ANNUAL REPORT

AS AT 31 DECEMBER 2012

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CORPORATE BODIES

BOARD OF DIRECTORS

CHAIRMAN

EDOARDO GARRONE

DEPUTY CHAIRMAN

ALESSANDRO GARRONE [1]

GIOVANNI MONDINI

CHIEF EXECUTIVE OFFICER

LUCA BETTONTE

DIRECTORS

MASSIMO BELCREDI
(INDEPENDENT)

PASQUALE CARDARELLI
(INDEPENDENT)

ALESSANDRO CARERI

MARCO COSTAGUTA

ANTONIO GUASTONI
(INDEPENDENT)

PAOLO FRANCESCO LANZONI
(INDEPENDENT)

GRAZIELLA MERELLO [2]

UMBERTO QUADRINO
(INDEPENDENT)

BOARD OF STATUTORY AUDITORS

CHAIRMAN

MARIO PACCIANI

STANDING AUDITORS

LELIO FORNABAIO

PAOLO FASCE

MANAGER RESPONSIBLE (ITALIAN LAW NO. 262/05)

GIORGIO CORAGGIOSO

INDEPENDENT AUDITORS

DELOITTE & TOUCHE S.P.A.

(1) Executive Deputy Chairman
(2) Executive Director appointed to supervise the functionality of the Internal Control and Risk Management System

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REPORT ON OPERATIONS

INTRODUCTION

The Consolidated Annual Report at 31 December 2012 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.

DISCLOSURE PURSUANT TO ARTICLES 70 AND 71 OF THE ISSUERS' REGULATIONS

The Company has selected the option, introduced by CONSOB with its resolution no. 18079 of 20 January 2012, of waiving the obligation to make available to the public an information document upon carrying out significant transactions, i.e. mergers, demergers, capital increase by transfer in kind, acquisition and sale.

RESULTS AT ADJUSTED REPLACEMENT COST

To enhance understandability of performance, 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 of the joint ventures TotalErg S.p.A. for Refining & Marketing, and LUKERG Renew Gmbh for the Renewable Energy Sources segment, whose contributions to the Consolidated Income Statement not at adjusted replacement cost are reported in the equity of the investments measured under the equity method of accounting. 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 LUKERG Renew Gmbh (50%) and TotalErg S.p.A. (51%), net of the relevant intra-group items.

NEW BUSINESS PLAN

In December 2012, ERG submitted its new 2013 – 2015 business plan, characterised by a significant strategic repositioning of the Group, with a greater commitment to renewable energy sources, a strong focus on the current management of operating assets in the thermoelectric segment, the rationalisation of activities in the Retail segment and reduction of exposure to the refining segment. The year 2012 was already partly affected by these strategic decisions, reflected in items of a non-recurring nature which, as commented above, and together with the effects deriving from significant regulatory changes, are not considered in the results at adjusted replacement cost. Additional details are provided in the chapter "Alternative performance indicators".
Consistently with the above, the structure of this Report reflects the Group's strategic repositioning and in particular a closer focus on renewable energy sources.

SALE OF 20% OF ISAB

3 September 2012 was the closing date of the transaction related to the exercise of the put option by ERG for 20% of the share capital of ISAB S.r.l.
LUKOIL paid ERG consideration of EUR 485 million, including the value of inventory.

As a result of the transaction, ERG's share decreased from 40% to 20% thus qualifying as a minority interest and no longer a joint control interest.
In view of the significance of the interest and of the existence of the operating processing agreement, consistently with the previous periods the income statement data at replacement cost of ISAB S.r.l. are included in the adjusted results, in proportion to ERG's share.
For a better understanding of data commented in this Report, the transaction's main impacts are pointed out:

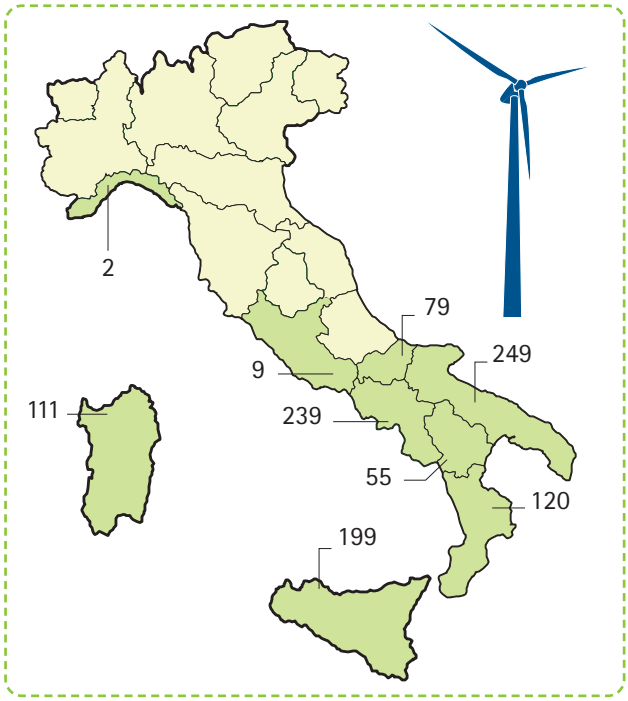
- the reduction of net financial debt by approximately EUR 485 million as a result of the collection of the sale price;
- the recognition of the realised gain, amounting to EUR 214 million net of ancillary charges and related tax effects. The capital gain and the charges associated with the sale of the equity investment are deemed to be non-recurring items and therefore they are not reflected in "Group EBIT at replacement cost";
- the contribution of ISAB S.r.l. on adjusted result in the proportion of 40% through August 2012 and 20% from September 2012 onwards. In 2011, the contribution of ISAB S.r.l. was recognised in the proportion of 51% through March 2011 and of 40% from April 2011 onwards.

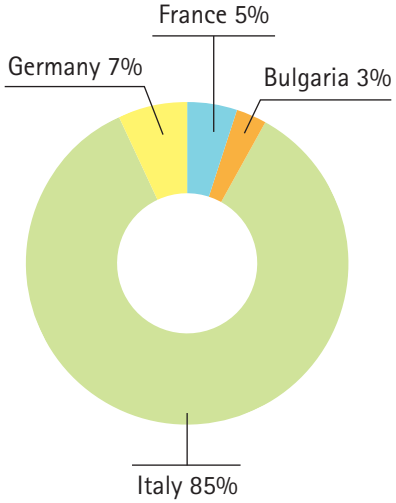
Since joint governance is no longer in place, from 1 September 2012 onwards the adjusted values of indebtedness and of capital expenditures no longer take into account the contribution of ISAB S.r.l.
Lastly, on 31 January 2013 the balance of the definitive sale price, amounting to EUR 9 million, was collected, in addition to the aforementioned EUR 485 million.

ACQUISITION OF IP MAESTRALE

On 13 February 2013, ERG, through the subsidiary ERG Renew, closed with International Power Consolidated Holding Ltd (100% GDF SUEZ) the acquisition of 80% of the capital of IP Maestrale Investments Ltd.
On the same date, the Shareholders' Meeting of IP Maestrale resolved to change the name of the company to ERG Wind Investments Ltd.
As a result of the acquisition, the ERG Group increased its installed power by 636 MW, of which 550 MW in Italy and 86 MW in Germany, reaching a total of approximately 1,232 MW, of which approximately 1,062 MW in Italy, positioning itself as the first wind power operator in Italy and among the top ten in Europe.
The enterprise value of the acquisition is EUR 859 million, i.e. approximately EUR 1.35 million per installed MW. The price for the equity at the closing of the transaction was EUR 28.2 million for 80% of the share capital of IP Maestrale. The agreements prescribe a put and call option on the remaining 20% of the capital, which may be exercised no earlier than three years after the date of closing. The farms are already entirely financed with non-recourse Project Financing with maturity in December 2022, issued by a group of primary Italian and international banks.
The acquired company's EBITDA for 2012 was approximately EUR 120 million.
Italian wind farms are located in Sicily (161 MW), Sardinia (111 MW), Campania (95 MW), Puglia (91 MW), Basilicata (55 MW), Molise (37 MW), whilst the five farms in Germany (86 MW) are located in the Centre and North of the country. High quality assets have a producibility of nearly 2,000 hours/year, higher than the national average.
Since the closing occurred on 13 February 2013, the transaction has no impact on these Financial Statements.
The consolidation of ERG Wind Investments and of its subsidiaries shall take place from the first quarter of 2013 onwards.

GEOGRAPHICAL PRESENCE
Total installed capacity (1.232 MW) [1]





1 Includes LUKERG Renew 50% for Eastern Europe and IP Maestrale
2 Under construction

Source: ERG

ABANDONMENT OF THE PROJECTS OF IONIO AND RIVARA IN THE GAS BUSINESS

In 2012, ERG decided to abandon the Ionio Gas and Rivara Storage projects, which respectively entailed the construction of a Liquefied Natural Gas (LNG) regasification terminal in the industrial site of Priolo (Siracusa) and of a natural gas storage site in the Rivara municipality, in the province of Modena. Both decisions, made by the ERG Board of Directors, on one hand reflect the deep change in the conditions of the energy and financial scenario, and on the other are part of the Group's strategic path towards simplification and in the direction of focusing its business model on the generation of Electricity mainly from Renewable Energy Sources.

BUSINESS DESCRIPTION

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

- ## RENEWABLE ENERGY SOURCES

  Through the subsidiary ERG Renew, ERG operates in the sector of the generation of electricity from renewable sources with 596 MW of wind power in operation at 31 December 2012, of which 64 MW in France and 20 MW in Bulgaria, deriving from the recent acquisition, through LUKERG Renew, an equal-share joint venture between ERG Renew and LUKOIL, of the Tcherga wind farm, with 40 MW of gross power.

  Total wind power in Italy, with the recent commissioning of the Amaroni wind farm (22.5 MW), reached 512 MW, with annual generation exceeding 1 TWh.

  As a result of the recent agreement reached with GDF-Suez, in 2013 total power shall grow considerably thanks to the acquisition of 80% of IP Maestrale, which has an installed capacity of 636 MW, of which 550 MW in Italy and 86 MW in Germany. As a result of this agreement, ERG Renew has become the first wind power operator in Italy and among the top ten in Europe.

  In 2013, significant development investments will be made, in particular through the construction of new farms in Italy and in Romania.

- ## 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. (51%): a company owning a plant (528 MW), fuelled by synthesis gas obtained from a process of gasification of asphalt originating from the ISAB Refinery in Priolo (Sicily);

  – ERG Power S.r.l.: this company owns the North Plant (480 MW) located in the industrial site of Priolo, comprising a combined cycle plant fuelled by natural gas and a counter-pressure steam plant.

- ## REFINING & MARKETING

  The Group is active in the **Integrated Downstream** market, where it is one of the foremost operators, through TotalErg, joint venture with Total, with a network of over 3,000 sale outlets, and through ERG Oil Sicilia (EOS), 100% owned by ERG, operating in the retail and wholesale markets in Sicily.

  TotalErg also operates in the refining and logistics segment (Raffineria di Roma, wholly owned, which stopped operating in September and is currently being transformed into a major logistical facility for the storage and handling of petroleum products, and Raffineria Sarpom of Trecate, with a 24% share).

  ERG also operates in **Coastal Refining** through the 20% equity investment in the ISAB refinery of Priolo, one of the main sites in the Mediterranean both in terms of capacity (320 thousand barrels/day) and in terms of complexity (Nelson index 9.3). The equity investment declined from 40% to 20% in September 2012 as a result of the partial exercise of the put option communicated in 31 January 2012 within the overall goal of reducing exposure in the refining segment.

RENEWABLES

- 1.2 GW of installed wind power capacity (including IP Maestrale)
- Operated by ERG Renew and LUKERG Renew (50% JV with LUKOIL in Eastern Europe)

POWER

- ERG Power: 480 MW CCGT plant in Sicily
- ISAB Energy: 528 MW IGCC plant (51% ERG share)

REFINING & MARKETING

- 20% of ISAB (Coastal Refining)
- 51% of TotalErg
- 100% of ERG Oil Sicilia

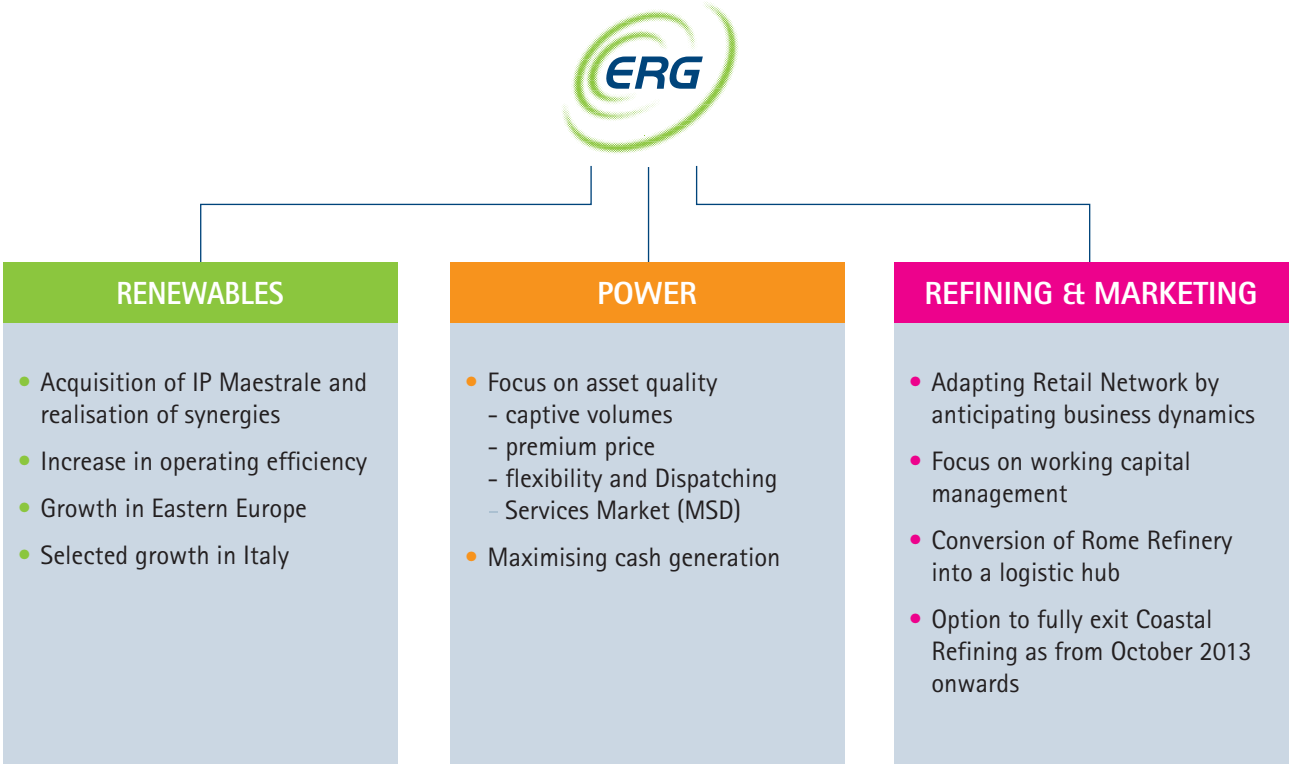
STRATEGY

The strategy pursued by ERG aims to consolidate the Group's current positioning in renewable energy sources in Italy and to continue its growth in wind power abroad, to optimise operations and the consequent flow generation of thermoelectric plants, to rationalise the TotalErg Network, within an environment characterised by the profound changes taking place in the segment, and to reduce exposure to the refining segment.

- **POWER – RENEWABLE ENERGY SOURCES**: ERG's strategy aims to continue the path to growth in the segment through the subsidiary ERG Renew, with the goal of consolidating its position as the leading operator in the domestic market and of accelerating growth abroad. In recent years, its pursuit of this strategy enabled ERG Renew significantly to expand its installed capacity, from approximately 200 MW in 2009 to over 1,200 MW today, including the recent acquisition of IP Maestrale. In particular, with regard to foreign countries, where approximately 15% of installed capacity is located, in addition to the capacity already operating in France (64 MW) and in Germany, as a result of the IP Maestrale acquisition (86 MW), ERG's strategy aims to accelerate on the path towards the growth and geographic diversification of its asset portfolio, mainly through the investments made by LUKERG Renew in Eastern Europe, in particular in Bulgaria and Romania. The size attained and the integration of IP Maestrale into ERG Renew will also enable ERG to obtain important synergies in the management of its assets and in the sale of the generated electricity.

- **POWER – 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 CIP6 convention, and the CCGT plant 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 cash generation of its assets, in 2011 ERG stipulated an agreement with IREN for the supply of 2 TWh 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 light of this agreement and of the extant contracts for the supply of utilities to the Priolo site, the ERG Power plant is exposed to scenario changes only to a limited extent and it is able to maintain utilisation factors that greatly exceed the average for plants of this kind. In 2011, the ERG Power plant obtained access by Terna to the Dispatching Services Market (MSD) and it consequently participates in the sale of regulating services, with a significant contribution to margins.

- **REFINING & MARKETING**: in **Integrated Downstream**, ERG's strategy is aimed at improving its competitive position to boost its long-term profitability and sustainability, in the face of a market situation that is challenging both because of the significant contraction in demand and of the inefficient structure of the Country's fuel distribution network, with average dispensed quantities per filling station greatly smaller than the average of the main European countries. Against this backdrop, ERG, through the joint venture TotalErg, intends to rationalise and strengthen its fuel distribution network, also through greater station automation, to maximise efficiency and profitability, consistently with expected market trends. At the same time, the strategy aims to rationalise capital use and to reduce exposure to the refining business, revising the supply model, more oriented towards purchasing petroleum products on the cargo market to exploit the excess supply in the Mediterranean Area. In view of this situation, in 2012 TotalErg shut down the Rome Refinery and launched a project to reconvert the site into a major logistical hub. In **Coastal Refining**, ERG pursuit a progressive exit strategy through the successive sales of equity investments in the ISAB S.r.l. refinery, the joint venture with LUKOIL, of which ERG currently owns 20% with a PUT option on that share, exercisable from October 2013 onwards.



ERG'S STOCK MARKET PERFORMANCE

On 28 December 2012 the closing price of ERG's shares (Blue Chips) was EUR 7.63, 13% lower than at the end of 2011, as compared with the substantial stability of the European sector index Stoxx Energy Index (-4.3%) and the growth of the FTSE All Share index (+8.4%), and of the substantially stability of the FTSE Mid Cap index (-0.4%).

Figures relating to the prices and exchange volumes of ERG's shares during the period 2 January 2012 – 28 December 2012 are set out below:

STOCK PRICE	EUR
CLOSING PRICE AS AT 28/12/2012	7.63
HIGHEST PRICE (01/02/2012) (1)	8.95
LOWEST PRICE (21/05/2012) (1)	4.28
AVERAGE PRICE	6.20

(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 (30/04/2012)	4,147,364
MINIMUM VOLUME (01/11/2012)	41,722
AVERAGE VOLUME	360,453

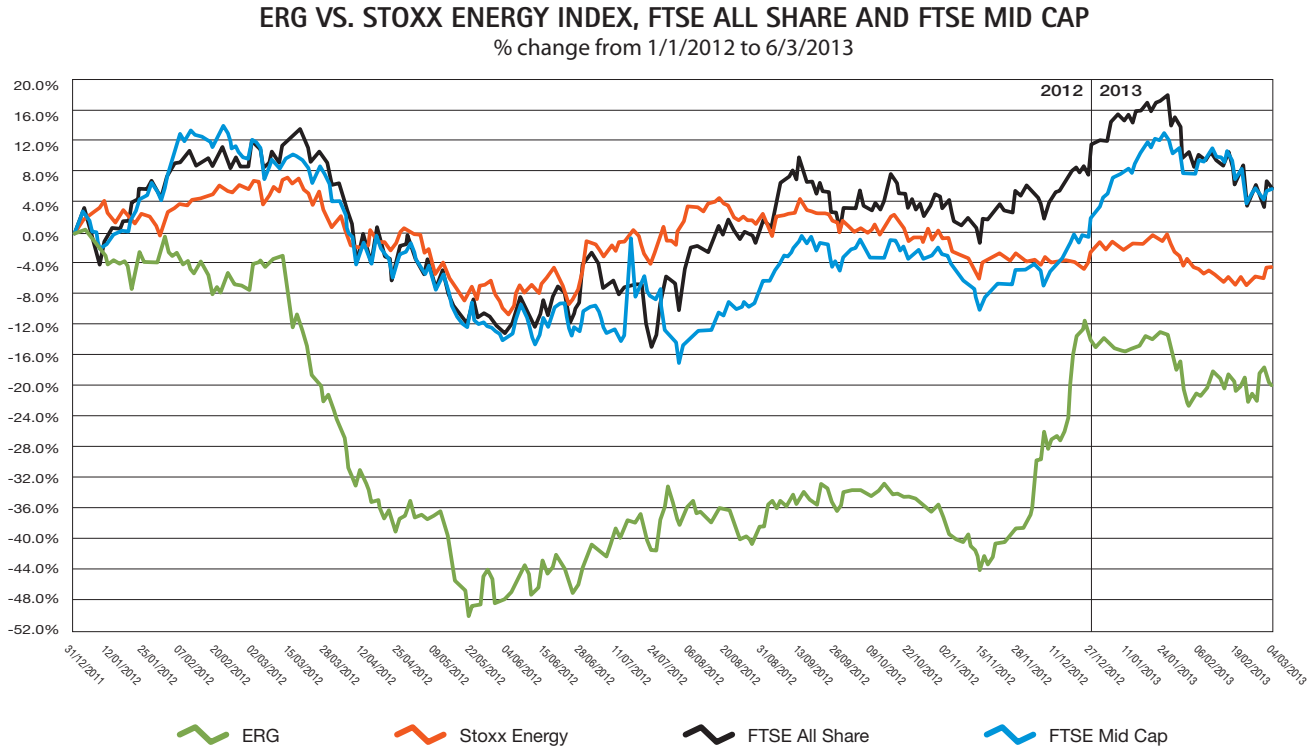
Market capitalisation on 31 December 2012 was approximately EUR 1,146 million (EUR 1,320 million at the end of 2011).

As at 6 March 2013, the closing price of ERG stocks (Blue Chips) was EUR 7.06, 7.4% lower than at the end of 2012, as compared with a decline of -0.1%% in the European sector index (Stoxx Energy Index) and of -1.6% in the FTSE All Share index and growth in the FTSE Mid Cap index (+6.5%).

STOCK PRICE	EUR
CLOSING PRICE AS AT 06/03/2013	7.06
HIGHEST PRICE (02/01/2013) (1)	7.75
LOWEST PRICE (27/02/2013) (1)	6.76
AVERAGE PRICE	7.27

(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 2012	YEAR 2011
MAIN INCOME STATEMENT DATA			
TOTAL REVENUES [1]		8,288	6,798
EBITDA		332	192
EBITDA AT REPLACEMENT COST [2]		**346**	**156**
EBITDA AT ADJUSTED REPLACEMENT COST [3]		**458**	**284**
EBIT AT REPLACEMENT COST (2)		**197**	**12**
EBIT AT ADJUSTED REPLACEMENT COST (3)		**216**	**37**
NET INCOME		200	96
OF WHICH GROUP NET INCOME		*151*	*65*
GROUP NET PROFIT (LOSS) AT ADJUSTED REPLACEMENT COST [4]		**12**	**(49)**
MAIN FINANCIAL DATA			
NET INVESTED CAPITAL		**2,484**	**2,842**
SHAREHOLDERS' EQUITY		1,971	1,878
TOTAL NET FINANCIAL INDEBTEDNESS		513	963
OF WHICH NON-RECOURSE PROJECT FINANCING [5]		*789*	*793*
FINANCIAL LEVERAGE		21%	34%
TOTAL NET ADJUSTED FINANCIAL INDEBTEDNESS [6]		722	1,179
OPERATING DATA			
INSTALLED CAPACITY AT PERIOD END - WIND FARMS	MW	**596**	**548**
ELECTRIC POWER GENERATION FROM WIND FARMS	MILLIONS OF KWH	1,222	740
INSTALLED CAPACITY - THERMOELECTRIC PLANTS [7]	MW	**1,008**	**1,008**
ELECTRIC POWER GENERATION FROM THERMOELECTRIC PLANTS	MILLIONS OF KWH	6,997	6,670
TOTAL SALES OF ELECTRIC POWER	MILLIONS OF KWH	**9,074**	**8,084**
ITALIAN RETAIL SALES [8]	THOUSANDS OF TONNES	1,642	1,895
TOTALERG RETAIL MARKET SHARE	GASOLINE + DIESEL	**11,2%**	**11,8%**
ERG OIL SICILIA RETAIL MARKET SHARE [9]	GASOLINE + DIESEL	1,0%	1,0%
RAW MATERIAL AND PRODUCT INVENTORIES [10]	THOUSANDS OF TONNES	**726**	**1,231**
REFINERY PROCESSING [8]	THOUSANDS OF TONNES	6,444	7,552
REFINERY PROCESSING [8]	THOUSANDS OF BARRELS/DAY	**130**	**150**
CAPITAL EXPENDITURES [11]	EUR MILLION	77	82
EMPLOYEES AT PERIOD END	UNITS	**613**	**652**
MARKET INDICATORS			
REFERENCE PRICE OF ELECTRICITY [12]	EUR/MWH	75.48	72.23
"GREEN CERTIFICATES" SALE PRICE (RENEWABLES)	EUR/MWH	80.34	82.12
SALE PRICE OF CIP 6 (THERMOELECTRIC - ISAB ENERGY)	EUR/MWH	122.70	105.70
SICILY ZONE PRICE	EUR/MWH	95.28	93.11
BRENT DATED	USD/BARREL	111.67	111.26
EMC REFINING MARGIN	USD/BARREL	0.19	(2.19)
EUR/USD RATE	EUR/$	1.285	1.392

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) adjusted values also include the contribution, attributable to ERG, of the results of TotalErg (joint venture with Total), of LUKERG Renew (joint venture with the LUKOIL Group) and of ISAB S.r.l.
(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) it also includes the contribution attributable to ERG of the net financial position of the joint ventures
(7) installed capacity at the end of the period
(8) estimated data. Including 51% of TotalErg and ERG's share of the ISAB Refinery.
(9) related to the sales outlets of the wholly owned subsidiary ERG Oil Sicilia.
(10) including ERG's share of the inventories of the TotalErg joint venture and in ISAB S.r.l.
(11) in tangible and intangible fixed assets.
(12) Single National Price

