# ERG S.P.A. CONSOLIDATED FINANCIAL STATEMENTS

ANNUAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2008

# TABLE OF CONTENTS

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

# CONSOLIDATED
# FINANCIAL STATEMENTS

# BALANCE SHEET

| (THOUSAND EURO) | NOTES | | 31/12/2008 | | 31/12/2007 |
|---|---|---|---|---|---|
| INTANGIBLE FIXED ASSETS | 1 | | 207,111 | | 251,073 |
| GOODWILL | 2 | | 59,506 | | 121,368 |
| PROPERTY, PLANT AND MACHINERY | 3 | | 1,514,060 | | 2,234,787 |
| EQUITY INVESTMENTS: | 4 | | 713,034 | | 122,370 |
| *CARRIED AT EQUITY* | | *709,448* | | *115,576* | |
| *OTHER INVESTMENTS* | | *3,586* | | *6,794* | |
| OTHER FINANCIAL ASSETS | 5 | | 8,911 | | 12,996 |
| *OF WHICH WITH RELATED PARTIES* | 40 | *6,680* | | *11,821* | |
| DEFERRED TAX ASSETS | 6 | | 240,279 | | 199,858 |
| OTHER NON-CURRENT ASSETS | 7 | | 16,374 | | 46,217 |
| **NON-CURRENT ASSETS** | | | **2,759,275** | | **2,988,669** |
| INVENTORY | 8 | | 425,344 | | 1,222,072 |
| TRADE RECEIVABLES | 9 | | 603,936 | | 722,889 |
| *OF WHICH WITH RELATED PARTIES* | 40 | *102,984* | | *84,583* | |
| OTHER CURRENT RECEIVABLES AND ASSETS | 10 | | 147,345 | | 174,901 |
| *OF WHICH WITH RELATED PARTIES* | 40 | *219* | | *32,644* | |
| CURRENT FINANCIAL ASSETS | 11 | | 864,593 | | 98,541 |
| *OF WHICH WITH RELATED PARTIES* | 40 | *1,769* | | *79,510* | |
| CASH AND CASH EQUIVALENTS | 12 | | 744,962 | | 180,996 |
| **CURRENT ASSETS** | | | **2,786,180** | | **2,399,399** |
| **ASSETS HELD FOR SALE** | | | **–** | | **–** |
| **TOTAL ASSETS** | | | **5,545,455** | | **5,388,068** |
| GROUP SHAREHOLDERS' EQUITY | 13 | | 1,916,328 | | 1,333,761 |
| MINORITY INTERESTS | 14 | | 107,999 | | 125,295 |
| **SHAREHOLDERS' EQUITY** | | | **2,024,327** | | **1,459,056** |
| STAFF LEAVING INDEMNITIES | 15 | | 11,416 | | 29,598 |
| DEFERRED TAX LIABILITIES | 16 | | 148,994 | | 362,750 |
| PROVISIONS FOR NON-CURRENT LIABILITIES AND CHARGES | 17 | | 2,978 | | 12,655 |
| NON-CURRENT FINANCIAL LIABILITIES | 18 | | 853,065 | | 1,084,806 |
| *OF WHICH WITH RELATED PARTIES* | 40 | *12,439* | | | |
| OTHER NON-CURRENT LIABILITIES | 19 | | 471,511 | | 427,191 |
| **NON-CURRENT LIABILITIES** | | | **1,487,964** | | **1,917,000** |
| PROVISIONS FOR CURRENT LIABILITIES AND CHARGES | 20 | | 38,826 | | 33,762 |
| TRADE PAYABLES | 21 | | 658,856 | | 1,170,649 |
| *OF WHICH WITH RELATED PARTIES* | 40 | *28,306* | | *6,522* | |
| CURRENT FINANCIAL LIABILITIES | 22 | | 1,032,279 | | 572,751 |
| *OF WHICH WITH RELATED PARTIES* | 40 | *901* | | | |
| OTHER CURRENT LIABILITIES | 23 | | 303,203 | | 234,850 |
| *OF WHICH WITH RELATED PARTIES* | 40 | *63,652* | | *1,516* | |
| **CURRENT LIABILITIES** | | | **2,033,164** | | **2,012,012** |
| **LIABILITIES HELD FOR SALE** | | | **–** | | **–** |
| **TOTAL LIABILITIES** | | | **5,545,455** | | **5,388,068** |

# INCOME STATEMENT

| (THOUSAND EURO) | NOTES | | FY 2008 | | FY 2007 |
|---|---|---|---|---|---|
| REVENUES FROM ORDINARY OPERATIONS | 27 | | 11,498,312 | | 10,165,735 |
| *OF WHICH WITH RELATED PARTIES* | 40 | *575,085* | | *331,649* | |
| OTHER REVENUES AND INCOME | 28 | | 64,433 | | 40,167 |
| *OF WHICH WITH RELATED PARTIES* | 40 | *48,163* | | | |
| *OF WHICH NON CHARACTERISTIC ITEMS* | 39 | *17,273* | | | |
| CHANGES IN PRODUCT INVENTORIES | 29 | | (295,404) | | 197,876 |
| CHANGES IN RAW MATERIAL INVENTORIES | 30 | | (274,072) | | 142,824 |
| COST OF PURCHASES | 31 | | (9,916,580) | | (9,120,860) |
| COSTS FOR SERVICES AND OTHER COSTS | 32 | | (778,626) | | (688,676) |
| *OF WHICH WITH RELATED PARTIES* | 40 | *(125,602)* | | *(55,725)* | |
| *OF WHICH NON CHARACTERISTIC ITEMS* | 39 | *(71,392)* | | *(30,700)* | |
| PERSONNEL EXPENSES | 33 | | (180,570) | | (185,493) |
| **EBITDA** | | | **117,493** | | **551,573** |
| AMORTISATION, DEPRECIATION AND WRITE-DOWNS OF FIXED ASSETS | 34 | | (362,237) | | (185,371) |
| *OF WHICH NON CHARACTERISTIC ITEMS* | 39 | *(161,166)* | | | |
| PROCEEDS FROM SALE OF BUSINESS UNIT | 35 | | 892,442 | | – |
| *OF WHICH NON CHARACTERISTIC ITEMS* | 39 | *892,442* | | | |
| FINANCIAL INCOME | | | 410,795 | | 135,674 |
| *OF WHICH NON CHARACTERISTIC ITEMS* | 39 | *101,230* | | | |
| FINANCIAL EXPENSES | | | (413,658) | | (209,096) |
| **NET FINANCIAL INCOME (EXPENSES)** | 36 | | **(2,863)** | | **(73,422)** |
| NET INCOME (EXPENSES) FROM INVESTMENTS CARRIED AT EQUITY | | 5,751 | | 1,797 | |
| OTHER NET INCOME (EXPENSES) FROM EQUITY INVESTMENTS | | | (6,074) | | 4,967 |
| *OF WHICH NON CHARACTERISTIC ITEMS* | 39 | *(5,000)* | | | |
| **NET INCOME (EXPENSES) FROM EQUITY INVESTMENTS** | 37 | | **(323)** | | **6,764** |
| **PROFIT BEFORE TAXES** | | | **644,512** | | **299,544** |
| INCOME TAXES | 38 | | 4,515 | | (107,417) |
| *OF WHICH NON CHARACTERISTIC ITEMS* | 39 | *(5,548)* | | *10,718* | |
| **NET PROFIT (LOSS) FROM CONTINUING OPERATIONS** | | | **649,027** | | **192,127** |
| NET PROFIT (LOSS) FROM ASSETS HELD FOR SALE | | | – | | – |
| **NET PROFIT (LOSS) FOR THE PERIOD** | | | **649,027** | | **192,127** |
| MINORITY INTERESTS | | | (2,994) | | (21,191) |
| *OF WHICH NON CHARACTERISTIC ITEMS* | 39 | *22,854* | | *–* | |
| **NET PROFIT (LOSS) PERTAINING TO THE GROUP** | | | **646,033** | | **170,936** |

| (EURO) | NOTES | FY 2008 | FY 2007 |
|---|---|---|---|
| **EARNINGS PER SHARE** | 42 | **4.356** | **1.142** |
| **DILUTED EARNINGS PER SHARE** | 42 | **4.356** | **1.142** |

The account "Proceeds from sale of business unit" has been added to the Income Statement, and "EBIT" is no longer shown.

# CASH FLOW STATEMENT

| (THOUSAND EURO) | NOTES | 2008 | 2007 |
|---|---|---|---|
| **CASH FLOW FROM OPERATIONS (A):** | | | |
| NET PROFIT (LOSS) FROM CONTINUING OPERATIONS | | 649,027 | 192,127 |
| - AMORTISATION, DEPRECIATION AND WRITE-DOWNS OF FIXED ASSETS | 34 | 362,237 | 185,371 |
| - NET CHANGE IN PROVISION FOR LIABILITIES AND CHARGES | 17, 20 | 5,877 | 7,040 |
| - NET CHANGE IN DEFERRED TAX ASSETS AND LIABILITIES | 6, 16 | (217,277) | 88,031 |
| - WRITE-DOWN OF RECEIVABLES AND GREEN CERTIFICATES | | 7,531 | – |
| - NET CAPITAL GAIN/LOSS ON SALE OF NON-CURRENT ASSETS | | (6,845) | (4,561) |
| - PORTION OF INCOME/EXPENSES FROM INVESTMENTS CARRIED AT EQUITY | | (5,751) | (1,797) |
| - WRITE-DOWN OF EQUITY INVESTMENTS | | 6,090 | – |
| - CAPITAL GAIN ON SALE OF EQUITY INVESTMENT IN ISAB S.R.L. | | (892,442) | – |
| - NET CHANGE IN STAFF LEAVING INDEMNITIES | 15 | (3,691) | (3,526) |
| **CASH FLOW FROM CURRENT OPERATIONS** | | **(95,244)** | **462,685** |
| **- CHANGE IN OTHER OPERATING ASSETS AND LIABILITIES:** | | | |
| - CHANGE IN INVENTORY | 8 | 569,104 | (340,846) |
| - CHANGE IN TRADE RECEIVABLES | 9 | 132,581 | 78,745 |
| - CHANGE IN TRADE PAYABLES | 21 | (514,458) | 210,594 |
| - NET CHANGE IN OTHER RECEIVABLES/PAYABLES AND OTHER ASSETS/LIABILITIES | | 124,316 | 180,047 |
| | | **311,543** | **128,540** |
| **TOTAL** | | **216,299** | **591,225** |
| **CASH FLOW FROM INVESTMENTS (B):** | | | |
| ACQUISITION OF INTANGIBLE ASSETS AND GOODWILL | 1, 2 | (22,929) | (21,769) |
| ACQUISITION OF PROPERTY, PLANT AND MACHINERY | 3 | (327,619) | (358,577) |
| INCREASES OF PROPERTY, PLANT AND MACHINERY DUE TO CYCLICAL MAINTENANCE | 3 | – | (17,898) |
| ACQUISITION OF EQUITY INTERESTS IN SUBSIDIARIES (ENERTAD AND ENERFRANCE) | | – | (75,772) |
| ACQUISITION OF EQUITY INVESTMENTS AND OTHER NON-CURRENT FINANCIAL ASSETS | 4, 5 | (28,203) | (8,715) |
| PAYMENT RECEIVED FOR ISAB S.R.L. EQUITY INTEREST (1) | | 600,000 | - |
| DISPOSAL OF INTANGIBLE ASSETS | 1 | 421 | 1,415 |
| DISPOSAL OF PROPERTY, PLANT AND MACHINERY | 3 | 15,885 | 10,413 |
| DISPOSAL OF EQUITY INVESTMENTS AND OTHER NON-CURRENT FINANCIAL ASSETS | 4, 5 | 1,806 | 4,737 |
| **TOTAL** | | **239,362** | **(466,166)** |
| **CASH FLOW FROM FINANCING ACTIVITIES (C):** | | | |
| NEW NON-CURRENT LOANS | 18 | 244,833 | 581,140 |
| REPAYMENT OF NON-CURRENT LOANS | 18 | (260,479) | (197,520) |
| NET CHANGE IN OTHER NON-CURRENT FINANCIAL LIABILITIES | 18 | 2,289 | 1,609 |
| NET CHANGE IN SHORT-TERM BANK BORROWINGS | 22 | 391,440 | (290,140) |
| NET CHANGE IN OTHER SHORT-TERM FINANCIAL ASSETS/LIABILITIES (2) | 11, 22 | (134,850) | (62,214) |
| NET CHANGE IN OTHER FINANCIAL ASSETS/LIABILITIES DUE TO CONSOLIDATION/ | | – | |
| DECONSOLIDATION OF EQUITY INVESTMENTS IN SUBSIDIARIES (3) | | (53,803) | (55,235) |
| SHARE CAPITAL INCREASES/REPAYMENTS | | – | – |
| ACQUISITION OF TREASURY SHARES | | (14,779) | – |
| DIVIDENDS PAID TO THIRD PARTIES | | (61,927) | (95,797) |
| OTHER CHANGES IN SHAREHOLDERS' EQUITY | | (4,418) | 4,238 |
| **TOTAL** | | **108,306** | **(113,919)** |
| **CASH FLOWS FROM ASSETS HELD FOR SALE (D):** | | **–** | **–** |
| **NET CASH FLOW FOR THE YEAR (A+B+C+D)** | | **563,966** | **11,140** |
| **CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR** | 12 | **180,996** | **169,856** |
| NET CASH FLOW FOR THE YEAR | | 563,966 | 11,140 |
| **CASH AND CASH EQUIVALENTS AT YEAR-END** | 12 | **744,962** | **180,996** |

*(1) THIS REFERS TO THE RECEIPT OF EURO 600 MILLION IN DECEMBER 2008 FOR THE SALE OF 49% OF THE INVESTMENT IN ISAB S.R.L. AS PART OF THE LUKOIL TRANSACTION*

*(2) INCLUDING EURO 842 MILLION IN OUTSTANDING RECEIVABLES FROM LUKOIL FOR THE SALE OF 49% OF ISAB S.R.L. COLLECTED IN FEBRUARY 2009*

*(3) IN 2008, THE CHANGE REFERS TO DECONSOLIDATION OF THE BUSINESS UNIT TRANSFERRED TO ISAB S.R.L. AS PART OF THE LUKOIL TRANSACTION, LINE-BY-LINE CONSOLIDATION OF ERG EOLICA S.P.A. AND DECONSOLIDATION OF THE BUSINESS UNIT TRANSFERRED TO PRIOLO SERVIZI S.C.A.R.L.; IN FY 2007 THE CHANGE REFERS TO THE ACQUISITION OF ENERFRANCE*

# STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY

| | SHARE CAPITAL | RESERVES | PROFIT (LOSS) FOR THE PERIOD | TOTAL | MINORITY INTERESTS | TOTAL SHAREHOLDERS' EQUITY |
|---|---|---|---|---|---|---|
| **BALANCE AT 31/12/2006** | **15,032** | **1,051,039** | **152,777** | **1,218,847** | **179,460** | **1,398,307** |
| NET PROFIT FROM CASH-FLOW HEDGING TRANSACTIONS (1) | – | 1,217 | – | 1,217 | (41) | 1,176 |
| **TOTAL PROFIT OR LOSS FROM PERIOD TAKEN DIRECTLY TO SHAREHOLDERS' EQUITY** | **–** | **1,217** | **–** | **1,217** | **(41)** | **1,176** |
| ALLOCATION OF 2006 PROFIT | – | 152,777 | (152,777) | – | – | – |
| DIVIDENDS PAID | – | (59,866) | – | (59,866) | (35,931) | (95,797) |
| CHANGE IN SCOPE OF CONSOLIDATION | – | – | – | – | (39,819) | (39,819) |
| OTHER CHANGES | – | 2,627 | – | 2,627 | 435 | 3,062 |
| 2007 PROFIT | – | – | 170,936 | 170,936 | 21,191 | 192,127 |
| | | | | | | - |
| **BALANCE AT 31/12/2007** | **15,032** | **1,147,794** | **170,936** | **1,333,761** | **125,295** | **1,459,056** |
| NET PROFIT FROM CASH-FLOW HEDGING TRANSACTIONS (1) | – | (6,223) | – | (6,223) | (724) | (6,947) |
| **TOTAL PROFIT OR LOSS FROM PERIOD TAKEN DIRECTLY TO SHAREHOLDER'S EQUITY** | **–** | **(6,223)** | **–** | **(6,223)** | **(724)** | **(6,947)** |
| ALLOCATION OF 2007 PROFIT | – | 170,936 | (170,936) | – | – | – |
| DIVIDENDS PAID | – | (59,289) | – | (59,289) | (2,638) | (61,927) |
| ACQUISITION OF TREASURY SHARES | – | (14,779) | – | (14,779) | – | (14,779) |
| OTHER CHANGES | – | 16,824 | – | 16,824 | (16,928) | (103) |
| 2008 PROFIT | – | – | 646,033 | 646,033 | 2,994 | 649,027 |
| **BALANCE AT 31/12/2008** | **15,032** | **1,255,263** | **646,033** | **1,916,328** | **107,999** | **2,024,327** |

*(1) NET OF THE RELATIVE TAX EFFECT*

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

"ERG" means ERG S.p.A. and the companies included in the 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 CONSOLIDATED FINANCIAL STATEMENTS

The Consolidated Financial Statements as at 31 December 2008 have been prepared, without any exception, in accordance with the International Accounting Standards issued by the International Accounting Standards Board (IASB) and endorsed by the European Union. Such standards also include all the international standards subject to interpretation (International Financial Reporting Standards – IFRS) and the interpretations of the International Financial Reporting Interpretation Committee (IFRIC) and the earlier Standing Interpretations Committee (SIC).

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

The Consolidated Financial Statements as at 31 December 2008 have been audited by the external auditor Reconta Ernst & Young S.p.A. in accordance with CONSOB regulations. The results of this audit will be published as soon as they become available.

## FORM AND CONTENT OF THE CONSOLIDATED FINANCIAL STATEMENTS

ERG presents its Income Statement by nature, a form deemed more representative than presentation by function. The form chosen is in fact consistent with internal and management reporting procedures.
With reference to the Balance Sheet, the presentation format adopted 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 Cash Flow Statement is based on the indirect method.
Furthermore, as required by CONSOB Resolution 15519 of 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 discussed in an appropriate note.
Again in application of the aforesaid CONSOB resolution, amounts connected with related-party positions or transactions have been indicated separately in the Balance Sheet and Income Statement. These items are discussed in an appropriate note.
Disclosure relating to the net financial position can be found in the schedules on net financial debt included in the Management Report.

## CONSOLIDATION PRINCIPLES

### SCOPE OF CONSOLIDATION

The Consolidated Financial Statements contain line-by-line consolidation of data pertaining to the Parent Company, ERG S.p.A., and the subsidiaries either directly or indirectly controlled by ERG S.p.A. This control exists when the Group has the power to determine the financial and operational policies of a company for the purpose of obtaining benefits from its activities. Subsidiary companies are consolidated as from the date when the Group effectively obtained control and cease to be consolidated from the date when control is transferred outside the Group.

The associate companies where ERG S.p.A. exercises notable influence, or the companies where there is joint control over financial and operational policies, are valued using the equity method. The Group's share of profits or losses is included in the Consolidated Financial Statements as from the date when the notable influence commenced and up to the date when it ceases.
Should the Group's share of the losses of an associate company exceed the book value of the equity investment shown in the balance sheet, the carrying value is written off and provision made for the Group's share of the losses to the extent that the Group has legal or implicit obligations to cover the losses of the associate company or, in any event, make payments on its behalf.
No companies have been consolidated using the proportional method.

## EQUITY INVESTMENTS IN COMPANIES INCLUDED IN THE SCOPE OF CONSOLIDATION

The financial statements of subsidiaries used for consolidation purposes were drawn up as at 31 December 2008 based on the same accounting standards adopted by the Group.
All financial statements of the companies consolidated line by line are expressed in Euro.
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 Balance Sheet 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 current values attributed to assets and liabilities at the date control was acquired, excluding their portion of any goodwill.
The book value of the equity investments is offset against the corresponding portion of shareholders' equity of the investee companies, attributing to individual balance sheet assets and liabilities their current value as at the date control was acquired. Any residual difference, if positive, is booked to the asset item "Goodwill"; if negative, it is booked to the income statement as envisaged in IFRS 3 (Business Combinations).

## INFRAGROUP TRANSACTIONS

Application of the line-by-line method, to eliminate the influence of all infragroup transactions on the consolidated Balance Sheet and Income Statement, results in elimination of reciprocal receivables and payables between the companies included in the scope of the 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 EURO

ERG's Consolidated Financial Statements have been drawn up in Euro, which is the functional currency of the Parent Company ERG S.p.A. and of all companies included in the scope of consolidation.
Financial statements of the companies valued according to the equity method that are expressed in currencies other than the Euro are translated into Euro by applying the year-end exchange rate to individual balance sheet items.
Foreign exchange differences resulting from the translation of initial shareholders' equity items at the current exchange rates at financial year-end, compared with those in force at the end of the previous financial year, are charged directly to consolidated shareholders' equity.

## GROUP COMPANIES

The following tables show the companies consolidated on a line-by-line basis, those carried at equity, and those valued at cost.

List of companies consolidated on a line-by-line basis:

| COMPANY (THOUSAND EURO) | REGISTERED OFFICE | DIRECT OWNERSHIP | GROUP OWNERSHIP | SHARE CAPITAL [1] | SHAREHOLDERS' EQUITY [1] |
|---|---|---|---|---|---|
| **ERG S.P.A.** | | | | | |
| ERG RENEW S.P.A. | MILAN | 77.39% | 77.39% | 132,667 | 138,404 |
| ERG PETROLI S.P.A. | ROME | 100.00% | 100.00% | 36,000 | 329,045 |
| ERG POWER & GAS S.P.A. | ROME | 100.00% | 100.00% | 6,500 | 35,443 |
| ERG RAFFINERIE MEDITERRANEE S.P.A. | SYRACUSE | 100.00% | 100.00% | 25,000 | 1,406,997 |
| **ERG RENEW S.P.A.** | | | | | |
| DSI SERVIZI INDUSTRIALI S.R.L. | FROSINONE | 100.00% | 77.39% | 100 | 185 |
| ERG EOLICA ITALIA S.R.L. [2] | GENOA | 100.00% | 77.39% | 30,000 | 31,260 |
| ERG EOLIENNE FRANCE S.A.S. [3] | PARIS | 100.00% | 77.39% | 50 | 59 |
| ENERGIE PULITE 2000 S.R.L. | MILAN | 100.00% | 77.39% | 120 | 113 |
| ECOPOWER S.R.L. [4] | GENOA | 100.00% | 77.39% | 11 | 309 |
| ISEA S.R.L. [4] | GENOA | 90.00% | 69.65% | 51 | 255 |
| SODAI ITALIA S.P.A. | MILAN | 100.00% | 77.39% | 15,615 | 12,822 |
| **ERG EOLIENNE FRANCE S.A.S.** | | | | | |
| PARC EOLIEN DE LIHUS S.A.S. | PARIS (F) | 100.00% | 77.39% | 1,114 | 317 |
| PARC EOLIEN DE HETOMESNIL S.A.S. | PARIS (F) | 100.00% | 77.39% | 1,114 | 274 |
| PARC EOLIEN DE LA BRUYÉRE S.A.S. | PARIS (F) | 100.00% | 77.39% | 1,060 | 391 |
| PARC EOLIEN DU CARREAU S.A.S. | PARIS (F) | 100.00% | 77.39% | 861 | 703 |
| PARC EOLIEN LES MARDEAUX S.A.S. | PARIS (F) | 100.00% | 77.39% | 1,097 | 798 |
| **ERG EOLICA ITALIA S.R.L.** | | | | | |
| EOS 1 - TROIA S.R.L. (SAN VINCENZO) | GENOA | 100.00% | 77.39% | 3,500 | 27,037 |
| EOS 2 - NURRA S.R.L. | GENOA | 100.00% | 77.39% | 10 | (1,579) |
| EOS 3 - TROIA S.R.L. (SAN CIREO) | GENOA | 100.00% | 77.39% | 3,500 | 19,855 |
| EOS 4 - FAETO S.R.L. | GENOA | 100.00% | 77.39% | 10 | 10,918 |
| EOS 5 - TURSI COLOBRARO S.R.L. | GENOA | 100.00% | 77.39% | 10 | (1,046) |
| EOS 6 - JOPPOLO S.R.L. | GENOA | 100.00% | 77.39% | 10 | (1,059) |
| EOS 7 - GINESTRA S.R.L. | GENOA | 100.00% | 77.39% | 10 | 1,145 |
| EOLO S.R.L. | ATINA (FROSINONE) | 51.00% | 39.47% | 20 | 599 |
| ERG EOLICA BASILICATA S.R.L. [4] | GENOA | 98.00% | 75.84% | 38 | (16) |
| ERG EOLICA CALABRIA S.R.L. [4] | CATANZARO | 100.00% | 77.39% | 10 | (523) |
| ERG EOLICA FOSSA DEL LUPO S.R.L. [4] | CATANZARO | 100.00% | 77.39% | 50 | 12,288 |
| GREEN VICARI S.R.L. [4] | GENOA | 100.00% | 77.39% | 119 | 6,190 |
| **ERG PETROLI S.P.A.** | | | | | |
| ERG PETRÓLEOS S.A. [5] | MADRID (E) | 100.00% | 100.00% | 22,000 | (13,880) |
| GESTIONI EUROPA S.P.A. | ROME | 100.00% | 100.00% | 500 | 175 |
| **ERG PETRÓLEOS S.A.** | | | | | |
| ERG GESTIÓN IBÉRICA S.L. [6] | MADRID (E) | 100.00% | 100.00% | 50 | (883) |
| **GESTIONI EUROPA S.P.A.** | | | | | |
| GESTIONI EUROPA DUE S.P.A. [7] | ROME | 100.00% | 100.00% | 200 | 628 |
| **ERG POWER & GAS S.P.A.** | | | | | |
| ERG NUOVE CENTRALI S.P.A. | SYRACUSE | 100.00% | 100.00% | 28,810 | 17,329 |
| ISAB ENERGY S.R.L. | SYRACUSE | 51.00% | 51.00% | 5,165 | 392,432 |
| ISAB ENERGY SERVICES S.R.L. | SYRACUSE | 51.00% | 51.00% | 700 | 8,111 |

*(1) DATA REFERRING TO THE LAST APPROVED FINANCIAL STATEMENTS*

*(2) FORMERLY EOS WINDENERGY S.R.L.*

*(3) FORMERLY ENERFRANCE S.A.S.*

*(4) FOLLOWING THE ERG POWER & GAS DEMERGER ON 1 OCTOBER 2008, THE COMPANIES ISEA AND ECOPOWER AND THE COMPANIES THAT WERE SUBSIDIARIES OF ERG EOLICA ARE CONSOLIDATED BY ERG RENEW S.P.A.*

*(5) 99% OWNED BY ERG PETROLI S.P.A. AND 1% BY GESTIONI EUROPA S.P.A.*

*(6) 99% OWNED BY ERG PETRÓLEOS S.A. AND 1% BY GESTIONI EUROPA S.P.A.*

*(7) ON 26 JUNE THE GESTIONI EUROPA DUE SHAREHOLDERS' MEETING PASSED RESOLUTIONS FOR REDUCING THE SHARE CAPITAL TO ZERO AND THEN RECONSTITUTING IT TO COVER ALL LOSSES FOR THE PREVIOUS YEARS. AT 31 DECEMBER 2008, THE COMPANY WAS 100% OWNED BY GESTIONI EUROPA, AFTER THE MINORITY SHAREHOLDER THAT OWNED 5% OF THE CAPITAL DECIDED NOT TO SUBSCRIBE THE SHARES ALLOCATED TO IT*

The companies in the wind power generation division and Integrated Downstream division in Spain that had negative shareholders' equity at 31 December 2008, following write-downs of assets and provisions for liabilities and charges during the financial year will be recapitalised by their parent companies during 2009.

