ANNUAL REPORT 2011

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BOARD OF DIRECTORS

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EDOARDO GARRONE

DEPUTY CHAIRMAN

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GRAZIELLA MERELLO [2]

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STANDING AUDITORS

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PAOLO FASCE

MANAGER RESPONSIBLE (ITALIAN LAW 262/05)

GIORGIO CORAGGIOSO

INDEPENDENT AUDITORS

DELOITTE & TOUCHE S.P.A.

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

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MANAGEMENT REPORT

INTRODUCTION

The Consolidated Annual Report as of and for the year ended 31 December 2011 has been prepared in accordance with the Standards issued by the International Accounting Standards Board (IASB) and approved by the European Union, inclusive of all international standards that have undergone interpretation (International Accounting Standards – IAS and International Financial Reporting Standards – IFRS) and the interpretations of the International Financial Reporting Interpretation Committee (IFRIC) and of the previous Standing Interpretations Committee (SIC).
The Consolidated Annual Report was audited by the independent auditor Deloitte & Touche S.p.A. in accordance with CONSOB (Italian Stock Exchange Regulator) regulations.

RESULTS AT ADJUSTED REPLACEMENT COSTS

To enhance understandability of the performance of Refining & Marketing, the results of the business are also shown at adjusted replacement cost that takes into account, for the portion attributable to ERG, the results of the joint venture ISAB S.r.l. and TotalErg S.p.A. whose contribution in the Consolidated Income Statement not at adjusted replacement cost is reported in the equity of the investments measured under the equity method of accounting.
Consistent with the above, net financial indebtedness is also shown at adjusted replacement cost that takes into account the portion attributable to ERG of the net financial position of the joint ventures ISAB S.r.l. (40%) and TotalErg S.p.A. (51%), net of the relevant intra-group items.

TOTALERG TRANSACTION

1 October 2010 was the effective date of the merger by incorporation of Total Italia S.p.A. into ERG Petroli S.p.A. which took on the name of TotalErg S.p.A.
Shareholders' agreements provide for equally shared governance and the operating and financial autonomy of the joint venture. The shares held by ERG and TOTAL in the new company are 51% and 49% respectively.
In particular, ERG contributed to the joint venture the assets and liabilities of the **"Integrated Downstream in Italy"** [1] business, excluding ERG's marketing activities in Sicily.
Comparison with 2010 data, therefore, is affected by the aforesaid transactions.

ACQUISITIONS IN THE RENEWABLE ENERGY SOURCES SEGMENT

From 5 August 2011 on, the company ERG Eolica Campania S.p.A. was fully consolidated; it is the owner of five wind farms, in operation since 2008, with installed power of 111.8 MW, with EBITDA contribution for the period of about 10 million and with an impact of about 229 million on the Group's net financial indebtedness.
Additionally, on 13 September 2011 the company ERG Eolica Amaroni S.r.l., not yet in operation, was acquired; it is the owner of a 22.5 MW authorised wind farm design in the Municipality of Amaroni (CZ), adjacent to the Fossa del Lupo farm, for which the construction work has already been started and the acquisition contracts with Nordex were signed for 9 WTG N90. The wind farm is expected to begin operations by the end of 2012.

1 In the first nine months of 2010, Integrated Downstream in Italy comprised the assets and liabilities of ERG Petroli S.p.A. and of its subsidiaries.

CHANGES TO THE "ROBIN TAX" REGULATIONS

On 14 September 2011, Law no. 148/2011 was approved, converting Law Decree no. 138/2011 bearing urgent measures for the financial stabilisation and economic development of the Country. The law introduced the following changes pertaining to the IRES rate surcharge ("Robin Tax"):

- temporary increase of the IRES rate surcharge from 6.5% to 10.5% for 2011, 2012 and 2013;
- broadened range of energy industry operators to which the surcharge is applicable; specifically, the surcharge is applicable also to the renewably energy segment (i.e. wind, photovoltaic, etc.);
- change of the limits to the application of the surcharge; it will be applicable only if, in the previous tax period, revenues exceeded EUR 10 million (previously, the limit was EUR 25 million), and taxable income exceeded EUR 1 million.

The introduction of the aforesaid changes entails, starting in 2011, higher current taxes for the Group, both in terms of higher tax rates and of a higher number of Group companies subject to the Robin Tax surcharge.

BUSINESS DESCRIPTION

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

- ## REFINING & MARKETING

  The Group is active in the segment of **Coastal Refining** through the joint venture with LUKOIL which controls the ISAB refinery in Priolo, one of the main sites in the Mediterranean both in terms of capacity (320 thousand barrels/days) and in terms of complexity (Nelson index 9.3) and in **Integrated Downstream**, through TotalErg, joint venture with Total, with a network of about 3,400 sales outlets (about 12% market share) and fuel sales of 4 million m^3/year, and through ERG Oil Sicilia (EOS), a wholly-owned ERG subsidiary operating in the retail and wholesale segments in Sicily.
  TotalErg also operates in the **Refining** segment (Raffineria di Roma, wholly owned, and Raffineria Sarpom of Trecate, with a 26% share).

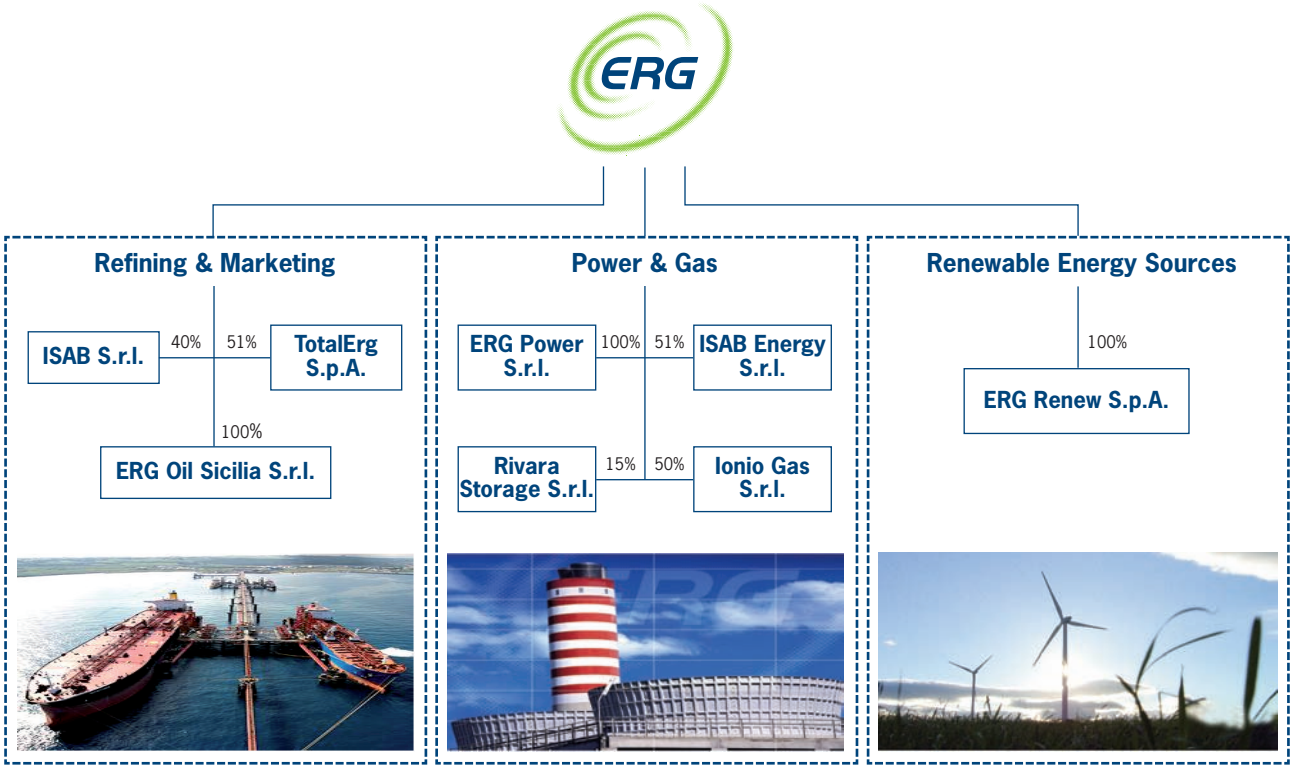
- ## POWER & GAS

  The Group is active in the production and marketing of electric energy, steam and gas. ERG's main equity investments in the segment are:
  - ISAB Energy S.r.l.: generation of electricity with a power plant (528 MW), fuelled by gas obtained from a process of gasification of the asphalt originating from the ISAB Refinery in Priolo (Sicily);
  - ERG Power S.r.l.: this company owns the North Plant of the Priolo site (480 MW), comprising the combined cycle plant fuelled with natural gas and the counter-pressure plants.

  Projects undergoing authorisation:
  - Ionio Gas S.r.l.: an equal-share joint venture with Shell Energy Italia for the development of a liquefied natural gas regasification plant at the Priolo site.
  - ERG Rivara Storage S.r.l. (15% ERG, 85% Independent Gas Management – Independent Resources Group): company for the construction and operation of an underground natural gas storage site in Rivara in the Municipality of San Felice sul Panaro – Modena.

- ## RENEWABLE ENERGY SOURCES

  Through the subsidiary ERG Renew, it operates in the sector of the generation of electricity from renewable sources with 548 MW of wind power in operation at 31 December 2011, of which 158 in Puglia, 140 in Campania, 98 in Calabria, 40 in Molise, 38 in Sicily, 9 in Lazio, 2 in Liguria and 64 in France. It is also active in the development of new initiatives in Eastern Europe through LUKERG Renew, an equal-share joint venture between ERG Renew and LUKOIL.
  The considerable increase in power that took place in 2011 is due mainly to the completion of the Fossa del Lupo wind farm, in operation since 1 July 2011, with 97.5 MW of power and to the acquisition of ERG Eolica Campania, with 111.8 MW of installed power.
  ERG Renew is also completing the wind farm in Ginestra (40 MW, of which 28 MW already in operation as at 31 December 2011), and in the second half of September it started work for the construction of the wind farm in Amaroni (22.5 MW), expected to start production by the end of 2012.


ERG
Refining & Marketing
ISAB S.r.l.
40%
51%
TotalErg S.p.A.
100%
ERG Oil Sicilia S.r.l.
Power & Gas
ERG Power S.r.l.
100%
51%
ISAB Energy S.r.l.
Rivara Storage S.r.l.
15%
50%
Ionio Gas S.r.l.
Renewable Energy Sources
100%
ERG Renew S.p.A.

STRATEGY

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

- **REFINING & MARKETING**: in **Coastal Refining**, ERG continues to pursue a strategy of continuously improving plant efficiency and flexibility and of reducing exposure to the volatility of refining margins, also through the partial sale of its share in the ISAB S.r.l. refinery, the joint venture with LUKOIL. In **Integrated Downstream**, ERG's strategy is aimed at improving its competitive position on the market to boost profitability and long-term sustainability. Against this backdrop, on 1 October 2010 ERG signed an agreement with the French group Total that led to the inception of TotalErg, through the merger of Total Italy and ERG Petroli. The new company is positioned as Italy's third largest operator in Marketing with 12% market share, about 3,400 service stations, an inland refining capacity of approximately 116,000 barrels per day, a large presence in the Wholesale and Specialties markets, and a significant logistics structure. Thanks to the joint venture, ERG benefited from significant commercial and cost synergies. Within the scope of the merger, ERG spun off its marketing activities in Sicily into the new wholly-owned subsidiary ERG Oil Sicilia (EOS), in operation since 1 April 2010. EOS is a primary operator in Sicilian marketing, with over 300 service stations and about 1.0% share of the Italian retail market, with significant presence in the wholesale market and a logistics system connected to the ISAB Refinery in Priolo.

- **ENERGY – THERMOELECTRIC**: ERG continues to pursue a strategy of maximising the exploitation of its power plants, i.e. the IGCC of ISAB Energy (51% ERG), operational since 2000 through the twenty-year CIP 6 convention, and the new CCGT of the ERG Power subsidiary, in full commercial operation since April 2010, with about 480 MW of installed power, which supplies utilities and electricity to the industrial customers of the Priolo site, placing on the market the remainder of the generated electricity.
  Consistently with the objective of simplifying processes and maximising the focus on the management and profitability of its assets, in 2011 ERG stipulated an agreement with IREN for the supply of a total of 2TWh per year of electricity for six years from 1 January 2012 onwards and the sale of its business unit dedicated to marketing and selling electricity
  In October, the ERG Power plant obtained access by Terna to the Dispatching Services Market (MSD) and consequently it started selling regulating services, from which an improvement of the margins is expected
  ERG, lastly, has a share in two projects pertaining to gas infrastructures, currently in the licensing phase: Ionio Gas, a joint venture project company with Shell for Liquefied Natural Gas (LNG) regasification within the Priolo industrial complex, and ERG Rivara Storage, a partnership project company with Independent Resources Plc (IRG) to store natural gas in North Italy.

- **ENERGY – RENEWABLE ENERGY SOURCES**: through its subsidiary ERG Renew, ERG is continuing to pursue its strategy of developing its business to generate electricity through renewable sources, mainly in the wind segment. In this field, in recent years ERG Renew significantly strengthened its positioning on the domestic market, where it is the third operator in Italy with almost 500 MW of installed power at the end of 2011. The growth strategy in Italy was implemented both through the design and construction of new wind farms and through the acquisitions of ERG Eolica Adriatica S.r.l. – 102 MW (formerly IVPC Power 5 S.r.l.) in 2010 and of ERG Eolica Campania S.p.A. – 112 MW (formerly IVPC Power 3 S.r.l.) in 2011. In the course of 2011, construction was started on a wind farm in the province of Catanzaro with an installed power of 22.5 MW, expected to start operations by the end of 2012. In addition to the French market, where ERG Renew already has a significant presence (64 MW), the focus is specifically on the Eastern European areas where it operates mainly through LUKERG Renew, the equal-share joint venture with LUKOIL that will initially be focused on Bulgaria and Romania, countries that have high development potential. The goal is to build up, in the medium term, a geographically and technologically balanced asset portfolio.

ERG'S STOCK MARKET PERFORMANCE

As at 31 December 2011 the closing price of ERG's shares (Blue Chips) was EUR 8.78, 16% lower than at the end of 2010, as compared with a 1% increase in the European sector index (Stoxx Energy Index), a 27% drop in the FTSE Mid Cap index and a 24% decline in the FTSE All Share index.

Figures relating to the prices and exchange volumes of ERG's shares during the period 3 January 2011 – 30 December 2011 are set out below:

STOCK PRICE	EUR
REFERENCE PRICE AS AT 30.12.11	8.78
HIGHEST PRICE (01/02/2011) (1)	10.74
LOWEST PRICE (11/08/2011) (1)	7.60
AVERAGE PRICE	9.29

(1) lowest and highest price reached during the day's trading; hence they do not match the official and closing prices on the same date.

TRADED VOLUMES	NO. OF SHARES
MAXIMUM VOLUME (01/02/2011)	1,572,085
MINIMUM VOLUME (30/05/2011)	35,884
AVERAGE VOLUME	211,888

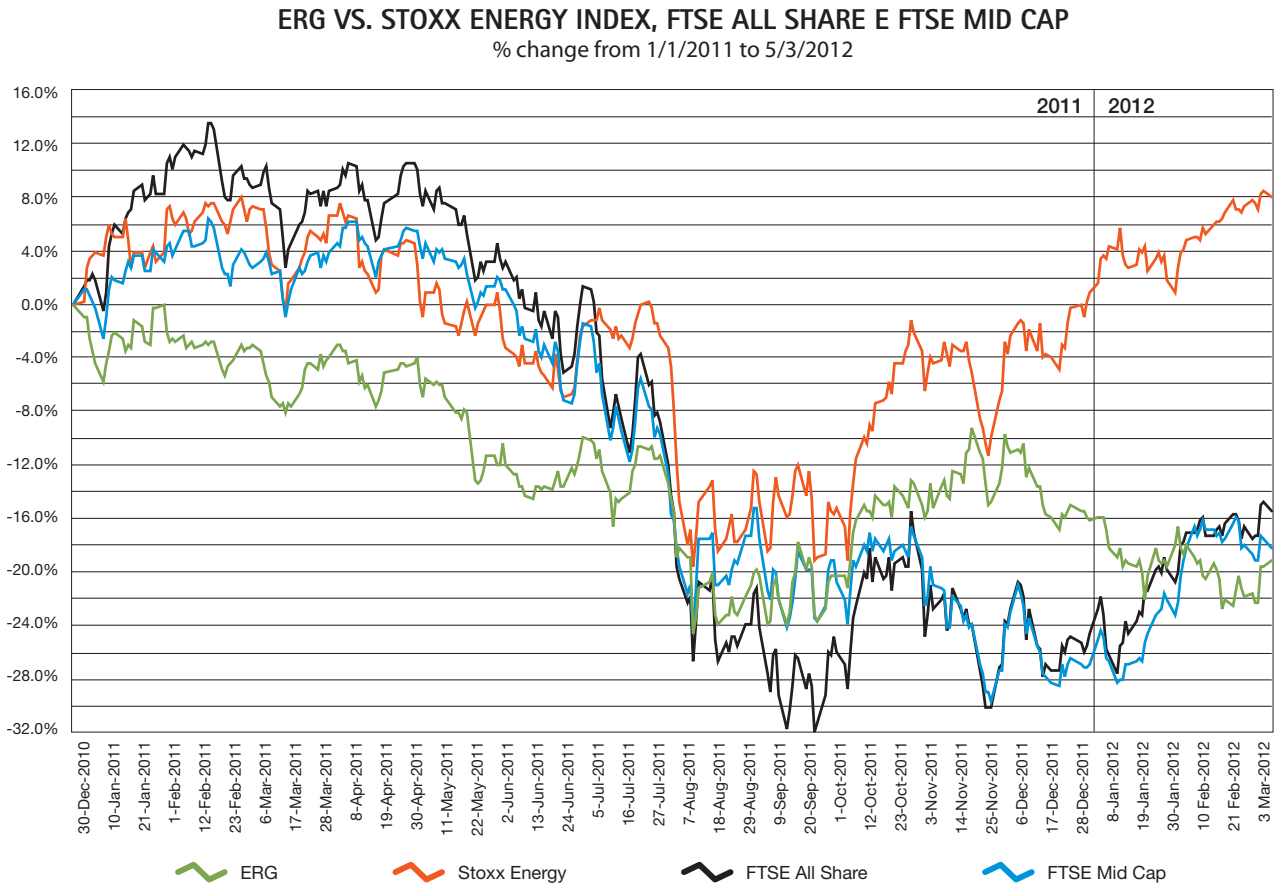
Market capitalisation on 31 December 2011 was approximately EUR 1,320 million (EUR 1,571 million at the end of 2010).

On 5 March 2012 the closing price of ERG's shares (Blue Chips) was EUR 8.49, 18.8% lower than at the end of 2011, as compared with a rise of 8.0% in the European sector index (Stoxx Energy Index) and of 15.1% in the FTSE All Share index.

STOCK PRICE	EUR
REFERENCE PRICE AS AT 05/03/2012	8.49
HIGHEST PRICE (01/02/2012) (1)	8.95
LOWEST PRICE (17/02/2012) (1)	8.00
AVERAGE PRICE	8.44

(1) lowest and highest price reached during the day's trading; hence they do not match the official and closing prices on the same date

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



PERFORMANCE HIGHLIGHTS

(EUR MILLION)		YEAR 2011	YEAR 2010
MAIN INCOME STATEMENT DATA			
TOTAL REVENUES [1]		6,798	7,899
EBITDA		192	238
EBITDA AT REPLACEMENT COST [2]		**156**	**213**
EBITDA AT ADJUSTED REPLACEMENT COST [3]		**284**	**305**
EBIT AT REPLACEMENT COST [2]		**12**	**59**
EBIT AT ADJUSTED REPLACEMENT COST [3]		**37**	**86**
NET INCOME		96	43
OF WHICH GROUP NET INCOME		*65*	*10*
GROUP NET PROFIT (LOSS) AT ADJUSTED REPLACEMENT COST [4]		**(49)**	**(20)**
MAIN FINANCIAL DATA			
NET INVESTED CAPITAL		**2,842**	**2,614**
SHAREHOLDERS' EQUITY		1,878	1,891
TOTAL NET FINANCIAL INDEBTEDNESS		963	723
OF WHICH NON-RECOURSE PROJECT FINANCING [5]		*793*	*793*
FINANCIAL LEVERAGE		34%	28%
TOTAL NET ADJUSTED FINANCIAL INDEBTEDNESS [6]		1,179	1,082
OPERATING DATA			
CAPITAL EXPENDITURES [7]	EUR MILLION	**82**	**201**
EMPLOYEES AT THE PERIOD END	UNITS	652	714
REFINERY PROCESSING [8]	THOUSANDS OF TONNES	**7,552**	**9,574**
REFINERY PROCESSING [8]	THOUSANDS OF BARRELS/DAY	150	192
ELECTRIC POWER GENERATION	MILLIONS OF KWH	**7,436**	**6,688**
TOTAL SALES OF ELECTRIC POWER	MILLIONS OF KWH	8,084	7,502
EXPORTS OF PETROLEUM PRODUCTS [8]	THOUSANDS OF TONNES	**3,815**	**4,318**
ITALIAN RETAIL SALES [8]	THOUSANDS OF TONNES	1,895	2,020
TOTALERG RETAIL MARKET SHARE	GASOLINE + DIESEL	11.8%	N.A.
ERG OIL SICILIA RETAIL MARKET SHARE [9]	GASOLINE + DIESEL	1.0%	N.A.
RAW MATERIAL AND PRODUCT INVENTORIES [10]	THOUSANDS OF TONNES	1,231	1,532
MARKET INDICATORS			
BRENT DATED	USD/BARREL	111.26	79.50
EUR/USD RATE	EUR/USD	1.392	1.326
EMC REFINING MARGIN	USD/BARREL	(2.19)	0.33
REFERENCE PRICE OF ELECTRICITY [11]	EUR/MWH	72.23	64.12

For the definition and reconciliation of results to adjusted replacement cost, please refer to the section "Alternative Performance Indicators".
(1) net of excise taxes
(2) not including inventory gains (losses) and non recurring items
(3) they also comprise the contribution of ISAB S.r.l. (joint venture with LUKOIL) and of TotalErg (joint venture with TOTAL), in proportion to ERG's share
(4) does not include inventory gains (losses), non-recurring items and related applicable theoretical taxes. The values also match the adjusted ones.
(5) including cash and cash equivalents
(6) also includes the contribution attributable to ERG of the net debt of ISAB S.r.l. (joint venture with LUKOIL) and of TotalErg (joint venture with TOTAL)
(7) in tangible and intangible fixed assets
(8) estimated data. Since 1 October 2010, they include 51% of TotalErg
(9) related to the sales outlets of the wholly owned subsidiary ERG Oil Sicilia, in operation since 1 April 2010
(10) including ERG's stock in the ISAB and TotalErg joint ventures
(11) Single National Price
n.a.: not applicable because TotalErg was incorporated on 1 October 2010. ERG Oil Sicilia was incorporated on 1 April 2010

PERFORMANCE HIGHLIGHTS BY SEGMENT

(EUR MILLION)	YEAR 2011	YEAR 2010
REVENUES FROM ORDINARY OPERATIONS		
REFINING & MARKETING	10,939	9,175
POWER & GAS	1,435	1.384
RENEWABLE ENERGY SOURCES	114	73
CORPORATE	7	16
INTRA-SEGMENT REVENUES	(1,350)	(1,712)
TOTAL ADJUSTED REVENUES (1)	**11,145**	**8,935**
ERG SHARE OF ISAB S.R.L. CONTRIBUTION AT ADJUSTED REPLACEMENT COST	*(273)*	*(250)*
TOTALERG 51% CONTRIBUTION AT ADJUSTED REPLACEMENT COST	*(4,102)*	*(873)*
TOTAL REVENUES FROM ORDINARY OPERATIONS	**6,770**	**7,813**
EBITDA		
REFINING & MARKETING	6	46
POWER & GAS	239	254
RENEWABLE ENERGY SOURCES	69	39
CORPORATE	(31)	(33)
EBITDA AT ADJUSTED REPLACEMENT COST (2)	**284**	**305**
ERG SHARE OF ISAB S.R.L. CONTRIBUTION AT ADJUSTED REPLACEMENT COST	*(63)*	*(80)*
TOTALERG 51% CONTRIBUTION AT ADJUSTED REPLACEMENT COST	*(66)*	*(13)*
EBITDA AT REPLACEMENT COST (2)	**156**	**213**
INVENTORY GAINS (LOSSES)	*36*	*62*
NON CHARACTERISTIC ITEMS	*–*	*(38)*
EBITDA	**192**	**238**
AMORTIZATION, DEPRECIATION AND WRITE-DOWNS		
REFINING & MARKETING	(109)	(107)
POWER & GAS	(84)	(75)
RENEWABLE ENERGY SOURCES	(50)	(33)
CORPORATE	(4)	(4)
AMORTIZATION AND DEPRECIATION AT ADJUSTED REPLACEMENT COST (2)	**(247)**	**(220)**
ERG SHARE OF ISAB S.R.L. CONTRIBUTION AT ADJUSTED REPLACEMENT COST	*48*	*52*
TOTALERG 51% CONTRIBUTION AT ADJUSTED REPLACEMENT COST	*56*	*14*
AMORTIZATION AND DEPRECIATION AT REPLACEMENT COST (2)	**(144)**	**(154)**
EBIT		
REFINING & MARKETING	(102)	(61)
POWER & GAS	155	179
RENEWABLE ENERGY SOURCES	19	5
CORPORATE	(35)	(37)
EBIT AT ADJUSTED REPLACEMENT COST (2)	**37**	**86**
ERG SHARE OF ISAB S.R.L. CONTRIBUTION AT ADJUSTED REPLACEMENT COST	*(15)*	*(28)*
TOTALERG 51% CONTRIBUTION AT ADJUSTED REPLACEMENT COST	*(10)*	*1*
EBIT AT REPLACEMENT COST (2)	**12**	**59**
CAPITAL EXPENDITURES ON TANGIBLE AND INTANGIBLE FIXED ASSETS:		
REFINING & MARKETING	77	100
POWER & GAS	22	77
RENEWABLE ENERGY SOURCES	53	89
CORPORATE	2	4
TOTAL ADJUSTED CAPITAL EXPENDITURES (3)	**156**	**270**
CAPITAL EXPENDITURES OF ISAB S.R.L. (ERG SHARE)	*(38)*	*(49)*
CAPITAL EXPENDITURES OF TOTALERG (51%)	*(35)*	*(21)*
TOTAL CAPITAL EXPENDITURES	**82**	**201**

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

(1) adjusted revenues take into account ERG's share of revenues generated by the ISAB S.r.l. and TotalErg S.p.A. joint ventures

(2) replacement cost values do not include inventory gains (losses) and non recurring items. Adjusted values also include the contribution, attributable to ERG, of the results of ISAB S.r.l. and of TotalErg S.p.A.

(3) they take into account ERG's share of the capital expenditures effected by ISAB S.r.l. and TotalErg S.p.A.

SALES

PETROLEUM PRODUCTS

Total sales of the Refining & Marketing segment in 2011 amounted to 11.0 million tonnes, of which 65% were on the domestic market, and the remaining 35% were abroad.

The following table breaks down ERG oil product sales by distribution channel. From the fourth quarter 2010 onwards, the figures include the contribution from TotalErg sales at 51%.

(THOUSANDS OF TONNES)	YEAR 2011	YEAR 2010
REFINING AND LOGISTICS		
EXPORTS VIA SHIP	3,784	4,233
DELIVERIES TO THE DOMESTIC MARKET	3,851	4,101
TOTAL REFINING AND LOGISTICS	**7,635**	**8,335**
MARKETING		
DOMESTIC RETAIL MARKET	1,895	2,020
DOMESTIC WHOLESALE MARKET	1,474	1,552
WHOLESALE EXPORT	31	85
TOTAL MARKETING	**3,400**	**3,657**
TOTAL PETROLEUM PRODUCTS	**11,035**	**11,992**

POWER GENERATION

The following table illustrates ERG Group's electricity sales:

(GWH)	YEAR 2011	YEAR 2010
POWER GENERATION		
ISAB ENERGY	3,655	3,331
ERG POWER & GAS	3,689	3,718
ERG RENEW	740	453
TOTAL	**8,084**	**7,502**

In 2010, steam sales[2] to industrial plants of the Priolo/Melilli site amounted to 1,945 thousand tonnes (2,270 in 2010), of which 1,013 thousand tonnes to ISAB S.r.l.

Gas sales in 2011 were 413 million Sm^3 (406 million Sm^3 in 2010), of which 206 million Sm^3 to ISAB S.r.l.

2 Steam supplied to final users net of the quantities of steam withdrawn by the users and of pipeline losses.

COMMENTS ON THE YEAR'S PERFORMANCE

In 2011, **adjusted revenues** amounted to 11,145 million, up from 2010, mainly as a result of the higher sale prices.
The **EBITDA at adjusted replacement cost** [3] amounted to EUR 284 million, compared with EUR 305 million in 2010. The change is a result of the following factors:

- **REFINING & MARKETING**: EBITDA at EUR 6 million (EUR 46 million in 2010) penalised by a particularly unfavourable scenario of the Refining sector, specifically as a result of the Libyan crisis, and by the planned maintenance shutdown of the ISAB refinery.

- **POWER & GAS**: EBITDA of EUR 239 million, lower than EUR 254 million in 2010, mainly as a result of the planned maintenance shutdown of the IGCC plant of ISAB Energy in the fourth quarter of 2011 and of some limitations to the feed-in of electricity in the national electric grid, which took place mostly in the first half of 2011. These penalisations were partly offset by the full contribution of the CCGT plant of ERG Power throughout 2011. In 2010, the item included EUR 45 million of insurance indemnity for the ISAB Energy accident in 2008.

- **RENEWABLE ENERGY SOURCES**: EBITDA amounted to EUR 69 million, higher than in 2010 (EUR 39 million) mainly thanks to the increase in energy generation achieved in the period as a result of the full contribution by ERG Eolica Adriatica, acquired on 23 July 2010, to the progressive start-up, in 2011, of the Fossa del Lupo and Ginestra wind farm and to the contribution by ERG Eolica Campania, acquired on 5 August 2011.

EBIT at adjusted replacement cost [3] was EUR 37 million (EUR +86 million in 2010) after amortization and depreciation for EUR 247 million, higher than in 2010 (EUR 220 million) as a result of the new plants acquired and of those commissioned.
Group EBIT at replacement cost amounted to EUR -49 million, versus EUR -20 million in 2010. The worsening of the result is mainly linked to the lower margin obtained and higher depreciation and amortization.
Group EBIT was EUR +65 million (+10 million in 2010) and it was affected by non recurring items, mainly the write-down of the CCGT plant, net of the related tax effects, i.e. EUR 65 million, the gain deriving from the sale of 11% of ISAB S.r.l., net of the related tax effects, i.e. EUR 107 million, of the recognition of receivables for prior tax losses for EUR 11 million and of inventory gains, net of the related tax effects, of EUR 66 million (EUR +53 million in 2010).
In 2011, **adjusted Group capital expenditures** totalled EUR 156 million (EUR 270 million in 2010), of which 50% in Refining & Marketing (37%), 14% in Power & Gas (28%) and 34% in the Renewable Energy Sources segment (33%).
Net financial indebtedness amounted to EUR 963 million, up by EUR 241 million compared to 31 December 2010, mainly by effect of the acquisition of ERG Eolica Campania, of the capital expenditures made during the period, of the acquisition of the minority interests in ERG Renew as a result of the completion of the takeover bid, of the payment of dividends, and of working capital dynamics, partly offset by the collection of the price for the sale of 11% of ISAB S.r.l.
Adjusted net financial indebtedness, which includes the portion attributable to ERG of the net financial position of the ISAB and TotalErg joint ventures, amounted to EUR 1,179 million, up from EUR 1,082 million at 31 December 2010 for the reasons explained above, and a reduction of TotalErg's total indebtedness.

3 For the definition and reconciliation of results at adjusted replacement cost and details of non-recurring items, please refer to the section "Alternative Performance Indicators".

SIGNIFICANT EVENTS DURING THE YEAR

TAKEOVER BID ON ERG RENEW

On **3 January 2011** ERG S.p.A. filed with Consob the draft document for the takeover bid made on all shares of common stock representing the entire share capital of ERG Renew S.p.A. not in the possession of ERG S.p.A.

On **13 January 2011** the Board of Directors of ERG Renew S.p.A. approved the notice per Article 103, Paragraph 3 of Legislative Decree no. 58 dated 24 February 1998 with respect to the voluntary takeover bid by the parent company ERG S.p.A. on all shares of ERG Renew S.p.A. stock not held by ERG S.p.A.
The Board of Directors acknowledged the fairness opinion issued by the independent financial advisor Merrill Lynch International and deemed the price of EUR 0.97 per share proposed by ERG S.p.A. to be sufficient in financial terms.

On **18 January 2011** CONSOB approved the document on the takeover bid promoted by ERG S.p.A. on all shares of common stock representing the entire share capital of ERG Renew S.p.A. not in the possession of ERG S.p.A., including the ERG Renew S.p.A. notice per Article 103, Paragraph 3 of Legislative Decree no. 58 dated 24 February 1998.

On **18 February 2011** ERG S.p.A. disclosed, after the expiration of the validity of the takeover bid made on all shares of common stock of the entire share capital of ERG Renew S.p.A. not in its possession already, that it had obtained acceptances for a total of 13,962,309 shares, representing 62.748% of the shares involved in the Bid and 10.524% of the share capital of the Issuer, for total value of EUR 13,543,439.73. During the Bid acceptance period, ERG also made acquisitions outside the Bid, purchasing 952,629 shares, representing 0.718% of the share capital of the Issuer. Therefore, taking into account the shares handed over in acceptance of the Bid, the shares already owned on the initial date of the Bid and of those acquired outside the bid, at 18 February 2011 the Bidder held a total number of 125,557,206 shares, i.e. 94.641% of the share capital of the Issuer. Although a share of at least 95% of the capital of the Issuer was not obtained, ERG, deeming the share thus obtained to be sufficient, waived the Condition of the Minimum Level of Acceptances specified in Paragraph A.1.(i) of the Bid Document and announced that it deemed the Condition of Effectiveness of the Bid, specified in Paragraph A.1.(ii) of the Bid Document, to be fulfilled as well.
In consideration of the above, ERG deemed the Bid to be effective and therefore it announced that it would acquire all Shares handed over in acceptance of the Bid according to terms per the Bid Document.

On **24 May 2011** ERG S.p.A. announced, during the sell out period within the takeover bid made on all shares of common stock of the entire share capital of ERG Renew S.p.A. not already in its possession, that it had exceeded the 95% of the aforesaid share capital.

On **27 May 2011** ERG S.p.A. announced the conclusion of the sell out phase of the takeover bid made on ERG Renew stock and the consequent attainment of 96.904% share of ERG Renew capital.

On **7 June 2011**, at the conclusion of the takeover bid promoted by ERG S.p.A., ERG Renew stock were delisted from the Electronic Stock Market. As a result of the bid, ERG Renew S.p.A. is a wholly owned subsidiary of ERG S.p.A.

SALE OF 11% OF ISAB

On **31 January 2011**, the Board of Directors of ERG S.p.A. approved the exercise of the put option for 11% of ISAB S.r.l.

The transaction was within the scope of the agreement stipulated in 2008 with LUKOIL, which called for the creation of a joint venture for the joint operation of the ISAB Refinery in Priolo (Sicily). The agreement gives ERG a put option for its share, exercisable within 4 years in one or more steps, no more than once every 12 months.

The value of the sale of the 11% share of ISAB to LUKOIL (excluding the inventory) is EUR 205 million, net of the EUR 15 million reduction, as provided by the subsequent amendments to the original agreement dated 24 June 2008.

As a result of the transaction, LUKOIL holds 60% of ISAB S.r.l. and ERG holds 40%. The Company continues to be managed by the two shareholders according to existing shareholder agreements with equally shared governance over major business decisions, and with an operating agreement that assures its management autonomy and independence.

On **1 April 2011** the sale of 11% of ISAB S.r.l., resulting from the exercise of the put option, was closed with the payment of a provisional price of EUR 241 million (including the value of inventory).

On **26 October 2011**, EUR 3.5 million were collected from LUKOIL by way of final settlement of the price for the sale of 11% of ISAB S.r.l. which occurred on 1 April 2011.

REFINING & MARKETING

On **28 July 2011** *the decisive Services Conference of the Ministry of the Environment approved the project for the securing and clean-up of the ISAB Impianti Sud Refinery* and on 2 August 2011 ISAB S.r.l. signed the settlement with the Ministry of the Environment within the scope of the Priolo Programme Agreement of November 2008. The settlement agreement worth about EUR 30 million, definitively ended the prolonged administrative dispute with the Ministry of the Environment, and the areas of the South site will become available for future developments.

On **4 August 2011** *TotalErg executed a five-year loan agreement denominated in Euro and US Dollars* with a group of primary Italian and foreign credit institutions. The loan, constituted by a term credit line of EUR 400 million and a revolving credit line of EUR 500 million, for a total amount of EUR 900 million, is senior and it is not secured by any collateral or other guarantees provided by the two shareholders. The loan replaces the EUR 900 million Bridge Loan matured on 30 September 2011, and it enables TotalErg to be financial autonomous for its operations and for recurring development activities.

RENEWABLE ENERGY SOURCES

On **20 May 2011** *ERG Renew and LUKOIL-Ecoenergo executed an agreement for the incorporation of the equal-share joint venture LUKERG Renew*, with its registered office in Vienna, as an instrument of collaboration in the renewable energies market in Eastern European Countries and in Russia.

On **20 July 2011** as a result of the delisting of the Company and of the resignations tendered by the Directors of *ERG Renew S.p.A., the Shareholders' Meeting of that company appointed a new Board of Directors* chaired by Mr. Luca Bettonte, who thus replaced Mr. Pietro Giordano. On the same date, the new Board of Directors appointed Mr. Massimo Derchi as Chief Executive Officer of the Company, replacing Mr. Francesco Del Balzo.

On **5 August 2011** *ERG Eolica Italia S.r.l., sub-holding of ERG Renew S.p.A., closed the acquisition of 100% of IVPC Power 3 S.p.A.* (now ERG Eolica Campania S.p.A.), owner of five wind farms, in operation since 2008 between the provinces of Avellino and Benevento, with about 112 MW of total installed capacity.
The enterprise value of the acquisition is about EUR 2.1 million per MW. ERG paid EUR 100 million to the seller for the equity and repaid an intra-group loan (EUR 33 million as at 31 December 2010).

On **13 September 2011** *ERG Eolica Italia S.r.l. acquired 100% of the share capital of Amaroni Energia S.r.l.*, owner of a fully authorised 22.5 MW wind power project in the Municipality of Amaroni (CZ).

On **16 November 2011**, ERG sold its equity investment in *DSI Servizi Industriali S.r.l.* and on **2 December 2011** it sold its equity investment in *SODAI Italia S.p.A.*; both companies operate in the industrial waste water treatment industry. ERG received EUR 5 million and recorded a total write-down of EUR 3.3 million in the Income Statement. Whilst SODAI Italia S.p.A. operates through treatment platforms adjacent to 20 Trenitalia workshops, DSI S.r.l. performs the treatment of solid and liquid waste for third parties and for SODAI Italia.

On **30 December 2011** *ERG Eolica Italia S.r.l. was merged into ERG Renew S.p.A.* effective from 1 January 2012. Consequently, from 1 January 2012 onwards, ERG Eolica Italia S.r.l. was extinguished, the corporate bodies are no longer in office and ERG Renew S.p.A. has taken over all implied and explicit legal relations of the merged company.

POWER & GAS

On 10 November 2011 **ERG and IREN**, through its subsidiary IREN Mercato, signed a binding framework agreement entailing the stipulation of a contract for the supply, by ERG to IREN Mercato, of a total amount of 2 TWh of electricity per year for six years. The sale price shall be indexed to the wholesale market price of electricity. Through the agreement signed with ERG, IREN Mercato will be able to complement its own annual portfolio for the procurement of electricity intended mainly to be supplied to end customers.
The Framework Agreement also calls for the acquisition by IREN Mercato of the ERG business unit dedicated to marketing and selling electricity to over 15,000 business and mid-business customers, thereby assuring its continuity in operation. The consideration recognised by IREN Mercato to ERG for the transaction, net of trade receivables, is set to EUR 3.3 million.
Both agreements, subsequently executed in December 2011, enter into force on 1 January 2012 and therefore they have no economic and financial impacts in these Financial Statements.

OTHER SIGNIFICANT EVENTS

On **21 June 2011** Director and Deputy Chairman Pietro Giordano resigned. Mr. Alessandro Careri was co-opted as Director.

REGULATORY FRAMEWORK

The most important events that took place in the energy industry in 2011 were:

- **Clean ups – Programme Agreement for the Priolo site.** In 2011 the Italian Ministry of the Environment and Attorney General's Office continued to work out details for the settlement procedures and costs that the parties concerned may agree to on a voluntary basis in relation to the Programme Agreement for clean-ups at the Priolo site. The Agreement, which was signed by the Institutions in November 2008 and recorded by the Italian "Corte dei Conti" in April 2009, concerns the clean-up and environmental restoration of the Priolo site.
  The ERG Group companies present at the site (and the other operators affected) have continued to monitor the development of activities by the Ministry in relation to the requirements, conditions and operating procedures applied in the agreement.
  The ISAB S.r.l. joint venture, owner of the refining plants located in Priolo adhered in 2011 to said Programme Agreement pertaining to the ISAB Impianti Sud Refinery, executing a settlement agreement with the Ministry of the Environment and simultaneously submitting a specific clean–up and environmental restoration plan for the areas of said Refinery.
  On the basis of the 2008 ISAB S.r.l. joint venture agreements on environmental costs, ERG, deeming it likely that a settlement agreement will be stipulated, in the 2010 Financial Statements had already accrued EUR 25 million to the provisions for environmental costs; this amount matches its own share of the currently estimated costs.

- **Legislative Decree 28/2011 dated 3 March 2011** which – implementing European Parliament Directive 2009/28/CE – defined the instruments, mechanisms, incentives and the institutional, financial and legal framework, necessary for the achievement of the 2020 targets set by the European Union with respect to the total portion of energy generated from renewable sources. In particular, with respect to the wind sector, the decree prescribes that for plants already in operation, i.e. for those that will start operations by 31 December 2012, the Italian National Grid Operator (GSE) will continue to withdraw the Green Certificates issued for generation from renewable sources until 2015, as operator of last resort, at a price equal to 78% of the difference between 180 EUR/MWh and the average annual value of the sale price of electricity recorded the previous year upon withdrawal of the certificates (in accordance with the prevalent interpretation) and announced by the Italian Authority for electric energy and gas (AEEG) in accordance with Article 13, Paragraph 3, of Legislative Decree 387 dated 29 December 2003.

- **Legislative Decree no. 55/2011 dated 31 March 2011 implementing the Fuel Directive (2009/30/CE so-called QFD) with regards to the specifications for gasoline and diesel fuel:** the Decree, in connection as to some provisions with Italian Legislative Decree 28/2011, prescribes a mandatory bio-fuel mixing rate of 5% on an energy basis in 2014 and the rules for verifying bio-fuel sustainability criteria; concerning the latter aspect, publication of the implementing Decrees prescribed in the two laws is awaited.

- **European Commission Decision 2011/278/UE dated 27 April 2011, providing rules for harmonising the procedures for the free allocation of emission quotas (in accordance with Article 10 bis of the Directive 2003/87/CE, known as "emission trading") starting from 2013:** the Decision applies to the free allocation of emission quotas, in particular for fixed, existing plants (i.e. those that obtained the authorisation to emit greenhouse gases before 30 June 2011) from 2013 onwards. With respect to plants in the thermoelectric sector, known provisions (indicated in the Directive) are confirmed

with respect to the fact that no free allocations are envisioned for the generation of electric energy, except for specific cases, whilst allocation provisions and procedures are indicated respectively to the plants of the refining sector.

- **Ministerial Decree dated 8 June 2011** whereby the Ministry for Economic Development defined the amount of the CEC adjustment for 2010, i.e. 65.9 EUR/MWh.

- **Ministerial Decree of 23 June 2011** by the Ministry of Economic Development on the early voluntary termination of CIP 6 Conventions for plants fuelled with process fuels or residues or energy recoveries. In addition to a first possibility of exercising the early termination option, to be exercised in the second half of 2011, Ministerial Decree 23/6/2011 gives interested operators the option to request the Energy Services Operator (ESO) the early termination of their convention with "deferred effect", i.e. with effect from 1 January of each year between 2012 and the year of expiration of half of the residual term of validity of the convention, relative to 1 January 2012.
  The time by which the aforesaid option for early termination with "deferred effect" may be exercised, by submitting a request to the ESO, was updated by Ministerial Decree of 7 January 2012 by the Ministry of Economic Development.
  In reference to the above, the company is carrying out adequate studies to assess whether to take advantage of these opportunities.

- **Legislative Decree no. 121 of 7 July 2011,** implementing Directive 2008/99/CE on the protection of the environment through criminal law, and of Directive 2009/123/CE ship-source pollution and on the introduction of penalties including criminal penalties, for pollution offences. In particular, the Decree introduces in Italian law new environmental offenses, amending the Criminal Code and, through an amendment to Legislative Decree 231/2001, it extends to legal persons the liability with respect to a series of environmental offenses prescribed by Legislative Decree 152/2006 ("Consolidated Law on the Environment") and other industry regulations.

- **Decree by the Minister of Economic Development with the concurrence of the Minister of the Environment and for the Protection of Land and Sea dated 4 August 2011 and Decree by the Minister of Economic Development dated 5 September 2011** complementing the provisions of Legislative Decree no. 20 of 8 February 2007, implementing Directive 2004/8/CE on the promotion of cogeneration based on demand for useful heat on the internal market for energy, and the new system for supporting high-efficiency cogeneration was defined.

- **Article 28 Law no. 111/2011** whereby, to enhance market competition and efficiency, some reforms were introduced with respect to the petroleum product distribution segment, in particular with respect to the utilisation of equipment self-service and no-service refuelling with payment in advance.

IMPACTS ON THE GROUP

With reference to the above, no further impacts on the 2011 results of the Group were noted beyond those detailed in the comments on individual events.

BUSINESS SEGMENTS

REFINING & MARKETING

The results of the Coastal Refining and Integrated Downstream sectors are included in the Refining & Marketing sector.
The breakdown of EBITDA at adjusted replacement cost and of the capital expenditures between the various activities of the Refining & Marketing business was as follows:

(EUR MILLION)	YEAR 2011	YEAR 2010
EBITDA AT ADJUSTED REPLACEMENT COST		
COASTAL REFINING	(76)	(31)
INTEGRATED DOWNSTREAM	82	77
TOTAL	**6**	**46**
ADJUSTED CAPITAL EXPENDITURES ON TANGIBLE AND INTANGIBLE FIXED ASSETS		
COASTAL REFINING	39	50
INTEGRATED DOWNSTREAM	38	51
TOTAL	**77**	**100**

COASTAL REFINING

REFERENCE MARKET [1]

	YEAR 2011	YEAR 2010
CRUDE OILS (USD/BARREL)		
BRENT CRUDE PRICE [2]	111.26	79.50
URAL/BRENT DIFFERENTIAL [3]	(1.65)	(1.36)
AZERI LIGHT/BRENT DIFFERENTIAL	3.87	1.71
PRODUCTS (USD/TONNE)		
TRANSPORT DIESEL PRICE	957	683
UNLEADED GASOLINE PRICE	978	729
FUEL OIL PRICE	604	437
CRACK SPREAD (USD/BARREL)		
TRANSPORT DIESEL - BRENT	17.10	12.01
GASOLINE - BRENT	5.86	7.85
ATZ FUEL OIL - BRENT	(16.17)	(10.71)
MARGIN INDICATORS		
EMC (USD/BARREL) [4]	(2.19)	0.33
EMC (EUR/BARREL) [4]	(1.57)	0.25
EUR/USD EXCHANGE RATE	1.392	1.326

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

Crude price

In 2011, the average price of oil (Brent) was 111.3 USD/barrel, with severe fluctuations during the period, from a low of 93.7 USD/barrel on 4 January 2011, when the geopolitical tensions in North African countries had not yet emerged, to a high of 126.6 USD/barrel on 11 April 2011.

2011 saw a succession of events, all characterised by reductions of varying size in crude oil production: from the most significant, i.e. the breakout of the Libyan crisis with the associated cessation of crude oil production, to the recurring reductions in crude oil availability, first in West Africa and then in the North Sea. The embargo against Syria and the rising tensions on Iran contributed to market uncertainty and volatility.

The delayed increase in OPEC production and the modest release of strategic reserves by the IEA in view of a global demand that was still rising in the period to the tune of 0.7 million barrels/day, all concentrated in non-OECD countries, contribute to explain the heavy rise in the price of crude oil relative to the previous year.

The price differential between the Ural crude and the Brent widened slightly, from -1.36 USD/barrel in 2010 to -1.65 USD/barrel; however, it offset only part of its lesser value due to the precipitous drop in the crack spread of fuel oil, in which this crude oil is rich.

The sustained values of the Ural crude oil, compared to trends in fuel oil prices, are linked to the constant contraction in availability in the Mediterranean, as a result of the exports to the Far East and to the lower availability of Iranian crude oil.

The differential of the Azeri Light crude, instead, more than doubled, from +1.71 USD/barrel to +3.87 USD/barrel in 2011: this crude oil was the main alternative to which all Mediterranean refiners turned to get around the lack of Libyan crudes, which by their nature are similar and in competition with the Azeri crude; moreover, a series of operational issues and logistical constraints temporarily limited its production and availability during the year.

Products

The crack spread of transport diesel rose by nearly five dollars, from 12.01 USD/barrel to 17.10 USD/barrel in 2011, propelled by fast growing demand; in Europe, it was also affected by the introduction of new specifications for "off-road" diesel and the shift from transport diesel with 1,000 ppm sulphur content to 10 ppm from 1 January in Turkey (in line with European standards).

On the other hand, the average crack spread of gasoline did not follow the trend of the diesel spread, declining to 5.86 USD/barrel versus 7.85 USD/barrel of the same period of 2010, affected by a significant contraction in European demand and by a poorly receptive US market, both because of the very high inventory levels and because of high retail prices, which slowed down consumption.

The Mediterranean area was also affected by its uncertainties and subsequently by the total block of the exports of this product to Libya, contributing to the severe contraction of its crack spread.

With regards to ATZ fuel oil, its crack spread decreased sharply, by about 5.5 USD/barrel relative to the 2010 average, confirming the general trend whereby it is being replaced with gas and, in general, with non-oil other energy sources for the generation of electricity and for industrial uses. The contraction in demand is nonetheless partially offset by the reduced processing of the refineries and by the increase in imports to Japan as a result of the reduction in nuclear power generation.

In the Mediterranean, the product then found its final balance thanks to a constant, regular outflow towards the Far East, the main outlet market for this material.

Industry refining margins (EMC)

The severe worsening of the notional EMC margin of reference, which was negative by about 2.2 USD/barrel (2.5 USD/barrel less than 2010), mainly reflected the following factors:

- the price trends of the two reference crudes, Azeri and Ural, which – as stated above – recorded respectively a significant rise and a marginal reduction with respect to the reduction in the value of ATZ fuel oil;
- the contraction of the crack-spread on gasoline, in consideration of the high yields of this product in the EMC notional refinery.

HIGHLIGHTS OF ADJUSTED COASTAL REFINING PERFORMANCE (1)

To enhance the understandability of Coastal Refining performance, the results of this business are shown at their adjusted replacement cost, which reflects, for ERG's share (51% until 31 March 2011 and 40% since 1 April 2011), the results of ISAB S.r.l., whose contribution to income at non-adjusted replacement cost values is represented in the measurement of the investment under the equity method of accounting.

(EUR MILLION)	YEAR 2011	YEAR 2010
REVENUES FROM THIRD PARTIES	5,164	3,790
INTRA-SEGMENT REVENUES	1,083	1,256
ADJUSTED REVENUES FROM ORDINARY OPERATIONS	**6,247**	**5,046**
EBITDA AT ADJUSTED REPLACEMENT COST	**(76)**	**(31)**
ADJUSTED AMORTIZATION, DEPRECIATION AND WRITE-DOWNS	(49)	(53)
EBIT AT ADJUSTED REPLACEMENT COST	**(124)**	**(84)**
ADJUSTED CAPITAL EXPENDITURES ON TANGIBLE AND INTANGIBLE FIXED ASSETS	39	50

(1) the illustrated figures do not include:
- gains (losses) on inventories of +61 million in 2011 (+18 in 2010)
- the non-recurring items indicated in the section "Alternative Performance Indicators", to which reference should be made for further details

In 2011, revenues were higher than in 2010, in spite of the smaller volumes processed as a result of the programmed maintenance shutdown of the ISAB Refinery, carried out in the first quarter of 2011 and of the reduced portion of processing, as a consequence of the significant rise in prices and of the greater sale volumes.

EBITDA at adjusted replacement cost in 2011 was negative, i.e. EUR -74 million, EUR 43 million worse than in 2010, both because of the very bad refining scenario, penalised by the Libyan crisis, and because of the effects of the programmed shutdown in the first quarter, which entailed, among other factors, smaller volumes in a period with positive contribution margins; these negative effects were only partly mitigated by the reduction in ERG's portion of refining from 1 April 2011 onwards.

MARGINS AND PROCESSING

	YEAR 2011	YEAR 2010
UNIT CONTRIBUTION MARGINS AT ADJUSTED REPLACEMENT COST [1] OF ERG COASTAL REFINING		
USD/BARREL	0.96	2.12
EUR/BARREL	0.69	1.60
EUR/TONNE [2]	5.0	11.7
PROCESSED VOLUMES (KTONNES)	**4,911**	**7,045**

(1) expressed net of variable production costs (principally costs for utilities), they do not include inventory gains (losses) and non-recurring items and they include the contribution allocable to ERG of ISAB S.r.l.
(2) barrel/tonne conversion factor was equal to 7.305 in 2011 and 7.336 in 2010

The unit contribution margins were very low in 2011 and lower even than the very weak values of 2010, mostly as a result of the negative trend in the prices of crude oils and of fuel oil and partly also of the plant utilisation penalisation in the periods preceding and following the programmed maintenance shutdown of the ISAB refinery.
Moreover, the results of Coastal Refining, in periods of strong crude oil price rises, are penalised by the time delay with which the price of the feedstock sold to ISAB Energy is updated according to the long-term supply agreement. This price is linked, among other factors, to the price of gas for thermoelectric uses, which tends to follow the price of crude with a delay of a few months.
The reduced processing volumes are a consequence both of the programmed maintenance shutdown carried out in the first quarter 2011 on the South plants, which went on for about 45 days, and of the reduction in the share held in ISAB S.r.l., which on 1 April 2011 was reduced from 51% to 40%.
The API degree of the crude oils processed in 2011 (32.5) is lower that of the same period of 2010 (33.2).

HIGHLIGHTS OF PERFORMANCE OF ISAB S.R.L.

The figures that follow refer to 100% of the company.

(EUR MILLION)	YEAR 2011	YEAR 2010
EBITDA AT REPLACEMENT COST [1]	**146**	**156**
AMORTIZATION, DEPRECIATION AND WRITE-DOWNS	(112)	(101)
EBIT AT REPLACEMENT COST [1]	**34**	**55**
CAPITAL EXPENDITURES ON TANGIBLE AND INTANGIBLE FIXED ASSETS	88	96

(1) the data reported do not include gains (losses) on inventories of +59 million in 2011 (+36 in 2010).

Note that as of 31 December 2011, ISAB S.r.l. reported a positive net financial position of approximately EUR 22 million (EUR +75 million at 31 December 2010) as a result of the capital expenditures during the period, of the payment of dividends and of punctual phenomena linked to working capital dynamics.

PROCUREMENT AND PROCESSING YIELDS

In 2011 the areas of origin of the raw materials were: Black Sea 21% (45% in 2010), East Med 31% (25%), North Africa 10% (16%), Middle East 34% (14%), Other 4% (0%).

(THOUSANDS OF TONNES)	YEAR 2011		YEAR 2010	
CONSUMPTION				
CRUDE OIL	4,286	*87.3%*	6,025	*85.5%*
RESIDUES AND SEMI-FINISHED PRODUCTS	625	*12.7%*	1,019	*14.5%*
TOTAL PROCESSING	**4,911**	***100.0%***	**7,045**	***100.0%***
MIXING PRODUCTS	28		173	
TOTAL CONSUMPTION	**4,939**		**7,217**	
PRODUCTION				
FUEL GAS	29	*0.6%*	35	*0.5%*
LPG	90	*1.9%*	131	*1.9%*
NAPHTHA	234	*5.0%*	335	*4.9%*
GASOLINE	1,026	*22.1%*	1,408	*20.6%*
JET FUEL	23	*0.5%*	45	*0.7%*
DIESEL	2,473	*53.2%*	3,515	*51.5%*
VACUUM DIESEL	28	*0.6%*	363	*5.3%*
FUEL OIL	296	*6.4%*	415	*6.1%*
IGCC PLANT FEEDSTOCK	346	*7.4%*	461	*6.8%*
SULPHUR	40	*0.9%*	50	*0.7%*
OTHER PETROCHEMICAL PRODUCTS	60	*1.3%*	67	*1.0%*
TOTAL PRODUCTION	**4,644**	***100.0%***	**6,826**	***100.0%***
SELF-CONSUMPTION AND LOSSES	**294**		**392**	

The table shows ERG's share of processing (51% until 31 March 2011, 40% in the remainder of 2011).

The lower processing volumes of 2011 are a consequence of the programmed maintenance shutdown in ISAB Impianti Sud, carried out during the period, and of the reduction in the ISAB S.r.l. share since 1 April.

The slight increase in the yield of light and medium distillates in 2011, mainly to the detriment of vacuum diesel, is mostly due to the better performance of the plants after the aforementioned programmed maintenance shutdown in the first quarter and partly to the slate being processed (types of crudes and reduced processing of residues), as well as to the economics influencing plant utilisation.

The higher incidence of consumption and losses is mainly a consequence of the programmed shutdown.

INTEGRATED DOWNSTREAM

REFERENCE MARKET [1]

(THOUSANDS OF TONNES)	YEAR 2011	YEAR 2010
ITALIAN RETAIL MARKET		
GASOLINE	9,333	9,886
DIESEL	16,737	17,165
ITALIAN WHOLESALE MARKET		
DIESEL	11,998	11,262
HEATING OIL	1,579	1,874
SPECIALTIES MARKET		
COMBUSTION LPG	1,914	2,163
BITUMEN	2,099	2,004
LUBRICANTS	432	436

(1) estimated figures

Italian Retail Market: in 2011, sales in the Retail Market declined by 3.6% relative to 2010, with a shaper drop for gasoline (-5.6%) and a more contained one for diesel (-2.5%).
The root cause for the contraction in demand, particularly significant in the second part of the year, lies in the still ongoing economic crisis, compounded by the fast growth in retail prices, driven by the sharp rise in international prices for petroleum products and by the increase in excise duties and VAT. These events came in addition to more structural phenomena, which are conditioning consumption in recent years, e.g. improvements in the energy efficiency of the motor vehicle pool and the reduction in the average distance travelled by motorists.

Italian Wholesale Market: in 2011 Wholesale demand for diesel (automotive, marine and agricultural) was higher than in 2010 (+6.5%); this change is mostly due to the growth in demand for transport diesel (+8.9%), only partially offset by the drop in the demand for marine diesel (-2.2%) and agricultural diesel (-2.7%). With regard to heating oil, industry demand contracted sharply (-15.7%) relative to the previous year), also conditioned by the high temperatures, which in the course of the year were higher than seasonal average values.

Specialties Market: in 2011, sales of LPG declined by 11.5% over 2010, because of the higher than average seasonal temperatures during the period, especially in the winter months.
Trends in Bitumen demand still clearly show the effects of the economic crisis, with a slight recovery in consumption relative to 2010 (+4.7%), but with sales far below the historical average. Sales of lubricants declined slightly from the previous year (-0.9%), mainly because of the contraction in the automotive channel.

HIGHLIGHTS OF ADJUSTED INTEGRATED DOWNSTREAM PERFORMANCE

To enhance the understandability of Integrated Downstream performance, the results of this business in 2011 are shown at their adjusted replacement cost, which reflects ERG's share (51%) of the consolidated results of the TotalErg joint venture in 2011.

As a result of the change in scope of consolidation with the aforementioned TotalErg joint venture, the 2011 figures for Integrated Downstream are only partly comparable with the 2010 figures and the underlying values also includes the activities in Sicily (ERG Oil Sicilia).

(EUR MILLION)	YEAR 2011	YEAR 2010
REVENUES FROM THIRD PARTIES	4,651	3,901
INTRA-SEGMENT REVENUES	41	226
REVENUES FROM ORDINARY OPERATIONS	**4,692**	**4,127**
EBITDA AT REPLACEMENT COST (1) (2)	**82**	**77**
AMORTIZATION, DEPRECIATION AND WRITE-DOWNS (2)	(60)	(54)
EBIT AT REPLACEMENT COST (1) (2)	**22**	**23**
CAPITAL EXPENDITURES ON TANGIBLE AND INTANGIBLE FIXED ASSETS	38	51

(1) not including gains (losses) on inventory of EUR +53 million in 2011 (EUR +45 in 2010)
(2) not including non-recurring items indicated in the section "Alternative performance Indicators" to which reference should be made for further details

EBITDA at replacement cost for 2011, i.e. EUR 82 million, was mainly influenced by the negative refining scenarios, which were also affected by the events in North Africa, in particular in the first half of the year. In this environment of persistent severe weakness of the refining segment, which had already penalised the prior year's profitability, the results were still positive, in spite of the effect linked to the decline in industry consumption, partly offset by the progressive attainment of synergies by TotalErg.

DOWNSTREAM IN SICILY

Downstream activities in Sicily are carried out through ERG Oil Sicilia (EOS), which started operations on 1 April 2010 within the scope of the performance of the agreements for the incorporation of TotalErg, and to which all the assets of ERG Petroli in the Region were allocated.

ERG Oil Sicilia operates both in the Retail and Wholesale markets. The network of ERG Oil Sicilia at 31 December 2011 comprises 306 sales outlets with a nationwide market share of about 1.0%. Results in 2011 were satisfactory, for both sales channels, with total sales of 696 thousand tonnes.

HIGHLIGHTS OF TOTALERG PERFORMANCE IN 2011

The following figures refer to 100% of the company, which has operated since 1 October 2010.

(EUR MILLION)	YEAR 2011
EBITDA AT REPLACEMENT COST (1)	**129**
AMORTIZATION, DEPRECIATION AND WRITE-DOWNS	(109)
EBIT AT REPLACEMENT COST (1)	**20**
CAPITAL EXPENDITURES ON TANGIBLE AND INTANGIBLE FIXED ASSETS	68

(1) not including gains (losses) on inventory of EUR +105 million in 2011

The result in terms of EBITDA was influenced by the refining scenarios, severely penalised by the aforementioned North African events and by the repercussions in the Mediterranean area.

Marketing results instead were affected on one hand by the decline in consumption in the Retail sector that was particularly marked in the second half of the year, and on the other hand by margins in the Wholesale and Specialties channels that were below expectations.
The process of obtaining synergies deriving from the unified management of the main business and support processes is progressing as planned and it allowed partly to mitigate the deterioration in refining scenarios and the decline in consumption experienced on the retail channel.
The net financial position of the TotalErg Group as at 31 December 2011 is 449, lower than the 791 as at 31 December 2010, as a result of working capital dynamics.

Retail network

The network, originating from the joint venture between Total and Erg, represents the third largest operator in the Italian market. In 2011, the fuel sales of the TotalErg Network amounted to about 3,084 thousand tonnes; overall market share in Italy was 11.8%, with a growing trend in the late 2011 after the slight decline in the initial months of the year, resulting also from the temporary non-optimisations associated with the merger.
At 31 December 2011, the TotalErg Network in Italy comprises 3,383 stations (of which 2,036 are owned by the Group and 1,347 are leased).
In the third quarter of 2011, the Rebranding programme was completed as scheduled.

Wholesale network

TotalErg operates on the wholesale market by selling petroleum products mainly to companies that in turn resell them to end users on their own local markets and directly to consumers through the subsidiaries Restiani and Eridis.
In 2011, TotalErg wholesale diesel sales, including heating oil, amounted to about 1,410 thousand tonnes.
In addition to the sales made directly by TotalErg, the sector benefited from the results of the subsidiaries:

- Restiani S.p.A., 60% controlled, that operates in the marketing of petroleum products and heat management services for private users in particular in the Northwest area.
- Eridis S.r.l., wholly owned subsidiary that operates in the marketing of petroleum products in the Northwest and Centre-South areas.

Specialties

TotalErg operates in the Specialties sector by selling lubricants (of which it purchases the bases, which it then mixes with additives in its own plant in Savona and in third party plants), bitumen, both normal and modified (produced by its own plants), and LPG, both directly and through the wholly owned subsidiary TotalGaz.
In 2011, sales of lubricants amounted to 51.7 thousand tonnes, of which 4.6 thousand tonnes in the marine/foreign market and 0.6 thousand tonnes in the Retail market. Total market share is about 10.9% through several sale channels, including automotive manufacturers, industrial, resellers and road transport companies (excluding Retail, International Marine and Export).
With regards to bitumen, 255.1 thousand tonnes were sold in the year.
In terms of LPG volumes, 216.5 thousand tonnes were sold.

INLAND REFINERIES

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

MARGINS AND PROCESSING

	YEAR 2011
UNIT CONTRIBUTION MARGINS AT REPLACEMENT COST (1) TOTALERG INLAND REFINERIES	
USD/BARREL	1.01
EUR/BARREL	0.72
EUR/TONNE (2)	5.3
PROCESSED VOLUMES (KTONNES)	**5,179**
OF WHICH	
SARPOM (TRECATE)	1,645
ROME	3,534

(1) the unit contribution margins at replacement cost, net of variable production costs (mainly utility costs) do not include gains (losses) on inventory
(2) barrel/tonne conversion factor was equal to 7.310

TotalErg refineries processing in 2011 amounted to 5,179 thousand tonnes, slowed down by the unfavourable international petroleum scenario. Processing in the Sarpom Refinery was also affected, in the first quarter, by the programmed shutdown of one of the primary distillation towers.
Unit contribution margins were affected by the particularly unfavourable refining scenario created also as a result of the Libyan crisis.

REFERENCE MARKET

	YEAR 2011	YEAR 2010
ITALIAN ELECTRICITY MARKET (GWH) (1)		
DEMAND	332,274	330,455
IMPORT	47,349	45,987
INTERNAL GENERATION (2)	289,166	290,748
OF WHICH		
THERMOELECTRIC	217,369	220,984
RENEWABLE ENERGY SOURCES	71,797	69,764
SALE PRICES (EUR/MWH)		
PUN (3)	72.23	64.12

(1) Source: Terna S.p.A. monthly report on the electrical system. Estimated data, subject to correction.
(2) output net of consumption for auxiliary services
(3) Single National Price. Source: GME S.p.A.

The electricity demand[4] of the national electric system in 2011 amounted to 332.3 TWh. The slight increase (+0.6%) relative to the previous year, is the result of the good recovery in demand during the first half of the year, partially eroded by the decline in late 2011. Electricity demand increased in nearly all areas of the Country, but in percentage terms it grew more sharply in Sicily, reference market area for the ERG Group, where electricity demand in 2011 amounted to 22.5 TWh, up 2.2% compared with 2010.
In 2011, net internal electricity generation, at 289.2 TWh, was slightly lower (-0.5%) than in 2010, whilst the net balance of exchanges with other countries assured imports of 47.3 TWh, up by 3.0% compared to 2010. 75% of (net) domestic electricity output was provided by thermoelectric sources and the remaining 25% by renewable sources.
Generation from CIP 6 plants in 2011, estimated at 26.6 TWh, declined by 27.9% from 2010 (36.9 TWh).
The average value of the PUN (Single National Price) in 2011 was 72.2 EUR/MWh, up by 12.6% compared to the value of the same period of the previous year (i.e. 64.1 EUR/MWh).

4 Including grid losses and net of electrical energy used for pumping.

SUMMARY OF THE MAIN PERFORMANCE ITEMS

(EUR MILLION)	YEAR 2011	YEAR 2010
REVENUES FROM THIRD PARTIES	1,214	1,171
INTRA-SEGMENT REVENUES	221	214
REVENUES FROM ORDINARY OPERATIONS	**1,435**	**1,384**
EBITDA AT REPLACEMENT COST (1)	**239**	**254**
AMORTIZATION, DEPRECIATION AND WRITE-DOWNS (1)	(84)	(75)
EBIT AT REPLACEMENT COST (1)	**155**	**179**
CAPITAL EXPENDITURES ON TANGIBLE AND INTANGIBLE FIXED ASSETS	22	77

(1) the data shown here do not include the non-recurring items indicated in the chapter "Alternative performance indicators," to which reference should made for further details

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

	YEAR 2011	YEAR 2010
EBITDA AT REPLACEMENT COST		
ISAB ENERGY / ISAB ENERGY SERVICES	153	167
ERG POWER & GAS SEGMENT / ERG POWER PLANTS	86	87
TOTAL	**239**	**254**

SALES OF ELECTRIC POWER

	YEAR 2011	YEAR 2010
SALES (GWH)		
TOTAL SALES	**7,344**	**7,049**
ISAB ENERGY	3,655	3,331
ERG POWER & GAS SEGMENT	3,689	3,718
OF WHICH TO ISAB S.R.L.	*202*	*218*
GENERATION (GWH)		
TOTAL GENERATION	**6,696**	**6,234**
OF WHICH ISAB ENERGY S.R.L.	*3,655*	*3,331*
OF WHICH ERG POWER S.R.L.	*3,041*	*2,903*
SALE PRICES (EUR/MWH)		
CIP 6	105.7	95.4

ISAB ENERGY

The results of ISAB Energy are partly subject to changes in market conditions, due to the index linking of prices contained in the electric power sale and raw material purchase contract.

The selling price of electric power generated by ISAB Energy is regulated by Inter-ministerial Price Committee Order no. 6 dated 29 April 1992 (so-called CIP 6/92).

ISAB Energy has been party to a twenty-year agreement with the Italian National Grid Operator (GSE) since 2000, whereby the sale price includes the valuation of the "avoided cost component of fuel" which in turn reflects the changes in natural gas prices. The feedstock, the main raw material used to generate electricity, is acquired from ISAB S.r.l. under a multi-year "take or pay" contract and is also tied to the valuation of the avoided cost of fuel.

In 2011, electricity output totalled 3,655 GWh (3,331 GWh in 2010), with capacity utilisation factor at 79% (72% in 2010). The improvement in the utilisation factor is linked to the full resumption, achieved progressively in the first half of 2010, of the generating capacity of the plant, which had been reduced to half the installed capacity as a result of an accident on 13 October 2008. However, in 2011, this indicator was negatively affected by some limitations to the feed-in of electricity on the national electric grid, which reduced ISAB Energy's generation, especially in May, and by the general programmed maintenance shutdown in the fourth quarter of 2011.

In spite of the increased generation, EBITDA at replacement cost for 2011, amounting to EUR 153 million, is lower than the result of 2010 (EUR 167 million), which included accrued insurance indemnification of EUR 45 million to cover the indirect damages of the period, caused by the October 2008 accident.

For the purposes of these Financial Statements, the criteria for calculating the Avoided Cost of Fuel (CEC) set out by Resolution PAS 09/2010 of the Italian Authority for electrical energy and gas, which is subject to approval by a Decree of the Ministry for Economic Development, not yet issued to date.

This determination was carried out while awaiting the potential effects that could stem from the process to re-determine the CEC adjustment for the year 2008 as a result of the definition of the complex dispute pertaining to AEEG resolutions no. 154/08 and ARG/elt 50/09.

With regard to the Ministerial Decree of 23 June 2011 by the Ministry of Economic Development on the early voluntary termination of CIP 6 Conventions for plants fuelled with process fuels or residues or energy recoveries, please see the comments in the Reference Regulatory Framework chapter.

The net financial indebtedness at 31 December 2011 of the company ISAB Energy, consolidated on a line-by-line basis, was about EUR 95 million, higher than the EUR 86 million at 31 December 2010 as a result of phenomena linked to working capital dynamics.

ERG POWER & GAS SEGMENT AND ERG POWER

In 2011, ERG Power's net electric power generation was 3,041 GWh, compared to 2,903 GWh in 2010, up by 5% (138 GWh of additional generation). The increase is mainly due to the full availability of the ERG Power plant throughout 2011 as a result of the progressive commissioning of the new combined cycle co-generation unit in the initial months of 2010. About 7% of total electric power generation was used to cover the requirements of the North Refinery of ISAB S.r.l.

The net supply[5] of steam fn by ERG Power plants to the Priolo industrial site in 2011 was about 1,945 thousand tonnes (2,270 thousand in 2010), of which about 1,013 thousand tonnes were destined to the North Refinery of ISAB S.r.l.

5 I.E. the supply of steam to the industrial site of Priolo Gargallo excluding pipeline losses, net of steam withdrawal from customers

EBITDA in 2011 was in line with the 2010 value. The indicator was affected by globally favourable prices in the Sicilian electricity market, albeit in decline relative to 2010. The result also benefited, throughout 2011, from the application of the new long-term agreements for the supply of utilities (electricity, steam and demineralised water) to the customers of the multi-company site in Priolo, which became effective in April 2010, and, since October 2011, from entry into the Dispatching Services Market.

The results for the year were also affected by the effects deriving from the Ministry of Economic Development Decrees of 4 August 2011 and of 5 September 2011, pertaining to the promotion of cogeneration. The decrees defined the principles of a new support system for high yield cogeneration. The incentive is based on the system of the Energy Efficiency Certificates (Titoli di Efficienza Energetica, TEE), which are recognised, under certain conditions, for a 10-year time interval. To apply the above, the accrued income from TEE was recognised for a value of about EUR 8 million.

The of the period are also affected by the accrual of provisions for about EUR 8 million, referred mainly to the write-down of the residual amount of an overdue receivable which, based on the progress of the insolvency procedure, saw the likelihood of its recovery decline even further, and for which, a specific provision had already been allocated in 2010 (EUR 11 million).

Lastly, in November a major agreement with IREN Mercato whereby, starting in 2012 and for 6 years, ERG will supply 2 TWh of electricity per year at a price correlated with the market, but with adjustment mechanisms aimed at reducing margin volatility.