PERFORMANCE HIGHLIGHTS BY SEGMENT

((EUR MILLION)	YEAR 2012	YEAR 2011
REVENUES FROM ORDINARY OPERATIONS		
RENEWABLE ENERGY SOURCES	177	114
POWER & GAS	1,651	1,435
REFINING & MARKETING	11,688	10,939
CORPORATE	6	7
INTRA-SEGMENT REVENUES	(1,065)	(1,350)
TOTAL ADJUSTED REVENUES (1)	**12,457**	**11,145**
ERG SHARE OF ISAB S.R.L. CONTRIBUTION AT ADJUSTED REPLACEMENT COST	*(349)*	*(273)*
TOTALERG 51% CONTRIBUTION AT ADJUSTED REPLACEMENT COST	*(3,841)*	*(4,102)*
LUKERG RENEW 50% CONTRIBUTION AT ADJUSTED REPLACEMENT COST	*(2)*	*–*
TOTAL REVENUES FROM ORDINARY OPERATIONS	**8,265**	**6,770**
EBITDA		
RENEWABLE ENERGY SOURCES	137	69
POWER & GAS	328	239
REFINING & MARKETING	21	6
CORPORATE	(28)	(31)
EBITDA AT ADJUSTED REPLACEMENT COST (2)	**458**	**284**
ERG SHARE OF ISAB S.R.L. CONTRIBUTION AT ADJUSTED REPLACEMENT COST	*(68)*	*(63)*
TOTALERG 51% CONTRIBUTION AT ADJUSTED REPLACEMENT COST	*(43)*	*(66)*
LUKERG RENEW 50% CONTRIBUTION AT ADJUSTED REPLACEMENT COST	*(1)*	*–*
EBITDA AT REPLACEMENT COST (2)	**346**	**156**
INVENTORY GAINS (LOSSES)	*(1)*	*36*
NON-RECURRING ITEMS	*(13)*	*–*
EBITDA	**332**	**192**
AMORTISATION, DEPRECIATION AND WRITE-DOWNS		
RENEWABLE ENERGY SOURCES	(66)	(50)
POWER & GAS	(76)	(84)
REFINING & MARKETING	(97)	(109)
CORPORATE	(3)	(4)
AMORTISATION AND DEPRECIATION AT ADJUSTED REPLACEMENT COST (2)	**(242)**	**(247)**
ERG SHARE OF ISAB S.R.L. CONTRIBUTION AT ADJUSTED REPLACEMENT COST	*37*	*48*
TOTALERG 51% CONTRIBUTION AT ADJUSTED REPLACEMENT COST	*55*	*56*
LUKERG RENEW 50% CONTRIBUTION AT ADJUSTED REPLACEMENT COST	*1*	*–*
AMORTISATION AND DEPRECIATION AT REPLACEMENT COST (2)	**(149)**	**(144)**
EBIT		
RENEWABLE ENERGY SOURCES	71	19
POWER & GAS	253	155
REFINING & MARKETING	(77)	(102)
CORPORATE	(31)	(35)
EBIT AT ADJUSTED REPLACEMENT COST (2)	**216**	**37**
ERG SHARE OF ISAB S.R.L. CONTRIBUTION AT ADJUSTED REPLACEMENT COST	*(32)*	*(15)*
TOTALERG 51% CONTRIBUTION AT ADJUSTED REPLACEMENT COST	*12*	*(10)*
LUKERG RENEW 50% CONTRIBUTION AT ADJUSTED REPLACEMENT COST	*–*	*–*
EBIT AT REPLACEMENT COST ((2)	**197**	**12**
CAPITAL EXPENDITURES ON TANGIBLE AND INTANGIBLE FIXED ASSETS		
RENEWABLE ENERGY SOURCES	39	53
POWER & GAS	35	22
REFINING & MARKETING	51	77
CORPORATE	1	2
TOTAL ADJUSTED CAPITAL EXPENDITURES (3)	**126**	**156**
CAPITAL EXPENDITURES OF ISAB S.R.L. (ERG SHARE)	*(13)*	*(38)*
CAPITAL EXPENDITURES OF TOTALERG (51%)	*(36)*	*(35)*
CAPITAL EXPENDITURES OF LUKERG RENEW (50%)	*–*	*N.A.*
TOTAL CAPITAL EXPENDITURES	**77**	**82**

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 TotalErg S.p.A. and LUKERG Renew joint ventures and by ISAB S.r.l.

(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 TotalErg S.p.A., LUKERG Renew and ISAB S.r.l.

(3) they take into account ERG's share of the capital expenditures effected by TotalErg S.p.A. and LUKERG Renew and through August 2012 by ISAB S.r.l.

SALES

POWER GENERATION

The electricity sales carried out by the ERG Group refer mainly to the electricity generated by its plants[1], both wind power (ERG Renew) and thermoelectric (ISAB Energy and ERG Power) as well as, to a lesser extent, trades on other markets, in particular the electricity exchange. Electricity sales in Italy in 2012 met approximately 2.7% of total domestic demand (2.4% in 2011).
The data include 50% of the contribution of the sales made in the second half of 2012 by wind farms in Bulgaria.
The breakdown of sale volumes, with reference to the type of source, is shown in the following table:

(GWH)	YEAR 2012	YEAR 2011
POWER GENERATION		
ERG RENEW ITALY	1,072	627
ERG RENEW ABROAD	150	113
ISAB ENERGY	4,077	3,655
ERG POWER & GAS	3,775	3,689
TOTAL	**9,074**	**8,084**

In 2010, steam sales[2] amounted to 1,628 thousand tonnes (1,945 in 2011), of which 1,094 thousand tonnes to ISAB S.r.l.
Gas sales in the period were 486 million Sm^3 (413 million Sm^3 in the third quarter of 2011), of which 298 million Sm^3 to ISAB S.r.l.

PETROLEUM PRODUCTS

Total Refining & Marketing sales of petroleum products, in 2012, amounted to 10.3 million tonnes (11.0 million tonnes in 2011), of which 50% were on the domestic market, and the remaining 50% were abroad.
The following table breaks down ERG's oil product sales by distribution channel. The figures include the contribution from TotalErg sales at 51%.

(THOUSANDS OF TONNES)	YEAR 2012	YEAR 2011
REFINING AND LOGISTICS		
EXPORTS VIA SHIP	5,071	3,784
DELIVERIES TO THE DOMESTIC MARKET	2,301	3,851
TOTAL REFINING AND LOGISTICS	**7,373**	**7,635**
MARKETING		
DOMESTIC RETAIL MARKET	1,642	1,895
DOMESTIC WHOLESALE MARKET	1,241	1,474
WHOLESALE EXPORT	42	31
TOTAL MARKETING	**2,925**	**3,400**
TOTAL PETROLEUM PRODUCTS	**10,298**	**11,035**

1 For ERG Power & Gas sales of electric power differ from productions in that they include energy purchased and resold on the wholesale market.
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 2012, **adjusted revenues** amounted to EUR 12,457 million, up from 2011, mainly as a result of the higher sale prices and higher sales in the Refining & Marketing segment.
The **EBITDA at adjusted replacement cost**[3] amounted to EUR 458 million, up strongly compared with EUR 284 million in 2011. The change is a result of the following factors:

- RENEWABLE ENERGY SOURCES: EBITDA amounted to EUR 137 million, doubled compared with the same period of the previous financial year (EUR 69 million), thanks to the strong increase in generation as a consequence of the greater average capacity in operation during 2012, as well as of the good wind strength recorded during the period;

- POWER & GAS: EBITDA of EUR 328 million, approximately EUR 89 million higher than in 2011, thanks to the good performance of the plants, to the better sale prices and to Energy Management actions that enabled to mitigate the effects of a challenging generation scenario. The marked increase in the results also reflects the impact that the general shut-down of ISAB Energy had had on 2011 generation data;

- REFINING & MARKETING: EBITDA of EUR 21 million (EUR 6 million in 2011); while the result benefits both from a reduced exposure to refining and from a slight recovery in margins, it was heavily affected by an extremely challenging scenario, both in terms of sales and margins in the Retail network.

EBIT at adjusted replacement cost[3] was EUR 216 million (EUR 37 million in 2011) after amortisation and depreciation amounting to EUR 242 million (EUR 247 million in 2011).

Group EBIT at replacement cost amounted to EUR +12 million, versus EUR -49 million in 2011. The improvement of the result is mainly linked to the growth in margins in terms of operations, partly offset by an increase in financial expenses, taxes and third party results (mainly due to the better operating result of ISAB Energy).

Group EBIT amounted to EUR 151 million (EUR 65 million in 2011) and it was mainly affected by the sale, already commented, of 20% of the equity investment in ISAB S.r.l. for EUR 214 million, by gains on inventory, net of the related tax effects, of EUR 6 million (EUR 65 million in 2011), by non-recurring items of EUR 72 million, net of the related tax effects, relating in particular to provisions and write-downs of the TotalErg joint venture as a result of the Rome refinery shutdown in addition to other non-recurring items, negative by EUR 9 million, commented in the section "Alternative performance indicators".
The results of 2011 were affected by the gain deriving from the sale of 11% of ISAB S.r.l., net of the related tax effects, i.e. EUR 107 million, and of the write-down of the CCGT plant, net of the related tax effects, i.e. EUR 63 million.

In 2012, **adjusted Group capital expenditures** totalled EUR 126 million (EUR 156 million in 2011), of which 31% in the Renewable Energy Sources segment (34%), 28% in Power & Gas (14%) and 40% in the Refining & Marketing segment (50%).

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".

Net financial indebtedness amounted to EUR 513 million, down by EUR 451 million from 31 December 2011 mainly because of the collection of EUR 485 million relating to the sale of 20% of the equity investment in ISAB S.r.l. in September. Cash flow generation in the period, also made possible by careful management of net working capital, enabled to finance the investments, the payment of dividends and the purchase of treasury shares.
In the net financial indebtedness are recognised financial liabilities related to the fair value of interest rate hedging derivatives, amounting to approximately EUR 76 million (EUR 52 million as at 31 December 2011).

Adjusted net financial indebtedness, which includes the portion attributable to ERG of the net financial position in the TotalErg and LUKERG Renew joint ventures, amounted to EUR 722 million, down from EUR 1,179 million at 31 December 2011 mainly for the same reasons explained above. As a result of the reduction in the equity investment to 20%, the indicator no longer includes the contribution of ISAB S.r.l., amounting to a positive net financial position of EUR 44 million (ERG share).
Adjusted net financial indebtedness includes approximately EUR 84 million of financial liabilities relating to the fair value of derivatives hedging the interest rate risk (EUR 54 million at 31 December 2011).

SIGNIFICANT EVENTS DURING THE YEAR

BUSINESS PLAN PRESENTATION

On **19 December 2012**, ERG submitted its new 2013 – 2015 business plan, characterised by a significant strategic repositioning of the Group, with a greater commitment to renewable energy sources, both through the acquisition of IP Maestrale and through new investments, in particular in Eastern Europe, greater focus on the management of operating assets in the thermoelectric segment, the rationalisation of activities in the Retail segment and reduction of exposure in the refining segment.

The implementation of this plan will enable the Company to orient its portfolio of activities to businesses with greater potential for development, which assure more stable cash flows, thereby maintaining a stable flow of dividends and an extremely sound financial structure.

Even in a still challenging economic environment, the plan calls for EBITDA to grow to approximately EUR 600 million in 2015, with over 50% deriving from the renewable energies segment, and a net financial position of approximately EUR 1.1 billion, mainly consisting of payables for non-recourse project finance and with a significant amount of cash available for additional growth opportunities.

ACQUISITION OF IP MAESTRALE

On **5 December 2012**, ERG reached an agreement with International Power Consolidated Holding Ltd (100% GDF SUEZ) for the acquisition of 80% of the capital of IP Maestrale Investments Ltd., a primary operator in Italy in the segment of renewable energy from wind power with an installed capacity of 636 MW, of which 550 MW in Italy and 86 MW in Germany. The acquisition was subsequently closed on **13 February 2013** through the subsidiary ERG Renew. On the same date, the Shareholders' Meeting of IP Maestrale resolved to change the name of the company to Company in ERG Wind Investments Ltd. As a result of the acquisition, the ERG Group increased its installed power by 636 MW, reaching a total of approximately 1,232 MW, of which approximately 1,062 MW in Italy, positioning itself as the first wind power operator in Italy and among the largest ten in Europe. The enterprise value of the acquisition is EUR 859 million, i.e. approximately EUR 1.35 million per installed MW. The price for the equity at the closing of the transaction was EUR 28.2 million for 80% of the share capital of IP Maestrale. The agreements prescribe a put and call option on the remaining 20% of the capital, which may be exercised no earlier than three years after the closing. The farms are already entirely financed with non-recourse Project Financing with maturity in December 2022, issued by a group of primary Italian and international banks. The acquired company has an expected EBITDA for 2012 of approximately EUR 120 million. Italian wind farms are located in Sicily (161 MW), Sardinia (111 MW), Campania (95 MW), Puglia (91 MW), Basilicata (55 MW), Molise (37 MW), whilst the five farms in Germany (86 MW) are located in the Centre and North of the country. High quality assets have a producibility of approximately 2,000 hours/year, well above the national average.

SALE OF 20% OF ISAB S.R.L.

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. for EUR 485 million (including inventory). As a result of the closing of the transaction,80% of ISAB is held by LUKOIL and 20% by ERG, which has maintained a presence in the ISAB Board of Directors and management committees, whilst the Operating Processing Agreement was amended in line with ERG's different operating role within ISAB.

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, now extended to 1st 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 shall make their best efforts to complete the transaction between the 15th and the 31st of December 2013. All other conditions have remained unchanged. This transaction has enabled 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 external credit environment. ERG continues to maintain a significant industrial presence at the Priolo site, where it has important commercial relationships with ISAB for the thermoelectric plants of ERG Power and of ISAB Energy.

On **27 July 2012**, the transaction received antitrust clearance from the European Commission.

On **3 September 2012** the aforesaid transaction was closed and on the same date LUKOIL paid ERG EUR 485 million, which included the value of inventory.

Lastly, on **31 January 2013** the outstanding balance of the final sale price, amounting to EUR 9 million, was collected.

ACQUISITION OF TREASURY SHARES

On **10 May 2012**, the Board of Directors of ERG S.p.A. resolved to start implementing the plan to purchase and sell treasury shares, in accordance with the resolution of the Ordinary Shareholders' Meeting held on 20 April 2012, with the authority to purchase a maximum number of 5,416,000 shares (i.e., 3.6% of share capital) with a maximum expenditure of EUR 35,200,000.

On **25 June 2012**, ERG S.p.A. notified the market that it had purchased the prescribed maximum number of shares in accordance with the aforesaid plan, for a total price of EUR 25,646,648.88 (carrying value, EUR 4.735 per share). Considering the shares already in the portfolio, ERG holds treasury shares representing 5% of share capital at an average carrying value of EUR 6.873 per share, whilst the value as at 28 December 2012 was EUR 7.625 per share.

RENEWABLE ENERGY SOURCES

On **2 February 2012**, LUKERG Renew, a joint venture between ERG Renew and LUKOIL-Ecoenergo, entered into an agreement with Raiffeisen Energy & Environment, a company belonging to the Austrian banking Group Raiffeisen, to purchase 100% of a wind farm in Bulgaria, in the Dobrich region, with about 40 MW of installed capacity, in operation since 2009. The Enterprise Value of the acquisition is approximately EUR 52 million (ERG's share is EUR 26 million).
The transaction, approved by the Bulgarian Antitrust Authority, was closed in June 2012. Simultaneously with the closing, a Project Financing agreement of EUR 33.7 million was stipulated, for the partial coverage of the transaction, with Raiffeisen Bank International as Mandated Lead Arranger (MLA).
The transaction allows LUKERG Renew, a few months from its establishment, to enter the Bulgarian wind energy market with a significant market share. 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 loan was

subsequently disbursed on 12 March 2012. 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.

On **17 December 2012** LUKERG Renew closed the acquisition, from Inergia S.p.A. (Santarelli Group) of 100% of the capital of Land Power S.r.l., a Romanian company owning the authorisations required for the construction of a wind farm in Romania, in the Tulcea region, with a planned capacity of over 84 MW and electricity generation, once fully in operation, of 200 GWh per year.
LUKERG Renew will start work for the construction of the wind farm by the end of the first quarter of 2013, in order to start operations in the first six months of 2014. The total estimated capital expenditure for the construction of the park is approximately EUR 135 million. LUKERG Renew intends to finance the project with long-term non-recourse Project Financing with the European Bank for Reconstruction and Development, which is currently carrying out the due diligence process on the project.

POWER & GAS

On 1**7 February 2012**, the Ministry of the Environment and for the Protection of Land and Sea (MATTM) issued the VIA decree for the survey stage of the storage project to be carried out by ERG Rivara Storage. Subsequently, in the month of **April 2012**, the Emilia-Romagna Regional Government denied its consent pursuant to Article 3 paragraph 7 of Ministerial Decree of 21 January 2011 to the Ministry for Economic Development (MSE) for the release of the mining concession for the aforesaid survey stage. As a result of this action, the company appealed the decision of the Emilia-Romagna Region before the competent Regional Administrative Court. Moreover, following the seismic events of May 2012 that involved the area where the storage project should be carried out, the MATTM requested the VIA-VAS Commission to carry out additional preliminary surveys with reference to the VIA decree already issued for the required technical investigations.

On 3**0 July 2012**, the Board of Directors of ERG S.p.A. decided to exit the project for the construction of a Liquefied Natural Gas (LNG) regasification terminal in the Municipality of Melilli, in the Siracusa province, with a capacity of 8 billion cubic metres per year. The project, launched in 2005 with the incorporation of the equal-share joint venture Ionio Gas in partnership with Shell Energy Europe B.V., in recent years has received the favourable opinions of all bodies having cognisance on safety and environmental compatibility matters, hence it is awaiting the issue of the Single Authorisation by the Region. The decision, subsequently also made by the other partner, Shell, not to continue with the project was based on the significant changes in both energy and economic-financial scenarios, which took place as a result of the crisis that started in 2008, and the current configuration of the Group's activities. On **27 November 2012** the company was placed in liquidation.

On **23 November 2012** ERG announced its decision to exit the project for the construction of a natural gas storage site in Rivara, in the province of Modena.
It should be recalled that ERG, which had joined the project in 2008 through a partnership with the English company Independent Resources, had acquired a minority share in the joint venture called ERG Rivara Storage S.r.l.
For the purposes of ERG's exit from the capital of the investee, the Shareholders reached a mutually satisfactory settlement agreement, whereby the company shall change its name from ERG Rivara Storage to Rivara Gas Storage.

REFINING & MARKETING

On **17 May 2012** ERG disclosed that the Board of Directors of the TotalErg investee (51% ERG – 49% Total) had approved the project to transform the industrial site of the Rome Refinery (Raffineria di Roma) – its wholly owned subsidiary – into a major logistical facility for the storage and handling of petroleum products.
The refining plants were shut down in September, as planned; starting from that month, therefore, the import of crude oils at the Fiumicino terminal ceased, along with the refining work carried out by TotalErg at the refinery, with a significant decrease in the exposure to this business and a marked reduction in the working capital employed. Plant clean-up has ended and the plants will be dismantled as soon as the authorisation process is completed.
All activities aimed at transforming and optimising the logistical facility, and in particular the conversion of the fuel tanks from crude oil to finished products, the modification of the related piping connections and the upgrade of the sea terminals have begun and will be completed in the first half of 2013; they will enable fully to exploit the potential of the site as a strategic logistical facility to supply central Italy.
With this operation, TotalErg is enhancing its position within the Italian logistical system.
In addition, a major social plan was defined and shared with the Social Partners; its goal is to minimise the repercussions of the reconversion on employment.

CORPORATE

On **20 April 2012** the Ordinary Shareholders' Meeting of ERG S.p.A. appointed the new Board of Directors for the 2012-2014 period, with Riccardo Garrone confirmed as Honorary Chairman and Edoardo Garrone as Chairman of the company.
The new Board of Directors, of which Marco Costaguta and Umberto Quadrino became members for the first time, then appointed Alessandro Garrone as Executive Deputy Chairman and Luca Bettonte as Chief Executive Officer. The Board also confirmed Giovanni Mondini Deputy Chairman and Graziella Merello Executive Director in charge of overseeing the functioning of the internal control system.
Alessandro Garrone, as Executive Deputy Chairman and Strategic Committee Chairman of ERG, will supervise the strategic choices of the Group and the definition of the macro organisational structure, also carrying out activities of direction and coordination of the extraordinary transactions including structured finance.
The Chief Executive Officer was vested with all the powers required for carrying out all the deeds concerning the Group's activities, except for what is reserved to the Board of Directors (by law or by the Articles of Association) and what is delegated to the other Directors.

On **30 July 2012**, the Board of Directors of ERG S.p.A. resolved to adhere to the new edition of the Corporate Governance Code of listed companies of December 2011. Please refer to the 2013 Report on Corporate Governance and Ownership for punctual information on the Company's implementation of the changes brought about by the new edition.

REGULATORY FRAMEWORK

The most important regulatory changes that characterised the energy industry in 2012 were:

GENERAL

- **Italian "Growth" Law of 7 August 2012, conversion of Law Decree no. 83 dated 22 June 2012, "Urgent measures for the growth of the Country",** expected to be converted into Law, bearing environmental provisions of interest pertaining to waste, clean-up, authorisations/certifications, emissions of volatile organic compounds and "industrial areas undergoing complex crisis".
  The other themes of interest are the intention to institute a "green label" for EC oil products, to increase authorisation flexibility on inspections/small modifications in storage sites and in refineries, to pass measures in favour of the flexibility of electricity generating plants.

- **Italian Law no. 27 of 24 March 2012** "Conversion into law, with amendments, of Law Decree no. 1 of 24 January 2012, bearing urgent provisions for competition, the development of infrastructures and competitiveness" containing measures pertaining to the energy sector.

- **Implementation of Italian Law no. 27 of 24 March 2012 on the disbursement of the contribution for the operation of the AGCM** introducing a new procedure for funding the Authority (which from the year 2013 will replace the previous ones) establishing a mandatory annual contribution to be paid by the larger companies (i.e. those with revenues exceeding EUR 50 million).

- **AEEG Resolution 394/2012** reorganising provisions on the supervision of punctual compliance with the prohibition to translate the surtax per Article 81, paragraph 18, of Law Decree no. 112 of 25 June 2008, converted with amendments into Law no. 133 of 6 August 2008 ("Robin Tax").

POWER – RENEWABLE ENERGY SOURCES – ITALY

- **Italian Ministerial Decree of 6 July 2012 by the Ministry of Economic Development** establishing the new incentives for the generation of electricity from plants powered by renewable energy sources, other than solar photovoltaic energy, with no less than 1 kW of power.

- **Procedures for the Enforcement of Italian Ministerial Decree of 6 July 2012, issued by the National Grid Operator (GSE) on 24 August 2012,** describing the different steps for accessing and managing incentives. In particular, the measure provides rules for registration in the Registers, Auction Procedures and renovation Registers, the request for the concession of the feed-in tariff, the procedures for calculating and disbursing the incentives (including the procedures for recognising the bonuses), plant inspections and tests.

- **AEEG Resolution 281/2012** prescribing, also for plants powered by non-programmable renewable energy sources, the obligation from 1 January 2013 onwards to contribute to cover imbalance costs. In particular, the Resolution prescribes that from 1 January 2013 onwards, the same procedures for setting imbalance costs currently in force for programmable production units not authorised to operate on the dispatching services market will be adopted and that, in case of units under dedicated withdrawal (RID), the aforesaid costs shall be allocated by the ESO to the producers, in accordance with the

"Technical Rules" published for this purpose.

- **AEEG Resolution 493/2012** approving the procedures for the allocation of imbalance payments and payments to cover administrative costs to producers adhering to dedicated withdrawal and fixed comprehensive fee rules.

POWER – RENEWABLE ENERGY SOURCES – ABROAD

The following is a recapitulation of the current regulatory frameworks in the foreign Countries where the Group carries out its activities.

- **Regulatory framework in France**

  The inter-ministerial decree of 17 November 2008 set the conditions for the purchase of electricity from wind power. The incentive system for renewable sources in France is of the feed-in tariff type. The incentive for on-shore wind power, for existing plants, is recognised for 15 years and it is updated annually according to a formula tied to the index of hourly labour cost and to the index of the production prices of industrial products. For the first 10 years of operation it is the initial tariff, depending on the year of stipulation of the agreement, and it is updated annually, whilst for the subsequent 5 years the value to be indexed is decreasing if annual hours of operation exceed 2,400. For 2006, the initial tariff value was 82 EUR/MWh. To define the starting value for new plants in subsequent years, the tariff is reduced by 2% from the previous year, starting from 2008, and it is updated to take into account changes in the aforementioned indices. The value thus determined, for each plant, is then updated annually, as described above.

- **Regulatory framework in Bulgaria**

  The Energy from Renewable Sources Act, published in Bulgarian State Gazette no. 35 of 3 May 2011 and subsequently amended on 10 April 2012, defined the current regulatory framework of the incentive system for plants powered by renewable sources in Bulgaria. For wind farms, a feed-in tariff is provided in brackets based on hours of operation; it is constant in nominal terms. In particular, for wind farms existing as at 3 May 2011, the incentive is recognised for the first 15 years of operation; the value of the tariff is equal to the one applicable at the time the law entered into force, i.e. 188.29 BGN/MWh (approximately 96.3 EUR/MWh) below 2,250 annual hours of operation and 172.95 BGN/MWh (approximately 88.4 EUR/MWh) above 2,250 annual hours of operations.

  In September 2012, a charge for accessing transmission and distribution networks was introduced for renewable source producers. In particular on 14 September, Decision no. 33 of the local regulatory authority (SEWRC – State Energy and Water Regulatory Commission) was published; it prescribes the application of said charge from 18 September 2012 onwards for all plants from renewable sources in operation since March 2010. The charge was temporarily defined as 10% of the feed-in tariff for wind power generators and the definitive value, to be based on a detailed analysis of the actual operating costs of networks, is expected to be published in the upcoming months.

  The main Operators have filed appeals, also through industry Associations; the appeals are currently under discussion.

- **Regulatory framework in Romania**

  The new incentive system for renewable energy sources was defined with Law 134/2012, published in State Gazette no. 505 of 23 July 2012, which amends and completes Law no. 220/2008 on renewable energy sources. Incentives to renewable energies are provided through "green certificates" for the first 15 years of operation. The obligation to place a certain yearly quantity of green energy in the grid (or to purchase an equal quantity of

"green certificates") is on the gross final consumption of electricity. The law defines the maximum annual portion of renewable energies that can be provided with incentives (set to grow from 12% in 2012 to 20% in 2020) and the portion of "green certificates" is defined accordingly on an annual basis. For wind power, 2 "green certificates" will be provided for each MWh generated through 2017 and 1 green certificate from 2018 onwards; therefore, total revenues for a wind power project, for its first 15 years of operation, consist of the sum of the revenues from sales of "green certificates" and sales of electricity. The unit price of "green certificates" varies between a cap (55 EUR/MWh in 2010 currency) and a floor (27 EUR/MWh in 2010 currency) – defined in Euro – and indexed for inflation on a yearly basis.

