCTURE AS OF 31 DECEMBER 2010 (PURSUANT TO ARTICLE 123-BIS OF LEGISLATIVE DECREE 58 OF 24 FEBRUARY 1998 (ITALIAN CONSOLIDATED FINANCE ACT OR "T.U.F.")

Share capital structure as of 12/31/2010

	NUMBER OF SHARES	% OF SHARE CAPITAL	LISTED (MARKET) / NOT LISTED	RIGHTS AND OBLIGATIONS
COMMON STOCK	150,320,000	100	MTA/INDEX FTSE ITALIA MID CAP	
STOCK WITH LIMITED VOTING RIGHT	–	–		
STOCK WITHOUT VOTING RIGHT	–	–		

Significant stakes in the share capital as of 12/31/2010

DECLARANT	DIRECT SHAREHOLDER	% OF COMMON STOCK	% OF VOTING CAPITAL
SAN QUIRICO S.P.A.	SAN QUIRICO S.P.A.	55.942	55.942
SAN QUIRICO S.P.A.	POLCEVERA S.A.	6.905	6.905
TRADE WINDS GLOBAL INVESTORS LLC	TRADE WINDS GLOBAL INVESTORS LLC	5.049	5.049
GENERALI INVESTMENTS ITALY SGR S.P.A.	GENERALI INVESTMENTS ITALY SGR S.P.A.	2.228	2.228

Other information

	YES	NO	NO KNOWN INFORMATION
RESTRICTIONS TO TRANSFER OF SHARES		X	
RESTRICTION TO VOTING RIGHT		X	
SHAREHOLDERS' AGREEMENTS			X
AGREEMENTS PER ART. 123-BIS PARAGRAPH 1 LETTERA I) TUF		X	

Note that:

- there are no securities conferring special control rights;
- there are no employee stock option plans;
- pursuant to Article 123-bis, paragraph , point h) of the T.U.F., it should be noted that there are in existence financing agreements containing the usual provisions regarding the change of control of the debtor, which could theoretically involve the repayment of the loan in question if there is a change in control at ERG S.p.A. and in particular: (i) loan disbursed by Intesa San Paolo for EUR 50 million with maturity 31 December 2014 and (ii) loan disbursed by Monte dei Paschi di Siena for EUR 50 million with maturity 31 December 2013. It should also be noted that there are in existence partnership agreements with third parties relating to certain investee companies, which allow for the possibility, but not the obligation, as is frequently the case in such agreements, for third parties that are shareholders of the above-mentioned investee companies, to acquire, usually at market conditions, the shares or stakes of the shareholder belonging to the ERG Group if there is a change in control

at ERG S.p.A. Notable in this regard is the case of Ionio Gas S.r.l. where the other shareholder has rights that can be exercised in relation to the stake belonging to the ERG Group in the event of a change in control at ERG S.p.A., in accordance with the limits and conditions set out in the related agreements. Provisions of the same nature and/or purpose, formulated in various ways, are contained in the shareholder agreements of certain investee companies, also indirect, such as SIGEA S.p.A. and SIGEMI S.r.l. and with reference to other minor stakes particularly within TotalErg S.p.A.; with regard to the latter, it is pointed out that the related shareholder agreements provide the possibility for the other shareholder, upon the occurrence of the circumstance and according to the procedures set out in the agreements, to acquire a 2% stake of TotalErg S.p.A. from ERG Group in case of change in control at ERG S.p.A.;

- for rules applicable to the appointment and replacement of directors, and to amendments to the Articles of Incorporation, please refer to the relevant sections of this report;
- no powers have been granted to Directors in relation to capital contributions pursuant to Article 2443 of the Italian Civil Code;
- Directors have no powers to issue equity instruments;
- the Board of Directors' power to issue convertible bonds expired on 28 April 2009;
- on 15 April 2010, pursuant to Article 2357 of the Italian Civil Code, the Shareholders' Meeting authorised the Board of Directors for a 12 month time interval from the date of the resolution, to purchase treasury shares up to a revolving maximum (meaning the maximum amount of treasury shares held from time to time) of 15,032,000 (fifteen million thirty-two thousand) shares of ERG common stock with a par value of EUR 0.10 each, at a unit price, including ancillary purchase charges, no lower than 30% below and no higher than 10% above the closing price of the stock on the day immediately preceding each individual transaction.

CORPORATE GOVERNANCE

ERG S.p.A.'s corporate governance system complies with the requirements of the Italian Civil Code and of other specific regulations relating to companies – particularly those contained in Italian Consolidated Finance Act – and is consistent overall with the Italian Corporate Governance Code for Listed Companies promoted by Borsa Italiana S.p.A., which has been revised and updated over the years, and most recently amended on 3 March 2010[1] ("Corporate Governance Code"). The latest version of the Italian Corporate Governance Code is available from the Borsa Italiana S.p.A. website (www.borsaitaliana.it).

ERG corporate governance comprises the statutory bodies, board committees and documents that regulate their operation.

(1) In this regard, it is specified that issuers are invited to apply the new Article 7 of the Corporate Governance Code – as amended on 3 March 2010 – by the end of the year that starts in 2011, informing the market with a report on corporate governance to be published in 2012.

STATUTORY BODIES

BOARD OF DIRECTORS

The current Board of Directors, comprising twelve members, was appointed by the Shareholders' Meeting held on 23 April 2009; consequently, the Board of Directors will remain in office until the approval of the financial statements as of and for the year ended 31 December 2011.
For the appointment of the Board of Directors, a single list of candidates was submitted by the shareholder San Quirico S.p.A., i.e.:

1. Riccardo Garrone
2. Edoardo Garrone
3. Giovanni Mondini
4. Pietro Giordano
5. Alessandro Garrone
6. Massimo Belcredi*
7. Lino Cardarelli*
8. Aldo Garozzo
9. Giuseppe Gatti
10. Antonio Guastoni*
11. Paolo Francesco Lanzoni*
12. Graziella Merello

In accordance with the Articles of Incorporation, Directors are appointed on the basis of lists presented by shareholders which, accompanied by information on the personal and professional characteristics of the candidates and a declaration of whether they meet the independence requirements prescribed by the T.U.F. and/or the eligibility requirements to be qualified as independent in accordance with the Corporate Governance Code, must be filed, in accordance with Article 147-ter, Paragraph 1-bis of the T.U.F., at the Company's registered office by the twenty-fifth day preceding the Shareholders' Meeting and be made available to the public at least twenty-one days prior to the Shareholders' Meeting.
The lists may only be presented by Shareholders who, either individually or with other shareholders, represent the minimum percentage of share capital (currently 2%) established in accordance with the regulation implementing the T.U.F., adopted by the Consob with its Resolution no. 11971 of 14 May 1999 with subsequent amendments and additions (the "Issuers' Regulation"), in force on the date of the Shareholders' Meeting.
For the purposes of the allotment of the Directors to be elected, no consideration is given to lists that failed to obtain as many votes as represent a percentage of the share capital at least equal to half the share required for their presentation.
Election of the Directors takes place as follows:

a) from the list that obtained the majority of the votes cast is drawn, in the progressive order with which they are listed, a number of Directors equal to the number of members to be elected minus one, subject to the provisions of Article 15, Paragraph 5 of the Articles of Incorporation for the appointment of independent Directors;
b) the remaining Director is drawn from the minority list that received the highest number of votes;
c) if only one list is submitted, or if the required quorum is not reached by the other lists, the Directors are elected within the list that was submitted or that reached the quorum, until the end of the list is reached.

* Candidate indicated in the list as possessing the independence requirements as prescribed by the T.U.F. and eligible to qualify as independent in accordance with the Corporate Governance Code

On 15 April 2010 the Shareholders' Meeting, upon approval of the Financial Statements as of 31 December 2009, confirmed the appointment to Director of the Corporate General Manager, Luca Bettonte, who had already been co-opted by the Board of Directors on 15 December 2009 as a result of the resignation, on the same date, of Riccardo Garrone from the office of Director; Mr. Garrone continues to attend Board of Directors meetings as Honorary Chairman.

The following Directors are in office as of the date of approval of this Report:

Riccardo Garrone - *Honorary Chairman*

Members:
Edoardo Garrone - *Chairman*
Pietro Giordano - *Deputy Chairman*
Giovanni Mondini - *Deputy Chairman*
Alessandro Garrone - *Chief Executive Officer*
Massimo Belcredi - *Director*
Luca Bettonte [(1)] - *Director*
Lino Cardarelli - *Director*
Aldo Garozzo - *Director*
Giuseppe Gatti - *Director*
Antonio Guastoni - *Director*
Paolo Francesco Lanzoni - *Director*
Graziella Merello [(2)] - *Director*

Non-executive directors
Aldo Garozzo

Independent directors [(3)]:
Massimo Belcredi
Lino Cardarelli
Antonio Guastoni
Paolo Francesco Lanzoni

The Board of Directors assessed the independence of the Directors listed above according to the recommendations of the Corporate Governance Code, giving special consideration to substance over form and bearing in mind the application criteria set forth therein.
The Board of Directors conducted this assessment at its first meeting subsequent to the appointment and it periodically checks that these requirements be still valid (during the Board meeting called to examine the interim Report as of 31 March).
In 2010, the independence assessment was carried out during the Board meeting held on 13 May.

(1) Confirmed Director by the Shareholders' Meeting of 15 April 2010.He has served as Corporate General Manager since 15 December 2009.
(2) He has served as executive director appointed to oversee the functioning of the internal control system since 23 April 2009.
(3) Independence was assessed in accordance with the T.U.F. and the Corporate Governance Code.

The Board of Statutory Auditors verified the correct application of the criteria and verification procedures adopted by the Board of Directors to assess the independence of its members.
With regards to the composition of the Board of Directors and the distribution of offices and powers, carried out within the Board, it was not considered necessary to designate a lead independent director as provided by application criterion 2.C.3 of the Corporate Governance Code.
In 2010, the independent directors held their own meeting without the other Directors present on 24 May, but remained in contact and regularly consulted each other in advance on the principal matters examined by the Board of Directors.

Other offices as Director and Statutory Auditor held by the Directors in other companies listed in regulated markets, also abroad, in financial, banking, insurance companies or in companies of significant dimensions as of 31 December 2010:

Edoardo Garrone	*Chairman of the Supervisory Board of San Quirico S.p.A.* *Director of Pininfarina S.p.A.*
Pietro Giordano	*Chairman of ERG Renew S.p.A.*
Alessandro Garrone	*Director of Banca Passadore e C. S.p.A.* *Director of Gruppo MutuiOnline S.p.A.*
Massimo Belcredi	*Director of Arca SGR S.p.A.*
Luca Bettonte	*Director of ERG Renew S.p.A.*
Lino Cardarelli	*Deputy Chairman of Ambromobiliare S.p.A.*
Giuseppe Gatti	*Chairman of Grandi Reti S.c.a.r.l.*
Antonio Guastoni	*Chairman of the Board of Auditors of the Milan Chamber of Commerce (CCIAA)* *Chairman of the Board of Statutory Auditors of FUTURIMPRESA Sgr S.p.A.* *Standing Auditor of Leonardo Sgr S.p.A.* *Standing Auditor of Giulio Fiocchi S.p.A.* *Standing Auditor of Finlombarda Sgr*

Other persons who attend Board of Directors meetings
The meeting of the Board of Directors are attended by the Honorary Chairman and, depending on the matters under discussion, Group management representatives also take part.

Directors' remuneration
Directors' remuneration is determined, for each financial year, by the Ordinary General Shareholders' Meeting called to approve the year-end financial statements.
The Shareholders' Meeting also fixes the remuneration of the Directors serving on the following committees within the Board: Internal Control Committee and Nomination and Remuneration Committee.
The emoluments of the Chairman, Deputy Chairmen, and Chief Executive Officer and, more in general, of Directors with delegated powers are determined by the Board of Directors on the basis of a recommendation made by the Nominations and Remuneration Committee, with the input of the Board of Statutory Auditors.
In accordance with the new remuneration provisions of Article 7 of the Code of Corporate Governance, the Board of Directors of the company, by the end of the year that starts in 2011, upon the proposal of the Nominations and Remuneration Committee, is invited to define a general policy for the remuneration of executive directors, of the other directors vested with particular powers and of executives with strategic responsibilities.

Powers

The Board of Directors granted:

- the Chairman Edoardo Garrone the authority to manage the staff functions carried out by the Institutional & International Relations Division, and in the context of the General Secretariat, by the Corporate Affairs Division, with responsibility for supervision, direction and control;
- Deputy Chairman Pietro Giordano the authority to manage the Group's M&A activities with responsibility for supervision, direction and control;
- Director Giuseppe Gatti the authority to manage scientific research in the Oil and Power sectors, with responsibility for supervision, direction and control;
- Director Graziella Merello the authority to manage the Internal Audit and Risk Office Divisions, with responsibility for supervision, direction and control.

The Chief Executive Officer, Alessandro Garrone, holds the powers of legal representation of the company and all powers of ordinary and extraordinary management.

The Board – in accordance with the recommendations of the Italian Corporate Governance Code for Listed Companies – has specified that the powers delegated to the CEO must be exercised according to the directives and instructions given to him by the Board.

Persons granted delegated authority report every quarter to the Board of Directors on the activity carried out in exercising the authority they were granted.

Frequency of Board meetings

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

During the 2010 financial year the Board of Directors held 9 meetings, while for the year 2011 there are expected to be no fewer than 8 meetings.

In 2010, the Board of Directors passed resolutions on 44 different matters and for 32 of these, the relevant information documents were sent beforehand to Directors and Auditors.

On average, the meetings of the Board of Directors lasted 2 hours and 30 minutes.

As of the date of approval of this document, the Board of Directors had met three times.

Activities pursued

Directors made a significant contribution to the work of the Board and Committees in 2010 in terms of meeting attendance and effective participation in proceedings.

In the course of 2010, the Board of Directors performed the activities and duties referred to in application criterion 1.C.1 of the Italian Corporate Governance Code for listed companies in accordance with the role that the Code attributes to the Board of a listed company.

With regard in particular to subparagraph g) of this criterion, the Board of Directors, at its meeting of 5 August 2010, carried out a review, partly on the basis of a document prepared for this purpose by the Nominations and Remuneration Committee, of the size, composition and functions of the Board of Directors and Committees. This review concluded with a favourable opinion.

Pursuant to application criterion 1.C.3. of the Italian Corporate Governance Code, the Board of Directors also acknowledged that, in light of the findings set out in the document prepared by the Nominations and Remuneration Committee, it no longer appears necessary to set a limit on the number of directorships and auditorships in other listed companies or in financial, banking, insurance companies or in companies of significant size, other than the one provided in the Report on Corporate Governance for 2009.

With a resolution dated 13 February 2003, the Board of Directors defined the guidelines for the identification and execution of significant transactions, the examination and approval of

which – as recommended by the Italian Corporate Governance Code – remain the exclusive responsibility of the Board of Directors.
The guidelines, the original version of which was amended once by the Board of Directors with its resolution of 6 August 2004, and again with its resolutions of 13 February, 10 August 2006 and 14 December 2010, set out the criteria to be used to identify the most significant transactions, in accordance with Article 1 of the Italian Corporate Governance Code, consisting of quantitative and qualitative criteria and criteria deriving from the specific requirements of the parties involved (related-party transactions and intragroup transactions).
The document also describes the code of conduct to be followed when performing the aforesaid transactions, with particular reference to transactions instructed by subsidiaries, on which the company carries out management and coordination activities in accordance with Article 2497 et seqq. of the Italian Civil Code, which must be examined and approved in advance by the Board of Directors.
The Board of Directors, with its resolution of 29 September 2010, approved the mandatory amendments to the Articles of Incorporation, prescribed by Legislative Decree 27 of 27 January 2010, regulating Shareholders' Rights.
The Board of Directors with its resolution of 11 November 2010, in accordance with Consob Resolution 17221 of 12 March 2010 – subsequently amended with Resolution 17389 of 23 June 2010 – with the favourable opinion of the Internal Control Committee – entirely constituted by independent directors – and after obtaining the opinion of the Board of Statutory Auditors approved, adopting it, a specific internal procedure – effective from 1 January 2011 – to assure the transparency and substantial and procedural correctness of transactions with related parties carried out by ERG S.p.A. directly or through its subsidiaries.
The Board of Directors with its resolution of 11 November 2010, as proposed by the Internal Control Committee, approved the revision of the Guidelines for the operation of said Committee, changing, inter alia, its composition from "three non executive directors, at least two of whom shall be independent" to "three independent directors". This does not entail any change to the actual composition of the Committee, which has been compliant with this requirement for several years.

BOARD OF STATUTORY AUDITORS

The current Board of Statutory Auditors was appointed by the Shareholders' Meeting held on 15 April 2010 and will remain in office until the approval of the financial statements as of and for the year ended 31 December 2012.
For the appointment of the Board of Statutory Auditors, a single list of candidates was submitted by the shareholder San Quirico S.p.A., i.e.:
Mario Pacciani - *Standing Auditor*
Lelio Fornabaio - *Standing Auditor*
Paolo Fasce - *Standing Auditor*
Vincenzo Campo Antico - *Alternate Auditor*
Fabio Porfiri - *Alternate Auditor*
Stefano Remondini - *Alternate Auditor*

In compliance with the Articles of Incorporation, the Board of Statutory Auditors is appointed on the basis of lists presented by Shareholders – which must set out the names of candidates in numbered, sequential order – which, pursuant to Article 147-ter, Paragraph 1-bis of the T.U.F., must be deposited no later than the twenty-fifth day preceding the date of the Meeting and made available to the public at least twenty-one days before the Meeting.
Candidate lists may only be presented by shareholders who, at the time of presenting the list, are in possession of a shareholding equal to that required for the presentation of lists for the election of directors.

At the time of appointment of the Board of Statutory Auditors currently in office, the shareholding required in order to present the lists was equal to 2% of the share capital.
No shareholder may present or vote for more than one list and each candidate may be included in only one list, failing which he or she shall be disqualified.
The lists contain not only information about the Shareholders who submitted them and the statements made by them pursuant to the applicable regulations, but also exhaustive information about the candidates' personal and professional characteristics and their statements pursuant to the Articles of Incorporation.
Candidates cannot be elected to the office of Statutory Auditor unless they satisfy the requirements of independence, professionalism and integrity as provided by Article 148, section 3 of the Italian Consolidated Finance Act or if they already serve as Standing Auditor in more than five listed companies.
If multiple lists are submitted, the elected members are: from the list that received the highest number of votes, in the progressive order with which they are listed, two standing auditors and two alternate auditors; the third standing auditor and the third alternate auditor are elected choosing the candidates to the respective office indicated in the first position of the list that received the highest number of votes after the first, among those submitted and voted by minority Shareholders who are not connected, even indirectly, to the Shareholders that submitted or voted the list that received the highest number of votes, in accordance with current regulations. The standing auditor drawn from the minority list is appointed Chairman.
In case of tie between the lists, the elected candidate is drawn from the list that was submitted by the Shareholders owning the largest stake or, otherwise, by the largest number of Shareholder.

Members:
Mario Pacciani - *Chairman*
Lelio Fornabaio - *Standing Auditor*
Paolo Fasce - *Standing Auditor*
Vincenzo Campo Antico - *Alternate Auditor*
Fabio Porfiri - *Alternate Auditor*
Stefano Remondini - *Alternate Auditor*

The Board of Statutory Auditors, having examined the personal and professional characteristics of each auditor, has concluded that its members can be designated as independent, partly based on the criteria set forth in the Corporate Governance Code for directors.
The Board of Statutory Auditors oversaw the independence of the audit company, verifying both compliance with regulatory provisions on this matter and the nature and extent of the services other than accounting auditing rendered to the Company and its subsidiaries by the audit company itself and by the entities belonging to its network.
The Board of Statutory Auditors also oversaw the financial disclosure process, the effectiveness of the internal control, internal audit and risk management systems, as well as on the audit of the annual accounts and of the consolidated accounts.
In performing its duties, the Board of Statutory Auditors coordinated with the Internal Audit Division and with the Internal Control Committee.
During the 2010 financial year the Board of Statutory Auditors held 6 meetings, while for the year 2011 there are expected to be no fewer than 6 meetings.
As of the date of approval of this document, the Board of Directors had met once.

Other offices as Director and Statutory Auditor held by the Directors in other companies listed in regulated markets, also abroad, in financial, banking, insurance companies or in companies of significant dimensions as of 31 December 2010:

Mario Pacciani	*Chairman of the Board of Statutory Auditors of Boero Bartolomeo S.p.A.*
Lelio Fornabaio	*Chairman of the Board of Statutory Auditors of ERG Renew S.p.A.* *Standing Auditor of Prelios S.p.A.* *Standing Auditor of HDI Assicurazioni S.p.A.* *Chairman of the Board of Statutory Auditors of InChiaro Assicurazioni S.p.A.* *Director of Ariscom Compagnia di assicurazioni S.p.A.* *Chairman of the Board of Statutory Auditors of Essediesse S.p.A.* *Director of Lux Vide Finanziaria per iniziative audiovisive e telematiche S.p.A.*
Paolo Fasce	*Standing Auditor of Boero Bartolomeo S.p.A.* *Standing Auditor of Yarpa Investimenti SGR S.p.A.* *Standing Auditor of YLF S.p.A.* *Chairman of the Board of Statutory Auditors of Le Buone Società S.p.A.*

SHAREHOLDERS' MEETINGS

Article 10 of the Articles of Incorporation states that holders of voting rights are entitled to intervene in the Shareholders' meeting if, in compliance with the rules set out by laws and the Articles of Incorporation, they have obtained suitable certification issued in compliance with current legislation by the intermediary notified to the company in the manner and by the term set out by current laws and the Articles of Incorporation.
Article 11 of the Articles of Incorporation prescribes that the Shareholders' Meeting shall be convened by the governing body at least once a year, no later than one hundred twenty days from the closing date of the year or no later than one hundred eighty days, if the company is obligated to prepare the Consolidated Financial Statements and if required by particular needs related to the Company's structure and purpose.
Article 12 of the Articles of Incorporation specifies that the Shareholders' Meeting shall be convened with a notice to be published on the Company's website and on the daily paper Milano Finanza or Finanza e Mercati or Il Sole 24 Ore or, alternatively, on the Official Gazette in accordance with the law. The notice shall contain all current legislative and regulatory provisions.
Article 13 of the Articles of Incorporation specifies that the provisions of the law shall apply for the validity of the Shareholders' Meetings, be they Ordinary or Extraordinary, and of their resolutions.

MEETING REGULATIONS

At the Ordinary Shareholders' Meeting held on 27 April 2001, shareholders approved Regulations governing the proceedings of ordinary and extraordinary shareholder meetings.
Article 14 of the Articles of Incorporation expressly gives the Ordinary Shareholders' Meeting the possibility of adopting a meeting regulation.

BOARD COMMITTEES

The Board of Directors has set up an Internal Control Committee, a Nominations and Remuneration Committee and a Strategic Committee to advise it and issue recommendations.

INTERNAL CONTROL COMMITTEE

Members:
Massimo Belcredi - *Chairman*
Antonio Guastoni
Paolo Francesco Lanzoni

The members of the Internal Control Committee have adequate experience in accounting and finance.
Committee meetings are attended by the Chairman of the Board of Statutory Auditors or another auditor designate by him or, in relation to the topics discussed, all members of the Board of Statutory Auditors; moreover, the meetings may be attended by the Chairman of the Board of Directors, the Chief Executive Officer and the Corporate General Manager, who are entitled to intervene on the questions being examined and to identify adequate actions to confront critical and potentially critical situations, and (in relation to the topics discussed) the executive Director appointed to oversee the functionality of the internal control system and the Manager in charge of preparing the company's accounting documents.
Employees of ERG Group companies, representatives of the audit company and, in general, persons whose presence is deemed necessary or appropriate for the discussion of the agenda items may be invited to attend Committee meetings.
The head of internal control is invited to attend the meeting in order to report to the Committee, at least once a quarter, on the activities conducted from time to time.
The Committee organises its work in such as way as to combine comprehensive information flows and efficiency of operation with maximum independence of its members.
In particular, resolutions are taken without other parties being present.

Tasks
The Internal Control Committee advises and issues recommendations to the Board of Directors and fulfils the role and responsibilities indicated in the Corporate Governance Code.
To optimise its performance, the Committee may use the services of external consultants at the company's expense.
In 2010 the Committee held 13 meetings during which, besides a preview of the annual financial statements and half-yearly report, issues were discussed in the following macro-areas: Corporate Governance, Control Systems, Legislative Decree 231/01, Risk Management and Administration, Reporting and Tax Area.
As of the date of approval of this document, the Internal Control Committee had met 3 times.

The most significant issues covered by the Committee are as follows:

1) Group Governance

- the Committee examined the provisions of Consob Regulations 17221 of 12 March 2010 on transactions with related parts (OPC Regulations), suggesting the creation of an ad-hoc work group with the task of assessing their potential impacts and prepare a draft procedure;
- it examined the documentation prepared by the Work Group, providing its own recommendations. The Committee expressed its own favourable opinion in accordance with Article 4 Paragraph 3 of the OPC Regulations (requested by the Board of Directors on 13 May 2010) in time to allow the adoption of the procedures by the Board of Directors within the prescribed time;

- it examined the main changes introduced by Legislative Decree 27 of 27 January 2010 with regard to the exercise of certain rights of shareholders of listed companies and, after recommending that an analysis be conducted on the impact of the aforesaid provisions on the Articles of Incorporation of ERG S.p.A., it concurred with the procedures whereby the Company subsequently incorporated the mandatory changes deriving from said decree into its Articles of Incorporation;
- it expressed its favourable opinion on the proposal to modify the Guidelines for identifying and carrying out significant transactions, stemming from the need to align the aforesaid Guidelines to the procedure for transactions with related parties;
- it examined and approved its own meeting schedule for 2011.

2) Internal control system

- it examined and approved, with half-year frequency, its periodic reports to the Board of Directors, providing it with its assessment of the adequacy of the internal control system;
- it examined and approved the updates to the Guidelines for the operations of the Internal Control Committee, in particular proposing to the Board of Directors of the Company – which approved it – to change its composition from "three non executive directors, at least two of whom shall be independent" to "three independent directors";
- it examined the work plan prepared for 2010 by the Head of Internal Control and, at first every half year, then every quarter, the periodic reports on the activity carried out;
- it examined, with half-yearly frequency, the periodic reports on the activity carried out by the Internal Audit Division;
- it examined the most significant aspects of some disputes related to the Company's businesses;
- it acknowledged the resignation tendered by the Head of Internal Control and of Internal Audits and of the personal reasons for it and it was promptly informed about the process for the selection of the new head and the transition; subsequently, it acknowledged the appointment of the new Head of Internal Audit and it expressed its own favourable opinion on the proposal to appoint the new Head of Internal Control formulated by the executive Director tasked with overseeing the functionality of the internal control system;
- it examined the schedule of Internal Audit activities for 2011.

3) Obligations in connection with Legislative Decree 231/01

- it expressed its own opinion about the composition of the Supervisory Committee in light of some changes made to the organisational structure of the Company;
- it examined, with half-year frequency, the periodic reports on the activity carried out by the Supervisory Committee and it received additional information flows on individual activities of interest of the Supervisory Committee;
- it examined a document outlining the programme of activity of the ERG Supervisory Committee as well as of the Supervisory Committees of Group companies for 2011.

4) Risk Management

- it examined the details of the work plan for 2010 prepared by the Risk Office and, with half-year frequency, the periodic reports on the work carried out;
- it examined the results of the study conducted by the Risk Office in relation to the different risk profiles present in the transports made by companies of the ERG Group;
- it examined the schedule of Risk Office activities for 2011.

5) Administration, Reporting and Taxation

- it examined the main issues of the Financial Statements as of 31 December 2009 and of the half-year Report as of 31 June 2010. It recommended to conduct further studies about some entries and it subsequently acknowledged the updates on said issues;
- it stated that it was able to assess the correct application of international accounting principles in preparing the draft statutory and Consolidated Financial Statements as of and for the year ended 31 December 2009 and the half-year financial report as of 30 June 2010 and of the standards adopted for the preparation of the Interim Report on operations as of 31 March and as of 30 September 2010;
- it followed the decision-making process that led to the merger by takeover of ERG Raffinerie Mediterranee S.p.A. and ERG Power & Gas S.p.A. (both 100% controlled) into ERG S.p.A.;
- it examined the main conditions for the renewal of the tax consolidation in the 2010-2012 time interval and its scope of application;
- it examined the manner of renewal – for the 2010 tax year – of the Group VAT liquidation procedure;
- it examined the main economic data of the intercompany services contracts for 2009 and an estimate of the main economic data of the intercompany services contracts for 2010;
- it acknowledged the information received about the activities carried out in 2009 and the activities planned for 2010 in accordance with Law 262/05;
- it examined the Risk Assessment activities on the Consolidated Financial Statements as of 31 December 2009 – requesting a prompt update in this regard – as well as the results of the test activities as of 30 June 2010 and changes in the Model per Law 262/05;
- it examined a document on the presumable accounting impacts on the Consolidated Financial Statements and on the separate financial statements of ERG S.p.A. and, in particular, the capital gains deriving from the start of the joint venture with Total Holdings Europe S.A.S.

NOMINATIONS AND REMUNERATION COMMITTEE

Members:
Paolo Francesco Lanzoni - *Chairman*
Massimo Belcredi
Lino Cardarelli

The Chairman and CEO and the Corporate General Manager take part in the Committee's work. Employees of ERG Group companies, representatives of the audit company, members of the Board of Statutory Auditors and, in general, persons whose presence is deemed necessary or appropriate for the discussion of the agenda items may be invited to attend Committee meetings.

Tasks
The Nominations and Remuneration Committee makes recommendations to the Board of Directors regarding the remuneration of the CEO and Directors holding particular positions, as well as recommendations, at the CEO's indication, concerning the pay policies for the company's senior management and the Group's management incentive schemes.
The Committee also (i) submits to the Board of Directors, where requested, candidates to the role of director in the cases set forth by Article 2386, first paragraph, of the Italian Civil Code, whenever it is necessary to replace an independent director; (ii) assesses, on the specific request of shareholders who intend to submit lists, the independence of the candidates to the role of director to be submitted to the shareholders' meeting; and (iii) performs preliminary activities to allow the Board of Directors to carry out its annual review regarding the size,

composition and functioning of the Board as effectively as possible. To this end, it may express its opinion on the professional figures whose presence in the Board of Directors is considered appropriate.
To optimise its performance, the Committee may use the services of external consultants at the company's expense.
Whenever the Committee discusses recommendations for the remuneration of the Chairman and CEO, such individuals must leave the meeting.

In 2010, the Committee held 7 meetings at which recommendations were made concerning the emoluments of the CEO and other Directors who hold office within the Board of Directors and of the Corporate General Manager, the setting of objectives for FY 2010 with regard to the short-term incentive scheme, the value creation achieved in 2009, the determination of extraordinary bonuses as a result of the completion of the joint venture with Total Holdings Europe S.A.S.
The Committee also prepared a support document for the Board of Directors, pertaining to the Board Performance Review it conducted.
As of the date of approval of this document, the Nominations and Remuneration Committee had met once.

STRATEGIC COMMITTEE
Members
Pietro Giordano - *Chairman*
Edoardo Garrone
Alessandro Garrone
Giovanni Mondini
Giuseppe Gatti
Luca Bettonte

The Committee advises and issues recommendations to the CEO of the holding company and to the Boards of Directors of the holding company and operating companies.
It operates, within strategies and policies approved by the Board of Directors, by defining strategic business and portfolio guidelines, and guidelines and policies on strategic finance and for individual finance operations, monitoring the progress of their implementation over time.
The Committee also examines the long-term strategic plans and capital expenditures budgets of the Group and of the operating companies, as well as the strategic benefits of significant capital expenditures effected at the Group level.

CORPORATE GOVERNANCE RULES
The most significant rules in terms of their impact on the company's overall corporate governance are as follows:
- rules concerning the handling of sensitive and confidential information;
- the procedure for public communication of statements and information;
- the Code of Conduct for Internal Dealing;
- the Guidelines for the identification and execution of significant transactions;
- the Code of Conduct for Directors of Group companies;
- the reporting procedure for significant transactions by sub-holding companies;
- the procedure for related-party transactions.

RULES FOR THE HANDLING OF SENSITIVE AND CONFIDENTIAL INFORMATION

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

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

PROCEDURE FOR PUBLIC COMMUNICATION OF STATEMENTS AND INFORMATION

The Board of Directors, based on a recommendation made by the Internal Control Committee, has adopted a procedure for the public communication of statements and information. The aim is to ensure that all statements and information intended for the market, for CONSOB and for Borsa Italiana are the outcome of an accretion process that guarantees both timeliness and accuracy.

The procedure defines the tasks and responsibilities of the functions involved, identifies the criteria, methods and timing of the various procedural stages, and establishes the appropriate decision-making levels for the dissemination of statements and information. On 14 May 2009, the document was subjected to a revision with the goal of upgrading the text in view of the organisational changes that have taken place and of making its operation more efficient.

CODE OF CONDUCT FOR INTERNAL DEALING

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

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

GUIDELINES FOR THE IDENTIFICATION AND EXECUTION OF SIGNIFICANT TRANSACTIONS

This is the document – adopted with the Board resolution passed on 13 February 2003 and subsequently amended with the resolutions passed on 6 August 2004, 13 February 2006, 10 August 2006 and 14 December 2010 – discussed in the section concerning the Board of Directors.

CODE OF CONDUCT FOR DIRECTORS OF GROUP COMPANIES

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

Following the revision dated 12 November 2009, it was decided that some provisions of the Code of Conduct would be made more binding in accordance with the legislative and regulatory provisions from time to time applicable.

REPORTING PROCEDURE FOR SIGNIFICANT TRANSACTIONS BY SUB-HOLDING COMPANIES

On 14 March 2006, the Board of Directors passed a resolution introducing a reporting procedure in compliance with which sub-holding companies – based on a specific approach and timeframe – would inform the Company of transactions effected by them directly and which might be classified as significant according to the guidelines mentioned above, applying the exceptions envisaged in these guidelines.

PROCEDURE FOR RELATED-PARTY TRANSACTIONS

The Board of Directors with its resolution of 11 November 2010, in accordance with CONSOB Resolution 17221 of 12 March 2010 – subsequently amended with Resolution 17389 of 23 June 2010 – with the favourable opinion of the Internal Control Committee, and after obtaining the opinion of the Board of Statutory Auditors approved, adopting it, a specific internal procedure – effective from 1 January 2011– to assure the transparency and substantial and procedural correctness of transactions with related parties carried out by ERG S.p.A. directly or through its subsidiaries.

OTHER INFORMATION

Information about the internal control system, supervisory committee, investor relations, organisation and management model per Legislative Decree 231/2001, independent auditors, director responsible for preparing the company's financial reports and management and coordination activity can be found below.

THE INTERNAL CONTROL SYSTEM

The Internal Control System present in the ERG Group consists of all the rules, procedures and organisational structures aimed at allowing, by means of an appropriate process of identification, measurement, management and monitoring of the principal risks, management of the business that is sound, appropriate and consistent with pre-set objectives.
The Internal Control System consists of a complete system of rules, procedures, organisational structures and behaviours with the purpose of:

- Supporting the achievement of strategic and operational objectives (in other words the effectiveness and efficiency of business activities and the safeguarding of the company's assets);
- Preventing or limiting the consequences of unexpected events through appropriate strategies of identification and management of risks/opportunities;
- Verifying that risk levels defined during planning are not exceeded;
- Ensuring conformity with laws and regulations in force;
- Ensuring control of correct and transparent internal and external reporting.

The Internal Control System is unitary and it applies across the whole Group, and it was created following a consistent method for identifying, measuring and evaluating risks.

In recent years the Group defined guidelines, approved by the Board of Directors, for the Internal Control System and it initiated specific projects aimed at rationalising the whole Internal Control System by means of mapping and classifying the parties that are a part of it, creating the flowchart of the main reports within the Group itself and describing the responsibilities and scope of existing activities.

Within the scope of the Internal Control System and with reference to financial disclosures, the Administrative-Accounting Organisational Model (henceforth referred to as the Model) is of particular relevance. It was implemented when the Internal Control System of the Group was brought into line with the requirements of Italian Law 262/052 and it has been updated periodically.

The Board of Directors passed a resolution on 23 April 2009, identifying the executive director appointed to oversee the functioning of the Internal Control System in the person of the director Graziella Merello. Subsequently, with resolution of 14 December 2010, upon the proposal of the executive director appointed to oversee the functioning of the internal control system, taking into account the favourable opinion of the Internal Control Committee, appointed Mr. Devan De Paolis, formerly Head of Internal Audit, as the new Head of Internal Control.

The actual operation of the Internal Control System within the Group is not assigned to an autonomous and specific corporate function, but comprises the coordinated operations of various functions to which, within the organisational structure, are assigned the responsibilities pertaining to the overall control activity. These functions are, above all, the Internal Audit Department and the Risk Office. They are joined by other functions whose responsibilities include monitoring the compliance of corporate actions with current laws and regulations.

The executive director in charge of overseeing the Internal Control System, with the assistance of the Head of Internal Control who periodically reports to the Internal Control Committee, constantly ascertains its overall adequacy, effectiveness and efficiency, and reports to the Board of Directors.

The Board of Directors evaluates on an annual basis the functionality of the Internal Control System based on the information made available to it by the executive director in charge of overseeing the functioning of the system and by the Internal Control Committee and by the Internal Control Committee in light of the report provided by the Head of Internal Control.

In August 2009, moreover, a detailed Enterprise Risk Management Model was adopted, with the objective of identifying, as exhaustively as possible, the risks inherent in the ERG Group's full range of business activities and of defining a formalised management process.

INFORMATION ON THE MAIN FEATURES OF THE EXISTING INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS IN RELATION TO THE PROCESS OF FINANCIAL DISCLOSURE, INCLUDING AT A CONSOLIDATED LEVEL

It is explained below how the ERG Group has created its system for risk management and internal control in relation to the process of financial disclosure (henceforth referred to as "the System") at the consolidated level. The purpose of this System is significantly to mitigate risks in terms of faithful presentation, reliability, accuracy and timeliness of financial disclosures.

The Model now described was presented to the Internal Control Committee of ERG S.p.A. and applies, from a logical point of view, in terms of methodology and as regards principles of process control and accuracy, to the main companies of the ERG Group[1] to which it was communicated through publication on the Company Intranet as well as communication to all personnel.

In such a context, all personnel of the Group are obliged to follow the indications of the Model, in particular personnel in administrative functions that are more directly involved in the preparation of corporate accounting documents, but also those in other functions that, indirectly, contribute to the process through the preparation of documents and information, the inputting or updating of data in the company's information systems, in normal operations. The Model is regularly updated and each update and/or integration of significance must be submitted and presented in advance to the Internal Control Committee.

(1) As a listed company, ERG Renew S.p.A. has a dedicated manager responsible for preparing the company's financial reports and applies an independent model that is consistent with the model used by ERG S.p.A.

Role

The main responsibility of the Manager responsible for preparing the financial reports of ERG S.p.A. is to implement the administrative-accounting procedures that govern the process of the production of periodic corporate financial reporting, to monitor the application of the indicated administrative-accounting procedures and, together with the Chief Executive Officer, to provide the market with their representations relating to compliance with the abovementioned principles and to the "reliability" of financial documentation circulated.

The duties of the Manager Responsible fits into the wider framework of Corporate Governance, structured according to the traditional model with the presence of corporate bodies with diverse functions of control.

The Board of Directors passed a resolution on 15 December 2009 assigning the role of manager with responsibility for preparing the company's financial reports to Giorgio Coraggioso, the head of Administration, Reporting and Tax.

ELEMENTS OF THE SYSTEM

Methodological approach

Within the ERG Group it has been decided to adopt a working methodology that envisages the following logical steps:

a) identification and evaluation of the risks applicable to financial reporting;
b) identification of controls for risks identified both at the Company/Group level (entity level) and at the process level;
c) evaluation of controls and management of the monitoring process both in terms of design, and in terms of operations and effectiveness, with the aim of reducing risks to a level considered "acceptable" (information flows, gap management, plan for remedial action, reporting system, etc.)

The complete process is managed by Processes and Compliance that operates as a staff function reporting to the Head of Administration and that, following standard practice, governs all administrative-accounting procedures, mapping and harmonising those in force through defining interventions at process level, information systems or procedures to rectify control deficiencies.

Identification and evaluation of risks

Risk Assessment is conducted annually and has the goal of identifying, on the basis of a quantitative analysis and following evaluations and parameters of a qualitative nature:

1. the companies within the Group consolidation to include in the analysis;
2. the risks at the level of the selected operating Company/Group (Company/Entity Level Controls) relating to the general corporate context of the Internal Control System, with reference to the five components of the CoSO model developed by the Committee of Sponsoring Organizations of the Treadway Commission, leading practice at the international level and recognised within Italy as a reference model by the Italian Stock Exchange Corporate Governance Code (control environment, risk assessment, information and communication, control activities, monitoring);
3. the general risks for the Company's information systems supporting related processes (IT General Controls);
4. the processes that generate, with inherent risk, the accounts of the Consolidated Financial Statements for each company selected;
5. for each relevant process, the specific risks for financial reporting, with particular reference to so-called financial statement assertions (existence and occurrence, completeness, rights and obligations, valuation and allocation, presentation and disclosure).

The process of Risk Assessment carried out at the level of consolidated Group financial statements in order to determine the appropriate range of analysis, is based on the combined application of two analytical parameters, a fully quantitative one and a qualitative one.

As regards the fully quantitative part of the analysis, the following elements are determined:
- *large portion (coverage of Consolidated Financial Statements)*: this dimension is used to measure the extent of the area within which controls are to be analysed and evaluated, defined on the basis of the weight the dimensions bring to bear on the main items in the financial statements;
- *significant account*: this refers to the quantitative size that items in the financial statements must have in order to be considered significant after the application of a materiality threshold;
- *significant process*: by means of account-process matching, processes are identified for which it is opportune to evaluate controls, given that all processes associated with accounts that have balances greater than the materiality threshold form part of the model.

Following the quantitative analysis described above, the process of Risk Assessment envisages the subsequent carrying out of an analysis based on qualitative elements, and that has two objectives:
- to integrate the exclusively quantitative part of the analysis, so as to include or exclude accounts-processes from the scope of the model on the basis of knowledge the management has, from a historical point of view and also considering the expected evolution of the business, of companies making up the Group, and on the basis of the professional judgement by management concerning risk levels relating to financial disclosures;
- to define the "level of depth" at which the analysed accounts-processes must be taken into consideration within the scope of the model and at what level the related controls must be mapped, documented and monitored.

The final result of the Risk Assessment process consists of a document that is circulated to the various functions involved, validated by the Manager Responsible and presented to the Internal Control Committee.

Identification of controls
Once the main risks at the process level have been identified, the various operating Companies examine the actions in that are in place in order to monitor the associated control objective.

In particular, the mapping of accounts-processes and related controls constitutes a tool through which:
- significant processes and their principal associated risks are represented as defined within the scope of Risk Assessment, as are the controls that are envisaged for the management of such risks;
- the chart of mapped controls is evaluated to ascertain the capacity of each control to manage and mitigate an identified risk and, in particular, the underlying financial statements assertion;
- the operation and representation of a control is shared with its owners, as are the risks and control activities;
- monitoring activities, needed to support the representations that must be made by the Manager Responsible, are carried out.

The identification of risks and associated controls is carried out both with regards to controls relating to financial statement assertions and to other control objectives within the scope of financial disclosure, including:
- observance of authorised limits;
- the segregation of duties and responsibilities for operations and control;
- the physical security and existence of the company's assets;

– activities of fraud prevention that have an impact on financial disclosure;
– the security of company information systems and the protection of personal data.

The mapping generated from time to time for a specific process is also used as the basis for periodic testing activities whose goal is to evaluate and monitor both the chart and the effectiveness of controls in place.

Evaluation of controls and monitoring processes
In accordance with the provisions of the law regarding formal execution and in line with the best practices previously referred to, the methodology adopted envisages the carrying out of constant monitoring of the processes covered by the model and the effective execution of the mapped controls.
The objective of such monitoring is the evaluation of the operating effectiveness of the controls – in other words the effective functioning during the period of the controls mapped for the purpose of analysis.

To this end, a plan is prepared annually of monitoring activities (also refining and optimising these, where necessary). The plan is formalised in a document that is presented to the Internal Control Committee and in which strategies and timing are defined for carrying out monitoring tests.
Following the execution of testing activities, a report is produced on the results of the activities, and this constitutes the support on the basis of which the Manager Responsible for preparing the Company's financial reports releases legal representations, and the Internal Control Committee, as regards the most important deadlines for half-yearly and annual financial reporting, evaluates and participates in the work of the Manager Responsible and the functions through which he/she operates.

THE INDEPENDENT AUDITORS

The engagement for the independent audit for the years 2009-2017 was bestowed by the Shareholders' Meeting held on 23 April 2009 on Deloitte & Touche S.p.A.

ORGANISATION AND MANAGEMENT MODEL PURSUANT TO ITALIAN LEGISLATIVE DECREE 231/2001

With the resolution passed on 21 December 2004, the Board of Directors adopted the Organisation and Management Model pursuant to Italian Legislative Decree 231/2001, which was the periodically updated in accordance with subsequent regulatory and organisational changes. The Model was most recently updated on 10 March 2008.

SUPERVISORY COMMITTEE

Introduction of the Model entailed the appointment of the Supervisory Committee, tasked with overseeing the adequacy and actual implementation of the Model, and any need to upgrade it.
The Committee, as a result of the resolutions made during the meeting of the Board of Directors of 14 December 2010, comprises Paolo Francesco Lanzoni, Chairman, Devan De Paolis, and Giovanni Antonio Martinengo.
The Supervisory Committee carries out its activity within the Parent Company ERG S.p.A. while the subsidiary Companies have appointed their own Supervisory Committee.
The Supervisory Committee of ERG S.p.A. met 10 times in 2010.

INVESTOR RELATIONS

The Company manages relations with its shareholders, institutional investors and the market by means of the Corporate Finance, Control and Investor Relations functions, which form part of Corporate General Management. In the course of this activity, meetings are periodically

arranged, both in Italy and abroad, with members of the financial community. ERG's policy is to provide the fullest possible information on its activities and strategies, including through constant innovation and updating of its website.

MANAGEMENT AND COORDINATION

ERG S.p.A. is a subsidiary of San Quirico S.p.A. which does not however exercise any management and coordination activity over its subsidiary, within the meaning of Articles 2497 et seq. of the Italian Civil Code, also in view of the fact that a provision of its Articles of Incorporation expressly prohibits the company from carrying out management and coordination activities with regard to its subsidiaries.
This circumstance is periodically assessed by the Board of Directors, also on the basis of a preliminary review conducted by the Internal Control Committee.
In turn, ERG S.p.A. carries out management and coordination activities on directly or indirectly controlled companies. The scope of the companies involved and the content of any activity carried out on each are periodically examined by the Board of Directors, also on the basis of a preliminary review conducted by the Internal Control Committee.

COMMITMENT

The Company wishes to confirm its commitment:

- Pursue as its primary objective, in its formal acts and conduct, the creation of shareholder value;
- Model its business on total observance of the Group's ethical principles, which are based on that combination of values consisting of personal honesty, correctness of relationships inside and outside the Company, and transparency vis-à-vis shareholders, related stakeholders, and the market – as outlined and explained in the Code of Ethics adopted in December 2003;
- Ensure, by means of constant attention to the ongoing evolution of corporate governance principles, observance of such principles by its organisation, in order to ensure, in turn, the transparent and efficient operation of the organisation over time.

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

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

COMPOSITION OF THE BOARD OF DIRECTORS AND COMMITTEES

TABLE 1

BOARD OF DIRECTORS

OFFICE	MEMBERS	EXECUTIVE	NON EXECUTIVE	INDEPENDENT
CHAIRMAN	EDOARDO GARRONE	YES		
DEPUTY CHAIRMAN	PIETRO GIORDANO	YES		
DEPUTY CHAIRMAN	GIOVANNI MONDINI	YES		
CHIEF EXECUTIVE OFFICER	ALESSANDRO GARRONE	YES		
DIRECTOR	MASSIMO BELCREDI			YES
DIRECTOR	LUCA BETTONTE	YES		
DIRECTOR	LINO CARDARELLI			YES
DIRECTOR	ALDO GAROZZO		YES	
DIRECTOR	GIUSEPPE GATTI	YES		
DIRECTOR	ANTONIO GUASTONI			YES
DIRECTOR	PAOLO FRANCESCO LANZONI			YES
DIRECTOR	GRAZIELLA MERELLO	YES		
NUMBER OF MEETINGS HELD DURING THE REFERENCE YEAR		BOARD OF DIRECTORS **9**		

* The presence of the star indicates whether the director was designated through lists submitted by the minority
1) This column shows the percentage of director's attendance at meetings, respectively, of the Board of Directors and of the Committees
2) This column shows the number of offices as director or auditor held by the Directors in other companies listed on regulated markets, also abroad, in financial, banking, insurance or large companies. In the Report on corporate governance the duties are indicated in full
3) This columns indicates whether the Board member belongs to the Committee

		INTERNAL CONTROL COMMITTEE		NOMINATIONS AND COMPENSATION COMMITTEE	
% ATTEND-ANCE [1]	NUMBER OF OTHER OFFICES [2]	[3]	[1]	[3]	[1]
100%	2				
89%	1				
100%	–				
100%	2				
100%	1	YES	100%	YES	100%
100%	1				
89%	1			YES	71%
100%	–				
100%	1				
100%	5	YES	100%		
89%	–	YES	100%	YES	100%
100%	–				
		INTERNAL CONTROL COMMITTEE **13**		NOMINATIONS AND COMPENSATION COMMITTEE **7**	

BOARD OF STATUTORY AUDITORS

TABLE 2

OFFICE	MEMBERS	% ATTENDANCE	NUMBER OF OTHER OFFICES (1)
CHAIRMAN	MARIO PACCIANI (a)	100%	1
STANDING AUDITOR	LELIO FORNABAIO (b)	100%	7
STANDING AUDITOR	PAOLO FASCE (a)	100%	4
STANDING AUDITOR	ANDREA MANZITTI (c)	100%	
ALTERNATE AUDITOR	VINCENZO CAMPO ANTICO (b)	–	
ALTERNATE AUDITOR	FABIO PORFIRI (b)	–	
ALTERNATE AUDITOR	STEFANO REMONDINI (b)	–	

NUMBER OF MEETINGS HELD DURING THE REFERENCE YEAR: **6**

INDICATE THE QUORUM REQUIRED FOR THE PRESENTATION OF THE LIST BY THE MINORITIES FOR THE ELECTION OF ONE OR MORE STANDING AUDITORS (PER ART. 148 OF THE TUF): **2%**

* The star shows whether the auditor was designated from lists submitted by the minority

(1) This column shows the number of offices as director or auditor held by the Auditors in other companies listed on regulated markets, also abroad, in financial, banking, insurance or large companies. The complete list of offices held is attached, in accordance with Article 144-quinquiesdecies of the Consob Issuer Regulations, to the report on the supervisory activity, prepared by the auditors in accordance with Article 153, Paragraph 1 of the TUF

(a) Former members of the previous Board of Statutory Auditors. Appointed members of the new Board of Auditors by the Shareholders' Meeting held on 15 April 2010.

(b) Appointed members of the Board of Auditors by the Shareholders' Meeting held on 15 April 2010

(c) In office until15/04/2010

In the Report on corporate governance the duties are indicated in full

OTHER PROVISIONS FROM THE CORPORATE GOVERNANCE CODE

TABLE 3

	YES	NO	Brief description of reasons for any deviation from Code recommendations
SYSTEM FOR DELEGATION OF POWERS AND TRANSACTIONS WITH RELATED PARTIES			
HAS THE BOARD OF DIRECTORS DELEGATED POWERS, DEFINING THEIR:	X		
A) LIMITS	X		
B) PROCEDURES FOR EXERCISING THEM	X		
C) AND PERIODICITY OF DISCLOSURE?	X		
DID THE BOARD OF DIRECTORS RESERVE THE RIGHT TO EXAMINE AND APPROVE TRANSACTIONS WITH PARTICULAR SIGNIFICANCE IN ECONOMIC AND FINANCIAL TERMS (INCLUDING TRANSACTIONS WITH RELATED PARTIES)?	X		
HAS THE BOARD OF DIRECTORS DEFINED GUIDELINES AND CRITERIA TO IDENTIFY "SIGNIFICANT" TRANSACTIONS?	X		
ARE THE ABOVE GUIDELINES AND CRITERIA DESCRIBED IN THE REPORT?	X		BRIEFLY
HAS THE BOARD OF DIRECTORS DEFINED PROCEDURES TO REVIEW AND APPROVE TRANSACTIONS WITH RELATED PARTIES?	X		
ARE THE PROCEDURES FOR THE APPROVAL OF TRANSACTIONS WITH RELATED PARTIES DESCRIBED IN THE REPORT?	X		BRIEFLY
PROCEDURES FOR THE MOST RECENT APPOINTMENT OF DIRECTORS AND AUDITORS			
WERE THE CANDIDACIES FOR THE OFFICE OF DIRECTOR FILED AT LEAST TEN DAYS IN ADVANCE?	X		
WERE THE CANDIDACIES FOR DIRECTOR ACCOMPANIED BY COMPREHENSIVE INFORMATION?	X		
WERE THE CANDIDACIES FOR DIRECTOR ACCOMPANIED BY THE INDICATION OF ELIGIBILITY TO QUALIFY AS INDEPENDENT?	X		
WERE THE CANDIDACIES FOR THE OFFICE OF AUDITOR FILED AT LEAST TEN DAYS IN ADVANCE?	X		
WERE THE CANDIDACIES FOR AUDITOR ACCOMPANIED BY COMPREHENSIVE INFORMATION?	X		
SHAREHOLDERS' MEETINGS			
HAS THE COMPANY APPROVED MEETING REGULATIONS?	X		
ARE THE REGULATIONS ATTACHED TO THE REPORT? (OR ARE THERE INDICATIONS AS TO WHERE IT CAN BE OBTAINED/DOWNLOADED)?	X		
INTERNAL CONTROL			
HAS THE COMPANY APPOINTED HEADS OF INTERNAL CONTROL?	X		
ARE THE HEADS NOT HIERARCHICALLY SUBORDINATED TO HEADS OF OPERATING AREAS?	X		
ORGANISATIONAL UNIT TASKED WITH INTERNAL CONTROL (PER ART. 9.3 OF THE CODE)	INTERNAL AUDIT		
INVESTOR RELATIONS			
HAS THE COMPANY APPOINTED AN INVESTOR RELATIONS MANAGER?	X		
ORGANISATION UNIT AND REFERENCES (ADDRESS/TELEPHONE/FAX/E-MAIL) OF THE INVESTOR RELATIONS MANAGER	INVESTOR RELATIONS - PAOLO MERLI PHONE 010/2401376 – FAX 010/2401598 E-MAIL: PMERLI@ERG.IT		

MANAGEMENT INCENTIVE SCHEMES

The following information is provided pursuant to CONSOB recommendation no. 11508 dated 15 February 2000.

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

More specifically, at the highest levels of senior management, the plan provided for:
- "Basic" compensation partly linked to ERG's share price performance during the year;
- annual "bonuses" linked to "value creation" achieved during the year and calculated in proportion to the size of value achieved;
- long-term incentive schemes, ascribing benefits to management in proportion to share price performance, once again linked to value creation achieved during the period.

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

To this end, during 2004, using the services of qualified experts, the Committee completed its review of the plan, defining a new system of short-term incentives providing for the allocation, using differing methods for directors and top management, of annual bonuses calculated on the basis of company performance and achievement of personal objectives.

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

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

The short and long-term incentive schemes are described below.

SHORT-TERM INCENTIVE SCHEME

The short-term incentive scheme is based on certain key objectives that can be summarised as follows:
- introducing a single incentive scheme that includes both company and personal performance;
- defining a market-related benchmark bonus for each scheme participant;
- measuring individual performance according to a consistent system of goals and indicators;
- evaluating company performance in terms of value created/annihilated;
- defining minimum and maximum bonus thresholds.

The scheme's participants are the managing directors of ERG S.p.A. and its subholdings and all executives and a selected number of managers of Group companies.

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

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

As regards company objectives, reference is made to each individual segment's business performance based on the following parameters:
- Corporate area: 100% Group economic profit (value creation);
- Coastal refining division: 70% divisional EBITDA and 30% Group economic profit;
- Integrated downstream division: 70% divisional EBITDA and 30% Group economic profit;
- Thermoelectric division: 70% divisional EBITDA and 30% Group economic profit;
- Renewable energy division: 70% divisional EBITDA and 30% Group economic profit.

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

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

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

LONG-TERM INCENTIVE SCHEME

The key objectives of the long-term incentive scheme, approved, as stated earlier, by the Board of Directors on 5 August 2005, were to:
- encourage decisions that assure sustainable, enduring value creation;
- avoid risks of "under-investment";
- increase retention of key people.

The long-term incentive scheme granted registered and non-transferable subscription rights for company shares to be issued in accordance with Art. 2441, paragraph 8, of the Italian Civil Code, or rights to purchase ERG shares held as treasury shares, to be assigned to certain employees at a price equivalent to the cost of exercising subscription rights for newly issued shares.

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

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

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

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

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

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

The number of rights to be assigned was determined at the time of assignment by the Board of Directors, following a proposal by the Remuneration Committee (now the Nominations and Remuneration Committee), with reference to the Chairman, Deputy Chairmen and the CEO of ERG S.p.A., and by the CEO with respect to the other beneficiaries.
The scheme's regulation contains specific provisions regarding the effects of termination of the employment of dependent self-employment relationship occurring while the options are vested. In this respect it makes a distinction between termination due to (a) voluntary resignation, dismissal for just cause and voluntary redundancy in the case of employees and resignation or revocation in the case of the Chairman and the Managing Directors – in which case the options become totally null and void – (b) termination due to death, permanent disability, compulsory redundancy, expiry without renewal of a dependent self-employment contract or expiry without renewal of appointment in the case of the Chairman and the Managing Directors – in which case the options remain valid and are transferred to heirs in the case of a participant's death.

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

On 1 October 2010, the period for the second allocation expired without any of the participants exercising the related rights.
Considering the fact that the three-year long-term incentive programme illustrated hereinabove had expired (although the options granted under it still remained exercisable), taking into account the new provisions introduced by Article 7 of the Code of Governance, the Nominations and Remuneration Committee, with the assistance of an outside consultant, undertook the study of a general policy for the remuneration of executive directors, of the other directors holding particular offices and executives with strategic responsibilities, as well as of a possible future long-term incentive plan for the Group's managers.

BOARD OF DIRECTORS' PROPOSAL

PROPOSAL OF THE BOARD OF DIRECTORS

Distinguished Shareholders,
we conclude our report inviting you to:

- approve the financial statements of your Company as of 31 December 2010, which close with a profit of EUR 398,131,202.83;
- allocate to a restricted reserve in accordance with Article 6, Paragraph 1, Letter a) of Legislative Decree 38/2005 a portion of the profit of EUR 346,403,569.83 corresponding to the unrealised part, net of tax charges, of the capital gain deriving from the incorporation of the TotalErg Joint Venture;
- resolve to pay a dividend of EUR 0.40 per share to shareholders. The dividend shall be paid to each of the shares entitled to the profits that are outstanding on the coupon date, hence excluding treasury shares in accordance with Article 2357-ter of the Italian Civil Code, by using the residual profit for the year and retained earnings;
- resolve the payment of the dividend starting on 26 May 2011, with coupon payment starting on 23 May 2011.

Genoa, 3 March 2011

On behalf of the Board of Directors
The Chairman
Edoardo Garrone

GLOSSARY

GLOSSARY

AEROGENERATOR

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

AM

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

API

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

CIP 6 TARIFF

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

COMBINED CYCLE

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

CO_2

Carbon dioxide. A colourless and odourless gas formed by all processes relating to combustion, breathing, decomposition of organic material, due to complete oxidation of carbon in the presence of oxygen. The widespread conviction that carbon dioxide emissions constitute the main component as regards the anthropological emissions of greenhouse gas led to the signing of the Kyoto Protocol and subsequent creation of the European Emission Trading System (ETS). The ETS is a Cap-and-Trade type of trading system in which, having set progressively more restrictive limits on the overall emissions allowed, the emission rights are freely traded between operators.

CRACK SPREAD

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

C-STORE

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

DAM

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

DESULPHURISATION

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

DSM

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

EXCISE DUTIES

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

"EXPANDER" UNIT

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

FCC – FLUID CATALYTIC CRACKING - LINE

A catalytic cracking plant with a fluid bed.

FINANCIAL LEVERAGE

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

GAS TURBINE PLANT

Power plant producing electricity using gas turbines.

GREEN CERTIFICATES

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

HSE (HEALTH, SAFETY, ENVIRONMENT)

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

HOT OIL

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

HS FUEL OIL

High Sulphur content fuel.

IAS/IFRS

International Accounting Standards – International Financial Reporting Standards.

IGCC FEEDSTOCK

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

IGCC PLANT

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

IPEX

Italian Power Exchange, the Italian electricity market.

KILOWATT-HOUR (KWH)

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

LIGHT – HEAVY CRUDE OILS

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

LPG (LIQUIFIED PETROLEUM GAS)

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

MARGINS (TOPPING REFORMING)

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

MW

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

NON-RECOURSE PROJECT FINANCING

Financing for a project which does not require guarantees from the shareholders of the company receiving the loan.

NO_X

Oxides of nitrogen (especially NO and NO_2). Gases mainly produced by the photochemical oxidation of nitrogen in the atmosphere and as a secondary reaction in the high-temperature combustion of fossil fuels. Together with sulphur dioxide (SO_2), they are the cause of acid rain.

OCTANISATION

A refining process which, using catalysers, transforms paraffin and naphthalene hydrocarbons of Virgin Naphtha into components with a high octane count to produce gasoline.

OHSAS 18001

Occupational Health and Safety Assessment Series – internationally recognised standard that sets the requirements for occupational Health and Safety Management Systems. These requirements, applied at company level, are assessed by an external body, qualified to issue the relative Certificate of Compliance (Certification).

POST PAYMENT

Petrol pumps where the customer serves himself and then pays at the cash desk.

REFINING AND ATMOSPHERIC DISTILLATION

Refining: the combination of processes that crude oil goes through to create the desired range of products.

Atmospheric distillation: the first stage of the refining process to separate the products at atmospheric pressure from the crude oil, through heat and the condensation of part of the product (semi-finished) by cooling.

REVAMPING

Refinery interventions to improve or increase the processing capacity.

ROACE

$$\text{Return on average capital employed} = \frac{\text{(EBIT – notional taxes) + expenses and income from investments}}{\text{average net invested capital}}$$

ROE

$$\text{Return on equity} = \frac{\text{net profit}}{\text{average shareholders' equity}}$$

SAP SYSTEM

An integrated IT management system, developed by the German company SAP, which covers all company processes.

SOLVENT DEASPHALTING UNIT

A plant which produces asphalt using a solvent extraction process.

SYNTHESIS GAS

Also called Syngas, it is a mix of hydrogen and carbon monoxide produced from the gasification of the asphalt feedstock of the IGCC plant. It powers the turbines to produce electricity.

TECHNICAL BALANCED DISTILLATION

Distillation capacity supported by secondary processing plants able to produce gasoline and diesel according to specific criteria.

TOE (TONNES OF OIL EQUIVALENT)

A conventional unit of measurement, equal to 10 million kcal, used to express the quantity of any energy source, comparing its calorific power to that of crude oil.

TOPPING PLANT

Crude oil refining plant used for atmospheric distillation.

UNIONE PETROLIFERA

The Italian association of oil companies.