This agreement also provided for the sale to IREN Mercato, with effect on 1 January 2012, of the business unit dedicated to the marketing and sale of electricity to free end customers, with a portfolio of about 15,000 supply points to business and mid-business customers.

The agreement will enable ERG on one hand to focus more closely on the management of generating assets, and on the other hand to have an adequate instrument available to protect the margin on the energy generated.

RENEWABLE ENERGY SOURCES

The ERG Group operates in the renewable energy source segment through ERG Renew, a company which, at 31 December 2011, was its wholly owned subsidiary as a result of the takeover bid that ended on 7 June 2011 with the consequent delisting of the subsidiary.
The performance of ERG Renew is based mainly on the wind power generation business. Wind farms consist of wind-power generators that can transform the kinetic energy of wind into mechanical energy, which is used in turn to generate electricity. Aside from the availability of the plants, the performance expected from each wind farm is obviously influenced by the wind speed profile of the site on which the wind farm is located. The economic performance is also influenced by electricity selling prices and by the price of green certificates.

REFERENCE MARKET [1]

	YEAR 2011	YEAR 2010
ITALIAN RENEWABLE ENERGY SOURCES MARKET [2] (GWH)		
GENERATION FROM RENEWABLE SOURCES [3]	71,797	69,764
OF WHICH:		
HYDROELECTRIC	*47,672*	*53,795*
GEOTHERMAL	*5,307*	*5,047*
WIND	*9,560*	*9,048*
PHOTOVOLTAIC	*9,258*	*1,874*
FRENCH RENEWABLE ENERGY SOURCES MARKET [2] (GWH)		
GENERATION FROM RENEWABLE SOURCES [4]	59,267	75,404
OF WHICH WIND POWER	*10,686*	*8,534*
SALE PRICES (EUR/MWH)		
PUN (ITALY) [5]	72.23	64.12
FEED IN TARIFF (FRANCE)	86.98	85.09

(1) estimated output for December
(2) source: Terna S.p.A. monthly report on the electrical system. Estimated data, subject to correction.
(3) sources considered: hydroelectric, geothermal, wind power and photovoltaic energy
(4) sources considered: hydroelectric and wind power
(5) Single National Price

25% of (net) domestic electricity output was provided by renewable sources: 16% from hydroelectric sources, 3% wind, 3% photovoltaic and the remaining 2% from geothermal electric sources. Relative to the same period of the previous year, generation from hydroelectric sources contracted (-11%); on the contrary, generation from geothermal sources increased (+5%), as did wind power (+6%) and particularly photovoltaic power (+394%), driven by the enormous increase in installed power.
On 3 March 2011, the Council of Ministers gave its final approval to the legislative decree implementing Directive 2009/28/EC on the promotion of the use of energy from renewable sources. Said Decree prescribes that for plants already in operation, i.e. for those that will start operations by 31 December 2012, the National Grid Operator (GSE) will continue to withdraw the Green Certificates issued for generation from renewable sources until 2015, as operator of last resort, at a price equal to 78% of the difference between 180 EUR/MWh and the average annual value of the sale price of electricity recorded the previous year and announced by the Italian Authority for Electric Energy and Gas (AEEG), no later than 31 January of each year, in accordance with Article 13, Paragraph 3, of Italian Legislative Decree 387 dated 29 December 2003.

SUMMARY OF THE MAIN PERFORMANCE ITEMS

	YEAR 2011	YEAR 2010
OPERATING RESULTS		
REVENUES FROM THIRD PARTIES	113	72
INTRA-SEGMENT REVENUES	–	–
REVENUES FROM ORDINARY OPERATIONS	**114**	**72**
EBITDA AT REPLACEMENT COST (1)	**69**	**39**
AMORTIZATION, DEPRECIATION AND WRITE-DOWNS (1)	(50)	(33)
EBIT AT REPLACEMENT COST (1)	**19**	**5**
CAPITAL EXPENDITURES ON TANGIBLE AND INTANGIBLE FIXED ASSETS	53	89
OPERATING DATA (THOUSANDS OF MWH)		
GENERATION	740	453
OF WHICH		
ITALY	*627*	*336*
FRANCE	*114*	*117*
INSTALLED POWER AT PERIOD END (2)	548	310
OF WHICH		
ITALY	*483*	*246*
FRANCE	*64*	*64*
VALUATION OF GREEN CERTIFICATES (EUR/MWH)		
2011 GREEN CERTIFICATES	82.12	–
2010 GREEN CERTIFICATES	–	87.25

(1) not including non-recurring items indicated in the chapter "Alternative performance indicators," to which reference should be made for further details
(2) power of plants in operation at the end of the period

Consolidated revenues in 2011 exceed those of 2010 thanks to the full contribution of the two wind farms belonging to ERG Eolica Adriatica, acquired on 23 July 2010, and to the acquisition, completed in August 2011, of the wind farms belonging to ERG Eolica Campania, as well as the progressive start-up, in 2011, of the Fossa del Lupo and Ginestra wind farms.
With regard to sale prices, the increase in the sale price of electricity was accompanied by a decline in the value of the Green Certificates, consistently with the provisions of the aforementioned legislative decree. The average sale price of electricity was 71.4 EUR/MWh, higher than the 65.4 EUR/MWh of 2010, while the value of the Green Certificates, estimated at 82.1 EUR/MWh, decreased from the 87.3 EUR/MWh of 2010.
During 2011, electricity generation by ERG Renew amounted to 740 GWh (453 GWh in 2010); in particular, wind power generation in Italy amounted to 627 GWh versus 336 GWh in 2010. This increase is mainly linked to the full contribution of ERG Eolica Adriatica, to the commissioning of the Fossa del Lupo wind farm, with 97.5 MW of installed power, which started operations progressively in 2011 and achieved full commercial service in July, with 72 GWh generated during the period, as well as to the partial contribution of Ginestra (18 GWh), operational in the final months of 2011 for 28 MW of its 40 MW total planned capacity. Additionally, in August 2011 the acquisition of the ERG Eolica Campania wind farms was completed, and the farms contributed 80 GWh of generated energy.

EBITDA for the period thus grew strongly, reaching EUR 69 million, i.e. about EUR 30 million higher than the same period of 2010, due to the greater output discussed above.
The output from the wind farms in France amounted to 113.5 GWh, 2.8% lower than 2010 because of rather weak winds.
The Group's net installed capacity at 31 December 2011 was 548 MW and it is nearly entirely provided by wind farms (about 1 MW by the new photovoltaic plant installed at the industrial site of ISAB Energy at Priolo Gargallo). The 238 MW increase compared to 31 December 2010 is the result of the commissioning of the Fossa del Lupo wind farm, operational since July 2011 with an installed capacity of 97.5 MW and of the acquisition, completed in August 2011, of the entire share capital of IVPC Power 3 S.p.A. (today, ERG Eolica Campania S.p.A.), owner of three wind farms with total installed power of 111.8 MW, of the partial commissioning, for 28 MW, of the Ginestra wind farm, in addition to the aforementioned photovoltaic plant.
In the 1st half of 2012, the remaining 12 MW of the Ginestra project (40 MW total capacity) are expected progressively to start service. Moreover, the Amaroni wind farm (22.5 MW) is expected to be completed by the end of 2012.
Lastly, during 2011 ERG Renew executed an important partnership agreement with LUKOIL, with the creation of the LUKERG Renew joint venture, through which the two partners aim to reach significant wind power capacity in Eastern European countries.

CAPITAL EXPENDITURES

The adjusted [1] figure for capital expenditures by the ERG Group in 2011 was EUR 155.5 million (EUR 270.4 million in 2010), including EUR 20.5 million for intangible fixed assets (EUR 16.7 million in 2010) and EUR 135.0 million for tangible fixed assets (EUR 253.6 million in 2010).

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

(EUR MILLION)	YEAR 2011	YEAR 2010
REFINING & MARKETING [1]	77	100
POWER & GAS	22	77
RENEWABLE ENERGY SOURCES	53	89
CORPORATE	2	4
TOTAL	**156**	**270**

(1) Refining & Marketing adjusted capital expenditures include ERG's share of the capital expenditures made by ISAB S.r.l. and, starting on 1 October 2010, of the capital expenditures made by TotalErg S.p.A.

Capital expenditures in the Renewable Energy Sources segment do not include the acquisition of companies and in particular the acquisition of wind farms, with a capacity of 102 MW in 2010 pertaining to ERG Eolica Adriatica and of 112 MW in 2011 pertaining to ERG Eolica Campania.

REFINING & MARKETING

- With regards to **Coastal Refining**, in 2011 production began for the capital expenditures, also linked to the general shutdown that took place in the first quarter, aimed at enhancing the yield of transport diesel and of distillates in general, as well as at improving plant efficiency and safety.
  Moreover, the investment plan for the technical and economic improvement of the equipment, with particular reference to the Impianti Nord site, continued to be implemented, as did the planned further interventions for yield improvement and for Health, Safety and Environment.

- With regard, instead, to **Integrated Downstream**, in 2011, investments of about EUR 38 million were made, about EUR 35 million of which related to the 51% of TotalErg and EUR 3 million related to ERG Oil Sicilia (mainly for development activities).
  With reference to TotalErg, most of the capital expenditures of the period involved the Network, mainly for development activities (new sales outlets, renovations, new dealerships, sales outlets enhancement, etc.). A significant portion was also destined to Health, Safety and Environment maintenance and improvement investments.

POWER & GAS

In 2011, at the North Plant of ERG Power work continued on the revamping of the water demineralisation plant to supply treated water for the processes of the Priolo site.
Focused investments continued both at the North plant of ERG Power and in the ISAB Energy plant, to boost the operating efficiency and reliability of the systems; the planned investments for Health, Safety and Environment also continued.
The marked reduction, compared with the previous year, is a consequence of the completion, in the first half of 2010, of the new ERG Power plant, of the reconstruction of ISAB Energy and, to a lesser extent, of the Hydrogen project.

RENEWABLE ENERGY SOURCES

Construction of the Fossa del Lupo wind farm (97.5 MW compared to the planned 90 MW) was completed and the wind farm is in commercial operation. With regard to the Ginestra wind farm (40 MW), 14 WTG (28 MW) started operation in October; the remaining 6 WTG are expected to start operation in the first half of 2012. In September, construction work began on the Amaroni wind farm (22.5 MW), a project acquired on 13 September, expected to start operations by the end of 2012.

RISKS AND UNCERTAINTIES

The ERG Group started implementing an integrated risk management model based on the principles of Enterprise Risk Management (ERM), with particular reference to the CoSO framework (promoted by the Committee of Sponsoring Organisations of the Treadway Commission), with the goal of managing risks optimally (informed acceptance, elimination, reduction, transfer) and of protecting "shareholder value".
The adopted approach is based on the identification and analysis of the Group's main risks, connected to the activities of the corporate organisation, of the business divisions and of the subsidiaries and on the assessment of the current risk management system.
The ultimate purpose of the risk management process is to coordinate the company functions and activities necessary to assure the consistency between the level of residual risk and of acceptable risk, as well as to homogenise the management and monitoring of the main risks at all levels.
In this view, the roles and responsibilities of the following involved persons were defined:

- the Risk Office, established as part of the Internal Control System, is tasked with ensuring, in strict coordination with the Company's businesses and staff functions, the existence and implementation of procedures, processes and all the controls put in place to identify, evaluate and manage the major risks attached to the Group's activities, according to instructions by the Board of Directors and in compliance with currently prevailing laws and regulations;
- the Finance Risk Management department, which provides specialised support in the evaluation of financial, insurance and market risk management operations, and compliance with the overall market risk management policies;
- a set of Committees (Credits, Risks, Investments, etc.) which, for their respective areas, perform a second-level control activities and support the Board of Directors' decisions;
- the various company Functions that, within the scope of their activity, operationally monitor the risk areas.

Within the business lines, the Refining & Marketing Segment continued its revision of the business strategies and risk management and updating processes, procedures and support IT systems, which were the subject of a specific analysis and benchmarking project.
The Power & Gas Segment implemented a new commercial strategy aimed at maximising the energy management margin, minimising price risk by adhering to the Profit at Risk (PaR) limit of the procurement and sales portfolio and at carrying out a new hedging strategy through Otc / commercial sale and coverage of gas formulas (CCGT production cost).
For the Refining & Marketing Segment and the Power & Gas Segment, regular monitoring of exposures and a pre-defined process for reporting to the Risk Committee and to the Board of Directors allowed constant control on risk levels and the management of any critical items observed.
The structured approach characterised by the adoption of ERM methodologies, which over the medium term will make it possible to generate value through a more conscious, formalised and integrated risk management process, is based on an "industrial" business philosophy, in keeping with the history of the Group, whose goal is to minimise financial, credit, liquidity and operational risks; in line with this approach, in the management of financial and market risks, ERG uses derivatives such as options, forwards and swaps, but solely for hedging, and not speculative, purposes. For more details on the financial risks and derivatives used by ERG, see the relevant comment in the Notes to the Consolidated Financial Statements.

The Group has identified the following main risk categories:

- **RISKS RELATED TO GENERAL ECONOMIC CONDITIONS**

  Multiple factors forming the macroeconomic framework, including changes in gross national product, the unemployment rate, interest rate and foreign exchange rate trends, mainly between the Euro and US Dollar, and the cost of raw materials, particularly petroleum raw materials and energy commodities, can affect the Group's operations, equity and financial position.

  During 2011, tensions on the financial markets and the intensification of generalised economic recession conditions had severe repercussions on financial institutions and industrial enterprises and, more in general, on the overall performance of the economy, which showed no signs of recovery during the year.

  The significant, widespread deterioration in market conditions was accentuated by growing hardship in accessing credit, both for consumers and for companies.

  Therefore, there are persistent uncertainties as o whether the measures taken by governments and monetary authorities in response to the situation described above will be able to restore the conditions needed to overcome this situation in a short time. Should these conditions of marked weakness and uncertainty be prolonged significantly, the Group's activity, strategies and outlook for the future could be negatively conditioned; the potential negative consequences of the situation described above are currently at least partly mitigated by the availability of shareholders' equity generated, in particular, by the LUKOIL transaction.

- **RISKS RELATED TO CONDITIONS ON THE REFERENCE MARKET**

  The ERG Group operates principally in sectors that are historically subject to high levels of criticality and extreme cycles. Business results are significantly influenced by the price of raw crude, petroleum products and energy commodities. This is closely related to oil prices, which are determined by international supply and demand, and are subject to numerous external factors including financial speculation, which is a dominant feature of the oil sector.

  Fluctuations in crude oil and petroleum product prices, affected by the persistence of an unfavourable economic situation, have had a significant impact on the Group's results, especially for Refining & Marketing Segment, so we cannot exclude that the persistence of these conditions may, in future, have further negative impacts on ERG's economic-financial results.

  As an operator in the energy sector, the Group needs a continuous supply of crude oil and natural gas for its activities. Crude oil and natural gas are largely supplied by countries that are normally subject to greater political, social and economic uncertainties than those found in countries with consolidated economic and/or political stability.

  In relation to the renewable energies segment, the commercial dependence on a few suppliers of main components in an environment characterised by growing demand may lead to difficulties in procuring key components, also for operation and maintenance activities, or an increase in the costs and times required to obtain such components from other suppliers.

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

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

  The ERG Group uses different forms of financing to cover the requirements of its industrial activities, in particular with regard to the thermoelectric and renewable energies

businesses. Any additional changes in interest rate levels could, therefore, lead to unfavourable changes in loan costs; the onset of difficulties in accessing credit could also make it difficult to support development strategies, although the Group has its own financial resources.
In accordance with its market risk management policies, the ERG Group uses hedging financial instruments to manage this volatility; despite these hedging transactions, sudden changes in currency exchange, interest rates and prices may have a negative impact on the Group's operations and financial position.

- **RISKS RELATED TO INDUSTRIAL ACCIDENTS**
  With regard to the Group's industrial production facilities, there is a risk of injury in the event of a fire or explosion, or in relation to emissions or other unexpected and dangerous factors. Accidents of a certain magnitude could have a negative impact on the operations, equity and financial position of the Group, which mitigates such risks through suitable plant management policies aimed at achieving safety and operating excellence levels in line with best industrial practices.
  Furthermore, the ERG Group transfers its own industrial and third party risk to the insurance market, thereby providing a high level of protection for its facilities, even in the event of an interruption of activity; notwithstanding existing levels of coverage, the Group could still incur costs that exceed the maximum coverage limits of insurance policies, if the international insurance market were to experience difficulties in raising adequate capital.

- **RISKS RELATED TO THE REGULATORY FRAMEWORK AND ENVIRONMENTAL POLICY**
  The activities of the ERG Group are regulated by local, national and international rules that may impact on the different business, in particular those where the regulatory component can provide incentives in the selection of investments (above all, the renewable energies and thermoelectric sectors, with respect to which the Group is adopting a risk management strategies aimed at assessing existing opportunities and, for equal economic attractiveness, to pursue growth in scenarios characterised by low or reduced risk).
  Furthermore, the ERG Group is subject to environmental laws and regulations; in this regard, also in consideration of the recent introduction of environmental criminal offenses in Legislative Decree 231/01, the best industry practices are adopted in order to provide additional guarantees for compliance with the environmental requirements defined by current regulations. In this context, ERG also publishes a Sustainability Report every year, thereby demonstrating its willingness to be transparent in disclosing, internally and externally, its commitments and the initiatives put in place to create value in a way that is sustainable over time, by protecting the rights of all parties that may be affected by the Company's activities.

- **CREDIT RISK**
  Exposure to credit risk, inherent in the possibility of default by a counterparty or in the deterioration of its creditworthiness, is managed by means of appropriate analyses and evaluations of individual counterparties, with each of these being assigned an internal credit rating (internal-ratings-based approach). The assignment of the rating category provides an estimate of the probability of default by a particular counterparty and for each level, the maximum credit to be granted is indicated; it is then carefully monitored and it must never be exceeded. a specific Office within the Financial Department monitors credit risk exposure, and a Credit Committee makes decisions on credit risk matters.
  Inherent in the credit risk, we also find the concentration risk, both by customer and by segment; it is also monitored without ever exhibiting critical situations.
  The choice of counterparties for both the industrial business and financial transactions is based on high credit ratings.

- **OPERATIONAL RISKS**

  The management of operational risks, i.e. those connected to the efficiency and effectiveness of operating processes and business support processes, with the operational and functional continuity of systems and plants, with the safety of individuals and assets, is based on the adoption of the best international standards for their identification, measurement, treatment and monitoring.

  As regards production processes, particular attention is paid to the prevention and control of the related risks, through the implementation of risk assessments, business impact analyses and the development of a business continuity plan, with the aim of ensuring operational continuity.

- **COMPLIANCE RISKS**

  In view of its status as a listed Company and of the multiplicity of businesses in which it operates, of increasing relevance for ERG are the risks linked to compliance with the significant number of regulations to which its activities are subjected ("multi-compliance"). The goal of implementing an ERM methodology is to shift from an approach oriented at specifically managing individual compliance risk areas (Consolidated Finance Act, CONSOB, Borsa Italiana, Legislative Decree 81/08, etc.) by specialised internal organisations, to an integrated, coordinated approach.

  Lastly, in relation to the risks connected with the company's liability for torts deriving from criminal offenses (per Legislative Decree 231/01), the management strategy is aimed at prevention through a structured process consistent with existing best practices and it is based on the adoption of high ethical standards, formalised in a Code of Ethics and in an Organisation and Management Model (both revised and updated during 2011), with which all recipients must comply.

HEALTH, SAFETY AND ENVIRONMENT

HEALTH AND SAFETY

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

In 2011, the Group's Companies continued the activities of the "Safety Project", a long-term, far-reaching initiative aimed at improving and ensuring the widespread assimilation of a culture of safety within ERG. The interdependence of all workers and full compliance with rules and procedures are key elements of this process. The initial phase of the analysis and evaluation of shortcomings with respect to best management practices was followed by the definition and implementation of improvement actions, such as increasing consistency in individual behaviours and strong commitment by the entire organisation for the development of competencies through training and coaching. The project, which is currently in the final part of its second phase, will be completed in 2013 with the purpose of improving company processes and the instruments used, fully integrating the commitment to prevention in the Group's culture, and of enhancing the current Safety Management System in order to make the improvements sustainable over time.

The injury indicators for 2011 show, for the Priolo sites, good performance thanks to the "zero injury" target at ERG Power, a single work-related injury occurred at ISAB Energy and only two injuries at the ISAB Refinery of ISAB S.r.l.

ENVIRONMENT

During 2011, consistently with applicable rules and as a result of technical analyses and evaluations carried out with the Italian Ministry of the Environment as the responsible authority, with the support of the local Authorities, at the Group's industrial sites (ERG Power, ISAB Energy, South and North Plants of the ISAB Refinery), included in the so-called "Priolo National Priority Site", area clean-up work continued. As in the past, the issue is essential to the Group's strategy for sustainable development in the area and in fact, in 2011, with particular regard to the ISAB Refinery – South Plant, ISAB S.r.l. executed the settlement with the Ministry of the Environment in accordance with the procedures set out in the Programme Agreement signed by the government Authorities for this Site.

For the ISAB Energy IGCC plant and the thermoelectric plants of ERG Power, work was started for the implementation of the measures prescribed by the Integrated Environmental Authorisations, issued in accordance with the EC Directive (IPPC – Integrated Pollution Prevention and Control), to improve environmental performance, with particular reference to the reduction of atmospheric emissions and water discharges, and to enhance the monitoring and control procedures adopted at these plants. For the ISAB Refinery (South and North Plants), instead, the process for the issue of the same Authorisation continued and was in fact completed at the end of 2011.

Finally, in 2011, in line with the previous years, ERG made the following fundamental contributions in terms of reducing greenhouse gases in order to achieve national objectives set by the Kyoto Protocol and EU emissions trading directive:

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

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

SAFETY MANAGEMENT AND CERTIFICATION SYSTEMS

Work continued on the programme for the implementation and certification, according to recognised standards (ISO 14001 Environment and OHSAS 18001 Health and Safety), of effective Management Systems to minimise specific risks, pursuing the Group's objective of certifying all industrial sites in accordance with these standards.

The ISAB Refinery also obtained the integrated certification of the two Management Systems, and during 2011 the important target was attained of extending to the ERG Power Site the certification of the Safety Management System (already adopted for the IGCC plant of ISAB Energy) to the OHSAS 18001 standard, following the successful completion of a thorough audit carried out by the accredited Agency.

PRODUCT QUALITY

The Group is committed to improve product quality in accordance with national and EC guidelines, and in particular the percentage of use of bio fuels in automotive products, which is to increase annually at the national up to 10% in 2020. Among bio fuels, the focus is mostly on biodiesel, obtained from processing vegetable oils or other biomasses, and on bio ethanol, originating from dedicated crops; with respect to fossil components, their use contributes to the reduction of greenhouse gases during the products' life cycle, in compliance with sustainability criteria defined and verified through suitable certification systems.

In the sales outlets, in 2011, the marketing of a product line aimed at improving energy efficiency and hence performance continued; this goal is reached thanks to the presence of a poly-functional mix of additives that enables to prevent the formation of deposits in the injection system, facilitating the complete combustion of the product and hence an environmentally more compatible use; the main effects of use of these products, therefore, are "cleaner" combustion, better performance, reduced consumption but above all fewer atmospheric emissions.

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

HUMAN RESOURCES

ORGANISATION

As of 31 December 2011, the ERG Group had a total of 652 employees (-62 from 31 December 2010), at the end of a year during which 20 people were hired and 82 left the Group).

The following is noted:

- ERG S.p.A. personnel was reduced by 31 employees during the year (down to 306), mainly because of the reorganisation resulting from the new shareholder structure set up after the joint ventures in refining and downstream;
- ISAB Energy Services personnel increased by 4 employees, reaching 289, because of the acquisition and rationalisation investment management activities that before had been carried out by the holding company;
- ERG Renew S.p.A. and its subsidiaries (39 employees as at 31 December 2011) saw their personnel numbers decrease by 36 employees, mainly due to the sale of the equity investments held in the companies DSI Servizi Industriali S.r.l. and SODAI Italy S.p.A.

The average age of employees remained slightly below 42, with over 90% of all employees holding either a secondary school diploma or university degree (excluding employees working at the distribution plants and retail/wholesale companies).

In December, effective from 1 January 2012 onwards, the agreements with IREN Mercato were executed for the supply of 2 TWh per year of electricity for six years and for the sale of the ERG business unit tasked with marketing and selling electricity. As a consequence, 11 persons working in the sales area of the Power & Gas Segment were transferred to IREN Mercato.

Additionally, in 2011 ERG expanded its activity in energy markets, starting to operate in the Dispatching Services Market (MSD) with the ERG Power production unit. To assure the constant monitoring of this activity, the company acquired a new organisation working at half shifts.

In 2010, in order to improve operating efficiency and streamline the decision-making process, the overall corporate structure was rationalised, reducing the number of subsidiaries and creating a more efficient organisation that directly handles the management of the oil and power & gas businesses.

According to the Group's new organisation, there is a single Company, ERG S.p.A., that manages in a unified manner: internal control, planning & development, management control, corporate finance, operational and strategic finance, personnel, administration and fiscal, legal and corporate, institutional relations and communications, which orients and oversees its core business in operating and financial terms.

Within it:

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

ERG Renew continues to be the specific company through which development will be pursued in the renewable energies field, both in Italy and abroad.

DEVELOPMENT, TRAINING AND INTERNAL COMMUNICATIONS

Training and development programmes in 2011 were enhanced by initiatives that were strongly oriented to integration in the team and focusing on objectives, in support of the new organisation the ERG Group adopted in 2010.

The definition of objectives, performance indicators and stringent targets was improved through instruments capable of highlighting the expected individual contribution and more closely to focus the entire organisation on the priorities defined by the strategic plan. Subsequently, training sessions were activated to improve economic skills and train the ability to connect economics to enterprise decisions also in the business lines and in the staffs.

Use of the empowerment method became yet more widespread, thanks also to initiatives aimed at promoting personnel's involvement in teams, sharing information and objectives, building stimulating interpersonal relationships, a clear organisation and systematisation of the roles and of the expected contributions, questioning work methods to pursue continuous improvement.

In 2011, the purpose of Internal Communication activities was to seek dialogue with the persons who were involved in the revision of some existing internal communication instruments (Intranet portal and company journal) and to design new events.

- **Intranet Portal and Company Journal**: as a result of the recent changes in the structure of the ERG Group, information instruments were revised to facilitate the ongoing cultural change in the company and to promote integration. For this purpose, all the Group's personnel were involved with questionnaires, focus groups and interviews. Thanks to this work, the content and features of both instruments were revised in order to provide information and services in line with the changed corporate requirements.
- **Events**: within the Team Project, "Focus" was launched; it is a cycle of monthly meetings open to all Group personnel with the goal of sharing information, initiate debates and provide visibility to "who does what" in the company. "Group Meetings" continued with six-month periodicity; they are meetings between the management and executives, whose effectiveness was measured with participants' involvement.

INDUSTRIAL RELATIONS

The ordinary dialogue with the unions continued in a constructive climate in 2011.

In particular, the Union Procedure was initiated and agreement with the Unions was reached for the sale to Iren Mercato S.p.A. of the ERG S.p.A. business unit that markets and sells electricity.

CULTURAL AND SOCIAL ACTIVITIES

ERG AND CULTURE

In 2011 ERG renewed its efforts in activities in favour of cultural and social institutions and events. The Edoardo Garrone Foundation (FEG), set up in 2004 and dedicated to the founder of ERG, is a natural continuation of the involvement of the Garrone and Mondini families, as well as of the Group itself, in the social and cultural arena. A member of the European Foundation Centre, FEG is a not-for-profit cultural foundation that was set up to make a concrete contribution of ideas and resources to research projects and projects for the protection and promotion of art and culture in collaboration with a high-profile scientific committee.

ERG is also a member of CIVITA, an association actively involved in promoting and management of Italy's cultural heritage and in safeguarding, enhancing and providing access to artistic and cultural assets through exhibitions, cinema and European projects and it is a founding member of the Magna Charta foundation that, since 2004, has been dedicated to scientific research, cultural reflection and to devising proposed reforms on major political issues.

In 2011, ERG sponsored the Confindustria's 41st Young Entrepreneurs Conference, held on 10 and 11 June 2011 in Santa Margherita Ligure: this yearly event provides a valuable opportunity for discussion of economic, political and social issues, and it showcases the contribution of young Italian entrepreneurs to the Country's economic and social development.

Among its Social Responsibility activities carried out in Sicily, ERG continues to support the National Institute of Ancient Drama (INDA), which has staged classical works at the Greek Theatre in Siracusa since 1911 and of which it is the sole non-governmental partner since 2009. Collaboration between ERG and the INDA Foundation has traditionally been in the form of support to stage productions (in 2011, the 47th Cycle of Classical Shows at the Greek Theatre) and to the companies' tours visiting the other Greek theatres in the Mediterranean.

ERG AND SOCIAL DEVELOPMENT

Solidarity and social commitment are a foremost part of ERG's system of values; for this reason, the Group has always striven to promote social development in the communities where it operates.

ERG, in collaboration with the David Chiossone Institute, is a project partner in "Dialogo nel Buio" ("A Conversation in the Dark"), in Genoa for the first time. The exhibition, which opened on 14 October 2011, takes place in a self-supporting structure of about 250 m2 positioned in the area in front of the "Old Harbour" and it will remain there until 1 July 2012.

"A Conversation in the Dark" provides an educational experience: a "trip" that takes place in completely dark spaces, accompanied by sight-impaired guides, that allows visitors to "see" in a new way, relying on touch, hearing, smell and taste to live through an extraordinary experience, where roles are reversed and barriers are brought down.

It is an opportunity to discover an alternative way to relate to the world around us and to understand, in an open, unbiased way, the daily life of a disabled person; but therein lies also an opportunity to turn a disability into an irreplaceable professional skill.

ERG sponsored the seventh edition of "Dal Dire al Fare" ("Walk the Talk"), the sole Italian event entirely dedicated to Corporate Social Responsibility, which took place in Milan on 25 and 26 May 2011. The 2011 edition focused on interactivity, to promote (even more than in previous editions) exchanges between participating organisations and visitors through a varied cultural schedule of in-depth looks at issues connected with Corporate Social Responsibility.

In 2011, ERG once again supported, for the fifth consecutive year, the "Safe Driving for young people" project, devised by the Drivemotion Safe Driving Centre and aimed at students of secondary schools in Genoa's Ponente section who have recently gained their driving license, with the participation of the European Parliament, of the Province of Genoa (Traffic and Provincial Police Department) of the Ponente Municipal Authority, of the Traffic Police, of the Italian Red Cross and of the regional and provincial school offices of the Ministry of Public Education.

The goal of the course is to train more capable, mature, responsible young drivers, who above all are aware of their limitations in controlling a car in critical situations, focusing specifically on the hazards of driving when sleepy, intoxicated and under the influence of mood-altering drugs.
In the Siracusa area, ERG supports public health care through initiatives aimed at improving the service offered. The Group signed an agreement with the Siracusa ASP to build the Oncologic Assistance Network in the province, supporting in particular the integration of the medical and paramedic personnel to be employed in the service spanning three area hospitals (Augusta, Lentini and Avola). In this way, ERG serves as a partner in the implementation of a model for the prevention and care of oncologic diseases that is considered at the forefront with respect to the management and quality of the services rendered to citizens. It also continued to support the activities of the Umberto I Hospital and of the Priolo Breast Cancer Centre, providing the diagnostic equipment of the facilities operated by the Siracusa ASP.
In Priolo, Melilli and Augusta, ERG contributed to the social activities organised by the municipal authorities for the young and the elderly, supporting a series of social initiatives throughout the year.
Starting in 2011, ERG, in collaboration with ISAB S.r.l., has supported the "School Project", carrying out activities within schools of all levels in the Siracusa province. In particular, for middle schools, contests were organised on safety and law enforcement issues, in collaboration with the Fire Department and the Carabinieri. For secondary schools, ERG promoted, in collaboration with Junior Achievement Italy, the implementation of the project "Impresa in Azione" ("Enterprise in Action") in Sicily.

ERG AND SPORTS

ERG, after being the Main Sponsor of UC Sampdoria for over nine years, became an institutional partner of the team, supporting the challenging plans for the 2011/2012 football season, focusing on the activities that involve junior players.
ERG, in line with its Corporate Social Responsibility policies, maintains its role as naming sponsor for the tournament "Torneo Ravano ERG", whose spirit if fully consistent with the appreciation and promotion of youth sports. The 2011 edition, which took place from 31 January to 15 February at the Sports Palace of Genoa's International Trade Show, historic location for the event, once again broke previous participation records, with over 4,000 participants and over 600 matches played. In a veritable twinning, the teams that won the football tournament met the winning teams of the similar Archimedes Trophy, which has been a classic youth football even in the Siracusa province for the past 20 years.
ERG supports Fair Play Village, a significant, original initiative by Sampdoria, unique in Italy and carried out with the sponsorship of Serie Bwin FARE (Football Against Racism in Europe), the Liguria Region, Municipality of Genoa, Province of Genoa and Province of Savona. The goal of Fair Play Village is to improve the image of football as a sport and entertainment and to contribute to promote the image of the cities to which the teams belong also with the fans of the home teams, in a festive atmosphere, transcending the outcome of the match and focusing on values like friendship, fair play and equality.
The Group was a "Gold Sponsor" of the 12th edition of "Sports Stars", a project that promotes sports in Liguria, which aims to raise funds for numerous sports clubs and associations, and to provide assistance for the terminally ill.
In the Siracusa area, ERG Supports the "Trofeo Archimede ed Elettra" (Archimedes and Electra Trophy), with the traditional participation of the grammar and middle schools of all municipalities in the Siracusa province. In 2011, the trophy reached its twenty-first edition, with the participation of over 500 primary and middle school students.
ERG also sponsors the Trogylos women's basketball team in the Serie A1 league, which has won two championships (1989 and 2000) and the Champions Cup (1990), and the Siracusa football team, which plays in the First Division.

TREASURY SHARES

As at 31 December 2011 ERG S.p.A. owned 2,100,000 treasury shares with a total purchase value of EUR 26.0 million. In accordance with IAS 32, treasury shares are recorded as a reduction of shareholders' equity.

BRANCH OFFICES

ERG S.p.A. has its registered office and principal place of business in Genoa, Italy.

RELATED PARTIES

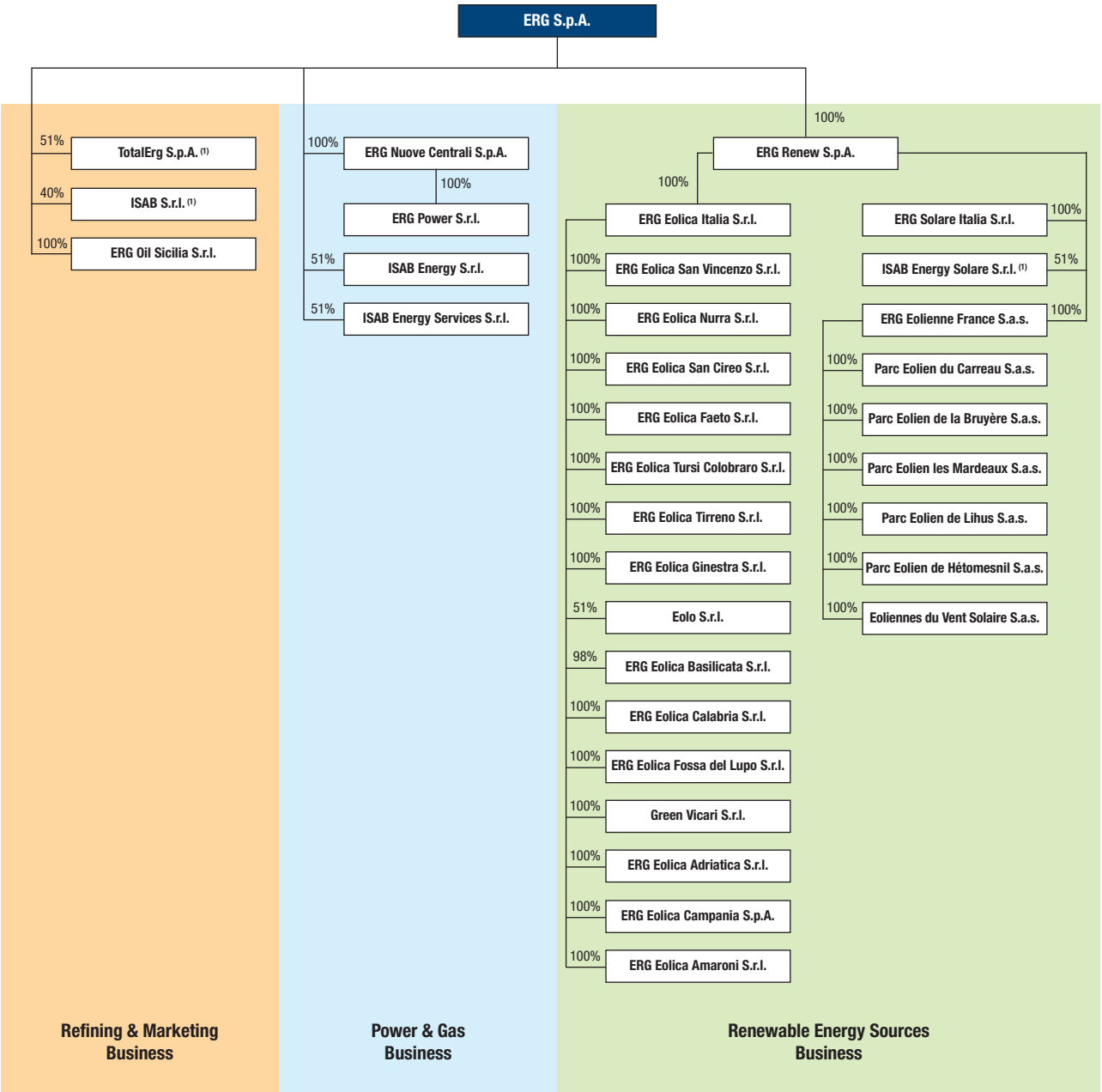
For information on transactions with related parties, including transactions with unconsolidated investee companies, see Note 40 of the Consolidated Financial Statements.

FINANCIAL STATEMENTS

SCOPE OF CONSOLIDATION AND BUSINESS SEGMENTS

The table below shows the scope of consolidation at 31 December 2011.
Compared with 31 December 2010, the following are noted:

- the sale of 11% of the investment in ISAB S.r.l.;
- the acquisition of all shares of ERG Renew S.p.A.;
- the acquisition of ERG Eolica Campania S.p.A. and of ERG Eolica Amaroni S.r.l.;
- the sale of the investments in SODAI S.p.A. and DSI S.r.l.



(1) joint ventures evaluated with the equity method of investment

FINANCIAL STATEMENTS

Comparison with 2010 is affected by the TotalErg transaction, which entailed the deconsolidation, from 1 October 2010 onwards, of the companies included in the joint venture with Total. Please see the section "Alternative performance indicators" for reconciliation with the adjusted data.

CONSOLIDATED INCOME STATEMENT

(EUR MILLION)	YEAR 2011	YEAR 2010
RECLASSIFIED INCOME STATEMENT		
REVENUES FROM ORDINARY OPERATIONS	6,770.3	7,812.9
OTHER REVENUES AND INCOME	28.0	86.6
TOTAL REVENUES	**6,798.3**	**7,899.5**
PURCHASE EXPENSES AND CHANGES IN INVENTORY	(5,875.6)	(6,666.0)
COSTS FOR SERVICES AND OTHER OPERATING COSTS	(730.5)	(995.8)
EBITDA	**192.2**	**237.7**
AMORTIZATION, DEPRECIATION AND WRITE-DOWNS OF FIXED ASSETS	(242.1)	(190.7)
PROCEEDS FROM SALE OF BUSINESS UNIT	–	63.4
NET FINANCIAL INCOME (EXPENSES)	(38.4)	(38.4)
NET INCOME (LOSS) FROM EQUITY INVESTMENTS	153.2	11.0
PROFIT BEFORE TAXES	**65.0**	**83.0**
INCOME TAXES	30.9	(39.6)
PROFIT FOR THE PERIOD	**95.9**	**43.4**
MINORITY INTERESTS	(30.8)	(33.0)
GROUP'S NET PROFIT (LOSS)	**65.1**	**10.4**

REVENUES FROM ORDINARY OPERATIONS

Revenues in 2011 were EUR 6,770 million, compared with EUR 7,813 million in 2010. The change is a result of the following factors:

- the contraction of **Refining & Marketing** revenues, linked mainly to the deconsolidation of the revenues of ERG Petroli starting from 1 October 2010 as a consequence of the TotalErg Transaction and to the programmed shutdown of the ISAB Refinery, partly offset by the increase in average sale prices;
- increased **Thermoelectric Energy** revenues, as a result of the higher quantities sold and of the higher sale prices, partly offset by the programmed maintenance shutdown for the IGCC plant;
- increased revenues from **Renewable Energy Sources**, mainly because of the higher sale volumes as a consequence of increased production capacity.

OTHER REVENUES AND INCOME

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

The decline compared with 2010 is mainly due to the insurance indemnification of ISAB Energy linked to the 2008 accident (EUR +45 million in 2010) and to the deconsolidation of the other revenues and income of ERG Petroli.

PURCHASE EXPENSES AND CHANGES IN INVENTORY

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

In 2011, they are about EUR 1,128 million lower than in 2010, in spite of the rise in raw material prices, as a result of the deconsolidation of ERG Petroli costs and of the programmed shutdown of the ISAB Refinery.

With respect to inventories, raw materials decreased by about EUR 38 million (-147 thousand tonnes relative to 31 December 2010) and increased by about EUR 58 million for finished products (+8 thousand tonnes).

In 2010, raw materials had increased by about EUR 234 million and finished products by about EUR 123 million.

It should be noted that on the basis of the weighted average cost method, the inventory change is impacted not only by the exact level of inventories in stock at the end of the period, but also by the variation in raw material and finished product purchase prices.

COSTS FOR SERVICES AND OTHER OPERATING COSTS

Costs for services include the processing costs of the ISAB Refinery, maintenance costs, commercial expenses (including product transport and electricity costs), costs for utilities, consulting services, insurance, marketing and for services rendered by third parties.

The other operating costs mainly relate to cost of labour, rent, provisions for risks and charges and to taxes other than income taxes.

The decrease compared with 2010 is mainly linked to the effect of the change in the scope of consolidation linked to the TotalErg Transaction.

AMORTIZATION, DEPRECIATION AND WRITE-DOWNS

The decrease in amortization and depreciation is due to the effects of the TotalErg Transaction, partly offset by the increased amortization and depreciation resulting from the commissioning of new plants in the Power & Gas and Renewable Sources segments. In 2011, the item also includes write-downs pertaining to:

- the Power & Gas segment, for about EUR 95 million referred to the CCGT thermoelectric energy generation plant, as a result of the impairment test carried out at year end and commented in the Notes to the Consolidated Financial Statements;
- the Renewable Sources segment (water Services) for about EUR 3 million.

In 2010, the item included EUR 37 million of write-downs made as a result of the impairment test carried out at year end, mainly referred to the Renewable Energy Sources segment.

PROCEEDS FROM SALE OF BUSINESS UNIT

In 2010, they relate to the capital gain of EUR 63 million realised with the TotalErg transaction. For additional details, please see the 2010 Financial Statements.

NET FINANCIAL INCOME (EXPENSES)

Net financial expenses in 2010 amounted to EUR 38 million, substantially in line with the previous year, in consideration of:

- positive impact of the exchange rate differences, mainly of a commercial nature for EUR 4 million;
- higher net interest expenses (EUR -14 million), mainly because of higher rates and greater volumes;
- positive impact of the change in fair value of derivative instruments (EUR 5 million);
- other changes (EUR +5 million) linked mainly to the effects of the TotalErg transaction and in particular to the deconsolidation of ERG Petroli.

NET INCOME (LOSS) FROM EQUITY INVESTMENTS

In 2011 the item includes mainly the EUR 109 million gain deriving from the sale of 11% of ISAB S.r.l. on 1 April 2011.

The item also includes the results of the ISAB S.r.l. and TotalErg S.p.A. joint ventures which, in 2011, benefited from the positive effect of the price rise on the value of inventory.

INCOME TAXES

Income taxes in 2011 were positive at EUR 31 million (EUR -40 million in 2010) and comprise EUR 39 million in current taxes and EUR 69 million in deferred tax assets.

The aforementioned Law no. 148/2011 of 14 September 2011 introduced the temporary rise in the IRES surcharge rate from 6.5% to 10.5% for 2011, 2012 and 2013 and the application of the same rate also to other energy industry operator, such as those of the Renewable energy sources sector (i.e. wind power, photovoltaic, etc.);

Introduction of the aforesaid changes entailed a negative net impact of about EUR 4 million on current taxes to be paid and a net positive effect on deferred tax assets and on deferred tax liabilities, amounting to about EUR 9 million, entirely recognised in 2011. This effect is figurative in nature and it refers mainly to deferred taxes allocated in the Consolidated Financial Statements in accordance with international financial reporting standards.

The item also includes the effects of the introduction of Law no. 111/2011 and subsequent clarifications which amended Article 84 of the Consolidated Income Tax Act in reference to the suppression of the 5-year limit prescribed for the purposes of the possibility to bring forward previous tax losses.

The introduction of these changes had a positive impact on these Financial Statements, deriving from the recognition of receivables pertaining to previous tax losses, for an amount of about EUR 11 million.

The tax rate at adjusted replacement cost, derived from the ratio between income taxes and pre-tax profit net of inventory gains/losses and non-recurring items, was not significant because of the loss before taxes recorded during the year.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(EUR MILLION)	12/31/2011	12/31/2010
RECLASSIFIED STATEMENT OF FINANCIAL POSITION		
FIXED ASSETS	2,825.1	2,837.2
WORKING CAPITAL	167.2	49.8
EMPLOYEES' SEVERANCE INDEMNITIES	(3.5)	(4.6)
OTHER ASSETS	439.1	360.5
OTHER LIABILITIES	(586.1)	(628.6)
NET INVESTED CAPITAL	**2,841.7**	**2,614.4**
GROUP SHAREHOLDERS' EQUITY	1,727.8	1,740.4
MINORITY INTERESTS	150.5	151.1
NET FINANCIAL INDEBTEDNESS	963.5	722.9
SHAREHOLDERS' EQUITY AND FINANCIAL DEBT	**2,841.7**	**2,614.4**

At 31 December 2011, net invested capital was EUR 2,842 million.
Financial leverage, which represents the ratio of total net financial indebtedness (including Project Financing) and net invested capital, was 34% (28% at 31 December 2010).

FIXED ASSETS

Fixed assets include tangible, intangible and financial fixed assets. The slight decrease relative to 31 December 2010 is mainly due to the write-down of the CCGT plant, partially offset by acquisitions in the wind power sector.

WORKING CAPITAL

Net working capital includes inventory, trade receivables and payables, and excise duties payable.
The increase relative to 31 December 2011 is due in particular to punctual phenomena linked to working capital dynamics.

OTHER ASSETS

These mostly comprise deferred tax assets, receivables from Tax Authorities for tax advances and advance payments made against current provision of services.

OTHER LIABILITIES

These mainly concern the deferred tax liabilities calculated on the differences between the carrying value of recognised assets and liabilities for financial reporting purposes and their corresponding tax basis (mainly fixed assets and inventories), the estimate of income taxes owed for the period, the provisions for liabilities and charges, VAT payables and the deferred income resulting from deferred recognition in the Consolidated Income Statement of the CIP 6 price increase on sales of electricity by subsidiary ISAB Energy.

NET FINANCIAL INDEBTEDNESS

(EUR MILLION)	12/31/2011	12/31/2010
SUMMARY OF THE GROUP'S INDEBTEDNESS		
MEDIUM/LONG-TERM FINANCIAL INDEBTEDNESS	1,012.7	1,221.7
SHORT-TERM FINANCIAL INDEBTEDNESS (CASH AND CASH EQUIVALENTS)	(49.3)	(498.9)
TOTAL	**963.5**	**722.9**

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

(EUR MILLION)	12/31/2011	12/31/2010
MEDIUM/LONG-TERM FINANCIAL INDEBTEDNESS		
MEDIUM/LONG-TERM BANK BORROWINGS	439.2	667.6
CURRENT PORTION OF MORTGAGES AND LOANS	(150.7)	(227.6)
MEDIUM/LONG-TERM FINANCIAL PAYABLES	83.4	67.5
TOTAL	**371.8**	**507.5**
MEDIUM/LONG-TERM PROJECT FINANCING	793.0	792.8
CURRENT PORTION OF PROJECT FINANCING	(152.1)	(78.6)
TOTAL PROJECT FINANCING	**640.9**	**714.2**
TOTAL	**1,012.7**	**1,221.7**

The medium/long-term financial payables refer mainly to interest-bearing loans granted to ISAB Energy S.r.l. by the IPM group (EUR 21 million) which, through its subsidiaries, owns 49% of the company. Repayment is subject to the conditions set out in the Project Financing agreement. The medium/long-term financial payables also include liabilities deriving from the fair value measurement of the derivatives and the medium/long-term portion of financial payables to unconsolidated Group companies (mainly ISAB S.r.l.).

The payables for "medium/long-term Project Financing" are for:

- EUR 77 million in loans granted to ISAB Energy S.r.l. by a pool of international banks. These loans were originally issued for an amount equal to 90% of the cost of the cogeneration plant;
- EUR 270 million in loans granted to ERG Power S.r.l. for the construction of the new CCGT plant;
- EUR 446 million in loans granted to companies in the Renewable Energy Sources division for the construction of wind farms.

In compliance with IAS 39, the accessory expenses incurred to obtain the loans are presented as a reduction of the payable to which they refer, according to the amortised cost method.

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

(EUR MILLION)	12/31/2011	12/31/2010
SHORT TERM FINANCIAL INDEBTEDNESS (CASH AND CASH EQUIVALENTS)		
SHORT-TERM BANK BORROWINGS	186.0	527.5
CURRENT PORTION OF MORTGAGES AND LOANS	150.7	227.6
OTHER SHORT-TERM FINANCIAL DEBTS	14.2	33.4
SHORT-TERM FINANCIAL LIABILITIES	**351.0**	**788.5**
CASH AND CASH EQUIVALENTS	(437.3)	(1,141.7)
SECURITIES AND OTHER SHORT-TERM FINANCIAL RECEIVABLES	(19,7)	(53.4)
SHORT-TERM FINANCIAL ASSETS	**(457.1)**	**(1,195.1)**
SHORT-TERM PROJECT FINANCING	152,1	78.6
CASH AND CASH EQUIVALENTS	(95.3)	(170.8)
PROJECT FINANCING	**56,8**	**(92.3)**
TOTAL	**(49.3)**	**(498.9)**

Other short-term financial payables mainly comprise:

- financial payables to unconsolidated Group companies (primarily ISAB S.r.l.);
- liabilities arising from fair value valuation of derivatives;
- short-term payables to companies controlled by IPM Eagle.

The amount of cash and cash equivalents comprises mainly the liquidity deriving from collection of the payment for the sale of 49% of ISAB S.r.l. (in 2008 and 2009) and for the subsequent sale of 11% in April 2011 and the restricted bank accounts according to the conditions set out in the Project Financing agreements.
The decrease is mainly due to the reduction in short-term payables to banks, to the repayment of maturing medium-long term loans and to the financing of wind farm acquisition and development transactions, which took place during the year.
"Short-term financial assets" also comprise short-term securities for use as liquidity.
The decrease in "Securities and other short term financial receivables" refers mainly to a lower temporary utilisation of liquidity in the securities described above.

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

(EUR MILLION)	YEAR 2011	YEAR 2010
CASH FLOWS FROM OPERATING ACTIVITIES		
ADJUSTED CASH FLOW FROM CURRENT OPERATIONS (1)	58.6	67.2
INCOME TAX PAID	(34.7)	(15.0)
CHANGE IN WORKING CAPITAL	(78.6)	(9.2)
CHANGE IN OTHER OPERATING ASSETS AND LIABILITIES	(21.8)	75.9
TOTAL	**(76.5)**	**119.0**
CASH FLOWS FROM INVESTING ACTIVITIES		
NET CAPITAL EXPENDITURES ON TANGIBLE AND INTANGIBLE FIXED ASSETS (2)	(84.4)	(192.6)
NET CAPITAL EXPENDITURES IN FINANCIAL FIXED ASSETS	13.1	6.5
COLLECTION FOR THE SALE OF 11% ISAB S.R.L.	244.8	–
TOTAL	**173.7**	**(186.1)**
CASH FLOWS FROM SHAREHOLDERS' EQUITY		
DISTRIBUTED DIVIDENDS	(67.0)	(80.7)
OTHER CHANGES IN EQUITY	(43.1)	0.6
TOTAL	**(110.1)**	**(80.1)**
CHANGE IN SCOPE OF CONSOLIDATION	**(227.8)**	**86.5**
CHANGE IN NET FINANCIAL INDEBTEDNESS	**(240.6)**	**(60.7)**
INITIAL NET FINANCIAL INDEBTEDNESS	**722.9**	**662.2**
CHANGE IN THE PERIOD	***240.6***	***60.7***
FINAL NET FINANCIAL INDEBTEDNESS	**963.5**	**722.9**

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

The increase by EUR 241 million in net financial indebtedness compared with 31 December 2010 is mainly due to the acquisition of ERG Eolica Campania, to the capital expenditures in the period, to the acquisition of the minority shares of ERG Renew as a result of the completion of the takeover bid and to the payment of dividends partially offset by the collection of the payment for the sale of 11% of ISAB S.r.l.

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

ALTERNATIVE PERFORMANCE INDICATORS

In order to enhance understandability of trends in the business segments, the financial results are also shown at **adjusted replacement cost**, excluding gains (losses) on inventories and non-recurring items, and including the contribution, for the portion attributable to ERG, of the results at replacement cost of the joint ventures ISAB S.r.l. and TotalErg S.p.A.

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

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

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

Non-recurring items include significant but unusual earnings.

The performance also includes the **contribution of ISAB S.r.l. and TotalErg S.p.A. joint ventures for the portion attributable to ERG.**
To enhance understandability of the performance of Refining & Marketing, the results of the business are also shown at adjusted replacement cost that takes into account, for the portion attributable to ERG, the results at replacement cost of ISAB S.r.l. .and TotalErg S.p.A. whose contribution in the Consolidated Income Statement not at adjusted replacement cost is reported in the value of the investment measured under the equity method of accounting.

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

RECONCILIATION WITH OPERATING RESULTS AT ADJUSTED REPLACEMENT COST

EBITDA

	NOTE	YEAR 2011	YEAR 2010
EBITDA FROM 'CONTINUED' ACTIVITIES	**A**	**192.2**	**153.9**
CONTRIBUTION FROM 'DISCONTINUED OPERATIONS'	**A**	*–*	*83.8*
EBITDA		**192.2**	**237.7**
EXCLUSION OF INVENTORY GAINS / LOSSES		*(36.3)*	*(62.4)*
EXCLUSION OF NON CHARACTERISTIC ITEMS:			
CORPORATE DIVISION			
- ACCESSORY CHARGES ON TOTALERG TRANSACTION	**B**	*–*	*11.3*
COASTAL REFINING			
- RESTRUCTURING CHARGES	**B**	*–*	*1.5*
- ENVIRONMENTAL EXPENSES	**B**	*–*	*25.0*
EBITDA AT REPLACEMENT COST		**155.9**	**213.2**
ERG SHARE OF ISAB CONTRIBUTION AT ADJUSTED REPLACEMENT COST	**1**	*62.5*	*79.6*
TOTALERG 51% CONTRIBUTION AT ADJUSTED REPLACEMENT COST	**2**	*65.7*	*12.5*
EBITDA AT ADJUSTED REPLACEMENT COST		**284.1**	**305.4**

Amortization, depreciation and write-downs

	NOTE	YEAR 2011	YEAR 2010
DEPRECIATION OF 'CONTINUED' ASSETS	**A**	**(242.1)**	**(153.1)**
CONTRIBUTION FROM 'DISCONTINUED OPERATIONS'	**A**	*–*	*(37.6)*
AMORTIZATION, DEPRECIATION AND WRITE-DOWNS		**(242.1)**	**(190.7)**
EXCLUSION OF NON CHARACTERISTIC ITEMS:			
RENEWABLE ENERGY SOURCES			
- WRITE-DOWNS IN THE RENEWABLE ENERGY SOURCES SEGMENT	**3**	*3.3*	*36.6*
- WRITE-DOWNS IN THE POWER & GAS SEGMENT	**7**	*94.9*	*–*
AMORTIZATION AND DEPRECIATION AT REPLACEMENT COST		**(143.9)**	**(154.1)**
ERG SHARE OF ISAB CONTRIBUTION AT ADJUSTED REPLACEMENT COST	**1**	*(47.5)*	*(51.6)*
TOTALERG 51% CONTRIBUTION AT ADJUSTED REPLACEMENT COST	**2**	*(55.6)*	*(13.8)*
AMORTIZATION AND DEPRECIATION AT ADJUSTED REPLACEMENT COST		**(246.9)**	**(219.5)**

EBIT

	NOTE	YEAR 2011	YEAR 2010
EBIT AT REPLACEMENT COST		**12.0**	**59.1**
ERG SHARE OF ISAB CONTRIBUTION AT ADJUSTED REPLACEMENT COST	**1**	*15.0*	*28.0*
TOTALERG 51% CONTRIBUTION AT ADJUSTED REPLACEMENT COST	**2**	*10.1*	*(1.2)*
EBIT AT ADJUSTED REPLACEMENT COST		**37.1**	**85.9**

Group's net profit (loss)

	NOTE	YEAR 2011	YEAR 2010
GROUP'S NET PROFIT (LOSS)		**65.1**	**10,4**
EXCLUSION OF INVENTORY GAINS / LOSSES		*(65.0)*	*(52.8)*
EXCLUSION OF NON CHARACTERISTIC ITEMS:			
EXCLUSION OF EXPENSES FOR TOTALERG TRANSACTION	**B**	*–*	*11.13*
EXCLUSION OF CAPITAL GAIN FROM TOTALERG TRANSACTION	**B**	*–*	*(62.34)*
EXCLUSION OF ITEMS RELATING TO ERG PETROLEOS	**B**	*–*	*7.70*
EXCLUSION OF ITEMS RELATING TO "RESTRUCTURING EXPENSES"	**B**	*–*	*1.53*
EXCLUSION OF TOTALERG NON-RECURRING ITEMS	**B**	*–*	*12.21*
EXCLUSION OF WRITE-OFF OF 2009 TAX ASSET	**B**	*–*	*6.21*
EXCLUSION OF NON-RECURRING ITEMS "COASTAL REFINING ENVIRONMENTAL EXPENSES"	**B**	*–*	*18.13*
EXCLUSION OF CAPITAL GAIN FROM SALE OF 11% ISAB	**4**	*(107.0)*	*–*
RECOGNITION OF TAX RECEIVABLES ON PRIOR LOSSES	**6**	*(10.8)*	*–*
EXCLUSION OF TOTALERG NON-RECURRING ITEMS	**5**	*3.2*	*–*
EXCLUSION OF NON-RECURRING ITEMS "WRITE-DOWNS IN THE POWER & GAS SECTOR"	**7**	*62.6*	*–*
EXCLUSION OF NON-RECURRING ITEMS "WRITE-DOWNS IN THE RENEWABLE ENERGY SOURCES SECTOR"	**3**	*3.3*	*27.8*
GROUP NET PROFIT (LOSS) AT ADJUSTED REPLACEMENT COST (1)		**(48.6)**	**(20.1)**

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

Notes

(A) for additional details on the application of IFRS 5, please see corresponding notes in the 2010 Financial Statements;

(B) with regards to the non-recurring items of 2010, please see the 2010 Financial Statements;

(1) results at replacement cost of the ERG share of ISAB S.r.l. (51% through 31 March 2011 and 40% from 1 April 2011) net of inventory gains (losses) and non-recurring items;

(2) results at replacement cost for TotalErg net of inventory gains (losses) and non-recurring items;

(3) in 2011, write-downs related to the Renewable Energies segment, in particular referred to the sale of the Water Services business;

(4) capital gain pertaining to the sale of 11% of ISAB S.r.l.;

(5) costs incurred by TotalErg for the integration of TOTAL Italia and ERG Petroli assets, deemed certain;

(6) Recognition of tax receivables on prior losses;

(7) in 2011, write downs relating to the Power & Gas segment, in particular referred to the write-down of the CCGT plant for EUR 95 million, net of EUR 32 million of tax effect.

RECONCILIATION WITH ADJUSTED NET FINANCIAL INDEBTEDNESS

	12/31/2011	12/31/2010
ADJUSTED NET FINANCIAL INDEBTEDNESS		
NET FINANCIAL INDEBTEDNESS	**963.5**	**722.9**
NET FINANCIAL POSITION OF ISAB	*(8.8)*	*(38.3)*
NET FINANCIAL POSITION OF TOTALERG	*228.8*	*403.4*
ELIMINATION OF INTRA-GROUP ITEMS	*(4.2)*	*(6.0)*
ADJUSTED NET FINANCIAL INDEBTEDNESS	**1,179.2**	**1,082.0**

The adjusted figures for net financial indebtedness take into consideration the portion attributable to ERG of the net financial position of ISAB and TotalErg net of the related intra-group items.

ERG S.P.A. FINANCIAL STATEMENTS

The statutory separate year-end Financial Statements of ERG S.p.A. as of 31 December 2011 have been drawn up on the basis of the Standards issued by the International Accounting Standards Board (IASB) and approved by the European Union, inclusive of all international standards that have undergone interpretation (International Accounting Standards – IAS – and International Financial Reporting Standards – IFRS) and the interpretations of the International Financial Reporting Interpretation Committee (IFRIC) and of the previous Standing Interpretations Committee (SIC).

INCOME STATEMENT

(EUR MILLION)	YEAR 2011	YEAR 2010
RECLASSIFIED INCOME STATEMENT		
REVENUES FROM ORDINARY OPERATIONS	6,105,8	4,867,8
OTHER REVENUES AND INCOME	19.8	20.9
TOTAL REVENUES	**6,125.7**	**4,888.7**
PURCHASE EXPENSES AND CHANGES IN INVENTORY	(5,584.3)	(4,321.2)
COSTS FOR SERVICES AND OTHER OPERATING COSTS	(672.2)	(733.6)
EBITDA	**(130.8)**	**(166.0)**
AMORTIZATION, DEPRECIATION AND WRITE-DOWNS OF FIXED ASSETS	(7.3)	(7.0)
NET FINANCIAL INCOME (EXPENSES)	25.4	(3.3)
PROCEEDS FROM SALE OF BUSINESS UNIT	–	434.9
NET INCOME (LOSS) FROM EQUITY INVESTMENTS	98.6	108.4
PROFIT BEFORE TAXES	**(14.1)**	**367.0**
INCOME TAXES	34.0	31.1
PROFIT FOR THE PERIOD	**19.9**	**398.1**

REVENUES FROM ORDINARY OPERATIONS

Revenues in 2011 were EUR 6,106 million, compared with EUR 4,868 million in 2010. The increase is a result of the following factors:

- the increased revenues of the **Refining & Marketing** Segment, linked to the increase in quantities sold and in average sale prices;
- the increased revenues of the **Power & Gas** Segment, mainly as a result of the increase in sale, consistent with the consolidation of the marketing of electricity, other utilities and gas.

OTHER REVENUES AND INCOME

The other revenues are mainly from companies in the Group and they pertain in particular to revenues for the sale of mandatory inventory, recovered advertising expenses and miscellanea.

PURCHASE EXPENSES AND CHANGES IN INVENTORY

Purchase expenses mainly refer to purchases of crude oil and products and include accessory, transport, insurance expenses, commissions, inspections and customs duties. They also includes the costs for purchases in the thermo-electric segment for the procurement of electricity, other utilities and natural gas.

It should be noted that on the basis of the weighted average cost method, the inventory change is impacted not only by the exact level of inventories in stock at the end of the period, but also by the variation in raw material and finished product purchase prices.

COSTS FOR SERVICES AND OTHER OPERATING COSTS

Costs for services include the processing costs of the ISAB Refinery, commercial expenses, electricity and natural gas distribution and transport costs, and the payment to ERG Power S.r.l. for the tolling agreement.

The other operating costs mainly relate to cost of labour, rent, provisions for risks and charges and to taxes other than income taxes.

The value was lower than in 2010 by effect of the lower processing costs re-charged by ISAB S.r.l., lower consultation costs, lower personnel costs, partially offset by higher distribution and transport costs.

AMORTIZATION, DEPRECIATION AND WRITE-DOWNS

The increase in amortization and depreciation is a consequence of the new investments made in software.

NET FINANCIAL INCOME (EXPENSES)

The most significant entries included in the item are the gains and losses on foreign exchange rates, financial income from subsidiaries and bank interest expenses. The change is mainly due to the positive effect of the exchange rate differences and of the income from subsidiaries, partially offset by the increased interest expense on medium-long term loans.

PROCEEDS FROM SALE OF BUSINESS UNIT

In 2010, the net proceeds included the capital gain of EUR 435 million, realised within the TotalErg transaction.

NET INCOME (LOSS) FROM EQUITY INVESTMENTS

The mostly comprise the dividends received from the investee companies.

In 2011, the item includes:

- income from the capital gain of EUR 122.3 million realised with the exercise of the put option on 11% of ISAB S.r.l. For additional details, please see the comments in the related chapter of the Notes to the Consolidated Financial Statements.
- expenses relating to the write-down of the equity investment in ERG Nuove Centrali, as a result of the impairment test commented in the Notes to the Financial Statements.

INCOME TAXES

The item includes the balance of taxes deriving from the recovery, for IRES purposes, of the Company's tax loss.

STATEMENT OF FINANCIAL POSITION

(EUR MILLION)	12/31/2011	12/31/2010
RECLASSIFIED STATEMENT OF FINANCIAL POSITION		
FIXED ASSETS	1,712.2	1,699.4
WORKING CAPITAL	55.9	(20.5)
EMPLOYEES' SEVERANCE INDEMNITIES	(1.3)	(1.9)
OTHER ASSETS	144.8	96.0
OTHER LIABILITIES	(161.7)	(125.9)
NET INVESTED CAPITAL	**1,750.0**	**1,647.1**
SHAREHOLDERS' EQUITY	1,615.2	1,657.3
NET FINANCIAL INDEBTEDNESS	134.8	(10.3)
SHAREHOLDERS' EQUITY AND FINANCIAL DEBT	**1,750.0**	**1,647.1**

As of 31 December 2011 net invested capital amounted to approximately EUR 1,750 million, an increase of some EUR 103 million compared with 2010.

FIXED ASSETS

Fixed assets consist mainly of financial fixed assets. The increase from the previous year derived mainly from the completion of the take-over bid on ERG Renew S.p.A. and from new credit securities issues to subsidiaries.

NET WORKING CAPITAL

Net working capital consists of trade receivables and payables vis-à-vis Group companies and third parties.

OTHER ASSETS

They mainly comprise receivables from tax authorities and other receivables from Group companies. The item also includes deferred tax assets and prepaid expenses.

OTHER LIABILITIES

They mainly comprise short-term tax payables, payables to Group companies and other payables. It also includes the other provisions for risks and future liabilities.

NET FINANCIAL INDEBTEDNESS

(EUR MILLION)	12/31/2011	12/31/2010
SUMMARY OF NET INDEBTEDNESS		
MEDIUM/LONG-TERM FINANCIAL INDEBTEDNESS	283.6	420.5
SHORT-TERM FINANCIAL INDEBTEDNESS	(148.8)	(430.8)
TOTAL	**134.8**	**(10.3)**

The following table shows the medium/long-term financial indebtedness:

(EUR MILLION)	12/31/2011	12/31/2010
MEDIUM/LONG-TERM FINANCIAL INDEBTEDNESS		
MEDIUM/LONG-TERM BANK BORROWINGS	419.7	638.9
CURRENT PORTION OF MORTGAGES AND LOANS	(136.0)	(218.4)
TOTAL	**283.6**	**420.5**

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

(EUR MILLION)	12/31/2011	12/31/2010
SHORT-TERM FINANCIAL INDEBTEDNESS		
SHORT-TERM BANK BORROWINGS	307.0	729.5
OTHER SHORT-TERM FINANCIAL DEBTS	3.9	1.4
FINANCIAL PAYABLES TO SUBSIDIARIES	5.3	37.7
SHORT-TERM FINANCIAL LIABILITIES	**316.2**	**768.5**
CASH AND CASH EQUIVALENTS	(410.8)	(1,114.9)
SECURITIES AND OTHER FINANCIAL RECEIVABLES	(16.9)	(50.2)
FINANCIAL RECEIVABLES TO SUBSIDIARIES	(37.3)	(34.2)
SHORT-TERM FINANCIAL ASSETS	**(465.0)**	**(1,199.3)**
TOTAL	**(148.8)**	**(430.8)**

Short-term financial payables and receivables vis-à-vis subsidiaries mainly comprise the balances on the centralised treasury accounts operated with other Group companies as part of centralised management of the Group's finance function.
Other short-term financial payables include the fair value of derivatives at year-end.

NOTES ON THE RESULTS OF THE MAIN NON-CONSOLIDATED SUBSIDIARY AND ASSOCIATED COMPANIES [6]

Ionio Gas S.r.l.

The company, a joint venture of ERG S.p.A. (50%) and Shell Energy Italia (50%), was founded in December 2005 with the aim of building a regasification plant in the area adjacent to the Priolo Refinery.

On 12 April 2010, the Services Conference was held and expressed its favourable opinion on the project.

The company, which is not yet operational, closed 2011 with a net loss of approximately EUR 0.5 million.

ERG Rivara Storage S.r.l.

The company was incorporated on 24 June 2008 with the British company Independent Resources (IRG) for the purpose of developing the natural gas storage site at Rivara, in the Province of Modena. ERG Power & Gas underwrote 15% of the share capital of the company, valued at EUR 9.5 million. The company, which is not yet operational, closed the period ended 30 September 2011 with a net loss of EUR 0.1 million.

ISAB Energy Solare S.r.l.

The Company, a joint venture of ERG Solare Italy S.r.l. (51%) and Princemark Limited (49%), is active in the renewable energy segment, and specifically in the generation of electricity from solar power. The company owns a photovoltaic plant at the industrial site of ISAB Energy S.r.l. in Priolo Gargallo (SR) for the generation of electricity with an installed power of 968 kW, which started commercial operations in 2011.

The company closed the year ended 31 December 2011 with a loss of EUR 0.1 million.

With regard to the ISAB S.r.l. and TotalErg joint ventures, please see the comments in the previous chapters.

6 Data produced on the basis of national accounting standards.

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

ERG S.p.A. manages and coordinates the operations of its directly and indirectly controlled subsidiaries. In particular, this activity is represented by:

- Definition of business strategies;
- Indication of strategic guidelines for organisational matters and personnel policies at a macro level;
- Strategic finance and group treasury management;
- Management of tax-related issues, especially with regards to planning;
- Management of communication policies and dealings with institutions;
- Management of environmental, health and safety policies;
- Centralised management of information systems;
- Definition of risk management policies;
- Centralised management of corporate obligations;
- Legal support for the most significant transactions (Special Projects);
- Definition of common policies for internal audit;
- Definition of guidelines for the preparation of Financial Statements;
- Management of non-oil purchases.

As a result of the extraordinary transactions carried out during the year, currently the directly and indirectly controlled subsidiaries whose operations are managed and coordinated, within the scope defined above, are: ERG Nuove Centrali S.p.A., ISAB Energy S.r.l., ISAB Energy Services S.r.l., ERG Power S.r.l., ERG Oil Sicilia S.r.l. and ERG Renew S.p.A.
In 2011, ERG S.p.A. continued managing the various directly and indirectly owned interests, also via service contracts for staff activities, for a total amount of EUR 9.4 million.
It was also re-charged costs linked to research and development projects amounting to EUR 0.3 million by ERG Renew S.p.A.
ERG S.p.A. manages the treasury of some subsidiaries centrally.
In particular with regard to ERG Renew, starting from 25 May 2009, ERG S.p.a. activated a credit line in favour of ERG Renew S.p.A. In 2010, following the acquisition of ERG Eolica Adriatica S.r.l., the credit line was extended from the original EUR 231 million to a total amount of EUR 311 million, by granting an additional "Tranche B" to ERG Renew, up to a maximum amount of EUR 80 million.
In July 2011, a new "Tranche C" was issued, for a maximum amount of EUR 145 million and at similar conditions to those of Tranche B; the purpose of Tranche C was the acquisition of IVPC Power 3 S.p.A. (now ERG Eolica Campania) and Amaroni Energia S.r.l., which took place in August and September 2011.
In December 2011, after the payment for capital increase in favour of ERG Renew S.p.A. for EUR 450 million, which took place on 23 December, Tranches "B" and "C" were fully repaid and "Tranche A" was partially repaid. Simultaneously, to cover the requirements deriving from the coverage of 2012 capital expenditures and the current ordinary operations of the Company, a "Centralised financial management agreement" was signed, also on 23 December 2011, with the consequent opening of an intra-group current account up to a maximum debt exposure of EUR 100 million.

ERG S.p.A. also manages, as consolidator, the Group's VAT and domestic tax consolidation with the Group's main subsidiaries.
All transactions refer to ordinary operations and are settled at market rates.

PRIVACY – SECURITY POLICY DOCUMENT

In 2011 the ERG Group duly updated its "Security Policy Document" (DPS), prepared in accordance with Article 34, Paragraph 1, letter g) of Legislative Decree 196/03 (Privacy Code) in the ways prescribed by the "Technical Specifications Concerning Minimum Security Measures" per Annex B of the Code. The DPS is the instrument whereby the Companies of the ERG Group define, promote and update their respective security policies in order to assure an adequate level of protection of the personal data processed, by the persons in charge of the processing, with or without the aid of computerised means, in full compliance with the provisions of the regulations for the protection of personal data.

SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

On **24 January 2012**, Law Decree no. 1/2012, "Urgent provisions for competition, infrastructure development and competitiveness", was approved. This law decree, currently undergoing conversion into law, was drafted by the Government with the goal of promoting private economic initiative, domestic and foreign investments, innovation and generally higher levels of efficiency.
In this perspective, Law Decree no. 1/2012 contains measures aimed at broadening the scope of the markets and stimulating competition. With regard to the measures that affect the business areas of the ERG Group, the following are of particular interest: the provisions to enhance safety, efficiency and competition in the electricity market (Article 21), the simplification of the procedures for the approval of the national transmission grid development plan (Article 23), the measures to reduce the price of natural gas for disadvantaged customers (Article 13), the measures to reduce the natural gas procurement costs for companies (Article 14) and the provisions pertaining to the fuel distribution segment (Article 17).