POWER – THERMOELECTRIC

- **Italian Ministerial Decree 28 June 2012 postponing the early termination of CIP 6/92 conventions** which postpones the ultimate deadline for submitting early termination requests, set to 31 March 2013.

- **Italian Ministerial Decree of the 20 November 2012 by the Ministry of Economic Development** on the new procedures for determining the avoided cost component of fuel (CEC), per the Cip 6/92 instruction, and for determining the CEC adjustment value both for 2010 and for 2011. The decree also prescribes the value of CEC to be advanced for 2012.

- **AEEG Resolution 494/2012** initiating proceedings for compliance with Italian State Council decision no. 6026/11 concerning the revision of the avoided cost of fuel (CEC) to be recognised to British Gas Italia Power S.p.A. for the electricity withdrawn by the National Grid Operator (GSE) in accordance with Cip instruction no. 6/92 in 2008;

- **AEEG Resolution 420/2012** pertaining to the review of proposals and final measurement program, for energy efficiency projects submitted within the scope of the Energy Efficiency Certificates scheme.

- **AEEG Resolution 468/2012** on the outcome of the National Grid Operator (GSE) inspection for the IGCC plant pertaining to entitlement to the "green certificates" for the energy generated by ISAB Energy S.r.l. in 2009 and consequent GSE notice of 26 November 2012 pertaining to the request for the purchase and cancellation of 100,830 "green certificates" for the year 2009 (without prejudice to the entitlement to partial reimbursement pursuant to AEEG Resolution 113/06). The subsequent CCSE Communication of 21 December 2012 partially revised the resolution in question, cancelling the requirement to recover expenses connected to the IEN index contained therein.

- **GSE Communications of 4 December 2012** allowing the CAR qualification request for the CCGT plant of ERG Power: thanks to this decision, the National Grid Operator (GSE) shall recognise Energy Efficiency Certificates pertaining to the cogeneration of the CCGT plant. Said certificates shall be available for transfer in 2013 in part by placing them on the market and in part through their repurchase by the GSE.

REFINING & MARKETING

- **Italian Ministerial Decree of 11 June 2012 – Amendments to Decree of 23 January 2012, regulating the national certification System for bio fuels and bio liquids**: the Decree corrects the definition of "economic operator" in the bio-fuel or bio-liquid sector and it establishes sustainability criteria for bio-fuels produced in the years 2010, 2011 and 2012. The Decree obligates economic operators to obtain the statement of truthfulness of the declarations of conformity issued by it with regards to the suitability of the bio-fuel production chain and defines times/methods to disseminate said statement to the Authority.

- **Decision 2012/35/PESC by the European Council dated 24 January 2012 and consequent Regulation 267 dated 23 March 2012.**
  The Regulation implemented the decision adopted by the EU at the end of January on the basis of which, a prohibition was issued against agreements for the import of crude oil or petroleum products originating from Iran after 24 January 2012, without prejudice for the performance of extant agreements or agreements that had not yet been performed as of that date.

- **Italian Ministerial Decrees of 5 June 2012** prescribing the quantity of mandatory stocks of petroleum products for the year 2012 for industry operators.

- **Sicilian Regional Decrees of 1 October 2012 and 25 October 2012** bearing, respectively, provisions on the working hours of gas stations and on the simplification of procedures in the fuels sector at the regional level.

HEALTH, SAFETY AND ENVIRONMENT

- **Italian Law no. 35 dated 4 April 2012, n. 35 "Conversion into law, with amendments, of Law Decree no. 5 dated 9 February 2012, bearing urgent provisions for simplification and development", i.e. the "Simplifications Law Decree"** introducing provisions on the certified report on the start of activities (SCIA), integrated environmental authorisation (AIA) for regasification terminals and other offshore platforms, clean-up of contaminated sites and introduction of innovative technologies, accelerated procedures for strategic infrastructures, validity of the AIA until their natural expiration in cases of transformation of processing and storage plants into mineral oil storage facilities, reindustrialisation of sites of national interest.

- **Clean ups - Programme Agreement for the Priolo site**
  In 2012 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.

IMPACTS ON THE GROUP

With reference to the above, no further impacts on the businesses of the Group were noted for 2012, beyond those detailed in the comments on individual events.

BUSINESS SEGMENTS

RENEWABLE ENERGY SOURCES

The ERG Group operates in the renewable energy segment through the subsidiary ERG Renew. The performance of ERG Renew is based mainly on the wind power generation business.
Wind farms consist of wind-power generators that can transform the kinetic energy of wind into mechanical energy, which is used in turn to generate electricity. Aside from the availability of the plants, the performance expected from each wind farm is obviously influenced by the wind speed profile of the site on which the wind farm is located.
Business performance is also influenced by the sale price of electricity, which can also vary in relation to the geographic areas where the plants are located, by the value of "green certificates", and in general, by the incentive systems for renewable energy sources, which differ from country to country.

REFERENCE MARKET (1)

	YEAR 2012	YEAR 2011
ITALIAN RENEWABLE ENERGY SOURCES MARKET (2) (GWH)		
GENERATION FROM RENEWABLE SOURCES (3)	80,002	72,960
OF WHICH:		
HYDROELECTRIC	*43,322*	*47,202*
GEOTHERMAL	*5,238*	*5,315*
WIND	*13,119*	*9,775*
PHOTOVOLTAIC	*18,323*	*10,668*
FRENCH RENEWABLE ENERGY SOURCES MARKET (2) (GWH)		
GENERATION FROM RENEWABLE SOURCES(4)	75,205	61,795
OF WHICH WIND POWER	*13,406*	*11,624*
SALE PRICES (EUR/MWH)		
PUN (ITALY) (5)	75.48	72.23
"GREEN CERTIFICATES"	80.34	82.12
EE PRICE, CENTRAL-SOUTHERN ITALY	73.16	70.86
EE PRICE, SOUTHERN ITALY	70.34	69.04
EE PRICE, SICILY	95.28	93.11
ERG RENEW AVERAGE UNIT VALUE OF THE SALE PRICE OF ELECTRICITY IN ITALY	150.60	153.50
FEED IN TARIFF (FRANCE)	89.36	86.98
FEED IN TARIFF (BULGARIA)	94.43	N.A.

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

MARKET SCENARIO IN ITALY

In 2012 in Italy, renewable sources accounted for 28% of (net) domestic electricity generation, up from 25% in 2011; of all generation from renewable sources, 15% originated from hydroelectric power, 5% from wind power, 6% from photovoltaic and the remaining 2% from geothermal power. Compared with the same period of the previous year, generation from

hydroelectric sources decreased (-8%); by contrast, generation from wind power recorded a significant increase (+34%) also thanks to good wind conditions, as did generation from photovoltaic sources, up by 72%, driven by the very sharp growth in installed power occurred in 2011. Generation from geothermal sources was substantially stable.

TARIFF SCENARIO

- **Italy**

  The expected Italian Inter-ministerial Decree providing incentives for renewable electricity sources other than photovoltaic was published on the Official Gazette dated 10 July 2012, Ordinary Supplement no. 143.

  The incentives provided for plants already existing or completed by the end of the current year (with the provision of a transitory period through 30 April 2013, for plants already authorised as of the date the Decree entered into force), do not have any significant discontinuities (the calculation formula is confirmed). Until 2015, the "green certificates" system will remain in force and it will be converted, for the residual period of entitlement to the incentives, into a premium feed-in tariff paid on a monthly basis and calculated according to the same formula. Additionally, the timing for the withdrawal by the National Grid Operator (GSE) of the "green certificates" issued for generation from renewable sources in the years from 2011 to 2015 was defined. In particular, for the "green certificates" produced in 2011, payment of 50% was prescribed within 30 days from the publication of the Decree (value date 9 August 2012), whilst the remaining 50% shall be paid no later than 30 September 2013. With reference instead to the "green certificates" produced in the first half of 2012, they will be withdrawn no later than 31 March 2013, whereas those produced in the second half of 2012 will be withdrawn no later than 31 December 2013.

  With regards to the plants built from 2013 onwards, access to the incentives is instead confirmed with a Dutch auction (with a starting price of EUR 127 per MWh for wind farms with a capacity exceeding 5 MW).

  The Decree also introduced, starting from 2013, for all entities accessing the incentive schemes for the generation of electricity from plants powered by renewable sources (with the exclusion of photovoltaic plants and of plants allowed for Inter-ministerial Price Committee Order no. 6/92), a contribution of EUR 0.5 for each MWh of subsidised energy, to be paid to the Italian National Grid Operator (GSE).

  With its resolution 281/2012/R/EFR dated 5 July 2012, the Italian Authority for Electrical Energy and Gas revised the regulations pertaining to the electricity dispatching service for generation plants powered by non-programmable renewable sources. The new rules, which transfer to generators from non-programmable renewable sources a part of the imbalance costs relating thereto, shall be applicable from 1 January 2013 and pertain to a transitory period of one year. In this regard, for 2013, a deductible is provided equal to 20% of the amended and corrected binding programme of the dispatching point for the first half of the year and equal to 10% for the second half. Further regulations by the Authority will define the conditions to be applied for the following years.

  For the tariff scenarios in France, Bulgaria and Romania, please see the Regulatory framework description.

HIGHLIGHTS OF ADJUSTED PERFORMANCE ITEMS

	YEAR 2012	YEAR 2011
OPERATING RESULTS		
REVENUES FROM ORDINARY OPERATIONS	**177**	**114**
EBITDA AT REPLACEMENT COST (1)	**137**	**69**
AMORTISATION, DEPRECIATION AND WRITE-DOWNS (1)	(66)	(50)
EBIT AT REPLACEMENT COST (1)	**71**	**19**
CAPITAL EXPENDITURES ON TANGIBLE AND INTANGIBLE FIXED ASSETS	39	53
MAIN FINANCIAL DATA		
NET INVESTED CAPITAL	1,013	1,004
SHAREHOLDERS' EQUITY	550	534
TOTAL NET FINANCIAL INDEBTEDNESS	463	470
OF WHICH NON-RECOURSE PROJECT FINANCING (2)	*520*	*446*
EBITDA MARGIN % (3)	**77%**	**61%**

(1) not including non-recurring items indicated in the section "Alternative performance indicators," to which reference should be made for further details
(2) including cash and cash equivalents
(3) EBITDA at adjusted replacement cost over revenues from ordinary operations

The breakdown of EBITDA at replacement cost between the various geographic areas of the Renewable Energies business was as follows:

	YEAR 2012	YEAR 2011
EBITDA AT REPLACEMENT COST		
ITALY	128	62
FRANCE	8	7
BULGARIA (50%)	1	–
TOTAL	**137**	**69**

In 2012, consolidated revenues were significantly higher than in 2011 in spite of the reduction of the overall unit energy sale value, thanks on one hand to the increased average power in operation during 2012, and on the other to more favourable wind conditions, which led to greater generation than in the previous year.

For ERG Renew, the sale price of electricity in Italy amounted on average to 70.3 EUR/MWh, slightly lower than the value of 71.4 EUR/MWh recorded in 2011, and lower than the Single National Price (75.5 EUR/MWh) considering also the specific geographical breakdown of ERG's plants, concentrated in Southern Italy. The estimated value of "green certificates", i.e. 80.3 EUR/MWh, declined from 82.1 EUR/MWh estimated in 2011. Overall, therefore, the average unit revenue from Renew production in Italy, considering the sale value of energy and of the "green certificates", was 150.6 EUR/MWh, down from 153.5 EUR/MWh in 2011.
The EBITDA of the period grew sharply to EUR 137 million, substantially doubling the value of EUR 69 million recorded in 2011, mainly because of the increased production, which amply offset the slight decrease in unit revenues.

Lastly, it should be pointed out that the result also reflects the effect of the reduction of unit costs per MW generated, thanks on one hand to effective cost containment actions and on the other to the positive effects deriving from the increased size of the company.

	YEAR 2012	YEAR 2011
INSTALLED POWER (MW)		
ITALY	**512**	**483**
OF WHICH		
CAMPANIA	*144*	*140*
CALABRIA	*120*	*98*
PUGLIA	*158*	*158*
MOLISE	*42*	*40*
SICILY	*38*	*38*
OTHERS	*11*	*11*
FRANCE	**64**	**64**
BULGARIA (50%)	**20**	**N.A.**
TOTAL INSTALLED POWER AT PERIOD END (1)	**596**	**548**

(1) power of plants in operation at period end

Installed power at period end increased from 548 MW at the end of 2011 to 596 MW at the end of 2012, with growth concentrated in Calabria, thanks to the commissioning of the new, 22.5 MW Amaroni wind farm at the end of 2012, and in Bulgaria, with the acquisition through LUKERG Renew of the Tcherga wind farm (total power: 40 MW, of which 50% belonging to ERG).

	YEAR 2012	YEAR 2011
GENERATION ((GWH)		
ITALY	**1,072**	**627**
OF WHICH		
CAMPANIA	*304*	*99*
CALABRIA	*213*	*72*
PUGLIA	*369*	*295*
MOLISE	*103*	*86*
SICILY	*69*	*58*
OTHERS	*15*	*16*
FRANCE	**128**	**113**
BULGARIA (50%)	**22**	**N.A.**
TOTAL WIND FARM GENERATION	**1,222**	**740**

During 2012, electricity generation by ERG Renew amounted to 1,222 GWh, markedly higher than the 740 GWh of 2011; in particular, wind power generation in Italy amounted to 1,072 GWh versus 627 GWh in 2011. This increase is mainly linked to the contribution of the Fossa del Lupo wind farm, started during 2011, with 205 GWh generated during the period, and to the contribution of ERG Eolica Campania purchased in August 2011 (259 GWh). Additionally, wind conditions were generally highly satisfactory and markedly better than in 2011.
The output from the wind farms in France amounted to 128 GWh, higher than in the same period of 2011 by 15 GWh because of stronger winds.

Lastly, with regard to Bulgaria, ERG Renew's generation amounted to 22 GWh and refers only to the second half of 2012.
The following table shows wind farm load factor by main geographic area; the figure, estimated taking into account the actual start of operations of the wind farms in individual years, provides a measure of the level of generation of the various farms in relative terms, and it is influenced not only by the characteristics of the farm and the wind conditions in the period considered, but also by the level of availability of the plants and any limitations on the energy transport networks.

	YEAR 2012	YEAR 2011
LOAD FACTOR %		
ITALY	**25%**	**20%**
OF WHICH		
CAMPANIA	*24%*	*18%*
CALABRIA	*24%*	*15%*
PUGLIA	*27%*	*21%*
MOLISE	*29%*	*25%*
SICILY	*21%*	*18%*
OTHERS	*16%*	*18%*
FRANCE	**23%**	**20%**
BULGARIA (50%)	**25%**	**N.A.**
LOAD FACTOR (1)	**25%**	**20%**

(1) actual production in relation to maximum theoretical production (calculated taking into account the actual date of initial operation of each individual wind farm)

With regard to the Ginestra wind farm, of the 8 MW missing for the completion of the wind farm, authorised for 40 MW, 6 MW are already installed and exercisable and 2 MW are still to be installed; the temporal misalignment of the entry into operation of these wind turbines stems from precautionary needs expressed by the competent authorities for the protection of environmental interests.

REFERENCE MARKET

		YEAR 2012	YEAR 2011
ITALIAN ELECTRICITY MARKET (1) **(GWH)**			
DEMAND		325,259	334,640
PUMPING CONSUMPTION		2,627	2,539
IMPORT/EXPORT		43,088	45,733
INTERNAL GENERATION (2)	284,798	291,446	
OF WHICH			
THERMOELECTRIC		204,796	218,486
RENEWABLE ENERGY SOURCES		80,002	72,960
SALE PRICES **(EUR/MWH)**			
PUN (3)		75.48	72.23

(1) source: Terna S.p.A. monthly report on the electrical system. Provisional 2012 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 Italian electric system in 2012 amounted to 325.3 TWh, in decline (-2.8%) compared with the values recorded in 2011. This decrease reflects the Country's current economic recession. With regards to Sicily, reference market for the ERG group, the contraction in demand compared with 2011 was 4.2%, from 22.1 TWh to 21.2 TWh. In the same period, net domestic electricity generation amounted to 284.8 TWh, down by 2.3% compared with the previous year, whilst the net trade balance with foreign countries recorded net imports of 43.1 TWh, down by 5.8% compared with 2011. 72% of (net) domestic production was assured by thermoelectric plants and the remaining 28% by renewable sources; these data, if compared with 2011, show a sharp contraction in generation from thermoelectric sources (-6.3%) and growth in generation from renewable sources (+9.7%).

The average value of the PUN (Single National Price) in 2012 was 75.48 EUR/MWh, up by 4% compared with the value of the previous year (i.e. 72.23 EUR/MWh). Said increase only partly reflected the strong growth in fuel costs, in particular during the first nine months of the year, also due to the weakened EUR/USD exchange rate, entailing very weak margin values in particular for gas-fuelled plants

4 Including grid losses and net of electricity used for pumping.

PERIOD PERFORMANCE HIGHLIGHTS

(EUR MILLION)	YEAR 2012	YEAR 2011
REVENUES FROM THIRD PARTIES	1,435	1,214
INTRA-SEGMENT REVENUES	216	221
REVENUES FROM ORDINARY OPERATIONS	**1,651**	**1,435**
EBITDA AT REPLACEMENT COST (1)	**328**	**239**
AMORTISATION, DEPRECIATION AND WRITE-DOWNS (1)	(76)	(84)
EBIT AT REPLACEMENT COST (1)	**253**	**155**
CAPITAL EXPENDITURES ON TANGIBLE AND INTANGIBLE FIXED ASSETS	35	22

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

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

	YEAR 2012	YEAR 2011
EBITDA AT REPLACEMENT COST		
ISAB ENERGY / ISAB ENERGY SERVICES	241	153
ERG POWER & GAS BUSINESS UNIT/ ERG POWER PLANTS	87	86
TOTAL	**328**	**239**

SALES OF ELECTRIC POWER

	YEAR 2012	YEAR 2011
SALES (GWH)		
TOTAL SALES	**7,852**	**7,344**
ISAB ENERGY	4,077	3,655
ERG POWER & GAS BUSINESS UNIT	3,775	3,689
OF WHICH TO ISAB S.R.L.	*215*	*202*
GENERATION (GWH)		
TOTAL GENERATION	**6,997**	**6,670**
OF WHICH ISAB ENERGY S.R.L.	*4,077*	*3,655*
OF WHICH ERG POWER S.R.L.	*2,920*	*3,015*
SALE PRICES (EURO/MWH)		
CIP 6	122.7	105.7

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 running agreement with the Italian National Grid Operator (GSE) since 2000, whereby the sale price includes the valuation of the "avoided cost component of fuel" (CEC) 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 2012, electricity generation totalled 4,077 GWh, up strongly from 3,655 GWh of 2011. The increase is partly connected to the effects of the general downtime at the end of 2011, and it partly reflects the better overall performance of the plant. The utilisation factor of the plant rose from 79% in 2011 to 88% in 2012.

During the period, EBITDA at replacement cost totalled EUR 241 million, considerably better compared with the previous year (153 million), as a consequence both of the increased output and of the higher sale price estimated to date.

With regards to the calculation of the CEC, for the purposes of this Report, the basic method of the AEEG Resolution no. ARG/GAS_64/09 (Integrated Text for Gas Sales) was applied, taking into consideration the Resolutions that updated it during the third quarter of 2012. This determination was carried out while awaiting the potential effects that could stem from the process to re-determine the CEC adjustment for 2008 as a result of the settlement of the dispute pertaining to AEEG resolutions no. 154/08 and ARG/elt 50/09, and any further developments in the regulatory environment that could affect some variables pertaining to the calculation of the CEC.

On 20 November 2012, the Italian Ministry of Economic Development issued the Ministerial Decree that regulates the applicability to "Selected Initiatives" of Article 30, paragraph 15 of Law no. 99 of 2009, in relation to the manner of determining the value of the CEC, also taking into account trends in conversion efficiency.

On 25 January 2013, the GSE published the operating procedure for obtaining the formal recognition of possession of the requirements for the purposes of the application of the waivers per the Decree of 20 November 2012.

ISAB Energy is preparing the waiver application accompanied by the documentation required by the GSE.

Additionally, Italian Official Journal no. 231 of 3 October 2012 published Ministerial Decree 28/6/2012 of the Ministry of Economic Development that extended to 31 March 2013 the deadline for the voluntary early termination of CIP6 conventions for plants fuelled with process fuels or residues or energy recoveries (already extended to 30 June 2012 with the Ministerial Decree of 7 January 2012), allowing the involved operators to exercise this option on the 1st of July of each year between 2013 and the year when half of the residual period of validity of the convention with respect to the 1st of January 2012 falls (as well as on the 1st of January, as provided previously).

Lastly, the net financial indebtedness at 31 December 2012 of the company ISAB Energy, consolidated on a line-by-line basis, was approximately EUR 54 million, lower than the figure of EUR 95 million at 31 December 2011.

ERG POWER & GAS BUSINESS UNIT AND ERG POWER

During 2012, ERG Power's net electricity generation amounted to 2,920 GWh, slightly less than in 2011 (3,015 GWh). Approximately 7% of ERG Power's generated electricity was used to cover the consumption of the North Refinery of ISAB S.r.l.

The net supply [5] of steam by ERG Power plants to the Priolo industrial site in 2012 was approximately 1,628 thousand tonnes (1,945 thousand tonnes in 2011), of which approximately 1,094 thousand tonnes were destined to the North Refinery of ISAB S.r.l.

EBITDA for 2012, i.e. EUR 87 million, slightly higher than in 2011 (EUR 86 million). The continued achievement of generally satisfactory results, even in a highly challenging market environment, reflects the effectiveness of energy management and risk mitigation policies, contemplating, inter alia, the sale – through multi-year agreements – of steam and electricity to the customers of the multi-company petrochemical site of Priolo Gargallo, the multi-year forward sale to IREN Mercato and the use of financial instruments to hedge price risk.

As a result of the agreement signed with IREN Mercato in November 2011, the results of 2012 do not include the retail marketing activities, sold to IREN Mercato, but rather the effects in the period of the multi-year wholesale of 2 TWh per year to IREN Mercato, with a price formula designed to mitigate market risks.

Lastly, the result obtained in 2012, compared to the previous year, also benefited from the full contribution deriving from participation in the Dispatching Services Market (MSD), where ERG has been active since October 2011.

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

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 2012	YEAR 2011
EBITDA AT ADJUSTED REPLACEMENT COST		
INTEGRATED DOWNSTREAM	53	82
COASTAL REFINING	(32)	(76)
TOTAL	**21**	**6**
ADJUSTED CAPITAL EXPENDITURES ON TANGIBLE AND INTANGIBLE FIXED ASSETS		
INTEGRATED DOWNSTREAM	37	38
COASTAL REFINING	14	39
TOTAL	**51**	**77**

INTEGRATED DOWNSTREAM

REFERENCE MARKET [1]

(THOUSANDS OF TONNES)	YEAR 2012	YEAR 2011
ITALIAN RETAIL MARKET		
GASOLINE	8,342	9,337
DIESEL	15,269	16,742
ITALIAN WHOLESALE MARKET		
DIESEL	10,892	12,060
HEATING OIL	1,455	1,576
SPECIALTIES MARKET		
COMBUSTION LPG	1,752	1,933
BITUMEN	1,595	2,075
LUBRICANTS	394	431

(1) estimated figures

Italian Retail Market: in 2012, consumption in the Retail channel decreased by 9.5% compared with 2011; gasoline demand recorded the fastest drop (-10.7%), while diesels declined slightly less sharply (-8.8%). The sharp contraction in demand is essentially due to the current severe economic crisis, which has had a heavy impact on consumption levels and habits. Additionally, a strong downward pressure on consumption is also tied to the significant rise in retail prices, driven by the rise in the international prices of the products and in the increase in excise duties and VAT.

Italian Wholesale Market: during the year, Wholesale demand for diesel fuels (transport, marine and agricultural) declined, by -9.7% from the previous year; this change is mostly due to the decrease in the demand for transport diesel (-10.7%), coupled with the decrease in the demand for marine diesel (-18.2%) and agricultural diesel (-3.0%). With regard to heating oil, demand contraction was slightly less significant, i.e. by 7.7% compared with the previous year.

Specialties Market: In 2012, sales of LPG declined by -3.2% compared with 2011, linked also to the strong rise in prices; the decline in consumption in the fuel channel (-9.4% compared with 2011) was partially offset by the growth in the transport channel.
Still more evident were the effects of the economic crisis on demand for Bitumens, which collapsed from the already depressed values of 2011 (-23.1%). Lastly, sales of lubricants were down from the previous year (-8.6%), both because of the sharp contraction in sales in the auto channel (-11.4%) and in the industry channel (-6.1%).

HIGHLIGHTS OF INTEGRATED DOWNSTREAM PERFORMANCE AT ADJUSTED REPLACEMENT COST

To enhance the understandability of Integrated Downstream performance, the results of this business are shown at their adjusted replacement cost, which reflects ERG's share (51%) of the consolidated results of the TotalErg joint venture.
It should be noted that the underlying values, in addition to the share of TotalErg, also include the activities in Sicily controlled by ERG Oil Sicilia.

(EUR MILLION)	YEAR 2012	YEAR 2011
REVENUES FROM THIRD PARTIES	4,325	4,651
INTRA-SEGMENT REVENUES	96	41
REVENUES FROM ORDINARY OPERATIONS	**4,422**	**4,692**
EBITDA AT REPLACEMENT COST (1) (2)	**53**	**82**
AMORTISATION, DEPRECIATION AND WRITE-DOWNS (2)	(59)	(60)
EBIT AT REPLACEMENT COST (1) (2)	**(6)**	**22**
CAPITAL EXPENDITURES ON TANGIBLE AND INTANGIBLE FIXED ASSETS	37	38

(1) inventory gains (losses) of +2 in 2012 (+53 in 2011)
(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 in 2012 amounted to EUR 53 million, sharply down compared with EUR 82 million in the previous year.
The result was penalised by the weak results of the Retail segment, affected by sharply contracting petroleum consumption and by extremely weak margin levels as a consequence both of the rising trend in prices recorded early in the year, and of the particularly challenging competitive scenario, with a level of discounts that ended up significantly eroding industry margins.
With regards to Wholesale and Specialties, the results, albeit reflecting the weakness of the economic cycle, were in line with the previous year. Lastly, refining benefited from the margin recovery, in particular in the second and third quarter, with significantly higher results than in 2011.

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 contributed.