VSB VACUUM

Visbreaker Vacuum – a vacuum distillation plant for more thorough drying-out of the Visbreaking plant residues at the ISAB refinery, obtaining products suitable for use as feedstock for other plants.

WIND ENERGY

Energy generated from wind.

ERG S.P.A.

CONSOLIDATED FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION

(EUR THOUSAND)	NOTES		12/31/2010		12/31/2009
INTANGIBLE FIXED ASSETS	1		192,113		196,251
GOODWILL	2		9,422		52,866
PROPERTY, PLANT AND MACHINERY	3		1,636,159		1,734,130
SHAREHOLDINGS:	4		994,306		704,864
- CARRIED AT EQUITY		*993,452*		*703,451*	
- OTHER INVESTMENTS		*854*		*1,414*	
OTHER FINANCIAL ASSETS	5		3,155		8,600
OF WHICH WITH RELATED PARTIES	40	–		*7,556*	
DEFERRED TAX ASSETS	6		209,425		248,181
OTHER NON-CURRENT ASSETS	7		37,588		35,514
NON-CURRENT ASSETS			**3,082,168**		**2,980,406**
INVENTORIES	8		288,919		383,014
TRADE RECEIVABLES	9		441,144		630,037
OF WHICH WITH RELATED PARTIES	40	*135,065*		*130,481*	
OTHER CURRENT RECEIVABLES AND ASSETS	10		115,550		188,104
OF WHICH WITH RELATED PARTIES	40	*5,197*		*1,703*	
CURRENT FINANCIAL ASSETS	11		53,404		7,762
OF WHICH WITH RELATED PARTIES	40	*3,286*		*364*	
CASH AND CASH EQUIVALENTS	12		1,312,544		1,797,855
CURRENT ASSETS			**2,211,561**		**3,006,772**
ASSETS HELD FOR SALE	24		–		–
TOTAL ASSETS			**5,293,727**		**5,987,178**
GROUP SHAREHOLDERS' EQUITY	13		1,740,423		1,782,463
MINORITY INTERESTS	14		151,071		146,064
SHAREHOLDERS' EQUITY			**1,891,494**		**1,928,527**
EMPLOYEES' SEVERANCE INDEMNITIES	15		4,606		11,758
DEFERRED TAX LIABILITIES	16		120,547		159,775
PROVISIONS FOR NON-CURRENT LIABILITIES AND CHARGES	17		1,353		5,348
NON-CURRENT FINANCIAL LIABILITIES	18		1,221,735		751,955
OF WHICH WITH RELATED PARTIES	40	*10,276*		*11,033*	
OTHER NON-CURRENT LIABILITIES	19		271,489		367,281
NON-CURRENT LIABILITIES			**1,619,730**		**1,296,117**
PROVISIONS FOR CURRENT LIABILITIES AND CHARGES	20		63,692		52,150
TRADE PAYABLES	21		660,552		671,771
OF WHICH WITH RELATED PARTIES	40	*91,012*		*58,389*	
CURRENT FINANCIAL LIABILITIES	22		867,077		1,715,815
OF WHICH WITH RELATED PARTIES	40	*28,302*		*79,024*	
OTHER CURRENT LIABILITIES	23		191,182		322,798
OF WHICH WITH RELATED PARTIES	40	*17,143*		*14,005*	
CURRENT LIABILITIES			**1,782,503**		**2,762,534**
LIABILITIES HELD FOR SALE	24		–		–
TOTAL LIABILITIES			**5,293,727**		**5,987,178**

INCOME STATEMENT [1]

(EUR THOUSAND)	NOTES		FY 2010		FY 2009 IFRS 5	FY 2009
REVENUES FROM ORDINARY OPERATIONS	28		5,382,861		3,738,479	5,982,612
OF WHICH WITH RELATED PARTIES	40	*961,698*		*794,116*		
OTHER REVENUES AND INCOME	29		77,521		250,298	254,623
OF WHICH WITH RELATED PARTIES	40	*4,378*		*4,283*		
OF WHICH NON-RECURRING ITEMS	39	–		*137,170*		
CHANGES IN FINISHED GOODS INVENTORIES	30		78,798		(60,849)	(12,218)
CHANGES IN RAW MATERIAL INVENTORIES	31		98,883		(28,472)	(34,791)
COST OF PURCHASES	32		(4,730,768)		(3,147,328)	(4,984,930)
OF WHICH WITH RELATED PARTIES	40	*(296,636)*		*(286,524)*		
COSTS FOR SERVICES AND OTHER COSTS	33		(687,274)		(591,024)	(866,990)
OF WHICH WITH RELATED PARTIES	40	*(512,064)*		*(483,977)*		
OF WHICH NON-RECURRING ITEMS	39	*(26,530)*		*(7,126)*		
PERSONNEL EXPENSES	34		(66,131)		(67,850)	(108,939)
OF WHICH NON-RECURRING ITEMS	39	–		*(360)*		
EBITDA FROM CONTINUING OPERATIONS			**153,890**		**93,254**	**229,367**
AMORTISATION, DEPRECIATION AND WRITE-DOWNS OF FIXED ASSETS	35		**(153,113)**		**(110,263)**	**(161,103)**
OF WHICH NON-RECURRING ITEMS	39	*(36,553)*		*(23,687)*		
FINANCIAL INCOME	36		103,849		97,293	123,994
OF WHICH WITH RELATED PARTIES	40	*352*		*181*		
FINANCIAL EXPENSES	36		(149,536)		(109,348)	(141,891)
OF WHICH WITH RELATED PARTIES	40	*(1,526)*		*(758)*		
NET FINANCIAL INCOME (EXPENSES)	36		**(45,687)**		**(12,055)**	**(17,897)**
NET INCOME (LOSS) FROM INVESTMENTS CARRIED AT EQUITY			16,373		23,011	38,696
OTHER NET INCOME (LOSS) FROM SHAREHOLDINGS			(9,305)		(2,726)	(2,973)
OF WHICH NON-RECURRING ITEMS	39	*(7,699)*		-		
NET INCOME (LOSS) FROM SHAREHOLDINGS	37		**7,068**		**20,285**	**35,723**
PROFIT BEFORE TAXES			**(37,842)**		**(8,779)**	**86,090**
INCOME TAXES	38		(11,901)		(672)	(41,302)
OF WHICH NON-RECURRING ITEMS	39	*5,839*		*(44,980)*		
NET PROFIT (LOSS) FROM CONTINUING OPERATIONS			**(49,743)**		**(9,451)**	**44,788**
NET PROFIT (LOSS) FROM SOLD ASSETS AND LIABILITIES	24		93,141		54,239	–
OF WHICH NON-RECURRING ITEMS	39	*51,214*		*(5,140)*		
NET PROFIT (LOSS) FOR THE PERIOD			**43,398**		**44,788**	**44,788**
MINORITY INTERESTS	14		(33,016)		(37,830)	(37,830)
OF WHICH NON-RECURRING ITEMS	39	*3,429*		*(33,241)*		
NET PROFIT (LOSS) PERTAINING TO THE GROUP			**10,382**		**6,958**	**6,958**

1) the Income Statements for 2009 and 2010 are represented in accordance with IFRS 5, therefore they exclude the results of the Integrated Downstream in Italy, which are indicated separately at the line "Net profit (loss) from sold assets and liabilities" in consideration of the TotalErg joint venture, as better described in Note 24. In 2010, the Integrated Downstream in Italy contributed for the first nine months

(EUR)	NOTES	FY 2010	FY 2009 IFRS 5	FY 2009
GROUP'S EARNINGS PER SHARE	40	**0.070**	**0.047**	**0.047**
GROUP'S EARNINGS PER SHARE - DILUTED	40	**0.070**	**0.047**	**0.047**
NET PROFIT (LOSS) PER SHARE FROM CONTINUING OPERATIONS	40	**(0.558)**	**(0.319)**	**0.047**
NET PROFIT (LOSS) PER SHARE FROM CONTINUING OPERATIONS - DILUTED	40	**(0.558)**	**(0.319)**	**0.047**

OTHER COMPONENTS OF COMPREHENSIVE INCOME

(EUR THOUSAND)	FY 2010	FY 2009
NET PROFIT (LOSS) FOR THE PERIOD	**43,398**	**44,788**
CHANGES IN THE CASH FLOW HEDGE RESERVE	7,141	(1,183)
CHANGES IN SECURITIES AVAILABLE FOR SALE	45	38
INCOME TAX FOR OTHER COMPONENTS OF COMPREHENSIVE INCOME	(2,443)	591
OTHER COMPONENTS OF COMPREHENSIVE INCOME AFTER TAX	**4,743**	**(554)**
COMPREHENSIVE NET PROFIT (LOSS) FOR THE PERIOD	**48,141**	**44,234**
MINORITY INTERESTS	(33,484)	(37,790)
COMPREHENSIVE NET PROFIT (LOSS) PERTAINING TO THE GROUP	**14,657**	**6,444**

STATEMENT OF CASH FLOWS (1)

(EUR THOUSAND)	FY 2010	FY 2009
CASH FLOWS FROM OPERATING ACTIVITIES (A):		
NET PROFIT (LOSS) FOR THE PERIOD	43,398	44,788
- AMORTISATION, DEPRECIATION AND WRITE-DOWNS OF FIXED ASSETS	190,662	161,103
- NET CHANGE IN PROVISION FOR LIABILITIES AND CHARGES	25,687	15,333
- NET CHANGE IN DEFERRED TAX ASSETS AND LIABILITIES	4,500	3,972
- WRITE-DOWN OF RECEIVABLES AND GREEN CERTIFICATES	12,697	5,623
- NET GAIN/LOSS ON SALE OF NON-CURRENT ASSETS	83	(11,011)
- PORTION OF INCOME/EXPENSES FROM INVESTMENTS CARRIED AT EQUITY	(19,961)	(38,696)
- WRITE-DOWN OF SHAREHOLDINGS	7,699	2,306
- NET CHANGE IN EMPLOYEES' SEVERANCE INDEMNITIES	(1,121)	(1,258)
CASH FLOWS FROM CURRENT OPERATIONS	**263,644**	**182,160**
CHANGE IN OTHER OPERATING ASSETS AND LIABILITIES:		
- CHANGE IN INVENTORY	(358,598)	47,101
- CHANGE IN TRADE RECEIVABLES	(207,250)	19,363
- CHANGE IN TRADE PAYABLES	449,465	(9,544)
- NET CHANGE IN OTHER RECEIVABLES/PAYABLES AND OTHER ASSETS/LIABILITIES	28,410	(145,897)
	(82,193)	**(88,977)**
TOTAL	**181,451**	**93,183**
CASH FLOWS FROM INVESTING ACTIVITIES (B):		
ACQUISITION OF INTANGIBLE ASSETS AND GOODWILL	(12,037)	(13,345)
ACQUISITION OF PROPERTY, PLANT AND MACHINERY	(188,736)	(333,874)
INCREASES OF PROPERTY, PLANT AND MACHINERY DUE TO CYCLICAL MAINTENANCE	(1,423)	–
ACQUISITION OF SHAREHOLDINGS AND OTHER NON-CURRENT FINANCIAL ASSETS	(1,944)	(166)
IMPACT OF TOTALERG JOINT VENTURE ON CASH AND CASH EQUIVALENTS	84,255	–
PROCEEDS FROM SALE OF SHAREHOLDING IN ISAB S.R.L.	–	852,470
DISPOSALS OF INTANGIBLE ASSETS AND GOODWILL	1,392	5,472
DISPOSALS OF PROPERTY, PLANT AND MACHINERY AND RELATED GAINS/LOSSES	7,362	43,039
DISPOSAL OF SHAREHOLDINGS AND OTHER NON-CURRENT FINANCIAL ASSETS	7,991	1,386
TOTAL	**(103,140)**	**554,982**
CASH FLOWS FROM FINANCING ACTIVITIES (C):		
NEW NON-CURRENT LOANS	537,000	123,264
REPAYMENT OF NON-CURRENT LOANS	(572,040)	(185,198)
NET CHANGE IN OTHER NON-CURRENT FINANCIAL LIABILITIES	12,982	16,334
NET CHANGE IN SHORT-TERM BANK BORROWINGS	(581,231)	622,517
NET CHANGE IN OTHER CURRENT FINANCIAL ASSETS/LIABILITIES	182,128	(40,477)
SHARE CAPITAL INCREASES/REPAYMENTS	–	–
ACQUISITION OF TREASURY SHARES	–	–
DIVIDENDS PAID TO THIRD PARTIES	(80,717)	(133,398)
OTHER CHANGES IN SHAREHOLDERS' EQUITY	601	1,686
TOTAL	**(501,277)**	**152,215**
NET CASH FLOWS FOR THE YEAR (A+B+C)	**(485,311)**	**1,052,893**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**1,797,855**	**744,962**
NET CASH FLOW FOR THE YEAR	(485,311)	1,052,893
CASH AND CASH EQUIVALENTS AT YEAR-END	**1,312,544**	**1,797,855**

(1) the statement of cash flow also includes the total flows from sold Assets and Liabilities, whose details are provided in Note 24

	FY 2010	FY 2009
ADDITIONAL CASH FLOW INFORMATION		
INCOME TAX PAID	14,966	155,000
INTEREST PAID	42,460	47,753

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	SHARE CAPITAL	RESERVES	PROFIT (LOSS) FOR THE YEAR	TOTAL	MINORITY INTERESTS	TOTAL SHAREHOLDERS' EQUITY
BALANCE AT 31 DECEMBER 2008	**15,032**	**1,255,263**	**646,033**	**1,916,328**	**107,999**	**2,024,327**
ALLOCATION OF 2008 PROFIT	–	646,033	(646,033)	–	–	–
DIVIDENDS PAID	–	(133,398)	–	(133,398)	–	(133,398)
ACQUISITION OF TREASURY SHARES	–	–	–	–	–	–
OTHER CHANGES	–	(6,911)	–	(6,911)	275	(6,636)
2009 PROFIT	–	–	6,958	6,958	37,830	44,788
CHANGES IN THE CASH FLOW HEDGE RESERVE [2]	–	(539)	–	(539)	(40)	(579)
CHANGES IN SECURITIES AVAILABLE FOR SALE	–	25	–	25	–	25
COMPREHENSIVE NET PROFIT (LOSS) FOR THE PERIOD	**–**	**(514)**	**6,958**	**6,444**	**37,790**	**44,234**
BALANCE AT 31 DECEMBER 2009	**15,032**	**1,760,473**	**6,958**	**1,782,463**	**146,064**	**1,928,527**
ALLOCATION OF 2009 PROFIT	–	6,959	(6,959)	–	–	–
DIVIDENDS PAID	–	(59,288)	–	(59,288)	(21,429)	(80,717)
ACQUISITION OF TREASURY SHARES	–	–	–	–	–	–
OTHER CHANGES [1]	–	2,590	–	2,590	(7,047)	(4,457)
2010 PROFIT	–	–	10,382	10,382	33,016	43,398
CHANGES IN THE CASH FLOW HEDGE RESERVE [2]	–	4,245	–	4,245	468	4,713
CHANGES IN SECURITIES AVAILABLE FOR SALE	–	30	–	30	–	30
COMPREHENSIVE NET PROFIT (LOSS) FOR THE PERIOD	**–**	**4,275**	**10,382**	**14,657**	**33,484**	**48,141**
BALANCE AS OF 31 DECEMBER 2010	**15,032**	**1,715,009**	**10,381**	**1,740,423**	**151,071**	**1,891,494**

(1) the other changes in 2010 refer mainly to the acquisition of 4.8% of ERG Renew shares
(2) net of the related tax effect

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

"ERG" refers to ERG S.p.A. (the "Company") and the companies included in its scope of consolidation.

THE GROUP

ERG is active in oil refining, the distribution of petroleum products in Italy and abroad, and the production and sale of electricity, steam and gas.

CRITERIA FOR THE PREPARATION OF THE FINANCIAL STATEMENTS

The Consolidated Financial Statements as of 31 December 2010 were prepared, without any waivers, in compliance with the International Accounting Standards promulgated by the International Accounting Standard Board (IASB) and endorsed by the European Union, including among them all the international reporting standards subject to interpretation (International Financial Reporting Standards – IFRS) and the interpretations of the International Financial Reporting Interpretation Committee (IFRIC) and of the previous Standing Interpretations Committee (SIC).

The Consolidated Financial Statements, expressed in thousands of EUR, were prepared under the general historical cost principle, with the exception of financial assets available for sale, financial assets held for trading and derivative instruments, which have been measured at fair value.

The Financial Statements as of and for the year ended 31 December 2010 have been audited by the independent firm Deloitte & Touche S.p.A. in accordance with CONSOB regulations.

FORM AND CONTENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS

ERG files its Income Statement by nature, deemed more representative than by function. The selected form conforms to internal reporting and management procedures.
With reference to the statement of financial position, the adopted classification makes a distinction between current and non-current assets and liabilities in accordance with IAS 1.
The structure of the statement of cash flows is based on the indirect method.
Furthermore, as required by CONSOB resolution 15519 dated 27 July 2006, significant income and charges arising from non-recurring transactions or from events that do not recur frequently in the ordinary course of business have been indicated separately in the Income Statement. These items are commented in a dedicated note.
Also pursuant to the aforementioned CONSOB resolution, amounts connected with related-party positions or transactions have been entered separately in the statement of financial position and the Income Statement. These items are commented in a dedicated note.

CONSOLIDATION PRINCIPLES AND SIGNIFICANT ACCOUNTING POLICIES

SCOPE OF CONSOLIDATION

The Consolidated Financial Statements include the line-by-line consolidation of the data of ERG S.p.A., Parent Company, and of the investee companies over which it has direct or indirect control. Said control exists when the Group has the power of determining the financial and operating policies of a company to obtain benefits. Subsidiary companies are consolidated starting on the date on which control was actually obtained by the Group and they cease to be consolidated from the date on which control was transferred outside the Group.

Associated companies, where ERG S.p.A. has significant influence, and joint ventures, where it exercises joint control over financial and operational strategy, are measured under the equity method of accounting. The Group's share of profit or losses is recorded in the Consolidated Financial Statements from the date on which the significant influence started and until the date on which it ceases.

Should the Group's share of the losses of an associate exceed the carrying value of the investment shown in the statement of financial position, after writing off the carrying value a provision is recorded for the Group's share of the losses to the extent that the Group has legal or constructive obligations to cover the losses of the associate or, in any event, to make payments on its behalf.

No companies were consolidated using the proportional method.

SHAREHOLDINGS IN CONSOLIDATED COMPANIES

The financial statements of subsidiaries used for consolidation purposes were drawn up as of 31 December 2010 based on the same accounting principles adopted by the Group.

All financial statements of the companies consolidated line by line are expressed in EUR.

When preparing the Consolidated Financial Statements, the assets, liabilities, costs and revenues of the consolidated companies are included line by line for their full amount, attributing to minority shareholders, under separate headings of the statement of financial position and Income Statement, their portion of shareholders' equity and profit or loss for the financial year. The portion of shareholders' equity pertaining to minority interests is calculated on the basis of the fair values attributed to assets and liabilities at the date control was acquired, excluding any goodwill allocable to them.

The carrying value of investments is eliminated against the corresponding portion of shareholders' equity of the investee companies, attributing to individual assets and liabilities their fair values as of the date control was acquired. Any residual difference, if positive, is recognised as "Goodwill"; if negative, it is recognised in the Income Statement as prescribed in IFRS 3 (Business Combinations).

INTRA-GROUP TRANSACTIONS

Application of the line-by-line method, aimed at eliminating the effect of all intra-group transactions on the consolidated statement of financial position and Income Statement, results in elimination of reciprocal receivables and payables among the companies included in the scope of consolidation, as well as costs, revenues and profits, if significant, originating from sales of products and fixed assets.

TRANSLATION OF FINANCIAL STATEMENTS DRAWN UP IN CURRENCIES OTHER THAN THE EUR

ERG's Consolidated Financial Statements have been drawn up in EUR, which are the functional currency of ERG S.p.A. and of all companies included in the scope of consolidation.

Financial statements of the companies measured under the equity method of accounting that are expressed in currencies other than EUR are translated into EUR by applying the year-end currency exchange rate to individual items in the statement of financial position.

Foreign currency exchange differences resulting from the translation of initial shareholders'

equity items at the year-end rates, compared with those in force at the end of the previous financial year, are charged directly to consolidated shareholders' equity.

LIST OF GROUP COMPANIES

The following tables show the companies consolidated on a line-by-line basis, those measured under the equity method of accounting, and those measured at cost.
List of companies consolidated on a line-by-line basis:

COMPANY (EUR THOUSAND)	REGISTERED OFFICE	DIRECT EQUITY INVESTMENT	GROUP EQUITY INVESTMENT	SHARE CAPITAL [1]	SHAREHOLDERS' EQUITY [1]
ERG S.P.A.					
ERG NUOVE CENTRALI S.P.A.	SIRACUSA	100.00%	100.00%	10,830	10,727
ERG OIL SICILIA S.R.L.[2]	ROME	100.00%	100.00%	6,310	52,866
ERG RENEW S.P.A. [3]	MILAN	82.14%	82.14%	132,667	98,268
ISAB ENERGY S.R.L.	SIRACUSA	51.00%	51.00%	5,165	450,799
ISAB ENERGY SERVICES S.R.L.	SIRACUSA	51.00%	51.00%	700	6,371
ERG RENEW S.P.A.					
DSI SERVIZI INDUSTRIALI S.R.L.	FROSINONE	100.00%	82.14%	100	–
ERG EOLICA ITALIA S.R.L.	GENOA	100.00%	82.14%	30,000	34,383
ERG EOLIENNE FRANCE S.A.S.	PARIS	100.00%	82.14%	50	(2,713)
ERG SOLARE ITALIA S.R.L.	GENOA	100.00%	82.14%	120	185
SODAI ITALIA S.P.A.	MILAN	100.00%	82.14%	7,000	7,706
ERG EOLIENNE FRANCE S.A.S.					
EOLIENNES DU VENT SOLAIRE S.A.S.	PARIS (F)	100.00%	82.14%	37	(381)
PARC EOLIEN DE LIHUS S.A.S.	PARIS (F)	100.00%	82.14%	1,114	(104)
PARC EOLIEN DE HETOMESNIL S.A.S.	PARIS (F)	100.00%	82.14%	1,114	(132)
PARC EOLIEN DE LA BRUYÈRE S.A.S.	PARIS (F)	100.00%	82.14%	1,060	83
PARC EOLIEN DU CARREAU S.A.S.	PARIS (F)	100.00%	82.14%	861	814
PARC EOLIEN LES MARDEAUX S.A.S.	PARIS (F)	100.00%	82.14%	1,097	(163)
ERG EOLICA ITALIA S.R.L.					
EOLO S.R.L.	ATINA (FR)	51.00%	41.89%	20	1,398
ERG EOLICA ADRIATICA S.R.L.	GENOA	100.00%	82.14%	10	48,676
ERG EOLICA BASILICATA S.R.L.	GENOA	98.00%	80.49%	38	(122)
ERG EOLICA CALABRIA S.R.L.	CATANZARO	100.00%	82.14%	10	105
ERG EOLICA FAETO S.R.L.	GENOA	100.00%	82.14%	10	12,000
ERG EOLICA FOSSA DEL LUPO S.R.L.	CATANZARO	100.00%	82.14%	50	12,003
ERG EOLICA GINESTRA S.R.L.	GENOA	100.00%	82.14%	10	1,990
ERG EOLICA TIRRENO S.R.L. [4]	PALERMO	100.00%	82.14%	10	302
ERG EOLICA NURRA S.R.L.	GENOA	100.00%	82.14%	10	466
ERG EOLICA S. CIREO S.R.L.	GENOA	100.00%	82.14%	3,500	22,378
ERG EOLICA S. VINCENZO S.R.L.	GENOA	100.00%	82.14%	3,500	18,618
ERG EOLICA TURSI COLOBRARO S.R.L.	GENOA	100.00%	82.14%	10	33
GREEN VICARI S.R.L.	PALERMO	100.00%	82.14%	119	9,537
ERG NUOVE CENTRALI S.P.A.					
ERG POWER S.R.L. [5]	SIRACUSA	100.00%	100.00%	5,000	54,459

(1) data referring to the latest approved financial statements
(2) operating company commencing on 1 April 2010
(3) the shareholding refers to data as of 31 December 2010
(4) the company Joppolo S.r.l. changed name into ERG Eolica Tirreno S.r.l.
(5) operating company commencing on 1 January 2010

List of shareholdings measured under the equity method of accounting:

COMPANY (EUR THOUSAND)	REGISTERED OFFICE	DIRECT EQUITY INVESTMENT	GROUP EQUITY INVESTMENT	SHARE CAPITAL [1]	SHAREHOLDERS' EQUITY [1]	BOOK VALUE AS OF 12/31/2010
ASSOCIATES						
ERG S.P.A.						
ERG RIVARA STORAGE S.R.L.	MODENA	15.00%	15.00%	63,333	62,734	9,378
ESPANSIONE S.R.L.	VARESE	27.01%	27.01%	274	2,185	856
I-FABER S.P.A.	MILAN	23.00%	23.00%	5,652	12,496	3,121
ERG EOLICA ITALIA S.R.L.						
VCC ABRUZZO S.R.L.	L'AQUILA	30.00%	24.64%	10	5	–
VCC AGRIGENTO S.R.L.	L'AQUILA	30.00%	24.64%	12	6	–
VCC AGRIGENTO 2 S.R.L.	L'AQUILA	30.00%	24.64%	10	4	–
VCC ENNA S.R.L.	L'AQUILA	30.00%	24.64%	10	4	–
ERG EOLIENNE FRANCE S.A.S.						
CITA S.A.S.	ALFORTVILLE (F)	50.00%	41.07%	38	(1,569)	1,145
						14.500
JOINT VENTURES						
ERG S.P.A.						
ISAB S.R.L. [2]	SIRACUSA	51.00%	51.00%	50,000	1,086,985	615,525
TOTALERG S.P.A. [3]	ROME	51.00%	51.00%	47,665	480,343	352,056
IONIO GAS S.R.L. [4]	SIRACUSA	50.00%	50.00%	200	1,727	1,915
ERG RENEW S.P.A.						
ISAB ENERGY SOLARE S.R.L. [5]	SIRACUSA	51.00%	41.89%	N.D.	N.D.	44
ERG POWER S.R.L.						
PRIOLO SERVIZI S.C.P.A. [6]	SIRACUSA	21.50%	21.50%	25,600	42,877	9,411
						978,951
TOTAL						**993,452**

(1) data referring to the latest approved financial statements
(2) in a joint venture with LUKOIL Europe Holdings B.V.
(3) in a joint venture with Total Holdings Europe S.A.S.
(4) in a joint venture with Shell Energy Italia S.r.l.
(5) in a joint venture with Princemark Limited
(6) the consortium company jointly controlled with ISAB S.r.l. (37.8%) and with Polimeri Europa (35.7%) and Syndial (5%), other shareholders in the ENI group

List of shareholdings measured at cost:

COMPANY (EUR THOUSAND)	REGISTERED OFFICE	DIRECT EQUITY INVESTMENT	GROUP EQUITY INVESTMENT	SHARE CAPITAL	SHAREHOLDERS' EQUITY [1]	BOOK VALUE AS OF 12/31/2010
SUBSIDIARIES [2]						
ERG S.P.A.						
ERG PETRÓLEOS S.A.	MADRID (E)	100.00%	100.00%	3,050	2,920	–
ERG GESTIÓN IBÉRICA S.L.	MADRID (E)	100.00%	100.00%	50	(42)	1
ERG EOLICA ITALIA S.R.L.						
EOLICO AGIRA S.R.L.	PALERMO	99.00%	81.31%	20	(59)	20
EOLICO MIRABELLA S.R.L.	PALERMO	99.00%	81.31%	20	8	12
EOLICO PALAGONIA S.R.L.	PALERMO	99.00%	81.31%	20	(62)	20
EOLICO RAMACCA S.R.L.	PALERMO	99.00%	81.31%	20	(61)	20
EOLICO TROINA S.R.L.	PALERMO	99.00%	81.31%	20	(71)	20
						93
ASSOCIATES [2]						
ERG EOLIENNE FRANCE S.A.S.						
EOLIENNES DE LA VALLÉE NOTRE DAME S.A.R.L.	ALFORTVILLE (F)	50.00%	41.07%	2	(2)	1
EOLIENNES DU CHAMP CHARDON S.A.R.L.	ALFORTVILLE (F)	50.00%	41.07%	2	(2)	1
EOLIENNES DE LA CHAUSSÉE BRUNEHAUT S.A.R.L.	ALFORTVILLE (F)	50.00%	41.07%	2	(2)	1
EOLIENNES DE WARLOY-BAILLON S.A.R.L.	ALFORTVILLE (F)	50.00%	41.07%	2	(2)	1
EOLIENNES DE L'OURCQ ET DU CLIGNON S.A.R.L.	ALFORTVILLE (F)	50.00%	41.07%	2	(9)	1
						4
OTHER COMPANIES						
ERG S.P.A.						
BIC LIGURIA S.C.P.A.	GENOA	1.25%	1.25%	5,442	7,133	68
CAF INTERREG. DIPENDENTI S.R.L.	VICENZA	0.06%	0.06%	276	922	–
EMITTENTI TITOLI S.P.A.	MILAN	0.51%	0.51%	4,264	6,056	26
MEROIL S.A.	BARCELONA (E)	0.87%	1.52%	10,901	25,621	310
R.U.P.E. S.P.A.	GENOA	4.86%	4.86%	3,058	3,170	155
ERG RENEW S.P.A.						
ANSALDO FUEL CELLS S.P.A.	GENOA	5.36%	4.40%	21,623	1,765	–
UTILITÀ PROGETTI E SVILUPPO S.R.L.	MILAN	3.34%	2.74%	50	4,375	2
CONSORZIO DYEPOWER	ROME	24.70%	20.29%	390	387	192
ISAB ENERGY S.R.L.						
I.A.S. - INDUSTRIA ACQUA SIRACUSANA S.P.A.	SIRACUSA	5.00%	2.55%	102	108	5
						758
TOTAL						**854**

(1) data referring to the latest approved financial statements
(2) companies measured at cost as they are not operational

CHANGE IN SCOPE OF CONSOLIDATION

The Group's main investment transactions that modified the scope of consolidation are as follows:

- On 1 January 2010, the company ERG Nuove Centrali S.p.A. transferred to the subsidiary **ERG Power S.r.l.** the business unit constituted mainly by the CCGT plant and by the three combined-cycle electrical energy generation plants known as SA1N.
  Therefore, the company ERG Power S.r.l. has been consolidated line-by-line commencing on 1 January 2010. The transaction has no impacts on the Consolidated Financial Statements, since the assets were transferred between companies that are consolidated line-by-line.

- On 28 January 2010, the ERG Group announced a change in its organisational structure during 2010. In particular, the chain of control was shortened with the merger of the **two sub-holdings ERG Raffinerie Mediterranee S.p.A. and ERG Power & Gas S.p.A. into ERG S.p.A.** with accounting effect commencing on 1 January 2010.
  On 14 April 2010, the Extraordinary Shareholders' Meetings of ERG Raffinerie Mediterranee S.p.A. and of ERG Power & Gas S.p.A. approved the merger of these companies into ERG S.p.A.
  On 15 April 2010 the merger plan was approved by ERG's Shareholders' Meeting.
  On 1 July 2010, the merger of the companies ERG Raffinerie Mediterranee S.p.A. and ERG Power & Gas S.p.A. into ERG S.p.A. took effect.
  The transaction had no impact on the Consolidated Financial Statement, because the merged companies fall within the scope of line-by-line consolidation.

- On 1 February 2010, ERG S.p.A. set up the company **ERG Oil Sicilia S.r.l.** which received, effective 1 April 2010, following the partial demerger of ERG Petroli S.p.A., the business unit consisting of the assets and business activities in Sicily.
  Therefore, the company ERG OIL Sicilia S.r.l. has been consolidated line-by-line commencing on 1 April 2010. The transaction has no impacts on the Consolidated Financial Statements, since the assets were transferred between companies that are consolidated line-by-line.

- On 31 March 2010, the company ERG Petroli S.p.A. transferred to ERG S.p.A. its own shareholdings in the companies **ERG Petróleos S.A. and ERG Gestión Ibérica S.l.**
  Moreover, starting on 1 January 2010 the two Spanish companies are no longer consolidated line-by-line by ERG because they are no longer operational.
  In consideration of the closing costs incurred and forecasted by the company, the carrying value of the shareholding was written down and provisions for risks on shareholdings were accrued.

- On 22 June 2010 ERG Renew reached an agreement with IVPC S.a.s. for the acquisition of the entire share of the company IVPC Power 5 S.r.l., owner of two wind farms, one in Molise (40 MW) in commercial operation since January 2010 and one in Puglia (61.8 MW) that started commercial operations in June 2010, for a total installed capacity of 102 MW. The agreement was closed on 23 July 2010. On the same date, the Shareholders' Meeting of IVPC Power 5 resolved to change the name of the company to **ERG Eolica Adriatica S.r.l.** and to move the registered office to Genoa. The value of the acquisition, in terms of asset value (excluding the net working capital) is EUR 224 million, i.e. approximately EUR 2.2 million per MW, of which approximately EUR 175 million funded by non-recourse Project Fnancing, already extant and disbursed by a group of primary Italian and international financial institutions. As a result of this acquisition, ERG Renew increased its installed power by 102 MW, from 208 MW to 310 MW, of which 246 MW in Italy.

- On 30 June 2010 ERG Renew signed the agreement with a primary industry operator for the sale of the shares held in the companies **Ecopower S.r.l. and I.S.E.A. S.r.l..** active in the Hydroelectric Plant business. The agreement was executed in July.

This sale was carried out to implement the provisions of the 2010-2013 Business Plan, which identified the aforesaid business as non-core.
The impacts of the transaction were not significant.

- On 1 October 2010, the **TotalErg** joint venture was executed; its detailed description is provided in the chapter "**TotalErg Joint Venture**" and in Note 24.

- In December 2010 ERG S.p.A. purchased 6,300,000 shares of ERG Renew S.p.A. for a total amount of EUR 6.1 million, raising its stake from 77.4% to 82.1% (+4.75%). The difference between the amount paid and the carrying value of the minority interests acquired was recorded in the Group shareholders' equity, in compliance with IFRS 3 (rev. 2008).
  Lastly, on 14 December 2010 ERG S.p.A. promoted a takeover bid on ERG Renew, as commented more thoroughly in the dedicated Note.

Moreover, on 16 February the company **ISAB Energy Solare S.r.l.** was incorporated; it is jointly controlled by ERG Renew S.p.A. with a 51% stake and by Princemark Ltd. (company belonging to the English group International Power) with a 49% stake. The purpose of the company is to build a photovoltaic plant with approximately 1 MW power in Sicily, near the industrial site of Priolo Gargallo (SR).

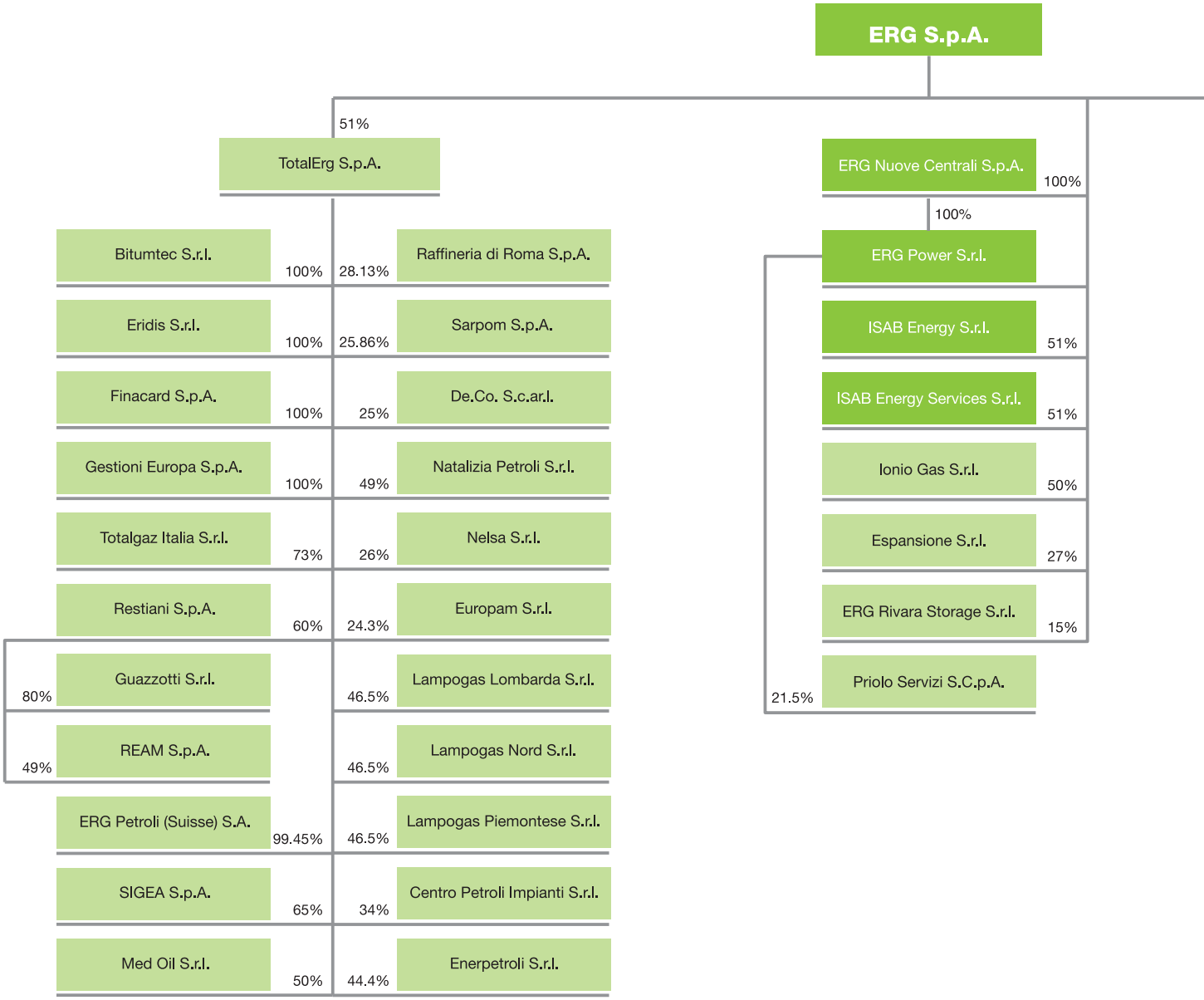
The following table summarises the effects of the aforesaid transactions on the Group's Statement of Financial Position.

(EUR THOUSAND)	ASSETS IN SPAIN	HYDROELECTRIC PLANTS	ERG EOLICA ADRIATICA	TOTALERG	CHANGE IN SCOPE OF CONSOLIDATION
INTANGIBLE ASSETS	–	(247)	68,407	(37,453)	30,707
GOODWILL	–	(2,946)	–	(27,607)	(30,553)
PROPERTY, PLANT AND EQUIPMENT	(614)	(2,037)	192,836	(339,117)	(148,932)
SHAREHOLDINGS	3,051	–	–	284,040	287,091
OTHER FINANCIAL ASSETS	–	–	–	(12,186)	(12,186)
DEFERRED TAX ASSETS	–	(1)	12,890	(17,559)	(4,670)
OTHER NON-CURRENT ASSETS	(20)	–	–	(16,733)	(16,753)
NON-CURRENT ASSETS	**2,417**	**(5,231)**	**274,133**	**(166,615)**	**104,704**
INVENTORIES	–	–	–	(452,693)	(452,693)
TRADE RECEIVABLES	(11,351)	(144)	9,281	(375,452)	(377,666)
OTHER CURRENT RECEIVABLES AND ASSETS	691	(241)	21,913	(38,188)	(15,825)
CURRENT FINANCIAL ASSETS	(10)	–	–	(1,046)	(1,056)
CASH AND CASH EQUIVALENTS	(3,635)	187	9,699	84,255	90,506
CURRENT ASSETS	**(14,305)**	**(198)**	**40,893**	**(783,124)**	**(756,734)**
TOTAL ASSETS	**(11,888)**	**(5,429)**	**315,026**	**(949,739)**	**(652,030)**
SHAREHOLDERS' EQUITY	**118**	**(433)**	**–**	**62,345**	**62,030**
EMPLOYEES' SEVERANCE INDEMNITIES	–	–	–	(6,031)	(6,031)
DEFERRED TAX LIABILITIES	–	–	18,868	(29,588)	(10,720)
PROVISIONS FOR NON-CURRENT LIABILITIES AND CHARGES	–	–	–	(4,253)	(4,253)
NON-CURRENT FINANCIAL LIABILITIES	–	(947)	289,674	(18,408)	270,319
OTHER NON-CURRENT LIABILITIES	–	–	–	(13,068)	(13,068)
NON-CURRENT LIABILITIES	**–**	**(947)**	**308,542**	**(71,348)**	**236,247**
PROVISIONS FOR CURRENT LIABILITIES AND CHARGES	(3,822)	(16)	–	(14,698)	(18,536)
TRADE PAYABLES	(3,273)	(226)	5,457	(462,642)	(460,684)
CURRENT FINANCIAL LIABILITIES	(5,860)	(3,738)	–	(257,909)	(267,507)
OTHER CURRENT LIABILITIES	949	(69)	1,027	(205,487)	(203,580)
CURRENT LIABILITIES	**(12,006)**	**(4,049)**	**6,484**	**(940,736)**	**(950,307)**
TOTAL LIABILITIES	**(11,888)**	**(5,429)**	**315,026**	**(949,739)**	**(652,030)**

The TotalErg column shows the effects of the TotalErg joint venture, more thoroughly commented in the dedicated Note.

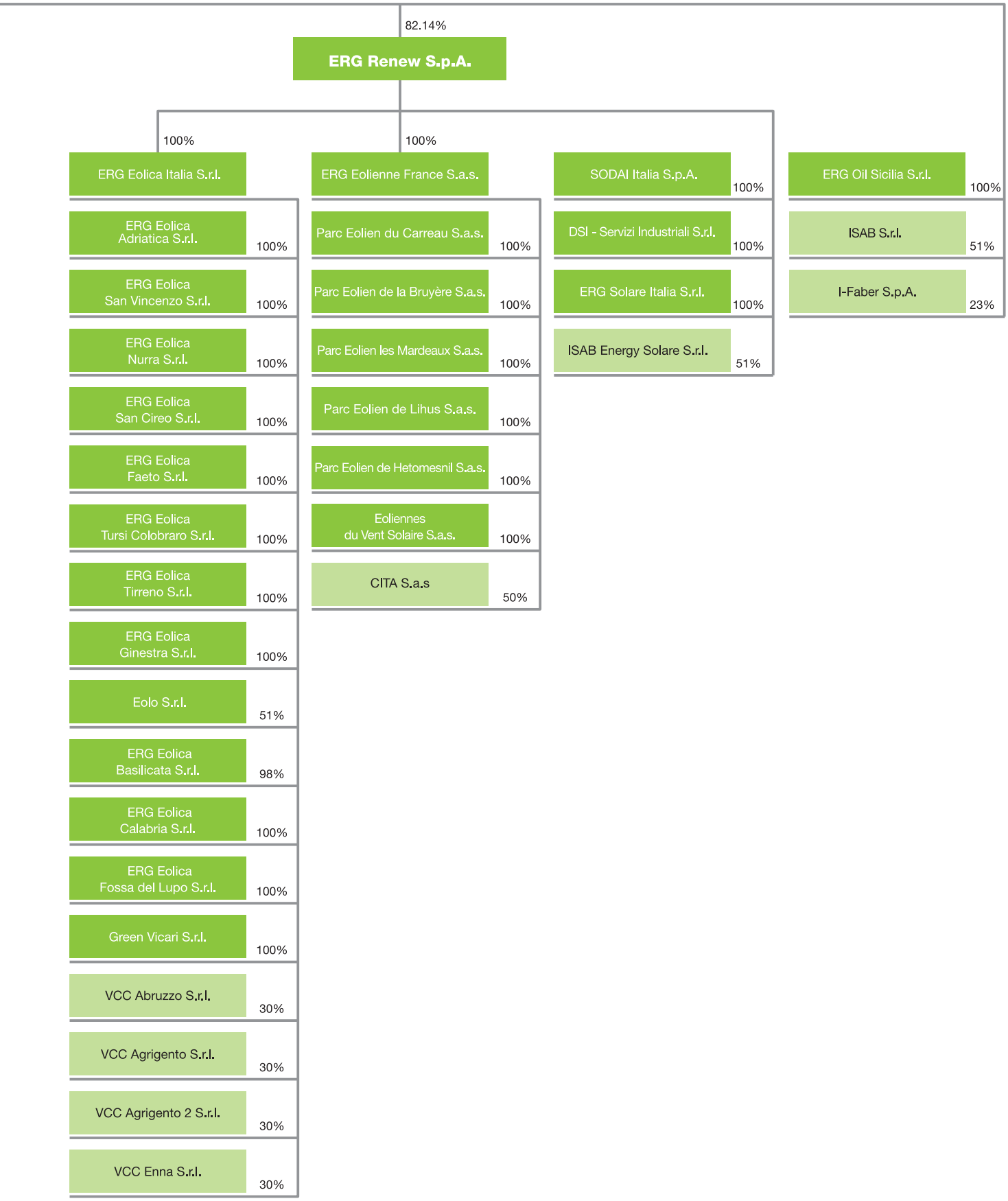
THE ERG GROUP

SCOPE OF CONSOLIDATION AS AT 31 DECEMBER 2010



= companies consolidated using the line-by-line consolidation method

= companies valued using the equity method


82.14%
ERG Renew S.p.A.
100%
ERG Eolica Italia S.r.l.
ERG Eolica Adriatica S.r.l. 100%
ERG Eolica San Vincenzo S.r.l. 100%
ERG Eolica Nurra S.r.l. 100%
ERG Eolica San Cireo S.r.l. 100%
ERG Eolica Faeto S.r.l. 100%
ERG Eolica Tursi Colobraro S.r.l. 100%
ERG Eolica Tirreno S.r.l. 100%
ERG Eolica Ginestra S.r.l. 100%
Eolo S.r.l. 51%
ERG Eolica Basilicata S.r.l. 98%
ERG Eolica Calabria S.r.l. 100%
ERG Eolica Fossa del Lupo S.r.l. 100%
Green Vicari S.r.l. 100%
VCC Abruzzo S.r.l. 30%
VCC Agrigento S.r.l. 30%
VCC Agrigento 2 S.r.l. 30%
VCC Enna S.r.l. 30%
100%
ERG Eolienne France S.a.s.
Parc Eolien du Carreau S.a.s. 100%
Parc Eolien de la Bruyère S.a.s. 100%
Parc Eolien les Mardeaux S.a.s. 100%
Parc Eolien de Lihus S.a.s. 100%
Parc Eolien de Hetomesnil S.a.s. 100%
Eoliennes du Vent Solaire S.a.s. 100%
CITA S.a.s 50%
SODAI Italia S.p.A. 100%
DSI - Servizi Industriali S.r.l. 100%
ERG Solare Italia S.r.l. 100%
ISAB Energy Solare S.r.l. 51%
ERG Oil Sicilia S.r.l. 100%
ISAB S.r.l. 51%
I-Faber S.p.A. 23%

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the Consolidated Financial Statements as of and for the year ended 31 December 2010 are described below; they are consistent with the previous year, except for differences described in the paragraph "Accounting principles, amendments and interpretations applied starting on 1 January 2010".

INTANGIBLE ASSETS

Intangible assets are recorded as assets, pursuant to IAS 38 (Intangible Assets), wherever they are identifiable, it is probable that their use will generate future economic benefits and their cost can be measured reliably.

These assets are recorded at their purchase or production cost, including all ancillary charges attributable to them, and are amortised on a straight-line basis over their useful life. Useful lives are reviewed annually and any changes, where necessary, are applied prospectively.

In general, intangible fixed assets are amortised over a maximum period of 5 years with the exception of:

- licences for industrial process, amortised in relation to the duration of the underlying contract with expiry in 2012;
- the right acquired from ENEL for connection of the IGCC plant to grid connection lines, amortised over the contractual useful life, with expiry in 2020;
- authorisation for operation of service stations and for the wind farms amortised in relation to the contractual term.

There are no intangible fixed assets with an indefinite useful life or development costs.
Research costs are expensed directly in the Income Statement in the period in which they are incurred.

Other intangible fixed assets recorded following acquisition of a business are recorded separately from goodwill if their fair value can be measured reliably.

GOODWILL

In a business combination, the identifiable assets acquired and the identifiable liabilities and contingent liabilities assumed are recorded at their fair value as of the acquisition date.
If control is acquired, the positive difference between the cost of acquisition and the Group's share of the fair value of these assets, liabilities and contingent liabilities is classified as goodwill and recorded in the statement of financial position as an intangible asset.
Any negative difference ("negative goodwill") is instead recorded in the Income Statement at the time of the business combination.
Goodwill is not amortised, but is subjected to impairment tests pursuant to IAS 36 (Impairment of assets) every year, or more frequently if specific events or circumstances indicate the possibility that there may have been any impairment.

PROPERTY, PLANT AND MACHINERY

Property, plant and machinery are recorded at the cost of acquisition or production.
Expansion, modernisation and transformation costs and maintenance costs are capitalised only if they increase the future economic benefits of the asset to which they refer.
Cyclical maintenance costs are recorded as assets in the statement of financial position as a separate component of the main asset during the year in which they are incurred and are included in the depreciation process on the basis of their estimated useful life.
The cost of the assets, where there are present obligations to do so, includes charges for dismantling, removal of assets and site restoration to be incurred at the time facilities are

abandoned, which are recorded as a contra-asset in a specific provision. These charges are recorded starting on the date when they can be reliably estimated for those assets for which future disposal, and the time when this will happen, are foreseeable.
Capitalised charges are allocated to the Income Statement via depreciation.

Depreciation is calculated on a straight-line basis over the estimated useful life. When the tangible assets comprise multiple significant components with different useful lives, depreciated is applied for each component. The value to be depreciated is the carrying value less the expected residual value, if material and reliably measurable.
Land is not subject to depreciation, even if acquired together with a building. Assets revertible free of charge are depreciated over the estimated life of the asset or the duration of the concession, whichever is shorter.
There were no significant finance lease transactions as defined in IAS 17.

The depreciation rates applied are as follows:

	%
INDUSTRIAL AND COMMERCIAL BUILDINGS	2.7 - 5.5
ORDINARY BUILDINGS	3.0
LIGHTWEIGHT CONSTRUCTIONS	10.0
GENERAL PLANT	6.2 - 12.0
SPECIFIC PLANT	6.2 - 10.0
IGCC PLANT	3.3 - 8.2
CCGT PLANT	3.5 - 8.6
PIPELINES, TANKS AND PIPES	6.5 - 12.5
SERVICE STATIONS	7.4
MOTOR VEHICLES, FURNITURE AND FURNISHINGS, SUNDRY ASSETS	12.1 - 25.0

WRITE-DOWN OF ASSETS (IMPAIRMENT TEST)

At least once a year, the Group subjects its tangible and intangible assets to an impairment test to determine whether there are indications that they may be impaired. Should such an indication exist, it is necessary to estimate the recoverable value of the asset to determine the amount of any write-downs.
When it is not possible to estimate the recoverable value of an individual asset, the Group estimates the recoverable value of the cash-generating unit to which the asset belongs.
The recoverable value of an asset is the higher between its fair value, less the costs of disposal, and its value in use determined as the present value of expected future cash flows.
Impairment is recorded if the recoverable value is less than the carrying value. Should the impairment of an asset, other than goodwill, subsequently no longer apply or be reduced, the carrying value of the asset or cash-generating unit is increased up to the new estimate of the recoverable value, without exceeding the value that would have been determined if no impairment had been recorded.

JOINT VENTURES

These are companies on whose operations the Group has joint control as defined by IAS 31 – Interests in joint ventures. The Consolidated Financial Statements include the Group's share of the results of joint ventures, measured under the equity method, starting from the date on which joint control begins until the time it ceases to exist.

ASSOCIATES

These are companies in which the Group exercises significant influence, but not control or joint control, on the financial and operating policies, as defined by IAS 28 – Investments in associates.

The Consolidated Financial Statements include the Group's share of the results of associates, measured under the equity method, starting from the date on which significant influence begins until the time it ceases to exist. Should the Group's share of the losses of an associate exceed the carrying value of the investment shown in the statement of financial position, the carrying value is written off and the share of the losses is not measured, except and to the extent to which the Group is obligated to be liable for it.

FINANCIAL ASSETS

IAS 39 prescribes classifying financial assets according to the following categories:

- (FVTPL): Fair value through profit or loss;
- (HTM): Held-to-maturity investments;
- Loans and receivables (L&R);
- Available-for-sale (AFS) financial assets.

Initially, all financial assets are recognised at their fair value, increased, in the case of assets other than those classified as FVTPL, by ancillary costs.

At the time of underwriting, an assessment is made as to whether a contract contains embedded derivatives. Embedded derivatives are separated from the host contract if the latter is not measured at fair value, whenever the analysis shows that the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract.

The Group classifies its financial assets after initial recognition and, when appropriate and allowable, reviews this classification at the end of each financial year.

- **Financial assets at fair value through profit or loss (FVTPL)**

This category comprises:

– Assets held for trading (HFT);
– Assets designated as FVTPL financial assets at the time of initial recognition.

Assets held for trading are all those assets acquired for sale in the short term. Derivatives, including separated embedded derivatives, are classified as financial instruments held for trading unless they have been designated as effective hedging instruments. Gains and losses on assets held for trading are taken to the Income Statement.

As of 31 December 2010, no financial asset had been designated as FVTPL.

- **Held-to-maturity (HTM) investments**

Non-derivative financial assets with fixed or determinable payments are classified as "held-to-maturity (HTM) investments" whenever the Group intends and has the ability to hold them to maturity.

After initial recognition, HTM financial investments are measured at amortised cost, applying the effective interest method. Gains and losses are recognised in the Income Statement when the investment is derecognised for accounting purposes or when impairment occurs, as well as via the amortisation process.

As of 31 December 2010, the Group held no investments classified as HTM.

- **Loans & receivables (L&R)**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not listed in an active market.

Following initial recognition, these assets are measured at amortised cost applying the effective interest method, net of the provision for impairment, if any.

Gains and losses are recognised in the Income Statement when loans & receivables are derecognised for accounting purposes or when impairment occurs, as well as via the amortisation process.

Trade receivables are shown at their fair value, which corresponds to their face value, and are subsequently reduced for impairment, if any. Trade receivables whose due date is not consistent with normal trading terms and which do not earn interest are discounted to their present value.

- **Available-for-sale (AFS) financial assets**

Available-for-sale (AFS) financial assets are financial assets, other than derivative financial instruments, that have been designated as such or are not classified in any of the previous three categories.
Following initial recognition, AFS financial assets are measured at fair value and gains and losses are reported under a separate heading within equity.
AFS financial assets include shareholdings in companies other than subsidiaries and associates in which ERG S.p.A.'s direct or indirect ownership percentage is less than 20%.
When fair value cannot be reliably measured, shareholdings are measured at cost, written down for impairment, if any, and dividends from such companies are included in "Other net income (loss) from shareholdings".
When the reasons for the write-downs cease to exist, the shareholdings carried at cost are revalued to the extent of the write-downs that had been recorded and the effect is recognised in the Income Statement.
The risk arising from any losses exceeding shareholders' equity is recognised in a specific reserve to the extent that the investor has committed to meet legal or constructive obligations vis-à-vis the investee company or in any case to cover its losses.

IAS 39 envisages the following measurement methods: fair value and amortised cost method.

Fair value

In the case of securities widely traded in regulated markets, fair value is determined in reference to market prices at the close of trading on the Consolidated Financial Statements' date.
Regarding investments for which no active market exists, fair value is determined using measurement techniques based on:

- prices of recent arm's length transactions;
- current fair market value of a substantially similar instrument;
- discounted cash flow (DCF) analysis;
- option pricing models.

Amortised cost method

"Investments held to maturity" and "Loans & receivables" are measured at amortised cost, calculated using the effective interest method, net of impairment provisions, if any. This calculation takes into account all purchase discounts or premiums and includes any fees which are an integral part of the effective interest and transaction costs.

IMPAIRMENT OF FINANCIAL ASSETS

At each Consolidated Financial Statements' date, the Group verifies whether a financial asset or group of financial assets has suffered an impairment in value.
If there is objective evidence that a loan or receivable carried at amortised cost has suffered impairment, the amount of such impairment is measured as the difference between the asset's carrying value and the present value of future expected cash flows discounted at the asset's original effective interest rate.
The carrying value of the asset is reduced via use of a provision. The impairment amount is recognised in the Income Statement.
The Group assesses the existence of factual evidence of impairment on an asset-by-asset basis.

If the amount of impairment subsequently decreases and this reduction can objectively be attributed to an event occurring after recognition of impairment, the value previously reduced can be reinstated. Any subsequent write-backs of value are recognised in the Income Statement, to the extent that the asset's carrying value does not exceed the amortised cost as of the write-back date.

In the case of trade receivables, a provision for impairment is recorded when there is objective evidence (such as, for example, the likelihood of the debtor's insolvency or serious financial difficulties) that the Group will be unable to recover the amounts owed according to the original conditions.
The carrying value of the receivable is reduced via use of a specific provision. Impaired receivables are derecognised if they are deemed unrecoverable.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents are recorded, according to their nature, at face value.
As indicated by IAS 7, the definition of cash equivalents includes cash on hand and bank/postal deposits payable upon demand, short term investments readily convertible into a cash amount. Short-term investments whose reimbursement value is predetermined at the initial acquisition/recording date are also included.

FINANCIAL LIABILITIES

IAS 39 prescribes classifying financial liabilities according to the following categories:

- financial liabilities at fair value through profit or loss (FVTPL);
- other financial liabilities.

All loans taken out are initially recognised at the fair value of the amount received net of ancillary loan acquisition costs.
After initial recognition, loans are measured at amortised cost using the effective interest method.
Every gain or loss is recorded in the Income Statement when the liability is discharged, as well as via the amortisation process.
Financial liabilities at FVTPL include "liabilities held for trading".
Liabilities held for trading (HFT) are acquired for the purpose of short-term sale and comprise derivatives – including separated embedded derivatives – unless they have been designated as effective hedging instruments. Gains or losses on HFT liabilities are recognised in the Income Statement.

As of 31 December 2010, no financial liability had been designated as FVTPL.

DERECOGNITION OF FINANCIAL ASSETS AND LIABILITIES

A financial asset (or, where applicable, part of a financial asset or part of a group of similar financial assets) is derecognised (removed from the statement of financial position) when:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has taken on a contractual obligation to pay them in their entirety and immediately to a third party;
- the Group has transferred the right to receive cash flows from the asset and has transferred substantially all risks and rewards of ownership of the financial asset, or has neither transferred nor retained substantially all risks and rewards of the asset, but has transferred control of same.

In cases where the Group has transferred rights to receive cash flows from an asset and has neither transferred nor retained substantially all risks and rewards, or has not lost control of

the asset, the asset is recognised in Group accounts to the extent of the Group's residual involvement in such asset.
A financial liability is derecognised when the liability's underlying obligation has been extinguished, cancelled, or discharged.

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING TRANSACTIONS

Derivative instruments are initially recognised at their fair value on the date when they are stipulated. This fair value is then subject to periodic revaluation.
They are recognised as assets when their fair value is positive and as liabilities when it is negative.

ERG carries out transactions with derivative instruments to hedge the risk deriving from the fluctuations in raw material and product prices, foreign currency exchange rates and interest rates.
Derivatives are classified as hedging instruments, consistently with IAS 39, when the relationship between the derivative and the hedged item is formally documented and the effectiveness of the hedging, verified both beforehand and periodically, is high.

When derivatives hedge the risk of a change in the fair value of the underlying hedged asset (fair value hedge), they are recorded at their fair value and the effects are recorded in the Income Statement. Accordingly, the hedged instruments are adjusted to reflect the changes in the fair value associated with the hedged risk.

When the derivative hedges the risk of a change in the cash flows of the underlying hedged asset (cash flow hedge), the effective portion of changes in the fair value of the derivatives is initially recognised in shareholders' equity and subsequently recorded in the Income Statement matching the economic effects produced by the hedged transaction.

Changes in the fair value of the derivatives that do not have the formal requisites to qualify as hedges under IAS/IFRS are recorded in the Income Statement.

TREASURY SHARES

Treasury shares are recorded as a reduction of shareholders' equity. The original cost of treasury shares, write-downs for reductions in value, and income and losses deriving from any subsequent sales are recorded as changes in shareholders' equity.

INVENTORIES

Raw materials and petroleum product inventories are measured at the lower of cost, determined on a quarterly basis according to the weighted average cost method, and market value.

Measurement of inventories includes the direct costs of materials and labour and indirect production costs (variable and fixed). Provisions are calculated for the write-down of materials, finished products, spare parts and other supplies considered as obsolete or slow-moving, based on their expected future use and realisable value.

Inventories of ancillary materials, consumables and lubricants are measured at the lower of weighted average cost and market value.

TRANSACTIONS IN FOREIGN CURRENCIES

Transactions in foreign currencies are recorded at the exchange rate prevailing at the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate prevailing at the Consolidated Financial Statements' date. Non-monetary items

are maintained at the exchange rate prevailing at the transaction date except in the case of a persistently unfavourable trend in the exchange rate. Exchange rate differences generated on derecognition of items at rates differing from those at which they had been translated at the time of their initial recognition and those relating to monetary items at year-end are recorded in the Income Statement under financial income and expenses.

PROVISIONS FOR LIABILITIES AND CHARGES

ERG records provisions for liabilities and charges when:

- here is a present legal or constructive obligation to third parties;
- it is probable that the use of Group resources will be required to fulfil the obligation;
- a reliable estimate can be made of the amount of the obligation.

Changes in the estimates are reflected in the Income Statement for the period in which the change occurred.

When the financial effect over time is significant and the dates of settlement of the obligations can be estimated, the provision is subject to discounting, utilising a discount rate that reflects the current time value of money. The increase in the provision connected to the passing of time is recognised in the Income Statement under "Financial income (expenses)".

When the liability relates to property, plant or machinery (for example dismantling and restoration of sites), the provision is recorded as a contra asset against the asset to which it refers, and recognition in the Income Statement takes place through the depreciation process.

Significant contingent liabilities, represented by the following, are disclosed in the notes to the Consolidated Financial Statements:

- possible (but not probable) obligations arising from past events, the existence of which will be confirmed only upon occurrence of one or more uncertain future events that are not fully under the company's control;
- present obligations arising from past events the amount of which cannot be reliably estimated, or for which it is probable that fulfilment will not be onerous.

EMPLOYEE BENEFITS

Until 31 December 2006, the employees' severance indemnities provision (TFR) of Italian companies was considered as a defined benefit plan. The rules for this provision were amended by Law 296 dated 27 December 2006 ("2007 Budget Law") and subsequent decrees and regulations promulgated in early 2007. In light of these changes, and in particular with reference to companies with at least 50 employees, it is now to be considered a defined benefit plan solely for portions accrued prior to 1 January 2007 and not yet liquidated as of the date of the Consolidated Financial Statements, whereas after said date it is to be considered a defined contribution plan.

The liability relating to defined benefit plans is determined, separately for each plan, on the basis of actuarial assumptions, by estimating the amount of the future benefits to which employees are entitled as of the reference date, and accrued over the rights' vesting period; the liability is valued by independent actuaries.

Gains and losses related to defined benefit plans arising from changes in the actuarial assumptions used, or changes in the plan conditions, are recognised pro rata in the Income Statement for the remaining average working life of the employees participating in the plan, if and to the extent that their net off-balance-sheet value at the end of the previous financial year exceeds the higher between 10% of the liability pertaining to the plan and 10% of the fair value of the plan assets.