List of equity investments valued according to the equity method:

| COMPANY (THOUSAND EURO) | REGISTERED OFFICE | DIRECT OWNERSHIP | GROUP OWNERSHIP | SHARE CAPITAL (1) | SHAREHOLDERS' EQUITY (1) | BOOK VALUE AT 31/12/2008 |
|---|---|---|---|---|---|---|
| **SUBSIDIARY COMPANIES (2)** | | | | | | |
| **ERG PETROLI S.P.A.** | | | | | | |
| ERG PETROLI (SUISSE) S.A. | LAUSANNE (CH) | 99.45% | 99.45% | 370 | 1,034 | 1,035 |
| EUROIL S.R.L. | ROME | 100.00% | 100.00% | 100 | 386 | 7,082 |
| SIGEA S.P.A. | GENOA | 65.00% | 65.00% | 103 | 1,945 | 1,265 |
| | | | | | | **9,382** |
| **ASSOCIATE COMPANIES** | | | | | | |
| **ERG S.P.A.** | | | | | | |
| I-FABER S.P.A. | MILAN | 23.00% | 23.00% | 5,652 | 7,378 | 2,319 |
| **ERG EOLICA ITALIA S.R.L.** | | | | | | |
| VCC ABRUZZO S.R.L. | L'AQUILA | 30.00% | 23.22% | 10 | 6 | 30 |
| VCC AGRIGENTO S.R.L. | L'AQUILA | 30.00% | 23.22% | 12 | 8 | 254 |
| VCC AGRIGENTO 2 S.R.L. | L'AQUILA | 30.00% | 23.22% | 10 | 6 | 196 |
| VCC ENNA S.R.L. | L'AQUILA | 30.00% | 23.22% | 10 | 5 | 115 |
| **ERG EOLIENNE FRANCE S.A.S.** | | | | | | |
| C.I.T.A. S.A.S. | ALFORTVILLE (F) | 50.00% | 38.69% | 37 | (121) | 2,534 |
| **ERG PETROLI S.P.A.** | | | | | | |
| CENTRO PETROLI IMPIANTI S.R.L. | TAGGIA (IMPERIA) | 34.00% | 34.00% | 501 | 915 | 341 |
| DE.CO S.C.AR.L. | ROME | 25.00% | 25.00% | 3,440 | 3,674 | 883 |
| ELYO ITALIA S.R.L. | MILAN | 40.00% | 40.00% | 43,250 | 60,742 | 30,504 |
| ENERPETROLI S.R.L. | VITERBO | 44.40% | 44.40% | 250 | 2,746 | 1,202 |
| EUROPAM S.R.L. | MILAN | 24.30% | 24.30% | 25,421 | 37,666 | 9,259 |
| LAMPOGAS LOMBARDA S.R.L. | CROSIO D. VALLE (VARESE) | 46.50% | 46.50% | 710 | 1,211 | 657 |
| LAMPOGAS NORD S.R.L. | CAMERI (NOVARA) | 46.50% | 46.50% | 1,032 | 1,351 | 1,624 |
| LAMPOGAS PIEMONTESE S.R.L. | SETTIMO TORINESE (TURIN) | 46.50% | 46.50% | 1,800 | 2,146 | 1,022 |
| MED OIL S.R.L. | PESCARA | 50.00% | 50.00% | 2,789 | 2,545 | 1,273 |
| NATALIZIA PETROLI S.R.L. | FROSINONE | 49.00% | 49.00% | 3,200 | 6,581 | 3,255 |
| NELSA S.R.L. | LURATE CACCIVIO (COMO) | 26.00% | 26.00% | 1,000 | 5,693 | 1,868 |
| RAFFINERIA DI ROMA S.P.A. | ROME | 28.13% | 28.13% | 2,000 | 7,900 | 8,706 |
| SARPOM S.P.A. | ROME | 25.86% | 25.86% | 38,448 | 186,580 | 37,588 |
| **ERG POWER & GAS S.P.A.** | | | | | | |
| ERG RIVARA STORAGE S.R.L. | MODENA | 15.00% | 15.00% | 63,333 | 62,909 | 9,434 |
| ESPANSIONE S.R.L. | VARESE | 27.01% | 27.01% | 274 | 2,085 | 851 |
| IONIO GAS S.R.L. (3) | SYRACUSE | 50.00% | 50.00% | 200 | 3,161 | 1,900 |
| ROMA ENERGIA S.R.L. IN LIQUIDATION | ROME | 20.00% | 20.00% | 99 | 99 | – |
| **ERG NUOVE CENTRALI S.P.A.** | | | | | | |
| PRIOLO SERVIZI S.C.P.A. (4) | SYRACUSE | 21.50% | 21.50% | 10 | 194 | 9,219 |
| **ERG RAFFINERIE MEDITERRANEE S.P.A.** | | | | | | |
| DYNERGY S.R.L. | GENOA | 37.50% | 37.50% | 179 | 476 | 178 |
| ISAB S.R.L. (5) | GENOA | 51.00% | 51.00% | 50 | 1,057 | 574,856 |
| | | | | | | **700,066** |
| **TOTAL** | | | | | | **709,448** |

*(1) DATA REFERRING TO THE LAST APPROVED FINANCIAL STATEMENTS*
*(2) THESE COMPANIES HAVE BEEN ACCOUNTED FOR USING THE EQUITY METHOD AS THEIR INCLUSION WITHIN THE SCOPE OF CONSOLIDATION WOULD HAVE BEEN IMMATERIAL*
*(3) IN JOINT VENTURE WITH SHELL ENERGY ITALIA S.R.L.*
*(4) THE CONSORTIUM COMPANY IS SUBJECT TO JOINT CONTROL TOGETHER WITH ISAB S.R.L. (37.8%) AND OTHER SHAREHOLDERS BELONGING TO THE ENI GROUP, POLIMERI EUROPA (35.7%) AND SYNDIAL (35.7%)*
*(5) IN JOINT VENTURE WITH LUKOIL EUROPE HOLDINGS B.V.*

List of equity investments carried at cost:

| COMPANY (THOUSAND EURO) | REGISTERED OFFICE | DIRECT OWNERSHIP | GROUP OWNERSHIP | SHARE CAPITAL | SHAREHOLDERS' EQUITY [(1)] | BOOK VALUE AT 31/12/2008 |
|---|---|---|---|---|---|---|
| **SUBSIDIARY COMPANIES [(2)]** | | | | | | |
| **ERG EOLICA ITALIA S.R.L.** | | | | | | |
| EOLICO TROINA S.R.L. | ROME | 99.00% | 76.61% | 20 | 184 | 235 |
| EOLICO MIRABELLA S.R.L. | ROME | 99.00% | 76.61% | 20 | 54 | 142 |
| EOLICO AGIRA S.R.L. | ROME | 99.00% | 76.61% | 20 | 127 | 168 |
| EOLICO RAMACCA S.R.L. | ROME | 99.00% | 76.61% | 20 | 405 | 450 |
| EOLICO PALAGONIA S.R.L. | ROME | 99.00% | 76.61% | 20 | 160 | 205 |
| **ERG EOLIENNE FRANCE S.A.S.** | | | | | | |
| EOLIENNES DU VENT SOLAIRE S.A.S. | PARIS (F) | 100.00% | 77.39% | 37 | 28 | 32 |
| | | | | | | **1,230** |
| **ASSOCIATE COMPANIES** | | | | | | |
| **ERG EOLIENNE FRANCE S.A.S.** | | | | | | |
| EOLIENNES DE LA VALLÉE NOTRE DAME S.A.R.L. | ALFORTVILLE (F) | 50.00% | 38.69% | 2 | N.A. | 1 |
| EOLIENNES DU CHAMP CHARDON S.A.R.L. | ALFORTVILLE (F) | 50.00% | 38.69% | 2 | N.A. | 1 |
| EOLIENNES DE LA CHAUSSÉE BRUNEHAUT S.A.R.L. | ALFORTVILLE (F) | 50.00% | 38.69% | 2 | N.A. | 1 |
| EOLIENNES DE WARLOY-BAILLON S.A.R.L. | ALFORTVILLE (F) | 50.00% | 38.69% | 2 | N.A. | 1 |
| EOLIENNES DE L'OURCQ ET DU CLIGNON S.A.R.L. | ALFORTVILLE (F) | 50.00% | 38.69% | 2 | N.A. | 1 |
| | | | | | | **4** |
| **OTHER COMPANIES** | | | | | | |
| **ERG S.P.A.** | | | | | | |
| SVILUPPO ITALIA LIGURIA S.C.P.A. | GENOA | 1.25% | 1.25% | 5,442 | 7,515 | 68 |
| CAF INTERREG. DIPENDENTI S.R.L. [(3)] | VICENZA | 0.06% | 0.06% | 276 | 914 | – |
| EMITTENTI TITOLI S.P.A. | MILAN | 0.51% | 0.51% | 4,264 | 6,231 | 26 |
| LIGURCAPITAL S.P.A. | GENOA | 3.64% | 3.64% | 5,681 | 8,112 | 207 |
| R.U.P.E. S.P.A. | GENOA | 4.89% | 4.89% | 3,040 | 2,898 | 155 |
| **ERG RENEW S.P.A.** | | | | | | |
| ANSALDO FUEL CELLS S.P.A. | GENOA | 5.36% | 4.15% | 21,623 | 8,508 | 1,101 |
| UTILITÀ PROGETTI E SVILUPPO S.R.L. | MILAN | 3.34% | 2.58% | 50 | 4,861 | 2 |
| **ERG PETROLI S.P.A.** | | | | | | |
| IMMOB. UNIONE COMM.TI ROMA S.P.A. | ROME | 0.03% | 0.03% | 2,066 | 1,776 | 1 |
| MEROIL S.A. | BARCELONA (E) | 1.52% | 1.52% | 10,901 | 22,009 | 441 |
| PORTO PETROLI DI GENOVA S.P.A. | GENOA | 8.98% | 8.98% | 2,068 | 5,265 | 347 |
| **ISAB ENERGY S.R.L.** | | | | | | |
| IAS - INDUSTRIA ACQUA SIRACUSANA S.P.A. [(4)] | SYRACUSE | 5.00% | 2.55% | 102 | 108 | 5 |
| | | | | | | **2,352** |
| **TOTAL** | | | | | | **3,586** |

*(1) DATA REFERRING TO THE LAST APPROVED FINANCIAL STATEMENTS*
*(2) COMPANIES VALUED AT COST AS THEY ARE NOT YET OPERATIONAL*
*(3) HELD BY ERG S.P.A. (0.02%), ERG PETROLI S.P.A. (0.02%), AND ERG RAFFINERIE MEDITERRANEE S.P.A. (0.02%)*
*(4) HELD BY PRIOLO SERVIZI S.C.P.A. (14%) AND ISAB ENERGY S.R.L. (5%)*

The principal transactions that were carried out involving Group equity investments are summarised as follows.

On 30 September 2008 the company **ERG Renew S.p.A.** sold its equity investment in Eolo S.r.l., equal to 51% of the share capital, to EOS Windenergy S.r.l.

On 1 October 2008 the company **ERG Power & Gas S.p.A.** partially demerged through transfer to the beneficiary company **ERG Renew S.p.A.** of part of its assets, consisting of equity investments in the companies ERG Eolica S.r.l. and its subsidiaries, in Eolico Troina S.r.l., Eolico Ramacca S.r.l., Eolico Palagonia S.r.l., Eolico Agira S.r.l., Eolico Mirabella S.r.l., ISEA S.r.l. and Ecopower S.r.l. As a result of the demerger, ERG Power & Gas S.p.A. reduced its share capital from Euro 10 million to Euro 6.5 million.
On the same date ERG Renew issued 37,789,734 ordinary shares deriving from the capital increase that followed the demerger of ERG Power & Gas in favour of ERG Renew. As a result of this issue, the equity interest of ERG S.p.A. in the company ERG Renew rose from 68.38% to 77.39% of ERG Renew's share capital, corresponding to 132,666,675 ordinary shares, with a par value of 1 Euro each.

Following the demerger, in the **ERG Renew Group** the following transactions were carried out:

- the company EnerFrance S.a.s. changed its name to **ERG Eolienne France S.a.s.**;
- on 10 October 2008, ERG Eolienne France S.a.s. acquired from the French group GSEF a 50% equity interest in the French company **C.I.T.A. S.a.s.**, which is active in the development of wind farms in northern France, and 50% of five project companies located in France;
- on 17 October 2008 the company Parco Eolico di Faeto W.W.E.H. 2 S.r.l. was merged with the company EOS 7 - Ginestra S.r.l. Consequently, the company Parco Eolico di Faeto W.W.E.H. 2 S.r.l. was dissolved with effect from such date;
- on 20 October 2008, ERG Renew S.p.A. executed a settlement with Trenitalia S.p.A. for the acquisition of 49% of the equity investment held by the latter in SODAI Italia S.p.A. As a result of this acquisition, the equity investment of ERG Renew in the company SODAI Italia rose from 51% to 100%;
- following the resolution adopted by the Extraordinary Shareholders' Meeting, the company EOS Windenergy S.r.l. changed its name to **ERG Eolica Italia S.r.l.**;
- on 12 November 2008, ERG Eolienne France S.a.s. acquired from the company VSB Energies Nouvelles, French branch of the German group WSB, 100% of the French company Eoliennes du Vent Solaire S.a.s., holder of all the rights and authorisations to build the Plogastel 9.2 MW wind farm, which is expected to be operational by the end of 2010;
- on 17 December 2008, but effective 31 December 2008, the company ERG Eolica S.r.l. was merged with the company ERG Eolica Italia S.r.l. The company ERG Eolica S.r.l. was consequently dissolved on 31 December 2008;
- the company ERG Renew S.p.A. sold to ERG Eolica Italia S.r.l. its equity investment in the companies Eolico Agira, Eolico Mirabella, Eolico Palagonia, Eolico Ramacca and Eolico Troina.

On 2 December 2008, **ERG Petroli S.p.A.** acquired 100% of the company Euroil S.r.l. (100,000 quotas of Euro 1.00 each).

On 1 October 2008, the company **Lampogas Pavese S.r.l.** was merged with Lampogas Nord S.r.l.

With regard to the company ISAB S.r.l., reference is made to the description of the LUKOIL transaction given in the following chapter.

The main aggregate figures for 2008 relating to ERG's holdings in the companies carried at equity are set out below.
The increase in values over 2007 stems principally from the amounts concerning ISAB S.r.l. following the LUKOIL transaction.

| (MILLION EURO) | 2008 | 2007 |
|---|---|---|
| ASSETS | 1,187 | 510 |
| LIABILITIES | 478 | 394 |
| REVENUES | 824 | 667 |
| NET INCOME | 6 | 2 |

## CHANGE IN SCOPE OF CONSOLIDATION

The principal transactions that modified the scope of consolidation are illustrated as follows.

### LINE-BY-LINE CONSOLIDATION OF ERG EOLICA

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

The companies owned by ERG Eolica have been consolidated on a line-by-line basis since 1 February 2008.

The impact of this transaction on the Consolidated Financial Statements of ERG is principally represented by consolidation of the wind farm assets for an aggregate value of Euro 85 million and net borrowings of Euro 77 million. In terms of EBITDA, the impact of this transaction was Euro 0.2 million, while there were no changes in EBIT since the company had already been consolidated according to the equity method.

### CONSORZIO PRIOLO SERVIZI (PRIOLO SERVICES CONSORTIUM)

Priolo Servizi S.c.ar.l., owned 37.8% by ERG Raffinerie Mediterannee, 21.5% by ERG Nuove Centrali, 35.7% by Polimeri Europa and 5% by Syndial, was incorporated on 15 December 2006 as the provider of general site services, utilities, and different types of water for the jointly owned Priolo Gargallo site.
On 19 March 2008 the company completed the purchase, effective as from 1 May 2008, of shareholder assets managed by the consortium. The acquisition was realised through the drawing up of deeds of contribution on the part of ERG Raffinerie Mediterranee and Syndial, with consequent capital increase, and contracts of sale by ERG Nuove Centrali and Polimeri. Repositioning of the shareholders' respective equity interests was formalised on the same date.

The effects of this operation on the ERG Consolidated Financial Statements are largely represented by deconsolidation of the amounts for the business unit contributed by ERG Raffinerie Mediterranee, the increased value of the equity investment in Priolo Servizi S.c.a.r.l. (carried at equity, insofar as it is subject to joint control), and recognition of the minority interest in the gain resulting from the said operation.
On 1 December 2008 the equity investment owned in the company Priolo Servizi S.c.a.r.l. was transferred to ISAB S.r.l. as part of the LUKOIL sale transaction.

The business unit contributed by ERG Raffinerie Mediterranee consists principally of assets with an aggregate value of Euro 28 million and a net financial position of Euro 16 million.

## PARTIAL DEMERGER OF ERG POWER & GAS

Reorganisation of the Renewable Energy Sources division was completed in 2008 through transfer, by means of partial demerger, of the equity investments in the Renewable Energy Sources division of ERG Power & Gas to ERG Renew.

In compensation for the demerged assets, the capital of ERG Renew was increased and 37,789,734 newly issued shares were assigned to ERG, as sole shareholder of ERG Power & Gas. Following this transaction, ERG now controls 77.387% of the share capital of ERG Renew (102,667,267 shares), compared with its previous 68.381% stake (64,877,534 shares).

For more details on the transferred investments, reference is made to the comments in the section "Group Companies".

## SALE OF 49% STAKE IN ISAB S.R.L. TO LUKOIL

On 1 December ERG closed its agreements with LUKOIL for an important partnership in coastal refining.

ERG Raffinerie Mediterranee, a wholly owned subsidiary of the ERG Group, contributed to ISAB S.r.l. a business unit consisting of all assets of the ISAB Refinery at Priolo, Sicily, for a total capacity of 320,000 barrels a day, the thermoelectric plants located at the Impianti Sud (south plant site), with an installed capacity of 99 MW, and a minimum operating inventory of crude oil and petroleum products totalling 745 thousand tonnes.

Forty-nine percent of the capital of ISAB S.r.l. was transferred to LUKOIL on 1 December. After title to the shareholding was transferred, LUKOIL paid Euro 600 million as the first instalment on the agreed price. Payment of the balance, including the minimum operating inventory (valued at the average of November prices) and accrued interest was made in a single instalment on 17 February 2009.

The agreement also gives ERG Raffinerie Mediterranee a put option for its 51% equity stake. The exercise price for rights over 100% of the assets contributed to ISAB S.r.l. (not including the minimum operating inventory) will be the fair market value within a collar that envisages a cap of Euro 2,750 million and a floor of Euro 2,000 million, reduced by Euro 15 million following the February 2009 agreement [1].

ISAB S.r.l., which was created from the joint venture with LUKOIL and has been operating since 1 December, runs the Priolo refinery complex in Sicily.

The new company is managed by the two shareholders pursuant to shareholder agreements that call for 50-50 joint governance on principal business decisions and an operating agreement designed to ensure operating independence and efficiency.

The company is therefore subject to joint control and is carried at equity in these financial statements.

The transaction was submitted for review by the European Competition Commission, which gave its approval by finding that it did not violate European competition regulations.

The impact of this transaction on the Consolidated Financial Statements of ERG is summarised as follows:

- deconsolidation of the amounts allocable to the business unit contributed by ERG Raffinerie Mediterranee to ISAB S.r.l., with an aggregate impact of Euro 1,122 million on the Consolidated Financial Statements;
- following the transfer of 49% of the ISAB S.r.l. equity investment to LUKOIL, a reduction in the net financial position by about Euro 1,442 million, including Euro 600 million for cash received in December 2008;

(1) since the aforementioned put option is exercisable at the Group's discretion at an exercise price substantially corresponding to the presumed fair value at the exercise date, its value cannot be measured now in the Balance Sheet

- recognition of the gain realised upon sale of 49% of the ISAB investment, in the amount of Euro 892 million. The gain is considered a non-recurring item;
- recognition of 51% of the value of the ISAB S.r.l. equity investment, which is carried at equity insofar as it is subject to joint control, with consequent recognition of its operating results under income (expenses) from equity investments carried at equity.

## IMPACT ON CONSOLIDATED BALANCE SHEET

| | ISAB DECONSOLIDATION | ISAB EQUITY INTEREST | SALE OF 49% EQUITY INTEREST |
|---|---|---|---|
| INTANGIBLE FIXED ASSETS | (31,600) | – | – |
| PROPERTY, PLANT AND MACHINERY | (815,885) | – | – |
| EQUITY INVESTMENTS | (16,208) | 1,122,479 (1) | (550,015) (2) |
| OTHER FINANCIAL ASSETS | – | – | – |
| DEFERRED TAX ASSETS | (20,304) | – | – |
| OTHER NON-CURRENT ASSETS | (44,994) | – | – |
| **NON-CURRENT ASSETS** | **(928,991)** | **1,122,479** | **(550,015)** |
| INVENTORY | (227,098) | – | – |
| TRADE RECEIVABLES | – | – | – |
| OTHER CURRENT RECEIVABLES AND ASSETS | (9,458) | – | – |
| CURRENT FINANCIAL ASSETS | – | – | 842,457 |
| CASH AND CASH EQUIVALENTS | (50,097) | – | 600,000 |
| **CURRENT ASSETS** | **(286,653)** | **–** | **1,442,457 (3)** |
| **TOTAL ASSETS** | **(1,215,644)** | **1,122,479** | **892,442** |
| **SHAREHOLDERS' EQUITY** | **(1,122,469)** | **1,122,479** | **863,835** |
| STAFF LEAVING INDEMNITIES | (13,159) | – | – |
| DEFERRED TAX LIABILITIES | (60,605) | – | – |
| PROVISIONS FOR NON-CURRENT LIABILITIES AND CHARGES | (10,032) | – | – |
| NON-CURRENT FINANCIAL LIABILITIES | 13,271 | – | – |
| OTHER NON-CURRENT LIABILITIES | (8,802) | – | – |
| **NON-CURRENT LIABILITIES** | **(79,327)** | **–** | **–** |
| PROVISIONS FOR CURRENT LIABILITIES AND CHARGES | (464) | – | – |
| TRADE PAYABLES | – | – | – |
| CURRENT FINANCIAL LIABILITIES | – | – | – |
| OTHER CURRENT LIABILITIES | (13,384) | – | 28,607 (4) |
| **CURRENT LIABILITIES** | **(13,848)** | **–** | **28,607** |
| **TOTAL LIABILITIES** | **(1,215,644)** | **1,122,479** | **892,442** |

*(1) EQUAL TO THE SHAREHOLDERS' EQUITY OF THE CONTRIBUTED BUSINESS UNIT, PLUS EURO 10 THOUSAND FOR THE SHARE CAPITAL ALREADY PAID BY ERG RAFFINERIE MEDITERRANEE*
*(2) SALE OF 49% OF THE ISAB EQUITY INVESTMENT (CONSOLIDATED VALUE)*
*(3) PRICE PAID BY LUKOIL*
*(4) CAPITAL GAINS TAX AND TAX ON THE HIGHER DIVIDENDS PAYABLE*

## IMPACT ON THE CONSOLIDATED INCOME STATEMENT

| | NOTE | 2008 |
|---|---|---|
| **EBITDA** | A | **(23,016)** |
| AMORTISATION, DEPRECIATION AND WRITE-DOWNS | | – |
| **EBIT** | | **(23,016)** |
| PROCEEDS FROM SALE OF BUSINESS UNIT | B | 892,442 |
| NET FINANCIAL INCOME (EXPENSES) | C | 102,030 |
| **PROFIT BEFORE TAXES** | | **971,456** |
| INCOME TAXES | D | (58,395) |
| **NET PROFIT BEFORE MINORITY INTERESTS** | | **971,456** |
| MINORITY INTERESTS | | – |
| **GROUP NET PROFIT** | | **971,456** |