On **31 January 2012,** the Board of Directors of ERG S.p.A. approved the exercise of the put option for a 20% share of ISAB S.r.l. for EUR 400 million (excluding inventory). As a result of the transaction, LUKOIL will own 80% of ISAB S.r.l. and ERG 20%.
The transaction is expected to be closed in the second quarter of 2012.
ERG will maintain a presence in the ISAB S.r.l. Board of Directors and in the management committees, whilst the Operating Processing Agreement was temporarily amended in line with ERG's new positioning within ISAB S.r.l.
ERG and LUKOIL amended the agreements stipulated in 2008, with particular reference to ERG's lock-up period for exercising the put option on the remaining 20% share of ISAB S.r.l., now extended to 1 October 2013.
Moreover, if ERG exercises the put option on the remaining 20% share between the 1st and the 31st of October 2013, the parties will undertake to complete the transaction between the 15th and the 31st of December 2013. All other conditions have remained unchanged.
This transaction enables ERG to reduce its presence in the refining segment in a scenario of persistent crisis and further to strengthen the Group's financial structure to support future development projects in a challenging financial environment. ERG continues to maintain a significant industrial presence at the Priolo site, where it has important commercial relationships with ISAB S.r.l. for the thermoelectric plants of ERG Power and of ISAB Energy.

On **2 February 2012** LUKERG Renew, a joint venture of ERG Renew and LUKOIL- Ecoenergo, entered into an agreement with Raiffeisen Energy & Environment, a company of the Austrian banking Group Raiffeisen, to purchase 100% of a wind farm in the Bulgarian region of Dobrich, with about 40 MW of installed capacity, in operation since 2009.
The enterprise value of the acquisition is about EUR 52 million.
Closing of the transaction, subject to the approval of the cognisant Antitrust Authority, is expected in the first half of 2012. The transaction enables LUKERG Renew, a few months after its incorporation, to enter the Bulgarian wind power market with a share of about 10%. Within the scope of a multi-year development plan, the company is also assessing additional growth opportunities, both internal and through acquisitions, in Romania and Bulgaria.

On **16 February 2012** ERG Eolica Fossa del Lupo S.r.l. (100% ERG Renew) executed the Project Financing loan agreement for its own wind farm located in the Catanzaro province, subsequently commissioned in 2011, with an installed capacity of 97.5 MW.
The agreement, for a total amount of EUR 126 million and a term of validity of 14 years, was underwritten by ING Bank as Mandate Lead Arranger (MLA) and documentation bank, by Crédit Agricole CIB as MLA and technical bank and by Centrobanca as MLA, modelling bank and agent bank.

BUSINESS OUTLOOK

RISKS AND UNCERTAINTIES FACING THE BUSINESS OUTLOOK

In reference to the estimates and forecasts set out in this section, it is emphasised that actual results may differ even significantly from the announced results, due to a multitude of factors, including: future trends in crude oil prices, the operating performance of plants, the impact of regulations for the oil and energy industry and for the environment, other changes in business conditions and in the action of the competition.
The expected outlook for the main operating and performance indicators in 2012 is as follows:

REFINING & MARKETING

Coastal refining

The price of crude oil is expected to remain around the current levels, supported by the solid demand from Far Eastern Countries in an economic slowdown environment, in particular in the Euro area, by geopolitical tensions in the Middle East and by low stock levels, affected by a particularly severe winter in the Western hemisphere. These effects will be offset by the progressive return of Libyan production to the market. While refining margins are improving relative to the extremely depressed levels of 2011, they are expected to remain weak and characterised by high volatility.
In this environment, the sale of an additional 20% share of ISAB S.r.l. will enable ERG to reduce its exposure to the refining segment, with consequent benefits for the Group both in economic terms and in terms of strengthening its financial structure.

Integrated Downstream

With regard to the Marketing segment, profitability is expected to improve significantly in 2012 relative to 2011; the improvement should be across all business areas, both thanks to the full contribution of the synergies linked to the joint venture, and as a result of the improvement in Retail performance and of the better results of the Wholesale/Specialties channels.

With regard to inland refineries, a slight improvement over 2011 is expected, in light of the forecast moderate recovery of the refining scenario, which nonetheless will remain at very weak levels.
Overall results for 2012 are expected to be better than in 2011.

POWER & GAS

The year 2012 will fully benefit from the continuous operation of the generating plants of ERG Power and ISAB Energy, which in 2011 were affected by the programmed maintenance shutdown; however, as in 2011, the level of generation may be affected by limitations to the feed-in of electricity to the national grid.
A contraction in the generation margins can be expected in the Sicilian electricity market, but margins will remain satisfactory and generally higher than in other areas of the electricity market.
With reference to the sale prices for the energy generated by ISAB Energy, instead, values are expected to be higher than in 2011 in light of the forecast sale price of electricity which includes with a delay the increases recorded on petroleum prices.
In light of the above, the overall results of the segment are expected to be better than in 2011, with significant improvement for ISAB Energy, only partially offset by the expected decline in ERG Power's results.

RENEWABLE ENERGY SOURCES

In 2012, in Italy, the commissioning of the Ginestra wind farm (40 MW, of which 28 MW already in operation in late 2011) is expected to be completed along with the Amaroni wind farm (22.5 MW).
The company will also assess potential additional investments in Italy which however will also depend on the expected regulatory developments of the incentive systems for the wind farms to be completed after 2012.
In terms of generation, strong growth is expected relative to 2011, thanks to the full contribution of the parks that progressively started operations in 2011 and of those acquired during the year.
With regard to business abroad, the company's goal is to complete major investments in Eastern Europe through the joint venture with LUKOIL (LUKERG Renew), both in terms of possible acquisitions of operating farms, and through the possible construction of new farms.
In this regard, on 2 February 2012 LUKERG Renew executed an agreement for the acquisition of 100% of a wind farm in Bulgaria, with about 40 MW of installed capacity.
In light of the above, a significant additional improvement of the results of the renewable sources segment is expected, compared with 2011.

Genoa, 6 March 2012

On behalf of the Board of Directors
The Chairman
Edoardo Garrone

REPORT ON CORPORATE GOVERNANCE AND OWNERSHIP

EVOLUTION OF APPROACH

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

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

This corporate policy was implemented via:

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

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

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

- Amendments to the Articles of Incorporation to bring them into line with the regulatory changes introduced by the Italian Company Law Reform, by law provisions on the matter of Shareholders' Rights and, lastly on transactions with related parties [7];
- Adoption of a Code of Business Ethics, whose new version was approved by the Board of Directors on 10 November 2011 as a tool for defining and communicating the duties and responsibilities of ERG S.p.A. towards its stakeholders, as well as being an imperative element of an organisation and management model consistent with the requirements of Italian Legislative Decree no. 231/2001, most recently updated on 10 November 2011;
- Acceptance of the Italian Corporate Governance Code for Listed Companies, promoted by Borsa Italiana S.p.A. ("Corporate Governance Code") since its first edition in 1999 [8];
- Approval of a Code of Conduct for the directors of ERG Group companies;
- Appointment of independent directors to the Board;
- Adoption of a Policy for the compensation of members of the Board of Directors, of the General Manager and of the other key managers as prescribed by the Corporate

7 This refers to the insertion of Article 21-bis pertaining to so-called "urgent transactions".

8 In this regard, it should be specified that in December 2011 a new edition of the Corporate Governance Code was published and that "issuers are invited to apply the amendments to the Corporate Governance Code approved in December 2011 no later than the end of the financial year that starts in 2012, informing the market with the corporate governance report to be published during the subsequent financial year. Changes affecting the composition of the Board of Directors or of the related committee and, in particular, those pertaining to the standards 5.P.1, 6.P.3 and 7.P.4, as well as to application criteria 2.C.3 and 2.C.5 apply from the first renewal of the Board of Directors after the end of the financial year started in 2011. The second period of the 3.C.3 criterion applies from the first renewal of the Board of Directors after the end of the financial year that starts in 2012. Issuers included in the FTSE-Mib index are invited to provide the information about the application criterion 5.C.2 in the corporate governance report to be published in 2012." Consequently, all references to the provisions of the Corporate Governance Code, unless otherwise specified, shall refer to the edition of the Code preceding the one approved in December 2011.

Governance Code, to align the interests of management with those of shareholders and strengthen the relationship between managers and the company both in terms of awareness of the importance of the stock value and its continuity over time;

- Definition of (a) guidelines for the identification and execution of significant transactions and of (b) other governance documents designed to assure transparent and timely management of the ERG Group's relationship with the market;
- Adoption of a Procedure for handling and processing privileged information and for the public dissemination of statements and information;
- Adoption of an Enterprise Risk Management Model, with the objective of identifying, as exhaustively as possible, the risks inherent in the ERG Group's full range of business activities;
- Adoption of a specific Procedure to assure the transparency and the substantial and procedural correctness of transactions with related parties carried out by ERG S.p.A. directly or through its subsidiaries.

INFORMATION ABOUT THE OWNERSHIP STRUCTURE AS OF 31 DECEMBER 2011 (PURSUANT TO ARTICLE 123-BIS OF LEGISLATIVE DECREE NO. 58 OF 24 FEBRUARY 1998 (THE ITALIAN CONSOLIDATED FINANCE ACT OR "T.U.F.")

Share capital structure as at 31.12.2011

	NUMBER OF SHARES	% OF SHARE CAPITAL	LISTED (MARKET) / UNLISTED	RIGHTS AND OBLIGATIONS
ORDINARY SHARES	150,320,000	100	MTA/INDEX FTSE ITALY MID CAP	
SHARES WITH LIMITED VOTING RIGHTS	–	–		
SHARES WITHOUT VOTING RIGHTS	–	–		

Significant shares of the capital as at 12/31/2011

DECLARANT	DIRECT SHAREHOLDER	% OF ORDINARY CAPITAL	% OF VOTING CAPITAL
SAN QUIRICO S.P.A.	SAN QUIRICO S.P.A.	55.942	55.942
SAN QUIRICO S.P.A.	POLCEVERA S.A.	6.905	6.905
TRADE WINDS GLOBAL INVESTORS LLC	TRADE WINDS GLOBAL INVESTORS LLC *	10.006	10.006
GENERALI INVESTMENTS ITALY SGR S.P.A.	GENERALI INVESTMENTS ITALY SGR S.P.A.	2.228	2.228

* As manager, among others, of the fund TRADEWINDS INSTITUTIONAL INVESTMENT TRUST – TRADEWINDS GLOBAL ALL CAP PORTFOLIO which owns 2.027% and of the fund NUVEEN TRADEWINDS GLOBAL ALL CAP FUND which owns 2.614%

Other information

	YES	NO	NO AVAILABLE INFORMATION
RESTRICTIONS TO SECURITIES TRANSFER		X	
RESTRICTIONS TO VOTING RIGHTS		X	
SHAREHOLDERS' AGREEMENTS			X
ARRANGEMENTS PER ARTICLE 123-BIS PARAGRAPH 1 LETTER I) CONSOLIDATED FINANCE ACT		X	

Note that:

- there are no securities conferring special control rights;
- there are no employee stock option plans;
- pursuant to Article 123-bis, paragraph 1, point h) of the Consolidated Finance Act, it should be noted that there are in existence financing agreements containing the usual provisions regarding the change of control of the debtor, which, at least in one case, could involve the repayment of the loan in question if there is a change in control at ERG S.p.A., to wit: (i) loan provided by Intesa San Paolo for EUR 50 million, maturing on 31 December 2014, and (ii) loan provided by Monte dei Paschi di Siena for EUR 50 million, maturing on 31 December 2013. It should also be noted that there are in existence partnership agreements with third parties relating to certain investee companies, which allow for the possibility, but not the obligation, as is frequently the case in such agreements, for third parties that are shareholders of the above-mentioned investee companies, to acquire, usually at market conditions, the shares or stakes of the shareholder belonging to the ERG Group if there is a change in control at ERG S.p.A. Notable in this regard is the case of Ionio Gas S.r.l., where the other shareholder has rights that can be exercised in relation to the stake belonging to the ERG Group in the event of a change in control at ERG S.p.A., in accordance with the limits and conditions set out in the related agreements. Provisions of the same nature and/or purpose, formulated in various ways, are contained in the agreements relating to SIGEA S.p.A. and SIGEMI S.r.l. and with reference to other minor stakes in investee companies, particularly within TotalErg S.p.A.; with regard to the latter company, the related shareholders' agreements entitle the other shareholder, if certain circumstance arise and in the manner prescribed by the agreements, to acquire a share, owned by the ERG Group, of 2% of TotalErg S.p.A. if there is a change in control at ERG S.p.A.;
- for rules applicable to the appointment and replacement of directors, and to amendments to the Articles of Incorporation, please refer to the relevant sections of this report (hereafter also the "Report");
- no powers have been granted to directors in relation to capital contributions pursuant to Article 2443 of the Italian Civil Code;
- the Directors have no powers to issue equity instruments;
- the Board of Directors' power to issue convertible bonds expired on 28 April 2009;
- on 14 April 2011, pursuant to Article 2357 of the Italian Civil Code, the Shareholders' Meeting authorised the Board of Directors to purchase treasury shares for a period of 12 months from the date of the related resolution, up to a revolving maximum (i.e. the maximum amount of treasury shares held from time to time) of 15,032,000 (fifteen million thirty-two thousand) shares of ERG common stock with a par value of EUR 0.10 each, at a unit price, including ancillary purchase charges, not lower than 30% below and not higher than 10% above the closing price of the stock on the day immediately preceding each individual transaction.

CORPORATE GOVERNANCE

ERG S.p.A.'s corporate governance system complies with the requirements of the Italian Civil Code and of other specific regulations relating to companies – particularly those contained in Italian Legislative Decree No. 58 dated 24 February 1998 (the "Italian Consolidated Finance Act") – and is consistent overall with the Italian Corporate Governance Code for Listed Companies, which has been revised and updated over the years [9]. The edition of the Corporate Governance Code to which the Company adheres is available to the public at the Website of Borsa Italiana S.p.A. (www.borsaitaliana.it). ERG corporate governance comprises the statutory bodies, board committees and documents that regulate their operation.

9 Please see note no. 8.

STATUTORY BODIES

BOARD OF DIRECTORS

The current Board of Directors, comprising twelve members, was appointed by the Shareholders' Meeting of 23 April 2009; consequently, the appointment to the Board of Directors shall expire at the date of approval of the Financial Statements as at 31 December 2011.

For the appointment of the Board of Directors only one list of candidates was presented by the shareholder San Quirico S.p.A.[10], i.e.:

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

* Candidate indicated in the list as fulfilling independence requirements in accordance with the Consolidated Finance Act and eligible for qualification as independent in accordance with the Corporate Governance Code.

In accordance with the Articles of Incorporation, Directors are appointed on the basis of lists presented by shareholders which, accompanied by information on the personal and professional characteristics of the candidates and a declaration of whether they meet the independence requirements prescribed by the Consolidated Finance Act[11], must be filed, in compliance with Article 147-ter, Paragraph 1-bis of the Consolidated Finance Act, at least twenty-five days prior to the date of the Shareholders' Meeting and shall be made available to the public at least twenty-one days prior to the Meeting[12].

The lists may only be presented by shareholders who, either individually or with other shareholders, represent the minimum percentage of share capital (currently, 2%) established in accordance with the Regulations implementing the Consolidated Finance Act, adopted by CONSOB with resolution no. 11971 of 14 May 1999 ("Issuers' Regulations"), in force on the date of the Shareholders' Meeting.

Each shareholder may present or contribute to present only one list and each candidate may be included in only one list, under penalty of ineligibility. Each list shall contain a number of candidates not exceeding the maximum number of directors set out in the first paragraph of Article 15 of the Articles of Incorporation.

10 For the percentage of the votes obtained by the list with respect to the voting share capital, please see the minutes of the Shareholders' Meeting of 23 April 2009, available in the Governance section of the Website www.erg.it.

11 A consultation, started by CONSOB, was completed; among other matters, it pertained to the proposal to amend Article 147-ter of the Consolidated Finance Act to harmonise the notions of independence prescribed by Article 148-ter, paragraph 3 of the Consolidated Finance Act and by the Corporate Governance Code.

12 In this regard, Article 147-ter of the Consolidated Finance Act was amended with the insertion of paragraph 1-ter on gender balance in the composition of corporate bodies. These provisions shall apply starting from the first renewal of the governing bodies after one year from the date of entry into force of Law no. 120 of 12 July 2011 (which introduced the aforesaid amendments), thus reserving to the less represented gender, for the first mandate, at least one fifth of elected directors. Additionally, Article 144-undecies of the Issuers Regulations introduced the provisions necessary, among other matters, to assure enforcement and compliance with the aforesaid provisions.

The lists indicate which Directors fulfil the independence requirements set by Article 147-ter, paragraph 4 of the Consolidated Finance Act. At least one candidate for each list, or two candidates if the Board of Directors has more than seven members, must fulfil the aforesaid independence requirements.

All candidates must fulfil the integrity requirements set out by current regulations for members of the controlling Bodies, as well as adequate professionalism requirements for the office to be held.

Together with each list, by the deadline indicated above, each candidate must file the statement accepting his/her candidacy and declaring under his own responsibility that there are no causes for ineligibility and incompatibility and that the requirements prescribed by applicable regulations are met, and indicating whether (s)he qualifies as independent director.

For the purposes of the allotment of the Directors to be elected, no consideration is given to the lists that did not obtain as many votes as represent a percentage of the share capital at least equal to half the percentage required for the presentation of the lists.

Each person entitled to vote may vote only one list.

The election of the Directors takes place as follows:

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

In any case, the election will be won by the candidate or, if the Board has more than seven members, the first two candidates from the list that received the highest number of votes, who fulfil the independence requirements, in the progressive order in which they were entered in the list[13].

On 21 June 2011 the Board of Directors, as a result of the resignation tendered by Mr. Pietro Giordano from the office of Director and Deputy Chairman of the Company, appointed Mr. Alessandro Careri as Director, in accordance with Article 2386 of the Italian Civil Code. The Board of Statutory Auditors gave its favourable opinion on the appointment.

13 Please see the Articles of Incorporation for more information.

The Directors in office at the date of approval of the Report are [14]:

Riccardo Garrone - *Honorary Chairman*
Members:
Edoardo Garrone - *Chairman*
Giovanni Mondini - *Deputy Chairman*
Alessandro Garrone - *Chief Executive Officer*
Massimo Belcredi - *Director*
Luca Bettonte [15] - *Director*
Lino Cardarelli - *Director*
Alessandro Careri [16] - *Director*
Aldo Garozzo - *Director*
Giuseppe Gatti - *Director*
Antonio Guastoni - *Director*
Paolo Francesco Lanzoni - *Director*
Graziella Merello [17] - *Director*

Non-executive directors:
Alessandro Careri
Aldo Garozzo

Independent directors [18]*:*
Massimo Belcredi
Lino Cardarelli
Antonio Guastoni
Paolo Francesco Lanzoni

The Board of Directors assessed the independence of the Directors listed above according to the recommendations of the Corporate Governance Code, giving special consideration to substance over form and bearing in mind the application criteria set forth therein.
The Board of Directors conducted this assessment at its first meeting subsequent to the appointment and periodically checks that these requirements are still met (during the Board meeting called to examine the Interim financial report as at 31 March).
In 2011, the independence assessment was carried out during the Board meeting held on 12 May. The Board of Directors assessed whether the aforesaid Directors still fulfilled the independence requirements set out by the Consolidated Finance Act and by the Corporate Governance Code.
The Board of Statutory Auditors verified the correct application of the criteria and verification procedures adopted by the Board of Directors to assess the independence of its members.
With regards to the composition of the Board of Directors and the distribution of offices and powers within it, it was not considered necessary to designate a lead independent director as provided by application criterion 2.C.3 of the Corporate Governance Code.
During 2011, the independent Directors held their own meeting without the other directors present on 1 April, but remained in contact and regularly consulted each other in advance on the principal matters examined by the Board of Directors.

14 For the personal and professional characteristics of each director in office, please see their CVs available in the Governance section of the Website www.erg.it.
15 Has served as Corporate General Manager since 15 December 2009.
16 Appointed Director, in accordance with Article 2386 of the Italian Civil Code, by the Board of Directors on 21 June 2011 as a result of the resignation tendered by Mr. Pietro Giordano from the office of Director and Deputy Chairman of the Company.
17 Has served as Executive Director appointed to supervise the functionality of the Internal Control System since 23 April 2009.
18 Independence was assessed by the Board of Directors in accordance with the Consolidated Finance Act and with the Corporate Governance Code.

Other appointments as director or statutory auditor held by Directors in other companies listed in regulated markets, also abroad, in finance companies, banking and insurance companies or companies of significant size as at 31 December 2011:

Edoardo Garrone	*Chairman of the Supervisory Board of San Quirico S.p.A.* *Director of Pininfarina S.p.A.*
Giovanni Mondini	*Chairman of the Management Board of San Quirico S.p.A.*
Alessandro Garrone	*Director of Banca Passadore e C. S.p.A.* *Director of Gruppo MutuiOnline S.p.A.*
Massimo Belcredi	*Director of Arca SGR S.p.A.*
Giuseppe Gatti	*Chairman of Grandi Reti S.c.ar.l.*
Antonio Guastoni	*Chairman of the Board of Statutory Auditors of FUTURIMPRESA Sgr S.p.A.* *Chairman of the Board of Statutory Auditors of Parcam S.r.l.* *Director of Comoi Sim S.A.* *Standing Auditor of Giulio Fiocchi S.p.A.* *Standing Auditor of Finlombarda Sgr*

Other attendees of Board of Directors meetings

Board of Directors meeting are attended by the Honorary Chairman and, depending on the matters under discussion, representatives of the ERG Group management also attend.

Directors' remuneration

Directors' remuneration is determined, for each financial year, by the Ordinary General Shareholders' Meeting called to approve the year-end Financial Statements.

The Shareholders' Meeting also fixes the remuneration of the Directors serving on the following committees within the Board: Internal Control Committee and Nominations and Remuneration Committee.

The remuneration of the Chairman, of the Deputy Chairman, of the Chief Executive Officer and, more in general, of Directors with delegated powers is set by the Board of Directors on the basis of a proposal formulated by the Nominations and Remuneration Committee, upon hearing the opinion of the Board of Statutory Auditors.

The members of the Nominations and Remuneration Committee formulated the aforesaid proposals also taking into account the provisions of the Procedure for transactions with related parties[19].

In accordance with the Corporate Governance Code, the Board of Directors, at the proposal of the Nominations and Remuneration Committee, on 20 December 2011 approved its policy for the remuneration of the members of the Board of Directors, of the General Manager and of the other Key managers[20].

19 For additional details, please see the specific section dedicated to the Nominations and Remuneration Committee.

20 This policy entered into force in 2012.

Powers

The Board of Directors vested:

- the Chairman Edoardo Garrone with the power to manage the staff functions carried out by the Institutional & International Relations Division, and within the scope of the General Secretariat, by the Corporate Affairs Division, with responsibility for supervision, direction and control;
- The Deputy Chairman Pietro Giordano[21] with the power to manage, through supervision, direction and control, the M&A activities carried out within the Group;
- Director Giuseppe Gatti with the power to manage scientific research in the Oil and Power sectors, with responsibility for supervision, direction and control;
- Director Graziella Merello with the power to manage the Internal Audit and Risk Office Divisions, with responsibility for supervision, direction and control.

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

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

The delegated bodies report to the Board of Directors, on a quarterly basis, on the activities carried out within the scope of the powers vested in them.

Frequency of Board meetings

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

During the 2011 financial year the Board of Directors held 8 meetings, while for the year 2012 there are expected to be no fewer than eight meetings.

In 2011, the Board of Directors passed resolutions on 49 different matters and for 37 of these, the relevant information documents were sent beforehand to Directors and Auditors[22].

The average duration of the meetings held by the Board of Directors was 2 hours and 20 minutes.

As of the date of approval of this document, the Board of Directors had met 3 times.

Activities pursued

Directors made a significant contribution to the work of the Board of Directors and Committees in 2011, in terms of meeting attendance and effective participation in proceedings.

In the course of 2011, the Board of Directors performed the activities and responsibilities referred to in application criterion 1.C.1 of the Italian Corporate Governance Code in accordance with the role that the Code attributes to the Board of a listed company.

With regard in particular to subparagraph g) of this criterion, the Board of Directors, at its meeting of 4 August 2011, carried out a review, partly on the basis of a document prepared for this purpose by the Nominations and Remuneration Committee, of the size, composition and functions of the Board of Directors and Committees expressing, in this regard, an overall favourable opinion accompanied by specific indications with respect to the operation of the Board of Directors and of its committees.

21 On 21 June 2011 Mr. Pietro Giordano resigned from his office as Director and Deputy Chairman of the Company.

22 In the resolutions with respect to which the related documentation was not sent to Directors and Statutory Auditors beforehand, 6 pertained to topics with respect to which the Nominations and Remuneration Committee or the Internal Control Committee had carried out preparatory work.

This document was prepared using not only the assessment criteria already used in past years, but also results of a self-assessment questionnaire prepared by the Corporate Affairs Division at the request of the Nominations and Remuneration Committee and sent to members of the Board of Directors and of the Board of Statutory Auditors.
Pursuant to application criterion 1.C.3. of the Italian Corporate Governance Code, the Board of Directors acknowledged that, in light of the findings set out in the document prepared by the Nominations and Remuneration Committee, it no longer seems necessary to set a limit on the number of directorships and auditorships in other listed companies and in finance, banking, insurance companies or companies of significant size for members of the Board of Directors that is different from the current number as shown in the Report on Corporate Governance for 2010.

BOARD OF STATUTORY AUDITORS

The Board of Statutory Auditors was appointed by the Shareholders' Meeting held on 15 April 2010 and will remain in office until the approval of the Financial Statements as of and for the year ended 31 December 2012.
For the appointment of the Board of Statutory Auditors, only one list of candidates was presented by the shareholder San Quirico S.p.A.[23], i.e.:

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

In compliance with the Articles of Incorporation, the Board of Statutory Auditors is appointed on the basis of lists presented by Shareholders, which must set out the names of candidates in numbered, sequential order which must be filed, in compliance with Article 147-ter, Paragraph 1-bis of the Consolidated Finance Act (referenced by Article 148, Paragraph 2 of the Consolidated Finance Act), at least twenty-five days prior to the date of the Shareholders' Meeting and shall be made available to the public at least twenty-one days prior to the Meeting[24].
Candidate lists may only be presented by shareholders who, at the time of presenting the list, are in possession of a shareholding equal to that required for the presentation of lists for the election of directors.
At the time of appointment of the Board of Statutory Auditors currently in office, the shareholding required in order to present the lists was equal to 2% of the share capital.
No shareholder may present or vote for more than one list and each candidate may be included in only one list, failing which he or she shall be disqualified.
The lists contain not only information about the Shareholders who submitted them and the statements made by them pursuant to the applicable regulations, but also exhaustive information about the candidates' personal and professional characteristics and their statements pursuant to the Articles of Incorporation.

23 For the percentage of votes received by the list with respect to the voting share capital, please see the minutes of the Shareholders' Meeting of 15 April 2010, available in the Governance section of the Website www.erg.it.

24 In this regard, Article 148 of the Consolidated Finance Act was amended with the insertion of paragraph 1-bis on gender balance in the composition of corporate bodies. These provisions shall apply starting from the first renewal of the governing bodies after one year from the date of entry into force of Law no. 120 of 12 July 2011 (which introduced the aforesaid amendments), thus reserving to the less represented gender, for the first mandate, at least one fifth of elected directors. Additionally, Article 144-undecies of the Issuers Regulations introduced the provisions necessary, among other matters, to assure enforcement and compliance with the aforesaid provisions.

Candidates may not be elected to the office of Statutory Auditor unless they satisfy the requirements of independence, professionalism and integrity as provided by Article 148, section 3 of the Italian Consolidated Finance Act or if they already serve as Standing Auditor in more than five listed companies[25].
If, at the expiration of the term for the presentation of the lists as indicated above, a single list was filed, or only lists presented by mutually connected shareholders, according to the definition set out in the applicable regulations, were filed, then lists may be presented – in accordance with Article 144-sexies, Paragraph 5 of the Issuers Regulations – until the third day after that date. In this case, the thresholds required for presentation of the lists are halved. Any list presented without compliance with the required prescriptions[26] shall be considered not to have been presented.
If, in spite of the completion of the aforesaid procedure, no list is presented, the vote is by majority.
The Shareholders' Meeting appoints the Chairman. If no second list is presented or voted, the entire Board of Statutory Auditors shall comprise, in the order of presentation, the candidates of the single list voted. The first person on the list is elected Chairman.
If multiple lists are presented, the following candidates are elected: from the list that received the highest number of votes, in the progressive order in which they are listed, two standing auditors and two alternate auditors; the third standing auditor and the third alternate auditor are elected choosing the candidates to the respective offices indicated at the top of the list that obtained the second-highest number of votes after the first one, among those presented and voted by minority shareholders who are not connected – even indirectly—with the shareholders who presented or voted the list that received the highest number of votes, according to current regulations. The standing auditor drawn from the minority list is appointed Chairman.
If the lists receive equal number of votes, the candidate of the list that was presented by the shareholders owning the largest share or, subordinately, by the higher number of shareholders is elected.

The Statutory Auditors in office at the date of approval of the Report are: [27]
Mario Pacciani - *Chairman*
Lelio Fornabaio - *Standing Auditor*
Paolo Fasce - *Standing Auditor*
Vincenzo Campo Antico - *Alternate Auditor*
Fabio Porfiri - *Alternate Auditor*
Stefano Remondini - *Alternate Auditor*

The Board of Statutory Auditors, having examined the personal and professional characteristics of each auditor, has concluded that its members can be designated as independent, partly based on the criteria set forth in the Corporate Governance Code for directors.
The Board of Statutory Auditors supervised the independence of the independent auditor verifying both compliance with the regulatory provisions on the matter, and the nature and extent of services, other than auditing, performed for the Company and for its subsidiaries by the independent auditor and by entities belonging to its network.

25 In this regard, as a result of CONSOB Resolution no. 18079 of 20 January 2012 – which introduced among other matters, some amendments to the Issuers Regulations to simplify rules on the accumulation of duties for the members of the control committee – the limits to the accumulation of duties per Article 144-terdecies, Paragraph 2, of the Issuers Regulations and the disclosure obligations per Article 144-quaterdecies of the Issuers Regulations do not apply to those who serve as members of the controlling body of a single issuer.
26 Please see the Articles of Incorporation for additional information.
27 For the personal and professional characteristics of each auditor in office, please see their CVs available in the Governance section of the Website www.erg.it.

The Board of Statutory Auditors also supervised the process of financial disclosure, the effectiveness of the internal control, internal audit and risk management systems and the legal auditing of annual accounts and of consolidated accounts.
The Board of Statutory Auditors, in the performance of its activities, was supported by the Internal Audit Division, coordinating with the Internal Control Committee.
During the 2011 financial year the Board of Statutory Auditors held 7 meetings, while for the year 2012 there are expected to be no fewer than 6 meetings.
As at the date of approval of this document, the Board of Statutory Auditors met 3 times.

Other appointments as director or statutory auditor held by the Statutory Auditors in other companies listed in regulated markets, also abroad, in finance companies, banking and insurance companies or companies of significant size as at 31 December 2011:

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

SHAREHOLDERS' MEETINGS

Article 10 of the Articles of Incorporation states that, in compliance with laws and regulations, the holders of voting rights who exhibit a suitable certification issued in accordance with current regulations by the broker and notified to the Company according to the procedures and within the term set by current laws and regulations, are entitled to attend Shareholders' Meetings.
Article 11 of the Articles of Incorporation states that the Shareholders' Meeting shall be convened by the governing body at least once a year, no later than one hundred twenty days from the closing date of the financial year or no later than one hundred eighty days, if the Company must prepare Consolidated Financial Statements and if required by specific provisions related to the organisation or the purpose of the Company.
Article 12 of the Articles of Incorporation states that the Shareholders' Meeting is convened by means of notice to be prepared and published within the terms and according to the procedures prescribed by current laws and provisions.
Article 13 of the Articles of Incorporation states that the provisions of law shall apply for the quorum of both Ordinary and Extraordinary Shareholders' Meetings and for the validity of their resolutions.

MEETING REGULATIONS

At the Ordinary Shareholders' Meeting, shareholders approved Regulations governing the proceedings of Ordinary and Extraordinary Shareholders' Meetings.
Article 14 of the Articles of Incorporation expressly gives the Ordinary Shareholders' Meeting the possibility of adopting meeting Regulations.

BOARD COMMITTEES

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

INTERNAL CONTROL COMMITTEE

Members:

Massimo Belcredi - *Chairman*
Antonio Guastoni
Paolo Francesco Lanzoni

The Internal Control Committee comprises three independent directors.
The members of the Internal Control Committee have adequate experience in accounting and finance.
Committee meetings are attended by the Chairman of the Board of Statutory Auditors or another auditor designated by him or, depending on the topics to be discussed, by all members of the Board of Statutory Auditors; meetings may also be attended by the Chairman of the Board of Directors, the Chief Executive Officer and the Corporate General Manager, who are entitled to participate in the discussion of the agenda items and to identify adequate actions to confront critical or potentially critical situations, as well as (also depending on the topics to be discussed), the Executive Director appointed to supervise the functionality of the Internal Control System and the Manager responsible for preparing the company's financial reports.
Employees of ERG Group companies, representatives of the independent auditor and, in general, persons whose presence is deemed necessary or appropriate for the discussion of the agenda items may be invited to attend Committee meetings.
The Head of Internal Audit is invited to attend the meetings in order to report to Committee, at least once a quarter, on the activity carried out from time to time.
The Committee organises its work in such as way as to combine comprehensive information flows and efficiency of operation with maximum independence of its members.
In particular, resolutions are taken without other parties being present.

Tasks

The Internal Control Committee advises and issues recommendations to the Board of Directors and fulfils the role and responsibilities indicated in the Corporate Governance Code.
Taking into account the composition of the Internal Control Committee, the procedure for transactions with related parties, approved by the Board of Directors, prescribes that the Committee convened to issue its opinion both with reference to transactions of "Minor Relevance" and with reference to transactions of "Major Relevance" on the interest of the Company in the completion of the transaction with the related party and on the advantageousness and substantial correctness of the related conditions shall comprise members of the Internal Control Committee[28].
If a member of the Committee is the counterparty of the transaction to be evaluated or a correlated party thereof, the other members of the Committee shall call to participate in the committee another non-correlated independent director or, if there are none, a non correlated standing member of the Board of Statutory Auditors.

28 For transactions pertaining to the allocation or increase of remuneration and economic benefits, in any form, to a member of a governing or controlling body of the Company or to a key manager of the Company or otherwise to one of the persons who hold the offices indicated in Annex 1 to the Procedure for transactions with related parties, the Committee called upon to issue its opinion on the interest of the Company in the completion of the transaction with the related party and on the advantageousness and substantial correctness of the related conditions comprises the members of the Nominations and Remuneration Committee.

The better to carry out its duties, the Committee may employ outside consultants at the Company's expense. Within the scope of the activity performed by the Committee members for the purposes of the Procedure for transactions with related parties, the Board of Directors did not set any expense limit even for "Minor" transactions.
In the performance of its duties, the Committee was able to access the information and made use of the company functions necessary to carry out its tasks.
In 2011 the Committee held 11 meetings – duly recorded with meeting minutes - during which, besides a preview of the annual Financial Statements and half-yearly report, issues were discussed in the following macro-areas: Group Governance, Control Systems, compliance connected with Legislative Decree 231/01, Risk Management and Administration, Reporting and Taxation.
As at the date of approval of this document, the Internal Control Committee has met 3 times.

In terms of the most significant issues covered, the Committee has, in the areas of:

1) Group Governance

- examined a document establishing the application of articles 2497 et seq. of the Italian Civil Code relating to i) relations between ERG S.p.A. and its parent S. Quirico S.p.A.; ii) the scope of the management and coordination of ERG S.p.A.; iii) the list of companies with which these activities are carried out;
- assessed the possibility of extending – on a merely voluntary basis – the Company's Procedure for transactions with related parties to other persons, other than the related parties, formulating a proposal to the Board of Directors in this regard;
- preliminary examined some proposed sponsorship agreements, which were ultimately not executed, negotiated (i) by the Company with U.C. Sampdoria S.p.A. and with Sampdoria Marketing & Communication S.r.l. and (ii) by TotalErg S.p.A. with U.C. Sampdoria S.p.A. giving its opinion on them also in accordance with the Procedure for transactions with related parties;
- examined the proposed updates to the Code of Ethics, aimed at taking into account not only the organisational-corporate changes that have been made to the ERG Group, but also the regulatory changes made and the evolution of reference best practices, but without altering the fundamental values expressed in the Code of Ethics;
- examined and approved its own schedule of meetings for 2012.

2) Internal control system

- examined and approved, with half-year periodicity, its own periodic reports to the Board of Directors formulating its own assessment of the adequacy of the Internal control system;
- examined, with half-year periodicity, the periodic reports on the activity carried out by the Head of Internal Control;
- examined, with quarterly periodicity, the periodic report on the activity carried out by the Internal Audit Division;
- examined the most relevant aspects of some disputes related to the Company's business;
- examined the schedule of Internal Audit activities for the year 2012.

3) Obligations in connection with Italian Legislative Decree No. 231/01

- examined, with half-yearly periodicity, the periodic reports on the activity carried out by the Supervisory Committee and received additional information flows about individual activities of interest of the Supervisory Committee;
- examined the Guidelines for the adoption of the Organisation and Management Model pursuant to Legislative Decree 231/2001 in the Companies of the ERG Group;
- examined the proposed changes to the Organisation and Management Model of the

Company, aimed at reflecting the organisational and corporate changes that have taken place as well as regulatory and jurisprudential changes on the administrative liabilities of entities;
- examined a document outlining the schedule of activities of the ERG Supervisory Committee and of the Supervisory Committee of the ERG Group companies for 2012.

4) Risk Management
- examined, with half-year periodicity, the periodic reports on the activity carried out by the Risk Office;
- analysed the risks connected with ongoing events in Libya and the consequent actions taken by the Company in this regard;
- examined a first preliminary proposal for the implementation of the Internal Control System Guidelines with E.R.M. principles on integrated risk management;
- examined an analysis document of the internal control System and certain preliminary proposals for the revision of the E.R.M. model;
- acknowledged the analysis and update activities carried out within the scope of Enterprise Risk Management and of the proposed action plans;
- examined the schedule of Risk Office activities for the year 2012.

5) Administration, Reporting and Taxation
- examined the proposed updates to the model per Law no. 262 of 28 December 2005 also as a result of the organisational – corporate changes that have taken place in the ERG Group;
- examined the set-up followed with respect to the impairment test procedure on the Financial Statements as at 31 December 2010, the main issues of the Financial Statements as at 31 December 2010 and of the Half-year Report as at 30 June 2011;
- it assessed the correct utilisation of international accounting standards in the preparation of the statutory and Consolidated Financial Statements as at and for the year ended 31 December 2010 and of the Half-year Financial Report as at 30 June 2011 and of the standards adopted for the purposes of the preparation of the Interim Financial Report as at 31 March and as at 30 September 2011;
- examined the methods for the renewal – for fiscal year 2011 – of the Group VAT liquidation procedure and of the main aspects pertaining to the domestic tax consolidation of ERG S.p.A.;
- examined the new scope of the intra-group service agreements for the year 2011;
- acknowledged the results of the test activities carried out as at 31 December 2010 and of the schedule of activities planned for 2011, aimed at assuring per compliance with the monitoring and certification obligations which ERG S.p.A. must fulfil in accordance with Law No. 262 of 28 December 2005;
- examined the Risk Assessment activities on the Consolidated Financial Statements as at 31 December 2010 and the results of the test activities as at 30 June 2011 and the evolution of the Model per Law 262/05.

NOMINATIONS AND REMUNERATION COMMITTEE

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

The Nominations and Remuneration Committee comprises three independent directors.
The members of the Nominations and Remuneration Committee have adequate accounting and financial expertise.

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

Tasks
The Nominations and Remuneration Committee makes recommendations to the Board of Directors regarding the remuneration of the CEO and executive directors, as well as recommendations, at the CEO's request, concerning the pay policies for the company's senior management and the ERG Group's management incentive schemes.
Taking into account the composition of the Nominations and Remuneration Committee, the Procedure for transactions with related parties, approved by the Board of Directors, prescribes that the Committee convened to issue its opinion both with reference to transactions of "Minor Relevance" and with reference to transactions of "Major Relevance" (i) on the interest of the Company in the completion of transactions pertaining to the assignment or increase of remuneration and economic benefits, in any form, to a member of a governing or controlling body of the Company or to a Key manager thereof or otherwise to one of the persons holding the offices indicated in Annex 1 to the Procedure for transactions with related parties and (ii) on the advantageousness and substantial correctness of the related conditions shall comprise members of the Nominations and Remuneration Committee[29].
If a member of the Committee is the counterparty of the transaction to be evaluated or a correlated party thereof, the other members of the Committee shall call to participate in the committee another non-correlated independent director or, if there are none, a non correlated standing member of the Board of Statutory Auditors.
The Committee also submits to the Board of Directors candidates to the role of director in the cases set forth by Article 2386, first paragraph, of the Italian Civil Code, whenever it is necessary to replace an independent director; assesses, on the specific request of shareholders who intend to submit lists, the independence of the candidates to the role of director to be submitted to the shareholders' meeting; and performs preliminary activities to allow the Board of Directors to carry out its annual review regarding the size, composition and functioning of the Board as effectively as possible. To this end, it may express its opinion on the professional figures whose presence in the Board is considered appropriate.
The better to carry out its duties, the Committee may employ outside consultants at the Company's expense. Within the scope of the activity performed by the Committee members for the purposes of the Procedure for transactions with related parties, the Board of Directors did not set any expense limit even for "Minor" transactions.
Whenever the Committee discusses recommendations for the remuneration of the Chairman and CEO, such individuals must leave the meeting.
In the performance of its duties, the Committee was able to access the information and company functions necessary to carry out its tasks.

29 The Board of Directors, upon recommendation of the Nominations and Remuneration Committee, approved its policy for the remuneration of and the members of the Board of Directors, of the General Manager and of the other Key managers, in line with the Corporate Governance Code. Consequently, upon fulfilment of the requirements per Article 3.2, letter c) of the Procedure for transactions with related parties - i.e. (i) that the Company has adopted a remuneration policy; (ii) that the Nominations and Remuneration Committee was involved in the definition of the remuneration policy; (iii) that a report illustrating the remuneration policy was submitted to the Shareholders' Meeting for its consultative vote; (iv) that the assigned remuneration is consistent with said policy; - subject to the disclosure obligations per Article 154-ter of the Consolidated Finance Act, the Procedure itself shall not apply to transactions pertaining to the assignment or increase of remuneration and economic benefits, in any form, to a member of a governing or controlling body of the Company or to a key manager of the Company or otherwise to any of the persons who hold the offices indicated in Annex 1 to the Procedure for transactions with related parties.

In the course of 2011, the Committee held 10 meetings – duly recorded in meeting minutes - during which, in particular: (i) it formulated proposals for the determination of the remuneration of the CEO and of the other Directors performing specific duties within the Board of Directors; (ii) made determination on the definition of the objectives for 2011 with reference to the short-term incentives system and to the value created in 2010; (iii) issued opinions – and, when required, proposals – on the recognition and determination of bonuses to some managers of the Company. The members of the Nominations and Remuneration Committee formulated the aforesaid proposals or assessments also taking into account the Procedure for transactions with related parties, issuing – when required - its opinion with the reasons for it.
The Committee also actively participated in the process for the design and subsequent adoption of a new short-term incentives system – the MBO System[30], and it contributed to outline the general principles underlying the medium-short term incentives systems undergoing design - the LTI System[31].
The MBO System and the general principles of the LTI System are an integral and substantial part of the policy for compensation of the members of the Board of Directors, of the General Manager and of the other key managers adopted by the Board of Directors – at the recommendation of the Nominations and Remuneration Committee – on 20 December 2011 in accordance with the Corporate Governance Code.
The Committee also prepared a support document for the Board of Directors on the Board Performance Review carried out by the Committee using not just the assessment criteria used in past years, but also the results of a specific self-assessment questionnaire prepared by the Corporate Affairs Division and sent to the members of the Board of Directors and of the Board of Statutory Auditors.
As at the date of approval of this document, the Nominations and Remuneration Committee had met [3] times.

STRATEGIC COMMITTEE

Members
Giovanni Mondini - *Chairman*
Edoardo Garrone
Alessandro Garrone
Giuseppe Gatti
Luca Bettonte

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

30 Management by objectives.
31 Long term incentive.

CORPORATE GOVERNANCE RULES

The most significant rules in terms of their impact on the company's overall corporate governance are as follows:

- the Procedure for handling and processing privileged information and for the public dissemination of statements and information;
- the Code of Conduct for Internal Dealing;
- the Guidelines for the identification and execution of significant transactions;
- the Code of Conduct for Directors of Group companies;
- the reporting procedure for significant transactions by sub-holding companies;
- the procedure for related-party transactions;
- the Policy for the remuneration of members of the Board of Directors, of the General Manager and of the other key managers.

PROCEDURE FOR HANDLING AND PROCESSING PRIVILEGED INFORMATION AND FOR THE PUBLIC DISSEMINATION OF STATEMENTS AND INFORMATION

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

The procedure defines the tasks and responsibilities of the functions involved, identifies the criteria, methods and timing of the various procedural stages, and establishes the appropriate decision-making levels for the dissemination of statements and information. For this purpose, it contains prescriptions aimed at assuring an exhaustive and timely flow of information within the companies of the ERG Group and between them and the listed Parent Company for the purposes of compliance with information obligations pertaining to "price sensitive" events, vis à vis the market and the organisations tasked with its control.

CODE OF CONDUCT FOR INTERNAL DEALING

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

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

GUIDELINES FOR THE IDENTIFICATION AND EXECUTION OF SIGNIFICANT TRANSACTIONS

The Board has defined the guidelines for the identification and execution of significant transactions, the examination and approval of which – as recommended by the Italian Corporate Governance Code – remain the exclusive responsibility of the Board of Directors.

The guidelines set out the criteria to be used to identify the most significant transactions, in accordance with Article 1 of the Corporate Governance Code, consisting of quantitative and qualitative criteria and criteria deriving from the specific requirements of the parties involved (related-party transactions and intra-group transactions).

The document also indicates the standard of conduct to be followed in carrying out the aforesaid transactions, with particular reference to the transactions carried out by the subsidiaries over which ERG S.p.A. exercises management and coordination in accordance with Article 2497 et seq. of the Italian Civil Code which must be preventively examined and approved by the Board of Directors.

CODE OF CONDUCT FOR DIRECTORS OF GROUP COMPANIES

The Board of Directors has adopted a Code of Conduct for directors appointed in ERG Group companies in order to provide them with uniform rules of conduct for performing their duties within a systematic framework of reference and in compliance with Corporate Governance principles.

REPORTING PROCEDURE FOR SIGNIFICANT TRANSACTIONS

The Board of Directors has adopted a reporting procedure whereby sub-holding companies and their subsidiaries and investee companies – based on a specific approach and timeframe – shall inform the Company of transactions effected by them directly and which can be classified as significant according to the guidelines mentioned above, applying the exceptions allowed in these guidelines[32].

PROCEDURE FOR RELATED-PARTY TRANSACTIONS

The Board of Directors, with its resolution of 11 November 2010, with the favourable opinion of the Internal Control Committee and with the input of the Board of Statutory Auditors, approved and adopted a specific internal resolution – with effect since 1 January 2011 – aimed at assuring the transparency and substantial and procedural correctness of the transactions with related parties carried out by ERG S.p.A. directly or through its subsidiaries.

POLICY FOR THE REMUNERATION OF MEMBERS OF THE BOARD OF DIRECTORS, OF THE GENERAL MANAGER AND OF THE OTHER KEY MANAGERS

The Board of Directors, at the proposal of the Nominations and Remuneration Committee, on 20 December 2011 adopted a Policy for the remuneration of members of the Board of Directors, of the General Manager and of the other key managers, in accordance with the Corporate Governance Code[33].

OTHER INFORMATION

Information about the Internal Control system, Supervisory Committee, investor relations, organisation and management model per Legislative Decree 231/2001, independent auditors, manager responsible for preparing the company's financial reports, and management and coordination activity can be found below.

32 This is an information to the Board of Directors in relation to transactions not subject to the preliminary approval of the Board itself on the basis of the waivers prescribed by the aforesaid Guidelines.

33 For any additional information in this regard, please see the Report on remuneration per article 123-ter of the Consolidated Finance Act. Additionally, the Board of Directors – also taking into account the date of entry into force of CONSOB Resolution no. 18049 of 23 December 2011 (31 December 2011) – will present the aforesaid report to the Shareholders' Meeting to be convened in April 2012, among other matters, in accordance with Article 2364-bis, second paragraph, of the Italian Civil Code.

THE INTERNAL CONTROL SYSTEM

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

The Internal Control System consists of a complete system of rules, procedures, organisational structures and behaviours with the purpose of:

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

The Internal Control System is universal and enforced across the whole ERG Group, and was created following a consistent method for identifying, measuring and assessing risks.
In recent years the ERG Group has defined guidelines, approved by the Board of Directors, for the Internal Control System, and it has initiated specific projects aimed at rationalising the whole Internal Control System by mapping and classifying the parties that are a part of it, creating the flowchart of the main reports within the Group itself and describing the responsibilities and scope of existing activities.
Within the scope of the Internal Control System and with reference to financial disclosures, the Administrative-Accounting Organisational Model is of particular relevance. It was implemented when the Internal Control System of the ERG Group was brought into line with the requirements of Italian Law 262/05; the Model has been periodically updated.

Executive Director appointed to oversee the functioning of the Internal Control System

The Board of Directors passed a resolution on 23 April 2009, identifying the Executive Director appointed to oversee the functioning of the Internal Control System in the person of Director Graziella Merello.
The actual operation of the Internal Control System within the ERG Group is not assigned to an autonomous and specific corporate function, but comprises the coordinated operations of various functions to which, within the organisational structure, are assigned the responsibilities pertaining to the overall control activity. These functions are, mainly, the Internal Audit Department and the Risk Office function. They are joined by other functions whose responsibilities include monitoring the compliance of corporate actions with current laws and regulations.

The Executive Director appointed to oversee the functioning of the Internal Control System:

- oversaw the identification of the Company's main risks, taking into account the characteristics of the activities carried out by ERG S.p.A. and by its subsidiaries;
- implemented the guidelines defined by the Board of Directors, providing for the design, implementation and management of the internal control system, constantly verifying its overall adequacy, effectiveness and efficiency;
- managed the adaptation of this system to the dynamics of operating conditions and of the legal and regulatory environment;
- proposed the appointment of the Head of Internal Control to the Board of Directors.

The Executive Director in charge of overseeing the functioning of the Internal Control System, with the aid of the Head of Internal Control who periodically reports to the Internal Control Committee, constantly ascertains its overall adequacy, effectiveness and efficiency, and reports his/her findings to the Board of Directors.
The Board of Directors evaluates on an annual basis the functionality of the Internal Control System based on the information made available to it by the Executive Director in charge of overseeing the functioning of the internal control system and by the Internal Control Committee in light of the report provided by the Head of Internal Control.
From 2009 onwards, the Risk Office has been operating with the goal of identifying, as comprehensively as possible, the risks inherent to the complex activity of the ERG Group and defining a structured management process, according to Enterprise Risk Management principles.

Head of Internal Control
With its resolution of 14 December 2010, at the proposal of the Executive Director in charge of overseeing the functioning of the Internal Control System, with the favourable opinion of the Internal Control Committee, the Board of Directors appointed Mr. Devan De Paolis, Head of Internal Audit, as Head of Internal Control, and tasked him to verify that the Internal Control System is always adequate, fully operational and functioning.
The compensation of the Head of Internal Control and Head of Internal Audit was validated by the Nominations and Remuneration Committee within the compensation policies for Key Managers approved by the Board of Directors.

During 2011, the Head of Internal Control:
- had direct access to all information useful for the performance of his duties;
- reported on his activities to the Internal Control Committee and to the Board of Statutory Auditors;
- reported on his activities also toe the Executive Director in charge of overseeing the functioning of the Internal Control System.

For 2011 the budget for travel, training and consultation expenses of the Internal Audit Division amounted to EUR 72,000.00, also taking into account the activities related to the role of Head of Internal Control.
In 2011, the following actions were carried out:
- no. 13 audits prescribed by the plan;
- no. 9 Follow Ups on the audits completed out in 2010;
- no. 10 monitoring actions on behalf of the Supervisory Committee on matters covered by Legislative Decree 231/2001.

Lastly, during the year the Head of Internal Control met the main players in the Internal Control System (among them, the Manager responsible for preparing the company's financial reports, the Independent Auditor, the Chairman of the Board of Auditors).

INFORMATION ON THE MAIN FEATURES OF THE EXISTING INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS IN RELATION TO THE PROCESS OF FINANCIAL DISCLOSURE, INCLUDING AT A CONSOLIDATED LEVEL
The ways in which the ERG Group has defined its system for risk management and internal control in relation to the process of financial disclosure (henceforth referred to as "the System") at the consolidated level are illustrated below. The purpose of the System is to mitigate risks significantly in terms of trustworthiness, reliability, accuracy and timeliness of financial disclosures.

The Model described below was presented to the Internal Control Committee of the listed Parent Company ERG S.p.A. and applies, from a logical point of view, in terms of methodology and as regards principles of process control and accuracy, to the main companies of the ERG Group to which it has been communicated through publication on the Company Intranet as well as communication to all personnel.
In such a context, all personnel of the ERG Group are obliged to follow the indications of the Model, in particular personnel in administrative functions that are more directly involved in the preparation of corporate accounting documents, but also those in other functions that, indirectly, contribute to the process through the preparation of documents and information, the inputting or updating of data in the company's information systems, in normal operations.
The Model is regularly updated and each update and/or integration of significance must be submitted and presented in advance to the Internal Control Committee.

Role
The main responsibility of the Manager responsible for preparing the financial reports of ERG S.p.A. is to implement the administrative-accounting procedures that govern the process of the production of periodic corporate financial reporting, to monitor their application and, together with the Chief Executive Officer, to certify to the market that the above principles were followed and that the financial documentation circulated is reliable.
The figure of Manager Responsible fits into the wider framework of Corporate Governance, structured according to the traditional model with the presence of corporate bodies with diverse functions of control.
The Board of Directors, with its resolution of 15 December 2009, appointed Giorgio Coraggioso, Head of Administration, Reporting and Taxation, as the Manager Responsible for preparing the financial reports.

ELEMENTS OF THE SYSTEM

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

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

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

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

1. the Companies within the ERG Group scope of consolidation to include in the analysis;
2. the risks at the level of the selected operating Company/Group (Company/Entity Level Controls) relating to the general corporate context of the Internal Control System, with

reference to the five components of the CoSO model developed by the Committee of Sponsoring Organizations of the Treadway Commission, leading practice at the international level and recognised within Italy as a reference model by the Italian Stock Exchange Corporate Governance Code (control environment, risk assessment, information and communication, control activities, monitoring);

3. the general risks for the Company's information systems supporting related processes (IT General Controls);
4. the processes that generate, with inherent risk, the accounts of the Consolidated Financial Statements for each company selected;
5. for each relevant process, the specific risks for financial reporting, with particular reference to so-called financial statement assertions (existence and occurrence, completeness, rights and obligations, valuation and allocation, presentation and disclosure).

The process of Risk Assessment carried out at the level of consolidated Group Financial Statements in order to determine the appropriate scope of analysis, is based on the combined application of two analytical parameters, one quantitative and the other one qualitative.
As regards the fully quantitative part of the analysis, the following elements are determined:

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

Following the quantitative analysis described above, the process of Risk Assessment then requires to perform an analysis based on qualitative elements, with a dual purpose:

- to complement the exclusively quantitative part of the analysis, so as to include or exclude accounts-processes from the scope of the model on the basis of knowledge the management has, from a historical point of view and also considering the expected evolution of the business, of companies making up the ERG Group, and on the basis of the professional judgement by management concerning risk levels relating to financial disclosures;
- to define the "level of depth" to which the analysed accounts-processes must be taken into consideration within the scope of the model and at what level the related controls must be mapped, documented and monitored.

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

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

In particular, the mapping of accounts-processes and related controls constitutes a tool through which:

- significant processes and their principal associated risks are represented as defined within the scope of Risk Assessment, as are the controls that are envisaged for the management of such risks;

- the chart of mapped controls is evaluated to ascertain the capacity of each control to manage and mitigate an identified risk and, in particular, the underlying Financial Statements assertion;
- the operation and representation of a control is shared with its owners, as are the risks and control activities;
- monitoring activities, needed to support the representations that must be made by the Manager Responsible, are carried out.

The identification of risks and associated controls is carried out both with regards to controls relating to financial statement assertions and to other control objectives within the scope of financial disclosure, including:
- observance of authorised limits;
- the segregation of duties and responsibilities for operations and control;
- the physical security and existence of the company's assets;
- activities of fraud prevention that have an impact on financial disclosure;
- the security of company information systems and the protection of personal data.

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

Assessment of controls and monitoring processes
In accordance with the provisions of the law regarding formal compliance and in line with the best practices previously referred to, the adopted methodology prescribes constant monitoring of the processes covered by the model and effective execution of the mapped controls.
The objective of such monitoring is the evaluation of the operating effectiveness of the controls – in other words the effective functioning during the period of the controls mapped for the purpose of analysis.
To this end, a plan is prepared annually of monitoring activities (also refining and optimising these, where necessary). The plan is formalised in a document that is presented to the Internal Control Committee and in which strategies and timing are defined for carrying out monitoring tests.
Following the completion of testing activities, reports are produced on the results of the activities, providing the support on the basis of which the Manager responsible for preparing the company's financial reports releases legal representations, and the Internal Control Committee, as regards the most important deadlines for half-yearly and annual financial reporting, evaluates and participates in the work of the Manager Responsible and the functions through which he/she operates.

THE INDEPENDENT AUDITORS
Deloitte & Touche S.p.A. was appointed as independent auditor for the years 2009-2017 by the Shareholders' Meeting held on 23 April 2009.

ORGANISATION AND MANAGEMENT MODEL PURSUANT TO ITALIAN LEGISLATIVE DECREE 231/2001
With the resolution passed on 21 December 2004, the Board of Directors adopted the Organisation and Management Model of ERG S.p.A. pursuant to Italian Legislative Decree 231/2001; since then, the Model has been updated periodically to adapt it to the regulatory changes subsequently introduced. During 2011, the Model was thoroughly revised, in particular to take into consideration the organisational and operational changes stemming from the 2010 merger of the two sub-holdings ERG Raffinerie Mediterranee and ERG Power &

Gas into ERG SpA. The Board of Directors then approved, in its 10 November 2011 meeting, the new version of the Model; an excerpt of the new Model has been published in the "Governance" section of the website www.erg.it.
Together with the new version of the 231 Model, the Board of Directors also approved the "Guidelines for the adoption of the organisation and management model pursuant to Legislative Decree 231/2001 in the Companies of the ERG Group", whose purpose is to provide the ERG Group companies with methodological indications on the management of "231 compliance", without constituting management and coordination activities and subject to the liability of individual legal entities in the decision as to whether or not to devise a Model on the basis of their own specific company.

SUPERVISORY COMMITTEE

Introduction of the Model led to the appointment of the Supervisory Committee, tasked with assuring the adequacy and actual implementation of the Model, and to evaluate whether it is necessary to update it.
The Committee, as a result of the decisions reached by the Board of Directors during its meeting of 14 December 2010, comprises: Paolo Francesco Lanzoni, Chairman, Devan De Paolis, and Giovanni Antonio Martinengo.
The Supervisory Committee carries out its work within the Parent Company ERG S.p.A., whereas Subsidiaries have appointed their own Supervisory Committee.
The Supervisory Committee of ERG S.p.A. met 7 times in 2011.

INVESTOR RELATIONS

The company manages relations with its shareholders, institutional investors and the market through the Corporate Finance and Investor Relations functions, which form part of Corporate General Management. As part of investor relations activities, meetings are regularly arranged both in Italy and abroad with representatives of the financial community. ERG's policy is to provide the fullest possible information on its activities and strategies, including through constant innovation and updating of its website. The person in charge of managing investor relations is Ms. Emanuela Delucchi.

MANAGEMENT AND COORDINATION

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

COMMITMENT

The Company intends to confirm its commitment:

- to pursue as its primary objective, in its formal acts and conduct, the creation of shareholder value;
- to model its business on total compliance with the ERG Group's ethical principles, which are based on that combination of values consisting of personal integrity, correctness of relationships inside and outside the Company, and transparency vis-à-vis shareholders, related stakeholders, and the market – as outlined and explained in the Code of Ethics, adopted in December 2003 and most recently updated on 10 November 2011, to reflect not only the organisational-corporate changes that have taken place in the ERG Group, but also the regulatory changes that have taken place and the evolution in reference best practices;
- to ensure, by means of constant attention to the ongoing evolution of corporate governance principles, observance of such principles by its organisation, in order to ensure, in turn, the transparent and efficient operation of the organisation over time.

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

COMPOSITION OF THE BOARD OF DIRECTORS AND OF THE COMMITTEES

TABLE 1

BOARD OF DIRECTORS

OFFICE	MEMBERs	IN OFFICE SINCE	IN OFFICE UNTIL	LIST (M/m)*	EXECUTIVE
CHAIRMAN	EDOARDO GARRONE	23/04/2009	App. Fin. Stat. 12/31/2011	M	YES
DEPUTY CHAIRMAN	GIOVANNI MONDINI	23/04/2009	App. Fin. Stat. 12/31/2011	M	YES
CEO	ALESSANDRO GARRONE	23/04/2009	App. Fin. Stat. 12/31/2011	M	YES
DIRECTOR	MASSIMO BELCREDI	23/04/2009	App. Fin. Stat. 12/31/2011	M	
DIRECTOR	LUCA BETTONTE	15/04/2010	App. Fin. Stat. 12/31/2011	M	YES
DIRECTOR	LINO CARDARELLI	23/04/2009	App. Fin. Stat. 12/31/2011	M	
DIRECTOR	ALESSANDRO CARERI	21/06/2011	Net Shareholder Mtg		
DIRECTOR	ALDO GAROZZO	23/04/2009	App. Fin. Stat. 12/31/2011	M	
DIRECTOR	GIUSEPPE GATTI	23/04/2009	App. Fin. Stat. 12/31/2011	M	YES
DIRECTOR	ANTONIO GUASTONI	23/04/2009	App. Fin. Stat. 12/31/2011	M	
DIRECTOR	PAOLO FRANCESCO LANZONI	23/04/2009	App. Fin. Stat. 12/31/2011	M	
DIRECTOR	GRAZIELLA MERELLO	23/04/2009	App. Fin. Stat. 12/31/2011	M	YES

DIRECTORS WHO LEFT OFFICE DURING THE REFERENCE YEAR

DEPUTY CHAIRMAN	PIETRO GIORDANO	23/04/2009	21/06/2011	M	YES

QUORUM REQUIRED FOR LIST PRESENTATION ON THE OCCASION OF THE LATEST APPOINTMENT **2%**

NUMBER OF MEETINGS HELD DURING THE REFERECE YEAR — BOARD OF DIRECTORS **8**

NOTES

* In this column, M/m is indicated depending on whether the member was elected from the listed by the majority (M) or by a minor (m).

** This column shows the percentage of Director's attendance at the meetings, respectively, of the Board of Directors and of the Committees (no. of presences/no. of meetings held during the person's actual period in office).

*** This column shows the number of appointments as Director or Statutory Auditor held by the person in other companies listed on regulated markets, also abroad, in financial, banking, insurance companies or in companies of significant size.

**** This columns shows whether the member of the Board of Directors is also member of the Committee.

NON EXECUTIVE	INDEPENDENT IN ACCORDANCE WITH THE CODE	INDEPENDENT IN ACCORDANCE WITH CONSOLIDATED FINANCE ACT	% ATTENDANCE (**)	NUMBER OF OTHER APPOINTMENTS (***)	INTERNAL CONTROLL COMMITTEE		NOMINATIONS & RENUMERATION COMMITTEE	
					(****)	(**)	(****)	(**)
			100%	2				
			100%	1				
			100%	2				
	YES	YES	88%	1	YES	100%	YES	100%
			100%	–				
	YES	YES	75%	–			YES	80%
YES			100%	–				
YES			100%	–				
			100%	1				
	YES	YES	100%	5	YES	91%		
	YES	YES	88%	–	YES	100%	YES	100%
			100%	–				
			80%	–				
		ICC **11**		NRC **10**				

COMPOSITION OF THE BOARD OF STATUTORY AUDITORS

TABLE 2

BOARD OF STATUTORY AUDITORS

OFFICE	MEMBER	IN OFFICE SINCE	IN OFFICE UNTIL	INDEPENDENCE IN ACCORDANTE WITH THE CODE	LIST (M/m) *	% ATTENDANCE (**)	NUMBER OTHER APPOINTM. (***)
CHAIRMAN	MARIO PACCIANI	15/04/2010	App. Fin. Stat. 31/12/2012	YES	M	100%	1
STANDING AUDITOR	LELIO FORNABAIO	15/04/2010	App. Fin. Stat. 31/12/2012	YES	M	100%	6
STANDING AUDITOR	PAOLO FASCE	15/04/2010	App. Fin. Stat. 31/12/2012	YES	M	100%	3
ALTERNATE AUDITOR	VINCENZO CAMPO ANTICO	15/04/2010	App. Fin. Stat. 31/12/2012	YES	M	–	–
ALTERNATE AUDITOR	FABIO PORFIRI	15/04/2010	App. Fin. Stat. 31/12/2012	YES	M	–	–
ALTERNATE AUDITOR	STEFANO REMONDINI	15/04/2010	App. Fin. Stat. 31/12/2012	YES	M	–	–

AUDITORS WHO LEFT OFFICE DURING THE REFERENCE YEAR

NONE

QUORUM REQUIRED FOR LIST PRESENTATION ON THE OCCASION OF THE LATEST APPOINTMENT **2%**

NUMBER OF MEETINGS HELD DURING THE REFERECE YEAR **7**

NOTE

* In this column, M/m is indicated depending on whether the member was elected from the listed voted by the majority (M) or by a minor (m).

** This column shows the percentage of Auditor's attendance at the meetings of the Board of Statutory Auditors (no. of presences/no. of meetings held during the person's actual period in office).

*** Complete list of appointments in attached, in accordance with Article 144-quinquies of the CONSOB Issuers Regulation, to the report on supervisory acticities, prepared by the auditors in accordance with Article 153, Paragraph 1 of the Consolidated Finance act.

PROPOSAL OF THE BOARD OF DIRECTORS

Dear Shareholders,
We close this report by inviting you to:

- approve the Financial Statements as of and for the year ended 31 December 2011, which show a net profit of EUR 19,928,214.55;
- authorise the payment of a dividend of EUR 0.40 per share. The dividend will be paid in respect of each share having dividend rights outstanding as of the ex-date, excluding the company's treasury shares, in accordance with Article 2357-ter of the Italian Civil Code, by distribution of the year's earnings and for the residual part by use of retained earnings;
- approve the payment of the dividend starting on 24 May 2012, subject to issuance of the coupon starting on 21 May 2012.