STOCK OPTION PLANS

Under IFRS 2 (Share-based Payments), stock options in favour of employees are measured at fair value at the time of their assignment based on models taking into account the factors and elements prevailing at such time (option exercise price and duration, current price of underlying shares, and expected volatility of share price, etc.).

The right to exercise vests after a certain period and subject to certain conditions.

The overall value of the options is apportioned pro rata temporis over the above-mentioned period as a charge to the Income Statment and recorded under a specific shareholders' equity item.

The measured fair value of each option is neither reviewed nor updated at the end of each year, but remains definitively acquired in shareholders' equity; at the end of each year, however, the estimate of the number of options that will mature up to expiry is updated (and hence the number of employees who will have the right to exercise the options).

The change in the estimate is recognised as a reduction of shareholders' equity with a contra entry to the Income Statement.

REVENUE RECOGNITION

Revenues from sales and services are recorded when the actual transfer of the risks and rewards of ownership occurs, which coincides with the time of delivery or based on different contractual specifications, or on completion of the services.

ISAB Energy's sales revenues are based on a sale contract to the GSE regulated by the price established in Regulation 6/1992 of the Inter-ministerial Prices Committee (CIP/6), signed for 20 years and already authorised by the EU for 15 years. Regulation 6/1992 provides for recognition of a subsidised price for the first eight years of operation (2000-2008).

This subsidised component represents an advance on the overall sales price that can be obtained from the contract. The subsidy is therefore recognised as revenues in proportion to the quantities of energy sold over the quantities expected to be sold over the lifetime of the entire contract.

Revenues stemming from partially provided services are recognised as earned, provided that it be possible to determine their level of completion reliably and that there be no significant uncertainties as to the amount and existence of the revenues and related costs; otherwise, they are recognised within the limits of the recoverable costs incurred.

Revenues are recorded net of returns, discounts, rebates and allowances, as well as of any directly related taxes.

If a deferment of payment is expected, which does not fall under normal commercial terms, the financial component that will be attributed as income in the deferment period is separated from revenues. Since exchanges of goods or services of a similar nature and value do not constitute sales transactions, they do not give rise to recognition of revenues and costs.

Revenues relating to green certificates are recorded based on production in the period and are calculated on the basis of the legal regulations and prevailing resolutions of the Electricity Authority during the period, also taking into account the prevailing pro tempore equalising regulations.

Grants related to assets are recorded at the time when a formal assignment is made and any possible restriction on their collection is removed and they are recognised in the Income Statement over the useful life of the related assets, with the purpose of matching their economic-technical depreciation.

Following implementation of IFRIC 13 - Customer Loyalty Programmes, the portion of revenues corresponding to the fair value of the loyalty prize pledged in the loyalty campaigns is recorded

under other liabilities; this liability is reversed to the Income Statement in the year in which the loyalty prize is awarded or the related right expires.

DIVIDENDS

Dividends are recorded when, following a shareholders' resolution, the right of shareholders to receive the payment is established.

FINANCIAL INCOME AND EXPENSES

These are recognised under the accrual basis of accounting in the Income Statement based on the interest due on the net value of financial assets and liabilities, utilising the effective interest rate.

TAXES

Current taxes are provided for based on the estimated tax charge for the period, taking into account also the effects relating to participation of most Group companies in "tax consolidation".

Income taxes are recorded in the Income Statement, with the exception of those relating to items directly debited or credited to a shareholders' equity reserve. In these cases, the tax effect is also directly recorded under shareholders' equity.
Furthermore, pursuant to the accrual basis of accounting, the Consolidated Financial Statements include deferred-tax assets and liabilities arising from temporary differences caused by adjustments made to the financial statements of consolidated companies in order to align them with the Group's uniform accounting principles, as well as from temporary differences between the value of assets and liabilities for financial reporting purposes and their values for tax calculation purposes.
Provisions for taxes that may arise from the transfer of undistributed profits of subsidiary companies are made only when there is a real intention to transfer such profits.
Deferred tax assets, including those relating to tax losses that can be carried forward, are only recorded in the Consolidated Financial Statements if their future recovery is probable.
Deferred taxes are calculated on the basis of the tax rates expected to be in force in the periods in which the taxable temporary differences will be reversed.
Deferred tax assets and deferred tax liabilities are classified under non-current assets and liabilities.

EARNINGS PER SHARE

Basic earnings per share are calculated by dividing net profit for the period attributable to the company's ordinary shareholders by the weighted average number of the ordinary shares outstanding during the period.
To calculate diluted earnings per share, the weighted average number of ordinary shares outstanding is adjusted by assuming the conversion of all dilutive potential ordinary shares.

USE OF ESTIMATES – RISKS AND UNCERTAINTIES

Preparation of the Consolidated Financial Statements and explanatory notes pursuant to IFRSs requires ERG to make estimates and assumptions that affect the values of the assets and liabilities reported in the Consolidated Financial Statements and the information relating to contingent assets and liabilities. Making these estimates involves using information available and subjective judgment. The estimates and assumptions used are based on experience and on other factors deemed relevant. The actual final figures may therefore differ from these estimates. Estimates and assumptions are revised periodically and the effects of every change made to them are reflected in the Income Statement in the period when the estimate revision

takes place if the revision has effects only on that period, or also in subsequent periods if it has effects both on the current year and on future ones.

The main estimates for which subjective judgment is more frequently required include:

- electricity price adjustments;
- values for green certificates and emissions rights;
- provisions for bad debt, inventory obsolescence, amortization/depreciation and asset write-downs;
- provisions for environmental risk and for liabilities related to legal and tax disputes for which a financial disbursal is deemed likely and the amount of the resulting losses can be reasonably estimated;
- deferred tax assets, recognised on the basis of the Group's future taxability of expected profits generated in accordance with business plans as well as of the expected renewal of tax consolidation regimes;
- the procedure for the measurement of impairment of intangible assets (particularly goodwill), tangible assets and other investments, described in particular in the **Goodwill** paragraph implies, in the estimation of the value-in-use component, the use of financial forecasts by subsidiaries that are based on a series of assumptions and hypotheses about future events and actions by the governing bodies of these companies, which will not necessarily take place as expected. Similar estimation procedures are necessary when reference is made to the estimated fair value (net of disposal costs) component due to the uncertainty inherent in any negotiation;
- the valuation of the fair value of the put option granted to the Group as part of the agreement underwritten with LUKOIL (see the paragraph **Put Option on 51% ISAB S.r.l.**).

Finally, the peculiarly uncertain situation arising from the ongoing economic and financial crisis that started in 2008 has necessitated assumptions about future trends in the industries where the company operates, thus resulting in a higher degree of uncertainty as to certain estimates underlying the Consolidated Financial Statements, so it cannot be excluded that, during the next year, the results will differ from the estimates which may then require even significant adjustments, that today can neither be estimated nor forecasted, to the carrying value of the related items.

ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATION APPLIED STARTING ON 1 JANUARY 2010

The following accounting standards, amendments and interpretation were first applied by the Group starting on 1 January 2010. In particular, the updated version of IFRS 3 introduced important changes, described below, which mainly pertain to: rules for phased acquisitions of subsidiary companies; the right to measure at fair value any third party interests acquired in a partial acquisition; allocation to the Income Statement of all costs connected to the business combination and the recognition on the acquisition date of the liabilities for conditional payments.

- **IFRS 3 – Business Combinations**
  - ***Phased acquisition of a subsidiary***

    In case of phased acquisition of a subsidiary, IFRS 3 (2008) prescribes that a business combination is obtained only at the time when control is acquired and that, at this time, all identifiable net assets of the acquired company must be measured at fair value; minority interests shall be measured on the basis of their fair value or on the basis of the proportional share of the fair value of the identifiable net assets of the acquired company (method already allowed by the previous version of IFRS 3).

In a phased acquisition of control of an associated company, the previously held share, which until that time had been recorded as indicated by IAS 39 - Financial Instruments: Recognition and Measurement, or in accordance with IAS 28 - Investments in associates or in accordance with IAS 31 – Interests in joint ventures, shall be treated as if it had been sold and reacquired on the date on which control is acquired. This interest must therefore be measured at its fair value on the date of "sale" and the profits and losses consequent to this measurement shall be recorded in the Income Statement. Moreover, every value previously recorded in the shareholders' equity as "Other total profits and losses", which should be allocated in the Income Statement as a result of the sale of the asset to which it refers, must be reclassified in the Income Statement. The goodwill or the proceed deriving from the transaction that ended with the subsequent acquisition shall be determined as the summation of the price paid to obtain control, the value of minority interests (measured according to one of the methods allowed by the standard), the fair value of the previously held minority share, net of the fair value of the acquired identifiable net assets. According to the previous version of the standard, phased control acquisition was recorded transaction by transaction, as a series of separate acquisitions that overall generated a goodwill determined as the sum of the goodwill generated by the individual transactions.

- ***Ancillary costs to the transaction***
  IFRS 3 (2008) provides that the ancillary costs to business combination transactions shall be recorded in the Income Statement in the period when they are incurred. According to the previous version of the standard, said costs were included in the determination of the cost of acquisition of the net assets of the acquired company.

- ***Recognition of conditional consideration***
  IFRS 3 (2008) prescribes that conditional consideration be deemed part of the price of the net assets acquired and that it be measured at fair value on the date of acquisition. Similarly, if the business combination agreement prescribes the right to the return some components of the price upon the fulfilment of certain conditions, then this right is classified as the acquirer's asset. Any subsequent changes in fair value shall be recognised to adjust the original accounting treatment only if they are caused by additional or better information about this fair value and if they take place within 12 months from the acquisition date; all other changes shall be recognised in the Income Statement.
  According to the previous version of the standard, conditional consideration had to be recognised on the acquisition date only if its payment was deemed likely and its amount could be reliably determined. Additionally, every subsequent change to the value of said consideration was always recognised as an adjustment to goodwill.

- **IAS 27 – Consolidated and Separate Financial Statements**

Changes to IAS 27 mainly pertain to the accounting treatment of transactions or events that change the shareholdings in subsidiary companies and the allocation of the losses of the subsidiary to minority interests. In accordance with the transition rules of the standard, the Group adopted these changes to IAS 27 prospectively, recognising effects on the accounting treatment of some acquisitions and sales of minority interests in subsidiary companies.
IAS 27 (2008) establishes that, once control over a company is established, the transactions in which the parent company acquires or sells additional minority shares without changing the control exercised on the subsidiary are transactions with shareholders and therefore they shall be recognised in the shareholders' equity. Therefore, the carrying value of the controlling share and of minority interests shall be adjusted to reflect the changed share in the subsidiary and every difference between the amount of the adjustment made to minority interests and

the fair value of the price paid or received for this transaction is entirely recognised in shareholders' equity and it is attributed to the shareholders of the parent company. There will be no adjustments to the value of goodwill and profits or losses recorded in the Income Statement. Ancillary costs deriving from such transactions shall be recorded in shareholders' equity as required by IAS 32, Paragraph 35.
Previously, in the absence of a Standard or of a specific interpretation on this matter, in case of acquisition of minority interests in companies that were already controlled, the Group had adopted the so-called "Economic entity approach", which provided for recording the difference between the acquisition cost and the book value of the acquired assets and liabilities to reduce the Group's Shareholders' Equity. In case of sale of minority interests without loss of control, instead, the Group recognised the difference between the book value of the sold assets and liabilities and the sale price in the Income Statement.
As a result of the adoption of the change described above, in 2010 the Group recognised a EUR 7 million reduction in shareholders' equity following the acquisition of incremental shares of **ERG Renew**. Adoption of the standard did not entail significant effects on "Other income and losses" in the statement of comprehensive income and on earnings per share.

- **IFRS 5 – Non-Current Assets Held for Sale and Discontinued Operations**

If a company has committed to a selling plan involving the loss of control over an investee company, all the assets and liabilities of the subsidiary must be reclassified as held for sale, even if after the sale the company still holds a minority interest in the subsidiary. This revision is applied prospectively starting on 1 January 2010.

- **IFRIC 18 – Transfers of Assets from Customers**

This principle clarifies the accounting treatment to be adopted when the company sets out a contract in which it receives a material asset from one of its own customers that it has to use to connect the customer to a network, or to provide the customer with a determined access to goods or services (provision of electricity, gas or water, for example). In some cases, the company receives cash from customers to build or acquire material assets that will be used to fulfil the contract. The interpretation is applied prospectively starting on 1 January 2010.

- **IFRS 8 – Operating Segments**

This amendment, which must be applied starting on 1 January 2010, requires companies to disclose the total value of assets for each segment being reported if such value is made available periodically to the highest decision-making operational level. Previously this information was required even if this condition was not met.

- **IAS 36 – Impairment of Assets**

This amendment, which must be applied prospectively starting on 1 January 2010, requires that each operating unit or group of operating units onto which goodwill is allocated for the purposes of the impairment test must not be larger than the operating segment defined in paragraph 5 of IFRS 8 prior to the combination allowed by paragraph 12 of the same IFRS on the basis of similar economic conditions or of other similar factors.

AMENDMENTS AND INTERPRETATIONS NOT YET APPLICABLE OR ADOPTED BY ERG

- On 8 October 2009, IASB issued an amendment to **IAS 32 – Financial Instruments: presentation**: classification of the rights issued in order to discipline the accounting treatment of the issuance of rights (rights, options or warrants) denominated in a currency different from the issuer's functional currency. Previously, such rights were recorded as

liabilities from derivative financial instruments; the amendment instead requires that, under certain conditions, such rights be classified in the Income Statement regardless of the currency in which the exercise price is denominated. This amendment must be applied retrospectively starting on 1 January 2011. Adoption of the amendment is not expected to have any significant effects on the Group's Consolidated Financial Statements.

- On 4 November 2009, the IASB issued a revised version of **IAS 24 – Related party disclosures** which simplifies the type of information required in case of transactions with related parties controlled by the State and clarifies the definition of related parties. This standard must be applied starting on 1 January 2011. Adoption of this change will not have any effect from the viewpoint of the measurement of items in the Consolidated Financial Statements.

- On 12 November 2009, the IASB published the principle **IFRS 9 – Financial Instruments:** the same standard was then amended on 28 October 2010. The principle, applicable commencing on 1 January 2013, represents the first part of a phased process whose purpose is completely to replace IAS 39 and introduces new criteria for the classification and measurement of financial assets and liabilities and for the derecognition of financial assets from the statement of financial position. In particular, for financial assets the new standards uses a single approach based on the procedures for managing financial instruments and on the characteristics of the contractual cash flows of the financial assets in order to determine their measurement criterion, replacing the different rules prescribed by IAS 39. For financial liabilities, instead, the main change that took place pertains to the accounting treatment of fair value changes of a financial liability designated as financial liability at fair value through profit or loss, if they are due to the change in the credit merit of the liability. According to the new standard, such changes shall be recognised in "Other comprehensive income" and will no longer transit in the Income Statement. On the date of these Consolidated Financial Statements, the cognisant bodies of the European Union have not yet ended the endorsement process necessary for the application of the new standard.

- On 6 May 2010, the IASB issued a set of amendments to the IFRS ("Improvements") which shall be applicable from 1 January 2011 onwards; those that will entail a change in the presentation, recognition and measurement of Consolidated Financial Statement items are mentioned below, neglecting instead those that will only determine terminology changes or editorial changes with minimal effects in accounting terms, or those that have effect on principles or interpretations that are not applicable for the Group:

  - **IFRS 3 (2008) – Business Combinations:** the amendment clarifies that the components of minority interests that do not entitle the owners to receive a proportional share of the net assets of the subsidiary must be measured at fair value or as required by the applicable accounting standards. Hence, for instance, a stock option plan granted to employees must be measured, in case of a business combination, in accordance with the rules of IFRS 2 and the equity portion of a convertible bond must be measured in accordance with IAS 32. Moreover, the Board examined more thoroughly the issue of stock-based payment plans which are replaced within a business combination, adding a specific guidance to clarify their accounting treatment.

  - **IFRS 7 - Financial Instruments: disclosures:** the change emphasises the interaction between the qualitative and quantitative disclosures required by the standard about the nature and scope of the risks inherent to financial instruments. This should assist the users of the Consolidated Financial Statements to connect the information presented and to constitute a general description about the nature and scope of the risks deriving from

financial instruments. Moreover, the requirements for disclosures on financial assets that have expired but that were renegotiated or written down and for disclosures on the fair value of collaterals were eliminated.

- **IAS 1 - Presentation of Financial Statements:** the modification requires that the reconciliation of the changes of each shareholders' equity component be presented in the notes or in the Consolidated Financial Statements.

- **IAS 34 – Interim Financial Reporting:** through some examples, clarifications were provided about the additional information that must be presented in Interim Financial Reports.

Adoption of these amendments is not expected to have any significant effects on the Group's Consolidated Financial Statements.
Lastly, on 7 October 2010, the IASB published the principle **IFRS 7 – Financial Instruments: Disclosures**, applicable for the accounting periods that will start on or after 1 July 2011. The amendments were issued with the intent to improve understanding of financial asset transfer transactions, including understanding of the possible effects deriving from any risk remaining with the company that sold these assets. The amendments further require additional information if a disproportionate amount of these transactions takes place at the end of an accounting period.
On the date of these Consolidated Financial Statements, the cognisant bodies of the European Union have not yet ended the endorsement process necessary for the application of the amendments.

TOTALERG JOINT VENTURE

In January 2010 ERG and TOTAL signed an agreement to create a joint venture, called TotalErg, operating in Italy in the refining and marketing business.
In May, the agreement received approval by the Italian Antitrust Authority.
In July, the extraordinary Shareholders' Meeting of ERG Petroli S.p.A. approved the merger by incorporation of Total Italia S.p.A. into ERG Petroli S.p.A.
On **23 September 2010,** the deed was stipulated for the merger by incorporation of Total Italia S.p.A. into ERG Petroli S.p.A. which, on the effective date of the merger (**1 October 2010**), took on the name TotalErg S.p.A.
The shareholding agreement envisages shared governance and operating autonomy in the joint venture. The proportion of shares held by ERG and TOTAL in the new company are 51% and 49% respectively.
In particular, ERG brought into the Joint Venture the assets and liabilities related to the "**Integrated Downstream in Italy**"[1] business with the exclusion of the marketing assets in Sicily.
Thus, the transaction entailed the loss of control over ERG Petroli S.p.A. (100% owned) and the acquisition of a share in the aforesaid joint venture which is reported in the Consolidated Financial Statements under the equity method.
In reference to the initial recognition of the aforesaid investment, IFRS 3 (rev. 2008) specifies that as a result of the disposal of controlling shares any residual interest held in the entity to be sold is measured at fair value determined at the time control was lost. Therefore, said fair value represents the initial carrying value of the new joint venture measured in accordance with IAS 31.
In a joint venture, contributions represent asset transfers by the participants in control in exchange for a share in the joint venture: in reference to said contributions, the interpreting document SIC 13 specifies that participants in joint control shall record the related gain in the consolidated Income Statement only to the extent of the shares of the other participants in the joint venture.

1 Integrated Downstream in Italy represents, in these Consolidated Financial Statements, the disposal group disciplined by IFRS 5 and includes assets and liabilities held by ERG Petroli S.p.A. and by its subsidiaries

	DECONSOLIDATION OF INTEGRATED DOWNSTREAM IN ITALY	TOTALERG SHAREHOLDING (63%)	TRANSFER OF OF 12% OF TOTALERG	IMPACT OF TOTALERG JOINT VENTURE
INTANGIBLE ASSETS	(37,453)	–	–	(37,453)
GOODWILL	(27,607)	–	–	(27,607)
PROPERTY, PLANT AND MACHINERY	(339,117)	–	–	(339,117)
SHAREHOLDINGS	(81,876)	451,510	(85,594)	284,040
OTHER FINANCIAL ASSETS	(12,186)	–	–	(12,186)
DEFERRED TAX ASSETS	(17,559)	–	–	(17,559)
OTHER NON-CURRENT ASSETS	(16,733)	–	–	(16,733)
NON-CURRENT ASSETS	**(532,531)**	**451,510**	**(85,594)**	**(166,615)**
INVENTORIES	(452,693)	–	–	(452,693)
TRADE RECEIVABLES	(375,452)	–	–	(375,452)
OTHER CURRENT RECEIVABLES AND ASSETS	(38,188)	–	–	(38,188)
CURRENT FINANCIAL ASSETS	(1,046)	–	–	(1,046)
CASH AND CASH EQUIVALENTS	(16,857)	–	101,112	84,255
CURRENT ASSETS	**(884,236)**	**–**	**101,112**	**(783,124)**
TOTAL ASSETS	**(1,416,767)**	**451,510**	**15,518**	**(949,739)**
SHAREHOLDERS' EQUITY	**(403,605)**	**450,696**	**15,254**	**62,345**
EMPLOYEES' SEVERANCE INDEMNITIES	(6,031)	–	–	(6,031)
DEFERRED TAX LIABILITIES	(30,666)	814	264	(29,588)
PROVISIONS FOR NON-CURRENT LIABILITIES AND CHARGES	(4,253)	–	–	(4,253)
NON-CURRENT FINANCIAL LIABILITIES	(18,408)	–	–	(18,408)
OTHER NON-CURRENT LIABILITIES	(13,068)	–	–	(13,068)
NON-CURRENT LIABILITIES	**(72,426)**	**814**	**264**	**(71,348)**
PROVISIONS FOR CURRENT LIABILITIES AND CHARGES	(14,698)	–	–	(14,698)
TRADE PAYABLES	(462,642)	–	–	(462,642)
CURRENT FINANCIAL LIABILITIES	(257,909)	–	–	(257,909)
OTHER CURRENT LIABILITIES	(205,487)	–	–	(205,487)
CURRENT LIABILITIES	**(940,736)**	**–**	**–**	**(940,736)**
TOTAL LIABILITIES	**(1,416,767)**	**451,510**	**15,518**	**(949,739)**

- The column **Deconsolidation of Integrated Downstream in Italy** shows the contribution values to the ERG consolidated Financial Statements pertaining to ERG Petroli S.p.A. and to its own investee companies as of 1 October 2010; the details are commented in Note 24.

- The column **TotalErg Shareholding** shows the carrying value of the initial recognition of the shareholding in TotalErg. Said value is equal to the ERG share (63%) of the fair value of the shareholding, estimated to be equal to the sum of the negotiated values. The gain equal to the difference between the aforesaid value of the shareholding and the accounting value of the deconsolidated net assets as of 1 October 2010 was adjusted, as required by SIC 13, for the part pertaining to ERG's share (63%).

The following table summarises the detailed amount.

FAIR VALUE TOTALERG (63%)	533,078
SHAREHOLDERS' EQUITY - INTEGRATED DOWNSTREAM ITALY	(403,605)
GROSS GAIN	**129,473**
ERG SHARE (63%) OF THE GAIN (SIC 13)	*(81,568)*

FAIR VALUE TOTALERG (63%)	533,078
REVERSAL OF ERG SHARE (63%) OF THE GAIN (SIC 13)	(81,568)
FAIR VALUE TOTALERG (63%) IN ERG CONSOLIDATED FINANCIAL STATEMENTS	**451,510**

- The column **Transfer of 12% Shareholding** shows the effects on the statement of financial position of the transfer of 12% of the shareholding in TotalErg, carried out upon completion of the transaction and with the purpose of achieving the shares distribution set out in the Joint Venture Agreement.

- The last column shows the **Impact of TotalErg Joint Venture**, resulting from the data described above. Particularly noteworthy is the total gain of the joint venture, i.e. approximately EUR 63 million, of which 48 pertain to the fair value recognition of the new shareholding and 15 to the 12% transfer, before tax effects.

For additional details on the contributed assets and liabilities and their impacts on the Income Statement, please see Note 24.

PUT OPTION ON 51% OF ISAB S.R.L.

The agreement underwritten with LUKOIL on 1 December 2008 gives ERG a put option for its 51% equity interest. The exercise price for rights to 100% of the assets transferred to ISAB S.r.l. (not including the minimum operating inventory) will be the fair market value within a collar with a cap at EUR 2,750 million and a floor at EUR 2,000 million, reduced by EUR 15 million following the February 2009 agreement.
The put option was exercisable at ERG's discretion, commencing in 2010 and within a four-year period, at an exercise price largely corresponding to the fair value of the shareholding at the exercise date.

On 31 January 2011, the Board of Directors of ERG S.p.A. approved the exercise of the put option for 11% of ISAB S.r.l.
The value of the sale to LUKOIL of the 11% shareholding in ISAB (excluding inventories) is EUR 205 million; according to contractual provisions, the option was exercised at the floor price.
The Company opted for the partial exercise, to enable the Group to maintain an adequate industrial role in the coastal refinery business in partnership with LUKOIL, consistently with the multi-energy strategy of the Group, and further to strengthen its financial structure.

As a result of the transaction, 60% of ISAB will be owned by LUKOIL and 40% by ERG. The Company will continue to be managed by the two shareholders according to the existing shareholder agreements with equally shared governance on major business decisions, and with an operating agreement that assures its autonomy and operating independence.
The closing of the transaction is expected by the end of the first quarter 2011.

The fair value of the put option depends on the fair value of the underlying asset, both with regard to the 51% share held as of 31 December 2010, and for the 11% share exercised in January 2011. According to a study by independent experts, the value of the option is not quantifiable, since the range of reasonable estimates of fair value is very broad and the probability of the various estimates cannot be reasonably estimated, since in the valuation procedure, variables relating to negotiation factors and the non-standard nature of the underlying asset (involving financial as well as industrial considerations) come into play, as well as factors relating to the way the option can be exercised.
For this reason, and pursuant to indications given in IAS 39, the put option could not be recorded at fair value as of 31 December 2010.

2010 TENDER OFFER ON ERG RENEW S.P.A.

On **14 December 2010** the Board of Directors of ERG S.p.A. decided to promote a voluntary tender offer on ERG Renew S.p.A., at the price of EUR 0.97 per share. The goal of the Tender Offer is to attain the delisting, in order to enable the ERG Group to benefit from a more adequate financial, organisational and managerial flexibility, useful to carry out its strategic plan and to achieve, more rapidly, the current investment and market positioning goals through organic growth, both internal and external, also through potential acquisitions.
On **3 January 2011**, therefore, ERG S.p.A. filed the draft Tender Offer Document with CONSOB.

On **13 January 2011** the Board of Directors of ERG Renew S.p.A. approved the notice per Art. 103, Paragraph 3, of Legislative Decree 58 dated 24 February 1998 pertaining to the voluntary tender offer promoted by the parent company ERG S.p.A. on ERG Renew S.p.A.
The Board of Directors of ERG Renew, having acknowledged the fairness opinion issued by the independent financial advisor Merrill Lynch International deemed the price of EUR 0.97 per share proposed by ERG S.p.A. to be financially congruous.

On **18 January 2011**, CONSOB approved the document pertaining to the tender offer promoted by ERG S.p.A. on ERG Renew S.p.A., inclusive of the notice by ERG Renew S.p.A. per Art. 103, Paragraph 3, of Legislative Decree 58 dated 24 February 1998.

On **18 February 2011** ERG S.p.A. announced, after the conclusion of the period of the public Tender Offer promoted on all common stock of the entire share capital of ERG Renew S.p.A., that it had obtained acceptances for a total of 13,962,309 Shares, i.e. 62.748% of the Shares subject to the Tender Offer and equal to 10.524% of the share capital of the Issuer, for a total value of EUR 13,543,439.73. During the Tender Offer acceptance period, ERG also made purchases outside the Tender Offer for a total of 952,629 Shares, representing 0.718% of the share capital of the Issuer. Therefore, taking into account the Shares handed over in acceptance of the Tender Offer, the Shares already owned as of the initial date of the Tender Offer and those purchased outside the Tender Offer, as at 18 February 2011 the Bidder held a total of 125,557,206 Shares, representing 94.641% of the share capital of the Issuer. Although a share of at least 95% of the share capital of the Issuer was not reached, ERG, deeming the achieved share level to be satisfactory, waived the Condition of the Minimum Level of Acceptances prescribed in Paragraph A.1(i) of the Tender Document and announced that it deemed the condition for the effectiveness of the Tender, prescribed in Paragraph A.1.(ii) of the Tender Document, to be fulfilled.
In consideration of the above, ERG deemed the Tender Offer to be effective and therefore it announced that it would have purchased all Shares handed over in acceptance of the Tender Offer within the terms of the Tender Document.
The transaction had no impacts on the 2010 Consolidated Financial Statements, as it is expected to be completed in 2011.

Moreover, for the sake of complete disclosure, we report that in December 2010 the company acquired ERG Renew shares for a stake of 6.21%, for an amount of EUR 6 million, increasing the carrying value of the shareholding to EUR 159 million.

CLEAN UPS – PROGRAMME AGREEMENT FOR THE PRIOLO SITE

In 2010 the Italian Ministry of the Environment and Attorney General's Office continued to work out details for the settlement procedures and costs that the parties concerned may agree to on a voluntary basis in relation to the Programme Agreement for clean-ups at the Priolo site. The agreement, which was signed by the institutions in November 2008 and recorded by the Italian "Corte dei Conti" in April 2009, concerns the clean-up and environmental restoration of the Priolo site.
The ERG Group companies present at the site (and the other operators affected) are monitoring the development of activities by the Ministry in relation to the requirements, conditions and operating procedures applied in the Programme Agreement.
The ISAB S.r.l. joint venture, owner of refining plants situated in Priolo, is assessing whether to adhere to said Programme Agreement, stipulating a settlement agreement and at the same time submitting a specific plan to render safe and clean up the areas of the Refinery and, for this purpose, it recently sent a non-binding expression of interest to the Ministry of the Environment.
In this perspective, in 2010 work continued on the preparation of the aforesaid plan, which ISAB would intend to submit to the Ministry of the Environment, in case of actual participation in the Programme Agreement.
In connection with the above, ERG on the basis of the 2008 ISAB joint venture agreements pertaining to environmental expenses, deeming it likely that a settlement agreement would be signed, recorded in these Consolidated Financial Statements provisions for environmental expenses amounting to EUR 25 million, corresponding to its own share of currently estimated expenses.

WRITE-DOWNS IN THE RENEWABLE ENERGY SEGMENT

- **Write-downs in the wind power segment in Italy (gains from Enertad acquisition)**

On 16 October 2006, the ERG Group acquired the Enertad group (now ERG Renew). The transaction was carried out through the acquisition, by ERG S.p.A., of 51.33% of Enertad S.p.A. Subsequently, on 20 December 2007, as a result of the exercise of the related call option, ERG acquired additional Enertad shares, amounting to 17.03% of the share capital, bringing its stake in said company to 68.38% of share capital.

Moreover, in subsequent transactions ERG S.p.A. further increased its stake, which as of 31 December 2010 amounted to 82.1%.

The acquisition, which was structured in the stages detailed above, was recorded pursuant to IFRS 3 - business combinations, by allocating the cost of the acquisition to the acquired assets and liabilities, including those not recognised prior to the acquisition.
Following the impairment tests carried out for the 2008 and 2009 Consolidated Financial Statements, these amounts were partially written down.

The residual value of these assets before the 2010 impairment test is as follows:

- approximately about EUR 6 million allocated to the wind power plants in operation;
- approximately about EUR 52 million allocated to permits and preliminary agreements for wind farms in operation and to be constructed;
- approximately about EUR 12 million residually allocated to goodwill.

These amounts were also assessed for the 2010 Consolidated Financial Statements, in view of the worsening in the expected profitability of the wind farms, and in the market price of the ERG Renew S.p.A. shares, which was consistently below its carrying value in 2010.
The independent expert engaged in January 2011 to perform this assessment conducted the analysis by using the expected cash flows as detailed in the financial forecast examined by the ERG Renew S.p.A. Board of Directors on 13 January 2011, extended for subsequent periods according to the expected useful life of the assets.

The Group therefore estimated the recoverable value of the aforesaid assets. Based on IAS 36, the recoverable value of an asset or of a cash generating unit is the higher between its fair value net of costs of disposal and its value in use.

With particular reference to the **Permits and preliminary agreements**:

- in order to determine the recoverable value, in terms of value in use, the present value of cash flows from operating activities associated with the assets for the first twenty years of operation of the wind farms was estimated;
- expected changes in sales prices and trends in direct costs during the period assumed for the calculation were determined on the basis of past experience, adjusted for future market expectations;
- a discount rate equal to the industry WACC (6.5%) plus a spread (1%) linked to the higher risk of the measured asset was used to compute the present value of expected cash flows;
- no terminal value was assumed beyond the explicit forecast period, in line with the methodology followed to allocate the purchase price.

The value of **Goodwill** was determined by identifying a single cash-generating unit (CGU) connected with the wind power business in Italy and France, excluding the wind farms recently acquired within the ERG Eolica Adriatica business combination and the wind farms transferred from ERG Eolica in 2008.
In order to determine the recoverable value, in terms of value in use, the present value of cash flows from operating activities associated with the CGU for the first twenty years of operation of the farms was estimated.
A discount rate equal to the industry WACC (6.5% for Italy and 6.0% for France) was used to compute the present value of expected cash flows.
A terminal value was also estimated for each wind farm included in the CGU, determined as the present value of expected cash flows for the 20 years after the last year of explicit forecast. The terminal value thus obtained was conservatively reduced by 50%.

Group management deemed the assumptions used to be reasonable, and consequently, on the basis of the aforementioned assumptions:

- gains allocated to intangible fixed assets were written down by approximately EUR 5 million before tax;
- authorisations recorded as intangible fixed assets were written down by approximately EUR 8 million before tax;
- the carrying value of goodwill, amounting to EUR 12 million, was written off.

These write-downs are mainly due to a deterioration in expected scenarios, particularly in terms of sales prices for electricity and green certificates, to the delayed commissioning of some wind farms under construction and to reduced generation expectations.

- **Write-downs in the wind power segment in France (gains from "Theta Energy" acquisition)**

On 31 October 2007, the ERG Renew group acquired the entire share capital of five French companies owning as many wind farms located in France. The transaction was completed through the actual transfer of the shareholdings from Theta Energy to EnerFrance S.a.s (now ERG Eolienne France), a wholly owned subsidiary specifically incorporated as a sub-holding in the wind power business for operations located in France.
The acquisition was recorded pursuant to IFRS 3 on business combinations, by allocating the cost of the acquisition to the acquired assets and liabilities, including those not recognised prior to the acquisition.
At year end the residual value of said assets before the 2010 impairment test was approximately EUR 26 million, allocated onto the value of the authorisations for commissioned wind farms.
These amounts were also assessed for the 2010 Consolidated Financial Statements, in view of the worsening in the expected profitability of the wind farms and of the reduced generation expectations.
The independent expert engaged in January 2011 to perform this assessment conducted the analysis by using the expected cash flows as detailed in the financial forecast examined by the ERG Renew S.p.A. Board of Directors on 13 January 2011, extended for subsequent periods according to the expected useful life of the assets.
The Group therefore estimated the recoverable value of the aforesaid assets. Based on IAS 36, the recoverable value of an asset or of a cash generating unit is the higher amount between its fair value net of costs of disposal and its value in use.

In particular:

- in order to determine the recoverable value, in terms of value in use, the present value of cash flows from operating activities associated with the assets for the first twenty years of operation of the wind farms was estimated;
- expected changes in sales prices and trends in direct costs during the period that were assumed for the calculation were determined on the basis of past experience, adjusted for future market expectations;
- a discount rate equal to the industry WACC (6.0%) plus a spread (1%) linked to the higher risk of the measured asset was used to compute the present value of expected cash flows;
- no terminal value was assumed beyond the explicit forecast period, in line with the methodology followed to allocate the purchase price.

Group management deems the assumptions used to be reasonable, and consequently, on the basis of the aforementioned assumptions, has written down intangible assets by approximately EUR 12 million before tax.
These write-downs are mainly due to a deterioration in expected scenarios and to reduced generation expectations.

- **Sensitivity Analysis**

Write-downs were quantified taking into account information available to date and reasonable estimates on changes in the variables of wind conditions, energy prices and interest rates.
In particular, the criterion for determining the price of energy and of green certificates could be modified as a result of changes in the regulatory provisions, currently undergoing approval by legislative bodies.
The Group took into account the aforesaid uncertainties in processing and defining the basic assumptions used to determine the recoverable value of the "Renewables" CGU and it also conducted a sensitivity analysis on the recoverable value of the same CGU: said analysis showed that the overall sale prices of energy could undergo changes, upwards or downwards, within an estimated range of 5% relative to the estimated values for the Plan.

In case of a 5% price reduction that continues over the entire time interval of the plan, the recoverable value of the Authorisations and preliminary agreements allocated to the "Renewables" CGU would be further reduced by EUR 5 million, with a write-down by the same amount.
Instead, the hypothesis of a 5% price increase that continues over the entire time interval of the plan would entail a lower write-down of the intangible assets allocated to the "Renewables" CGU and of goodwill, respectively for an amount of EUR 4 million and EUR 1 million.

Lastly, a 0.5% increase in the discount rate would also have meant an additional impairment loss of approximately EUR 4 million on intangible assets allocated to the "Renewables" CGU, whereas a 0.5% decreases in the discount rate would have meant a lower write-down of intangible assets by EUR 5 million and would not have entailed any write-down of the value of goodwill.

The above analyses confirm the sensitivity of the estimates concerning the recoverability of non current assets to changes in the aforementioned variables; in this context, the Directors will systematically monitor trends in the aforementioned exogenous and uncontrollable variables for any adjustments to the estimated recoverability of the recorded values of non current assets in the Consolidated Financial Statements.

STATEMENT OF FINANCIAL POSITION ANALYSIS

NOTE 1 – INTANGIBLE FIXED ASSETS

	CONCESSIONS AND LICENCES	OTHER INTANGIBLE ASSETS	ASSETS IN PROGRESS	TOTAL
HISTORICAL COST	**244,391**	**80,827**	**9,948**	**335,166**
DEPRECIATION	(92,838)	(46,078)	–	(138,916)
BALANCE AS OF 12/31/2009	**151,553**	**34,749**	**9,948**	**196,251**
MOVEMENTS DURING PERIOD:				
CHANGE IN SCOPE OF CONSOLIDATION	40,057	(5,625)	(3,725)	30,707
ACQUISITIONS	51	772	11,214	12,037
CAPITALISATION/RECLASSIFICATION	600	5,740	(7,142)	(802)
DISPOSALS AND DIVESTMENTS	(392)	(38)	(38)	(468)
DEPRECIATION	(10,921)	(10,104)	–	(21,025)
WRITE-DOWNS	(24,586)	–	–	(24,586)
HISTORICAL COST	**193,627**	**63,621**	**10,257**	**267,505**
DEPRECIATION	(37,265)	(38,127)	–	(75,392)
BALANCE AS OF 12/31/2010	**156,362**	**25,494**	**10,257**	**192,113**

Concessions and licences mainly comprise authorisations for wind farms (in operation and to be built in the future), amortised based on their residual useful life.
Other intangible assets comprise the right acquired from ENEL for connection of the IGCC plant to the power grid, the legal and technical costs incurred for ISAB Energy's Project Financing transaction, as well as engineering studies and preliminary agreements for wind farms to be constructed in the future.

The change in the scope of consolidation refers mainly to the acquisition of ERG Eolica Adriatica and to the effects of the TotalErg joint venture, as previously commented in the "**Change in the scope of consolidation"** Note. The amortisation and other changes in the period also include the contribution of the companies involved in the TotalErg joint venture for the first nine months of 2010.

Write-downs also include the derecognition of development costs and authorisations for wind power generation projects, the recoverability of which is no longer considered certain, as already commented on in the chapter "**Write-downs in the renewable energy division**".

NOTE 2 – GOODWILL

"Goodwill" (EUR 9,422 thousand) represents the excess of the acquisition cost of acquired companies over the value of their shareholders' equity, measured at fair value as of the acquisition date in accordance with the purchase-price allocation method envisaged by IFRS 3.
The decrease of approximately EUR 29 million in the item during the period relates mainly to:

- the effects of the TotalErg joint venture, which determined the deconsolidation of the goodwill pertaining substantially to the Integrated Downstream business subject to the TotalErg joint venture, as better described in Note 24;
- the write-off of the goodwill of the Renewable Sources business, as better described in the section "**Write-offs in the Renewable Energy Segment**".

The item, which is not amortised in the Income Statement, is subject to an impairment test every year, and more frequently if there are indications during the course of the year that the asset may be impaired.

Goodwill acquired through business combinations was allocated to the cash-generating units corresponding to the following segments:

- Energy-Renewable Sources: EUR 11,967, written off in these Consolidated Financial Statements;
- Coastal Refining: EUR 7,082 thousand;
- Energy-Thermoelectric: EUR 1,464 thousand;
- Other minor segments: EUR 876 thousand.

The above amounts refer to the values recorded before the 2010 impairment test.
The impairment test for goodwill attributable to the renewable energy segment led to a write-down of EUR 11,967 thousand. For additional details, please refer to section "**Write-offs in the Renewable Energy Segment**".

- **Coastal Refining**
  The recoverable value of the Coastal Refining unit was determined on the basis of "Fair value net of costs of disposal", as indicated in IAS 36, with reference to third-party agreements.
  The Cash Generating Unit in question is the subject of the agreement stipulated with LUKOIL on 1 December 2008 which entitles ERG to a put option with respect to its 51% shareholding in ISAB S.r.l., as described in the section "**Put Option on 51% ISAB S.r.l.**".
  The exercise price for rights to 100% of the assets transferred to ISAB S.r.l. will be the fair market value within a collar with a floor at EUR 2,000 million (reduced by EUR 15 million), whose 51% shareholding greatly exceeds the value of the assets recorded in the Consolidated Financial statements and referable to the coastal Refining unit.
  Therefore, there were no write-downs.

- **Power generation - Thermoelectric**
  The recoverable value of the Power generation – Thermoelectric was determined according to value in use. For the calculation, the projected cash flows contained in the financial plan prepared by top management and relating to a four-year time interval was used; the projection of subsequent years' flows was made determining the so-called "terminal value" using the perpetuity growth model (1.5%). The expected changes in sales prices and trends in direct costs during the period assumed for the calculation were determined on the basis of past experience, adjusted for future market expectations.
  The discount rate (WACC after tax) applied to projected cash flows is 6.0%.
  No impairment of goodwill was found on carrying out the analysis.

NOTE 3 – PROPERTY, PLANT, AND MACHINERY

	LAND AND BUILDINGS	PLANT AND MACHINERY	OTHER ASSETS	ASSETS UNDER CONSTRUCTION	TOTAL
HISTORICAL COST	**198,208**	**1,968,826**	**48,515**	**432,214**	**2,647,763**
DEPRECIATION AND WRITE-DOWNS	(53,610)	(829,072)	(30,885)	(66)	(913,633)
BALANCE AS OF 12/31/2009	**144,598**	**1,139,754**	**17,630**	**432,148**	**1,734,130**
MOVEMENTS DURING PERIOD:					
CHANGE IN SCOPE OF CONSOLIDATION	(73,328)	(14,097)	(9,507)	(52,000)	(148,932)
ACQUISITIONS	607	4,464	376	183,289	188,736
CAPITALISATION/RECLASSIFICATION	6,138	314,700	1,154	(321,381)	611
INCREASES FOR CYCLICAL MAINTENANCE	–	1,423	–	–	1,423
DISPOSALS AND DIVESTMENTS	(473)	(886)	(140)	(5,946)	(7,445)
DEPRECIATION	(6,400)	(122,242)	(3,906)	–	(132,548)
WRITE-DOWNS	(259)	–	–	(277)	(536)
OTHER CHANGES	–	726	34	(40)	720
HISTORICAL COST	**90.998**	**1.918.491**	**18.601**	**235.793**	**2.263.883**
DEPRECIATION AND WRITE-DOWNS	(20,115)	(594,649)	(12,960)	–	(627,724)
BALANCE AS OF 12/31/2010	**70,883**	**1,323,842**	**5,641**	**235,793**	**1,636,159**

To enhance understandability, movements during the period relating to reclassifications, disposals and divestments are shown net of the related provisions for accumulated depreciation and write-downs.

The change in the consolidation area mainly reflects the acquisition of ERG Eolica Adriatica, a company that owns wind farms in Puglia and Molise, and the effects of the TotalErg joint venture, as commented in the Note **Change in the scope of consolidation**. Depreciation and other changes in the period also include the contribution of the companies involved in the TotalErg joint venture for the first nine months of 2010.

The decrease amounting to EUR 321 million in assets under construction is mainly due to transfers from work in progress to assets in use, mainly in the new co-generating CCGT electrical power plant and to the reconstruction of the 1 IGCC that had been involved in the accident in 2008.
The residual balance as at 31 December 2010 (EUR 236 million) mainly refers to wind farms under construction and plants of the Power Generation – Thermoelectric segment.

For an analysis of capital expenditures, please refer to the "**Capital expenditures**" chapter of the "Report on Operations".

Pursuant to IAS 23, capitalisation includes interest charges amounting to approximately EUR 5 million relating to capital expenditures effected by the Energy segments.

NOTE 4 – SHAREHOLDINGS

	SHAREHOLDINGS				
	SUBSIDIARY COMPANIES	JOINT VENTURE	ASSOCIATES	OTHER COMPANIES	TOTAL
BALANCE AS OF 12/31/2009	**2,262**	**609,406**	**91,795**	**1,401**	**704,864**
MOVEMENTS DURING PERIOD					
CHANGE IN SCOPE OF CONSOLIDATION - TOTALERG JOINT VENTURE	(2,385)	366,067	(79,036)	(349)	284,297
CHANGE IN SCOPE OF CONSOLIDATION - OTHER TRANSACTIONS	3,092	–	–	–	3,092
ACQUISITIONS/SHARE CAPITAL INCREASES	92	1,500	–	352	1,944
WRITE-DOWNS/USE OF PROVISION TO COVER LOSSES	(3,050)			–	(3,050)
DISPOSALS AND DIVESTMENTS	–	–	–	(646)	(646)
MEASUREMENT OF INVESTMENTS USING THE EQUITY METHOD	82	1,978	1,746	–	3,806
BALANCE AS OF 12/31/2010	**93**	**978,951**	**14,504**	**758**	**994,306**

"Shareholdings" owned as of 31 December 2010 were as summarised below:

	VALUED AT SHAREHOLDERS' EQUITY	VALUED AT COST	TOTAL
SHAREHOLDINGS			
- IN NON-CONSOLIDATED SUBSIDIARIES	–	93	93
- IN JOINT VENTURES	978,951		978,951
- IN ASSOCIATES	14,500	4	14,504
- IN OTHER COMPANIES		758	758
TOTAL	**993,452**	**854**	**994,306**

A breakdown of shareholdings has already been given in the schedules showing the scope of consolidation.

The following changes in shareholdings occurred during 2010:

CHANGE IN SCOPE OF CONSOLIDATION	
ERG PETRÓLEOS S.A.	3,051
ERG GESTIÓN IBÉRICA S.L.	1
OTHERS	41
	3,092
TOTALERG TRANSACTION	284,297
	284,297
ACQUISITIONS - FORMATIONS - SHARE CAPITAL INCREASES	1,944
	1,944
DISPOSALS - RETURNS - LIQUIDATIONS - INCORPORATIONS	(646)
	(646)
WRITE-DOWNS/USE OF PROVISION TO COVER LOSSES	(3,050)
	(3,050)
NET CHANGE IN THE VALUE OF COMPANIES MEASURED UNDER THE EQUITY METHOD	**3,806**
TOTAL	**289,442**

The change in the scope of consolidation refers mainly to the deconsolidation of the investees ERG Petróleos S.A. and Gestión Ibérica S.L. which, starting from 1 January 2010, have been measured under the cost method.
The values indicated for the TotalErg Joint Venture refer to the deconsolidation of the shares of the Integrated Downstream business in Italy (EUR 82 million) and to the recording of the shareholding in TotalErg amounting to EUR 366 million. For additional details, please refer to the note "TotalErg Joint Venture".
Write-downs refer mainly to the write-off of the shareholdings in the Spanish companies, expected to be placed in liquidation shortly. In relation to the Spanish shareholdings, moreover, provisions of approximately EUR 5 million were accrued for risks on shareholdings.
The other changes refer to some companies in the Renewables segment that are not yet operational.

For further details, please refer to the previous section, "**List of Group companies**".

The positive change amounting to EUR 3.8 million arising from companies measured under the equity method is due to the period's performance (mainly of ISAB S.r.l. and TotalErg S.p.A.) net of dividends received from these companies.

NOTE 5 – OTHER FINANCIAL ASSETS

The "Other financial assets" of EUR 3,155 thousand (EUR 8,600 thousand as of 31 December 2009) are mainly constituted by payments to the Italian Carbon Fund and by loans to Group companies.
The change in the item is mostly linked to the effects of the TotalErg joint venture and in particular to the deconsolidation of the loan granted by ERG Petroli S.p.A. to the associate Raffineria di Roma S.p.A. under market conditions (EUR 13 million as of 1 October 2010).

NOTE 6 – DEFERRED TAX ASSETS

Deferred tax assets are recognised, provided their future recovery is probable, on the taxable temporary differences between the value of assets and liabilities for statutory financial reporting purposes and their values for tax calculation purposes.
It should be noted that the rate used to calculate deferred taxes is the same as the nominal IRES (corporate tax) rate (27.5%), increased, when so prescribed, by the IRAP (regional tax) rate (3.90%).
Companies operating in the oil refining industry and companies producing and marketing petroleum products, electricity and gas, with revenues in excess of EUR 25 million, are subject to an IRES rate surcharge ("Robin Tax") of 6.5%.
Deferred tax assets as of 31 December 2010 amounting to EUR 209,425 thousand (EUR 248,181 thousand as of 31 December 2009) were principally recognised over the deferral of CIP 6 revenues, maintenance expenses in excess of deductible limits, accruals for provisions for liabilities and charges and tax losses of the year and they are deemed recoverable also in view of future taxable amounts projected by the Group's plans.

NOTE 7 – OTHER NON-CURRENT ASSETS

Other non-current assets amounting to EUR 37,588 thousand (EUR 35,514 thousand as of 31 December 2009) chiefly relate to advances paid on agreements to acquire new wind farms and medium- to long-term receivables from the Italian tax authorities.

NOTE 8 – INVENTORY

Closing inventories comprise the following categories:

	12/31/2010	12/31/2009
RAW, ANCILLARY AND CONSUMABLE MATERIALS	153,601	123,706
FINISHED PRODUCTS AND GOODS	135,318	259,308
TOTAL	**288,919**	**383,014**

The value of inventories was determined applying the weighted average cost method and considering fair value hedging transactions; this value is therefore affected not only by the quantities in inventory at year-end, but also by the oscillation in the purchase prices of raw materials and finished products, which, based on the weighted average cost method, is also reflected on the quantities, that are unchanged relative to the start of the year.
Inventories are measured at the lower of cost, determined used the weighted average cost method, or market value.
The change in the item reflects, among other factors, the effects of the TotalErg joint venture and in particular the deconsolidation of raw material inventories for EUR 207 million and finished product inventories for EUR 246 million (Note 24).

Net of this effect, the value of the inventories is lower (EUR -94 million) as a consequence of the lower quantities of finished product inventories (-288 thousand tonnes) and of raw material inventories (+7 thousand tonnes).

As of 31 December 2010 the item included natural gas reserves amounting to EUR 2 million (EUR 4.1 million as of 31 December 2009).

NOTE 9 – TRADE RECEIVABLES

Receivables are summarised as follows:

	12/31/2010	12/31/2009
CUSTOMER RECEIVABLES	327,447	514,581
RECEIVABLES DUE FROM UNCONSOLIDATED GROUP COMPANIES	136,543	130,481
BAD DEBT PROVISION	(22,846)	(15,025)
TOTAL	**441,144**	**630,037**

The change in the item reflects mainly:

- the effects of the TotalErg joint venture and in particular the deconsolidation of trade receivables, net of the related provisions for bad debt, for approximately EUR 374 million;
- the exclusion of ERG Petróleos and Gestión Ibérica from the scope of consolidation.

With the exclusion of the aforesaid effects, trade receivables increased mainly as a result of higher average prices and greater sale volumes.

"Receivables due from Group companies" refer to the supply of petroleum products, utilities, and site services to the ISAB S.r.l. Joint Venture.

For information concerning related-party receivables, reference is made to Note 39.

The change in the Bad debt provision mainly refers:

- to the exclusion from the scope of consolidation of ERG Petróleos (EUR – 6 million);
- to the effects of the TotalErg Joint Venture and in particular to the deconsolidation of the liabilities of ERG Petroli and its subsidiaries (EUR – 3 million);
- to the reclassification from "Provisions for current liabilities" of approximately 5 million;
- to the accrual of the period, i.e. EUR 12 million, referred in particular to an overdue receivable linked to the start-up phases of the electric energy and gas trading activities in an unfavourable economic and financial environment. On this matter, the Group is undertaking every possible recovery initiative, also of a legal nature.

The Group assesses the existence of objective impairment indicators for individual positions. The aforesaid analyses are validated at the individual company level by the Accounts Receivable Committees which meet periodically to examine the situation with regards to past due receivables and related collection issues.

The accruals to the bad debt provisions and risk provisions, which were suitably increased during the year, are deemend to cover the risk of potential liabilities for past due accounts receivable adequately.

Trade receivables at year end were as follows:

	12/31/2010	12/31/2009
RECEIVABLES NOT YET DUE	**360,317**	**501,946**
RECEIVABLES PAST DUE AND NOT WRITTEN DOWN:		
UP TO 30 DAYS	24,721	46,720
UP TO 60 DAYS	5,960	14,373
UP TO 90 DAYS	8,664	11,160
MORE THAN 90 DAYS	41,482	55,838
TOTAL	**441,144**	**630,037**

NOTE 10 – OTHER CURRENT RECEIVABLES AND ASSETS

	12/31/2010	12/31/2009
TAX RECEIVABLES	42,091	54,361
EMISSIONS TRADING RECEIVABLES	28,157	64,842
SUNDRY RECEIVABLES	45,302	64,549
TOTAL	**115,550**	**188,104**

Tax receivables mainly comprise VAT credit positions and excess prepayments on 2010 taxes.
Emission trading receivables refer to the ISAB Energy receivable for reimbursement of emissions trading charges for 2010 (EUR 28 million). It should be noted that in 2010, the reimbursements of EUR 49 million relating to 2008 and EUR 16 million relating to 2009 were collected.
The change in the item reflects mainly the effects of the deconsolidation of ERG Petroli S.p.A. and of its subsidiaries (EUR 14 million as of 1 October 2010).
"Sundry receivables" mainly comprise advances paid to suppliers as well as prepaid expenses.

NOTE 11 – CURRENT FINANCIAL ASSETS

Current financial assets amounting to approximately EUR 53,404 thousand (EUR 7,762 thousand as of 31 December 2009) mainly refer to shares of money market funds, to bonds issued by companies with high credit ratings maturing within 6 months and to the positive fair value of derivatives existing as of 31 December 2010.
The increase in the item refers mainly to the temporary investment of cash in the securities described above.

NOTE 12 – CASH AND CASH EQUIVALENTS

	12/31/2010	12/31/2009
BANK AND POSTAL DEPOSITS	1,310,014	1,755,112
CASH EQUIVALENT SECURITIES	2,497	39,981
CASH AND NOTES ON HAND	33	2,762
TOTAL	**1,312,544**	**1,797,855**

The item "Bank and postal deposits" mainly comprises short-term deposits with financial institution with which the Groups has commercial relations and the balance on the bank accounts of ISAB Energy S.r.l., of ERG Power S.r.l. and of the companies of the ERG Renew Group, according to the usage limitations established by the respective Project Financing agreements.
As of 31 December 2009, "Cash equivalent securities" referred to investments of liquidity in shares of money market funds that could be liquidated on demand. As of 31 December 2010, other short-term securities were used, classified among "Other current financial assets", as already commented in the preceding note.

For information on restricted liquidity, amounting to EUR 169 million, please refer to Note 25 – Covenants and Negative Pledges.

NOTE 13 – GROUP SHAREHOLDERS' EQUITY

SHARE CAPITAL

Fully paid-in share capital as of 31 December 2010 consisted of 150,320,000 shares with a par value of EUR 0.10 each for a total of EUR 15,032,000 (unchanged since 31 December 2009).

On 31 December 2010, the Company's Shareholders' Register showed the following situation:

- San Quirico S.p.A. held 84,091,940 shares, i.e. 55.942%
- Polcevera S.A. (Luxembourg) held 10,380,060 shares, i.e. 6.905%
- Tradewinds Global Investors LLC held 7,589,946 shares, i.e. 5.049%
- Generali Investments Italy SGR S.p.A. held 3,349,000 shares, i.e. 2.228%
- ERG S.p.A. held 2,100,000 treasury shares, i.e. 1.397%

As of 31 December 2010, San Quirico S.p.A. and Polcevera S.A. were controlled by the Garrone and Mondini families, heirs of the founder of the ERG Group, Edoardo Garrone.

On 15 April 2010, pursuant to Article 2357 of the Italian Civil Code, the Shareholders' Meeting of ERG S.p.A. authorised the Board of Directors to purchase treasury shares up to a revolving maximum (meaning the maximum amount of treasury shares held from time to time) of 15,032,000 (fifteen million thirty-two thousand) shares of ERG common stock at a unit price, including ancillary purchase charges, not lower than 30% below and not higher than 10% above the closing price of the stock on the day immediately preceding each individual transaction.

TREASURY SHARES

As of 31 December 2010, ERG S.p.A. owned 2,100,000 treasury shares amounting to 1.397% of the share capital. In accordance with IAS 32, treasury shares are recorded as a reduction of shareholders' equity. The original cost, impairment write-downs, income and losses deriving from any subsequent sales are recognised as changes in shareholders' equity.

STOCK OPTION PLANS

ERG S.p.A.'s stock option plans

On 5 August 2005, the ERG S.p.A. Board of Directors approved a new long-term incentive scheme that grants Group executives personal and non-transferable options to subscribe ERG stock. The plan has a three-year duration and provides for assignment of the options, year by year, with a par exercise price, namely a price corresponding to the average closing price of the ERG shares during the thirty days prior to the assignment.
The plan is not a cash-settled share-based payment transaction.
The vesting of the options is subject to being employed by the Group for three years subsequent to the assignment date.

The following table shows the assigned rights still in force.

	2007 ASSIGNMENTS
NUMBER OF RIGHTS ASSIGNED [1]	606,505
EXERCISE PRICE (EUR) [2]	16.00
FAIR VALUE AT DATE OF ASSIGNMENT (EUR) [2]	3.69

(1) the number is shown net of the rights cancelled
(2) weighted average value based on assigned options

It should be noted that in 2010 the options that had been assigned in 2006 (exercise price EUR 16) expired. The stock option reserve was therefore reduced and reclassified to "Other reserves".

The fair value of the options granted was estimated using the Black-Scholes model and taking into account the terms and conditions for assignment of the options.
The following table shows the assumptions used in the model.

	2007 ASSIGNMENTS
AVERAGE VOLATILITY OF ERG SHARE PRICE [1]	31.99%
RISK-FREE INTEREST RATE [1]	3.59%
EXPIRY OF RIGHT	4 YEARS

(1) weighted average value based on assigned options

Following the expiry of the three-year options assigned in 2005 and in 2006 and therefore the conclusion of the related vesting periods, the costs accrued in 2010 relating to the last tranche are not significant.

ERG Renew S.p.A. stock option plan
ERG Renew had a stock option plan in place for the company's directors holding corporate offices and for executives whose roles make them more directly responsible for business and operating results.
The option rights could have been exercised after three years from their assignment date and for a period not exceeding the five subsequent years; once this term expires, unexercised options would have expired and consequently they would no longer have attributed any right to the assignees.

As of 31 December 2010, the aforesaid options have been completely cancelled; said cancellations took place, for 1,320,000 options as a result of the expiry of the possibility to exercise such rights by some assignees who resigned during the previous year, and for 406,200 options as a result of the waiver of said rights by the remaining assignees.

Other Reserves
The "Reserves" amounting to EUR 1,715,009 thousand (EUR 1,760,473 thousand as of 31 December 2009) mainly comprise retained earnings, the "Share premium reserve", the "Stock option reserve" and the "Cash flow hedge reserve".

NOTE 14 – MINORITY INTERESTS

Minority interests arise from the line-by-line consolidation of the following companies that have other shareholders:

	% OF MINORITY SHAREHOLDERS	MINORITY SHARES
ERG RENEW GROUP	17.86%	24,751
ISAB ENERGY S.R.L.	49.00%	123,116
ISAB ENERGY SERVICES S.R.L.	49.00%	3,204
TOTAL		**151,071**

Profit pertaining to minority interests for the period, amounting EUR 33,016 thousand, is almost entirely attributable to minority shareholdings of ISAB Energy S.r.l.

NOTE 15 – EMPLOYEES' SEVERANCE INDEMNITIES

This item, totalling EUR 4,606 thousand (EUR 11,758 thousand as of 31 December 2009), includes the estimated liability relating to employees' severance indemnities payable to employees when they terminate their employment.
The change in the period refers mainly to the effects of the TotalErg joint venture and in particular to the deconsolidation of ERG Petroli liability.

NOTE 16 – DEFERRED TAX LIABILITIES

Deferred tax liabilities are recognised on taxable temporary differences which result from adjustments made to the financial statements of consolidated companies in order to align them with the Group's uniform accounting principles, as well as on the taxable temporary differences between the value of assets and liabilities for financial reporting purposes and their values for tax calculation purposes.

It should be noted that the rate used to calculate deferred taxes is the same as the nominal IRES (corporate tax) rate (27.5%), increased, when so prescribed, by the IRAP (regional tax) rate (3.90%). Companies operating in the oil refining industry and companies producing and marketing petroleum products, electricity and gas, with revenues in excess of EUR 25 million, are subject to an IRES rate surcharge ("Robin Tax") of 6.5%.

Deferred tax liabilities amounting to EUR 120,547 thousand as of 31 December 2010 (EUR 159,775 as of 31 December 2009) were mainly recognised over fiscal amortisation and depreciation in excess of amounts expensed for financial reporting purposes and over gains on business combinations. The change in the item mainly reflects, among other factors, the effects of the TotalErg joint venture and in particular the deconsolidation of deferred tax Liabilities for approximately EUR 31 million (Note 24).

NOTE 17 – PROVISIONS FOR NON-CURRENT LIABILITIES AND CHARGES

The change in the "Provisions for non-current liabilities and charges", which dropped to EUR 1,353 thousand (EUR 5,348 thousand as of 31 December 2009) mainly reflects the effects of the TotalErg joint venture and in particular the deconsolidation of accrued provisions for approximately EUR 4 million linked to tax disputes from previous years.

NOTE 18 – NON-CURRENT FINANCIAL LIABILITIES

The breakdown of this item is as shown below:

	12/31/2010	12/31/2009
MEDIUM/LONG-TERM MORTGAGES AND LOANS	667,642	901,024
- CURRENT PORTION OF MEDIUM/LONG-TERM LOANS	(227,583)	(447,890)
	440,059	**453,134**
MEDIUM/LONG-TERM PROJECT FINANCING	792,762	324,101
- CURRENT PORTION OF PROJECT FINANCING	(78,571)	(79,783)
	714,191	**244,318**
OTHER MEDIUM/LONG-TERM FINANCIAL PAYABLES	**67,485**	**54,503**
TOTAL	**1,221,735**	**751,955**

As of 31 December 2010, mortgages and loans totalled EUR 668 million (EUR 901 million as of 31 December 2009), of which an existing EUR 114 million granted by the European Investment Bank for investment in the "ERG Energia Sicilia" project. This loan is supported by guarantees for EUR 177 million.

During the year:

- the bridge loan on the CCGT repowering plant (EUR 240 million) was repaid as a result of the **ERG Power S.r.l. Project Financing** commented in the paragraphs that follow;
- new unsecured medium-long term corporate loans were stipulated for a total amount of EUR 165 million.