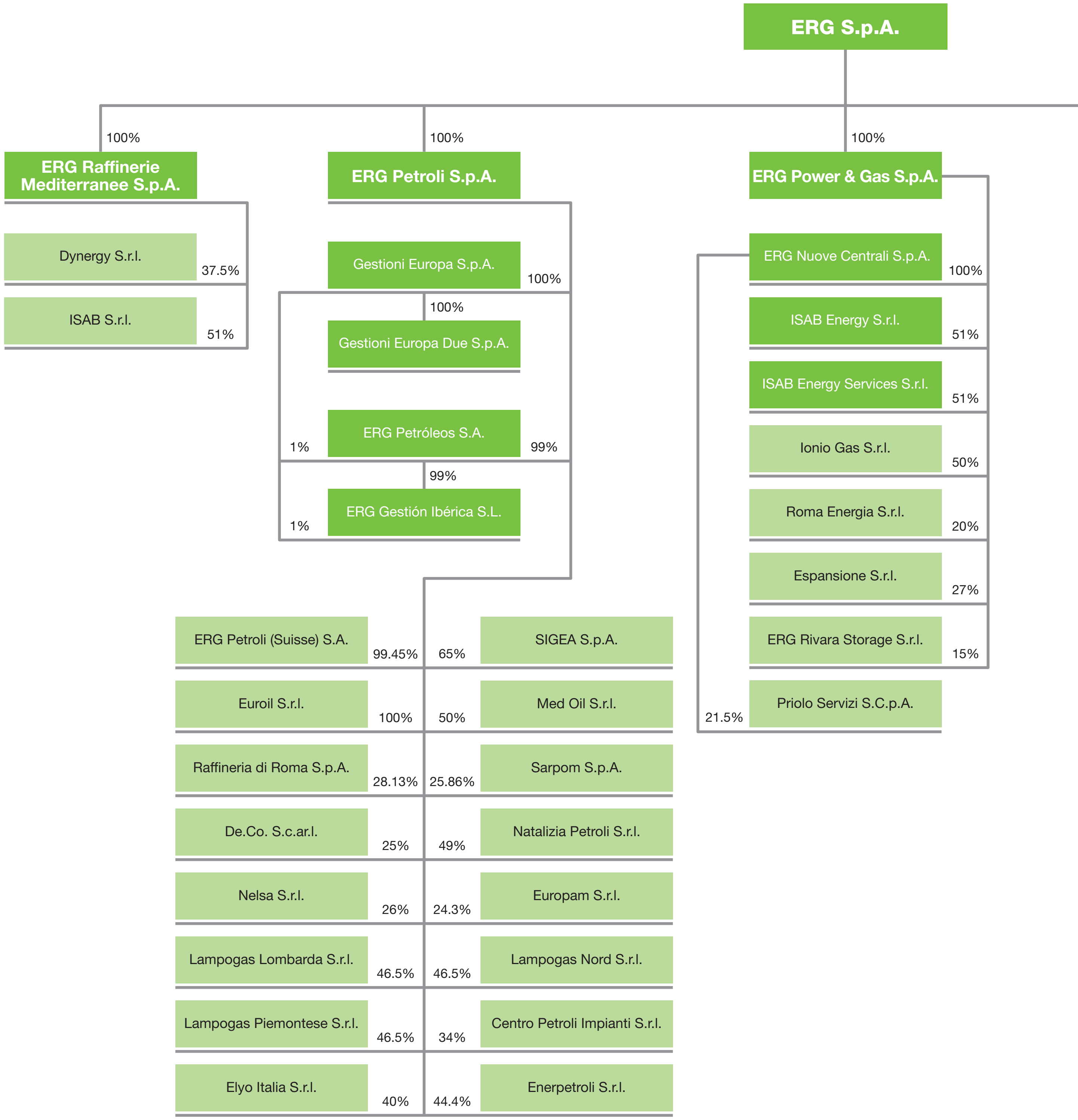
*A ANCILLARY CHARGES FOR SALE OF THE EQUITY INVESTMENT. THESE REFER MAINLY TO THE COSTS FOR ADVISORY SERVICES, LEGAL SERVICES, THE SUCCESS FEE PAID TO INTERMEDIARIES AND THE BONUSES PAID TO DIRECTORS/EMPLOYEES/INDEPENDENT CONTRACTORS THAT WERE CLOSELY INVOLVED IN THE PROJECT*

*B GAIN REALISED ON SALE OF 49% OF THE INVESTMENT IN ISAB S.R.L. TO LUKOIL*

*C INCLUDING THE DIFFERENCE ACCRUED ON A COLLAR TO HEDGE THE RISK OF PRICE FLUCTUATIONS ON THE INVENTORIES TRANSFERRED TO ISAB S.R.L.*

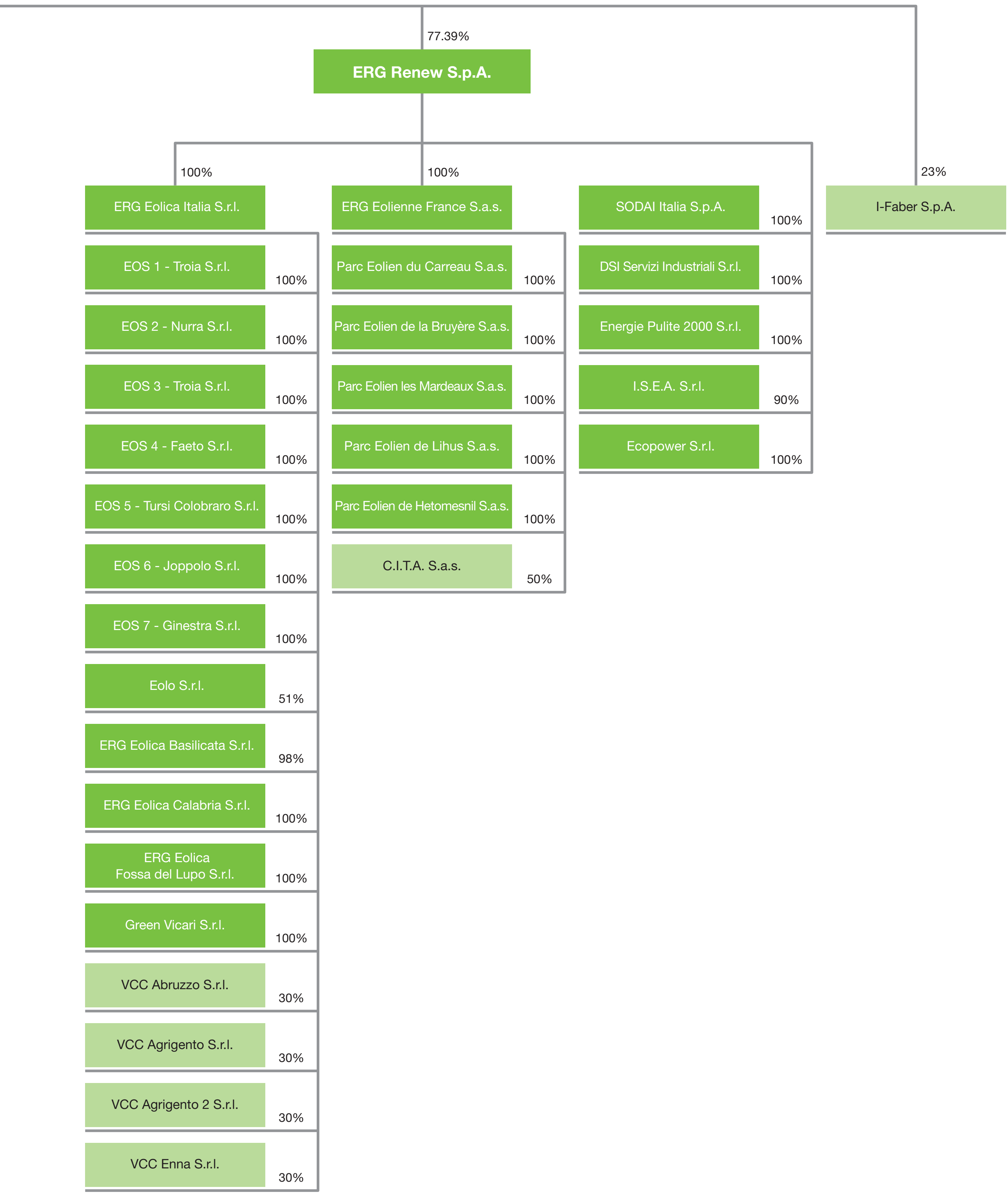
*D INCLUDING CAPITAL GAINS TAXES, TAXES ON PAYABLE DIVIDENDS AND TAXES ON THE OTHER COMPONENTS OF INCOME MENTIONED ABOVE*

# THE ERG GROUP
## SCOPE OF CONSOLIDATION AS AT 31 DECEMBER 2008




= companies consolidated on line-by-line basis

= companies carried at equity



77.39%
ERG Renew S.p.A.
100%
ERG Eolica Italia S.r.l.
EOS 1 - Troia S.r.l.
100%
EOS 2 - Nurra S.r.l.
100%
EOS 3 - Troia S.r.l.
100%
EOS 4 - Faeto S.r.l.
100%
EOS 5 - Tursi Colobraro S.r.l.
100%
EOS 6 - Joppolo S.r.l.
100%
EOS 7 - 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%
C.I.T.A. S.a.s.
50%
SODAI Italia S.p.A.
100%
DSI Servizi Industriali S.r.l.
100%
Energie Pulite 2000 S.r.l.
100%
I.S.E.A. S.r.l.
90%
Ecopower S.r.l.
100%
23%
I-Faber S.p.A.

## EVALUATION CRITERIA

The main principles adopted for preparation of the Consolidated Financial Statements at 31 December 2008, which are the same as those applied in the previous financial year, are as shown below.

### INTANGIBLE FIXED ASSETS

Intangible fixed assets are recorded under assets, according to the provisions of 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 according to their useful life. Useful life is reviewed annually and any changes, where necessary, are applied on a prospective basis.

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

- licences for industrial process, amortised in relation to the agreed contractual duration with expiry in 2012;
- the right acquired from ENEL for connection of the IGCC plant to grid connection lines, amortised over the period of use contractually provided for with expiry in 2020;
- authorisations for operation of service stations and for the wind farms amortised in relation to the contractual term.

There are no intangible assets with an indefinite useful life or development costs.
Research costs are expensed directly in the income statement in the period when 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

When a company is acquired, the assets, liabilities and potential liabilities acquired and identifiable are recorded at their fair value as at the acquisition date.
The positive difference between the cost of acquisition and the Group's share of the fair value of these assets and liabilities is classified as goodwill and recorded in the financial statements as an intangible asset.
Any negative difference ("negative goodwill") is instead recorded in the Income Statement at the time of the acquisition.
Goodwill is not amortised, but is subject 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 a loss in value.

### 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 under balance sheet assets as a separate component of the main asset during the financial year in which they are incurred and are included in the depreciation process on the basis of their appropriate useful life.

The cost of the assets, where there are current 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-entry in a specific provision. These charges are booked as from the date when they can be reliably estimated for those assets for which future disposal, and the time when this will happen, is foreseeable.

Capitalised charges are allocated to the Income Statement via amortisation.

Depreciation is calculated on a straight-line basis over the estimated useful life. When the tangible asset consists of several significant components having different useful lives, each component is depreciated accordingly. The value to be depreciated is the recognised value less the presumed salvage value, if significant and reasonably determinable.

Land is not depreciated, 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 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 |
| 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 are 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 the sale, and its value in use determined as the present value of estimated future cash flows.
Impairment is recorded if the recoverable value is less than the carrying value. Should a loss in value 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 loss had been recorded.

## FINANCIAL ASSETS

IAS 39 envisages classification of financial assets according to the following categories:

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

Initially, all financial assets are recognised at their fair value, augmented, in the case of assets other than those classified as FVTPL, by ancillary costs.
At the time of execution, an assessment is made as to whether or not a contract contains embedded derivatives. Embedded derivatives are separated from the host contract if the latter is not measured at fair value, whenever analysis shows that the economic characteristics and risks of same are not closely related to those of the host contract.

The Group classifies its financial assets after initial recognition and, when appropriate and allowed, 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 those separated out, 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 at 31 December 2008, no financial asset had been designated at 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 rate method. Gains and losses are recognised in the Income Statement when the investment is derecognised for accounting purposes or if impairment occurs, as well as via the amortisation process.
As at 31 December 2008, 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 quoted in an active market.
Following initial recognition, these assets are measured at amortised cost using the effective interest rate 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 if impairment occurs, as well as via the amortisation process.
Trade receivables are shown at their fair value, which corresponds to their nominal 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 equity investments in companies other than subsidiaries and associate companies in which ERG's direct or indirect ownership percentage is less than 20%.
When fair value cannot be reliably calculated, equity investments are measured at cost, written down for impairment, if any, and dividends from such companies are included in "Other net income (expenses) from equity investments".
When the reasons for the write-downs cease to exist, the equity investments carried at cost are revalued for an amount equal to the previous write-downs and the difference is recognised in income.
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 quoted market prices at the close of trading on balance sheet 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*
"Held-to-maturity investments" and "Loans & receivables" are measured at amortised cost, calculated using the effective interest rate 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 balance sheet 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 posted 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 estimated cash flows discounted at the asset's original effective interest rate.
The carrying value of the asset is reduced via use of provision. The impairment amount is recognised in the Income Statement.
The Group assesses the existence of factual evidence of impairment at an individual level.
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 at write-back date.
In the case of trade receivables, a provision for impairment is made 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 specific provision. Impaired receivables are reversed if they are deemed unrecoverable.

## CASH AND CASH EQUIVALENTS

Cash and cash equivalents are recorded, according to their nature, at nominal value.

## 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 rate 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 those separated out – unless they have been designated as effective hedging instruments. Gains or losses on HFT liabilities are recognised in the Income Statement.
As at 31 December 2008, there was no financial liability designated at 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 Balance Sheet) 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 posted 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 exchange 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 asset hedged (fair value hedge), they are recorded at their fair value and the effects are booked to 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 asset hedged (cash flow hedge), the effective amount of changes in the fair value of the derivatives is initially recognised in shareholders' equity and subsequently booked to the Income Statement consistently with 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 reduction 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 lesser of cost, determined on a quarterly basis according to the weighted average cost method, and market value.

Valuation 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 valued at the lower of weighted average cost and current market value.

## TRANSACTIONS IN FOREIGN CURRENCIES

Transactions in foreign currencies are booked at the exchange rate prevailing on the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate prevailing at the balance sheet reference date. Non-monetary items are maintained at the translation exchange rate of the transaction except in the case of a persistently unfavourable trend in the exchange rate. Exchange rate differences generated on elimination of items at rates differing from those at which they were 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:

- there 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 payment of the obligations can be estimated, the provision is subject to discounting, utilising a discount rate that reflects the current valuation of the cost of money in relation to time. 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 entry to 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 illustrated 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

The staff leaving indemnities provision (TFR) of Italian companies is considered as a defined benefit plan and is recognised according to the provisions for other defined benefit plans.
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 at the reference date, and accrued over the period of maturation of the rights; 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 value not recorded 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 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, expected volatility of share price, etc.).
The right becomes exercisable 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 and recorded under a specific shareholders' equity item, with an item of the Income Statement as a contra entry.
The previously determined fair value of each option is neither reviewed nor updated at the end of each financial year, but remains definitively acquired in shareholders' equity; at such time, however, the estimate of the number of options that will mature up to expiry is updated (and hence of 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.

ERG has applied the provisions of IFRS 2 as from 1 January 2005 and therefore to all stock option plans assigned after that date.

## RECOGNITION OF REVENUES

Revenues from sales and services are recorded when effective transfer of the relevant risks and advantages typical of ownership occurs, which coincides with the time of delivery or based on different contractual specifications, or on completion of the service.
ISAB Energy's sales revenues are based on a contract of sale to the GSE regulated by the tariff determined 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 an incremental tariff amount for the first eight years of operation (2000-2008). This incentive component represents an advance on part of the overall sales rate that can be obtained from the contract. Therefore, the incentive is recognised under revenues in proportion to the quantities of energy sold and according to those expected over the lifetime of the entire contract.

The appropriations for revenues relative to partially provided services are recognised according to the payment accrued, provided that it is possible to reliably determine the stage of completion and there are no significant uncertainties as to the amount and existence of the revenue and related costs. Otherwise, they are recorded 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. Exchanges between goods or services of a similar nature and value, since they do not constitute sales transactions, 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 and Gas Authority during the period, also taking into account the prevailing *pro tempore* equalising regulations.

Equipment grants are recorded at the time when a formal assignment is made and any possible restriction on their collection is removed. They are recognised in the Income Statement in relation to the duration of the investments, with the purpose of offsetting the economic-technical depreciation of the facilities concerned.

## 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 as an accrual in the Income Statement based on the interest due on the net value of the related 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 recognised under shareholders' equity.
Furthermore, based on the accrual accounting principle, 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 temporary differences between the statutory accounts and related taxable amounts, are provided for in the Consolidated Financial Statements.
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 (or advance taxes), including those relating to tax losses 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 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

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 in circulation in the period concerned.
To calculate diluted earnings per share, the weighted average number of ordinary shares outstanding is adjusted by assuming the conversion of all potential shares that would result in a dilutive effect.

## USE OF ESTIMATES

Preparation of the financial statements and explanatory notes pursuant to IFRSs requires the company to make estimates and assumptions that have an effect on the values of the assets and liabilities shown in the financial statements and on the information relating to potential assets and liabilities. These estimates are used, amongst other things, to record electricity-tariff equalisation, green-certificate and emission-trading values, provisions for bad debts, inventory obsolescence, amortisation, depreciation and asset write-downs, employee benefits, taxes and other allocations and provisions. The actual final figures could differ from these estimates. The estimates and assumptions are periodically reviewed and the effects of each change are reflected in the Income Statement in the period in which the change is made.

## NEW STANDARDS

Below we list the new accounting standards or interpretations issued by the IASB that will take effect in the next few years.

**Accounting standards, amendments and interpretations adopted early by the Group**
The Group has applied IFRS 8 to these Financial Statements earlier than the mandatory effective date of 1 January 2009.

IFRS 8, which replaces IAS 14, requires the company to base the information reported in segment disclosures on the information that management uses to take its own operating decisions, and therefore requires operating segments to be identified according to the same procedures used to prepare the internal operating reports provided to top management.
The adoption of this standard did not produce any impact on the measurement of accounts, but only on presentation of information in keeping with internal operating reports, which does not envisage disclosures on a geographic basis insofar as they are not considered material.

**Accounting standards, amendments and interpretations not yet applicable or adopted by the Group**

- *IFRS 3 Business Combinations*: amendment issued in 2008 and effective from 1 July 2009;
- *IFRS 1 and IAS 27 Cost of an Investment in a Subsidiary, Jointly Controlled Entity or an Associate*: amendment issued in 2008 and effective from 1 July 2009;
- *IAS 28 Investments in Associates*: amendment issued in 2008 and effective from 1 July 2009;
- *IFRS 2 Share-based Payment – Vesting Conditions and Cancellations*: amendment issued in 2008 and effective from 1 January 2009;
- *IAS 1 Presentation of Financial Statements*: amendment issued in 2007 and effective from 1 January 2009;
- *IAS 23 Borrowing Cost*: amendment issued in 2008 and effective on 1 January 2009;
- *IAS 32 Financial Instruments*: *Presentation* and *IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation*: amendment issued in 2008 and effective from 1 January 2009;
- *IAS 27 Consolidated and Separate Financial Statements*: amendment issued in 2008 and effective from 1 July 2009;
- *IAS 39 Eligible Hedged Items*: amendment issued in 2008 and effective starting from 1 July 2009.

Special mention is made here of the *IAS 23 Borrowing Cost* amendment, issued in 2008 and effective starting from 1 January 2009: the new version of this standard has eliminated the option of immediately charging to the Income Statement the financial expenses incurred in constructing or producing an asset that justifies its capitalisation (qualifying asset), thereby requiring it to be capitalised as part of the cost of the asset. The standard will be applicable on a prospective basis to the financial expenses for assets capitalised as from 1 January 2009.
No material quantitative impact on the Group Financial Statements is expected due to future application of the changes in these principles.

## WRITE-DOWNS IN THE WIND POWER DIVISION

### INTRODUCTION

Since the end of FY 2008, the wind power plant authorisation process has exhibited signs of extreme fragmentation in regulatory responsibility, with a consequent increase in the burdens of activities and lengthening of the time necessary for obtaining permits.
These problems are compounded by the general lack of standardised rules, notwithstanding an authorisation process that was apparently uniform for the entire nation, on the basis of a framework undermined by the proliferation of local regulations.
Due to the difficulties encountered in containing the time necessary to obtain permits for new wind farms within limits that could be reasonably estimated, ERG Renew has decided to capitalise the costs only from the time said authorisation has been obtained.

Also, as announced in the disclosure published by ERG Renew in December 2008 in relation to the partial demerger of ERG Power & Gas, the financial market crisis caused the cash capital increase to be postponed and consequent re-examination of the investment programme over the lifetime of the 2008-2011 Business Plan.
Partly in consequence of the major slowdowns in the wind farm development permit process

described above, and which are expected to persist, revision of the ERG Renew business plan accelerated in January and February 2009, resulting in approval of a new 2009-2012 Business Plan (approved in the month of March 2009). This plan is accordingly based on the development of realistically feasible wind farm projects in order to render the investments visible and certain.
Following postponement of the capital increase due to the critical situation on the financial markets, ERG Renew's investments in 2009 will be supported by equity injections, bank loans and ERG S.p.A., which in February 2009 committed itself to providing support for the investments planned by ERG Renew in FY 2009 up to the amount of Euro 70 million.

## WRITE-DOWN OF CAPITALISED COSTS

In reference to the foregoing, write-downs have been carried out as regards the capitalised costs on projects that are no longer contemplated in the ERG Renew Group development plans or whose permit processes are deemed to be characterised by timelines that can longer be estimated with certainty.
Write-downs totalling about Euro 7 million and provisions for liabilities and charges of about Euro 8 million have been recognised.

## WRITE-DOWN OF GAINS UPON ACQUISITION OF ENERTAD

The ERG Group acquired the Enertad Group (now ERG Renew) on 16 October 2006. The operation was carried out through acquisition by ERG S.p.A. of a 51.33% stake in Enertad S.p.A. Following exercise of a call option, ERG acquired an additional 17.03% of Enertad stock on 20 December 2007, raising its investment in the company to 68.38% of the share capital.

The acquisition, which was structured in the stages illustrated hereinabove, was recognised pursuant to IFRS 3 - Business Combinations, by allocating the cost of the business combination to the acquired assets and assumed liabilities, including those not recognised prior to the acquisition.
The recognition of these assets and liabilities had led to the recognition of about Euro 137 million in greater amounts gross of applicable taxes in connection with:

- the higher value of the operating wind farm plants as compared with what was recognised by the Enertad Group according to the historical cost method;
- the fair value of the permits and preliminary agreements for the operating wind farms and for the wind farms to be constructed in future.

The remainder of the difference between the aggregate cost of the acquisition and the net value of the acquired assets and liabilities was recognised as goodwill in the amount of Euro 51 million.
The amounts of the gains and goodwill recognised on the Consolidated Financial Statements pursuant to IAS 36 were audited.
The independent expert, engaged in January 2009 to perform this audit, conducted his analysis by using the cash flows deducible from the financial plan approved by the ERG Renew Board of Directors, extended for subsequent periods according to the expected useful life of the assets.

With particular reference to the **permits and preliminary agreements**:

- in order to determine the recoverable value, or value in use, the present value was estimated of operating cash flows [(1)] associated with the assets for the first twenty years of activity of the wind farms;
- a discount rate equal to the sector WACC (6.89%) [(1)] plus a spread (1%) tied to the higher risk of the measured asset was used to actualise cash flows;
- no terminal value was assumed beyond the explicit forecast period, consistently with the method used to allocate the purchase price.

(1) after-tax WACC and cash flows. Pursuant to IAS 36, we point out the substantial equivalence of the estimate of value in use calculated on pre-tax cash flows and rates and the estimate based on after-tax flows and rates

The value of **Goodwill** was determined by identifying a single Cash Generating Unit (CGU) that could be connected with the wind power business in Italy and France, excluding wind farms and the development projects stemming from the contribution made by ERG Eolica, which was previously commented on in the chapter Partial demerger of ERG Power & Gas.

In order to determine the recoverable value, or value in use, the current value of operating cash flows (1) associated with the CGU was estimated for the first twenty years of activity of the farms.
A discount rate equal to the sector WACC (6.89%) (1) was used to actualise cash flows.
A terminal value was also estimated for each wind farm included in the CGU, determined by actualising the cash flows (adjusted upwards by 2%) for the 20 years after the last year of explicit forecast. The terminal value that was thus obtained was prudently discounted by 50%.

The test that was carried out as described above resulted in a write-down of intangible assets for a pre-tax amount of about Euro 56 million and of goodwill for about Euro 39 million.

## ROBIN TAX

Law 133/08, which converted Decree Law 112 of 25 June 2008, introduced the following tax measures effective 1 January 2008 (the "Robin Tax"):

- imposition of a 5.5% corporate income tax (IRES) surcharge on the taxable income of companies with more than Euro 25 million in revenues that operate in the sectors of oil refining and the production or marketing of petroleum products, electricity (with the exception of electricity generated using renewal energy sources) and gas;
- abolition, for companies operating in the sectors of oil refining and the production or marketing of petroleum products and gas, of the possibility to measure the tax value of inventories according to the LIFO (Last In First Out) method. Final inventories must be measured according to the FIFO (First In First Out) method or the weighted average cost method; the greater value that will result from initial application of the law is subject to a substitute tax of 16% to be paid in full in a single instalment or, alternatively in three annual instalments of equal amounts, applying a 3% annual interest rate to the second and third payments.

This second measure will have a positive impact on the Income Statement for the period arising from release of the surplus deferred taxation provision.

It should be mentioned that the aforementioned positive effect is purely notional and refers to the Consolidated Financial Statements where, in accordance with IASs/IFRSs, inventories were already measured at their weighted average cost, with consequent recording of a deferred tax provision calculated on the difference in value with respect to the LIFO method. On the other hand, the real effect of the tax will imply a significant increase in the financial expenses of the Group's principal companies, caused in the first year by the substitute tax calculated on the difference that will be recorded at the end of the year between the LIFO measurement applied for tax purposes and the new taxable assessment required by the Robin Tax, and when fully operative, by the ordinary tax to be applied on the additional increases in value with respect to those at the end of 2008, which were particularly low. This is extremely penalising especially in view of the level of inventories that the company is obliged to maintain over time due to statutory requirements or operating needs.

The Robin Tax also implies a significant increase in the consolidated tax rate as a result of the introduction of the 5.5% corporate income tax (IRES) surcharge and this will affect the principal Group companies.