Genoa, 6 March 2012

On behalf of the Board of Directors
The Chairman
Edoardo Garrone

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CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(EUR THOUSAND)	NOTES		12/31/2011		12/31/2010
INTANGIBLE FIXED ASSETS	1		285,273		192,113
GOODWILL	2		25,673		9,422
PROPERTY, PLANT, AND MACHINERY	3		1,617,156		1,636,159
EQUITY INVESTMENTS:	4		893,736		994,306
- CARRIED AT EQUITY		*892,656*		*993,452*	
- OTHER INVESTMENTS		*1,081*		*854*	
OTHER FINANCIAL ASSETS	5		1,547		3,155
DEFERRED TAX ASSETS	6		244,095		209,425
OTHER NON-CURRENT ASSETS	7		23,723		37,588
NON-CURRENT ASSETS			**3,091,203**		**3,082,168**
INVENTORIES	8		308,288		288,919
TRADE RECEIVABLES	9		730,222		441,144 FR
OF WHICH FROM RELATED PARTIES	40	*128,521*		*135,065*	
OTHER CURRENT RECEIVABLES AND ASSETS	10		172,981		115,550
OF WHICH FROM RELATED PARTIES	40	*60,903*		*5,197*	
CURRENT FINANCIAL ASSETS	11		19,743		53,404
OF WHICH WITH RELATED PARTIES	40	*2,280*		*3,286*	
CASH AND CASH EQUIVALENTS	12		532,670		1,312,544
CURRENT ASSETS			**1,763,904**		**2,211,561**
ASSETS HELD FOR SALE			**–**		**–**
TOTAL ASSETS			**4,855,107**		**5,293,727**
GROUP SHAREHOLDERS' EQUITY	13		1,727,764		1,740,423
MINORITY INTERESTS	14		150,509		151,071
SHAREHOLDERS' EQUITY			**1,878,273**		**1,891,494**
EMPLOYEES' SEVERANCE INDEMNITIES	15		3,484		4,606
DEFERRED TAX LIABILITIES	16		151,451		120,547
PROVISIONS FOR NON-CURRENT LIABILITIES AND CHARGES	17		12,574		1,353
NON-CURRENT FINANCIAL LIABILITIES	18		1,012,730		1,221,735
OF WHICH TOWARDS RELATED PARTIES	40	*9,022*		*10,276*	
OTHER NON-CURRENT LIABILITIES	19		203,234		271,489
NON-CURRENT LIABILITIES			**1,383,473**		**1,619,730**
PROVISIONS FOR CURRENT LIABILITIES AND CHARGES	20		37,359		63,692
TRADE PAYABLES	21		844,586		660,552
OF WHICH TOWARDS RELATED PARTIES	40	*115,461*		*91,012*	
CURRENT FINANCIAL LIABILITIES	22		503,147		867,077
OF WHICH TOWARDS RELATED PARTIES	40	*6,880*		*28,302*	
OTHER CURRENT LIABILITIES	24		208,269		191,182
OF WHICH TOWARDS RELATED PARTIES	40	*7,027*		*17,143*	
CURRENT LIABILITIES			**1,593,361**		**1,782,503**
LIABILITIES HELD FOR SALE			**–**		**–**
TOTAL LIABILITIES			**4,855,107**		**5,293,727**

CONSOLIDATED INCOME STATEMENT

(EUR THOUSAND)	NOTES		YEAR 2011		YEAR 2010
REVENUES FROM ORDINARY OPERATIONS	28		6,770,291		5,382,861
OF WHICH FROM RELATED PARTIES	40	*828,004*		*961,698*	
OTHER REVENUES AND INCOME	29		28,002		77,521
OF WHICH FROM RELATED PARTIES	40	*7,535*		*4,378*	
CHANGES IN PRODUCT INVENTORIES	30		57,618		78,798
CHANGES IN RAW MATERIAL INVENTORIES	31		(38,250)		98,883
COST OF PURCHASES	32		(5,894,946)		(4,730,768)
OF WHICH TOWARDS RELATED PARTIES	40	*(404,771)*		*(296,636)*	
COSTS FOR SERVICES AND OTHER COSTS	33		(666,315)		(687,274)
OF WHICH TOWARDS RELATED PARTIES	40	*(384,790)*		*(512,064)*	
OF WHICH NON-RECURRING ITEMS		*–*		*(26,530)*	
PERSONNEL EXPENSES	34		(64,217)		(66,131)
OF WHICH NON-RECURRING ITEMS	39	*–*		*–*	
EBITDA FROM CONTINUING OPERATIONS			**192,183**		**153,890**
AMORTIZATION, DEPRECIATION AND WRITE-DOWNS OF FIXED ASSETS	35		**(242,050)**		**(153,113)**
OF WHICH NON-RECURRING ITEMS		*(98,188)*		*(36,553)*	
FINANCIAL INCOME			136,322		103,849
OF WHICH FROM RELATED PARTIES	40	*99*		*352*	
FINANCIAL EXPENSES			(174,697)		(149,536)
OF WHICH TOWARDS RELATED PARTIES	40	*(883)*		*(1,526)*	
NET FINANCIAL INCOME (EXPENSES)	36		**(38,375)**		**(45,687)**
NET INCOME (LOSS) FROM INVESTMENTS CARRIED AT EQUITY			43,847		16,373
OF WHICH NON-RECURRING ITEMS	39	*(3,196)*		*–*	
OTHER NET INCOME (LOSS) FROM EQUITY INVESTMENTS			109,355		(9,305)
OF WHICH NON-RECURRING ITEMS	39	*109,267*		*(7,699)*	
NET INCOME (LOSS) FROM EQUITY INVESTMENTS	37		**153,202**		**7,068**
PROFIT BEFORE TAXES			**64,960**		**(37,842)**
INCOME TAXES	38		30,923		(11,901)
OF WHICH NON-RECURRING ITEMS	39	*40,807*		*5,839*	
NET PROFIT (LOSS) FOR THE PERIOD			**95,883**		**43,398**
NET INCOME FROM SOLD ASSETS AND LIABILITIES	41		–		93,141
OF WHICH NON-RECURRING ITEMS	39	*–*		*51,214*	
NET PROFIT (LOSS) FOR THE PERIOD			**95,883**		**43,398**
MINORITY INTERESTS			(30,788)		(33,016)
OF WHICH NON-RECURRING ITEMS	39	*–*		*3,429*	
NET PROFIT (LOSS) PERTAINING TO THE GROUP			**65,095**		**10,382**

(EUR)	NOTES	YEAR 2011	YEAR 2010
BASIC EARNINGS FROM CONTINUING OPERATIONS PER SHARE	41	**0.439**	**(0.558)**
DILUTED EARNINGS FROM CONTINUING OPERATIONS PER SHARE	41	**0.439**	**(0.558)**
GROUP BASIC EARNINGS PER SHARE	41	**0.439**	**0.070**
GROUP DILUTED EARNINGS PER SHARE	41	**0.439**	**0.070**

CONSOLIDATED STATEMENT OF OTHER COMPONENTS OF COMPREHENSIVE INCOME

(EUR THOUSAND)	YEAR 2011	YEAR 2010
NET PROFIT (LOSS) FOR THE PERIOD	**95,883**	**43,398**
CHANGES IN THE CASH FLOW HEDGE RESERVE	(29,420)	7,141
CHANGES IN SECURITIES AVAILABLE FOR SALE	(64)	45
INCOME TAX ON OTHER COMPONENTS OF COMPREHENSIVE INCOME	10.024	(2,443)
OTHER COMPONENTS OF COMPREHENSIVE INCOME AFTER TAX	**(19.459)**	**4,743**
COMPREHENSIVE NET PROFIT (LOSS) FOR THE PERIOD	**76,424**	**48,141**
MINORITY INTERESTS	(30,571)	(33,484)
COMPREHENSIVE NET PROFIT (LOSS) PERTAINING TO THE GROUP	**45,853**	**14,657**

CONSOLIDATED STATEMENT OF CASH FLOWS

(EUR THOUSAND)	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES (A):		
NET PROFIT (LOSS) FOR THE PERIOD	95,883	43,398
- AMORTIZATION, DEPRECIATION AND WRITE-DOWNS OF FIXED ASSETS	238,726	190,662
- NET CHANGE IN PROVISION FOR LIABILITIES AND CHARGES	(14,863)	25,687
- NET CHANGE IN DEFERRED TAX ASSETS AND LIABILITIES	(42,783)	4,500
- WRITE-DOWN OF RECEIVABLES AND GREEN CERTIFICATES	9,279	12,697
- NET CAPITAL GAIN/LOSS ON SALE OF NON-CURRENT ASSETS	53	83
- PORTION OF INCOME/EXPENSES FROM INVESTMENTS CARRIED AT EQUITY	(16,373)	(19,961)
- WRITE-DOWN OF EQUITY INVESTMENTS	25	7,699
- CAPITAL GAIN ON SALE OF 11% EQUITY INVESTMENT IN ISAB S.R.L.	(109,267)	–
- NET CHANGE IN EMPLOYEES' SEVERANCE INDEMNITIES	(633)	(1,121)
CASH FLOWS BEFORE CHANGES IN WORKING CAPITAL	**160,047**	**263,644**
- CHANGES IN WORKING CAPITAL:		
- CHANGE IN INVENTORY	(19,369)	(358,598)
- CHANGE IN TRADE RECEIVABLES	(286,502)	(201,470)
- CHANGE IN TRADE PAYABLES	183,873	449,465
- NET CHANGE IN OTHER RECEIVABLES/PAYABLES AND OTHER ASSETS/LIABILITIES	(88,972)	28,410
	(210,970)	**(82,193)**
TOTAL	**(50,923)**	**181,451**
CASH FLOWS FROM INVESTING ACTIVITIES (B):		
ACQUISITION OF INTANGIBLE FIXED ASSETS AND GOODWILL	(12,523)	(12,037)
ACQUISITION OF PROPERTY, PLANT, AND MACHINERY	(70,546)	(188,736)
INCREASES OF PROPERTY, PLANT AND MACHINERY DUE TO CYCLICAL MAINTENANCE	(6,735)	(1,423)
ACQUISITION OF EQUITY INVESTMENTS AND OTHER NON-CURRENT FINANCIAL ASSETS	(436)	(1,944)
IMPACT OF TOTALERG TRANSACTION ON CASH AND CASH EQUIVALENTS	–	84,255
COLLECTION FROM SALE OF 11% OF ISAB S.R.L.	244,866	–
DISPOSALS OF INTANGIBLE FIXED ASSETS AND GOODWILL	2,084	1,392
DISPOSALS OF PROPERTY, PLANT AND MACHINERY AND RELATED CAPITAL GAINS/LOSSES	4,028	7,362
DISPOSAL OF EQUITY INVESTMENTS AND OTHER NON-CURRENT FINANCIAL ASSETS	(16,875)	7,991
TOTAL	**143,863**	**(103,140)**
CASH FLOWS FROM FINANCING ACTIVITIES (C):		
NEW NON-CURRENT LOANS	–	537,000
REPAYMENT OF NON-CURRENT LOANS	(326,525)	(572,040)
NET CHANGE IN OTHER NON-CURRENT FINANCIAL LIABILITIES	15,907	12,982
NET CHANGE IN SHORT-TERM BANK BORROWINGS	(407,148)	(581,231)
NET CHANGE IN OTHER CURRENT FINANCIAL ASSETS/LIABILITIES	(49,267)	182,128
SHARE CAPITAL INCREASES/REPAYMENTS	–	–
ACQUISITION OF TREASURY SHARES	–	–
DIVIDENDS PAID TO THIRD PARTIES	(66,977)	(80,717)
OTHER CHANGES IN SHAREHOLDERS' EQUITY	(38,803)	601
TOTAL	**(872,813)**	**(501,277)**
NET CASH FLOWS FOR THE YEAR (A+B+C)	**(779,874)**	**(485,311)**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**1,312,544**	**1,797,855**
NET CASH FLOWS FOR THE YEAR	(779,874)	(485,311)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**532,670**	**1,312,544**

	2011	2010
ADDITIONAL CASH FLOWS INFORMATION		
INCOME TAXES PAID	34,700	14,966
INTEREST PAID	53,060	42,460

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	SHARE CAPITAL	RESERVES	NET PROFIT (LOSS) FOR THE YEAR	GROUP SHAREHOLDERS' EQUITY	MINORITY INTERESTS	TOTAL SHAREHOLDERS' EQUITY
BALANCE AS OF 12/31/2009	**15,032**	**1,760,473**	**6,958**	**1,782,463**	**146,064**	**1,928,527**
ALLOCATION OF 2009 PROFIT	–	6,959	(6,959)	–	–	–
DIVIDENDS	–	(59,288)	–	(59,288)	(21,429)	(80,717)
ACQUISITION OF TREASURY SHARES	–	–	–	–	–	–
OTHER CHANGES (1)	–	2,590	–	2,590	(7,047)	(4,457)
NET PROFIT (LOSS) FOR 2010	–	–	10,382	10,382	33,016	43,398
CHANGES IN THE CASH FLOW HEDGE RESERVE (2)	–	4,245	–	4,245	468	4,713
CHANGES IN SECURITIES AVAILABLE FOR SALE	–	30	–	30	–	30
COMPREHENSIVE NET PROFIT (LOSS) FOR THE PERIOD	**–**	**4,275**	**10,382**	**14,657**	**33,484**	**48,141**
BALANCE AS OF 12/31/2010	**15,032**	**1,715,009**	**10,381**	**1,740,423**	**151,071**	**1,891,494**
BALANCE AS OF 12/31/2010	**15,032**	**1,715,009**	**10,381**	**1,740,423**	**151,071**	**1,891,494**
ALLOCATION OF 2010 PROFIT	–	10,382	(10,382)	–	–	–
DIVIDENDS	–	(59,288)	–	(59,288)	(7,689)	(66,977)
ACQUISITION OF TREASURY SHARES	–	–	–	–	–	–
OTHER CHANGES (1)	–	775	–	775	(23,443)	(22,668)
NET PROFIT (LOSS) FOR 2011	–	–	65,095	65,095	30,788	95,883
CHANGES IN THE CASH FLOW HEDGE RESERVE (2)	–	(19,200)	–	(19,200)	(217)	(19,417)
CHANGES IN SECURITIES AVAILABLE FOR SALE	–	(42)	–	(42)	–	(42)
COMPREHENSIVE NET PROFIT (LOSS) FOR THE PERIOD	**–**	**(19,242)**	**65,095**	**45,853**	**30,571**	**76,424**
BALANCE AS OF 12/31/2011	**15,032**	**1,647,636**	**65,094**	**1,727,764**	**150,509**	**1,878,273**

(1) the other changes in 2011 refer mainly to the acquisition of the minority shares of ERG Renew (wholly owned by ERG S.p.A. as of 31 December 2011)
(2) net of the related tax effect

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

THE GROUP

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

CRITERIA FOR THE PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

The Consolidated Financial Statements as of and for the year ended 31 December 2011 were prepared, without any waiver or exception, in accordance with the Standards issued by the International Accounting Standards Board (IASB) and approved by the European Union, inclusive of all international standards that have undergone interpretation (International Accounting Standards – IAS – and International Financial Reporting Standards – IFRS) and the interpretations issued by the International Financial Reporting Interpretation Committee (IFRIC) and by the previous Standing Interpretations Committee (SIC).

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

The Consolidated Financial Statements as of and for the year ended 31 December 2011 were audited by the independent firm Deloitte & Touche S.p.A. in accordance with Consob regulations.

FORM AND CONTENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS

ERG classifies its Consolidated Income Statement using the "nature of expense" method, a form deemed more representative than a classification using the "function of expense" method. The form chosen is in fact consistent with internal and management reporting procedures.

With reference to the consolidated statement of financial position, the adopted classification makes a distinction between current and non-current assets and liabilities, as allowed by IAS 1.

The structure of the consolidated statement of cash flows is based on the indirect method.

Furthermore, as required by Consob resolution 15519 dated 27 July 2006, significant income and charges arising from non-recurring transactions or from events that do not occur frequently in the ordinary course of business have been indicated separately in the Consolidated Income Statement. These items are commented upon in a dedicated note.

Also pursuant to the aforementioned Consob resolution, balances or transactions with related parties have been entered separately in the consolidated statement of financial position and the Consolidated Income Statement. These items are commented upon in a dedicated note.

CONSOLIDATION PRINCIPLES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

SCOPE OF CONSOLIDATION

The Consolidated Financial Statements contain line-by-line consolidation of data pertaining to ERG S.p.A., the Parent company, and the subsidiaries either directly or indirectly controlled by ERG S.p.A. Such 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 commencing on the date when the Group effectively obtained control and cease to be consolidated from the date when control is transferred outside the Group. Associates, where ERG S.p.A. has significant influence, and joint ventures, where it exercises joint control over financial and operational strategy, are measured under the equity method of accounting. The Group's share of profits or losses is included in the Consolidated Financial Statements starting on the date when the significant influence commenced and up to the date when it ceased. Should the Group's share of the losses incurred by an associate exceed the carrying value of the investment shown in the Consolidated statement of financial position, after writing off the carrying value a provision is recognised for the Group's share of the losses to the extent that the Group has legal or constructive obligations to cover the losses of the associate or, in any event, to make payments on its behalf or in relation to its scope of activity.
No companies were consolidated using the proportional method.

INVESTMENTS IN CONSOLIDATED COMPANIES

The Financial Statements of subsidiaries used for consolidation purposes were drawn up as of 31 December 2011 based on the same accounting principles and policies adopted by the Group. All Financial Statements of the companies consolidated line by line are expressed in Euros.
When preparing the Consolidated Financial Statements, the assets, liabilities, revenues and costs of the consolidated companies are included line by line for their full amount, attributing to minority shareholders, under separate headings of the consolidated statement of financial position and Income Statement, their portion of shareholders' equity and profit or loss for the year. The portion of shareholders' equity pertaining to minority interests is calculated on the basis of the fair values attributed to assets and liabilities at the date control was acquired, excluding any goodwill allocable to them. The carrying value of investments is eliminated against the corresponding portion of shareholders' equity of the investee companies, attributing to individual assets and liabilities their fair values as of the date control was acquired. Any residual difference, if positive, is recognised as "Goodwill"; if negative, it is recognised in the Consolidated Income Statement as prescribed by IFRS 3 (Business Combinations).

INTRA-GROUP TRANSACTIONS

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

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

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

LIST OF GROUP COMPANIES

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

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

COMPANY (EUR THOUSAND)	REGISTERED OFFICE	DIRECT HOLDING	GROUP HOLDING	SHARE CAPITAL (1)	SHAREHOLDERS' EQUITY (1) 12/31/2011
ERG S.P.A.					
ERG NUOVE CENTRALI S.P.A.	SIRACUSA	100.00%	100.00%	5,000	11,351
ERG OIL SICILIA S.R.L.	ROME	100.00%	100.00%	6,310	39,440
ERG RENEW S.P.A. (2)	GENOA	100.00%	100.00%	100,000	532,321
ISAB ENERGY S.R.L.	SIRACUSA	51.00%	51.00%	5,165	440,927
ISAB ENERGY SERVICES S.R.L.	SIRACUSA	51.00%	51.00%	700	8,362
ERG RENEW S.P.A.					
ERG EOLICA ITALIA S.R.L.	GENOA	100.00%	100.00%	30,000	33,847
ERG EOLIENNE FRANCE S.A.S.	PARIS	100.00%	100.00%	50	(10,059)
ERG SOLARE ITALIA S.R.L.	GENOA	100.00%	100.00%	120	240
ERG EOLIENNE FRANCE S.A.S.					
EOLIENNES DU VENT SOLAIRE S.A.S.	PARIS (F)	100.00%	100.00%	37	(1,700)
PARC EOLIEN DE LIHUS S.A.S.	PARIS (F)	100.00%	100.00%	1,114	(478)
PARC EOLIEN DE HETOMESNIL S.A.S.	PARIS (F)	100.00%	100.00%	1,114	(458)
PARC EOLIEN DE LA BRUYÈRE S.A.S.	PARIS (F)	100.00%	100.00%	1,060	(299)
PARC EOLIEN DU CARREAU S.A.S.	PARIS (F)	100.00%	100.00%	861	844
PARC EOLIEN LES MARDEAUX S.A.S.	PARIS (F)	100.00%	100.00%	1,097	(955)
ERG EOLICA ITALIA S.R.L.					
EOLO S.R.L.	ATINA (FR)	51.00%	51.00%	20	1,771
ERG EOLICA ADRIATICA S.R.L.	GENOA	100.00%	100.00%	10	66,755
ERG EOLICA AMARONI S.R.L.	CATANZARO	100.00%	100.00%	10	241
ERG EOLICA BASILICATA S.R.L.	GENOA	98.00%	98.00%	38	370
ERG EOLICA CALABRIA S.R.L.	CATANZARO	100.00%	100.00%	10	181
ERG EOLICA CAMPANIA S.P.A.	GENOA	100.00%	100.00%	120	23,419
ERG EOLICA FAETO S.R.L.	GENOA	100.00%	100.00%	10	7,578
ERG EOLICA FOSSA DEL LUPO S.R.L.	CATANZARO	100.00%	100.00%	50	13,502
ERG EOLICA GINESTRA S.R.L.	GENOA	100.00%	100.00%	10	3,119
ERG EOLICA NURRA S.R.L.	GENOA	100.00%	100.00%	10	74
ERG EOLICA S. CIREO S.R.L.	GENOA	100.00%	100.00%	3,500	21,465
ERG EOLICA S. VINCENZO S.R.L.	GENOA	100.00%	100.00%	3,500	17,313
ERG EOLICA TIRRENO S.R.L.	PALERMO	100.00%	100.00%	10	192
ERG EOLICA TURSI COLOBRARO S.R.L.	GENOA	100.00%	100.00%	10	111
GREEN VICARI S.R.L.	PALERMO	100.00%	100.00%	119	9,731
ERG NUOVE CENTRALI S.P.A.					
ERG POWER S.R.L.	SIRACUSA	100.00%	100.00%	5,000	66,367

(1) data referring to the latest approved Financial Statements
(2) during 2011, all shares of ERG Renew S.p.A. were acquired.
Additional details are provided in the chapter entitled **Takeover bid on ERG Renew S.p.A.**

List of equity investments measured under the equity method of accounting:

COMPANY (EUR THOUSAND)	REGISTERED OFFICE	DIRECT HOLDING	GROUP HOLDING	SHARE CAPITAL [1]	SHAREHOLDERS' EQUITY [1]	CARRYING VALUE AS OF 12/31/2011
ASSOCIATES:						
ERG S.P.A.						
ERG RIVARA STORAGE S.R.L.	MODENA	15.00%	15.00%	63,333	62,258	9,330
ESPANSIONE S.R.L.	VARESE	27.01%	27.01%	274	2,241	889
I-FABER S.P.A.	MILAN	23.00%	23.00%	5,652	13,488	3,102
						13,321
JOINT VENTURES:						
ERG S.P.A.						
IONIO GAS S.R.L. [2]	SIRACUSA	50.00%	50.00%	200	3,242	1,659
ISAB S.R.L. [3]	SIRACUSA	40.00%	40.00%	50,000	1,074,987	492,024
TOTALERG S.P.A. [4]	ROME	51.00%	51.00%	47,665	526,152	377,047
ERG RENEW S.P.A.						
LUKERG RENEW GMBH [5]	VIENNA	50.00%	50.00%	35	N/A	18
ERG SOLARE ITALIA S.R.L.						
ISAB ENERGY SOLARE S.R.L. [6]	SIRACUSA	51.00%	51.00%	13	91	–
ERG POWER S.R.L.						
PRIOLO SERVIZI S.C.P.A. [7]	SIRACUSA	19.34%	19.34%	25,600	44,392	8,587
						879,335
TOTAL						**892,656**

(1) data referring to 2011 for joint ventures; to the latest approved Financial Statements at the date of the Board of Directors meeting for associated companies.
(2) in joint venture with Shell Energy Italia S.r.l.
(3) in joint venture with LUKOIL Europe Holdings B.V.
(4) in joint venture with Total Holding Europe S.a.s.
(5) in joint venture with LUKOIL-Ecoenergo
(6) in joint venture with Princemark Limited (IPM group)
(7) the consortium company jointly controlled with ISAB S.r.l. (37.8%) and with the other ENI Group partners Polimeri Europa (35.7%) and Syndial (5%).

List of equity investments measured at cost:

COMPANY (EUR THOUSAND)	REGISTERED OFFICE	DIRECT HOLDING	GROUP HOLDING	SHARE CAPITAL	SHAREHOLDERS' EQUITY (1)	CARRYING VALUE AS OF 12/31/2011
SUBSIDIARIES (2)						
ERG S.P.A.						
ERG PETRÓLEOS S.A.	MADRID (E)	100.00%	100.00%	3,050	(4,646)	–
ERG EOLICA ITALIA S.R.L.						
EOLICO TROINA S.R.L.	PALERMO	99.00%	99.00%	20	25	–
						–
ASSOCIATED COMPANIES (2)						
ERG S.P.A.						
DELTA TI RESEARCH CONSORTIUM	MILAN	50.00%	50.00%	50	N/A	50
ERG RENEW S.P.A.						
DYEPOWER CONSORTIUM	ROME	24.70%	24.70%	1,071	351	535
						585
OTHER COMPANIES						
ERG S.P.A.						
CAF INTERREG. DIPENDENTI S.R.L.	VICENZA	0.04%	0.06%	276	946	–
EMITTENTI TITOLI S.P.A.	MILAN	0.51%	0.51%	4,264	6,241	26
MEROIL S.A.	BARCELONA (S)	0.87%	1.52%	19,077	34,202	310
R.U.P.E. S.P.A.	GENOA	4.86%	4.86%	3,058	3,171	155
ERG RENEW S.P.A.						
CONSORZIO DYEPOWER	ROME	24.70%	24.70%	387	351	535
ISAB ENERGY S.R.L.						
I.A.S. - INDUSTRIA ACQUA SIRACUSANA S.P.A.	SIRACUSA	5.00%	2.55%	102	108	5
						496
TOTALE						**1,081**

(1) data referring to 2011 for subsidiaries; to the latest Financial Statements approved at the date of the Board of Directors meeting for associated companies and other companies
(2) companies measured at cost as they are not operational

The main transactions that were carried out involving Group equity investments are summarised as follows:

On **8 March 2011** ERG Renew S.p.A. sold its interest in ISAB Energy Solare S.r.l., representing 51% of share capital, to its own subsidiary ERG Solare Italia S.r.l.

On **28 March 2011** the consortium Delta Ti Research was incorporated; it is owned by ERG S.p.A. (50%) and by Università degli studi di Milano - Bicocca (50%), and its purpose is to promote, plan and fund research and development in the field of nanotechnologies and silicon structures suitable for thermoelectric conversion.

On **1 April 2011** the merger by incorporation of some non operational wind power companies (Eolico Agira S.r.l., Eolico Mirabella S.r.l., Eolico Palagonia S.r.l. and Eolico Ramacca S.r.l.) into Eolico Troina S.r.l. became effective.

On **1 April 2011** the company ERG Gestion Iberica S.L., undergoing liquidation, formerly 100% owned by ERG S.p.A., was eliminated.

On **1 April 2011** ERG S.p.A sold 11% of its equity investment in ISAB S.r.l. for a final price of EUR 245 million. For additional details, please see the Section entitled "**Put Option on ISAB S.r.l.**".

On **30 April 2011** ERG Renew S.p.A. did not underwrite the share capital increase to cover losses of the company Ansaldo Fuel Cells S.p.A.; consequently, it is no longer one of the company's shareholders.

On **20 May 2011** ERG Renew and LUKOIL-Ecoenergo executed an agreement for the incorporation of the equal-share joint venture as an instrument of collaboration in the renewable energies market in Eastern European Countries and in Russia. The joint venture was formally incorporated on **15 July 2011**, with the name LUKERG Renew GmbH and registered office in Vienna.
On **29 June 2011** ERG Renew S.p.A. did not underwrite the share capital increase to cover losses of the non-operating companies VCC Abruzzo S.r.l., VCC Agrigento S.r.l., VCC Agrigento 2 S.r.l., VCC Enna S.r.l.; consequently, it is no longer one of the aforesaid companies' shareholders.
On **28 July 2011**, in accordance with the agreements between the shareholders, ERG Power S.r.l. sold 552,960 shares, representing 2.16% of the equity investment it held in Priolo Servizi S.C.p.A.
On **29 November 2011** ERG Eolienne France S.a.s. sold its equity investment (50%) in the following non operational French wind power companies:

- CITA S.a.s.;
- Eoliennes de la Chaussee Brunehaut S.ar.l.;
- Eoliennes de la Vallee Notre Dame S.ar.l.;
- Eoliennes de l'Ourcq et du Clignon S.ar.l.;
- Eoliennes de Warloy-Baillon S.ar.l.;
- Eoliennes du Champ Chardon S.arl.

The overall result of the sales brought about a capital loss of immaterial amount (EUR 0.1 million).

During 2011 ERG, sold its equity investments, whose amount and share were not significant, in BIC Liguria S.c.p.A. and Utilità progetti e sviluppo S.r.l. Additionally, in June 2011 all (100%) shares of ERG Renew S.p.A. were acquired (82.14% at 31 December 2010), as better commented in the section "**2010 Takeover bid on ERG Renew S.p.A.**"

CHANGES IN SCOPE OF CONSOLIDATION

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

- On **5 August 2011** ERG Eolica Italia S.r.l., sub-holding of ERG Renew S.p.A., closed the acquisition of 100% of IVPC Power 3 S.p.A., owner of five wind farms, in operation since 2008 between the provinces of Avellino and Benevento, with approximately 112 MW of total installed capacity.
  The enterprise value of the acquisition is approximately EUR 2.1 million per MW. ERG paid approximately EUR 100 million to the seller for the equity and repaid an intra-group loan (EUR 33 million as of 31 December 2010).
- On **13 September 2011** ERG Eolica Italia S.r.l. acquired 100% of the share capital of Amaroni Energia S.r.l. (now called ERG Eolica Amaroni), owner of a fully authorised 22.5 MW wind power project in the Municipality of Amaroni (CZ), for a value of approximately EUR 2 million.
- In late 2011, ERG sold its equity investments in DSI Servizi Industriali S.r.l (solid and liquid waste treatment) and SODAI Italia S.p.A. (purification platforms adjacent to 20 Trenitalia workshops), companies that operate in the industrial waste treatment segment, collecting EUR 5.0 million and reporting a total write-down of EUR 3.3 million in the Consolidated Income Statement. As announced, the Group disposed of the aforesaid assets because they were not deemed to be core assets.

The effects of the aforesaid transactions on the Group's consolidated statement of financial position are summarised in the following table.

	ACQUISITION OF ERG EOLICA CAMPANIA	ACQUISITION OF ERG EOLICA AMARONI	SALE OF WATER SERVICES ASSETS	CHANGE IN SCOPE OF CONSOLIDATION
INTANGIBLE FIXED ASSETS	114,997	2,519	(17)	117,499
GOODWILL	11,236	–	(152)	11,084
PROPERTY, PLANT, AND MACHINERY	126,199	2,845	(7,489)	121,555
EQUITY INVESTMENTS	–	–	–	–
OTHER FINANCIAL ASSETS	–	–	–	–
DEFERRED TAX ASSETS	1,802	–	(683)	1,119
OTHER NON-CURRENT ASSETS	–	–	(346)	(346)
NON-CURRENT ASSETS	**254,234**	**5,364**	**(8,687)**	**250,911**
INVENTORIES	–	–	–	–
TRADE RECEIVABLES	15,031	–	(3,176)	11,855
OTHER CURRENT RECEIVABLES AND ASSETS	7,039	351	(100)	7,290
CURRENT FINANCIAL ASSETS*	–	–	–	–
CASH AND CASH EQUIVALENTS*	(86,364)	(2,003)	2,156	(86,211)
CURRENT ASSETS	**(64,294)**	**(1,652)**	**(1,120)**	**(67,066)**
TOTAL ASSETS	**189,940**	**3,712**	**(9,807)**	**183,845**
SHAREHOLDERS' EQUITY	**–**	**–**	**(3,324)**	**(3,324)**
EMPLOYEES' SEVERANCE INDEMNITIES	–	–	(489)	(489)
DEFERRED TAX LIABILITIES	43,253	–	–	43,253
PROVISIONS FOR NON-CURRENT LIABILITIES AND CHARGES	–	–	–	–
NON-CURRENT FINANCIAL LIABILITIES*	98,330	–	–	98,330
OTHER NON-CURRENT LIABILITIES	170	–	–	170
NON-CURRENT LIABILITIES	**141,753**	**–**	**(489)**	**141,264**
PROVISIONS FOR CURRENT LIABILITIES AND CHARGES	–	–	(249)	(249)
TRADE PAYABLES	1,729	247	(1,815)	161
CURRENT FINANCIAL LIABILITIES*	44,588	1,508	(2,878)	43,218
OTHER CURRENT LIABILITIES	1,870	1,957	(1,052)	2,775
CURRENT LIABILITIES	**48,187**	**3,712**	**(5,994)**	**45,905**
TOTAL LIABILITIES AND EQUITY	**189,940**	**3,712**	**(9,807)**	**183,845**
* IMPACT ON NET FINANCIAL POSITION	229,282	3,511	(5,034)	227,759

A detail of the "**Acquisition of ERG Eolica Campania**" business combination is provided below.

ACQUISITION OF ERG EOLICA CAMPANIA

On 5 August 2011 ERG closed the acquisition of 100% of IVPC Power 3 S.p.A. (ERG Eolica Campania), owner of five wind farms, in operation since 2008 between the provinces of Avellino and Benevento, with approximately 112 MW of total installed capacity.

The enterprise value of the acquisition is approximately EUR 2.1 million per MW. ERG paid approximately EUR 100 million to the seller for the equity and repaid an intra-group loan (EUR 33 million as of 31 December 2010).

The acquisition was measured according to the provisions of IFRS 3 on business combinations; based on this standard, for the transaction to be properly accounted for, the following is necessary:

- determining the total acquisition cost;
- allocating at the date of acquisition, the cost of the business combination at the acquired assets and the liabilities assumed, including those not recognised before the acquisition;
- recognise the goodwill acquired in the business combination.

The total cost of the acquisition was approximately EUR 100 million.

The following table shows the details of the acquired assets and assumed liabilities at their carrying value and at their adjusted value, based on IFRS 3 ("Purchase Price Method"), to take into account their fair value.

Purchase price allocation

	CARRYING VALUE	ADJUSTMENTS TO THE ACQUISITION BALANCE SHEET	ADJUSTED VALUE	ACQUISITION OF EQUITY INVESTMENT	IMPACT ON CONSOLIDATED FINANCIAL STATEMENT
INTANGIBLE FIXED ASSETS	2,091	112,906	114,997	–	114,997
GOODWILL	–	–	–	11,236	11,236
PROPERTY, PLANT, AND MACHINERY	126,199	–	126,199	–	126,199
EQUITY INVESTMENTS	–	–	–	–	–
OTHER FINANCIAL ASSETS	–	–	–	–	–
DEFERRED TAX ASSETS	1,802		1,802	–	1,802
OTHER NON-CURRENT ASSETS	–	–	–	–	–
NON-CURRENT ASSETS	**130,092**	**112,906**	**242,998**	**11,236**	**254,234**
INVENTORIES	–	–	–	–	–
TRADE RECEIVABLES	15,031	–	15,031	–	15,031
OTHER CURRENT RECEIVABLES AND ASSETS	7,039	–	7,039	–	7,039
CURRENT FINANCIAL ASSETS	–	–	–	–	–
CASH AND CASH EQUIVALENTS	13,740	–	13,740	(100,104)	(86,364)
CURRENT ASSETS	**35,810**	**–**	**35,810**	**(100,104)**	**(64,294)**
TOTAL ASSETS	**165,902**	**112,906**	**278,808**	**(88,868)**	**189,940**
SHAREHOLDERS' EQUITY	**19,499**	**69,369**	**88,868**	**(88,868)**	**–**
EMPLOYEES' SEVERANCE INDEMNITIES	–	–	–	–	–
DEFERRED TAX LIABILITIES	–	43,253	43,253	–	43,253
PROVISIONS FOR NON-CURRENT LIABILITIES AND CHARGES	–	–	–	–	–
NON-CURRENT FINANCIAL LIABILITIES	98,330	–	98,330	–	98,330
OTHER NON-CURRENT LIABILITIES	170	–	170	–	170
NON-CURRENT LIABILITIES	**98,500**	**43,253**	**141,753**	**–**	**141,753**
PROVISIONS FOR CURRENT LIABILITIES AND CHARGES	–	–	–	–	–
TRADE PAYABLES	1,729	–	1,729	–	1,729
CURRENT FINANCIAL LIABILITIES	44,588	–	44,588	–	44,588
OTHER CURRENT LIABILITIES	1,586	284	1,870	–	1,870
CURRENT LIABILITIES	**47,903**	**284**	**48,187**	**–**	**48,187**
TOTAL LIABILITIES AND EQUITY	**165,902**	**112,906**	**278,808**	**(88,868)**	**189,940**

IIn determining the fair value of the acquired assets and liabilities, the main differences identified refer to the valuation of intangible fixed assets and in particular of the contracts and authorisations for the generation of electricity at subsidised prices for operating wind farms. These assets were measured with the support of models prepared when assessing the attractiveness of the investment and it let to the recognition of higher values for intangible fixed assets by approximately EUR 113 million, before the related tax effect presented among the adjustments to deferred tax liabilities. These higher values match the total present value of the cash flows expected from the acquired contracts and authorisations
The difference between the total acquisition cost (EUR 100 million) and the net value of the acquired assets and liabilities (EUR 89 million) was recognised residually as goodwill, amounting to EUR 11 million.
Based on the provisions of IFRS 3, the measurement of the assets and liabilities, as performed when drafting these consolidated financial statements, shall be deemed to be provisional and may be subject to changes in the twelve months following the acquisition date.

ERG Eolica Campania Contribution to the 2011 Consolidated Financial Statements
In the time interval between the acquisition date (5 August 2011) and the end of the year, the acquired company contributed to the Group's consolidated Income Statement with revenues of EUR 13 million and operating income of EUR 7 million. If the acquisition had taken place at the beginning of the year, the Group's total revenues would have been higher by EUR 19 million and operating income by EUR 10 million.

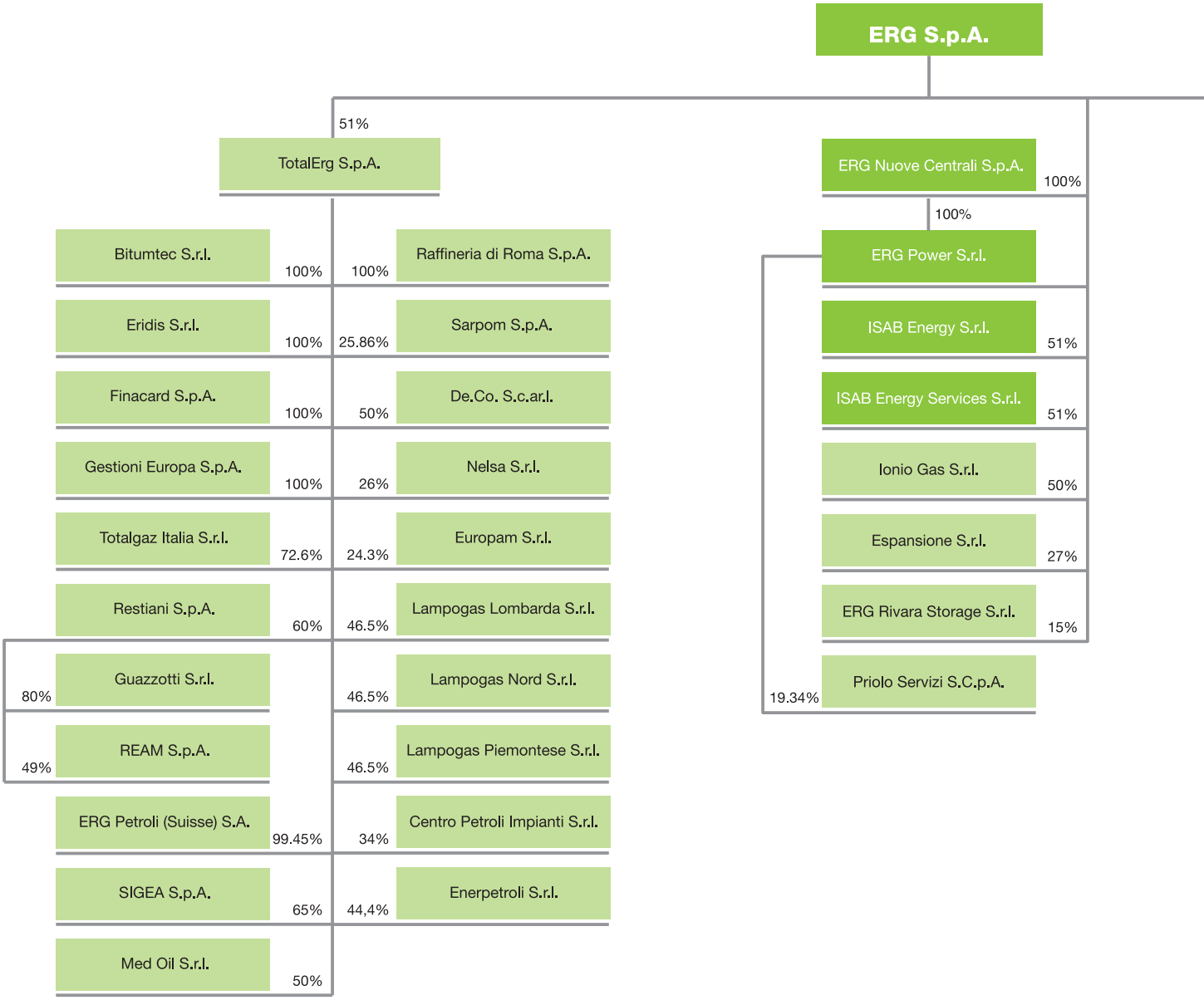
ERG EOLICA ADRIATICA 2010 – DEFINITION OF PURCHASE PRICE ALLOCATION

On 23 July 2010, the Group, through the investee company ERG Eolica Italia, completed the acquisition of ERG Eolica Adriatica S.r.l. (formerly IVPC Power 5 s.r.l.), owner of two operational wind farms in Molise and in Puglia, for a purchase price of EUR 71 million.
In the 2010 Consolidated Financial Statements, as prescribed by IFRS 3, the Purchase Price Allocation procedure had been carried out provisionally, because the replacement costs of the identifiable assets and liabilities of ERG Eolica Adriatica S.r.l. were still being determined and identified. In particular, the higher price had been allocated to Concessions for approximately EUR 60 million, before the related tax effect recognised among "Deferred tax liabilities" for EUR 19 million. For additional details, reference is made to the 2010 consolidated Financial Statements of ERG Renew S.p.A.

For the purposes of this Report, in consideration of the checks performed with the support of updated financial assessment models, the higher price paid was finally allocated to Concessions for approximately EUR 47 million, before the related tax effect recognised among "deferred tax liabilities" for EUR 15 million, and the remaining amount of approximately EUR 8 million residually to goodwill. Said goodwill represents the company's ability to continue its activity in an indefinite timeframe, which therefore is not limited by the duration of the concessions currently assigned to ERG Eolica Adriatica S.r.l.
This presentation stems from the updated criteria used for the provisional allocation of purchase price and the effects deriving from retrospective application are not significant.

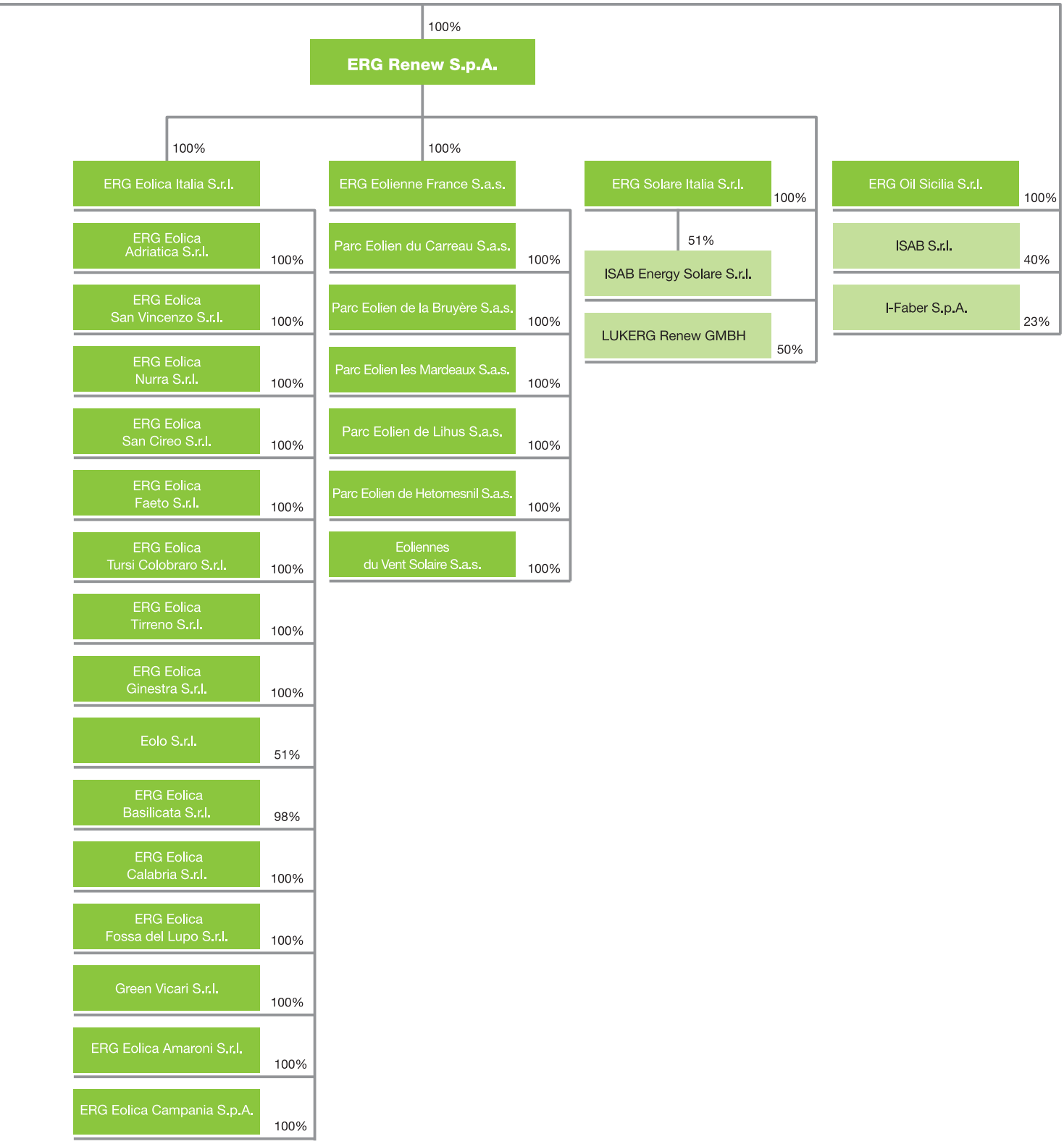
THE ERG GROUP

SCOPE OF CONSOLIDATION AS AT 31 DECEMBER 2011



= companies consolidated on a line by-line basis

= companies measured under the equity method


100%
ERG Renew S.p.A.
100%
ERG Eolica Italia S.r.l.
ERG Eolica Adriatica S.r.l. 100%
ERG Eolica San Vincenzo S.r.l. 100%
ERG Eolica Nurra S.r.l. 100%
ERG Eolica San Cireo S.r.l. 100%
ERG Eolica Faeto S.r.l. 100%
ERG Eolica Tursi Colobraro S.r.l. 100%
ERG Eolica Tirreno S.r.l. 100%
ERG Eolica Ginestra S.r.l. 100%
Eolo S.r.l. 51%
ERG Eolica Basilicata S.r.l. 98%
ERG Eolica Calabria S.r.l. 100%
ERG Eolica Fossa del Lupo S.r.l. 100%
Green Vicari S.r.l. 100%
ERG Eolica Amaroni S.r.l. 100%
ERG Eolica Campania S.p.A. 100%
100%
ERG Eolienne France S.a.s.
Parc Eolien du Carreau S.a.s. 100%
Parc Eolien de la Bruyère S.a.s. 100%
Parc Eolien les Mardeaux S.a.s. 100%
Parc Eolien de Lihus S.a.s. 100%
Parc Eolien de Hetomesnil S.a.s. 100%
Eoliennes du Vent Solaire S.a.s. 100%
ERG Solare Italia S.r.l. 100%
51%
ISAB Energy Solare S.r.l.
LUKERG Renew GMBH 50%
ERG Oil Sicilia S.r.l. 100%
ISAB S.r.l. 40%
I-Faber S.p.A. 23%

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies adopted for the preparation of the Consolidated Financial Statements as of and for the year ended 31 December 2011 are described below. They are the same as for the previous year, except for differences described in the paragraph "Accounting principles, amendments and interpretations applied starting on 1 January 2011".

INTANGIBLE FIXED ASSETS

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

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

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

- licences for industrial processes, 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;
- authorisation for operation of service stations and for the wind farms amortised in relation to the contractual term.

There are no intangible fixed assets with an indefinite useful life or development costs.
Research costs are expensed directly in the Consolidated Income Statement in the period in which they are incurred.
Other intangible fixed assets recognised following a business combination are presented separately from goodwill if their fair value can be measured reliably.

GOODWILL

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

PROPERTY, PLANT, AND MACHINERY

Property, plant and machinery are recognised 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 recognised as assets in the consolidated statement of financial position as a separate component of the main asset during the year in which they are incurred and are included in the depreciation process on the basis of their estimated useful life.
The cost of the assets, where there are present obligations to do so, includes charges for dismantling, removal of assets and site restoration to be incurred at the time facilities are

abandoned, which are presented as a contra-asset in a specific provision. These charges are recognised starting on 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 Consolidated Income Statement via depreciation.
Depreciation is calculated on a straight-line basis over the estimated useful life. When the tangible fixed asset consists of several significant components having different useful lives, each component is depreciated accordingly. The value to be depreciated is the historical cost less the expected residual value, if material and reliably measurable.
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 significant finance lease transactions as defined in IAS 17.

The depreciation rates applied are as follows:

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

WRITE-DOWN OF FIXED ASSETS (IMPAIRMENT TEST)

At least once a year, the Group subjects its tangible and intangible fixed assets to an impairment test to determine whether there are indications that they may be impaired. If such an indication exists, 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 expected future cash flows.
Impairment is recognised if the recoverable value is less than the carrying value. Should the impairment of a fixed asset, other than goodwill, subsequently no longer apply or be reduced, the carrying value of the asset or cash-generating unit is increased up to the new estimate of the recoverable value, without exceeding the value that would have been determined if no impairment had been recognised.

JOINT VENTURES

These are companies on whose activity the Group has joint control as defined by IAS 31 – Interests in joint ventures. The Consolidated Financial Statements include the Group's share of the results of the joint venture, measured under the equity method, starting from the date when joint control starts until the time when it ceases to exist.
If the Group's share of the losses of the joint ventures exceeds the carrying value of the investment in the Consolidated Financial Statements, the value of the investment is written down to zero and the share of additional losses is not recognised, except and to the extent to which the Group is obligated to be liable for them.

ASSOCIATES

These are companies in which the Group exercises significant influence, but not control or joint control, over financial and operating policies, as defined by IAS 28 – Investments in associates. The Consolidated Financial Statements include the Group's share of the results of the associates, measured under the equity method, starting from the date when significant influence starts until the time when it ceases to exist. If the Group's share of the associate's losses exceeds the carrying value of the investment in the Consolidated Financial Statements, the value of the investment is written down to zero and the share of additional losses is not recognised, except and to the extent to which the Group is obligated to be liable for them.

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 assets.

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

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

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

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

This category comprises:

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

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

As of 31 December 2011, no financial asset had been designated as FVTPL.

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

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

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

As of 31 December 2011, the Group held no investments classified as HTM.

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

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not listed in an active market.
Following initial recognition, these assets are measured at amortised cost using the effective interest method, net of allowances, if any. Gains and losses are recognised in the Consolidated Income Statement when loans & receivables are derecognised for accounting purposes or if impairment occurs, as well as via the amortization process.
Trade receivables are presented at their fair value, which corresponds to their face value, and are subsequently reduced to account for uncollectible receivables, 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 shareholders' equity.
AFS financial assets include equity investments in companies other than subsidiaries and associates in which ERG's direct or indirect ownership percentage is less than 20%.
When fair value cannot be reliably measured, equity investments are measured at cost, written down for impairment, if any, and dividends from such companies are included in "Other net income (loss) from equity investments".
When the reasons for the write-downs cease to exist, equity investments carried at cost are revalued to the extent of the write-downs that had been recognised and the effect is presented in the Consolidated Income Statement.
The risk arising from any losses exceeding shareholders' equity is recognised in a specific reserve to the extent that the investor has committed to meet legal or constructive obligations vis-à-vis the investee company or in any case to cover its losses.

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

Fair value

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

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

Amortised cost

"Investments held to maturity" and "Loans & receivables" are measured at amortised cost, calculated using the effective interest method, net of impairment provisions or allowances, 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 Consolidated Financial Statements' date, the Group verifies whether a financial asset or group of financial assets has suffered impairment.

If there is objective evidence that a loan or receivable carried at amortised cost has suffered impairment, the amount of such impairment is measured as the difference between the asset's carrying value and the present value of future expected cash flows discounted at the asset's original effective interest rate.

The carrying value of the asset is reduced via accrual of a provision. The impairment amount is recognised in the Consolidated Income Statement.

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

In case of trade receivables, an allowance for uncollectible receivables is recognised when there is objective evidence (such as, for example, the likelihood of the debtor's insolvency or serious financial difficulties) that the Group will be unable to recover the amounts owed according to the original conditions.

The carrying value of the receivable is reduced via use of a specific provision. Receivables are derecognised if they are deemed unrecoverable.

The Group has applied the provisions of IFRS 2 commencing on 1 January 2005 and therefore to all stock option plans implemented after that date.

As of 31 December 2011, there were no extant stock option plans.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents are presented, according to their nature, at face value.

In accordance with IAS 7, the definition of cash equivalents comprises cash on hand and bank/postal deposits repayable on demand, together with short-term, highly liquid investments that are readily convertible to a known amount of cash. It also includes short-term investments whose reimbursement value is predetermined at the date of initial purchase/recognition.

FINANCIAL LIABILITIES

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

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

All loans taken out are initially recognised at the fair value of the amount received net of ancillary loan acquisition costs.

After initial recognition, loans are measured at amortised cost using the effective interest method.

Every gain or loss is recognised in the Consolidated Income Statement when the liability is settled, as well as via the amortization process.

Financial liabilities at FVTPL include "liabilities held for trading".

Liabilities held for trading (HFT) are acquired for the purpose of short-term sale and comprise derivatives – including separated embedded derivatives – unless they have been designated as effective hedging instruments. Gains or losses on HFT liabilities are recognised in the Consolidated Income Statement.

As of 31 December 2011, no financial liability had been 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 consolidated statement of financial position) when:

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

In cases where the Group has transferred rights to receive cash flows from an asset and has neither transferred nor retained substantially all risks and rewards, or has not lost control of the asset, the asset is recognised in Group accounts to the extent of the Group's residual involvement in such asset.

A financial liability is derecognised when the liability's underlying obligation has been extinguished, cancelled, or settled.

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING TRANSACTIONS

Derivative financial 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 presented 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 stemming from the fluctuations in raw material and product prices, foreign currency 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 fluctuations in the fair value of the underlying hedged asset (fair value hedge), they are recognised at their fair value and the effects are presented in the Consolidated Income Statement; accordingly, the hedged instruments are adjusted to reflect changes in the fair value associated with the hedged risk.

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

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

TREASURY SHARES

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

INVENTORIES

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

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

Inventories of ancillary materials, consumables and lubricants are measured at the lower of weighted average cost and market value.
Inventories of raw materials or petroleum products purchased for short-term resale are measured at the lower value between fair value net of sale costs and the net realisable value.

TRANSACTIONS IN FOREIGN CURRENCIES

Transactions in foreign currencies are recognised at the exchange rate prevailing at the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate prevailing at the Consolidated Financial Statements' date. Non-monetary items are maintained at the exchange rate prevailing at the transaction date except in case of a persistently unfavourable trend in the exchange rate. Exchange rate differences generated on derecognition of items at rates differing from those at which they had been translated at the time of their initial recognition and those relating to monetary items at year-end are presented in the Consolidated 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 settle the obligation;
- a reliable estimate can be made of the amount of the obligation.

Changes in estimates are reflected in the consolidated income statement in the period in which they occur.
When the financial effect of time is significant and the dates of settlement of the obligations can be estimated, the provision is subject to discounting, utilising a discount rate that reflects the current time value of money. The increase in the provision connected to the passing of time is recognised in the consolidated 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 presented as a contra asset against the asset to which it refers, and recognition in the consolidated income statement takes place through the depreciation process.

Significant contingent liabilities, represented by the following, are disclosed in the notes to the consolidated financial statements:

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

EMPLOYEE BENEFITS

Until 31 December 2006, the employees' severance indemnities provision (TFR) of Italian companies was considered as a defined benefit plan. The rules for the provision were amended by Italian Law no. 296 dated 27 December 2006 ("2007 Budget Law") and subsequent decrees and regulations promulgated in the early months of 2007. In light of these amendments, and in particular with reference to companies with at least 50 employees, the TFR is currently considered a defined benefit plan solely for the portions accrued prior to 1 January 2007 and not yet liquidated as of the date of the Consolidated Financial Statements, whereas after said date it is deemed akin to a defined contribution plan.
The liability relating to defined benefit plans is determined, separately for each plan, on the basis of actuarial assumptions, by estimating the amount of the future benefits to which

employees are entitled as of the reporting date, and accrued over the rights' vesting period; the liability is valued by independent actuaries.
Gains and losses related to defined benefit plans arising from changes in the actuarial assumptions used, or changes in the plan's conditions, are recognised pro rata in the Consolidated Income Statement for the remaining average working life of the employees participating in the plan, if and to the extent that their net off-balance-sheet value at the end of the previous year exceeds the higher between 10% of the liability pertaining to the plan and 10% of the fair value of the plan assets.

STOCK OPTION PLANS

Under IFRS 2 (Share-based Payments), stock options in favour of employees are measured at fair value at the time of their assignment based on models taking into account the factors and elements prevailing at such time (option exercise price and duration, current price of underlying shares, expected volatility of share price and the like).
The right vests after a certain period and subject to certain conditions.
The overall value of the options is apportioned pro rata temporis over the abovementioned period and presented under a specific shareholders' equity item, and recognised in the Consolidated Income Statement.
The measured fair value of each option is neither reviewed nor updated at the end of each year, but remains definitively acquired in shareholders' equity; at the end of each year, however, the estimate of the number of options that will mature up to expiry is updated (and hence the number of employees who will have the right to exercise the options).
The change in the estimate is recognised as a reduction of shareholders' equity and in the Consolidated Income Statement.

REVENUE RECOGNITION

Revenues from sales and services are recognised when the actual transfer of risks and rewards of ownership occurs, which coincides with the time of delivery or based upon different contractual specifications, or upon completion of the services.
ISAB Energy's sales revenues are based on a sale contract to the GSE regulated by the price established in Regulation 6/1992 of the Inter-ministerial Prices Committee (CIP/6), signed for 20 years and already authorised by the EU for 15 years. Regulation 6/1992 provides for recognition of a subsidised price for the first eight years of operation (2000-2008).
This subsidised component represents an advance on the overall sales price that can be obtained from the contract: therefore, the subsidy is recognised as revenues in proportion to the quantities of energy sold over the quantities expected to be sold over the entire lifetime of the contract.
Revenues stemming from partially provided services are recognised as earned pro rata over completion, provided that it is possible to determine their level of completion reliably and there are no significant uncertainties as to the amount and existence of revenues and related costs; otherwise, they are recognised within the limits of the recoverable costs incurred.
Revenues are presented net of returns, discounts, rebates and allowances, as well as of any directly related taxes.
If a deferment of payment is expected, which does not fall under normal commercial terms, the financial component that will be attributed as income in the deferment period is separated from revenues. Since exchanges of goods or services of a similar nature and value do not constitute sales transactions, they do not give rise to recognition of revenues and costs.
Revenues relating to green certificates are recognised based on production in the period and are calculated on the basis of the legal regulations and prevailing resolutions of the Italian Electricity Authority during the period, also taking into account the prevailing pro tempore equalising regulations.

Grants related to assets are recognised at the time when a formal assignment is made and any possible restriction on their collection is removed and they are recognised in the Consolidated Income Statement over the useful life of the related assets, with the purpose of matching their economic-technical depreciation.

DIVIDENDS

Dividends are recognised when, following a shareholders' resolution, the right of shareholders to receive the payment is established.

FINANCIAL INCOME AND EXPENSES

These are recognised under the accrual basis of accounting in the Consolidated Income Statement based on the interest due on the net value of financial assets and liabilities, utilising the effective interest rate.

INCOME TAXES

Current taxes are accrued based on the estimated tax burden for the period, also taking into account the effects relating to participation of most Group companies in "tax consolidation".
Income taxes are presented in the consolidated 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 presented under shareholders' equity.
Furthermore, pursuant to the accrual basis of accounting, the consolidated financial statements include deferred tax assets and liabilities arising from temporary differences caused by adjustments made to the financial statements of consolidated companies in order to align them with the Group's uniform accounting policies, as well as from temporary differences between the financial reporting values and related tax values.
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 are only recognised in the Consolidated Financial Statements if their future recovery is probable. With regards to deferred tax assets related to tax losses that can be carried forward, please see the following paragraph.
Deferred taxes are calculated on the basis of the tax rates expected to be in force in the periods in which the taxable temporary differences will be reversed.
Deferred tax assets and deferred tax liabilities are classified under non-current assets and liabilities.

- **Prior years' tax losses**
  On 15 July 2011, Italian Law no. 111/2011 was passed; it converted Italian Law Decree no. 98/2011 bearing Urgent provisions for the financial stabilisation of the Country (2011 Corrective Budget). In particular, the Law Decree amended Article 84 of the Unified Income Tax Act pertaining to the carrying forward of tax losses, eliminating the 5-year time limit prescribed for the purposes of determining whether prior years' tax losses can be carried forward (such losses, therefore, can be carried forward without limitation), and introducing a quantitative limit to the utilisation of prior years' tax losses, i.e. 80% of the income produced in the following years. The aforesaid quantitative limit of 80% does not apply for tax losses generated in the first three years from the incorporation, provided that they refer to a new productive activity.
  The new provisions are already applicable starting in 2011 and as clarified by circular 53/E 2011 by the Italian Internal Revenue Agency, also with effect on the tax losses generated prior to 2011 and still being carried forward according to previous regulations.
  The introduction of the aforesaid changes had a positive impact on these Consolidated Financial Statements, stemming from the recognition of receivables related to prior years' tax losses to be recovered in the medium term, in the amount approximately of EUR 11 million.

- **Changes to the "Robin Tax" regulations**
  On 14 September 2011, Italian Law no. 148/2011 was approved, converting Italian Law Decree no. 138/2011 bearing Urgent measures for the financial stabilisation and economic development of the Country. The Law introduced the following changes pertaining to the IRES rate surcharge ("Robin Hood Tax"):
  - temporary increase of the IRES rate surcharge from 6.5% to 10.5% for 2011, 2012 and 2013;
  - broadened range of energy industry operators to which the surcharge is applicable; specifically, the surcharge is applicable also to the renewable energy segment (i.e. wind, photovoltaic and the like);
  - change of the limits to the application of the surcharge; it will be applicable only if, in the previous tax period, revenues exceeded EUR 10 million (previously, the limit was EUR 25 million), and taxable income exceeded EUR 1 million.

Introduction of the aforesaid changes entailed a positive net impact in these Consolidated Financial Statements, deriving mainly from the changes in tax rates on deferred tax assets and on deferred tax liabilities, amounting approximately to EUR 9 million.
This effect is figurative in nature and it refers mainly to deferred taxes recognised in the consolidated financial statements in accordance with international financial reporting standards.
The actual effect of the changes, on the contrary, entails, starting in 2011, higher current taxes for the Group, both in terms of higher tax rates and of a higher number of Group companies subject to the Robin Hood Tax surcharge.

EARNINGS PER SHARE

Basic earnings per share are calculated by dividing net profit for the period attributable to the parent company's ordinary shareholders by the weighted average number of the ordinary shares outstanding during the period.
To calculate diluted earnings per share, the weighted average number of ordinary shares outstanding is adjusted by assuming the conversion of all dilutive potential ordinary shares.

USE OF ESTIMATES – RISKS AND UNCERTAINTIES

Preparation of the consolidated financial statements and explanatory notes pursuant to IFRS requires ERG to make estimates and assumptions that affect the carrying values of the assets and liabilities recognised in the consolidated financial statements and disclosures relating to contingent assets and liabilities. Making these estimates involves using information available and subjective judgment.
By their nature, estimates and assumptions used may vary from year to year, and it is therefore possible that current carrying values in the consolidated financial statements may differ in subsequent years due to changes in the subjective judgment used.

The main estimates for which use of subjective judgement is most often required include:
- provisions for bad debt, inventory obsolescence, amortization/depreciation and asset write-downs;
- provisions for environmental risks and for liabilities related to legal and fiscal disputes for which a financial outlay is deemed likely and the amount of the resulting charges can be reasonably estimated;
- deferred tax assets, recognised on the basis of the Group's future taxability of expected profits generated in accordance with business plans as well as of the expected renewal of tax consolidation regimes;

- the valuation of the fair value of the put option granted to the Group as part of the agreement underwritten with LUKOIL (see the paragraph "**Put option on 51% of ISAB S.r.l.**");
- the impairment test for intangible and tangiblfixed assets and for other equity investments, described in detail in the **Impairment test** paragraph implies – in the estimation of the value in use – the utilisation of the investee companies' business Plans, based on a set of assumptions and hypotheses relating to future events and actions by the investee companies' governing bodies, which may not necessarily occur. Similar estimation procedures are necessary when reference is made to the estimated fair value (net of disposal costs) component due to the uncertainty inherent in any negotiation.

The estimates and assumptions are periodically reviewed and the effects of each change are reflected in the Consolidated Income Statement in the period in which the change is made.

ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS APPLIED STARTING ON 1 JANUARY 2011

On 4 November 2009, the IASB issued a revised version of **IAS 24 – Related party disclosures** which simplifies the type of disclosure required in case of transactions with related parties controlled by the State and clarifies the definition of related parties. The adoption of this amendment did not have any effect from the viewpoint of the measurement of items in the consolidated financial statements and it had limited effects on the related party disclosures provided in this annual Report.

ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS NOT YET APPLICABLE OR ADOPTED BY THE GROUP

- On 12 May 2011, the IASB issued the following new standards, to be applied from 1 January 2013 onwards. At the time of this Report, the cognisant bodies of the European Union had not yet completed the endorsement process necessary for enforcement of the amendments:
  - **IFRS 10 – Consolidated Financial Statements**: the principle replaces SIC-12 Consolidation – Special Purpose Entities and certain parts of IAS 27 - Consolidated and Separate Financial Statements, which will change its name to IAS 27 – Separate financial statement and will regulate the accounting treatment of equity investments in the Separate Financial Statements.
    The new IFRS 10 standard identifies the concept of control as the determining factor for the purposes of the consolidation of a company in the Consolidated Financial Statements of the parent company, providing a guide to determine the existence of control in cases that are difficult to interpret.

  - **IFRS 11 – Joint arrangements:** the standard replaces IAS 31 – Interests in Joint Ventures and SIC-13 – Jointly Controlled Entities – Non-Monetary Contributions by Venturers.
    The new standard provides criteria to identify joint arrangements based on the rights and obligations deriving from the arrangement rather than on their type and it establishes the equity method as the sole method of accounting for interests in jointly controlled entities in the Consolidated Financial Statements

  - **IFRS 12 – Disclosure of interests in other entities**: the purpose of the standard is to illustrate the required disclosure concerning interests (subsidiaries, joint arrangements, associates, special purpose entities and other unconsolidated structured entities).

- **IFRS 13 – Fair value measurement**: the standard illustrates how to determine fair value for financial reporting purposes and applies to all standards requiring or allowing fair value measurement or disclosure based on fair value.

- The IASB also issued the **following amendments**, for which the European Union endorsement process had not yet been completed at the time of this Report.
  - On 7 October 2010, the IASB published certain amendments to **IFRS 7 – Financial instruments: disclosures**.
    The amendments were issued with the intent of improving understanding of transactions transferring financial assets, including the understanding of possible effects deriving from any risk still remaining with the entity that transferred such assets. The amendments further require additional disclosures if a disproportionate amount of such transactions is carried out at the end of a reporting period. These amendments will be applicable for reporting periods starting on or after 1 July 2011.

  - On 20 December 2010, the IASB issued a minor amendment to **IFRS 1 – First-Time Adoption of International Financial Reporting Standards (IFRS)** to eliminate reference to 1 January 2004, contained therein and described as the date of transition to IFRS and to provide guidelines on the presentation of the Financial Statements in accordance with IFRS after a period of hyper-inflation. These amendments will be applicable prospectively starting on 1 July 2011.

  - On 20 December 2010, the IASB issued a minor amendment to **IAS 12 – Income taxes** which requires an entity to measure deferred taxes arising from an asset based on how the entity expects to recover the carrying amount of the asset, i.e. through continued use or through sale. As a result of this amendment, SIC-21 – Income Taxes – Recovery of revalued non-depreciable assets will not be applicable. The amendment will be applicable starting 1 January 2012.

  - On 16 June 2011, the IASB issued an amendment to **IAS 1 – Presentation of Financial Statements** which requires entities to indicate separately "Other comprehensive Income Statement components" which subsequently can be reclassified in the Income Statement. The amendment will be applicable for years starting on or after 1 July 2012.

  - On 16 June 2011, the IASB issued an amendment to **IAS 19 – Employee benefits** which eliminates the option to defer recognition of actuarial gains and losses with the "corridor approach", requiring presentation of the deficit or surplus of the fund in the statement of financial position, the recognition of cost components linked to employment and the net financial costs in the Income Statement, and the recognition of actuarial gains and losses deriving from re-measurement of liabilities and assets among Other comprehensive gains/(losses). Moreover, the assets' yield included among net financial costs shall be calculated on the basis of the liability's discount rate and not on the expected return of the assets, as before. Lastly, the amendment introduces new additional information to be disclosed in the notes to the Financial Statements and it is applicable from the year starting on or after 1 January 2013.

  - On 16 December 2011 the IASB issued some amendments to **IAS 32 – Financial instruments: presentation**, to clarify the application of certain criteria for offsetting financial assets and liabilities present in IAS 32. The amendments apply retrospectively for years starting on or after 1 January 2014.

- On 16 December 2011 the IASB issued certain amendments to **IFRS 7 – Financial instruments: disclosures**. The amendment requires disclosures on the effects or potential effects of agreements offsetting financial assets and liabilities on the statement of financial position. The amendments are applicable for years starting on or after 1 January 2013 and interim periods after that date. The disclosures shall be provided retrospectively.

Currently, adoption of said changes is not expected to have significant effects on the Consolidated Financial Statements of the Group.

PUT OPTION ON THE EQUITY INVESTMENT IN ISAB S.R.L.

The agreement underwritten with LUKOIL on 1 December 2008 gives ERG S.p.A. a put option for its 51% investment. The exercise price for rights to 100% of the assets transferred to ISAB S.r.l. (not including the minimum operating inventory) will be the fair market value within a collar with a cap at EUR 2,750 million and a floor at EUR 2,000 million, reduced by EUR 15 million following the February 2009 agreement.
The put option is exercisable at ERG S.p.A.'s discretion, commencing in 2010 and within a four-year period, at an exercise price largely corresponding to the fair value of the shareholding at the exercise date. According to the agreement, the option is exercisable within 4 years in one or more steps, no more than once every 12 months, with the provisions set out below.

- **Sale of 11% of ISAB S.r.l. in 2011**
  On 31 January 2011, the Board of Directors of ERG S.p.A. approved the exercise of the put option for 11% of ISAB S.r.l. The value of the sale to LUKOIL of the 11% interest in ISAB (excluding inventory) is EUR 205 million; according to the provisions of the agreement, the option was exercised at the floor price.
  The transaction was closed on 1 April 2011, with the collection of a provisional price of EUR 241 million (including the value of inventory) and of a definitive adjustment of EUR 3.5 million on 26 October 2011, in view of which a gain of EUR 109 million was recognised; said gain is considered a non recurring item.
  The investment in the ISAB S.r.l. joint venture is measured under the equity method of accounting: at 1 April 2011 the value of the investment amounted to EUR 622 million, including 51% of the income from the subsidiary's first quarter 2011.
  As a consequence of the aforesaid sale, the economic contribution of ISAB S.r.l. for 2011 is represented by 51% of the income of ISAB S.r.l. for the first three months of 2011 and by 40% for the remaining part of the year.

- **Sale of 20% of ISAB S.r.l. in 2012**
  On 31 January 2012, the Board of Directors of ERG S.p.A. approved the exercise of the put option for 20% of ISAB S.r.l. The value of the sale to LUKOIL of the 20% interest in ISAB (excluding inventory) is EUR 400 million; according to the provisions of the agreement, the option was exercised at the floor price.
  The transaction enables ERG to reduce its presence in refining in a persistent recessive scenario and further to strengthen the Group's financial structure to support future growth projects in a challenging financial environment.
  As a result of the aforesaid transaction, LUKOIL holds 80% of ISAB and ERG holds 20%. ERG will maintain a presence in the ISAB Board of Directors and management committees, whilst the Operating Processing Agreement was temporarily amended in line with ERG's new positioning within ISAB. ERG and LUKOIL have also amended the agreements executed in 2008, with particular reference to ERG's lock-up period for the exercise of the put option on the remaining 20% of ISAB, now extended to 1 October 2013. Moreover, if ERG exercises

the put option on the remaining 20% between 1 and 31 October 2013, the parties undertake to close the transaction between 15 and 31 December 2013. The other conditions remain unchanged.
The sale of the 20% share, notified on 31 January 2012, is expected to be closed in the second quarter of 2012.
The aforesaid sale, a 2012 event, has no effects on these Consolidated Financial Statements. With regard to the fair value measurement of the put option extant at 31 December 2011, please refer to the next paragraph.

- **Measurement of the put option**
  The fair value of the put option depends on the fair value of the underlying asset, both with regard to the 40% held as of 31 December 2011, and for the 20% exercised in January 2012. According to a study by independent experts, valuation of the option was not quantifiable, since the range of reasonable estimates of fair value was very broad and the probability of the various estimates could not be reasonably estimated, since in the valuation procedure, variables relating to negotiation factors and the non-standard nature of the underlying asset (involving financial as well as industrial considerations) come into play, as well as factors relating to the way the option can be exercised.
  For these reasons, and pursuant to indications given in IAS 39 and of the representations provided in previous Consolidated Financial Statements, the put option could not be presented recorded at fair value as of 31 December 2011.

TAKEOVER BID ON ERG RENEW S.P.A.

On 14 December 2010, the Board of Directors of ERG S.p.A. decided to promote a voluntary takeover bid for all shares of common stock of ERG Renew S.p.A. not in its possession, for EUR 0.97 per share.
The Takeover Bid ended on 18 February 2011 with the overall acceptance by 13,962,309 shares, representing 10.524% of the share capital of ERG Renew S.p.A. Therefore, on the same date, taking into account the shares handed over in acceptance of the bid, the shares already owned on the initial date of the Bid and those acquired outside the bid, ERG S.p.A. held a total number of 125,557,206 shares, i.e. 94.641% of the share capital of ERG Renew S.p.A. ERG S.p.A. therefore deemed the bid to be effective and it announced that it would purchase all the shares handed over in acceptance of the Bid.

On **23 May 2011**, the procedure for the fulfilment of the purchase obligation with respect to the residual shares was started (6,659,325 shares of common stock of ERG Renew S.p.A.).
The price for the mandatory purchase procedure, i.e. EUR 0.9735 per share, was determined by Consob with its resolution no. 17782 dated 18 May 2011.

On **24 May 2011**, share sale requests had been filed for 0.047% of the share capital of the Issuer which, added to the shares already held by ERG before the mandatory purchase procedure was started, represented 95.027% of the share capital of the Issuer.
At the expiration of the sale request presentation period, on 27 May 2011, ERG S.p.A. held a total of 96.904%; therefore, the requirements were fulfilled for the exercise, by ERG S.p.A., of the purchase right prescribed by Article 111 of the Italian Unified Finance Act and for compliance with the mandatory purchase prescribed by Article 108, Paragraph 1, of said Act, through a joint procedure.

On **7 June 2011**, ERG S.p.A. announced, with reference to the joint procedure for the exercise of the purchase right, prescribed by Article 111 of the Italian Unified Finance Act and for compliance with the mandatory purchase prescribed by Article 108, Paragraph 1 of said Act, the deposit and

availability of the amounts for payment of the price on an escrow account, immediately available for liquidation, held at Unicredit S.p.A.; the aforesaid joint procedure pertains to the 4,108,007 outstanding shares, representing 3.096% of the share capital of the Issuer.
On the same date, with its decision no. 6993 dated 30 May 2011, Borsa Italiana S.p.A. ordered the delisting of the Issuer's shares from the Electronic Stock Market, after the suspension of the stock from trading on 2, 3 and 6 June 2011.
As a result of the aforesaid transaction, at 31 December 2011 ERG S.p.A. held 100% of the share capital of ERG Renew S.p.A. Consequently, the Minority Interest of ERG S.p.A. no longer includes any share of the subsidiary ERG Renew S.p.A. and the related effects on the 2011 Consolidated Income Statement for 2011 are not significant.
Additionally, for the sake of complete disclosure, we report that in December 2011 ERG S.p.A. made a capital contribution amounting to EUR 450 million in view of the financial requirements of the investee company, increasing the value of the equity interest to EUR 616 million.

ENERGY-RENEWABLE SOURCES SEGMENT IMPAIRMENT TEST

Through the years, the Group completed a series of acquisitions in the Energy-Renewable Sources segment. Briefly, the main ones were:

- acquisition of the Enertad group (now ERG Renew), starting from 2006 with subsequent step acquisition concluded with the acquisition of a 100% of ERG Renew, completed through the Takeover Bid (see the chapter "Takeover bid on ERG Renew S.p.A.");
- acquisition of five French companies owning as many wind farms situated in France. The transaction was completed through the transfer of the equity investments from Theta Energy to EnerFrance S.a.s (now ERG Eolienne France), wholly owned subsidiary, specifically incorporated as a sub-holding of the wind power segment for the assets located in France;
- acquisition of ERG Eolica Adriatica S.r.l. (formerly IVPC Power 5 S.r.l.), owner of two operational wind farms in Molise and in Puglia, for a purchase price of EUR 71 million (see chapter "ERG Eolica Adriatica 2010");
- acquisition of 100% of Erg Eolica Campania (formerly IVPC Power 3 S.p.A.), owner of five wind farms, operational since 2008, between the provinces of Avellino and Benevento, with a total installed capacity of approximately 112 MW, for a total cost of EUR 100 million (see chapter "ERG Eolica Campania").

The acquisitions were recognised and measured pursuant to IFRS 3 on business combinations, by allocating the cost of the acquisition to the acquired assets and assumed liabilities, including those not recognised prior to the acquisition.
Following the impairment tests in the 2008, 2009 and 2010 Consolidated Financial Statements, the values of the Enertad acquisitions had been partially written down. On occasion of the 2010 Consolidated Financial Statements, the capital gains relating to the acquisitions of the French companies were partially written down.

The residual value of these incremental, allocated assets before the 2011 impairment test is as follows:

- approximately EUR 6 million allocated to the wind power plants in operation;
- approximately EUR 140 million allocated to permits and preliminary agreements for wind farms in operation and to be constructed;
- approximately EUR 19 million allocated to the goodwill.

These amounts were also assessed for the 2011 Consolidated Financial Statements in view of the worsened weighted average cost of capital (WACC), of the worsened profitability of wind farms, and of the stricter tax regulations with particular reference to the application of the "Robin Hood tax" to the Renewable Energies segment.

An independent expert was appointed in January 2012 to conduct the assessment, basing the analysis on the "Twenty-year cash flow projection" prepared by management of ERG Renew S.p.A.
The Group then estimated the recoverable value of the aforesaid assets. According to IAS 36, the recoverable value of an asset or of a cash-generating unit is the higher of its fair value less costs to sell and its value in use.
The cash flows were discounted using a conservative estimate of the discount rate, incorporating in the cost of equity (ke) the various risk factors tied to the industry. In particular, the risk free rate was identified as the average return of the ten-year bonds of the reference country.

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

- the Cash Generating Unit (CGU) matching the individual wind farms, on which the capital gains were allocated, were identified;
- in order to determine the recoverable value, in terms of value in use, the present value of cash flows from operating activities associated with the CGU for the first twenty years of operation of the farms was estimated;
- expected changes in sales prices and trends in direct costs during the period that were assumed for the calculation were determined on the basis of past experience, adjusted for future market expectations;
- a discount rate equal to the industry WACC (6.9% for Italy and 6.10% for France) was used to compute the present value of expected cash flows;
- no terminal value was assumed beyond the explicit forecast period, in line with the methodology followed to allocate the purchase price.

The value of **Goodwill** was determined by identifying two Cash Generating Unit (CGU) connected with the wind farms on which goodwill is allocated, i.e. those of ERG Eolica Adriatica and ERG Eolica Campania.
In order to determine the recoverable value, in terms of value in use, the present value of cash flows from operating activities associated with the CGU for the first twenty years of operation of the farms was estimated.
A discount rate equal to the industry WACC (6.9% for Italy and 6.1% for France) was used to compute the present value of expected cash flows.
A terminal value was also estimated for each wind farm included in the CGU, determined as a perpetuity with a growth rate (g) of zero. The terminal value thus obtained was conservatively reduced by 50%.
Group management deems the assumptions used to be reasonable and, on the basis of the aforementioned assumptions, no impairment has emerged.