ERG Oil Sicilia operates both in the Retail and Wholesale markets. The network of ERG Oil Sicilia at 31 December 2012 comprises 306 sales outlets with a nationwide market share of approximately 1.0%.

The results, in addition to reflecting the severe decline in consumption, were affected by the discount initiatives implemented by the main operators of the Retail segment, which brought about a reduction in the margins. Hence, the overall result in the year was lower than in 2011, also as a consequence of the contraction of activities in the Wholesale network that followed the reduction of the share in the ISAB Refinery.

Total sales in the two networks amounted to approximately 473 thousand tonnes in the twelve months (696 thousand tonnes in 2011).

HIGHLIGHTS OF TOTALERG PERFORMANCE

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

(EUR MILLION)	YEAR 2012	YEAR 2011
EBITDA AT REPLACEMENT COST (1)	**84**	**129**
AMORTISATION, DEPRECIATION AND WRITE-DOWNS (2)	(107)	(109)
EBIT AT REPLACEMENT COST (1)	**(23)**	**20**
CAPITAL EXPENDITURES ON TANGIBLE AND INTANGIBLE FIXED ASSETS	71	68

(1) the data reported do not include inventory gains (losses) of +5 million in 2012 (+105 in 2011)
(2) they do not include non-recurring items as indicated in "Alternative performance indicators", to which reference is made for additional details

The result in terms of EBITDA was influenced in the marketing sectors by the weak performance of the Retail network, which was affected by the strong decline in consumption as well as by very depressed margins, particularly in the first and third quarter, deriving both from the trend of rising prices, and from the already mentioned very challenging economic environment, with exceptionally high levels of discounts.

The results of refining, improved compared with the same period of the previous year, benefitted from a slight recovery in margins, in particular in the second and in the third quarter.

The process of obtaining synergies deriving from the unified management of the main business and support processes is progressing as planned and it has made it possible to mitigate, if only in part, the negative effects generated from the challenging market environment.

The net financial position of TotalErg as at 31 December 2012 amounts to EUR 374 million, lower than EUR 449 million as at 31 December 2011, as a result of working capital dynamics.

Retail Network

In 2012, the fuel sales of the TotalErg Network amounted to approximately 2,646 thousand tonnes, sharply reduced compared with 3,084 thousand tonnes in the previous year, basically due to the general decline in sales in the sector and to the discount initiatives implemented by major competitors, in particular in the summer months. Total market share was 11.2%, down from 11.8% in 2011, in view of a very severe decline in the summer months, concurrently with the aggressive promotional campaigns implemented by the main competitors, followed by a recovery in the final part of the year.

As already mentioned, network sales were heavily affected by the general trend of sales in the country, influenced both by the economic crisis and high retail prices.

To these factors, which impacted on consumption in general, were added the discount initiatives launched by major operators. In this competitive environment, TotalErg's strategy, aimed at safeguarding income by avoiding sales with negative margins, has caused a contraction in market share during the specific period, in particular in the period of highest intensity of the promotional campaigns.

At 31 December 2012, the TotalErg Network in Italy comprises 3,248 stations (of which 1,940 are owned by the Group and 1,308 are leased), compared with 3,383 plants at 31 December 2011.

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 2012, diesel sales amounted to 1,236 thousand tonnes, down from 1,410 thousand tonnes in 2011, also as a consequence of the generalised business declined tied to the ongoing economic crisis.

In addition to the sales made directly by TotalErg, the sector benefited from the results of the subsidiaries:

- Restiani S.p.A., 60% controlled, which 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 2012, sales of lubricants amounted to 48.4 thousand tonnes (51.7 thousand in 2011), of which 3.5 were in the marine/foreign market, with total market share of 11.0%.

Bitumen sales amounted to 152.1 thousand tonnes, down sharply compared with 255.1 thousand tonnes in 2011, as a result both of the collapse in demand, and also of the suspension of internal bitumen production on the Rome Refinery and on the Sarpom Refinery during 2012.

Lastly, LPG sales amounted to 248.8 thousand tonnes, more than 216.5 thousand tonnes in 2011, essentially in the business-to-business and Retail network.

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 (Raffineria di Roma) 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.

On 17 May 2012, the project to transform the industrial site of the Rome Refinery (Raffineria di Roma) – its wholly owned subsidiary – into a major logistical facility for the storage and handling of petroleum products was approved.

During September of the same year, the downtime of the refining facilities was started and completed according to the schedule, thus launching the industrial transformation project, whereby processing and the exposure to the refining business will be considerably reduced.

As a consequence of the downtime of the facilities, TotalErg's processing capacity was reduced from 6.0 million to approximately 1.6 million tonnes per year, being limited solely to the work processes carried out at the Sarpom Refinery.

Moreover, transformation work was carried out in the Sarpom Refinery, to achieve a structural reduction in costs, thus causing bitumen production to be suspended from July onwards.

MARGINS AND PROCESSING

	YEAR 2012	YEAR 2011
UNIT CONTRIBUTION MARGINS AT REPLACEMENT COST TOTALERG INLAND REFINERIES (1)		
USD/BARREL	3.48	1.01
EUR/BARREL	2.71	0.72
EUR/TONNE (2)	19.9	5.3
PROCESSED VOLUMES (KTONNES)	**3,854**	**5,179**
OF WHICH		
SARPOM (TRECATE)	1,552	1,645
ROME	2,302	3,534

(1) the unit contribution margins at replacement cost, net of variable production costs (mainly utility costs) do not include inventory gains (losses) and non-recurring items
(2) barrel/tonne conversion factor equal to 7.355 in 2012 (7.310 in 2011)

The processing work carried out in 2012 amount to 3,854 thousand tonnes, a decrease compared with 5,179 thousand tonnes processed in the same period of the previous year; in addition to the aforementioned shutdown of the facilities in the Rome Refinery (Raffineria di Roma), the decrease was also caused by the planned general downtime of the Refinery in April and by the decision to limit the least profitable processing work in periods when margins are particularly weak, opting to import products instead, and by use of semi-finished products on the Sarpom Refinery to optimise margins.

Unit contribution margins benefited from the significant recovery experienced in the second and third quarter of 2012, with satisfactory crack spreads both for gasolines and for diesels; however, the margins returned to severely depressed values in the final part of the year.

COASTAL REFINING

REFERENCE MARKET [1]

	YEAR 2012	YEAR 2011
CRUDE OILS (USD/BARREL)		
BRENT CRUDE PRICE [2]	111.67	111.26
URAL/BRENT DIFFERENTIAL [3]	(0.91)	(1.65)
AZERI LIGHT/BRENT DIFFERENTIAL	2.97	3.87
PRODUCTS (USD/TONNE)		
TRANSPORT DIESEL PRICE	970	957
UNLEADED GASOLINE PRICE	1,022	978
FUEL OIL PRICE	625	604
CRACK SPREAD (USD/BARREL)		
TRANSPORT DIESEL - BRENT	18.30	17.10
GASOLINE - BRENT	10.69	5.86
ATZ FUEL OIL - BRENT	(13.22)	(16.17)
MARGIN INDICATORS		
EMC (USD/BARREL) [4]	0.19	(2.19)
EMC (EUR/BARREL) [4]	0.15	(1.57)
EUR/USD EXCHANGE RATE	1.285	1.392

Source Platt's
(1) average prices in the 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 2012, the average price of crude oil (Brent) was 111.7 USD/barrel, in line with the previous year (+0.4 USD/barrel), characterised by high volatility and with fluctuations in the order of 40 USD/barrel (lowest: 89 USD/barrel; highest: 128 USD/barrel).

Market volatility reflects widely disparate events, mostly replicating those of 2011 (characterised by the Libyan war, Syrian crisis and the Iranian nuclear issues): on one hand, the crisis and the embargo against Iran, the exacerbating war in Syria, the re-emergence of tensions in North Africa (Libya and Egypt in particular) and in Palestine, the constant acts of sabotage in Iraq; on the other hand, OPEC's production, which grew progressively, with Saudi Arabia nearly reaching 10 mbd, the output deriving from tight oil in the USA, which exceeded expectations (approximately 1.2 mbd, lifting average US crude oil production to 6.4 mbd in 2012 and to 7 mbd in January 2013), China's oscillating growth and the threatening shadows of the US fiscal cliff. All this was accompanied by disruptions to operations in the North Sea and in Canada (bituminous sands) and export limitations in Sudan, Yemen and Nigeria, together with the threat of closure of the Strait of Hormuz, which created price peaks, always dampened by the weakness of Western economies, which is also influencing emerging markets, and by the downwards revision to the growth of GDP and oil demand. The market's perception, in fact, is that supply is more than adequate; in the US, stocks remained at very high levels, whilst in Europe they declined below their average level.

In 2012, Russia continued to pursue its strategy to increase exports of Ural crude from the North Sea and to China to the detriment of the Med; this, together with the rise in the crack spread of diesel and with the decrease in the embargoed Iranian crude, caused the Ural differential relative to Brent to decline from -1.65 USD/barrel in 2011 to -0.91 USD/barrel in 2012.
On the other hand, the availability of Libyan crudes, natural competitors of the Azeri Light in the Mediterranean, the reduced absorption of BTZ crude oils in the US as a result of the increase in domestic production from tight oil and the resolution of the technical production difficulties of 2011 contributed to the reduction of the differential of Azeri Light crude compared with Brent crude, which changed from +3.87 USD/barrel in 2011 to +2.97 USD/barrel in 2012.

Products

The crack spread of transport diesel rose compared with the third quarter of 2011, from 17.10 to 18.30 USD/barrel. This change reflects the limited production, due to maintenance work, to the shutdowns and to accidents in refineries in Europe and in the USA, to the impact of hurricanes, to the downtime of some refineries in North Africa and the Middle East and to the buoyant demand in emerging markets.
The crack spread for gasoline rose significantly, from 5.86 USD/barrel in 2011 to 10.69 USD/barrel in 2012, peaking above 20 USD/barrel at the end of the first quarter and mid-year; the trend was determined by maintenance work in the Atlantic area, by the shut-down of some refineries on the East Coast of the United States and in Europe, by the Petroplus bankruptcy, by disruptions in operations in the USA, in Venezuela and North Africa and by the approaching US driving season.
With regard to ATZ fuel oil, the relative improvement in the crack spread, up by approximately 3.0 USD/barrel compared with the average recorded in 2011, reflects on one hand the demand for bunker (Singapore) and low stocks, and on the other hand, limited product availability due to extraordinary maintenance work (in particular in Russia) and low processing levels.
The buoyant level of imports in Japan following the reduction in generation of nuclear electricity was also confirmed.
In the Mediterranean, the product is finding its ultimate balance thanks to a constant, regular outflow towards the Far East, the main outlet market for this material.

Industry refining margins (EMC)

The strong improvement in the notional reference margin EMC, which rose from -2.19 USD/barrel in 2011 to +0.19 USD/barrel in 2012 (+2.38 USD/barrel) is driven by the growth in the crack spread of gasoline and diesel and by the reduction in the premium for the Azeri Light.

HIGHLIGHTS OF COASTAL REFINING PERFORMANCE AT ADJUSTED REPLACEMENT COST [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, 40% from 1 April 2011 and 20% from September 2012), 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 2012	YEAR 2011
REVENUES FROM THIRD PARTIES	6,517	5,164
INTRA-SEGMENT REVENUES	749	1,083
ADJUSTED REVENUES FROM ORDINARY OPERATIONS	**7,266**	**6,247**
EBITDA AT ADJUSTED REPLACEMENT COST	**(32)**	**(76)**
ADJUSTED AMORTISATION, DEPRECIATION AND WRITE-DOWNS	(38)	(49)
EBIT AT ADJUSTED REPLACEMENT COST	**(70)**	**(124)**
ADJUSTED CAPITAL EXPENDITURES ON TANGIBLE AND INTANGIBLE FIXED ASSETS	14	39

(1) the illustrated figures do not include:
- inventory gains (losses) of +8 in 2012 (+61 in 2011)
- the non-recurring items indicated in the section "Alternative performance indicators", to which reference should be made for further details

In 2012, revenues were higher than in 2011, both as a result of the increase in prices in Euro, and of the increase in processed volumes and trading.
EBITDA at adjusted replacement cost of 2012, in the presence of a particularly penalising scenario in the first part of the year for highly converted refineries, oriented to diesel production, like ISAB S.r.l., was negative by EUR 32 million. The figure is an improvement over 2011, when it was approximately EUR -76 million, partly influenced by the downtime of the facilities for periodic maintenance during the year.

MARGINS AND PROCESSING

	YEAR 2012	YEAR 2011
UNIT CONTRIBUTION MARGINS AT ADJUSTED REPLACEMENT COST [1] OF ERG COASTAL REFINING		
USD/BARREL	1.36	0.96
EUR/BARREL	1.06	0.69
EUR/TONNE [2]	7.8	5.0
PROCESSED VOLUMES (KTONNES)	**4,479**	**4,911**

(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) the barrel/tonne conversion factor was equal to 7.382 in 2012 and 7.305 in 2011

Overall, unit margins in 2012 were still depressed, affected by the strength of the prices of crude oils and of fuel oil which tends to penalise strongly converted refineries like ISAB, with effects only partly offset by the recovery in crack spreads in the second part of the year.
The decreased processing volumes compared with 2011 was primarily tied to the reduction in the share held in ISAB S.r.l. from 51% to 40% from the second quarter of 2011 and to 20%

from September 2012; the comparison is also influenced by the periodic maintenance downtime of the South plants, carried out in the previous year, which went on for 45 days.
The API degree of the crude oils processed in the 2012 (34.4) is higher than that of 2011 (32.5).

HIGHLIGHTS OF PERFORMANCE OF ISAB S.R.L.

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

(EUR MILLION)	YEAR 2012	YEAR 2011
EBITDA AT REPLACEMENT COST (1)	**200**	**146**
AMORTISATION, DEPRECIATION AND WRITE-DOWNS	(110)	(112)
EBIT AT REPLACEMENT COST (1)	**89**	**34**
CAPITAL EXPENDITURES ON TANGIBLE AND INTANGIBLE FIXED ASSETS	33	88

(1) the data shown do not include the inventory gains (losses)

The significant increase in the operating margin in ISAB S.r.l. in 2012 is affected by the inventory effects resulting from a reduction in the stocks of crude oil and products held by the company, which took place in the first part of the period.
As at 31 December 2012, ISAB S.r.l. reported a positive net financial position of EUR 222 million, up by EUR 200 million compared with 31 December 2011 as a result of cash flows from operating activities and in particular the reduction in the stock of crude oil and products.

CAPITAL EXPENDITURES

The adjusted figure for capital expenditures by the ERG Group in 2012 was EUR 126 million (EUR 156 million in 2011), including EUR 120 million for tangible fixed assets (EUR 135 million in 2011) and EUR 6 million for intangible fixed assets (EUR 21 million in 2011).

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

(EUR MILLION)	YEAR 2012	YEAR 2011
RENEWABLE ENERGY SOURCES (1)	39	53
POWER & GAS	35	22
REFINING & MARKETING (2)	51	77
CORPORATE	1	2
TOTAL	**126**	**156**

(1) Renewable Energy Sources adjusted capital expenditures include ERG's share of the capital expenditures made by LUKERG Renew since July 2012
(2) Refining & Marketing adjusted capital expenditures include ERG's share of the capital expenditures made by TotalErg S.p.A. and, through August 2012, by ISAB S.r.l. through August 2012

RENEWABLE ENERGY SOURCES

In 2012, construction work on the Amaroni wind farm (22.5 MW) continued and was completed; the project was acquired in September 2011, commissioned by the end of 2012 and it is now fully operational. The final activities for the commissioning of Fossa del Lupo were also completed, and the wind farm started operations in 2011. In June 2012, LUKERG Renew (50% ERG Renew) closed the acquisition of the Bulgarian wind farm in Tcherga (40 MW in operation); this acquisition, for an enterprise value of approximately EUR 26 million (ERG share), is not included in the amounts indicated in the table of the capital expenditures in the period, since it was an acquisition of equity investments carried out by the LUKERG Renew joint venture.

POWER & GAS

In 2012, the revamping of the water demineralisation plant at the ERG power plant was completed. The new plant, characterised by high reliability and capacity of 1000 m3/hour, became fully operational in December when the ionic exchange unit started operations, whilst the other unit, based on reverse osmosis technology, had already started production in the previous months.

The aforesaid two units, of equal capacity, supply treated water to the thermoelectric plants of the ERG Group and to the industrial processes of the customers in the petrochemical site of Priolo Gargallo.

In the last quarter of 2012, moreover, the construction site was opened to upgrade one of the steam production units of the ERG Power plant. Thanks to the work on this unit, the entire plant will be able to operate more flexibly and efficiently, in compliance with the new emission restrictions prescribed by the Integrated Environmental Authorisation from September 2013 onwards.

Moreover, focused investments continued, to boost the operating efficiency and reliability of the systems; the planned investments for Health, Safety and Environment also continued.

REFINING & MARKETING

- With regards, instead, to **Integrated Downstream**, during 2012, capital expenditures of approximately EUR 36 million were made, related to 51% of TotalErg.
  Most of the capital expenditures 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 improvements.
- With regards to **Coastal Refining**, in 2012, the capital expenditures plan provided for the improvement of the efficiency and performance of equipment, with particular reference to the Impianti Nord site; additionally, the planned further capital expenditures for the maintenance of the plants and for improvements in Health, Safety and Environment aspects continued.

RISKS AND UNCERTAINTIES

The ERG Group started implementing an integrated risk management model, based on a systematic approach to identify the foremost risks and to assess their potential negative effects and appropriate mitigation actions to be taken.
Within this context, the main risks identified, monitored and managed by ERG were:

- market risk;
- liquidity risk;
- risks related to industrial accidents;
- regulatory risk;
- credit risk;
- risk connected with climatic events;
- volume risk.

MARKET RISK

Market risk consists of fluctuations in the exchange rate with respect to the US Dollar, in interest rates and in prices, in particular on the volatility 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.

LIQUIDITY RISK

Liquidity risk consists of the impossibility to fulfil payment commitments because of difficulties in finding funds or liquidate assets on the market. The consequence is a negative impact on income if the company is forced to incur additional costs to meet its commitments or, as an extreme consequence, a situation of insolvency that jeopardises the viability of the company is a going concern.
Risk management aims to define, within the planning process, a financial structure that, consistently with the business targets and with the limits defined by the Board of Directors, assures an adequate liquidity level for ERG, minimising the related opportunity cost and maintaining a balance in terms of debt maturity and composition.
The Group maintains access to a broad range of sources of financing at competitive costs, in spite of the external reference environment where the credit market remains rigid and the differentials of the interest rates charged are under stress.

RISKS RELATED TO INDUSTRIAL ACCIDENTS

The risk of industrial risks consists of possible damages to the Group's industrial production plants, linked to fires, explosions and 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, ERG transfers its own industrial risk to third parties via the insurance market, thereby providing a high level of protection for its structures, even in the event of an interruption of activity.
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 a business continuity management activity, with the aim of ensuring the operational continuity of industrial production plants.

REGULATORY RISK

The regulatory risk consists of the change in local, national and international regulations which may impact on the different businesses where the ERG Group operates. These regulations pertain, inter alia, to the sale of commodities and electricity, technical-operational compliance in the construction, commissioning, operation and disposal of the plants and environmental protection. The constant evolution of said reference regulatory environment may affect the business performance of the ERG Group. In this regard, the Business Units and the dedicated functions of the Parent Company constantly monitor and engage in a constructive dialogue with international, national and local institutions, in order promptly to assess regulatory changes as they occur and to operate in order to minimise the economic impact deriving from them.
Particularly noteworthy for the year 2012 was the uncertainty surrounding the as-yet undefined regulatory framework with regard to the avoided cost component of fuel (CEC). To improve the estimates of the **CEC for 2012**, the procedures prescribed since 2010 by the official regulatory reference represented by Italian Ministerial Decree of 20 November 2012 were used.
However, it cannot be excluded that the Italian Ministry of Economic Development may, during 2013, accept, even if only to a partial extent, the methodological elements proposed by the AEEG with its (non binding) opinion no. 535/2012/EEL of 13 December 2012, with the risk of impacts on the CEC from 2012 onwards.
Based on the information currently available, this hypothesis, while possible, is deemed unlikely by the Company, both for legal and technical reasons.

CREDIT RISK

Credit risk consists of the possibility of default and/or of the deterioration in the creditworthiness of a counterparty.
The policy of the ERG Group for the choice of counterparties for both the industrial business and financial transactions requires high credit ratings.
Credit risk is mitigated through appropriate analyses and evaluations of individual counterparties, with each of these being assigned an internal credit rating (internal-ratings-based approach) and managed through appropriate risk transfer instruments. 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. The Loans and Credits Committee is responsible for monitoring exposure to credit risk and making decisions involving it.
Inherent in the credit risk is also the concentration risk, both by customer and by segment; it is also monitored in the same manner and on the basis of formalised procedures.

RISK CONNECTED WITH CLIMATIC EVENTS

Risks connected with climatic events entail the Company's exposure to the volatility of production with particular reference to the production of energy from renewable sources. The characteristics of the energy sources used in the renewable energies segment entail a production characterised by high variability, connected with the climatic conditions of the sites where the wind farms are located. In particular, since the production of electricity from wind sources is linked to "non programmable" climatic factors and it is characterised by seasonal phenomena in the course of the year, to manage said risks the Group is diversifying the geographic location of the plants in order to minimise their impacts.

VOLUME RISK

The volume risk consists of changes on the quantities related to sale agreements. This risk affects both the sale of electricity and petroleum products.
The Group manages this risk by monitoring the macro economic scenario and trends in demand, and by defining appropriate contractual forms that can reduce its impact.

HEALTH, SAFETY AND ENVIRONMENT

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

HEALTH AND SAFETY

In 2012, 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 Project's purpose is to structurally improve company processes and the instruments used, enhancing the current Safety Management System and fully integrating the commitment to prevention in the Group's culture.

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, aimed at maximising consistency in individual behaviours and assure the strong commitment of the entire organisation.

Specific activities were carried out, such as "safety dialogues" (aimed at improving risk awareness) and widely used communication instruments (bulletin boards, Intranet, newsletters) in order to involve all personnel on the evolution of the project.

Within the Group, ample space was dedicated to workplace health and safety education and training, at all organisational levels, involving the various professional profiles involved (workers, managers and executives).

For the second consecutive year, the "zero injuries" goal was reached in industrial and operating sites. The injury indicators referred to 2012 show, for all the Group's operating sites, the excellent performance of ERG Power, ISAB Energy, ERG Renew and ERG Oil Sicilia.

ENVIRONMENT

During 2012, in the industrial sites included in the "Priolo national interest site", area clean-up work continued, consistently with applicable rules and as a result of the arrangements agreed with the Italian Ministry of the Environment as the responsible authority, with the supervision of the local Authorities. Environmental issues remain a central element in the Group's strategy for sustainable development in the territory; in particular, ISAB Energy intensified its work to safeguard groundwater.

For the IGCC plant of ISAB Energy and the thermoelectric plants of ERG Power, additionally, implementation was completed of the main measures prescribed by the Integrated Environmental Authorisations, issued in accordance with the EC Directive ("IPPC – Integrated Pollution Prevention and Control). The adopted measures, also further refined in 2012, serve the purpose of improving environmental performance, and are mostly aimed at minimising waste water and emissions into the atmosphere and at implementing timely and effective monitoring and control activities.

For the ISAB Refinery (South and North Plants) of ISAB S.r.l., in 2012 implementation work was started on the measures prescribed by the Authorisation and aimed at the adoption of the "best available practices" in the industry, defined internationally.

Finally, in 2012, 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 the use of renewable sources (e.g. wind power).
- 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).

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

Consistently with the Group's health, safety and environmental policy, the plan for the certification of the Management Systems according to the recognised standards ISO 14001 Environment and OHSAS 18001 Health and Safety was completed.

In 2012, the certification of the Integrated Management Systems was completed by ISAB Energy Services for the activities carried out at the sites of the ISAB Energy and ERG Power plants.

Moreover, both ISAB Energy and ERG Power, as asset owners, are ISO 14001 certified.

ERG Renew obtained the certification of the Integrated Management Systems according to the ISO 14001 and OHSAS 18001 standards. Moreover, 3 of its wind farms situated in Puglia are ISO 14001 certified.

Lastly, in 2012 the ISAB Refinery of ISAB S.r.l. confirmed the full and effective integration of the Management Systems adopted at the site according to the ISO 14001 and OHSAS 18001 standards.

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 level up to 10% in 2020. Among bio fuels, the focus is mostly on biodiesel, obtained from processing vegetable oils or other biomasses; 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, Diesel ONE sales continued in 2012; this fuel is aimed at improving Energy Efficiency and hence performance. This product is characterised by the presence of a polyfunctional mix of additives that enables to prevent the formation of deposits within the fuel injection system, promoting the complete combustion of the product and hence a more environmentally friendly use thereof. The main effects of the use of Diesel ONE are better combustion "cleanliness", better performance, reduced consumption but above all lower 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

The profitability and value creation objectives need to be supported by consequent actions on the front of persons and processes.
For this reason, ERG accompanied the creation of the new business plan with the definition of the new model for the development of human and organisational assets, comprising four areas of initiative:

- designing streamlined, fast, effective processes and organisational structures (LIGHT);
- increasing the value of human assets (PEOPLE);
- aligning and motivating managers (MBO);
- focusing on value creation over time (LTI).

ORGANISATION & PROCESSES

At 31 December 2012, the ERG Group had a total of 613 employees (-39 from 31 December 2011), at the end of a year during which 9 people were hired and 48 left the Group).

The following is noted:

- ERG S.p.A. personnel was reduced by 26 employees (down to 280), mainly because of the continuation of the reorganisation resulting from the new shareholder structure and to the sale to IREN of the business unit pertaining to the marketing and selling of electricity in the wholesale segment;
- ISAB Energy Services S.r.l. personnel was reduced by 4 employees, to 285, continuing the process of boosting the efficiency of the organisational structure;
- ERG Renew S.p.A. and its subsidiaries (36 employees as at 31 December 2012) reduced their payroll by 3 persons because of their business rationalisation process;
- ERG Oil Sicilia S.r.l. reduced its payroll by 6 employees, down to 12 persons, mainly because of the loss of the wholesale business.

The average age of the Group's employees remained slightly below 43, with approximately 93% of all employees holding either a secondary school diploma or university degree.
In 2012, the organisational macro-structure was further rationalised: following the appointment of Luca Bettonte to Chief Executive Officer, the position of the Corporate General Manager was eliminated and core business management focused on two Business Units (Power & Gas and Oil) and on an operating company (ERG Renew), which was given the mission to continue to pursue growth in the segment of renewable energies, both in Italy and abroad.
Completing the macro-structure, in November the Organisation and Systems Department was created; it reports directly to the Chief Executive Officer and its mission is to join in a single integrated chain the processes tied to organisational development, information technologies and human resources. This organisational model, an innovation compared to the traditional Human Resources and Information and Communication Technologies (ICT) functions, confirms ERG's strong commitment on the human resources and organisational front.