(1) after-tax WACC and cash flows. Pursuant to IAS 36, we point out the substantial equivalence of the estimate of value in use calculated on pre-tax cash flows and rates and the estimate based on after-tax flows and rates

# BALANCE SHEET ANALYSIS

## NOTE 1 - INTANGIBLE FIXED ASSETS

| | CONCESSIONS AND LICENSES | OTHER INTANGIBLE ASSETS | ASSETS IN PROGRESS | TOTAL |
|---|---|---|---|---|
| **HISTORICAL COST** | **225,367** | **141,800** | **643** | **367,810** |
| AMORTISATION | (72,615) | (44,122) | – | (116,737) |
| **BALANCE AT 31/12/2007** | **152,752** | **97,678** | **643** | **251,073** |
| **MOVEMENTS DURING PERIOD:** | | | | |
| CHANGE IN SCOPE OF CONSOLIDATION | 17,230 | (1,839) | 2,793 | 18,184 |
| ACQUISITIONS | 28 | 1,611 | 21,290 | 22,929 |
| CAPITALISATION/RECLASSIFICATION | (64) | 11,848 | (14,093) | (2,309) |
| DISPOSALS AND DIVESTMENTS | – | (10) | (411) | (421) |
| AMORTISATION | (9,622) | (10,121) | – | (19,743) |
| WRITE-DOWNS | (392) | (55,922) | (6,287) | (62,601) |
| OTHER CHANGES | – | (2) | 1 | (1) |
| **HISTORICAL COST** | **241,877** | **82,938** | **3,936** | **328,751** |
| AMORTISATION | (81,945) | (39,695) | – | (121,640) |
| **BALANCE AT 31/12/2008** | **159,932** | **43,243** | **3,936** | **207,111** |

The decrease in this item stems principally from write-downs during the period, which more than offset the increases tied to investments and the change in the scope of consolidation as regards ERG Eolica.
Concessions and licences mainly comprise authorisations for fuel distribution outlets and authorisations for wind farms (in operation and to be built in future), amortised based on their residual life.

Other intangible fixed assets comprise the right acquired from ENEL for connection of the IGCC plant to the power lines, the legal and technical costs incurred for ISAB Energy's Project Financing transaction, engineering studies and preliminary agreements for wind farms to be constructed in future.

Write-downs also include the reversal of development costs 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 wind power division".

## NOTE 2 - GOODWILL

"Goodwill" of Euro 59,506 thousand (Euro 121,368 at 31 December 2007) represents the higher value of the acquisition cost of acquiree companies over the value of their shareholders' equity, measured at fair value as at acquisition date in accordance with the purchase-price allocation method envisaged by IFRS 3.
The decrease from 31 December 2007 reflects the write-downs in the wind power division of gains allocated upon acquisition of ERG Renew (formerly Enertad) and, as regards Coastal Refining, the change in the scope of consolidation upon contribution of the ISAB Refinery assets as part of the LUKOIL transaction.
Goodwill is not systematically amortised in the Income Statement and is subject to impairment testing. This test is performed annually, unless evidence that this asset may have suffered impairment emerges during the year.

Goodwill acquired through business combinations was allocated to the Cash Generating Units corresponding to the following business divisions:

- Renewable Energy Sources: Euro 29,996 thousand;
- Integrated Downstream: Euro 20,972 thousand;
- Coastal Refining: Euro 7,078 thousand;
- Thermoelectric Power Generation: Euro 1,461 thousand.

In the Renewable Energy Sources division, goodwill was written down by Euro 39 million on the basis of the impairment test already commented on in the chapter "Write-downs in the wind power division".

In the Integrated Downstream division, the recoverable value of the CGU was determined according to the value in use. The calculation was carried out based on the cash flow projections contained in the four-year financial plan developed by top management. Estimates for subsequent years were made applying the scenario used for investment valuations, in line with the market's structural growth rate. The discount rate is equal to the sector WACC gross of taxes (10.3%) applied to prospective cash flows.
The estimate of forecast gross margins is based on the price scenarios for petroleum products and raw materials prepared for the 2009-2012 Plan and, for the following period, on its projection for investment measurement purposes. The forecast also takes into account the expected evolution in retail and wholesale network EBITDA. The analysis carried out shows no write-downs.
Furthermore, there were no write-downs of minor goodwill items recognised in other business divisions.

## NOTE 3 - PROPERTY, PLANT AND MACHINERY

| | LAND AND BUILDINGS | PLANT AND MACHINERY | OTHER ASSETS | ASSETS UNDER CONSTRUCTION | TOTAL |
|---|---|---|---|---|---|
| **HISTORICAL COST** | **374,484** | **2,841,927** | **49,730** | **475,034** | **3,741,175** |
| DEPRECIATION AND WRITE-DOWNS | (145,336) | (1,331,336) | (29,716) | – | (1,506,388) |
| **BALANCE AT 31/12/2007** | **229,148** | **1,510,591** | **20,014** | **475,034** | **2,234,787** |
| **MOVEMENTS DURING PERIOD:** | | | | | |
| CHANGE IN SCOPE OF CONSOLIDATION | (98,220) | (573,403) | (3,695) | (105,101) | (780,419) |
| ACQUISITIONS | 10,087 | 43,164 | 2,744 | 271,624 | 327,619 |
| CAPITALISATION/RECLASSIFICATION | 20,694 | 97,858 | 10,711 | (126,954) | 2,309 |
| INCREASES FOR CYCLICAL MAINTENANCE | – | – | – | – | – |
| DISPOSALS AND DIVESTMENTS | (3,222) | (3,945) | (1,367) | (506) | (9,040) |
| DEPRECIATION | (12,930) | (160,632) | (6,740) | – | (180,302) |
| WRITE-DOWNS | (4,605) | (54,994) | (12) | (749) | (60,360) |
| OTHER CHANGES | (1) | 971 | (2) | (21,502) | (20,534) |
| **HISTORICAL COST** | **197,701** | **1,579,530** | **46,904** | **491,912** | **2,316,047** |
| DEPRECIATION AND WRITE-DOWNS | (56,750) | (719,920) | (25,251) | (66) | (801,987) |
| **BALANCE AT 31/12/2008** | **140,951** | **859,610** | **21,653** | **491,846** | **1,514,060** |

For greater clarity, movements during the period relating to reclassifications, disposals and divestments are shown net of the respective provisions for depreciation and write-downs.
The change in the scope of consolidation mainly refers to the contribution of the ISAB Refinery plants to the ISAB S.r.l. joint venture and acquisition of the installations relating to the ERG Eolica wind farms.

Assets under construction increased as a result of the investments made in all business sectors. During the period, about Euro 27 million was invested in connection with the ERG Petroli retail outlet restyling programme.
The decrease of Euro 127 million was mainly due to transfers from work in progress to fixed assets.

Write-downs include Euro 54 million for the assets damaged in the incident on 13 October 2008 involving Powertrain 2 of the ISAB Energy IGCC plant and Euro 4 million in write-downs of assets in Spain.

The other changes principally refer to investments in the Thermoelectric Power Generation division reclassified as current assets.

For an analysis of investments made during the period, readers should refer to the "Investments" chapter of the Management Report.

## NOTE 4 - EQUITY INVESTMENTS

| | EQUITY INVESTMENTS | | | |
|---|---|---|---|---|
| | SUBSIDIARY COMPANIES | ASSOCIATE COMPANIES AND JOINT VENTURES | OTHER COMPANIES | TOTAL |
| **BALANCE AT 31/12/2007** | **8,111** | **108,739** | **5,520** | **122,370** |
| **MOVEMENTS DURING PERIOD:** | | | | |
| CHANGE IN SCOPE OF CONSOLIDATION | (5,449) | 565,976 | (5) | 560,522 |
| ACQUISITIONS/CAPITAL INCREASES | 7,580 | 22,114 | 2,594 | 32,288 |
| RECLASSIFICATION | (125) | 125 | – | – |
| WRITE-DOWNS/USE OF PROVISION TO COVER LOSSES | – | (333) | (5,757) | (6,090) |
| VALUATION OF COMPANIES USING THE EQUITY METHOD | 496 | 3,449 | – | 3,945 |
| **BALANCE AT 31/12/2008** | **10,612** | **700,070** | **2,352** | **713,034** |

"Equity investments" owned as at 31 December 2008 were as summarised below:

| | CARRIED AT EQUITY | CARRIED AT COST | TOTAL |
|---|---|---|---|
| **EQUITY INVESTMENTS** | | | |
| - IN NON-CONSOLIDATED SUBSIDIARY COMPANIES | 9,382 | 1,230 | 10,612 |
| - IN ASSOCIATE COMPANIES [1] | 700,066 | 4 | 700,070 |
| - IN OTHER COMPANIES | – | 2,352 | 2,352 |
| **TOTAL** | **709,448** | **3,586** | **713,034** |

*(1) OF WHICH EURO 585,975 THOUSAND IN JOINT VENTURES*

A breakdown of equity investments has already been given in the schedules illustrating the scope of consolidation.

The following changes in equity investments occurred during 2008:

| | |
|---|---|
| **CHANGE IN SCOPE OF CONSOLIDATION** | |
| ISAB S.R.L. | 572,464 |
| PRIOLO SERVIZI S.C.AR.L. | 9,082 |
| ERG EOLICA ITALIA S.R.L. | (15,571) |
| ISEA S.R.L. | (3,342) |
| ECOPOWER S.R.L. | (2,107) |
| OTHER | (5) |
| | **560,522** |
| **ACQUISITIONS - FORMATIONS - CAPITAL INCREASES** | |
| RAFFINERIA DI ROMA S.P.A. | 5,625 |
| EUROIL S.R.L. | 6,801 |
| ERG RIVARA STORAGE S.R.L. | 9,500 |
| C.I.T.A. S.A.S. | 2,617 |
| IONIO GAS S.R.L. | 2,500 |
| ELYO ITALIA S.R.L. | 1,700 |
| OTHER | 3,545 |
| | **32,288** |
| **DISPOSALS - RETURNS - LIQUIDATIONS - INCORPORATIONS** | – |
| | – |
| **WRITE-DOWNS/USE OF PROVISION TO COVER LOSSES** | (6,090) |
| | **(6,090)** |
| **NET CHANGE IN THE VALUE OF COMPANIES CARRIED AT EQUITY** | **3,945** |
| **TOTAL** | **590,664** |

The change in the scope of consolidation refers principally to:

- measurement of the company ISAB S.r.l. according to the equity method, following the LUKOIL transaction, as previously described;
- the increased value of the investment in Priolo Servizi, following contribution of the business unit relating to the industrial services for the Priolo site;
- line-by-line consolidation of ERG Eolica S.r.l., ISEA and Ecopower, which were previously carried at equity.

The principal changes during the period include:

- subscription of the capital increase for Raffineria di Roma S.p.A. by partially waiving the outstanding loan (Euro 5.6 million);
- acquisition by ERG Petroli of 100% of the shares of Euroil for the overall price of Euro 6.8 million;
- the incorporation of ERG Rivara Storage, owned by ERG Power & Gas and Independent Resources (IRG), in order to develop the natural gas depot at Rivara (Modena), in the Po River Valley;
- acquisition from the French Group GSEF by ERG Eolienne France S.a.s. of a 50% equity interest in the French company C.I.T.A. S.a.s., which is active in the development of wind farms in northern France, and 50% of five project companies located in France.

The write-downs recognised for the period were for companies carried at cost and, in particular, the equity investment in Ansaldo Fuel Cells.
The positive change of Euro 3.9 million arising from valuation using the equity method is due to the results for the period, net of dividends received from these companies.

## NOTE 5 - OTHER FINANCIAL ASSETS

"Other financial assets" of Euro 8,911 thousand (Euro 12,996 thousand at 31 December 2007) mainly comprise a loan granted by ERG Petroli S.p.A. to Raffineria di Roma S.p.A, at normal market conditions, in proportion to the latter's shareholding.
The decrease during the period reflects use of Euro 5.6 million of the loan to cover the capital increase resolved in July 2008.

## NOTE 6 - DEFERRED TAX ASSETS

Provision is made for deferred tax assets, if their future recovery on the temporary differences, subject to advance taxation, between the value of assets and liabilities for statutory financial reporting purposes and their values for tax calculation purposes, is likely.
It should be noted that the rate used to calculate deferred taxes is the same as the nominal IRES (corporation tax) rate (27.5%), increased, where so envisaged, by the IRAP (regional tax) rate (3.90%). In consequence of Law 133 of 6 August 2008, companies operating in the oil refining sector and companies producing and marketing petroleum products, electricity and gas, with revenues in excess of Euro 25 million, are subject to a 5.5% IRES rate surcharge ("Robin Tax").
The incremental effect of Euro 34.0 million, resulting from such surcharge, on deferred tax assets appropriated at the beginning of the year was recorded under the item "Income taxes."
Deferred tax assets at 31 December 2008, totalling Euro 240,279 thousand (Euro 199,858 thousand at 31 December 2007), were appropriated above all to cover deferral of CIP 6 revenues, maintenance in excess of tax limits and allocations to provisions for liabilities and charges.
Also included are the residual substitute taxes paid on merger differences in the amount of Euro 1,697 thousand (Euro 2,524 thousand at 31 December 2007).
Consistently with the principle of prudent accounting, deferred tax assets of about Euro 22 million against previous years' tax losses of a number of consolidated companies were not recognised because their utilisation is unlikely.

## NOTE 7 - OTHER NON-CURRENT ASSETS

The other non-current assets of Euro 16,374 thousand (Euro 46,217 thousand at 31 December 2007) mainly concern advances on purchase agreements for new wind farms. The decrease in this item reflects the change in the scope of consolidation and refers to the transfer of the portion of catalysers in use at the ISAB Refinery plants not yet utilised in the refining process as regards the ISAB S.r.l. joint venture.

## NOTE 8 - INVENTORY

Closing inventories comprise the following categories:

| | 31/12/2008 | 31/12/2007 |
|---|---|---|
| RAW, ANCILLARY AND CONSUMABLE MATERIALS | 159,254 | 503,617 |
| FINISHED PRODUCTS AND GOODS | 266,090 | 718,455 |
| **TOTAL** | **425,344** | **1,222,072** |

The value of inventories was determined by applying the weighted average cost method and taking into account fair value hedging operations. As a result, the value is affected not only by the exact level of end-of-period stocks, but also 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 not changed from the beginning of the period.
The decrease for the period is mainly associated with the effects of the LUKOIL transaction and the significant decrease in raw material and product prices.
Net of the quantities contributed to ISAB S.r.l. (745 thousand tonnes), raw materials inventories were down by about Euro 274 million (-338 thousand tonnes compared to 31 December 2007) and finished product inventories dropped by about Euro 295 million (-213 thousand tonnes).
Comparison of inventory values with the respective sale values led to a write-down of about Euro 61 million for raw materials and about Euro 149 million for products.
At 31 December 2008 the item included natural gas reserves carried at a value of Euro 8.3 million.

## NOTE 9 - TRADE RECEIVABLES

Receivables are summarised as follows:

| | 31/12/2008 | 31/12/2007 |
|---|---|---|
| CUSTOMER RECEIVABLES | 510,428 | 643,040 |
| RECEIVABLES DUE FROM GROUP COMPANIES | 102,984 | 84,583 |
| BAD DEBT PROVISION | (9,476) | (4,734) |
| **TOTAL** | **603,936** | **722,889** |

The decrease in trade receivables (about Euro 131 million compared with 31 December 2007) stems not only from the effects of the LUKOIL transaction, but also from the lower receivables of ERG Petroli following the launch of the securitisation programme.
In this connection, we report that on 4 March 2008 ERG carried out a securitisation of trade receivables for an average amount of Euro 150 million. This transaction, arranged in cooperation with Natixis (Mandated Lead Arranger) and The Bank of Tokyo-Mitsubishi UFJ, Ltd, provides for the assignment on a revolving basis of trade receivables pertaining to ERG Petroli S.p.A. and has a duration of five years.
These trade receivables were eliminated from company accounts insofar as the sale must be considered final, with effective transfer of all associated risks and benefits.

"Customer receivables" are guaranteed by sureties amounting to approximately Euro 70 million for wholesale and logistics customers, approximately Euro 82 million for retail network dealers paying by direct debit, and about Euro 2 million for cargo customers.
"Receivables due from Group companies" refer to the supply of petroleum products to associate companies at market prices.
All trade receivables are due within twelve months.
The trade receivables are broken down as follows: 38% for Integrated Downstream, 20% for Coastal Refining, 36% for the Thermoelectric Power Generation division and 6% for the Renewable Energy Sources division.
For information concerning related-party receivables, reference is made to Note 40.

The following changes took place in bad debt provision:

| | 2008 | 2007 |
|---|---|---|
| **BALANCE AT BEGINNING OF PERIOD** | **4,734** | **5,076** |
| PROVISION FOR THE PERIOD | 4,997 | 82 |
| UTILISATION DURING THE PERIOD | (255) | (424) |
| **BALANCE AT END OF PERIOD** | **9,476** | **4,734** |

The provision for the period stems principally from receivables arising from activities in Spain. The Group assesses the existence of objective impairment indicators for individual positions. The aforesaid analyses are validated at individual company level by the Accounts Receivable Committees which meet periodically to examine the situation with regard to past due receivables and related collection criticalities.

The appropriations made to the bad debt provisions and risk provisions, which were suitably increased during the year, are considered to adequately cover the risk of potential liabilities for delinquent accounts receivable.

We set out below the breakdown of customer receivables outstanding at year-end:

| | 31/12/2008 | 31/12/2007 |
|---|---|---|
| **RECEIVABLES NOT YET DUE** | **483,904** | **650,727** |
| **RECEIVABLES PAST DUE AND NOT WRITTEN DOWN:** | | |
| UP TO 30 DAYS | 82,308 | 52,380 |
| UP TO 60 DAYS | 5,051 | 2,314 |
| UP TO 90 DAYS | 2,257 | 691 |
| MORE THAN 90 DAYS | 30,416 | 16,778 |
| **TOTAL** | **603,936** | **722,889** |

## NOTE 10 – OTHER CURRENT RECEIVABLES AND ASSETS

| | 31/12/2008 | 31/12/2007 |
|---|---|---|
| TAX RECEIVABLES | 35,994 | 102,106 |
| RECEIVABLES FROM ARBITRAGE TRANSACTIONS ON CRUDE OIL AND PRODUCTS | 6,239 | 12,181 |
| EMISSIONS TRADING RECEIVABLES | 59,096 | – |
| SUNDRY RECEIVABLES | 46,016 | 60,614 |
| **TOTAL** | **147,345** | **174,901** |

"Tax receivables" mainly comprise VAT credit positions and the credit balance as regards 2008 taxes.
"Receivables from arbitrage transactions on crude oil and products" relate to the balance of forward purchase transactions and spot sales of crude oil and petroleum products outstanding at the end of the period.
"Emissions trading receivables" refer to the ISAB Energy receivable for reimbursement of emissions trading charges (for the years 2005-2008).
"Sundry receivables" mainly include the receivables assigned to factoring companies and advances paid to suppliers.

## NOTE 11 - CURRENT FINANCIAL ASSETS

Current financial assets, totalling about Euro 864,593 thousand (Euro 98,541 thousand at 31 December 2007), consist principally of the receivable due from LUKOIL for the unpaid portion of the price for the sale of 49% of ISAB S.r.l. (Euro 842 million) plus related interest (Euro 4 million). The entire amount was collected in a single payment in February 2009.
This item also includes the positive fair value of derivatives outstanding at 31 December 2008 (Euro 3,082 thousand), receivables due from unconsolidated Group companies (Euro 3,333 thousand) and the insurance policies taken out by ERG Renew to cover the put option held by Trenitalia on subsidiary SODAI Italia S.p.A. (Euro 12,600 thousand).

## NOTE 12 - CASH AND CASH EQUIVALENTS

| | 31/12/2008 | 31/12/2007 |
|---|---|---|
| BANK AND POSTAL DEPOSITS | 742,749 | 177,986 |
| CASH AND NOTES ON HAND | 2,213 | 3,010 |
| **TOTAL** | **744,962** | **180,996** |

Bank and postal deposits comprise above all the liquidity deriving from collection in December 2008 of the first instalment of Euro 600 million for the sale of 49% of ISAB S.r.l.

The item also includes the temporary liquidity held on transit accounts for all the capital inflows and outflows of ISAB Energy S.r.l. and the ERG Renew Group pursuant to applicable restrictions on use.

## NOTE 13 - GROUP SHAREHOLDERS' EQUITY

### SHARE CAPITAL

Fully paid-up share capital as at 31 December 2008 consisted of 150,320,000 shares with a par value of Euro 0.10 each for a total of Euro 15,032,000 (the same as at 31 December 2007).

On 31 December 2008 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%;
- ERG S.p.A. held 2,100,000 treasury shares, i.e. 1.397%.

As at 31 December 2008, 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.
It should be noted that on 29 April 2004 the Extraordinary Shareholders' Meeting amended the Articles of Association to permit the Board of Directors to issue convertible bonds, even excluding pre-emption rights, for a period of five years from the date of the resolution, up to an amount of Euro 150 million.

### TREASURY SHARES

As at 31 December 2008 ERG S.p.A. held 2,100,000 treasury shares, i.e. 1.397% of share capital. Pursuant to IAS 32, treasury shares are recorded as a reduction of shareholders' equity. The original cost of the treasury shares, write-downs for value impairment, and revenues and losses deriving from any subsequent sales are recorded as movements in shareholders' equity.

## STOCK OPTION PLANS

**ERG S.p.A. stock option plans**

On 5 August 2005 the ERG S.p.A. Board of Directors approved a new long-term incentive plan that grants Group executives personal and non-transferable options to subscribe ERG stock. The system 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 arithmetic average value of the ERG share's official prices during the thirty days prior to assignment.

The system does not envisage cash settlement.

The right to exercise the options is subject to having been employed by the Group for three years as from the date of assignment.

The following table illustrates the options granted from 2005 to 2007:

| | ASSIGNMENTS 2007 | ASSIGNMENTS 2006 | ASSIGNMENTS 2005 |
|---|---|---|---|
| NUMBER OF RIGHTS ASSIGNED (1) | 745,335 | 719,090 | 635,575 |
| EXERCISE PRICE (EURO) (2) | 16.06 | 15.61 | 21.08 |
| FAIR VALUE AT DATE OF ASSIGNMENT (EURO) (2) | 3.74 | 4.07 | 6.18 |

*(1) THE NUMBER IS SHOWN NET OF THE RIGHTS CANCELLED*
*(2) WEIGHTED AVERAGE VALUE BASED ON OPTIONS ASSIGNED*

The fair value of the options granted was estimated using the Black-Scholes model and taking into account the terms and conditions for attribution of the options.

The following table shows the assumptions used for the model:

| | ASSIGNMENTS 2007 | ASSIGNMENTS 2006 | ASSIGNMENTS 2005 |
|---|---|---|---|
| AVERAGE VOLATILITY OF ERG SHARE PRICE (1) | 31.99% | 31.20% | 29.34% |
| RISK-FREE INTEREST RATE (1) | 3.59% | 3.56% | 2.35% |
| EXPIRY OF RIGHT | 4 YEARS | 4 YEARS | 4 YEARS |

*(1) WEIGHTED AVERAGE VALUE BASED ON OPTIONS ASSIGNED*

The portion of the cost of share-based payment transactions pertaining to each year is as follows:

| | 31/12/2008 | 31/12/2007 |
|---|---|---|
| COSTS FOR SERVICES AND OTHER COSTS | 2,487 | 2,245 |
| PERSONNEL EXPENSES | 424 | 360 |
| **TOTAL** | **2,911** | **2,605** |

**ERG Renew S.p.A. stock option plan**

ERG Renew has 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 can be exercised after three years from the assignment date and for a period not exceeding the five subsequent years. When this term expires, the unexercised options will lapse and consequently no further rights will be attributed to the assignees.

The following table summarises the data relating to the rights assigned in 2005 (first assignment) and 2006 (second and third assignment):

| | 2006 3RD ASSIGNMENT | 2006 2ND ASSIGNMENT | 2005 1ST ASSIGNMENT |
|---|---|---|---|
| NUMBER OF RIGHTS ASSIGNED (1) | 730,600 | 730,600 | 605,000 |
| EXERCISE PRICE (EURO) | 3.32 | 3.19 | 3.24 |
| FAIR VALUE AT DATE OF ASSIGNMENT (EURO) | 0.74 | 0.74 | 0.74 |

*(1) THE NUMBER IS SHOWN NET OF THE RIGHTS CANCELLED*

The fair value of the options granted was estimated using the Black-Scholes model and taking into account the terms and conditions for attribution of the options.

The portion of the cost of share-based payment transactions pertaining to 2008 amounted to Euro 182 thousand.

**OTHER RESERVES**

Reserves totalling Euro 1,255,263 thousand (Euro 1,147,794 thousand at 31 December 2007) were comprised mainly of retained earnings, the "Share premium reserve," the "Stock option reserve" (Euro 11.4 million), and the "Cash flow hedge reserve" (Euro -3.8 million).

## 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 S.P.A. | 22.61% | 43,528 |
| ISAB ENERGY S.R.L. | 49.00% | 60,334 |
| ISAB ENERGY SERVICES S.R.L. | 49.00% | 4,137 |
| **TOTAL** | | **107,999** |

## NOTE 15 - STAFF LEAVING INDEMNITIES

| | 31/12/2008 | 31/12/2007 |
|---|---|---|
| **BALANCE AT BEGINNING OF PERIOD** | **29,598** | **33,124** |
| CHANGE IN SCOPE OF CONSOLIDATION | (14,491) | – |
| SOCIAL SECURITY COST FOR CURRENT SERVICES | 8,756 | 9,231 |
| FINANCIAL CHARGES RELATING TO OBLIGATIONS UNDERTAKEN | 480 | 1,223 |
| EFFECT OF STAFF LEAVING INDEMNITY REFORM (CURTAILMENT) | – | (315) |
| BENEFITS PAID | (12,927) | (13,665) |
| **BALANCE AT END OF PERIOD** | **11,416** | **29,598** |

This item, totalling Euro 11,416 thousand (Euro 29,598 thousand at 31 December 2007), includes the estimated liability relating to staff leaving indemnities payable to employees when they terminate their employment.
The change in the scope of consolidation refers principally to the transfer of employees to the ISAB S.r.l. joint venture as part of the LUKOIL transaction.
We point out that actuarial gains and losses (arising from changes in actuarial assumptions applied) for approximately Euro 1 million have not been taken into account because their net value – not recognised at the end of 2007 – was less than 10% of the year-end liability (the corridor method).