- **Sensitivity analysis**
  The result of the impairment test derives from information available to date and from reasonable estimates on future changes in the following variables: wind strength, energy price and interest rates.
  The Group took into account the aforesaid uncertainties in processing and defining the basic assumptions used to determine the recoverable value of the capital gains allocated to the "Renewable Energies" segment and it also carried out a sensitivity analysis on the recoverable value of the various CGUs: this analysis assumed that total revenues from energy sales (i.e., energy remuneration and generation) could undergo upward or downward fluctuations, to an extent that can be estimated at 5% relative to the values estimated for the Plan.
  In case of a 5% reduction in revenues, prolonged throughout the entire time interval of the plan, the value of Goodwill would be written down by approximately EUR 11 million and the

value of Authorisations and preliminary contracts would be written down by approximately EUR 2 million.

Lastly, a 0.5% increase in the discount rate would also have led to an impairment amounting to EUR 9 million of Goodwill allocated to the "Renewal Energies" CGU.

The above analyses confirm the sensitivity of the assessments of the recoverability of non-current assets to changes in the aforesaid variables; in this context, the Directors will systematically monitor the evolution of the aforesaid external, uncontrollable variables for any necessary adjustments of the estimates of the recoverability of the carrying values of non-current assets in the Consolidated Financial Statements.

ERG POWER S.R.L.'S CCGT PLANT IMPAIRMENT TEST

In April 2010, ERG Power's new CCGT plant, with approximately 480 MW of installed power, started full commercial operations; the plant supplies utilities and electrical energy to the industrial customers of the Priolo site, placing the remainder of the generated electricity on the market. The carrying value of the plant as of 31 December 2011 was approximately EUR 438 million, with goodwill of EUR 1.5 million also associated with it.

In the preparation of these Consolidated Financial Statements, these values were verified in view of the increased weighted average cost of capital (WACC), of the higher Robin Hood Tax rates for 2011-2012-2013 and of the lower profitability as a result of the worsening scenario that is characterising the domestic electricity market.

An independent expert was appointed in January 2012 to conduct the assessment, basing the analysis on the "Twenty-year cash flow projection" prepared by management of the ERG Power & Gas Segment.

For impairment test purposes, the CGU comprises the tangible fixed assets attributable to the CCGT plant of ERG Power and the cash flows generated by the ERG Power & Gas segment which operates the plant through a tolling agreement and sells the energy produced on the free market.

The analysis was carried out identifying the recoverable value, i.e. the value in use, of the Cash-Generating Unit. The basis for the calculation was the projection of the operating cash flows associated to the CGU for its useful life, contained in the financial forecast prepared by Group Management and pertaining to a twenty-year time span; additionally, a residual value (or "terminal value") was assumed, calculated as a perpetuity with zero growth rate (g). The expected changes in sale prices and direct costs during the period assumed for the calculation are determined on the basis of past experience, corrected by future market expectations.

Projected cash flows were discounted using a conservative estimate of the discount rate (WACC after tax) applied to projected cash flows, i.e. 6.5%.

The impairment test was carried out including, in addition to the estimates of a worsened scenario of the electricity market compared with the previous year and to the expected reduction in the zone bonus for Sicily, the foreseeable increase in the Group's profitability in the Dispatching Services Market.

The impairment test conducted according to the process described above highlighted an impairment of the CGU. The Group's Management deemed the adopted assumptions to be reasonable and on the basis of the aforesaid assumptions, an impairment of the productive assets amounting to EUR 95 million emerged, before the related tax effect. Therefore, goodwill was entirely written off (EUR 1.5 million) and the residual write-down (EUR 94 million) reduced the value of the tangible fixed assets referred to the CCGT plant.

- **Sensitivity analysis**

  The result of the impairment test derives from information available to date and from reasonable estimates of the evolution of external variables such as the price of energy and interest rate, as well as the development of certain activities and the attainment of cost saving targets.

  The Group took into account the aforesaid uncertainties in processing and defining the basic assumptions used to determine the recoverable value of the CCGT plant and it also carried out a sensitivity analysis on the recoverable value of the CGU: this analysis highlighted that if an additional modulation activity were carried out and the cost saving targets were reached, the impairment would be reduced by EUR 32 million.

  If, on the contrary, certain currently foreseeable growth targets were not positively attained, then the impairment would be increased by EUR 36 million.

  Lastly, a 0.5% increase in the discount rate would also have led to a greater impairment by EUR 16 million.

  The above analyses confirm the sensitivity of the assessments of the recoverability of non-current assets to changes in the aforesaid variables; in this context, the Directors will systematically monitor the evolution of the aforesaid external, uncontrollable variables for any necessary adjustments of the estimates of the recoverability of the carrying values of non-current assets in the Consolidated Financial Statements.

SALE OF "ELECTRICITY MARKETING" BUSINESS UNIT

On 10 November 2011 ERG and IREN, through its subsidiary IREN Mercato, signed a binding Framework Agreement entailing the stipulation of a contract for the supply, by ERG to IREN Mercato, of a total amount of 2 TeraWatt hours (TWh) of electricity per year for six years. The sale price shall be indexed to the wholesale market price of electricity. Through the agreement signed with ERG, IREN Mercato will be able to complement its own annual portfolio for the procurement of electricity, mainly to be supplied to end customers.

The Framework Agreement also provides for the acquisition by IREN Mercato of the ERG business unit that markets and sells electricity to over 15,000 business and mid-business customers, thus assuring its continuity. The price paid by IREN Mercato to ERG for the transaction, net of trade receivables, is set to EUR 3.3 million.

Both agreements, subsequently executed in December 2011, will enter into force on 1 January 2012 and therefore they have no economic and financial effects on these Consolidated Financial Statements.

ANALYSIS OF THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

NOTE 1 – INTANGIBLE FIXED ASSETS

	CONCESSIONS AND LICENCES	OTHER INTANGIBLE ASSETS	ASSETS IN PROGRESS	TOTAL
HISTORICAL COST	**193,627**	**63,621**	**10,257**	**267,505**
ACCUMULATED AMORTISATION	(37,265)	(38,127)	–	(75,392)
BALANCE AS OF 12/31/2010	**156,362**	**25,494**	**10,257**	**192,113**
ASSETS HELD FOR SALE	**–**	**–**	**–**	**–**
CHANGES DURING THE PERIOD				
CHANGE IN SCOPE OF CONSOLIDATION	115,410	2,089	–	117,499
CHANGE IN PURCHASE PRICE ALLOCATION	(11,271)	–	–	(11,271)
ACQUISITIONS	3	594	11,926	12,523
CAPITALISATION/RECLASSIFICATION	9,920	3,661	(18,651)	(5,070)
DISPOSALS AND DIVESTMENTS	–	(1,924)	(160)	(2,084)
AMORTISATION	(10,367)	(8,070)	–	(18,437)
WRITE-DOWNS	–	–	–	–
HISTORICAL COST	**307,675**	**67,337**	**3,905**	**378,917**
ACCUMULATED AMORTISATION	(47,618)	(46,026)	–	(93,644)
BALANCE AS OF 12/31/2011	**260,057**	**21,311**	**3,905**	**285,273**

Concessions and licences mainly comprise authorisations for wind farms (in operation and to be built in the future), amortised based on their residual useful life.
Other intangible fixed assets comprise the right acquired from ENEL for connection of the IGCC plant to the power grid, the legal and technical costs incurred for ISAB Energy's Project Financing transaction, as well as engineering studies and preliminary agreements for wind farms to be constructed in the future.
The change in the scope of consolidation refers mainly to the acquisition of ERG Eolica Campania, as commented in the Note entitled **Change in scope of consolidation**.
The change in Purchase Price Allocation refers to the final update of the values relating to the ERG Eolica Adriatica business combination which had been measured provisionally in the 2010 Consolidated Financial Statements. For further details, please refer to the comments in the Note entitled **ERG Eolica Adriatica 2010 – Definition of Purchase Price Allocation**.
The decrease for capitalisation of assets in progress refers mainly to the wind power segment and it is particularly tied to the commissioning of the "Fossa del Lupo" wind farm and of the "Ginestra" wind farm.

NOTE 2 – GOODWILL

"Goodwill" (EUR 25,673 thousand) represents the excess of acquisition cost of acquired companies over the value of their shareholders' equity, measured at fair value at the acquisition date in accordance with the purchase-price allocation method prescribed by IFRS 3.
The increase in the item compared with 31 December 2010 is mainly due:

- to the acquisition of ERG Eolica Campania;
- to the increase in goodwill stemming from the ERG Eolica Adriatica Business combination, following the final Purchase Price Allocation;

- to the reduction in goodwill related to the Coastal Refining activity as a result of the sale of 11% of the equity investment in ISAB S.r.l.

The item is not amortised in the Consolidated Income Statement and it is subjected to an impairment test every year or more frequently if there are indications during the period that the asset may be impaired.

Goodwill acquired through business combinations was allocated to the cash-generating units corresponding to the following segments:

- Coastal Refining: EUR 5,555 thousand;
- Energy - Thermoelectric: EUR 1,464 thousand;
- Energy - Renewable Sources: EUR 19,391 thousand;
- Other minor: EUR 727 thousand.

The above amounts refer to the values recognised in the Consolidated Financial Statements before the 2011 impairment tests, whose results were as follows:

- **Coastal refining**
  The recoverable value of the Coastal Refining unit was determined on the basis of Fair value net of disposal costs calculated, as indicated in IAS 36, with reference to third-party agreements.
  The Cash Generating Unit in question is the subject matter of the agreement stipulated with LUKOIL on 1 December 2008, whereby a put option was recognised to ERG for its 40% equity investment in ISAB S.r.l., as described in the paragraph entitled "**Put Option on the equity investment in ISAB S.r.l.**".
  The exercise price of the rights for 100% of the assets transferred to ISAB S.r.l. is at fair market value within a range including a floor of EUR 2,000 million (reduced by EUR 15 million), 40% of which is far higher than the value of the assets recognised in the Consolidated Financial Statements and referable to the Coastal Refining unit.
  Therefore, impairment is reported.

- **Energy - Renewable Sources**
  The impairment test on goodwill allocated to the Energy-Renewable Sources segment did not highlight any impairment. For additional details, please see the chapter entitled "**Write-downs in the Renewable Energies segment**".

- **Energy - Thermoelectric**
  The impairment test on goodwill allocated to the Energy-Thermoelectric segment highlighted a full write-off of the amount (EUR 1.4 million). For additional details, please see the chapter entitled "**Impairment test on the IGCC plant of ERG Power S.r.l.**"

NOTE 3 – PROPERTY, PLANT, AND MACHINERY

	LAND AND BUILDINGS	PLANT AND MACHINERY	OTHER ASSETS	ASSETS UNDER CONSTRUCTION	TOTAL
HISTORICAL COST	**90,998**	**1,918,491**	**18,601**	**235,793**	**2,263,883**
ACCUMULATED DEPRECIATION AND WRITE-DOWNS	(20,115)	(594,649)	(12,960)	–	(627,724)
BALANCE AS OF 12/31/2010	**70,883**	**1,323,842**	**5,641**	**235,793**	**1,636,159**
ASSETS HELD FOR SALE	**–**	**–**	**–**	**–**	**–**
CHANGES DURING THE PERIOD:					
CHANGE IN SCOPE OF CONSOLIDATION	(2,036)	120,880	218	2,493	121,555
ACQUISITIONS	–	224	334	69,988	70,546
CAPITALISATION/RECLASSIFICATION	6,166	218,134	493	(219,723)	5,070
INCREASES FOR CYCLICAL MAINTENANCE	–	6,735	–		6,735
DISPOSALS AND DIVESTMENTS	(3)	36	(377)	(3,737)	(4,081)
DEPRECIATION	(3,893)	(120,201)	(1,331)	–	(125,425)
WRITE-DOWNS	–	(93,403)	–	–	(93,403)
HISTORICAL COST	**94,447**	**2,194,154**	**16,026**	**84,814**	**2,389,441**
ACCUMULATED DEPRECIATION AND WRITE-DOWNS	(23,330)	(737,907)	(11,048)	–	(772,285)
BALANCE AS OF 12/31/2011	**71,117**	**1,456,247**	**4,978**	**84,814**	**1,617,156**

To enhance understandability, movements during the period relating to reclassifications, disposals and divestments are shown net of the related accumulated depreciation and write-downs.

The balance at 31 December 2011 of assets under construction (EUR 85 million) refers mainly to wind farms undergoing construction. The decrease in the period is tied to transfers from work in progress to assets in use, mainly the "Fossa del Lupo" wind farm, which started commercial service on 1 May 2011, and to turbines of the "Ginestra" wind farm that started commercial service in the final part of the year. The "Ginestra" wind farm is not yet fully operational, so there is a residual amount of approximately EUR 30 million in fixed assets under construction.

The residual amount of Assets under construction refers to the "Amaroni" wind farm and to the thermoelectric energy generating plants.

For an analysis of capital expenditures, please refer to the "**Capital expenditures**" section of the "Report on Operations".

Pursuant to IAS 23, acquisitions include interest charges amounting approximately to EUR 4 million relating to capital expenditures of the Energy – Renewable Energies sector.

Write-downs refer to the impairment test of the CCGT plant, as commented in the related paragraph.

NOTE 4 – EQUITY INVESTMENTS

	EQUITY INVESTMENTS				
	SUBSIDIARY COMPANIES	JOINT VENTURE	ASSOCIATES	OTHER COMPANIES	TOTAL
BALANCE AS OF 12/31/2010	**93**	**978,951**	**14,504**	**758**	**994,306**
CHANGES DURING THE PERIOD:					
CHANGE IN SCOPE OF CONSOLIDATION	–	–	–	–	–
SALE OF 11% OF ISAB S.R.L.	–	(134,071)	–	–	(134,071)
ACQUISITIONS/SHARE CAPITAL INCREASES	25	18	50	343	436
WRITE-DOWNS/USE OF PROVISION TO COVER LOSSES	(117)	–	–	–	(117)
DISPOSALS AND DIVESTMENTS	(1)	(946)	(849)	(70)	(1,866)
RECLASSIFICATIONS	–	–	535	(535)	–
MEASUREMENT OF INVESTMENTS USING THE EQUITY METHOD	–	35,383	(334)	–	35,049
BALANCE AS OF 12/31/2011	**–**	**879,335**	**13,906**	**496**	**893,736**

With regards to the sale of 11% of ISAB S.r.l., reference is made to the Note **Put Option on the equity investment in ISAB S.r.l.**
Disposals refer mainly to the sale of equity investments in certain non operational French companies and of a portion (2.16%) of the equity investment in Priolo Servizi S.C.p.A.
For further details, please refer to the previous chapter, **List of Group companies**.
The EUR 35 million increase arising from companies measured under the equity method of accounting is due to the period's performance of the investee companies (mainly ISAB S.r.l. and TotalErg S.p.A.) net of dividends received from these companies.

"Equity investments" owned as of 31 December 2011 were as summarised below:

	MEASURED AT EQUITY	MEASURED AT COST	TOTAL
EQUITY INVESTMENTS			
- IN NON-CONSOLIDATED SUBSIDIARIES	–	–	–
- IN JOINT VENTURES	879,335	–	879,335
- IN ASSOCIATES	13,321	585	13,906
- IN OTHER COMPANIES	–	496	496
TOTAL	**892,656**	**1,081**	**893,736**

A detail of equity investments has already been given in the schedules showing the scope of consolidation.

NOTE 5 – OTHER FINANCIAL ASSETS

"Other financial assets" amounting to EUR 1,547 thousand (EUR 3,155 thousand at 31 December 2010) mainly comprise payments to the Italian Carbon Fund and loans to companies within the Group.

NOTE 6 – DEFERRED TAX ASSETS

Deferred tax assets are recognised, provided their future recovery is probable, on taxable temporary differences between the carrying value of recognised assets and liabilities for financial reporting purposes and their corresponding tax basis.

The rate used to calculate deferred taxes is the same as the nominal IRES (corporate tax) rate (27.5%), increased, where so prescribed, by the IRAP (regional tax) rate (3.90% - 4.82%).

Moreover companies operating in the oil refining industry and companies producing and marketing petroleum products, electricity and gas, with revenues in excess of EUR 10 million and taxable income above EUR 1 million, are subject to a 6.5% IRES surcharge ("Robin Hood Tax") of 6.5%, further increased by 4% for the years 2011, 2012 and 2013.

The increased rate (from 6.5% to 10.5%) for 2011, 2012 and 2013 and the application of the higher rate to companies in the renewable energies segment (changes introduced by Italian Law no. 148/2011) brought approximately an increase of about EUR 18 million in deferred tax assets, with a consequent positive impact in the Consolidated Income Statement under "Income taxes". This effect is figurative in nature and it refers mainly to deferred taxes recognised in the Consolidated Financial Statements in accordance with international financial reporting standards.

Deferred tax assets as of 31 December 2011 amounting to EUR 244,095 thousand (EUR 209,425 thousand as of 31 December 2010) were mainly recognised over the deferral of CIP 6 revenues, maintenance in excess of tax limits, provisions for liabilities and charges as well as the tax losses of the period, and they are deemed recoverable considering the expected future taxable income foreseen. As a result of changes introduced by Italian Law no. 148/2011, deferred tax assets related to prior years' tax losses to be recovered in the medium term were recognised, for an amount of approximately EUR 11 million.

Total deferred tax assets existing as of 31 December 2011 pertaining to tax losses from previous years and from this year amount to EUR 33 million corresponding to tax losses amounting to EUR 126 million.

NOTE 7 – OTHER NON-CURRENT ASSETS

Other non-current assets amounting to EUR 23,723 thousand (EUR 37,588 as of 31 December 2010) chiefly relate to advances on agreements to acquire new wind farms and medium- to long-term receivables from the Italian tax authorities, mainly VAT receivables. The decrease is due to the start of construction of new wind farms, with consequent utilisation of the advances already paid and decrease in VAT receivables.

NOTE 8 – INVENTORY

Closing inventories comprise the following categories.

	12/31/2011	12/31/2010
RAW, ANCILLARY AND CONSUMABLE MATERIALS	114,117	153,601
FINISHED PRODUCTS AND GOODS	194,171	135,318
TOTAL	**308,288**	**288,919**

The carrying value of inventory was determined by applying the weighted average cost method and considering hedges at fair value; 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 since the beginning of the period.
Inventory is measured at the lower of cost, determined used the weighted average cost method, or market value.
The value of inventory increased (EUR 19 million) as a consequence of higher average prices, which more than offset the reduction in stocks in particular of raw materials (-147 thousand tonnes) also as a result of the decrease in business activity following the sale of 11% of ISAB S.r.l.
Finished products are substantially in line with last year (+8 thousand tonnes). Finished products include inventory for a value of EUR 75 million related to purchases intended for short-term resale.
At 31 December 2011, following the comparison with market values, the carrying value of inventory at the end of the period was written down by EUR 1.2 million.
As of 31 December 2011, the item comprised natural gas stocks worth 1 million (2 million at 31 December 2010).

NOTE 9 – TRADE RECEIVABLES

Receivables are summarised as follows:

	12/31/2011	12/31/2010
TRADE RECEIVABLES	614,732	327,447
RECEIVABLES DUE FROM UNCONSOLIDATED GROUP COMPANIES	127,970	136,543
BAD DEBT PROVISION	(12,480)	(22,846)
TOTAL	**730,222**	**441,144**

The change in "Trade receivables" is mainly due to the increase in average sale prices and to increased sales by the Refining & Marketing segment.
"Receivables due from unconsolidated Group companies" refer mainly to the supply of petroleum products, utilities and site services to the Joint venture ISAB S.r.l.
For information concerning related-party receivables, reference is made to Note 40.
The change in the Bad debt provision is represented by the accrual provisions for the period (EUR 9 million), net of usage (EUR 18.5 million).
The accrual provision for the period is determined mainly by the bankruptcy of some customers, and in particular EUR 5 million of it refers to a receivable for which specific accruals had already been made in 2010 (EUR 11 million) and for which, in these Consolidated Financial Statements, in consideration of the uncertain times and likelihood of recovery within the bankruptcy proceedings, the residual receivable was entirely written off.
The Group assesses the existence of objective indications of the existence of uncollectible receivables at the level of each individual significant position. The aforesaid analyses are validated at the individual company level by the Accounts Receivable Committees which meet periodically to examine the situation with regards to past due receivables and related collection issues.
Usage of the provision derives mainly from the allocation of certain amounts in direct reduction of the corresponding trade receivable as a result of the customer's bankruptcy, as commented above.
The accruals made to bad debt provisions and provisions for risks and charges, which were suitably increased during the year, are deemed sufficient to cover the risk of potential losses on past due accounts receivable.

The following is a breakdown of trade receivables outstanding at year-end:

	12/31/2011	12/31/2010
RECEIVABLES NOT YET DUE	**645,046**	**360,317**
RECEIVABLES PAST DUE AND NOT WRITTEN DOWN:		
UP TO 30 DAYS	34,543	24,721
UP TO 60 DAYS	855	5,960
UP TO 90 DAYS	2,392	8,664
MORE THAN 90 DAYS	47,387	41,482
TOTAL	**730,222**	**441,144**

NOTE 10 – OTHER CURRENT RECEIVABLES AND ASSETS

	12/31/2011	12/31/2010
TAX RECEIVABLES	38,126	42,091
EMISSIONS TRADING RECEIVABLES	27,971	28,157
SUNDRY RECEIVABLES	106,884	45,302
TOTAL	**172,981**	**115,550**

"Tax receivables" relate mainly to VAT receivables and income tax receivables, partially offset by the instalment payments on 2011 taxes.
"Emissions trading receivables" refer to the ISAB Energy receivable for reimbursement of 2011 emissions trading charges.
"Sundry receivables" mainly comprise receivables from unconsolidated Group companies advances paid to suppliers, prepaid expenses and receivables for hedging derivatives on commodities. The increase during the year is due to the increase in receivables from TotalErg S.p.A. pertaining to Group VAT and Tax Consolidation.

NOTE 11 – CURRENT FINANCIAL ASSETS

Current financial assets, amounting approximately EUR 19,743 thousand (EUR 53,404 as of 31 December 2010) refer mainly to money market fund shares and to the positive fair value of derivatives as of 31 December 2011.
The decrease in the item refers mainly to a lower temporary employment of cash in the securities described above.

NOTE 12 – CASH AND CASH EQUIVALENTS

	12/31/2011	12/31/2010
BANK AND POSTAL DEPOSITS	532,664	1,310,014
CASH EQUIVALENT SECURITIES	–	2,497
CASH AND NOTES ON HAND	6	33
TOTAL	**532,670**	**1,312,544**

"Bank and postal deposits" mainly comprise short-term deposits with financial institutions with which the Group has commercial relations and the balance on the bank accounts of ISAB Energy S.r.l., ERG Power S.r.l. and of the companies of the ERG Renew Group according to the

usage limitations established by the respective Project Financing agreements.
At 31 December 2010, "cash equivalent securities" referred to bonds with less than three months maturity.
For information on restricted liquidity, please refer to Note 26 – Covenants and negative pledges.

NOTE 13 – GROUP SHAREHOLDERS' EQUITY

SHARE CAPITAL

Fully paid-in share capital as of 31 December 2011 consisted of 150,320,000 shares with a par value of EUR 0.10 each for a total of EUR 15,032,000 (unchanged since 31 December 2010).

At 31 December 2011, the parent Company's Shareholders Register, relative to holders of significant interests and to treasury shares held by ERG S.p.A., shows the following:

- San Quirico S.p.A. held 84,091,940 shares, i.e. 55.942%;
- Polcevera S.A. (Luxembourg) held 10,380,060 shares, i.e. 6.905%;
- Tradewinds Global Investors LLC held 15,041,282 shares, i.e. 10.006%;
- Generali Investments Italy SGR S.p.A. held 3,349,000 shares, i.e. 2.228%.

As of 31 December 2011, San Quirico S.p.A. and Polcevera S.A. were controlled by the Garrone and Mondini families, heirs of the founder of the ERG Group, Edoardo Garrone.

On 14 April 2011, pursuant to Article 2357 of the Italian Civil Code, the Shareholders' Meeting of ERG S.p.A. authorised the Board of Directors to purchase treasury shares for a period of 12 months from 14 April 2011, up to a revolving maximum (meaning the maximum amount of treasury shares held from time to time) of 15,032,000 (fifteen million thirty-two thousand) shares of ERG common stock with a par value of EUR 0.10 each, at a unit price, including ancillary purchase charges, not lower than 30% below and not higher than 10% above the closing price of the stock on the day immediately preceding each individual transaction.
The Shareholders' Meeting also authorised the Board of Directors, pursuant to Article 2357-ter of the Italian Civil Code, for 12 months starting on 14 April 2011, to sell, all at once or in several steps, and with any procedures deemed appropriate, treasury shares at a unit price no lower than 10% below the closing price of the stock on the day immediately preceding each individual sale and in any case no lower than the per-share value of the parent Company's equity as reported by the latest approved Separate Financial Statements.

TREASURY SHARES

As of 31 December 2011 ERG S.p.A. held 2,100,000 treasury shares, amounting to 1.397% of the share capital. In accordance with IAS 32, treasury shares are presented as a reduction of shareholders' equity. The original cost of treasury shares, write-downs for reductions in value, and income and losses deriving from any subsequent sales are presented as changes in shareholders' equity.

STOCK OPTION PLANS

With regards to the ERG S.p.A.'s stock option plans, their granting and exercise terms and the assumptions supporting fair value, reference is made to the disclosures provided in the 2010 Consolidated Financial Statements.
In 2010, the vesting period of the aforesaid options had ended, as a result of the expiration of the three-year time interval, and the recognition in the consolidated Income Statement of the related costs also ended.

OTHER RESERVES

The "Reserves" amounting to EUR 1,647,637 thousand (EUR 1,715,009 as of 31 December 2010) mainly comprise retained earnings, "paid-in capital in excess of par" and the "cash flow hedge reserve".

NOTE 14 – MINORITY INTERESTS

Minority interests arise from the line-by-line consolidation of the following companies that have other shareholders:

	% OF MINORITY SHAREHOLDERS	MINORITY SHARES
ISAB ENERGY S.R.L.	49.00%	144,855
ISAB ENERGY SERVICES S.R.L.	49.00%	4,179
OTHER MINOR SEGMENTS (1)	2.00%	1,474
TOTAL		**150,509**

(1) subsidiaries of ERG Renew S.p.A.

Profit pertaining to minority interests for the period, amounting to EUR 30,788 thousand, is almost entirely attributable to minority shareholders of ISAB Energy S.r.l.

In June 2011, ERG S.p.A. acquired 100% of the shares of ERG Renew S.p.A., as a result of the Takeover Bid already commented in the preceding chapters: as of 31 December 2011, therefore, there were no minority interests in the shareholders' equity of the aforesaid investee company. Profit pertaining to minority interest instead takes into account the minority interests on ERG Renew, amounting to 5.02%, because they were acquired by ERG S.p.A. at the end of the first half of 2011.

NOTE 15 – EMPLOYEES' SEVERANCE INDEMNITIES

This item, totalling EUR 3,484 thousand (EUR 4,606 thousand as of 31 December 2010), includes the estimated liability relating to the severance indemnities payable to employees when they terminate their employment.

NOTE 16 – DEFERRED TAX LIABILITIES

Deferred tax liabilities are recognised on taxable temporary differences which result from adjustments made to the Financial Statements of consolidated companies in order to align them with the Group's uniform accounting policies, as well as on temporary differences between the carrying value of recognised assets and liabilities for financial reporting purposes and their corresponding tax basis.

The rate used to calculate deferred taxes is the same as the nominal IRES (corporate tax) rate (27.5%), increased, where so prescribed, by the IRAP (regional tax) rate (3.90% - 4.82%).
Moreover companies operating in the oil refining industry and companies producing and marketing petroleum products, electricity and gas, with revenues in excess of EUR 10 million and taxable income above EUR 1 million, are subject to an IRES surcharge ("Robin Hood Tax"), further increased by 4% for the years 2011, 2012 and 2013.
The increased rate (from 6.5% to 10.5%) for 2011, 2012 and 2013 and the application of the higher rate to companies in the renewable energies segment (changes introduced by Italian Law no. 148/2011) brought about an increase of approximately EUR 8 million in deferred tax liabilities,

with a consequent negative impact on the Consolidated Income Statement under "Income taxes". Deferred tax liabilities amounting to EUR 151,451 thousand at 31 December 2011 (EUR 120,547 as of 31 December 2010), are mainly recognised on the capital gain pertaining to the insurance indemnification of the direct damage incurred by ISAB Energy, on the fiscal amortization and depreciation in excess of financial reporting amounts and on gains on business combinations.

NOTE 17 – PROVISIONS FOR NON-CURRENT LIABILITIES AND CHARGES

"Provisions for non-current liabilities and charges" amounting to EUR 12,574 thousand (EUR 1,353 as of 31 December 2010) refer chiefly to environmental charges (EUR 10 million) pertaining to the refinery plants of the Priolo site, to fiscal disputes from prior years and to dismantling costs.

NOTE 18 – NON-CURRENT FINANCIAL LIABILITIES

The breakdown of this item is as shown below:

	12/31/2011	12/31/2010
MEDIUM/LONG-TERM MORTGAGES AND LOANS	439,164	667,642
- CURRENT PORTION OF MEDIUM/LONG-TERM LOANS	(150,734)	(227,583)
	288,430	**440,059**
MEDIUM/LONG-TERM PROJECT FINANCING	793,045	792,762
- CURRENT PORTION OF PROJECT FINANCING	(152,137)	(78,571)
	640,908	**714,191**
OTHER MEDIUM/LONG-TERM FINANCIAL PAYABLES	**83,392**	**67,485**
TOTAL	**1,012,730**	**1,221,735**

As of 31 December 2011, medium/long-term mortgages and loans totalled EUR 439 million (EUR 668 million as of 31 December 2010), including EUR 89 million currently extant, granted by the European Investment Bank for the "ERG Energia Sicilia" project. The loan is guaranteed for up to EUR 177 million.
During the year, unsecured medium-long-term corporate loans of EUR 25 million were repaid in advance. To reduce the risk stemming from future fluctuations in interest rates, interest rate collar, interest rate swap and interest rate cap derivatives were set up for existing mortgages.
As of 31 December 2011, the weighted average interest rate of mortgages, loans and Project Financing was 3.23% (3.18% as of 31 December 2010). The indicated tax rate does not take into account interest rate hedging.

ISAB Energy S.r.l. Project Financing

These are loans granted by a pool of international financial institutions for initial amounts of approximately 90% of the cost of the ISAB Energy plant, whose balance at 31 December 2011 amounted to EUR 77 million.
The repayment plan for these loans, which are secured by special liens and a mortgage on the plant, entails 29 half-yearly instalments starting on 15 December 2000 (last instalment due on 15 December 2014).
To hedge interest rate fluctuation risk, the Group stipulated an Interest Rate Swap agreement until 15 December 2014 in line with the payment dates of the debt amortization plan that transforms the floating rate into a fixed rate of 1.79%; the residual face value as of 31 December 2011 was EUR 91 million.

ERG Renew S.p.A. Project Financing

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

- ERG Eolica S. Vincenzo S.r.l. whose balance as of 31 December 2011 was EUR 4 million (EUR 9 million as of 31 December 2010). The loan, stipulated in 2005, has a base credit line of EUR 36 million. The final payment will become due on 31 December 2013;
- ERG Eolica S. Cireo S.r.l. whose balance as of 31 December 2011 was EUR 9 million (EUR 17 million as of 31 December 2010). The loan, stipulated in 2005, provides for a base credit line amounting to EUR 34 million for installed capacity of 30MW, which may be increased to EUR 43 million for another 10MW. The final payment is due on 31 December 2014. To hedge interest rate risk, there are, until 31 December 2014, Interest Rate Swap agreements in line with the payment dates of the debt amortization plan that transform the floating rate into a fixed rate of 3.30%. The residual face value as of 31 December 2011 was EUR 8 million;
- ERG Eolica Faeto S.r.l. whose balance as of 31 December 2011 was EUR 35 million (EUR 40 million as of 31 December 2010). The loan, stipulated in June 2007, provides for a base credit line amounting to EUR 38 million for installed capacity of 24MW. The final payment is due on 31 December 2021. To hedge interest rate risk, there are, until 31 December 2013, Interest Rate Cap agreements which set a maximum limit of 5% to the floating interest rate. The residual face value as of 31 December 2011 was EUR 18 million;
- Green Vicari S.r.l. whose balance as of 31 December 2011 was EUR 42 million (EUR 50 million at 31 December 2010). The loan provides for a base credit line amounting to EUR 53 million for installed capacity of 37.5 MW. The final payment is due on 30 June 2019. To hedge interest rate risk, there are, until 31 December 2016, Interest Rate Swap agreements in line with the payment dates of the debt amortization plan that transform the floating rate into a fixed rate of 2.235%. The residual face value as of 31 December 2011 was EUR 32 million.

  It should be stressed that, as indicated in Note 25, the covenant on the Project Financing for the Vicari wind farm was not fulfilled as of 31 December 2011: therefore, in accordance with IAS 1, the medium-long term portion of the aforesaid loan, i.e. approximately EUR 36 million, was reclassified among the current portions;
- the five "Parc Eolien" French companies owned by ERG Eolienne France, whose balance as of 31 December 2011 was EUR 35 million (EUR 39 million as of 31 December 2010). It is a Project Financing with maturity in December 2019 for five wind farms in France. The agreement provides for a base credit line amounting to EUR 56 million for total installed capacity of 55.2 MW. The final payment is due on 30 December 2019. To hedge interest rate risk, the five French companies have stipulated nine Interest Rate Swap agreements until 31 December 2019 in line with the payment dates of the debt amortization plan that transform the floating rate into an average fixed rate of 4.27%. The residual face value as of 31 December 2011 was EUR 38 million;
- Eoliennes du Vent Solaire S.a.s., whose balance as of 31 December 2011 was EUR 8 million (EUR 7 million as of 31 December 2010). It is a Project Financing with maturity on 31 December 2025 pertaining to the wind farm of Plogastel Saint Germane. The agreement provides for a base credit line amounting to EUR 8 million for total installed capacity of 9.2 MW;
- ERG Eolica Ginestra S.r.l. whose balance as of 31 December 2011 was EUR 41 million. The loan was issued for EUR 42 million with the final payment in June 2025. To hedge interest rate risk, ERG Eolica Ginestra stipulated Interest Rate Swaps until 30 June 2025, in line with the payment dates of the debt amortization plan, which transform the floating rate into a fixed rate of 3.27%. The residual face value as of 31 December 2011 was EUR 37 million;

- ERG Eolica Adriatica S.r.l. whose balance as of 31 December 2011 was EUR 171 million. The loan provides for a base credit line of EUR 172 million and a VAT line of EUR 20 million for installed capacity of 102 MW and the last payment date in June 2022. To hedge interest rate risk, there are Interest Rate Swap contracts until 30 June 2022 in line with the payment dates of the debt amortization plan, which transform the floating rate into an average fixed rate of 4.84%. The residual face value as of 31 December 2011 was EUR 179 million. As agreed with the lending institutions, the residual amount of the mezzanine line (EUR 7 million as of 31 December 2010) was subsequently repaid in full on 15 July 2011, using the liquidity available on the Group's unrestricted accounts;
- ERG Eolica Campania S.p.A. whose balance as of 31 December 2011 was EUR 102 million. The loan provides for a preferential credit line of EUR 59 million, a Bank credit line of EUR 59 million and a supplementary line of EUR 4.7 million for installed capacity of 112 MW and the last payment in December 2020. To hedge interest rate risk, there are Interest Rate Swap contracts until 30 June 2020 in line with the payment dates of the debt amortization plan, which transform the floating rate into an average fixed rate of 4.37%. The residual face value as of 31 December 2011 was EUR 26 million. To hedge interest rate risk, there are Interest Rate Swaps until 29 May 2020 which fix the rate at 4.37%. The residual face value as of 31 December 2011 is EUR 25 million.

ERG Power S.r.l. Project Financing

It is a Project Financing loan granted by a pool of primary Italian and international financial institutions for an amount of EUR 330 million to finance the new gas-fuelled CCGT co-generation electric plant, located in the industrial area of Priolo (SR). The balance as of 31 December 2011 is EUR 270 million.

The loan, secured with collateral whose duration is linked to the reimbursement of the loan, has an amortization plan comprising 24 half-yearly instalments starting from the first half of 2010 and ending in the second half of 2021.

To hedge interest rate risk, there are, until 31 December 2021, Interest Rate Swap agreements in line with the payment dates of the debt amortization plan that transform the floating rate into a fixed rate of 2.77%. The residual face value as of 31 December 2011 is EUR 242 million.

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

	MORTGAGES AND LOANS	PROJECT FINANCING
DUE BY 12/31/2012	150,734	152,137
DUE BY 12/31/2013	168,735	87,613
DUE BY 12/31/2014	87,136	94,225
DUE BY 12/31/2015	32,559	68,582
DUE BY 12/31/2016	–	70,811
DUE BEYOND 12/31/2016	–	319,677
TOTAL	**439,164**	**793,045**

The breakdown by due year for repayments on existing medium/long-term bank loans is as follows:

	12/31/2011	12/31/2010
SECURED BY GROUP TANGIBLE ASSETS		
WITH MATURITIES UP TO JUNE 2026	793,045	792,762
UNSECURED		
WITH MATURITIES UP TO DECEMBER 2015	439,164	667,642
TOTAL	**1,232,209**	**1,225,125**

The other medium/long-term financial payables refer mainly to interest-bearing loans granted to ISAB Energy S.r.l. by the IPM group (EUR 21 million) which, through its subsidiaries, owns 49% of the company. Repayment is subject to the conditions set out in the Project Financing agreement. The medium/long-term financial payables also include liabilities deriving from the fair value measurement of the derivatives and the medium/long-term portion of financial payables to unconsolidated Group companies (mainly ISAB S.r.l.).

NOTE 19 – OTHER NON-CURRENT LIABILITIES

	12/31/2011	12/31/2010
CIP 6 PRICE INCREASE	180,887	253,703
OTHER MINOR NON-CURRENT LIABILITIES	22,347	17,786
TOTAL	**203,234**	**271,489**

"CIP 6 price increase" refers to the medium/long-term portion of the subsidised price for the sale of electricity by ISAB Energy S.r.l., already recognised and paid by the Italian National Grid Operator (GSE) in the first eight years, whose recognition, in line with international accounting principles, has partly been deferred to subsequent years. ISAB Energy's sales revenues are based on a sale contract to the GSE regulated by the price established in Regulation 6/1992 of the Inter-ministerial Prices Committee (CIP 6), signed for 20 years and already authorised by the EU for 15 years. Regulation 6/1992 provides for recognition of a subsidised price for the first eight years of operation (2000-2008).
This subsidised component represents an advance on the overall sales price that can be obtained from the contract: therefore, the subsidy is recognised among revenues, in accordance with IAS, in proportion to the quantities of energy sold over the quantities expected to be sold over the lifetime of the entire contract.
"Other minor non-current liabilities" comprise mainly deferred revenues.

NOTE 20 – PROVISIONS FOR CURRENT LIABILITIES AND CHARGES

Provisions for current liabilities and charges amounted, at 31 December 2011, to EUR 37,359 thousand (EUR 63,692 at 31 December 2010) and they comprise:

- the "Provision for legal risks" (EUR 2 million) related to potential liabilities from ongoing legal disputes;
- the "Provision for clean-up costs" (EUR 9 million) refers to the dismantling of the obsolete electric power plants of the North site;
- the "Provisions for coverage of investee companies' losses" for the subsidiary ERG Petróleos, no longer operational, which is being closed;

- "Other provisions for liabilities and charges" (EUR 22 million) relate mainly to foreseeable charges in commercial relations with managers, to demurrage charges accrued in the final part of the period and not yet claimed and to provisions for commercial agreements being drawn up.

NOTE 21 – TRADE PAYABLES

	12/31/2011	12/31/2010
TRADE PAYABLES	727,546	569,539
PAYABLES DUE TO UNCONSOLIDATED GROUP COMPANIES	117,040	91,013
TOTAL	**844,586**	**660,552**

These are payables deriving from commercial transactions and are payable within the next year.
Payables to unconsolidated Group companies mainly refer to ISAB S.r.l., a joint venture.
The increase is mainly due to the increased trades of the Refining & Marketing segment.

NOTE 22 – CURRENT FINANCIAL LIABILITIES

	12/31/2011	12/31/2010
SHORT-TERM BANK BORROWINGS	**186,046**	**527,498**
OTHER SHORT-TERM FINANCIAL PAYABLES		
CURRENT PORTION OF MEDIUM/LONG-TERM BANK BORROWINGS	150,734	227,583
SHORT-TERM PROJECT FINANCING	152,137	78,571
OTHER FINANCIAL PAYABLES	14,230	33,425
	317,101	**339,579**
TOTAL	**503,147**	**867,077**

Relevant information about "Short-term bank borrowings" is as follows:
- as of 31 December 2011, short-term borrowings amounted to 38% of total credit lines granted (46% as of 31 December 2010);
- the average drawn on the short-term credit lines during the year was 36% of the amounts granted (48% in 2010);
- these lines are revocable and unsecured;
- as of 31 December 2011, the weighted average interest rate on short-term borrowings was 2.59% (1.24% as of 31 December 2010).

Other financial payables mainly comprise financial payables to unconsolidated Group companies and short-term payables to IPM subsidiaries.
It should be noted that, as indicated in Note 25, the covenant on the Project Financing for the Vicari wind farm was not complied with as of 31 December 2011: therefore, in accordance with IAS 1, the medium/long term portion of the aforesaid loan, i.e. approximately EUR 36 million, was reclassified as current.

NOTE 23 – NET FINANCIAL POSITION

(EUR THOUSAND)	NOTES	12/31/2011	12/31/2010
MEDIUM/LONG-TERM BANK BORROWINGS	18	439,164	667,642
- CURRENT PORTION OF MORTGAGES AND LOANS	18	(150,734)	(227,583)
MEDIUM/LONG-TERM FINANCIAL PAYABLES	18	83,392	67,485
TOTAL		**371,822**	**507,544**
MEDIUM/LONG-TERM PROJECT FINANCING	18	793,045	792,762
- CURRENT PORTION OF PROJECT FINANCING	18, 22	(152,137)	(78,571)
TOTAL		**640,908**	**714,191**
MEDIUM-LONG-TERM FINANCIAL INDEBTEDNESS		**1,012,730**	**1,221,735**
SHORT-TERM BANK BORROWINGS	22	336,780	755,081
SHORT-TERM FINANCIAL DEBTS	22	14,230	33,425
TOTAL		**351,010**	**788,506**
CASH AND CASH EQUIVALENTS	12	(437,332)	(1,141,713)
SECURITIES AND OTHER SHORT-TERM FINANCIAL RECEIVABLES	11	(19,743)	(53,404)
TOTAL		**(457,075)**	**(1,195,117)**
SHORT-TERM PROJECT FINANCING	18, 22	152,137	78,571
CASH AND CASH EQUIVALENTS	12	(95,338)	(170,831)
TOTAL		**56,799**	**(92,260)**
NET SHORT-TERM FINANCIAL INDEBTEDNESS		**(49,266)**	**(498,871)**
NET FINANCIAL POSITION		**963,464**	**722,864**

NOTE 24 – OTHER CURRENT LIABILITIES

	12/31/2011	12/31/2010
TAX PAYABLES	31,875	31,556
EXCISE DUTIES PAYABLE TO TAX AUTHORITIES	26,774	19,668
PAYABLES DUE TO EMPLOYEES	8,525	7,893
PAYABLES DUE TO SOCIAL SECURITY INSTITUTIONS	4,385	4,372
OTHER MINOR CURRENT LIABILITIES	136,710	127,693
TOTAL	**208,269**	**191,182**

"Tax payables" mainly refer to the estimate of income taxes owed for the period and VAT payable.
In 2011, taxes amounting approximately to EUR 35 million were paid as final payments for the 2010 fiscal year and as instalment payments for 2011.

NOTE 25 – GUARANTEES, COMMITMENTS AND RISKS (EUR 114,365 THOUSAND)

Sureties given (EUR 100,180 thousand)
Sureties given mainly concern the guarantees granted for use of Group VAT receivables and generally in favour of public entities.

Other guarantees given (EUR 2,634 thousand)
The other guaranteed given pertain to sureties on bank loans. The amount is unchanged from 2010.

Our commitments (EUR 11,551 thousand)
Commitments to third parties refer mostly to sureties in favour of gas and electricity suppliers, to commitments made for purchases of hardware, software and IT consulting services, and to the surety issued through Banca Nazionale del Lavoro S.p.A. in favour of the consortium of Italian and foreign financial institutions providing Project Financing to ISAB Energy, to cover the debt-servicing provision.

NOTE 26 – COVENANTS AND NEGATIVE PLEDGES

- **ISAB Energy S.r.l. Project Financing**

In April 1996 the company entered into a non-recourse Project Financing agreement totalling approximately EUR 974 million with a consortium of international financial institutions.

The agreement, intended to finance the construction of the IGCC plant, requires:
- the creation of a mortgaged loan and of a special lien in favour of Intesa Sanpaolo as guarantee for the payment of amounts and fulfilment of all obligations resulting from the Project Financing agreement. The mortgage covers the land and entire IGCC plant. The lien covers the plant, machinery, capital assets, raw materials, work in progress, finished products, inventories and receivables resulting from the sale of such goods;
- the management on restricted (in favour of Intesa Sanpaolo) company bank accounts of:
  - all rights of a financial nature and sums received or to be received in relation to these rights, according or in relation to the project contracts;
  - all the insurance indemnities receivable or received in relation to the insurance coverage provided for in the Project Financing contract (with the exception of indemnities pertaining to employee accidents or to indemnification for third-party liability damages);
- the monitoring of incoming and outgoing cash flows relating to financial management by the financing institutions.

The guarantees given also entail a 100% pledge on the company's share capital and other guarantees on the restricted bank accounts of ISAB Energy (EUR 40 million as of 31 December 2011).
The maturity of the loan, after the re-financing operation that took place in September 2000, was extended from eight to fourteen years, and will expire on 15 December 2014.

In October 2007, the loan was renegotiated in order to:
- reduce the loan's rate of interest;
- reduce the insurance coverage obligations, with a consequent reduction in the amount of the insurance reserve account (balance maintained to guarantee lower insurance coverage than that provided for in the financing agreement);

- obtain authorisation for certain investments and related financing from the financial institutions;
- make management of the loan more flexible via both (a) a reduction of the number of financial institutions in the pool and (b) the definition of new rules for the relationship with these financial institutions;
- reduce the financial covenants.

Based on all the above, ISAB Energy's Project Financing arrangement is subject to the following financial covenants, which were complied with as of 31 December 2011:

- Debt Service Coverage Ratio (DSCR) no less than 1.1.
  The DSCR is calculated as the ratio between the project's cash flow (after tax)and debt servicing (principal and interest) prescribed by the amortization plan in the twelve months preceding the reference date (historical calculation) or in the twelve following months (prospective calculation). The DSCR is determined as of 30 June and as of 31 December of each year. If it does not comply with this limit with reference to the last available calculation, ISAB Energy may not proceed with distribution of dividends to Shareholders or repay subordinated loans without prior authorisation by the financial institutions.
- Loan Life Cover Ratio (LLCR) no lower than 1.1: the LLCR is calculated on 30 June and 31 December of each year as the ratio between the net present value – discounted at the weighted average cost of debt – of operating cash flows generated by the company between the date of calculation and the debt's maturity year and the amount of debt existing as of the calculation date. Failure to comply with this covenant entails default on the loan.

The Project provides for a negative pledge, safeguarding the creditor's rights, on the assets pledged by the debtor as guarantee for loan repayment. Consequently, ISAB Energy S.r.l. may not issue further guarantees on its assets except in the event of guarantees required by law or in connection with disputes over unpaid taxes.

- **ERG Renew S.p.A. Project Financing**

These are loans granted for the construction of wind farms:

- Loan stipulated in 2005 by ERG Eolica San Vincenzo S.r.l. (formerly Eos 1 Troia S.r.l.).
  The guarantees issued entail the mortgage of real estate, a special lien on assets, a pledge on 100% of the company's share capital and on the company's restricted bank accounts (EUR 4 million as of 31 December 2011), 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): calculated on 30 June and 31 December of each year as the ratio between the project's cash flow after the VAT flows to reimburse the principal of the VAT credit line, for the current and previous half-year, and the total amount of debt repayment prescribed by the amortization schedule of the principal of the base credit line and of the sum of interest, fees, costs paid or to be paid in relation to the credit lines. If the DSCR is less than 1.30, ERG Eolica San Vincenzo S.r.l. may not proceed with the distribution of dividends to shareholders, or repay subordinated loans without prior authorisation from the financial institutions. If the value is less than 1.05, and the company does not effect any contractually agreed remedy, the financial institutions may request termination of the financing agreement and the calling in of guarantees;
  - Average Debt Service Coverage Ratio (ADSCR): it is calculated on 30 June and 31 December of each year as the average of the DSCR values in previous periods until the maturity date of the loan. If the value is less than 1.05, and the company does not effect any contractually agreed remedy, the financial institutions may request termination of the financing agreement and the calling in of guarantees;

- the project provides for a negative pledge, safeguarding the creditor's rights, on the assets pledged by the debtor as guarantee for loan repayment. Consequently, ERG Eolica San Vincenzo S.r.l. may not issue further guarantees on its assets except in the event of guarantees required by law.

- Loan stipulated in 2005 by ERG Eolica San Cireo S.r.l. (formerly Eos 3 Troia S.r.l.). The guarantees issued entail the mortgage of real estate, a special lien on assets, a pledge on 100% of the company's share capital and on the company's restricted bank accounts (EUR 4 million as of 31 December 2011), 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): calculated on 30 June and 31 December of each year as the ratio between the project's cash flow after the VAT flows to reimburse the principal of the VAT credit line, for the current and previous half-year, and the total amount of debt repayment prescribed by the amortization schedule of the principal of the base credit line and of the sum of interest, fees, costs paid or to be paid in relation to the credit lines and of the sums paid or to be paid by the company to the hedging financial institutions or by the financial institutions to the company according to the hedging contracts. If the DSCR is less than 1.30, ERG Eolica San Cireo S.r.l. may not proceed with the distribution of dividends to shareholders, or repay subordinated loans without prior authorisation by the financial institutions. If the value is less than 1.05, and the company does not effect any contractually agreed remedy, the financial institutions may request termination of the financing agreement and the calling in of guarantees;
  - the project provides for a negative pledge, safeguarding the creditor's rights, on the assets pledged by the debtor as guarantee for loan repayment. Consequently, ERG Eolica San Cireo S.r.l. may not issue further guarantees on its assets except in the event of guarantees required by law.

- Loan stipulated in June 2007 by ERG Eolica Faeto S.r.l. (formerly Eos 4 Faeto S.r.l.). The guarantees issued entail the mortgage of real estate, a special lien on assets, a pledge on 100% of the company's share capital and on the company's restricted bank accounts (EUR 5 million as of 31 December 2011), 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:
  - Historic Debt Service Coverage Ratio (DSCRS): calculated as the ratio between the project's cash flow after the VAT flows to reimburse the principal of the VAT credit line, for the current and previous half-year, and the total amount of debt repayment prescribed by the amortization schedule of the principal of the base credit line and of the sum of interest, fees, costs paid or to be paid in relation to the credit lines and of the sums paid or to be paid by the company to the hedging financial institutions or by the hedging financial institutions to the company according to the hedging contracts. If the DSCRS is less than 1.10, ERG Eolica Faeto S.r.l. may not proceed with the distribution of dividends to shareholders, or repay subordinated loans without prior authorisation by the financial institutions. If the value is less than 1.05, and the company does not effect any contractually agreed remedy, the financial institutions may request termination of the financing agreement and the calling in of guarantees;
  - the project provides for a negative pledge, safeguarding the creditor's rights, on the assets pledged by the debtor as guarantee for loan repayment. Consequently, ERG Eolica Faeto S.r.l. may not issue further guarantees on its assets except in the case of guarantees required by law.
- Loan stipulated in August 2007 by Green Vicari S.r.l. The guarantees issued include a mortgage on real estate, a special lien on assets, a pledge on 100% of the company's share capital (EUR 15 million as of 31 December 2011) and on the company's receivables and bank accounts. The loan is also subject to the following covenants and negative pledges:

- Average Debt Service Coverage Ratio (ADSCR): calculated on 30 June and 31 December of each year as the ratio between the project's cash flow after the VAT flows to reimburse the principal of the VAT credit line, for the two previous half-years, and the total amount of debt repayment prescribed by the amortization schedule of the principal of the base credit line and of the subsidised loan, of the sum of interest, fees, costs paid or to be paid in relation to the credit lines and of the sums paid or to be paid by the company to the hedging financial institutions or by the hedging financial institutions to the company according to the hedging contracts. If the ADSCR is less than 1.10, Green Vicari S.r.l. may not proceed with the distribution of dividends to shareholders, or repay subordinated loans without prior authorisation by the financial institutions. If the value is less than 1.05, and the company does not effect any contractually agreed remedy, the financial institutions may request termination of the financing agreement and the calling in of guarantees.

  As of 31 December 2011, the company was in breach of the covenant. Thus, in accordance with IAS 1, the medium and long-term portion of the aforementioned loan was classified among current liabilities.

  As of the date the Consolidated Financial Statements were drafted, the formal documentation relating to a waiver of application of the aforesaid covenant as of 31 December 2011, as in previous years, was in the process of being obtained;
- the Project provides for a negative pledge, safeguarding the creditor's rights, on the assets pledged by the debtor as guarantee for loan repayment. Consequently, Green Vicari S.r.l. may not issue further guarantees on its assets.

- Loan for construction of the five wind farms located in France.

  The guarantees issued entail the mortgage of real estate and a pledge on 100% of the company's share capital and on the company's restricted bank accounts (EUR 2 million as of 31 December 2011). The loan is subject to the following financial covenant pertaining to dividend distribution.
  - Historic Debt Service Coverage Ratio (DSCRS): calculated as the ratio between the project's cash flow after the VAT flows to reimburse the principal of the VAT credit line, for the current and previous half-year, and the total amount of debt repayment prescribed by the amortization schedule of the principal of the base credit line and of the sum of interest, fees, costs paid or to be paid in relation to the credit lines and of the sums paid or to be paid by the company to the hedging financial institutions or by the hedging financial institutions to the company according to the hedging contracts. If the DSCRS is less than 1.10, the French companies may not proceed with the distribution of dividends to shareholders, or repay subordinated loans without prior authorisation by the financial institutions;
  - the contract also provides for a negative pledge safeguarding the creditor's rights over the assets pledged by the debtor as guarantee for loan repayment. Therefore, the French companies may not issue further guarantees on their assets.

- Loan stipulated by Eoliennes Du Vent Solaire S.a.s for the construction of a wind farm located in France. The guarantees issued include a mortgage on real estate and a pledge on 100% of the company's share capital and on the company's restricted bank accounts (EUR 1 million as of 31 December 2011).

  The loan is also subject to the following covenants and negative pledges:
  - Debt Service Coverage Ratio (DSCR): calculated as the ratio between the project's cash flow after the VAT flows to reimburse the principal of the VAT credit line, for the current and previous half-year, and the total amount of debt repayment prescribed by the amortization schedule of the principal of the base credit line and of the sum of interest, fees, costs paid or to be paid in relation to the credit lines and of the sums paid or to be

paid by the company to the hedging financial institutions or by the hedging financial institutions to the company according to the hedging contracts. If the DSCR is less than 1.15 Eoliennes Du Vent Solaire S.a.s. may not proceed with the distribution of dividends to shareholders, or repay subordinated loans without prior authorisation by the financial institutions. If the value is less than 1.10, and the company does not effect any contractually agreed remedy, the financial institutions may request termination of the financing agreement and the calling in of guarantees;

- the Project provides for a negative pledge, safeguarding the creditor's rights, on the assets pledged by the debtor as guarantee for loan repayment. Consequently, Eoliennes Du Vent Solaire S.a.s. may not issue further guarantees on its assets.

- Loan stipulated in January 2010 by ERG Eolica Ginestra S.r.l. The guarantees issued entail the mortgage of real estate, a special lien on assets, a pledge on 100% of the company's share capital and on the company's restricted bank accounts (EUR 0.5 million as of 31 December 2011). The loan is also subject to the following covenants and negative pledges:
  - historic and prospective Debt Service Coverage Ratio (DSCRS): calculated, for each 12 month period preceding and following each calculation date, as the ratio between the project's cash flow after the VAT flows to reimburse the principal of the VAT credit line, for the current and previous half-year, and the total amount of debt repayment prescribed by the amortization schedule of the principal of the base credit line and of the sum of interest, fees, costs paid or to be paid in relation to the credit lines and of the sums paid or to be paid by the company to the hedging financial institutions or by the hedging financial institutions to the company according to the hedging contracts. If the Historic and/or Prospective DSCR are less than 1.15, ERG Eolica Ginestra S.r.l. may not proceed with the distribution of dividends to shareholders, or repay subordinated loans without prior authorisation by the financial institutions. If the Historical DSCR is less than 1.05, and the company does not effect any contractually agreed remedy, the financial institutions may request termination of the financing agreement and the calling in of guarantees;
  - Loan Life Cover Ratio (LLCR): the LLCR is calculated as the ratio between the net present value – discounted at the weighted average cost of debt – of operating cash flows generated between the date of calculation and the debt's maturity year and the amount of debt existing as of the calculation date. If it is less than 1.20, ERG Eolica Ginestra S.r.l. may not proceed with the distribution of dividends to shareholders, or repay subordinated loans without prior authorisation by the financial institutions. If the value is less than 1.10, and the company does not effect any contractually agreed remedy, the financial institutions may request termination of the financing agreement and the calling in of guarantees;
  - the Project provides for a negative pledge, safeguarding the creditor's rights, on the assets pledged by the debtor as guarantee for loan repayment. Consequently, ERG Eolica Ginestra S.r.l. may not issue further guarantees on its assets except in the event of guarantees required by law.

- Loan stipulated in October 2009 by ERG Eolica Adriatica S.r.l. The guarantees issued entail the mortgage of real estate, a special lien on assets, a pledge on 100% of the company's share capital and on the company's restricted bank accounts (EUR 12 million as of 31 December 2011).

  The base credit line of the loan is also subject to the following covenants and negative pledges:
  - Prospective Debt Service Coverage Ratio (DSCRS): calculated, for each 12 month period preceding and following each calculation date, as the ratio between the project's cash flow after the VAT flows and the total amount of debt repayment (base credit line)

prescribed by the amortization schedule of the principal of the base credit line and of the sum of interest, fees, costs paid or to be paid in relation to the credit lines and of the sums paid or to be paid by the company to the hedging financial institutions or by the hedging financial institutions to the company according to the hedging contracts. If the Historic and/or Prospective DSCR are less than 1.20, ERG Eolica Adriatica S.r.l. may not proceed with the distribution of dividends to shareholders, or repay subordinated loans without prior authorisation by the financial institutions. If the Historical and/or Prospective DSCR are less than 1.05, and the company does not effect any contractually agreed remedy, the financial institutions may request termination of the financing agreement and the calling in of guarantees;

- Balloon Cover Ratio (BLCR): calculated as the ratio between the net present value, discounted at the weighted average cost of debt, of the operating cash flows forecast by the company in the periods between the last repayment date and 60 subsequent months and the amount of the last instalment of the loan (Balloon). If it is less than 1.50, ERG Eolica Adriatica S.r.l. may not proceed with the distribution of dividends to shareholders, or repay subordinated loans without prior authorisation by the financial institutions;
- the Project provides for a negative pledge, safeguarding the creditor's rights, on the assets pledged by the debtor as guarantee for loan repayment. Consequently, ERG Eolica Adriatica S.r.l. may not issue further guarantees on its assets except in the event of guarantees required by law.

- Loan stipulated in October 2007 by ERG Eolica Campania (formerly IVPC Power 3 S.p.A.). The guarantees issued entail the mortgage of real estate, a special lien on assets, a pledge on 100% of the company's share capital and on the company's restricted bank accounts (EUR 13 million as of 31 December 2011). The loan is also subject to the following covenants and negative pledges:
  - Historical and Prospective Debt Service Coverage Ratio (DSCRS): calculated, for each 12 month period preceding and following each calculation date, as the ratio between the project's cash flow after the VAT flows and the total amount of debt repayment (base credit line) prescribed by the amortization schedule of the principal of the base credit line and of the sum of interest, fees, costs paid or to be paid in relation to the credit lines and of the sums paid or to be paid by the company to the hedging financial institutions or by the hedging financial institutions to the company according to the hedging contracts. If the Historic and/or Prospective DSCR are less than 1.15, ERG Eolica Campania S.p.A. may not proceed with the distribution of dividends to shareholders, or repay subordinated loans without prior authorisation by the financial institutions. If the Historical and/or Prospective DSCR are less than 1.05, and the company does not effect any contractually agreed remedy, the financial institutions may request termination of the financing agreement and the calling in of guarantees;
  - the Project provides for a negative pledge, safeguarding the creditor's rights, on the assets pledged by the debtor as guarantee for loan repayment. Consequently, ERG Eolica Campania S.p.A. may not issue further guarantees on its assets except in the event of guarantees required by law.

- **ERG Power S.r.l. Project Financing**

In December 2009, the Company stipulated, with a group of international banks (Banca IMI, BNP Paribas, Banco Santander, Crédit Agricole Corporate and Investment Bank, Centrobanca, ING Bank, MPS Capital Services, Unicredit Mediocredito Centrale, WestLB) a limited recourse Project Financing for EUR 330 million. The project Agent is Unicredit Mediocredito Centrale.
The loan was disbursed in April 2010, following the fulfilment of all conditions precedent set out in the loan agreement.

The agreement, granting a loan for the repowering of a CCGT plant, required as guarantee for the payment of amounts and fulfilment of all obligations resulting from the lending agreement:

- the creation of a mortgaged loan in favour of the lending financial institutions, covering the property owned by the Company and the property subjected to a building lease of the Company;
- the creation of a special lien covering the plant, machinery, capital assets, raw materials, work in progress, finished products, inventories and receivables resulting from the sale of such goods above certain monetary thresholds;
- the creation of a lien on the receivables deriving from the main project agreements and on ERG Power's project deposit accounts;
- the monitoring of incoming and outgoing cash flows relating to financial management by the financial institutions.

The guarantees given also entail, among others, a 100% pledge of the company's share capital and other guarantees on the restricted bank accounts (EUR 8 million as of 31 December 2011).

The Project provides for a negative pledge, safeguarding the creditor's rights, on the assets pledged by the debtor as guarantee for loan repayment. Therefore, in principle, ERG Power may not issue further guarantees, with the standard exceptions for transactions of this kind. The guarantees' duration is tied to the repayment of the loan agreement. The loan is also subject to the following covenants:

- Historic and Prospective Annual Debt Service Coverage Ratio (DSCRS): calculated, for each 12 month period preceding and following each calculation date, as the ratio between the project's cash flow after the VAT flows and the total amount of debt repayment prescribed by the amortization schedule of the principal of the base credit line and of the sum of interest, fees, costs paid or to be paid in relation to the credit lines and of the sums paid or to be paid by the company to the hedging financial institutions or by the hedging financial institutions to the company according to the hedging contracts. If the Historic and/or Prospective DSCR are less than 1.15, ERG Power S.r.l. may not proceed with the distribution of dividends to shareholders, or repay subordinated loans without prior authorisation by the financial institutions. If the Historical DSCR is less than 1.05, and the company does not effect any contractually agreed remedy, the financial institutions may request termination of the financing agreement and the calling in of guarantees;
- Loan Life Cover Ratio (LLCR): the LLCR is calculated as the ratio between the net present value – discounted at the weighted average cost of debt – of operating cash flows projected by the company in the periods between the date of calculation and the debt's maturity year and the amount of debt existing as of the calculation date. If it is below 1.20, ERG Power S.r.l. may not proceed with the distribution of dividends to shareholders, or repay subordinated loans without prior authorisation by the financial institutions. If the value is less than 1.10, and the company does not effect any contractually agreed remedy, the financial institutions may request termination of the financing agreement and the calling in of guarantees.

In relation to the Project Financing for ERG Power S.r.l., starting on 30 June 2011 compliance with the following covenants, to be calculated on a half-yearly basis on the consolidated financial statements of the ERG Group, is expected

- Ratio between Consolidated Adjusted Net Financial Position and Consolidated Adjusted EBITDA (Adjusted PFN / Adjusted EBITDA).
  If it exceeds 4.0, the company may not distribute dividends to shareholders, or repay subordinated loans without prior authorisation by the financial institutions.

- Ratio between Consolidated Adjusted EBITDA and Consolidated Adjusted Financial Income and Expenses.
  If it is below 3.0, the company may not distribute dividends to shareholders, or repay subordinated loans without prior authorisation by the financial institutions.

Failure to comply with the aforesaid covenants for three consecutive times entails the partial early repayment of the loan for an amount equal to the liquidity not distributed in the three previous periods.

OTHER COVENANTS AND NEGATIVE PLEDGES

- **EUR 50 million Intesa Sanpaolo Loan**
  The loan, stipulated on 23 December 2009, prescribes an obligation to meet the financial parameter represented by the ratio between Net Financial Position and Shareholders' Equity. The parameter, calculated on the basis of the Consolidated Financial Statements, must be less than 1.5 throughout the duration of the loan. The parameter is measured once per year, after the end of each year. Failure to meet the parameter is grounds for termination of the agreement and the loan shall be repaid.

- **EUR 50 million Centrobanca Loan**
  The loan, stipulated on 31 December 2010, prescribes an obligation to meet the financial covenant represented by the ratio between Net Financial Position and Shareholders' Equity. The parameter, calculated on the basis of the Consolidated Financial Statements, must be less than 1.5 throughout the duration of the loan. The parameter is measured once per year, after the end of each year. Failure to meet the parameter is grounds for termination of the agreement and the loan shall be repaid.

- **EUR 50 million Monte Paschi Loan**
  The loan, stipulated on 21 December 2010, prescribes an obligation to meet the financial covenant represented by the ratio between Net Financial Position and Shareholders' Equity. The covenant, calculated on the basis of the Consolidated Financial Statements and the Consolidated Half-Year Report, must be less than or equal to 1.2 throughout the duration of the loan. The parameter is measured once every six months, after the end of each period. Failure to meet the parameter is grounds for termination of the agreement and, if the Group fails to implement any remedy or does not reach an agreement with the financial institution on the ways and time to remedy the situation, then the financial institution may require repayment of the loan.

With the exception already indicated for the Green Vicari Project Financing, in general with reference to the covenants described in this Note, based on the assessments and calculations carried out by Group Management, credit institutions are not expected to notify the Group of any breaches of the financial covenants as of 31 December 2011.

NOTE 27 – 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 accrued, ERG considers that these proceedings and actions will not determine significant negative effects on its Consolidated Financial Statements.
Regarding the ongoing dispute between **ERG Raffinerie Mediterranee (now ERG S.p.A.)** and the Italian tax authorities over the application of harbour duties for embarkation and

disembarkation rights at the Santa Panagia jetty, we can report that on 6 April 2011 the Provincial Tax Commission of Siracusa partially allowed the Company's appeal and ruled that harbour duties through 2006 are not due, but from 2007 onwards they are in fact due. The first degree decision was challenged within the terms by the Fiscal Revenues Agency with appeal served on 11 January 2012. The Company will defend its rights also with cross appeal for the period after 2006.
Starting from 2007 the related taxes had already been recognised in the Consolidated Income Statement under the accrual basis, while no provision had been made for the years from 2001 to 2006.

With reference to the legal proceedings of **ISAB Energy**, already mentioned previously, as a result of Italian State Council decision no. 9569/10 the applicability of Resolution no. 42/02 on co-generation and of Resolution no. 113/07 about the non-integral reimbursement of Green Certificates was definitively established.
The related effects were already prudentially reflected in the previous years' Consolidated Financial Statements.
In general, with regard to "CIP 6/92 agreements", the company is carrying out the proper assessments to evaluate the opportunities.
With reference to the lawsuit filed by Polimeri Europa S.p.A. before the Milan Court, claiming damages allegedly caused by the 30 April 2006 fire in the Priolo Refinery, ERG impleaded its insurers as third parties in the proceeding and challenged the counterparty's entire claim. At the hearing of 26 October 2011, ERG's insurers appeared before the court and the terms for the preliminary briefs and the related replies were set. On 31 January 2012, the first preliminary brief was filed and on 29 February 2012 the reply brief was filed, requesting, among other matters, the admission of a Court-Appointed Expert Witness Evaluation with respect to damage quantification.
With the above exceptions, there are no litigation proceedings involving ERG as a defendant which, by the amount claimed and the severity of their grounds, appear worthy of specific mention.

CONSOLIDATED INCOME STATEMENT ANALYSIS

The comparative Consolidated Income Statement of 2010 is presented in accordance with IFRS 5, hence excluding the result of **Integrated Downstream in Italy**[1], consistently with the scope of consolidation for the first half of 2011.

NOTE 28 – REVENUES FROM ORDINARY OPERATIONS

	2011	2010
REVENUES FROM SALES	6,566,344	5,199,120
REVENUES FROM SERVICES	153,322	154,634
REVENUES FROM "GREEN CERTIFICATES"	50,625	29,107
TOTAL	**6,770,291**	**5,382,861**

- **Revenues from sales** consist mainly of petroleum product sales and include the sale of electricity to the Italian National Grid Operator (GSE) and to other customers in the industrial district of Priolo, to which water and steam are supplied.The increase compared to 2010 is mainly due to the rise in average sale prices and to the greater quantities traded.

The following table shows the breakdown of revenues from sales:

	2011	2010
SALES TO UNCONSOLIDATED GROUP COMPANIES	692,426	921,085
SALES TO THIRD PARTIES	5,873,918	4,278,035
TOTAL	**6,566,344**	**5,199,120**

- **Revenues from services** relate mainly to charges for internal consumption amounting to EUR 125,215 thousand (EUR 128,409 thousand in the first half of 2010) to the joint venture ISAB S.r.l. The decrease is mainly due to the lower volumes processed for ERG S.p.A., as a result of the programmed shutdown of the plants in the first half of 2011, and to the sale of 11% of ISAB S.r.l.

- **Revenues from Green Certificates** concern production during 2011 by the operational wind farms of the ERG Renew group. Measurement of the green certificates was calculated at the price of EUR 82.12/MWh determined on the basis of the expected realisable value.
  With reference to the regulatory treatment of green certificates, on 3 March 2011, the Italian Council of Ministers gave its final approval to the legislative decree implementing Directive 2009/28/CE on the promotion of the use of energy from renewable sources.
  Said Decree prescribes that for plants already in operation, or for those that will start operations by 31 December 2012, the National Grid Operator (GSE) will continue to withdraw the Green Certificates issued for generation from renewable sources until 2015, as operator of last resort, at a price equal to 78% of the difference between 180 EUR/MWh and the average annual value of the sale price of electricity recorded in the previous year and announced by the Italian Authority for Electric Energy and Gas (AEEG), no later than 31 January of each year, in accordance with Article 13, Paragraph 3, of Italian Legislative Decree 387 dated 29 December 2003.

1 For more details, please see Note 24 from the 2010 Consolidated Financial Statements.

NOTE 29 – OTHER REVENUES AND INCOME

	2011	2010
INDEMNIFICATIONS	689	46,034
EXPENSE RECOVERIES	3,821	3,776
CAPITAL GAINS ON DISPOSALS	1,800	244
NON-RECURRING INCOME	3,356	3,364
INCOME FROM EMISSIONS TRADING	3,213	3,669
OTHER REVENUES	15,123	20,434
TOTAL	**28,002**	**77,521**

In 2010 "Indemnifications" comprised EUR 45 million in insurance indemnification recognised to ISAB Energy in view of the indirect damages, accrued in the period, consequent to the October 2008 accident.
Capital gains on disposals relate mainly to the sale of scrap deriving from the dismantling of the obsolete electric plants of the North site.
Additionally, "Other revenues" comprises, among other items, rent revenues, grants related to income, and various charge-backs to group companies that were not consolidated line by line, in particular the TotalErg and ISAB S.r.l. joint ventures.

NOTE 30 – CHANGES IN PRODUCT INVENTORIES

Product inventory values were measured by application of the weighted average cost method. The increase, by approximately EUR 58 million, is tied to the increase in the average prices in the period. Quantities in stock at the end of the year are substantially in line with those of the previous year (+8 thousand tonnes).
Finished products include inventories worth approximately EUR 75 million (103 million tonnes), referred to purchases for short-term resale.

NOTE 31 – CHANGES IN RAW MATERIALS INVENTORIES

Raw materials inventory values were measured by application of the weighted average cost method.
The decrease by approximately EUR 38 million, in spite of the rise in average prices recorded during the period, is due to the reduction in the quantities in stock (-147 thousand tonnes), also as a result of the lower processed volumes deriving from the sale of 11% of ISAB S.r.l.

NOTE 32 – COST OF PURCHASES

The purchase costs of crude oil and products include ancillary expenses, transportation, insurance, commissions, inspections and customs duties.
Cost of purchases in 2011 amounted to EUR 5,895 million (EUR 4,731 million in 2010); the increase compared with 2010 (EUR 1,164 million) is mainly due to higher average prices of raw material.
The figures are shown net of excise duties paid and trade exchanges and include the effect of forwards contracts on crude oil and products stemming from the difference between forward purchase prices and spot sale prices for crude oil and petroleum products relating to commercial transactions that did not involve the physical transfer of goods.