To reduce the risk stemming from future fluctuations in interest rates, Interest Rate Swap and Interest Rate Cap derivatives were set up for existing mortgages.
As of 31 December 2010 the weighted average interest rate on mortgages, loans and Project Financing was 3.18% (1.93% as of 31 December 2009). The rate indicated does not take into account interest rate hedging transactions.

ISAB Energy S.r.l. Project Financing

These are loans granted by a pool of international banks for an initial amount of approximately 90% of the cost of the ISAB Energy plant, whose balance as of 31 December 2010 amounts to EUR 104 million.
The repayment plan for these loans, which are secured by special liens and a mortgage on the plant, entails 29 half-yearly instalments starting on 15 December 2000 (last instalment due on 15 December 2014).
In order to hedge the interest rate fluctuation risk, the company arranged an Interest Rate Swap contract up to 15 December 2014 in line with the due dates of the loan's repayment plan which change the floating rate into an average fixed rate of 1.79%; the residual nominal value as of 31 December 2010 is EUR 106 million.

ERG Renew S.p.A. Project Financing

These are loans granted for the construction of wind farms by the following companies:

- ERG Eolica S. Vincenzo S.r.l., which had a balance outstanding as of 31 December 2010 amounting to EUR 9 million (EUR 17 million as of 31 December 2009). The loan, executed in 2005, provides for a base credit line amounting to EUR 36 million. The final payment is due on 31 December 2013;

- ERG Eolica S. Cireo S.r.l. whose balance as of 31 December 2010 is EUR 17 million (EUR 22 million as of 31 December 2009). The loan, executed in 2005, provides for a base credit line of EUR 34 million for an installed power of 30 MW which can be raised to EUR 43 million for an additional 10 MW. The final instalment is due on 31 December 2014. To hedge the risk stemming from interest rate fluctuations, Interest Rate Swap derivatives were arranged up to 31 December 2014, matching the due dates of the loan's repayment plan, thus changing the floating rate into a fixed rate of 3.30%; the residual nominal value as of 31 December 2010 is EUR 18 million;
- ERG Eolica Faeto S.r.l. whose balance as of 31 December 2010 is EUR 40 million (EUR 41 million as of 31 December 2009), for the first disbursement. The loan, executed in June 2007, provides for a base credit line of EUR 38 million for an installed power of 24 MW. The final payment is due on 31 December 2021. To hedge the risk stemming from interest rate fluctuations, Interest Rate Cap derivatives were arranged up to 31 December 2013, determining a maximum limit of 5% to the floating rate; the residual nominal value as of 31 December 2010 is EUR 19 million.
- Green Vicari S.r.l. whose balance as of 31 December 2010 is EUR 50 million (EUR 56 million as of 31 December 2009). The loan provides for a base credit line of EUR 53 million for an installed power of 37.5 MW. The final payment is due on 30 June 2019. To hedge the risk stemming from interest rate fluctuations, Interest Rate Swap derivatives were arranged up to 31 December 2016, in line with the due dates of the debt amortisation plan, which change the floating rate into a fixed one of 2.235%. The residual nominal value as of 31 December 2010 is EUR 35 million;
- the five French companies "Parc Eolien" owned by ERG Eolienne France S.a.s. whose balance as of 31 December 2010 is EUR 39 million (EUR 44 million as of 2009). This is Project Financing with maturity in December 2019 pertaining to five wind farms in France. The agreement provides for a base credit line of EUR 56 million for a total installed power of 55.2 MW. The final payment is due on 30 December 2019. To hedge the risk stemming from interest rate fluctuations, the five French companies arranged nine Interest Rate Swap derivatives until 31 December 2019, in line with the due dates of the debt amortisation plan, which change the floating rate into an average fixed rate of 4.27%. The residual nominal value as of 31 December is EUR 40 million.
- Eoliennes du Vent Solaire S.a.s., whose balance is EUR 7 million (EUR 3 million as of 31 December 2009). It is Project Financing with maturity on 31 December 2025 pertaining to the wind farm of Plogastel Saint Germane. The agreement provides for a basic credit line of EUR 8 million for a total installed power of 9.2 MW.
- ERG Eolica Ginestra S.r.l. whose balance as of 31 December 2010 is EUR 40 million. The loan provides for a base credit line of EUR 70 million for an installed power of 40 MW and the final payment is due in June 2025. Currently, the loan is disbursed for EUR 42 million. To hedge the risk stemming from interest rate fluctuations, ERG Eolica Ginestra arranged Interest Rate Swap derivatives up to 31 December 2025, in line with the due dates of the debt amortisation plan, which change the floating rate into a fixed one of 3.27%. The residual nominal value as of 31 December 2010 is EUR 38 million.
- ERG Eolica Adriatica S.r.l. whose balance as of 31 December 2010 is EUR 190 million. The loan provides for a base credit line of EUR 180 million, a VAT line of EUR 23 million and a mezzanine line for EUR 7 million for an installed power of 103 MW and the final payment is due in June 2022. To hedge the interest rate risk, Interest Rate Swap derivatives were arranged up to 30 June 2022, in line with the due dates of the debt amortisation plan, which change the floating rate into an average fixed one of 4.84%. The residual nominal value as of 31 December 2010 is EUR 186 million.

ERG Power S.r.l. Project Financing

It is a Project Financing loan granted by a pool of primary Italian and international banks for EUR 330 million to fund the new gas-fuelled CCGT co-generative electric power plant, situated in the Priolo (SR) industrial area. The balance as of 31 December 2010 amounts to EUR 306 million. The loan, supported by collateral whose duration is linked to the reimbursement of the loan agreement, provides a payment plan comprising 24 half-year instalments starting from the first half of 2010 until the second half of 2021.

To hedge the risk stemming from interest rate fluctuations, Interest Rate Swap derivatives were arranged up to 31 December 2021, matching the due dates of the loan's repayment plan, thus changing the variable rate into a fixed rate of 2.77%; the residual nominal value as of 31 December 2010 is EUR 245 million.

The following table shows the breakdown and maturity of current mortgages and loans (including Project Financing):

	12/31/2010	12/31/2009
SECURED BY GROUP TANGIBLE ASSETS		
WITH MATURITIES UP TO JUNE 2025	792,762	324,101
UNSECURED		
WITH MATURITIES UP TO DECEMBER 2015	667,642	901,024
TOTAL	**1,460,404**	**1,225,125**

The breakdown by year of due dates for repayments on existing medium/long-term bank loans is as follows:

	MORTGAGES AND LOANS	PROJECT FINANCING
DUE BY 12/31/2011	227,583	78,571
DUE BY 12/31/2012	151,986	111,562
DUE BY 12/31/2013	168,735	76,075
DUE BY 12/31/2014	87,136	87,549
DUE BY 12/31/2015	32,203	59,352
DUE BEYOND 12/31/2015	–	379,654
TOTAL	**667,642**	**792,762**

The "Other medium-long term financial payables" refer to interest-bearing loans granted to ISAB Energy S.r.l. by IPM Eagle (EUR 21 million) which, through its subsidiaries, owns 49% of the company. Repayment is subject to the conditions set out in the Project Financing agreement. The medium-long term financial payables include, additionally, the fair value of the derivative instruments and the medium-long term portion of the financial payables to non-consolidated companies in the Group (mainly ISAB S.r.l.).

The change in the item reflects mainly:

- the repayment, during the period, of an interest-bearing loan granted by ISAB S.r.l. to ISAB Energy S.r.l.;
- the effects of the TotalErg joint venture and in particular the deconsolidation of the fair value of put options for the purchase of minority shareholdings, as already described in the 2009 Consolidated Financial Statements under the section "**Changes in the scope of consolidation**";
- the classification among the medium-long term financial payables of the fair value of the derivatives with maturity beyond 31 December 2011, in accordance with IAS 1.

NOTE 19 – OTHER NON-CURRENT LIABILITIES

	12/31/2010	12/31/2009
CIP 6 PRICE INCREASE	253,703	338,792
END-OF-CONTRACT BONUSES	779	9,548
OTHER MINOR NON-CURRENT LIABILITIES	17,007	18,941
TOTAL	**271,489**	**367,281**

"CIP 6 price increase" refers to the medium-long term portion of the subsidised price for the sale of electricity by ISAB Energy S.r.l., already acknowledged and paid by GSE in the first eight years, whose recognition, in line with International Accounting Standards, has partly been deferred to subsequent years. ISAB Energy's sales revenues are based on a contract for the sale to the GSE regulated by the price fixed in Regulation 6/1992 of the Inter-ministerial Prices Committee (CIP 6), signed for 20 years and already authorised by the EU for 15 years. Regulation 6/1992 provides for recognition of a subsidised price for the first eight years of operation (2000-2008).
This component with incentives represents a time advance of part of the total sale price obtainable from the contract: therefore, the incentive is taken to revenues, based on International Accounting Standards, in proportion to the quantities of energy sold over those expected for the entire contract.
"End-of-contract bonuses" represent the amount that will be payable to service station operators covered by free usage contracts. The decrease compared with 31 December 2009 is linked to the effects of the TotalErg joint venture. The residual balance as of 31 December 2010 refers to the service stations in Sicily, owned by ERG S.p.A.

NOTE 20 – PROVISIONS FOR CURRENT LIABILITIES AND CHARGES

As of 31 December 2010, provisions for current liabilities and charges totalled EUR 63,692 thousand (EUR 52,150 thousand as of 31 December 2009); they comprise:

- the "Provision for legal risks" (EUR 4 million), related to potential liabilities from ongoing legal disputes;
- the "Provision for clean-up" (EUR 36 million) mainly related to environmental expenses pertaining to the refining facilities of the Priolo site and to the area earmarked for the construction of the new Turbogas facility at the North site;
- the "Other provisions for liabilities and charges" (EUR 20 million) relate mainly to foreseeable charges in commercial relations with managers, to demurrage charges accrued in the final part of the period and not yet claimed and to provisions for commercial agreements being drawn up.

The change in Provisions for current liabilities and charges from EUR 52,150 thousand to EUR 63,692 thousand (+EUR 11 million) is mainly linked:

- to the accrual for environmental charges pertaining to the Priolo site for EUR 25 million, as previously commented in the section **Clean ups - Programme Agreement for the Priolo Site**;
- to the change in the scope of consolidation with reference to legal and environmental provisions associated with the closing of service stations in Spain;
- to the deconsolidation of the environmental and legal provisions associated to the Integrated Downstream business in Italy as a result of the TotalErg Joint Venture (Note 24);
- to the reclassification to Bad Debt Provision of EUR 5 million linked to guarantees on sale of shareholdings;
- to reclassifications between "current items" and "non current items".

NOTE 21 – TRADE PAYABLES

	12/31/2010	12/31/2009
TRADE PAYABLES	569,539	614,357
PAYABLES DUE TO UNCONSOLIDATED GROUP COMPANIES	91,013	57,414
TOTAL	**660,552**	**671,771**

These are payables deriving from commercial transactions and are payable within the next year.
The change in the item reflects mainly the reclassification to "Liabilities held for sale", as better described in Note 24.
Debts payable to unconsolidated Group companies mainly refer to ISAB S.r.l., a joint venture.

NOTE 22 – CURRENT FINANCIAL LIABILITIES

	12/31/2010	12/31/2009
SHORT-TERM BANK BORROWINGS	**527,498**	**1,095,172**
OTHER SHORT-TERM FINANCIAL PAYABLES		
CURRENT PORTION OF MEDIUM/LONG-TERM BANK BORROWINGS	227,583	447,890
SHORT-TERM PROJECT FINANCING	78,571	79,783
OTHER FINANCIAL PAYABLES	33,425	92,970
	339,579	**620,643**
TOTAL	**867,077**	**1,715,815**

The amounts are affected by the TotalErg joint venture and in particular by the deconsolidation of ERG Petroli's short-term bank borrowings.

The main information about "Short term bank borrowings" is as follows:

- as of 31 December 2010, short-term borrowings amounted to 46% of total credit lines granted (76% as of 31 December 2009);
- the average drawn on the short-term credit lines during the year was 48% of the amounts granted (53% in 2009);
- athese lines are revocable and unsecured;
- as of 31 December 2010, the weighted average interest rate on short-term borrowings was 1.24% (1.18% as of 31 December 2009).

Other financial payables mainly comprise financial payables to unconsolidated Group companies and short-term payables to IPM subsidiaries.
The decrease in the item refers mainly to lower payables to unconsolidated Group companies and to the classification in the medium-long term of the fair value of the derivatives maturing beyond 31 December 2011, in accordance with IAS 1.

NET FINANCIAL POSITION

(EUR THOUSAND)	NOTES	12/31/2010	12/31/2009
MEDIUM/LONG-TERM BANK BORROWINGS	18	667,642	901,024
- CURRENT PORTION OF MORTGAGES AND LOANS	18	(227,583)	(447,890)
MEDIUM/LONG-TERM FINANCIAL PAYABLES	18	67,485	54,503
TOTAL		**507,544**	**507,637**
MEDIUM/LONG-TERM PROJECT FINANCING	18	792,762	324,101
- CURRENT PORTION OF PROJECT FINANCING	18, 22	(78,571)	(79,783)
TOTAL		**714,191**	**244,318**
MEDIUM/LONG-TERM FINANCIAL INDEBTEDNESS		**1,221,735**	**751,955**
SHORT-TERM BANK BORROWINGS	22	755,081	1,543,062
SHORT-TERM FINANCIAL DEBTS	22	33,425	92,970
TOTAL		**788,506**	**1.636,032**
CASH AND CASH EQUIVALENTS	12	(1,141,713)	(1,511,216)
SECURITIES AND OTHER SHORT-TERM FINANCIAL RECEIVABLES	11	(53,404)	(7,762)
TOTAL		**(1,195,117)**	**(1,518,978)**
SHORT-TERM PROJECT FINANCING	18, 22	78,571	79,783
CASH AND CASH EQUIVALENTS	12	(170,831)	(286,639)
TOTAL		**(92,260)**	**(206,856)**
SHORT-TERM NET FINANCIAL INDEBTEDNESS		**(498,871)**	**(89,802)**
NET FINANCIAL POSITION		**722,864**	**662,153**

NOTE 23 – OTHER CURRENT LIABILITIES

	12/31/2010	12/31/2009
TAXES PAYABLES	31,556	26,341
EXCISE DUTIES PAYABLE TO TAX AUTHORITIES	19,668	78,574
COMPANY COUPONS	–	40,609
PAYABLES DUE TO EMPLOYEES	7,893	11,190
PAYABLES DUE TO SOCIAL SECURITY INSTITUTIONS	4,372	7,832
ADVANCE INSURANCE INDEMNITIES	–	45,040
OTHER MINOR CURRENT LIABILITIES	127,693	113,212
TOTAL	**191,182**	**322,798**

"Taxes payable" mainly refers to the estimate of income taxes owed for the period and the VAT payable.

In 2010, approximately EUR 15 million in taxes were paid by way of the balance remaining for the 2009 tax period and advance payments for 2010.

"Excise duties payable to tax authorities" as of 31 December 2009 took into account the liability related to the companies of the Integrated Downstream business in Italy, whose amounts are not reflected in the balance as of 31 December 2010 as a result of the TotalErg joint venture.

"Company coupons" as of 31 December 2009 took into account the liability related to the companies of the Integrated Downstream business in Italy, whose amounts are not reflected in the balance as of 31 December 2010 as a result of the TotalErg joint venture.
"Payables due to employees" refer to sums owed for the period but not yet paid and include vacation days, unused time off "in lieu," productivity bonuses, and bonuses linked to Group value creation. The change in the item reflects mainly the effects of the TotalErg joint venture.

"Payables due to social security institutions" comprise the social contributions to be paid on December wages and salaries.

The item "Advance insurance indemnity" refers to the 2010 portion, fully ascribable to the first half of 2010, of the insurance indemnification for business interruption following the accident that occurred at ISAB Energy in 2008, already collected in 2009.
"Other minor current liabilities" mainly comprise payables on forwards contracts on crude oil and products, advances received from customers and payables to directors. The item also includes the short-term portion, i.e. EUR 83 million, of the "CIP 6 price increase", already commented in Note 19.

NOTE 24 – TRANSFERRED ASSETS AND LIABILITIES

In January 2010 ERG and TOTAL signed an agreement to create a joint venture, called TotalErg, operating in Italy in the refining and marketing business.
In May, the agreement obtained the approval by the Italian Antitrust Authority.
In July, the extraordinary Shareholders' Meeting of ERG Petroli S.p.A. approved the merger by incorporation of Total Italia S.p.A. into ERG Petroli S.p.A.
On **23 September 2010**, the deed was stipulated for the merger by incorporation of Total Italia S.p.A. into ERG Petroli S.p.A. which, on the effective date of the merger (1 October 2010), took on the name of TotalErg S.p.A.
The agreement calls for shared Governance and the operating autonomy of the Joint Venture. ERG's and TOTAL's stakes in the company are respectively 51% and 49%.
In particular, ERG brought to the Joint Venture the assets and liabilities related to the **Integrated Downstream business in Italy** [1] with the exclusion of the marketing activities in Sicily.

The transaction thus entailed the loss of control over ERG Petroli S.p.A. (100% controlled) and the acquisition of a stake in the aforesaid Joint Venture that is reported in the Consolidated Financial Statements under the equity method.
The loss of control and the consequent deconsolidation represents a significant event that changes the nature of the economic and financial relationships with the contributed assets: therefore, the transaction falls within the scope of IFRS 5 on non-current assets held for sale and discontinued operations.
In particular, the Standard requires reporting in a single line of the Income Statement the net result of the operating assets sold and the gain related to the sale transaction.
This reporting is consistently presented also in the 2009 comparative statements.

1 Integrated Downstream in Italy represents, in these Consolidated Financial Statements, the disposal group disciplined by IFRS 5 and it includes assets and liabilities held by ERG Petroli S.p.A. and by its subsidiaries

The result is broken down as follows:

NET PROFIT (LOSS) - INTEGRATED DOWNSTREAM IN ITALY (9 MONTHS)	41,926
TOTALERG JOINT VENTURE GAIN	62,345
ANCILLARY COSTS TOTALERG JOINT VENTURE	(11,131)
NET PROFIT (LOSS) FROM OPERATING ASSETS SOLD	**93,140**
OF WHICH TAX EFFECT	*(27,698)*

The paragraph that follows describes the details of the net result of the Integrated Downstream business in Italy.
With regards to the gain, please refer to the section **TotalErg Joint Venture**.

Net result – Integrated Downstream in Italy
The details of the impacts of IFRS 5 reclassifications on the income statements follow. The joint venture excludes ERG's marketing activities in Sicily which, effective 1 April 2010, were transferred to ERG Oil Sicilia, 100% controlled by ERG S.p.A.: for reasons of significance, the related amounts were not excluded in the 2009 comparison data.

Moreover, the following tables also show the effect of the eliminations of the infra-group entries between the companies included in the **Integrated Downstream Italy** disposal group and those that fall within the scope of consolidation of continuing activities. The accounting standard adopted by the Group prioritised the goal of reporting the situation as it is after the deconsolidation of the assets involved in the transaction; in this case, infra-group eliminations impact the "Net Result of sold operating Assets" because the Group expects that in the future its operating business units will continue to operate with the companies of the Integrated Downstream business in Italy.

		9 MONTHS 2010			FY 2009		
(EUR THOUSAND)		INTEGRATED DOWNSTREAM ITALY	INTRA-GROUP TRANSACTIONS	IMPACTS OF IFRS 5 RECLASSIFICATION	INTEGRATED DOWNSTREAM ITALY	INTRA-GROUP TRANSACTIONS	IMPACTS OF IFRS 5 RECLASSIFICATION
TOTAL REVENUES	1)	2,788,517	(71,362)	2,717,155	2,787,195	(42,803)	2,744,392
ERG GROUP REVENUES FROM INTEGRATED DOWNSTREAM ITALY	2)	–	(278,076)	(278,076)	–	(495,934)	(495,934)
CHANGES IN INVENTORIES	3)	179,608	–	179,608	42,312	–	42,312
COSTS FOR PURCHASES AND OTHER OPERATING COSTS	4)	(2,872,958)	278,076	(2,594,882)	(2,693,394)	495,934	(2,197,460)
ERG GROUP COSTS FROM INTEGRATED DOWNSTREAM ITALY	5)	–	71,362	71,362	–	42,803	42,803
EBITDA		**95,167**	**–**	**95,167**	**136,113**	**–**	**136,113**
AMORTISATION, DEPRECIATION AND WRITE-DOWNS OF FIXED ASSETS		(37,578)	–	(37,578)	(50,840)	–	(50,840)
NET FINANCIAL INCOME (EXPENSES)		7,260	–	7,260	(5,842)	–	(5,842)
NET INCOME (LOSS) FROM SHAREHOLDINGS	6)	3,889	–	3,889	15,438	–	15,438
PROFIT BEFORE TAXES		**68,738**	**–**	**68,738**	**94,869**	**–**	**94,869**
INCOME TAXES		(26,811)	–	(26,811)	(40,630)	–	(40,630)
NET PROFIT (LOSS) FROM ASSETS SOLD		**41,926**	**–**	**41,926**	**54,238**	**–**	**54,238**

Notes
1) total revenues essentially comprise sales of petroleum products, charges for internal consumption to the associated companies Raffineria di Roma S.p.A. and Sarpom S.p.A. and the heat management activities;

2) the amount refers to the reporting of the Group's revenues to the Integrated Downstream Italy disposal group that, in compliance with IFRS 5 reclassifications, are no longer eliminated;
3) with respect to inventories, raw materials increased by approximately EUR 136 million (+260 thousand tonnes) and finished products increased by approximately EUR 44 million (+22 thousand tonnes);
4) the item comprises:
   - the purchase costs of crude oil and petroleum products for approximately EUR 2,292 million;
   - the costs for services (approximately EUR 147 million in 2010) linked mainly to processing compensation related to Raffineria di Roma and Sarpom, to the ordinary maintenance of fuel service stations, to promotional campaigns and to commercial, distribution and transport services;
   - other operating costs (EUR 84 million in 2010) comprise mainly rents paid to service station dealers, the cost of labour, provisions for risks and charges and other various operating expenses.
5) the amount refers to the reporting of the Group's operating costs and originated from the Integrated Downstream Italy disposal group. In compliance with IFRS 5 reclassifications, they are no longer eliminated;
6) the income and expenses from shareholdings mainly comprise the results of the investee companies measured under the equity method of accounting.

Transferred Assets and Liabilities

For the sake of complete disclosure, a brief description is provided of the assets and liabilities transferred as of the date of the transaction (October 1, 2010). With regards to the elimination of infra-group entries, please see the comments in the previous paragraph.

Transferred Assets

(EUR THOUSAND)		INTEGRATED DOWNSTREAM ITALY	INTRA-GROUP TRANSACTIONS	DECONSOLIDATED ASSETS
INTANGIBLE ASSETS	a)	37,453	–	37,453
GOODWILL		27,607	–	27,607
PROPERTY, PLANT AND MACHINERY	b)	339,117	–	339,117
SHAREHOLDINGS	c)	81,876	–	81,876
OTHER FINANCIAL ASSETS	d)	12,186	–	12,186
DEFERRED TAX ASSETS	e)	17,559	–	17,559
OTHER NON-CURRENT ASSETS	f)	16,733	–	16,733
NON-CURRENT ASSETS		**532,531**	**-**	**532,531**
INVENTORIES		452,693	–	452,693
TRADE RECEIVABLES		419,473	(1,308)	418,165
ERG GROUP TRADE RECEIVABLES FROM INTEGRATED DOWNSTREAM ITALY		–	(42,713)	(42,713)
OTHER CURRENT RECEIVABLES AND ASSETS	g)	45,362	(3,568)	41,794
OTHER ERG GROUP RECEIVABLES FROM INTEGRATED DOWNSTREAM ITALY	h)	–	(3,606)	(3,606)
CURRENT FINANCIAL ASSETS	i)	2,930	(1,884)	1,046
CURRENT ERG FINANCIAL RECEIVABLES FROM INTEGRATED DOWNSTREAM ITALY		–	–	–
CASH AND CASH EQUIVALENTS		16,857	–	16,857
CURRENT ASSETS		**937,315**	**(53,079)**	**884,236**
TOTAL TRANSFERRED ASSETS		**1,469,846**	**(53,079)**	**1,416,767**

Notes

a) intangible assets refer mainly to authorisations for the operation of fuel distribution sale outlets;

b) property, plant and machinery comprise mainly the assets pertaining to service stations and storage;

c) the item includes the value of the ERG Petroli S.p.A. investee companies, most of which is measured under the equity method, as better commented in the section **List of Group Companies**;

d) non current financial assets refer mainly to a loan granted by ERG Petroli S.p.A. to the associate company Raffineria di Roma S.p.A., under market conditions;

e) deferred tax assets as of 1 October 2010 were recognised mainly in view of the depreciation exceeding the fiscal limits and the provisions for risks and charges;

f) the other non current assets comprise mainly medium-long term receivables from Tax Authorities and portions of costs deferred to subsequent periods;

g) sundry receivables and current assets comprise receivables from Tax Authorities, receivables transferred to factoring companies and advances paid to suppliers as well as prepaid expenses;

h) ERG S.p.A. receivables from the companies of Integrated Downstream Italy within the tax consolidation and the group VAT and that are no longer eliminated;

i) current financial assets refer mainly to financial receivables from ERG S.p.A. related to the short-term liquidity account managed within Group treasury, on which interest accrues at normal market conditions.

Transferred Liabilities

(EUR THOUSAND)		INTEGRATED DOWNSTREAM ITALY	INTRA-GROUP TRANSACTIONS	DECONSOLIDATED LIABILITIES
EMPLOYEES' SEVERANCE INDEMNITIES		6,031	–	6,031
DEFERRED TAX LIABILITIES	l)	30,666	–	30,666
PROVISIONS FOR NON-CURRENT LIABILITIES AND CHARGES	m)	4,253	–	4,253
NON-CURRENT FINANCIAL LIABILITIES	n)	18,408	–	18,408
OTHER NON-CURRENT LIABILITIES	o)	13,068	–	13,068
NON-CURRENT LIABILITIES		**72,426**	**–**	**72,426**
PROVISIONS FOR CURRENT LIABILITIES AND CHARGES	p)	14,698	–	14,698
TRADE PAYABLES		506,663	(42,713)	463,950
ERG GROUP TRADE PAYABLES TO INTEGRATED DOWNSTREAM ITALY		–	(1,308)	(1,308)
CURRENT FINANCIAL LIABILITIES	q)	259,793	–	259,793
CURRENT ERG FINANCIAL PAYABLES TO INTEGRATED DOWNSTREAM ITALY	r)	–	(1,884)	(1,884)
OTHER CURRENT LIABILITIES	s)	212,661	(3,606)	209,055
OTHER ERG GROUP PAYABLES TO INTEGRATED DOWNSTREAM ITALY		–	(3,568)	(3,568)
CURRENT LIABILITIES		**993,815**	**(53,079)**	**940,736**
TOTAL TRANSFERRED LIABILITIES		**1,066,241**	**(53,079)**	**1,013,162**

Notes

l) deferred tax liabilities as of 1 October 2010 are mainly recognised on the fiscal depreciation exceeding economic depreciation;

m) provisions for non current liabilities and charges refer mainly to previous years' tax disputes;

n) the item includes mainly the payable for options to buy minority shares on stakes in subsidiaries;

o) other non current liabilities comprise for the most part "end-of-contract bonuses" and represent the amount that will be payable to service station operators covered by free usage contracts;

p) provisions for current liabilities and charges relate mainly to foreseeable charges in commercial relations with managers, to service station clean-up costs, to potential liabilities pertaining to ongoing legal disputes, to demurrage charges accrued in the final part of the period and not yet claimed and to provisions for commercial agreements being drawn up;

q) current financial liabilities pertain mainly to short-term payables to financial institutions for utilisation of short term credit lines;

r) infra-group transactions refer mainly to the financial receivables of ERG Petroli S.p.A. from ERG S.p.A. accrued within the Group treasury which are no longer eliminated as a result of the deconsolidation;

s) other current liabilities comprise mainly tax payables pertaining to the estimated taxes on the income earned during the period and to the payable for VAT, payables to the tax authorities for excise tax, for company coupons, to personnel and to social security institutions infra-group transactions refer mainly to the financial payables of ERG Petroli S.p.A. to ERG S.p.A. accrued within the tax consolidation and the Group VAT which are no longer eliminated as a result of the deconsolidation.

Net financial position of Integrated Downstream Italy as of 1 October 2010

	INTEGRATED DOWNSTREAM ITALY	INTRA-GROUP TRANSACTIONS	IFRS 5 RECLASSIFICATION
NON-CURRENT FINANCIAL LIABILITIES	18,408	–	18,408
MEDIUM/LONG-TERM FINANCIAL INDEBTEDNESS	**18,408**	**–**	**18,408**
CURRENT FINANCIAL LIABILITIES	259,793	(1,884)	257,909
CURRENT FINANCIAL ASSETS	(2,930)	1,884	(1,046)
CASH AND CASH EQUIVALENTS	(16,857)	–	(16,857)
SHORT-TERM FINANCIAL INDEBTEDNESS	**240,006**	**–**	**240,006**
NET FINANCIAL POSITION	**258,414**	**–**	**258,414**

NOTE 25 – GUARANTEES, COMMITMENTS AND RISKS (EUR 167,584 THOUSAND)

Sureties given (EUR 76,841 thousand)

Sureties given mainly concern the guarantees granted for use of Group VAT receivables and generally in favour of public entities (EUR 131,533 thousand as of 31 December 2009).
The decrease from the previous year is linked to the effects of the TotalErg joint venture.

Other guarantees given (EUR 2,634 thousand)

The other guarantees given pertain to sureties on bank loans (EUR 11,777 thousand of 31 December 2009).
The decrease from the previous year is linked to the effects of the TotalErg joint venture.

Our commitments (EUR 88,109 thousand)

Commitments to third parties refer mainly to sureties in favour of gas and electricity suppliers, to those undertaken for purchases of hardware, software and computer consulting services, and to the surety issued through Banca Nazionale del Lavoro S.p.A. in favour of the consortium of Italian and foreign financial institutions of the ISAB Energy Project Financing to cover the reserve for debt servicing.
As of 31 December 2009, commitments totalled EUR 31,976 thousand.

NOTE 26 – COVENANTS AND NEGATIVE PLEDGES

- **ISAB Energy S.r.l. 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 financial institutions.
The agreement, intended to finance the construction of the IGCC plant, requires:

- the creation of a mortgaged loan and of a special lien in favour of Intesa Sanpaolo as guarantee for the payment of amounts and fulfilment of all obligations resulting from the Project Financing agreement. The mortgage covers the land and the entire IGCC plant. The lien covers the plant, machinery, capital assets, raw materials, work in progress, finished products, inventories and receivables resulting from the sale of such goods;
- the management on restricted (in favour of Intesa Sanpaolo) company bank accounts of:
  - all rights of a financial nature and sums received or to be received in relation to these rights, according or in relation to the project contracts;
  - all the insurance indemnities receivable or received in relation to the insurance coverage provided for in the Project Financing contract (with the exception of indemnities pertaining to employee accidents or to indemnification for third-party liability damages).
- the monitoring of incoming and outgoing cash flows relating to financial management by the financing institutions.

The guarantees given also entail a 100% pledge on the company's share capital and other guarantees on the restricted bank accounts of ISAB Energy (EUR 76 million as of 31 December 2010). The duration of the obligations, after the re-financing operation that took place in September 2000, was extended from eight to fourteen years, and will expire on 15 December 2014.
In October 2007, the loan was restructured in order to:

- reduce the loan's rate of interest;
- reduce the insurance coverage obligations, with a consequent reduction in the amount of the insurance reserve account (balance maintained to guarantee lower insurance coverage than that provided for in the financing agreement);
- obtain authorisation for certain investments and related financing from the financial institutions;
- make management of the loan more flexible via both (a) a reduction of the number of financial institutions in the pool and (b) the definition of new rules for the relationship with these financial institutions;
- reduce the financial covenants.

Based on all the above, ISAB Energy's Project Financing arrangement is subject to the following financial covenants, which were complied with as of 31 December 2010:

- *Debt Service Coverage Ratio* (DSCR) - no less than 1.1.
  The DSCR is calculated as the ratio between the project's operating cash flow (net of taxes) and debt repayment (principal and interest) as set out in the repayment plan in the 12 months preceding the reference date (calculation based on historical data) or in the following 12 months (calculation based on forecasts). The DSCR is calculated on 30 June and 31 December of each year. ISAB Energy cannot pay dividends to its shareholders nor repay subordinated debt without previous authorisation from the financial institutions if it does not comply with this covenant with reference to the latest calculation available.
- *Loan Life Cover Ratio* (LLCR) – no less than 1.1.
  The LLCR is calculated on 30 June and 31 December of each year and it is calculated as the ratio between the net present value – discounted at the weighted average cost of capital – of operating cash flows generated between the date of calculation and the debt's maturity year and the amount of debt existing as of the calculation date. Failure to comply with this covenant entails default on the loan.

The project provides for a negative pledge, safeguarding the creditor's rights, on the assets pledged by the debtor as guarantee for loan repayment. Consequently, ISAB Energy S.r.l. cannot issue further guarantees on its assets except in the case of guarantees issued pursuant to law or in connection with disputes over unpaid taxes.

- **ERG Renew S.p.A. Project Financing**

These are loans granted for the construction of wind farms:

- a loan taken up in 2005 by ERG Eolica San Vincenzo S.r.l. (formerly EOS 1 Troia S.r.l.). The guarantees issued entail the mortgage of real estate, a special lien on assets, a pledge on 100% of the company's share capital and on the company's restricted bank accounts (EUR 3 million as of 31 December 2010), as well as a letter of patronage from ERG Renew S.p.A. The loan is also subject to the following covenants and negative pledges:
  - *Debt Service Coverage Ratio* (DSCR): the DSCR is calculated on 30 June and 31 December of each year and is calculated as the ratio between the project's cash flow for the current and preceding half-year, net of VAT flows destined for the repayment of the principal on the VAT credit line, and the overall amount of the loan repaid as provided for in the repayment plan for the principal on the base credit line and the sum of the interest, commissions and costs paid or payable in relation to the credit lines. If it is less than 1.30, ERG Eolica San Vincenzo S.r.l. cannot proceed with the distribution of dividends to shareholders, nor can it repay subordinated loans without prior authorisation from the financial institutions. If the value is less than 1.05, and the company does not effect any contractually agreed remedy, the financial institutions may request the termination of the financing agreement and the calling in of guarantees;
  - *Average Debt Service Coverage Ratio* (ADSCR): it is calculated on 30 June and 31 December of each year, as the average of the DSCR values for the subsequent periods until the maturity date of the loan. If the value is less than 1.05, and the company does not effect any contractually agreed remedy, the financial institutions may request the termination of the financing agreement and the calling in of guarantees;
  - The project provides for a negative pledge, safeguarding the creditor's rights, on the assets pledged by the debtor as guarantee for loan repayment. Consequently, ERG Eolica San Vincenzo S.r.l. cannot issue further guarantees on its assets except in the case of guarantees issued pursuant to law.

- a loan taken up in 2005 by ERG Eolica San Cireo S.r.l. (formerly EOS 3 Troia S.r.l.). The guarantees issued entail the mortgage of real estate, a special lien on assets, a pledge on 100% of the company's share capital and on the company's restricted bank accounts (EUR 10 million as of 31 December 2010), as well as a letter of patronage from ERG Renew S.p.A. The loan is also subject to the following covenants and negative pledges:
  - *Debt Service Coverage Ratio* (DSCR): the DSCR is calculated on 30 June and 31 December of each year as the ratio between the project's cash flow for the current and preceding half-year, net of VAT flows destined for the repayment of the principal on the VAT credit line, and the overall amount of the loan repaid as provided for in the repayment plan for the principal on the base credit line and the sum of the interest, commissions and costs paid or payable in relation to the credit lines and of the amounts paid or payable by the company to the hedging financial institutions or by the hedging financial institutions to the company in accordance with the hedging contracts. If it is less than 1.30, ERG Eolica San Cireo S.r.l. cannot proceed with the distribution of dividends to shareholders, nor can it repay subordinated loans without prior authorisation from the financial institutions. If the value is less than 1.05, and the company does not effect any contractually agreed remedy, the financial institutions may request the termination of the financing agreement and the calling in of guarantees;

– the Project provides for a negative pledge, safeguarding the creditor's rights, on the assets pledged by the debtor as guarantee for loan repayment. Consequently, ERG Eolica San Cireo S.r.l. cannot issue further guarantees on its assets except in the case of guarantees issued pursuant to law.

- a loan taken up in June 2007 by ERG Eolica Faeto S.r.l. (formerly EOS 4 Faeto S.r.l.). The guarantees issued entail the mortgage of real estate, a special lien on assets, a pledge on 100% of the company's share capital and on the company's restricted bank accounts (EUR 10 million as of 31 December 2010), as well as a letter of patronage from ERG Renew S.p.A. The loan is also subject to the following covenants and negative pledges:
  – *Historical Debt-Service Coverage Ratio* (HDSCR): it is calculated as the ratio between the project's cash flow for the current and preceding half-year, net of VAT flows to be used for repayment of the principal on the VAT credit line, and the overall amount of the loan repaid as provided for in the repayment plan for the principal on the base credit line, the sum of the interest, commissions and costs paid or payable in relation to the credit lines, and the amounts paid or payable by the company to hedging financial institutions or by hedging financial institutions to the company pursuant to the hedging contracts. If it is less than 1.10, ERG Eolica Faeto S.r.l. cannot proceed with the distribution of dividends to shareholders, nor can it repay subordinated loans without prior authorisation from the financial institutions. If the value is less than 1.05, and the company does not effect any contractually agreed remedy, the financial institutions may request the termination of the financing agreement and the calling in of guarantees;
  – the Project provides for a negative pledge, safeguarding the creditor's rights, on the assets pledged by the debtor as guarantee for loan repayment. Consequently, ERG Eolica Faeto S.r.l. cannot issue further guarantees on its assets except in the case of guarantees issued pursuant to law.

- a loan taken up in August 2007 by Green Vicari S.r.l.. The guarantees issued entail the mortgage of real estate, a special lien on assets, a pledge on 100% of the company's share capital (EUR 15 million as of 31 December 2010) and on the company's bank accounts and receivables. The loan is also subject to the following covenants and negative pledges:
  – *Average Debt Service Coverage Ratio* (ADSCR): the ADSCR is calculated on 30 June and 31 December of each year as the ratio between the project's cash flow for the two preceding half-years, net of VAT flows destined for the repayment of the principal on the VAT credit line, and the overall amount of the loan repaid as provided for in the repayment plan for the principal on the base credit line and the sum of the interest, commissions and costs paid or payable in relation to the credit lines and of the amounts paid or payable by the company to the hedging financial institutions or by the hedging financial institutions to the company in accordance with the hedging contracts. If it is less than 1.10, Green Vicari S.r.l. cannot proceed with the distribution of dividends to shareholders, nor can it repay subordinated loans without prior authorisation from the financial institutions. If the value is less than 1.05, and the company does not effect any contractually agreed remedy, the financial institutions may request the termination of the financing agreement and the calling in of guarantees;
  – The Project provides for a negative pledge safeguarding the creditor's rights over the assets pledged by the debtor as guarantee for loan repayment.
    Therefore, Green Vicari S.r.l. may not issue further guarantees on its assets.

- a loan for construction of the five wind farms located in France.
  The guarantees issued entail the mortgage of real estate and a pledge on 100% of the company's share capital and on the company's restricted bank accounts (EUR 1 million as

of 31 December 2010). The loan is subject to the following financial covenant with regards to dividend distribution.

- *Historical Debt-Service Coverage Ratio* (HDSCR): it is calculated as the ratio between the project's cash flow for the current and preceding half-year, net of VAT flows to be used for repayment of the principal on the VAT credit line, and the overall amount of the loan repaid as provided for in the repayment plan for the principal on the base credit line, the sum of the interest, commissions and costs paid or payable in relation to the credit lines, and the amounts paid or payable by the company to hedging financial institutions or by hedging financial institutions to the company pursuant to the hedging contracts. If it is less than 1.10, the French companies cannot proceed with the distribution of dividends to shareholders, nor can they repay subordinated loans without prior authorisation from the financial institutions;
- the contract also provides for a negative pledge safeguarding the creditor's rights over the assets pledged by the debtor as guarantee for loan repayment. Consequently, the French companies cannot issue further guarantees on their assets.

- a loan taken up by Eoliennes du Vent Solaire S.a.s. for construction of a wind farm in France. The guarantees issued entail the mortgage of real estate and a pledge on 100% of the company's share capital and on the company's restricted bank accounts (EUR 1 million as of 31 December 2010).
  The loan is also subject to the following covenants and negative pledges:
  - *Debt Service Coverage Ratio* (DSCR): the DSCR is calculated as the ratio between the project's cash flow for the current and preceding half-year, net of VAT flows destined for the repayment of the principal on the VAT credit line, and the overall amount of the loan repaid as provided for in the repayment plan for the principal on the base credit line and the sum of the interest, commissions and costs paid or payable in relation to the credit lines and of the amounts paid or payable by the company to the hedging financial institutions or by the hedging financial institutions to the company in accordance with the hedging contracts. If it is less than 1.15, Eoliennes Du Vent Solaire S.a.s. cannot proceed with the distribution of dividends to shareholders, nor can it repay subordinated loans without prior authorisation from the financial institutions. If the value is less than 1.10, and the company does not effect any contractually agreed remedy, the financial institutions may request the termination of the financing agreement and the calling in of guarantees;
  - the Project provides for a negative pledge safeguarding the creditor's rights over the assets pledged by the debtor as guarantee for loan repayment.
    Consequently, Eoliennes du Vent Solaire S.a.s. may not issue further guarantees on its assets.

- a loan taken up in January 2010 by ERG Eolica Ginestra S.r.l.. The guarantees issued entail the mortgage of real estate, a special lien on assets, a pledge on 100% of the company's share capital and on the company's restricted bank accounts (EUR 4 million as of 31 December 2010). The loan is also subject to the following covenants and negative pledges:
  - *Historical and Prospective Debt Service Coverage Ratio* (HDSCR): it is calculated, for each 12 month period preceding and following each calculation date, as the ratio between the project's cash flow, net of VAT flows, and the overall amount of the loan repaid as provided for in the repayment plan for the principal on the base credit line and the sum of the interest, commissions and costs paid or payable in relation to the credit lines and of the amounts paid or payable by the company to the hedging financial institutions or by the hedging financial institutions to the company in accordance with the hedging contracts. If the Historical and/or Prospective DSCR are less than 1.15, ERG Eolica Ginestra S.r.l. cannot proceed with the distribution of dividends to shareholders, nor can it repay

subordinated loans without prior authorisation from the financial institutions. If the Historical DSCR is less than 1.05 and the company does not effect any contractually agreed remedy, the financial institutions may request the termination of the financing agreement and the calling in of guarantees;
- *Loan Life Cover Ratio* (LLCR): the LLCR is calculated as the ratio between the net present value – discounted at the weighted average cost of capital – of operating cash flows generated between the date of calculation and the debt's maturity year and the amount of debt existing as of the calculation date. If it is less than 1.20, ERG Eolica Ginestra S.r.l. cannot proceed with the distribution of dividends to shareholders, nor can they repay subordinated loans without prior authorisation from the financial institutions. If the value is less than 1.10, and the company does not effect any contractually agreed remedy, the financial institutions may request the termination of the financing agreement and the calling in of guarantees;
- the Project provides for a negative pledge, safeguarding the creditor's rights, on the assets pledged by the debtor as guarantee for loan repayment. Consequently, ERG Eolica Ginestra S.r.l. cannot issue further guarantees on its assets except in the case of guarantees issued pursuant to law.

- a loan taken up in October 2009 by ERG Eolica Adriatica S.r.l.. The guarantees issued entail the mortgage of real estate, a special lien on assets, a pledge on 100% of the company's share capital and on the company's restricted bank accounts (EUR 10 million as of 31 December 2010).

  The base line of the loan is also subject to the following covenants and negative pledges:
  - *Historical and Prospective Debt Service Coverage Ratio* (HDSCR): it is calculated, for each 12 month period preceding and following each calculation date, as the ratio between the project's cash flow, net of VAT flows, and the overall amount of the loan repaid as provided for in the repayment plan for the principal on the base credit line and the sum of the interest, commissions and costs paid or payable in relation to the credit lines and of the amounts paid or payable by the company to the hedging financial institutions or by the hedging financial institutions to the company in accordance with the hedging contracts. If the Historical and/or Prospective DSCR are less than 1.20, ERG Eolica Adriatica S.r.l. cannot proceed with the distribution of dividends to shareholders, nor can it repay subordinated loans without prior authorisation from the financial institutions. If the Historical and/or Prospective DSCR is less than 1.05 and the company does not effect any contractually agreed remedy, the financial institutions may request the termination of the financing agreement and the calling in of guarantees;
  - *Balloon Cover Ratio* (BLCR): the BLCR is calculated as the ratio between the net present value – discounted at the weighted average cost of capital – of operating cash flows foreseen by the company in the periods between the final repayment date and 60 months afterwards and the amount of the final payment of the loan (Balloon). If the value is less than 1.50, ERG Eolica Adriatica S.r.l. cannot proceed with the distribution of dividends to shareholders, nor can it repay subordinated loans without prior authorisation from the financial institutions;
  - the Project provides for a negative pledge, safeguarding the creditor's rights, on the assets pledged by the debtor as guarantee for loan repayment. Consequently, ERG Eolica Adriatica S.r.l. cannot issue further guarantees on its assets except in the case of guarantees issued pursuant to law.

The mezzanine line of the loan is also subject to the following covenants and negative pledges:
- *Historical and Prospective Combined Debt Service Coverage Ratio* (HCDSCR): it is calculated, for each 12 month period preceding and following each calculation date, as the ratio between the project's cash flow, net of VAT flows, and the overall amount of the loan repaid (base credit line and mezzanine line) as provided for in the repayment plan for

the principal on the base credit line and the sum of the interest, commissions and costs paid or payable in relation to the credit lines and of the amounts paid or payable by the company to the hedging financial institutions or by the hedging financial institutions to the company in accordance with the hedging contracts. If the Combined Historical and/or Prospective DSCR are less than 1.10, ERG Eolica Adriatica S.r.l. cannot proceed with the distribution of dividends to shareholders, nor can it repay subordinated loans without prior authorisation from the financial institutions. If the Historical and/or Prospective Combined DSCR are less than 1.05 and the company does not effect any contractually agreed remedy, the financial institutions may request the termination of the financing agreement and the calling in of guarantees.

- **ERG Power S.r.l. Project Financing**

In December 2009 the company entered into a limited recourse Project Financing agreement totalling approximately EUR 330 million with a group of international financial institutions (Banca IMI, BNP Paribas, Banco Santander, Crédit Agricole Corporate and Investment Bank, Centrobanca, ING Bank, MPS Capital Services, Unicredit Mediocredito Centrale, WestLB). The Agent of the project is Unicredit Mediocredito Centrale.
The loan was disbursed in April 2010 as a result of the fulfilment of all conditions precedent set out in the agreement itself.

The agreement, whose purpose was the disbursement of a loan for repowering a CCGT plant, required the following to guarantee payment of the amounts and fulfilment of all obligations deriving from the credit agreement:

- the creation of a mortgaged loan in favour of the lending financial institutions, covering the property owned by the Company and the property on which a surface right by the Company exists;
- the creation of a special lien covering the plant, machinery, capital assets, raw materials, work in progress, finished products, inventories and receivables resulting from the sale of such goods beyond certain monetary thresholds;
- the creation of a pledge on the receivables deriving from the main project contracts and on the project accounts of ERG Power S.r.l.;
- the monitoring of incoming and outgoing cash flows relating to financial management by the financing institutions.

The guarantees given also entail, among other features, a 100% pledge on the company's share capital and other guarantees on the restricted bank accounts (EUR 39 million as of 31 December 2010). Lastly, the Project provides for a negative pledge, safeguarding the creditor's rights, on the assets pledged by the debtor as guarantee for loan repayment. Consequently, in principle, ERG Power cannot issue further guarantees, with standard exceptions for this type of transactions. The validity of the guarantees is linked to repayment of the loan agreement. The loan is also subject to the following covenants:

- *Historical and Prospective Annual Debt Service Coverage Ratio* (HDSCR): it is calculated, for each 12 month period preceding and following each calculation date, as the ratio between the project's cash flow, net of VAT flows, and the overall amount of the loan repaid as provided for in the repayment plan for the principal on the base credit line and the sum of the interest, commissions and costs paid or payable in relation to the credit lines and of the amounts paid or payable by the company to the hedging financial institutions or by the hedging financial institutions to the company in accordance with the hedging contracts. If the Historical and/or Prospective DSCR are less than 1.15, ERG Power S.r.l. cannot proceed with the distribution of dividends to shareholders, nor can it repay subordinated loans without prior authorisation from the financial institutions. If the Historical and/or Prospective DSCR is less than 1.05 and

the company does not effect any contractually agreed remedy, the financial institutions may request the termination of the financing agreement and the calling in of guarantees;
- *Loan Life Cover Ratio* (LLCR): the LLCR is calculated as the ratio between the net present value – discounted at the weighted average cost of capital – of operating cash flows forecast by the company in the periods between the calculation date and the debt's maturity year and the amount of debt existing as of the calculation date. If it is less than 1.20, ERG Power S.r.l. cannot proceed with the distribution of dividends to shareholders, nor can they repay subordinated loans without prior authorisation from the financial institutions. If the value is less than 1.10, and the company does not effect any contractually agreed remedy, the financial institutions may request the termination of the financing agreement and the calling in of guarantees.

OTHER COVENANTS AND NEGATIVE PLEDGES

- **Unicredit Loan to ERG S.p.A.**

The loan is subject, among other things, to a covenant concerning to the ratio between net financial indebtedness and gross operating margin (EBITDA), which, starting on 31 December 2007, must be less than or equal to 3.5.
In the case of breach of the aforesaid ratio, the bank shall have the right to withdraw from the agreement, declare the acceleration clause as having come into effect on the borrowing, or declare the contract terminated. As of 31 December 2010, the covenant was fulfilled.

- **IntesaSanpaolo Loan for EUR 50 million**

This loan, stipulated on 23 December 2009, entails the obligation to comply with the financial covenant represented by the ratio between Net Financial Position and Shareholders' Equity. This ratio, calculated on the basis of the Consolidated Financial Statements, must be lower than 1.5 throughout the duration of the loan. The ratio is measured annually, after the closing date of each financial year. Any failure to comply with the covenant is a cause for termination of the agreement and the loan will have to be repaid.

- **Centrobanca Loan for EUR 50 million**

This loan, stipulated on 31 December 2010, entails the obligation to comply with the financial covenant represented by the ratio between Net Financial Position and Shareholders' Equity. This ratio, calculated on the basis of the Consolidated Financial Statements, must be lower than 1.5 throughout the duration of the loan. The ratio is measured annually, after the closing date of each financial year. Any failure to comply with the covenant is a cause for termination of the agreement and the loan will have to be repaid.

- **MontePaschi Loan for EUR 50 million**

This loan, stipulated on 21 December 2010, entails the obligation to comply with the financial covenant represented by the ratio between Net Financial Position and Shareholders' Equity. This ratio, calculated on the basis of the Consolidated Financial Statements and of the Consolidated Half-Year Report, must be lower than or equal to 1.2 throughout the duration of the loan. The ratio is measured every six months, after the closing date of each financial year and of the consolidated half-year report. Any failure to comply with the covenant is a cause for termination of the agreement and, if the company does not effect any remedy or does not agree with the financial institutions the procedures and times for the remedy, the financial institutions may require repayment of the loan.

In reference to the covenants indicated in this Note, it is deemed that, based on the estimates and recalculations made by the Group's Management, the financial institutions will not notify the Group of any violations of the financial covenants as of 31 December 2010.

NOTE 27 – CONTINGENT LIABILITIES

ERG S.p.A. is a party in civil and administrative proceedings and in legal actions pertaining to the normal performance of its activities. However, based on available information and considering the accrued provisions for liabilities, it is deemed that such proceedings and actions will not cause significant negative effects on the Consolidated Financial Statements.

Regarding the ongoing dispute between ERG Raffinerie Mediterranee and the Italian tax authorities over the application of harbour duties for embarkation and disembarkation rights at the Santa Panagia jetty, we can report that on 5 March 2010 the Italian Constitutional Court handed down a ruling that declared the complaint inadmissible because of groundlessness with regard to the relevance and not manifest groundlessness of the question. In ERG's judgement, the decision does not change the situation to any substantial extent because the question of unconstitutionality could be reproposed with additional reasons and because the levying of the tax in this specific case can be deemed illegitimate even for reasons other than its unconstitutionality. It may be recalled that, based on appropriate legal assessments, no provision was accrued from 2001 up to and including 2006, and that, starting in 2007, the duties in question were paid with reserve (as to reimbursement).

Regarding legal action taken by ISAB Energy S.r.l., already mentioned previously, at the present time the Company is awaiting the setting of hearings before the Italian Council of State for the definition of the dispute over certain issues arising as a result of the CIP 6/92 system, including in particular the matter of full reimbursement of Green Certificates, for which a request for early setting of the hearing was filed; to be noted instead, in this case also referring to previous indications, is the decision of the Council of State against the claimed recognition of co-generation to which ISAB Energy is allegedly entitled as "selected initiative", thereby definitively determining the applicability of the co-generation principles contained in the impugned Resolution 42/2002 of the Electricity and Gas Authority. The matter of "CIP 6/92 Conventions" remains influenced by provisions tending to provoke the voluntary termination of said conventions which, however, do not seem likely to lead to any substantially change in the immediate future.

Moreover, on 12 October 2010 Polimeri Europa S.p.A. served notice to ERG S.p.A. of a lawsuit before the Court of Milan, with the first hearing set to May 2011, claiming damages allegedly caused by the 30 April 2006 fire in the Priolo Refinery. The Company will formulate in judgement the most appropriate objections and, if warranted, it will make use of its insurance coverage.

INCOME STATEMENT ANALYSIS

The 2010 and 2009 Income Statements are presented as prescribed by IFRS 5, thus with the exclusion of the results of the Integrated Downstream in Italy, as better described in Note 24. In 2010, **Integrated Downstream in Italy** contributed for the first nine months.
The items referred to continuing activities are analysed below, in comparison with the matching period of the previous year.

NOTE 28 – REVENUES FROM ORDINARY OPERATIONS

	2010	2009
REVENUES FROM SALES	5,199,120	3,614,034
REVENUES FROM SERVICES	154,634	116,707
REVENUES FROM GREEN CERTIFICATES	29,107	7,738
TOTAL	**5,382,861**	**3,738,479**

"Revenues from sales" consist mainly of petroleum product sales and include the sale of electricity and the supply of water and steam to the National Grid (Gestore dei Servizi Elettrici – GSE) and other customers in the industrial district of Priolo.
The increase is linked mainly to higher sale prices, to the increased generation of electrical energy and to increased processing work carried out on behalf of ERG S.p.A. by the ISAB Refinery that in 2009 had been shut down for planned maintenance.

The following table shows the breakdown of revenues from sales:

	2010	2009
SALES TO UNCONSOLIDATED GROUP COMPANIES	921,085	932,911
SALES TO THIRD PARTIES	4,278,035	2,681,123
TOTAL	**5,199,120**	**3,614,034**

"Revenues from services" relate mainly to charges for internal consumption amounting to EUR 128,409 thousand (EUR 89,512 thousand in 2009) to the joint venture ISAB S.r.l. The increase is mainly due to the additional processing work carried out on behalf of ERG S.p.A.

"Revenues from Green Certificates" concern production during 2010 of the operational wind farms of the ERG Renew Group. Measurement of the green certificates was conservatively calculated at the provisional price of EUR 87.25/MWh determined on the basis of the expected realisable value. The increase is linked to generation by the farms of ERG Eolica Adriatica S.r.l., consolidated since 23 July 2010, and to the full contribution of the Vicari and Faeto farms.

NOTE 29 – OTHER REVENUES AND INCOME

	2010	2009
INDEMNIFICATIONS	46,034	206,283
EXPENSE RECOVERIES	3,776	3,157
CAPITAL GAINS ON DISPOSALS	244	8,165
NON-RECURRING INCOME	3,364	1,351
INCOME FROM EMISSIONS TRADING	3,669	8,597
OTHER	20,434	22,745
TOTAL	**77,521**	**250,298**

The "Indemnifications" item refers to EUR 45 million (EUR 206 million in 2009) in insurance indemnification received by ISAB Energy for indirect damages, accrued in the period, consequent to the accident of October 2008.
"Capital Gains on disposals" in 2009 mainly referred to the sale of service stations in Spain and Italy.
The item "Other" includes inter alia rent income, grants related to assets and in 2010 approximately EUR 4 million for reimbursements of the costs for the acquisition of Green Certificates previous years in accordance with Resolution 113/06 of the Electricity and Gas Authority.

NOTE 30 – CHANGES IN PRODUCT INVENTORIES

Product inventory values were determined by application of the weighted average cost method.
The increase of approximately EUR 79 million is mainly due to the greater quantities (+219 thousand tonnes) and to the increase in average prices recorded at year end.

NOTE 31 – CHANGES IN RAW MATERIAL INVENTORIES

Raw materials inventory values were determined by application of the weighted average cost method.
The increase of approximately EUR 99 million is mainly due to the greater quantities (+453 thousand tonnes compared with 31 December 2009) and to the increase in average prices recorded at year end.

NOTE 32 – COST OF PURCHASES

The purchase costs of crude oil and products include ancillary expenses, transportation, insurance, commissions, inspections and customs charges.
For the year ended 31 December 2010, the value amounted to EUR 4,731 million (EUR 3,147 million for the year ended 31 December 2009); the increase compared with 2009 (EUR 1,548 million) is mainly due to higher average raw materials prices and to the greater quantities worked.
The figures are shown net of excise duties paid and trade exchanges and include the effect of forwards contracts on crude oil and products stemming from the difference between forward purchase prices and spot sale prices for crude oil and petroleum products relating to commercial transactions that did not involve the physical transfer of goods.

NOTE 33 – COSTS FOR SERVICES AND OTHER COSTS

	2010	2009
SERVICE COSTS	602,883	546,772
RENTS PAID	15,702	12,741
BAD DEBT PROVISION	12,489	5,207
PROVISIONS FOR LIABILITIES AND CHARGES	35,542	5,352
DUTIES AND TAXES	14,798	10,858
OTHER OPERATING EXPENSES	5,860	10,094
TOTAL	**687,274**	**591,024**

The breakdown of Service costs is as follows:

	2010	2009
PROCESSING COSTS	404,781	356,326
COMMERCIAL, DISTRIBUTION AND TRANSPORTATION COSTS	53,582	34,048
MAINTENANCE AND REPAIRS	28,128	27,001
UTILITIES AND SUPPLIES	1,756	2,737
INSURANCE	27,377	30,541
CONSULTING SERVICES	20,268	25,886
ADVERTISING AND PROMOTIONS	5,302	5,697
OTHER SERVICES	61,689	64,536
TOTAL	**602,883**	**546,772**

"Processing costs" refers to crude processing carried out by the refinery of ISAB S.r.l. The increase is mainly linked to the increased processing work by the Refinery that in 2009 had been shut down for planned maintenance.
"Commercial, distribution and transportation costs" rose mainly as a result of the further development of marketing activity on the free electricity market.
"Maintenance and repairs" mainly consists of the costs for routine maintenance of electricity generation plants.
"Other services" include the emoluments earned by Directors and Statutory Auditors, costs relating to plant safety, bank charges, general expenses, staff travel and accommodation expenses, expenses for training and refresher courses, and other personnel costs.

The "Bad debt provision" refers in particular to an overdue receivable linked to the start-up phases of the electric energy and gas trading activities in an unfavourable economic and financial environment. On this matter, the Group is undertaking every possible recovery initiative, also of a legal nature.
"Provisions for liabilities and charges" mainly comprises the provisions for environmental charges pertaining to the Priolo site for EUR 25 million, as previously commented in the section Clean ups - Programme Agreement for the Priolo Site.
"Duties and taxes" pertain mainly to the local property taxes and state taxes. The item also includes harbour embarkation duties for the period on the jetty used by the South plants of the ISAB refinery. These items, which are contested by ERG, were prudently accrued in the Income Statement pending the outcome of the filed appeals.
"Other operating expenses" include membership subscription fees, ordinary losses and various other operating expenses.

NOTE 34 – PERSONNEL EXPENSES

	2010	2009
SALARIES AND WAGES	43,615	45,296
SOCIAL SECURITY CONTRIBUTIONS	12,533	14,059
EMPLOYEES' SEVERANCE INDEMNITIES	2,792	3,065
OTHER COSTS	7,191	5,430
TOTAL	**66,131**	**67,850**

The following table shows the breakdown of ERG personnel (average headcount during the period):

	2010	2009
EXECUTIVES	53	61
MANAGERS	166	182
WHITE-COLLAR EMPLOYEES	253	365
BLUE-COLLAR EMPLOYEES	75	153
TOTAL	**547**	**761**
"DISPOSAL GROUP IFRS 5" STAFF	**798**	**841**
TOTAL	**1.345**	**1.601**

As of 31 December 2010, the total number of employees was 547, net of TotalErg employees.

NOTE 35 – AMORTISATION, DEPRECIATION AND WRITE-DOWNS OF FIXED ASSETS

	2010	2009
AMORTISATION OF INTANGIBLE FIXED ASSETS	14,695	11,538
DEPRECIATION OF TANGIBLE FIXED ASSETS	101,603	74,375
WRITE-DOWNS OF FIXED ASSETS	36,815	24,350
TOTAL	**153,113**	**110,263**

The increase in amortisation and depreciation is a consequence of the commissioning of new plants in the Thermoelectric Power Generation and Renewable Energy Sources segments.

The write-downs in 2010 refer to the impairment test conducted on the capital gains allocated at the time of the acquisition of ERG Renew (previously Enertad) and of five French companies. In particular, the write-downs refer for approximately EUR 12 million to goodwill and for approximately EUR 25 million to authorisations.
For further details, please refer to the section "**Write-downs in the renewable energy segment**".

The 2009 write-downs of fixed assets included EUR 23 million for the Renewable Energy segment, of which approximately EUR 14 million related to the write-down of certain goodwill and approximately EUR 9 million to authorisations.

NOTE 36 – NET FINANCIAL INCOME (EXPENSES)

	2010	2009
INCOME		
FOREIGN EXCHANGE GAINS	85,442	58,590
INTEREST INCOME ON BANK ACCOUNTS	8,837	16,701
OTHER FINANCIAL INCOME	9,570	22,002
	103,849	**97,293**
CHARGES		
FOREIGN EXCHANGE LOSSES	(92,132)	(47,623)
INTEREST ON SHORT-TERM BANK BORROWINGS	(4,791)	(8,530)
INTEREST ON MEDIUM/LONG-TERM BANK BORROWINGS	(15,031)	(29,980)
INTEREST ON PROJECT FINANCING	(20,552)	(6,872)
OTHER FINANCIAL EXPENSES	(17,030)	(16,343)
	(149,536)	**(109,348)**
TOTAL	**(45,687)**	**(12,055)**

"Foreign exchange gains/losses" refer both to the differences between the EUR/US$ currency exchange rate used to record purchases/sales and related payments/collections, and to the exchange rate risk hedging derivatives set up in respect of commercial transactions.
The decrease in "Interest income on bank accounts" is mainly due to lower market interest rates.
"Other financial income" refers mainly to the positive results of derivative instruments and to the effect of the capitalisation of borrowing costs (EUR 5 million), in accordance with IAS 23. The decrease compared with 2009 is linked to lower capitalised borrowing costs and to the reduction in the positive results of derivative instruments. Lastly, in 2009 the item also included interest income earned on the receivable from LUKOIL until February 2009 (EUR 6 million).
The decrease in Interest expenses is mainly due to lower market interest rates.
The increase in Interest on Project Financing is linked mainly to the new 2010 loans, in particular those pertaining to ERG Power S.r.l. and those of the renewable energies business, as already commented in the previous Notes.
"Other financial expenses" consist mainly of bank fees, premiums on exchange rate hedging contracts, and the costs related to derivatives.