HUMAN RESOURCES DEVELOPMENT

Dispersed leadership is ERG's managerial development model. This means that the management team is closely involved in the development of human resources as a corporate competitiveness multiplier.
For this reason, in 2012 the Human Resources Committee was formed, to define and monitor the main programs and activities for human resources development and to support the Executive Deputy Chairman and the Chief Executive Officer in major personnel management decisions. The Committee does not serve only as an orienting body, but it also actively promotes the spread of a new managerial culture and the implementation of new strategies and instruments for their achievement.

The Committee met every six months and it adopted a work method aimed at monitoring the main processes for the development of human resources:

- job evaluation & succession plan;
- career paths;
- talent management;
- promotions & development of key resources

The goal is to provide ERG with an integrated system that assures the continuous adaptation of its skills and knowledge to ever-changing business conditions and enables it to rely on resources capable to rise to the challenges of competition.
The investment in training activities was kept at high levels (1,200 days involving 432 persons), but above all it was distinguished by its quality and focus Today, the system comprises three areas (Managerial, Institutional and technical/specialist) and it covers all the needs of the company's personnel with an end-to-end approach (from newly hired personnel to executives).

ALIGNING AND MOTIVATING MANAGERS

The ability to align the company's management on clear, integrated objectives is a primary need of modern organisations.
For this reason, in 2012 the incentive system for key executives and managers was renewed through a Management By Objectives (M.B.O.) approach. The selected balance between Group objectives (30%) and individual objectives (70%) matches leading companies' best practices for managerial incentives and it was designed to provide further support to the development of leadership and individual initiative.
The second line of evolution for incentives is to combine short and long term objectives. For this reason, in 2012 a medium/long term incentive system was adopted (LT-I); it is intended for top managers and it is aimed at stimulating the best possible alignment between management and Shareholders in terms of objectives; for this purpose, the variable component of remuneration is a function of improving value creation performance, on a three-year time basis, expressed through the EVA (Economic Value Added) indicator.
In terms of executive compensation, the introduction of the MBO and LTI systems rebalanced the weight of the variable component of top managers' compensation, which today accounts for 50% of global annual remuneration.

COMMUNICATION AND INVOLVEMENT

The need to connect the various levels of ERG's organisation and its various geographic locations was met with the creation of an internal communication network that balances the use of the most modern technologies and the values and effectiveness of face-to-face communication. The goal was, on one hand, to provide more support to information sharing and work simplification, and on the other hand to continue to promote the company's culture and values, creating a greater sense of belonging and collaboration among personnel.

- **New Intranet Portal**: the analysis carried out in 2011 on "usability and expectations", involving 270 persons, provided important indications that served as "guidelines" in the design of the new ICT architecture, more closely matching people's mental models and meeting criteria for work simplification and employee visibility. The new portal, opened in September 2012, was recently enhanced with new instruments, typical of web 2.0 systems, which enable a higher level of interaction with and among users.
- **TeamERG**: continues to publish the TeamERG periodical, now also available in electronic format readable on the Intranet, improved in its layout and contents thanks to in-depth sections on the activities of the partner companies (ISAB and TotalErg).

- **Group Meeting**: the half-yearly meetings between the company's senior executives and its managers; the agendas were further expanded thanks to the contributions from the participants, who provided useful indications when they replied to specific satisfaction questionnaires. The discussions at each Group Meeting were recorded and published in the portal, as were the individual reports in order to share with all the Group's resources an in-depth review and update on the development of the individual business segments. It was an excellent opportunity to understand how much each individual, with his/her own work, can contribute to the achievement of corporate objectives.
- **Focus**: FOCUS meeting also continued to be held successfully, with the triple goal of providing people with more information about the businesses, giving visibility on "who does what" in the company, promoting discussions in an open, informal environment. Every meeting was replicated at the Priolo site and streamed to the Rome site.
- **Top Management communications**: the Top Management honoured its commitment to communicate particularly significant issues in real time to personnel as well: not least, the recording of the meeting between ERG's Executive Deputy Chairman and CEO and financial analysts for the presentation of the 2013-2015 business plan.
- **Other initiatives**: sport-related activities also continued. A numerous group of ERG athletes represented our Group at Italy's 2012 National Petroleum Championship – the multi-disciplinary sports event launched in 2000 by Italian oil companies – and at the 2012 Amsterdam Marathon.

CULTURAL AND SOCIAL ACTIVITIES

ERG AND CULTURE

In 2012 ERG renewed its efforts in activities in favour of cultural and social institutions and events.

Out of the commitment of the Group and of the Garrone and Mondini families in social and cultural matters arose, in 2004, the Edoardo Garrone Foundation (Fondazione Edoardo Garrone, FEG). 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.

The Group 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.

As usual, ERG sponsored the Confindustria's traditional Young Entrepreneurs Conference, held on 8 and 9 June 2012 in Santa Margherita Ligure. This yearly event, which reached its 42nd edition, 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 confirmed its support to 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 2012, the 47th Cycle of Classical Shows at the Greek Theatre).

ERG AND SOCIAL DEVELOPMENT

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

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

"Dialogo nel Buio" provided a veritable educational experience: it is a "trip" that takes place in completely dark spaces, accompanied by sight-impaired guides, that allowed visitors to "see" in a new way, using their senses of touch, hearing, smell and taste to have an extra-ordinary experience, where roles are reversed and barriers are brought down.

It was 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; it also provided an opportunity to turn a disability into an irreplaceable professional skill.

In 2012, ERG once again supported, for the sixth consecutive year, the "Guida Sicura per i Giovani" (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 to the citizenry. The Group stipulated an agreement with the Siracusa ASP for the implementation of the "Survivors Project" (in collaboration with ISAB), dedicated to providing care to cancer survivors; this activity is the natural continuation of the Oncological Assistance Network in the Province, launched in 2007. ERG participates in the implementation of a model for the prevention and care of oncological diseases considered extremely advanced with respect to the management and quality of the services provided. ERG 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 2010, ERG, in collaboration with ISAB, 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.
Among its activities aimed at schools, on 1 December 2012 ERG organised the Electric Energy Day, which enabled 200 students from the trade schools of the Siracusa province to visit the ISAB Energy plant in Priolo. The event, aimed at promoting the local community's knowledge of ERG's world, entailed the participation of ISAB Energy Services managers and technologists who illustrated the technical characteristics of the plant to the students, with particular references to the energy efficiency and sustainability of ERG production processes.

ERG AND SPORTS

ERG is an institutional partner of UC Sampdoria and, in particular, it supported projects dedicated to the young, in the 2011-2012 football season, which culminated with promotion to Serie A, and in the 2012-2013 season.
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 2012 edition took place from 23 January to 7 February at Genoa's 105 Stadium. This year, the leading sports of the initiative were football, rugby, volleyball and basketball: the largest school Tournament in Europe set yet a new record in terms of participants, with 4,675 girls and boys playing in Genoa and in the provinces of Imperia, La Spezia and Savona.
ERG has supported, from the very start (2011-2012 season), the 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. Fair Play Village is a project whose goal is to revamp the image of football as an occasion for sport and fun, focusing on values like friendship, fair play and socialisation. Thanks to this project, UC Sampdoria won the 2012 ECA (European Club Association) Awards, a Europe-wide recognition.
ERG was also a "gold sponsor" of the 13th edition of "Stelle nello Sport" (Sports Stars), a project conceived and organised to promote sports in Liguria, under the leadership of the Italian National Olympics Committee (CONI) of Liguria and Genoa. The initiative involved all of Liguria's sport federations and teams, fans and supporters in an event that provided the opportunity to socialise and have fun, but also to showcase the local sporting world with a significant public service purpose: to collect funds in favour of Genoa's Gigi Ghirotti Association, which provides free assistance to terminal patients at home and in hospices.

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 2012, the trophy reached its twenty-second edition, with the participation of over 500 primary and middle school students.
The ERG Group also sponsored the Siracusa football team and, through ISAB Energy, the Trogylos women's basketball team in the Serie A1 league, which has won two championships (1989 and 2000) and the Champions Cup in 1990.

TREASURY SHARES

As at 31 December 2012 ERG S.p.A., as a result of the acquisition of treasury shares carried out within the plan resolved by the Board of Directors of 10 May 2012, owned 7,516,000 treasury shares representing 5.0% of share capital. In accordance with IAS 32, treasury shares are presented as a reduction of shareholders' equity, through the use of Paid-in capital in excess of par.

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 41 of the Consolidated Financial Statements.

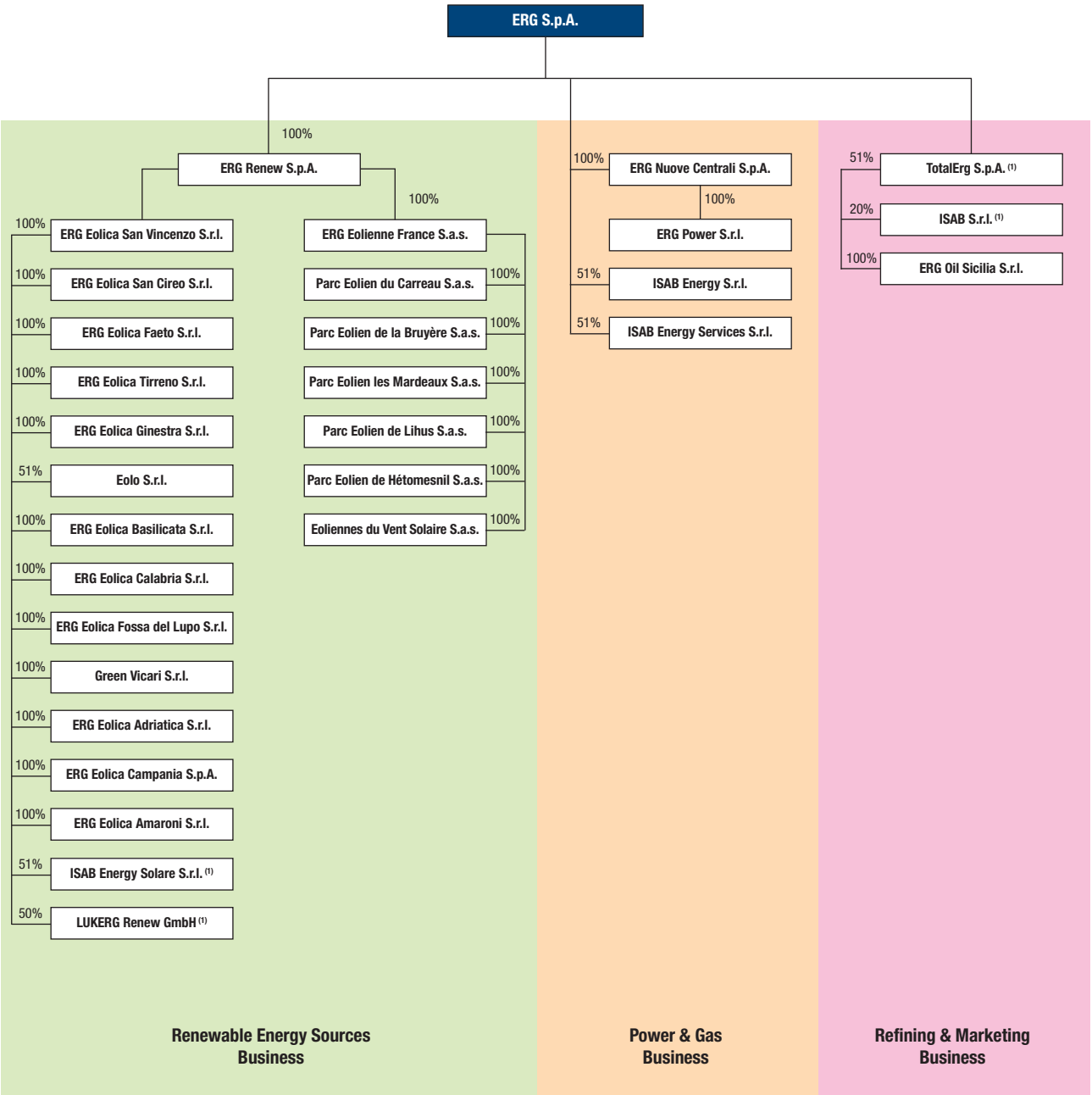
FINANCIAL STATEMENTS

SCOPE OF CONSOLIDATION AND BUSINESS SEGMENTS

The table below shows the scope of consolidation at 31 December 2012.
Compared with 31 December 2011, the following are noted:

- the reduction of the equity investment in ISAB S.r.l. from 40% to 20%
- the merger by take-over of ERG Eolica Italia S.r.l. with ERG Renew S.p.A.;
- the merger by take-over of ERG Solare Italia S.r.l. with ERG Renew S.p.A.;
- the merger by take-over of ERG Eolica Nurra S.r.l. with ERG Renew S.p.A.;
- the merger by take-over of ERG Eolica Tursi Colobraro S.r.l. with ERG Renew S.p.A.;
- the acquisition of 2% of shares of ERG Eolica Basilicata S.r.l.;
- the consolidation of LUKERG Renew GmbH with the equity method of accounting.

THE ERG GROUP – SCOPE OF CONSOLIDATION AT 31 DECEMBER 2012



(1) companies measured under the equity method of accounting

FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT

(EUR MILLION)	YEAR 2012	YEAR 2011
RECLASSIFIED INCOME STATEMENT		
REVENUES FROM ORDINARY OPERATIONS	8,264.8	6,770.3
OTHER REVENUES AND INCOME	23.3	28.0
TOTAL REVENUES	**8,288.1**	**6,798.3**
COSTS FOR PURCHASE AND CHANGES IN INVENTORY	(7,327.7)	(5,875.6)
COSTS FOR SERVICES AND OTHER OPERATING COSTS	(628.5)	(730.5)
EBITDA	**331.8**	**192.2**
AMORTISATION, DEPRECIATION AND WRITE-DOWNS OF FIXED ASSETS	(152.6)	(242.1)
INCOME (EXPENSES) FROM SALE OF BUSINESS UNIT	(1.6)	–
NET FINANCIAL INCOME (EXPENSES)	(52.5)	(38.4)
NET INCOME (LOSS) FROM EQUITY INVESTMENTS	143.7	153.2
PROFIT BEFORE TAXES	**268.7**	**65.0**
INCOME TAXES	(68.8)	30.9
PROFIT FOR THE PERIOD	**199.9**	**95.9**
MINORITY INTERESTS	(48.7)	(30.8)
GROUP'S NET PROFIT (LOSS)	**151.2**	**65.1**

REVENUES FROM ORDINARY OPERATIONS

Revenues in 2012 were EUR 8,265 million, compared with EUR 6,770 million in 2011. The change is a result of the following factors:

- increased **Refining & Marketing** revenues, mainly linked to the higher average prices and higher sale volumes due to trades;
- increased **Thermoelectric Energy** revenues, as a result of the higher sale prices and of the higher quantities sold;
- increased revenues from **Renewable Energy Sources**, mainly because of the higher sale volumes as a consequence of increased production capacity and better wind conditions.

OTHER REVENUES AND INCOME

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

COSTS FOR PURCHASE AND CHANGES IN INVENTORY

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

In 2012, they were higher than in 2011 by approximately 1,317 million, mainly due to higher volumes purchased and higher average purchase prices.

With respect to inventories, raw materials increased by approximately EUR 22 million (+40 thousand tonnes compared with 31 December 2011) and decreased by approximately EUR 137 million for finished products (-220 thousand tonnes).

In 2011, raw materials had decreased by approximately EUR 38 million and finished products had increased by approximately EUR 58 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 the matching periods of 2011 is mainly linked to lower processing costs, as a result of the previously commented reduction in the ISAB share, and to the absence of costs related to the marketing of electricity, whose business unit was sold to IREN Mercato, as well as to other minor operating costs.

AMORTISATION, DEPRECIATION AND WRITE-DOWNS

The reduction in depreciation is tied to the 2011 write-downs, of which EUR 95 million referred to the CCGT thermoelectric power plant. Net of this effect, ordinary depreciation increased, mainly as a result of the acquisition of the new wind farms

INCOME (EXPENSES) FROM SALE OF BUSINESS UNIT

The expenses refer to the sale to IREN Mercato of the ERG business unit pertaining to the marketing and selling of electricity.

NET FINANCIAL INCOME (EXPENSES)

Net financial expenses totalled EUR 53 million in 2012, compared with EUR 38 million in 2011. The item includes exchange rate differences of EUR 1 million (EUR +12 million in 2011) and the effects connected to the derivative financial instruments on commodities of EUR 1 million (EUR +5 million in 2011).
In 2011, the item also included the positive effect of the capitalisation of interest expenses, i.e. approximately EUR 4 million. Net of the indicated effects, net financial expenses were generally lower than 2011, mainly because of the lower average indebtedness.

NET INCOME (LOSS) FROM EQUITY INVESTMENTS

In 2012, the item includes mainly the capital gain of EUR 227 million deriving from the sale of 20% of ISAB S.r.l. which took place on 3 September 2012. In 2011, the item included the capital gain (EUR 106 million) realised from the sale of 11% of the same equity investment.
The item also consists of the income or losses of the investee companies valued using the equity method of accounting.
In particular, in 2012 the item includes mainly the results of the joint ventures ISAB S.r.l. (EUR +21 million) and TotalErg S.p.A. (EUR -92 million). The result of TotalErg was affected by the provisions and write-down of the assets referred to the plan for rationalising the sales outlet network and to the investee company Raffineria di Roma S.p.A. as a result of the announced plan for the transformation of the industrial site into a logistical facility.
Lastly, in 2012 the item includes the capital loss pertaining to the sale of ERG Rivara Storage, commented above, amounting to approximately EUR 6.1 million.

INCOME TAXES

Income taxes in 2012 amounted to EUR 69 million (they were positive at EUR 31 million in 2011) and comprise EUR 86 million in current taxes, EUR 13 million in deferred tax assets and EUR 4 million in taxes pertaining to previous years.

As a result of the promulgation of Italian Law Decree no. 201/2011 and of the subsequent implementing Instruction of the Inland Revenue Director of 17 December 2012 (which approved the Application for reimbursement and related instructions), receivables were recognised deriving from the non-deduction, for IRES purposes, of the IRAP relating to expenses for employees and similar personnel for the tax periods from 2007 to 2011, with a Group-wide total amount of approximately EUR 2.8 million, considered non-recurring entries.

In September 2011, Italian Law no. 148/2011 was approved; it 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 operators, 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 approximately 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 approximately 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.

In 2011, the item also included the effects of the introduction of Law no. 111/2011 and subsequent clarifications which amended Article 84 of the Italian 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 the 2011 Financial Statements, deriving from the recognition of receivables pertaining to previous tax losses, for an amount of approximately EUR 11 million.

The tax rate, obtained from the ratio between taxes and earnings before taxes, is not significant in 2012 because it is influenced by the capital gain for the sale of the equity investment in ISAB S.r.l. subjected to participation exemption.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(EUR MILLION)	12/31/2012	12/31/2011
RECLASSIFIED STATEMENT OF FINANCIAL POSITION		
FIXED ASSETS	2,422.7	2,825.1
NET WORKING CAPITAL	170.7	167.2
EMPLOYEES' SEVERANCE INDEMNITIES	(3.5)	(3.5)
OTHER ASSETS	352.9	439.1
OTHER LIABILITIES	(459.1)	(586.1)
NET INVESTED CAPITAL	**2,483.7**	**2,841.7**
GROUP SHAREHOLDERS' EQUITY	1,775.7	1,727.8
MINORITY INTERESTS	195.4	150.5
NET FINANCIAL INDEBTEDNESS	512.6	963.5
SHAREHOLDERS' EQUITY AND FINANCIAL DEBT	**2,483.7**	**2,841.7**

At 31 December 2012, net invested capital was EUR 2,484 million.
Financial leverage, which represents the ratio of total net financial indebtedness (including Project Financing) and net invested capital, was 21% (34% at 31 December 2011).

FIXED ASSETS

Fixed assets include tangible, intangible and financial fixed assets. The decrease compared with 31 December 2011 is mainly due to the sale of 20% of the investment in ISAB S.r.l.

NET WORKING CAPITAL

Net working capital includes inventory, trade receivables and payables, and excise duties payable.
The value as at 31 December 2012 is substantially in line with the previous year.

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)	12/31/2012	12/31/2011
SUMMARY OF THE GROUP'S INDEBTEDNESS		
MEDIUM-LONG-TERM FINANCIAL INDEBTEDNESS	918.4	1,012.7
SHORT TERM FINANCIAL INDEBTEDNESS (CASH AND CASH EQUIVALENTS)	(405.8)	(49.3)
TOTAL	**512.6**	**963.5**

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

(EUR MILLION)	12/31/2012	12/31/2011
MEDIUM/LONG-TERM FINANCIAL INDEBTEDNESS		
MEDIUM/LONG-TERM BANK BORROWINGS	289.1	439.2
CURRENT PORTION OF MORTGAGES AND LOANS	(168.6)	(150.7)
MEDIUM/LONG-TERM FINANCIAL PAYABLES	94.9	83.4
TOTAL	**215.4**	**371.8**
MEDIUM/LONG-TERM PROJECT FINANCING	789.2	793.0
CURRENT PORTION OF PROJECT FINANCING	(86.2)	(152.1)
TOTAL PROJECT FINANCING	**703.0**	**640.9**
TOTAL	**918.4**	**1,012.7**

Medium/long-term financial payables include liabilities deriving from the fair value measurement of the derivatives to hedge interest rates of EUR 76 million (EUR 52 million as at 31 December 2011) and, for the remainder, the interest-bearing loans granted to ISAB Energy S.r.l. by the IPM group which owns 49% of the company. Repayment is subject to the conditions set out in the Project Financing agreement.

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

- EUR 471 million in loans granted to companies in the Renewable Energy Sources division for the construction of wind farms;
- EUR 210 million in loans granted to ERG Power S.r.l. for the construction of the new CCGT plant;
- EUR 22 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.

The increase compared with 31 December 2011 is due to the signing of the loan agreement in Project Financing of ERG Eolica Fossa del Lupo for a total amount of EUR 126 million and a period of validity of 14 years, net of repayments made in the period on other loans.
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)	12/31/2012	12/31/2011
SHORT TERM FINANCIAL INDEBTEDNESS (CASH AND CASH EQUIVALENTS)		
SHORT-TERM BANK BORROWINGS	353.1	186.0
CURRENT PORTION OF MORTGAGES AND LOANS	168.6	150.7
OTHER SHORT-TERM FINANCIAL DEBTS	19.9	14.2
SHORT-TERM FINANCIAL LIABILITIES	**541.6**	**351.0**
CASH AND CASH EQUIVALENTS	(842.7)	(437.3)
SECURITIES AND OTHER SHORT-TERM FINANCIAL RECEIVABLES	(34.2)	(19.7)
SHORT-TERM FINANCIAL ASSETS	**(876.9)**	**(457.1)**
SHORT-TERM PROJECT FINANCING	86.2	152.1
CASH AND CASH EQUIVALENTS	(156.6)	(95.3)
PROJECT FINANCING	**(70.4)**	**56.8**
TOTAL	**(405.8)**	**(49.3)**

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 consists mainly of the liquidity arising from the collection of the consideration for the disposal of 20% of ISAB S.r.l. in September 2012, and of the restricted bank accounts pursuant to the conditions set out in the Project Financing agreements.
"Short-term financial assets" also comprise short-term securities for use as liquidity.
The change in "Securities and other short term financial receivables" refers mainly to a different temporary utilisation of liquidity in the securities described above.

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

(EUR MILLION)	YEAR 2012	YEAR 2011
CASH FLOWS FROM OPERATING ACTIVITIES		
ADJUSTED CASH FLOW FROM CURRENT OPERATIONS (1)	207.9	58.6
INCOME TAX PAID	(8.2)	(34.7)
CHANGE IN WORKING CAPITAL	(5.5)	(78.6)
CHANGE IN OTHER OPERATING ASSETS AND LIABILITIES	(30.6)	(21.8)
TOTAL	**163.6**	**(76.5)**
CASH FLOWS FROM INVESTING ACTIVITIES:		
NET CAPITAL EXPENDITURES ON TANGIBLE AND INTANGIBLE FIXED ASSETS (2)	(74.3)	(84.1)
NET CAPITAL EXPENDITURES IN FINANCIAL FIXED ASSETS	(16.0)	13.1
COLLECTION FOR THE SALE OF ISAB SHARES	484.7	244.8
TOTAL	**394.4**	**173.7**
CASH FLOW FROM SHAREHOLDERS' EQUITY:		
DISTRIBUTED DIVIDENDS	(62.7)	(67.0)
OTHER CHANGES IN EQUITY (3)	(44.3)	(43.1)
TOTAL	**(107.1)**	**(110.1)**
CHANGES IN SCOPE OF CONSOLIDATION	**–**	**(227.8)**
CHANGE IN NET FINANCIAL INDEBTEDNESS	**450.9**	**(240.6)**
INITIAL NET FINANCIAL INDEBTEDNESS	**963.5**	**722.9**
CHANGE IN THE PERIOD	***(450.9)***	***240.6***
FINAL NET FINANCIAL INDEBTEDNESS	**512.6**	**963.5**

(1) item does not include inventory gains (losses), deferral of the CIP 6 tariff increase and current income tax for the period
(2) item does not include capitalised costs for cyclical maintenance
(3) in 2012, it includes the purchase of treasury shares for EUR 26 million

The decrease by EUR 451 million in net financial indebtedness compared with 31 December 2011 is due mainly to the collection of EUR 485 million pertaining to the sale of 20% of the equity investment in ISAB S.r.l., which took place in September. Cash flow generation in the period, also made possible by careful management of net working capital, enabled to finance the investments, the payment of dividends and the purchase of treasury shares.
Indebtedness as at 31 December no longer includes, as a result of the reduction in the equity investment to 20%, the contribution of ISAB S.r.l., amounting to a positive net financial position of EUR 44 million.

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 inventory gains (losses) and non-recurring items, and including the contribution, for the portion attributable to ERG, of the results at replacement cost of the joint ventures TotalErg S.p.A and LUKERG Renew.
To assure the comparability and consistency of results compared with previous periods, adjusted income statement values also include the contribution, for the portion attributable to ERG, of the results at replacement cost of the ISAB S.r.l. investee.
The results at replacement cost and 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 operators in the petroleum and energy industry 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.