Below we illustrate the main assumptions used to calculate the actuarial value of the liability relating to staff leaving indemnities:

| | |
|---|---|
| DISCOUNT RATE | 4.5% |
| INFLATION RATE | 2.0% |
| AVERAGE TURNOVER RATE | 5.0% |
| AVERAGE RATE OF SALARY INCREASE | 3.0% |

## NOTE 16 - DEFERRED TAX LIABILITIES

The provision for deferred tax liabilities is based on the temporary differences that are subject to deferred taxation, which result from adjustments to the individual financial statements of consolidated companies to bring them into line with the Group's uniform accounting policies, as well as on temporary differences between the value of assets and liabilities in statutory financial statements and their related taxable amounts.

It should be noted that the rate used to calculate deferred taxes is the same as the nominal IRES (corporation tax) rate (27.5%), increased, where so envisaged, by the IRAP (regional tax) rate (3.90%). In consequence of Law 133 of 6 August 2008, companies operating in the oil refining sector and companies producing and marketing petroleum products, electricity and gas, with revenues in excess of Euro 25 million, are subject to a 5.5% IRES rate surcharge ("Robin Tax"). The 16% substitute tax levied on the higher value of inventories at 31 December 2008 as compared with the value calculated according to the LIFO method was taken into account. Since deferred taxes calculated at the full rate had already been recognised in the consolidated Balance Sheet, this resulted in a positive effect of Euro 23 million. The aggregate effect of these tax adjustments caused a Euro 29 million increase in the provision for deferred tax liabilities, with a negative impact on the Income Statement under the item "Income taxes."

Deferred taxes of Euro 148,994 thousand at 31 December 2008 (Euro 362,750 thousand at 31 December 2007) were appropriated mainly on amortisation and depreciation exceeding tax limits and the gains on business combinations. The decrease in this item stems from the deferred taxes on inventories, the amount of which dropped significantly during the year, largely as a result of the decrease in prices and the LUKOIL transaction and, at the end of the year, the previously mentioned effects of the Robin Tax.

It is pointed out that deferred taxes calculated on the fair value of derivative instruments booked using the cash flow hedge technique were recorded with a contra entry in shareholders' equity (Euro 1.7 million).

## NOTE 17 - PROVISIONS FOR NON-CURRENT LIABILITIES AND CHARGES

"Provisions for non-current liabilities and charges" of Euro 2,978 thousand (Euro 12,655 thousand at 31 December 2007), mainly comprising the provision relating to dismantling, removal, and site restoration costs for plants that are expected to be sold in future, were down principally in consequence of the LUKOIL transaction.

## NOTE 18 - NON-CURRENT FINANCIAL LIABILITIES

The breakdown of this item is as shown below:

| | 31/12/2008 | 31/12/2007 |
|---|---|---|
| MEDIUM/LONG-TERM MORTGAGES AND LOANS | 958,637 | 951,688 |
| - CURRENT PORTION OF MEDIUM/LONG-TERM LOANS | (418,183) | (152,971) |
| | **540,454** | **798,717** |
| MEDIUM/LONG-TERM PROJECT FINANCING | 324,871 | 367,831 |
| - CURRENT PORTION OF PROJECT FINANCING | (50,429) | (104,351) |
| | **274,442** | **263,480** |
| OTHER MEDIUM/LONG-TERM FINANCIAL PAYABLES | **38,169** | **22,609** |
| **TOTAL** | **853,065** | **1,084,806** |

At 31 December 2008, mortgages and loans totalled Euro 959 million (Euro 952 million at 31 December 2007), of which Euro 164 million was provided by the European Investment Bank for the "ERG Energia Sicilia" project. Bank sureties for the amount of Euro 177 million were issued as collateral for the loan.

The increase from 31 December 2007 is connected with the new loans granted during the period.
To reduce the risk stemming from future fluctuation in interest rates, the following were set up:

- Interest Rate Collar transactions, expiring in 2010, for a par value of Euro 69 million, which set the interest rate between a minimum of 3.75% and a maximum of 4.60%;
- Interest Rate Swap transactions, expiring in 2011, for a notional value of Euro 79 million, which fix the effective average interest rate at 3.88%;
- Interest Rate Swap transactions, expiring in 2009, for a notional value of Euro 97 million, which fix the effective average interest rate at 4.4%;
- Interest Rate Cap transactions, with effective start date on 30 October 2009 and expiring in 2012, for a notional value of Euro 7 million, which fix a maximum limit of 5% for the financing rate.

As at 31 December 2008 the weighted average interest rate on mortgages and loans was 4.64% (5.33% at 31 December 2007).

It should be noted that a variable premium, linked to the performance of ERG Renew shares in two periods identified, was paid to the lending institution against one of the loans granted. Under IAS 39 the aforesaid premium is considered an embedded derivative. It was therefore unbundled from the value of the payable and booked at fair value (Euro -12.0 million as at 31 December 2008) under financial liabilities, with a corresponding increase in the effective loan rate.

**ISAB Energy Project Financing**

These are loans granted by a pool of international banks for initial amounts of approximately 90% of the cost of the ISAB Energy plant. The balance outstanding as at 31 December 2008 was Euro 155 million.

The repayment plan for these loans, which are secured by special liens and a mortgage on the plant, entails 29 instalments starting from 15 December 2000 (last instalment due on 15 December 2014).

The loan is subject to adjustable rate interest tied to changes in the Euribor rate.

**ERG Renew Project Financing**

These are loans granted for the construction of wind farms on the part of the following companies:

- Loan executed in 2005 by EOS 1 - Troia S.r.l. (San Vincenzo), the balance of which at 31 December 2008 was Euro 23 million. The loan provides for a base credit line of Euro 36 million. The last instalment is due on 31 December 2013. The interest rate is 5.30% up to acceptance of the final inspection certificate and subsequently the interest rate will be 5.05%.
- Loan executed in 2005 by EOS 3 - Troia S.r.l. (San Cireo) the balance of which at 31 December 2008 was Euro 27 million. The loan provides for a base credit line of Euro 34 million for installed power of 30 MW, increasable to Euro 43 million for another 10 MW. The last instalment is due on 31 December 2014. The interest is equal to the Euribor 6-month rate +1.60% up to acceptance of the final inspection certificate and subsequently the rate will be equal to the Euribor 6-month rate +1.45%. To hedge the risk deriving from interest rate fluctuations, Interest Rate Swap transactions have been arranged up to 31 December 2014, according to the due dates of the loan repayment plan, thus changing the variable rate into fixed rates (3.30% and 3.35%) on a notional value of Euro 34 million, corresponding to the potential maximum amount of the loan.
- Loan executed in June 2007 by EOS 4 - Faeto S.r.l., the balance of which, at 31 December 2008, was Euro 37 million, relating to the first disbursement. The loan provides for a base credit line of Euro 38 million for installed power of 24 MW. The final due date is 30 June 2020. The interest payable is the Euribor 6-month rate +0.90% throughout the credit line utilisation period, after which the spread will range between 0.90% and 1.10% based on the value of the historical DSCR (see comment in Note 25). In order to protect itself against the risk of interest rate fluctuations, Interest Rate Cap transactions have been arranged up to 31 December 2013, according to the due dates of the loan repayment plan. These establish a maximum limit of 5% for the variable rate on a notional amount of Euro 10 million relating to the first part of the investment.
- Loan executed on 1 August 2007 by subsidiary Green Vicari, the balance of which at 31 December 2008 was Euro 35 million. The loan provides for a base credit line of Euro 52.8 million for installed power of 37.5 MW. The last instalment is due on 30 June 2019. The rate is 6-month Euribor plus a spread ranging from a minimum 1.2% to a maximum 1.5%.
  In order to hedge itself against the risk of fluctuations in interest rates, Green Vicari has arranged Interest Rate Cap transactions up until 30 June 2014, according to the due dates of the loan repayment plan. These establish an average maximum limit of 4.7% on the variable rate.

We also point out that, following the "ERG Eolienne France" business combination, as at 31 December 2008 Project Financing was in place, expiring in June 2019, for a total of Euro 48 million relating to five wind farms in France.

The loan provides for a base credit line of Euro 56.7 million for installed power of 55.2 MW. The first repayment instalment was made on 30 June 2007. The last instalment is due on 30 December 2019. The rate of interest is 6-month Euribor +1.45%. The five French companies have nine Interest Rate Swap contracts in place to hedge interest-rate risk.

The following table shows the breakdown and maturity of current mortgages and loans (including Project Financing):

| | 31/12/2008 | 31/12/2007 |
|---|---|---|
| **SECURED BY GROUP TANGIBLE ASSETS** | | |
| WITH MATURITIES UP TO JUNE 2020 | 324,871 | 387,831 |
| **UNSECURED** | | |
| WITH MATURITIES UP TO DECEMBER 2015 | 958,637 | 931,688 |
| **TOTAL** | **1,283,508** | **1,319,519** |

The breakdown by year of due dates for repayment of existing medium/long-term bank loans is as follows:

| | MORTGAGES AND LOANS | PROJECT FINANCING |
|---|---|---|
| 31/12/2009 | 418,183 | 50,429 |
| 31/12/2010 | 155,870 | 56,795 |
| 31/12/2011 | 197,569 | 51,452 |
| 31/12/2012 | 83,663 | 59,854 |
| 31/12/2013 | 53,240 | 33,837 |
| BEYOND 31/12/2013 | 50,112 | 72,504 |
| **TOTAL** | **958,637** | **324,871** |

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

## NOTE 19 - OTHER NON-CURRENT LIABILITIES

| | 31/12/2008 | 31/12/2007 |
|---|---|---|
| CIP 6 TARIFF INCREASE | 441,451 | 402,567 |
| EQUIPMENT GRANTS | – | 10,747 |
| END-OF-CONTRACT BONUSES | 9,281 | 8,925 |
| OTHER MINOR NON-CURRENT LIABILITIES | 20,779 | 4,952 |
| **TOTAL** | **471,511** | **427,191** |

The "CIP 6 tariff increase" refers to the incentive component for the sale of electricity by ISAB Energy, already received from GSE (National Grid operator), the amount of which was deferred to the following years based on IFRS requirements. ISAB Energy's sales revenues are based on a contract of sale to the GSE regulated by the tariff determined 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 an incremental tariff amount for the first eight years of operation (2000-2008).
This incentive component represents a timing advance of part of the overall sales tariff obtainable from the contract: the incentive is, accordingly, recorded as per international accounting standards as revenues in proportion to the quantity of energy sold *pro rata* to sales expected over the entire contract.

"Equipment grants" represent the residual portion of grants received and will be recorded in future financial years as "Other revenues and income" to partially offset depreciation charged on the facilities in question. At 31 December 2008 the amount of this item was eliminated following the change in the scope of consolidation due to the LUKOIL transaction.
"End-of-contract bonuses" represent the amount that will be payable to service station operators covered by free usage contracts.
In 2008 "Other minor non-current liabilities" included the intercompany portion of the gain resulting from contribution of the business unit to Priolo Servizi (approximately Euro 17 million), which will be recognised in income for the next several financial years as a partial contra entry for the costs charged back by the Consortium.

## NOTE 20 - PROVISIONS FOR CURRENT LIABILITIES AND CHARGES

| | 31/12/2008 | 31/12/2007 | CHANGES INCREASES | CHANGES DECREASES |
|---|---|---|---|---|
| LOSSES ON EQUITY INVESTMENTS | 220 | 251 | – | (31) |
| PROVISION FOR DEMURRAGE CHARGES | 1,108 | 3,958 | 450 | (3,300) |
| PROVISION FOR LEGAL RISKS | 12,688 | 10,113 | 4,820 | (2,245) |
| PROVISION FOR SALES OF EQUITY INVESTMENTS | 5,435 | 3,435 | 2,000 | – |
| OTHER PROVISIONS FOR LIABILITIES AND CHARGES | 19,375 | 16,005 | 14,908 | (11,538) |
| **TOTAL** | **38,826** | **33,762** | **22,178** | **(17,115)** |

The "Provision for demurrage charges" refers to demurrage charges incurred during the last part of the period and not yet requested by the counterparty.
The "Provision for legal risks" is related to potential liabilities from ongoing legal disputes.
The "Provision for sales of equity investments" relates to potential liabilities deriving from the equity investments sold by ERG Renew during 2006. The "Other provisions for liabilities and charges" consist primarily of the expected charges in commercial dealings with service station operators, provisions for commercial agreements currently being finalised and the removal and clean-up costs connected with the thermoelectric power plants and construction of the new Turbogas facility at the Impianti Nord site.

## NOTE 21 - TRADE PAYABLES

| | 31/12/2008 | 31/12/2007 |
|---|---|---|
| PAYABLES DUE TO SUPPLIERS | 630,550 | 1,165,100 |
| PAYABLES DUE TO GROUP COMPANIES | 28,306 | 5,549 |
| **TOTAL** | **658,856** | **1,170,649** |

These are payables deriving from commercial transactions and are payable within the next financial year.
Payables for crude oil purchases at year-end are covered by guarantees issued to suppliers by banks for about Euro 233 million. On the other hand, contractors for fixed asset investments have issued sureties to Group companies for around Euro 54 million, as a guarantee for the plants built.
"Payables due to Group companies" mainly refer to associate companies operated under joint ventures.

## NOTE 22 - CURRENT FINANCIAL LIABILITIES

| | 31/12/2008 | 31/12/2007 |
|---|---|---|
| **SHORT-TERM BANK BORROWINGS** | **539,844** | **284,183** |
| **OTHER SHORT-TERM FINANCIAL PAYABLES:** | | |
| CURRENT PORTION OF MEDIUM/LONG-TERM BANK BORROWINGS | 418,183 | 152,971 |
| SHORT-TERM PROJECT FINANCING | 50,429 | 104,351 |
| OTHER FINANCIAL PAYABLES | 23,823 | 31,246 |
| | **492,435** | **288,568** |
| **TOTAL** | **1,032,279** | **572,751** |

As at 31 December 2008, short-term borrowings amounted to 43% of total credit lines granted (24% as at 31 December 2007).
These credit lines are unsecured and are generally repayable on demand.

As at 31 December 2008, the weighted average interest rate on short-term borrowings was 3.52% (4.89% as at 31 December 2007).

The other financial payables consist mainly of short-term payables to companies controlled by IPM Eagle; liabilities resulting from fair value measurement of financial instruments (Euro 8.5 million); financial payables due to non-consolidated Group companies and the payable for the put option granted by ERG Renew to the company Gepafin on 0.69% of investee company Ansaldo Fuel Cells S.p.A., due in January 2009 (Euro 1.8 million).

## NOTA 23 - OTHER CURRENT LIABILITIES

| | 31/12/2008 | 31/12/2007 |
|---|---|---|
| TAXES PAYABLE | 149,619 | 59,917 |
| EXCISE DUTIES PAYABLE TO TAX AUTHORITIES | 70,970 | 77,918 |
| COMPANY COUPONS | 30,438 | 30,173 |
| PAYABLES DUE TO EMPLOYEES | 12,227 | 18,428 |
| PAYABLES DUE TO SOCIAL SECURITY INSTITUTIONS | 6,929 | 9,945 |
| OTHER MINOR CURRENT LIABILITIES | 33,020 | 38,469 |
| **TOTAL** | **303,203** | **234,850** |

"Taxes payable" mainly refer to the estimate of income taxes owed for the period and the VAT payable. They include the amount of Euro 63.6 million for ERG Raffinerie Mediterranee's IRES payable vis-à-vis the ultimate parent company San Quirico S.p.A. (parent company of ERG S.p.A.) as a result of participation in domestic tax consolidation.
We would mention that, generally speaking, under current regulations excise duties for the entire month are normally paid on the 16th day of the month following that of accrual, while only for the month of December are the excise duties for the first two weeks paid in advance at the end of the month in question.
The item "Company coupons" refers to fuel coupons still in circulation which will be paid to the service station operators.
"Payables due to employees" refer to sums owing for the period but not yet paid and include holidays, unused time off in lieu, productivity bonuses, and bonuses linked to Group value creation. The decrease during the period stems mainly from the change in the scope of consolidation following the LUKOIL transaction.

"Payables due to social security institutions" comprise the contributions to be paid on December wages and salaries.

## NOTE 24 - GUARANTEES, COMMITMENTS AND RISKS (EURO 204,571 THOUSAND)

**Sureties given**

| | 31/12/2008 | 31/12/2007 |
|---|---|---|
| IN FAVOUR OF GROUP COMPANIES | – | 258 |
| IN FAVOUR OF THIRD PARTIES | 132,613 | 87,126 |
| **TOTAL** | **132,613** | **87,384** |

Just as in 2007, suretyships granted mainly concern the guarantees given for payment of excise duties, purchase of wind turbines, use of Group VAT receivables and generally in favour of public entities.

**Other corporate guarantees (Euro 10,400 thousand)**
These refer to letters of patronage issued in support of bank credit lines granted to associate company SIGEMI S.r.l. (Euro 13,086 thousand at 31 December 2007).

**Third party assets (Euro 0 thousand)**
At 31 December 2008 the balance on this item was zero following the change in the scope of consolidation due to the LUKOIL transaction (Euro 39,308 thousand at December 2007).

**Group commitments**

| | 31/12/2008 | 31/12/2007 |
|---|---|---|
| ISAB ENERGY S.R.L. PROJECT FINANCING | 28,309 | 27,534 |
| OTHER MINOR COMMITMENTS | 25,017 | 12,780 |
| **TOTAL** | **53,326** | **40,314** |

The commitment of Euro 28,309 thousand represents the surety issued through Banca Nazionale del Lavoro S.p.A. in favour of Intesa Sanpaolo, following renegotiation of the Project Financing contract between ISAB Energy S.r.l. and a consortium of Italian and foreign banks. The other commitments consist mainly of those assumed for purchases of hardware, software and IT consultancy services and guarantees given to third parties for the dispatching and transport of electricity and natural gas.

**Risks (Euro 8,232 thousand)**
The risks outstanding as at 31 December 2008 (Euro 3,445 thousand as at 31 December 2007) mainly referred to direct irrevocable remittances credited by the bank for which confirmation of execution of payment by the main debtor had not yet been received by the bank at year-end.

## NOTE 25 - COVENANTS AND NEGATIVE PLEDGES

**ISAB Energy Project Financing**

In April 1996 ISAB Energy entered into a non-recourse Project Financing contract amounting to approximately Euro 974 million with a consortium of international banks.

The contract, aimed at financing the construction of the ISAB Energy IGCC plant, entails:

- setting up of a senior mortgage and of a special lien in favour of Intesa Sanpaolo as guarantee for the payment of amounts and satisfaction of all obligations resulting from the Project Financing contract. The mortgage covers the land and entire IGCC plant at Priolo Gargallo. The lien covers the plant, machinery, capital assets, raw materials, goods in progress, finished products, sundry inventories and receivables resulting from the sale of such goods;
- transfer to Intesa Sanpaolo of:
  - rights of a financial nature and sums received or to be received in relation to those rights according to or in relation to the project contracts;
  - all the insurance indemnities payable or received in relation to the insurances foreseen in the Project Financing contract (with the exception of the indemnities pertaining to employee accidents or to compensation for third-party liability damage);
- monitoring of financial management of incoming and outgoing cash flows by the financing banks.

The duration of the obligations, after the re-financing operation that took place in September 2000, was extended from 8 to 14 years and will expire on 15 December 2014.

The guarantees given also entail a 100% pledge of the company's capital and other guarantees on the restricted current accounts of ISAB Energy (Euro 53.9 million as at 31December 2008).

In October 2007, the loan was restructured in order to:

- reduce the loan's rate of interest;
- reduce insurance obligations with consequent reduction of the amount of the insurance reserve account (amount guaranteeing the lower insurance cover with respect to that envisaged in the financing contract) from Euro 17 million as at 31 December 2006 to Euro 3 million as at 31 December 2007;
- obtain the authorisation of the lending institutions for the investment in the third gasifier and related financing;
- make management of the loan more flexible via both (a) a reduction of the number of banks in the pool and (b) the definition of new rules for the relationship with such banks;
- reduce the financial covenants.

Based on the foregoing, ISAB Energy's Project Financing is subject to the following financial covenants:

1. Debt Service Coverage Ratio (DSCR) of no less than 1.1: if ISAB Energy exceeds this limit, it cannot proceed with distribution of dividends to quotaholders, nor can it repay subordinated loans without prior authorisation from the banks. The DSCR is determined on 30 June and 31 December each year and is calculated as the ratio between the project's operating cash flow net of taxes and repayment of the loans as envisaged in the repayment plan in the same half-year, including both interest and capital due.
2. Loan Life Credit Ratio (LLCR) of no less than 1.1: exceeding this limit implies default on the loan. The LLCR is determined at 30 June and 31 December every year and is calculated as the ratio between the net present value, discounted at the weighted average cost of the debt, of the operating cash flows generated by the company between the calculation date and the year in which the debt falls due, and the amount of debt outstanding at the calculation date.

The project provides for a negative pledge that protects the creditor's rights over the assets granted by the debtor as a guarantee for the loan repayment. Consequently, ISAB Energy S.r.l. cannot grant further guarantees on its assets except in the case of guarantees granted according to law or in connection with unpaid-tax disputes.

**ERG Renew Project Financing**

These are loans granted for the construction of wind farms:

- Loan executed in 2005 by EOS 1 - Troia S.r.l. (San Vincenzo). The loan provides for a base credit line of Euro 36 million and matures on 31 December 2013. The guarantees granted entail the mortgage of real estate, a special lien on assets, a pledge of 100% on the company's share capital and on the company's restricted current accounts (Euro 7.8 million as at 31 December 2008), 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) of no less than 1.30: if EOS 1 - Troia S.r.l. exceeds this limit it cannot proceed with distribution of dividends to quotaholders, nor can it repay subordinated loans without prior authorisation from the banks. The DSCR is determined on 30 June and 31 December 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 capital quota of the VAT credit line, and the overall amount of the loan repaid as provided in the repayment plan for the capital quota of the base credit line and the sum of the interest, commissions and costs paid or payable in relation to the credit lines.
  - The project provides for a negative pledge that protects the creditor's rights over the assets granted by the debtor as a guarantee for the loan repayment. EOS 1 - Troia S.r.l. may not grant further guarantees on its assets except in the case of guarantees granted according to law.

- Loan executed in 2005 by EOS 3 - Troia S.r.l. (San Cireo). The loan provides for a base credit line of Euro 34 million for installed power of 30 MW (increasable to Euro 43 million for an additional 10 MW) and matures on 31 December 2014. The guarantees granted entail the mortgage of real estate, a special lien on assets, a pledge of 100% on share capital and on the company's restricted current accounts (Euro 5.1 million as at 31 December 2008), 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) of no less than 1.30: if EOS 3 - Troia S.r.l. exceeds this limit it cannot proceed with distribution of dividends to quotaholders, nor can it repay subordinated loans without prior authorisation from the banks. The DSCR is determined on 30 June and 31 December 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 to be used for repayment of the capital quota of the VAT credit line, and the overall amount of the loan repaid as envisaged in the repayment plan for the capital quota of 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 banks or by hedging banks to the company pursuant to the hedging contracts.
  - The project provides for a negative pledge that protects the creditor's rights over the assets granted by the debtor as a guarantee for the loan repayment. Consequently, EOS 3 - Troia S.r.l. cannot grant further guarantees on its assets except in the case of guarantees granted according to law.

- Loan executed in June 2007 by EOS 4 - Faeto S.r.l. The loan provides for a base credit line of Euro 38 million for installed power of 24 MW and matures on 30 June 2020. The guarantees granted entail the mortgage of real estate, a special lien on assets, a pledge of 100% on share capital and on the company's restricted current accounts (Euro 1.5 million as at 31 December 2008), 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) of no less than 1.10: if EOS 4 - Faeto S.r.l. exceeds this limit it cannot proceed with distribution of dividends to quotaholders, nor can it repay subordinated loans without prior authorisation from the banks. The HDSCR is determined on 30 June and 31 December 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 to be used for repayment of the capital quota of the VAT credit line, and the overall

amount of the loan repaid as envisaged in the repayment plan for the capital quota of 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 banks or by hedging banks to the company pursuant to the hedging contracts.
– The project provides for a negative pledge that protects the creditor's rights over the assets granted by the debtor as a guarantee for the loan repayment. Consequently, EOS 4 - Faeto S.r.l. cannot grant further guarantees on its assets except in the case of guarantees granted according to law.

- Loan executed in August 2007 by the company Green Vicari S.r.l. The loan provides for a base credit line of Euro 42 million together with a subsidised credit line of Euro 11 million for installed power of 37.5 MW and final due date of 30 June 2019. The guarantees granted include a mortgage on real estate, a special lien on assets, a pledge over 100% of share capital (Euro 0.5 million at 31 December 2008) and over the company's receivables and current accounts.
  The loan is also subject to the following covenants and negative pledges:
  – Average Debt Service Coverage Ratio (ADSCR) of no less than 1.10: if Green Vicari S.r.l. exceeds this limit it cannot proceed with distribution of dividends to quotaholders, nor can it repay subordinated loans without prior authorisation from the banks. The ADSCR is determined on 30 June and 31 December of every year and is calculated as the ratio of the project's cash flow net of VAT flows for the two preceding half-years, and the total amount of the debt repayment as envisaged in the repayment plan for the capital quota of the base credit line and the subsidised loan, 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 banks or by hedging banks to the company pursuant to the hedging contracts.
  – The project provides for a negative pledge that protects the creditor's rights over the assets granted by the debtor as a guarantee for the loan repayment. Therefore, Green Vicari may not offer any more guarantees on its assets.

- Loan concerning construction of the five wind farms located in France. The loan provides for a base credit line of Euro 56.7 million for total installed power of 55.2 MW. The first repayment took place on 30 June 2007 and the last instalment is due on 30 December 2019. The interest rate is 6-month Euribor + 1.45%.
  The guarantees granted entail the mortgage of real estate and a pledge over 100% of share capital and over the company's restricted current accounts (Euro 1.9 million as at 31 December 2008).
  The loan is not subject to financial covenants as regards dividend distribution.
  The contract also provides for a negative pledge that protects the creditor's rights over the assets granted by the debtor as a guarantee for the loan repayment. Consequently, the French companies cannot grant further guarantees on their assets.