NOTE 37 – NET INCOME (LOSS) FROM SHAREHOLDINGS

The income and expenses from shareholdings amounting to EUR 7,068 thousand (EUR 20,285 thousand in 2009) mainly comprise the performance of companies measured under the equity method of accounting.
In particular, the item mainly comprises the performance of the joint ventures ISAB S.r.l. and TotalErg.
The decrease compared with 2009 is linked mainly:

- to the write-down for approximately EUR 8 million of the shareholdings in the Spanish companies, no longer operating, to be liquidated shortly;
- to the negative performance of TotalErg which in the fourth quarter 2010 was affected by non recurring costs linked to the integration of the activities of Total Italia and ERG Petroli S.p.A. for approximately EUR 24 million.

NOTE 38 – INCOME TAX PAID

	2010	2009
CURRENT INCOME TAX	44,167	(20,060)
TAXES FROM PREVIOUS YEARS	(1,124)	1,724
SUBSTITUTE TAXES	(140)	(1,636)
DEFERRED TAXES	(31,002)	20,644
TOTAL	**11,901**	**672**

Provisions for income taxes for the period were calculated taking into account the foreseeable taxable amount and they were affected by the 6.5% additional rate to be applied to the income of companies in the petroleum and energy industry.

"Deferred taxes" originate from the temporary differences deriving from adjustments made to consolidated companies' financial statements in application of the Group's uniform accounting policies as well as from the temporary differences temporary differences between the value of assets and liabilities for financial reporting purposes and their values for tax calculation purposes.

In 2010, the item benefited from Tremonti Ter tax breaks on investments for approximately EUR 14 million (EUR 10 million in 2009) and it was affected by the reversal of deferred tax assets relating to tax losses from previous years for approximately EUR 6 million, whose recoverability is no longer deemed certain.

Furthermore, deferred taxes amounting to EUR 1.7 million (EUR 2.1 million in 2009) were charged directly to equity; they were calculated on the fair value of the derivatives qualified as cash flow hedges.

RECONCILIATION BETWEEN REPORTED AND THEORETICAL TAX CHARGES

IRES (CORPORATE TAX)		
PROFIT BEFORE TAXES	(37,842)	
THEORETICAL IRES TAXATION AT 34%	**(12,866)**	
IMPACT OF PERMANENT DIFFERENCES, OF CONSOLIDATION ADJUSTMENTS NOT RELEVANT TO THE CALCULATION OF TAXES AND OF THE "TREMONTI TER"		15,624
CURRENT AND DEFERRED IRES		**2,758**
IRAP (REGIONAL TAX)		
EBIT	777	
LABOUR AND BAD DEBT COSTS	81,360	
TOTAL	**82,137**	
THEORETICAL IRAP AT 3.9%	**3,203**	
EFFECT STEMMING FROM IRAP RATE INCREASE FOR SOME COMPANIES		287
IMPACT OF PERMANENT DIFFERENCES AND CONSOLIDATION ADJUSTMENTS NOT RELEVANT TO THE CALCULATION OF TAXES		6,917
CURRENT AND DEFERRED IRAP		**10,407**
TOTAL THEORETICAL TAXES	**(9,663)**	
TOTAL IRES AND IRAP IN THE CONSOLIDATED FINANCIAL STATEMENTS		**13,165**
TAXES FROM PREVIOUS YEAR		**(1,124)**
SUBSTITUTE TAXES		**(140)**
TOTAL TAXES AS REPORTED IN THE CONSOLIDATED FINANCIAL STATEMENTS		**11,901**

Consolidation adjustments not relevant to the calculation of taxes mainly comprise the performance of companies measured under the equity method of accounting.

NOTE 39 – NON-RECURRING ITEMS

(EUR THOUSAND)		2010		2009
OTHER REVENUES AND INCOME		–	A	137,170
COSTS FOR SERVICES AND OTHER COSTS	1)	(26,530)	B	(7,126)
PERSONNEL EXPENSES		–		(360)
AMORTISATION, DEPRECIATION AND WRITE-DOWNS OF FIXED ASSETS	2)	(36,553)	C	(23,687)
FINANCIAL INCOME		–		–
NET INCOME (LOSS) FROM SHAREHOLDINGS	3)	(7,699)		–
INCOME TAXES	4)	5,839	D	(44,980)
MINORITY INTERESTS		3,429		(33,241)
NET PROFIT (LOSS) PERTAINING TO THE GROUP (CONTINUING ACTIVITIES)		**(61,514)**		**27,776**
PROFIT (LOSS) FROM TRANSFERRED ASSETS AND LIABILITIES	5)	51,214	E	(5,140)

In 2010:

1) the item comprises the provisions for environmental charges pertaining to the Priolo site for EUR 25 million, as previously commented in the section Clean ups - Programme Agreement for the Priolo Site, and approximately EUR 1 million linked to restructuring costs;
2) the item includes write-downs in the renewable energy segment as a result of the impairment test on gains relating to the transaction to acquire ERG Renew (formerly Enertad) and of the acquisition of some wind farms in France;
3) the item includes the write-down of the shareholdings in the Spanish companies, no longer operating, to be liquidated shortly;
4) the item comprises:
   - costs linked to the derecognition of deferred tax assets on tax losses from previous years whose recoverability is no longer deemed certain (EUR 6 million);
   - the tax effect of the aforementioned items;
5) the item includes the capital gain deriving from the TotalErg joint venture, net of the related ancillary expenses, as already commented in **Note 24**.

The following are non-recurring items in 2009:

A the item includes a portion of the insurance indemnification (EUR 127 million) collected in 2009, relating to coverage of direct damages (property damages) for the period following the accident that occurred in October 2008 at the ISAB Energy plant, and the capital gains (EUR 10 million) realised in the period from the sale of service stations in Spain;
B the item includes the accrual amounting to EUR 8 million for environmental charges on service stations in Italy, and charges incurred and anticipated for the sale and closure of service stations in Spain;
C the item includes write-downs in the renewable energy segment, of which approximately EUR 14 million related to goodwill and approximately EUR 9 million to the outcome of the impairment test on capital gains recorded within the acquisition of ERG Renew (formerly Enertad);
D the item includes the tax effect of the aforementioned items;
E the items include the provisions, net of tax effects, for environmental costs referred to service stations in Italy.

NOTE 40 – RELATED PARTIES

For the sake of complete disclosure, the values shown below do not take into account the reclassifications required by IFRS 5 and hence also include the amounts indicated in the line "Profit (Loss) from transferred assets".

Statement of financial position

	NOTES	SUBSIDIARIES	ASSOCIATES	JOINT VENTURE	OTHER RELATED COMPANIES	TOTAL
TRADE RECEIVABLES	9	60	10,864	124,141	–	**135,065**
OTHER CURRENT RECEIVABLES AND ASSETS	10	–	821	2,958	1,418	**5,197**
CURRENT FINANCIAL ASSETS	11	3,049	237	–	–	**3,286**
NON-CURRENT FINANCIAL LIABILITIES	18	–	–	(10,276)	–	**(10,276)**
TRADE PAYABLES	21	(3)	987	(91,996)	–	**(91,012)**
CURRENT FINANCIAL LIABILITIES	22	(232)	(5,609)	(22,461)	–	**(28,302)**
OTHER CURRENT LIABILITIES	23	(8)	–	(6,509)	(10,626)	**(17,143)**

Income Statement

	NOTES	SUBSIDIARIES	ASSOCIATES	JOINT VENTURE	OTHER RELATED COMPANIES	TOTAL
REVENUES FROM ORDINARY OPERATIONS	28	5,234	183,569	772,895	–	**961,698**
OTHER REVENUES AND INCOME	29	67	96	4,215	–	**4,378**
COST OF PURCHASES	32	–	–	(296,636)	–	**(296,636)**
COSTS FOR SERVICES AND OTHER COSTS	33	(5,515)	(90,825)	(412,171)	(3,553)	**(512,064)**
FINANCIAL INCOME	36	121	116	115	–	**352**
FINANCIAL EXPENSES	36	–	–	(1,526)	–	**(1,526)**

Transactions with subsidiaries and associates not included in the scope of consolidation, with related companies and joint ventures essentially pertain to the exchange of goods, the performance of services, the obtainment and use of financial resources. All transactions form part of ordinary operations and are settled at market terms and conditions. In particular, there are processing contracts with the Joint Venture ISAB S.r.l. and contracts for site services with Priolo Servizi.
The amounts also reflect the effects on the Income Statement of the first nine months of the Integrated Downstream which includes the processing contracts with the associates Sarpom S.p.A. and Raffineria di Roma S.p.A. and the commercial transactions with the investee companies of the Retail and Wholesale business, the service station leasing and product transportation contracts .

Following a request from the parent company San Quirico S.p.A., ERG Power S.r.l. adhered to the "national tax consolidation" for the 2010 – 2012 time period. As of 31 December 2010, there is a payable to the parent company (EUR 11 million) for the taxes of the period.
As of 31 December 2010, a residual receivable (EUR 1,415 thousand) existed from San Quirico S.p.A. relating to an additional amended filing by ERG Raffinerie Mediterranee S.p.A. on previous taxation periods which will be reimbursed when San Quirico obtains it from the Tax Authorities.

With regards to the other transactions with related parties, as defined by IAS 24, on 27 May 2009 the sponsorship contract with U.C. Sampdoria S.p.A. – a football club controlled by ERG's main shareholder – was renewed until 1 July 2011. The contract was subject to a detailed cost-benefit analysis carried out by the departments involved and in accordance with standards of

conduct for transactions with related parties, a positive opinion was given by the Internal Control Committee, which said that it would be enough to determine the price with the expectation of a similar financial commitment as for the previous contract, and that an independent expert's opinion would not be necessary. The related costs for 2010 amounted to EUR 3.5 million, including EUR 2.7 million connected to the sponsorship contract and EUR 0.8 million relating to other, smaller contracts.

Moreover, in April 2010, EUR 100 thousand were paid to the Fondazione Edoardo Garrone, as a one-off contribution for 2010.

RECONCILIATION WITH ERG S.P.A. SHAREHOLDERS' EQUITY AND PROFIT

(EUR THOUSAND)	SHAREHOLDERS' EQUITY 12/31/2010	12/31/2009	PROFIT FOR THE PERIOD 2010	2009
ERG S.P.A. SHAREHOLDERS' EQUITY AND PROFIT FOR THE PERIOD	**1,657,333**	**869,109**	**398,131**	**698,258**
ELIMINATION OF THE EFFECTS OF TRANSACTIONS AMONG CONSOLIDATED COMPANIES:				
- ELIMINATION OF INTRA-GROUP PROFITS INVENTORIES AND FIXED ASSETS	(10,007)	(9,685)	–	–
- ELIMINATION OF INTRA-GROUP DIVIDENDS	–	–	(135,657)	(801,978)
	(10,007)	**(9,685)**	**(135,657)**	**(801,978)**
DEFERRED TAXES:				
- DEFERRED TAXES ON CONSOLIDATION ADJUSTMENTS	5,703	14	5,565	17,032
ELIMINATION OF THE CARRYING VALUE OF SHAREHOLDINGS:				
- DIFFERENCE BETWEEN THE CARRYING VALUE AND THE PRO RATA VALUE OF SHAREHOLDERS' EQUITY	213,466	983,219	–	–
- PRO RATA PROFITS OF SUBSIDIARY COMPANIES	–	–	(224,641)	131,476
- RECOGNITION OF ASSETS AND LIABILITIES FROM BUSINESS COMBINATIONS	24,999	85,870	–	–
	238,465	**1,069,089**	**(224,641)**	**131,476**
SHAREHOLDERS' EQUITY AND PROFIT FOR THE PERIOD	**1,891,494**	**1,928,527**	**43,398**	**44,788**
MINORITY SHAREHOLDERS' EQUITY AND PROFIT FOR THE PERIOD	**(151,071)**	**(146,064)**	**(33,016)**	**(37,830)**
ERG GROUP CONSOLIDATED SHAREHOLDERS' EQUITY AND PROFIT FOR THE PERIOD	**1,740,423**	**1,782,463**	**10,382**	**6,958**

NOTE 41 – EARNINGS PER SHARE

Calculation of earnings per share is based on the following data:

		2010	2009
NET PROFIT (LOSS) PERTAINING TO THE GROUP	EUR THOUSAND	10,382	6,958
AVERAGE NUMBER OF SHARES OUTSTANDING	UNIT	148,220,000	148,220,000
BASIC EARNINGS PER SHARE FROM CONTINUING ACTIVITIES	EUR	0.070	0.047
DILUTED EARNINGS PER SHARE FROM CONTINUING ACTIVITIES	EUR	0.070	0.047

Calculation of earnings per share related to **Continuing Activities** is based on the following data:

		2010	2009
NET PROFIT (LOSS) PERTAINING TO THE GROUP	EUR THOUSAND	10,382	6,958
- PROFIT (LOSS) FROM ASSETS HELD FOR SALE		(93,141)	(54,239)
NET PROFIT (LOSS) PERTAINING TO THE GROUP (CONTINUING ACTIVITIES)		**(82,759)**	**(47,281)**
AVERAGE NUMBER OF SHARES OUTSTANDING	UNIT	148,220,000	148,220,000
BASIC EARNINGS PER SHARE FROM CONTINUING ACTIVITIES	EUR	(0.558)	(0.319)
DILUTED EARNINGS PER SHARE FROM CONTINUING ACTIVITIES	EUR	(0.558)	(0.319)

The calculation of earnings per share related to **Assets Sold** follows:

		2010	2009
NET PROFIT (LOSS) FROM ASSETS SOLD	EUR THOUSAND	**93,141**	**54,239**
AVERAGE NUMBER OF SHARES OUTSTANDING	UNIT	148,220,000	148,220,000
BASIC EARNINGS PER SHARE FROM ASSETS SOLD	EUR	0.628	0.366
DILUTED EARNINGS PER SHARE FROM ASSETS SOLD	EUR	0.628	0.366

Diluted earnings per share are calculated by taking into account the dilutive effect on the average number of shares outstanding of the stock option plans.
There are no potentially dilutive securities that impact the Group's share of net profit.

NOTA 42 – DIVIDENDS

The dividends paid by ERG S.p.A. in 2010 (EUR 59.3 million) and in 2009 (EUR 133.4 million), as resolved upon approval of the financial statements for the previous year, amounted to EUR 0.40 and EUR 0.90 respectively for each of the shares with dividend rights as of the dividend date.
The dividend paid out in 2009 included a one-off component amounting to EUR 0.50 per share due to the positive outcome of the joint venture transaction with LUKOIL.

On 3 March 2011, the Board of Directors of ERG S.p.A. proposed the payment to shareholders of a dividend of EUR 0.40 per share. The dividend shall be paid starting on 26 May 2011, after issuance of the coupon starting on 23 May 2011.

NOTE 43 – FINANCIAL INSTRUMENTS

12/31/2010	FVTPL (1)	L&R (2)	AFS (3)	OTHER LIABILITIES	HEDGING DERIVATIVES	TOTAL	*OF WHICH NON CURRENT*	FAIR VALUE
INVESTMENTS IN OTHER COMPANIES	–	–	854	–	–	854	–	854
FINANCIAL RECEIVABLES	–	14,347	1,420	–	–	15,767	*3,155*	15,767
DERIVATIVE INSTRUMENTS	–	–	–	–	5,846	5,846	–	5,846
TRADE RECEIVABLES	–	441,144	–	–	–	441,144	–	441,144
FINANCIAL SECURITIES CLASSIFIED AS CURRENT ASSETS	–	27,986	12,159	–	–	40,145	–	40,145
OTHER RECEIVABLES	–	62,677	–	–	–	62,677	*13,670*	62,677
CASH AND CASH EQUIVALENTS	–	1,312,544	–	–	–	1,312,544	–	1,312,544
TOTAL ASSETS	**–**	**1,858,698**	**14,434**	**–**	**5,846**	**1,878,977**	***16,825***	**1,878,977**
MORTGAGES AND LOANS	–	–	–	667,642	–	667,642	*440,059*	652,847
NON-RECOURSE PROJECT FINANCING	–	–	–	792,762	–	792,762	*714,191*	866,386
SHORT-TERM BANK BORROWING	–	–	–	527,498	–	527,498	–	527,498
FINANCIAL PAYABLES	–	–	–	69,215	–	69,215	*67,485*	69,215
DERIVATIVE INSTRUMENTS	1,030	–	–	–	30,665	31,695	–	31,695
TRADE PAYABLES	–	–	–	660,552	–	660,552	–	660,552
OTHER PAYABLES	–	–	–	43,530	–	43,530	*779*	43,530
TOTAL LIABILITIES	**1,030**	**–**	**–**	**2,761,199**	**30,665**	**2,792,894**	***1,222,514***	**2,851,722**

(1) FVTPL: Fair value through profit or loss
(2) L&R: Loans and receivables
(3) AFS: Available for sale financial investments

12/31/2009	FVTPL (1)	L&R (2)	AFS (3)	OTHER LIABILITIES	HEDGING DERIVATIVES	TOTAL	*OF WHICH NON CURRENT*	FAIR VALUE
INVESTMENTS IN OTHER COMPANIES	–	–	1,252	–	–	1,252	*1,252*	1,252
FINANCIAL RECEIVABLES	–	9,075	1,044	–	–	10,119	*1,807*	10,119
DERIVATIVE INSTRUMENTS	–	–	–	–	2,962	2,962	–	2,962
TRADE RECEIVABLES	–	630,037	–	–	–	630,037	–	630,037
FINANCIAL SECURITIES CLASSIFIED AS CURRENT ASSETS	–	4,523	–	–	–	4,523	–	4,523
OTHER RECEIVABLES	–	115,579	–	–	–	115,579	*10,371*	115,579
CASH AND CASH EQUIVALENTS	–	1,755,569	39,981	–	–	1,795,550	–	1,795,550
TOTAL ASSETS	**–**	**2,514,783**	**42,277**	**–**	**2,962**	**2,560,022**	***13,430***	**2,560,022**
MORTGAGES AND LOANS	–	–	–	901,024	–	901,024	*453,134*	895,631
NON-RECOURSE PROJECT FINANCING	–	–	–	324,101	–	324,101	*244,318*	330,044
SHORT-TERM BANK BORROWING	–	–	–	1,092,867	–	1,092,867	–	1,092,867
FINANCIAL PAYABLES	–	–	–	140,711	–	140,711	*54,503*	140,711
DERIVATIVE INSTRUMENTS	3,246	–	–	–	7,741	10,987	–	10,987
TRADE PAYABLES	–	–	–	671,771	–	671,771	–	671,771
OTHER PAYABLES	–	–	–	90,131	–	90,131	*12,360*	90,131
TOTAL LIABILITIES	**3,246**	**–**	**–**	**3,220,605**	**7,741**	**3,231,592**	***764,315***	**3,232,142**

(1) FVTPL: Fair value through profit or loss
(2) L&R: Loans and receivables
(3) AFS: Available for sale financial investments

The following table gives a breakdown of financial instruments measured at fair value, grouped in Levels from 1 to 3, according to the fair value hierarchy:

– for level 1, fair value is measured using listed prices on active markets;
– for level 2, fair value is measured using valuation techniques based on variables that are directly (or indirectly) observable on the market;
– for level 3, fair value is measured using valuation techniques based on significant variables not observable on the market.

	LEVEL 1	LEVEL 2	LEVEL 3
FINANCIAL ASSETS			
- FVTPL	–	–	–
- AFS	12,159	–	–
- HEDGING DERIVATIVES	231	5,615	–
TOTAL	**12,390**	**5,615**	**–**
FINANCIAL LIABILITIES			
- FVTPL	–	1,030	–
- HEDGING DERIVATIVES	–	30,665	–
TOTAL	**–**	**31,695**	**–**

The Group has no financial instrument classifiable in Level 3.
The financial instruments classified in Level 1 are money market funds, whose value is listed daily.
Derivatives are classified in level 2; in order to establish the market value of these derivatives, ERG uses various measurement and valuation models, as summarized in the following table:

INSTRUMENT	PRICING MODEL	MARKET DATA USED	DATA PROVIDER	HIERAECHY IFRS 7
INTEREST RATE SWAP	DISCOUNTED CASH FLOW	- DEPOSIT RATE (EURIBOR) - SWAP RATE	- REUTERS	LEVEL 2
INTEREST RATE OPTION (CAP, COLLAR)	BLACK & SCHOLES	- DEPOSIT RATE (EURIBOR) - SWAP RATE - SHORT TERM RATE IMPLICIT VOLATILITY	- REUTERS - ICAP (VIA REUTERS)	LEVEL 2
FX FORWARD	DISCOUNTED CASH FLOW	- ZERO COUPON CURVES OF REFERENCE CURRENCIES - BCE SPOT RATES	- REUTERS	LEVEL 2
FX OPTION	- BLACK & SCHOLES - EDGEWORTH EXSPANSION - MONTE CARLO SIMULATION	- ZERO COUPON CURVES OF REFERENCE CURRENCIES - BCE SPOT RATES - EXCHANGE RATE IMPLICIT VOLATILITY	- REUTERS	LEVEL 2
COMMODITY SWAP - CRUDE OILS - PETROLEUM PRODUCTS - CRACK SPREAD - GAS FORMULAS	DISCOUNTED CASH FLOW	- OFFICIAL SPOT QUOTES OF REFERENCE COMMODITIES - FORWARD PRICES QUOTED ON OTC MARKETS - FORWARD PRICES DERIVED (I.E. LINEAR REGRESSION) FROM OTC PRICES - ZERO COUPON CURVES ON EUR AND DOLLAR - BCE SPOT RATES	- PLATT'S (SARUS) - REUTERS	LEVEL 2
COMMODITY FUTURE	QUOTED INSTRUMENT	- SETTLEMENT PRICES - SOURCE: ICE	- REUTERS	LEVEL 1
CONTRACT FOR DIFFERENCE (CFD)	DISCOUNTED CASH FLOW	- PUN FORWARD QUOTED ON OTC MARKET - ZERO COUPON CURVES ON THE EUR	- TFS - REUTERS	LEVEL 2

NOTE 44 – DISCLOSURE ON FINANCIAL RISKS

The following are the main risks identified and actively managed by the ERG Group:

- *Credit risk*: the possibility of default by a counterparty or the potential deterioration of the assigned creditworthiness;
- *Market risk*: deriving from exposure to fluctuations in currency exchange rates, mainly between the EUR and US Dollar and interest rates, as well as changes in the prices of products sold and raw material purchased (commodity price volatility risk);
- *Liquidity risk*: the risk of available financial resources being insufficient to fulfil payment commitments;

The ERG Group attaches great importance to identifying and measuring risks and to the related controls, in order to ensure efficient management of the risks it runs. In line with this objective, an advanced risk management system has been adopted that guarantees identification, measurement and control at a centralised level for the entire Group of exposure to individual risks, in accordance with existing policies.
The risk management function ensures compliance with the assigned limits and, via its own analyses, provides appropriate support for strategic decisions both to individual subsidiaries and to the Risk Committee as well as to top management at the Company.

CREDIT RISK

Exposure to credit risk, inherent in the possibility of default by a counterparty or in the deterioration of its creditworthiness, is managed by means of appropriate analyses and evaluations of individual counterparties, with each of these being assigned an internal credit rating (internal-ratings-based approach). The assignment of the rating category provides an estimate of the probability of default by a particular counterparty. A degree of reliability is indicated for each level, which is carefully monitored and must never be exceeded. The selection of counterparties for both the industrial and financial transactions depends on their high credit ratings.
The risk of concentration, in terms of both customers and segments, is also monitored continuously; however, 'alert' situations have never occurred.

The following table provides information on the ERG Group's exposure to credit risk at year end, by a classification of assets according to the corresponding creditworthiness reflecting the internal ratings assigned.

(EUR THOUSAND)	2010	2009
AAA RATING	3,012	2,354
AA+ / AA- RATING	1,825	80,065
A+ / A- RATING	145,354	133,512
BBB+ / BBB- RATING	42,468	39,909
BB+ / BB- RATING	41,626	29,231
B+ / B- RATING	1,397	8,388
RECEIVABLES DUE FROM GROUP COMPANIES	102,369	121,926
NOT ASSIGNED	22,266	86,561
TOTAL	**360,317**	**501,946**

LIQUIDITY RISK

Liquidity risk is the risk that financial resources may be insufficient to cover all obligations falling due. The ERG Group currently ensures adequate coverage of its financial requirements with the generation of cash flows and the availability of credit lines provided by various counterparties.

The following tables summarise the maturity profile of the Group's financial liabilities as of 31 December 2010 and as of 31 December 2009, based on undiscounted contractual payments.

12/31/2010	PAYABLES BY MATURITY				
(EUR THOUSAND)	ON DEMAND	UNDER 3 MONTHS	3-12 MONTHS	1-5 YEARS	MORE THAN 5 YEARS
MORTGAGES AND LOANS	–	2,923	197,849	478,699	–
NON-RECOURSE PROJECT FINANCING	–	6,558	111,887	426,478	480,729
SHORT-TERM BANK BORROWING	527,498	–	–	–	–
DERIVATIVE INSTRUMENTS	–	–	12,929	18,311	–
FINANCIAL PAYABLES	–	29,904	4,235	26,779	11,108
TRADE PAYABLES	–	640,200	20,352	–	–
TOTAL LIABILITIES	**527,498**	**679,585**	**347,252**	**950,267**	**491,837**

12/31/2009	PAYABLES BY MATURITY				
(EUR THOUSAND)	ON DEMAND	UNDER 3 MONTHS	3-12 MONTHS	1-5 YEARS	MORE THAN 5 YEARS
MORTGAGES AND LOANS	–	242,455	166,352	528,974	14,174
NON-RECOURSE PROJECT FINANCING	–	546	88,628	214,416	76,123
SHORT-TERM BANK BORROWING	1,095,187	–	–	–	–
DERIVATIVE INSTRUMENTS	–	434	4,201	2,013	–
FINANCIAL PAYABLES	–	63,746	20,487	37,903	13,411
TRADE PAYABLES	–	669,625	1,731	243	172
TOTAL LIABILITIES	**1,095,187**	**976,806**	**281,399**	**783,549**	**103,880**

MARKET RISK

Market risk includes currency exchange rate risk, interest rate risk and commodities price risk. Management of these risks is regulated by the guidelines indicated in the group's Risk Management Policy and internal procedures of the operational finance department.
Furthermore, specific risk management policies and procedures, based on industry best practices, were developed for the Power & Gas business to continue to measure exposure to risk in terms of a risk capital value allocated by the Parent Company.

Currency exchange rate risk

Exchange rate risk is the in exchange rates expressed in the various currencies relative to the EUR, which impacts the company's performance. Net flows generated by the company, in currencies other than the EUR (reference currency) constitute exposure to exchange rate risk. In order to mitigate the volatility of these exposures, open positions are hedged on both the spot and forwards markets.
The following table shows the impact on pre-tax profit with all other variables kept constant of the adjustment to the fair value of financial assets and liabilities resulting from a change of +/- 10% in the exchange rate towards the Dollar.

(EUR MILLION)	2010	2009
SHOCK-UP (IN EUR/DOLLAR EXCHANGE RATE **+10%**)	4.1	(14.0)
SHOCK-DOWN (VARIATION IN EUR/DOLLAR EXCHANGE RATE **-10%**)	(4.4)	17.0

Interest rate risk

The interest rate risk identifies the variation in future interest rates that could determine higher costs for the Group. Interest rate risk is hedged by using derivative contracts, such as interest rate swaps and interest rate options (plain vanilla).
The following table illustrates the impact on pre-tax profit (due to adjustments to the fair value of financial assets and liabilities), and on shareholders' equity (due to adjustments to the fair value of the derivative instruments comprising the cash flow hedge reserve) of a +/-1% change in interest rate, while holding all other variables constant.

Impact on Income Statement

(EUR MILLION)	2010	2009
SHOCK-UP (INTEREST RATE VARIATION **+1%**)	(1.3)	(4.1)
SHOCK-DOWN (INTEREST RATE VARIATION **-1%**)	1.7	4.4

Impact on Shareholders' Equity

(EUR MILLION)	2010	2009
SHOCK-UP (INTEREST RATE VARIATION **+1%**)	23.7	4.4
SHOCK-DOWN (INTEREST RATE VARIATION **-1%**)	(24.3)	(4.7)

Commodity Risk

Commodity price risk consists in unexpected changes in the prices of raw materials and of services, as well as of finished products and services provided for sale on the open market.

The current policy for oil commodities price risk management envisages the use of instruments and methods that can achieve the annual average prices reported in Platt's quotations for raw materials and finished products. The objective defined in the Risk Management Policy is to target the annual average refining margin according to the existing industrial organisation.

In order to achieve the annual average refining margin, the Group uses derivative instruments such as Futures, Commodity Swaps and Commodity Options with underlying crude oil and petroleum products.

The following table considers the derivative financial instruments tied to different categories of commodities, oil and energy, and shows, in view of reasonable price changes – with all other variables kept constant – the impact on pre-tax profit (due to adjustments to the fair value of financial assets and liabilities) and Group shareholders' equity (due to adjustments to the fair value of the derivative instruments comprising the cash flow hedge reserve) of a +/-20% change in the price of commodities.

Impact on Income Statement

(EUR MILLION)	2010	2009
SHOCK-UP (VARIATION IN COMMODITIES PRICE **+20%**)	(1.2)	4.0
SHOCK-DOWN (VARIATION IN COMMODITIES PRICE **-20%**)	1.2	(4.0)

Impact on Shareholders' Equity

(EUR MILLION)	2010	2009
SHOCK-UP (VARIATION IN COMMODITIES PRICE **+20%**)	9.6	(0.9)
SHOCK-DOWN (VARIATION IN COMMODITIES PRICE **-20%**)	(9.5)	0.9

Bond price risk

The stock price risk in 2009 is represented by short-term investments of excess liquidity in mutual funds and SICAVs.

As of 31 December 2010 the existing risk and related shocks were immaterial.

DERIVATIVE INSTRUMENTS USED

The main types of derivative instruments used to manage financial risks, with the sole purpose of hedging, are the following:

Options: a contract whereby one of the parties, on payment of a sum to the counterparty (premium), acquires the right to buy (call option) or sell (put option), at a future date, a certain quantity of financial instruments (underlying) at an established price (exercise or strike price).

Forward contracts: they entail the purchase or sale between two parties of a given asset (underlying) at a future date and at a price pre-set upon stipulation of the contract; this category also includes futures contracts, which unlike forward contracts are standardised contracts, negotiated in lots and for predetermined dates within regulated markets.

Swap: a contract which establishes an exchange of payment flows between two parties on certain dates. The payments can be expressed in the same currency or in different currencies and their amount is determined in relation to an underlying financial instrument.

The underlying financial instrument can be of various types and significantly influences the characteristics of the contract which, in practice, can take on different forms.

The derivative instruments arranged by ERG and aiming to mitigate exposure to financial risks existing as of 31 December 2010 are as follows:

Interest rate derivatives

- Interest rate options that fix upper (cap) and lower (floor) limits to be applied to fluctuations in interest rates on variable rate loans;
- Interest rate swaps entered into to confine fixed- and variable rate loans to the most appropriate risk profile. Interest rate swaps provide for the exchange between the counterparties of interest flows calculated with reference to pre-agreed fixed rates or variable rates and to pre-defined face value and timing.

Currency exchange rate derivatives

- Foreign currency exchange forwards are used to hedge currency exchange rate risk on anticipated foreign currency availability or requirements in the reference period. The purpose of these contracts is the purchase or sale of a currency with delivery at a specified future date, at a fixed price. In these contracts, the party committing to purchase the currency assumes a 'long' position, while the party committing to sell the currency assumes a 'short' position;
- Foreign Exchange Options used to hedge exchange rate risk. These are contracts which, after payment of a premium, confer the right to buy or sell a specified amount of a foreign currency at a fixed rate (strike price) on a fixed date

Commodity derivatives

- Futures used to hedge the risk of volatility of the price of the commodities that constitute the inventories. These contracts are traded on the regulated market through a financial institution that acts as clearing member. These financial instruments entail the forward purchase and/or sale of determined quantities (lots) of the underlying commodity; settlement of the transaction can take place both through the physical delivery of the underlying commodity and through the cash settlement of the final value of the instrument;
- Swap instruments used to hedge the risk of volatility of commodity prices, on the purchases and sales expected in the reference periods. This refers to contracts signed with international specialised companies operating in the commodities sector and with major national and international banks. Swaps are private agreements between two companies for the exchange, on set dates, of future payment flows linked to the prices of specific commodities.

  In particular, swaps are used for crude oil (Brent dated), oil products (including gasoil, gasoline, fuel oil 3.5%, fuel oil 1%, jet fuel and the like), crack spreads and gas formulas;
- CfDs (Contracts for Differences) instruments are used to hedge the risk of electricity price fluctuations; via this instrument it is possible to buy or sell block quantities of electricity by paying on maturity the difference between the price agreed to in the contract and the market price reported in the reference period.

SUMMARY OF DERIVATIVE INSTRUMENTS USED

The derivative instruments arranged by ERG are designed to hedge its exposure to commodities price, currency exchange rate, and interest rate risks. As of 31 December 2010, they consisted of the following:

	TYPE	HEDGED RISK	UNDERLYING FINANCIAL INSTRUMENT		FAIR VALUE 12/31/2010
					EUR THOUSAND
	CASH FLOW HEDGING INSTRUMENTS				
A	INTEREST RATE SWAPS AND INTEREST RATE CAPS	INTEREST RATE RISK	EUR THOUSAND	743,172	(30,106)
B	CRUDE OIL PRICE RISK SWAPS	COMMODITY RISK	UNITS	92,250	5
C	PRODUCT PRICE RISK SWAPS	COMMODITY RISK	TONNES	124,000	(194)
D	COMMODITY FUTURES	COMMODITY RISK	BARRELS	150,000	231
E	GAS PRICE RISK SWAPS	COMMODITY RISK	MILLIONS OF SMC	307,903	5,120
F	CURRENCY EXCHANGE RATE DERIVATIVES	EXCHANGE RATE RISK	USD THOUSAND	–	–
	CASH FLOW HEDGING INSTRUMENTS				**(24,944)**
	FAIR VALUE HEDGING INSTRUMENTS				
G	CRUDE OIL PRICE RISK SWAPS	COMMODITY RISK	BBL	599,000	127
	TOTAL FAIR VALUE HEDGING INSTRUMENTS				**127**
	NON HEDGE ACCOUNTING INSTRUMENTS				
H	ELECTRICITY PRICE HEDGING CFD	RISK OF ELECTRICITY PRICE FLUCTUATIONS	MWH	131,280	(165)
I	FORWARDS ON SHORT-TERM CURRENCY EXCHANGE RATES	EXCHANGE RATE RISK	USD THOUSAND	45	(285)
J	INTEREST RATE SWAPS	INTEREST RATE RISK	EUR THOUSAND	26,425	(580)
	TOTAL NON HEDGE ACCOUNTING INSTRUMENTS				**(1,030)**
	TOTAL DERIVATIVES ERG GROUP				**(25,847)**

CASH FLOW HEDGING INSTRUMENTS

A Interest rate swaps and interest rate caps

Transactions hedging the economic interest rate risk arising from the risk of fluctuations in interest rates paid on loans.

The underlying financial instruments of the hedges refer to the following companies:

- ERG S.p.A.;
- Wind farms of the ERG Renew Group;
- ERG Power;
- ISAB Energy.

As of 31 December 2010 there was a total negative fair value of EUR 30.1 million recorded in the cash flow hedge reserve.

B Crude oil price risk swaps

Swap operations to hedge the risk of fluctuations in the prices on future purchases of raw materials. They are contracts whereby the parties undertake to pay or receive, at an agreed maturity date, the difference between the spot price and forward price for the quantity of crude oil in question (underlying asset). Settlement between the parties only concerns the price differential and does not entail any exchange of goods, although existence of the underlying asset is guaranteed.

Fair value as of 31 December 2010 was not significant.

C Product price risk swaps

Swap operations to hedge the risk of price fluctuations on future purchases of products. They are contracts whereby the parties undertake to pay or receive, at an agreed maturity date, the difference between the spot price and forward price for the quantity reference products in question (underlying asset). Settlement between the parties only concerns the price differential and does not entail any exchange of goods, although existence of the underlying asset is guaranteed.

As of 31 December 2010 there was a total negative fair value of EUR 0.2 million recorded in the cash flow hedge reserve.

D Crude oil price risk futures

Futures operations to hedge the risk of fluctuations in the prices on quantities of crude oil held in storage. They are contracts whereby the parties undertake to forward buy and/or sell a determined quantity of lots of crude oil. Settlement between the parties takes place on the basis of the price differential. Fair value as of 31 December 2010 is positive for EUR 0.2 million.

E Gas price risk swaps

Swap operations to hedge the risk of fluctuations in the prices of gas formulas for supply and delivery contracts. They are contracts whereby the parties undertake to pay or receive, at an agreed maturity date, the difference between the fixed price and the quoted price in the period multiplied times the contracted quantities.

As of 31 December 2010 there was a total positive fair value in the amount of approximately EUR 5.1 million.

F Currency exchange rate derivatives

As of 31 December 2010, options existed to hedge the risk of fluctuations in the exchange relationship between the denomination currency (USD) and the reporting currency (EUR) for part of the expected sales denominated in foreign currency.

Fair value as of 31 December 2010 was not significant.

FAIR VALUE HEDGING INSTRUMENTS

G Crude oil price risk swaps

Swap operations to hedge the risk of fluctuations in the prices of raw materials already acquired at 31 December 2010. They are contracts whereby the parties undertake to pay or receive, at an agreed maturity date, the difference between the spot price and forward price for the quantity of crude oil in question (underlying asset). Settlement between the parties only concerns the price differential and does not entail any exchange of goods, although existence of the underlying asset is guaranteed.

As of 31 December 2010 there was a total positive fair value amounting to an immaterial amount.

Consistently, the raw materials covered by this hedging are adjusted to reflect, in the Income Statement, the changes in fair value associated with the hedged risk.

NON HEDGE ACCOUNTING INSTRUMENTS

H Electricity price hedging CFD

CFD operations to hedge the risk of fluctuations in the price of electricity relative to forward contracts for the purchase of electricity. They are contracts whereby the parties undertake to liquidate on a given date the differential between the price agreed in the contract and the quoted market price of the reference period, multiplied times the contracted units. As of 31 December 2010 there was a total positive fair value amounting to an immaterial amount.

I Forwards on short-term currency exchange rates

These are transactions to hedge the currency exchange rate risk of cash flows generated by expected purchases of raw materials and sales of finished products for the month of January 2011. As of 31 December 2010 there was a total positive fair value in the amount of approximately EUR 0.3 million recognised in the Income Statement.

J Interest Rate Swap

Interest rate swaps relating to interest on loans in existence as of 31 December 2010 are extant. At year end, there was a total negative fair value in the amount of approximately EUR 0.6 million recognised in the Income Statement.

NOTE 45 – EMOLUMENTS PAID TO DIRECTORS, STATUTORY AUDITORS AND MANAGERS WITH STRATEGIC RESPONSIBILITIES

The amounts of emoluments paid to the Company's directors, statutory auditors and key management for the performance of their respective functions also at other companies included in the consolidation were as follows:

	2010
DIRECTORS	8,806
STATUTORY AUDITORS	350
MANAGERS WITH STRATEGIC RESPONSIBILITIES	2,290
TOTAL	**11,446**

NOTE 46 – INDEPENDENT AUDIT FEES

In accordance with Article 149-duodecies of Consob's Issuers' Regulations, we set out below the costs for 2010 relating to services rendered by the independent auditor Deloitte & Touche S.p.A., the ERG group's main independent auditor, and by the companies belonging to its network.

	2010
AUDITING SERVICES	925
SERVICES OTHER THAN AUDITING	949
TOTAL	**1,874**

"Auditing services" include the full audit of the annual consolidated and Separate Financial Statements and the limited audit of the mid-year interim report.

"Services other than auditing" refer to:

- attest services for EUR 590 thousand pertaining to the verification of conformity of the separate annual Financial Statements pursuant to AEEG Resolution no. 11/2007 and to

verifications linked to the TotalErg Joint Venture and to the Acquisition of ERG Eolica Adriatica;
- tax advisory services for EUR 119 thousand;
- other services for EUR 241 thousand relating mainly to agreed-upon procedures voluntarily requested on quarterly data and other minor services.

INFORMATION BY BUSINESS SEGMENT

Segment information is presented in accordance with IFRS 8 – Operating Segments. The information is broken down by business segment.

In order to enhance understandability of trends in the individual segments, the financial results are shown at adjusted replacement cost, thus excluding profit (loss) on inventories and non-recurring items, and including ISAB S.r.l.'s and TotalErg's performance, proportionally to ERG's shareholding (51%).

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

(EUR MILLION)	REFINING & MARKETING	POWER & GAS	RENEWABLE ENERGY SOURCES	OTHER	RECONCILIATION ENTRIES	IAS REPORTED	DISCONTINUED OPERATIONS	CONTINUED OPERATIONS
12/31/2010								
REVENUES FROM THIRD PARTIES	9,174.8	1,384.3	72,7	15.5	–	–	–	–
INTRA-SEGMENT REVENUES	(1,482.9)	(213.7)	(0.3)	(15.0)	–	–	–	–
REVENUES FROM ORDINARY OPERATIONS	**7,691.9**	**1,170.6**	**72.3**	**0.6**	**(1,122.5)**	**7,812.9**	**(2,430.0)**	**5,382.9**
EBITDA AT REPLACEMENT COST	**45.8**	**254.0**	**38.5**	**(33.0)**	**(67.6)**	**237.7**	**(83.8)**	**153.9**
AMORTISATION, DEPRECIATION AND WRITE-DOWNS	(107.2)	(75.0)	(33.4)	(3.9)	28.8	(190.7)	37.6	(153.1)
EBIT AT REPLACEMENT COST	**(61.3)**	**179.0**	**5.1**	**(36.9)**	**(38.8)**	**47.0**	**(46.3)**	**0.8**
CAPITAL EXPENDITURES IN FIXED ASSETS	**100.5**	**77.0**	**88.8**	**4.0**	**(69.6)**	**200.8**	**(28.2)**	**172.6**

(EUR MILLION)	REFINING & MARKETING	POWER & GAS	RENEWABLE ENERGY SOURCES	OTHER	RECONCILIATION ENTRIES	IAS REPORTED	DISCONTINUED OPERATIONS	CONTINUED OPERATIONS
12/31/2009								
REVENUES FROM THIRD PARTIES	6,475.1	997.9	50.5	22.7	–	–	–	–
INTRA-SEGMENT REVENUES	(1,116.6)	(297.4)	(0.2)	(20.6)	–	–	–	–
REVENUES FROM ORDINARY OPERATIONS	**5,358.5**	**700.4**	**50.2**	**2.1**	**(128.6)**	**5,982.6**	**(2,244.1)**	**3,738.5**
EBITDA AT REPLACEMENT COST	**44.8**	**55.4**	**23.1**	**(31.7)**	**137.7**	**229.4**	**(136.1)**	**93.3**
AMORTISATION, DEPRECIATION AND WRITE-DOWNS	(98.3)	(54.0)	(27.1)	(4.0)	22.2	(161.1)	50.8	(110.3)
EBIT AT REPLACEMENT COST	**(53.4)**	**1.4**	**(4.0)**	**(35.6)**	**159.9**	**68.3**	**(85.3)**	**(17.0)**
CAPITAL EXPENDITURES IN FIXED ASSETS	**115.8**	**199.8**	**88.8**	**2.4**	**(59.6)**	**347.2**	**(54.2)**	**293.0**

The amounts indicated in the "Other" column refer to Corporate activities and they pertain mainly to structure costs which cannot be attributed to the operating businesses.

The amounts indicated in the "discontinued operations" column refer to the results of the investee companies involved in the TotalErg Joint Venture and to the related ancillary expenses as better commented in Note 24.

For further details and the reconciling items above, please refer to the **Alternative performance indicators** section in the "Report on Operations".

NOTE 47 – OTHER INFORMATION

Disclosure on significant events occurring after the reporting period is provided in the relevant sections of the **Report on Operations**.

NOTE 48 – PUBLICATION DATE OF THE CONSOLIDATED FINANCIAL STATEMENTS

On 3 March 2011, the Board of Directors of ERG S.p.A. authorised publication of the Consolidated Financial Statements together with the supervisory Bodies' reports, according to the time table set out by currently prevailing laws and regulations.

Genoa, 3 March 2011

On behalf of the Board of Directors
The Chairman
Edoardo Garrone

CERTIFICATION OF THE CONSOLIDATED FINANCIAL STATEMENTS IN ACCORDANCE WITH ARTICLE 81-TER OF CONSOB REGULATIONS NO. 11971 OF 14 MAY 1999 WITH SUBSEQUENT AMENDMENTS AND ADDITIONS

1. The undersigned Alessandro Garrone, as Chief Executive Officer of ERG S.p.A., and Giorgio Coraggioso, as Manager responsible for preparing the financial reports of ERG S.p.A., represent, taking into account the provisions of Article 154-bis, Paragraphs 3 and 4, of Legislative Decree 58 dated 24 February 1998, as to:

- the adequacy in relation to the characteristics of the company and
- the actual implementation of the administrative and accounting procedures for the preparation of the Consolidated Financial Statements in 2010.

2. The assessment of the adequacy of the administrative and accounting procedures for the preparation of the Consolidated Financial Statements as of 31 December 2010 was based on a process defined by ERG S.p.A. in accordance with the Internal Control – Integrated Framework model issued by the Committee of Sponsoring Organizations of the Treadway Commission which represents a benchmark framework generally accepted internationally.

3. The undersigned further represent that:

3.1 the Consolidated Financial Statements:

a) were prepared in accordance with the applicable International Accounting Standards recognised in the European Community pursuant to Regulation (EC) no. 1606/2002 of the European Parliament and Council, dated 19 July 2002;

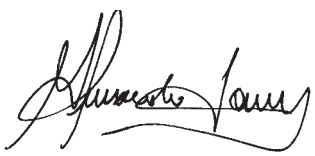
b) match the accounting books and records;

c) are capable of providing a true and fair presentation of the financial position and results of operations of the issuer and of the set of companies included in the consolidation.

3.2 the Report on Operations includes a reliable analysis of performance and of the position of the issuer and of the set of companies included in the consolidation, along with the description of the main risks and uncertainties to which they are exposed.

Genoa, 3 March 2011

The Chief Executive Officer



The Manager responsible
for preparing the financial reports

BOARD OF STATUTORY AUDITORS REPORT TO THE CONSOLIDATED FINANCIAL STATEMENTS

Distinguished Shareholders:

the Consolidated Financial Statements of ERG S.p.A. were provided to us in compliance with the law, together with the Report on Operations, and they were prepared in accordance with the International Financial Reporting Standards (IFRS) promulgated by the International Accounting Standard Board (IASB) and adopted by the European Union.
In accordance with Legislative Decree 39 of 27 January 2010 and with Article 41 Paragraph 2 of Legislative Decree 127 of 9 April 1998, the duty of verifying the legal compliance of the Consolidated Financial Statements and their consistency with the results of the accounting and consolidation records is assigned to the Independent Auditor. Our oversight activity was conducted in accordance with the principles of conduct of the Board of Statutory Auditors issued by the Italian National Councils of Professional and Certified Public Accountants and it pertained in particular to:

- verification of the existence and adequacy, within the organisation of ERG S.p.A., of a function responsible for transactions with subsidiary and associated companies;
- examination of the Group's composition and shareholdings, to assess the determination of the scope of consolidation and its change from the previous financial statements;
- obtainment of information on the activity carried out by subsidiary companies and on the transactions having major financial and economic significance within the Group's relationships through the information received from the Directors of ERG S.p.A., from the Independent Auditor and from the Statutory Auditors of subsidiary companies.

As a result of the oversight activity on the Consolidated Financial Statements, we certify that:

- the determination of the consolidation area and the selection of the subsidiaries' consolidation principles are in accordance with the IFRS;
- law provisions pertaining to the preparation and set-up of the financial statements and of the Report on Operations were followed;
- we supervised the adequacy of the provisions issued by the cognisant function of ERG S.p.A. to obtain the flow of data necessary for consolidation, viewing the information provided by the subsidiaries, subject to legal control by their respective boards of statutory auditors;
- the financial statements match the facts and information whereof the Board of Statutory Auditors has become aware in the performance of its supervisory duties and in the exercise of its control and inspection powers;
- we agreed with the reasons, indicated in the Note to the Consolidated Financial Statements whereby, in accordance with the indications of IAS 39 and based on a study by independent experts, the put option recognised by LUKOIL for the 51% share in ISAB S.r.l. was not evaluated at "fair value";
- the Note to the Consolidated Financial Statements provides the information prescribed by Paragraph 134 of International Accounting Standard 36 – impairment of assets, on whose application the joint document Bank of Italy/CONSOB/ISVAP no. 4 of 3 March 2010 called attention. The Board of Statutory Auditors acknowledges that it examined the document prepared and illustrated to the Internal Control Committee by an independent expert, which contains the analyses conducted and the results obtained in the impairment test activity on the value of the intangible assets (and goodwill) of ERG Renew S.p.A., recorded in the Consolidated Financial Statements of ERG S.p.A. as of 31 December 2010. The

assessments were carried out on a going concern basis and with the assumptions indicated in the Plan prepared by the management. The Board of Statutory Auditors deemed reasonable the main assessment hypotheses and hence agreed with the results;

- the Group's Report on Operations is consistent with the data and results of the Consolidated Financial Statements and provides ample information on the Groups economic and financial performance and on the risks to which the Group is exposed as well as on the significant events occurred after the ending date of the year, which did not have impacts on the 2010 financial statements (public tender offer on all shares not owned of ERG Renew S.p.A. and partial exercise of the put option on the 11% share of ISAB S.r.l.);
- the Chief Executive Officer and the Manager responsible for preparing the company's financial reports issued the certification, in accordance with Article 81 – ter of CONSOB Regulations 11971/1999 with subsequent amendments and additions and with Article 154-bis of Legislative Decree 58/1998 (CFA).

The Independent Auditor issued, on 15 March 2011, the report in accordance with Articles 14 and 16 of Legislative Decree 39/2010, which states that the Consolidated Financial Statements as of 31 December 2010 comply with international financial reporting standards – IFRS – and are prepared in a clear manner and represent in a truthful and fair way the balance sheet, the Income Statement and the statement of cash flows of the ERG Group for the year ended on that date.

Genoa, 16 March 2011

The Board of Statutory Auditors
Mario Pacciani (Chairman)
Paolo Fasce (Standing Auditor)
Lelio Fornabaio (Standing Auditor)

AUDITORS' REPORT

Deloitte.

Deloitte & Touche S.p.A.
Via Silvio Pellico, 1/8
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www.deloitte.it

AUDITOR'S REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS PURSUANT TO ART. 14 AND 16 OF LEGISLATIVE DECREE N. 39 OF JANUARY 27, 2010

To the Shareholders of
ERG S.p.A.

1. We have audited the consolidated financial statements of ERG S.p.A. and its subsidiaries (the "ERG Group") as of and for the year ended December 31, 2010, which comprise the statement of financial position, the income statement, the statement of other components of comprehensive income, the statement of changes in equity, the statement of cash flows and the related notes to financial statements. These consolidated financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree n. 38/2005 are the responsibility of the Company's Directors. Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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.

   The consolidated financial statements present comparative data from the prior year. As explained in the notes to the consolidated financial statements, following the merger of Total Italia S.p.A. into ERG Petroli S.p.A., which on the merger's effective date (October 1, 2010) was renamed TotalErg S.p.A., the ERG Group lost control of ERG Petroli S.p.A. (and of its subsidiaries) and acquired a Joint Venture interest in TotalErg S.p.A.. In the preparation of the consolidated financial statements as of and for the year ended December 31, 2010 the Company applied the provisions of IFRS 5 - "Non-current assets held for sale and discontinued operations." Consequently, in addition prior-year data, audited by us and on which we issued our auditors' report dated March 16, 2010, the Directors presented comparative prior-year income statement data and related disclosures, reclassified as required by IFRS 5. The comparative prior-year data and related disclosures have been reviewed by us for the purpose of expressing our opinion on the consolidated financial statements as of and for the year ended December 31, 2010.

Ancona Bari Bergamo Bologna Brescia Cagliari Firenze Genova Milano Napoli Padova Parma Perugia Roma Torino Treviso Verona

Sede Legale: Via Tortona, 25 - 20144 Milano - Capitale Sociale: Euro 10.328.220,00 i.v.
Codice Fiscale/Registro delle Imprese Milano n. 03049560166 - R.E.A. Milano n. 1720239
Partita IVA: IT 03049560166

Member of Deloitte Touche Tohmatsu Limited

3. In our opinion, the consolidated financial statements of the ERG Group as of December 31, 2010 comply with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree n. 38/2005; accordingly, they give a true and fair view of the financial position of the ERG Group, and of the results of its operations and its cash flows for the year then ended.

4. The Directors of ERG S.p.A. 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 and of the specific section on corporate governance with reference to the information reported in compliance with art. 123-bis of Italian Legislative Decree n. 58/1998, paragraph 1, letters c), d), f), l), m) and paragraph 2, letter b), with the consolidated 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 and the information reported in compliance with art. 123-bis of Italian Legislative Decree n. 58/1998 paragraph 1, letters c), d), f), l), m) and paragraph 2, letter b) included in the specific section on corporate governance are consistent with the consolidated financial statements of the ERG Group as of December 31, 2010.

DELOITTE & TOUCHE S.p.A.

Signed by
Corrado Toscano
Partner

Genoa, Italy
March 15, 2011

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

ERG S.P.A.

SEPARATE FINANCIAL STATEMENTS

ORDINARY AND EXTRAORDINARY SHAREHOLDERS' MEETING CONVENING NOTICE

Shareholders are hereby convened to an Ordinary and Extraordinary Meeting on 14 April 2011 at 10.30 am in Genoa, Via San Luca 2, at Fondazione Edoardo Garrone, for the first call and, should it be necessary, on 15 April 2011 at the same time and place, for the second call, to discuss and resolve upon the following

AGENDA

Ordinary Part

1. Financial Statements as of 31 December 2010 and Report on Operations; inherent and consequent resolutions. Presentation of the Consolidated Financial Statements as of and for the year ended 31 December 2010
2. Directors' compensation for 2011
3. Authorisation to the purchase and sale of treasury shares

Extraordinary Part

1. Proposal to amend Articles 2, 12 and 14 of the Articles of Incorporation
2. Proposal to insert Article 21-bis in the Articles of Incorporation

PARTICIPATION AND REPRESENTATION

Persons for whom the Company has received the authorised intermediary's notice attesting their entitlement to vote, on the basis of the evidence at the end of the accounting day of 5 April 2011, are entitled to participate in the Shareholders' Meeting.
Those who are owners of the shares after 5 April 2011 shall not be entitled to participate and to vote at the Shareholders' Meeting.

Persons entitled to vote may be represented at the Shareholders' Meeting with written proxy prepared in accordance with current rules and they may use the proxy form available on the Company's website www.erg.it.

The Company, in accordance with Article 135-undecies of Legislative Decree 58 of 24 February 1998 (Consolidated Finance Act, "CFA"), designated Servizio Titoli S.p.A. with its registered office in Milan, via Mantegna 6, as representative whom holders of voting rights may provide with a written proxy with voting instructions on all or some of the proposals in the agenda, provided that said proxy is delivered to Servizio Titoli S.p.A. no later than 12 April 2011, according to the indicated procedures and by means of the specific proxy form available on the Company's website (www.erg.it).
The proxy has not effect for proposals for which no voting instructions were issued.

OTHER SHAREHOLDER RIGHTS

Shareholders may propose questions on agenda items also before the Shareholders' Meeting according to the procedures and within the terms set out in the Company's website (www.erg.it).
Shareholders who, also jointly, represent at least one fortieth of the share capital may request, within ten days from the publication of this notice, additions to the list of items to be discussed,

indicating in the request the additional items proposed. The question is not allowed for the items on which the Shareholders' Meeting resolves, in accordance with the law, on the Directors' proposal or on the basis of a plan or of a report prepared by them. Procedures and terms for exercising said right are indicated on the Company's website (www.erg.it).

DOCUMENTATION

The full text of the resolution proposals – together with the illustrative report – as well as all documents submitted to the Shareholders' Meeting shall be made available to the public at the registered office of the Company, at Borsa Italiana S.p.A. and on the Company's website (www.erg.it) within the terms prescribed by current rules and regulations.

Genoa, 3 March 2011

The Chairman
of the Board of Directors
Edoardo Garrone

RESOLUTION OF THE SHAREHOLDERS' MEETING

Excerpt

On 14 April 2011, the Shareholders' Meeting held in Genoa resolved:

- to approve the financial statements as of and for the year ended 31 December 2010, which show a net profit of EUR 398,131,202.83;
- to allocate an unavailable reserve in accordance with Article 6, Paragraph 1, Letter a) of Legislative Decree 38/2005 a part of the profit of EUR 346,403,569.83 corresponding to the unrealised portion, net of the related tax expense, of the capital gain deriving from the establishment of the TotalErg joint venture;
- to pay Shareholders a dividend of EUR 0.40 for each of the shares having dividend rights outstanding as of the ex-date, excluding the company's treasury shares, in accordance with Article 2357-ter of the Italian Civil Code, via distribution of the year's earnings and the earnings brought forward;
- to pay the dividend starting on 26 May 2011, subject to issuance of the coupon starting on 23 May 2011;
- the compensation to be paid to members of the Board of Directors, of the Internal Control Committee and of the Nominations and Remuneration Committee for 2011;
- to authorise, pursuant to Article 2357 of the Italian Civil Code, for 12 months starting from the date of the Shareholders' Meeting, the Board of Directors to purchase treasury shares up to a revolving maximum of 15,032,000 shares;
- to authorise, pursuant to Article 2357-ter of the Italian Civil Code, for 12 months starting from the date of the Shareholders' Meeting, the Board of Directors to conduct one or several sales of treasury shares;
- to approve the amendments to the Articles of Incorporation proposed by the Board of Directors under Article 2 (move of the registered office from Milan to Genoa), under Article 12 (convening the Shareholders' Meeting) and under Article 14 (chairmanship of the Meeting) as well as the insertion of Article 21bis (Urgent Transactions in accordance with Article 4.5 of the procedure for related-party transactions) in the Articles of Incorporation.

STATEMENT OF FINANCIAL POSITION (1)

(EUR)	NOTES	12/31/2010	12/31/2009 PRO-FORMA	12/31/2009
INTANGIBLE ASSETS	1	8,485,065	8,467,280	4,189,244
GOODWILL	2	7,082,000	7,082,000	–
PROPERTY, PLANT AND MACHINERY	3	15,696,745	15,090,894	13,833,994
EQUITY INVESTMENTS	4	1,215,875,415	891,976,456	435,379,456
OTHER FINANCIAL ASSETS	5	451,227,443	28,939,927	1,043,927
OF WHICH WITH RELATED PARTIES	*35*	*449,807,065*	*27,896,427*	–
DEFERRED TAX ASSETS	6	24,753,987	22,111,038	795,038
OTHER NON-CURRENT ASSETS	7	1,595,531	833,499	164,935
NON-CURRENT ASSETS		**1,724,716,186**	**974,501,094**	**455,406,594**
INVENTORIES	8	251,214,582	80,343,801	–
TRADE RECEIVABLES	9	298,965,571	294,487,004	4,834,304
OF WHICH WITH RELATED PARTIES	*35*	*155,665,885*	*137,530,005*	*4,642,191*
OTHER CURRENT RECEIVABLES AND ASSETS	10	70,629,864	83,847,008	66,949,118
OF WHICH WITH RELATED PARTIES	*35*	*31,935,534*	*35,145,119*	*37,257,863*
CURRENT FINANCIAL ASSETS	11	84,361,352	340,837,034	464,106,034
OF WHICH WITH RELATED PARTIES	*35*	*34,244,835*	*334,848,135*	*463,765,233*
CASH AND CASH EQUIVALENTS	12	1,114,939,385	1,483,877,006	949,333,896
CURRENT ASSETS		**1,820,110,754**	**2,283,391,853**	**1,485,223,352**
TOTAL ASSETS		**3,544,826,940**	**3,257,892,947**	**1,940,629,946**
SHAREHOLDERS' EQUITY	13	**1,657,332,505**	**1,315,607,128**	**869,109,128**
EMPLOYEES' SEVERANCE INDEMNITIES	14	1,884,718	2,667,804	1,926,804
DEFERRED TAX LIABILITIES	15	12,079,335	6,432,915	381,915
PROVISIONS FOR NON-CURRENT LIABILITIES AND CHARGES	16	167,601	122,001	–
NON-CURRENT FINANCIAL LIABILITIES	17	420,559,367	424,127,616	424,127,616
OTHER NON-CURRENT LIABILITIES		–	–	–
NON-CURRENT LIABILITIES		**434,691,020**	**433,350,336**	**426,436,335**
PROVISIONS FOR CURRENT LIABILITIES AND CHARGES	18	46,313,143	12,789,306	267,306
TRADE PAYABLES	19	563,578,412	321,363,133	11,572,133
OF WHICH WITH RELATED PARTIES	*35*	*65,020,444*	*67,164,156*	*2,352,985*
CURRENT FINANCIAL LIABILITIES	20	768,523,349	1,114,682,187	560,000,187
OF WHICH WITH RELATED PARTIES	*35*	*37,659,067*	*236,733,109*	*358,825,208*
OTHER CURRENT LIABILITIES	21	74,388,510	60,100,857	73,244,857
OF WHICH WITH RELATED PARTIES	*35*	*17,372,751*	*26,954,108*	*68,000,113*
CURRENT LIABILITIES		**1,452,803,415**	**1,508,935,483**	**645,084,483**
TOTAL LIABILITIES		**3,544,826,940**	**3,257,892,947**	**1,940,629,946**

(1) The 2010 data reflect the effects of the merger by take-over of the wholly-owned subsidiaries ERG Raffinerie Mediterranee S.p.A. ed ERG Power & Gas S.p.A. in ERG S.p.A. starting from 1 January 2010. To make the data compatible, the pro-forma 2009 data, which retroactively simulate the effects of this merger, are also provided.