NOTE 33 – COSTS OF SERVICES AND OTHER COSTS

	2011	2010
SERVICE COSTS	592,860	602,883
RENTS AND LEASES		17,267
15,702		
WRITE-DOWNS OF RECEIVABLES	9,279	12,489
ACCRUALS OF PROVISIONS FOR LIABILITIES AND CHARGES	4,292	35,542
DUTIES AND TAXES	32,372	14,798
OTHER OPERATING EXPENSES	10,245	5,860
TOTAL	**666,315**	**687,274**

The breakdown of Service costs is as follows:

	2011	2010
PROCESSING COSTS	358,072	404,781
COMMERCIAL, DISTRIBUTION AND TRANSPORTATION COSTS	76,123	53,582
REPAIRS AND MAINTENANCE	32,607	28,128
UTILITIES AND SUPPLIES	2,368	1,756
INSURANCE	26,448	27,377
CONSULTING SERVICES	18,244	20,268
ADVERTISING AND PROMOTIONS	3,519	5,302
OTHER SERVICES	75,479	61,689
TOTAL	**592,860**	**602,883**

"Processing costs" refer to crude oil processing carried out at the ISAB S.r.l. refinery.
"Commercial, distribution and transportation costs" rose mainly as a result of the consolidation of the marketing activity on the free electricity market.
"Repairs and maintenance" mainly consist of the costs for routine maintenance of electricity generation plants.
"Other services" include the emoluments to Directors and Statutory Auditors' fees, 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 increase in this item is also affected by the expenses connected with the resignation of the Deputy Chairman, already commented in the Report on Operations.
"Write-downs of receivables" are linked to the bankruptcy of some customers, and in particular to the reduced likelihood of recovery of an overdue receivable generated in the start-up phases of the electricity and gas trading activities, for which specific provisions had been accrued in 2010.
"Duties and taxes" mainly relate to the costs for the green certificates of thermoelectric generation plants, local authority taxes on property and state taxes. The increase in the item is tied to the increase in the generation of thermo-electric energy, which entailed higher costs for green certificates.
The item also includes harbour embarkation duties for the period requested for the jetty used by the South plants of the ISAB refinery.
"Other operating expenses" include membership subscription fees, ordinary losses and various other operating expenses.

NOTE 34 – PERSONNEL COSTS

	2011	2010
SALARIES AND WAGES	42,031	43,615
SOCIAL SECURITY CONTRIBUTIONS	13,153	12,533
EMPLOYEES' SEVERANCE INDEMNITIES	2,715	2,792
OTHER COSTS	6,318	7,191
TOTAL	**64,217**	**66,131**

The following table shows the breakdown of ERG personnel (average headcount during the period):

	2011	2010
EXECUTIVES	54	61
MANAGERS	169	180
STAFF	370	390
WORKMEN	102	108
TOTAL	**695**	**738**
"IFRS 5 DISPOSAL GROUP" PERSONNEL	–	**607**
TOTAL	**695**	**1,345**

As of 31 December 2011, the total number of employees was 652.

NOTE 35 – AMORTIZATION, DEPRECIATION AND WRITE-DOWNS OF FIXED ASSETS

	2011	2010
AMORTIZATION OF INTANGIBLE FIXED ASSETS	18,437	14.695
DEPRECIATION OF TANGIBLE FIXED ASSETS	125,425	101.603
WRITE-DOWNS OF FIXED ASSETS	98,188	36,815
TOTAL	**242,050**	**153,113**

The increase in amortization and depreciation is a consequence of the commissioning of new plants in the Energy – Thermoelectric and Energy - Renewable segments.

Write-downs refer:

- in 2011, to the impairment test on the CCGT thermo-electric generation plant, already commented under **ERG Power S.r.l.'s CCGT plant impairment test** and to the sale of DSI Servizi Industriali S.r.l. and SODAI Italia S.p.A., already commented under **Note about the Change in the scope of consolidation**;
- in 2010, to the impairment test carried out on the capital gains allocated at the time of the acquisition of ERG Renew (formerly Enertad) and of five French companies. Specifically, approximately EUR 12 million of the write-downs refer to goodwill and approximately EUR 25 million to authorisations.

NOTE 36 – NET FINANCIAL INCOME (EXPENSES)

	2011	2010
INCOME		
FOREIGN CURRENCY EXCHANGE GAINS	112,216	85,442
INTEREST INCOME ON BANK ACCOUNTS	10,886	8,837
OTHER FINANCIAL INCOME	13,220	9,570
	136,322	**103,849**
CHARGES		
FOREIGN CURRENCY EXCHANGE LOSSES	(100,615)	(92,132)
INTEREST ON SHORT-TERM BANK BORROWINGS	(5,369)	(4,791)
INTEREST ON MEDIUM/LONG-TERM BANK BORROWINGS	(15,467)	(15,031)
INTEREST ON PROJECT FINANCING	(32,224)	(20,552)
OTHER FINANCIAL EXPENSES	(21,022)	(17,030)
	(174,697)	**(149,536)**
TOTAL	**(38,375)**	**(45,687)**

"Foreign currency exchange gains/losses" refer both to the differences between the Euro/US Dollar currency exchange rate used to recognise purchases/sales and related payments/collections, and to the exchange rate risk hedging derivatives set up in respect of commercial transactions.
"Other financial income" refers mainly to positive results from derivatives and the effect of capitalising borrowing costs (EUR 4 million), pursuant to IAS 23.
The increase compared with 2010 is linked to the positive impact of derivatives.
The increased interest charges on Project Financing are mainly linked to the loans to ERG Power S.r.l. and to the Renewable Energies sector and in particular to the contribution of ERG Eolica Adriatica S.r.l., consolidated from the second half of 2010 onwards.
"Other financial expenses" consist mainly of the costs related to derivatives.

NOTE 37 – NET INCOME (EXPENSES) FROM EQUITY INVESTMENTS

Net income and expenses from equity investments amounting to EUR 153,202 thousand (EUR 7,068 in 2010) mainly comprise the performance of companies measured under the equity method of accounting and the gains on sales of equity investments.

In particular the item in 2011 mainly comprises:

- the gain (EUR 109.3 million) realised on the sale of 11% of the equity investment in ISAB S.r.l., as commented in the note **Put Option on equity investment in ISAB S.r.l.** The gain is presented among non-recurring items;
- the performance of the ISAB S.r.l. (EUR 21.6 million) and TotalErg S.p.A. (EUR 22.3 million) joint ventures which, in 2011, were positively influenced by the effect of the increased prices on the value of inventory. The pro quota result of TotalErg was affected by costs incurred for the integration of TOTAL Italia and ERG Petroli amounting, after the tax effect, to approximately EUR 3.2 million, presented among non recurring items.

NOTE 38 – INCOME TAXES

	2011	2010
CURRENT INCOME TAX	39,319	44,167
TAXES FROM PREVIOUS YEARS	(304)	(1,124)
SUBSTITUTE TAXES	(160)	(140)
DEFERRED TAXES	(69,778)	(31,002)
TOTAL	**(30,923)**	**11,901**

Income taxes for the period were calculated taking into account the forecasted taxable income and they were affected by the "Robin Hood Tax" surcharge to be applied to the income of companies in the petroleum and energy industry.
"Deferred taxes" originate from the temporary differences deriving from adjustments made to consolidated companies' Financial Statements in application of the Group's uniform accounting policies and from the temporary differences between the carrying value of recognised assets and liabilities for financial reporting purposes and their corresponding tax basis.
The aforementioned Italian Law no. 148/2011 dated 14 September 2011 introduced the temporary rise in the IRES surcharge from 6.5% to 10.5% for 2011, 2012 and 2013 and the application of the same rate also to other energy industry operator, such as those of the Renewable energy sources sector (i.e. wind power, photovoltaic and the like);
Introduction of the aforesaid changes entailed a negative impact amounting approximately to EUR 4 million on current taxes to be paid and a net positive impact on deferred tax assets and on deferred tax liabilities, amounting approximately to EUR 9 million, entirely recognised in 2011. The latter effect is figurative in nature and it refers mainly to deferred taxes recognised in the Consolidated Financial Statements in accordance with international financial reporting standards.
Lastly, the aforementioned Italian Law no. 111/2011 amended Article 84 of the Unified Income Tax Act in reference to the elimination of the 5-year time limit prescribed for the purposes of determining whether prior tax losses can be carried forward.
The introduction of the aforesaid changes had a positive impact on these Consolidated Financial Statements, stemming from the recognition of receivables related to prior years' tax losses, in the amount of approximately EUR 11 million.

In 2010, the item benefited from the "Tremonti Ter" incentives on investments, amounting approximately to EUR 14 million.
Additionally, deferred tax assets of EUR 8.6 million (EUR 1.7 million in 2010), calculated on the fair value of derivatives accounted for as cash flow hedges, were accrued directly to shareholders' equity.

RECONCILIATION BETWEEN REPORTED AND THEORETICAL TAX CHARGES

IRES (CORPORATE TAX)		
PROFIT BEFORE TAXES	64,960	
THEORETICAL IRES TAXATION AT 38%	**24,685**	
IMPACT OF EQUITY INVESTMENT EXEMPTION ON GAIN FROM SALE OF 11% ISAB S.R.L.		(35,293)
IMPACT OF RECOGNITION OF RECEIVABLES ON PRIOR YEARS' TAX LOSSES		(10,847)
IMPACT OF PERMANENT DIFFERENCES AND CONSOLIDATION ADJUSTMENTS NOT RELEVANT TO THE CALCULATION OF INCOME TAXES		(9,366)
IMPACT OF ADJUSTMENT OF TAX RATE FOR SOME COMPANIES		(9,004)
CURRENT AND DEFERRED IRES		**(39,825)**
IRAP (REGIONAL TAX)		
EBIT	(49,867)	
LABOUR AND BAD DEBT COSTS	73,496	
TOTAL	**23,629**	
THEORETICAL IRAP AT 3.9%	**922**	
EFFECT STEMMING FROM IRAP RATE INCREASE FOR SOME COMPANIES		513
IMPACT OF PERMANENT DIFFERENCES AND CONSOLIDATION ADJUSTMENTS NOT RELEVANT TO THE CALCULATION OF INCOME TAXES		7,931
CURRENT AND DEFERRED IRAP		**9,366**
TOTAL THEORETICAL TAXES	**25,606**	
TOTAL IRES AND IRAP IN THE CONSOLIDATED FINANCIAL STATEMENTS		**(30,459)**
TAXES FROM PREVIOUS YEAR		**(304)**
SUBSTITUTE TAXES		**(160)**
TOTAL INCOME TAXES AS REPORTED IN THE CONSOLIDATED FINANCIAL STATEMENTS		**(30,923)**

NOTE 39 – NON-RECURRING ITEMS

(EUR THOUSAND)		2011		2010
COSTS FOR SERVICES AND OTHER COSTS		–	A)	(26,530)
AMORTIZATION, DEPRECIATION AND WRITE-DOWNS OF FIXED ASSETS	1)	(98,188)	B)	(36,553)
NET INCOME (LOSS) FROM EQUITY INVESTMENTS	2)	106,072	C)	(7,699)
INCOME TAXES	3)	40,807	D)	5,839
MINORITY INTERESTS		–	E)	3,429
GROUP NET PROFIT (LOSS) (CONTINUING OPERATIONS)		**48,690**		**(61,514)**
NET INCOME FROM SOLD ASSETS AND LIABILITIES		–	F)	51,214

In 2011:

1) the item comprises:
- the write-downs (EUR 95 million) relating to the impairment test on the CCGT thermo-electric generating plant, already commented in the chapter entitled **Impairment test on the IGCC plant of ERG Power S.r.l.**;
- the write-downs (EUR 3 million) relating to the sale of DSI Servizi Industriali S.r.l. and SODAI Italia S.p.A., already commented in the chapter entitled **Change in scope of consolidation**.

2) the item comprises:
- the capital gain (EUR 109 million) realised for the sale of 11% of the equity investment in ISAB S.r.l., as commented in the Note entitled **Put Option on the equity investment in ISAB S.r.l.** The related tax effect, calculated in application of the Equity investment exemption, amounts to EUR 2.3 million, recognised under Income taxes;
- ERG's share of the costs incurred by the investee TotalErg for the integration of the activities of TOTAL Italia and ERG Petroli for an amount of EUR 3.2 million, after the related tax effect. These costs are reflected in the valuation of the equity investment recorded under **Income (expenses) from equity investments recognised at equity**.

3) the item comprises:
- the recognition of deferred tax assets pertaining to prior years' tax losses, not recognised in previous year and recognised in these Consolidated Financial Statements in consideration of the regulatory changes already commented in the chapter entitled **Prior years' tax losses**;
- the tax expense (EUR 2.3 million) for the capital gain commented in the previous point and the deferred tax assets (EUR 32 million) relating to the write-down of the CCGT plant.

The following are non-recurring items in 2010:

A) the item includes provisions for environmental charges relating to the Priolo site (EUR 25 million) and restructuring expenses (approximately EUR 1 million)

B) the item includes the write-downs referred to the Energy – Renewable Sources segment as a result of the impairment test on the capital gains recognised within the scope of the acquisition of ERG Renew (formerly Enertad) and of the acquisition of certain wind farms in France;

C) the item include the write-down of the equity investment in the Spanish companies that are no longer operating and whose liquidation is expected shortly;

D) the item comprises:
- expenses tied to the derecognition of deferred tax assets on tax losses from previous years, whose recoverability is no longer deemed certain (EUR 6 million);
- the tax effect of the aforementioned items.

E) the item includes the capital gain relating to the TotalErg, net of the related ancillary charges. For more details, please refer to Note 24 from the 2010 Consolidated Financial Statements.

NOTE 40 – RELATED PARTIES

Consolidated Statement of Financial Position

	NOTES	SUBSIDIARIES	ASSOCIATES	JOINT VENTURE	OTHER RELATED PARTIES	TOTAL
TRADE RECEIVABLES	9	–	8,716	119,805	–	**128,521**
OTHER CURRENT RECEIVABLES AND ASSETS	10	–	797	60,106	–	**60,903**
CURRENT FINANCIAL ASSETS	11	1,982	298	–	–	**2,280**
NON-CURRENT FINANCIAL LIABILITIES	18	–	–	(9,022)	–	**(9,022)**
TRADE PAYABLES	21	–	–	(115,461)	–	**(115,461)**
CURRENT FINANCIAL LIABILITIES	22	(198)	(5,258)	(1,424)	–	**(6,880)**
OTHER CURRENT LIABILITIES	23	–	–	(3,272)	(3,755)	**(7,027)**

Consolidated Income Statement

	NOTES	SUBSIDIARIES	ASSOCIATES	JOINT VENTURE	OTHER RELATED PARTIES	TOTAL
REVENUES FROM ORDINARY OPERATIONS	28	–	44,317	783,687	–	**828,004**
OTHER REVENUES AND INCOME	29	–	–	7,535	–	**7,535**
COST OF PURCHASES	32	–	–	(404,771)	–	**(404,771)**
COSTS FOR SERVICES AND OTHER COSTS	33	–	(11,645)	(371,098)	(2,047)	**(384,790)**
FINANCIAL INCOME	36	99	–	–	–	**99**
FINANCIAL EXPENSES	36	–	–	(883)	–	**(883)**

Transactions with subsidiaries not included in the scope of consolidation, with associates and Joint Ventures 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, there are extant processing agreements with the joint venture ISAB S.r.l. and site service agreements with Priolo Servizi.

Upon request by the parent company San Quirico S.p.A., ERG Power S.r.l. adhered to its "domestic tax consolidation regime" for the three-year period 2010-2012. At 31 December 2011, there is a net liability towards San Quirico (EUR 4 million) for 2011 taxes.

With regard to the other transactions with related parties, as defined by IAS 24, on 1 July 2011 the sponsorship agreement with U.C. Sampdoria S.p.A., a soccer company controlled by ERG's main shareholder, was terminated. Therefore, ERG will no longer be its main sponsor.

The 2011 costs amounted to EUR 1.8 million, including EUR 1.4 million connected to the sponsorship contract and EUR 0.4 million relating to other, smaller contracts.

Additionally, in May 2011 EUR 100 thousand were paid to the Edoardo Garrone Foundation as a one-off contribution for 2011.

RECONCILIATION WITH ERG S.P.A. SHAREHOLDERS' EQUITY AND NET INCOME

(EUR THOUSAND)	SHAREHOLDERS' EQUITY 12/31/2011	SHAREHOLDERS' EQUITY 12/31/2010	PROFIT FOR THE PERIOD 2011	PROFIT FOR THE PERIOD 2010
ERG S.P.A. SHAREHOLDERS' EQUITY AND NET INCOME FOR THE PERIOD	**1,615,182**	**1,657,333**	**19,928**	**398,131**
ELIMINATION OF THE EFFECTS OF TRANSACTIONS AMONG CONSOLIDATED COMPANIES:				
- ELIMINATION OF INTRA-GROUP PROFITS ON INVENTORIES AND FIXED ASSETS	(9,627)	(10,007)	–	–
- ELIMINATION OF INTRA-GROUP DIVIDENDS	–	–	(40,471)	(135,657)
	(9,627)	**(10,007)**	**(40,471)**	**(135,657)**
DEFERRED TAXES:				
- DEFERRED TAXES ON CONSOLIDATION ADJUSTMENTS	**37,949**	**5,703**	**33,952**	**5,565**
ELIMINATION OF THE CARRYING VALUE OF EQUITY INVESTMENTS:				
- DIFFERENCE BETWEEN THE CARRYING VALUE AND THE PRO RATA VALUE OF SHAREHOLDERS' EQUITY	305,068	213,466	–	–
- PRO RATA PROFITS OF SUBSIDIARY COMPANIES	–	–	82,474	(224,641)
- RECOGNITION OF ASSETS AND LIABILITIES FROM BUSINESS COMBINATIONS	(70,300)	24,999	–	–
	234,768	**238,465**	**82,474**	**(224,641)**
GROUP SHAREHOLDERS' EQUITY AND NET INCOME FOR THE PERIOD	**1,878,272**	**1,891,494**	**95,883**	**43,398**
MINORITY SHARE OF SHAREHOLDERS' EQUITY AND NET INCOME FOR THE PERIOD	(150,509)	(151,071)	(30,788)	(33,016)
ERG GROUP CONSOLIDATED SHAREHOLDERS' EQUITY AND NET INCOME FOR THE PERIOD	**1,727,764**	**1,740,423**	**65,095**	**10,382**

NOTE 41 – NET INCOME FROM SOLD ASSETS AND LIABILITIES

The 2010 Consolidated Financial Statements were prepared by applying IFRS 5 to the TotalErg Transaction.

The aforesaid transaction entailed loss of control over ERG Petroli S.p.A. (wholly owned subsidiary) and the acquisition of an equity interest in the TotalErg joint venture [2], presented in the Consolidated Financial Statements under the equity method of accounting.

The loss of control and the consequent deconsolidation represented a significant event that changed the nature of the economic and financial relationships with the transferred assets: therefore, the transaction was within the scope of IFRS 5 pertaining to sold operating assets. In particular, application of the Principle required presenting in a single line of the Consolidated Income Statement the net income (loss) from sold operating assets during the first half of 2010.

For additional details, reference is made to Note 24 from the 2010 Consolidated Financial Statements.

2 Company resulting from the merger of Total Italia S.p.A. into ERG Petroli S.p.A. which, on the effective date of the merger, took on the name of TotalErg S.p.A.

NOTE 42 – EARNINGS PER SHARE

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

		2011	2010
GROUP SHARE OF NET PROFIT	FIGURES IN THOUSANDS OF EUROS	65,095	10,382
AVERAGE NUMBER OF SHARES OUTSTANDING	UNIT	148,220,000	148,220,000
BASIC EARNINGS PER SHARE FROM CONTINUING OPERATIONS	FIGURES IN EUR	0.439	0.070
DILUTED EARNINGS PER SHARE FROM CONTINUING OPERATIONS	FIGURES IN EUR	0.439	0.070

Diluted earnings per share are calculated by taking into account the dilutive effect on the average number of shares outstanding of the stock option plans.
There are no potentially dilutive securities that impact the Group's share of net profit.

NOTE 43 – SEGMENT INFORMATION

Information by segment is presented in accordance with IFRS 8 - Operating segments. The information is broken down by business segment.
In order to enhance understandability of trends in the individual segments, the financial results are shown at adjusted replacement cost, excluding gains (losses) on inventories and non-recurring items, and including the contribution of the joint ventures ISAB S.r.l. and TotalErg S.p.A., proportionally to ERG's share.
The results at adjusted replacement cost are indicators that are not defined in International Financial Reporting Standards (IAS/IFRS). Management deems that these indicators are important parameters for measuring the ERG Group's operating performance, and are generally used by petroleum industry operators in their financial reporting.

FIGURES IN EUR MILLIONS	REFINING & MARKETING	POWER & GAS	ENERGY RENEWABLE SOURCES	OTHER	*RECONCILIATION ITEMS*	IAS REPORTED
12/31/2011						
REVENUES FROM THIRD PARTIES	10,939.5	1,435.5	113.7	6.5	–	–
INTRA-SEGMENT REVENUES	(1,124.5)	(221.1)	(0.3)	(4.0)	–	–
NET REVENUES FROM ORDINARY OPERATIONS	**9,815.0**	**1,214.4**	**113.4**	**2.6**	***(4,375.0)***	**6,770.3**
EBITDA AT REPLACEMENT COST	**6.3**	**239.5**	**69.3**	**(31.0)**	***(91.9)***	**192.2**
AMORTIZATION, DEPRECIATION AND WRITE-DOWNS	(108.6)	(84.0)	(50.5)	(3.8)	*4.9*	(242.1)
EBIT AT REPLACEMENT COST	**(102.3)**	**155.5**	**18.8**	**(34.8)**	***(87.0)***	**(49.9)**
CAPITAL EXPENDITURES IN FIXED ASSETS	**77.4**	**22.3**	**53.5**	**2.4**	***(73.2)***	**82.4**

FIGURES IN EUR MILLIONS	REFINING & MARKETING	POWER & GAS	ENERGY RENEWABLE SOURCES	OTHER	*RECONCILIATION ITEMS*	IAS REPORTED	*DISCONTINUED OPERATIONS*	*CURRENT ASSETS*
12/31/2010								
REVENUES FROM THIRD PARTIES	9,174.8	1,384.3	72.7	15.5	–	–	–	–
INTRA-SEGMENT REVENUES	(1,482.9)	(213.7)	(0.3)	(15.0)	–	–	–	–
NET REVENUES FROM ORDINARY OPERATIONS	**7,691.9**	**1,170.6**	**72.3**	**0.6**	**(1,122.5)**	**7,812.9**	***(2,430.0)***	***5,382.9***
EBITDA AT REPLACEMENT COST	**45.8**	**254.0**	**38.5**	**(33.0)**	**(67.6)**	**237.7**	***(83.8)***	***153.9***
AMORTIZATION, DEPRECIATION AND WRITE-DOWNS	(107.2)	(75.0)	(33.4)	(3.9)	28.8	(190.7)	*37.6*	*(153.1)*
EBIT AT REPLACEMENT COST	**(61.3)**	**179.0**	**5.1**	**(36.9)**	**(38.8)**	**47.0**	***(46.3)***	***0.8***
CAPITAL EXPENDITURES IN FIXED ASSETS	**100.5**	**77.0**	**88.8**	**4.0**	**(69.6)**	**200.8**	**(28.2)**	**172.6**

Amounts shown in the "Other" column refer to Corporate activities and mainly relate to structural costs not attributable to operational segments.
For details and the reconciliation entries, please refer to the "**alternative performance indicators**" chapter in the "Report on Operations".
With regards to the 2010 figures and in particular the amounts indicated under "Discontinued operation", please refer to the comments in Note 41 of these Financial Statements and in Note 24 from the 2010 Consolidated Financial Statements.

NOTE 44 – DIVIDENDS

Dividends paid by ERG S.p.A. in 2011 (EUR 59.3 million) and 2010 (EUR 59.3 million), as resolved upon approval of the Separate Financial Statements for the previous year, amounted to EUR 0.40 for each of the shares with dividend rights as of the dividend date.

On 6 March 2012, the Board of Directors of ERG S.p.A. proposed the payment to the shareholders of a dividend amounting to EUR 0.40 per share. The dividend will be paid starting on 24 May 2012, subject to issuance of the coupon starting on 21 May 2012.

NOTE 45 – FINANCIAL INSTRUMENTS

12/31/2011	FVTPL (1)	L&R (2)	AFS (3)	OTHER LIABILITIES	HEDGING DERIVATIVES	TOTAL	*OF WHICH NON CURRENT*	FAIR VALUE
INVESTMENTS IN OTHER COMPANIES	–	–	1,031	–	–	1,031	–	*1,031*
FINANCIAL RECEIVABLES	–	14,668	934	–	–	15,602	*1,547*	15,602
DERIVATIVE FINANCIAL INSTRUMENTS	1,071	–	–	–	6,399	7,470	–	7,470
TRADE RECEIVABLES	–	730,222	–	–	–	730,222	–	*730,222*
FINANCIAL SECURITIES CLASSIFIED AS CURRENT ASSETS	–	–	–	–	–	–	–	–
OTHER RECEIVABLES	–	109,676	–	–	–	109,676	*6,950*	109,676
CASH AND CASH EQUIVALENTS	–	532,670	–	–	–	532,670	–	532,670
TOTAL ASSETS	**1,071**	**1,387,236**	**1,965**	**–**	**6,399**	**1,396,671**	***8,497***	**1,396,671**
MORTGAGES AND LOANS	–	–	–	439,164	–	439,164	*288,430*	416,251
NON-RECOURSE PROJECT FINANCING	–	–	–	793,045	–	793,045	*640,908*	802,324
SHORT-TERM BANK BORROWING	–	–	–	186,046	–	186,046	–	186,046
FINANCIAL PAYABLES	–	–	–	42,688	–	42,688	*83,392*	42,688
DERIVATIVE FINANCIAL INSTRUMENTS	775	–	–	–	54,158	54,933	–	54,933
TRADE PAYABLES	–	–	–	844,586	–	844,586	–	844,586
OTHER PAYABLES	–	–	–	60,383	–	60,383	*7,539*	60,383
TOTAL LIABILITIES	**775**	**-**	**-**	**2,365,912**	**54,158**	**2,420,845**	***1,020,269***	**2,407,211**

(1) FVTPL: Fair value through profit or loss
(2) L&R: Loans and receivables
(3) AFS: Available for sale financial investments

12/31/2010	FVTPL (1)	L&R (2)	AFS (3)	OTHER LIABILITIES	HEDGING DERIVATIVES	TOTAL	*OF WHICH NON CURRENT*	FAIR VALUE
INVESTMENTS IN OTHER COMPANIES	–	–	854	–	–	854	-	854
FINANCIAL RECEIVABLES	–	14,347	1,420	–	–	15,767	*3,155*	15,767
DERIVATIVE FINANCIAL INSTRUMENTS	–	–	–	–	5,846	5,846	–	5,846
TRADE RECEIVABLES	–	441,144	–	–	–	441,144	–	441,144
FINANCIAL SECURITIES CLASSIFIED AS CURRENT ASSETS	–	27,986	12,159	–	–	40,145	–	40,145
OTHER RECEIVABLES	–	62,677	–	–	–	62,677	*13,670*	62,677
CASH AND CASH EQUIVALENTS	–	1,312,544	–	–	–	1,312,544	–	1,312,544
TOTAL ASSETS	**–**	**1,858,698**	**14,434**	**–**	**5,846**	**1,878,977**	***16,825***	**1,878,977**
MORTGAGES AND LOANS	–	–	–	667,642	–	667,642	*440,059*	652,847
NON-RECOURSE PROJECT FINANCING	–	–	–	792,762	–	792,762	*714,191*	866,386
SHORT-TERM BANK BORROWING	–	–	–	527,498	–	527,498	–	527,498
FINANCIAL PAYABLES	–	–	–	69,215	–	69,215	*67,485*	69,215
DERIVATIVE FINANCIAL INSTRUMENTS	1,030	–	–	–	30,665	31,695	–	31,695
TRADE PAYABLES	–	–	–	660,552	–	660,552	–	660,552
OTHER PAYABLES	–	–	–	43,530	–	43,530	*779*	43,530
TOTAL LIABILITIES	**1,030**	**–**	**–**	**2,761,199**	**30,665**	**2,792,894**	***1,222,514***	**2,851,722**

(1) FVTPL: Fair value through profit or loss
(2) L&R: Loans and receivables
(3) AFS: Available for sale financial investments

The following table gives a breakdown of financial instruments measured at fair value, grouped in levels from 1 to 3, according to the fair value hierarchy:

- for level 1, fair value is measured using listed prices on active markets;
- for level 2 fair value is measured using valuation techniques based on variables that are directly (or indirectly) observable on the market;
- for level 3, fair value is measured using valuation techniques based on significant variables not observable on the market.

	LEVEL 1	LEVEL 2	LEVEL 3
FINANCIAL ASSETS			
- FVTPL	–	1,071	–
- HEDGING DERIVATIVES	–	6,399	–
TOTAL	**–**	**7,470**	**–**
FINANCIAL LIABILITIES			
- FVTPL	479	296	–
- HEDGING DERIVATIVES	–	54.158	–
TOTAL	**479**	**54,454**	**–**

The Group has no financial instrument classifiable in Level 3.
The financial instruments classified in Level 1 are futures on petroleum products, whose value is listed daily.

Derivatives are classified in Level 2: in order to estimate the market value of these derivatives, ERG uses various measurement and valuation models, as summarised in the following table:

TYPE	INSTRUMENT	PRICING MODEL	MARKET DATA USED	DATA PROVIDER	IFRS 7 HIERARCHY
INTEREST RATE DERIVATIVES	INTEREST RATE SWAP	DISCOUNTED CASH FLOWS	- DEPOSIT RATES (EURIBOR) - SWAP RATES	- REUTERS	LEVEL 2
	INTEREST RATE OPTION (CAP, COLLAR)	BLACK & SCHOLES	- DEPOSIT RATES (EURIBOR) - SWAP RATES - SHORT TERM RATE IMPLICIT VOLATILITY	- REUTERS - ICAP (VIA REUTERS)	LEVEL 2
CURRENCY EXCHANGE RATE DERIVATIVES	FX FORWARD	DISCOUNTED CASH FLOWS	- ZERO COUPON CURVES OF THE REFERENCE CURRENCIES - ECB SPOT RATES	- REUTERS	LEVEL 2
	FX OPTION	- BLACK & SCHOLES - EDGEWORTH - MONTE CARLO	- ZERO COUPON CURVES OF THE REFERENCE CURRENCIES - ECB SPOT RATES - EXCHANGE RATE IMPLICIT VOLATILITY	- REUTERS	LEVEL 2
COMMODITY DERIVATIVES	COMMODITY SWAP - CRUDE OILS - OIL PRODUCTS - CRACK SPREAD - GAS FORMULAS	DISCOUNTED CASH FLOWS	- OFFICIAL SPOT QUOTES ON REFERENCE COMMODITIES - FORWARD PRICES QUOTED ON OTC MARKETS - FORWARD PRICES DERIVED (I.E. LINEAR REGRESSION) FROM OTC PRICES - ZERO COUPON CURVES ON EURO AND US DOLLAR - ECB SPOT RATES	- PLATT'S (SARUS) - REUTERS	LEVEL 2
	COMMODITY FUTURES	LISTED INSTRUMENT	- OFFICIAL SETTLEMENT PRICES - SOURCE: ICE	- REUTERS	LEVEL 1
	CONTRACT FOR DIFFERENCE (CFD)	DISCOUNTED CASH FLOWS	- FORWARD NATIONAL SINGLE PRICE QUOTED ON THE OTC MARKET - ZERO COUPON CURVE ON THE EURO	- TFS - REUTERS	LEVEL 2

NOTE 46 – DISCLOSURES ON FINANCIAL RISKS

The following are the main risks identified and actively managed by the ERG Group:

- Credit risk: the possibility of default by a counterparty or the potential deterioration of the assigned creditworthiness;
- Market risk: deriving from exposure to fluctuations in currency exchange rates, mainly between the euro and US dollar and interest rates, as well as changes in the prices of products sold and raw material purchased (commodity price volatility risk);
- Liquidity risk: the risk of available financial resources being insufficient to fulfil payment commitments.

The ERG Group attaches great importance to identifying and measuring risks and to the related controls, in order to ensure efficient management of the risks it runs. In line with this objective, an advanced Risk Management system has been adopted that guarantees identification, measurement and control at a centralised level for the entire Group of exposure to individual risks, in accordance with existing policies.
The Risk Management function ensures compliance with the assigned limits and, via its own analyses, provides appropriate support for strategic decisions both to individual subsidiaries and to the Risk Committee as well as to top management at the parent Company.

CREDIT RISK

Exposure to credit risk, i.e. the likelihood that a given counterparty is not able to meet its contractual obligations, is managed through appropriate analysis and assessments, assigning to each counterparty an Internal Rating, a summary indicator of the creditworthiness assessment. The rating provides an estimate of the likelihood of default of a given counterparty on which the level of credit assigned depends, which is punctually monitored and must never be exceeded. The choice of counterparties for both the industrial and financial transactions is subject to the decisions of the Loans and Credits Committee, whose decisions are supported by the credit rating analysis.
The risk of concentration, in terms of both customers and segments, is also monitored continuously; however, 'alert' situations have never occurred.

The following table provides information on the ERG Group's exposure to credit risk at year end, by a classification of credits that are not overdue (see **Note 9**) according to the corresponding creditworthiness reflecting the internal ratings assigned.

(EUR THOUSAND)	2011	2010
AAA RATING	7,386	3,012
AA+ / AA- RATING	49,845	1,825
A+ / A- RATING	125,778	145,354
BBB+ / BBB- RATING	243,048	42,468
BB+ / BB- RATING	65,952	41,626
B+ / B- RATING	–	1,397
RECEIVABLES FROM GROUP COMPANIES	113,546	102,369
NOT ASSIGNED	39,490	22,266
TOTAL	**645,046**	**360,317**

LIQUIDITY RISK

Liquidity risk is the risk that financial resources may be insufficient to cover all obligations falling due. Today, with its cash flow generation and the availability of lines of credit made available by various counterparties, the ERG Group ensures adequate coverage of its financial requirements.

The following tables summarise the maturity profile of the Group's financial liabilities as of 31 December 2011 and as of 31 December 2010, based on undiscounted contractual payments.

12/31/2011	PAYABLES BY MATURITY				
(EUR THOUSAND)	ON DEMAND	UNDER 3 MONTHS	3-12 MONTHS	1-5 YEARS	MORE THAN 5 YEARS
MORTGAGES AND LOANS	–	15,444	124,739	299,654	–
NON-RECOURSE PROJECT FINANCING	–	6,272	142,591	398,252	434,990
SHORT-TERM BANK BORROWING	186,046	–	–	–	–
DERIVATIVE INSTRUMENTS	–	71	13,131	32,537	8,940
FINANCIAL PAYABLES	–	250	2,212	14,929	9,939
TRADE PAYABLES	30,548	721,597	89,947	2,494	–
TOTAL LIABILITIES	**216,594**	**743,634**	**372,619**	**747,866**	**453,869**

12/31/2010	PAYABLES BY MATURITY				
(EUR THOUSAND)	ON DEMAND	UNDER 3 MONTHS	3-12 MONTHS	1-5 YEARS	MORE THAN 5 YEARS
MORTGAGES AND LOANS	–	2,923	197,849	478,699	–
NON-RECOURSE PROJECT FINANCING	–	6,558	111,887	426,478	480,729
SHORT-TERM BANK BORROWING	527,498	–	–	–	–
DERIVATIVE INSTRUMENTS	–	–	12,929	18,311	–
FINANCIAL PAYABLES	–	29,904	4,235	26,779	11,108
TRADE PAYABLES	–	640,200	20,352	–	–
TOTAL LIABILITIES	**527,498**	**679,585**	**347,252**	**950,267**	**491,837**

MARKET RISK

Market risk includes currency exchange rate risk, interest rate risk and commodities price risk. Management of these risks is regulated by the guidelines indicated in the group's Risk Management Policy and internal procedures of the operational finance department.
Furthermore, for the Power & Gas business specific risk management policies and procedures, based on industry best practice, were developed for the continuous measurement of risk exposure levels with respect to a Risk Capital value allocated by the parent company.

Currency exchange rate risk

The exchange rate risk arises from fluctuations 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 Group in currencies other than Euro (the functional currency) constitute the exposure to currency exchange rate risk. In order to mitigate the volatility of these exposures, open positions are hedged on both the spot and forward markets. The following table shows the impact on pre-tax profit, with all other variables kept constant, of the adjustment to the fair value of financial assets and liabilities resulting from a change of +/- 10% in the exchange rate towards the Dollar.

(EUR MILLION)	2011	2010
SHOCK-UP (VARIATION IN EUR/DOLLAR EXCHANGE RATE = **+10%**)	5.7	4.1
SHOCK-DOWN (VARIATION IN EUR/DOLLAR EXCHANGE RATE = **-10%**)	(5.6)	(4.4)

Interest rate risk

Interest rate risk identifies the fluctuation in future interest rate trends that could determine higher costs for the Group. Interest rate risk is hedged by using derivative

contracts, such as Interest Rate Swaps and Interest Rate Options (plain vanilla).
The following table illustrates the impact on pre-tax profit (due to adjustments to the fair value of financial assets and liabilities), and on Group net equity (due to adjustments to the fair value of the derivative instruments comprising the cash flow hedge reserve) of a +/- 1% change in interest rate, with all other variables kept constant.

Impact on Consolidated Income Statement

(EUR MILLION)	2011	2010
SHOCK-UP (INTEREST RATE VARIATION = **+1%**)	(5.5)	(1.3)
SHOCK-DOWN (INTEREST RATE VARIATION = **-1%**)	4.6	1.7

Impact on shareholders' equity

(EUR MILLION)	2011	2010
SHOCK-UP (INTEREST RATE VARIATION = **+1%**)	23.7	23.7
SHOCK-DOWN (INTEREST RATE VARIATION = **-1%**)	(24.3)	(24.3)

Commodity Risk

Commodity price risk consists in unexpected fluctuations in the prices of raw materials, of procurement of services, of finished products and services provided for sale on the open market.
The current policy for oil commodities price Risk Management prescribes 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 Futures, Commodity Swaps and Commodity Options with underlying crude oil and petroleum products.
The following table considers the derivative financial instruments tied to different categories of commodities, oil and energy, and shows– with all other variables kept constant – the impact on pre-tax profit (due to adjustments to the fair value of financial assets and liabilities) and Group shareholders' equity (due to adjustments to the fair value of the derivative instruments comprising the cash flow hedge reserve) of a +/- 20% change in the price of commodities.

Impact on Consolidated Income Statement

(EUR MILLION)	2011	2010
SHOCK-UP (VARIATION IN COMMODITIES PRICE = **+20%**)	(8.7)	(1.2)
SHOCK-DOWN (VARIATION IN COMMODITIES PRICE = **-20%**)	8.7	1.2

Impact on shareholders' equity

(EUR MILLION)	2011	2010
SHOCK-UP (VARIATION IN COMMODITIES PRICE = **+20%**)	17.4	9.6
SHOCK-DOWN (VARIATION IN COMMODITIES PRICE = **-20%**)	(17.4)	(9.5)

DERIVATIVE FINANCIAL INSTRUMENTS USED

The main types of derivative financial 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 contracts: contracts for the purchase or sale between two parties of a certain financial instrument (the underlying asset) at a future date and at a price fixed at the time the contract is stipulated; this category also includes futures contracts, which unlike forward contracts are standardised contracts, negotiated in lots and for predetermined maturity dates within regulated markets.

Swap: a contract which establishes an exchange of payment flows between two parties on certain dates. The payments can be expressed in the same currency or in different currencies and their amount is determined in relation to an underlying financial instrument.

The underlying financial instrument can be of various types and significantly influences the characteristics of the contract which, in practice, can take on different forms.

The derivative instruments perfected by ERG and aiming to mitigate exposure to financial risks existing as of 31 December 2011 are as follows:

Interest rate derivatives

- Interest Rate Options that fix upper (cap) and lower (floor) limits to be applied to fluctuations in interest rates on variable rate loans;
- Interest rate swaps entered into to confine fixed- and floating rate loans to the most appropriate risk profile. Interest rate swaps provide for the exchange between the counterparties of interest flows calculated with reference to pre-agreed fixed rates or variable rates and to pre-defined face value and timing.

Currency exchange rate derivatives

- Foreign currency exchange forwards are used to hedge currency exchange rate risk on anticipated foreign currency availability or requirements in the reference period. The purpose of these contracts is the purchase or sale of a currency with delivery at a specified future date, at a fixed price. In these contracts, the party committing to purchase the currency assumes a "long" position, while the party committing to sell the currency assumes a "short" position;
- FX Options used to manage currency exchange rate risk. These are contracts which, after payment of a premium, confer the right to buy or sell a specified amount of a foreign currency at a fixed rate (strike price) on a fixed date.

Commodity derivatives

- Futures for managing the volatility risk on the price of commodities in inventory. These contracts are negotiated on the regulated market through a financial institution qualified as clearing member. These financial instruments entail the forward purchase and/or sale of given quantities (lots) of the underlying commodity, whose standard characteristics are defined and regulated by the reference commodities exchange; the settlement of the transaction at the due date can take place both by physical delivery and cash settlement of the final value of the instrument.
- Swap instruments used to hedge commodity price fluctuations risks on purchases and sales expected in the reference periods. They are contracts signed with international specialised companies operating in the commodities sector and with major national and international banks. Swaps are direct agreements between two companies for the

exchange, on set dates, of future payment flows linked to the prices of specific commodities.
In particular, swaps are used for crude oil (Brent dated), oil products (including gasoil, gasoline, fuel oil 3.5%, fuel oil 1%, jet fuel and the like), crack spreads and gas formulas.

- CfDs (Contracts for Differences) instruments are used to hedge the risk of electricity price fluctuations; via this instrument it is possible to buy or sell block quantities of electricity by paying on maturity the difference between the price agreed to in the contract and the market price reported in the reference period.

SUMMARY OF DERIVATIVE INSTRUMENTS USED

The derivative instruments arranged by ERG are designed to hedge its exposure to commodities price, currency exchange rate, and interest rate risks. As of 31 December 2011, they consisted of the following:

	TYPE	HEDGED RISK	UNDERLYING FINANCIAL ASSET		FAIR VALUE 12/31/2011
					EUR THOUSAND
	CASH FLOW HEDGING INSTRUMENTS				
A	INTEREST RATE SWAPS AND INTEREST RATE CAPS	ECONOMIC INTEREST RATE RISK	EUR THOUSAND	700,600	(52,889)
B	CRUDE OIL PRICE RISK SWAPS	COMMODITY TRANSACTION RISK	BARRELS	1,025,000	(90)
C	GAS PRICE RISK SWAPS	COMMODITY TRANSACTION RISK	SMC MILLION	86	317
	TOTAL CASH FLOW HEDGING INSTRUMENTS				**(52,662)**
	FAIR VALUE HEDGING INSTRUMENTS				
D	CRUDE OIL PRICE RISK SWAPS	COMMODITY TRANSACTION RISK	BARRELS	135,000	(81)
	TOTAL FAIR VALUE HEDGING INSTRUMENTS				**(81)**
	NON HEDGE ACCOUNTING INSTRUMENTS				
E	ELECTRICITY PRICE RISK HEDGING CFD	RISK OF FLUCTUATIONS IN ELECTRICITY PRICE	MWH	95,280	(94)
F	FORWARDS ON SHORT-TERM CURRENCY EXCHANGE RATES	EXCHANGE RATE TRANSACTION RISK	MILLIONS OF DOLLARS	198	(646)
G	INTEREST RATE SWAP	ECONOMIC INTEREST RATE RISK	MILLIONS OF EUR	22	1
H	PRODUCT PRICE RISK SWAPS	HEDGING FOR CRUDE OIL PRICE FLUCTUATIONS	TONNES	70,000	379
I	FUTURES TO HEDGE COMMODITY PRICE RISK	HEDGING FOR CRUDE OIL PRICE FLUCTUATIONS	BARRELS	1,278	(479)
L	GAS PRICE RISK SWAPS	HEDGE FOR GAS PRICE FLUCTUATIONS	MILLION SMC	35	483
	TOTAL NON HEDGE ACCOUNTING INSTRUMENTS				**(355)**
	TOTAL ERG GROUP DERIVATIVE FINANCIAL INSTRUMENTS				**(53,098)**

CASH FLOW HEDGING INSTRUMENTS

A Interest Rate Swaps and Interest Rate Caps

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

The underlying financial instruments lie in the following companies:

- ERG S.p.A.;
- ERG Renew S.p.A. and investee companies;
- ERG Power;
- ISAB Energy.

As of 31 December 2011, there was a total negative fair value amounting to EUR 53 million presented in the Cash Flow Hedge reserve.

B Crude oil price risk swaps

Swaps are used to hedge the risk of future price fluctuations in raw materials. They are contracts whereby the parties undertake to pay or receive, at an agreed maturity date, the difference between the spot price and forward price for the quantity of crude oil in question (underlying asset). Settlement between the parties only concerns the price differentials and does not entail any exchange of goods, although the existence of the underlying financial instrument is guaranteed. The negative fair value at 31 December 2011 is not significant.

C 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 times the quantities indicated in the contract.

Fair value as of 31 December 2011 was positive in the amount of EUR 0.3 million.

FAIR VALUE HEDGING INSTRUMENTS

D Crude oil price risk swaps

Swaps are used to hedge the risk of future price fluctuations in raw materials already purchased as of 31 December 2011. They are contracts whereby the parties undertake to pay or receive, at an agreed maturity date, the difference between the spot price and forward price for the quantity of crude oil in question (underlying asset). Settlement between the parties only concerns the price differentials and does not entail any exchange of goods, although the existence of the underlying financial instrument is guaranteed. As of 31 December 2011, there was a positive total fair value of an immaterial amount. The carrying value of the raw materials covered by this hedging instrument was adjusted to reflect, in the Consolidated Income Statement, the changes in fair value associated with the hedged risk.

NON HEDGE ACCOUNTING INSTRUMENTS

E Electricity price risk hedging CFD

CFD transactions to hedge the risk of fluctuation in the price of electricity with respect to forward agreements for the purchase of electricity. They are contracts whereby the parties undertake to liquidate, at a certain date, the difference between the price agreed in the contract and the market price of the reference period, multiplied times the agreed units.

As of 31 December 2011 there was a total negative fair value of an immaterial amount.

F Forwards on short-term currency exchange rates

These are transactions to hedge the currency exchange rate risk of cash flows generated by expected purchases of raw materials and sales of finished products for the month of January 2012. As of 31 December 2011 there was a total negative fair value in the amount of about EUR 0.6 million.

G. Interest Rate Swap

Interest Rate Swaps relate to interest on loans in existence as of 31 December 2011. At year end, the total fair value was not significant.

H Product price risk swaps

These swaps hedge the risk of price fluctuations on future product sales.
They are contracts whereby the parties undertake to pay or receive, at an agreed maturity date, the difference between the spot price and forward price for the quantity of crude oil in question (underlying asset). Settlement between the parties only concerns the price differentials and does not entail any exchange of goods, although the existence of the underlying asset is guaranteed. At year end, there was a total fair value of approximately EUR 0.4 million.

I Futures to hedge commodity price risk

Futures transactions to hedge the risk of price fluctuations on the quantities of crude oil in stock. They are contracts whereby the parties undertake to forward purchase and/or sell a given quantity of crude oil lots. Monetary settlement between the parties takes place on the basis of the price differential. At year end, there was a total negative fair value of approximately EUR 0.5 million.

L Gas price risk swaps

Swaps 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 times the quantities indicated in the contract. At year end, there was a total fair value of approximately EUR 0.5 million.

NOTE 47 – INDEPENDENT AUDIT FEES

In accordance with Article 149-duodecies of Consob's Issuers' Regulations, we set out below the costs for 2011 relating to services rendered by the independent auditor Deloitte & Touche S.p.A., the ERG group's main independent auditor, and by the companies belonging to its network.

	2011
AUDITING SERVICES	811
SERVICES OTHER THAN AUDITING	620
TOTAL	**1,431**

Auditing services include the audit of the annual Separate and Consolidated Financial Statements and the review of the half-year interim Report.
Services other than auditing refer to:

- certification services for EUR 69 thousand pertaining to the conformity review of the separate yearly account for the purposes of AEEG resolution no. 11/2007
- tax consultancy services for EUR 199 thousand;
- other services for EUR 352 thousand pertaining mainly to agreed-upon procedures performed voluntarily on quarterly data and other minor services.

NOTE 48 – OTHER INFORMATION

Disclosure on significant events occurring after the reporting period are provided in the relevant section of the **Report on Operations**.

NOTE 49 – PUBLICATION DATE OF THE CONSOLIDATED FINANCIAL STATEMENTS

On 6 March 2012, the Board of Directors of ERG S.p.A. authorised the publication of the Consolidated Financial Statements together with the reports by the supervisory Bodies in compliance with the deadlines prescribed by current laws and regulations.

Genoa, 6 March 2012

On behalf of the Board of Directors
The Chairman
Edoardo Garrone

REPRESENTATIONS COVERING THE CONSOLIDATED FINANCIAL STATEMENTS PURSUANT TO ARTICLE 81-TER OF CONSOB REGULATION NO. 11971 DATED 14 MAY 1999, AS AMENDED

1. The undersigned Alessandro Garrone, Chief Executive Officer of ERG S.p.A, and Giorgio Coraggioso, Manager Responsible for preparing the financial reports of ERG S.p.A, considering the provisions set out in Article 154-bis, subsections 3 and 4, of Italian Legislative Decree 58 dated 24 February 1998, represent as to:

- the suitability of the administrative and accounting procedures in relation to the characteristics of the business and
- the actual application of the administrative and accounting procedures for the preparation of the Consolidated Financial Statements asof and for the year ended 31 December 2011.

2. Evaluation of the suitability of the administrative and accounting procedures used to prepare the Consolidated Financial Statements as of and for the year ended 31 December 2011 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 the international level.

3. It is furthermore represented that:

3.1 the Consolidated Financial Statements:

a) were prepared in accordance with the applicable International accounting standards recognised in the European Community pursuant to Regulation (EC) no. 1606/2002 of the European Parliament and Council, dated 19 July 2002;

b) correspond to the underlying accounting books and records;

c) are suitable to provide a true and fair view of the consolidated financial position and results of operations of the issuer and of the group of companies included in its consolidation;

3.2 the Report on Operations contains a reliable analysis of the consolidated operating performance and results, as well as the consolidated financial position of the issuer and the group of companies included in its consolidation, together with a description of the main risks and uncertainties to which they are exposed.

Genoa, 6 March 2012

The Chief Executive Officer

The Manager Responsible
for preparing the financial reports

BOARD OF STATUTORY AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Distinguished Shareholders,

the consolidated financial statements of ERG S.p.A. for the year 2011 were delivered to us within the terms prescribed by law, together with the Report on Operations, and they were prepared in accordance with the International Financial Reporting Standards (IFRS) promulgated by the International Accounting Standards Board (IASB) and adopted by the European Union.
In accordance with Legislative Decree no. 39 of 27 January 2010 and with Article 41 Paragraph 2 of Legislative Decree no. 127 of 9 April 1991, the Independent Auditors have the duty to verify whether the consolidated financial statements comply with the law and match the accounting and consolidation entries. Our supervisory activity was carried out in compliance with the standards of behaviour of the Board of Statutory Auditors promulgated by the National Board of Chartered Accountants and in particular it pertained to:

- verification of the existence and adequacy, within the organisation of ERG S.p.A., of a function responsible for relations with subsidiaries and affiliates;
- examination of the Group's composition and equity interests, in order to assess the determination of the consolidation area and its change relative to the previous financial statements;
- obtainment of information on the activity carried out by the subsidiaries and on the transactions with the most relevance in financial and economic terms within the Group, through the information received from ERG S.p.A. directors, from the Independent Auditors and from the Statutory Auditors of the subsidiaries.

Following the supervisory activity on the consolidated financial statements, we undertake that:

- the determination of the scope of consolidation and the selection of the principles whereby investee companies are consolidated are in accordance with IFRS;
- the laws regulating the preparation and arrangement of the financial statements and of the Report on Operations were obeyed;
- we verified the adequacy of the instructions given by the cognisant function of ERG S.p.A. for the obtainment of the flow of data necessary for consolidation, viewing the information provided by the subsidiaries, subject to regulatory verification by their respective Boards of Statutory Auditors;
- the financial statements match the facts and information of which the Board of Statutory Auditors became aware in the performance of its supervisory duties and in the exercise of its oversight and inspection powers;
- we approved the reasons, indicated in the Notes to the consolidated financial statements, why, in accordance with the indications of IAS 39 and on the basis of a dedicated study prepared by independent experts, the put option recognised by LUKOIL with respect to the 40% of ISAB Srl was not measured at fair value;
- the Notes to the consolidated financial statements provide the information prescribed by paragraph 134 of accounting standard IAS 36 – Impairment of assets, whose application was stressed by Bank of Italy/CONSOB/Isvap Document no. 4 of 3 March 2010. The Board of Statutory Auditors examined the document prepared and illustrated to the Internal Control Committee by an independent expert, containing the analyses made and the results obtained in the impairment test activity, which uncovered an impairment of the goodwill and fixed assets referred to the CCGT plant with respect to the values recorded

in the consolidated financial statements of ERG S.p.A. as at 31 December 2011. The assessments were carried out with the going concern assumption and in the hypotheses that the assumptions indicated in the updated Plan prepared by the Management of the Company would hold true. The Board of Statutory Auditors deemed the main assessment hypotheses reasonable, and therefore approved the results;

- the Group's Report on Operations is consistent with the data and results of the consolidated financial statements and it provides ample disclosure on the Group's economic-financial performance and on the risks to which the Group is exposed, as well as on significant events occurred after the ending date of the financial year, which did not have any impact on the 2011 financial statements and, in particular, on the partial exercise of the put option on the 20% equity interest in ISAB S.r.l. and on the entry through LUKERG Renew, joint venture between ERG Renew and LUKOIL-Ecoenergo, into the Bulgarian wind power market with a significant share.

The Chief Executive Officer and the Manager responsible for preparing the company's financial reports issued the certification, in accordance with Article 81-ter of CONSOB Regulation no. 11971/1999 with subsequent amendments and additions and with Article 154-bis of Legislative Decree 58/1998 (Consolidated Finance Act).

On 13 March 2012, the Independent Auditors issued the report in accordance with Articles 14 and 16 of Legislative Decree 39/2010, declaring that the consolidated financial statements as at 31 December 2011 are in accordance with the IFRS, and with the regulations promulgated to implement Article 9 of Legislative Decree no. 38/2005, and they are prepared clearly and they represent truthfully and fairly the financial situation, the income and expenses and the cash flows of the ERG Group for the year that ended on that date.

Genoa, 14 March 2012

The Board of Statutory Auditors
Mario Pacciani (Chairman)

Paolo Fasce (Standing Auditor)

Lelio Fornabaio (Standing Auditor)

AUDITORS' REPORT

Deloitte.

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AUDITOR'S REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS PURSUANT TO ART. 14 AND 16 OF LEGISLATIVE DECREE N. 39 OF JANUARY 27, 2010

To the Shareholders of
ERG S.p.A.

1. We have audited the consolidated financial statements of ERG S.p.A. and its subsidiaries (the "ERG Group") as of and for the year ended December 31, 2011, which comprise the statement of financial position, the income statement, the statement of other components of comprehensive income, the statement of changes in equity, the statement of cash flows and the related notes to financial statements. These consolidated financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree n. 38/2005 are the responsibility of the Company's Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

2. We conducted our audit in accordance with the Auditing Standards recommended by CONSOB, the Italian Commission for listed Companies and the Stock Exchange. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

   For the opinion on the prior year's consolidated financial statements, whose data are presented for comparative purposes, reference should be made to our auditors' report issued on March 15, 2011.

3. In our opinion, the consolidated financial statements of the ERG Group as of December 31, 2011 comply with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree n. 38/2005; accordingly, they give a true and fair view of the financial position of the ERG Group, and of the results of its operations and its cash flows for the year then ended.

4. The Directors of ERG S.p.A. are responsible for the preparation of the report on operations in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency of the report on operations and of the specific section on corporate governance with reference to the information reported in compliance with art. 123-bis of Italian Legislative Decree n. 58/1998, paragraph 1, letters c), d), f), l), m) and paragraph 2, letter b), with the consolidated financial statements, as required by law. For this purpose, we have performed the procedures required under Auditing Standard n. 001 issued by the Italian Accounting Profession (CNDCEC) and recommended by CONSOB. In our opinion, the report on operations and the information reported in compliance with art. 123-bis of Italian Legislative Decree n. 58/1998 paragraph 1, letters c), d), f), l), m) and paragraph 2, letter b) included in the specific section on corporate governance are consistent with the consolidated financial statements of the ERG Group as of December 31, 2011.

DELOITTE & TOUCHE S.p.A.

Signed by
Fabrizio Fagnola
Partner

Genoa, Italy
March 13, 2012

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

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FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION

(EUR)	NOTES	12/31/2011		12/31/2010	
INTANGIBLE FIXED ASSETS	1		6,487,698		8,485,065
GOODWILL	2		5,554,510		7,082,000
PROPERTY, PLANT, AND MACHINERY	3		14,850,309		15,696,745
EQUITY INVESTMENTS	4		1,534,883,032		1,215,875,415
OTHER FINANCIAL ASSETS	5		149,507,842		451,227,443
OF WHICH WITH RELATED PARTIES	36	*148,574,076*		*449,807,065*	
DEFERRED TAX ASSETS	6		23,559,857		24,753,987
OTHER NON-CURRENT ASSETS	7		1,386,430		1,595,531
NON-CURRENT ASSETS			**1,736,229,679**		**1,724,716,186**
INVENTORIES	8		265,427,007		251,214,582
TRADE RECEIVABLES	9		505,493,052		298,965,571
OF WHICH FROM RELATED PARTIES	36	*159,392,298*		*155,665,885*	
OTHER CURRENT RECEIVABLES AND ASSETS	10		120,822,689		70,629,864
OF WHICH FROM RELATED PARTIES	36	*76,094,705*		*31,935,534*	
CURRENT FINANCIAL ASSETS	11		54,183,466		84,361,352
OF WHICH FROM RELATED PARTIES	36	*37,290,701*		*34,244,835*	
CASH AND CASH EQUIVALENTS	12		410,828,864		1,114,939,385
CURRENT ASSETS			**1,356,755,078**		**1,820,110,754**
TOTAL ASSETS			**3,092,984,757**		**3,544,826,940**
SHAREHOLDERS' EQUITY	13		**1,615,182,308**		**1,657,332,505**
EMPLOYEES' SEVERANCE INDEMNITIES	14		1,273,094		1,884,718
DEFERRED TAX LIABILITIES	15		8,492,109		12,079,335
PROVISIONS FOR NON-CURRENT LIABILITIES AND CHARGES	16		10,649,298		167,601
NON-CURRENT FINANCIAL LIABILITIES	17		283,629,946		420,559,367
OTHER NON-CURRENT LIABILITIES	18		6,602,594		–
OF WHICH TOWARDS RELATED PARTIES	36	*6,602,594*		–	
NON-CURRENT LIABILITIES			**310,647,042**		**434,691,020**
PROVISIONS FOR CURRENT LIABILITIES AND CHARGES	19		51,678,611		46,313,143
TRADE PAYABLES	20		706,687,369		563,578,412
OF WHICH TOWARDS RELATED PARTIES	36	*94,617,746*		*65,020,444*	
CURRENT FINANCIAL LIABILITIES	21		316,192,082		768,523,349
OF WHICH TOWARDS RELATED PARTIES	*36*	*5,258,304*		*37,659,067*	
OTHER CURRENT LIABILITIES	22		92,597,345		74,388,510
OF WHICH TOWARDS RELATED PARTIES	*36*	*27,738,836*		*17,372,751*	
CURRENT LIABILITIES			**1,167,155,407**		**1,452,803,415**
TOTAL LIABILITIES AND EQUITY			**3,092,984,757**		**3,544,826,940**

INCOME STATEMENT

(EUR)	NOTES	2011		2010	
REVENUES FROM ORDINARY OPERATIONS	25		6,105,826,593		4,867,783,498
OF WHICH FROM RELATED PARTIES	36	*1,274,155,001*		*1,378,008,884*	
OTHER REVENUES AND INCOME	26		19,834,085		20,929,728
OF WHICH FROM RELATED PARTIES	36	*11,887,536*		*13,072,486*	
CHANGES IN PRODUCT INVENTORIES	27		57,510,023		79,263,984
CHANGES IN RAW MATERIALS INVENTORIES	27		(43,297,598)		91,607,390
COST OF PURCHASES	28		(5,598,476,277)		(4,492,029,328)
OF WHICH TOWARDS RELATED PARTIES	36	*(236,982,953)*		*(231,096,352)*	
COSTS FOR SERVICES AND OTHER COSTS	29		(639,209,604)		(693,009,414)
OF WHICH TOWARDS RELATED PARTIES	36	*(489,433,967)*		*(541,727,921)*	
PERSONNEL EXPENSES	30		(33,018,605)		(40,571,499)
OF WHICH NON-RECURRING ITEMS	36	*–*		*(2,740,608)*	
EBITDA			**(130,831,383)**		**(166,025,642)**
AMORTIZATION, DEPRECIATION AND WRITE-DOWNS OF FIXED ASSETS	31		**(7,250,221)**		**(6,977,299)**
FINANCIAL INCOME	32		149,998,044		109,766,231
OF WHICH FROM RELATED PARTIES	36	*27,313,372*		*14,797,905*	
FINANCIAL EXPENSES	32		(124,621,046)		(113,078,757)
OF WHICH TOWARDS RELATED PARTIES	36	*(398,502)*		*(1,614,233)*	
NET FINANCIAL INCOME (EXPENSES)	32		**25,376,998**		**(3,312,526)**
NET INCOME (LOSS) FROM EQUITY INVESTMENTS	33		98,613,944		543,320,949
OF WHICH NON-RECURRING ITEMS	35	*59,717,063*		*410,115,885*	
OTHER NET INCOME (LOSS) FROM EQUITY INVESTMENTS			–		–
NET INCOME (LOSS) FROM EQUITY INVESTMENTS			**98,613,944**		**543,320,949**
PROFIT BEFORE TAXES			**(14,090,662)**		**367,005,483**
INCOME TAXES	34		34,018,877		31,125,720
NET PROFIT (LOSS) FROM CONTINUING OPERATIONS			**19,928,215**		**398,131,203**
NET PROFIT (LOSS) FROM DISCONTINUED OPERATIONS			–		–
NET PROFIT (LOSS) FOR THE PERIOD			**19,928,215**		**398,131,203**

STATEMENT OF OTHER COMPONENTS OF COMPREHENSIVE INCOME

(EUR THOUSAND)	2011	2010
NET PROFIT (LOSS) FOR THE PERIOD	**19,928**	**398,131**
CHANGES IN THE CASH FLOW HEDGE RESERVE	(4,400)	4,699
CHANGES IN SECURITIES AVAILABLE FOR SALE	(57)	35
INCOME TAX ON OTHER COMPONENTS OF COMPREHENSIVE INCOME	1,668	(2,178)
OTHER COMPONENTS OF COMPREHENSIVE INCOME AFTER TAX	**(2,790)**	**2,556**
COMPREHENSIVE NET PROFIT (LOSS) FOR THE PERIOD	**17,138**	**400,687**

STATEMENT OF CASH FLOWS

(EUR THOUSAND)	NOTES	12/31/2011	12/31/2010
CASH FLOWS FROM OPERATING ACTIVITIES (A)			
NET PROFIT (LOSS) FROM CONTINUING OPERATIONS		19,928	398,131
- AMORTIZATION, DEPRECIATION AND WRITE-DOWNS OF FIXED ASSETS	31	7,250	6,977
- NET CHANGE IN PROVISION FOR LIABILITIES AND CHARGES	16,19	15,847	29,175
- NET CHANGE IN DEFERRED TAX ASSETS AND LIABILITIES	6, 15	(2,393)	8,477
- WRITE-DOWN OF RECEIVABLES	9	8,264	11,489
- NET CAPITAL GAIN/LOSS ON SALE OF NON-CURRENT ASSETS		84	–
- NET WRITE-DOWNS OF FINANCIAL FIXED ASSETS	4	33,981	25,319
- CAPITAL GAIN ON TOTALERG TRANSACTION		–	(434,989)
- CAPITAL GAIN ON EXERCISE OF PUT OPTION 11% ISAB S.R.L. (1)		(122,327)	–
- NET CHANGE IN EMPLOYEES' SEVERANCE INDEMNITIES	14	(612)	(783)
CASH FLOWS BEFORE CHANGES IN WORKING CAPITAL		**(39,977)**	**43,796**
- CHANGE IN WORKING CAPITAL			
- CHANGE IN INVENTORY	8	(14,212)	(170,871)
- CHANGE IN TRADE RECEIVABLES	9	(214,790)	(15,688)
- CHANGE IN TRADE PAYABLES	20	143,110	242,215
- NET CHANGE IN OTHER RECEIVABLES/PAYABLES AND OTHER ASSETS/LIABILITIES		(24,687)	23,751
		(110,580)	**79,407**
TOTAL		**(150,556)**	**123,203**
CASH FLOWS FROM INVESTING ACTIVITIES (B)			
ACQUISITION OF INTANGIBLE FIXED ASSETS AND GOODWILL	1, 2	(4,256)	(5,752)
ACQUISITION OF PROPERTY, PLANT, AND MACHINERY	3	(429)	(1,292)
ACQUISITION OF EQUITY INVESTMENTS	4	(474,068)	(10,933)
ADJUSTMENT ON SALE OF 12% TOTALERG		–	101,112
COLLECTION FROM EXERCISE OF PUT OPTION 11% ISAB S.R.L. (1)		244,866	–
DISPOSALS OF INTANGIBLE FIXED ASSETS	1	212	37
DISPOSALS OF PROPERTY, PLANT AND MACHINERY	3	(19)	126
DISPOSALS OF EQUITY INVESTMENTS	4	68	206
TOTAL		**(233,626)**	**83,504**
CASH FLOWS FROM FINANCING ACTIVITIES (C)			
NEW NON-CURRENT LOANS		–	165,000
REPAYMENT OF NON-CURRENT LOANS		(220,802)	(148,302)
NET CHANGE IN OTHER NON-CURRENT FINANCIAL ASSETS/LIABILITIES	5, 17	385,106	(442,980)
NET CHANGE IN SHORT-TERM BANK BORROWINGS	21	(452,331)	(346,159)
NET CHANGE IN OTHER CURRENT FINANCIAL ASSETS	11	30,179	256,084
CASH AND CASH EQUIVALENTS FROM 2010 MERGER		–	534,543
SHARE CAPITAL INCREASES/REPAYMENTS		–	–
DIVIDENDS PAID		(59,288)	(59,288)
OTHER CHANGES IN SHAREHOLDERS' EQUITY	13	(2,790)	–
TOTAL		**(319,926)**	**(41,102)**
CASH FLOWS FROM DISCONTINUED OPERATIONS (D):		**–**	**–**
NET CASH FLOWS FOR THE YEAR (A+B+C)		**(704,109)**	**165,605**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	12	**1,114,939**	**949,334**
NET CASH FLOW FOR THE YEAR		(704,109)	165,605
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	12	**410,829**	**1,114,939**

(1) please see the paragraph **Put option on ISAB S.r.l.**

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(EUR THOUSAND)	SHARE CAPITAL	RESERVES	NET PROFIT (LOSS) FOR THE YEAR	TOTAL SHAREHOLDERS' EQUITY
BALANCE AS OF 01/01/2010	**15,032**	**155,820**	**698,258**	**869,109**
ALLOCATION OF 2009 PROFIT	–	698,258	(698,258)	–
DIVIDENDS	–	(59,288)	–	(59,288)
ACQUISITION OF TREASURY SHARES	–	–	–	–
EFFECTS OF 2010 MERGER		446,498	–	446,498
2010 PROFIT	–	–	398,131	398,131
CHANGES IN THE CASH FLOW HEDGE RESERVE	–	2,533	–	2,533
CHANGES IN AVAILABLE FOR SALE RESERVE	–	23	–	23
OTHER CHANGES	–	327	–	327
BALANCE AS OF 12/31/2010	**15,032**	**1,244,170**	**398,131**	**1,657,333**
ALLOCATION OF 2010 PROFIT	–	398,131	(398,131)	–
DIVIDENDS	–	(59,288)	–	(59,288)
ACQUISITION OF TREASURY SHARES	–	–	–	-
2011 PROFIT	–	–	19,928	19,928
CHANGES IN THE CASH FLOW HEDGE RESERVE	–	(2,749)	–	(2,749)
CHANGES IN AVAILABLE FOR SALE RESERVE	–	(41)	–	(41)
OTHER CHANGES	–	–	–	–
BALANCE AS OF 12/31/2011	**15,032**	**1,580,223**	**19,928**	**1,615,182**

NATURE OF THE COMPANY

ERG S.p.A., which has been listed on the italian stock exchange since 1997, is active, also through its subsidiaries and associates, in oil refining, the distribution of petroleum products in Italy and abroad, and in the production and marketing of electricity, steam and gas.

CRITERIA FOR THE PREPARATION OF THE SEPARATE FINANCIAL STATEMENTS

The Separate Financial Statements as of and for the year ended 31 December 2011 has been prepared, without any waiver or exception, in accordance with the Standards issued by the International Accounting Standards Board (IASB) and approved by the European Union, inclusive of all international standards that have undergone interpretation (International Accounting Standards – IAS – and International Financial Reporting Standards – IFRS) and the interpretations issued by the International Financial Reporting Interpretation Committee (IFRIC) and by the previous Standing Interpretations Committee (SIC).

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

For clearer disclosure, it was deemed preferable to show all amounts rounded off to the nearest EUR thousand; consequently, in some statements, totals may differ slightly from the sum of the amounts that comprise it. The Separate Financial Statements as of and for the year ended 31 December 2011 have been audited by the independent firm Deloitte & Touche S.p.A. using the procedures dictated by CONSOB regulations.

FORM AND CONTENTS OF THE SEPARATE FINANCIAL STATEMENTS

ERG S.p.A. classifies its Income Statement using the "nature of expense" method, a form deemed more representative than a classification using the "function of expense" method. The form chosen is in fact consistent with internal and management reporting procedures.

With reference to the statement of financial position, the adopted classification makes a distinction between current and non-current assets and liabilities, as allowed by IAS 1.

The structure of the statement of cash flows is based on the indirect method.

Furthermore, as required by Consob resolution 15519 dated 27 July 2006, significant income and charges arising from non-recurring transactions or from events that do not occur frequently in the ordinary course of business have been indicated separately in the Income Statement. These items are commented upon in a dedicated note.

Also pursuant to the aforementioned Consob resolution, balances or transactions with related parties have been entered separately in the statement of financial position and in the Income Statement. These items are commented upon in a dedicated note.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Below we provide a summary of the significant accounting policies adopted for the preparation of the Separate Financial Statements as of and for the year ended 31 December 2011.

INTANGIBLE FIXED ASSETS

Intangible fixed assets are recognised as assets, pursuant to IAS 38 (Intangible Assets), wherever they are identifiable, it is probable that their use will generate future economic benefits and their cost can be measured reliably. These assets are mesured at their purchase or production cost, including all ancillary charges attributable to them, and are amortised on a straight-line basis over their useful life. The amortization rate applied for intangible fixed assets is 33% with the exception of specific cases where useful life is greater than three years. Useful lives are reviewed annually and any changes, where necessary, are applied prospectively.
There are no intangible fixed assets with an indefinite useful life. Research costs are expensed directly in the Income Statement in the period in which they are incurred.

GOODWILL

Recognised goodwill emerged in 2010 as a result of the merger by incorporation of ERG Raffinerie Mediterranee S.p.A.
The merger was a transaction under common control and therefore it was not governed by international accounting standards, hence in the absence of specific references, in line with the indications of IAS 8, reference had to be made to the more general standard of the continuity of values. In particular, the entry of the shareholders' equity of the merged companies into the Separate Financial Statements of the company that took them over did not entail the emergence of different values from those expressed in the Consolidated Financial Statements, because the merger did not entail any economic exchange with third parties, or an acquisition in the economic sense.
Therefore, the Company measured goodwill at the value recognised in the Consolidated Financial Statements of the Group as of 31 December 2009.

PROPERTY, PLANT, AND MACHINERY

Property, plant and machinery are recognised at the cost of acquisition or production.
Expansion, modernisation and transformation costs and maintenance costs are capitalised only if they increase the future economic benefits of the asset to which they refer.
Depreciation is calculated on a straight-line basis over the estimated useful life. When the tangible asset consists of several significant components having different useful lives, each component is depreciated accordingly. The value to be depreciated is the carrying value less the expected residual value, if material and reliably measurable.
Land is not depreciated, even if acquired together with a building.
There were no finance lease transactions as defined in IAS 17.

The depreciation rates applied are as follows:

	%	PERCENTAGE OF DEPRECIATION AS OF 12/31/2011
INDUSTRIAL BUILDINGS	2.75 – 5.5	45%
GENERAL PLANT	10	49%
OFFICE FURNITURE AND FITTINGS	12	60%
ELECTRONIC MACHINERY	20	67%
EQUIPMENT	25	100%
INCREMENTAL EXPENSES	8 - 25	50%

WRITE-DOWN OF FIXED ASSETS (IMPAIRMENT TEST)

At least once a year, the company subjects its tangible and intangible fixed assets to an impairment test to determine whether there are indications that they may be impaired. If such an indication exists, it is necessary to estimate the recoverable value of the asset to determine the amount of any write-downs.

The recoverable value of an asset is the higher between its fair value, less the costs of the sale, and its value in use determined as the present value of expected future cash flows.

Impairment is recognised if the recoverable value is less than the carrying value. Should the impairment of a fixed asset, other than goodwill, subsequently no longer apply or be reduced, the carrying value of the asset or cash-generating unit is increased up to the new estimate of the recoverable value, without exceeding the value that would have been determined if no impairment had been recognised.

EQUITY INVESTMENTS

Equity investments in subsidiaries, joint ventures and associates are recognised at their acquisition or subscription cost, written down to reflect any permanent impairment losses.

The positive difference, at the time of acquisition, between the acquisition cost and the share of the subsidiary's or associate's shareholders' equity attributable to the Company is therefore included in the carrying value of the equity investment.

Where the book value of equity investments exceeds the corresponding portion of shareholders' equity based on the latest approved Financial Statements, this value is maintained if it can be attributed to assets of the investee company (tangible fixed assets, inventory and/or goodwill).

Equity investments in other companies are carried at fair value with changes presented in shareholders' equity.

When fair value cannot be measured reliably, equity investments are measured at cost, written down for permanent impairment losses, if any, and dividends from such companies are included in "Net income from equity investments".

When the reasons for the write-downs cease to exist, the equity investments carried at cost are revalued to the extent of the write-downs that had been recognised and the effect is presented 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.

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 assets.

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

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

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

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

This category comprises:

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

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

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

Non-derivative financial assets with fixed or determinable payments are classified as "held-to-maturity (HTM) investments" whenever the Group intends and has the ability to hold them to maturity. After initial recognition, HTM financial investments are measured at amortised cost, applying the effective interest method. Gains and losses are recognised in the Income Statement when the investment is derecognised for accounting purposes or if impairment occurs, as well as via the amortization process.
As of 31 December 2011, ERG held no investments classified as HTM.