**Other covenants and negative pledges**
The loan granted by Unicredit to ERG S.p.A. entails a negative pledge clause which establishes that ERG S.p.A. undertakes, on its own behalf and on behalf of a number of its subsidiaries (ERG Raffinerie Mediterranee S.p.A., ERG Petroli S.p.A. and ERG Power & Gas S.p.A.), not to pledge fixed assets as collateral security without the lending institution's prior agreement. The possibility to establish guarantees for an amount of up to Euro 10 million on the assets of the ISAB Refinery still holds good.

The loan is also subject to a covenant relative to the ratio between net financial debt and gross operating margin (EBITDA), which must be less than or equal to 3.5 from 30 June 2007 onwards.
In the case of failure to maintain the aforesaid ratio, the bank shall have the right to withdraw from the contract, declare the acceleration clause as having come into effect on the borrowing company, or declare the contract rescinded.

In view of the high volatility on the market, on 31 December 2007 Unicredit granted an initial stay of application of the aforesaid covenant, and a subsequent stay of application of the aforesaid covenant on 31 December 2008 (on the premise that this ratio does not exceed 4).

## NOTE 26 - CONTINGENT LIABILITIES

ERG 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 raised, ERG considers that these proceedings and actions will not determine significant negative effects on its Consolidated Financial Statements.

In particular, we report that in 2007 ERG Raffinerie Mediterranee was served with some demands for payment by the Syracuse Customs Agency, which alleged that the company was not entitled to exemption, as applied by the company, from payment of harbour dues for loading and unloading of freight at the Santa Panagia bay jetty in Syracuse (Sicily) for the years 2001-2007.
On the basis of reviews carried out with the assistance of independent counsel, ERG considers these charges to be illegitimate and/or unconstitutional. It has accordingly set aside no provisions for the years up to 2006 included.
As regards 2007 and 2008, taking into account the interpretative regulation contained in the 2007 Budget Act, it has prudently made provision for harbour dues pertaining to the year, being confident that it can demonstrate the legitimacy of its positions to the Revenue Authorities.

We also report that ERG, through its subsidiary ISAB Energy, is engaged in lawsuits intended to defend its prerogatives and rights arising from the CIP 6/92 system, with particular reference to the cogeneration status of its plant and to the obligation, confirmed by the 5 February 2008 ruling by the Lombardy Regional Administrative Tribunal (“TAR”), to cover some years of production through the purchase of green certificates. ISAB Energy has already filed an appeal against this ruling before the Council of State.
With the support of its independent legal counsel, ERG considers the claims of the Italian Electricity & Gas Authority to be illegitimate and believes that it can reasonably pursue actions to defend itself.

# INCOME STATEMENT ANALYSIS

## NOTE 27 - REVENUES FROM ORDINARY OPERATIONS

| | 2008 | 2007 |
|---|---|---|
| REVENUES FROM SALES | 11,389,536 | 10,070,485 |
| REVENUES FROM SERVICES | 93,588 | 80,261 |
| REVENUES FROM GREEN CERTIFICATES | 15,188 | 14,989 |
| **TOTAL** | **11,498,312** | **10,165,735** |

Sales revenues consist principally 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 values indicated are net of excise duties totalling Euro 2,301,491 thousand recovered from customers (Euro 2,387,296 thousand as at 31 December 2007) and net of trade exchanges for Euro 787,786 thousand (Euro 502,691 thousand as at 31 December 2007).

ISAB Energy's revenues from sales of electricity reflect the reduction in sales prices ordered by the Electricity & Gas Authority (AEEG) in Resolution 249/06, which was confirmed in a ruling by the Council of State on 22 January 2008.

The following table shows the breakdown of sales revenues:

| | 2008 | 2007 |
|---|---|---|
| SALES TO GROUP COMPANIES | 515,157 | 291,760 |
| SALES TO THIRD PARTIES | 10,874,379 | 9,778,725 |
| **TOTAL** | **11,389,536** | **10,070,485** |

Revenues from services refer principally to charges of Euro 52,909 thousand to associate companies Raffineria di Roma S.p.A. and Sarpom S.p.A. for internal consumption and the income generated by general and support services provided to third parties at the Priolo industrial site until the end of November 2008. The increase from 2007 was largely due to higher charges for internal consumption.

Revenues from green certificates concern production during 2008 of the ERG Renew wind farms in operation. Valuation of the green certificates was calculated at the provisional price of Euro 98/MWh determined on the basis of presumed disposal value.

## NOTE 28 - OTHER REVENUES AND INCOME

| | 2008 | 2007 |
|---|---|---|
| OPERATING SUBSIDIES AND EQUIPMENT GRANTS | 1,708 | 1,847 |
| RENTS RECEIVABLE | 5,056 | 5,282 |
| INDEMNITIES | 1,046 | 1,712 |
| EXPENSE RECOVERIES | 6,892 | 6,384 |
| CAPITAL GAINS FROM DISPOSALS | 9,046 | 5,646 |
| NON-RECURRING INCOME | 1,950 | 4,832 |
| INCOME FROM EMISSIONS TRADING | 20,600 | 260 |
| OTHER | 19,181 | 14,204 |
| **TOTAL** | **64,433** | **40,167** |

In 2008, the item "Capital gains from disposals" refers principally to the contribution of the business unit relating to industrial services for the Priolo site to the company Priolo Servizi. In 2007 this account referred principally to the sale of service stations to associate company Enerpetroli.

In 2008, income of about Euro 20 million was recognised for emissions trading, including about Euro 10 million paid to ISAB Energy as reimbursement for the costs incurred under National Allocations Plan PNA1 2005-2007, and the remainder for sales of rights under PNA2 2008-2012.

## NOTE 29 - CHANGES IN PRODUCT INVENTORIES

Product inventory values were determined by application of the weighted average cost method.

The decrease of about Euro 295 million for finished products (-213 thousand tonnes) reflected not only the precise level of inventory quantities at the end of the period, but also the fluctuation in purchase prices.

## NOTE 30 - CHANGES IN RAW MATERIAL INVENTORIES

Raw materials inventory values were determined by application of the weighted average cost method.

The decrease of about Euro 274 million for finished products (-338 thousand tonnes from 31 December 2007) reflected not only the precise level of inventory quantities at the end of the period, but also the fluctuation in purchase prices.

## NOTE 31 - COST OF PURCHASES

The purchase costs of crude oil and products include ancillary expenses, transportation, insurance, commissions, inspections and customs charges.

The total as at 31 December 2008 amounted to Euro 9,917 million (Euro 9,121 million as at 31 December 2007). The increase of Euro 796 million compared to 31 December 2007 was attributable above all to the increase in average prices in the year.

The figures are shown net of excise duties paid and trade exchanges and include the effect of arbitrage transactions on crude oil and products deriving 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.

It should be remembered that these transactions, carried out with leading international counterparties, are aimed at reducing the risk deriving from price fluctuations mainly due to:

- temporary increases in inventories above programmed levels;
- significant differences between the time of purchase of the raw material and that of its effective processing.

## NOTE 32 - COSTS FOR SERVICES AND OTHER COSTS

| | 2008 | 2007 |
|---|---|---|
| SERVICES | 606,354 | 542,689 |
| RENTS PAID | 61,114 | 59,430 |
| WRITE-DOWNS OF RECEIVABLES AND GREEN CERTIFICATES | 7,531 | 837 |
| PROVISIONS FOR LIABILITIES AND CHARGES | 25,978 | 18,316 |
| DUTIES AND TAXES | 55,239 | 38,560 |
| OTHER OPERATING EXPENSES | 22,410 | 28,844 |
| **TOTAL** | **778,626** | **688,676** |

The breakdown of costs for services was as follows:

| | 2008 | 2007 |
|---|---|---|
| PROCESSING COSTS | 146,410 | 90,725 |
| COMMERCIAL, DISTRIBUTION AND TRANSPORTATION COSTS | 46,225 | 45,845 |
| MAINTENANCE AND REPAIRS | 84,152 | 115,108 |
| CONSULTANCY AND MEDIATION | 63,470 | 40,970 |
| UTILITIES AND SUPPLIES | 86,694 | 98,521 |
| INSURANCE | 33,856 | 37,507 |
| ADVERTISING AND PROMOTIONS | 20,802 | 17,493 |
| OTHER SERVICES | 124,745 | 96,520 |
| **TOTAL** | **606,354** | **542,689** |

"Processing costs" refer to associate companies Sarpom S.p.A. and Raffineria di Roma S.p.A. and, starting from December 2008, also to the ISAB Refinery for the processing of crude oil at these refineries.

"Maintenance and repairs" mainly consist of the costs for routine maintenance of refining and electricity generation plants and service stations. The decrease in this item is primarily connected with the sale of facilities following contribution of the business unit to Priolo Servizi and the LUKOIL transaction.

The increase in the item "Consultancy and mediation" is mainly connected with the extraordinary transactions during the year and, in particular, the costs incurred as part of the LUKOIL transaction.

"Utilities and supplies" principally concern the costs incurred by the refinery plants and normal utility expenses.

"Other services" include the emoluments of 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 costs for 2008 include the expenses for site services provided by subsidiary Priolo Servizi, operative as from 1 May 2008.

"Rents paid" consist mainly of rents paid to service station dealers. It should be noted that there are no operational leasing contracts of significant amounts.

"Write-downs of receivables and green certificates" reflects the reversal of current assets in the wind power division whose recoverability is no longer deemed certain.

"Provisions for liabilities and charges" refers principally to the removal and clean-up costs connected with the thermoelectric power plants and construction of the new Turbogas facility at the Impianti Nord site, and provisions for charges relating to operations in Spain. "Duties and taxes" consist mainly of the costs for green certificates, the municipal property tax, the regional gasoline tax, and harbour dues. The item includes costs owed by ISAB Energy for green certificates and the charges for harbour dues pertaining to the period requested for the jetty used by the ISAB Impianti Sud Refinery. These items, which are contested by ERG, were prudently appropriated in the Income Statement pending the outcome of the appeals filed. The increase reflects the costs, net of envisaged recoveries, for the obligation of ISAB Energy to acquire green certificates for previous years. The "Other operating expenses" include membership subscription fees, costs incurred in connection with accidents, and ordinary capital losses on the disposal of retired service stations.

## NOTE 33 - PERSONNEL EXPENSES

| | 2008 | 2007 |
|---|---|---|
| SALARIES AND WAGES | 123,187 | 124,760 |
| SOCIAL SECURITY EXPENSES | 36,082 | 37,488 |
| STAFF LEAVING INDEMNITIES | 9,236 | 10,139 |
| OTHER COSTS | 12,065 | 13,106 |
| **TOTAL** | **180,570** | **185,493** |

The decrease in personnel expenses stems principally from the decrease in the number of employees.
The following table shows the breakdown of ERG personnel (average headcount during the period):

| | 2008 | 2007 |
|---|---|---|
| EXECUTIVES | 111 | 119 |
| MANAGERS | 378 | 372 |
| WHITE-COLLAR EMPLOYEES | 1,343 | 1,400 |
| BLUE-COLLAR EMPLOYEES | 788 | 933 |
| **TOTAL** | **2,620** | **2,823** |

At 31 December 2008 there were a total of 1,580 employees (2,825 at 31 December 2007), significantly lower than the average number for the year, mainly due to the transfer of 1,070 employees to the ISAB S.r.l. joint venture.

## NOTE 34 - AMORTISATION, DEPRECIATION AND WRITE-DOWNS OF FIXED ASSETS

| | 2008 | 2007 |
|---|---|---|
| AMORTISATION OF INTANGIBLE FIXED ASSETS | 19,743 | 17,885 |
| DEPRECIATION OF TANGIBLE FIXED ASSETS | 180,302 | 165,894 |
| WRITE-DOWNS | 162,192 | 1,592 |
| **TOTAL** | **362,237** | **185,371** |

The increase in amortisation and depreciation stems principally from the start-up of new plants at the Priolo production site and the Enerfrance wind farms.
Of the write-downs, Euro 103 million refers to the wind power division, including about Euro 95 million following the impairment test carried out on the gains allocated upon acquisition of ERG Renew (formerly Enertad), Euro 54 million refers to the Thermoelectric Power

Generation division as regards the write-down of assets damaged in the accident on 13 October 2008 involving Powertrain 2 of ISAB Energy's IGCC plant, and about Euro 4 million refers to write-downs concerning the operations in Spain.

## NOTE 35 - PROCEEDS FROM SALE OF BUSINESS UNIT

The proceeds refer to the gain of Euro 892 million realised upon the sale of 49% of the ISAB equity investment, as part of the LUKOIL transaction. For more detailed information, reference is made to the chapter "Sale of 49% stake in ISAB S.r.l. to LUKOIL".

## NOTE 36 - NET FINANCIAL INCOME (EXPENSES)

| | 2008 | 2007 |
|---|---|---|
| **INCOME** | | |
| FOREIGN EXCHANGE GAINS | 273,032 | 111,762 |
| INTEREST INCOME ON BANK ACCOUNTS | 11,977 | 10,711 |
| OTHER FINANCIAL INCOME | 125,786 | 13,201 |
| | **410,795** | **135,674** |
| **CHARGES** | | |
| FOREIGN EXCHANGE LOSSES | (271,773) | (114,572) |
| INTEREST PAYABLE ON SHORT-TERM BANK BORROWINGS | (15,813) | (18,578) |
| INTEREST PAYABLE ON MEDIUM/LONG-TERM BANK BORROWINGS | (53,132) | (32,534) |
| INTEREST PAYABLE ON PROJECT FINANCING | (23,841) | (21,707) |
| FINANCIAL CHARGES RELATING TO PROJECT FINANCING | (1,333) | (2,198) |
| OTHER FINANCIAL EXPENSES | (47,766) | (19,507) |
| | **(413,658)** | **(209,096)** |
| **TOTAL** | **(2,863)** | **(73,422)** |

"Foreign exchange gains/losses" refer both to the differences between the Euro/USD exchange rate used to record purchases/sales and related payments/receipts, and to the exchange rate risk hedging operations set up in respect of commercial transactions.
"Interest income on bank accounts" arose mainly on current accounts held by ISAB Energy S.r.l., ERG Raffinerie Mediterranee S.p.A. and ERG Renew.
"Other financial income" consists mainly of the Euro 103 million in profits from liquidation of the collar used to hedge a portion of the oil inventories at the ISAB S.r.l. Refinery.
This item also includes the interest accrued in December 2008 on the amount owed by LUKOIL.
"Financial charges relating to Project Financing" include the commissions paid to the project's lending institutions.
"Other financial expenses" consist mainly of bank fees, premiums on exchange rate hedging contracts, the charges connected with the securitisation transaction (Euro 7 million), and the costs relating to derivatives. Losses of Euro 17 million were recognised in 2008 for transactions on refining margins.

## NOTE 37 - NET INCOME (EXPENSES) FROM EQUITY INVESTMENTS

The net income (expenses) from equity investments of Euro -323 thousand (Euro 6,764 thousand at 31 December 2007) stem primarily from the write-down for approximately Euro 5 million of the investment in Ansaldo Fuel Cells S.p.A. and the results of companies carried at equity. In particular, this item includes the results of ISAB S.r.l. (a 51% joint venture) starting from December 2008.

## NOTE 38 - INCOME TAXES

| | 2008 | 2007 |
|---|---|---|
| CURRENT INCOME TAX | 209,119 | 20,512 |
| TAXES FROM PREVIOUS YEAR | 2,360 | (745) |
| SUBSTITUTE TAXES | 1,283 | 533 |
| DEFERRED TAX ASSETS AND LIABILITIES | (217,277) | 87,117 |
| **TOTAL** | **(4,515)** | **107,417** |

The provision for income tax for the period was calculated on the basis of expected taxable income. This was negatively impacted by the 5.5% surcharge to be applied on the revenues of companies in the oil and energy sector.
"Deferred tax assets and liabilities" originated from the temporary differences deriving from adjustments made to consolidated companies' financial statements in application of the Group's uniform accounting policies and the temporary differences between the statutory and tax values of assets and liabilities.
Income taxes in 2008 showed a credit balance of Euro 4.5 million and included current taxes of Euro 209 million and Euro 217 million in deferred tax assets.
The 2008 tax figures reflect the negative impact of approximately Euro 4 million (including Euro 30 million in current taxes and Euro -26 million in deferred taxes) stemming from adjustment of tax rates following enactment of Law 133/08 (Robin Tax). On the other hand, the combined effect of recalculation of deferred taxes at the beginning of the year and release of the deferred income tax provision exceeding the substitute tax of 16% that must be paid on the difference in the value of inventories at the end of the year between the LIFO value and the weighted average cost gave rise to a positive balance of Euro 4 million.
The "Substitute taxes" refer principally to the Robin Tax applied to the higher tax value for inventories at 31 December 2008 as compared with the traditional LIFO method.
Furthermore, deferred taxes of Euro 1.7 million (Euro 1.4 million in 2007) were charged directly to equity. These were calculated on the fair value of the derivative instruments recognised using the cash flow hedge technique.

### RECONCILIATION BETWEEN REPORTED AND THEORETICAL TAX CHARGES

| | | |
|---|---|---|
| **IRES (CORPORATION TAX)** | | |
| **PROFIT BEFORE TAXES** | 644,512 | |
| **THEORETICAL IRES TAXATION AT 33%** | **212,689** | |
| IMPACT OF PARTICIPATION EXEMPTION ON CAPITAL GAIN ON ISAB S.R.L. SALE | | (278,878) |
| IMPACT OF PERMANENT TAX ADJUSTMENTS AND CONSOLIDATION ADJUSTMENTS NOT RELEVANT TO THE CALCULATION OF TAXES | | 55,692 |
| IMPACT OF TAX RATE ADJUSTMENT FOR SOME COMPANIES | | (17,714) |
| **CURRENT, DEFERRED AND ADVANCE IRES** | | **(28,212)** |
| **IRAP (REGIONAL TAX)** | | |
| **IRAP TAXABLE BASE** | **60,157** | |
| **THEORETICAL IRAP TAXATION AT 3.9%** | **–** | |
| IRAP RATE INCREASED FOR SOME COMPANIES | | 6,598 |
| IMPACT OF PERMANENT TAX ADJUSTMENTS AND CONSOLIDATION ADJUSTMENTS NOT RELEVANT TO THE CALCULATION OF TAXES | | (93) |
| IMPACT OF TAX RATE ADJUSTMENT FOR SOME COMPANIES | | (4,367) |
| **CURRENT, DEFERRED AND ADVANCE IRAP** | | **2,139** |
| **TOTAL THEORETICAL TAXES** | **212,689** | |
| **TOTAL IRES AND IRAP PER FINANCIAL STATEMENTS** | | **(26,073)** |
| **TAXES FROM PREVIOUS YEAR** | | **2,360** |
| **SUBSTITUTE TAXES** | | **19,198** |
| **TOTAL TAXES AS REPORTED IN FINANCIAL STATEMENTS** | | **(4,515)** |

The consolidation adjustments that are not relevant to tax calculation mainly refer to the write-down of goodwill, deferred taxes on distributable profits and the results of companies carried at equity.
The impact of the tax rate adjustment was determined by the application of Law 133/2008 (Robin Tax) and, in particular, the release of the excess deferred tax provision appropriated based on the difference between the LIFO value of inventories and their value calculated according to the weighted average cost method.

## NOTE 39 - NON CHARACTERISTIC ITEMS

| (THOUSAND EURO) | | 2008 | 2007 |
|---|---|---|---|
| OTHER REVENUES AND INCOME | A | 17,273 | – |
| COSTS FOR SERVICES AND OTHER COSTS | B | (71,392) | (30,700) |
| AMORTISATION, DEPRECIATION AND WRITE-DOWNS OF FIXED ASSETS | C | (161,166) | |
| PROCEEDS FROM SALE OF BUSINESS UNIT | D | 892,442 | |
| FINANCIAL INCOME | E | 101,230 | – |
| OTHER NET INCOME (EXPENSES) FROM EQUITY INVESTMENTS | F | (5,000) | |
| INCOME TAXES | G | (5,548) | 10,718 |
| MINORITY INTERESTS | | 22,854 | – |
| **NET PROFIT (LOSS) PERTAINING TO THE GROUP** | | **790,694** | **(19,982)** |

In 2008:

**A.** this item includes the gain of Euro 7 million realised via-à-vis third parties for contribution of the business unit to investee company Priolo Servizi and the reimbursement of Euro 10 million paid to ISAB Energy for charges incurred within the scope of the PNA1 emissions trading plan;

**B.** this item includes:
- supplemental charges incurred as part of the LUKOIL transaction (23 million);
- removal and clean-up costs connected with the thermoelectric power plants and construction of the new Turbogas facility at the ERG Nuove Centrali Impianti Nord site (Euro 10 million);
- the costs, net of envisaged recoveries, for ISAB Energy's obligation to acquire green certificates for previous years (Euro 16 million);
- costs for write-off of assets connected with wind power division projects whose recoverability is no longer deemed certain (Euro 8 million);
- the costs incurred and expected in connection with the sale and closure of service stations in Spain and as regards the write-down of receivables and exit incentives (Euro 14 million);

**C.** this item includes the write-down of assets damaged by the accident on 13 October 2008 involving Powertrain 2 at ISAB Energy's IGCC plant (Euro 54 million), write-downs in the wind power division for Euro 103 million, including Euro 95 million following the impairment test on gains resulting from the acquisition of ERG Renew (formerly Enertad), and in connection with operations in Spain (Euro 4 million);

**D.** gain realised on sale of 49% of the investment in ISAB S.r.l. to LUKOIL;

**E.** positive result of the collar hedging a portion of the oil inventories transferred to ISAB S.r.l. under the LUKOIL transaction;

**F.** write-down of the equity investment in Ansaldo Fuel Cells S.p.A.;

**G.** in addition to the entries listed above, the item also includes the Group's share of the impact stemming from the adjustment of tax rates in consequence of Law 133/08 (Robin Tax) and in particular from recalculation of the deferred tax provision at the beginning of the year and release of the deferred tax provision in excess of the substitute tax of 16% that must be paid on the difference between the LIFO value and weighted average cost value of year-end inventories.

Non characteristic items in 2007 referred to:

**B.** the expenses relating to the Euro 13 million agreement signed by ERG S.p.A and Alerion to settle the dispute that arose over failure to buy wind farms and Euro 17.7 million in costs for clean-up of the area slated for construction of the new Turbogas facility at the Impianti Nord site.

## NOTE 40 - RELATED PARTIES

**Balance Sheet**

| | NOTE | SUBSIDIAIRES | ASSOCIATE COMPANIES AND JOINT VENTURES | OTHER RELATED PARTIES | TOTAL RELATED PARTIES |
|---|---|---|---|---|---|
| OTHER NON-CURRENT FINANCIAL ASSETS | 5 | – | 6,680 | – | **6,680** |
| TRADE RECEIVABLES | 9 | 238 | 102,746 | – | **102,984** |
| OTHER CURRENT RECEIVABLES AND ASSETS | 10 | 198 | 21 | – | **219** |
| CURRENT FINANCIAL ASSETS | 11 | 1,702 | 67 | – | **1,769** |
| NON-CURRENT FINANCIAL LIABILITIES | 18 | – | (12,439) | – | **(12,439)** |
| TRADE PAYABLES | 21 | (1,115) | (27,191) | – | **(28,306)** |
| CURRENT FINANCIAL LIABILITIES | 22 | – | (901) | – | **(901)** |
| OTHER CURRENT LIABILITIES | 23 | – | – | (63,652) | **(63,652)** |
| OTHER NON-CURRENT LIABILITIES | 19 | (27) | (775) | – | **(802)** |

**Income Statement**

| | NOTE | SUBSIDIAIRES | ASSOCIATE COMPANIES AND JOINT VENTURES | OTHER RELATED PARTIES | TOTAL RELATED PARTIES |
|---|---|---|---|---|---|
| REVENUES FROM ORDINARY OPERATIONS | 27 | 7,650 | 567,435 | – | **575,085** |
| OTHER REVENUES AND INCOME | 28 | 101 | 48,061 | – | **48,163** |
| COST OF PURCHASES | 31 | – | (12,848) | – | **(12,848)** |
| COSTS FOR SERVICES AND OTHER COSTS | 32 | (8,410) | (113,823) | (3,372) | **(125,602)** |
| FINANCIAL INCOME | 35 | 126 | 76 | – | **206** |
| FINANCIAL EXPENSES | 35 | – | (166) | – | **(166)** |

Transactions with subsidiary and associate companies not included in the scope of consolidation essentially concern the exchange of goods, the supply of services, and the provision and use of financing. All transactions form part of ordinary operations and are settled at market terms and conditions. In particular, processing agreements have been set up with the ISAB S.r.l. joint venture since December 2008, with associate companies Sarpom S.p.A. and Raffineria di Roma S.p.A., and site service agreements with Priolo Servizi, in operation since 1 May 2008. The Group sells petroleum products to subsidiary and associate companies operating in the retail and wholesale markets. It is also charged for service station leasing contracts by companies that form part of the retail division and for the transportation of products by companies within the logistics division.
We point out that, following the request of the ultimate parent company San Quirico S.p.A., ERG Raffinerie Mediterranee has agreed to participate in domestic tax consolidation for the three-year period 2006-2008. As regards the above, against collection of the dividends resolved by ERG Raffinerie Mediterranee S.p.A. for 2007, San Quirico S.p.A., as envisaged by contractual agreements, paid ERG S.p.A. in June 2008 the amount of Euro 0.9 million for prejudice caused to ERG S.p.A. by non-consolidation of ERG Raffinerie Mediterranee S.p.A.
At 31 December 2008, ERG Raffinerie Mediterranee owed San Quirico Euro 63.6 million in taxes for the year.
With regard to the other relationships with related parties, as defined in IAS 24, it should be noted that: on 25 May 2007 the sponsorship contract with U.C. Sampdoria S.p.A. – a football club controlled by the principal shareholder of ERG – was renewed through to 30 June 2009. The contract was subjected to a detailed cost-benefit analysis carried out by the departments involved and an opinion on the same was also obtained, in accordance with the Code of Conduct regarding transactions with related parties, from an independent expert chosen by

the Internal Control Committee at the request of the Board of Directors. The independent expert reviewed the sponsorship's cost/economic value ratio and confirmed that the economic conditions of the contract were consistent with the average market values for football club sponsorship in Italy.
The costs allocable to 2008 totalled Euro 3.3 million.