INCOME STATEMENT (1)

(EUR)	NOTES		2010		2009 PRO-FORMA		2009
REVENUES FROM ORDINARY OPERATIONS	24		4,867,783,498		3,457,096,008		22,716,118
OF WHICH WITH RELATED PARTIES	35	*1,378,008,884*		*1,122,201,108*		*22,589,686*	
OTHER REVENUES AND INCOME	25		20,929,728		19,416,137		7,933,137
OF WHICH WITH RELATED PARTIES	35	*13,072,486*		*14,951,246*		*7,586,462*	
CHANGES IN FINISHED GOODS INVENTORIES	26		79,263,984		(34,851,184)		–
CHANGES IN RAW MATERIAL INVENTORIES	26		91,607,390		(30,343,890)		–
COST OF PURCHASES	27		(4,492,029,328)		(2,991,016,528)		(624,427)
OF WHICH WITH RELATED PARTIES	35	*(231,096,352)*		*(250,851,125)*		–	
COSTS FOR SERVICES AND OTHER COSTS	28		(693,009,414)		(519,499,046)		(39,608,746)
OF WHICH WITH RELATED PARTIES	*35*	*(541,727,921)*		*(418,438,153)*		*(5,385,877)*	
OF WHICH NON-RECURRING ITEMS	*34*	*(8,583,049)*		–		–	
PERSONNEL EXPENSES	29		(40,571,499)		(36,765,018)		(21,802,818)
OF WHICH NON-RECURRING ITEMS	*34*	*(2,740,608)*		–		–	
EBITDA			**(166,025,642)**		**(135,963,521)**		**(31,386,736)**
AMORTISATION, DEPRECIATION AND WRITE-DOWNS OF FIXED ASSETS	30		**(6,977,299)**		**(5,349,514)**		**(3,972,514)**
FINANCIAL INCOME	31		109,766,231		92,243,963		12,780,963
OF WHICH WITH RELATED PARTIES	35	*14,797,905*		*6,293,136*		*7,040,046*	
FINANCIAL EXPENSES	31		(113,078,757)		(83,778,079)		(23,964,079)
OF WHICH WITH RELATED PARTIES	35	*(1,614,233)*		*(2,217,045)*		*(2,196,849)*	
NET FINANCIAL INCOME (EXPENSES)	31		**(3,312,526)**		**8,465,884**		**(11,183,116)**
NET INCOME (LOSS) FROM EQUITY INVESTMENTS	32		543,320,949		(63,422,501)		744,203,795
OF WHICH WITH RELATED PARTIES	35	*543,320,949*		*(63,422,501)*		*800,312,000*	
OF WHICH NON-RECURRING ITEMS	34	*410,115,885*		*(56,127,000)*		*(56,127,000)*	
OTHER NET INCOME (LOSS) FROM EQUITY INVESTMENTS			–		–		–
NET INCOME (LOSS) FROM EQUITY INVESTMENTS			**543,320,949**		**(63,422,501)**		**744,203,795**
PROFIT BEFORE TAXES			**367,005,483**		**(196,269,652)**		**697,661,429**
INCOME TAXES	33		31,125,720		36,529,222		596,122
NET PROFIT (LOSS) FROM CONTINUING OPERATIONS			**398,131,203**		**(159,740,430)**		**698,257,551**
NET PROFIT (LOSS) FROM DISCONTINUED OPERATIONS			–		–		–
NET PROFIT (LOSS) FOR THE PERIOD			**398,131,203**		**(159,740,430)**		**698,257,551**

(1) The 2010 data reflect the effects of the merger by take-over of the wholly-owned subsidiaries ERG Raffinerie Mediterranee S.p.A. ed ERG Power & Gas S.p.A. in ERG S.p.A. starting from January 1, 2010. To make the data compatible, the pro-forma 2009 data, which retroactively simulate the effects of this merger, are also presented.
The data in the "2009" column were reclassified using a typical IAS form of an operating company, such as the current ERG S.p.A. following the merger.

OTHER COMPONENTS OF COMPREHENSIVE INCOME

(EUR THOUSAND)	2010	2009
NET PROFIT (LOSS) FOR THE PERIOD	**398,131**	**698,258**
CHANGES IN THE CASH FLOW HEDGE RESERVE	4,699	323
CHANGES IN SECURITIES AVAILABLE FOR SALE	35	16
INCOME TAX FOR OTHER COMPONENTS OF COMPREHENSIVE INCOME	(2.178)	(93)
OTHER COMPONENTS OF COMPREHENSIVE INCOME AFTER TAX	**2,556**	**246**
COMPREHENSIVE NET PROFIT (LOSS) FOR THE PERIOD	**400,687**	**698,504**

STATEMENT OF CASH FLOWS

(EUR THOUSAND)	NOTES	12/31/2010	12/31/2009
CASH FLOWS FROM OPERATING ACTIVITIES (A)			
NET PROFIT (LOSS) FROM CONTINUING OPERATIONS		398,131	698,258
- AMORTISATION, DEPRECIATION AND WRITE-DOWNS OF FIXED ASSETS	30	6,977	3,973
- NET CHANGE IN PROVISION FOR LIABILITIES AND CHARGES	18	29,175	–
- NET CHANGE IN DEFERRED TAX ASSETS AND LIABILITIES	6, 15	8,477	(247)
- WRITE-DOWN OF RECEIVABLES		11,489	–
- NET GAIN/LOSS ON SALE OF NON-CURRENT ASSETS		–	2
- NET WRITE-DOWNS OF FINANCIAL FIXED ASSETS		25,319	56,127
- GAIN ON TOTALERG JOINT VENTURE (1)		(434,989)	–
- NET CHANGE IN EMPLOYEES' SEVERANCE INDEMNITIES	14	(783)	(441)
CASH FLOWS FROM CURRENT OPERATIONS		**43,796**	**757,670**
CHANGE IN OTHER OPERATING ASSETS AND LIABILITIES			
- CHANGE IN INVENTORY	8	(170,871)	–
- CHANGE IN TRADE RECEIVABLES	9	(15,688)	(2,645)
- CHANGE IN TRADE PAYABLES	19	242,215	(1,079)
- NET CHANGE IN OTHER RECEIVABLES/PAYABLES AND OTHER ASSETS/LIABILITIES		23,751	42,412
		79,407	**38,688**
TOTAL		**123,203**	**796,359**
CASH FLOWS FROM INVESTING ACTIVITIES (B)			
ACQUISITION OF INTANGIBLE ASSETS AND GOODWILL	1, 2	(5,752)	(1,798)
ACQUISITION OF PROPERTY, PLANT, AND MACHINERY	3	(1,292)	(6,604)
ACQUISITIONS OF INVESTMENTS	4	(10,933)	(633)
EQUALISATION PAYMENT ON SALE OF 12% OF TOTALERG (1)		101,112	–
DISPOSALS OF INTANGIBLE ASSETS	1	37	–
DISPOSALS OF PROPERTY, PLANT AND MACHINERY	3	126	3
DISPOSALS OF INVESTMENTS	4, 5	206	6
TOTAL		**83,504**	**(9,026)**
CASH FLOWS FROM FINANCING ACTIVITIES (C)			
NEW NON-CURRENT LOANS	17	165,000	120,000
REPAYMENT OF NON-CURRENT LOANS		(148,302)	(173,490)
NET CHANGE IN NON CURRENT FINANCIAL ASSETS/LIABILITIES		(442,980)	(381)
NET CHANGE IN SHORT-TERM BANK BORROWINGS		(346,159)	483
NET CHANGE IN OTHER CURRENT FINANCIAL ASSETS/LIABILITIES	11, 20	256,084	127,551
CASH AND CASH EQUIVALENTS FROM 2010 MERGER		534,543	–
SHARE CAPITAL INCREASES/REPAYMENTS		–	–
DIVIDENDS PAID		(59,288)	(133,398)
OTHER CHANGES IN SHAREHOLDERS' EQUITY		–	1,773
TOTAL		**(41,102)**	**(57,462)**
NET CASH FLOWS FOR THE YEAR (A+B+C)		**165,605**	**729,871**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	12	**949,334**	**219,463**
NET CASH FLOW FOR THE YEAR		165,605	729,871
CASH AND CASH EQUIVALENTS AT YEAR-END	12	**1,114,939**	**949,334**

(1) Please refer to the paragraph "**TotalErg Joint Venture**"

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(EUR THOUSAND)	SHARE CAPITAL	RESERVES	PROFIT (LOSS) FOR THE YEAR	TOTAL SHAREHOLDERS' EQUITY
BALANCE AS OF 12/31/2008	**15,032**	**20,864**	**266,581**	**302,476**
ALLOCATION OF 2008 PROFIT	–	266,581	(266,581)	–
DIVIDENDS PAID	–	(133,398)	–	(133,398)
ACQUISITION OF TREASURY SHARES	–	–	–	–
OTHER CHANGES	–	1,527	–	1,527
2009 PROFIT	–	–	698,258	698,258
CHANGES IN THE CASH FLOW HEDGE RESERVE	–	234	–	234
CHANGES IN AVAILABLE FOR SALE RESERVE	–	12	–	12
BALANCE AS OF 12/31/2009	**15,032**	**155,820**	**698,258**	**869,109**
ALLOCATION OF 2009 PROFIT	–	698,258	(698,258)	–
DIVIDENDS PAID	–	(59,288)	–	(59,288)
PURCHASES OF TREASURY SHARES	–	–	–	–
EFFECTS OF 2010 MERGER	–	446,498	–	446,498
OTHER CHANGES	–	327	–	327
2010 PROFIT	–	–	398,131	398,131
CHANGES IN THE CASH FLOW HEDGE RESERVE	–	2,533	–	2,533
CHANGES IN AVAILABLE FOR SALE RESERVE	–	23	–	23
BALANCE AS OF 12/31/2010	**15,032**	**1,244,170**	**398,131**	**1,657,333**

NATURE OF THE COMPANY

ERG S.p.A., which has been listed on the stock exchange since 1997, is active, also through its investee companies, in oil refining, the distribution of petroleum products in Italy and abroad, and in the production marketing of electricity, steam and gas.

CRITERIA FOR THE PREPARATION OF THE FINANCIAL STATEMENTS

The Financial Statements as of 31 December 2010 have been prepared, without any waivers, in compliance with the International Accounting Standards issued by the International Accounting Standards Board (IASB) and approved by the European Union, inclusive of all international standards that have undergone interpretation (International Accounting Standards – IAS) and the interpretations of the International Financial Reporting Interpretation Committee (IFRIC) and of the previous Standing Interpretations Committee (SIC).

The Financial Statements, expressed in whole EUROS, have been prepared under the general historical cost principle, with the exception of financial assets available for sale, financial assets held for trading and derivative instruments, which have been measured at fair value.

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

The Financial Statements as of and for the year ended 31 December 2010 have been audited by the independent firm Deloitte & Touche S.p.A. using the procedures dictated by CONSOB.

FORM AND CONTENTS OF THE FINANCIAL STATEMENTS

As a result of the merger by incorporation of the 100% controlled subsidiaries ERG Raffinerie Mediterranee S.p.A. and ERG Power & Gas S.p.A., which took place in 2010, ERG S.p.A. classifies its Income Statement using the "nature of expense" method, a form deemed more representative than a classification using the "function of expense" method. The form chosen is in fact consistent with internal and management reporting procedures.

The 2009 Income Statement was reclassified using an IAS form that is typical of an operating company, as is the current ERG S.p.A. as a result of the merger by incorporation of ERG Raffinerie Mediterranee S.p.A. and ERG Power & Gas S.p.A.

With reference to the statement of financial position, the adopted classification makes a distinction between current and non-current assets and liabilities in accordance with section 51 et seq. of IAS 1.

The structure of the statement of cash flows is based on the indirect method.

Furthermore, as required by CONSOB resolution 15519 dated 27 July 2006, income and charges arising from non-recurring transactions or from events that do not recur frequently in the ordinary course of business have been indicated separately in the Income Statement. These entries are commented in a dedicated note.

Again in application of the aforementioned CONSOB resolution, amounts connected with related-party positions or transactions have been indicated separately in the Statement of financial position and Income Statement. These entries are commented in a dedicated note.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Below we provide a summary of the significant accounting policies adopted for the preparation of the Financial Statements as of and for the year ended December 31, 2010.

INTANGIBLE ASSETS

Intangible fixed assets are recorded as assets, pursuant to IAS 38 (Intangible Assets), wherever they are identifiable, it is probable that their use will generate future economic benefits and their cost can be measured reliably.

These assets are recorded at their purchase or production cost, including all ancillary charges attributable to them, and are amortised on a straight-line basis over their useful life. The amortisation rate applied for intangible fixed assets is 33% with the exception of specific cases where their useful life is greater than three years. Useful lives are reviewed annually and any changes, where necessary, are applied prospectively.

There are no intangible fixed assets with an indefinite useful life.

Research costs are expensed directly in the Income Statement in the period in which they are incurred.

GOODWILL

The goodwill recorded in the statement of financial position emerged from the merger by incorporation of ERG Raffinerie Mediterranee S.p.A.; the merger is under common control and therefore it is not disciplined by International Accounting Standards.

Therefore, in the absence of specific references, in line with IAS 8, reference must be made to the more general principle of the continuity of values. In particular, the recognition of the assets and liabilities of the taken-over companies into the individual statement of financial position of the taking-over company does not entail the recognition of different values from those expressed in the Consolidated Statement of financial position, for the merger does not entail any economic exchange with third parties, or an acquisition in the economic sense.

Therefore, the Company recorded goodwill equal to the value recorded in the Consolidated Financial Statements of the Group as at 31 December 2009.

PROPERTY, PLANT AND MACHINERY

Property, plant and machinery are recorded at the cost of acquisition or production.

Expansion, modernisation and transformation costs and maintenance costs are capitalised only if they increase the future economic benefits of the asset to which they refer.

Depreciation is calculated on a straight-line basis over the estimated useful life. When the tangible assets comprise several significant components having different useful lives, each component is depreciated accordingly. The value to be depreciated is the carrying value less the expected residual value, if material and reliably measurable.

Land is not depreciated, even if acquired together with a building.

There were no finance lease transactions as defined in IAS 17.

The depreciation rates applied are as follows:

	%	PERCENTAGE OF DEPRECIATION AS OF 12/31/2010
INDUSTRIAL BUILDINGS	2.75	41%
GENERAL PLANT	10	48%
OFFICE FURNITURE AND FITTINGS	12	57%
ELECTRONIC MACHINERY	20	78%
EQUIPMENT	25	99%
INCREMENTAL EXPENSES	8 - 25	40%

WRITE-DOWN OF ASSETS (IMPAIRMENT TEST)

At least once a year, the Company subjects its tangible and intangible assets to an impairment test to determine whether there are indications that they may be impaired. Should such an indication exist, it is necessary to estimate the recoverable value of the asset to determine the amount of any write-downs.

The recoverable value of an asset is the higher between its fair value, less the costs of disposal, and its value in use determined as the present value of expected future cash flows.

Impairment is recorded if the recoverable value is less than the carrying value. Should the impairment of an asset, other than goodwill, subsequently no longer apply or be reduced, the carrying value of the asset or cash-generating unit is increased up to the new estimate of the recoverable value, without exceeding the value that would have been determined if no impairment had been recorded.

INVESTMENTS

Investments in subsidiaries and associates are recorded at their acquisition or subscription cost, written down to reflect any permanent impairment losses.

The positive difference, at the time of acquisition, between the acquisition cost and the share of the subsidiary's or associate's shareholders' equity attributable to the Company is therefore included in the carrying value of the investment.

Where the book value of investments exceeds the corresponding portion of shareholders' equity based on the latest approved financial statements, this value is maintained if it can be attributed to assets of the investee company (tangible fixed assets, inventory and/or goodwill).

Investments in other companies are carried at fair value with changes recorded in shareholders' equity.

When fair value cannot be reliably determined, investments are measured at cost, written down for permanent impairment losses, if any, and dividends from such companies are included in "Net income from investments".

When the reasons for the write-downs cease to exist, the investments carried at cost are revalued to the extent of the write-downs that had been recorded and the effect is recognised in the income statement.

The risk arising from any losses exceeding shareholders' equity is recognised in a specific reserve to the extent that the investor has committed to meet legal or constructive obligations vis-à-vis the investee company or in any case to cover its losses.

FINANCIAL ASSETS

IAS 39 envisages classification of financial assets according to the following categories:

- Financial assets at fair value through profit or loss (FVTPL) *Fair value through profit or loss;*
- Held-to-maturity (HTM) investments;
- Loans & receivables (L&R);
- Available-for-sale (AFS) financial assets *Available for sale financial investments.*

Initially, all financial assets are recognised at their fair value, increased, in the case of assets other than those classified as FVTPL, by ancillary costs.

At the time of underwriting, an assessment is made as to whether a contract contains embedded derivatives. Embedded derivatives are separated from the host contract if the latter is not measured at fair value, whenever the analysis shows that the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract.

The Company classifies its financial assets after initial recognition and, when appropriate and allowable, reviews this classification at the end of each year.

- **Financial assets at fair value through profit or loss (FVTPL)**

This category comprises:

– Assets held for trading (HFT);
– Assets designated as FVTPL financial assets at the time of initial recognition.

Assets held for trading are all those assets acquired for sale in the short term. Derivatives, including separated embedded derivatives, are classified as financial instruments held for trading unless they have been designated as effective hedging instruments. Gains and losses on assets held for trading are taken to the Income Statement.

- **Held-to-maturity (HTM) investments**

Non-derivative financial assets with fixed or determinable payments are classified as "held-to-maturity (HTM) investments" whenever the Group intends and has the ability to hold them to maturity.

After initial recognition, HTM financial investments are measured at amortised cost, applying the effective interest method. Gains and losses are recognised in the Income Statement when the investment is derecognised for accounting purposes or when impairment occurs, as well as via the amortisation process.

As of 31 December 2010, ERG held no investments classified as HTM.

- **Loans & receivables (L&R)**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not listed in an active market.

Following initial recognition, these assets are measured at amortised cost applying the effective interest method, net of the provision for impairment, if any.

Gains and losses are recognised in the Income Statement when loans & receivables are derecognised for accounting purposes or when impairment occurs, as well as via the amortisation process.

Trade receivables are shown at their fair value, which corresponds to their face value, and are subsequently reduced for impairment, if any. Trade receivables whose due date is not consistent with normal trading terms and which do not earn interest are discounted to their present value.

- **Available-for-sale (AFS) financial assets**

Available-for-sale (AFS) financial assets are financial assets, other than derivative financial instruments, that have been designated as such or are not classified in any of the previous three categories.
Following initial recognition, AFS financial assets are measured at fair value and gains and losses are reported under a separate heading within equity.
AFS financial assets include investments in companies other than subsidiaries and associates in which ERG S.p.A.'s direct or indirect ownership percentage is less than 20%.
When fair value cannot be reliably measured, investments are measured at cost, written down for impairment, if any, and dividends from such companies are included in "Other net income (loss) from investments".
When the reasons for the write-downs cease to exist, the investments carried at cost are revalued to the extent of the write-downs that had been recorded and the effect is recognised in the income statment.
The risk arising from any losses exceeding shareholders' equity is recognised in a specific reserve to the extent that the investor has committed to meet legal or constructive obligations vis-à-vis the investee company or in any case to cover its losses.

IAS 39 envisages the following measurement methods: fair value and amortised cost method.

Fair value

In the case of securities widely traded in regulated markets, fair value is determined in reference to market prices at the close of trading on the financial statements' date.
Regarding investments for which no active market exists, fair value is determined using measurement techniques based on:

- prices of recent arm's length transactions;
- current fair market value of a substantially similar instrument;
- discounted cash flow (DCF) analysis;
- option pricing models.

Amortised cost method

"Investments held to maturity" and "Loans & receivables" are measured at amortised cost, calculated using the effective interest method, net of impairment provisions, if any. This calculation takes into account all purchase discounts or premiums and includes any fees which are an integral part of the effective interest rate and transaction costs.

IMPAIRMENT OF FINANCIAL ASSETS

At each financial statements' date, ERG S.p.A. verifies whether a financial asset or group of financial assets has suffered an impairment in value.
If there is objective evidence that a loan or receivable carried at amortised cost has suffered impairment, the amount of such impairment is measured as the difference between the asset's carrying value and the present value of future expected cash flows (excluding future loan losses that have not been incurred) discounted at the financial asset's original effective interest rate calculated on the initial recognition date. The carrying value of the asset will be reduced via use of a provision. The impairment amount will be recognised in the Income Statement.
ERG S.p.A. assesses the existence of factual evidence of impairment on an asset-by-asset basis.

If the amount of impairment subsequently decreases and this reduction can objectively be attributed to an event occurring after recognition of impairment, the value previously reduced can be reinstated. Any subsequent write-backs of value are recognised in the Income Statement, to the extent that the asset's carrying value does not exceed the amortised cost as of the write-back date.

In the case of trade receivables, a provision for impairment is recorded when there is objective evidence (such as, for example, the likelihood of the debtor's insolvency or serious financial difficulties) that ERG will be unable to recover the amounts owed according to the original conditions.
The carrying value of the receivable is reduced via use of a specific provision. Impaired receivables are derecognised if they are deemed unrecoverable.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents are recorded, according to their nature, at face value.
As indicated in IAS 7 - Cash flow statement, the definition of cash equivalents includes cash on hand and bank and postal deposits payable on demand, short-term investments readily convertible into a cash amount. Also included are short-term investments whose reimbursement value is predetermined as of the initial date of purchase/recording.

FINANCIAL LIABILITIES

IAS 39 envisages classification of financial liabilities according to the following categories:

- Financial liabilities at fair value through profit or loss (FVTPL);
- Other financial liabilities.

All loans taken out are initially recognised at the fair value of the amount received net of ancillary loan acquisition costs.
After initial recognition, loans are measured at amortised cost using the effective interest method.
Every gain or loss is recorded in the Income Statement when the liability is discharged, as well as via the amortisation process.
Financial liabilities at FVTPL include "liabilities held for trading".
Liabilities held for trading (HFT) are acquired for the purpose of short-term sale and comprise derivatives – including separated embedded derivatives – unless they have been designated as effective hedging instruments. Gains or losses on HFT liabilities are recognised in the Income Statement.

DERECOGNITION OF FINANCIAL ASSETS AND LIABILITIES

A financial asset (or, where applicable, part of a financial asset or part of a group of similar financial assets) is derecognised (removed from the statement of financial position) when:

- the rights to receive cash flows from the asset have expired;
- ERG S.p.A. retains the right to receive cash flows from the asset, but has taken on a contractual obligation to pay them in their entirety and immediately to a third party;
- ERG S.p.A. has transferred the right to receive cash flows from the asset and has transferred substantially all risks and rewards of ownership of the financial asset, or has neither transferred nor retained substantially all risks and rewards of the asset, but has transferred control of same.

In cases where ERG S.p.A. has transferred rights to receive cash flows from an asset and has neither transferred nor retained substantially all risks and rewards, or has not lost control of the asset, the asset is recognised in ERG S.p.A. accounts to the extent of ERG's residual involvement in such asset.
A financial liability is derecognised when the liability's underlying obligation has been extinguished, cancelled, or discharged.

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING TRANSACTIONS

Derivative instruments are initially recognised at their fair value on the date when they are stipulated. This fair value is then subject to periodic revaluation.

They are recognised as assets when their fair value is positive and as liabilities when it is negative.

ERG S.p.A. carries out transactions with derivative instruments to hedge the risk deriving from interest rate fluctuations.

Derivatives are classified as hedging instruments, consistently with IAS 39, when the relationship between the derivative and the hedged item is formally documented and the effectiveness of the hedging, verified both beforehand and periodically, is high.

When derivatives hedge the risk of a change in the fair value of the underlying hedged asset (fair value hedge), they are recorded at their fair value and the effects are recorded in the Income Statement; accordingly, the hedged instruments are adjusted to reflect the changes in the fair value associated with the hedged risk.

When the derivative hedges the risk of a change in the cash flows from the underlying hedged asset (cash flow hedge), the effective portion of changes in the fair value of the derivatives is initially recognised in shareholders' equity and subsequently recorded in the Income Statement matching the economic effects produced by the hedged transaction.

TREASURY SHARES

Treasury shares are recorded as a reduction of shareholders' equity. The original cost of treasury shares, write-downs for reductions in value, and income and losses deriving from any subsequent sales are recorded as changes in shareholders' equity.

PROVISIONS FOR LIABILITIES AND CHARGES

The company records provisions for liabilities and charges when:

- there is a present legal or constructive obligation to third parties;
- it is probable that the use of resources will be required to fulfil the obligation;
- a reliable estimate can be made of the amount of the obligation.

Changes in the estimates are reflected in the Income Statement for the period in which the change occurred.

When the financial effect over time is significant and the dates of settlement of the obligations can be estimated, the provision is subject to discounting, utilising a discount rate that reflects the current time value of money. The increase in the provision connected to the passing of time is recognised in the Income Statement under "Financial income (expenses)".

When the liability relates to property, plant or machinery (for example dismantling and restoration of sites), the provision is recorded as a contra asset against the asset to which it refers, and recognition in the Income Statement takes place through the depreciation process.

Significant contingent liabilities, represented by the following, are disclosed in the notes to the financial statements:

- possible (but not probable) obligations arising from past events, the existence of which will be confirmed only upon occurrence of one or more uncertain future events that are not fully under the company's control;
- present obligations arising from past events the amount of which cannot be reliably estimated, or for which it is probable that fulfilment will not be onerous.

EMPLOYEE BENEFITS

Until 31 December 2006, the employees' severance indemnities provision (TFR) of Italian companies was considered as a defined benefit plan. The rules for this provision were amended by Law 296 dated 27 December 2006 ("2007 Budget Law") and subsequent decrees and regulations promulgated in early 2007. In light of these changes, and in particular with reference to companies with at least 50 employees, it is now to be considered a defined benefit plan solely for portions accrued prior to 1 January 2007 and not yet liquidated as of the date of the financial statements, whereas after said date it is to be considered a defined contribution plan. The liability relating to defined benefit plans is determined, separately for each plan, on the basis of actuarial assumptions, by estimating the amount of the future benefits to which employees are entitled as of the reference date, and accrued over the rights' vesting period; the liability is valued by independent actuaries.

Gains and losses related to defined benefit plans arising from changes in the actuarial assumptions used, or changes in the plans' conditions, are recognised pro rata in the Income Statement for the remaining average working life of the employees participating in the plan, if and to the extent that their net off-balance-sheet value at the end of the previous financial year exceeds the higher between 10% of the liability pertaining to the plan and 10% of the fair value of the plan assets.

STOCK OPTION PLANS

Under IFRS 2 (Share-based Payments), stock options in favour of employees are measured at fair value at the time of their assignment based on models taking into account the factors and elements prevailing at such time (option exercise price and duration, current price of underlying shares, and expected volatility of share price, etc.).

The right to exercise vests after a certain period and subject to certain conditions.

The overall value of the options is apportioned *pro rata temporis* over the above-mentioned period as a charge to the Income Statement and recorded under a specific shareholders' equity item. The measured fair value of each option is neither reviewed nor updated at the end of each year, but remains definitively acquired in shareholders' equity; at the end of each year, however, the estimate of the number of options that will mature up to expiry is updated (and hence the number of employees who will have the right to exercise the options). The change in the estimate is recognised in the Income Statement and as a reduction in shareholders' equity.

The Company has applied the provisions of IFRS 2 commencing on January 1, 2005 and therefore to all stock option plans assigned after that date.

REVENUE RECOGNITION

Revenues from sales and services are recorded when the actual transfer of the risks and rewards of ownership occurs, which coincides with the time of delivery or based on different contractual specifications, or on completion of the services.

Revenues stemming from partially provided services are recognised as earned, provided that it be possible to determine the level of completion reliably and that there be no significant uncertainties as to the amount and existence of the revenue and related costs; otherwise, they are recognised within the limits of the recoverable costs incurred.

DIVIDENDS PAID

Dividends are recorded when, following a shareholders' resolution, the right of shareholders to receive the payment is established.

FINANCIAL INCOME AND EXPENSES

These are recognised under the accrual basis of accounting based on the interest due on the net value of financial assets and liabilities utilising the effective interest rate.

TAXES

Current taxes are provided for based on the estimated tax charge for the period, taking into account also the effects relating to participation of most Group companies in "tax consolidation".

In fact, since 2004 and with subsequent revisions, ERG S.p.A. has had a "tax consolidation" agreement in place with the main subsidiaries, the guiding principle of which is that no company should be penalised for participating. Disclosure of the impact of this agreement on the statement of financial position and Income Statement is provided in notes to the respective financial statement items.

Income taxes are recorded in the Income Statement, with the exception of those relating to items directly debited or credited to a shareholders' equity reserve. In these cases, the tax effect is directly recorded under shareholders' equity.

Furthermore, pursuant to the accrual basis of accounting, the financial statements include deferred tax assets and deferred tax liabilities arising from the temporary differences between statutory performance and the related taxable income, including those stemming from the carry-forward effect of tax losses.

Deferred tax assets, including those relating to tax losses that can be carried forward, are only recorded in the financial statements if their future recovery is probable.

Deferred taxes are calculated on the basis of the tax rates expected to be in force in the periods in which the taxable temporary differences will be reversed.

Deferred tax assets and deferred tax liabilities are classified under non-current assets and liabilities.

USE OF ESTIMATES – RISKS AND UNCERTAINTIES

Preparation of the financial statements and explanatory notes pursuant to IFRSs requires ERG to make estimates and assumptions that affect the values of the assets and liabilities reported in the financial statements and the information relating to contingent assets and liabilities. Making these estimates involves using information available and subjective judgment. The estimates and assumptions used are based on experience and on other factors deemed relevant. The actual final figures may differ from these estimates. Estimates and assumptions are revised periodically and the effects of every change made to them are reflected in the Income Statement in the period when the estimate revision takes place if the revision has effects only on that period, or also in subsequent periods if it has effects both on the current year and on future ones.

The main estimates for which subjective judgment is more frequently required include:

- electricity price adjustments;
- provisions for bad debt, inventory obsolescence, amortisation/depreciation and asset write-downs;
- provisions for environmental risk and for liabilities related to legal and tax disputes for which a financial disbursal is deemed likely and the amount of the resulting losses can be reasonably estimated;
- deferred tax assets, recognised on the basis of the Group's future taxability of expected profits generated in accordance with business plans as well as of the expected renewal of tax consolidation regimes;
- the procedure for the measurement of impairment of intangible assets (particularly goodwill), tangible assets and other investments, described in particular in the "**Goodwill**" and "**Write-down of ERG Renew investment**" paragraphs implies, in the estimation of the value-in-use component, the use of financial forecasts by subsidiaries that are based on a series of assumptions and hypotheses about future events and actions by the governing

bodies of these companies, which will not necessarily take place as expected. Similar estimation procedures are necessary when reference is made to the estimated fair value component due to the uncertainty inherent in any negotiation;
- the valuation of the fair value of the put option granted to the Group as part of the agreement underwritten with LUKOIL (see the paragraph "**Put Option on 51% ISAB S.r.l.**").

Finally, the peculiarly uncertain situation arising from the ongoing economic and financial crisis that started in 2008 has necessitated assumptions about future trends in the industries where the Company operates, thus resulting in a higher degree of uncertainty as to certain estimates underlying the financial statements, so it cannot be excluded that, during the next year, the results will differ from the estimates which may then require even significant adjustments, that today can neither be estimated nor forecasted, to the carrying value of the related items.

ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATION APPLIED STARTING ON 1 JANUARY 2010

The following Accounting Standards, amendments and interpretation were first applied by the Group starting on 1 January 2010. In particular, the updated version of IFRS 3 introduced important changes, described below, which mainly pertain to: rules for phased acquisitions of subsidiary companies; the right to measure at fair value any third party interests acquired in a partial acquisition; allocation to the Income Statement of all costs connected to the business combination and the recognition on the acquisition date of the liabilities for conditional payments.

- **IFRS 5 – Non-Current Assets Held for Sale and Discontinued Operations**

If a company has committed to a selling plan involving the loss of control of an investee company, all the assets and liabilities of the subsidiary must be reclassified as assets held for sale, even if after the sale the company still holds a minority interest in the subsidiary. This revision is applied prospectively starting on January 1, 2010.

- **IFRIC 18 – Transfers of Assets from Customers**

This principle clarifies the accounting treatment to be adopted when the company sets out a contract in which it receives a material asset from one of its own customers that it has to use to connect the customer to a network, or to provide the customer with a determined access to goods or services (provision of electricity, gas or water, for example). In some cases, the company receives cash from customers to build or acquire material assets that will be used to fulfil the contract. The interpretation is applied prospectively starting on January 1, 2010.

- **IFRS 8 – Operating Segments**

This amendment, which must be applied starting on January 1, 2010, requires companies to disclose the total value of assets for each segment being reported if such value is made available periodically to the highest decision-making operational level. Previously this information was required even if this condition was not met.

- **IAS 36 – Impairment of Assets**

This amendment, which must be applied prospectively starting on 1 January 2010, requires that each operating unit or group of operating units onto which goodwill is allocated for the purposes of the impairment test must not be larger than the operating segment defined in paragraph 5 of IFRS 8 prior to the combination allowed by paragraph 12 of the same IFRS on the basis of similar economic conditions or of other similar factors.

AMENDMENTS AND INTERPRETATIONS NOT YET APPLICABLE OR ADOPTED BY ERG

- On October 8, 2009, IASB issued an amendment to **IAS 32 – Financial Instruments**: presentation: classification of the rights issued in order to discipline the accounting treatment of the issuance of rights (rights, options or warrants) denominated in a currency different from the issuer's functional currency. Previously, such rights were recorded as liabilities from derivative financial instruments; the amendment instead requires that, under certain conditions, such rights be classified in the Income Statement regardless of the currency in which the exercise price is denominated. This amendment must be applied retrospectively starting on January 1, 2011. Adoption of the amendment is not expected to have any significant effects on the Group's financial statements.
- On 4 November 2009, the IASB issued a revised version of **IAS 24 – Related party disclosures** which simplifies the type of information required in case of transactions with related parties controlled by the State and clarifies the definition of related parties. This standard must be applied starting on 1 January 2011. Adoption of this change will not have any effect from the viewpoint of the measurement of items in the financial statements.
- On 12 November 2009, the IASB published the principle **IFRS 9 – Financial Instruments**: the same standard was then amended on October 28, 2010. The principle, applicable since commencing on January 2013, represents the first part of a phased process whose purpose is completely to replace IAS 39 and introduces new criteria for the classification and measurement of financial assets and liabilities and for the derecognition of the financial assets from the statement of financial position. In particular, for financial assets the new standards uses a single approach based on the procedures for managing financial instruments and on the characteristics of the contractual cash flows of the financial assets in order to determine their measurement criterion, replacing the different rules prescribed by IAS 39. For financial liabilities, instead, the main change that took place pertains to the accounting treatment of fair value changes of a financial liability designated as financial liability at fair value through profit or loss, if they are due to the change in the credit merit of the liability. According to the new standard, such changes shall be recognised in "Other comprehensive income" and will no longer transit in the Income Statement. On the date of these financial statements, the cognisant bodies of the European Union have not yet ended the endorsement process necessary for the application of the new standard.
- On 6 May 2010, the IASB issued a set of amendments to the IFRS ("Improvements") which shall be applicable from 1 January 2011 onwards; those that will entail a change in the presentation, recognition and measurement of financial statement items are mentioned below, neglecting instead those that will only determine terminology changes or editorial changes with minimal effects in accounting terms, or those that have effect on principles or interpretations that are not applicable for the Group:
  - **IFRS 7 – Financial Instruments**: Disclosures: the change emphasises the interaction between the qualitative and quantitative disclosures required by the standard about the nature and scope of the risks inherent to financial instruments. This should assist the users of the financial statements to connect the information presented and to constitute a general description about the nature and scope of the risks deriving from financial instruments. Moreover, the requirements for disclosures on financial assets that have expired but that were renegotiated or written down and for disclosures on the fair value of collaterals were eliminated.
  - **IAS 1 – Presentation of Financial Statements**: the modification requires that the reconciliation of the changes of each shareholders' equity component be presented in the notes or in the financial statements.
  - **IAS 34 – Interim Financial Reporting** through some examples, clarifications were provided about the additional information that must be presented in Interim Financial Reports.

Adoption of these amendments is not expected to have any significant effects on the Group's financial statements.
Lastly, on 7 October 2010, the IASB published the principle **IFRS 7 – Financial Instruments: Disclosures**, applicable for the accounting periods that will start on or after 1 July 2011. The amendments were issued with the intent to improve understanding of financial asset transfer transactions, including understanding of the possible effects deriving from any risk remaining with the company that sold these assets. The amendments further require additional information if a disproportionate amount of these transactions takes place at the end of an accounting period. On the date of these Financial Statements, the cognisant bodies of the European Union have not yet ended the endorsement process necessary for the application of the amendments.

2010 MERGER

1 July 2010 is the effective date of the merger by incorporation of the companies ERG Raffinerie Mediterranee S.p.A. and ERG Power & Gas S.p.A. into the parent company ERG S.p.A., which was reorganised into two segments, Refining & Marketing and Power & Gas, together with a General Corporate Head Office.
Accounting and tax effects started on 1 January 2010 and the entire transaction generated merger surpluses for a total of EUR 446 million and goodwill for EUR 7 million.

To make the 2010 data more comparable with the values of the previous year, the detailed tables of the Notes to the Financial Statements contain, next to the unmodified data of the taking-over company for 2009, an additional column, called "31 December, 2009 pro-forma" for statement of financial position data and "2009 pro-forma" for Income Statement data, which shows the same data while retroactively simulating the effects of the mergers.

The values are presented according to the following criteria:

- the statements of financial position and the income statements of the companies were aggregated line by line;
- intra-group balances and dividends were eliminated;
- the book value of the investments held by the taking-over company was eliminated against the matching shareholders' equity, recording the differences under "Merger surplus" among the other shareholders' equity reserves net of EUR 7 million allocated to Goodwill.

ACCOUNTING TREATMENT

The merger is under common control and therefore it is not disciplined by International Accounting Standards.
Therefore, in the absence of specific references, in line with IAS 8, reference must be made to the more general principle of the continuity of values. In particular, the recognition of the assets and liabilities of the taken-over companies into the individual statement of financial position of the taking-over company does not entail the recognition of different values from those expressed in the Consolidated Statement of financial position, for the merger does not entail any economic exchange with third parties, or an acquisition in the economic sense.

Following the above, the elimination difference (EUR 439 million) between the cost of the investments and the corresponding shareholders' equity values of the taken-over companies was allocated with the same criteria followed for the preparation of the Consolidated Financial Statements and in particular:

- EUR 7 million were recognised as the assets under Goodwill, attributed to the Coastal Refining Cash Generating Unit;

- EUR 251 million were recorded as an increase in Shareholders' equity, in the Merger Surplus reserve;
- EUR 195 million were recorded as an increase in Shareholders' equity, to replenish specific untaxed reserves.

In particular, it is pointed out that the accounting balances of the taken-over companies, reported before the merger according to Italian Accounting Principles, were modified by applying IAS/IFRS.

The following table illustrates the process for determining the 2009 statement of financial position and Income Statement, constituting the pro-forma data reported herein.

DETERMINATION OF STATEMENT OF FINANCIAL POSITION 31 DECEMBER 2009 PRO-FORMA

(EUR THOUSAND)	12/31/2009 ERG S.P.A.	ERG RAFFINERIE MEDITERRANEE S.P.A.	ERG POWER & GAS S.P.A.	MERGER ADJUSTMENTS		12/31/2009 PRO-FORMA
INTANGIBLE ASSETS	4,189	2,162	2,116	–		8,467
GOODWILL	–	–	–	7,082	1)	7,082
PROPERTY, PLANT AND MACHINERY	13,834	1,215	42	–		15,091
INVESTMENTS	435,379	561,546	59,947	(164,896)	2)	891,976
OTHER FINANCIAL ASSETS	1,044	–	27,896	–		28,940
DEFERRED TAX ASSETS	795	29,544	3,961	(12,188)	6)	22,111
OTHER NON-CURRENT ASSETS	165	219	459	(10)		833
NON-CURRENT ASSETS	**455,406**	**594,686**	**94,421**	**(170,012)**		**974,501**
INVENTORIES	–	76,152	4,192	–		80,344
TRADE RECEIVABLES	4,834	118,134	182,471	(10,953)	3)	294,487
OTHER CURRENT RECEIVABLES AND ASSETS	66,949	44,495	15,656	(43,253)	4)	83,847
CURRENT FINANCIAL ASSETS	464,106	188,284	3,057	(314,610)	5)	340,837
CASH AND CASH EQUIVALENTS	949,334	533,636	907	–		1,483,877
CURRENT ASSETS	**1,485,224**	**960,701**	**206,283**	**(368,816)**		**2,283,392**
ASSETS HELD FOR SALE	**–**	**–**	**–**	**–**		**–**
TOTAL ASSETS	**1,940,630**	**1,555,387**	**300,704**	**(538,828)**		**3,257,893**
SHAREHOLDERS' EQUITY	**869,109**	**593,028**	**10,797**	**(157,327)**		**1,315,607**
EMPLOYEES' SEVERANCE INDEMNITIES	1,927	532	209	–		2,668
DEFERRED TAX LIABILITIES	382	17,794	942	(12,685)	6)	6,433
PROVISIONS FOR NON-CURRENT LIABILITIES AND CHARGES	–	–	122	–		122
NON-CURRENT FINANCIAL LIABILITIES	424,128	–	–	–		424,128
OTHER NON-CURRENT LIABILITIES	–	–	–	–		–
NON-CURRENT LIABILITIES	**426,436**	**18,326**	**1,273**	**(12,685)**		**433,350**
PROVISIONS FOR CURRENT LIABILITIES AND CHARGES	267	11,755	767	–		12,789
TRADE PAYABLES	11,572	176,469	144,275	(10,953)	3)	321,363
CURRENT FINANCIAL LIABILITIES	560,000	731,111	138,181	(314,610)	5)	1,114,682
OTHER CURRENT LIABILITIES	73,245	24,698	5,411	(43,253)	4)	60,101
CURRENT LIABILITIES	**645,084**	**944,033**	**288,634**	**(368,816)**		**1,508,935**
LIABILITIES HELD FOR SALE AND DISCONTINUED OPERATIONS	**–**	**–**	**–**	**–**		**–**
TOTAL LIABILITIES	**1,940,630**	**1,555,387**	**300,704**	**(538,828)**		**3,257,893**

- The **ERG S.p.A.** column shows the values as of 31 December 2009 of the taking-over company before the merger. For additional details, please refer to the 2009 Financial Statements.

- The **ERG Raffinerie Mediterranee S.p.A.** and **ERG Power & Gas S.p.A.** columns show the values as of 31 December 2009 of the taken-over companies, adjusted in accordance with International Accounting Standards (IAS/IFRS).

- The **Merger adjustments** column shows the values relating to the elimination of intra-group entries and of the investments held as of 31 December 2009 by ERG S.p.A. in ERG Raffinerie Mediterranee S.p.A. and ERG Power & Gas S.p.A.

  In particular, the merger entailed:
  1) the recognition of goodwill for approximately EUR 7 million related to the Coastal Refining activity, equal to the value that emerged in the Consolidated Financial Statements of the Group as of 31 December 2009, consistently with the OPI interpretative document no. 2 issued by Assirevi;
  2) the elimination of the investments in ERG Power & Gas S.p.A. (EUR 8 million) and in ERG Raffinerie Mediterranee S.p.A. (EUR 156 million);
  3) the elimination of intra-group trade balances;
  4) the elimination of intra-group balances of a fiscal nature linked to tax consolidation and Group VAT;
  5) the elimination of the intra-group financial balances relating to centralised treasury transactions among the taking-over company and the taken-over companies;
  6) the effect of the reversal of deferred tax assets and liabilities calculated on the change in the value of inventories resulting from application of weighted average costing.

Lastly, the impacts described above entailed the recognition in shareholders' equity of a merger surplus of EUR 446 million whereof EUR 251 million were recorded in the "Merger surplus" reserve and EUR 195 million were recorded in the related specific untaxed shareholders' equity reserves.

DETERMINATION OF INCOME STATEMENT 31 DECEMBER 2009 PRO-FORMA

(EUR THOUSAND)	2009 ERG S.P.A.	ERG RAFFINERIE MEDITERRANEE S.P.A.	ERG POWER & GAS S.P.A.	MERGER ADJUSTMENTS		2009 PRO-FORMA
REVENUES FROM ORDINARY OPERATIONS	22,716	2,813,047	630,081	(8,748)	1)	3,457,096
OTHER REVENUES AND INCOME	7,933	13,479	1,536	(3,532)	1)	19,416
CHANGES IN FINISHED GOODS INVENTORIES	–	(34,639)	(212)	–		(34,851)
CHANGES IN RAW MATERIAL INVENTORIES	–	(31,080)	736	–		(30,344)
COST OF PURCHASES	(624)	(2,450,680)	(540,248)	536	1)	(2,991,017)
COSTS FOR SERVICES AND OTHER COSTS	(39,609)	(387,040)	(104,594)	11,744	1)	(519,499)
PERSONNEL EXPENSES	(21,803)	(5,384)	(9,578)	–		(36,765)
EBITDA	**(31,387)**	**(82,297)**	**(22,279)**	**–**		**(135,964)**
AMORTISATION, DEPRECIATION AND WRITE-DOWNS OF FIXED ASSETS	**(3,973)**	**(546)**	**(832)**	**–**		**(5,350)**
FINANCIAL INCOME	12,781	75,603	7,087	(3,227)	2)	92,244
FINANCIAL EXPENSES	(23,964)	(56,400)	(6,640)	3,227	2)	(83,778)
NET FINANCIAL INCOME (EXPENSES)	**(11,183)**	**19,203**	**447**	**–**		**8,466**
NET INCOME (LOSS) FROM INVESTMENTS	744,204	23	(7,650)	(800,000)	3)	(63,423)
NET INCOME (LOSS) FROM INVESTMENTS	**744,204**	**23**	**(7,650)**	**(800,000)**		**(63,423)**
PROFIT BEFORE TAXES	**697,661**	**(63,617)**	**(30,314)**	**(800,000)**		**(196,270)**
INCOME TAXES	596	18,554	6,579	10,800	4)	36,529
NET PROFIT (LOSS) FROM CONTINUING OPERATIONS	**698,258**	**(45,063)**	**(23,735)**	**(789,200)**		**(159,740)**
NET PROFIT (LOSS) FROM DISCONTINUED OPERATIONS	–	–	–	–		–
NET PROFIT (LOSS) FOR THE PERIOD	**698,258**	**(45,063)**	**(23,735)**	**(789,200)**		**(159,740)**

1) merger adjustments refer to the cancellation of Intra-group entries and to the cancellation of dividends

- The **ERG S.p.A.** column shows the 2009 values of the taking-over company before the merger. For additional details, please refer to the 2009 Financial Statements.

- The **ERG Raffinerie Mediterranee S.p.A.** and **ERG Power & Gas S.p.A.** columns show the 2009 values of the taken-over companies, adjusted in accordance with International Accounting Standards (IAS/IFRS).

- The **Merger adjustments** column shows the values relating to the elimination of 2009 intra-group entries and dividends.

In particular, the merger entailed:

1) the elimination of intra-group trade revenues and costs, linked mostly to contracts for services rendered by ERG S.p.A. to the taken-over companies;
2) the elimination of the intra-group financial income and expenses relating to centralised treasury among the taking-over company and the taken-over companies;
3) the elimination of the dividends distributed in 2009 by ERG Raffinerie Mediterranee S.p.A. to ERG S.p.A. and recorded by ERG S.p.A. in the Income Statement during the same year;
4) the tax effect of the elimination of dividends, commented above.

TOTALERG JOINT VENTURE

In January 2010 ERG and TOTAL signed an agreement to create a joint venture, called TotalErg, operating in Italy in the refining and marketing business.
In May, the agreement obtained approval by the Italian Antitrust Authority.
In July, the extraordinary Shareholders' Meeting of ERG Petroli S.p.A. approved the merger by incorporation of Total Italia S.p.A. into ERG Petroli S.p.A.

On **23 September 2010**, the deed was stipulated for the merger by incorporation of Total Italia S.p.A. into ERG Petroli S.p.A. which, on the effective date of the merger (October 1, 2010), took on the name TotalErg S.p.A. (63% ERG and 37% Total).

On **1 October,** ERG S.p.A. sold 12% of the investment in TotalErg at the price of EUR 101 million, closing the transaction and with the purpose of reaching the shares established in the Joint Venture Agreement (51% and 49%).

The agreement calls for equally shared Governance and the operating autonomy of the Joint Venture.

In particular, ERG brought to the Joint Venture the assets and liabilities related to the **Integrated Downstream business in Italy**[1] with the exclusion of the marketing activities in Sicily.

The transaction thus entailed the loss of control over ERG Petroli S.p.A. (formerly 100% controlled) and the acquisition of a stake in the aforesaid Joint Venture that is reported in these Financial Statements under the cost method.

With reference to the initial recognition of the aforesaid investment, IAS 27 prescribes that as a result of the disposal of controlling shares, any residual interest held in the entity subjected to disposal be measured at fair value, determined at the time control was lost. Therefore, said fair value represents the initial book value of the new company.

The amounts reported below reflect the accounting impact of the joint venture.

INVESTMENT IN ERG PETROLI S.P.A.	(98,090)
FAIR VALUE TOTALERG (63%)	533,039
GROSS GAIN	**434,949**

The sale of the 12% investment had no effects on the Income Statement, because the sale price matched the fair value already recorded in the financial statements.

Moreover, within the TotalErg Joint Venture, ancillary costs were incurred for approximately EUR 11 million, mostly relating to financial, legal and transaction advisory services for the accounting and tax aspects and to bonuses paid to directors and employees who were particularly involved in the project.

1 Integrated Downstream in Italy comprises the assets and liabilities of ERG Petroli S.p.A. and of its subsidiaries

PUT OPTION ON 51% OF ISAB S.R.L.

The agreement underwritten with LUKOIL on 1 December 2008 gives ERG S.p.A. a put option for its 51% equity interest. The exercise price for rights to 100% of the assets transferred to ISAB S.r.l. (not including the minimum operating inventory) will be the fair market value within a collar with a cap at EUR 2,750 million and a floor at EUR 2,000 million, reduced by EUR 15 million following the February 2009 agreement.
The put option was exercisable at ERG's discretion, commencing in 2010 and within a four-year period, at an exercise price largely corresponding to the fair value of the investment at the exercise date.

On 31 January 2011, the Board of Directors of ERG S.p.A. approved the exercise of the put option for 11% of ISAB S.r.l.
The value of the sale to LUKOIL of the 11% investment in ISAB (excluding inventories) is EUR 205 million; according to contractual provisions, the option was exercised at the floor price.
The Company opted for the partial exercise, to enable the Group to maintain an adequate industrial role in the coastal refinery business in partnership with LUKOIL, consistently with the multi-energy strategy of the Group, and further to strengthen its financial structure.

As a result of the transaction, 60% of ISAB S.r.l. will be owned by LUKOIL and 40% by ERG. The Company will continue to be managed by the two shareholders according to the existing shareholder agreements with equally shared governance on major business decisions, and with an operating agreement that assures its autonomy and operating independence.
The closing of the transaction is expected by the end of the first quarter 2011.

The fair value of the put option depends on the fair value of the underlying asset, both with regard to the 51% share held as of 31 December 2010, and for the 11% share exercised in January 2011.
According to a study by independent experts, the value of the option is not quantifiable, since the range of reasonable estimates of fair value is very broad and the probability of the various estimates cannot be reasonably estimated, since in the valuation procedure, variables relating to negotiation factors and the non-standard nature of the underlying asset (involving financial as well as industrial considerations) come into play, as well as factors relating to the way the option can be exercised.
For this reason, and pursuant to indications given in IAS 39, the put option could not be recorded at fair value as of 31 December 2010.

2010 TENDER OFFER ON ERG RENEW S.P.A.

On **14 December 2010** the Board of Directors of ERG S.p.A. decided to promote a voluntary tender offer takeover bid on ERG Renew S.p.A. , at the price of EUR 0.97 per share. The goal of the Tender Offer is to attain the delisting, in order to enable the ERG Group to benefit from a more adequate financial, organisational and managerial flexibility, useful to carry out its strategic plan and to achieve, more rapidly, the current investment and market positioning goals through organic growth, both internal and external, also through potential acquisitions.
On **3 January 2011**, therefore, ERG S.p.A. filed the draft Tender Document with CONSOB.

On **13 January 2011** the Board of Directors of ERG Renew S.p.A. approved the notice per Article 103, Paragraph 3, of Legislative Decree 58 of 24 February 1998, pertaining to the voluntary public Tender Offer promoted by the parent company ERG S.p.A. on ERG Renew S.p.A.
The Board of Directors, upon acknowledging the fairness opinion issued by the independent financial advisor Merrill Lynch International, deemed congruous, in financial terms, the price of EUR 0.97 per share proposed by ERG S.p.A.

On **18 January 2011** CONSOB approved the document relating to the takeover bid promoted by ERG S.p.A. on ERG Renew S.p.A. including the notice by ERG Renew S.p.A. per Article 103, Paragraph 3, of Legislative Decree 58 dated February 1998.

On **18 February 2011** ERG S.p.A. announced, after the conclusion of the period of the public Tender Offer on ERG Renew S.p.A., that it had obtained acceptances for a total of 13,962,309 Shares, i.e. 62.748% of the Shares subject to the Tender Offer and equal to 10.524% of the share capital of the Issuer, for a total value of EUR 13,543,439.73. During the acceptance period, ERG also made purchases outside for a total of 952,629 Shares, representing 0.718% of the share capital of the Issuer. Therefore, taking into account the Shares handed over in acceptance of the Tender Offer, the Shares already owned as of the initial date and those purchased outside, as at 18 February 2011 the Bidder held a total of 125,557,206 Shares, representing 94.641% of the share capital of the Issuer. Although a share of at least 95% of the share capital of the Issuer was not reached, ERG, deeming the achieved share level to be satisfactory, waived the Condition of the Minimum Level of Acceptances prescribed in Paragraph A.1(i) of the Tender Document and announced that it deemed the condition for the effectiveness of the Tender, prescribed in Paragraph A.1.(ii) of the Tender Document, to be fulfilled.
In consideration of the above, ERG S.p.A. deemed the Tender Offer to be effective and therefore it announced that it would purchase all Shares handed over in acceptance of the Tender Offer within the terms per the Tender Document.

The transaction had no impacts on the 2010 Financial Statements, as it is expected to be completed in 2011.

Moreover, for the sake of complete disclosure, we report that in December 2010 the Company acquired ERG Renew shares for a stake of 6.21%, for an amount of EUR 6 million, increasing the carrying value of the investment to EUR 159 million.

WRITE-DOWN OF ERG RENEW INVESTMENT

For the 2010 financial statements, as in the previous years, the carrying value of the ERG Renew S.p.A. investment was subjected to impairment test, in view of the worsening in the expected profitability of the wind farms, and in the market price of the ERG Renew S.p.A. shares, which was consistently below its carrying value in 2010.

The independent expert engaged in January 2011 to perform this assessment conducted the analysis by using the expected cash flows as detailed in the financial forecast examined by the ERG Renew S.p.A. Board of Directors on January 13, 2011, extended for subsequent periods according to the expected useful life of the assets.

The Company therefore estimated the recoverable value of the aforesaid assets. Based on IAS 36, the recoverable value of an asset or of a cash-flow generating unit is the higher amount between its fair value net of costs of disposal and its value in use.

In this regard, the impairment test was performed by determining the recoverable value, i.e. the value in use, based on the "sum of parts" methodology; hence, the value of the investment was determined by adding the equity values of the cash generating units that comprise ERG Renew S.p.A.
The estimated recoverable value is based on the following assumptions: discount rates (set at 6.5% for wind farms in Italy and 6% for wind farms in France), growth rate, expectations of changes in sale prices and changes in direct costs during the period considered for the calculation.

With respect to the assumptions used previously, there was a deterioration in expected scenarios, particularly in terms of sales prices for electricity and green certificates, the delayed commissioning of some wind farms under construction and reduced generation in France.

The impairment test described above resulted in a loss deriving from the excess book value of the ERG Renew investment in the financial statements of ERG S.p.A., compared with its recoverable value; in particular, the book value of the ERG Renew amounted to EUR 158.6 million, whilst its recoverable value, estimated according to the assessment method, was found to be EUR 141.5 million. The impairment of EUR 17 million was recognised as a reduction in the value of the investment and the related write-down was recorded in the Income Statement.

Sensitivity Analysis

Write-downs were quantified taking into account information available to date and reasonable estimates on changes in the variables of wind conditions, energy prices and interest rates.

In particular, the criterion for determining the price of energy and of green certificates could be modified as a result of changes in the regulatory provisions, currently undergoing approval by legislative bodies.

The Group took into account the aforesaid uncertainties in processing and defining the basic assumptions used to determine the recoverable value of the "Renewables" CGU and it also conducted a sensitivity analysis on the recoverable value of the same CGU: said analysis showed that the overall sale prices of energy could undergo changes, upwards or downwards, within an estimated range of 5% relative to the estimated values for the Plan.

In case of a 5% price reduction, persisting over the entire time span of the plan, the write-down of the investment would have been EUR 53 million higher.

In case of a 5% price rise, persisting over the entire time span of the plan, there would have been no write-down of the investment.

Lastly, a 0.5% increase in the discount rate would also have meant an additional impairment loss of approximately EUR 32 million, whereas a 0.5% decrease in the discount rate would have entailed no write-down of the investment.

The above analyses confirm the sensitivity of the estimates concerning the recoverability of non current assets to changes in the aforementioned variables; in this context, the Directors will systematically monitor trends in the aforementioned exogenous and uncontrollable variables for any adjustments to the estimated recoverability of the recorded values of non current assets in the Consolidated Financial Statements.

CLEAN UPS – PROGRAMME AGREEMENT FOR THE PRIOLO SITE

In 2010 the Italian Ministry of the Environment and Attorney General's Office continued to work out details for the settlement procedures and costs that the parties concerned may agree to on a voluntary basis in relation to the Programme Agreement for clean-ups at the Priolo Site.
The agreement, which was signed by the institutions in November 2008 and recorded by the Italian "Corte dei Conti" in April 2009, concerns the clean-up and environmental restoration of the Priolo Site.
The ERG Group companies present at the Site (and the other operators affected) are monitoring the development of activities by the Ministry in relation to the requirements, conditions and operating procedures applied in the Programme Agreement.
The ISAB S.r.l. joint venture, owner of refining plants situated in Priolo, is assessing whether to adhere to said Programme Agreement, stipulating a settlement agreement and at the same time submitting a specific plan to render safe and clean up the areas of the Refinery and, for this purpose, it recently sent a non-binding expression of interest to the Ministry of the Environment.
In this perspective, in 2010 work continued on the preparation of the aforesaid plan, which ISAB would intend to submit to the Ministry of the Environment, in case of actual participation in the Programme Agreement.
In connection with the above, ERG S.p.A. on the basis of the 2008 ISAB S.r.l. joint venture agreements pertaining to environmental expenses, deeming it likely that a settlement agreement would be signed, recorded in these Financial Statements provisions for environmental expenses amounting to EUR 25 million, corresponding to its own share of currently estimated expenses.

STATEMENT OF FINANCIAL POSITION ANALYSIS

NOTE 1 – INTANGIBLE FIXED ASSETS

	OTHER INTANGIBLE ASSETS	ASSETS UNDER CONSTRUCTION	TOTAL
BALANCE AS OF 12/31/2009	**3,893**	**296**	**4,189**
CHANGES DURING THE PERIOD:			
EFFECTS OF 2010 MERGER	3,729	549	4,278
ACQUISITIONS	624	5,128	5,752
CAPITALISATION/RECLASSIFICATION	4,694	(4,694)	–
DISPOSAL AND DIVESTMENT	(37)	–	(37)
AMORTISATION	(5,697)	–	(5,697)
BALANCE AS OF 12/31/2010	**7,206**	**1,279**	**8,485**

To enhance understandability, changes during the period relating to reclassifications, disposals and divestments are shown net of the related provisions for accumulated amortisation and write-downs.

As of 31 December 2010, intangible fixed assets totalled EUR 8,485 thousand (EUR 4,189 thousand as of 31 December 2009).

"Other intangible assets" mainly consisted of application software and the consulting services provided during the implementation of such software.

New acquisitions were made during the period, mainly related to improvements to programmes and operating systems.

The increase in the period is also linked to the effects of the "**2010 Merger**", as commented in the dedicated paragraph.

NOTE 2 – GOODWILL

The value of goodwill, i.e. EUR 7,082 thousand, was recorded by effect of the merger by incorporation of ERG Raffinerie Mediterranee S.p.A., in accordance with the interpretative document OPI 2 issued by Assirevi.

Therefore, the Company recorded goodwill equal to the value recorded in the Consolidated Financial Statements of the Group as at 31 December 2009.

The goodwill refers in particular to the Coastal Refining business.

The item, which is not amortised in the Income Statement, is subject to an impairment test every year, and more frequently if there are indications during the course of the year that the asset may be impaired.

The recoverable value of the Coastal Refining unit was determined on the basis of "Fair value net of costs of disposal", as indicated in IAS 36, with reference to third-party agreements.

The Cash Generating Unit in question is the subject of the agreement stipulated with LUKOIL on 1 December 2008 which entitles ERG S.p.A. to a put option with respect to its 51% investment in ISAB S.r.l., as described in the paragraph "**Put Option on 51% ISAB S.r.l.**".

The exercise price for rights to 100% of the assets transferred to ISAB S.r.l. will be the fair market value within a collar including a floor at EUR 2,000 million (reduced by EUR 15 million), whose 51% investment greatly exceeds the value of the assets recorded in the Financial statements and referable to the coastal Refining unit.

Therefore, there were no write-downs.

NOTE 3 – PROPERTY, PLANT, AND MACHINERY

	LAND AND BUILDINGS	PLANT AND MACHINERY	OTHER ASSETS	ASSETS UNDER CONSTRUCTION	TOTAL
HISTORICAL COST	**14,205**	**627**	**11,918**	**77**	**26,827**
ACCUMULATED, DEPRECIATION AND WRITE-DOWNS	(5,303)	(308)	(7,382)	–	(12,993)
BALANCE AS OF 12/31/2009	**8,902**	**319**	**4,536**	**77**	**13,834**
CHANGES DURING THE PERIOD:					
EFFECTS OF 2010 MERGER	1,241	(717)	(1)	734	1,257
ACQUISITIONS	16	–	–	1,276	1,292
CAPITALISATION/RECLASSIFICATION	1,414	791	469	(1,957)	717
DISPOSALS AND DIVESTMENTS	(35)	–	(91)	–	(126)
OTHER CHANGES	1	7	36	(41)	3
DEPRECIATION	(478)	(45)	(757)	–	(1,280)
DIVESTMENTS - WRITE-DOWNS	–	–	–	–	–
HISTORICAL COST	**16,721**	**684**	**12,288**	**89**	**29,782**
ACCUMULATED, DEPRECIATION AND WRITE-DOWNS	(5,660)	(329)	(8,096)	–	(14,085)
BALANCE AS OF 12/31/2010	**11,061**	**355**	**4,192**	**89**	**15,697**

As of 31 December 2010, tangible fixed assets totalled EUR 15,697 thousand (EUR 13,834 thousand as of 31 December 2009).
"Other assets" mainly consist of equipment, furniture, fixtures and works of art.
The increase in the period is also linked to the effects of the "**2010 Merger**", as commented in the dedicated paragraph.