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

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not listed in an active market.
Following initial recognition, these assets are measured at amortised cost using the effective interest method, net of allowances, 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 amortization process.

Trade receivables are presented at their fair value, which corresponds to their face value, and are subsequently reduced to account for uncollectable receivables, 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 shareholders' equity.
AFS financial assets include equity investments in companies other than subsidiaries and associates in which ERG S.p.A.'s direct or indirect ownership percentage is less than 20%.
When fair value cannot be reliably measured, equity investments are measured at cost, written down for impairment, if any, and dividends from such companies are included in "Other net income (loss) from equity investments".
When the reasons for the write-downs cease to exist, the equity investments carried at cost are revalued to the extent of the write-downs that had been recognised and the effect is presented in the income statement. The risk arising from any losses exceeding shareholders' equity is recognised in a specific reserve to the extent that the investor has committed to meet legal or constructive obligations vis-à-vis the investee company or in any case to cover its losses.

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

Fair value

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

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

Amortised cost

"Investments held to maturity" and "Loans & receivables" are measured at amortised cost, calculated using the effective interest method, net of impairment provisions or allowances, 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 Separate Financial Statements' date, ERG verifies whether a financial asset or group of financial assets has suffered impairment.

If there is objective evidence that a loan or receivable carried at amortised cost has suffered impairment, the amount of such impairment is measured as the difference between the asset's carrying value and the present value of future expected cash flows (excluding future loan losses that have not been incurred) discounted at the financial asset's original effective interest rate calculated on the initial recognition date.

The carrying value of the asset is reduced via accrual of a provision. The impairment amount is recognised in the Income Statement.

ERG assesses the existence of factual evidence of impairment on an asset-by-asset basis.

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

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

CASH AND CASH EQUIVALENTS

Cash and cash equivalents are presented, according to their nature, at face value.

In accordance with IAS 7 – Statement of cash flows, the definition of cash equivalents comprises cash on hand and bank and postal deposits repayable on demand, together with short-term, highly liquid investments that are readily convertible to a known amount of cash. It also includes short-term investments whose reimbursement value is predetermined at the date of initial purchase/recognition.

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 presented in the Income Statement when the liability is settled, as well as via the amortization process.
Financial liabilities at FVTPL include "liabilities held for trading".
Liabilities held for trading (HFT) are acquired for the purpose of short-term sale and comprise derivatives – including separated embedded derivatives – unless they have been designated as effective hedging instruments. Gains or losses on HFT liabilities are recognised in the Income Statement.

DERECOGNITION OF FINANCIAL ASSETS AND LIABILITIES

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

- the rights to receive cash flows from the asset have expired;
- ERG retains the right to receive cash flows from the asset, but has taken on a contractual obligation to pay them in their entirety and immediately to a third party;
- ERG has transferred the right to receive cash flows from the asset and 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 the asset.

In cases where ERG has transferred rights to receive cash flows from an asset and has neither transferred nor retained substantially all risks and rewards, or has not lost control of the asset, the asset is recognised in ERG accounts to the extent of ERG's residual involvement in such asset.
A financial liability is derecognised when the liability's underlying obligation has been extinguished, cancelled, or settled.

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING TRANSACTIONS

Derivative financial 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 presented 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 stemming from interest rate fluctuations.
Derivatives are classified as hedging instruments, consistently with IAS 39, when the relationship between the derivative and the hedged item is formally documented and the effectiveness of the hedging, verified both beforehand and periodically, is high.
When derivatives hedge the risk of fluctuations in the fair value of the underlying hedged asset (fair value hedge), they are measured at their fair value and the effects are presented to the Income Statement; accordingly, the hedged instruments are adjusted to reflect changes in the fair value associated with the hedged risk.
When the derivative hedges the risk of fluctuations in the cash flows associated with the underlying hedged asset (cash flow hedge), the effective portion of changes in the fair value of the derivatives is initially recognised in shareholders' equity and subsequently presented in the Income Statement matching the economic effects produced by the hedged transaction.

TREASURY SHARES

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

INVENTORIES

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

Measurement of inventories includes the direct costs of materials and labour and indirect production costs (variable and fixed). Allowance are calculated to provide for 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 raw materials, ancillary materials, consumables and lubricants are measured at the lower of weighted average cost and market value.

Inventories of raw materials or petroleum products purchased for resale are measured at the lower value between fair value net of sale costs and the net realisable value.

TRANSACTIONS IN FOREIGN CURRENCIES

Transactions in foreign currencies are recognised at the exchange rate prevailing at the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate prevailing at the Separate Financial Statements' date. Non-monetary items are maintained at the exchange rate prevailing at the transaction date except in case of a persistently unfavourable trend in the exchange rate. Exchange rate differences generated on derecognition of items at rates differing from those at which they had been translated at the time of their initial recognition and those relating to monetary items at year-end are presented in the Income Statement under financial income and expenses.

PROVISIONS FOR LIABILITIES AND CHARGES

The company recognises provisions for liabilities and charges when:

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

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

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

Significant contingent liabilities, represented by the following, are disclosed in the notes to the Separate 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 not wholly within 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 settlement will not be onerous.

EMPLOYEE BENEFITS

Until 31 December 2006, the employees' severance indemnities provision (TFR) of Italian companies was considered as a defined benefit plan. The rules for the provision were amended by Italian Law no. 296 dated 27 December 2006 ("2007 Budget Law") and subsequent decrees and regulations promulgated in the early months of 2007. In light of these amendments, and in particular with reference to companies with at least 50 employees, the

TFR is currently considered a defined benefit plan solely for the portions accrued prior to 1 January 2007 and not yet liquidated as of the date of the Separate Financial Statements, whereas after said date it is deemed akin to a defined contribution plan. The liability relating to defined benefit plans is determined, separately for each plan, on the basis of actuarial assumptions, by estimating the amount of the future benefits to which employees are entitled as of the reporting date, and accrued over the rights' vesting period.Gains and losses related to defined benefit plans arising from changes in the actuarial assumptions used, or changes in the plan conditions, are recognised pro rata in the Income Statement for the remaining average working life of the employees participating in the plan, if and to the extent that their net off-balance-sheet value at the end of the previous year exceeds the higher between 10% of the liability pertaining to the plan and 10% of the fair value of the plan assets.

STOCK OPTION PLANS

Under IFRS 2 (Share-based Payments), stock options in favour of employees are measured at fair value at the time of their assignment based on models taking into account the factors and elements prevailing at such time (option exercise price and duration, current price of underlying shares, and expected volatility of share price and the like).

The right vests after a certain period and subject to certain conditions.

The overall value of the options is apportioned pro rata temporis over the above mentioned period and presented under a specific shareholders' equity item, and recognised in the Income Statement.

The measured fair value of each option is neither reviewed nor updated at the end of each year, but remains definitively acquired in shareholders' equity; at the end of each year, however, the estimate of the number of options that will mature up to expiry is updated (and hence the number of employees who will have the right to exercise the options).

The change in the estimate is recognised as a reduction of shareholders' equity and in the Income Statement.

The company has applied the provisions of IFRS 2 commencing on 1 January 2005 and therefore to all stock option plans implemented after that date.

As of 31 December 2011, there were no extant stock option plans.

REVENUE RECOGNITION

Revenues from sales and services are recognised when the actual transfer of risks and rewards of ownership occurs, which coincides with the time of delivery or based on different contractual specifications, or on completion of the services.

Revenues stemming from partially provided services are recognised as earned pro rata over completion, provided that it is possible to determine their level of completion reliably and there are no significant uncertainties as to the amount and existence of revenues and related costs; otherwise, they are recognised within the limits of the recoverable costs incurred.

DIVIDENDS

Dividends are recognised when, following a shareholders' resolution, the right of shareholders to receive the payment is established.

FINANCIAL INCOME AND EXPENSES

These are recognised under the accrual basis of accounting based on the interest due on the net value of financial assets and liabilities utilising the effective interest rate.

INCOME TAXES

Current taxes are accrued based on the estimated tax burden for the period, also taking into account the effects relating to participation of most Group companies in "tax consolidation". Income taxes are presented 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 presented under shareholders' equity.
Furthermore, pursuant to the accrual basis of accounting, provisions are allocated for both deferred-tax assets and liabilities arising between the statutory values and related tax values, including those pertaining to previous tax losses.
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 are only recorded in the Financial Statements if their future recovery is probable. With regard to deferred tax assets related to tax losses that can be carried forward, please see the following paragraph.
Deferred taxes are calculated on the basis of the tax rates expected to be in force in the periods in which the taxable temporary differences will be reversed.
Deferred tax assets and deferred tax liabilities are classified under non-current assets and liabilities.

PRIOR YEARS' TAX LOSSES

On 15 July 2011, Italian Law no. 111/2011 was passed; it converted Italian Law Decree no. 98/2011 bearing *Urgent provisions for the financial stabilisation of the Country* (2011 Corrective Budget). In particular, the Law Decree amended Article 84 of the Unified Income Tax Act pertaining to the carrying forward of tax losses, eliminating the 5-year time limit prescribed for the purposes of determining whether prior years' tax losses can be carried forward (such losses, therefore, can be carried forward without limitation), and introducing a quantitative limit to the utilisation of prior years' tax losses, i.e. 80% of the income produced in the following years. The aforesaid quantitative limit of 80% does not apply for tax losses generated in the first three years from the incorporation of the company, provided that they refer to a new productive activity. The new provisions are already applicable starting from the 2011 and as clarified by circular 53/E 2011 by the Italian Internal Revenue Agency, also with effect on the tax losses generated prior to 2011 and still being carried forward according to previous regulations (e.g. losses incurred from 2006 onwards).
The introduction of the aforesaid changes had a positive impact on these Separate Financial Statements, stemming from the recognition of receivables related to prior years' tax losses to be recovered in the medium term, in the amount of approximately EUR 0.7 million.

USE OF ESTIMATES – RISKS AND UNCERTAINTIES

Preparation of the Separate Financial Statements and explanatory notes pursuant to IFRS requires ERG to make estimates and assumptions that affect the carrying values of the assets and liabilities recognised in the Separate Financial Statements and disclosures relating to contingent assets and liabilities. Making these estimates involves using information available and subjective judgment.
By their nature, estimates and assumptions used may vary from year to year, and it is therefore possible that current carrying values in the Separate Financial Statements may differ in subsequent years due to changes in the subjective judgment used.

The main estimates for which use of subjective judgement is most often required include:

- provisions for bad debt, inventory obsolescence, amortization/depreciation and asset write-downs;
- provisions for environmental risks and for liabilities related to legal and fiscal disputes for which a financial outlay is deemed likely and the amount of the resulting charges can be reasonably estimated;
- deferred tax assets, recognised on the basis of the Group's future taxability of expected profits generated in accordance with business plans as well as of the expected renewal of tax consolidation regimes;

- the valuation of the fair value of the put option granted to the Group as part of the agreement underwritten with LUKOIL (see the paragraph "**Put option on 51% of ISAB S.r.l.**");
- the impairment test for intangible and tangible assets and for other equity investments, described in detail in the Impairment test paragraph implies – in the estimation of the value in use – the utilisation of the investee companies' business Plans, based on a set of assumptions and hypotheses relating to future events and actions by the investee companies' governing bodies, which may not necessarily occur. Similar estimation procedures are necessary when reference is made to the estimated fair value (net of disposal costs) component due to the uncertainty inherent in any negotiation.

The 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.

ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS APPLIED STARTING ON 1 JANUARY 2011

On 4 November 2009, the IASB issued a revised version of **IAS 24 – Related party disclosures** which simplifies the type of disclosure required in case of transactions with related parties controlled by the State and clarifies the definition of related parties. The adoption of this amendment did not have any effect from the viewpoint of the measurement of financial statement entries and it had limited effects on the related party disclosures provided in this Financial Report.

ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS NOT YET APPLICABLE OR ADOPTED BY THE GROUP

On 12 May 2011, the IASB issued the following **new standards**, to be applied from 1 January 2013 onwards. At the time of this Report, the cognisant bodies of the European Union had not yet completed the endorsement process necessary for enforcement of the amendments

- **IFRS 10 – Consolidated Financial Statements**
  The principle replaces SIC-12 Consolidation – Special Purpose Entities and certain parts of IAS 27 - Consolidated and Separate Financial Statements, which will change its name to IAS 27 – Separate financial statement and will regulate the accounting treatment of equity investments in the Separate Financial Statements. The new IFRS 10 standard identifies the concept of control as the determining factor for the purposes of the consolidation of a company in the Consolidated Financial Statements of the parent company, providing a guide to determine the existence of control in cases that are difficult to interpret.

- **IFRS 11 – Joint arrangements**
  The standard replaces IAS 31 – Interests in Joint Ventures and SIC-13 - Jointly Controlled Entities – Non-Monetary Contributions by Venturers. The new standard provides criteria to identify joint arrangements based on the rights and obligations deriving from the arrangement rather than on their type and it establishes the equity method as the sole method of accounting for interests in jointly controlled entities in the Consolidated Financial Statements.

- **IFRS 12 – Disclosure of interests in other entities**
  The purpose of the standard is to illustrate the required disclosure concerning interests (subsidiaries, joint arrangements, associates, special purpose entities and other unconsolidated structured entities).

- **IFRS 13 – Fair value measurement**
  The standard illustrates how to determine fair value for financial reporting purposes and applies to all standards requiring or allowing fair value measurement or disclosure based on fair value.

The IASB also issued the **following amendments**, for which the European Union endorsement process had not yet been completed at the time of this Report.

- On 7 October 2010, the IASB published certain amendments to **IFRS 7 – Financial instruments: disclosures**. The amendments were issued with the intent of improving understanding of transactions transferring financial assets, including the understanding of possible effects deriving from any risk still remaining with the entity that transferred such assets. The amendments further require additional disclosure if a disproportionate amount of such transactions is carried out at the end of a reporting period. These amendments will be applicable for reporting periods starting on or after 1 July 2011.

- On 20 December 2010, the IASB issued a minor amendment to **IFRS 1 – First-Time Adoption of International Financial Reporting Standards (IFRS)** to eliminate reference to 1 January 2004, contained therein and described as the date of transition to IFRS and to provide guidelines on presentation of the Financial Statements in accordance with IFRS after a period of hyper-inflation. These amendments will be applicable prospectively starting on 1 July 2011.

- On 20 December 2010, the IASB issued a minor amendment to **IAS 12 – Income taxes** which requires an entity to measure deferred taxes arising from an asset based on how the entity expects to recover the carrying amount of the asset, i.e. through continued use or through sale. As a result of this amendment, SIC-21 - Income Taxes – Recovery of Revalued Non-Depreciable Assets will not be applicable. The amendment has been applicable starting 1 January 2012.

- On 16 June 2011, the IASB issued an amendment to **IAS 1 – Presentation of Financial Statements** which requires entities to indicate separately "Other comprehensive Income Statement components" which subsequently can be reclassified in the Income Statement. The amendment is applicable for years starting on or after 1 July 2012.

- On 16 June 2011, the IASB issued an amendment to **IAS 19 – Employee benefits** which eliminates the option to defer recognition of actuarial gains and losses with the "corridor approach", requiring presentation of the deficit or surplus of the fund in the statement of financial position, the recognition of cost components linked to employment and the net financial costs in the Income Statement, and the recognition of actuarial gains and losses deriving from re-measurement of liabilities and assets among Other comprehensive gains/(losses). Moreover, the assets' yield included among net financial costs shall be calculated on the basis of the liability's discount rate and not on the expected return of the assets, as before. Lastly, the amendment introduces new additional information to be disclosed in the notes to the Financial Statements and it is applicable from the year starting on or after 1 January 2013.

- On 16 December 2011 the IASB issued some amendments to **IAS 32 – Financial instruments: presentation**, to clarify the application of certain criteria for offsetting financial assets and liabilities present in IAS 32. The amendments apply retrospectively for years starting on or after 1 January 2014.

- On 16 December 2011 the IASB issued certain amendments to **IFRS 7 – Financial instruments: disclosures**. The amendment requires disclosures on the effects or potential effects of agreements offsetting financial assets and liabilities on the statement of financial position. The amendments are applicable for years starting on or after 1 January 2013 and interim periods after that date. The disclosures shall be provided retrospectively.

Currently, adoption of said changes is not expected to have significant effects on the Separate Financial Statements.

PUT OPTION ON THE EQUITY INVESTMENT IN ISAB S.R.L.

The agreement underwritten with LUKOIL on 1 December 2008 gives ERG S.p.A. a put option for its 51% investment. The exercise price for rights to 100% of the assets transferred to ISAB S.r.l. (not including the minimum operating inventory) will be the fair market value within a collar with a cap at EUR 2,750 million and a floor at EUR 2,000 million, reduced by EUR 15 million following the February 2009 agreement.

The put option is exercisable at ERG's discretion, commencing in 2010 and within a four-year period, at an exercise price largely corresponding to the fair value of the shareholding at the exercise date. According to the agreement, the option is exercisable within 4 years in one or more steps, no more than once every 12 months, with the provisions set out below.

- **Sale of 11% of ISAB S.r.l. in 2011**

On 31 January 2011, the Board of Directors of ERG S.p.A. approved the exercise of the put option for 11% of ISAB S.r.l. The value of the sale to LUKOIL of the 11% interest in ISAB (excluding inventory) is EUR 205 million; according to the provisions of the agreement, the option was exercised at the floor price. The transaction was closed on 1 April 2011, with the collection of a provisional price of EUR 241 million (including the value of inventory) and of a definitive adjustment of EUR 3.5 million on 26 October 2011, in view of which a gain of EUR 122.3 million was recognised; said gain is considered a non-recurring item.

- **Sale of 20% of ISAB S.r.l. in 2012**

On 31 January 2012, the Board of Directors of ERG S.p.A. approved the exercise of the put option for 20% of ISAB S.r.l. The value of the sale to LUKOIL of the 20% interest in ISAB (excluding inventory) is EUR 400 million; according to the provisions of the agreement, the option was exercised at the floor price.

The transaction enables ERG to reduce its presence in refining in a persistent recessive scenario and further to strengthen the Group's financial structure to support future growth projects in a challenging financial environment.

As a result of the aforesaid transaction, LUKOIL holds 80% of ISAB and ERG holds 20%. ERG will maintain a presence in the ISAB Board of Directors and management committees, whilst the Operating Processing Agreement was temporarily amended in line with ERG's new positioning within ISAB. ERG and LUKOIL have also amended the agreements executed in 2008, with particular reference to ERG's lock-up period for the exercise of the put option on the remaining 20% of ISAB, now extended to 1 October 2013. Moreover, if ERG exercises the put option on the remaining 20% between 1 and 31 October 2013, the parties undertake to close the transaction between 15 and 31 December 2013. The other conditions remain unchanged.

The sale of the 20% share, notified on 31 December 2012, is expected to be closed in the second quarter of 2012.

The aforesaid sale, a 2012 event, has no effects on these Separate Financial Statements.

With regards to the fair value measurement of the put option extant at 31 December 2011, please refer to the next paragraph.

- **Measurement of the put option**

The fair value of the put option depends on the fair value of the underlying asset, both with regard to the 40% held as of 31 December 2011, and for the 20% exercised in January 2012.

According to a study by independent experts, valuation of the option was not quantifiable, since the range of reasonable estimates of fair value was very broad and the probability of the various estimates could not be reasonably estimated, since in the valuation procedure, variables relating to negotiation factors and the non-standard nature of the underlying asset (involving financial as well as industrial considerations) come into play, as well as factors relating to the way the option can be exercised.

For these reasons, and pursuant to indications given in IAS 39 and of the representations

provided in previous Financial Statements, the put option could not be presented at fair value as of 31 December 2011

EQUITY INVESTMENT IN ERG RENEW S.P.A.

On 14 December 2010, the Board of Directors of ERG S.p.A. decided to promote a voluntary takeover bid for all shares of common stock of ERG Renew S.p.A. not in its possession, for EUR 0.97 per share. The Takeover Bid ended on 18 February 2011 with the overall acceptance by 13,962,309 shares, representing 10.524% of the share capital of ERG Renew S.p.A. Therefore, on the same date, taking into account the shares handed over in acceptance of the Bid, the shares already owned on the initial date of the Bid and those acquired outside the Bid, ERG S.p.A. held a total number of 125,557,206 shares, i.e. 94.641% of the share capital of ERG Renew S.p.A. ERG S.p.A. therefore deemed the bid to be effective and it announced that it would purchase all the shares handed over in acceptance of the Bid.

On **23 May 2011**, the procedure for the fulfilment of the purchase obligation with respect to the residual shares was started (6,659,325 shares of common stock of ERG Renew S.p.A.).
The price for the mandatory purchase procedure, i.e. EUR 0.9735 per share, was determined by Consob with its resolution no. 17782 dated 18 May 2011.

On **24 May 2011**, share sale requests had been filed for 0.047% of the share capital of the Issuer which, added to the shares already held by ERG before the mandatory purchase procedure was started, represented 95.027% of the share capital of the Issuer.
At the expiration of the sale request presentation period, on 27 May 2011, ERG S.p.A. held a total of 96.904%; therefore, the requirements were fulfilled for the exercise, by ERG S.p.A., of the purchase right prescribed by Article 111 of the Italian Unified Finance Act and for compliance with the mandatory purchase prescribed by Article 108, Paragraph 1, of said Act, through a joint procedure.

On **7 June 2011**, ERG S.p.A. announced, with reference to the joint procedure for the exercise of the purchase right, prescribed by Article 111 of the Italian Unified Finance Act and for compliance with the mandatory purchase prescribed by Article 108, Paragraph 1 of said Act, the deposit and availability of the amounts for payment of the price on an escrow account, immediately available for liquidation, held at UniCredit S.p.A.; the aforesaid joint procedure pertains to the 4,108,007 outstanding shares, representing 3.096% of the share capital of ERG Renew S.p.A. On the same date, with its decision no. 6993 dated 30 May 2011, Borsa Italiana S.p.A. ordered the delisting of the Issuer's shares from the Electronic Stock Market, after the suspension of the stock from trading on 2, 3 and 6 June 2011. As a result of the aforesaid transaction, at 31 December 2011 ERG S.p.A. held 100% of the share capital of ERG Renew S.p.A. Consequently, the Minority Interest of ERG S.p.A. no longer includes any share of the subsidiary ERG Renew S.p.A. and the related effects on the 2011 Income Statement are not significant. Additionally, for the sake of complete disclosure, we report that in December 2011 ERG S.p.A. made a capital contribution amounting to EUR 450 million in view of the financial requirements of the investee company, increasing the value of the equity interest to EUR 616 million. In particular, on 20 December 2011 the Shareholders' Meeting of ERG Renew S.p.A. resolved, in accordance with Article 2446 of the Italian Civil Code and on the basis of the financial position of ERG Renew S.p.A. at 30 September 2011, to cover losses by using all the reserves of ERG Renew S.p.A. and reducing its share capital to the value of EUR 100 million. On the same date, the Board of Directors of the sole shareholder ERG S.p.A., upon acknowledging the aforesaid loss coverage and pointing out the need to support the financial requirements of ERG Renew S.p.A., resolved to recapitalise said company by making a capital contribution amounting to EUR 450 million.

SALE OF "ELECTRICITY MARKETING" BUSINESS UNIT

On 10 November 2011 ERG and IREN, through its subsidiary IREN Mercato, signed a binding framework agreement entailing the stipulation of a contract for the supply, by ERG to IREN Mercato, of a total amount of 2 TWh of electricity per year for six years. The sale price shall be indexed to the wholesale market price of electricity. Through the agreement signed with ERG, IREN Mercato will be able to complement its own annual portfolio for the procurement of electricity intended mainly to be supplied to end customers.

The Framework Agreement also calls for the acquisition by IREN Mercato of the ERG business unit dedicated to marketing and selling electricity, which comprises the following elements:

- the contracts with end customers for the supply of electricity;
- the agency contracts pertaining to the business unit being sold;
- the employment contracts with 11 employees;
- the payable for the severance indemnity of the aforesaid employees;
- the accrued expenses for holidays not taken and accrued compensatory working hours;
- the long term lease Agreements pertaining to any cars used by the aforesaid employees.

Both agreements, subsequently executed in December 2011, entered into force on 1 January 2012 and therefore they have no economic and financial effects in these Separate Financial Statements.

ERG RENEW EQUITY INVESTMENT IMPAIRMENT TEST

These amounts were also assessed for the 2011 Separate Financial Statements, as they had in previous years, in view of the worsened weighted average cost of capital (WACC), of the worsened profitability of wind farms, and of the stricter tax regulations with particular reference to the application of the "Robin Hood tax" to the Renewable Energies segment.
The independent expert engaged in January 2012 to perform this assessment conducted the analysis by using the most recently updated financial forecast reviewed by ERG Renew's Board of Directors in 2011 and extended for subsequent periods according to the expected useful life of the assets. The Company then estimated the recoverable value of the aforesaid assets. According to IAS 36, the recoverable value of an asset or of a cah generating unit is the higher of its fair value less costs to sell and its value in use.
In this regard, an assessment was performed by determining the recoverable value, i.e. the value in use, based on the "sum of parts" methodology; hence, the value of the equity investment was determined by adding the equity values of the Cash Generating Units that comprise ERG Renew's assets.
The estimate of recoverable value is based on the following underlying assumptions: discount rates (set at 6.9% for wind farms in Italy, 6.1% for wind farms in France, 9.4% for projects in Romania and 8.8% for projects in Bulgaria), growth rate, expectations of changes in sale prices and changes in direct costs during the period considered for the calculation.
From the impairment test described above, no impairment emerged with respect to the recognised carrying value of the ERG Renew equity investment in the Separate Financial Statements of ERG S.p.A. The value in use resulting from the impairment test shows a positive difference relative to the carrying value: taking into account that this difference is mainly due to development projects and cost savings, Management did not reverse previous write-downs, while awaiting clearer visibility of the aforementioned factors.

SENSITIVITY ANALYSIS

The result of the impairment test derives from information available to date and from reasonable estimates on future changes in the following variables: wind strength, energy price and interest rates.
The Group took into account the aforesaid uncertainties in processing and defining the basic

assumptions used to determine the recoverable value of the capital gains allocated to the "Renewable Energies" segment and it also carried out a sensitivity analysis on the recoverable value of the various CGUs: this analysis assumed that total revenues from energy sales (i.e., energy remuneration and generation) could undergo upward or downward fluctuations, to an extent that can be estimated at 5% relative to the values estimated for the Plan.
If revenues had declined by 5%, throughout the time interval of the plan, the equity investment would have lost EUR 23 million of its value.
Lastly, a 0.5% increase in the discount rate would in any case not have led to an impairment of the equity investment.
The above analyses confirm the sensitivity of the assessments of the recoverability of non-current assets to changes in the aforesaid variables; in this context, the Directors will systematically monitor the evolution of the aforesaid external, uncontrollable variables for any necessary adjustments of the estimates of the recoverability of the carrying values of non-current assets in the Consolidated Financial Statements.

ERG NUOVE CENTRALI S.P.A. EQUITY INVESTMENT IMPAIRMENT TEST

In April 2010, ERG Power's new CCGT plant, with approximately 480 MW of installed power, started full commercial operations; the plant supplies utilities and electrical energy to the industrial customers of the Priolo site, placing the remainder of the generated electricity on the market.
The Separate Financial Statements of ERG S.p.A. identify a CGU constituted by the equity investment in ERG Nuove Centrali S.p.A. which in turn owns 100% of the company ERG Power S.r.l. and by the cash flows generated by the ERG Power & Gas Segment which operates the CCGT through a tolling agreement and places the generated energy on the free market.
The carrying value of the asset recognised in the Separate Financial Statements of ERG S.p.A. and subjected to impairment test amounts to EUR 30 million and it refers to the equity investment in ERG Nuove Centrali.
In the preparation of these Separate Financial Statements, these values were verified in view of the increased weighted average cost of capital (WACC), of the higher Robin Hood Tax rates for 2011-2012-2013 and of the lower profitability as a result of the worsening scenario that is characterising the domestic electricity market.
An independent expert was appointed in January 2012 to conduct the assessment, basing the analysis on the "Twenty-year cash flow projection" prepared by management of the ERG Power & Gas Segment.
The Company then estimated the recoverable value of the CGU. According to IAS 36, the recoverable value of a cash-generating asset or unit is the higher of its fair value less costs to sell and its value in use.
The analysis was carried out identifying the recoverable value, i.e. the value in use, of the Cash-Generating Unit. The basis for the calculation was the projection of the operating cash flows associated to the CGU for its useful life, contained in the financial forecast prepared by the Company Management and pertaining to a twenty-year time span; additionally, a residual value (or "terminal value") was assumed, calculated as a perpetuity with zero growth rate (g). The expected changes in sale prices and direct costs during the period assumed for the calculation are determined on the basis of past experience, corrected by future market expectations. Projected cash flows were discounted using a conservative estimate of the discount rate (WACC after tax), i.e. 6.5%.

The impairment test carried out according to the process described above indicated an impairment of the equity investment. Company Management deemed the assumptions adopted to be reasonable, and on the basis of the aforementioned assumptions an impairment of EUR 63 million, net of the related tax effect, emerged.

This impairment was allocated to the carrying value of the equity investment in ERG Nuove Centrali, which therefore was completely written off. The residual difference (amounting to EUR 33 million) was recognised in a provision for charges on equity investments.
In carrying out the write-down in this specific context, it was assumed that the cash flows to be generated in the future are those of the CGU and any declared dividends, for which there is a constraint on distribution by virtue of the loan agreement assumed by the indirect subsidiary ERG Power S.r.l., were not considered.
Lastly, actual future cash flows generated in favour of ERG S.p.A. may, in the future, lead to the value of the equity investment to be restored; in accordance accounting standards, the value in use of the investee company will therefore be measured periodically.

SENSITIVITY ANALYSIS

The result of the impairment test derives from information available to date and from reasonable estimates of the evolution of external variables such as the price of energy and interest rates, as well as the development of certain activities and the attainment of cost saving targets.
The Group took into account the aforesaid uncertainties in processing and defining the basic assumptions used to determine the recoverable value of the equity investment and it also carried out a sensitivity analysis: this analysis highlighted that if an additional modulation activity were carried out and the cost saving targets were reached, the impairment of the equity investment would be reduced by EUR 21 million.
If, on the contrary, certain currently foreseeable growth targets were not positively attained, then the impairment would be increased by EUR 24 million.
Lastly, a 0.5% increase in the discount rate would also have led to a greater impairment by EUR 10 million.
The above analyses confirm the sensitivity of the assessments of the recoverability of non-current assets to changes in the aforesaid variables; in this context, the Directors will systematically monitor the evolution of the aforesaid external, uncontrollable variables for any necessary adjustments of the estimates of the recoverability of the carrying values of non-current assets in the Consolidated Separate Financial Statements.

STATEMENT OF FINANCIAL POSITION ANALYSIS

NOTE 1 – INTANGIBLE FIXED ASSETS

	OTHER INTANGIBLE ASSETS	ASSETS UNDER CONSTRUCTION	TOTAL
BALANCE AS OF 12/31/2010	**7,206**	**1,279**	**8,485**
CHANGES DURING THE YEAR:			
ACQUISITIONS	3,004	1,252	4,256
CAPITALISATION/RECLASSIFICATION	1,226	(1,279)	(53)
DISPOSALS AND DIVESTMENTS	(123)	(89)	(212)
AMORTISATION	(5,988)	–	(5,988)
BALANCE AS OF 12/31/2011	**5,325**	**1,163**	**6,488**

To enhance understandability, movements during the period relating to reclassifications, disposals and divestments are shown net of the related accumulated depreciation and write-downs.
"Other intangible assets" mainly consisted of application software and the consulting services provided during the implementation of such software.
New acquisitions were carried out during the year, mainly referred to the improvement of programmes and operating systems.

NOTE 2 – GOODWILL

"Goodwill", amounting to EUR 5,555 thousand, recognised by effect of the merger by incorporation of ERG Raffinerie Mediterranee S.p.A. is reduced compared with the value presented as of 31 December 2010 as a result of the exercise of the put option described in the paragraph entitled **Put Option on the equity investment in ISAB S.r.l.**
The item is not amortised in the Income Statement and it is subjected to an impairment test every year or more frequently if there are indications during the period that the asset may be impaired.
The recoverable value of the Coastal Refining unit was determined on the basis of fair value net of disposal costs calculated, as indicated in IAS 36, with reference to third-party agreements.
The Cash Generating Unit in question is the subject matter of the agreement stipulated with LUKOIL on 1 December 2008, whereby a put option was recognised to ERG for its 51% equity investment in ISAB S.r.l., as described in the paragraph entitled **Put Option on the equity investment in ISAB S.r.l.**
The exercise price of the rights for 100% of the assets transferred to ISAB S.r.l. is at fair market value within a range including a floor of EUR 2,000 million (reduced by EUR 15 million), 51% of which is far higher than the value of the assets recognised in the Separate Financial Statements and referable to the Coastal Refining unit.
Therefore, no impairment is reported.

NOTE 3 – PROPERTY, PLANT, AND MACHINERY

	LAND AND BUILDINGS	PLANT AND MACHINERY	OTHER ASSETS	ASSETS UNDER CONSTRUCTION	TOTAL
HISTORICAL COST	**16,721**	**684**	**12,288**	**89**	**29,782**
ACCUMULATED DEPRECIATION AND WRITE-DOWNS	(5,660)	(329)	(8,096)	–	(14,085)
BALANCE AS OF 12/31/2010	**11,061**	**355**	**4,192**	**89**	**15,697**
CHANGES DURING THE YEAR:					
ACQUISITIONS	–	116	297	16	429
CAPITALISATION/RECLASSIFICATION	–	9	96	(52)	53
DISPOSALS AND DIVESTMENTS	(5)	(22)	(38)	–	(65)
OTHER CHANGES	–	(13)	11	–	(2)
DEPRECIATION	(488)	(53)	(721)	–	(1,262)
HISTORICAL COST	**16,716**	**769**	**10,295**	**53**	**27,833**
ACCUMULATED DEPRECIATION AND WRITE-DOWNS	(6,148)	(377)	(6,458)	–	(12,983)
BALANCE AS OF 12/31/2011	**10,568**	**392**	**3,837**	**53**	**14,850**

To enhance understandability, movements during the period relating to reclassifications, disposals and divestments are shown net of the related accumulated depreciation and write-downs. "Other assets" mainly consist of equipment, furniture, fixtures and works of art.

NOTE 4 – EQUITY INVESTMENTS

The following changes in equity investments occurred during 2011:

	EQUITY INVESTMENTS				
	SUBSIDIARY COMPANIES	JOINT VENTURE	ASSOCIATES	OTHER COMPANIES	TOTAL
HISTORICAL COST	**280,093**	**1,003,030**	**18,458**	**559**	**1,302,139**
WRITE-DOWNS	(76,310)	(8,136)	(1,819)	–	(86,265)
BALANCE AS OF 12/31/2010	**203,783**	**994,894**	**16,639**	**559**	**1,215,875**
CHANGES DURING THE YEAR:					
ACQUISITIONS/SHARE CAPITAL INCREASES	474,018	–	50	–	474,068
DISPOSALS AND DIVESTMENTS	–	(121,011)	–	(68)	(121,079)
WRITE-DOWNS/USE OF PROVISION TO COVER LOSSES	(33,733)	(248)	–	–	(33,981)
HISTORICAL COST	**754,111**	**882,018**	**18,508**	**491**	**1,655,127**
WRITE-DOWNS	(110,043)	(8,384)	(1,819)	–	(120,246)
BALANCE AS OF 12/31/2011	**644,068**	**873,635**	**16,689**	**491**	**1,534,883**

"Acquisitions/share capital increases" refer:

- for EUR 24,018 thousand to the purchase of the minority interest in ERG Renew S.p.A. as a result of the completion of the takeover bid completed on 7 June 2011;
- for EUR 450,000 thousand to the capital contribution to ERG Renew S.p.A. commented in the paragraph entitled **ERG Renew S.p.A. equity investment**;
- for EUR 50 thousand to the investment in the newly incorporated Delta Ti Research Consortium.

"Disposals and divestments" refer:

- for EUR 121,011 thousand to the exercise of the put option on 11% of the ISAB S.r.l. stock, as described in the paragraph entitled **Put Option on the equity investments in ISAB S.r.l.**;
- for EUR 68 thousand to the divestment of the equity investment in BIC Liguria S.C.p.A.

"Write-downs" refer:

- for EUR 33,733 thousand to the equity investment in ERG Nuove Centrali S.p.A., as commented in the Note entitled **ERG Nuove Centrali equity investment impairment test**;
- for EUR 248 thousand in the equity investment in Ionio Gas S.r.l.

A list of equity investments together with data required by Article 126 of CONSOB Resolution No. 11971 and subsequent revisions is as follows.

(EUR THOUSAND)	REGISTERED OFFICE	SHARE CAPITAL	%	SHAREHOLDERS' EQUITY (1)	NET PROFIT (LOSS) (1)	OUR STAKE IN SHAREHOLDERS' EQUITY (1)	BOOK VALUE
SUBSIDIARY COMPANIES							
ERG NUOVE CENTRALI S.P.A.	SIRACUSA	5,000	100.00%	11,351	624	11,351	–
ERG OIL SICILIA S.R.L.	ROME	6,310	100.00%	39,440	7,703	39,440	13,546
ERG PETRÓLEOS S.A.	MADRID	3,050	100.00%	(4,646)	2	(4,646)	–
ERG RENEW S.P.A.	GENOA	100,000	100.00%	532,321	(15,947)	532,321	615,532
ISAB ENERGY S.R.L.	SIRACUSA	5,165	51.00%	440,927	128	224,873	14,863
ISAB ENERGY SERVICES S.R.L.	SIRACUSA	700	51.00%	8,362	7,483	4,265	127
TOTAL SUBSIDIARIES							**644,068**
JOINT VENTURES							
IONIO GAS S.R.L.	SIRACUSA	200	50.00%	3,242	(541)	1,621	1,667
ISAB S.R.L.	SIRACUSA	50,000	40.00%	1,074,987	(2,099)	429,995	440,042
TOTALERG S.P.A.	ROME	47,665	51.00%	526,152	45,805	268,337	431,926
TOTAL JOINT VENTURES							**873,635**
ASSOCIATES							
DELTA TI RESEARCH CONSORTIUM	MILAN	50	50.00%	N/A	N/A	N/A	50
ESPANSIONE S.R.L.	VARESE	274	27.01%	2,241	56	605	824
ERG RIVARA STORAGE S.R.L.	MODENA	63,333	15.00%	62,258	(266)	9,339	9,500
I-FABER S.P.A.	MILAN	5,652	23.00%	13,488	2,688	3,102	6,315
TOTAL ASSOCIATES							**16,689**
OTHER COMPANIES							
CAF INTERREGIONALE DIPENDENTI S.R.L.	VICENZA	276	0.04%	946	23	–	–
EMITTENTI TITOLI S.P.A.	MILAN	4,264	0.51%	6,241	938	32	26
MEROIL S.A.	BARCELONA	19,077	0.87%	34,202	2,681	298	310
R.U.P.E. S.P.A.	GENOA	3,058	4.86%	3,171	–	154	155
TOTAL OTHER COMPANIES							**491**
TOTAL EQUITY INVESTMENTS							**1,534,883**

(1) 2011 data for subsidiaries and joint ventures; latest Financial Statements approved on the date of the Board of Directors meeting for associates and other companies

The carrying value of the equity investment in I-Faber S.p.A. was maintained since the past years' losses are not considered permanent based on the plans and income expectations expressed by the investee company.

For the valuation of the equity investment in ERG Renew S.p.A., please see the paragraph entitled **ERG Renew equity investment impairment test**.
For the valuation of the equity investment in ERG Nuove Centrali S.p.A., please see the paragraph entitled **ERG Nuove Centrali Impairment test**.
For a complete list of the Group's equity investments, please see the notes to the Consolidated Financial Statements.

NOTE 5 – OTHER FINANCIAL ASSETS

	12/31/2011	12/31/2010
BALANCE AT BEGINNING OF PERIOD	**451,227**	**1,044**
CHANGES DURING PERIOD:		
EFFECTS OF 2010 MERGER	–	27,896
DISBURSEMENTS AND INTEREST	211,831	307,518
REPAYMENTS	(513,064)	(3,607)
WRITE-DOWNS	–	–
RECLASSIFICATIONS	(486)	118,377
OTHER CHANGES	–	–
BALANCE AT END OF PERIOD	**149,508**	**451,227**

The balance of "Other financial assets" as of 31 December 2011 comprises:

- for EUR 1.5 million, the line of credit granted to the subsidiary ERG Renew S.p.A., granted to support the company in covering its financial requirements in relation to scheduled capital expenditures and to provide financial support as necessary for operating activities;
- for EUR 122.8 million, the receivable from the subsidiary ERG Power S.r.l by virtue of the loan Project Sponsor Subordinated Loan Agreement which refers to the residual construction work on the CCGT after plant completion and to the work to revamp the water demineralisation plant that supplies treated waters for the processes of the Priolo production site;
- for EUR 24.3 million, the receivable from the subsidiary ISAB Energy S.r.l. relating to the loan granted at the end of the construction of the co-generation plant (Subordinated Loan Agreement) whose repayment is subordinated to the financial capability of ISAB Energy S.r.l. also in view of the constraints set out by the Project Financing arrangement whereby the IGCC plant was financed. The loan's maturity is in June 2017, with an interest rate of 4% as of 31 December 2011;
- for EUR 0.9 million, the value of the quotas assigned by the Italian Carbon Fund. During 2011, the fund assigned 53,655 Cers [1] to the company (43,361 in 2010); they were considered repayment of the investment made. The number of rights transferred to the Group's companies is 957.

1 Certified emission reduction: credits that can be used as a part of the Emission Trading regulations; these were obtained from projects to reduce emissions in developing countries.

The net decrease of the period, i.e. EUR 301.7 million, is mainly due:

- as to the credit line to the subsidiary ERG Renew S.p.A., to new disbursements (EUR 177.6 million), interest accrued during the period (EUR 13.7 million) and repayments (EUR 474.4 million);
- as to the Subordinated Loan Agreement to ERG Power S.r.l., to new disbursements (EUR 10.7 million), interest accrued during the period (EUR 8.5 million) and repayments (EUR 37.7 million);
- as to the Subordinated Loan Agreement to ISAB Energy S.r.l., to interest accrued during the period (EUR 1 million) and repayments (EUR 0.8 million);
- as to the receivable from the Italian Carbon Fund, to the reclassification from "Other financial assets" to "Other current receivables and assets" as a result of the assignments of Cers during 2011.

NOTE 6 – DEFERRED TAX ASSETS

	12/31/2011		12/31/2010	
	TEMPORARY DIFFERENCES	TAX EFFECT	TEMPORARY DIFFERENCES	TAX EFFECT
PROVISIONS FOR LIABILITIES AND CHARGES	29,954	11,296	37,580	14,333
MAINT. EXCEEDING THE TAX LIMIT	–	–	4,684	1,775
BAD DEBT PROVISION	3,204	1,089	14,182	4,822
TAX LOSSES AND OTHER DEFERRED TAX ASSETS	35,586	11,174	10,489	3,824
TOTAL		**23,560**		**24,754**

Deferred tax assets are recognised, provided their future recovery is probable, on the taxable temporary differences between the carrying value of recognised assets and liabilities for financial reporting purposes and their corresponding tax basis.
The tax rate used to calculate deferred tax assets is the same as the theoretical IRES (corporate taxation) rate (27.5%) in effect since 1 January 2008 and, where applicable, increased with the theoretical IRAP (Regional tax) rate (3.9%).
Additionally, as a result of the merger ERG S.p.A., since 2010, has been subjected to a 6.5% IRES rate surcharge ("Robin Hood Tax") of 6.5% for companies operating in the oil refining industry and companies producing and marketing petroleum products, electricity and gas, with revenues in excess of EUR 10 million. Deferred tax assets as of 31 December 2011, i.e. EUR 24 million (EUR 25 million as of 31 December 2010), are mainly recognised in view of tax losses and provisions for liabilities and charges.

NOTE 7 – OTHER NON-CURRENT ASSETS

	12/31/2011	12/31/2010
MEDIUM/LONG TERM RECEIVABLES FROM OTHERS	918	1,002
MEDIUM/LONG TERM ACCRUED INCOME AND PREPAID EXPENSES	469	594
TOTAL	**1,386**	**1,596**

Other non-current assets mainly relate to security deposits for lease agreements, to security deposits paid by the Power & Gas Segment to the Electric Market Operator for the purchase of the green certificates on the market, to security deposits paid to the National Grid Operator in view of CIP 6 agreements and to the accrued income and prepaid expenses relating to IT consultating work.

NOTE 8 – INVENTORY

	12/31/2011	12/31/2010
RAW, ANCILLARY AND CONSUMABLE MATERIALS	80,587	125,120
FINISHED PRODUCTS AND GOODS	184,840	126,095
TOTAL	**265,427**	**251,215**

The carrying value of inventory was determined by applying the weighted average cost method and considering hedges at fair value; 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 since the beginning of the period.
Inventory is measured at the lower of cost, determined used the weighted average cost method, or market value.
The value of inventory increased (EUR 14 million) as a consequence of higher average prices, which more than offset the reduction in stocks in particular of raw materials (-147 thousand tonnes) also as a result of the decrease in business activities following the sale of 11% of ISAB S.r.l.
Finished products are substantially in line with last year (+8 thousand tonnes). Finished products include EUR 75 million related to purchases intended for short-term resale.
At 31 December 2011, following the comparison with market values, the carrying value of inventory was written down by EUR 1.2 million.
Natural gas inventory decreased by EUR 1,491 thousand compared with the balance as of 31 December 2010.

NOTE 9 – TRADE RECEIVABLES

Receivables are summarised as follows:

	12/31/2011	12/31/2010
TRADE RECEIVABLES	351,860	159,303
RECEIVABLES DUE FROM GROUP COMPANIES	159,391	155,666
BAD DEBT PROVISION	(5,759)	(16,003)
TOTAL	**505,493**	**298,966**

The breakdown of "Trade receivables" is substantially as follows:

- trade receivables amounting approximately to EUR 363 million pertaining to the Refining & Marketing Segment relate to deliveries of petroleum products and services performed at market values to third party customers and intercompany and due within twelve months;
- trade receivables amounting approximately to EUR 138 million pertaining to the Power & Gas Segment, connected to deliveries of electricity, steam, gas and other utilities, mainly to the companies present within the Priolo industrial site, third parties and intercompany, and to other industrial customers;
- trade receivables amounting approximately to EUR 4 million pertaining to Corporate, mainly related to service agreements with other companies in the Group.

The change in the "Bad debt provision" is represented by the accrual for the period (EUR 8 million), net of usage (EUR 18.5 million).
The accrual for the period is determined mainly by the bankruptcy of some customers, and in particular EUR 5 million of it refers to a receivable for which specific accruals had already been

made in 2010 (EUR 11 million) and for which, in these Separate Financial Statements, in consideration of the uncertain times and likelihood of recovery within the bankruptcy proceedings, the residual receivable was entirely written off. Moreover, the accrual for the period includes EUR 2.5 million in receivables that became uncollectible in 2011.
The Company assesses the existence of objective indications of the existence of uncollectible receivables at the level of each individual significant position. The aforesaid analyses are validated at the individual company level by the Accounts Receivable Committees which meet periodically to examine the situation with regards to past due receivables and related collection issues.
The accruals made to "Bad debt provisions", which were suitably increased during the period, are deemed sufficient to cover the risk of potential losses on past due accounts receivable.

The bad debt provisions changed as follows:

	12/31/2010	ACCRUALS	USES	12/31/2011
BAD DEBT PROVISION	16,003	8,264	(18,510)	5,759
TOTAL	**16,003**	**8,264**	**(18,510)**	**5,759**

The following is a breakdown of trade receivables outstanding at year-end:

(EUR THOUSAND)	12/31/2011 (1)	12/31/2010 (1)
RECEIVABLES NOT YET DUE	**282,511**	**96,635**
RECEIVABLES DUE:		
UP TO 30 DAYS	20,667	–
UP TO 60 DAYS	1,398	5,388
UP TO 90 DAYS	1,231	8,199
MORE THAN 90 DAYS	40,294	33,078
TOTAL	**346,101**	**143,300**

(1) the table shows the maturity dates of "Customer receivables" net of the "Bad debt provision"

NOTE 10 – OTHER CURRENT RECEIVABLES AND ASSETS

	12/31/2011	12/31/2010
TAX RECEIVABLES	22,743	25,377
OTHER RECEIVABLES DUE FROM GROUP COMPANIES	76,095	30,521
SUNDRY RECEIVABLES	21,985	14,732
TOTAL	**120,823**	**70,630**

"Tax receivables" relate mainly to receivables from the tax authorities for consolidated IRES (EUR 3,012 thousand), to the payment of advances on excise taxes on electricity and gas (respectively, EUR 8,284 thousand and EUR 1,356 thousand), to the IRES and IRAP of the current year (EUR 2,192 thousand) and to withholding taxes on bank interest income (EUR 2,719 thousand).
"Other receivables due from Group companies" consist of Group VAT receivables from subsidiaries totalling Euro 37,720 thousand and receivables from subsidiaries resulting from tax consolidation totalling Euro 38,375 thousand.
"Sundry receivables" comprise mainly receivables deriving from payments already made for future services (EUR 18,651 thousand) and receivables for deposits paid to the Electric Market Operator (EUR 700 thousand).

NOTE 11 – CURRENT FINANCIAL ASSETS

	12/31/2011	12/31/2010
SECURITIES	–	40,145
FINANCIAL RECEIVABLES FROM SUBSIDIARIES AND ASSOCIATES	37,290	34,245
OTHER SHORT-TERM FINANCIAL RECEIVABLES	16,892	9,971
TOTAL	**54,183**	**84,361**

The decrease in "Securities" pertains to the sale, during the year, of the bonds and shares of mutual funds held in the portfolio as of 31 December 2010.
"Financial receivables from subsidiaries and associates" comprise mainly the receivable from ERG Nuove Centrali S.p.A. (EUR 22,590 thousand), the receivable from ERG Oil Sicilia S.r.l. (EUR 12,256 thousand) and the receivable from ERG Petróleos S.A. (EUR 1,937).
"Other short-term financial receivables" mainly comprise the deposit required to guarantee transactions with futures derivative instruments on the ICE Futures Europe regulated market (EUR 4,622 thousand), the credit balance for transactions completed as of 31 December 2011 on the same platform (EUR 6,081 thousand) and financial receivables consequent to the fair value measurement as of 31 December 2011 (EUR 3,618 thousand).

NOTE 12 – CASH AND CASH EQUIVALENTS

	12/31/2011	12/31/2010
CASH EQUIVALENT SECURITIES	–	2,497
BANK AND POSTAL DEPOSITS	410,826	1,112,434
CASH AND NOTES ON HAND	3	8
TOTAL	**410,829**	**1,114,939**

"Bank and postal deposits" comprise cash generated as a result of the payments by LUKOIL Europe Holdings B.V. for the acquisition of the equity investment in ISAB S.r.l. in 2008 and in 2011.
At 31 December 2010, "Cash equivalent securities" referred to bonds with less than three months maturity.

NOTE 13 – SHAREHOLDERS' EQUITY

Share capital
Fully paid-in share capital as of 31 December 2011 consisted of 150,320,000 shares with a par value of Euro 0.10 each for a total of Euro 15,032,000 (unchanged since 31 December 2010).
On 31 December 2011 the Company's Shareholders Register showed the following:

- San Quirico S.p.A. held 84,091,940 shares, i.e. 55.942%
- Polcevera S.A. (Luxembourg) held 10,380,060 shares, i.e. 6.905%
- Tradewinds Global Investors LLC held 15,041,282 shares, i.e. 10.006%;
- Generali Investments Italy SGR S.p.A. held 3,349,000 shares, i.e. 2.228%;
- ERG S.p.A. held 2,100,000 treasury shares, i.e. 1.397%.

As of 31 December 2011, San Quirico S.p.A. and Polcevera S.A. were controlled by the Garrone and Mondini families, heirs of the founder of the ERG Group, Edoardo Garrone.

On 14 April 2011, pursuant to Article 2357 of the Italian Civil Code, the Shareholders' Meeting of ERG S.p.A. authorised the Board of Directors to purchase treasury shares for a period of 12 months from 14 April 2011, up to a revolving maximum (meaning the maximum amount of treasury shares held from time to time) of 15,032,000 (fifteen million thirty-two thousand) shares of ERG common stock with a par value of EUR 0.10 each, at a unit price, including ancillary purchase charges, not lower than 30% below and not higher than 10% above the closing price of the stock on the day immediately preceding each individual transaction.

The Shareholders' Meeting also authorised the Board of Directors, pursuant to Article 2357-ter of the Italian Civil Code, for 12 months starting on 14 April 2011, to sell, all at once or in several steps, and with any procedures deemed appropriate, treasury shares at a unit price no lower than 10% below the closing price of the stock on the day immediately preceding each individual sale and in any case no lower than the per-share value of the Company's equity as reported by the latest approved Separate Financial Statements.

Treasury shares

As of 31 December 2011 ERG S.p.A. held 2,100,000 treasury shares, amounting to 1.397% of share capital. In accordance with IAS 32, treasury shares are presented as a reduction of shareholders' equity.

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

Stock option plans

With regards to the ERG S.p.A.'s stock option plans, their granting and exercise terms and the assumptions supporting fair value, reference is made to the disclosures provided in the 2010 Separate Financial Statements.

In 2010, the vesting period of the aforesaid options had ended, as a result of the expiration of the three-year time interval, and the recognition in the Income Statement of the related costs also ended.

Reserves

	12/31/2011	12/31/2010
PAID-IN CAPITAL IN EXCESS OF PAR	48,536	48,536
LEGAL RESERVE	3,236	3,236
RESERVE FOR FIRST-TIME ADOPTION OF IAS/IFRS AND RETAINED EARNINGS	1,065,905	727,062
CASH FLOW HEDGE RESERVE	(131)	2,527
AVAILABLE FOR SALE SECURITIES RESERVE	–	41
2010 MERGER SURPLUS	250,563	250,563
OTHER RESERVES	212,114	212,205
TOTAL	**1.580.223**	**1.244.170**

- "**Paid-in capital in excess of par**" consists of the share premium paid by shareholders to purchase shares related to the share capital increases carried out on 14 October 1997, 2 July and 5 August 2002. This reserve was used for the purchase of treasury shares in 2006 totalling Euro 11,210 thousand and in 2008 totalling Euro 14,779 thousand.
- The "**Reserve for first-time adoption of IAS/IFRS and retained earnings**" consists of adjustments made to the Statutory Financial Statements of ERG S.p.A. at the time of conversion (mainly for the derecognition of dividends receivable) and retained earnings. The increase reflects the allocation of income from the previous year and the distribution of the 2011 dividend.

- The "**Cash flow hedge reserve**" was accrued relative to the fair value of cash flow hedging contracts net of related taxes.
- The "**Available for Sale Securities reserve**" was reduced to zero as a result of the sale of Available For Sale securities held as of 31 December 2010.
- "**Other reserves**" comprise mainly monetary revaluation reserves (EUR 66,946 thousand).

Moreover, the surpluses generated by the 2010 mergers by incorporation of ERG Raffinerie Mediterranee S.p.A. and ERG Power & Gas S.p.A. into ERG S.p.A., amounting to EUR 446 million, were partly allocated to the "2010 Merger surplus" reserve (EUR 251 million) and partly to reconstitute specific tax-deferred equity reserves (EUR 195 million) i.e. reserves that become taxable upon distribution.

The following table lists shareholders' equity items, indicating for each of them their possible utilisation, as well as any tax restrictions.

	AMOUNT	POSSIBILITY OF UTILISATION	AMOUNT AVAILABLE FOR DISTRIBUTION	AMOUNT SUBJECT TO TAX ON DISTRIBUTION
SHARE CAPITAL	15,032	–	–	15,032
PAID-IN CAPITAL IN EXCESS OF PAR	48,536	A B C	48,536	–
LEGAL RESERVE	3,236	B	–	–
RESERVE FOR FIRST-TIME ADOPTION OF IAS/IFRS AND RETAINED EARNINGS	1,065,905	A B C	719,502	–
CASH FLOW HEDGE RESERVE	(131)	–	–	–
AVAILABLE FOR SALE SECURITIES RESERVE	–	–	–	–
OTHER RESERVES	462,677	A B C	462,677	226,361
NET PROFIT (LOSS) FOR THE YEAR	19,928	A B C	19,928	–
TOTAL	**1,615,182**		**1,250,643**	**241,393**

Key
A – for share capital increase
B – to cover losses
C – for distribution to shareholders

Following off-balance sheet tax deductions taken pursuant to the previously-in-force version of Article 109, paragraph 4 b) of the Italian Unified Income Tax Act, still provisionally applicable (including those taken by the merged companies), in the event of distribution of the year's earnings and/or reserves, the amount of shareholders' equity reserves and retained earnings must not fall below the total remaining amount of off-balance sheet tax deductions taken. Net of the deferred tax provision, this is estimated to be EUR 39.3 million. Should this occur, the amount of reserves and/or profit for the year distributed beyond the minimum level will form part of the Company's taxable income.

NOTE 14 – EMPLOYEES' SEVERANCE INDEMNITIES

	12/31/2011	12/31/2010
BALANCE AT BEGINNING OF PERIOD	**1,885**	**1,927**
INCREASES FROM 2010 MERGER	–	741
OTHER INCREASES	1,535	1,581
DECREASES	(2,147)	(2,364)
BALANCE AT END OF PERIOD	**1,273**	**1,885**

This item includes the estimated liability, determined on the basis of actuarial procedures, relating to severance indemnities payable to employees when they terminate their employment.
The changes shown in the table do not include the portion of employees' severance indemnity accrued and transferred to the Italian National Social Security Institute ("INPS") Treasury fund.

NOTE 15 – DEFERRED TAX LIABILITIES

	12/31/2011		12/31/2010	
	TEMPORARY DIFFERENCES	TAX EFFECT	TEMPORARY DIFFERENCES	TAX EFFECT
EXCESS AND ACCELERATED DEPRECIATION	39,886	1,555	59,960	2,641
WRITE-DOWN OF RECEIVABLES	–	–	2,822	959
OTHER FINANCIAL INSTRUMENTS	349	122	4,716	1,800
ACTUARIAL VALUATION OF EMPLOYEES' SEVERANCE INDEMNITIES	588	200	588	176
UNREALISED GAINS ON FOREIGN EXCHANGE	1,773	603	1,506	512
CAPITAL GAIN ON TOTALERG TRANSACTION	17,620	5,990	17,620	5,991
OTHER DEFERRED TAX LIABILITIES	63	22	–	–
TOTAL		**8,492**		**12,079**

Deferred tax liabilities are recognised on the taxable temporary differences between the financial reporting value of assets and liabilities and their value for tax purposes.
The tax rate used to calculate deferred tax liabilities is the same as the theoretical IRES (corporate taxation) rate (27.5%) in effect since 1 January 2008 and, where applicable, increased with the theoretical IRAP (Regional tax) rate (3.9%).
Additionally, as a result of the merger ERG S.p.A., since 2010, has been subjected to a 6.5% IRES rate surcharge ("Robin Hood Tax") for companies operating in the oil refining industry and companies producing and marketing petroleum products, electricity and gas, with revenues in excess of EUR 10 million.
Deferred tax liabilities as of 31 December 2011 amount to EUR 8.5 million (EUR 12 million as of 31 December 2010).

NOTE 16 – PROVISIONS FOR NON-CURRENT LIABILITIES AND CHARGES

The value of provisions for non-current liabilities and charges amounts to EUR 10,649 thousand (EUR 168 thousand as of 31 December 2010) and it mainly comprises provisions for environmental liabilities pertaining to the refinery systems of the Priolo site.

NOTE 17 – NON-CURRENT FINANCIAL LIABILITIES

	12/31/2011	12/31/2010
MEDIUM AND LONG TERM MORTGAGES AND LOANS	419,664	638,942
- CURRENT PORTION OF MEDIUM AND LONG TERM LOANS	(136,034)	(218,383)
TOTAL	**283,630**	**420,559**

As of 31 December 2011, medium/long-term mortgages and loans totalled EUR 420 million, including EUR 89 million granted by the European Investment Bank for the "ERG Energia Sicilia" project. The loan is guaranteed for up to EUR 177 million.
Loans for which significant fees and other ancillary charges were paid at inception were measured under the amortised cost method pursuant to IAS 39.
No new loans were obtained during 2011.
With respect to the existing loan with Intesa San Paolo, in order to reduce the risk stemming from future interest rate fluctuations, there is an extant Interest Rate Swap derivative instrument with maturity in 2014 and face value amounting to EUR 37.5 million. The swap fixed the effective interest rate at 1.64%.
As of 31 December 2011 the weighted average interest rate on mortgages and loans was 2.95% (2.21% as of 31 December 2010).

The following table shows the breakdown and maturity of existing mortgages and loans:

	MORTGAGES AND LOANS
DUE BY 12/31/2012	136,034
DUE BY 12/31/2013	165,109
DUE BY 12/31/2014	84,935
DUE BY 12/31/2015	33,586
DUE BY 12/31/2016	–
DUE BEYOND 12/31/2016	–
TOTAL	**419,664**

NOTE 18 – OTHER NON-CURRENT LIABILITIES

The value as of 31 December 2011, i.e. EUR 6,603 thousand, is the medium-long term portion of the payable to ISAB S.r.l. pertaining to the clean-up of the Priolo site.

NOTE 19 – PROVISIONS FOR CURRENT LIABILITIES AND CHARGES

				CHANGES	
	12/31/2011	12/31/2010	INCREMENTI	INCREASES	RECLASSIFICATIONS
PROVISIONS FOR COVERAGE OF INVESTEE COMPANIES' LOSSES	33,526	4,649	28,877	–	–
PROVISIONS FOR ENVIRONMENTAL LIABILITIES	158	25,158	–	–	(25,000)
PROVISIONS FOR LEGAL RISKS	1,541	1,435	500	(394)	–
OTHER PROVISIONS	16,453	15,071	2,408	(1,024)	–
TOTAL	**51,679**	**46,313**	**31,785**	**(1,419)**	**(25,000)**

The increase in the provisions for coverage of investee companies' losses refers to the equity investment in ERG Nuove Centrali S.p.A., as commented in the Note entitled **ERG Nuove Centrali equity investment impairment test**.

The provisions for environmental liabilities was reclassified, in part among the provisions for non-current liabilities and charges and in part under Other liabilities.

NOTE 20 – TRADE PAYABLES

	12/31/2011	12/31/2010
TRADE PAYABLES	612,069	498,558
PAYABLES DUE TO GROUP COMPANIES	94,618	65,020
TOTAL	**706,687**	**563,578**

Trade payables stem from commercial transactions with domestic and foreign suppliers and are payable within the next year.
Trade payables increased compared with 31 December 2010 mainly because of:

- the increase in purchases carried out during the final part of the year and pertaining to the Refining & Marketing Segment;
- the increase, by approximately EUR 29 million, of trade payables pertaining to the Power & Gas Segment. The item substantially comprises trade payables for purchase of electricity and natural gas for resale to the Refineries and for the use of the CCGT;
- the decrease, by approximately EUR 6 million, of Corporate payables compared with 2010, since in 2010 payables for consultancy and brokerage services were particularly significant.

NOTE 21 – CURRENT FINANCIAL LIABILITIES

	12/31/2011	12/31/2010
SHORT-TERM BANK BORROWINGS		
SHORT-TERM BANK BORROWINGS IN EURO	170,954	511,099
SHORT-TERM BANK BORROWINGS IN FOREIGN CURRENCIES	–	–
	170,954	**511,099**
OTHER SHORT-TERM FINANCIAL PAYABLES		
SHORT-TERM PORTION OF MEDIUM-LONG TERM BANK BORROWINGS	136,034	218,383
FINANCIAL PAYABLES DUE TO GROUP COMPANIES	8,469	37,961
OTHER SHORT-TERM FINANCIAL PAYABLES	735	1,080
	145,238	**257,424**
TOTAL	**316,192**	**768,523**

As of 31 December 2011, the weighted average interest rate on short-term borrowings was 2.48% (1.22% as of 31 December 2010).
"Financial payables due to Group companies" mainly include the payable to ERG Rivara Storage S.r.l. for the amounts still to be paid as a result of the acquisition of the equity investment in the company.

NOTE 22 – OTHER CURRENT LIABILITIES

	12/31/2011	12/31/2010
TAX PAYABLES	26,828	21,048
EXCISE DUTIES PAYABLE TO TAX AUTHORITIES	8,361	7,091
PAYABLES DUE TO EMPLOYEES	3,935	5,095
PAYABLES DUE TO SOCIAL SECURITY INSTITUTIONS	2,342	2,494
OTHER MINOR CURRENT LIABILITIES	51,132	38,661
TOTAL	**92,597**	**74,389**

"Tax payables" mainly pertain to payables to tax authorities for VAT (EUR 14,263 thousand), for withholding (EUR 1,061 thousand) and to the Siracusa and Augusta Customs (EUR 11,494 thousand).
"Payables due to employees" refer to sums owed for the period but not yet paid and include vacation days, unused time off "in lieu," productivity bonuses, and bonuses linked to the company's Management Compensation Plan based on Group value creation.
"Payables due to social security institutions" relate to the social contributions to be paid on December 2011 wages and salaries.
"Other minor current liabilities" mainly include payables to investee companies for Group VAT (EUR 6,638 thousand), the payable to investee companies for consolidation IRES (EUR 3,142 thousand), the payable consequent to the fair value measurement as of 31 December 2011 of derivative financial instruments managed in hedge accounting (EUR 1,865 thousand), the payable for advance payments from subsidiaries (EUR 15,521 thousand) and from third party customers (EUR 18,682 thousand).

NOTE 23 – GUARANTEES, COMMITMENTS AND RISKS

	12/31/2011	12/31/2010
SURETIES IN FAVOUR OF GROUP COMPANIES	65,208	95,777
SURETIES ISSUED IN FAVOUR OF THIRD PARTIES	22,688	23,746
OUR COMMITMENTS TO THIRD PARTIES	8,859	52,442
TOTAL	**96,755**	**171,965**

The sureties issued to Group companies were mainly for guarantees provided in favour of subsidiaries with respect to loan agreements.
Guarantees issued in favour of third parties are mainly sureties in favour of foreign suppliers with reference to contracts for the supply of crude oil and electricity.
Commitments to third parties are mainly forward commitments to purchase foreign currency.
Additionally, at year end there were sureties worth EUR 344 million (EUR 242 million in 2010) guaranteeing trade receivables existing as of 31 December 2011, issued by banks in favour of the Company's suppliers and forward commitments to purchase currency worth EUR 203 million (EUR 34 million in 2010), for which please refer to Note 40.

NOTE 24 – 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 accrued, ERG considers that these proceedings and actions will not determine significant negative effects on its Consolidated Financial Statements.

Regarding the ongoing dispute between **ERG Raffinerie Mediterranee (now ERG S.p.A.)** and the Italian tax authorities over the application of harbour duties for embarkation and disembarkation rights at the Santa Panagia jetty, we can report that on 6 April 2011 the Provincial Tax Commission of Siracusa partially allowed the Company's appeal and ruled that harbour duties through 2006 are not due, but from 2007 onwards they are in fact due. The first degree decision was challenged within the terms by the Fiscal Revenues Agency with appeal served on 11 January 2012. The Company will defend its rights also with cross appeal for the period after 2006.
Starting from 2007 the related taxes had already been recognised in the Income Statement under the accrual basis, while no provision had been made for the years from 2001 to 2006.

With reference to the lawsuit filed by Polimeri Europa S.p.A. before the Milan Court, claiming damages allegedly caused by the 30 April 2006 fire in the Priolo Refinery, ERG impleaded its insurers as third parties in the proceeding and challenged the counterparty's entire claim. At the hearing of 26 October 2011, ERG's insurers appeared before the court and the terms for the preliminary briefs and the related replies were set. On 31 January 2012, the first preliminary brief was filed and on 29 February 2012 the reply brief was filed, requesting, among other matters, the admission of a Court-Appointed Expert Witness Evaluation with respect to damage quantification.

With the above exceptions, there are no litigation proceedings involving ERG as defendant which, by the amount claimed and the severity of their grounds, appear worthy of specific mention.

INCOME STATEMENT ANALYSIS

NOTE 25 – REVENUES FROM ORDINARY OPERATIONS

	2011	2010
REVENUES FROM SALES	5,954,040	4,715,722
REVENUES FROM SERVICES	151,786	152,061
TOTAL	**6,105,827**	**4,867,783**

The following table shows the breakdown of **revenues from sales** by segment:

	2011	2010
REFINING & MARKETING SEGMENT	5,166,991	3,940,998
POWER & GAS SEGMENT	787,049	774,724
TOTAL	**5,954,040**	**4,715,722**

REFINING & MARKETING SEGMENT SALES

	2011	2010
THIRD PARTIES	928,026	1,589,439
GROUP COMPANIES	869,926	430,897
EXPORTS	3,369,039	1,920,662
TOTAL	**5,166,991**	**3,940,998**

The increase compared with 2010 is mainly due to the increase in average sale prices and to the higher traded volumes.

POWER & GAS SEGMENT SALES

	2011	2010
ELECTRICITY (1)	481,332	458,829
STEAM	31,715	31,517
DEMINERALISED WATER	3,918	3,558
OTHER UTILITIES	401	641
SALE TO ISAB S.R.L. (ELECTRICITY, GAS AND OTHERS)	173,152	172,141
GAS	71,149	87,784
CO_2	7,190	15,229
GREEN CERTIFICATES	10,323	5,025
ENERGY EFFICIENCY CERTIFICATES	7,870	–
TOTAL	**787,049**	**774,724**

(1) including the income deriving from the coverage of zone prices

The revenues of the Power & Gas Segment essentially comprise electricity and gas sales, the supply of steam, demineralised water and other utilities to the other companies operating in the industrial site of Priolo and the sale of CO2, Green Certificates and Energy Efficiency Certificates. The income from Energy Efficiency Certificates (TEE) refer to the 2011 high-efficiency cogeneration of the CCGT plant.

Revenues from services refer mainly to charges for internal consumption to ISAB S.r.l. (EUR 125,215 thousand), arbitrage income on electricity transactions (EUR 12,649 thousand), services rendered to subsidiaries (EUR 11,462 thousand), associated companies (EUR 228 thousand) and joint ventures (EUR 1,873 thousand).

NOTE 26 – OTHER REVENUES AND INCOME

	2011	2010
OTHER REVENUES FROM GROUP COMPANIES	11,444	13,072
EXPENSE RECOVERIES FROM THIRD PARTIES	3,393	3,411
OTHER REVENUES	4,996	4,447
TOTAL	**19,834**	**20,930**

Other revenues from Group companies are essentially revenues for the sale of mandatory stocks to ERG Oil Sicilia S.r.l. (EUR 3,477 thousand) and TotalErg S.p.A. (EUR 3,660 thousand).

NOTE 27 – CHANGES IN INVENTORY

	2011	2010
CHANGES IN PRODUCT INVENTORIES	57,510	79,264
CHANGES IN RAW MATERIAL INVENTORIES	(43,298)	91,607
TOTAL	**14,212**	**170,871**

The values of product and raw material inventories were determined applying the weighted average cost method. The increase by approximately EUR 58 million in finished product inventories is linked to the rise in the average prices in the period and to greater stocked quantities of goods for resale in the short term. The decrease by approximately EUR 43 million in raw material inventories, in spite of the increased average prices in the period, is due to the reduction in quantities in stock, also as a result of the reduced processing deriving from the sale of 11% of ISAB S.r.l.

NOTE 28 – COST OF PURCHASES

Cost of purchases, amounting to EUR 5,598 million, refer:

- to the Refining & Marketing segment, in particular to the purchase costs of crude oil and products, and they include ancillary expenses, transportation, insurance, commissions, inspections and customs charges;
- to the Power & Gas Segment, in particular to the purchase costs of fuels (diesel and ATZ and BTZ fuel oil by ISAB S.r.l.), utilities (electricity and steam), CO2 (purchases from third parties), gas (for trading with third parties, shipping, sale to Group companies in the Priolo Gargallo site and supply to the CCGT plants owned by ERG Power S.r.l.) and Green Certificates.

NOTE 29 – COSTS OF SERVICES AND OTHER COSTS

	2011	2010
SERVICE COSTS	604,611	638,108
RENTS AND LEASES	6,025	7,021
ACCRUALS OF BAD DEBT PROVISIONS / LOSSES	8,279	11,489
ACCRUALS OF PROVISIONS FOR LIABILITIES AND CHARGES	2,908	29,120
DUTIES AND TAXES	13,064	4,024
OTHER OPERATING EXPENSES	4,323	3,248
TOTAL	**639,210**	**693,010**

The breakdown of Service costs was as follows:

	2011	2010
PROCESSING COSTS	358,072	404,836
COMMERCIAL, DISTRIBUTION AND TRANSPORTATION COSTS	67,162	46,101
REPAIRS AND MAINTENANCE	438	460
UTILITIES AND SUPPLIES	868	852
INSURANCE	4,224	4,434
CONSULTANCY AND BROKERAGE	6,937	14,060
ADVERTISING AND PROMOTIONS	3,059	4,966
FEES PAID TO DIRECTORS AND STATUTORY AUDITORS	8,445	8,045
TOLLING FEE	129,321	131,008
OTHER SERVICES	26,085	23,346
TOTAL	**604,611**	**638,108**

The decrease amounting to EUR 33,497 thousand in the value of costs for services compared with 31 December 2010 is mainly due:

- to the decrease (EUR 46,945 thousand) in "processing costs" pertaining to the operating and processing contract with ISAB S.r.l., mainly linked to the reduction in processing by effect of the sale of 11% of ISAB S.r.l.,
- to the increase (EUR 21,061 thousand) in "commercial, distribution and transportation costs" as a result of the consolidation of marketing on the free electricity market,
- to the decrease (EUR 7,123 thousand) in costs for "consultancy and brokerage".

In 2011, fees paid to Directors and Statutory Auditors include the costs linked to the resignation of the Deputy Chairman.

NOTE 30 – PERSONNEL COSTS

	2011	2010
SALARIES AND WAGES	21,508	26,280
SOCIAL SECURITY CONTRIBUTIONS	6,525	7,444
EMPLOYEES' SEVERANCE INDEMNITIES	1,437	1,581
OTHER COSTS	3,548	5,266
TOTAL	**33,019**	**40,571**

The following table shows the breakdown of ERG S.p.A. personnel (average headcount during the period):

	2011	2010
EXECUTIVES	44	51
MANAGERS	120	130
STAFF	155	184
TOTAL	**320**	**365**

As of 31 December 2011, the total number of employees was 306 (337 as of 31 December 2010).