## NOTE 41 - RECONCILIATION WITH ERG S.P.A. SHAREHOLDERS' EQUITY AND PROFIT

| (THOUSAND EURO) | SHAREHOLDERS' EQUITY 31/12/2008 | SHAREHOLDERS' EQUITY 31/12/2007 | PROFIT FOR THE YEAR 2008 | PROFIT FOR THE YEAR 2007 |
|---|---|---|---|---|
| **ERG S.P.A. SHAREHOLDERS' EQUITY AND PROFIT FOR THE PERIOD** | **302,476** | **109,714** | **266,581** | **66,632** |
| **ELIMINATION OF THE EFFECTS OF TRANSACTIONS BETWEEN CONSOLIDATED COMPANIES:** | | | | |
| - ELIMINATION OF INFRAGROUP PROFITS ON INVENTORIES AND FIXED ASSETS | (1,283) | (1,283) | – | – |
| - ELIMINATION OF INFRAGROUP DIVIDENDS | – | – | (322,642) | (151,424) |
| | **(1,283)** | **(1,283)** | **(322,642)** | **(151,424)** |
| **DEFERRED TAXES:** | | | | |
| - DEFERRED TAXES ON CONSOLIDATION ADJUSTMENTS | 5,103 | (4,784) | 5,103 | (4,050) |
| **ELIMINATION OF THE CARRYING VALUE OF EQUITY INVESTMENTS:** | | | | |
| - DIFFERENCE BETWEEN CARRYING VALUE AND PRO RATA VALUE OF SHAREHOLDERS' EQUITY | 1,620,128 | 1,161,405 | – | – |
| - PRO RATA RESULTS OF INVESTEE COMPANIES | – | – | 699,985 | 280,969 |
| - RECOGNITION OF ASSETS AND LIABILITIES FROM BUSINESS COMBINATIONS | 97,902 | 194,004 | – | – |
| | **1,718,030** | **1,355,409** | **699,985** | **280,969** |
| **SHAREHOLDERS' EQUITY AND PROFIT FOR THE PERIOD** | **2,024,327** | **1,459,056** | **649,027** | **192,127** |
| **SHAREHOLDERS' EQUITY AND PROFIT FOR THE PERIOD PERTAINING TO MINORITY INTERESTS** | **(107,999)** | **(125,295)** | **(2,994)** | **(21,191)** |
| **ERG GROUP CONSOLIDATED SHAREHOLDERS' EQUITY AND PROFIT FOR THE PERIOD** | **1,916,328** | **1,333,761** | **646,033** | **170,936** |

## NOTE 42 - EARNINGS PER SHARE

Calculation of earnings per share is based on the following data:

| | | 2008 | 2007 |
|---|---|---|---|
| GROUP'S SHARE OF NET PROFIT | THOUSAND EURO | 646,033 | 170,936 |
| AVERAGE NUMBER OF OUTSTANDING SHARES | | 148,308,882 | 149,664,544 |
| EARNINGS PER SHARE | EURO | 4.356 | 1.142 |
| DILUTED EARNINGS PER SHARE | EURO | 4.356 | 1.142 |

Diluted earnings per share are calculated by considering the nonsignificant dilution effect in relation to the average number of outstanding shares deriving from the stock option plan. There are no dilution factors that impact the Group's share of net profit.

## NOTE 43 - DIVIDENDS

The dividends paid by ERG S.p.A. in 2008 (Euro 59.3 million) and 2007 (Euro 59.9 million), as resolved upon approval of the financial statements for the previous year, amounted to Euro 0.40 for each of the shares with rights as at the dividend date. On 10 March 2009 the Board of Directors of ERG S.p.A. proposed payment to shareholders of a dividend of Euro 0.90 per share, including a non-recurring component of Euro 0.50 per share following the positive result of the joint venture deal with LUKOIL. The dividend will be paid as from 21 May 2009, subject to detachment of coupon as from 18 May 2009.

## NOTE 44 - FINANCIAL INSTRUMENTS

| 31/12/2008 | FVTPL (1) | L&R (2) | AFS (3) | OTHER LIABILITIES | HEDGING DERIVATIVES | TOTAL | *OF WHICH NON-CURRENT* | FAIR VALUE |
|---|---|---|---|---|---|---|---|---|
| INVESTMENTS IN OTHER COMPANIES | – | – | 2,352 | – | – | 2,352 | *2,352* | 2,352 |
| FINANCIAL RECEIVABLES | – | 859,803 | 13,263 | – | – | 873,066 | *8,911* | 873,066 |
| DERIVATIVE INSTRUMENTS | 2,039 | – | – | – | 1,612 | 3,651 | – | 3,651 |
| TRADE RECEIVABLES | – | 603,936 | – | – | – | 603,936 | – | 603,936 |
| OTHER RECEIVABLES | – | 104,431 | – | – | – | 104,431 | *12,377* | 104,431 |
| CASH AND CASH EQUIVALENTS | – | 744,962 | – | – | – | 744,962 | – | 744,962 |
| **TOTAL ASSETS** | **2,039** | **2,313,132** | **15,615** | **–** | **1,612** | **2,332,398** | ***23,640*** | **2,332,398** |
| MORTGAGES AND LOANS | – | – | – | 958,637 | – | 958,637 | *540,454* | 895,841 |
| NON-RECOURSE PROJECT FINANCING | – | – | – | 324,871 | – | 324,871 | *274,442* | 384,390 |
| SHORT-TERM BANK BORROWING | – | – | – | 539,844 | – | 539,844 | – | 539,844 |
| FINANCIAL PAYABLES | – | – | – | 53,468 | – | 53,468 | *38,169* | 53,468 |
| DERIVATIVE INSTRUMENTS | 4,132 | – | – | | 11,007 | 15,139 | – | 15,139 |
| TRADE PAYABLES | – | – | – | 658,856 | – | 658,856 | – | 658,856 |
| OTHER PAYABLES | – | – | – | 127,687 | – | 127,687 | *11,977* | 127,687 |
| **TOTAL LIABILITIES** | **4,132** | **–** | **–** | **2,663,363** | **11,007** | **2,678,502** | ***865,042*** | **2,675,225** |

*(1) FVTPL: FAIR VALUE THROUGH PROFIT OR LOSS*
*(2) L&R: LOANS AND RECEIVABLES*
*(3) AFS: AVAILABLE-FOR-SALE FINANCIAL INVESTMENTS*

| 31/12/2007 | FVTPL (1) | L&R (2) | AFS (3) | OTHER LIABILITIES | HEDGING DERIVATIVES | TOTAL | *OF WHICH NON-CURRENT* | FAIR VALUE |
|---|---|---|---|---|---|---|---|---|
| INVESTMENTS IN OTHER COMPANIES | – | – | 5,520 | – | – | 5,520 | *5,520* | 5,520 |
| FINANCIAL RECEIVABLES | – | 92,240 | 13,361 | – | – | 105,601 | *12,996* | 105,601 |
| DERIVATIVE INSTRUMENTS | 1,788 | – | – | – | 4,883 | 6,671 | – | 6,671 |
| TRADE RECEIVABLES | – | 722,889 | – | – | – | 722,889 | – | 722,889 |
| OTHER RECEIVABLES | – | 60,280 | – | – | – | 60,280 | *20,003* | 60,280 |
| CASH AND CASH EQUIVALENTS | – | 180,996 | – | – | – | 180,996 | – | 180,996 |
| **TOTAL ASSETS** | **1,788** | **1,049,045** | **18,612** | **–** | **4,883** | **1,081,957** | ***38,519*** | **1,081,957** |
| MORTGAGES AND LOANS | – | – | – | 951,688 | – | 951,688 | *798,717* | 875,574 |
| NON-RECOURSE PROJECT FINANCING | – | – | – | 367,831 | – | 367,831 | *263,480* | 379,793 |
| SHORT-TERM BANK BORROWING | – | – | – | 284,183 | – | 284,183 | – | 284,183 |
| FINANCIAL PAYABLES | – | – | – | 42,630 | – | 42,630 | *22,609* | 46,211 |
| DERIVATIVE INSTRUMENTS | 14,195 | – | – | – | – | 14,195 | – | 14,195 |
| TRADE PAYABLES | – | – | – | 1,170,649 | – | 1,170,649 | – | 1,170,649 |
| OTHER PAYABLES | – | – | – | 73,231 | – | 73,231 | *12,090* | 73,231 |
| **TOTAL LIABILITIES** | **14,195** | **–** | **–** | **2,890,212** | **–** | **2,904,407** | ***1,096,896*** | **2,843,836** |

*(1) FVTPL: FAIR VALUE THROUGH PROFIT OR LOSS*
*(2) L&R: LOANS AND RECEIVABLES*
*(3) AFS: AVAILABLE-FOR-SALE FINANCIAL INVESTMENTS*

## NOTE 45 - DISCLOSURE OF 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 potential deterioration of the creditworthiness assigned;
- market risk: deriving from exposure to fluctuations in exchange rates, mainly between the Euro and US dollar, interest rates, and ERG Renew share prices, as well as changes in the prices of products sold and raw material purchases (commodity price volatility risk);
- liquidity risk: the risk of available financial resources being insufficient to fulfil payment commitments.

The ERG Group attributes great importance to management of risks and to control systems, as a prerequisite for efficient management of risks undertaken. Consistently with this objective, we have adopted an advanced risk management system that assures, in compliance with relevant current policies, the identification, measurement and control at centralised level for the entire Group of the degree of exposure to individual risks.

The Risk Management function assures consistency with limits assigned and, with its analyses, provides appropriate support to individual subsidiaries, to the Risk Committee, and to the parent company's top management for strategic decisions.

As regards exposure to the risk relating to offences pursuant to Legislative Decree 231/01, the Group's companies have adopted Organisation, Management and Control Models. These identify analytically the corporate activities in connection with which crimes under the aforesaid legislation could be committed. Specific operational protocols have been prepared to schedule development and implementation of the entity's decisions concerning the offences to be prevented.

The Group's companies have also appointed Supervisory Bodies, whose task is to periodically monitor mapping of the areas at risk of offences and carry out systematic checks to ascertain proper compliance with the operational protocols envisaged in the Models.

**Credit risk**

Exposure to credit risk, inherent in the possibility of default by a counterparty or deterioration of the creditworthiness assigned to a counterparty is managed by means of appropriate analysis and evaluation of each individual counterparty, assigning to each of them an internal credit rating (Internal Rating Based). Assignment of the rating class provides an estimate of the probability of default by the counterparty and the degree of trustworthiness is indicated for every level, which is carefully monitored and must never be exceeded.

Credit risk also includes the risk of concentration of activities in individual clients and divisions. This risk is also continuously monitored but has never triggered any alerts.

The choice of counterparties for both the industrial business and financial negotiations underlies the Group's high creditworthiness ratings.

The following table provides information on the ERG Group's exposure to credit risk as at 31 December 2008, via classification of assets according to creditworthiness reflecting the internal ratings assigned.

| (THOUSAND EURO) | 31/12/2008 | 31/12/2007 |
|---|---|---|
| AAA RATING | 3,865 | 59,075 |
| AA+ / AA- RATING | 3,335 | 79,237 |
| A+ / A- RATING | 158,738 | 167,068 |
| BBB+ / BBB- RATING | 46,415 | 76,552 |
| BB+ / BB- RATING | 1,168 | 4,629 |
| B + / B - RATING | 23,451 | 21,493 |
| | | |
| RECEIVABLES DUE FROM GROUP COMPANIES | 102,984 | 84,583 |
| NOT RATED | 143,947 | 158,090 |
| **TOTAL** | **483,904** | **650,727** |

**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 for its financial requirements with the generation of cash flows and availability of credit lines provided by various counterparties.

The following table summarises the maturity profile of the Group's financial liabilities as at 31 December 2008, based on contractual payments not discounted to present value.

| 31/12/2008 (MILLION EURO) | PAYABLES BY MATURITY ON DEMAND | LESS THAN 3 MONTHS | 3-12 MONTHS | 1-5 YEARS | MORE THAN 5 YEARS |
|---|---|---|---|---|---|
| MORTGAGES AND LOANS | – | 3,514 | 442,932 | 530,647 | 52,316 |
| NON-RECOURSE PROJECT FINANCING | – | 1,620 | 61,178 | 226,354 | 93,474 |
| SHORT-TERM BANK BORROWING | 498,899 | – | – | – | – |
| DERIVATIVE INSTRUMENTS | – | – | – | 8,524 | – |
| FINANCIAL PAYABLES | – | – | 2,458 | 8,852 | 15,529 |
| TRADE PAYABLES | – | 646 | 7 | 4 | 1 |
| **TOTAL LIABILITIES** | **498,899** | **5,780** | **506,575** | **774,381** | **161,320** |

| 31/12/2007 (MILLION EURO) | PAYABLES BY MATURITY ON DEMAND | LESS THAN 3 MONTHS | 3-12 MONTHS | 1-5 YEARS | MORE THAN 5 YEARS |
|---|---|---|---|---|---|
| MORTGAGES AND LOANS | – | 4,827 | 195,181 | 772,947 | 120,575 |
| NON-RECOURSE PROJECT FINANCING | – | 3,978 | 107,275 | 227,292 | 116,838 |
| SHORT-TERM BANK BORROWING | 284,183 | – | – | – | – |
| DERIVATIVE INSTRUMENTS | – | – | – | 16,695 | – |
| FINANCIAL PAYABLES | – | 19,088 | 1,532 | 11,054 | 22,862 |
| TRADE PAYABLES | – | 1,155 | 14 | 2 | 1 |
| **TOTAL LIABILITIES** | **284,183** | **29,048** | **304,002** | **1,027,989** | **260,276** |

**Market risk**

Market risk includes exchange rate risk, interest rate risk and commodities price risk. Management of these risks is regulated by the guidelines indicated in the Group Risk Management Policy and internal procedures for the operational finance function.

**Exchange rate risk**

The exchange rate risk arises from variations in the exchange rates of the various foreign currencies with respect to the Euro that impact the economic results of the business.

The net flows generated by the business in currencies other than Euro (reference currency) constitute an exposure to exchange rate risk. In order to reduce the volatility of these exposures, positions are hedged on both the spot and forward markets.

The following table illustrates the impact on pre-tax profit, while holding all other variables constant, stemming from the different fair value of financial assets and liabilities resulting from a change of +/- 10% in the dollar exchange rate.

| (MILLION EURO) | 2008 | 2007 |
|---|---|---|
| SHOCK-UP (VARIATION IN EURO/USD EXCH. RATE = **+10%**) | (3.7) | 4.9 |
| SHOCK-DOWN (VARIATION IN EURO/USD EXCH. RATE = **-10%**) | 4.6 | (5.9) |

**Interest rate risk**

Interest rate risk means an unexpected change in the future interest rate trend that could determine higher costs for the business. Interest rate risk is hedged by using derivative contracts, such as interest rate swap and interest rate options (plain vanilla).

The following table illustrates the impact on pre-tax profit (due to variations in the fair value of financial assets and liabilities), and on Group net equity (due to variations in the fair value of the derivative instruments in cash flow hedges) of a +/- 1% change in interest rate, while holding all other variables constant.

***Impact on Income Statement***

| (MILLION EURO) | 2008 | 2007 |
|---|---|---|
| SHOCK-UP (INTEREST RATE VARIATION = +1%) | (6.5) | (2.7) |
| SHOCK-DOWN (INTEREST RATE VARIATION = -1%) | 6.6 | 5.2 |

***Impact on shareholders' equity***

| (MILLION EURO) | 2008 | 2007 |
|---|---|---|
| SHOCK-UP (INTEREST RATE VARIATION = +1%) | 3.3 | 5.5 |
| SHOCK-DOWN (INTEREST RATE VARIATION = -1%) | (3.7) | (6.1) |

**Commodity risk**

Commodity price risk consists in unexpected changes in the prices of raw materials, the provision of services, finished products and services provided for sale on the market.
The current policy of oil commodities price risk envisages the use of instruments and methods that can achieve the annual average annual 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 realise the annual average refining margin, the Group uses derivative instruments such as commodities swaps and commodities 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 case of reasonable changes in prices – while holding all other variables constant – the impact on variations in pre-tax profit (due to variations in the fair value of financial assets and liabilities) and Group shareholders' equity (due to variations in the fair value of derivative instruments in cash flow hedges) of a +/- 15% change in the price of commodities.

***Impact on Income Statement***

| (MILLION EURO) | 2008 | 2007 |
|---|---|---|
| SHOCK-UP (COMMODITY PRICE VARIATION = **+15%**) | (8.6) | (13.0) |
| SHOCK-DOWN (COMMODITY PRICE VARIATION = **-15%**) | 8.6 | 13.0 |

***Impact on shareholders' equity***

| (MILLION EURO) | 2008 | 2007 |
|---|---|---|
| SHOCK-UP (COMMODITY PRICE VARIATION = **+15%**) | (2.6) | (0.8) |
| SHOCK-DOWN (COMMODITY PRICE VARIATION = **-15%**) | 2.6 | 0.8 |

**Equity price risk**

In 2008, equity price risk is represented by the embedded derivatives connected with one of the loans taken out by ERG S.p.A. (see Note 18). The premium to be paid for this depends not only on the fixed rate applied to the debt but also on the performance of ERG Renew shares. At 31 December 2008 the existing risk and associated shocks were not significant.

## 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 at an established price (exercise or strike price).

***Forward or arbitrage contracts***: these provide for the exchange between two parties of a specific asset at a future date and at a price pre-fixed when the contract is signed.

***Swap***: a contract that represents an exchange between two parties of a payments flow (also called cash flows) at 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 asset. The underlying asset 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 address exposure to financial risks existing at 31 December 2008 were as follows:

- Interest Rate Options used to fix cap and floor limits on the fluctuations of the variable interest rate on loans. These instruments fix upper and lower limits on the variable interest rate on loans;
- Interest Rate Swaps used to bring about the risk profile considered as most expedient for bank borrowing and bonds at fixed and variable rates. Interest Rate Swaps provide, or can lead to, determined maturities and the exchange with counterparties of interest flows, calculated on a reference notional value, at the fixed or variable rates agreed;
- Forward instruments used to manage exchange rate risks on purchases and sales expected in the reference periods. They are agreements to buy or sell an underlying asset (currency) at a certain future date, for a certain price. In Forward contracts one of the parties assumes a long position and undertakes to buy the underlying asset at a certain pre-fixed price. Conversely, the other party assumes a short position, undertaking to sell the same asset at the same date for the same price;
- Swap instruments used to manage commodity volatility risks on 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. The Swaps are private agreements between two companies for the exchange, at defined dates, of future payment flows;
- CfDs (Contracts for Differences) used to hedge the risk of electricity volatility; 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 on the reference market, multiplied by the traded units.

## MARKET VALUE OF DERIVATIVE INSTRUMENTS

ERG uses various measurement and valuation models to determine the market value of derivative instruments. In particular ERG receives the mark to market values, as valued by the reference market, and, via valuation instruments and models, verifies their fairness and consistency where possible. The instruments regularly valued are the following:

- ***Options***: measurement of the instrument's intrinsic value and time value;
- ***Forward***: market value at the time of recognition;
- ***Swap***: market value at the time of recognition;
- ***CfD***: market value at the time of recognition.

## SUMMARY OF DERIVATIVE INSTRUMENTS USED

The derivative instruments acquired by ERG are designed to hedge its exposure to commodities price, exchange rate, and interest rate risks. At 31 December 2008, they consisted of the following:

| | TYPE | RISK COVERED | REFERENCE NOTIONAL VALUE | | FAIR VALUE 31/12/2008 |
|---|---|---|---|---|---|
| | | | | | THOUSAND EURO |
| | **CASH FLOW HEDGE INSTRUMENTS** | | | | |
| *A* | INTEREST RATE SWAP AND INTEREST RATE CAPS | INTEREST RATE ECONOMIC RISK | THOUSAND EURO | 274,010 | (4,170) |
| *B* | CRUDE OIL PRICE RISK SWAPS | COMMODITY TRANSACTION RISK | BARRELS | 169,500 | 253 |
| *C* | PRODUCT PRICE RISK SWAPS | COMMODITY TRANSACTION RISK | TONNES | 54,000 | 1,519 |
| *D* | GAS PRICE RISK SWAPS | COMMODITY TRANSACTION RISK | THOUSAND SM³ | 92,904 | (5,978) |
| | **TOTAL CASH FLOW HEDGE INSTRUMENTS** | | | | **(8,376)** |
| | **FAIR VALUE HEDGE INSTRUMENTS** | | | | |
| *E* | CRUDE OIL PRICE RISK SWAPS | COMMODITY TRANSACTION RISK | BARRELS | 1,880,500 | (6,868) |
| | **TOTAL FAIR VALUE HEDGE INSTRUMENTS** | | | | **(6,868)** |
| | **NON-HEDGE ACCOUNTING INSTRUMENTS** | | | | |
| *F* | CONTRACTS FOR DIFFERENCES (CFD) FOR ELECTRICITY | COMMODITY TRANSACTION RISK | TWH | 0.22 | 8,304 |
| *G* | PRODUCT PRICE RISK SWAPS | COMMODITY TRANSACTION RISK | TONNES | 20,040 | 1,694 |
| *H* | FORWARDS ON SHORT-TERM EXCHANGE RATES | FOREIGN EXCHANGE TRANSACTION RISK | THOUDAND DOLLARS | 264,800 | 3,367 |
| *I* | INTEREST RATE COLLARS | INTEREST RATE ECONOMIC RISK | THOUSAND EURO | 68,571 | (1,259) |
| | **TOTAL NON-HEDGE ACCOUNTING INSTRUMENTS** | | | | **12,106** |
| | **TOTAL ERG GROUP DERIVATIVE INSTRUMENTS** | | | | **(3,138)** |

## CASH FLOW HEDGE INSTRUMENTS

**A. Interest Rate Swaps and Interest Rate Caps**

Transactions hedging the interest rate economic risk arising from the risk of variations in interest rates paid on loans.

The loans in question concern:

- ERG S.p.A. for an amount of Euro 79 million maturing in 2011 and of Euro 89 million maturing in 2012;
- ERG Renew S.p.A. for a credit line of Euro 16 million with the last due date falling in 2012;
- EOS 3 - Troia S.r.l. (Project Financing) for an amount of Euro 26 million as at 31 December 2008 maturing in 2014;
- ESO 4 - Faeto S.r.l. (Project Financing) for an amount of Euro 15 million as at 31 December 2008 with the last due date falling on 30 June 2020;
- Green Vicari S.r.l. (Project Financing) for an amount of Euro 21 million as at 31 December 2008 with the last due date falling on 31 December 2014;
- the subsidiaries of ERG Eolienne France S.A. for a total of Euro 49 million, with the last due date falling on 30 December 2019.

As at 31 December 2008, there was a total negative fair value of Euro 4.2 million (Euro 1.7 million as at 31 December 2007) recognised in the cash flow hedge reserve.

**B. Crude oil price risk swaps**

These swaps are used to hedge the risk of future price changes in raw materials. They are contracts whereby the parties undertake to pay or receive, at an agreed maturity, the difference between the spot price and forward price for the quantity of crude oil in question (notional principal). Settlement between the parties only concerns the price differentials and does not entail any exchange of goods, whilst the existence of the underlying asset is guaranteed. At 31 December 2008 there was a total positive fair value of Euro 0.3 million recognised in the cash flow hedge reserve.

**C. Product price risk swaps**

These swaps hedge the risk of price changes on future product sales. They are contracts whereby the parties undertake to pay or receive, at an agreed maturity, the difference between the spot price and forward price for the quantity of products in question (notional principal). Settlement between the parties only concerns the price differentials and does not entail any exchange of goods, whilst the existence of the underlying asset is guaranteed. At 31 December 2008 there was a total positive fair value of Euro 1.5 million recognised in the cash flow hedge reserve.

**D. Gas price risk swaps**

Swaps are used to hedge the risk of price fluctuations in gas formulas for provision and supply agreements. In these contracts, the parties undertake to pay or collect at an agreed future date the difference between the established price and the price observed during the period multiplied by the quantities indicated in the contract. At 31 December 2008 there was a negative fair value of about Euro 6.0 million, of which Euro 2.8 million recognised in the cash flow hedge reserve and Euro 3.2 million charged to the Income Statement for the ineffective portion.

The change in the cash flow hedge reserve is illustrated as follows:

| | 31/12/2008 | 31/12/2007 |
|---|---|---|
| **BALANCE AT BEGINNING OF PERIOD** | **2,710** | **1,535** |
| CHANGE IN SCOPE OF CONSOLIDATION | – | 660 |
| CHANGE IN FAIR VALUE | (3,348) | 646 |
| USE IN INCOME STATEMENT | (3,129) | (131) |
| **BALANCE AT END OF PERIOD** | **(3,767)** | **2,710** |

## FAIR VALUE HEDGE INSTRUMENTS

**E. Crude oil price risk swaps**

These swaps are used to hedge the risk of price changes in raw materials that had already been purchased at 31 December 2008. They are contracts whereby the parties undertake to pay or receive, at an agreed maturity, the difference between the spot price and forward price for the quantity of crude oil in question (notional principal). Settlement between the parties only concerns the price differentials and does not entail any exchange of goods, whilst the existence of the underlying asset is guaranteed.

At 31 December 2008 there was a total negative fair value of about Euro 6.9 million recognised in the Income Statement. The raw materials covered by this hedge were adjusted to reflect in the Income Statement the changes in fair value associated with the hedged risk.

## NON-HEDGE ACCOUNTING INSTRUMENTS

**F. Contracts for differences (CfD) for electricity**

CfDs hedge the risk of changes in the price of electricity relating to purchase and sale agreements. In these contracts, the parties promise to pay on maturity the difference between the price agreed to in the contract and the market price observed during the reference period, multiplied by the traded units.

At 31 December 2008 there was a total positive fair value of Euro 8.3 million.