Performance also includes the contribution of the joint ventures **TotalErg S.p.A.** and **LUKERG Renew** joint ventures and of the investee company **ISAB S.r.l**., for the portion attributable to ERG.
To enhance understandability of the business' performance, 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 TotalErg S.p.A., LUKERG Renew and ISAB S.r.l. whose contribution to the Income Statement not at adjusted replacement cost is reported in the value of the investment measured under the equity method of accounting. Consistently with the above, net financial indebtedness is also shown at adjusted replacement cost that takes into account the portion attributable to ERG of the net financial position of the joint ventures TotalErg S.p.A. and LUKERG Renew, net of the relevant intra-group items.
As a result of the exercise of the put option, commented above, and of the consequent cessation of joint governance of ISAB S.r.l., from 1 September 2012 onwards the adjusted values of indebtedness and of investments no longer take into account the contribution of the investee.

In December 2012, ERG submitted its new 2013-2015 business plan, characterised by a significant strategic repositioning of the Group, with a greater commitment to renewable energy sources, greater focus on the management of operating assets in the thermoelectric segment, the rationalisation of activities in the Retail segment and reduction of exposure to the refining segment. The year 2012 was already partly affected by these strategic decisions, reflected in items of a non-recurring nature which, together with the effects deriving from significant regulatory changes, are not considered in the results at adjusted replacement cost. These items are set out in detail in the tables that follow.

RECONCILIATION WITH OPERATING RESULTS AT ADJUSTED REPLACEMENT COST

EBITDA

	NOTE	YEAR 2012	YEAR 2011
EBITDA		**331.8**	**192.2**
EXCLUSION OF INVENTORY GAINS / LOSSES		*0.8*	*(36.3)*
EXCLUSION OF NON-RECURRING ITEMS:			
CORPORATE			
- ANCILLARY CHARGES OF SALE OF 20% OF ISAB S.R.L.	**1**	*4.2*	*–*
COASTAL REFINING			
- ESTIMATED LIABILITIES ON PREVIOUS YEARS' ADJUSTMENTS	**2**	*2.6*	*–*
POWER & GAS			
- ESTIMATED LIABILITIES ON PREVIOUS YEARS' ADJUSTMENTS	**2**	*6.3*	*–*
- ASSETS ON "WHITE CERTIFICATES" FROM PREVIOUS YEARS	**3**	*(5.4)*	*–*
- LIABILITIES ON "GREEN CERTIFICATES" FROM PREVIOUS YEARS	**3**	*5.3*	*–*
EBITADA AT REPLACEMENT COST		**345.7**	**155.9**
ERG SHARE OF ISAB CONTRIBUTION AT ADJUSTED REPLACEMENT COST	**4**	*68.2*	*62.5*
TOTALERG 51% CONTRIBUTION AT ADJUSTED REPLACEMENT COST (1)	**5**	*43.0*	*65.7*
LUKERG RENEW 50% CONTRIBUTION AT ADJUSTED REPLACEMENT COST	**6**	*1.3*	*–*
EBITDA AT ADJUSTED REPLACEMENT COST		**458.1**	**284.1**

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

Amortisation, depreciation and write-downs

	NOTE	YEAR 2012	YEAR 2011
AMORTISATION, DEPRECIATION AND WRITE-DOWNS		**(152.6)**	**(242.1)**
EXCLUSION OF NON-RECURRING ITEMS:			
RENEWABLE ENERGY SOURCES			
- WRITE-DOWNS IN THE RENEWABLE ENERGY SOURCES SEGMENT	**7**	*3.5*	*3.3*
ENERGY - THERMOELECTRIC			
- WRITE-DOWNS IN THE POWER & GAS SEGMENT		*–*	*94.9*
AMORTISATION AND DEPRECIATION AT REPLACEMENT COST		**(149.1)**	**(143.8)**
ERG SHARE OF ISAB CONTRIBUTION AT ADJUSTED REPLACEMENT COST	**4**	*(36.7)*	*(47.5)*
TOTALERG 51% CONTRIBUTION AT ADJUSTED REPLACEMENT COST (1)	**5**	*(54.7)*	*(55.6)*
LUKERG RENEW 50% CONTRIBUTION AT ADJUSTED REPLACEMENT COST	**6**	*(1.3)*	*–*
AMORTISATION AND DEPRECIATION AT ADJUSTED REPLACEMENT COST		**(241.8)**	**(246.9)**

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

EBIT

	NOTE	YEAR 2012	YEAR 2011
EBIT AT REPLACEMENT COST		**196.6**	**12.0**
ERG SHARE OF ISAB CONTRIBUTION AT ADJUSTED REPLACEMENT COST	**4**	*31.5*	*15.0*
TOTALERG 51% CONTRIBUTION AT ADJUSTED REPLACEMENT COST (1)	**5**	*(11.8)*	*10.1*
LUKERG RENEW 50% CONTRIBUTION AT ADJUSTED REPLACEMENT COST	**6**	*–*	*–*
RIEBIT AT ADJUSTED REPLACEMENT COST		**216.3**	**37.1**

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

Group's net profit (loss)

	NOTE	YEAR 2012	YEAR 2011
GROUP'S NET PROFIT (LOSS)		**151.2**	**65.1**
EXCLUSION OF INVENTORY GAINS / LOSSES		*(6.2)*	*(65.0)*
EXCLUSION OF NON-RECURRING ITEMS:			
EXCLUSION OF CAPITAL GAIN FROM SALE OF 11% ISAB (2011)		*–*	*(107.0)*
EXCLUSION OF CAPITAL GAIN AND ANCILLARY CHARGES FROM SALE OF 20% ISAB (2012)	**1**	*(214.1)*	*–*
EXCLUSION OF TOTALERG NON-RECURRING ITEMS	**8**	*71.5*	*3.2*
EXCLUSION OF ESTIMATED LIABILITIES ON PREVIOUS YEARS' ADJUSTMENTS	**2**	*3.6*	*–*
EXCLUSION OF LIABILITIES ON "GREEN CERTIFICATES" FROM PREVIOUS YEARS	**3**	*1.6*	*–*
EXCLUSION OF ASSETS ON "WHITE CERTIFICATES" FROM PREVIOUS YEARS	**3**	*(3.6)*	*–*
EXCLUSION OF NON-RECURRING ITEMS "WRITE-DOWNS IN THE POWER & GAS SECTOR"		*–*	*62.6*
EXCLUSION OF NON-RECURRING ITEMS "WRITE-DOWNS IN THE RENEWABLE ENERGY SOURCES SECTOR"	**7**	*2.1*	*3.3*
RECOGNITION OF TAX RECEIVABLES ON PRIOR LOSSES		*–*	*(10.8)*
EXCLUSION OF IRAP BENEFIT FROM PREVIOUS YEARS	**9**	*(5.2)*	*–*
EXCLUSION OF CHARGES RELATED TO SALE OF RIVARA STORAGE EQUITY INVESTMENT	**10**	*6.1*	*–*
EXCLUSION OF MINOR NON-RECURRING ITEMS		*2.5*	*–*
EXCLUSION OF FAIR VALUE DIFFERENTIAL FROM COLLAR TRANSACTION ON OIL INVENTORY	**11**	*2.7*	*–*
GROUP NET PROFIT (LOSS) AT ADJUSTED REPLACEMENT COST (1)		**12.3**	**(48.6)**

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

Notes

1 non-recurring items tied to the sale of 20% of ISAB S.r.l.
In particular, they refer to:
- capital gain for the sale of 20% of the equity investment, i.e. EUR 221.7 million (net of the tax effect);
- non-recurring charges related to the transaction, amounting to EUR 7.6 million.

2 allocations in view of commercial adjustments pertaining to previous years for an amount of EUR 8.9 million, of which EUR 6.3 pertaining to the Thermoelectric Energy segment and EUR 2.6 pertaining to the Refining & Marketing sector;

3 assets and liabilities connected to environmental certificates related to the operation of the IGCC and CCGT in previous years;

4 ERG share of the results of ISAB S.r.l. at replacement cost net of inventory gains/losses;

5 ERG share of the results of TotalErg at replacement cost net of inventory gains/losses and non-recurring items (write-down of the assets pertaining to the announced plan for the transformation of the industrial site of Raffineria di Roma into a logistical facility);

6 ERG share of the results of LUKERG Renew at replacement cost;;
7 In 2012, they refer to a lower value of the assets of a wind farm, and in 2011 to water services
8 in 2012, the items refer to:
   - write-down of the assets referred to Raffineria di Roma S.r.l. as a result of the ongoing industrial transformation plan, with an impact of EUR 50 million net of tax expenses (ERG share);
   - asset write-down and charges referred to TotalErg as a result of the sales outlet network rationalisation plan, amounting to EUR 12 million;
   - expenses pertaining to disputes on harbour taxes, amounting to EUR 5 million;
   - the expenses incurred during the period by the investee TotalErg for the integration of the TOTAL Italia and ERG Petroli activities for an amount of EUR 1 million net of the related tax effect;
   - other minor entries.
9 exclusion of the income statement benefit pertaining to the recognition of receivables deriving from non-deduction, for IRES purposes, of the IRAP related to expenses for employees and similar personnel for the tax periods from 2007 to 2011;
10 capital loss tied to the previously commented sale of ERG Rivara Storage;
11 negative impact of collar transactions hedging part of the oil inventories at the ISAB refinery and carried out in relation to the exercise of the put option on 20% of the equity investment in ISAB S.r.l.

For comments on the non-recurring items of 2011, please refer to the corresponding notes of the related Financial Statements.

RECONCILIATION WITH ADJUSTED NET FINANCIAL INDEBTEDNESS

	12/31/2012	12/31/2011
NET FINANCIAL INDEBTEDNESS	**512,6**	**963,5**
NET FINANCIAL POSITION OF ISAB	*–*	*(8.8)*
NET FINANCIAL POSITION OF TOTALERG	*190.5*	*228.8*
NET FINANCIAL POSITION OF LUKERG RENEW	*34.2*	*–*
ELIMINATION OF INTRA-GROUP ITEMS	*(15.6)*	*(4.2)*
ADJUSTED NET FINANCIAL INDEBTEDNESS	**721.7**	**1,179.2**

The adjusted figures for net financial indebtedness take into consideration the portion attributable to ERG of the net financial position of the joint ventures, net of the related intra-group items.
Indebtedness as at 31 December no longer includes, as a result of the reduction in the equity investment to 20%, the contribution of ISAB S.r.l., amounting to a positive net financial position of EUR 44 million.

ERG S.P.A. FINANCIAL STATEMENTS

The Separate Financial Statements of ERG S.p.A. at 31 December 2012 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 2012	YEAR 2011
RECLASSIFIED INCOME STATEMENT		
REVENUES FROM ORDINARY OPERATIONS	7,357.1	6,105.8
OTHER REVENUES AND INCOME	21.8	19.8
TOTAL REVENUES	**7,379.0**	**6,125.7**
COSTS FOR PURCHASE AND CHANGES IN INVENTORY	(6,932.3)	(5,584.3)
COSTS FOR SERVICES AND OTHER OPERATING COSTS	(577.1)	(672.2)
EBITDA	**(130.4)**	**(130.8)**
AMORTISATION, DEPRECIATION AND WRITE-DOWNS OF FIXED ASSETS	(5.5)	(7.3)
INCOME (EXPENSES) FROM SALE OF BUSINESS UNIT	(1.6)	–
NET FINANCIAL INCOME (EXPENSES)	(1.1)	25.4
NET INCOME (LOSS) FROM EQUITY INVESTMENTS	114.8	98.6
PROFIT BEFORE TAXES	**(23.8)**	**(14.1)**
INCOME TAXES	45.3	34.0
PROFIT FOR THE PERIOD	**21.5**	**19.9**

REVENUES FROM ORDINARY OPERATIONS

Revenues in 2012 were EUR 7,357 million, compared with EUR 6,106 million in 2011. The increase is a result of the following factors:

- The increase in revenues of the **Refining & Marketing** business unit, connected to the price increase in Euro and to the greater sales volumes;
- The increase in revenues of the **Power & Gas** business unit, mainly generated by consolidation of participation in the MSD market through modulation of the CCGT production capacity, by the sale of electricity to IREN, to which the company sold the retail sale unit, and the sale of electricity to the other reference markets (exchange, IPEX, OTC), as well as by site sales of other utilities and the sale of natural 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 and recovered miscellaneous expenses.

COSTS FOR PURCHASES AND CHANGES IN INVENTORY

Costs for purchases 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, natural gas 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 decrease compared with the matching period of 2011 is mainly linked to lower processing costs, as a result of the previously commented reduction in the ISAB share, and to the absence of costs related to the marketing of electricity, whose business unit was sold to IREN Mercato, as well as to other minor operating costs.

AMORTISATION, DEPRECIATION AND WRITE-DOWNS

The decrease in amortisation is mainly due to the decrease in software subject to amortisation, tied to the business unit sold to IREN.

INCOME (EXPENSES) FROM SALE OF BUSINESS UNIT

The expenses refer to the sale to IREN Mercato of the ERG business unit pertaining to the marketing and selling of electricity.

NET FINANCIAL INCOME (EXPENSES)

The item includes net foreign exchange gains of approximately EUR 1 million, financial income from subsidiaries of approximately EUR 19 million and bank interest expenses of EUR 22 million.
The change in 2012 compared with 2011 is mostly tied to the lower income from ERG Renew as a result of the conversion of the loan into capital, at the end of the previous year.

NET INCOME (LOSS) FROM EQUITY INVESTMENTS

In 2012 the item consists mainly of the following entries:

- income related to the capital gain of EUR 261.9 million, realised by exercising the put option on 20% of ISAB S.r.l. In 2011, the item included the capital gain of EUR 122.3 million, realised by exercising the put option on 11% of ISAB S.r.l.;
- charges related to the write-down of the equity investment in TotalErg, i.e. EUR 148.0 million, by effect of the impairment test commented in the Notes to the Separate Financial Statements;
- charges related to the sale of the equity investment in ERG Rivara Storage S.r.l., which took place on 22 November 2012, of approximately EUR 6.3 million;
- dividends collected from investee companies.

In 2011, the item was affected by the write-down of approximately EUR 62.6 of the equity investment in ERG Nuove Centrali as a result of the impairment test.

INCOME TAXES

The item includes the balance of taxes deriving from the recovery, for IRES purposes, of the Company's tax loss. The item also includes the income deriving from the application for repayment filed for IRES purposes for the deductibility of the IRAP referred to the cost of labour for previous years.

STATEMENT OF FINANCIAL POSITION

(EUR MILLION)	12/31/2012	12/31/2011
RECLASSIFIED STATEMENT OF FINANCIAL POSITION		
FIXED ASSETS	1,345.3	1,712.2
NET WORKING CAPITAL	(30.5)	55.9
EMPLOYEES' SEVERANCE INDEMNITIES	(1.2)	(1.3)
OTHER ASSETS	143.5	144.8
OTHER LIABILITIES	(110.5)	(161.7)
NET INVESTED CAPITAL	**1,346.5**	**1,750.0**
SHAREHOLDERS' EQUITY	1,551.6	1,615.2
NET FINANCIAL INDEBTEDNESS	(205.1)	134.8
SHAREHOLDERS' EQUITY AND FINANCIAL DEBT	**1,346.5**	**1,750.0**

As at 31 December 2012 net invested capital amounted to approximately EUR 1,347 million, a decrease of approximately EUR 403 million compared with 2011.

FIXED ASSETS

Fixed assets consist mainly of financial fixed assets. The decrease is mainly related to the sale of 20% of ISAB for EUR 220 million and to the write-down of the equity investment in TotalErg for EUR 148 million as discussed in the Notes to the Separate Financial Statements.

NET WORKING CAPITAL

Net working capital consists of trade receivables and payables vis-à-vis Group companies and third parties. Its decrease is due to the contraction of the refining business and to time-limited events at the end of the period.

OTHER ASSETS

They mainly comprise receivables from tax authorities and other receivables from Group companies. This item also includes deferred tax assets and prepaid expenses, mainly referred to the suspension of the costs related to the "green certificates" in inventory as at 31 December 2012.

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. The reduction is mainly due to lower advances from customers, lower payables to group companies and lower short-term taxes payable.

NET FINANCIAL INDEBTEDNESS

(EUR MILLION)	12/31/2012	12/31/2011
SUMMARY OF NET INDEBTEDNESS		
MEDIUM/LONG-TERM FINANCIAL INDEBTEDNESS	119.7	283.6
SHORT-TERM FINANCIAL INDEBTEDNESS	(324.8)	(148.8)
TOTAL	**(205.1)**	**134.8**

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

(EUR MILLION)	12/31/2012	12/31/2011
MEDIUM-LONG-TERM FINANCIAL INDEBTEDNESS		
MEDIUM/LONG-TERM BANK BORROWINGS	284.3	419.7
CURRENT PORTION OF MORTGAGES AND LOANS	(164.6)	(136.0)
TOTAL	**119.7**	**283.6**

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

(EUR MILLION)	12/31/2012	12/31/2011
SHORT-TERM FINANCIAL INDEBTEDNESS		
SHORT-TERM BANK BORROWINGS	500.9	307.0
OTHER SHORT-TERM FINANCIAL DEBTS	0.2	3.9
FINANCIAL DEBTS TO SUBSIDIARIES	72.1	5.3
SHORT-TERM FINANCIAL LIABILITIES	**573.2**	**316.2**
CASH AND CASH EQUIVALENTS	(841.0)	(410.8)
SECURITIES AND OTHER FINANCIAL RECEIVABLES	(25.7)	(16.9)
FINANCIAL RECEIVABLES FROM SUBSIDIARIES	(31.3)	(37.3)
SHORT-TERM FINANCIAL ASSETS	**(898.0)**	**(465.0)**
TOTAL	**(324.8)**	**(148.8)**

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.
The increase in cash and cash equivalents refers to the collection from LUKOIL for the sale of 20% of ISAB S.r.l.

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

Ionio Gas S.r.l. in liquidation

On 30 July, the Board of Directors of ERG S.p.A. decided to exit the project for the construction of a Liquefied Natural Gas (LNG) regasification terminal in the Municipality of Melilli, in the Siracusa province, with a capacity of 8 billion cubic metres per year.

The decision not to continue with the project was based on the significant changes in both energy and economic-financial scenarios, which took place as a result of the crisis that started in 2008, and the current configuration of the Group's activities.

The Shareholders' Meeting of Ionio Gas of 29 October unanimously voted in favour of the dissolution and consequent placement in liquidation of Ionio Gas.

On 27 November 2012, the placement in liquidation deed was filed and the liquidator was appointed.

The company closed the year ended 31 December 2012 with an estimated loss of approximately EUR 1.4 million.

ISAB Energy Solare S.r.l.

The Company, a joint venture of ERG Solare Italy S.p.A. (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 2012 with a profit of approximately EUR 0.1 million.

With regard to the TotalErg and LUKERG Renew joint ventures and to the ISAB S.r.l. investee, 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. carries out management and coordination activities with respect to directly and indirectly controlled companies - respecting the managerial and operational autonomy of these companies, which benefit from the advantages, synergies and economies of scale deriving from inclusion in the Group – represented, in particular, by:

- the definition of business strategies and of the corporate governance systems and shareholding composition;
- the determination of shared general policies with respect to human resources, accounting, budgeting, taxes, finance, risk management, communication, institutional relations, health safety and environment.

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 Renew S.p.A. – and the following companies controlled by it: ERG Eolica Adriatica S.r.l., ERG Eolica Amaroni S.r.l., ERG Eolica Basilicata S.r.l., ERG Eolica Calabria S.r.l., ERG Eolica Campania S.r.l., ERG Eolica Faeto S.r.l., ERG Eolica Fossa del Lupo S.r.l., ERG Eolica Ginestra S.r.l., ERG Eolica San Cireo S.r.l., ERG Eolica San Vincenzo S.r.l., ERG Eolica Tirreno S.r.l., Green Vicari S.r.l., Eolico Troina S.r.l., Eolo S.r.l. – as well as ERG Oil Sicilia S.r.l., ERG Nuove Centrali S.p.A., ERG Power S.r.l., ISAB Energy S.r.l., ISAB Energy Services S.r.l.
Although ERG S.p.A. has a significant direct or indirect equity investment and, in some cases, a role as majority shareholder in the companies TotalErg S.p.A., ISAB S.r.l., Priolo Servizi S.c.p.A., Ionio Gas S.r.l. in liquidation, ISAB Energy Solare S.r.l., it does not carry out any management and coordination activities with respect to them, also by effect, in some cases, of the provisions contained in the shareholder agreements entered into with the other Shareholders.
In 2012, 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 9.0 million.
It was also re-charged costs linked to research and development projects amounting to EUR 1.1 million by the Delta Ti Research Consortium.
ERG S.p.A. manages the treasury of some subsidiaries centrally.
ERG S.p.A. also manages, as consolidator, the Group's VAT and domestic "tax consolidation" with the Group's main subsidiaries. In this regard, ERG Renew S.p.A. manages as consolidating entity its own domestic "tax consolidation" with some companies of the wind power business, whilst ERG Power S.r.l. adheres to the "tax consolidation" of the parent company San Quirico S.p.A.
All transactions refer to ordinary operations and are settled at market rates.

PRIVACY – SECURITY POLICY DOCUMENT

In 2012, the ERG Group invested adequate resources to maintain high levels of enforcement of the privacy Code (Italian Legislative Decree no. 196/2003) and of the Instructions issued by the Authority for the protection of personal data, particularly by promoting and upgrading its security policies in order to assure ad adequate level of protection of the personal data processed.

SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

On **15 January 2013**, ERG won the tender that enabled it to benefit from the twenty-year incentives for the project of a 34 MW wind farm in the municipality of Palazzo San Gervasio (PZ), with a 2.5% bidding discount.

On **13 February 2013**, ERG closed the purchase, from International Power Consolidated Holding Ltd (100% GDF SUEZ) and through the subsidiary ERG Renew, of 80% of the share capital of IP Maestrale Investments Ltd.
The IP Maestrale Shareholders' Meeting held on the same date voted to change the name of the company to ERG Wind Investments Ltd.

BUSINESS OUTLOOK

The expected outlook for the main operating and performance indicators in 2013 is as follows:

RENEWABLE ENERGY SOURCES

2013 is a particularly important year for ERG Renew, which as a result of the aforementioned acquisition of IP Maestrale will see a very significant growth in installed power and generation, becoming the leading operator in the wind power business in Italy.

One of the company's main goals in 2013 will be to integrate the new assets, trying fully to exploit the benefits deriving from the increased size, both in terms of synergies and of new potential.

With regard to growth, in 2013 construction will proceed on the new wind farm of Palazzo San Gervasio, with 34 MW of authorised power, for which the company obtained entitlement to the incentives as a result of participation in the auctions prescribed by the new regulations; the wind farm is expected to be commissioned in 2014.

Activities abroad, on one hand, will receive the contribution of the new wind farms in Germany (86 MW) owned by IP Maestrale, and on the other hand will focus on further developments in Eastern Europe through the LUKERG Renew joint venture. In 2013, an 84 MW wind farm will be built in Romania; the related project was recently acquired from Inergia, and its completion and commissioning are expected in early 2014.

In light of the above, further strong revenue and income growth is expected for 2013, compared with the excellent results already obtained in 2012.

POWER & GAS

The year 2013 will benefit from the availability of the ISAB Energy plant for the entire year, whilst short downtimes are expected for both ERG Power trains.

Although generation margins for gas-fuelled plants are expected to be at very low levels, mostly because of the weak demand, the overall impacts on ERG Power results will be partially mitigated both by the hedging actions and by the energy sale methods followed by the company.

With regard to ISAB Energy, its 2013 results are expected to be lower than in 2012 because of a forecast reduction in the electricity sale price compared to the particularly high values of 2012.

In light of the above, the overall results of the sector are expected to be satisfactory, but lower than the particularly high ones recorded in 2012.

REFINING & MARKETING

Integrated Downstream

With regards to the Marketing sector, in view of the weak economic environment, of the high cost of products on international markets and of the sharp rise in the tax component (VAT and excise duties), consumption is expected to remain at severely depressed levels, with total 2013 demand could remain close to 2012 values and in any case significantly lower than in previous years.

Given such weak market conditions, the company's efforts will be focused, on one hand, on maximising operating efficiency, and on the other hand to launch a significant plan to requalify its network in order to make it more competitive in terms of average dispensed quantities and more sustainable in the long term.

With the definitive shutdown of Refining activities at Raffineria di Roma and the consequent transformation of the industrial site into a logistical facility, exposure in the business will be significantly reduced, whilst the strategic role of the Group's logistical assets will be maintained and enhanced.

Coastal Refining

The price of crude oil is expected to remain around the 2012 levels, in an environment characterised by economic weakness in Europe, slow recovery in the United States and adequate market supply. Refining margins are expected to worsen with respect to the 2012 average and to remain in line with the final part of the year as a result of the lessened maintenance and the weakening gasoline margins.

In this context, the sale of a further 20% of ISAB S.r.l., completed in early September, has allowed ERG to reduce exposure to the refining sector, with consequent benefits for the Group both in economic terms and in terms of strengthening its financial structure.

For the Refining & Marketing business as a whole, slightly improving results are expected in 2013, thanks also to less heavy penalisation in the Refining business as a consequence of the reduced exposure to refining activities.

Overall, the Group's 2013 EBITDA at adjusted replacement cost is forecast to exceed EUR 500 million, confirming the indication provided to the market upon presentation of the 2013-2015 Business Plan.

RISKS AND UNCERTAINTIES FACING THE BUSINESS OUTLOOK

With reference to the estimates and forecasts contained herein, it should be pointed out that actual results may differ even significantly from those announced in relation to a multiplicity of factors, such as: future price evolutions, the operating performance of plants, the impact of regulations, including environmental ones, in the petroleum and energy industry, other changes in business conditions and in competitors' action.

Genoa, 7 March 2013

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 on transactions with related parties and, lastly, on gender balance in the composition of corporate bodies;
- adoption of a Code of Ethics as a tool for defining and communicating the duties and responsibilities of ERG S.p.A. towards its stakeholders, and as an imperative element of an organisation and management model consistent with the requirements of Italian Legislative Decree no. 231/2001, most recently updated on 26 February 2013;
- acceptance of the Italian Corporate Governance Code for Listed Companies, promoted by Borsa Italiana S.p.A. ("Corporate Governance Code"[1]) since its first edition in 1999;
- adoption of a Code of Conduct for the directors of ERG Group companies;
- appointment of independent directors and non executive directors to the Board;

1 On 30 July 2012, the Board of Directors resolved to adhere to the new edition of the Corporate Governance Code published in December 2011 with the exception of the different choices already made by the Board, to be adequately pointed out in the pertinent section of this report; consequently, all references to the provisions of the Corporate Governance Code shall be deemed to refer to the aforesaid edition of the Code.