NOTE 4 – INVESTMENTS

The following changes in investments occurred during 2010:

	INVESTMENTS				
	SUBSIDIARY COMPANIES	JOINT VENTURE	ASSOCIATES	OTHER COMPANIES	TOTAL
HISTORICAL COST	**484,735**	**–**	**8,134**	**456**	**493,325**
WRITE-DOWNS	(56,127)	–	(1,819)	–	(57,946)
BALANCE AS OF 12/31/2009	**428,608**	**–**	**6,315**	**456**	**435,379**
CHANGES DURING THE PERIOD:					
EFFECTS OF 2010 MERGER	(115,675)	561,953	10,324	–	456,602
TOTALERG JOINT VENTURE	(98,090)	431,926	–	–	333,836
ACQUISITIONS/SHARE CAPITAL INCREASES	9,123	1,500	–	310	10,933
DISPOSALS AND DIVESTMENTS	–	–	–	(207)	(207)
WRITE-DOWNS/USE OF PROVISION TO COVER LOSSES	(20,183)	(486)	–	–	(20,669)
HISTORICAL COST	**280,093**	**1,003,030**	**18,458**	**559**	**1,294,490**
WRITE-DOWNS	(76,310)	(8,136)	(1,819)	–	(78,615)
BALANCE AS OF 12/31/2010	**203,783**	**994,894**	**16,639**	**559**	**1,215,875**

The figures in the row "Effects of 2010 merger" refer to the items described in paragraph "**2010 Merger**" and set out in detail below:

	SUBSIDIARY COMPANIES	JOINT VENTURE	ASSOCIATES
INVESTMENT IN ERG RAFFINERIE MEDITERRANEE S.P.A. (1)	(156,374)	–	–
INVESTMENT IN ERG POWER & GAS S.P.A. (1)	(8,024)	–	–
INVESTMENT IN ISAB ENERGY S.R.L. (2)	14,863	–	–
INVESTMENT IN ISAB ENERGY SERVICES S.R.L. (2)	127	–	–
INVESTMENT IN ERG NUOVE CENTRALI S.P.A. (2)	33,733	–	–
INVESTMENT IN ESPANSIONE S.R.L. (2)	–	–	824
INVESTMENT IN ERG RIVARA STORAGE S.R.L. (2)	–	–	9,500
INVESTMENT IN ISAB S.R.L. (3)	–	561,053	–
INVESTMENT IN IONIO GAS S.R.L. (2)	–	8,550	–
PROVISIONS FOR WRITE-DOWN OF INVESTMENT IN IONIO GAS S.R.L. (2)	–	(7,650)	–
EFFECTS OF 2010 MERGER	**(115,675)**	**561,953**	**10,324**

(1) Elimination of the investment as a result of the merger by incorporation in ERG S.p.A.
(2) Investment held by ERG Power & Gas S.p.A. incorporated into ERG S.p.A. as a result of the 2010 merger
(3) Investment held by ERG Raffinerie Mediterranee S.p.A. incorporated into ERG S.p.A. as a result of the 2010 merger

The data in the row "TotalErg Joint Venture" refer to the derecognition of the investment in ERG Petroli S.p.A. (EUR 98 million) and to the recognition of the fair value as the initial value of the TotalErg Joint Venture, i.e. EUR 533 million. Within the same transaction, 12% of the investment was then sold to Total Holdings Europe: the carrying value as of 31 December was therefore EUR 432 million.

"Acquisitions/share capital increases" refer to:

- the acquisition by ERG Petroli S.p.A. of the investment in ERG Petróleos, Gestión Ibérica and Meroil;
- acquisitions, in December 2010, of ERG Renew S.p.A. stock representing 6.21% and a total amount of approximately EUR 6 million;
- the capital contribution to Ionio Gas S.r.l. for EUR 1.5 million.

"Write-downs" refer mainly to the investments:

- ERG Petróleos S.A. (EUR 3 million) a non operating company to be liquidated shortly. For this investment, approximately EUR 5 million have been allocated to provisions for risks on investments;
- ERG Renew S.p.A. (EUR 17 million) deriving from the outcome of the 2010 impairment test on the value of the investment; please refer to the paragraph "**Write-down of the investment in ERG Renew**".

The list of investments follows, together with data required by Article 126 of CONSOB Resolution No. 11971 and subsequent revisions.

	REGISTERED OFFICE	SHARE CAPITAL	%	SHAREHOLDERS' EQUITY (1)	PROFIT (LOSS) (1)	OUR STAKE IN SHAREHOLDERS' EQUITY (1)	RECORDED VALUE
SUBSIDIARY COMPANIES							
ISAB ENERGY S.R.L. (2)	SIRACUSA	5,165	51.00%	457,471	65,040	233,310	14,863
ISAB ENERGY SERVICES S.R.L. (2)	SIRACUSA	700	51.00%	11,613	3,502	5,923	127
ERG PETRÓLEOS S.A. (4)	MADRID	3,050	100.00%	2,976	(1,114)	2,976	–
ERG NUOVE CENTRALI S.P.A. (2)	SIRACUSA	28,810	100.00%	13,293	(4,036)	13,293	33,733
ERG RENEW S.P.A.	MILAN	132,667	82.14%	98,266	(17,749)	80,716	141,514
ERG OIL SICILIA S.R.L. (5)	ROME	6,310	100.00%	52,866	9,856	52,866	13,546
TOTAL							**203,783**
JOINT VENTURES							
ISAB S.R.L. (3)	SIRACUSA	50,000	51.00%	1,086,985	29,080	554,362	561,053
TOTALERG S.P.A. (7)	ROME	47,665	51.00%	480,343	129,404	244,975	431,926
IONIO GAS S.R.L. (2)	SIRACUSA	200	50.00%	3,783	(944)	1,892	1,915
TOTAL							**994,894**
ASSOCIATES							
I-FABER S.P.A.	MILAN	5,652	23.00%	12,496	3,751	2,874	6,315
ESPANSIONE S.R.L. (2)	VARESE	274	27.01%	2,185	10	590	824
ERG RIVARA STORAGE S.R.L. (2)	MODENA	63,333	15.00%	62,524	(211)	9,379	9,500
TOTAL							**16,639**
OTHER COMPANIES							
MEROIL S.A. (4)	BARCELONA	10,901	1.52%	25,621	3,152	389	310
BIC LIGURIA S.C.P.A. (6)	GENOA	5,442	1.25%	7,133	614	89	68
R.U.P.E. S.P.A.	GENOA	3,058	4.86%	3,170	2,186	154	155
CAF INTERREGIONALE DIPENDENTI S.R.L.	VICENZA	276	0.06%	922	15	1	–
EMITTENTI TITOLI S.P.A.	MILAN	4,264	0.51%	6,056	793	31	26
TOTAL							**559**
TOTAL							**1,215,875**

(1) 2010 data for subsidiaries and joint ventures; latest financial statements approved on the date of the Board of Directors meeting for associates and other companies
(2) investee company of ERG Power & Gas S.p.A. as of 12/31/2009 and acquired with the 2010 merger
(3) investee company of ERG Raffinerie Mediterranee S.p.A. as of 12/31/2009 and acquired with the 2010 merger
(4) company acquired in 2010 from the former ERG Petroli S.p.A.
(5) company incorporated in 2010
(6) company subjected to name change in 2010 (as of 12/31/2009 "Sviluppo Italia Liguria S.C.p.A.")
(7) please see the paragraph **TotalErg Joint Venture**

The carrying value of the investment in I-Faber S.p.A. was maintained since the past years' losses are not considered permanent based on the plans and income expectations expressed by the investee company.
The carrying value of the investment in ERG Nuove Centrali S.p.A. was maintained in view of its size and prospective income, also assured by the indirectly held CCGT plant.
For a complete list of the Group's equity investments, see the notes to the Consolidated Financial Statements.

NOTE 5 – OTHER FINANCIAL ASSETS

	12/31/2010	12/31/2009
BALANCE AT BEGINNING OF PERIOD	**1,044**	**663**
CHANGES DURING PERIOD:		
EFFECTS OF 2010 MERGER	27,896	–
DISBURSEMENTS AND INTEREST	307,518	760
REPAYMENTS	(3,607)	–
WRITE-DOWNS	–	–
RECLASSIFICATIONS	118,377	(379)
BALANCE AT END OF PERIOD	**451,227**	**1,044**

The balance of the other financial assets as of 31 December 2010 amounts to EUR 451,227 thousand (EUR 28,940 thousand was the pro-forma figure as of 31 December 2009) and it comprises:

- for EUR 284 million, the line of credit granted to ERG Renew S.p.A. to support the company in covering its financial requirements in relation to scheduled capital expenditures and to provide financial support as necessary for operating activities;
- for EUR 141 million, the Company's receivable from the subsidiary ERG Power S.r.l. by virtue of the Project Sponsor Subordinated Loan Agreement which refers to the residual CCGT construction activities after completion of the plant and to the activities related to the revamping of the water demineralisation plant that supplies treated water for the processes of the Priolo production site;
- for EUR 24 million, the receivable from the subsidiary ISAB Energy S.r.l. (EUR 28 million in 2009), relating to the loan disbursed at the end of the construction of the cogeneration plant (Subordinated Loan Agreement) whose repayment is subordinated to the financial capabilities of ISAB Energy S.r.l. also in view of the constraints prescribed by the Project Financing with which the IGCC plant was financed. The maturity of the loan is in June 2017, with an interest rate of 4% as of 31 December 2010;
- for EUR 1,420 thousand, the value of the quotas assigned by the Italian Carbon Fund (EUR 1,044 thousand as of 31 December 2009). On 25 February 2010, the company paid EUR 680 thousand to the Italian Carbon Fund (EUR 760 thousand in 2009). In 2010, the fund assigned to the company 43,361 CERS [1], which were considered a repayment of the investment made. The number of rights sold to Group companies is 18,847.

1 Certified Emission Reduction: credits that can be used as a part of the Emission Trading regulations; these were obtained from projects to reduce emissions in developing countries

NOTE 6 – DEFERRED TAX ASSETS

	12/31/2010		12/31/2009 PRO-FORMA		12/31/2009	
	TEMPORARY DIFFERENCES	TAX EFFECT	TEMPORARY DIFFERENCES	TAX EFFECT	TEMPORARY DIFFERENCES	TAX EFFECT
PROVISIONS FOR LIABILITIES AND CHARGES	37,580	14,333	11,756	4,355	209	57
MAINTENANCE EXCEEDING DEDUCTIBLE LIMIT	4,684	1,775	16,126	6,112	–	–
BAD DEBT PROVISION	14,182	4,822	4,268	1,451	–	–
TAX LOSSES AND OTHER DEFERRED TAXES	10,489	3,824	116,684	10,193	2,682	737
TOTAL		**24,754**		**22,111**		**795**

Deferred tax assets are recognised, provided their future recovery is probable, on the taxable temporary differences between the value of assets and liabilities for financial reporting purposes and their values for tax calculation purposes.

The tax rate used to calculate deferred tax assets is the same as the theoretical IRES (corporate tax) rate (27.5%) in effect since 1 January 2008 and, when applicable, the additional theoretical IRAP (regional tax) rate (3.9%).

Moreover, as a result of the merger ERG S.p.A. from 2010 onwards is subject to an IRES rate surcharge ("Robin Tax") of 6.5% for companies operating in the oil refining industry and companies producing and marketing petroleum products, electricity and gas, with revenues in excess of EUR 25 million.

Deferred tax assets as of 31 December 2010, amounting to EUR 25 million (EUR 22 million as of 31 December 2009 pro-forma) are attributable mainly to provisions for liabilities and charges.

The increase in the year is linked to accruals to environmental provisions, partly offset by the derecognition of receivables on tax losses of previous years, whose recoverability is no longer deemed certain.

Deferred tax assets calculated on the fair value of derivatives qualified as cash flow hedges were recorded as a reduction in the "Cash flow hedge reserve" in shareholders' equity.

NOTE 7 – OTHER NON-CURRENT ASSETS

	12/31/2010	12/31/2009 PRO-FORMA	12/31/2009
OTHER MEDIUM/LONG-TERM RECEIVABLES	1,002	833	165
MEDIUM/LONG-TERM ACCRUED INCOME AND PREPAID EXPENSES	594	–	–
TOTAL	**1,596**	**833**	**165**

Other non-current assets amounting to EUR 1,596 thousand (EUR 833 thousand was the pro-forma figure as of 31 December 2009) mainly comprise security deposits for leases, security deposits paid by the Power & Gas segment to the Electric Market Operator for the purchase of green certificates on the market, security deposits paid by the National Grid Operator for CIP 6 contracts in addition to the accrued income and prepaid expenses for IT consultancy services and other items.

NOTE 8 – INVENTORY

	12/31/2010	12/31/2009 PRO-FORMA	12/31/2009
RAW, ANCILLARY AND CONSUMABLE MATERIALS	125,120	33,512	–
FINISHED PRODUCTS AND GOODS	126,095	46,832	–
TOTAL	**251,215**	**80,344**	**–**

Inventories are measured at the lower of cost, determined using the weighted average cost method, or market value.
As of 31 December 2010, the value of inventories was EUR 251,215 thousand (EUR 80,344 thousand was the pro-forma figure as of 31 December 2009) whereof EUR 248,878 in Oil inventories and EUR 2,337 in Gas inventories. The value is affected by the exact level of end-of-period stocks and by fluctuations in the purchase prices of raw materials and finished products, which, based on the weighted average cost method, also impacts the quantities that have increased significantly since the beginning of the period.
The increase is due to the combined effect of the higher purchase volumes recorded during the year, the rise in market prices and the acquisition by ERG Petroli S.p.A. in late March 2010 of the entire quantity of finished product and raw material inventories stored at the depository ISAB for approximately EUR 74 million.
With regards to the gas inventories of the Power & Gas segment, on 31 December 2010 it became necessary to adjust the gas price, determined as the quarterly weighted average purchase cost, to its realisable value, which was lower than the cost, entailing a write-down of EUR 124 thousand.

The value of gas inventories as of 31 December 2010 was determined starting from the quantities reported by the depository Stogit as of 31 December 2009 (notified in 2010) and considering the subsequent purchase and sale volumes during the period.

Gas inventories decreased by EUR 621 thousand compared with the balance as of 31 December 2009. This change results mostly from the decrease in quantities in stock.

NOTE 9 – TRADE RECEIVABLES

Receivables are summarised as follows:

	12/31/2010	12/31/2009 PRO-FORMA	12/31/2009
CUSTOMER RECEIVABLES	159,303	162,444	192
RECEIVABLES DUE FROM GROUP COMPANIES	155,666	137,250	4,642
BAD DEBT PROVISION	(16,003)	(5,207)	–
TOTAL	**298,966**	**294,487**	**4,834**

Trade receivables, amounting to EUR 298,966 thousand (EUR 294,487 thousand was the pro-forma figure as of 31 December 2009), net of EUR 16,003 of the Bad debt provision, comprise:

- receivables from third party customers, amounting to EUR 159,303 thousand, mainly consisting of trade receivables relating to deliveries of petroleum products and services rendered at market values and due within twelve months for EUR 51,847 thousand and trade receivables for deliveries of electricity, steam, gas and other utilities, mostly to the companies in the Priolo industrial site and other industrial customers for EUR 107,180 thousand;

- receivables from Group companies, amounting to EUR 155,666 thousand, mainly consisting of trade receivables relating to deliveries of petroleum products and services rendered at market values and due within twelve months for EUR 114,127 thousand and trade receivables for deliveries of electricity, steam, gas and other utilities for EUR 41,480 thousand; please also refer to **Note 35 – Related parties**.

With regards to the bad debt provision, the Company determined its amount in accordance with Group policy.
The provision refers only to receivables of the Power & Gas segment, since the Company has not identified potential risks in terms of collectability on receivables of the Refining & Marketing and Corporate segments.

In particular, the change in the Bad debt provision refers mainly to the accrual of the period amounting to EUR 12 million referred in particular to an overdue receivable linked to the start-up phases of the electric energy and gas trading activities in an unfavourable economic and financial environment. On this matter, the Group is undertaking every possible recovery initiative, also of a legal nature.

The changes in the bad debt provision are as follows:

	12/31/2009 PRO-FORMA	ACCRUALS	UTILISATIONS	12/31/2010
BAD DEBT PROVISION	5,207	11,489	(693)	16,003
TOTAL	**5,207**	**11,489**	**(693)**	**16,003**

The following is a breakdown of customer receivables outstanding at year-end:

(EUR THOUSAND)	12/31/2010 (1)
RECEIVABLES NOT YET DUE	**96,635**
RECEIVABLES DUE:	
UP TO 30 DAYS	–
UP TO 60 DAYS	5,388
UP TO 90 DAYS	8,199
MORE THAN 90 DAYS	33,078
TOTAL	**143,300**

(1) the table shows the due dates of "Customer receivables" net of the "Bad debt provision"

NOTE 10 – OTHER RECEIVABLES AND CURRENT ASSETS

	12/31/2010	12/31/2009 PRO-FORMA	12/31/2009
TAX RECEIVABLES	25,377	36,877	26,903
OTHER RECEIVABLES DUE FROM GROUP COMPANIES	30,521	35,042	37,258
SUNDRY RECEIVABLES	14,732	11,928	2,788
TOTAL	**70,630**	**83,847**	**66,949**

The "Tax receivables" are mainly related to the receivables from tax authorities for consolidated IRES totalling EUR 11,488 thousand, to payment of advances on the excise tax relating to electricity and gas (EUR 4,424 thousand) and for IRES and IRAP of the current year (EUR 2,056 thousand).

The "Other receivables from Group companies" consist of Group VAT receivables totalling EUR 5,385 thousand from subsidiaries and IRES-related receivables from investee companies resulting from tax consolidation totalling EUR 25,136 thousand.

"Sundry receivables" consist mainly of receivables deriving from fair value accounting as of 31 December 2010 on hedging derivatives (EUR 5,562 thousand), advance payments made on future services (EUR 3,812 thousand) and receivables from the Electric Market Operator (EUR 3,413 thousand).

NOTE 11 – CURRENT FINANCIAL ASSETS

	12/31/2010	12/31/2009 PRO-FORMA	12/31/2009
SECURITIES	40,145	4,523	–
FINANCIAL RECEIVABLES FROM SUBSIDIARIES AND ASSOCIATES	34,245	335,240	463,765
OTHER SHORT-TERM FINANCIAL RECEIVABLES	9,971	1,074	341
TOTAL	**84,361**	**340,837**	**464,106**

The securities classified among current financial assets refer to bonds (EUR 27,508 thousand), shares of mutual funds (EUR 12,159 thousand) and security deposits on securities (EUR 478 thousands). Financial receivables from subsidiaries and associates consist mainly of the receivable from ERG Nuove Centrali S.p.A. (EUR 26,935 thousand), the receivable from SIGEA S.p.A. (EUR 1.064 thousand), the receivable from ERG Petróleos S.A. (EUR 1.937 thousand) and the receivable from ERG Power S.r.l. (EUR 3.952 thousand).
The "Other short term financial receivables" consist mainly of the deposit required to guarantee the margin for operations with Futures on the CE Futures Europe regulated market (EUR 8,774 thousand).

NOTE 12 – CASH AND CASH EQUIVALENTS

	12/31/2010	12/31/2009 PRO-FORMA	12/31/2009
CASH EQUIVALENT SECURITIES	2,497	39,981	29,981
BANK AND POSTAL DEPOSITS	1,112,434	1,443,872	919,350
CASH AND NOTES ON HAND	8	24	3
TOTAL	**1,114,939**	**1,483,877**	**949,334**

"Cash equivalent securities" entirely consist of bonds with maturity in less than three months. "Bank and postal deposits" comprise EUR 932,679 thousand in cash obtained as a result of the payments by LUKOIL Europe Holdings B.V. for the acquisition of the ISAB S.r.l. investment in 2008.

NOTE 13 – SHAREHOLDERS' EQUITY

Share capital

Fully paid-in share capital as of 31 December 2010 consisted of 150,320,000 shares with a par value of EUR 0.10 each for a total of EUR 15,032,000 (unchanged since 31 December 2009).
It should be noted that a portion of share capital (EUR 9,701 thousand) was the result of non monetary capital increases that occurred in previous periods through the reclassification of monetary revaluation reserves (pursuant to Italian Laws 576/1975, 42/1983 and 413/1991).
On 31 December 2010 the Company's Shareholders Register showed the following situation:

- San Quirico S.p.A. held 84,091,940 shares, i.e. 55.942%;
- Polcevera S.A. (Luxembourg) held 10,380,060 shares, i.e. 6.905%;
- Tradewinds Global Investors LLC held 7,589,946 shares, i.e. 5.049%;
- Generali Investments Italy SGR S.p.A. held 3,349,000 shares, i.e. 2.228%;
- ERG S.p.A. held 2,100,000 treasury shares, i.e. 1.397%.

As of 31 December 2010, San Quirico S.p.A. and Polcevera S.A. were controlled by the Garrone and Mondini families, heirs of the founder of the ERG Group, Edoardo Garrone.

On 15 April 2010, pursuant to Article 2357 of the Italian Civil Code, the Shareholders' Meeting of ERG S.p.A. authorized the Board of Directors to purchase treasury shares for a period of 12 months from the date of the resolution up to a revolving maximum (meaning the maximum amount of treasury shares held from time to time) of 15,032,000 (fifteen million thirty-two thousand) shares of ERG common stock at a unit price, including ancillary purchase charges, no lower than 30% below and no higher than 10% above the closing price of the stock on the day immediately preceding each individual transaction.

Treasury shares

As of 31 December 2010 ERG S.p.A. held 2,100,000 treasury shares, amounting to 1.397% of the share capital. Pursuant to IAS 32, treasury shares are recorded as a reduction of shareholders' equity. The original cost of treasury shares, write-downs for impairments, and income and losses deriving from any subsequent sales are recorded as changes in shareholders' equity.

ERG S.p.A. stock option plan

On 5 August 2005 the ERG S.p.A. Board of Directors approved a long-term incentive scheme that grants Group executives personal and non-transferable options to subscribe ERG stock.
The plan had a three-year duration and provided for assignment of the options, year by year, with a par exercise price, namely a price corresponding to the average closing price of the ERG shares during the thirty days prior to the assignment.
The plan is not a cash-settled share-based payment transaction.
The vesting of the options is subject to being employed by the Group for three years subsequent to the assignment date.

The following table shows the assigned rights and still in force.

	2007 ASSIGNMENTS
NUMBER OF RIGHTS ASSIGNED [1]	606,505
EXERCISE PRICE (EUR) [2]	16.00
FAIR VALUE AT DATE OF ASSIGNMENT (EUR) [2]	3.69

(1) the number is shown net of the rights cancelled
(2) weighted average value based on assigned options

It should be noted that in 2010 the options that had been assigned in 2006 (exercise price EUR 16) expired. The stock option reserve was therefore reduced and reclassified to "Other reserves".
The fair value of the options granted was estimated using the Black-Scholes model and taking into account the terms and conditions for assignment of the options.
The following table shows the assumptions used in the model.

	2007 ASSIGNMENTS
AVERAGE VOLATILITY OF ERG SHARE PRICE [1]	31.99%
RISK-FREE INTEREST RATE [1]	3.59%
EXPIRY OF RIGHT	4 YEARS

(1) weighted average value based on assigned options

Following the expiration of the three-year validity of the options assigned in 2005 and 2006 and therefore the conclusion of the related vesting periods, the costs accrued in 2010 for the final tranche are not significant.

Reserves

	12/31/2010	12/31/2009
SHARE PREMIUM RESERVE	48,536	48,536
LEGAL RESERVE	3,236	3,236
RESERVE FOR FIRST-TIME ADOPTION OF IAS/IFRS AND RETAINED EARNINGS	727,062	83,564
STOCK OPTION RESERVE	2,393	6,601
CASH FLOW HEDGE RESERVE	2,527	(1,259)
AVAILABLE FOR SALE SECURITIES RESERVE	41	12
2010 MERGER SURPLUS	250,563	–
OTHER RESERVES	209,812	15,130
TOTAL	**1,244,170**	**155,820**

- The "Share premium reserve" consists of the share premium (paid-in capital in excess of par) paid by shareholders to purchase shares related to the share capital increases carried out on 14 October 1997, 2 July and 5 August 2002. This reserve was used for the purchase of treasury shares in 2006 totalling EUR 11,210 thousand and in 2008 totalling EUR 14,779 thousand.
- The "Reserve for first-time adoption of IAS/IFRS and retained earnings" consists of adjustments made to the financial statements of ERG S.p.A. at the time of conversion (mainly for the derecognition of dividends maturing at the end of the period) and of retained earnings. The increase reflects the reclassification of the previous year's net income.
- The "Stock option reserve" includes accrued portions of stock option plans.

- The "Cash flow hedge reserve" was accrued on the fair value of cash flow hedging contracts net of related taxes.
- The "Available for Sale Securities reserve" was accrued on the fair value of "Cash equivalent securities" net of related taxes.
- "Other reserves" mainly consist of revaluation reserves (EUR 66,946 thousand) and reserves deriving from the monetary revaluation pursuant to Law 72/83.

As described in the paragraph "**2010 Merger**", the generated merger surpluses (EUR 446 million) were partly allocated in the reserve "2010 Merger surplus" (EUR 251 million) and partly to replemish the specific untaxed reserves (EUR 195 million). The following table lists shareholders' equity items, indicating for each of them their possible utilisation, as well as any tax restrictions.

	AMOUNT	POSSIBILITY OF UTILISATION	PORTION AVAILABLE AND DISTRIBUTABLE	UNTAXED RESERVE PORTION
SHARE CAPITAL	15,032	–	–	15,032
SHARE PREMIUM RESERVE	48,536	A B C	48,536	–
LEGAL RESERVE	3,236	B	–	–
RESERVE FOR FIRST-TIME ADOPTION OF IAS/IFRS AND RETAINED EARNINGS	727,062	A B C	727,062	–
STOCK OPTION RESERVE	2,393	–	–	–
CASH FLOW HEDGE RESERVE	2,527	–	–	–
AVAILABLE FOR SALE SECURITIES RESERVE	41	–	–	–
OTHER RESERVES	460,375	A B C	460,375	226,361
NET PROFIT (LOSS) FOR THE YEAR	398,131	A B C	51,728	–
TOTALE	**1,657,333**		**1,287,701**	**241,393**

Key:
A - for share capital increase
B - for loss coverage
C - for distribution to shareholders

Following off-balance sheet tax deductions taken pursuant to the previously-in-force version of Article 109, paragraph 4 b) of the Italian Consolidated Income Tax Act, still provisionally applicable (including those taken by taken-over companies), in the event of distribution of the year's earnings and/or reserves, the amount of shareholders' equity reserves and retained earnings must not fall below the total remaining amount of off-balance sheet tax deductions taken. Net of the deferred tax provision, this is estimated to be EUR 57.6 million. Should this occur, the amount of reserves and/or profit for the year distributed beyond the minimum level will form part of the company's taxable income.

NOTE 14 – EMPLOYEES' SEVERANCE INDEMNITIES

	12/31/2010	12/31/2009 PRO-FORMA	12/31/2009
BALANCE AT BEGINNING OF PERIOD	**1,927**	**3,731**	**2,368**
2010 MERGER INCREASES	741	–	–
OTHER INCREASES	1,581	1,642	1,150
DECREASES	(2,364)	(2,705)	(1,591)
BALANCE AT END OF PERIOD	**1,885**	**2,668**	**1,927**

This item includes the estimated liability, determined on the basis of actuarial procedures, relating to severance indemnities payable to employees when they terminate their employment.

NOTE 15 – DEFERRED TAX LIABILITIES

	12/31/2010		12/31/2009 PRO-FORMA		12/31/2009	
	TEMPORARY DIFFERENCES	TAX EFFECT	TEMPORARY DIFFERENCES	TAX EFFECT	TEMPORARY DIFFERENCES	TAX EFFECT
EXCESS AND ADVANCED DEPRECIATION	59,960	2,641	80,740	3,705	968	266
BAD DEBT PROVISION	2,822	959	2,822	959	14	4
OTHER FINANCIAL INSTRUMENTS	4,716	1,800	1,149	450	16	5
ACTUARIAL VALUATION OF EMPLOYEES' SEVERANCE INDEMNITIES	588	176	588	175	389	107
UNREALISED EXCHANGE RATE GAINS	1,506	512	–	–	–	–
TOTALERG JOINT VENTURE GAIN	17,620	5,991	–	–	–	–
OTHER DEFERRED TAXES	–	–	3,036	1,144	–	–
TOTAL		**12,079**		**6,433**		**382**

Deferred tax liabilities are recognised on taxable temporary differences between the value of assets and liabilities for financial reporting purposes and their values for tax calculation purposes.

The tax rate used to calculate deferred tax assets is the same as the theoretical IRES (corporate tax) rate (27.5%) in effect since 1° January 2008 and, when applicable, the theoretical IRAP (regional tax) rate (3.9%).

Moreover, as a result of the merger ERG S.p.A. from 2010 onwards is subject to an IRES rate surcharge ("Robin Tax") of 6.5% for companies operating in the oil refining industry and companies producing and marketing petroleum products, electricity and gas, with revenues in excess of EUR 25 million.

Deferred tax liabilities as of 31 December 2010 amount to EUR 12 million (EUR 6 million as of 31 December 2009 pro-forma); the increase is mainly due to the taxes accrued on the fair value gain that emerged from the TotalErg joint venture.

NOTE 16 – PROVISIONS FOR NON-CURRENT LIABILITIES AND CHARGES

The value of the provisions for non-current liabilities and charges is EUR 168 thousand (EUR 122 thousand is the pro-forma figure as of 31 December 2009) and it consists mainly of EUR 73 thousand in provisions for prior-periods taxes and EUR 95 thousand in provisions for agents' indemnities.

NOTE 17 – NON-CURRENT FINANCIAL LIABILITIES

The breakdown of this item is as shown below:

	12/31/2010	12/31/2009 PRO-FORMA	12/31/2009
MEDIUM AND LONG-TERM MORTGAGES AND LOANS	638,942	622,756	622,756
- CURRENT PORTION OF MEDIUM AND LONG-TERM LOANS	(218,383)	(198,628)	(198,628)
TOTAL	**420,559**	**424,128**	**424,128**

As of 31 December 2010, medium/long-term mortgages and loans totalled EUR 639 million, including EUR 114 million granted by the European Investment Bank for the "ERG Energia Sicilia" project and EUR 50 million by UniCredit for the ERG Renew S.p.A. transaction.

Loans for which significant fees and other ancillary charges were paid at inception were recognised under the amortised cost method pursuant to IAS 39.

In 2010, four new loans, measured at amortised cost, were disbursed to the Company by the following financial institutions:

- Centrobanca (EUR 50 million); this loan will be repaid in half-yearly instalments from 31 December 2012 to 30 June 2015;
- Banca Popolare del Lazio (EUR 15 million); this loan will be repaid in a single instalment, on the maturity date, set on 31 December 2013;
- Banca Carige (EUR 50 million); this loan will be repaid in quarterly instalments from 30 September 2012 to 31 December 2015;
- Monte dei Paschi di Siena (EUR 50 million); this loan will be repaid in a single instalment, on the maturity date, set on 31 December 2013.

With respect to existing loans, in order to reduce the risk stemming from future interest rate fluctuations, Interest Rate Swap transactions were carried out with maturity in 2011 and face value amounting to EUR 50 million. These swaps fixed the interest rate at 1.64%.

As of 31 December 2010 the weighted average interest rate on mortgages and loans was 2.21% (1.78% as of 31 December 2009).

The following table shows the breakdown and maturity of existing mortgages and loans:

	MORTGAGES AND LOANS
DUE BY 12/31/2011	218,383
DUE BY 12/31/2012	137,122
DUE BY 12/31/2013	165,262
DUE BY 12/31/2014	84,728
DUE BY 12/31/2015	33,448
DUE BEYOND 12/31/2015	–
TOTAL	**638,942**

NOTE 18 – PROVISIONS FOR CURRENT LIABILITIES AND CHARGES

	12/31/2010	12/31/2009	MERGER CONTRIBUTION	CHANGES	
				INCREASE	DECREASE
PROVISIONS FOR SUBSIDIARY COMPANIES' LOSSES	4,649	–	–	4,649	–
PROVISION FOR ENVIRONMENTAL CHARGES	25,158	–	158	25,000	–
PROVISION FOR LEGAL RISKS	1,435	209	246	980	–
OTHER PROVISIONS	15,071	58	12,118	3,093	(200)
TOTAL	**46,313**	**267**	**12,522**	**33,722**	**(200)**

"Provision for subsidiary companies' losses" refers to the accrual made in 2010 for the value of the negative shareholders' equity of the subsidiary ERG Petróleos S.A.
The increase in the "Provisions for environmental charges" refers to the accrual of EUR 25 million to the provisions for environmental charges for the Priolo site, previously commented in the paragraph "**Clean ups - Programme Agreement for the Priolo site and CIPE Resolution 61/2008**".

The 2010 increase in "Other provisions" mainly represents the accrual of EUR 2.4 million for the Site's commercial agreements.

NOTE 19 – TRADE PAYABLES

	12/31/2010	12/31/2009 PRO-FORMA	12/31/2009
TRADE PAYABLES	498,558	254,198	10,194
PAYABLES DUE TO GROUP COMPANIES	65,020	67,164	1,378
TOTAL	**563,578**	**321,363**	**11,572**

Trade payables derive from commercial transactions with domestic and foreign suppliers and are payable within the next year.

Trade payables, amounting to EUR 499 million, increased significantly compared with the pro-forma figure as of 31 December 2009, mainly because of the combined effect of the following:

- increase of EUR 246 million in trade payables of the Refining & Marketing segment for purchases of crude oil, essentially due to the increase in the value of the raw materials;
- decrease of EUR 3 million in trade payables of the Power & Gas segment. This item substantially consists of trade payables for purchases of electricity and natural gas.

NOTE 20 – CURRENT FINANCIAL LIABILITIES

	12/31/2010	12/31/2009 PRO-FORMA	12/31/2009
SHORT-TERM BANK BORROWINGS			
SHORT-TERM BANK BORROWINGS IN EUR	511,099	676,092	764
SHORT-TERM BANK BORROWINGS IN FOREIGN CURRENCIES	–	–	–
	511,099	**676,092**	**764**
OTHER SHORT-TERM FINANCIAL PAYABLES			
SHORT-TERM PORTION OF MEDIUM/LONG-TERM BANK BORROWINGS	218,383	198,614	198,629
FINANCIAL PAYABLES DUE TO GROUP COMPANIES	37,961	236,730	358,825
OTHER SHORT-TERM FINANCIAL DEBTS	1,080	3,247	1,783
	257,424	**438,591**	**559,237**
TOTAL	**768,523**	**1,114,682**	**560,000**

As of 31 December 2010, the weighted average interest rate on short-term borrowings was 1.22% (1,40% as of 31 December 2009).

"Financial payables due to Group companies" relate mainly to the payable to ISAB S.r.l. of EUR 21,000 thousand pertaining to the Cash Surplus Management Agreement, to the payable to ERG Oil Sicilia S.r.l. of EUR 10,937 thousand generated in reference to the centralised treasury agreement and to the payable to ERG Rivara Storage S.r.l. for the portions still to be paid as a result of the equity investment in the company, i.e. EUR 5,609 thousand.

NOTE 21 – OTHER CURRENT LIABILITIES

	12/31/2010	12/31/2009 PRO-FORMA	12/31/2009
TAXES PAYABLE	21,048	10,700	1,163
EXCISE DUTIES PAYABLE TO TAX AUTHORITIES	7,091	880	–
PAYABLES DUE TO EMPLOYEES	5,095	3,102	1,815
PAYABLES DUE TO SOCIAL SECURITY INSTITUTIONS	2,494	2,389	1,409
OTHER MINOR CURRENT LIABILITIES	38,661	43,030	68,859
TOTAL	**74,389**	**60,101**	**73,245**

"Taxes payable" mainly pertain to the VAT payable to tax authorities (EUR 14,951 thousand), to withholding taxes (EUR 1,197 thousand) and to tax assessments for the years 2003 and 2004 (EUR 3,181 thousand).

"Payables due to employees" refer to sums owed for the period but not yet paid and include vacation days, unused time off "in lieu," productivity bonuses, and bonuses linked to the company's Management Compensation Plan based on Group value creation.

"Payables due to social security institutions" relate to the social contributions to be paid on December 2010 wages and salaries.

"Other minor current liabilities" represent mainly the payables to associates for Group VAT (EUR 12,498 thousand), the payables to associates for IRES consolidation (EUR 3,588 thousand) and the payables to customers for advances (EUR 15,150 thousand).

NOTA 22 – GUARANTEES, COMMITMENTS AND RISKS

	12/31/2010	12/31/2009
SURETIES IN FAVOUR OF GROUP COMPANIES	95,777	997,645
GUARANTEES PROVIDED IN THIRD PARTIES' FAVOUR	265,694	38,953
OUR COMMITMENTS TO THIRD PARTIES	86,417	6,609
TOTAL	**447,888**	**1,043,207**

The sureties issued to Group companies were mainly for guarantees provided to subsidiaries with respect to crude oil supply contracts and loans.
Guarantees provided to third parties pertain mostly to sureties in favour of foreign suppliers with reference to crude oil supply contracts.
Commitments to third parties consist mainly of sureties in favour of gas and electricity suppliers.

NOTE 23 – CONTINGENT LIABILITIES

ERG S.p.A. is a party in civil and administrative proceedings and legal actions connected with the normal course of its operations. However, on the basis of the information presently available and considering the liability provisions accrued, ERG considers that these proceedings and actions will not determine significant negative effects on its financial statements.

Regarding the ongoing dispute between ERG Raffinerie Mediterranee S.p.A. (now ERG S.p.A.) and the Italian tax authorities over the application of harbour duties for embarkation and disembarkation rights at the Santa Panagia jetty, we can report that, on March 5, 2010 the Italian Constitutional Court handed down a ruling that declared the complaint inadmissible because of groundlessness with regard to the relevance and not manifest groundlessness of the question. In ERG's judgement, the decision substantially does not change the situation because the question of unconstitutionality could be reproposed with additional reasons and because application of the tax in this specific case can be deemed illegitimate even for reasons other than its possible unconstitutionality. It may be recalled that, based on appropriate legal assessments, no provision was accrued from 2001 up to and including 2006, and that, starting in 2007, the duties in question were paid with reserve (as to reimbursement).

On October 12, 2010 Polimeri Europa S.p.A. served notice to ERG S.p.A. of a lawsuit before the Court of Milan, with the first hearing set to May 2011, claiming damages allegedly caused by the April 30, 2006 fire in the Priolo Refinery. The Company reserves the right to formulate the most appropriate objections and, if warranted, to make use of its insurance coverage.

INCOME STATEMENT ANALYSIS

NOTE 24 – REVENUES FROM ORDINARY OPERATIONS

	2010	2009 PRO-FORMA
REVENUES FROM SALES	4,715,722	3,342,760
REVENUES FROM SERVICES	152,061	114,336
TOTAL	**4,867,783**	**3,457,096**

The breakdown of sales by segment is as follows:

	2010	2009 PRO-FORMA
REFINING & MARKETING SEGMENT	3,940,998	2,721,831
POWER & GAS SEGMENT	774,724	620,929
TOTAL	**4,715,722**	**3,342,760**

REFINING & MARKETING SEGMENT SALES

The increase compared with 2009 is mainly due to the increase in quantities sold.

	2010	2009 PRO-FORMA
SUPPLY	1,589,439	518,859
GROUP COMPANIES	430,897	700,651
EXPORTS	1,920,662	1,502,004
EXCISE TAX	–	317
TOTAL	**3,940,998**	**2,721,831**

POWER & GAS SEGMENT SALES

The sales revenues of the Power & Gas segment consist essentially of sales of electricity and gas, of the supply of steam, demineralised water and other utilities to the other companies operating in the Priolo industrial site and of the sale of CO_2 and green certificates.

	2010	2009 PRO-FORMA
ELECTRIC POWER (1)	458,829	317,591
STEAM	31,517	75,951
DEMINERALISED WATER	3,558	5,667
OTHER UTILITIES	641	(43)
SALE TO ISAB S.R.L. UTILITIES	172,141	–
GAS	87,784	187,095
CO_2	15,229	11,885
GREEN CERTIFICATES	5,025	22,783
TOTAL	**774,724**	**620,929**

(1) including revenues from coverage of zone prices

Service revenues refer mainly to processing fees from ISAB S.r.l. for EUR 128,409 thousand and arbitrage income on crude oil, electricity and gas transactions for EUR 22,283 thousand.

NOTE 25 – OTHER REVENUES AND INCOME

	2010	2009 PRO-FORMA	2009
OTHER REVENUES FROM GROUP COMPANIES	13,072	14,951	7,587
RECOVERED EXPENSES FROM THIRD PARTIES	3,411	2,992	94
OTHER	4,447	1,474	253
TOTAL	**20,930**	**19,416**	**7,933**

"Other revenues from Group companies" essentially consist of revenues for the sale of mandatory inventories to TotalErg S.p.A., advertising and entertainment expenses recovered from the former ERG Petroli S.p.A. and TotalErg S.p.A. and expenses recovered from ISAB S.r.l.

NOTE 26 – CHANGES IN INVENTORY

	2010	2009 PRO-FORMA	2009
CHANGES IN FINISHED GOODS INVENTORIES	79,264	(34,851)	–
CHANGES IN RAW MATERIAL INVENTORIES	91,607	(30,344)	–
TOTAL	**170,871**	**(65,195)**	**–**

The values of product and raw material inventories were determined under the weighted average cost method. The increase of approximately EUR 236 million is due to the greater quantities in inventory and to the increase in the average prices at year end.

NOTE 27 – COST OF PURCHASES

Costs of purchases, amounting to EUR 4,492,029, refer to:

- the Refining & Marketing segment, in particular purchase costs of crude oil and products including ancillary expenses, transportation, insurance, commissions, inspections and customs charges;
- the Power & Gas segment, in particular purchase costs of fuels (diesel oil and ATZ and BTZ fuel oil by ISAB S.r.l.), utilities (electricity and steam), CO_2 (purchases from third parties and from ERG Power S.p.A. of CO_2 quotas exceeding the requirements of the subsidiary and partially resold to other Group companies), gas (for trading to third parties, shipping, sale to Group companies in the Priolo Gargallo site and supply to the CCGT plants owned by ERG Power S.p.A.).

NOTE 28 – COSTS FOR SERVICES AND OTHER COSTS

	2010	2009 PRO-FORMA	2009
SERVICE COSTS	638,108	496,208	28,685
RENTS PAID	7,021	8,015	6,914
WRITE-DOWN OF RECEIVABLES AND GREEN CERTIFICATES	11,489	5,207	–
PROVISIONS FOR LIABILITIES AND CHARGES	29,120	816	–
DUTIES AND TAXES	4,024	4,647	1,952
OTHER OPERATING EXPENSES	3,248	4,606	2,058
TOTAL	**693,009**	**519,499**	**39,609**

The breakdown of costs for services is as follows:

	2010	2009 PRO-FORMA	2009
PROCESSING COSTS	404,836	356,326	–
COMMERCIAL, DISTRIBUTION AND TRANSPORTATION COSTS	46,101	28,757	–
MAINTENANCE AND REPAIRS	460	743	–
UTILITIES AND SUPPLIES	852	984	739
INSURANCE	4,434	3,733	334
CONSULTANCY AND BROKERAGE	14,060	15,382	8,628
ADVERTISING AND PROMOTIONS	4,966	5,387	4,548
EMOLUMENTS PAID TO DIRECTORS AND STATUTORY AUDITORS	8,045	6,867	5,310
TOLLING FEE	131,008	57,749	–
OTHER SERVICES	23,346	20,280	9,126
TOTAL	**638,108**	**496,208**	**28,685**

The increase of EUR 141,900 thousand in the cost of services compared with the pro-forma figure as of 31 December 2009 is mainly due:

- to the increase (EUR 48,511 thousand) in "processing fees" for the operation and processing contract with ISAB S.r.l., mainly due to the greater processing volumes of the Refinery which in 2009 had undergone a planned maintenance shutdown;
- to the increase (EUR 17,344 thousand) in "Commercial, distribution and transportation costs" as a result of the further development of marketing activities on the free electricity market;
- to the increase (EUR 73,259 thousand) in the price for the "tolling" contract as a result of the start-up of the new CCGT plant.

NOTE 29 – PERSONNEL EXPENSES

	2010	2009 PRO-FORMA	2009
SALARIES AND WAGES	26,280	24,111	14,706
SOCIAL SECURITY CONTRIBUTIONS	7,444	7,144	4,142
EMPLOYEES' SEVERANCE INDEMNITIES	1,581	1,642	1,150
OTHER COSTS	5,266	3,868	1,805
TOTAL	**40,571**	**36,765**	**21,803**

The following table shows the breakdown of ERG S.p.A. personnel (average headcount during the period):

	2010	2009 PRO-FORMA	2009
EXECUTIVES	51	52	33
MANAGERS	130	135	77
WHITE-COLLAR EMPLOYEES	184	200	115
TOTAL	**365**	**387**	**225**

As of 31 December 2010, the total number of employees was 337 (386 according to the pro-forma figure as of 31 December 2009).

NOTE 30 – AMORTISATION, DEPRECIATION AND WRITE-DOWNS OF FIXED ASSETS

	2010	2009 PRO-FORMA	2009
AMORTISATION OF INTANGIBLE FIXED ASSETS	5,697	4,200	2,892
DEPRECIATION OF TANGIBLE FIXED ASSETS	1,280	1,150	1,080
WRITE-DOWNS OF FIXED ASSETS	–	–	–
TOTAL	**6,977**	**5,350**	**3,973**

NOTE 31 – NET FINANCIAL INCOME (EXPENSES)

	2010	2009 PRO-FORMA	2009
INCOME			
FOREIGN EXCHANGE GAINS	85,321	58,414	–
INTEREST INCOME ON BANK ACCOUNTS	8,186	16,211	5,723
FROM RECEIVABLES RECORDED UNDER NON-CURRENT FIN. ASSETS	2,217	1,096	152
INCOME FROM SUBSIDIARIES	12,604	4,067	6,888
OTHER FINANCIAL INCOME	1,438	12,456	18
	109,766	**92,244**	**12,781**
EXPENSES			
FOREIGN EXCHANGE LOSSES	(91,988)	(47,540)	–
SUBSIDIARY COMPANIES	(1,149)	(1,943)	(2,197)
INTEREST ON SHORT-TERM BANK BORROWINGS	(4,497)	(6,408)	(36)
MEDIUM/LONG-TERM INTEREST	(11,003)	(18,787)	(18,787)
OTHER FINANCIAL EXPENSES	(4,442)	(9,100)	(2,944)
	(113,079)	**(83,778)**	**(23,964)**
TOTAL	**(3,313)**	**8,466**	**(11,183)**

The income and expenses from subsidiaries are related to interest on cash account and cash pooling relationships with Group companies.
The increase in interest income on bank accounts concerns the investment of available cash in deposit accounts.
"Interest paid on medium/long-term loans" declined primarily due to principal repayments in 2010 and, to a lesser extent, as a result of the decrease in interest rates in 2010.
"Other financial expenses" include other expenses related to IRS financial instruments totalling EUR 1.7 million.

NOTE 32 – NET INCOME (LOSS) FROM EQUITY INVESTMENTS

	2010	2009 PRO-FORMA	2009
DIVIDENDS AND OTHER INCOME FROM SUBSIDIARIES	119,805	13	800,013
TOTALERG GAIN	434,949	–	–
DIVIDENDS AND OTHER INCOME FROM ASSOCIATES AND JOINT VENTURES	13,872	335	312
DIVIDENDS AND OTHER INCOME FROM OTHER COMPANIES	14	6	6
WRITE-DOWNS	(25,319)	(63,777)	(56,127)
TOTAL	**543,321**	**(63,423)**	**744,204**

"Dividends and other income from subsidiaries" refer mainly to dividends distributed to the Company by ERG Petroli S.p.A. (EUR 97.5 million), ISAB Energy S.r.l. (EUR 16.8 million) and ISAB Energy Services S.r.l. (EUR 5.5 million). In the column "2009 pro-forma", the dividends distributed in 2009 by ERG Raffinerie Mediterranee S.p.A., taken over by ERG S.p.A. in 2010, were eliminated.
The "TotalErg gain" refers to the paragraph "**TotalErg Joint Venture**".
"Dividends and other income from associates and Joint Ventures" constitute the dividends distributed by the joint venture ISAB S.r.l. and by the associate I-Faber S.p.A.
"Dividends and other income from other companies" refer to the dividends distributed to the company by Emittenti Titoli S.p.A.

The "Write-downs" refer:

- for EUR 17,134 thousand to the outcome of the impairment test conducted on the investment in ERG Renew S.p.A.; please refer to the paragraph "**2010 Impairment test**";
- for EUR 7,699 thousand, to the write-down of the investment in ERG Petróleos S.A. (EUR 3.1 million) and to the accrual of EUR 4.6 million to provisions for risks on investments, equal to the value of the negative shareholders' equity of ERG Petróleos S.A. as of 31 December 2010,
- for EUR 486 thousand to the write-down of the investment in Ionio Gas S.r.l.

NOTE 33 – INCOME TAXES

	2010	2009 PRO-FORMA	2009
IRES (CORPORATE TAX)	–	42,674	764
IRAP (REGIONAL TAX)	–	–	–
TAXES FROM PREVIOUS YEAR	877	(998)	(415)
SUBSTITUTE TAXES	–	1,636	–
DEFERRED TAXES	30,249	(6,784)	247
TOTAL	**31,126**	**36,529**	**596**

The provision for income taxes for the period was calculated on the basis of expected taxable income.

Income taxes for the period, positive for EUR 30,249 thousand, includes the recognition of the IRES tax loss of ERG S.p.A. for the year 2010 in the amount of EUR 31,904 thousand following the adoption of the "tax consolidation" regime and the allocation/utilisation of deferred tax liabilities/assets on other income components for a negative net balance of EUR 1,655 thousand.

Based on the forecasts contained in the business plan, the Company deemed it prudent not to record deferred tax assets on the tax loss for purposes of the additional IRES tax (so-called Robin Tax), since their actual recoverability is not certain. In this regard, moreover, the deferred tax assets for purposes of the additional IRES already recognised on tax losses from previous years were derecognised, with an impact of approximately EUR 6 million on the Income Statement.

Below is a summary of positions resulting from the tax consolidation regime:

	12/31/2010	12/31/2009
RECEIVABLES FROM GROUP COMPANIES (PAYABLE TO TAX AUTHORITIES)	(25,993)	(26,031)
PAYABLES TO GROUP COMPANIES (RECEIVABLE FROM TAX AUTHORITIES)	3,465	41,740
ERG S.P.A. NET RECEIVABLE POSITION	34,016	1,926
TOTAL	**11,488**	**17,634**

RECONCILIATION BETWEEN REPORTED AND THEORETICAL TAX CHARGES

	TAXABLE INCOME	TAX
PROFIT BEFORE TAXES	**367,005**	
THEORETICAL TAXATION (TAX RATE 34%)		**124,782**
TEMPORARY DIFFERENCES TAXABLE IN FUTURE YEARS	(17,868)	
TEMPORARY DIFFERENCES DEDUCTIBLE IN FUTURE YEARS	49,355	
REVERSAL OF TEMPORARY DIFFERENCES FROM PREVIOUS YEARS	(11,847)	
PERMANENT DIFFERENCES (1)	(502,663)	
IRES TAXABLE AMOUNT (TAX LOSS)	**(116,018)**	
IRES ON REPORTED TAX LOSS		**(31,904)**

(1 Permanent differences mainly consist of dividends paid by subsidiaries and write-downs of investments

	TAXABLE INCOME	TAX
DIFFERENCE BETWEEN PRODUCTION VALUE AND COSTS	**(172,955)**	
COSTS AND REVENUES NOT RELEVANT FOR IRAP PURPOSES	**52,060**	
COSTS AND REVENUES RECLASSIFIED FOR IRAP PURPOSES	**–**	
THEORETICAL TAXABLE INCOME FOR IRAP PURPOSES	**(120,895)**	
THEORETICAL TAXATION (TAX RATE 4.82%)	**(5,827)**	
TEMPORARY DIFFERENCES TAXABLE IN FUTURE YEARS	4,244	
TEMPORARY DIFFERENCES DEDUCTIBLE IN FUTURE YEARS	(73)	
REVERSAL OF TEMPORARY DIFFERENCES FROM PREVIOUS YEARS	11,709	
PERMANENT DIFFERENCES	35,802	
TAXABLE IRAP INCOME	**(69,213)**	
IRAP REPORTED		**–**

NOTE 34 – NON-RECURRING ITEMS

In 2010, they were:

- the accrual of EUR 25 million to the provisions for environmental charges for the Priolo Site, as commented in the paragraph "**Clean ups - Programme Agreement for the Priolo Site**" and approximately EUR 1 million related to restructuring charges;
- the write-down for EUR 17.1 million of the investment in ERG Renew S.p.A. as a result of the impairment test, as described in the paragraph "**2010 Impairment test**";
- the write-down for EUR 3.1 million of the investment in ERG Petróleos S.A. and the accrual of EUR 4.6 million to provisions for risks on investments, equal to the value of the negative shareholders' equity of ERG Petróleos S.A. as of 31 December 2010, for a total of EUR 7.7 million;
- the gain deriving from the TotalErg joint venture, for EUR 434.9 million;
- the ancillary costs incurred within the TotalErg joint venture, i.e. approximately EUR 11 million pertaining mainly to financial, legal and transaction advisory services for accounting and tax aspects and to bonuses recognised to directors and employees particularly involved in the project.

NOTE 35 – RELATED PARTIES

FY 2010 – Statement of financial position - Assets

(EUR THOUSAND)	OTHER FINANCIAL ASSETS	TRADE RECEIVABLES	OTHER RECEIVABLES AND CURRENT ASSETS	CURRENT FINANCIAL ASSETS
RELATED PARTIES				
ERG RENEW S.P.A.	284,431	404	98	120
ERG POWER S.R.L.	141,209	1,198	1,473	3,952
ISAB S.R.L.	–	101,874	–	–
ISAB ENERGY S.R.L.	24,166	7,355	11,182	–
ERG NUOVE CENTRALI S.P.A.	–	(230)	(31)	26,935
ERG OIL SICILIA S.R.L.	–	17,120	7,182	–
TOTALERG S.P.A.	–	16,871	8,266	–
ESPANSIONE S.R.L.	–	7,963	–	–
PRIOLO SERVIZI S.C.P.A.	–	2,840	–	–
ISAB ENERGY SERVICES S.R.L.	–	5	2,270	–
ERG PETRÓLEOS S.A. UNDERGOING LIQUIDATION	–	2	–	1,937
SAN QUIRICO S.P.A.	–	–	1,415	–
SIGEA S.P.A.	1	6	–	1,064
ERG RIVARA STORAGE S.R.L.	–	33	–	237
IONIO GAS S.R.L.	–	197	–	–
OTHER RELATED PARTIES	–	28	82	–
TOTAL	**449,807**	**155,666**	**31,936**	**34,245**
PERCENTAGE OF TOTAL ITEM	*100%*	*52%*	*45%*	*41%*

FY 2010 – Statement of financial position - Liabilities

(EUR THOUSAND)	TRADE PAYABLES	CURRENT FINANCIAL LIABILITIES	OTHER CURRENT LIABILITIES
RELATED PARTIES			
ISAB S.R.L.	50,340	21,037	1,181
ERG POWER S.R.L.	13,129	–	–
ERG OIL SICILIA S.R.L.	–	11,014	–
ERG RIVARA STORAGE S.R.L.	–	5,609	–
TOTALERG S.P.A.	1,315	–	4,066
ERG NUOVE CENTRALI S.P.A.	1	–	4,973
ERG EOLICA FOSSA DEL LUPO S.R.L.	–	–	3,539
ISAB ENERGY S.R.L.	12	–	2,543
GESTIONI EUROPA S.P.A.	–	–	601
IONIO GAS S.R.L.	48	–	155
ISAB ENERGY SOLARE S.R.L.	–	–	148
ERG RENEW S.P.A.	140	–	–
ERG EOLICA GINESTRA S.R.L.	–	–	117
OTHER RELATED PARTIES	35	(1)	50
TOTAL	**65,020**	**37,659**	**17,373**
PERCENTAGE OF TOTAL ITEM	*12%*	*5%*	*23%*

FY 2010 – Income Statement - Revenues

(EUR THOUSAND)	REVENUES FROM ORDINARY OPERATIONS	OTHER REVENUES AND INCOME	FINANCIAL INCOME	NET INCOME FROM EQUITY INVESTMENTS
RELATED PARTIES				
ISAB S.R.L.	694,151	2,140	5	13,482
TOTALERG S.P.A.	39,499	5,865	111	434,949
ERG PETROLI S.P.A.	265,036	2,141	18	97,500
ERG OIL SICILIA S.R.L.	266,623	1,974	190	–
ISAB ENERGY S.R.L.	48,590	26	930	16,830
ESPANSIONE S.R.L.	42,164	–	–	–
PRIOLO SERVIZI S.C.P.A.	16,129	(56)	–	–
ERG POWER S.R.L.	1,888	3	6,482	–
ISAB ENERGY SERVICES S.R.L.	703	16	–	5,475
ERG RENEW S.P.A.	3,046	589	6,415	(17,134)
ERG PETROLEÓS S.A. UNDERGOING LIQUIDATION	–	–	–	(7,699)
OTHER RELATED PARTIES	180	370	647	(82)
TOTAL GROUP COMPANIES	**1,378,009**	**13,068**	**14,798**	**543,321**
OTHER RELATED PARTIES	–	4	–	–
TOTAL GROUP COMPANIES	**–**	**4**	**–**	**–**
TOTAL	**1,378,009**	**13,072**	**14,798**	**543,321**
PERCENTAGE OF TOTAL ITEM	*28%*	*62%*	*13%*	*100%*

2010 – Income Statement - Expenses

(EUR THOUSAND)	COSTS FOR ACQUISITIONS	SERVICE COSTS AND OTHER COSTS	FINANCIAL CHARGES
RELATED PARTIES			
ISAB S.R.L.	157,716	405,528	466
ERG POWER S.R.L.	4,578	129,840	–
ERG PETROLI S.P.A.	67,966	974	1,074
ERG NUOVE CENTRALI S.P.A.	–	1,167	1
ERG OIL SICILIA S.R.L.	832	–	77
ERG RENEW S.P.A.	–	483	–
ISAB ENERGY SERVICES S.R.L.	–	163	–
OTHER RELATED PARTIES	4	21	(4)
TOTAL GROUP COMPANIES	**231,096**	**538,176**	**1,614**
U.C. SAMPDORIA S.P.A.	–	3,452	–
FONDAZIONE EDOARDO GARRONE ONLUS	–	100	–
TOTAL OTHER RELATED PARTIES	**–**	**3,552**	**–**
TOTAL	**231,096**	**541,728**	**1,614**
PERCENTAGE OF TOTAL	*5%*	*78%*	*1%*

Assets relate mainly to trade receivables, the granting of loans, Group VAT and the consolidated tax regime.

Liabilities mainly relate to trade payables and loan agreements.
Income and expenses are essentially connected to the business of the Refining & Marketing and Power & Gas segments, cost recovery for services rendered by the centralised staff functions and dividends distributed by the subsidiaries.
All transactions form part of ordinary operations and are settled at market terms and conditions.
With regards to the other transactions with related parties, as defined by IAS 24, the charge of EUR 3.5 million to U.C. Sampdoria S.p.A., a football club controlled by ERG's main shareholder, is related for 2.7 million to the sponsorship agreement and for EUR 0.8 million to minor contracts; the value of EUR 100 thousand is the donation to Fondazione Edoardo Garrone Onlus as a one-off contribution for 2010.

NOTE 36

With regards to CONSOB Resolutions on this matter, the tables on the following pages provide disclosure on emoluments paid to Directors, Statutory Auditors, General Managers and key executives, as well as on stock options assigned to Directors, General Managers and key executives.

TABLE 1

Emoluments paid by ERG S.p.A. and subsidiaries in 2010 to Directors, Statutory Auditors, General Managers and key executives

PERSON	DESCRIPTION OF OFFICE		
FULL NAME	OFFICE HELD	PERIOD IN OFFICE	EXPIRATION OF TERM IN OFFICE
EDOARDO GARRONE	CHAIRMAN	1/1/10 - 12/31/2010	APRIL 30, 2012
PIETRO GIORDANO	DEPUTY CHAIRMAN	1/1/10 - 12/31/2010	APRIL 30, 2012
GIOVANNI MONDINI	DEPUTY CHAIRMAN	1/1/10 - 12/31/2010	APRIL 30, 2012
ALESSANDRO GARRONE	CHIEF EXECUTIVE OFFICER	1/1/10 - 12/31/2010	APRIL 30, 2012
MASSIMO BELCREDI	DIRECTOR INTERNAL CONTROL COMMITTEE CHAIRMAN NOMINATIONS AND REMUNERATION COMMITTEE MEMBER	1/1/10 - 12/31/2010	APRIL 30, 2012
LUCA BETTONTE	DIRECTOR	1/1/10 - 12/31/2010	APRIL 30, 2012
LINO CARDARELLI	DIRECTOR NOMINATIONS AND REMUNERATION COMMITTEE MEMBER	1/1/10 - 12/31/2010	APRIL 30, 2012
ALDO GAROZZO	DIRECTOR	1/1/10 - 12/31/2010	APRIL 30, 2012
GIUSEPPE GATTI	DIRECTOR	1/1/10 - 12/31/2010	APRIL 30, 2012
ANTONIO GUASTONI	DIRECTOR INTERNAL CONTROL COMMITTEE MEMBER	1/1/10 - 12/31/2010	APRIL 30, 2012
PAOLO FRANCESCO LANZONI	DIRECTOR NOMINATIONS AND REMUNERATION COMMITTEE MEMBER INTERNAL CONTROL COMMITTEE MEMBER	1/1/10 - 12/31/2010	APRIL 30, 2012
GRAZIELLA MERELLO	DIRECTOR	1/1/10 - 12/31/2010	APRIL 30, 2012
MARIO PACCIANI	CHAIRMAN OF BOARD OF AUDITORS	1/1/10 - 12/31/2010	APRIL 30, 2013
LELIO FORNABAIO	AUDITOR	4/15/10 - 12/31/2010	APRIL 30, 2013
PAOLO FASCE	AUDITOR	1/1/10 - 12/31/2010	APRIL 30, 2013
ANDREA MANZITTI	AUDITOR	1/1/10 - 4/14/2010	–
KEY EXECUTIVES (13)	MANAGING DIRECTORS AND DIVISION HEADS	–	–

Notes to table 1

(1) Bonus accrued in 2010, to be paid out in May 2011 by ERG S.p.A.
(2) Extraordinary bonus of EUR 3,000,000.00, paid in 2010 for extraordinary transactions;
(3) Compensation as Chairman of ERG Petroli S.p.A. and ERG Renew S.p.A.;
(4) Employment wages from ERG S.p.A.;
(5) Fees as director in I-Faber S.p.A.;
(6) Fees as director ERG Nuove Centrali S.p.A. and Isab Energy Services S.r.l.;
(7) Fees as Chairman of the Supervisory Committee in ERG S.p.A., ERG Petroli S.p.A., ERG Raffinerie Mediterranee S.p.A., ERG Power & Gas S.p.A. and ERG Renew S.p.A.;
(8) Fees as Chairman of the Board of Statutory Auditors in ERG Petroli S.p.A., ERG Power & Gas S.p.A., TotalErg S.p.A. and as Auditor in ERG Oil Sicilia S.p.A., ISAB Energy S.r.l. and Raffineria di Roma S.p.A.;

TABLE 2

Stock options assigned to Directors, General Managers and key executives

		OPTIONS HELD AT THE START OF THE YEAR			OPTIONS ASSIGNED DURING THE YEAR		
FULL NAME	OFFICE HELD	NUMBER OF OPTIONS	AVERAGE EXERCISE PRICE	AVERAGE EXPIRATION	NUMBER OF OPTIONS	AVERAGE EXERCISE PRICE	AVERAGE EXPIRATION
EDOARDO GARRONE	CHAIRMAN	156,182	15.88	4/2/2011			
PIETRO GIORDANO	DEPUTY CHAIRMAN	195,228	15.87	4/2/2011			
GIOVANNI MONDINI	DEPUTY CHAIRMAN	26,030	15.88	4/2/2011			
ALESSANDRO GARRONE	CEO	262,689	15.78	2/2/2011			
LUCA BETTONTE	DIRECTOR	43,384	14.13	11/20/2011			
ALDO GAROZZO	DIRECTOR	65,076	15.88	4/2/2011			
GIUSEPPE GATTI	DIRECTOR	84,599	15.81	2/17/2011			
DIRIGENTI STRATEGICI	MAN. DIR./DIVISION HEAD	203,905	16.26	5/10/2011			

COMPENSATION			
EMOLUMENTS FOR THE OFFICE	NON MONETARY BENEFITS	BONUS AND OTHER INCENTIVES	OTHER FEES
791,086.89	8,913.11	125,000.00 (1)	–
604,158.75	15,847.58	3,300,000.00 (1) (2)	291,666.67 (3)
110,833.84	9,311.04	30,000.00 (1)	259,233.00 (4)
992,313.90	13,547.86	200,000.00 (1)	8,330.48 (5)
47,416.00 40,000.00 25,000.00	2,584.00	–	–
50,000.00	14,756.78	75,000.00 (1)	1,011,639.00 (4) (14)
50,000.00 25,000.00	–	–	–
43,907.00	7,072.20	–	–
100,000.00	3,290.40	–	7,843.33 (6)
50,000.00 40,000.00	–	–	–
44,782.07 25,000.00 40,000.00	5,217.93	–	37,250.00 (7)
293,072.00	6,928.00	–	–
60,000.00	–	–	50,205.16 (8)
28,646.84	–	–	96,322.67 (9)
40,000.00	–	–	18,706.23 (10)
11,353.16	–	–	45,000.00 (11)
–	25,843.70	142,000.00 (1)	2,121,659.00 (12)

(9) Fees as Chairman of the Board of Statutory Auditors in ERG Renew S.p.A., ERG Nuove Centrali S.p.A., ERG Power S.r.l. and as Auditor in Ionio Gas S.r.l., ISAB S.r.l., ERG Eolica Italia S.r.l., ERG Power & Gas S.p.A. and ERG Raffinerie Mediterranee S.p.A.;

(10) Fees as Chairman of the Board of Statutory Auditors in I-Faber S.p.A. and as Auditor in ERG Power & Gas S.p.A. and Ionio Gas S.r.l.;

(11) Fees as Auditor in ERG Renew S.p.A. and ISAB S.r.l.;

(12) Employment wages from ERG S.p.A. and fees as managing directors in subsidiaries, net of emoluments collected directly from the company by which they are employed. Includes extraordinary bonus of Euro 320,000.00 disbursed in 2010 for extraordinary operations;

(13) Includes 5 executives;

(14) Includes extraordinary bonus of Euro 450,000.00 disbursed in 2010 for extraordinary operations

	OPTIONS EXERCISED DURING THE YEAR		OPTIONS EXERCISED DURING THE YEAR		OPTIONS HELD AT THE END OF THE YEAR	
NUMBER OF OPTIONS	AVERAGE EXERCISE PRICE	AVERAGE MARKET EXERCISE PRICE	NUMBER OF OPTIONS	NUMBER OF OPTIONS	AVERAGE EXERCISE PRICE	AVERAGE EXPIRATION
			78,091	78,091	16.14	10/1/2011
			97,614	97,614	16.14	10/1/2011
			13,015	13,015	16.14	10/1/2011
			173,536	89,153	16.14	10/1/2011
			–	43,384	14.13	11/20/2011
			32,538	32,538	16.14	10/1/2011
			52,061	32,538	16.14	10/1/2011
			138,829	65,076	16.14	10/1/2011

NOTE 37 – INDEPENDENT AUDIT FEES

In accordance with Article 149-duodecies of CONSOB's Issuers' Regulations, we set out below the costs for '2010 relating to services rendered by the independent auditor Deloitte & Touche S.p.A., the ERG group's main independent auditor, and by the companies belonging to its network.