**G. Product price risk swaps**

These swaps hedge the risk of price changes on product sales for which it was not possible to determine all the formal requirements for hedge relationship purposes. They are contracts whereby the parties undertake to pay or receive, at an agreed maturity, the difference between the spot price and forward price for the quantity of products in question (notional principal). Settlement between the parties only concerns the price differentials and does not entail any exchange of goods.

At 31 December 2008 there was a total negative fair value of about Euro 1.7 million recognised in the Income Statement.

**H. Forwards on short-term exchange rates**

These are transactions to hedge the exchange rate risk of cash flows generated by expected purchases of raw materials and sales of finished products for the month of January 2009. At 31 December 2008 there was a total negative fair value of about Euro 3.4 million recognised in the Income Statement.

**I. Interest Rate Collars**

Interest rate collars were effected on loans outstanding at 31 December 2008, where the instrument imposes limits that are lower and higher than the interest rate of the variable rate loan. These collars, which expire on 15 December 2010, establish different interest rate ranges for periods of time specified in the contract.

At 30 June 2008 there was a total positive fair value of about Euro 1.3 million recognised in the Income Statement.

## NOTE 46 - INFORMATION BY BUSINESS DIVISION

The information by business division is presented in accordance with IFRS 8 – Operating Segments, which has been applied in advance of the mandatory effective date.
The information is broken down by business division.
This allocation is based on the nature of the risks and benefits inherent in the business of ERG and reflects its internal organisation structure and the company's reporting system.

**Information by business division**

| | COASTAL REFINING | INTEGRATED DOWNSTREAM | THERMOELECTRIC POWER GENERATION | RENEWABLE ENERGY SOURCES | CORPORATE | TOTAL |
|---|---|---|---|---|---|---|
| **FY 2008** | | | | | | |
| NET REVENUES FROM ORDINARY OPERATIONS | 7,586,510 | 4,625,139 | 1,191,136 | 45,180 | 26,069 | |
| LESS: INTERDIVISIONAL REVENUES | (1,397,225) | (128,413) | (423,055) | (1,546) | (25,483) | |
| **REVENUES FROM THIRD PARTIES** | **6,189,285** | **4,496,726** | **768,081** | **43,634** | **586** | **11,498,312** |
| **EBITDA** | **(16,303)** | **7,290** | **165,078** | **8,192** | **(46,764)** | **117,493** |
| AMORTISATION, DEPRECIATION AND WRITE-DOWNS | (66,610) | (55,913) | (113,741) | (123,333) | (2,640) | (362,237) |
| **EBIT** | **(82,913)** | **(48,623)** | **51,337** | **(115,141)** | **(49,404)** | **(244,744)** |
| **INVESTMENTS IN FIXED ASSETS (1)** | **66,567** | **86,458** | **140,813** | **52,150** | **4,560** | **350,548** |

*(1) THESE CONCERN INTANGIBLE FIXED ASSETS, GOODWILL, AND PROPERTY, PLANT AND MACHINERY*

| | COASTAL REFINING | INTEGRATED DOWNSTREAM | THERMOELECTRIC POWER GENERATION | RENEWABLE ENERGY SOURCES | CORPORATE | TOTAL |
|---|---|---|---|---|---|---|
| **FY 2007** | | | | | | |
| NET REVENUES FROM ORDINARY OPERATIONS | 7,143,024 | 3,707,590 | 861,136 | 37,023 | 22,862 | |
| LESS: INTERDIVISIONAL REVENUES | (1,199,751) | (77,883) | (305,572) | – | (22,694) | |
| **REVENUES FROM THIRD PARTIES** | **5,943,273** | **3,629,707** | **555,564** | **37,023** | **168** | **10,165,735** |
| **EBITDA** | **287,187** | **137,932** | **148,201** | **19,296** | **(41,043)** | **551,573** |
| AMORTISATION, DEPRECIATION AND WRITE-DOWNS | (61,737) | (47,749) | (59,812) | (13,079) | (2,994) | (185,371) |
| **EBIT** | **225,450** | **90,183** | **88,389** | **6,217** | **(44,037)** | **366,202** |
| **INVESTMENTS IN FIXED ASSETS (1)** | **117,700** | **76,829** | **148,801** | **33,157** | **3,538** | **380,025** |

*(1) THESE CONCERN INTANGIBLE FIXED ASSETS, GOODWILL, AND PROPERTY, PLANT AND MACHINERY*

| | COASTAL REFINING | INTEGRATED DOWNSTREAM | THERMOELECTRIC POWER GENERATION | RENEWABLE ENERGY SOURCES | CORPORATE | ELIMINATIONS/ ADJUSTMENTS | TOTAL |
|---|---|---|---|---|---|---|---|
| **FY 2008** | | | | | | | |
| FIXED ASSETS (1) | 9,000 | 437,784 | 886,239 | 434,056 | 13,598 | | 1,780,677 |
| OTHER SEGMENT ASSETS | 893,204 | 576,295 | 473,293 | 63,185 | 565,667 | (706,214) | 1,865,430 |
| GROUP ASSETS NOT ALLOCATED (2) | – | – | – | – | – | – | 1,899,349 |
| **TOTAL ASSETS** | **902,204** | **1,014,079** | **1,359,532** | **497,241** | **579,265** | **(706,214)** | **5,545,456** |
| SEGMENT LIABILITIES | 320,531 | 423,526 | 753,841 | 33,092 | 49,038 | (250,173) | 1,329,855 |
| GROUP LIABILITIES NOT ALLOCATED (3) | – | – | – | – | – | – | 2,191,275 |
| **TOTAL LIABILITIES** | **320,531** | **423,526** | **753,841** | **33,092** | **49,038** | **(250,173)** | **3,521,130** |

*(1) COMPRISING INTANGIBLE ASSETS, GOODWILL, PROPERTY, PLANT AND MACHINERY, AND ASSETS HELD FOR SALE*
*(2) RELATING TO DEFERRED TAX ASSETS, RECEIVABLES DUE FROM STATE TREASURY AND CASH AND CASH EQUIVALENTS*
*(3) RELATING TO TAX LIABILITIES AND FINANCIAL PAYABLES*

| | COASTAL REFINING | INTEGRATED DOWNSTREAM | THERMOELECTRIC POWER GENERATION | RENEWABLE ENERGY SOURCES | CORPORATE | ELIMINATIONS/ ADJUSTMENTS | TOTAL |
|---|---|---|---|---|---|---|---|
| **FY 2007** | | | | | | | |
| FIXED ASSETS (1) | 810,555 | 415,217 | 955,417 | 413,983 | 12,056 | | 2,607,228 |
| OTHER SEGMENT ASSETS | 1,048,828 | 998,992 | 314,952 | 52,134 | 517,925 | (751,937) | 2,180,894 |
| GROUP ASSETS NOT ALLOCATED (2) | – | – | – | – | – | – | 599,946 |
| **TOTAL ASSETS** | **1,859,383** | **1,414,209** | **1,270,369** | **466,117** | **529,981** | **(751,937)** | **5,388,068** |
| SEGMENT LIABILITIES | 876,864 | 404,031 | 671,685 | 22,427 | 62,109 | (266,246) | 1,770,870 |
| GROUP LIABILITIES NOT ALLOCATED (3) | – | – | – | – | – | – | 2,158,142 |
| **TOTAL LIABILITIES** | **876,864** | **404,031** | **671,685** | **22,427** | **62,109** | **(266,246)** | **3,929,012** |

*(1) COMPRISING INTANGIBLE ASSETS, GOODWILL, PROPERTY, PLANT AND MACHINERY, AND ASSETS HELD FOR SALE*
*(2) RELATING TO DEFERRED TAX ASSETS, RECEIVABLES DUE FROM STATE TREASURY AND CASH AND CASH EQUIVALENTS*
*(3) RELATING TO TAX LIABILITIES AND FINANCIAL PAYABLES*

For a detailed analysis of the performance of individual business divisions reference is made to the "Management Report".

## NOTE 47 - FEES PAID TO DIRECTORS, STATUTORY AUDITORS AND STRATEGICALLY ACCOUNTABLE MANAGERS

The amounts of fees paid to the Parent Company's Directors, Statutory Auditors and strategically accountable Managers for their performance of such functions also at other companies included in consolidation were as follows:

| | 2008 |
|---|---|
| DIRECTORS | 10,220 |
| STATUTORY AUDITORS | 273 |
| STRATEGICALLY ACCOUNTABLE MANAGERS | 2,479 |
| **TOTAL** | **12,972** |

## NOTE 48 - INDEPENDENT AUDITING FEES

In accordance with Article 149-duodecies of the Issuers' Regulations, we set out below the costs for 2008 relating to services rendered by the auditing firm Reconta Ernst & Young S.p.A., the ERG Group's main external auditor, and by the companies belonging to its network.

| | 2008 |
|---|---|
| AUDITING SERVICES | 1,057 |
| SERVICES OTHER THAN AUDITING | 1,078 |
| **TOTAL** | **2,135** |

## NOTE 49 - EXCHANGE RATES

The exchange rates at 31 December 2008 used for the translation of financial statements expressed in foreign currencies are shown below:

| | 2008 |
|---|---|
| EURO/SWISS FRANC | 1.49 |

## NOTE 50 - OTHER INFORMATION

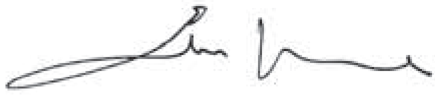
Information on significant events occurring after the end of the period is provided in the specific sections of the "Management Report".

## NOTE 51 - PUBLICATION DATE OF FINANCIAL STATEMENTS

On 10 March 2009 ERG S.p.A.'s Board of Directors authorised the publication of the financial statements, reserving the right to make additions and formal changes by the date of filing pursuant to Art. 2429 of the Italian Civil Code.

Genoa, 10 March 2009

On behalf of the Board of Directors
The Chairman
Edoardo Garrone



# CERTIFICATION OF THE CONSOLIDATED FINANCIAL STATEMENTS PURSUANT TO ARTICLE 81-TER OF CONSOB REGULATION 11971 OF 14 MAY 1999, AS AMENDED

**1.** The undersigned Alessandro Garrone, Chief Executive Officer of ERG S.p.A., and Luca Bettonte, Manager Responsible for preparing the company financial reports of ERG S.p.A., also taking account of the provisions set forth by Article 154-bis, subsections 3 and 4, of Legislative Decree 58 of 24 February 1998, certify:

- the adequacy in relation to the characteristics of the business;
- the effective application of administrative and accounting procedures for preparation of the Consolidated Financial Statements during the 2008 financial period.

**2.** Evaluation of the adequacy of the administrative and accounting procedures used to prepare the Consolidated Financial Statements at 31 December 2008 is based on a process established by ERG S.p.A. in accordance with the Internal Control – Integrated Framework model issued by the Committee of Sponsoring Organisations of the Treadway Commission, which represents a benchmark framework generally accepted at international level.

**3.** It is furthermore certified 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) 1606/2002 of the European Parliament and of the Council, dated 19 July 2002;
b) correspond to the results shown in the accounting records;
c) are able to provide a true and fair view of the financial position and economic results of the issuer and the group of companies included in consolidation;

**3.2** the Management Report contains a reliable analysis of the operating performance and results, as well as the situation of the issuer and the group of companies included in consolidation, together with a description of the principal risks and uncertainties to which they are exposed.

Genoa, 10 March 2009

The Chief Executive Officer

The Manager Responsible
for preparing the company's
financial reports

# REPORT OF THE BOARD OF STATUTORY AUDITORS ON THE CONSOLIDATED FINANCIAL STATEMENTS

Dear Shareholders,

The 2008 Consolidated Financial Statements of ERG S.p.A., duly transmitted to us together with the Management Report within the terms required by law, were drawn up in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and approved by the European Commission.
In accordance with Legislative Decree 58 of 24 February 1998 (Consolidated Law on Finance) and Article 41, point 3, of Legislative Decree 127 of 9 April 1991, the task of ascertaining that the consolidated financial statements comply with legal provisions and correspond to the accounting records and consolidation entries is assigned to the auditing firm. Our supervisory activity has been carried out in observance of the principles of conduct for Statutory Auditors set by the Consigli Nazionali dei Dottori Commercialisti e dei Ragionieri (Italian National Councils of Professional and Certified Public Accountants) and particularly concerned:

- verifying the existence and adequacy within the scope of the ERG S.p.A. organisational structure of a function responsible for relations with subsidiary and associate companies;
- reviewing the composition of the Group and the shareholding quotas, for the purpose of assessing the scope of consolidation;
- obtaining information on the business carried on by the subsidiaries and the most significant transactions from an economic, financial and equity-related perspective within the ambit of Group relationships by way of the information received from the ERG S.p.A. Directors, the auditing firm and the Statutory Auditors of the subsidiaries;
- verifying the adequacy of the instructions imparted by the Company to the subsidiaries, both as regards the information flows required for the preparation of the Financial Statements, and pursuant to Article 114, paragraph 2 of Legislative Decree 58/98.

As a result of our supervisory activity with regard to the consolidated financial statements we certify that:

- the consolidation area has been determined and the principles used to consolidate the investee companies chosen in compliance with the provisions set forth by IFRS;
- the provisions of law concerning the formation and layout of the financial statements and Management Report have been observed;
- we have supervised the adequacy of the instructions imparted by the competent function of ERG S.p.A. in order to obtain the data flows required for consolidation purposes, reviewing the information supplied by the subsidiaries, subjected to legal control on the part of their respective Boards of Statutory Auditors;
- the financial statements correspond to the facts and information that have come to the knowledge of the Board of Statutory Auditors during the exercise of its supervisory duties and its powers of audit and inspection;
- the Chief Executive Officer and the Manager responsible for preparing the company's financial reports have issued the certification required pursuant to Article 81-ter of CONSOB regulation 11971/1999, as subsequently amended and supplemented, and Article 154-bis, paragraphs 3 and 4, of the Consolidated Law on Finance (Legislative Decree 58/1998);
- the Group Management Report is consistent with the data and entries shown in the consolidated financial statements and provides full information on the Group's economic-financial performance.

Lastly, the report issued by the auditing firm Reconta Ernst & Young S.p.A. on 20 March 2009 does not contain any observations or requests for information.

Genoa, 2 April 2009

The Board of Statutory Auditors
Mario Pacciani (Chairman)
Fabrizio Cavalli (Standing Auditor)
Paolo Fasce (Standing Auditor)

# AUDITORS' REPORT

ERNST & YOUNG

**Reconta Ernst & Young S.p.A.**
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**Independent auditors' report**
**pursuant to Article 156 of Legislative Decree No. 58 of February 24, 1998**
**(Translation from the original Italian text)**

To the Shareholders of ERG S.p.A.

1. We have audited the consolidated financial statements comprising the consolidated balance sheet, the consolidated statement of operations, changes in shareholder's equity and cash flows and the related explanatory notes of ERG S.p.A. and subsidiaries (the "ERG Group"), as of and for the year ended December 31, 2008. The preparation of these financial statements in compliance with International Financial Reporting Standards as adopted by the European Union and with art. 9 of Italian Legislative Decree n° 38/2005 is the responsibility of the ERG S.p.A.'s management. Our responsibility is to express an opinion on these financial statements based on our audit.

2. Our audit was made in accordance with auditing standards and procedures recommended by CONSOB (the Italian Stock Exchange Regulatory Agency). In accordance with such standards and procedures, we planned and performed our audit to obtain the information necessary to determine whether the [consolidated] financial statements are materially misstated and if such financial statements, taken as a whole, may be relied upon. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, as well as assessing the appropriateness and correct application of the accounting principles and the reasonableness of the estimates made by management. We believe that our audit provides a reasonable basis for our opinion.

   For the opinion on the consolidated financial statements of the prior year, which are presented for comparative purposes, reference should be made to our report dated March 26, 2008.

3. In our opinion, the consolidated financial statements of ERG S.p.A. at December 31, 2008 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and with art. 9 of Italian Legislative Decree n° 38/2005; accordingly, they present clearly and give a true and fair view of the financial position, the results of operations, the changes in shareholders' equity and the cash flows of ERG S.p.A. for the year then ended.

4. The management of ERG S.p.A. is responsible for the preparation of the Report on Operations in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency of the Report on Operations with the financial statements as required by art. 156, paragraph 4-bis, letter d) of the Legislative Decree 58/98. For this purpose, we have performed the procedures required under Auditing Standard n. 001 issued by the Italian Accounting Profession (CNDCEC) and recommended by CONSOB. In our opinion the Report on Operations is consistent with the consolidated financial statements of ERG S.p.A. as of December 31, 2008.

Milan, March 20, 2009

Reconta Ernst & Young S.p.A.
Signed by: Alberto Romeo, partner

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

# ANNUAL ACCOUNTS

# BALANCE SHEET

| (EURO) | NOTE | | 31/12/2008 | | 31/12/2007 |
|---|---|---|---|---|---|
| INTANGIBLE FIXED ASSETS | 1 | | 5,283,617 | | 4,195,642 |
| GOODWILL | | | – | | – |
| PROPERTY, PLANT AND MACHINERY | 2 | | 8,315,027 | | 7,860,701 |
| EQUITY INVESTMENTS | 3 | | 490,890,161 | | 489,621,637 |
| OTHER FINANCIAL ASSETS | 4 | | 663,163 | | 164,331,688 |
| *OF WHICH WITH RELATED PARTIES* | 30 | *–* | | *163,571,000* | |
| DEFERRED TAX ASSETS | 5 | | 1,593,927 | | 530,815 |
| OTHER NON-CURRENT ASSETS | 6 | | 153,869 | | 79,718 |
| **NON-CURRENT ASSETS** | | | **506,899,764** | | **666,620,201** |
| INVENTORY | | | – | | – |
| TRADE RECEIVABLES | 7 | | 2,189,317 | | 2,836,280 |
| *OF WHICH WITH RELATED PARTIES* | 30 | *2,183,895* | | *2,686,768* | |
| OTHER CURRENT RECEIVABLES AND ASSETS | 8 | | 77,855,829 | | 67,731,735 |
| *OF WHICH WITH RELATED PARTIES* | 30 | *69,902,746* | | *19,137,963* | |
| CURRENT FINANCIAL ASSETS | 9 | | 438,323,310 | | 291,946,438 |
| *OF WHICH WITH RELATED PARTIES* | 30 | *437,878,575* | | *289,842,484* | |
| CASH AND CASH EQUIVALENTS | 10 | | 219,462,949 | | 1,100,480 |
| **CURRENT ASSETS** | | | **737,831,405** | | **363,614,933** |
| **ASSETS HELD FOR SALE** | | | **–** | | **–** |
| **TOTAL ASSETS** | | | **1,244,731,169** | | **1,030,235,134** |
| **SHAREHOLDERS' EQUITY** | 11 | | **302,476,218** | | **109,714,066** |
| STAFF LEAVING INDEMNITIES | 12 | | 2,367,919 | | 3,247,135 |
| DEFERRED TAX LIABILITIES | 13 | | 860,156 | | 1,483,271 |
| PROVISIONS FOR NON-CURRENT LIABILITIES AND CHARGES | | | – | | – |
| NON-CURRENT FINANCIAL LIABILITIES | 14 | | 502,170,417 | | 587,221,473 |
| OTHER NON-CURRENT LIABILITIES | | | – | | – |
| **NON-CURRENT LIABILITIES** | | | **505,398,492** | | **591,951,880** |
| PROVISIONS FOR CURRENT LIABILITIES AND CHARGES | 15 | | 275,306 | | 237,983 |
| TRADE PAYABLES | 16 | | 12,651,267 | | 9,687,889 |
| *OF WHICH WITH RELATED PARTIES* | 30 | *269,959* | | *1,302,141* | |
| CURRENT FINANCIAL LIABILITIES | 17 | | 381,630,834 | | 254,573,580 |
| *OF WHICH WITH RELATED PARTIES* | 30 | *205,200,712* | | *166,010,928* | |
| OTHER CURRENT LIABILITIES | 18 | | 42,299,052 | | 64,069,736 |
| *OF WHICH WITH RELATED PARTIES* | 30 | *41,222,101* | | *31,403,487* | |
| **CURRENT LIABILITIES** | | | **436,856,459** | | **328,569,188** |
| **LIABILITIES HELD FOR SALE** | | | **–** | | **–** |
| **TOTAL LIABILITIES** | | | **1,244,731,169** | | **1,030,235,134** |

# INCOME STATEMENT

| (EURO) | NOTE | | FY 2008 | | FY 2007 |
|---|---|---|---|---|---|
| NET INCOME FROM EQUITY INVESTMENTS | 22 | | 317,988,208 | | 111,558,710 |
| *OF WHICH WITH RELATED PARTIES* | 30 | *317,979,500* | | *111,553,000* | |
| OTHER OPERATING INCOME | 23 | | 33,604,803 | | 32,500,646 |
| *OF WHICH WITH RELATED PARTIES* | 30 | *33,449,169* | | *30,668,080* | |
| COST OF PURCHASES | | | (882,105) | | (342,789) |
| COSTS FOR SERVICES AND OTHER COSTS | 24 | | (55,031,348) | | (50,954,836) |
| *OF WHICH WITH RELATED PARTIES* | 30 | *(5,574,555)* | | *(5,569,597)* | |
| *OF WHICH NON CHARACTERISTIC ITEMS* | 29 | *(13,005,049)* | | *(13,000,000)* | |
| PERSONNEL EXPENSES | 25 | | (24,468,710) | | (22,248,245) |
| *OF WHICH NON CHARACTERISTIC ITEMS* | 29 | *(1,110,700)* | | *–* | |
| AMORTISATION, DEPRECIATION AND WRITE-DOWNS OF FIXED ASSETS | 26 | | (2,640,082) | | (2,992,774) |
| FINANCIAL INCOME | 27 | | 26,051,527 | | 22,530,744 |
| *OF WHICH WITH RELATED PARTIES* | 30 | *20,082,780* | | *19,962,372* | |
| FINANCIAL EXPENSES | 27 | | (44,799,943) | | (51,687,932) |
| *OF WHICH WITH RELATED PARTIES* | 30 | *(5,056,596)* | | *(9,327,758)* | |
| **PROFIT BEFORE TAXES** | | | **249,822,350** | | **38,363,525** |
| INCOME TAXES | 28 | | 16,759,057 | | 28,268,740 |
| *OF WHICH NON CHARACTERISTIC ITEMS* | 29 | *3,881,831* | | *4,290,000* | |
| **NET PROFIT (LOSS) FROM CONTINUING OPERATIONS** | | | **266,581,407** | | **66,632,265** |
| NET PROFIT (LOSS) FROM ASSETS HELD FOR SALE | | | – | | – |
| **NET PROFIT (LOSS) FOR THE PERIOD** | | | **266,581,407** | | **66,632,265** |

# CASH FLOW STATEMENT

| (THOUSAND EURO) | FY 2008 | FY 2007 |
|---|---|---|
| **CASH FLOW FROM OPERATIONS (A)** | | |
| - NET PROFIT (LOSS) FOR THE YEAR | 266,581 | 66,632 |
| - AMORTISATION, DEPRECIATION AND WRITE-DOWNS | 2,640 | 2,993 |
| - CHANGE IN PROVISIONS FOR LIABILITIES AND CHARGES | 37 | (24) |
| - CHANGE IN DEFERRED TAX ASSETS AND LIABILITIES | (1,686) | 1,717 |
| - NET WRITE-DOWNS OF NON-CURRENT FINANCIAL ASSETS | 21 | 15 |
| - NET WRITE-DOWN OF CURRENT RECEIVABLES | – | – |
| - NET CHANGE IN STAFF LEAVING INDEMNITIES | (879) | (701) |
| - NET CAPITAL GAIN/LOSS | (27) | – |
| **CASH FLOW FROM CURRENT OPERATIONS** | **266,687** | **70,632** |
| **- CHANGES IN OPERATING ASSETS AND LIABILITIES:** | | |
| - INVENTORY | – | – |
| - TRADE RECEIVABLES | 647 | 169 |
| - TRADE PAYABLES | 2,963 | 552 |
| - OTHER ASSETS | (10,124) | 13,730 |
| - OTHER LIABILITIES | (21,771) | – |
| | **(28,284)** | **14,451** |
| **TOTAL** | **238,402** | **85,083** |
| **CASH FLOW FROM INVESTMENTS (B)** | | |
| - INVESTMENTS IN TANGIBLE FIXED ASSETS | (1,965) | (1,767) |
| - INVESTMENTS IN INTANGIBLE FIXED ASSETS | (2,595) | (1,773) |
| - INVESTMENTS IN FINANCIAL FIXED ASSETS | (1,377) | (53,496) |
| - DISPOSAL OF TANGIBLE FIXED ASSETS | 403 | – |
| - DISPOSAL OF INTANGIBLE FIXED ASSETS | 2 | – |
| - DISPOSAL OF FINANCIAL FIXED ASSETS | 13 | 3 |
| **TOTAL** | **(5,519)** | **(57,033)** |
| **CASH FLOW FROM FINANCING ACTIVITIES (C)** | | |
| - NEW MEDIUM/LONG-TERM LOANS | 90,000 | 250,000 |
| - REPAYMENT OF MEDIUM/LONG-TERM LOANS | (85,389) | (105,600) |
| - INCREASE (DECREASE) IN MEDIUM/LONG-TERM FINANCIAL PAYABLES/RECEIVABLES | 163,669 | 17,345 |
| - INCREASE (DECREASE) IN SHORT-TERM BANK BORROWINGS | 147 | 106 |
| - INCREASE (DECREASE) IN SHORT-TERM FINANCIAL PAYABLES/RECEIVABLES | (109,127) | (133,348) |
| - SHARE CAPITAL INCREASE | – | – |
| - DIVIDENDS | (59,288) | (59,866) |
| - OTHER CHANGES | (14,532) | 4,246 |
| **TOTAL** | **(14,521)** | **(27,117)** |
| **NET CASH FLOW FOR THE YEAR (A+B+C)** | **218,362** | **932** |
| CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR | 1,100 | 168 |
| CHANGE IN SCOPE OF CONSOLIDATION | – | – |
| NET CASH FLOW FOR THE YEAR | 218,362 | 932 |
| **CASH AND CASH EQUIVALENTS AT YEAR-END** | **219,463** | **1,100** |

# ERG S.P.A.

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Company Register Milan

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VAT 10122410151

ERG S.p.A. - May 2009
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