- adoption of a Policy for the compensation of members of the Board of Directors, and of the key managers as prescribed by the Corporate Governance Code, most recently revised on 18 December 2012, 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 guidelines for the identification and execution of significant transactions, most recently revised on 10 May 2012, and of 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, most recently revised on 10 May 2012;
- adoption of an integrated 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, most recently updated on 6 August 2012.

INFORMATION ABOUT THE OWNERSHIP STRUCTURE AS AT 31 DECEMBER 2012 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 December 2012

	NUMBER OF SHARES	AMOUNT OF SHARE CAPITAL SUBSCRIBED AND PAID UP	% OF SHARE CAPITAL	LISTED (MARKET) / UNLISTED	RIGHTS AND OBLIGATIONS
ORDINARY SHARES	150.320.000	15,032,000	100	MTA/ FTSE ITALY MID CAP INDEX	–
SHARES WITH LIMITED VOTING RIGHTS	–	–	–	–	
SHARES WITHOUT VOTING RIGHTS	–	–	–	–	–

Significant equity investments as at 31 December 2012

DECLARANT	DIRECT SHAREHOLDER	% SHARE OF ORDINARY CAPITAL	% SHARE 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
ERG S.P.A.	ERG S.P.A.	5,000	5,000
TRADEWINDS GLOBAL INVESTORS LLC	TRADEWINDS GLOBAL INVESTORS LLC	4,959	4,959

Other information as at 31 December 2012

	YES	NO	NO AVAILABLE INFORMATION
RESTRICTIONS TO THE TRANSFER OF SECURITIES		X	
RESTRICTIONS TO VOTING RIGHT		X	
SHAREHOLDER AGREEMENTS			X
ARRANGEMENTS PURSUANT TO ART. 123-BIS, PAR. 1 LETTER I) T.U.F. (1)	X		

(1) Said information is contained in the report on remuneration, published in accordance with Article 123-ter of the Italian Consolidated Finance Act

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 Italian 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 reimbursement of the loan in question if there is a change in control at ERG S.p.A. and in particular: (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 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 shareholders belonging to the ERG Group if there is a change in control at ERG S.p.A. In this regard, of particular note is the case of TotalErg S.p.A., in relation to which the Shareholders' agreements provide the possibility, for the other shareholder, when the circumstances occur and in accordance with the procedures prescribed by said agreements, to purchase an equity investment, owned by the ERG Group, representing 2% of TotalErg S.p.A. if control of ERG S.p.A. changes;
- for rules applicable to the appointment and replacement of the members of the Board of Directors and of the Board of Statutory Auditors, 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 20 April 2012, 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[2].

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 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[3]. 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.

2 Implementing the aforesaid resolution, the Board of Directors decided, on 10 May 2012, to launch a program for the acquisition of treasury shares as a result of which the Company reached the number of 7,516,000 treasury shares held, i.e. 5.000% of share capital.

3 Please refer to the information provided in Note no. 1.

STATUTORY BODIES

BOARD OF DIRECTORS

The current Board of Directors, comprising twelve members, was appointed by the Shareholders' Meeting of 20 April 2012[4] consequently, the appointment to the Board of Directors shall expire at the date of the Shareholders' Meeting convened to approve the financial statements as at 31 December 2014.

For the appointment of the Board of Directors only one list of candidates was presented by the Shareholder San Quirico S.p.A.[5], i.e.:

1. Edoardo Garrone
2. Giovanni Mondini
3. Alessandro Garrone
4. Massimo Belcredi*
5. Luca Bettonte
6. Pasquale Cardarelli*
7. Alessandro Careri
8. Marco Costaguta
9. Antonio Guastoni*
10. Paolo Francesco Lanzoni*
11. Graziella Merello
12. Umberto Quadrino*

* 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.

At the proposal of the shareholders Polcevera S.A., the Shareholders' Meeting of 20 April 2012 confirmed Riccardo Garrone[6] as Honorary Chairman of the Board of Directors.

In accordance with the Articles of Incorporation, the Company is managed by a Board of Directors which, in compliance with the gender balance criterion prescribed by current law and regulatory provisions, consists of no fewer than 5 and no more than 15 members.

Directors are appointed on the basis of lists presented by Shareholders – in which the candidates shall be listed with a progressive number – 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 Italian Consolidated Finance Act, 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.

The lists may only be presented by Shareholders who, either individually or with other Shareholders, represent the minimum percentage of share capital (currently, 2.5%)[7] established in accordance with Article 144-quater of the Regulations implementing the Consolidated Finance Act, adopted by CONSOB with resolution no. 11971 of 14 May 1999 ("Issuers' Regulations").

At the time of appointment of the Board of Directors currently in office, the shareholding required in order to present the lists was equal to 2% of the share capital[8].

4 With reference to the provisions of application standard 1.C.4. of the Corporate Governance Code, it is pointed out that the Shareholders' Meeting has not generally and preventively authorised waivers from the competition prohibition set out in Article 2390 of the Italian Civil Code.

5 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 20 April 2012, available in the Governance section of the Website www.erg.it.

6 Passed away on 21 January 2013.

7 Updated on the basis of the Company's market capitalisation as at 31 December 2012 calculated as the average the last quarter before the end of the 2012 financial year.

8 In accordance with CONSOB Resolution no. 18083 of 25 January 2012.

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 and, with the exception of those that present fewer than three candidates, it shall comply with the gender balance criterion prescribed by current laws and regulations.

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 and 5-bis of the Articles of Incorporation respectively for the appointment of independent Directors and to compliance with the gender balance criterion in the composition of the Board of 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 shall be elected from the presented list or from the list that reached the quorum, subject to the provisions of Article 5-bis of the Articles of Incorporation with respect to compliance with the gender balance criterion in the composition of the Board of Directors.

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[9].

9 For more information, including information about the provisions aimed at assuring compliance with the gender balance criterion in the composition of the Board of Directors, please refer to the Articles of Incorporation, available in the Governance section of the website www.erg.it.

The Directors in office at the date of approval of the Report are[10]:

Composition of the Board of Directors:
Edoardo Garrone - *Chairman*
Alessandro Garrone - *Deputy Chairman*
Giovanni Mondini - *Deputy Chairman*
Luca Bettonte - *Chief Executive Officer*
Massimo Belcredi - *Director*
Pasquale Cardarelli - *Director*
Alessandro Careri - *Director*
Marco Costaguta - *Director*
Antonio Guastoni - *Director*
Paolo Francesco Lanzoni - *Director*
Graziella Merello [11] - *Director*
Umberto Quadrino - *Director*

Non-executive directors [12]
Giovanni Mondini
Alessandro Careri
Marco Costaguta

Independent directors [13]
Massimo Belcredi
Pasquale Cardarelli
Antonio Guastoni
Paolo Francesco Lanzoni
Umberto Quadrino

The Board of Directors, in the first meeting after the appointment – held on 20 April 2012 – positively assessed the Directors' independence both with reference to the provisions of Article 148, third paragraph, of the Italian Consolidated Finance Act and with reference to the Corporate Governance Code, thus preferring substance over form[14].

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.

10 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.

11 Serves as Director in charge of the Internal Control and Risk Management System (formerly, executive Director appointed to supervise the functionality of the Internal Control System).

12 Taking into account application standard 2.C.1 of the Corporate Governance Code.

13 Independence was assessed by the Board of Directors in accordance with the Consolidated Finance Act and with the Corporate Governance Code.

14 In particular, the Board of Directors, in the aforesaid meeting of 20 April 2012, with reference to the fact that Directors Massimo Belcredi, Antonio Guastoni and Paolo Francesco Lanzoni would exceed, during their term in office, the nine-year limit set out by application standard 3.C.1 letter e) of the Corporate Governance Code, deemed that (i) the automatic enforcement of this limit for the purposes of assessing independence would not have been in line with the spirit of the Corporate Governance Code; (ii) the overall profile of the aforesaid Directors – and their history with the Company – offered sufficient guarantees in terms of their independent mindedness. With reference to the appointments reported by Director Antonio Guastoni – Director and Deputy Manager in Sampdoria Holding S.p.A., a subsidiary of San Quirico S.p.A. (office of Deputy Chairman held until 5 September 2012, without executive powers and/or signature and/or delegation powers) – and by Director Paolo Francesco Lanzoni – Chairman of the Supervisory Committee of ERG Renew S.p.A., ERG Nuove Centrali S.p.A., ERG Power S.r.l., ERG Oil Sicilia S.r.l., ISAB Energy S.r.l. and ISAB Energy Services S.r.l. (directly/indirectly controlled by ERG S.p.A.) – as had been assessed by the previous Board of Directors in 2011, deemed that the aforesaid offices were irrelevant for the purposes of their independence and that the compensation received for their participation in the Supervisory Bodies per Italian Legislative Decree 231/2001 (control bodies with external relevance) were akin to the case contemplated by application standard 3.C.1 letter d) of the Corporate Governance Code, which explicitly refers to additional compensation for participation in committees within the Board, recommended by the Code itself.

With regard 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 2012, the independent Directors held their own meeting without the other directors present, but remained in contact and regularly consulted each other in advance on the principal matters examined by the Board of Directors.

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 2012[15]*:*

Edoardo Garrone	*Chairman of the Supervisory Board of San Quirico S.p.A.* *Director of Pininfarina S.p.A.*
Alessandro Garrone	*Director of Banca Passadore e C. S.p.A.* *Director of Gruppo MutuiOnline S.p.A.*
Giovanni Mondini	*Chairman of the Management Board of San Quirico S.p.A*
Massimo Belcredi	*Director of Arca Sgr S.p.A.*
Marco Costaguta	*Director of Gestione di San Quirico S.p.A.*
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.*
Umberto Quadrino	*Director of Ambienta SGR S.p.A.* *Director of Italsconsult S.p.A.* *Director of Creo Invest S.r.l.*

Other attendees of Board of Directors meetings
Depending on the matters under discussion, ERG Group management representatives also take part in Board of Directors meetings.

Directors' compensation and remuneration
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 and of Key managers[16].
Directors' remuneration is determined, for each financial year, by the Shareholders' Meeting called to approve the Financial Statements.
The Shareholders' Meeting also fixes the remuneration of the Directors serving on the following committees within the Board: Internal Control and Risk Committee[17] and Nominations and Remuneration Committee.
The remuneration of the Chairman, of the Deputy Chairmen, of the Chief Executive Officer and, more in general, of Directors with delegated powers or appointed to carry out particular duties and of the Directors appointed to the Strategic Committee that do not hold positions in the Board of Directors, is set by the Board of Directors on the basis of a proposal formulated by the Nominations and Remuneration Committee, after obtaining the opinion of the Board of Statutory Auditors.

15 Other than offices held in companies of the ERG Group.
16 The Shareholders' Meeting held on 20 April 2012 voted in favour of the first section of the Report on Remuneration prepared in accordance with Article 123-ter of the Italian Consolidated Finance Act.
17 The former Internal Control Committee. The different name was assigned as a result of the Company's adherence to the new edition of the Corporate Governance Code published in December 2011.

With reference to the Directors in office, the members of the Nominations and Remuneration Committee contributed to formulate the aforesaid proposals also on the basis of elements initially not contemplated by the Remuneration Policy which, adopted by the Company on 20 December 2011, did not take into account the different delegated powers decided by the new Board of Directors on 20 April 2012, and – for the aforesaid reasons – on the basis of the Procedure for Transactions with Related Parties.
The Board of Directors, at the proposal of the Nominations and Remuneration Committee, on 18 December 2012 approved the revision of the Remuneration Policy in order to take into account the aforesaid delegation of powers and the medium/long term incentive Systems (LTI System)[18].

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 with respect to external relations and to Corporate Social Responsibility and the General Secretariat functions within the scope of the Corporate Affairs Division, with responsibility for supervision, direction and control[19];
- the Deputy Chairman Alessandro Garrone with the power to supervise preliminary and functional activities for the definition of the Company's and of the Group's strategic objectives and for the preparation of the related Strategic Plan, to be submitted to the Board of Directors for review and approval or disapproval; consequently, to provide strategic coordination to subsidiaries; to exercise supervision and control over activities for the preparation of draft budgets to be submitted for review and approval or disapproval by the Board of Directors; to conduct direction and supervision activities in the search, preparation and negotiation with third parties of Merger & Acquisition projects and in structured finance transactions, which in view of their significance are subject to the approval of the Board of Directors; to supervise the definition of the Company's organisational structure to the second reporting level down from the Chief Executive Officer, concurring with the CEO on decisions pertaining to the appointment of directors and executives, to the termination of any employee and to remuneration and incentive policies;
- Chief Executive Officer Luca Bettonte[20] with the powers necessary to carry out all actions pertaining to the company's business;
- Director Graziella Merello with the power to oversee the Internal Audit, Risk and Compliance Division, with responsibility for supervision, direction and control[21].

In accordance with the Articles of Incorporation, the Chairman has the power to represent the Company pursuant to Article 2384 of the Italian Civil Code. The Chief Executive Officer(s) also has/have such powers, within the limits of the authority vested in them.

18 For any additional information on this matter, please refer to the Report on Remuneration pursuant to Article 123-ter of the Consolidated Finance Act, to be presented to the Shareholders' Meeting convened in April 2013, among other matters, in accordance with Article 2364, second paragraph, of the Italian Civil Code.

19 Assignment of these managerial powers, with particular but not exclusive reference to the activities of the General Secretariat within the Corporate Affairs Division, takes into account the role carried out as Chairman of the Board of Directors and by the provisions of the Corporate Governance Code (Comment to Article 2, fifth paragraph).

20 The interlocking directorate situation, contemplated by application standard 2.C.5. of the Corporate Governance Code, does not apply. Additionally, on 10 May 2012 the Chief Executive Officer resigned from the office of Corporate General Manager. The Board of Directors, on the same date, taking into account the Company's organisational structure resulting from the appointment of the new Board of Directors, resolved not to appoint a new Corporate General Manager.

21 Formerly, Internal Audit Division and Risk Office function.

The Board of Directors, in accordance with the recommendations of the Corporate Governance Code, specified that the powers vested in the Deputy Chairman and in the Chief Executive Officer shall be exercised within the scope of the directives and instructions imparted to them by the Board of Directors which shall retain, in addition to the powers that may not be delegated as prescribed by law or by the Articles of Incorporation, the authority to review and approve significant transactions identified on the basis of the criteria set out in the Guidelines for identifying and carrying out significant transactions, approved 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 prescribed 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 2012 financial year, the Board of Directors held 10 meetings, while for the year 2013 there are expected to be no fewer than 6 meetings.
In the 2012 meetings, the Board of Directors passed resolutions pertaining to 53 issues and for 36 of them the related documentation was sent to Directors and Statutory Auditors beforehand (at least 48 hours before the meeting, barring exceptions)[22] said advance notice being deemed suitable to enable Directors and Auditors to acquire adequate knowledge of the items in the agenda.
The average duration of the meetings held by the Board of Directors was 2 hours and 46 minutes.
As of the date of approval of this document, the Board of Directors had held 2 meetings.

Activities pursued
Directors made a significant contribution to the work of the Board of Directors and Committees in 2012, in terms of meeting attendance and effective participation in proceedings.
In the course of 2012, 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 30 July 2012, 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 during 2011, 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[23]. This document was prepared applying the assessment criteria already employed in past years[24].

22 In the resolutions with respect to which the related documentation was not sent to Directors and Statutory Auditors beforehand, 5 pertained to topics with respect to which the Nominations and Remuneration Committee or the Control and Risk Committee had carried out preparatory work, 7 were taken up by the Board of Directors upon specific proposals by the Directors during Board meetings.

23 This assessment refers to the year 2011 and, hence, to the previous Board of Directors and its Committees whose members, in relation to the Nominations and Remuneration Committee and to the Internal Control and Risk Committee, were confirmed in office by the current Board of Directors, appointed by the Shareholders' Meeting of 20 April 2012.

24 With the exception of the self-assessment questionnaire – prepared by the Corporate Affairs Division at the request of the Nominations and Remuneration Committee – sent to the members of the Board of Directors and of the Board of Statutory Auditors within the Board Performance Review process for the year 2010, not used in the assessment process for the year 2011 in view of the appointment of the new Board of Directors by the Shareholders' Meeting on 20 April 2012. The document is available in the Governance section of the website www.erg.it.

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 disclosure they provided for the purposes of their candidacy and subsequent appointment to Directors of the Company, which took place on 20 April 2012.
The Chairman of the Board of Directors ensured that during the meetings of the of the Board of Directors and of the Committees within the Board, in relation to the topics discussed, the Chief Executive Officer and representatives of the ERG Group's managers provided all directors with the necessary information for adequate knowledge of the industry where the Group operates, of corporate performance and its trends and of the reference regulatory framework. During the year, the Chairman also pointed out to Directors, with the aforesaid purposes, specific initiatives and events organised by major entities.

BOARD OF STATUTORY AUDITORS

The Board of Statutory Auditors was appointed by the Shareholders' Meeting held on 15 April 2010 and its term of office shall expire at the date of the Shareholders' Meeting convened for approval of the Financial Statements as at 31 December 2012.
For the appointment of the Board of Statutory Auditors, only one list of candidates was presented by the shareholders San Quirico S.p.A.[25], 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 accordance with the Articles of Incorporation, the Shareholders' Meeting shall elect the Board of Statutory Auditors, consisting of three standing auditors and three alternate auditors in compliance with the gender balance criterion prescribed by current laws and regulations. The Board of Statutory Auditors is appointed on the basis of lists presented by Shareholders, which, 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), must be filed 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.
Each list consists of two sections: one for candidates to the office of standing auditor and the other one for candidates to the office of alternate auditor. Each list shall contain a number of candidates, listed with a progressive number, not exceeding the maximum number of auditors to be elected and, with the exception of those presenting fewer than three candidates, it shall comply, for each section, with the gender balance criterion prescribed by current laws and regulations.
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, currently equal to 2.5%[26].

25 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.

26 Updated on the basis of the Company's market capitalisation as at 31 December 2012 calculated as the average of the last quarter before the end of the 2012 financial year.

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[27].
No Shareholder may present or vote for more than one list and each candidate may be included in only one list, failing which he or she shall be disqualified.
The lists contain not only information about the Shareholders who submitted them and the statements made by them pursuant to the applicable regulations, but also exhaustive information about the candidates' personal and professional characteristics and their statements pursuant to the Articles of Incorporation.
Candidates 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, paragraph 3 of the Italian Consolidated Finance Act or if they already serve as Standing Auditor in five listed companies[28].
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[29] shall be considered not to have been presented.
If no list is presented in spite of the completion of the aforesaid procedure, a majority vote shall be taken in order to ensure that the composition of the Board of Statutory Auditors complies with current laws and regulations and with the Articles of Incorporation. 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 more than one list is presented, the following candidates shall be 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 and subject to the provisions of paragraph 13-bis of the Articles of Incorporation pertaining to compliance with the gender balance criterion in the composition of the Board of Statutory Auditors. 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.

27 In accordance with CONSOB Resolution no. 17148 of 27 January 2010.

28 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.

29 For more information, including information about the provisions aimed at assuring compliance with the gender balance criterion in the composition of the Board of Statutory Auditors, please refer to the Articles of Incorporation, available in the Governance section of the website www.erg.it.

The Statutory Auditors in office at the date of approval of the Report are [30]:

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.
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, Risk and Compliance Division, coordinating with the Internal Control and Risk Committee.
During the 2012 financial year the Board of Statutory Auditors held 10 meetings, while for the year 2013 there are expected to be no fewer than 6 meetings.
The average duration of the meetings held by the Board of Statutory Auditors was 2 hours and 30 minutes.
As at the date of approval of this document, the Board of Statutory Auditors had 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 2012 [31]*:*

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 Astaldi S.p.A.* *Standing Auditor of Gemina S.p.A.* *Director of Ariscom Compagnia di assicurazioni S.p.A.* *Chairman of the Board of Statutory Auditors of Essediesse 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.* *Standing Auditor of Banca Passadore & C. S.p.A.*

30 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.

31 Other than offices held in companies of the ERG Group.

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. Holders of voting rights may be represented by proxy in the Shareholders' Meeting, within the limits and according to the procedures prescribed by current laws and regulations. The proxy may be notified via certified electronic mail in accordance with the procedures indicated in the convening notice or using the different instrument which may be indicated in the notice.

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 the Internal Control and Risk Committee, the Nominations and Remuneration Committee and the Strategic Committee to advise it and issue recommendations.

INTERNAL CONTROL AND RISK COMMITTEE

Members:

Massimo Belcredi - *Chairman*
Antonio Guastoni
Paolo Francesco Lanzoni

The Internal Control and Risk Committee comprises three independent directors.

The members of the Committee have adequate accounting and financial expertise.

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 executive Deputy Chairman and the Chief Executive Officer, 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 Director in charge of the Internal Control and Risk Management 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, Risk and Compliance shall be 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 and Risk 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 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 and Risk Committee[32].
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 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 transactions of "Minor Relevance".
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 2012, the Committee held 10 meetings[33] – all duly recorded in minutes – during which, in addition to the preventive review of the financial statements, of the half-year report and of the economic and financial data of interim reports on operations, it examined topics pertaining to the following macro-issues: Group Governance, Control and risk management system, compliance requirements of Italian Legislative Decree no. 231/01 and Administration, Reporting and Taxation Area.
The average duration of the meetings held by the Committee was 2 hours and 30 minutes.
As at the date of approval of this document, the Internal Control and Risk Committee had met 3 times.

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

1) **Group Governance**
   - examined the audits made on the thresholds set forth in the Procedure for Related Party transactions and acknowledged the consistency of the same;
   - appointed its Chairman (confirming Prof. Belcredi, who previously held this position before the renewal of the Board of Directors);

32 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, unless the aforesaid transactions in accordance with Article 3.2, letter c) of the Procedure are excluded from the scope of the procedure.

33 Specifically: 3 times before the end of the mandate awarded to the previous Board of Directors and 6 times after the appointment of the new Board of Directors (which took place at the Shareholders' Meeting on 20 April 2012) which confirmed the terms of office of the members of the previous Committee; therefore the composition of the Committee was unchanged even after the renewal of the Board of Directors.

- examined the changes proposed to the Guidelines for the identification and execution of significant transactions and to the Market info procedure following the changes in the award of powers made by the new Board of Directors on 20 April 2012;
- approved the proposal for the remuneration of the Head of Internal Control formulated by the Executive Director entrusted with overseeing the functioning of the Internal Control System pursuant to the provisions of the Corporate Governance Code promoted by Borsa Italiana;
- on the express request of the Board of Directors, conducted an analysis on the main changes made with regard to the Corporate Governance Code, as well as on the measures to be set in place if the Company should decide to subscribe to the new edition of said Code; reporting in this regard to the Board of Directors;
- examined the applicability 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;
- received advance information on the proposal to contribute to the Edoardo Garrone Foundation, a related party of ERG S.p.A.; the amount of the transaction is considered insignificant;
- analysed the change introduced by CONSOB to the Issuers' Regulation with resolution no. 18079 dated 20 January 2012 regarding the faculty for issuers to waive the obligation to prepare information documents in the event of significant extraordinary transactions, assessing the possible implications of the Company subscribing to the aforementioned faculty;
- examined the proposal to update the list of Executives with strategic responsibility following organisational changes made following the appointment of the new Board of Directors and approved the consequent proposal to update the Procedure for Related Party transactions;
- examined and approved its own schedule of meetings for 2013.

2) Control and risk management system

- analysed 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 and risk management system;
- examined, the quarterly updates on the Audits activity conducted by the Internal Audit, Risk and Compliance Division and the relative results, recommending specific actions and requesting the relative follow-up;
- acknowledged the proposal to reorganise the Internal control and risk management system and the grounds underlying the same;
- analysed the risks connected with ongoing events in Iran and the consequent actions taken by the Company, as well as an update on the risks relating to business relations with Libya;
- examined the quarterly updates on the development of the risk management process, the outcome of the monitoring and assessment activities carried out by the Internal Audit, Risk and Compliance Division and the objectives achieved;
- examined, on a six-monthly basis, periodic reports on the activities carried out by the Head of Internal Control;
- examined the activities and budget of the Internal Audit, Risk and Compliance Division for 2013.

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

- examined, on a six-monthly basis, the periodic reports on the activity carried out by the Supervisory Committee;
- examined the schedule of activities and budget of the ERG Supervisory Committee and of the Supervisory Committees of Group companies for 2013.

4) 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 Group and the results of the test activities carried out as at 31 December 2011 and the planned schedule of activities for 2012;
- examined the methods for the renewal the Group VAT liquidation procedure – for tax year 2012;
- acknowledged the set-up followed with respect to the impairment test procedure on the Financial Statements as at 31 December 2011, the most important aspects emerging from the application of the same and the reasons underlying the write-downs made;
- stated that it had been able to assess 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 2011 and of the Half-year Financial Report as at 30 June 2012 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 2012;
- examined the main aspects pertaining to the domestic "tax consolidation" of ERG S.p.A.;
- acknowledged the updates relating to intra-group service agreements for 2012.

NOMINATIONS AND REMUNERATION COMMITTEE

Members:
Paolo Francesco Lanzoni - *Chairman*
Massimo Belcredi
Pasquale 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, executive Deputy Chairman and CEO 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 – which carries out the duties prescribed by the Corporate Governance Code for the Remuneration Committee[34] – makes recommendations to the Board of Directors regarding the remuneration of the Chairman, Deputy Chairmen, CEO and, more in general, of Directors with powers or specific duties and of the Directors called to serve on the Strategic Committee who do not hold positions in the Board of Directors and, upon indication of the CEO, regarding the determination of criteria for the remuneration of the Company's top managers and for the definition of incentive plans for the ERG Group's management. The Committee periodically assesses the adequacy, overall consistency and concrete application of the Remuneration Policy for members of the Board of Directors and Key managers.

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, unless the aforesaid transactions in accordance with Article 3.2, Letter c) of the Procedure are not excluded from the scope of said Procedure[35].

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 transactions of "Minor Relevance".

Whenever the Committee discusses recommendations for the remuneration of the Chairman, executive Deputy Chairman and CEO, such individuals must leave the meeting.

34 Complying with the conditions set out for both Committees by the Corporate Governance Code.

35 If the conditions per Article 3.2 letter c) of the Procedure for Transactions with Related Parties are met, 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 has been submitted to the Shareholders' Meeting consultative vote; (iv) that the remuneration assigned is consistent with said policy – subject to the disclosure obligations per Article 154-ter of the Italian Consolidated Finance Act, the Procedure 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 thereof or otherwise to one of the persons who hold the offices indicated in Annex 1 to the Procedure for transactions with related parties.

In the performance of its duties, the Committee was able to access the information and company functions necessary to carry out its tasks.