	2010
AUDITING SERVICES	260
SERVICES OTHER THAN AUDITING	808
TOTAL	**1,068**

"Auditing services" include the full audit of the annual Consolidated and Separate Financial Statements and the limited audit of the mid-year interim report.

"Services other than auditing" refer to:

- attest services for EUR 464 thousand pertaining to the verification of conformity of the separate annual financial statements pursuant to AEEG Resolution no. 11/2007 and to verifications linked to the TotalErg Joint Venture and to the Acquisition of ERG Eolica Adriatica;
- tax advisory services for EUR 119 thousand;
- other services for EUR 226 thousand relating mainly to agreed-upon procedures voluntarily requested on quarterly data and other minor services.

NOTE 38 – DIVIDENDS

The dividends paid by ERG S.p.A. in 2010 (EUR 59.3 million), as resolved upon approval of the financial statements for the previous year, amounted to EUR 0.40 for each of the shares with dividend rights as of the dividend date, thus with the exclusion of treasury shares in accordance with Article 2357-ter of the Italian Civil Code.

On 3 March 2011, the Board of Directors of ERG S.p.A. proposed the payment to shareholders of a dividend of EUR 0.40 per share. The dividend shall be paid starting on 26 May 2011, after issuance of the coupon starting from 23 May 2011.

NOTE 39 – FINANCIAL INSTRUMENTS

12/31/2010	FVTPL (1)	L&R (2)	AFS (3)	OTHER LIABILITIES	HEDGING DERIVATIVES	TOTAL	*OF WHICH NON CURRENT*	FAIR VALUE
INVESTMENTS IN OTHER COMPANIES	–	–	559	–	–	559	–	559
FINANCIAL RECEIVABLES	–	493,692	1,420	–	–	495,112	*449,858*	495,112
DERIVATIVES	–	–	–	–	5,532	5,532	–	5,532
TRADE RECEIVABLES	–	298,966	–	–	–	298,966	–	298,966
FINANCIAL SECURITIES IN CURRENT ASSETS		27,986	12,159	–	–	40,145	–	40,145
OTHER RECEIVABLES	–	31,727	–	–	–	31,727	*50*	31,727
CASH AND CASH EQUIVALENTS	–	1,114,939	–	–	–	1,114,939	–	1,114,939
TOTAL ASSETS	**–**	**1,967,310**	**14,138**	**–**	**5,532**	**1,986,980**	***449,908***	**1,986,980**
MORTGAGES AND LOANS	–	–	–	638,942	–	638,942	*420,559*	641,631
SHORT TERM BANK BORROWINGS	–	–	–	511,099	–	511,099	–	511,099
FINANCIAL PAYABLES	–	–	–	37,964	–	37,964	–	37,964
DERIVATIVES	1,030	–	–	–	195	1,225	–	1,225
TRADE PAYABLES	–	–	–	563,578	–	563,578	–	563,578
OTHER PAYABLES	–	–	–	38,091	–	38,091	–	38,091
TOTAL LIABILITIES	**1,030**	**–**	**–**	**1,789,674**	**195**	**1,790,898**	***420,559***	**1,793,587**

(1) FVTPL: Fair Value Through Profit or Loss
(2) L&R: Loans and Receivables
(3) AFS: Available For Sale financial investments

12/31/2009	FVTPL (1)	L&R (2)	AFS (3)	OTHER LIABILITIES	HEDGING DERIVATIVES	TOTAL	*OF WHICH NON CURRENT*	FAIR VALUE
INVESTMENTS IN OTHER COMPANIES	–	–	456	–	–	456	1,252	456
FINANCIAL RECEIVABLES	–	464,106	1,044	–	–	465,150	1,044	465,150
DERIVATIVES	–	–	–	–	–	–	–	–
TRADE RECEIVABLES	–	4,834	–	–	–	4,834	–	4,834
OTHER RECEIVABLES	–	401	–	–	–	401	–	401
CASH AND CASH EQUIVALENTS	–	919,353	29,981	–	–	949,334	–	949,334
TOTAL ASSETS	**–**	**1,388,694**	**31,481**	**–**	**–**	**1,420,175**	***2,296***	**1,420,175**
MORTGAGES AND LOANS	–	–	–	622,756	–	622,756	*424,127*	616,482
SHORT TERM BANK BORROWINGS	–	–	–	764	–	764	–	764
FINANCIAL PAYABLES	–	–	–	358,825	–	358,825	–	358,825
DERIVATIVES	1,780	–	–	–	–	1,780	–	1,780
TRADE PAYABLES	–	–	–	11,572	–	11,572	–	11,572
OTHER PAYABLES	–	–	–	841	–	841	–	841
TOTAL LIABILITIES	**1,780**	**–**	**–**	**994,758**	**–**	**996,538**	***424,127***	**990,264**

(1) FVTPL: Fair Value Through Profit or Loss
(2) L&R: Loans and Receivables
(3) AFS: Available For Sale financial investments

NOTE 40 – DISCLOSURE ON RISKS

The following are the main risks identified and actively managed by ERG S.p.A.:

- Credit risk: the possibility of default by a counterparty or the potential deterioration of the assigned creditworthiness;
- Market risk: deriving from exposure to fluctuations in currency exchange rates, mainly between the EUR and US Dollar and interest rates, as well as changes in the prices of products sold and raw material purchased (commodity price volatility risk);
- Liquidity risk: the risk of available financial resources being insufficient to fulfil payment commitments.

ERG attaches great importance to identifying and measuring risks and to the related controls, in order to ensure efficient management of the risks it runs; the Risk Management process measures and controls, at a centralised level for the entire Group, the degree of exposure to individual risks and verifies consistency with assigned limits and provides its own analyses, both to individual subsidiaries and to the Risk Committee and the Top Management of the Parent Company, for strategic decisions.

CREDIT RISK

Exposure to credit risk, inherent in the possibility of default by a counterparty or in the deterioration of its creditworthiness, is managed by means of appropriate analyses and evaluations of individual counterparties, with each of these being assigned an internal credit rating (internal-ratings-based approach). The assignment of the rating category provides an estimate of the probability of default by a particular counterparty. A degree of reliability is indicated for each level, which is carefully monitored and must never be exceeded. The selection of counterparties for both the industrial and financial transactions depends on their high credit ratings.
The risk of concentration, in terms of both customers and segments, is also monitored continuously; however, 'alert' situations have never occurred.

The following table provides information on ERG S.p.A.'s exposure to credit risk at year end, by a classification of assets according to the corresponding creditworthiness reflecting the internal ratings assigned.

(EUR THOUSAND)	2010
AAA RATING	1,683
AA+ / AA- RATING	1,672
A+ / A- RATING	27,064
BBB+ / BBB- RATING	34,618
BB+ / BB- RATING	22,538
B+ / B- RATING	537
NOT ASSIGNED	8,523
TOTAL	**96,635**

LIQUIDITY RISK

Liquidity risk is the risk that financial resources may be insufficient to cover all obligations falling due. ERG currently ensures adequate coverage of its financial requirements with the generation of cash flows and the availability of credit lines provided by various counterparties.

The following tables summarise the maturity profile of the financial liabilities of ERG S.p.A. as of 31 December 2010 and as of 31 December 2009, based on undiscounted contractual payments.

12/31/2010	PAYABLES BY MATURITY				
(EUR THOUSAND)	ON DEMAND	UNDER 3 MONTHS	3 - 12 MONTHS	1 - 5 YEARS	MORE THAN 5 YEARS
MORTGAGES AND LOANS	–	1,265	196,154	470,451	–
NON-RECOURSE PROJECT FNANCING	–	–	–	–	–
SHORT-TERM BANK BORROWING	511,099	–	–	–	–
DERIVATIVE INSTRUMENTS	–	–	708,869	322,888	–
FINANCIAL PAYABLES	–	39,041	–	–	–
TRADE PAYABLES	–	455,565	(11)	(174)	43,179
TOTAL LIABILITIES	**511,099**	**495,871**	**905,012**	**793,165**	**43,179**

12/31/2009	PAYABLES BY MATURITY				
(EUR THOUSAND)	ON DEMAND	UNDER 3 MONTHS	3 - 12 MONTHS	1 - 5 YEARS	MORE THAN 5 YEARS
MORTGAGES AND LOANS	–	1,067	159,371	494,392	14,044
NON-RECOURSE PROJECT FNANCING	–	–	–	–	–
SHORT-TERM BANK BORROWING	764	–	–	–	–
DERIVATIVE INSTRUMENTS	–	–	–	1,780	–
FINANCIAL PAYABLES	–	358,825	–	–	–
TRADE PAYABLES	–	11,572	–	–	–
TOTAL LIABILITIES	**764**	**371,464**	**159,371**	**496,172**	**14,044**

With regard to the information about "Fair value hierarchies", required by IFRS 7, please refer to **Note 43 – Financial instruments of the Consolidated Financial Statements**.

MARKET RISK

Market risk includes currency exchange rate risk, interest rate risk and commodities price risk. Management of these risks is regulated by the guidelines indicated in the Group's Risk Management Policy and internal procedures of the operational finance department.
Furthermore, specific risk management policies and procedures, based on industry best practice, were developed for the thermoelectric-gas business to continue to measure exposure to risk in terms of a risk capital value allocated by the Parent Company.

Currency exchange rate risk

Exchange rate risk is the change in exchange rates expressed in the various currencies relative to the EUR, which impacts on the company's performance. Net flows generated by the company, in currencies other than the EUR (reference currency) constitute exposure to exchange rate risk. In order to mitigate the volatility of these exposures, open positions are hedged on both the spot and forwards markets.
The following table shows the impact on pre-tax profit, with all other variables kept constant, of the adjustment to the fair value of financial assets and liabilities resulting from a change of +/- 10% in the exchange rate towards the Dollar.

Impact on Income Statement

(EUR MILLION)	2010	2009
SHOCK-UP (FLUCTUATION IN EUR/DOLLAR EXCHANGE RATE **+10%**)	4.1	–
SHOCK-DOWN (FLUCTUATION IN EUR/DOLLAR EXCHANGE RATE **-10%**)	(4.4)	–

Interest rate risk

The interest rate risk identifies the fluctuation in future interest rates that could determine higher costs for the Group. Interest rate risk is hedged by using derivative contracts, such as Interest Rate Swaps and Interest Rate Options (plain vanilla).

The following table illustrates the impact on pre-tax profit (due to adjustments to the fair value of financial assets and liabilities), and on shareholders' equity (due to adjustments to the fair value of the derivative instruments comprising the cash flow hedge reserve) of a +/-1% change in interest rate, while holding all other variables constant.

Impact on Income Statement

(EUR MILLION)	2010	2009
SHOCK-UP (FLUCTUATION IN INTEREST RATE **+1%**)	(3.9)	(3.0)
SHOCK-DOWN (FLUCTUATION IN INTEREST RATE **-1%**)	4.0	3.2

Commodity Risk

Commodity price risk consists in unexpected changes in the prices of raw materials and of services, as well as of finished products and services provided for sale on the open market.

The current policy for oil commodities price risk management envisages the use of instruments and methods that can achieve the annual average prices reported in Platt's quotations for raw materials and finished products. The objective defined in the Risk Management Policy is to target the annual average refining margin according to the existing industrial organisation.

In order to achieve the annual average refining margin, the Group uses derivative instruments such as Futures, Commodity Swaps and Commodity Options with underlying crude oil and petroleum products.

The following table considers the derivative financial instruments tied to different categories of commodities, oil and energy, and shows – with all other variables kept constant – the impact on pre-tax profit (due to adjustments to the fair value of financial assets and liabilities) and Group shareholders' equity (due to adjustments to the fair value of the derivative instruments comprising the cash flow hedge reserve) of a +/-20% change in the price of commodities.

Impact on Income Statement

(EUR MILLION)	2010	2009
SHOCK-UP (FLUCTUATION IN COMMODITIES PRICE **+20%**)	(1.2)	–
SHOCK-DOWN (FLUCTUATION IN COMMODITIES PRICE **-20%**)	1.2	–

Impact on Shareholders' Equity

(EUR MILLION)	2010	2009
SHOCK-UP (FLUCTUATION IN COMMODITIES PRICE **+20%**)	9.6	–
SHOCK-DOWN (FLUCTUATION IN COMMODITIES PRICE **-20%**)	(9.5)	–

RISK ASSOCIATED WITH MUTUAL FUND AND SICAV SHARE PRICES

The price risk, which has an immaterial impact, in 2010 is represented by short-term liquidity investments in mutual funds and SICAVs.
As of 31 December 2010, the existing risk was not material.

DERIVATIVE INSTRUMENTS USED

The derivative instruments arranged by ERG are designed to hedge its exposure to commodities price, currency exchange rate, and interest rate risks. As of 31 December 2010, they consisted of the following:

Cash flow hedging instruments

Interest Rate Swap

Transactions hedging the economic interest rate risk arising from the risk of fluctuations in interest rates paid on loans.
As of 31 December 2010 there was a negative fair value of an immaterial amount.

Crude oil price risk swaps

Swap operations to hedge the risk of fluctuations in the future prices of raw materials. They are contracts whereby the parties undertake to pay or receive, at an agreed maturity date, the difference between the spot price and forward price for the quantity of crude oil in question (underlying asset). Settlement between the parties only concerns the price differentials and does not entail any exchange of goods, whilst the existence of the underlying financial instrument is guaranteed.
As of 31 December 2010 there was a positive fair value of an immaterial amount.

Product price risk swaps

Swap operations to hedge the risk of fluctuations in the prices of future sales of products. They are contracts whereby the parties undertake to pay or receive, at an agreed maturity date, the difference between the spot price and forward price for the quantity of reference products (underlying asset). Settlement between the parties only concerns the price differentials and does not entail any exchange of goods, whilst the existence of the underlying financial instrument is guaranteed.
As of 31 December 2010 there was a negative fair value of an immaterial amount.

Gas price risk swaps

Swap operations to hedge the risk of fluctuations in the prices of gas formulas with respect to delivery and supply contracts.. They are contracts whereby the parties undertake to pay or receive, at an agreed maturity date, the difference between the spot price and forward price in the period multiplied times the contracted quantities.
As of 31 December 2010 there was a positive fair value of EUR 5,121 thousand.

Future hedging crude oil price risks

Futures to hedge the risk of price fluctuations on the quantities of crude oil held in inventory. They are contracts whereby the parties undertake to purchase and/or sell at a future date a given quantity of crude oil lots.

The monetary settlement between the parties takes place on the basis of the price differencial. As of 31 December 2010 there was a positive fair value of an immaterial amount.

Fair value hedging instruments

Crude oil price risk swaps

Swap operations to hedge the risk of fluctuations in the prices of raw materials already acquired at 31 December 2010. They are contracts whereby the parties undertake to pay or receive, at an agreed maturity date, the difference between the spot price and forward price for the quantity of crude oil in question (underlying asset). Settlement between the parties only concerns the price differentials and does not entail any exchange of goods, whilst the existence of the underlying financial instrument is guaranteed.
As of 31 December 2010 there was a positive fair value of an immaterial amount.
Therefore, the raw materials covered by this hedging instrument are adjusted to reflect, in the Income Statement, the changes in fair value associated with the hedged risk.

Non-Hedge Accounting instruments

Forwards on short-term currency exchange rates

These are transactions to hedge the currency exchange rate risk of cash flows generated by expected purchases of raw materials and sales of finished products for the month of January 2011.
As of 31 December 2010 there was a negative fair value of an immaterial amount.

CFD to hedge electricity price risks

CFD transactions to hedge the risk of fluctuations in the price of electricity with respect to electricity forward purchase contracts. They are contracts whereby the parties undertake to liquidate on the expiration date the differential between the contractually agreed price and the market price of the reference period, multiplied times the traded units.
As of 31 December 2010 there was a negative fair value of an immaterial amount.

CASH FLOW HEDGE RESERVE

	12/31/2010	12/31/2009
BALANCE AT START OF PERIOD	**(1,259)**	**(1,493)**
EFFECTS FROM 2010 MERGER	1,253	–
CHANGE IN FAIR VALUE	2,971	(1,167)
UTILISATION TO INCOME STATEMENT	(438)	1,401
BALANCE AT END OF PERIOD	**2,527**	**(1,259)**

MARKET VALUE OF DERIVATIVE INSTRUMENTS

To determine the market value of derivatives, ERG uses various valuation models. In particular, the Futures utilised by ERG S.p.A. fall into Level 1 of the Fair Value Hierarchy indicated in IFRS 7, whilst all other derivative instruments fall into Level 2 of the Hierarchy.

NOTE 41 – PUBLICATION DATE OF CONSOLIDATED FINANCIAL STATEMENTS

On 3 March 2011, the Board of Directors of ERG S.p.A. authorised publication of the financial statements together with the supervisory Bodies' reports, according to the time table set out by current laws and regulations.

Genoa, 3 March 2011

On behalf of the Board of Directors
The Chairman
Edoardo Garrone

REPRESENTATIONS ON THE SEPARATE FINANCIAL STATEMENTS IN ACCORDANCE WITH ARTICLE 81-TER OF CONSOB REGULATIONS NO. 11971 14 MAY 1999 WITH SUBSEQUENT AMENDMENTS AND ADDITIONS

1. The undersigned Alessandro Garrone, as Chief Executive Officer of ERG S.p.A., and Giorgio Coraggioso, as Manager responsible for preparing the financial reports of ERG S.p.A., represent, taking into account the provisions of Article 154-bis, Paragraphs 3 and 4, of Legislative Decree 58 of 24 February 1998:

- the adequacy in relation to the characteristics of the company and
- the actual implementation of the administrative and accounting procedures for the preparation of the Separate Financial Statements in 2010.

2. The assessment of the adequacy of the administrative and accounting procedures for the preparation of the Separate Financial Statements as of 31 December 2010 was based on a process defined by ERG S.p.A. in accordance with the Internal Control – Integrated Framework model issued by the Committee of Sponsoring Organizations of the Treadway Commission which represents a benchmark framework generally accepted internationally.

3. The undersigned further represent that:

3.1 the Separate Financial Statements:

a) were prepared in accordance with the applicable International Accounting Standards recognised in the European Community pursuant to Regulation (EC) no. 1606/2002 of the European Parliament and Council, dated 19 July 2002;

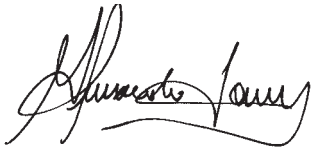
b) match the accounting books and records;

c) are capable of providing a true and fair presentation of the financial position and results of operations of the issuer;

3.2 the Report on Operations includes a reliable analysis of performance and of the position of the issuer, along with the description of the main risks and uncertainties to which they are exposed.

Genoa, 3 March 2011

The Chief Executive Officer



The Manager responsible
for preparing the financial reports

BOARD OF STATUTORY AUDITORS REPORT TO THE SHAREHOLDERS' MEETING, PURSUANT TO ARTICLE 153 OF LEGISLATIVE DECREE 58/98 AND TO ARTICLE 2429 OF THE ITALIAN CIVIL

To the Shareholders' Meeting of ERG S.p.A.

The Board of Statutory Auditors, which, in its current composition, was appointed by the Shareholders' Meeting of 15 April 2010, verified, upon acceptance of the appointment, compliance with the provisions of laws, regulations and articles of association for the appointment process and it verified the fulfilment of the requirements set out by Article 2397 of the Italian Civil Code and the lack of grounds for invalidation and ineligibility set out by Article 2399 of the Italian Civil Code and by Article 148, Paragraph 3, of Legislative Decree 58/98.
The Board of Statutory Auditors, having examined their personal and professional characteristics, has verified that its members can be designated as independent, partly based on the criteria set forth in the Corporate Governance Code for directors.
The members of the Board of Statutory Auditors have certified that they have fulfilled the communication obligations prescribed by Article 148-bis of Legislative Decree 58/98, and by Articles 144-duodecies et seqq. of the Issuers' Regulations, with respect to the limitations of the offices that may be held in other companies.
The Board of Statutory Auditors states that it has transmitted to CONSOB, on 15 April 2010, in compliance with CONSOB Communication no. 6031329 of 7 April 2006, the "Supervisory activity summary sheet".

During the year ended on 31 December 2010, the Board of Statutory Auditors carried out the supervisory activity it was appointed to perform, in accordance with Article 149 of Legislative Decree 59/98 (Consolidated Finance Act – CFA), according to the Standards of behaviour of the Board of Statutory Auditors in companies with shares listed in regulated markets, prepared by the National Board of Chartered Accountants and the recommendations and communications issued by CONSOB. In preparing this report, consideration was also given to CONSOB communications no. 1025564 of 6 April 2001, no. 3021582 of 4 April 2003 and no. 6031329 of 7 April 2006, pertain to the content of the reports to Shareholders' Meetings by the Boards of Statutory Auditors of companies with listed shares.

With reference to the supervisory activity carried out with respect to compliance with the law, the articles of association and regulations and to compliance with proper administration principles, the Board of Statutory Auditors certifies that:

- during 2010, the Board of Statutory Auditors held six meetings and attended a Shareholders' meeting (ordinary and extraordinary), nine meetings of the Board of Directors and thirteen meetings of the Internal Control Committee; the frequency of the meetings of the Board of Directors and the average percentage of attendance by the directors was adequate and we can certify that no significant resolutions were passed without appropriately informing the directors and statutory auditors;
- through its attendance at Shareholders' meetings and Board of Directors meetings, the Board of Statutory Auditors has overseen compliance with the provisions of the articles of incorporation, of the laws and of regulations, which govern the operation of the Company's bodies and compliance with the standards of proper administration. The Board of Statutory Auditors has verified that all resolutions were in the best interest of the Company and supported by suitable documentation and, when required, by expert opinions on the economic and financial congruity of the transactions;

- it is acknowledged that the Board of Directors receives adequate information from the Chief Executive Officer and from the Internal Control Committee, oversees general operating performance, periodically comparing the results achieved with those planned, examines and approves transactions with significant relevance;
- the Board of Statutory Auditors has acquired from the directors, at least once a quarter, adequate information on the activity carried out by the Company, in the various sectors where it operated, also through subsidiaries, verifying that the actions resolved and taken complied with the law and with the articles of associations and were not manifestly imprudent or foolhardy, in potential conflict of interest or in contrast with the resolutions taken by the company bodies or such as to compromise the integrity of the company's assets. The Board of Statutory Auditors also oversaw compliance with the Guidelines, Standards of behaviour and Procedures in force in the Group.
  Additional information on the subsidiaries of ERG S.p.A. were acquired in the meetings with the Independent Auditors and with the statutory auditors of the subsidiaries;
- The Board of Statutory Auditors received adequate information in particular about:
  - merger by incorporation of the subsidiaries ERG Raffinerie Mediterranee S.p.A. and ERG Power & Gas S.p.A. into ERG S.p.A.;
  - joint venture agreement with the Total Group, carried out by the merger by take-over of Total Italia S.p.A. into ERG Petroli S.p.A., wholly owned by ERG S.p.A., after splitting commercial activities in Sicily;
  - acquisition by the subsidiary ERG Renew S.p.A. of the entire share capital of ERG Eolica Adriatica S.r.l. (former IVPC Power 5 S.r.l.); in addition to overseeing the decision-making process and in compliance with the provisions of the law, the Board of Statutory Auditors verified its impacts on the statutory financial statements and on the Consolidated Financial Statements;
  - presentation of public tender offer for all shares of the subsidiary ERG Renew S.p.A. not in the Company's possession, for the purpose inter alia of obtaining the delisting of ERG Renew S.p.A. common stock from the Electronic Stock Market organised and managed by Borsa Italiana S.p.A., within the scope of the broader programme started by ERG S.p.A., aimed at optimising the invested capital among the various businesses in which it currently operates directly and indirectly; the decision of the Board of Directors was supported by the fairness opinion of an independent financial advisory; the Board of Statutory Auditors oversaw compliance with legal and regulatory provisions covering this matter;
  - write-down of a receivable in the electricity and gas trading business and initiatives, also judicial, undertaken to collect the receivable;
  - ongoing dispute between ERG Raffinerie Mediterranee S.p.A. and the Tax Authorities with respect to the application of harbour fees for embarkation and disembarkation at the Santa Panagia jetty, and litigation with Polimeri Europa S.p.A. for the damage claim and with the Tax Authorities for harbour fees; the Board of Statutory Auditors examined and assessed the legal opinions supporting the conclusions reached by the company;
  - updates on the definition of the details for the settlement procedures and costs that the parties concerned may agree to on a voluntary basis in relation to the Programme Agreement for clean-ups at the Priolo Site;
  - reference regulatory framework in the energy industry.

The Board of Statutory Auditors, having reviewed the new regulatory provisions for companies, verified the company's Compliance activities in this regard and acknowledges:

- that it was kept constantly informed about the process of preparation of the Procedure for transactions with related parties – CONSOB Resolution no. 17221 of 12 March 2010 and that it certified in the meeting of the Board of Directors of 11 November 2010 that the procedure is in line with the provisions of the CONSOB Regulations;

– that it has ascertained that the amendment to the Guidelines for identifying and carrying out significant transactions is consistent with the procedure for transactions with related parties;
– that it has examined the main changes introduced by Legislative Decree 27 of 27 January 2010, on the exercise of some rights of company shareholders, implementing the Directive 2007/36/EC and that it has shared the procedures through which the Company subsequently incorporated the mandatory changes deriving from said decree into its articles of incorporation;
– that it has examined the amendments made to the new text of Article 7 of the 2006 Corporate Governance Code for listed companies, on the remuneration of directors and executives with strategic responsibilities, aimed at incorporating the indications contained in European Recommendation 2009/385/ and that it has acknowledged that both the Nominations and Remuneration Committee and the Internal Control Committee have planned their activities to formulate a proposal to the Board of Directors of the Company, called to define, by 2011, the general policy for the remuneration of executive directors, of the other directors holding specific offices and of executives with strategic responsibilities.

The Board of Statutory Auditors supervised compliance with the provisions related to the "Market abuse" and "Savings protection" pertaining to corporate disclosure and "Internal Dealing", with particular reference to the treatment of privileged information and to the procedure for the dissemination of notices and information to the public.
With regard to CONSOB's request for information of 22 October 2010, in accordance with Article 115 of the CFA, the Board of Statutory Auditors shared the company's reply, with letter dated 27 October 2010, verifying, with the concurrence of the Supervisory Committee per Legislative Decree 231/2001, that it matches the findings resulting from its own control activity on the matter.
The requested information referred to news stories about alleged insider trading activities in relation to the conclusion of the joint venture agreements with Total Italia S.p.A.; the Board of Statutory Auditors had been informed of this request by CONSOB and it carried out the investigations for which it was cognisant.

The Board of Statutory Auditors examined and evaluated the verification and update document both of the areas where the parent company exercises management and coordination and of the companies subject to said management and coordination, verifying compliance with Articles 2497 et seqq. of the of the Italian Civil Code.
During the year, the Board of Statutory Auditors issued the opinions required by Law:
– replacement of a director (Article 2386 of the Italian Civil Code);
– determination of the emoluments to directors who have been assigned specific duties (Article 2389 of the Italian Civil Code); additionally, it verified compliance with the Group's remuneration policy and with the proposals of the Nominations and Remuneration Committee, consistent with the benchmark referred to companies in the industry; the extraordinary bonus connected with the conclusion of the "TotalErg joint venture" transaction, recognised to the team appointed to work on the aforesaid transaction, comprising among others the directors Pietro Giordano and Luca Bettonte, was resolved by the Board of Directors upon the proposal of the Nominations and Remuneration Committee, which, in determining the amount, kept into account not only the extraordinary effort required, but also the contribution of the transaction to value creation for the ERG Group.

With reference to oversight activity pertaining to the adequacy of the organisational set-up and the internal control system, the Board of Statutory Auditors gained knowledge and oversaw, insofar as it had cognisance over it:
– the adequacy of the Company's new organisation, after its reorganisation into divisions,

with effect on 1 July 2010, consistently with the development of the businesses, managed directly as a result of the take-over of the subsidiaries ERG Raffinerie Mediterranee S.p.A. and ERG Power & Gas S.p.A.;
– compliance with proper administration principles, through the information received directly from the heads of the various company functions and from representatives of the independent auditors.

With respect to the changes in the corporate governance system according to the recommendations of the Corporate Governance Code for Listed Companies, published in March 2006, the Board of Statutory Auditors concretely ascertain compliance with the aforesaid Code, which was adequately represented in the report on corporate governance, in compliance with Article 124-ter of the CFA and with Article 89-bis of the CONSOB Regulations.
With reference to enforcement of the Corporate Governance Code for Listed Companies, the Board of Statutory Auditors also ascertained:
– that it verified the correct application of the criteria and verification procedures adopted by the Board of Directors to assess the actual independence of its members, in accordance with Article 3, Paragraph 5 of the Corporate Governance Code;
– that it shared the positive assessment expressed by the Nominations and Remuneration Committee, endorsed by the Board of Directors as required by application criterion no. 1, Paragraph 1, letter g) of the Corporate Governance Code, with respect to the size and composition of the board and to its operation as well as to the size, composition and operation of board committees.

The Board of Statutory Auditors assessed and oversaw the adequacy of the internal control system, structure at group level and constantly updated in the parent company and in subsidiaries, through meetings with the heads of the various functions involved and with the Head of internal control.
Attendance at the meetings of the Internal Control Committee enabled the Board to coordinate with the Committee's activities the performance of its own Internal Control Committee and audit duties, assigned by virtue of Article 19 of Legislative Decree 39/2010 and, in particular, to oversee the financial disclosure process and the effectiveness of the internal control, internal audit and risk management systems.
In particular, the Board of Statutory Auditors:
– examined and approved the update of the Guidelines for the operations of the Internal Control Committee, with the change in composition from "three non executive directors, at least two of which shall be independent" to "three independent directors", consistently with the procedure for transactions with related Parties;
– examined the periodic reports on the activity carried out by the Head of internal control and the reports of the Internal Audit function;
– examined the report of the Head of internal control and of the Internal Audit office on the activity carried out during 2010 and the schedule of activities for 2011;
– expressed its favourable opinion on the proposal for the appointment of the new Head of internal control formulated by the executive Director appointed to supervise the operation of the internal control system and of the new head of the Internal Audit function.

The Board of Statutory Auditors was periodically informed about the process for the operational implementation, under the responsibility of the Risk Office, of the integrated risk management model based on the internationally known Enterprise Risk Management (ERM) principles, with particular reference to the COSO framework (promoted by the Committee of Sponsoring Organizations of the Treadway Commission) and examined the documents prepared by the Risk Office, and in particular the work plan for the year, the periodic reports on the activity carried out and the schedule of activities for 2011.

With regard to risk management, the Board of Statutory Auditors verified that, in compliance with the guidelines, transactions are carried out to minimise commodity price risk and financial risks (exchange rate and interest rate), solely for hedging purposes, without any intent of speculation; derivative instruments were used, as defined by Article 2427-bis of the Italian Civil Code (options, swaps, futures and forward contracts). The Note to the financial statements, in accordance with Article 2427-bis of the Italian Civil Code, provides the market values, based on mark-to-market values assessed by the reference market, with their congruity verified using evaluation instruments and models.

With reference to the organisational and procedural activities performed in accordance with Legislative Decree 231/2001, for the administrative liability of Entities for the offenses prescribed by the regulations, the Board of Auditors acknowledged, both in meetings with the Supervisory Committee and in the periodic reports prepared by the aforesaid Committee on the activity carried out, that no significant critical items were noted for the purposes of the implementation and effectiveness of the organisation, management and control Model. For matters under its cognisance, the Board of Statutory Auditors:

- ascertained the fulfilment of the professional requirements of the members of the Supervisory Committee, prescribed by the organisation, management and control Model in accordance with Legislative Decree 231/2001;
- verified the adequacy of the powers and financial resources assigned to the Supervisory Committee for the correct performance of its institutional duties;
- verified the consistency between the reports received and the disclosure prescriptions of the Model.

With reference to the supervisory activity on the adequacy of the administrative-accounting system and on its reliability to represent the operating performance correctly, the Board of Statutory Auditors received adequate information on the monitoring of company processes with administrative-accounting impact within the internal control system, carried out both during the year and upon closing the accounts for the preparation of the financial statements, in compliance with the monitoring and certification obligations of ERG S.p.A. in accordance with Law 262/05.
In this regard, the Board of Statutory Auditors examined the risk assessment, the test activity and the compensating checks made necessary in view of the problem issues noted, for whose resolution appropriate actions are being carried out.
It was acknowledged that no particular critical issues and elements barring release of the certification by the Manager responsible for preparing the company's financial reports and the Chief Executive Officer with respect to the adequacy of the administrative and accounting procedures for the preparation of the Statutory Financial Statements of ERG S.p.A. and of the Consolidated Financial Statements as of 31 December 2010.
The adequacy of the administrative-accounting system was also assessed by acquiring information from the heads of the respective functions, examining company documents and analysing the results of the work carried out by the independent auditors.
The Board of Statutory Auditors oversaw compliance with the regulations on the preparation and publication of the interim half-year report and of interim reports on operations, as well as the approach used for them and the correct application of accounting standards, also using the information obtained from the independent auditors.
The Board of Statutory Auditors oversaw the adequacy of the directions given by ERG S.p.A. to the subsidiaries, with reference both to the data flows required for the preparation of the financial statements and of interim reports, and to compliance with Article 114, Paragraph 2 of Legislative Decree 58/98.

With reference to supervisory activity for health, safety and the environment, the Board of Statutory Auditors verified the commitment, made at the highest level, with respect to these

issues, whose policy is an integral part of the Code of Conduct, the attention paid to constant update and improvement activities and the existence of a formalised system of delegation of powers, with the specific definition of duties and responsibilities.
In this regard, the Board of Statutory Auditors was periodically informed on the activities related to the Safety Project, launched by the ERG Group in early 2009, with the support of leading companies in the sector and aimed at improving safety and making it an integral part of personnel's culture in relation to the management of risks connected with Health, Safety and Environmental issues.
The Security Policy Document (Privacy) was updated in light of the technical and organisational changes introduced in the group's information system in accordance with current regulatory provisions, to adapt it to changes to the organisational structure resulting from significant extraordinary corporate transactions.

As a result of the supervisory and control activity carried out during the year, the Board of Statutory Auditors can certify and note that:

- in the course of the activities carried out, no omissions, irregularities or objectionable or otherwise significant facts emerged, such as would require reporting to the supervisory authorities or mentioning herein;
- the Board of Statutory Auditors did not receive any reports in accordance with Article 2408 of the Italian Civil Code or third party complaints;
- no atypical or unusual transactions were noted either with third parties, or intra-group and/or with related parties;
- with regard to intra-group transactions, the Directors pointed out in the Notes to the Financial Statements and in the Report on Operations, as in past years, the existence of commercial and financial relationships between the companies of the ERG group, specifying that such transactions are within the scope of ordinary operations and are settled at market conditions;
- transactions with related parties refer almost exclusively to transactions carried out with subsidiary and associated companies excluded from the scope of consolidation and they pertain to the performance of services, the obtainment and use of financial means through centralised treasury management; the aforesaid transactions are within the scope of ordinary operations, are settled at market conditions and are illustrated in the Report on Operations and in the Notes to the Financial Statements; in particular, the Board of Statutory Auditors examined and approved the document containing the main economic data of the intercompany service agreements for the year 2010 and, specifically, the degree of analysis whereby the criteria for the charge-back of the services specified therein are identified;
- the Company had other transactions with related parties, as defined by the IAS 24 standard, also illustrated in the Notes to the Financial Statements;
- the Board of Statutory Auditors verified the existence and compliance with procedures suitable to assure that intra-group transactions and transactions with related parties are carried out in a transparent manner and in compliance with substantial and procedural correctness criteria, positively assessing that the transactions were in the company's best interest and that the information provided by the directors in the Report on Operations was adequate.

During the year, contact was regularly maintained with the independent auditors, both through formal meetings, attended also by the administrative heads of the Company, and through informal meetings between individual members of the Board and representatives of the Independent Auditors, to exchange significant data and information, in compliance with Article 150 of Legislative Decree 58/98. Utmost collaboration was always provided, also with regard to the preparation activity for the financial statements, and no critical issues worthy of attention emerged.

In compliance with the rules contained in Articles 10 and 17 of Legislative Decree 39 of 27 January 2010, the Independent Auditor issued formal confirmation of its own independence, with a statement provided on 15 March 2011, and it communicated the non-audit services provided to the public interest company, also through entities belonging to the network.
Taking into account the "Annual transparency report" prepared by Deloitte & Touche S.p.A. and published on its own website, the statement of independence issued by the aforesaid company and the duties assigned by ERG S.p.A. and by the consolidated companies, having acknowledged that no appointments were made for services that may compromise the independence of the Auditor in accordance with Article 17 of Legislative Decree 39/2010, the Board of Statutory Auditors does not deem that any critical aspects exist with respect to the independence of Deloitte & Touche S.p.A.

For the complete audit of the Statutory Financial Statements, of the Consolidated Financial Statements and for the limited audit of the half-year financial Report, the Independent Auditor Deloitte & Touche S.p.A. was paid total compensation of EUR 300 thousand.
The change to the remuneration, with respect to the proposal approved by the Shareholders' Meeting of 23 April 2009, at the time of the appointment to conduct the audit, is the result of the merger by take-over of the subsidiaries ERG Raffinerie Mediterranee S.p.A. and ERG Power & Gas S.p.A. in ERG S.p.A.
Additionally, ERG S.p.A. assigned Deloitte & Touche S.p.A. additional duties for EUR 667 thousand for the following activities:

- Mutually agreed check procedures on periodic reports *EUR 203 thousand*
- Audit of the TotalErg prospectus *EUR 100 thousand*
- Checks in relation to the TotalErg joint venture (appointment by ERG Petroli whose cost was charged back to ERG S.p.A.) *EUR 344 thousand*
- Unbundling per AEEG resolution 11/2007 *EUR 20 thousand*

Companies connected with the Deloitte & Touche network received appointments for a total of EUR 141 thousand, as follows:

- Deloitte ERS (Enterprise Risk Service) *EUR 23 thousand*
- for tax advisory services *EUR 118 thousand*

For the sake of complete disclosure, we notify that Deloitte & Touche S.p.A. was appointed by ERG S.p.A. and by subsidiaries (including the listed company ERG Renew S.p.A.) to perform audit services for the total remuneration of EUR 925 thousand and additional duties, for the total remuneration of EUR 808 thousand. Moreover, companies connected with the network of the Independent Auditors were appointed to perform duties for total consideration of EUR 141 thousand, described in detail above.

With respect to the statutory Financial Statements, the following is noted.

- The Board of Statutory Auditors ascertained, through direct checks and information obtained from the Independent Auditors, compliance with the laws that discipline its preparation, the organisation of the Financial Statements and the Report on Operations, the adopted forms and the accounting standards, described in the Company's Notes to the Financial Statements and Report on Operations.
- As in previous years, the Company adopted the International Accounting Standards also for the individual financial statements (in addition to the Consolidated Financial Statements already prepared according to the IFRS from 2005 onwards).
- In compliance with CONSOB Resolution 15519/2006, the effects of the transactions with related parties on the Balance Sheet and on the Income Statements are expressly indicated in the statements.

- The Notes to the Statutory Financial Statements provide the information prescribed by the International Accounting Standards with regard to asset impairments. Compliance of the impairment test procedure with the prescriptions of the IAS 36 Standard was formally approved by the Board of Directors in the meeting of 17 February 2011, autonomously and in advance with respect to the moment of approval of the financial reports, as recommended by the joint document Bank of Italy/Consob/Isvap no. 4 of 3 March 2010. The Board of Statutory Auditors acknowledges that it analysed and discussed, in a joint meeting with the Internal Control Committee, the document prepared and illustrated by an independent expert, which contains the analyses conducted and the results obtained in the impairment test activity on the shareholding in ERG Renew S.p.A. and on the ERG Power S.r.l. co-generation plant.

  The assessments were carried out on a going concern basis and with the assumptions indicated in the Plan prepared by the management of the company. The Board of Statutory Auditors, deeming reasonable the main assessment hypotheses, agreed with the consequent results:
  - in the Separate Financial Statements of ERG S.p.A.: write-down of the carrying value of ERG Renew S.p.A. shareholding for about EUR 17 million;
  - in the ERG S.p.A. Consolidated Financial Statements: write-downs referred to the "renewable energies" business, related to capital gains and authorisations recorded among assets for about EUR 25 million and related to goodwill for about EUR 12 million; the prerequisites for the write-down of the co-generation plant are not fulfilled.

  The Board of Statutory Auditors agreed with the reasons whereby, in accordance with the indications of IAS 39 and based on a study by independent experts, the put option recognised by LUKOIL for the 51% share in ISAB S.r.l. was not evaluated at "fair value".
- The Chief Executive Officer and the Manager responsible for preparing the company's financial reports issued the certification, in accordance with Article 81-ter of CONSOB Regulations 11971/1999 with subsequent amendments and additions and with Article 154-bis of Legislative Decree 58/1998 (CFA).
- The Financial Statements match the facts and information whereof the Board of Statutory Auditors has become aware in the performance of its supervisory duties and in the exercise of its control and inspection powers.
- The Report on operations complies with legal requirements and is consistent with the data and results of the financial statements; it provides ample information on the activities and main risks of the company and of subsidiary companies and on intra-group and related party transactions, as well as on the process of modifying the corporate organisation for compliance with corporate governance principles, in accordance with the Corporate Governance Code for Listed Companies.

  It provides information on significant events after the closing date of the year, which had no impacts on the 2010 financial statements and more specifically the public tender offer for the purchase of all shares not owned by ERG Renew S.p.A. and the partial exercises of the put option on the shareholding of 11% of ISAB S.r.l.
- In compliance with CONSOB recommendations, the directors' Report provides ample information on Management incentive plans.

The Independent Auditor issued, on 15 March 2011, the report in accordance with Article 156 of the CFA, which states that the financial statements as of 31 December 2010 comply with international financial reporting standards – IFRS – adopted by the European union and are prepared in a clear manner and represent in a truthful and fair way the balance sheet, the Income Statement and the statement of cash flows of ERG S.p.A. for the year ended on that date.

In view of the content of this report, the Board of Statutory Auditors has no observations to make with regard to the approval of the Financial Statements as of 31 December 2010 and to the proposal of the Board of Directors on the allocation of the profit for the year, i.e. EUR 398,131,202.83 and, in particular, on the allocation to unavailable reserve in accordance with Article 6, Paragraph 1, letter a) of Legislative Decree 38/2005 of a part of the profit, i.e. EUR 346,403,569.83 corresponding to the unrealised portion, net of the related tax charge, of the capital gain deriving from the incorporation of the TotalErg Joint Venture.

Genoa, 16 March 2011

The Board of Statutory Auditors
Mario Pacciani (Chairman)
Paolo Fasce (Standing Auditor)
Lelio Fornabaio (Standing Auditor)

AUDITORS' REPORT

Deloitte.

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AUDITOR'S REPORT ON THE STATUTORY FINANCIAL STATEMENTS PURSUANT TO ART. 14 AND 16 OF LEGISLATIVE DECREE N. 39 OF JANUARY 27, 2010

To the Shareholders of
ERG S.p.A.

1. We have audited the statutory financial statements of ERG S.p.A. as of and for the year ended December 31, 2010, which comprise the statement of financial position, the income statement, the statement of other components of comprehensive income, the statement of changes in equity, the statement of cash flows and the related notes to financial statements. These financial statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree n. 38/2005 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, whose data presented for comparative purposes have been reclassified to take account of the change in presentation of financial statements introduced by IAS 1, reference should be made to our auditor's report issued on March 16, 2010.

   The statutory financial statements present comparative data from the prior year. As explained in the notes to the financial statements, following the merger of the subsidiaries ERG Raffinerie Mediterranee S.p.A. and ERG Power & Gas S.p.A. into ERG S.p.A., prior-year data previously reported and audited by us, on which we issued auditors' report dated March 16, 2010, were reclassified following the classification scheme typically used by an operating company. The Directors presented comparative prior-year financial statements data and related disclosures including a retrospective presentation of the merger's effects as of January 1, 2009. The above comparative prior-year data and related disclosures presented in the notes to the financial statements have been reviewed by us for the purpose of expressing our opinion on the financial statements as of and for the year ended December 31, 2010.

Ancona Bari Bergamo Bologna Brescia Cagliari Firenze Genova Milano Napoli Padova Parma Perugia Roma Torino Treviso Verona

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Codice Fiscale/Registro delle Imprese Milano n. 03049560166 - R.E.A. Milano n. 1720239
Partita IVA: IT 03049560166

Member of Deloitte Touche Tohmatsu Limited

3. In our opinion, the statutory financial statements of ERG S.p.A. as of December 31, 2010 comply with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree n. 38/2005; accordingly, they give a true and fair view of the financial position of ERG S.p.A., and of the results of its operations and its cash flows for the year then ended.

4. The Directors of ERG S.p.A. 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 and of the specific section on corporate governance with reference to the information reported in compliance with art. 123-bis of Italian Legislative Decree n. 58/1998, paragraph 1, letters c), d), f), l), m) and paragraph 2, letter b), 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 and the information reported in compliance with art. 123-bis of Italian Legislative Decree n. 58/1998 paragraph 1, letters c), d), f), l), m) and paragraph 2, letter b) included in the specific section on corporate governance are consistent with the financial statements of ERG S.p.A. as of December 31, 2010.

DELOITTE & TOUCHE S.p.A.

Signed by
Corrado Toscano
Partner

Genoa, Italy
March 15, 2011

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

FINANCIAL STATEMENTS OF THE MAIN SUBSIDIARIES AND JOINT VENTURES (*)

* The financial statements shown in the following pages refer to 2010

STATEMENT OF FINANCIAL POSITION (IAS FORM)

(EUR THOUSAND)	ERG RENEW S.P.A. 12/31/2010	ERG RENEW GROUP 12/31/2010
TANGIBLE ASSETS	86	570,327
INTANGIBLE ASSETS	623	118,444
SHAREHOLDINGS IN SUBSIDIARY AND ASSOCIATED COMPANIES	58,382	1,472
FINANCIAL RECEIVABLES FROM SUBSIDIARIES	348,043	–
OTHER SHAREHOLDINGS	192	–
FINANCIAL ASSETS	725	725
RECEIVABLES FOR DERIVATIVES	1	172
OTHER RECEIVABLES	1,784	14,852
TAX ASSETS	–	19,343
DEFERRED TAX ASSETS	3,946	32,911
NON-CURRENT ASSETS	**413,782**	**758,246**
INVENTORIES	–	–
TRADE RECEIVABLES TO THIRD PARTIES	3,752	19,685
TRADE RECEIVABLES FROM PARENT COMPANIES, SUBSIDIARIES AND ASSOCIATES	7,005	–
FINANCIAL RECEIVABLES FROM SUBSIDIARIES	–	–
OTHER RECEIVABLES	5,003	44,067
TAX ASSETS	1,127	14,094
AVAILABLE-FOR-SALE (AFS) SHAREHOLDINGS	2	2
CASH AND CASH EQUIVALENTS	12,686	74,823
CURRENT ASSETS	**29,575**	**152,671**
TOTAL ASSETS	**443,357**	**910,917**
GROUP SHAREHOLDERS' EQUITY	**–**	**93,251**
MINORITY INTERESTS	**–**	**654**
SHAREHOLDERS' EQUITY	**98,268**	**–**
	98,268	**93,905**
EMPLOYEES' SEVERANCE INDEMNITIES	182	615
PROVISIONS FOR LIABILITIES AND CHARGES	9,457	4,134
NON CURRENT PORTION OF FINANCIAL PAYABLES	19,500	384,256
NON CURRENT PORTION OF FINANCIAL PAYABLES TO PARENT COMPANIES	284,431	284,431
PAYABLES FOR DERIVATIVES	–	28,190
OTHER PAYABLES	–	4,055
DEFERRED TAX LIABILITIES	–	30,234
NON-CURRENT LIABILITIES	**313,570**	**735,915**
CURRENT PORTION OF FINANCIAL PAYABLES	23,509	58,193
PAYABLES FOR DERIVATIVES	1,844	1,844
TRADE PAYABLES	3,310	14,221
OTHER PAYABLES	2,737	5,384
TAX LIABILITIES	119	1,455
CURRENT LIABILITIES	**31,519**	**81,097**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**443,357**	**910,917**

INCOME STATEMENT (IAS FORM)

(EUR THOUSAND)	ERG RENEW S.P.A. 12/31/2010	ERG RENEW GROUP 12/31/2010
REVENUES FROM SALES AND SERVICES	4,256	72,667
OTHER REVENUES AND INCOME	258	2,011
VALUE OF PRODUCTION	**4,514**	**74,678**
PURCHASES OF RAW, ANCILLARY AND CONSUMABLE MATERIALS	(70)	(544)
SERVICE COSTS	(10,174)	(24,033)
COSTS FOR PERSONNEL	(3,065)	(5,131)
OTHER OPERATING EXPENSES	(884)	(6,450)
DEPRECIATION	(109)	(29,942)
WRITE-DOWNS AND PROVISIONS	–	(19,527)
COST OF PRODUCTION	**(14,302)**	**(85,627)**
EBIT	**(9,788)**	**(10,949)**
NET FINANCIAL INCOME AND EXPENSES	(1,105)	(15,306)
FINANCIAL INCOME (EXPENSES) FROM/TO SUBSIDIARIES AND PARENT COMPANIES	763	–
INCOME (LOSS) FROM SHAREHOLDINGS	(9,769)	(674)
PROFIT BEFORE TAXES	**(19,899)**	**(26,929)**
CURRENT AND DEFERRED TAXES	2,150	10,342
PROFIT (LOSS) FROM CONTINUOUS OPERATIONS	**–**	**(16,587)**
NET PROFIT (LOSS) FROM DISCONTINUED OPERATIONS	–	953
NET PROFIT (LOSS) FOR THE PERIOD	**(17,749)**	**(15,634)**
MINORITY SHARES	–	(219)
GROUP'S NET PROFIT (LOSS)	**–**	**(15,853)**

STATEMENT OF FINANCIAL POSITION

(EUR THOUSAND)	ISAB ENERGY S.R.L. 12/31/2010	ISAB ENERGY SERVICES S.R.L. 12/31/2010	ERG OIL SICILIA S.R.L. 12/31/2010
ASSETS			
A) RECEIVABLES DUE FROM SHAREHOLDERS	**–**	**–**	**–**
B) FIXED ASSETS			
INTANGIBLE ASSETS	19,408	–	3,606
TANGIBLE ASSETS	561,859	–	26,848
FINANCIAL ASSETS	5	–	11
	581,272	**–**	**30,465**
C) CURRENT ASSETS			
INVENTORIES	10,970	–	8,611
RECEIVABLES	111,984	12,824	64,968
FINANCIAL ASSETS	–	–	–
CASH AND CASH EQUIVALENTS	77,223	5,918	14
	200,178	**18,742**	**73,593**
D) PREPAYMENTS AND ACCRUED INCOME	**8,040**	**13**	**1,132**
TOTAL ASSETS	**789,490**	**18,754**	**105,190**
LIABILITIES			
A) SHAREHOLDERS' EQUITY			
SHARE CAPITAL	5,165	700	6,310
SHARE PREMIUM RESERVE	–	–	–
REVALUATION RESERVE	–	37	18,000
LEGAL RESERVE	1,033	140	1,260
CONSOLIDATION RESERVE	–	–	–
OTHER RESERVES	28,709	2	6,680
PROFIT(LOSSES) BROUGHT FORWARD	389,564	–	10,760
PROFIT (LOSS) FOR THE YEAR	26,328	5,492	9,856
	450,799	**6,371**	**52,866**
MINORITY SHARES			
SHARE CAPITAL	–	–	–
PROFIT (LOSS) FOR THE YEAR	–	–	–
	–	**–**	**–**
B) PROVISIONS FOR LIABILITIES AND CHARGES			
TAXES	51,562	–	3,078
OTHER	12,494	–	309
	64,056	**–**	**3,387**
C) EMPLOYEES' SEVERANCE INDEMNITIES	**–**	**2,169**	**182**
D) PAYABLES			
TO SHAREHOLDERS FOR LOANS	–	–	–
TO BANKS/OTHER LENDERS	153,332	–	1,505
ADVANCES	–	–	–
TRADE PAYABLES	33,562	2,429	4,357
SUBSIDIARY/ASSOCIATED/PARENT/COMPANIES	84,877	3,389	26,825
TAX PAYABLES	1,556	801	14,026
SOCIAL SECURITY PAYABLES	6	1,483	79
OTHER PAYABLES	155	2,107	1,240
	273,487	**10,210**	**48,032**
E) ACCRUED LIABILITIES AND DEFERRED INCOME	**1,147**	**4**	**723**
TOTAL LIABILITIES	**789,490**	**18,754**	**105,190**

INCOME STATEMENT

(EUR THOUSANDS)	ISAB ENERGY S.R.L. 12/31/2010	ISAB ENERGY SERVICES S.R.L. 12/31/2010	ERG OIL SICILIA S.R.L. 12/31/2010
A) VALUE OF PRODUCTION			
REVENUES FROM SALES AND SERVICES	359,440	41,639	554,057
INVENTORY CHANGES	522	–	(988)
INCREASES TO FIXED ASSETS FOR INTERNAL WORK	879	–	–
OTHER REVENUE AND INCOME	74,064	200	401
	434,905	**41,839**	**553,470**
B) COSTS OF PRODUCTION			
FOR PURCHASES	(239,439)	(192)	(520,400)
FOR SERVICES	(64,588)	(8,809)	(13,544)
FOR USE OF THIRD-PARTY ASSETS	(564)	(1,017)	(3,878)
FOR PERSONNEL	–	(22,259)	(911)
FOR AMORTISATION, DEPRECIATION AND IMPAIRMENTS	(44,955)	–	(2,953)
INVENTORY CHANGES	940	–	–
PROVISIONS	(6,779)	–	(2)
FOR OTHER OPERATING EXPENSES	(37,533)	(155)	(457)
	(392,918)	**(32,433)**	**(542,145)**
DIFFERENCE BETWEEN VALUE AND COSTS OF PRODUCTION	**41,987**	**9,406**	**11,325**
C) FINANCIAL INCOME AND CHARGES			
INCOME FROM SHAREHOLDINGS	–	–	–
OTHER FINANCIAL INCOME	463	7	89
INTEREST AND OTHER FINANCIAL EXPENSES	(4,737)	(7)	(213)
EXCHANGE RATE GAINS AND LOSSES	(17)	–	-
	(4,291)	**(1)**	**(125)**
D) ADJUSTMENTS TO THE VALUE OF FINANCIAL ASSETS			
REVALUATIONS	–	–	–
WRITE-DOWNS	–	–	–
	–	**–**	**–**
E) EXTRAORDINARY INCOME AND EXPENSES			
INCOME	–	–	5,215
EXPENSES	–	–	–
	–	**–**	**5,215**
INCOME BEFORE TAXES	**37,696**	**9,405**	**16,416**
INCOME TAX FOR THE PERIOD	(11,368)	(3,913)	(6,559)
PROFIT (LOSS) BEFORE MINORITY INTERESTS	**26,328**	**5,492**	**9,856**
THIRD-PARTY PROFIT (LOSS)	–	–	–
PROFIT (LOSS) FOR THE YEAR	**26,328**	**5,492**	**9,856**

STATEMENT OF FINANCIAL POSITION

(EUR THOUSAND)	ISAB S.R.L. 12/31/2010	TOTALERG S.P.A. 12/31/2010	TOTALERG GROUP 12/31/2010
ASSETS			
A) RECEIVABLES FROM SHAREHOLDERS	**–**	**–**	**–**
B) FIXED ASSETS			
INTANGIBLE	5,677	51,297	65,603
TANGIBLE	848,897	465,386	621,732
FINANCIAL	28,037	104,525	88,151
	882,611	**621,209**	**775,486**
C) CURRENT ASSETS			
INVENTORIES	189,338	533,717	563,872
RECEIVABLES	343,434	959,173	941,882
FINANCIAL ASSETS	–	–	1,240
CASH AND CASH EQUIVALENTS	3,862	24,598	29,679
	536,634	**1,517,488**	**1,536,673**
D) ACCRUED INCOME AND PREPAYMENTS	**69,804**	**27,047**	**32,784**
TOTAL ASSETS	**1,489,049**	**2,165,743**	**2,344,943**
LIABILITIES			
A) SHAREHOLDERS' EQUITY			
SHARE CAPITAL	50,000	47,665	47,665
SHARE PREMIUM RESERVE	997,902	133,726	–
REVALUATION RESERVE	–	–	133,727
LEGAL RESERVE	1,822	5,940	5,940
CONSOLIDATION RESERVE	–	–	59,371
OTHER RESERVES	–	163,597	163,559
RETAINED EARNINGS (LOSSES CARRIED FORWARD)	8,181	15	18,514
PROFIT (LOSS) FOR THE YEAR	29,080	129,404	98,783
	1,086,985	**480,347**	**527,559**
MINORITY INTERESTS			
SHARE CAPITAL	–	–	8,504
PROFIT (LOSS) FOR THE YEAR	–	–	528
	–	**–**	**9,032**
TOTAL GROUP SHAREHOLDERS' EQUITY	**–**	**–**	**536,591**
B) PROVISIONS FOR LIABILITIES AND CHARGES			
TAXES	38,928	35,740	36,727
OTHERS	48,187	79,388	87,488
	87,115	**115,128**	**124,215**
C) EMPLOYEE SEVERANCE INDEMNITY	**11,802**	**9,925**	**14,394**
D) PAYABLES			
LOANS FROM SHAREHOLDERS	–	–	–
BANKS / OTHER LENDERS	–	773,995	793,904
ADVANCES	–	173	1,473
SUPPLIERS	262,061	469,962	545,829
SUBSIDIARY/ASSOCIATED/PARENT COMPANIES	–	89,925	82,006
TAX PAYABLES	18,846	139,766	149,241
PAYABLES TO SOCIAL SECURITY INSTITUTIONS	4,670	2,520	4,612
OTHER PAYABLES	9,068	77,345	85,054
	294,645	**1,553,688**	**1,662,119**
E) ACCRUED LIABILITIES AND DEFERRED INCOME	**8,501**	**6,655**	**7,624**
TOTAL LIABILITIES	**1,489,049**	**2,165,743**	**2,344,943**

INCOME STATEMENT

(EUR THOUSAND)	ISAB S.R.L. 12/31/2010	TOTALERG S.P.A. 12/31/2010	TOTALERG GROUP 12/31/2010
A) VALUE OF PRODUCTION			
REVENUES FROM SALES AND SERVICES	1,924,335	10,620,340	6,098,965
INVENTORY CHANGES	302	56,963	33,177
INCREASES TO FIXED ASSETS FOR INTERNAL WORK	921	–	3,877
OTHER REVENUE AND INCOME	14,283	55,713	21,556
	1,939,842	**10,733,017**	**6,157,575**
B) COSTS OF PRODUCTION			
FOR PURCHASES	(1,329,641)	(9,832,574)	(5,574,838)
FOR SERVICES	(353,630)	(512,229)	(315,495)
FOR USE OF THIRD-PARTY ASSETS	(4,888)	(134,778)	(77,820)
FOR PERSONNEL	(77,859)	(63,309)	(60,456)
FOR AMORTISATION, DEPRECIATION AND IMPAIRMENTS	(86,932)	(76,300)	(57,776)
INVENTORY CHANGES	5,959	6,908	33,909
PROVISIONS	(27,749)	(26,954)	(24,746)
FOR OTHER OPERATING EXPENSES	(12,066)	(20,285)	(17,181)
	(1,886,807)	**(10,659,522)**	**(6,094,403)**
DIFFERENCE BETWEEN VALUE AND COSTS OF PRODUCTION	**53,035**	**73,495**	**63,172**
C) FINANCIAL INCOME AND CHARGES			
INCOME FROM SHAREHOLDINGS	–	13,514	–
OTHER FINANCIAL INCOME	1,981	5,466	3,778
INTEREST AND OTHER FINANCIAL EXPENSES	(74)	(17,089)	(15,030)
EXCHANGE RATE GAINS AND LOSSES	296	14,883	10,309
	2,203	**16,774**	**(943)**
D) ADJUSTMENTS TO THE VALUE OF FINANCIAL ASSETS			
REVALUATIONS	–	–	3,207
WRITE-DOWNS	–	(661)	(675)
	–	**(661)**	**2,532**
E) EXTRAORDINARY INCOME AND EXPENSES			
INCOME	–	145,038	133,517
EXPENSES	(2,974)	(76,794)	(77,420)
	(2,974)	**68,244**	**56,097**
INCOME BEFORE TAXES	**52,265**	**157,852**	**120,858**
INCOME TAX FOR THE PERIOD	(23,185)	(28,448)	(21,547)
PROFIT (LOSS) BEFORE MINORITY INTERESTS	**29,080**	**129,404**	**99,311**
THIRD-PARTY PROFIT (LOSS)	–	–	(528)
PROFIT (LOSS) FOR THE YEAR	**29,080**	**129,404**	**98,783**

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