NOTE 31 – AMORTIZATION, DEPRECIATION AND WRITE-DOWNS OF FIXED ASSETS

	2011	2010
AMORTIZATION OF INTANGIBLE FIXED ASSETS	5,988	5,697
DEPRECIATION OF TANGIBLE FIXED ASSETS	1,262	1,280
WRITE-DOWNS OF FIXED ASSETS	–	–
TOTAL	**7,250**	**6,977**

NOTE 32 – NET FINANCIAL INCOME (EXPENSES)

	2011	2010
INCOME		
FOREIGN CURRENCY EXCHANGE GAINS	112,178	85,321
INTEREST INCOME ON BANK ACCOUNTS	9,733	8,186
FROM RECEIVABLES PRESENTED UNDER NON-CURRENT FINANCIAL ASSETS	1,336	2,217
FROM SUBSIDIARIES	23,211	12,604
OTHER FINANCIAL INCOME	3,541	1,438
	149,998	**109,766**
EXPENSES		
FOREIGN CURRENCY EXCHANGE LOSSES	(100,558)	(91,988)
FROM SUBSIDIARIES	(59)	(1,149)
INTEREST ON SHORT-TERM BANK BORROWINGS	(4,704)	(4,497)
INTEREST PAID ON MEDIUM/LONG-TERM LOANS	(14,979)	(11,003)
OTHER FINANCIAL EXPENSES	(4,323)	(4,442)
	(124,621)	**(113,079)**
TOTAL	**25,377**	**(3,313)**

Income and expenses from subsidiaries are related to interest on cash account and cash pooling relationships with Group companies.
Interest income on bank accounts relates to the investment of available cash in deposit accounts.
"Interest paid on medium/long-term loans" increased primarily as a result of the increase in interest rates in 2011.
"Other financial expenses" include other expenses related to financial instruments totalling Euro 2.8 million.

NOTE 33 – NET INCOME (EXPENSES) FROM EQUITY INVESTMENTS

	2011	2010
DIVIDENDS AND OTHER INCOME FROM SUBSIDIARIES	29,031	119,805
TOTALERG CAPITAL GAIN	–	434,949
CAPITAL GAIN ON EXERCISE OF PUT OPTION 11% ISAB S.R.L.	122,327	–
DIVIDENDS AND OTHER INCOME FROM ASSOCIATES AND JOINT VENTURES	11,440	13,872
DIVIDENDS AND OTHER INCOME FROM OTHER COMPANIES	15	14
WRITE-BACKS	–	–
WRITE-DOWNS	(62,858)	(25,319)
OTHER EXPENSES	(1,341)	–
TOTAL	**98,614**	**543,321**

"Dividends and other income from subsidiaries" relate to dividends distributed by ISAB Energy Services S.r.l. (EUR 2.8 million), ISAB Energy S.r.l. (EUR 5.1 million) and ERG Oil Sicilia S.r.l. (EUR 21.1 million).
The ISAB S.r.l. capital gain (EUR 122.3 million) refers to the information already provided in the note entitled **Put Option on ISAB S.r.l.**, to which reference is made for additional details.
Dividends and other income from associated companies and Joint Ventures are dividends distributed by the joint venture ISAB S.r.l. (EUR 11.1 million) and by the associate I-Faber S.p.A. (EUR 0.4 million).
Dividends and other income from other companies refer to dividends distributed by Emittenti Titoli S.p.A. and Meroil S.A.
"Write-downs" are referred for EUR 62,610 thousand to the equity investment in ERG Nuove Centrali S.p.A., as commented in the Note entitled **ERG Nuove Centrali equity investment impairment test** and for EUR 248 thousand to the equity investment in Ionio Gas S.r.l.
The other expenses related to the TotalErg S.p.A. joint venture.

NOTE 34 – INCOME TAXES

	2011	2010
IRES (CORPORATE INCOME TAX)	–	-
IRAP (REGIONAL INCOME TAX)		– –
TAXES FROM PREVIOUS YEAR	(80)	877
SUBSTITUTE TAXES	–	–
DEFERRED TAXES	34,099	30,249
TOTAL	**34,019**	**31,126**

Income taxes for the period were calculated on the basis of expected taxable income.
Deferred taxes for the year, amounting to a positive EUR 34,099 thousand, include the recovery, for IRES purposes, of ERG S.p.A.'s tax loss of the year 2011 for an amount, net of fiscal transparency, of EUR 27,750 as a result of the adoption of the "tax consolidation" and the accrual/utilisation of deferred tax assets/liabilities on other income components for a net negative balance of EUR 845 thousand.
As a result of regulatory changes pertaining to the possibility of carrying forward tax losses, the company also recognised deferred tax assets on the IRES surtax (Robin Hood Tax) on the 2011 tax loss in the amount of EUR 6,559 thousand and deferred tax assets on the IRES surtax on tax losses from previous years in the amount of EUR 635 thousand.

Below is a summary of financial balances resulting from the tax consolidation regime:

	12/31/2011	12/31/2010
RECEIVABLES FROM GROUP COMPANIES (PAYABLES TO TAX AUTHORITIES)	(38,375)	(25,993)
PAYABLES TO GROUP COMPANIES (RECEIVABLES FROM TAX AUTHORITIES)	3,142	3,465
ERG S.P.A. NET RECEIVABLE POSITION	41,200	34,016
TOTAL	**5,967**	**11,488**

RECONCILIATION BETWEEN REPORTED AND THEORETICAL TAX CHARGES

	TAXABLE INCOME	TAX
PROFIT BEFORE TAXES	**(14,091)**	
THEORETICAL TAXATION (TAX RATE 34%)		**(4,791)**
TEMPORARY DIFFERENCES TAXABLE IN FUTURE YEARS	–	
TEMPORARY DIFFERENCES DEDUCTIBLE IN FUTURE YEARS	18,054	
REVERSAL OF TEMPORARY DIFFERENCES FROM PREVIOUS YEARS	(22,041)	
PERMANENT DIFFERENCES (1)	34,276	
EXERCISE OF PUT OPTION 11% ISAB S.R.L.	(117,107)	
IRES TAXABLE AMOUNT (TAX LOSS)	**(100,909)**	
IRES RECOVERY ON REPORTED TAX LOSS		**(34,309)**

(1) permanent differences mainly consist of dividends paid by subsidiaries and write-downs of equity investments

	TAXABLE INCOME	TAX
DIFFERENCE BETWEEN PRODUCTION VALUE AND COSTS	**(138,082)**	
COSTS AND REVENUES NOT RELEVANT FOR IRAP PURPOSES	**41,298**	
COSTS AND REVENUES RECLASSIFIED FOR IRAP PURPOSES	**–**	
THEORETICAL TAXABLE INCOME FOR IRAP PURPOSES	**(96,784)**	
THEORETICAL TAXATION (TAX RATE 4.82%)		**(4,665)**
TEMPORARY DIFFERENCES TAXABLE IN FUTURE YEARS	–	
TEMPORARY DIFFERENCES DEDUCTIBLE IN FUTURE YEARS	2,951	
REVERSAL OF TEMPORARY DIFFERENCES FROM PREVIOUS YEARS	13,925	
PERMANENT DIFFERENCES	4,304	
TAXABLE IRAP INCOME	**(75,604)**	
IRAP REPORTED		**–**

NOTE 35 – NON-RECURRING ITEMS

The non-recurring items of 2011 refer to:

- the gain (EUR 122.3 million) realised on the sale of 11% of the equity investment in ISAB S.r.l., as commented in the note entitled **Put Option on ISAB S.r.l.**;
- the write-down (EUR 33.7 million) of the equity investment in ERG Nuove Centrali S.p.A., as commented in the Note entitled **ERG Nuove Centrali equity investment impairment test**;
- the accrual of provisions for liabilities and charges on equity investments (EUR 28.9 million), as commented in the Note entitled **ERG Nuove Centrali equity investment impairment test**.

NOTE 36 – RELATED PARTIES

YEAR 2011 – Statement of financial position - Assets

(EUR THOUSAND)	OTHER FINANCIAL ASSETS	TRADE RECEIVABLES	OTHER CURRENT RECEIVABLES AND ASSETS	CURRENT FINANCIAL ASSETS
RELATED PARTIES				
ERG POWER S.R.L.	122,780	980	–	–
ISAB S.R.L.	–	107,777	–	–
TOTALERG S.P.A.	–	2,496	56,601	–
ERG OIL SICILIA S.R.L.	–	24,437	6,504	12,302
ISAB ENERGY S.R.L.	24,300	12,171	5,468	–
ERG NUOVE CENTRALI S.P.A.	–	12	–	22,754
ESPANSIONE S.R.L.	–	4,753	–	–
ERG RENEW S.P.A.	1,494	2,894	–	–
ISAB ENERGY SERVICES S.R.L.	–	250	3,498	–
PRIOLO SERVIZI S.C.P.A.	–	3,123	–	–
TOTALGAZ ITALIA S.R.L.	–	–	2,028	–
ERG PETRÓLEOS S.A.	–	2	–	1,937
RAFFINERIE DI ROMA S.P.A.	–	–	1,224	–
ERG EOLICA ADRIATICA S.R.L.	–	–	475	–
ERG RIVARA STORAGE S.R.L.	–	46	–	298
IONIO GAS S.R.L.	–	259	–	–
ERIDIS S.R.L.	–	–	252	–
GESTIONI EUROPA S.P.A.	–	101	–	–
OTHER	–	90	45	–
TOTAL	**148,574**	**159,392**	**76,095**	**37,291**
PERCENTAGE OF TOTAL	*99%*	*32%*	*63%*	*69%*

YEAR 2011 – Statement of financial position - Liabilities

(EUR THOUSAND)	OTHER NON-CURRENT LIABILITIES	TRADE PAYABLES	CURRENT FINANCIAL LIABILITIES	OTHER CURRENT LIABILITIES
RELATED PARTIES				
ISAB S.R.L.	6,603	77,706	–	2,437
ISAB ENERGY S.R.L.	–	46	–	20,714
ERG POWER S.R.L.	–	16,007	–	262
ERG RIVARA STORAGE S.R.L.	–	–	5,258	–
ERG NUOVE CENTRALI S.P.A.	–	–	–	2,835
TOTALERG S.P.A.	–	375	–	407
ERG RENEW S.P.A.	–	349	–	395
GESTIONI EUROPA S.P.A.	–	–	–	286
IONIO GAS S.R.L.	–	48	–	89
ERG EOLICA BASILICATA S.R.L.	–	–	–	129
OTHER	–	86	–	184
TOTAL	**6,603**	**94,618**	**5,258**	**27,739**
PERCENTAGE OF TOTAL	*100%*	*13%*	*2%*	*30%*

YEAR 2011 – Income Statement - Revenues and Income

(EUR THOUSAND)	REVENUES FROM ORDINARY OPERATIONS	OTHER REVENUES AND INCOME	FINANCIAL INCOME
RELATED PARTIES			
ISAB S.R.L.	715,244	1,289	1,958
ERG OIL SICILIA S.R.L.	453,860	3,621	144
ISAB ENERGY S.R.L.	48,885	20	1,019
ESPANSIONE S.R.L.	25,425	–	–
PRIOLO SERVIZI S.C.P.A.	18,668	5	5
ERG RENEW S.P.A.	3,889	825	13,794
ERG POWER S.R.L.	3,245	135	8,572
TOTALERG S.P.A.	3,398	5,893	1,108
ISAB ENERGY SERVICES S.R.L.	716	37	–
ERG NUOVE CENTRALI S.P.A.	184	–	692
GESTIONI EUROPA S.P.A.	424	–	–
I-FABER S.P.A.	26	–	–
ERG RIVARA STORAGE S.R.L.	108	–	9
OTHER	83	61	12
TOTAL	**1,274,155**	**11,888**	**27,313**
PERCENTAGE OF TOTAL	*21%*	*60%*	*18%*

YEAR 2011 – Income Statement - Expenses

(EUR THOUSAND)	COST OF PURCHASES	COSTS FOR SERVICES AND OTHER COSTS	FINANCIAL EXPENSES
RELATED PARTIES			
ISAB S.R.L.	186,038	358,234	340
ERG POWER S.R.L.	450	129,321	–
ERG NUOVE CENTRALI S.P.A.	–	–	–
TOTALERG S.P.A.	49,623	994	–
ERG OIL SICILIA S.R.L.	637	–	58
ISAB ENERGY S.R.L.	235	182	–
ERG RENEW S.P.A.	–	334	–
IONIO GAS S.R.L.	–	–	–
DELTA TI RESEARCH CONSORTIUM	–	200	–
ERG SOLARE ITALIA S.R.L.	–	106	–
OTHER	–	64	1
TOTAL RELATED PARTIES	**236,983**	**489,434**	**399**
U.C. SAMPDORIA S.P.A.	–	1,751	–
FONDAZIONE EDOARDO GARRONE ONLUS	–	100	–
TOTAL OTHER COMPANIES	**–**	**1,851**	**–**
TOTAL	**236,983**	**489,434**	**399**
PERCENTAGE OF TOTAL ITEM	*4%*	*77%*	*0%*

Assets mainly concerned trade receivables, the granting of loans, Group VAT and the consolidated tax regime.
Liabilities mainly concerned trade payables and loan agreements.
Income and expenses are essentially connected to the business of the Refining & Marketing and Power & Gas segments, the recovery of costs for services performed by centralised staff functions and dividends distributed by the investee companies.
All transactions form part of ordinary operations and are settled at market terms and conditions.
With regards to the other transactions with related parties, as defined by IAS 24, on 1 July 2011 the sponsorship agreement with U.C. Sampdoria S.p.A., a soccer company controlled by ERG's main shareholder, was terminated. Therefore, ERG will no longer be its main sponsor.
The 2011 costs amounted to EUR 1.8 million, including EUR 1.4 million connected to the sponsorship contract and EUR 0.4 million relating to other, smaller contracts.

NOTE 37 – INDEPENDENT AUDIT FEES

In accordance with Article 149-duodecies of Consob's Issuers' Regulations, we set out below the costs for 2011 relating to services rendered by the independent auditor Deloitte & Touche S.p.A., the ERG group's main independent auditor, and by the companies belonging to its network.

	2011
AUDITING SERVICES	300
SERVICES OTHER THAN AUDITING	441
TOTAL	**741**

"Auditing services" include the full audit of the annual separate and Consolidated Financial Statements and the review of the half-year interim report.
"Services other than auditing" refer to:

- tax consultancy services for EUR 199 thousand;
- other services for EUR 242 thousand pertaining mainly to agreed-upon procedures performed voluntarily on quarterly data and other minor services.

NOTE 38 – DIVIDENDS

Dividends paid by ERG S.p.A. in 2011, i.e. EUR 59.3 million, as resolved upon approval of the Financial Statements for the previous year, amounted to EUR 0.40 for each of the shares with dividend rights as of the dividend date, hence with the exclusion of treasury shares, in accordance with Article 2357-ter of the Italian Civil Code.
On 6 March 2012, the Board of Directors of ERG S.p.A. proposed the payment to the shareholders of a dividend amounting to EUR 0.40 per share. The dividend will be paid starting on 24 May 2012, subject to issuance of the coupon starting on 21 May 2012.

NOTE 39 – FINANCIAL INSTRUMENTS

Financial instruments existing as of 12/31/2011

	FVTPL (1)	L&R (2)	AFS (3)	OTHER LIABILITIES	HEDGING DERIVATIVES	TOTAL	*OF WHICH NON-CURRENT*	FAIR VALUE
INVESTMENTS IN OTHER COMPANIES	–	–	491	–	–	**491**	–	491
FINANCIAL RECEIVABLES	–	190,670	934	–	–	**191,604**	*149,508*	191,604
DERIVATIVE FINANCIAL INSTRUMENTS	1,070	–	–	–	6,399	**7,469**	–	7,469
TRADE RECEIVABLES	–	505,493	–	–	–	**505,493**	–	505,493
FINANCIAL SECURITIES CLASSIFIED AS CURRENT ASSETS	–	–	–	–	–	–	–	–
OTHER RECEIVABLES	–	46,542	–	–	–	**46,542**	–	46,542
CASH AND CASH EQUIVALENTS	–	410,829	–	–	–	**410,829**	–	410,829
TOTAL ASSETS	**1,070**	**1,153,534**	**1,425**	**–**	**6,399**	**1,162,428**	***149,508***	**1,162,428**
MORTGAGES AND LOANS	–	–	–	419,664	–	**419,664**	*283,630*	418,313
SHORT-TERM BANK BORROWINGS	–	–	–	170,954	–	**170,954**	–	170,954
FINANCIAL PAYABLES	–	–	–	8,475	–	**8,475**	–	8,475
DERIVATIVE FINANCIAL INSTRUMENTS	317	–	–	–	2,278	**2,595**	*432*	2,595
TRADE PAYABLES	–	–	–	706,687	–	**706,687**	–	706,687
OTHER PAYABLES	–	–	–	50,611	–	**50,611**	–	50,611
TOTAL LIABILITIES	**317**	**–**	**–**	**1,356,391**	**2,278**	**1,358,986**	***284,062***	**1,357,635**

(1) FVTPL: Fair value through profit or loss
(2) L&R: Loans and receivables
(3) AFS: Available for sale financial investments

Financial instruments existing as of 12/31/2010

	FVTPL (1)	L&R (2)	AFS (3)	OTHER LIABILITIES	HEDGING DERIVATIVES	TOTAL	*OF WHICH NON-CURRENT*	FAIR VALUE
INVESTMENTS IN OTHER COMPANIES	–	–	559	–	–	**559**	–	559
FINANCIAL RECEIVABLES	–	493,692	1,420	–	–	**495,112**	*449,858*	495,112
DERIVATIVE FINANCIAL INSTRUMENTS	–	–	–	–	5,532	**5,532**	–	5,532
TRADE RECEIVABLES	–	298,966	–	–	–	**298,966**	–	298,966
FINANCIAL SECURITIES CLASSIFIED AS CURRENT ASSETS	–	27,986	12,159	–	–	**40,145**	–	40,145
OTHER RECEIVABLES	–	31,727	–	–	–	**31,727**	*50*	31,727
CASH AND CASH EQUIVALENTS	–	1,114,939	–	–	–	**1,114,939**	–	1,114,939
TOTAL ASSETS	**–**	**1,967,310**	**14,138**	**–**	**5,532**	**1,986,980**	***449,908***	**1,986,980**
MORTGAGES AND LOANS	–	–	–	638,942	–	**638,942**	*420,559*	641,631
SHORT-TERM BANK BORROWINGS	–	–	–	511,099	–	**511,099**	–	511,099
FINANCIAL PAYABLES	–	–	–	37,964	–	**37,964**	–	37,964
DERIVATIVE FINANCIAL INSTRUMENTS	1,030	–	–	–	195	**1,225**	–	1,225
TRADE PAYABLES	–	–	–	563,578	–	**563,578**	–	563,578
OTHER PAYABLES	–	–	–	38,091	–	**38,091**	–	38,091
TOTAL LIABILITIES	**1,030**	**–**	**–**	**1,789,674**	**195**	**1,790,898**	***420,559***	**1,793,587**

(1) FVTPL: Fair value through profit or loss
(2) L&R: Loans and receivables
(3) AFS: Available for sale financial investments

NOTE 40 – DISCLOSURES ON FINANCIAL RISKS

The following are the main risks identified and actively managed by ERG S.p.A.:

- Credit risk: the possibility of default by a counterparty or the potential deterioration of the assigned creditworthiness;
- Market risk: deriving from exposure to fluctuations in currency exchange rates, mainly between the euro and US dollar and interest rates, as well as changes in the prices of products sold and raw material purchased (commodity price volatility risk);
- Liquidity risk: the risk of available financial resources being insufficient to fulfil payment commitments.

ERG attributes great importance to the monitoring of risks and to control systems, as conditions for ensuring efficient management of the risks undertaken. The Risk Management process centrally measures and controls the degree of exposure to individual risks for the entire Group, checks compliance with limits assigned and provides its analyses to individual subsidiaries, to the Risk Committee and to the Company's top management, for strategic decisions.

CREDIT RISK

Exposure to credit risk, i.e. the likelihood that a given counterparty is not able to meet its contractual obligations, is managed through appropriate analysis and assessments, assigning to each counterparty an Internal Rating, a summary indicator of the creditworthiness assessment. The rating provides an estimate of the likelihood of default of a given counterparty on which the level of credit assigned depends, which is punctually monitored and must never be exceeded. The choice of counterparties for both the industrial and financial transactions is subject to the decisions of the Loans and Credits Committee, whose decisions are supported by the credit rating analysis.
The risk of concentration, in terms of both customers and segments, is also monitored continuously; however, 'alert' situations have never occurred.

The following table provides information on the ERG S.p.A.'s exposure to credit risk as year end, by a classification of receivables not overdue (Note 9) according to the corresponding creditworthiness reflecting the internal ratings assigned.

(EUR THOUSAND)	2011
AAA RATING	5,139
AA+ / AA- RATING	23,663
A+ / A- RATING	85,580
BBB+ / BBB- RATING	31,086
BB+ / BB- RATING	42,913
B+ / B- RATING	–
NOT ASSIGNED	94,129
TOTAL	**282,511**

LIQUIDITY RISK

Liquidity risk is the risk that financial resources may be insufficient to cover all obligations falling due. Today, with its cash flow generation and the availability of lines of credit provided by various counterparties, ERG ensures adequate coverage of its financial requirements.
The following tables summarise the maturity profile of the financial liabilities of ERG S.p.A. as of 31 December 2011 and 31 December 2010, based on undiscounted contractual payments.

12/31/2011	PAYABLES BY MATURITY				
(EUR THOUSAND)	ON DEMAND	UNDER 3 MONTHS	3-12 MONTHS	1-5 YEARS	MORE THAN 5 YEARS
MORTGAGES AND LOANS	–	15,397	121,428	294,771	–
NON-RECOURSE PROJECT FINANCING	–	–	–	–	–
SHORT-TERM BANK BORROWINGS	170,954	–	–	–	–
DERIVATIVE INSTRUMENTS	748	1,136	278	432	–
FINANCIAL PAYABLES	6	3,211	–	5,258	–
TRADE PAYABLES	–	635,692	68,270	2,725	–
TOTAL LIABILITIES	**171,708**	**655,435**	**189,977**	**303,187**	**–**

12/31/2010	PAYABLES BY MATURITY				
(EUR THOUSAND)	ON DEMAND	UNDER 3 MONTHS	3-12 MONTHS	1-5 YEARS	MORE THAN 5 YEARS
MORTGAGES AND LOANS	–	1,265	196,154	470,451	–
NON-RECOURSE PROJECT FINANCING	–	–	–	–	–
SHORT-TERM BANK BORROWINGS	511,099	–	–	–	–
DERIVATIVE INSTRUMENTS	2,537	194	1,077	–	–
FINANCIAL PAYABLES	3	37,960	–	–	–
TRADE PAYABLES	–	563,578	–	–	–
TOTAL LIABILITIES	**513,639**	**602,998**	**197,231**	**470,451**	**–**

Concerning the disclosure on "fair value hierarchies" required by IFRS 7, see the comments in Note 45 to the Consolidated Financial Statements

MARKET RISK

Market risk includes currency exchange rate risk, interest rate risk and commodities price risk. Management of these risks is regulated by the guidelines indicated in the group's Risk Management Policy and internal procedures of the operational finance department.
Furthermore, specific risk management policies and procedures, based on industry best practice, were developed for the thermoelectric-gas business for continuous measurement of risk exposure levels with respect to a risk capital value allocated by the Parent Company.

Currency exchange rate risk

The exchange rate risk arises from fluctuations 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 company in currencies other than Euro (the functional currency) constitute the exposure to currency exchange rate risk. In order to mitigate the volatility of these exposures, open positions are hedged on both the spot and forward markets (although they are not designated in hedge accounting).
The following table shows the impact on pre-tax profit, with all other variables kept constant, of the adjustment to the fair value of financial assets and liabilities resulting from a change of +/- 10% in the exchange rate towards the dollar.

Impact on Income Statement

(EUR MILLION)	2011	2010
SHOCK-UP (VARIATION IN EUR/DOLLAR EXCHANGE RATE = **+10%**)	5.7	4.1
SHOCK-DOWN (VARIATION IN EUR/DOLLAR EXCHANGE RATE = **-10%**)	(5.6)	(4.4)

Interest rate risk

Interest rate risk identifies the fluctuation in future interest rate trends that could determine higher costs for the Group. Interest rate risk is hedged by using derivative contracts, such as Interest Rate Swaps and Interest Rate Options (plain vanilla).

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

Impact on Income Statement

(EUR MILLION)	2011	2010
SHOCK-UP (INTEREST RATE VARIATION = **+1%**)	(2.0)	(3.9)
SHOCK-DOWN (INTEREST RATE VARIATION = **-1%**)	1.9	4.0

Impact on shareholders' equity

(EUR MILLION)	2011	2010
SHOCK-UP (INTEREST RATE VARIATION = **+1%**)	0.8	0.7
SHOCK-DOWN (INTEREST RATE VARIATION = **-1%**)	(0.5)	2.2

Commodity Risk

Commodity price risk consists in unexpected fluctuations in the prices of raw materials and of services provided for sale on the open market.

The current policy for oil commodities price risk management prescribes 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 Futures, Commodity Swaps and Commodity Options with underlying crude oil and petroleum products.

The following table considers the derivative financial instruments tied to different categories of commodities, oil and energy, and shows – with all other variables kept constant – the impact on pre-tax profit (due to adjustments to the fair value of financial assets and liabilities) and Group shareholders' equity (due to adjustments to the fair value of the derivative instruments comprising the cash flow hedge reserve) of a +/- 20% change in the price of commodities.

Impact on Income Statement

(EUR MILLION)	2011	2010
SHOCK-UP (VARIATION IN COMMODITIES PRICE = **+20%**)	(8.7)	(1.2)
SHOCK-DOWN (VARIATION IN COMMODITIES PRICE = **-20%**)	8.7	1.2

Impact on shareholders' equity

(EUR MILLION)	2011	2010
SHOCK-UP (VARIATION IN COMMODITIES PRICE = **+20%**)	17.4	9.6
SHOCK-DOWN (VARIATION IN COMMODITIES PRICE = **-20%**)	(17.4)	(9.5)

DERIVATIVE FINANCIAL INSTRUMENTS USED

The derivative financial instruments arranged by ERG are designed to hedge its exposure to commodities price, currency exchange rate, and interest rate risks. As of 31 December 2011, they consisted of the following:

	TYPE	HEDGED RISK	REFERENCE UNDERLYING ASSET		FAIR VALUE 12/31/2011 (EUR THOUSAND)
	CASH FLOW HEDGING INSTRUMENTS				
A	INTEREST RATE SWAPS AND INTEREST RATE CAPS	ECONOMIC INTEREST RATE RISK	EUR THOUSAND	62,500	(432)
B	CRUDE OIL PRICE RISK SWAPS	COMMODITY TRANSACTION RISK	BARRELS	1,025,000	(90)
C	GAS PRICE RISK SWAPS	COMMODITY TRANSACTION RISK	MILLION SMC	86	317
	TOTAL CASH FLOW HEDGING INSTRUMENTS				**(205)**
	FAIR VALUE HEDGING INSTRUMENTS				
D	CRUDE OIL PRICE RISK SWAPS	COMMODITY TRANSACTION RISK	BARRELS	135,000	(81)
	TOTAL FAIR VALUE HEDGING INSTRUMENTS				**(81)**
	NON HEDGE ACCOUNTING INSTRUMENTS				
E	ELECTRICITY PRICE RISK HEDGING CFD	RISK OF FLUCTUATIONS IN ELECTRICITY PRICE	MWH	95,280	(94)
F	FORWARDS ON SHORT-TERM CURRENCY EXCHANGE RATES	EXCHANGE RATE TRANSACTION RISK	MILLION OF DOLLARS	198	(646)
G	PRODUCT PRICE RISK SWAPS	HEDGING FOR CRUDE OIL PRICE FLUCTUATIONS	TONNES	70.000	379
H	FUTURES TO HEDGE COMMODITY PRICE RISK	HEDGING FOR CRUDE OIL PRICE FLUCTUATIONS	BARRELS	1,278	(479)
I	GAS PRICE RISK SWAPS	HEDGE FOR GAS PRICE FLUCTUATIONS	MILLION SMC	35	483
	TOTAL NON HEDGE ACCOUNTING INSTRUMENTS				**(356)**
	TOTAL ERG S.P.A. DERIVATIVE FINANCIAL INSTRUMENTS				**(643)**

CASH FLOW HEDGING INSTRUMENTS

A Interest Rate Swaps and Interest Rate Caps

Transactions hedging the economic "interest rate" risk arising from the risk of fluctuations in interest rates paid on loans. As of 31 December 2011, there was a total negative fair value amounting to EUR 0.4 million presented in the Cash Flow Hedge reserve.

B Crude oil price risk swaps

Swaps are used to hedge the risk of future price fluctuations in raw materials. They are contracts whereby the parties undertake to pay or receive, at an agreed maturity date, the difference between the spot price and forward price for the quantity of crude oil in question (underlying asset). Settlement between the parties only concerns the price differentials and does not entail any exchange of goods, although the existence of the underlying financial instrument is guaranteed. The negative fair value at 31 December 2011 is not significant.

C 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 times the quantities indicated in the contract.
Fair value as of 31 December 2011 was positive in the amount of EUR 0.3 million.

FAIR VALUE HEDGING INSTRUMENTS

D Crude oil price risk swaps

Swaps are used to hedge the risk of future price fluctuations in raw materials already purchased as of 31 December 2011. They are contracts whereby the parties undertake to pay or receive, at an agreed maturity date, the difference between the spot price and forward price for the quantity of crude oil in question (underlying asset). Settlement between the parties only concerns the price differentials and does not entail any exchange of goods, although the existence of the underlying financial instrument is guaranteed. As of 31 December 2011, there was a positive total fair value of an immaterial amount. The carrying value of the raw materials covered by this hedging instrument was adjusted to reflect, in the Income Statement, the changes in fair value associated with the hedged risk.

NON HEDGE ACCOUNTING INSTRUMENTS

E Electricity price risk hedging CFD

CFD transactions to hedge the risk of fluctuation in the price of electricity with respect to forward agreements for the purchase of electricity. They are contracts whereby the parties undertake to liquidate, at a certain date, the difference between the price agreed in the contract and the market price of the reference period, multiplied times the agreed units.
As of 31 December 2011 there was a total negative fair value of an immaterial amount.

F Forwards on short-term currency exchange rates

These are transactions to hedge the currency exchange rate risk of cash flows generated by expected purchases of raw materials and sales of finished products for the month of January 2012. As of 31 December 2011 there was a total negative fair value in the amount of approximately EUR 0.6 million.

G Product price risk swaps

These swaps hedge the risk of price fluctuations on future product sales.
They are contracts whereby the parties undertake to pay or receive, at an agreed maturity date, the difference between the spot price and forward price for the quantity of crude oil in question (underlying asset). Settlement between the parties only concerns the price differentials and

does not entail any exchange of goods, although the existence of the underlying asset is guaranteed. At year end, there was a total fair value of approximately EUR 0.4 million.

H Futures to hedge commodity price risk.

Futures transactions to hedge the risk of price fluctuations on the quantities of crude oil in stock. They are contracts whereby the parties undertake to forward purchase and/or sell a given quantity of crude oil lots. Monetary settlement between the parties takes place on the basis of the price differential. At year end, there was a total negative fair value of approximately EUR 0.5 million.

I Gas price risk swaps

Swaps 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 times the quantities indicated in the contract. At year end, there was a total fair value of approximately EUR 0.5 million.

CASH FLOW HEDGE RESERVE

	12/31/2011	12/31/2010
BALANCE AT BEGINNING OF PERIOD	**2,527**	**(1,259)**
EFFECTS OF 2010 MERGER	–	1,253
CHANGE IN FAIR VALUE	(161)	2,971
REVERSAL IN INCOME STATEMENT	(2,497)	(438)
BALANCE AT END OF PERIOD	**(131)**	**2,527**

MARKET VALUE OF DERIVATIVE INSTRUMENTS

ERG uses various measurement and valuation models to determine the market value of derivative instruments. In particular, the Futures used by ERG S.p.A. are all in Level 1 of the Fair Value hierarchy indicated by IFRS 7, whilst all other derivative instruments are in Level 2 of the Hierarchy.

NOTE 41 – PUBLICATION DATE OF THE REPORT OF THE SEPARATE FINANCIAL STATEMENT

On 6 March 2012, the Board of Directors of ERG S.p.A. authorised the publication of the Separate Financial Statements together with the reports by the supervisory bodies in compliance with the deadlines prescribed by current laws and regulations.

Genoa, 6 March 2012

On behalf of the Board of Directors
The Chairman
Edoardo Garrone

REPRESENTATIONS ON THE SEPARATE FINANCIAL STATEMENTS PURSUANT TO ARTICLE 81-TER OF CONSOB REGULATION NO. 11971 DATED 14 MAY 1999, AS AMENDED

1. The undersigned Alessandro Garrone, Chief Executive Officer of ERG S.p.A, and Giorgio Coraggioso, manager responsible for preparing the financial reports of ERG S.p.A, considering the provisions set out in Article 154-bis, subsections 3 and 4, of Italian Legislative Decree 58 dated 24 February 1998, represent as to:

- the suitability in relation to the characteristics of the business and
- the actual application of the administrative and accounting procedures for the preparation of the Separate Financial Statements as of and for the year ended 31 December 2011.

2. Evaluation of the suitability of the administrative and accounting procedures used to prepare the Separate Financial Statements as of and for the year ended 31 December 2011 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 the international level.

3. It is furthermore represented that:

3.1 the Separate Financial Statements:

a) were prepared in accordance with the applicable International Accounting Standards recognised in the European Community pursuant to Regulation (EC) no. 1606/2002 of the European Parliament and Council, dated 19 July 2002;

b) correspond to the underlying accounting books and records;

c) are suitable to provide a true and fair view of the financial position and results of operations of the issuer;

3.2 the Report on Operations contains a reliable analysis of the operating performance and results, as well as the financial position of the issuer, together with a description of the main risks and uncertainties to which it is exposed.

Genoa, 6 March 2012

The Chief Executive Officer

The Manager Responsible
for preparing the financial reports

BOARD OF STATUTORY AUDITORS' REPORT TO THE SHAREHOLDERS' MEETING, PURSUANT TO ARTICLE 153 OF LEGISLATIVE DECREE NO. 58/98 AND WITH ARTICLE 2429 OF THE ITALIAN CIVIL CODE

To the Shareholders' Meeting of ERG S.p.A.

The Board of Statutory Auditors, appointed by the Shareholders' Meeting of 15 April 2010, verified, upon acceptance of the appointment and subsequently in the performance of its duties, the fulfilment of the requirements set out by Article 2397 of the Italian Civil Code and the lack of grounds for invalidation and ineligibility set out by Article 2399 of the Italian Civil Code and by Article 148, Paragraph 3, of Legislative Decree 58/98.
The Board of Statutory Auditors, having examined the personal and professional characteristics of each auditor, has verified that all of its members can be designated as independent, partly based on the criteria set forth in the Corporate Governance Code for directors.
The members of the Board of Statutory Auditors have undertaken that they have complied with the disclosure obligations set out by Article 148-bis of Legislative Decree 58/98 and by the Issuers' Regulations at Articles 144-duodecies et seq., establishing limits to the accumulation of offices that may be held in other Companies.
The Board of Statutory Auditors undertakes that on 14 April 2011 it delivered to CONSOB, in compliance with CONSOB Communication no. 6031329 of 7 April 2006, the "Summary of oversight activities".

During the year ended on 31 December 2011, the Board of Statutory Auditors carried out the supervisory activities required of the Board of Statutory Auditors, in accordance with. Article 149 of Legislative Decree 58/98 (Consolidated Finance Act - CFA), in accordance with the Standards of behaviour of the Board of Statutory Auditors in corporations with shares listed on regulated markets, prepared by the National Board of Chartered Accountants and with the recommendations and notices issued by CONSOB.
In preparing this report, due consideration was also given to CONSOB communications no. 1025564 of 6 April 2001, no. 3021582 of 4 April 2003 and no. 6031329 of 7 April 2006, pertaining to the content of the reports of the Boards of Statutory Auditors to the Shareholders' Meetings of companies with shares listed on the stock market.

With reference to the supervisory activity carried out with respect to compliance with the law, with the Articles of Associations and with regulations and to the enforcement of proper administration standards, the Board of Statutory Auditors hereby undertakes that:

- During the 2011 financial year, the Board of Statutory Auditors held seven meetings and attended a Shareholders' Meeting (ordinary and extraordinary), eight meetings of the Board of Directors and eleven meetings of the Internal Control Committee; the frequency of the meetings of the Board of Directors and directors' average attendance rate were adequate and we can undertake that not significant resolutions were passed without providing sufficient information to the directors and statutory auditors.
- By attending the Shareholders' Meetings and the meetings of the Board of Directors, the Board of Statutory Auditors supervised compliance with the articles of association, the laws and regulations that govern the operation of the Company's bodies and the enforcement of proper administration standards. The Board of Statutory Auditors verified

that all resolutions were in accordance with the best interest of the company and supported by suitable documentation and by expert opinions pertaining the economic-financial congruity of transactions, when necessary.

- The Board of Directors receives adequate information from the Chief Executive Officer and from the Internal Control Committee; it supervises the general operating performance, periodically comparing the results achieved with those planned; it scrutinises and approves transactions with significant relevance.
- The Board of Statutory Auditors acquired from the directors, at least once per quarter, adequate information on the overall activity carried out by the Company, in the various segments where it operated, also through subsidiaries, and about the transactions with the greatest economic and financial relevance, ascertaining that the actions resolved and carried out were compliant with the law and with the articles of association and were not manifestly imprudent or foolhardy, in potential conflict of interest or in contrast with the resolutions passed by the corporate bodies or such as to compromise the integrity of the company's capital. The Board of Statutory Auditors also supervised compliance with the Guidelines, Standards of behaviour and Procedures in force within the Group.
  Additional information on the subsidiaries of ERG S.p.A. was obtained in meetings with the Independent Auditors and with the statutory auditors of the subsidiaries.
- The Board of Statutory Auditors received adequate information, in particular, about:
  - exercise of the put option on 11% of ISAB S.r.l.;
  - updates on the process for the implementation of the takeover bid promoted by ERG S.p.A. on all ordinary shares, not in its possession, of the entire chare capital of ERG Renew S.p.A., concluded with the delisting of ERG Renew shares on the Electronic Equity Market;
  - agreement executed by the subsidiary ERG Renew S.p.A. for the incorporation of the equal-share joint venture LukErg Renew, as an instrument of collaboration in the renewable energies market in Eastern European Countries and in Russia;
  - the ERG Renew share capital increase;
  - acquisitions, by the indirect subsidiary ERG Eolica Italia S.r.l., of projects in the generation of electricity from renewable sources;
  - sale of the "Electricity marketing" business unit;
  - nitiatives, also of a legal nature, undertaken to recover a receivable in the electricity and gas trading business;
  - dispute between ERG Raffinerie Mediterranee S.p.A. and the Italian Tax Authorities over the application of harbour duties for embarkation and disembarkation rights at the Santa Panagia jetty, and dispute with Polimeri Europa S.p.A. for the damage compensation claim and with the Revenue Agency for harbour duties; the Board of Statutory Auditors examined and evaluated the legal opinions supporting the conclusions reached by the company;
  - agreement between the affiliate ISAB and the Ministry of the Environment and of the Protection of Land and Sea for the Priolo industrial Site clean-up.

The Board of Statutory Auditors, having examined the new regulatory provisions for companies, verified the Company's compliance in this regard and undertakes:

- that it has reviewed the amendments to the articles of association proposed to the Shareholders' Meeting by the Board of Directors, in accordance with Legislative Decree no. 27 of 27 January 2010, verifying their compliance with legislative and regulatory provisions;
- that it has reviewed the Policy for the remuneration of directors and Key executives adopted by the Board of Directors, in line with the indications of the Corporate Governance

Code for listed companies and at the proposal of the Nominations and Remuneration Committee, at the meetings attended by the Board of Statutory Auditors.

The Board of Statutory Auditors oversaw compliance with the "Market abuse" and "Protection of savings" regulations on corporate disclosure and "Internal Dealing", with particular reference to the treatment of privileged information and to the procedure for disseminating notices and information to the public.
The Board of Statutory Auditors received timely notifications about the request for information, data and documents by CONSOB, in accordance with Article 115 of the CFA, within the scope of the investigation on transactions involving shares of ERG Renew S.p.a., noting that all requested documents were promptly provided to CONSOB.
The Board of Statutory Auditors reviewed and assessed the document for the verification and update both of the areas where the parent company exercises management and control and of the companies on which said powers are exercised, verifying compliance with the provisions of Article 2497 et seq. of the Italian Civil Code.
During the year, the Board of Statutory Auditors issued the opinions required by law, in relation to Board of Directors resolutions pertaining to:

1. replacement of directors (Art. 2386 of the Italian Civil Code);
2. determination of compensation to directors tasked with particular duties;
3. allocating extraordinary compensation to the Chief Executive Officer for the set of results attained.

The Board of Statutory Auditors also acknowledged:

1. the approval, by the Board of Directors, of the definition of the relationship, including the economic arrangements, with the Deputy Chairman Pietro Giordano, with the favourable opinion of the Nominations and Remuneration Committee, also taking into account the provisions of the Procedure for transactions with related parties;
2. the awarding of an extraordinary bonus to a team of managers of the Company, among them some Key Executives and the Corporate General Manager, in relation to the work performed for months with the goal of bringing to completion the exercise of the put option for 11% of the share capital of ISAB S.r.l.

All information about the nature and the amount of such compensation is provided in the Report on Remuneration.
The Board of Statutory Auditors has ascertained that all above decisions were made, at the proposal or with the favourable opinion of the Nominations and Remuneration Committee, in compliance with the Group's current guidelines and with the provisions of the Procedure for transactions with related parties.

With reference to the supervisory activity on the adequacy of the organisation and of the internal control system, the Board of Statutory Auditors acquired knowledge and supervised, for matters under its cognisance:

- compliance with proper administration standards, through the information received directly by the heads of the various company functions and by representatives of the Independent Auditors.

With respect to upgrading the corporate governance system in accordance with the recommendations of the Corporate Governance Code for listed companies, published in March 2006, the Board of Statutory Auditors actually ascertained compliance with the regulations set out by the aforesaid Code, which was adequately represented in the corporate governance report, in accordance with Article 124-ter of the CFA and with Article 89-bis of CONSOB Regulations. Since Borsa Italiana, in December 2011, issued a new version of the Corporate Governance Code, the Company also intends to comply with the new edition and, as provided by the transitional rules, it will implement the updating actions by the end of

2012, although the current organisation is substantially already compliant. With reference to the enforcement of the Corporate Governance Code for listed companies, the Board of Statutory Auditors undertakes:

- that it has verified the correct enforcement of the audit standards and procedures adopted by the Board of Directors to assess the actual independence of its members, in accordance with Article 3, paragraph 5 of the Corporate Governance Code;
- that it has agreed with the positive assessment expressed by the Nominations and Remuneration Committee, endorsed by the Board of Directors as required by application standard no. 1. Paragraph 1, Letter g) of the Corporate Governance Code, on the size and composition of the board of directors and its operation as well as on the size, composition and operation of the board committees.

The Board of Statutory Auditors evaluated and oversaw the adequacy of the internal control system, structured at the group level and kept constantly upgraded in the parent company and in subsidiaries, in meetings with the heads of the various functions involved and with the Head of internal control.

Attendance at the meetings of the Internal Control Committee enabled the Board of Statutory Auditors to co-ordinate with the activities of the Committee the performance of its own functions as Committee for internal control and auditing, assigned by virtue of Article 19 of Legislative Decree no. 39/2010 and to proceed, in particular, to oversee the process pertaining to financial disclosure and the effectiveness of the internal control, internal audit and risk management systems.

In particular, the Board of Statutory Auditors examined the periodic reports on the activity carried out:

- by the Internal Control Committee;
- by the Head of Internal Control;
- by the Risk office;
- by the Internal Audit Division.

The Board of Statutory Auditors was periodically informed on the process for the operational implementation, under the responsibility of the Risk office, of the integrated risk management model based on the internationally known principles of Enterprise Risk Management (ERM), with particular reference to the COSO framework (promoted by "The Committee of Sponsoring Organizations of the Treadway Commission").

With regard to risk management, the Board of Statutory Auditors noted that, in compliance with the guidelines, transactions are carried out to minimise commodity price risks and financial risks (foreign exchange and interest rate risk), solely for hedging purposes, without taking speculative attitudes; derivative financial instruments, as defined by Article 2427 bis of the Italian Civil Code (options, swaps, futures and forward contracts). The Notes to the Financial Statements provide, in accordance with Article 2427-bis of the Italian Civil Code, the market values, on the basis of the mark to market values of the reference market, verifying congruity through evaluation instruments and models.

With reference to the organisational and procedural activities performed in accordance with Legislative Decree 231/2001, for the administrative liability of Entities for the offenses prescribed by the regulations, the Board of Statutory Auditors acknowledged, both in the meeting with the Supervisory Committee and in the periodic reports prepared by the aforesaid Body on the activity it carried out, that no significant critical issues were observed for the purposes of the implementation and effectiveness of the organisation, management and control Model. For the matters under its cognisance, the Board of Statutory Auditors:

- ascertained that the members of the Supervisory Committee meet the professional requirements prescribed by the Model in accordance with Legislative Decree 231/2001;

- noted the adequacy of the powers and financial resources allocated to the Supervisory Committee for the proper performance of its institutional duties;
- verified consistency between the reports it received and the disclosure provisions of the Model;
- examined the proposed updates to the Model and to the Code of Ethics, aimed at implementing the regulatory changes that have taken place, the organisational changes made in the ERG Group and the evolution of reference best practices;
- examined the Guidelines for the adoption of the organisation, management and control Model in the companies of the ERG Group.

With reference to the activity of overseeing the adequacy of the administrative-accounting system and its reliability in correctly representing operations, the Board of Statutory Auditors received adequate information about the monitoring of company processes with administrative-accounting impact within scope of the internal control system, performed both during the year in relation to periodic reports on operations and upon closing the accounts for the preparation of the financial statements, in compliance with the monitoring and certification obligations ERG S.p.A. must fulfil in accordance with Law 262/05.
In this regard, the Board of Statutory Auditors examined the risk assessment, acknowledged the results of the test activities on the checks made and the planned activities. No particular critical issues and elements were found that would prevent the issue of the certification by the Manager responsible for preparing the company's financial reports and by the Chief Executive Officer on the adequacy of the administrative and accounting procedures for the drafting of the Financial Statements of ERG S.p.A. and of the consolidated Financial Statements as at 31 December 2011.
The adequacy of the administrative-accounting system was also assessed through the acquisition of information from the heads of the respective functions, the examination of company documents and the analysis of the results of the work carried out by the Independent Auditors.
The Board of Statutory Auditors oversaw compliance with regulations on the preparation and publications of the Half-yearly financial report and on Interim Reports on Operations, as well as their manner of drafting and the correct application of accounting standards, using also the information obtained from the Independent Auditors.
The Board of Statutory Auditors verified the adequacy of the instructions issued by ERG S.p.A to its subsidiaries, both with reference to the flows of data necessary for the preparation of the Financial Statements and the Interim Reports, and to compliance with Article 114, Paragraph 2 of Legislative Decree no. 58/98.

With reference to supervisory activities on health, safety and environmental matters, the Board of Statutory Auditors verified that the corporate bodies and the management pay close attention to these issues, whose policy is an integral part of the Code of Ethics; it also verified the focus on constant upgrades and improvements and the existence of a formalised system of delegations of powers, with the precise definition of duties and responsibilities.
In this regard, the Board of Statutory Auditors was periodically informed on the continuation, also for the year 2011, of the activities of the Safety Project, launched by the ERG Group in early 2009, with the support of leading companies in this field, and aimed at improving and changing the culture of individuals in relation to the management of the risks connected with Health, Safety and Environmental issues.
Work continued according to the programme for the implementation and certification, according to recognised standards (ISO 14001 Environment and OHSAS 18001 Health and Safety), of effective management Systems for the minimisation of specific risks, pursuing the Group objective of certifying all industrial sites in accordance with these standards.
The Security Policy Document (Privacy) was updated in light of the technical and

organisational changes introduced in the group's IT system according both to current regulatory provisions and to the changes in the organisational structure deriving from significant extraordinary corporate transactions.

As a result of the supervision and control activity carried out during the year, the Board of Statutory Auditors can certify and note that:

- during the activity carried out, no omissions, irregularities or objectionable or otherwise significant facts emerged, such as would require notification to the supervisory bodies or mention herein;
- Board of Statutory Auditors did not receive any reports in accordance with Article 2408 of the Italian Civil Code or complaints by third parties;
- no atypical or unusual transactions were noted, either with third parties or intra-group and/or with related parties;
- concerning intra-group transactions, the Directors highlighted, in the Notes to the Financial Statements and in the Report on Operations, as in past years, the existence of relationships of a commercial and financial nature between the companies of the ERG Group, specifying that such transactions are included among ordinary operations and are carried out at market conditions;
- transactions with related parties related almost entirely to transactions carried out with subsidiaries and affiliates outside the scope of consolidation and they pertain to the performance of service, the collection and use of financial resources also through centralised treasury management; the aforesaid transactions are part of ordinary operations, are regulated at market conditions and are illustrated in the Report on Operations and in the Notes to the Financial Statements; in particular, the Board of Statutory Auditors reviewed and approved the document containing the main income data of the intercompany service agreements for the year 2011, appreciating the analysis in the identification of the criteria for charging back the services set out therein;
- the Company had other transactions with related parties, as defined by IAS 24, which are also illustrated in the Notes to the Financial Statements;
- the Board of Statutory Auditors verified the existence and compliance with suitable procedures to assure that intra-group transactions and with related parties are carried out transparently and in compliance with substantial and procedural correctness standards, positively assessing whether the transactions were in the best interest of the company and the adequacy of the information provided by the directors in the Report on Operations.

During the year, the Board of Statutory Auditors communicated regularly with the Independent Auditors, both through formal meetings attended also by the administrative managers of the Company, and through informal meetings between individual members of the Board and representatives of the Independent Auditors, for the purposes of the mutual exchange of significant data and information, in compliance with Article 150 of Legislative Decree 58/98. The utmost collaboration was always provided, also with regard to work on the preparation of the financial statements, and no critical issues of any significance emerged.
In compliance with the rules set out in Articles 10 and 17 of Legislative Decree no. 39 of 27 January 2010, the Independent Auditors issued formal confirmation of its independence, with a declaration dated 13 March 2012, and it disclosed the non-audit services rendered to the public interest agency, also through entities belonging to the network; in this regard, the Board of Statutory Auditors verified that the information received and verified during the year matched the disclosure.

On 13 March 2012, the Independent Auditors delivered to the Board of Statutory Auditors, as the "Committee for internal control and accounting audits in accordance with Article 19 of Legislative Decree 39/2010" the report on the fundamental issues emerged in the course of the regulatory audit, which did not denounce any significant deficiencies in the internal control system in relation to the financial disclosure process.
Taking into account the "Annual transparency report" prepared by Deloitte & Touche S.p.A., published on its Website and delivered to the Board of Statutory Auditors as well as the statement of its own independence issued by the aforesaid company and of the duties assigned by ERG S.p.A. and by the consolidated companies, acknowledging that no appointments were made for services that may compromise the Independent Auditors' independence in accordance with Article 17 of Legislative Decree 39/2010, the Board of Statutory Auditors does not deem that there are any critical aspects with respect to the independence of Deloitte & Touche S.p.A.

For the full audit of the Separate Financial Statements and of the Consolidated Financial Statements and for the limited audit of the Half-yearly financial report, the Independent Auditors Deloitte & Touche S.p.A. received total compensation of EUR 300 thousand.
Additionally, ERG S.p.A. contracted Deloitte & Touche S.p.A. for additional services amounting to EUR 217 thousand for the following work:

Agreed audit procedures on periodic reports	EUR 196 thousand
Unbundling per AEEG Resolution no. 11/2007	EUR 21 thousand

Companies connected to the Deloitte & Touche were contracted to perform services amounting to EUR 224 thousand, broken down as follows:

- Deloitte ERS (Enterprise Risk Service) EUR 25 thousand
- Studio Tributario e societario Deloitte

for tax advice services EUR 199 thousand

For complete disclosure, it is hereby also reported that Deloitte & Touche S.p.A. received from ERG S.p.A. and from subsidiaries (including ERG Renew S.p.A.) auditing appointments for total fees of EUR 811 thousand and additional appointments, for a total amount of EUR 396 thousand.
Additionally, companies connected to the Independent Auditors' network were given appointments for a total compensation of EUR 224 thousand.

Concerning the Separate Financial Statements, the following is reported.

- The Board of Statutory Auditors ascertained, through direct checks and information obtained from the Independent Auditors, compliance with the laws that regulate their drafting, the organisation of the statements and of the Report on Operations, with the financial statement models adopted and the accounting standards, described in the Notes to the Financial Statements and the Company's Report on Operations.
- In accordance with CONSOB Resolution no. 15519/2006, the financial statements expressly indicate the effects of transactions with related parties.
- The Notes to the Separate Financial Statements provide the information prescribed by International Accounting Standards with regard to asset impairment. The compliance of the impairment test procedure with the prescriptions of IAS 36 and of the Bank of Italy/CONSOB/Isvap joint document no. 4 of 3 March 2010 was subjected to the formal approval of the Board of Directors in the meeting of 24 February 2012, autonomously and in advance with respect to the time of approval of the financial reports, as recommended by the aforesaid Document. The Board of Statutory Auditors has analysed and discussed, in a joint meeting with the Internal Control Committee, the document prepared and

illustrated by an independent expert, which describes the analyses made and the results obtained in the impairment test activity.

The assessments were carried out with the going concern assumption and in the hypotheses that the assumptions indicated in the updated Plan prepared by the Management of the Company would hold true. The Board of Statutory Auditors, after analysing on one hand the consistency with the schemes adopted previously and on the other hand the reasons for change relative to the previous year, deemed the procedure correct and the main assessment hypotheses reasonable, and therefore approved the results:

- in the separate financial statements of ERG S.p.A.: write-down of the carrying value of the equity investment in ERG Nuove Centrali S.p.A. and recognition of a provision for charges on equity investments;
- in the ERG S.p.A. consolidated financial statements: write-downs referred to the goodwill and to part of the value of the tangible fixed assets pertaining to the CCGT plant.

The Board of Statutory Auditors approved the reasons why, in accordance with the indications of IAS 39 and on the basis of a dedicated study prepared by independent experts, the put option recognised by LUKOIL with respect to the 40% of ISAB S.r.l. was not measured at fair value.

- The Chief Executive Officer and the Manager responsible for preparing the company's financial reports issued the certification, in accordance with Article 81 – ter of CONSOB Regulation no. 11971/1999 with subsequent amendments and additions and with Article 154-bis of Legislative Decree 58/1998 (CFA).
- The financial statements match the facts and information of the Board of Statutory Auditors became aware in the performance of its supervisory duties and in the exercise of its oversight and inspection powers.
- The Report on Operations meets law-mandated requirements and it is consistent with the data and results of the financial statements; it provides ample disclosure about the business and about relevant transactions, of which the Board of Statutory Auditors had punctually been informed, and about the main risks of the company and of its subsidiaries and on intra-group transactions and transactions with related parties, as well as about the process of upgrading the corporate organisation in accordance with the standards of governance, consistently with the Corporate Governance Code for listed companies.
  It provides disclosure on significant events after the ending date of the financial year, which did not have any impact on the 2011 financial statements and, in particular, on the partial exercise of the put option on the 20% equity interest in ISAB S.r.l. and on the entry through LukErg Renew, joint venture between ERG Renew and LUKOIL-Ecoenergo, into the Bulgarian wind power market with a significant share.
- In accordance with Article 123-ter of Legislative Decree 58/1998 (CFA), the Report on Remuneration is submitted to the Shareholders' Meeting.

On 13 March 2012, the Independent Auditors issued the report in accordance with Articles 14 and 16 of Legislative Decree 39/2010, declaring that the financial statements as at 31 December 2011 are in accordance with the International Financial Reporting Standards – IFRS – adopted by the European Union, and with the regulations promulgated to implement Article 9 of Legislative Decree no. 38/2005, and they are prepared clearly and they represent truthfully and fairly the financial situation, the income and expenses and the cash flows of ERG S.p.A. for the year that ended on that date.

In view of the contents of this report, the Board of Statutory Auditors has no observations to formulate with respect to the approval of the financial statements as at 31 December 2011 and to the proposal of the Board of Directors for the allocation of the profit for the year, i.e. EUR 19,928,214.55.

Genoa, 14 March 2012

The Board of Statutory Auditors
Mario Pacciani (Chairman)

Paolo Fasce (Standing Auditor)

Lelio Fornabaio (Standing Auditor)

AUDITORS' REPORT

Deloitte.

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AUDITOR'S REPORT ON THE STATUTORY FINANCIAL STATEMENTS PURSUANT TO ART. 14 AND 16 OF LEGISLATIVE DECREE N. 39 OF JANUARY 27, 2010

To the Shareholders of
ERG S.p.A.

1. We have audited the statutory financial statements of ERG S.p.A. as of and for the year ended December 31, 2011, which comprise the statement of financial position, the income statement, the statement of other components of comprehensive income, the statement of changes in equity, the statement of cash flows and the related notes to financial statements. These financial statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree n. 38/2005 are the responsibility of the Company's Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

2. We conducted our audit in accordance with the Auditing Standards recommended by CONSOB, the Italian Commission for listed Companies and the Stock Exchange. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

   For the opinion on the prior year's financial statements, whose data are presented for comparative purposes, reference should be made to our auditors' report issued on March 15, 2011.

3. In our opinion, the statutory financial statements of ERG S.p.A. as of December 31, 2011 comply with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree n. 38/2005; accordingly, they give a true and fair view of the financial position of ERG S.p.A., and of the results of its operations and its cash flows for the year then ended.

4. The Directors of ERG S.p.A. are responsible for the preparation of the report on operations in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency of the report on operations and of the specific section on corporate governance with reference to the information reported in compliance with art. 123-bis of Italian Legislative Decree n. 58/1998, paragraph 1, letters c), d), f), l), m) and paragraph 2, letter b), with the financial statements, as required by law. For this purpose, we have performed the procedures required under Auditing Standard n. 001 issued by the Italian Accounting Profession (CNDCEC) and recommended by CONSOB. In our opinion, the report on operations and the information reported in compliance with art. 123-bis of Italian Legislative Decree n. 58/1998 paragraph 1, letters c), d), f), l), m) and paragraph 2, letter b) included in the specific section on corporate governance are consistent with the financial statements of ERG S.p.A. as of December 31, 2011.

DELOITTE & TOUCHE S.p.A.

Signed by
Fabrizio Fagnola
Partner

Genoa, Italy
March 13, 2012

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

FINANCIAL STATEMENTS OF THE MAIN SUBSIDIARIES AND JOINT VENTURES (*)

* The financial statements shown in the following pages refer to 2011.

STATEMENT OF FINANCIAL POSITION (IN ACCORDANCE WITH IAS)

(EUR THOUSAND)	ERG RENEW S.P.A. 12/31/2011	ERG RENEW GROUP 12/31/2011
TANGIBLE FIXED ASSETS	398	702,814
INTANGIBLE FIXED ASSETS	681	236,014
EQUITY INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES	49,699	551
FINANCIAL RECEIVABLES FROM SUBSIDIARIES	511,569	–
OTHER EQUITY INVESTMENTS	535	–
FINANCIAL ASSETS	725	725
RECEIVABLES FOR DERIVATIVES	–	1
OTHER RECEIVABLES	612	9,114
TAX ASSETS	1,256	11,564
DEFERRED TAX ASSETS	5,363	62,548
NON-CURRENT ASSETS	**570,838**	**1,023,331**
INVENTORIES	–	–
TRADE RECEIVABLES FROM THIRD PARTIES	2,332	77,603
TRADE RECEIVABLES FROM PARENT, SUBSIDIARY AND ASSOCIATED COMPANIES	9,838	–
FINANCIAL RECEIVABLES FROM SUBSIDIARIES	–	–
OTHER FINANCIAL RECEIVABLES	–	–
OTHER RECEIVABLES	3,933	6,774
TAX ASSETS	303	12,564
EQUITY INVESTMENTS AVAILABLE FOR SALE	–	–
CASH AND CASH EQUIVALENTS	4,883	57,388
CURRENT ASSETS	**21,289**	**154,329**
TOTAL ASSETS	**592,127**	**1,177,660**
GROUP SHAREHOLDERS' EQUITY	**–**	**533,279**
MINORITY INTERESTS	**–**	**845**
SHAREHOLDERS' EQUITY	**532,321**	**–**
	532,321	**534,124**
EMPLOYEES' SEVERANCE INDEMNITY	265	267
PROVISIONS FOR LIABILITIES AND CHARGES	9,457	3,890
NON CURRENT PORTION OF FINANCIAL PAYABLES	4,800	375,140
NON CURRENT PORTION OF FINANCIAL PAYABLES TO PARENT COMPANIES	1,494	1,494
PAYABLES FOR DERIVATIVES	–	42,078
OTHER PAYABLES	–	3,621
DEFERRED TAXES	–	73,540
NON-CURRENT LIABILITIES	**16,016**	**500,030**
CURRENT PORTION OF FINANCIAL PAYABLES	31,200	107,049
PAYABLES FOR DERIVATIVES	1,844	1,844
TRADE PAYABLES	6,446	23,188
OTHER PAYABLES	4,132	9,380
TAX LIABILITIES	168	2,045
CURRENT LIABILITIES	**43,790**	**143,506**
TOTAL LIABILITIES	**592,127**	**1,177,660**

INCOME STATEMENT (IN ACCORDANCE WITH IAS)

(EUR THOUSAND)	ERG RENEW S.P.A. 12/31/2011	ERG RENEW GROUP 12/31/2011
REVENUES FROM SALES AND SERVICES	3,757	108,333
OTHER REVENUES AND INCOME	45	955
VALUE OF PRODUCTION	**3,802**	**109,288**
PURCHASES OF RAW MATERIALS, CONSUMABLES AND GOODS	(86)	(351)
SERVICE COSTS	(12,056)	(30,118)
PERSONNEL COSTS	(5,544)	(5,787)
OTHER OPERATING EXPENSES	(1,004)	(4,698)
DEPRECIATION AND AMORTISATION	(150)	(46,913)
WRITE-DOWNS AND PROVISIONS	–	–
COSTS OF PRODUCTION	**(18,840)**	**(87,867)**
EBIT	**(15,038)**	**21,421**
NET FINANCIAL INCOME (EXPENSES)	(994)	(31,675)
FINANCIAL INCOME (EXPENSES) FROM/TO SUBSIDIARIES AND PARENT COMPANIES	(94)	–
INCOME (EXPENSES) FROM EQUITY INVESTMENTS	(3,472)	136
PROFIT BEFORE TAXES	**(19,598)**	**(10,118)**
CURRENT, DEFERRED AND PREPAID INCOME TAXES	3,651	14,891
PROFIT (LOSS) FROM CONTINUING OPERATIONS	**–**	**4,773**
NET PROFIT (LOSS) FROM DISCONTINUED OPERATIONS	–	(3,411)
NET PROFIT (LOSS) FOR THE PERIOD	**–**	**1,362**
MINORITY SHARES	–	(273)
GROUP PROFIT (LOSS)	**(15,947)**	**1,089**

STATEMENT OF FINANCIAL POSITION

(EUR THOUSAND)	ISAB ENERGY S.R.L. 12/31/2011	ISAB ENERGY SERVICES S.R.L. 12/31/2011	ERG OIL SICILIA S.R.L. 12/31/2011
ASSETS			
A) RECEIVABLES FROM SHAREHOLDERS	**–**	**–**	**–**
B) FIXED ASSETS			
INTANGIBLE	16,464	–	3,144
TANGIBLE	525,204	–	25,205
FINANCIAL	5	–	11
	541,674	**–**	**28,360**
C) CURRENT ASSETS			
INVENTORIES	12,676	–	8,811
RECEIVABLES	166,393	19,508	67,448
FINANCIAL ASSETS	–	–	–
CASH AND CASH EQUIVALENTS	40,135	2,784	13,913
	219,204	**22,293**	**90,171**
D) ACCRUED INCOME AND PREPAYMENTS	**7,971**	**13**	**1,142**
TOTAL ASSETS	**768,849**	**22,306**	**119,673**
LIABILITIES			
A) SHAREHOLDERS' EQUITY			
SHARE CAPITAL	5,165	700	6,310
SHARE PREMIUM RESERVE	–	–	–
REVALUATION RESERVES	–	37	18,000
LEGAL RESERVE	1,033	140	1,262
CONSOLIDATION RESERVE	–	–	–
OTHER RESERVES	28,709	2	6,165
RETAINED EARNINGS (LOSSES CARRIED FORWARD)	405,893	–	–
PROFIT (LOSS) FOR THE YEAR	128	7,483	7,923
	440,927	**8,362**	**39,660**
MINORITY INTERESTS			
SHARE CAPITAL	–	–	–
PROFIT (LOSS) FOR THE YEAR	–	–	–
	–	**–**	**–**
B) PROVISIONS FOR LIABILITIES AND CHARGES			
TAXES	46,410	–	3,059
OTHER	10,923	–	483
	57,333	**–**	**3,542**
C) EMPLOYEES' SEVERANCE INDEMNITIES	**–**	**1,994**	**195**
D) PAYABLES			
PAYABLES TO SHAREHOLDERS FOR LOANS	47,647	–	–
BANKS / OTHER LENDERS	77,698	–	–
ADVANCES	–	–	–
SUPPLIERS	61,675	2,935	7,563
SUBSIDIARIES/ASSOCIATES/ PARENT COMPANIES/AFFILIATES	81,150	4,284	45,086
TAX PAYABLES	1,058	683	21,003
PAYABLES TO SOCIAL SECURITY	3	1,674	84
OTHER PAYABLES	221	2,373	1,484
	269,452	**11,949**	**75,221**
E) ACCRUED EXPENSES AND DEFERRED INCOME	**1,136**	**–**	**1,055**
TOTAL LIABILITIES	**768,849**	**22,306**	**119,673**

INCOME STATEMENT

(EUR THOUSAND)	ISAB ENERGY S.R.L. 12/31/2011	ISAB ENERGY SERVICES S.R.L. 12/31/2011	ERG OIL SICILIA S.R.L. 12/31/2011
A) VALUE OF PRODUCTION			
REVENUES FROM SALES AND SERVICES	433,596	44,442	845,660
INVENTORY CHANGES	(92)	–	200
OWN WORK CAPITALISED	476	–	–
OTHER REVENUES AND INCOME	30,854	282	965
	464,834	**44,725**	**846,825**
B) COSTS OF PRODUCTION			
FOR PURCHASES	(284,882)	(177)	(801,806)
FOR SERVICES	(74,189)	(8,684)	(18,089)
LEASES AND RENTALS	(564)	(827)	(4,779)
PERSONNEL	–	(22,554)	(1,381)
AMORTISATION, DEPRECIATION AND WRITE-DOWNS	(48,382)	–	(4,247)
INVENTORY CHANGES	1,798	–	–
PROVISIONS	(5,435)	–	(453)
FOR OTHER OPERATING EXPENSES	(42,166)	(131)	(1,274)
	(453,821)	**(32,372)**	**(832,030)**
DIFFERENCE BETWEEN VALUE AND COSTS OF PRODUCTION	**11,013**	**12,352**	**14,795**
C) FINANCIAL INCOME AND EXPENSES			
INCOME FROM EQUITY INVESTMENTS	–	–	–
OTHER FINANCIAL INCOME	229	21	103
INTEREST AND OTHER FINANCIAL EXPENSES	(4,965)	–	(234)
GAINS AND LOSSES ON FOREIGN EXCHANGE RATES	(9)	(2)	–
	(4,745)	**18**	**(131)**
D) VALUE ADJUSTMENTS ON FINANCIAL ASSETS			
REVALUATIONS	–	–	–
WRITE-DOWNS	–	–	–
	–	**–**	**–**
E) EXTRAORDINARY INCOME AND EXPENSES			
EXTRAORDINARY INCOME	–	–	–
EXTRAORDINARY EXPENSES	–	–	–
	–	**–**	**–**
PROFIT BEFORE TAXES	**6,268**	**12,370**	**14,663**
INCOME TAXES FOR THE YEAR	(6,140)	(4,887)	(6,740)
PROFIT (LOSS) BEFORE MINORITY INTERESTS	**128**	**7,483**	**7,923**
MINORITY INTEREST PROFIT (LOSS)	–	–	–
PROFIT (LOSS) FOR THE YEAR	**128**	**7,483**	**7,923**

STATEMENT OF FINANCIAL POSITION

(EUR THOUSAND)	ISAB S.R.L. 12/31/2011	TOTALERG S.P.A. 12/31/2011	TOTALERG GROUP 12/31/2011
ASSETS			
A) RECEIVABLES FROM SHAREHOLDERS	**17,726**	**–**	**–**
B) FIXED ASSETS			
INTANGIBLE	3,522	51,047	66,143
TANGIBLE	835,932	456,699	611,680
FINANCIAL	27,011	106,041	90,765
	866,465	**613,786**	**768,588**
C) CURRENT ASSETS			
INVENTORIES	187,375	599,866	631,076
RECEIVABLES	344,305	887,292	912,067
FINANCIAL ASSETS	–	–	–
CASH AND CASH EQUIVALENTS	2,545	71,542	81,317
	534,225	**1,558,700**	**1,624,460**
D) ACCRUED EXPENSES AND DEFERRED INCOME	**74,380**	**38,591**	**43,651**
TOTAL ASSETS	**1,492,797**	**2,211,077**	**2,436,699**
LIABILITIES			
A) SHAREHOLDERS' EQUITY			
SHARE CAPITAL	50,000	47,665	47,665
SHARE PREMIUM RESERVE	997,902	–	–
REVALUATION RESERVES	–	133,726	133,726
LEGAL RESERVE	3,276	9,533	9,533
CONSOLIDATION RESERVE	–	–	59,371
OTHER RESERVES	17,726	163,596	163,590
RETAINED EARNINGS (LOSSES CARRIED FORWARD)	8,181	125,827	113,704
PROFIT (LOSS) FOR THE YEAR	(2,099)	45,805	56,514
	1,074,987	**526,152**	**584,103**
MINORITY INTERESTS			
SHARE CAPITAL	–	–	8,858
PROFIT (LOSS) FOR THE YEAR	–	–	257
	–	**–**	**593,218**
B) PROVISIONS FOR LIABILITIES AND CHARGES			
TAXES	37,948	32,328	33,873
OTHER	38,701	61,002	68,631
	76,649	**93,329**	**102,504**
C) EMPLOYEES' SEVERANCE INDEMNITIES	**9,326**	**7,881**	**12,243**
D) PAYABLES			
PAYABLES TO SHAREHOLDERS FOR LOANS	–	–	–
BANKS / OTHER LENDERS	–	510,523	529,618
ADVANCES	–	187	1,390
SUPPLIERS	277,094	649,670	778,022
SUBSIDIARIES/ASSOCIATES/ PARENT COMPANIES/AFFILIATES	–	201,224	181,620
TAX PAYABLES	8,569	140,775	143,972
PAYABLES TO SOCIAL SECURITY	5,190	3,013	5,279
OTHER PAYABLES	33,336	73,453	81,603
	324,190	**1,578,845**	**1,721,504**
E) ACCRUED EXPENSES AND DEFERRED INCOME	**7,646**	**4,869**	**7,230**
TOTAL LIABILITIES	**1,492,797**	**2,211,077**	**2,436,699**

INCOME STATEMENT

(EUR THOUSAND)	ISAB S.R.L. 12/31/2011	TOTALERG S.P.A. 12/31/2011	TOTALERG GROUP 12/31/2011
A) VALUE OF PRODUCTION			
REVENUES FROM SALES AND SERVICES	2,120,002	11,849,212	12,125,594
INVENTORY CHANGES	(136)	99,190	100,148
OWN WORK CAPITALISED	1,303	–	5,099
OTHER REVENUES AND INCOME	22,352	48,965	60,207
	2,143,521	**11,997,368**	**12,291,048**
B) COSTS OF PRODUCTION			
FOR PURCHASES	(1,544,494)	(11,025,495)	(11,250,319)
FOR SERVICES	(351,046)	(532,297)	(499,881)
LEASES AND RENTALS	(4,302)	(126,053)	(127,924)
PERSONNEL	(78,155)	(58,708)	(99,091)
AMORTISATION, DEPRECIATION AND WRITE-DOWNS	(98,135)	(68,627)	(97,777)
INVENTORY CHANGES	(1,826)	(33,041)	(32,873)
PROVISIONS	(18,168)	(29,236)	(32,744)
FOR OTHER OPERATING EXPENSES	(14,151)	(14,025)	(16,282)
	(2,110,276)	**(11,887,483)**	**(12,156,891)**
DIFFERENCE BETWEEN VALUE AND COSTS OF PRODUCTION	**33,245**	**109,885**	**134,157**
C) FINANCIAL INCOME AND EXPENSES			
INCOME FROM EQUITY INVESTMENTS	–	1,247	818
OTHER FINANCIAL INCOME	2,135	7,971	1,053
INTEREST AND OTHER FINANCIAL EXPENSES	(142)	(27,544)	(25,410)
GAINS AND LOSSES ON FOREIGN EXCHANGE RATES	3,144	1,889	1,885
	5,136	**(16,438)**	**(21,654)**
D) VALUE ADJUSTMENTS ON FINANCIAL ASSETS			
REVALUATIONS	–	–	2,123
WRITE-DOWNS	–	(795)	(1,460)
	–	**(795)**	**663**
E) EXTRAORDINARY INCOME AND EXPENSES			
EXTRAORDINARY INCOME	–	4,569	3,758
EXTRAORDINARY EXPENSES	(28,590)	(12,615)	(13,665)
	(28,590)	**(8,046)**	**(9,907)**
PROFIT BEFORE TAXES	**9,790**	**84,606**	**103,259**
INCOME TAXES FOR THE YEAR	(11,889)	(38,801)	(46,488)
PROFIT (LOSS) BEFORE MINORITY INTERESTS	**(2,099)**	**45,805**	**56,771**
MINORITY INTEREST PROFIT (LOSS)	–	–	257
PROFIT (LOSS) FOR THE YEAR	**(2,099)**	**45,805**	**56,514**

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