In 2012, the Committee held 7 meetings[36] – duly recorded in minutes – in which it: (i) formulated proposals for setting the remuneration of the Chairman, Deputy Chairmen, CEO and, more in general, of Directors with powers or specific duties and of the Directors called to serve on the Strategic Committee who do not hold positions in the Board of Directors; (ii) made determinations on the definition of the targets for the year 2012 with reference to the short and long term incentive system and to the value creation achieved in 2011, (iii) issued opinions – and proposals, when warranted – as to the recognition and setting of bonuses to some of the Company's managers. 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[37], and of the new medium-long term incentives systems undergoing design – the LTI System[38] .
The MBO System and the LTI System are integral, substantial parts of the Remuneration Policy for the members of the Board of Directors and Key managers adopted by the Board of Directors – always at the proposal of the Nominations and Remuneration Committee – on 20 December 2011 in accordance with the Corporate Governance Code most recently revised on 18 December 2012 to take into account the powers delegated by the new Board of Directors of ERG S.p.A. – appointed by the Shareholders' Meeting of 20 April 2012 – and the medium/long term incentive System (LTI System).
The Committee also prepared a support document for the Board of Directors on the Board Performance Review carried out by the Committee using the assessment criteria used in past years[39].
The average duration of the meetings held by the Committee was 2 hours.
As at the date of approval of this document, the Nominations and Remuneration Committee had met 3 times.

36 Specifically: 4 times before the end of the mandate awarded to the previous Board of Directors and 3 times after the appointment of the new Board of Directors (which took place at the Shareholders' Meeting on 20 April 2012) which confirmed the terms of office of the members of the previous Committee; therefore the composition of the Committee was unchanged even after the renewal of the Board of Directors.

37 Management by objectives.

38 Long term incentive.

39 Please refer to the information provided in Note no. 24.

STRATEGIC COMMITTEE

Members

Alessandro Garrone - *Chairman*
Giovanni Mondini
Luca Bettonte
Alessandro Careri
Marco Costaguta

The Committee advises and issues recommendations to the CEO and to the Board of Directors of ERG S.p.A. and to the Boards of Directors of the operating companies of the ERG Group.
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.
In the course of 2012, the Committee held 13 meetings – duly recorded in meeting minutes.

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 and of 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 and Risk 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, most recently revised on 10 May 2012, 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 supervision.

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, most recently revised on 3 December 2012 is published on the Company's website.

GUIDELINES FOR THE IDENTIFICATION AND EXECUTION OF SIGNIFICANT TRANSACTIONS

The Board of Directors 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, most recently revised on 10 May 2012, 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[40].

PROCEDURE FOR RELATED-PARTY TRANSACTIONS

The Board of Directors, with its resolution of 11 November 2010, with the favourable opinion of the Internal Control and Risk 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. The Procedure was most recently revised on 6 August 2012.

40 This is information provided 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.

POLICY FOR THE REMUNERATION OF MEMBERS OF THE BOARD OF DIRECTORS AND OF KEY MANAGERS

The Board of Directors adopted, with its resolution of 20 December 2011, at the proposal of the Nominations and Remuneration Committee, a Remuneration Policy of the members of the Board of Directors and of Key managers in line with the provisions of the Corporate Governance Code, revised – at the proposal of the Nominations and Remuneration Committee – on 18 December 2012 to take into account the powers vested by the new Board of Directors of ERG S.p.A. – appointed by the Shareholders' Meeting of 20 April 2012 – and the medium/long term incentive System (LTI System)[41].

OTHER INFORMATION

Information about the internal control and risk management System, Supervisory Committee, investor relations, organisation and management model per Italian Legislative Decree 231/2001, independent auditors, the head of the Internal Audit, Risk and Compliance Division, the manager responsible for preparing the company's financial reports, and management and coordination activity can be found below.

THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM OF THE ERG GROUP

1. GENERAL PRINCIPLES

The Internal Control and Risk Management System of the ERG Group (hereafter, "CIGR System") complies with the principles set out in the Corporate Governance Code and, more in general, it is consistent with domestic and international best practices. The CIGR System, in particular, consists of a set of rules, procedures and organisational structures aimed at proactively contributing – through an adequate process of identifying, measuring, managing and monitoring the main risks – to the protection of the ERG Group's assets, to the efficient and effective management of the Group in line with the corporate strategies defined by the Board of Directors, to the trustworthiness, accuracy and reliability of financial disclosure and, more in general, to compliance with current laws and regulations.

The System, as an integral part of the enterprise, involves and hence is applied to the entire organisational structure of the ERG Group: from the Board of Directors of ERG and of its subsidiaries[42] (hereafter, "Subsidiaries"), to the Group Management (hereafter, "Management") and to the company's personnel.

2. PERSONS AND BODIES INVOLVED IN THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

The main persons and bodies involved in the ERG Group's internal control and risk management system, according to their respective skills and in compliance with current laws and regulations, as well as with the recommendations of the Corporate Governance Code, are:

- the Board of Directors, which orients and assesses the adequacy of the CIGR System;
- the Chief Executive Officer, who identifies the main corporate risks;
- the Director in charge of the Internal Control and Risk Management System, responsible for verifying the correct functionality and the overall adequacy of the CIGR System;
- the Internal Control and Risk Committee, tasked with supporting, through an adequate preliminary analysis activity, the assessments and decisions of the Board of Directors pertaining to the CIGR System, as well as those pertaining to the approval of periodic financial reports;
- the Head of Internal Audit, Risk and Compliance, in charge of verifying the viability and suitability of the CIGR System.

41 For any additional information in this matter, please refer to the Report on Remuneration per Article 123-ter of the Consolidated Finance Act, to be presented to the Shareholders' Meeting convened in April 2013, among other matters, in accordance with Article 2364, second paragraph, of the Italian Civil Code.

42 The meaning of the term "control" is as set out in Article 93 of the Italian Consolidated Finance Act. Consequently, Joint Ventures with joint control are excluded.

BOARD OF DIRECTORS

The Board of Directors carries out the role and the duties prescribed by the Corporate Governance Code and, within its main function of orienting and assessing the adequacy of the CIGR System, it is the central body of the System.

To this end, the Board of Directors shall, in particular:

- define the Guidelines of the CIGR System[43] (hereafter "Guidelines"), so that the main risks are correctly identified and adequately measured, managed and monitored, determining their compatibility with enterprise management that is consistent with the identified strategic objectives;
- assess, at least once a year, the adequacy of the CIGR System with respect to the characteristics of the company and to the risk profile assumed, as well as its effectiveness;
- appoint the Head of Internal Audit, Risk and Compliance, define his/her compensation[44] and approve, at least once a year, the work plan prepared by him/her;
- identify within it
  - one or more directors appointed to set up and maintain an effective Internal Control and Risk Management System
  - the Internal Control and Risk Committee

  with whose support it carries out the assessments and makes the decisions pertaining to the CIGR System and assures that duties and responsibilities are allocated clearly and appropriately and that the Head of Internal Audit, Risk and Compliance, the Supervisory Committee and the Manager responsible for preparing the company's financial reports, have adequate resources available for the performance of their duties and enjoy an appropriate level of autonomy within the organisation.

Specifically, responsibility for setting up and maintaining an effective Internal Control and Risk Management System are shared between the Chief Executive Officer and the Director in charge of the Internal Control and Risk Management System, as described below.

CHIEF EXECUTIVE OFFICER

The CEO has the powers necessary to carry out all actions pertaining to the company's business. Within ERG's organisational structure, the following Divisions report to him/her: the Mergers & Acquisitions Division, the Corporate Development Division, the Power & Gas Business Unit, the Oil Business Unit, the Finance and Control Division, the Institutional and International Relations Division, the General Secretariat Division, the Administration Reporting and Taxation Division, the Organisation and Systems Division.

The Chief Executive Officer is also the Chairman of the Investment Committee, which has a consultative role and expresses a reasoned technical and economic-financial opinion for the Strategic Committee in the various stages of the investment process.

The Chief Executive Officer identifies the main corporate risks, taking into account the characteristics of the activities carried out by the issuer and by its subsidiaries, and periodically submits them to the review of the Board of Directors, as described in detail below.

43 With the opinion of the Internal Control and Risk Committee.

44 At the proposal of the Director in charge of the Internal Control and Risk Management System and with the favourable opinion of the Internal Control and Risk Committee, taking into consideration the input of the Board of Statutory Auditors.

DIRECTOR IN CHARGE OF THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

The Director in charge of the Internal Control and Risk Management System assures that the CIGR System's functionality and overall adequacy is maintained, promptly reporting to the Internal Control and Risk Committee (or to the Board of Directors) on any problems and critical issues noted in the course of his/her activity, or of which (s)he has otherwise become aware, so that the Committee (or the Board of Directors) can undertake the appropriate initiatives.

For this purpose the Director in charge shall, in particular:

- implement the Guidelines defined by the Board of Directors, providing for the design, implementation and management of the Internal Control and Risk Management System and constantly verifying its adequacy and effectiveness;
- manage the adaptation of this system to the dynamics of operating conditions and of the legal and regulatory environment;
- verify, with the support of the Internal Audit, Risk and Compliance Division, that Management has identified the main risks, that the risks were assessed with consistent procedures, that the mitigating actions have been defined and are being carried out, and that the risks are management in accordance with the decisions of the Board of Directors;
- propose to the Board of Directors the appointment and compensation of the Head of Internal Audit, Risk e Compliance[45], assuring his/her independence and operating autonomy with respect to each manager in charge of operating areas and verifying that the Head of Internal Audit, Risk and Compliance is provided with suitable means to perform his/her duties effectively;
- rely on the Internal Audit, Risk and Compliance Division to perform audits on specific operating areas and on compliance with rules and internal procedures in the execution of corporate operations;
- promptly report to the Internal Control and Risk Committee (or to the Board of Directors) on any problems and critical issues noted in the course of his/her activity, or of which (s)he has otherwise become aware, so that the Committee (or the Board of Directors) can undertake the appropriate initiatives.

The Director in charge of the Internal Control and Risk Management System shall not be delegated any individual management powers.

INTERNAL CONTROL AND RISK COMMITTEE

The Internal Control and Risk Committee advises and issues recommendations to the Board of Directors and fulfils the role and responsibilities indicated in the Corporate Governance Code, supporting the Board of Directors in the assessments and decisions pertaining to the CIGR System.

For this purpose, the Committee shall, in particular:

- examine the work plan and the periodic reports prepared by the Head of Internal Audit, Risk and Compliance;
- express opinions on specific aspects pertaining to the identification of the main corporate risks;
- report to the Board of Directors, on a half-yearly basis, on the activity performed and on the adequacy of the CIGR System;
- monitor the autonomy, adequacy and effectiveness of the Internal Audit, Risk and Compliance Division;
- examine the results of the activities of the Manager responsible for preparing the company's financial reports;

45 With the favourable opinion of the Internal Control and Risk Committee and taking into consideration the input of the Board of Statutory Auditors.

– assess the proper use of the accounting standards[46] and their consistency for the preparation of the Consolidated Financial Statements, of the statutory financial statements, of the condensed half-yearly report and of the interim reports on operations.

The Board of Statutory Auditors shall attend the meetings of the Internal Control and Risk Committee.

HEAD OF INTERNAL AUDIT, RISK AND COMPLIANCE

The Internal Audit, Risk and Compliance Division performs the role and duties prescribed by the Corporate Governance Code, verifying the functionality and suitability of the CIGR System and, in particular, that Management has identified the main risks, that the risks were assessed with consistent procedures and that the mitigating actions have been defined and carried out. The Division also verifies whether the risks are managed in accordance with the decisions of the Board of Directors, with external rules and with rules within the Group.

The Head of Internal Audit, Risk and Compliance is not responsible for any operating area; (s)he reports hierarchically to the Board of Directors through the Director in charge of the Internal Control and Risk Management System and (s)he provides all due information to the Internal Control and Risk Committee and to the Board of Statutory Auditors. The annual work plan, based on a structure process of analysis and prioritisation of the main risks ("Audit Plan"), similarly to the budget, is subject to the approval of the Board of Directors[47]. Moreover, within the scope of the audit plan, the Internal Audit Risk and Compliance Division shall verify the reliability of the information systems including the accounting measurement systems.

At least twice a year, it prepares a summary of the main observations emerged and of the corporate risks to be monitored (Risk Report) which includes an assessment of the suitability of the CIGR System. The findings of these reports are presented to the Director in charge of the Internal Control and Risk Management System, to the Internal Control and Risk Committee, and to the Board of Statutory Auditors.

The Chairmen of the Board of Directors, of the Board of Statutory Auditors and of the Internal Control and Risk Committee, as well as the Director in charge of the Internal Control and Risk Management System are recipients of non-periodic information flows, generated by the Internal Audit, Risk and Compliance Division, in such a way as to assure their simultaneous involvement.

3. OTHER RELEVANT PLAYERS WITH SPECIFIC INTERNAL CONTROL AND RISK MANAGEMENT DUTIES

Chairman

The Chairman supervises and oversees the activities of the:

– Institutional and International Relations Division for External Relations and Corporate Social Responsibility;
– General Secretariat for Corporate Affairs.

Executive Deputy Chairman

The Executive Deputy Chairman supervises the Group's strategic decisions and the definition of the organisational macro-structure, orients and coordinates the extraordinary transactions, including structure finance transactions, carries out the strategic coordination of the subsidiaries.

46 Together with the Manager responsible for preparing the company's financial reports and taking into consideration the opinion of the Independent Audit Firm and of the Board of Statutory Auditors.

47 With the opinion of the Director in charge of the Internal Control and Risk Management System, taking into consideration the input of the Internal Control and Risk Committee and of the Board of Statutory Auditors.

The Executive Deputy Chairman is also the chairman of the Strategic Committee, which supports the Executive Deputy Chairman and the Chief Executive Officer in the performance of their duties to the Board of Directors in particular in the definition of strategic business guidelines, portfolio guidelines, including innovative projects, and strategic finance guidelines and policies as well as for individual extraordinary finance transactions, monitoring the progress of their implementation over time.

MANAGER RESPONSIBLE FOR PREPARING THE COMPANY'S FINANCIAL REPORTS

The Manager responsible for preparing the company's financial reports, whose activity is regulated by Italian Law no. 262/2005, shall

- prepare adequate administrative and accounting procedures for the preparation of financial disclosure documents;
- monitor the enforcement of the procedures;
- issue to the market the certification of the adequacy and effective enforcement of the administrative and accounting procedures for the purposes of the Group's financial disclosure.

BOARD OF STATUTORY AUDITORS

The Board of Statutory Auditors oversees compliance with the law and with the Articles of Incorporation, adherence with correct administration principles, the adequacy of the organisational structure (for aspects under its cognisance), of the CIGR System and of the administrative-accounting system, and its reliability in correctly representing operations, and the adequacy of the provisions imparted to the Subsidiaries for the proper fulfilment of the prescribed disclosure obligations.

For this purpose, the Board of Statutory Auditors in line with the role and the duties prescribed by the Corporate Governance Code:

- shall exchange, in a timely manner, with the Internal Control and Risk Committee, the relevant information for the performance of their respective duties;
- may rely on the Internal Audit, Risk and Compliance Division for the performance of audits on specific operating areas or company transactions.

SUPERVISORY COMMITTEE

The Supervisory Committee (hereafter "Committee") is appointed by the Board of Directors and it has adequate financial resources available for the performance of its duties, among which are:

- oversee compliance with the Code of Ethics;
- verify the effectiveness and adequacy of the Model or its suitability to prevent the occurrence of offences per Italian Legislative Decree no. 231/2001 on the basis of an annual audit plan submitted to the Board of Directors;
- verify the adequacy of the organisational solutions adopted for the implementation of the Model;
- prepare a half-yearly report to the Internal Control and Risk Committee and to the Board of Directors about its activities, informing them of any violations it has observed with respect to the Model.

The Committee shall be provided with all information that pertain, even indirectly, to the perpetration or attempted perpetration of offences and elusions of the Model as well as at-risk behaviours in general. For this purpose, the information described in the Information Flows chart shall be sent according to the periodicity indicated therein.

4. IMPLEMENTATION OF THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

ERG considers proper risk management and mitigation to be of fundamental importance: for this reason, the Top Management has deemed it appropriate to define a risk management Policy able to explain the relationships between risk management and processes to identify

objectives and management plans in order to define the procedures to select the different strategies and risk protection techniques, assigning formal management responsibilities within the organisation. This framework has entailed the preparation, on one hand, of an organisation able to provide a clear allocation of the governance, monitoring and reporting responsibilities, on the other hand to institute an inter-relationship between the functions and the bodies assigned to carry out risk management and control activities. More in detail, the Corporate Governance System adopted by ERG entails the institution of specific committees (e.g. Strategic Committee, Investment Committee, Risks Committees, Loans and Credits Committee), tasked with studying issues, providing advice and/or making proposals in relation to particular sensitive" and economically, financially and strategically relevant matters, so that on such issues it will be possible both to conduct a debate and a series of checks that will lead to the adoption, by the Board of Directors, of knowledgeable, clearly represented decisions. These committees concur in the definition of the methods for measuring, identifying, assessing and controlling risks, and they provide advice and make proposals to the Chief Executive Officer in relation to:

- definition of risk management strategies and policies;
- assessment of the most relevant transactions and analysis of the associated risks;
- monitoring the progress of the most relevant transactions and verification of the enforcement of risk management policies.

Within this scope, the risk management process develops through:

- the identification and assessment of the main strategic risks tied to the Business Plan and to extraordinary transactions, as well as the definition of the policies required to mitigate them;
- the identification and assessment of the main risks tied to business processes, as well as the definition of the procedures to manage them and of the control instruments;
- the continuous verification of the operation and effectiveness of the risk management process.

The aforementioned steps are described in detail below.

MANAGEMENT OF STRATEGIC AND DISCONTINUITY RISKS

In relation to the management of the risks tied to the Business Plan and to extraordinary transactions, it should be pointed out that decisions of a strategic nature are made by the Board of Director on the basis of a risk assessment carried out with the support of the Strategic Committee and of the Investment Committee. The Executive Deputy Chairman and the Chief Executive Officer, members of these Committees, periodically report to the Board of Directors also with regard to the main prospective risks, in terms of strategic decisions and investment.
The process, aimed at the definition of the strategic risks related to the Group's investments and to significant transactions, initially involves the Investment Committee, which expresses a technical and economic-financial opinion on them, and subsequently the Strategic Committee, which assesses the desirability of proceeding with them. The process, following these assessment steps, enables the Board of Directors to carry out its role concerning the strategic decisions, and in relation to the significant investments the Group intends to make. The Board of Directors decides both with respect to investments and in relation to the risks to be assumed, overseeing the ex post management of the transactions and of the related risks.
The Chief Executive Officer has responsibility and accountability for the management of corporate risks and is supported by the Management in the identification and assessment of the risks, as well as in the definition of the policies for their management. In this regard, (s)he is also supported by the Strategic Committee and by the Investment Committee.

MANAGEMENT OF PROCESS RISKS

The management of process risks is performed by the company's Management, which is responsible for their assessment and for the definition of the mitigating instruments. To manage process risks, Management uses a risk self-assessment instrument: the Business Process Risk

Assessment. The Business Process Risk Assessment (BPRA) enables the Management to monitor the riskiest areas on the basis of an assessment of the level of adequacy of the design of the controls, in order to mitigate the associated risks, pointing out areas deserving attention, towards which the most appropriate action plans should be adopted. This activity, with the aid of the Internal Audit Risk and Compliance Division, involves the entire Management of the ERG Group in the identification of the process risks (business and corporate) and of the related associated controls.
Therefore, the BPRA is a valid support that enables the Management to manage the riskiest areas effectively.
A contribution to assure the effective operation of the CIGR System shall also be provided by the Manager responsible for preparing the company's financial reports, who assesses the adequacy and operation of the controls on the administrative-accounting processes, the Risk Committee, which provides advice and support to the Chief Executive Officer, in particular for the definition of the strategies and policies to manage financial and market risks, as well as the Loans and Credits Committee, which monitors and manages credit collection actions.
The significance of the risks, classified in categories and sub-categories, is determined on the basis of parameters measuring the likelihood of their occurrence and the impact, not just in economic terms, but also in terms of market share, competitive advantage and reputation.
The assessment of the control environment pertains to:

- the existence, the upgrade and compliance with internal regulations (e.g. guidelines, procedures);
- the adequacy of the organisational instruments (e.g. delegated powers and authority);
- the adequacy of the monitoring activities, reporting and internal communication;
- the adequacy of the information systems supporting process management.

CONTINUOUS VERIFICATION OF THE EFFECTIVENESS OF THE RISK MANAGEMENT PROCESS

This verification activity is the natural joining point between one risk management cycle and the next, and it provides the occasion to verify both the extent to which the objectives have been attained, and the correct implementation of the selected management procedures. Every deviation from the objectives and policies is subjected to analysis, to review the decision-making processes adopted and to identify the factors that hinder the success of the identified solutions. Based on the results of these analyses, if necessary, the redefinition of the management programmes can start.
The CIGR System, defined on the basis of domestic and international leading practices, consists of the following three levels of control:

- **First level:** entrusted to individual lines, they consist of the checks carried out by those who perform certain activities and by those who are responsible for their supervision. They also enable to assure the correct performance of the operating activities;
- **Second level**: entrusted to structures other than line, they contribute to the definition of the risk measurement methods, to their identification, assessment and control (Risk Management). They also enable to verify compliance with regulatory obligations (Compliance);
- **Third level**: entrusted to the Internal Audit, Risk and Compliance Division, their purpose is to identify anomalous trends, violations of the procedures and regulations, and to assess the functionality of the overall internal control and risk management system.

Within this context, the Director in charge of the Internal Control and Risk Management System focuses his/her activities on the main corporate risks, taking into account the objectives and characteristics of the activities performed by the ERG Group.
The Model contributes to strengthen the CIGR System, describing the measures and protocols aimed at reducing the risk of perpetration of offences within the corporate organisation.

The duty of the Supervisory Committee is to supervise the suitability to prevent the perpetration of the offences set out in the Model in accordance with Italian Legislative Decree no. 231/2001 and to propose the adoption of new measures if the need arises, in order to make it current and effective at all times, adapting them to any regulatory and organisational changes that should occur over time.

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 and Risk 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 and Risk 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 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 and Risk Committee.

Identification of controls

Once the main risks at the process level are identified, the actions to be taken in order to monitor the associated control objective are identified. 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 and Risk 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 and Risk 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. In the second half of 2012, the Model was updated, in particular to take into account the organisational changes that took place during the year and the introduction of the following offences to the existing ones: "employment of citizens of third party countries with irregular permits of stay", "undue incitement to give or promise benefits" and "corruption between private individuals". The Board of Directors, with its meeting of [26 February 2013], approved the new version of the Model, an excerpt whereof is 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 risk assessment.

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 subsequently to update it.

The Committee, as a result of the decisions reached by the Board of Directors during its meeting of 18 December 2012, comprises: Paolo Francesco Lanzoni, Chairman, Devan De Paolis, and Alberto Fusi.

The Supervisory Committee carries out its work within the Parent Company ERG S.p.A., whereas Subsidiaries, provided with their own Model, have appointed their own Supervisory Committee. The Supervisory Committee of ERG S.p.A. met 5 times in 2012.

Investor relations

The company manages relations with its Shareholders, institutional investors and the market through the Investor Relations function, which is a part of the Finance and Control Division. As part of investor relations activities, meetings are regularly arranged both in Italy and abroad with representatives of the financial community. ERG S.p.A.'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 and Risk 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 and Risk Committee.

Commitment

The Company intends to confirm its commitment:

- to pursue as its primary objective, in its formal acts and conduct, the creation of Shareholders 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 COMMITTEES

TABLE 1

BOARD OF DIRECTORS

OFFICE	MEMBERS	IN OFFICE SINCE	IN OFFICE UNTIL	LIST (M/m)*	EXECUTIVE	NON EXECUTIVE
CHAIRMAN	EDOARDO GARRONE	20/04/2012	App. Fin. Stat. 31/12/2014	M	YES	
DEPUTY CHAIRMAN	ALESSANDRO GARRONE	20/04/2012	App. Fin. Stat. 31/12/2014	M	YES	
DEPUTY CHAIRMAN	GIOVANNI MONDINI	20/04/2012	App. Fin. Stat. 31/12/2014	M		YES
CEO	LUCA BETTONTE	20/04/2012	App. Fin. Stat. 31/12/2014	M	YES	
DIRECTOR	MASSIMO BELCREDI	20/04/2012	App. Fin. Stat. 31/12/2014	M		
DIRECTOR	PASQUALE CARDARELLI	20/04/2012	App. Fin. Stat. 31/12/2014	M		
DIRECTOR	ALESSANDRO CARERI	20/04/2012	App. Fin. Stat. 31/12/2014	M		YES
DIRECTOR	MARCO COSTAGUTA	20/04/2012	App. Fin. Stat. 31/12/2014	M		YES
DIRECTOR	ANTONIO GUASTONI	20/04/2012	App. Fin. Stat. 31/12/2014	M		
DIRECTOR	PAOLO FRANCESCO LANZONI	20/04/2012	App. Fin. Stat. 31/12/2014	M		
DIRECTOR	GRAZIELLA MERELLO	20/04/2012	App. Fin. Stat. 31/12/2014	M	YES	
DIRECTOR	UMBERTO QUADRINO	20/04/2012	App. Fin. Stat. 31/12/2014	M		

DIRECTORS WHO LEFT OFFICE DURING THE REFERENCE YEAR

DIRECTOR	GIUSEPPE GATTI	23/04/2009	06/03/2012	M	YES	
DIRECTOR	ALDO GAROZZO	23/04/2009	20/04/2012	M		YES

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

NUMBER OF MEETINGS HELD DURING THE REFERENCE YEAR — BOARD OF DIRECTORS **10**

NOTES

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

** This column shows the percentage of Directors' 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

***** This column shows the date of first appointment of the directors since 16 October 1997, the date of the Company's initial listing.

INDEPENDENT IN ACCORDANCE WITH THE CODE	INDEPENDENT IN ACCORDANCE WITH CONSOLIDATED FINANCE ACT	% ATTEND-ANCE (**)	NUMBER OF OTHER APPOINTMENTSI (***)	SENIORITY IN OFFICE SINCE THE FIRST APPOINTMENT (*****)	INTERNAL CONTROL AND RISK COMMITTEE		NOMINATIONS AND REMUN. COMMITTEE	
					(****)	(**)	(****)	(**)
		100%	2	16/10/1997				
		100%	2	16/10/1997				
		100%	1	16/10/1997				
		100%	–	15/12/2009				
YES	YES	100%	1	29/04/2003	YES	100%	YES	100%
YES	YES	80%	–	28/04/2006			YES	100%
		100%	–	21/06/2011				
		86%	1	20/04/2012				
YES	YES	100%	4	29/04/2003	YES	100%		
YES	YES	100%	–	29/04/2003	YES	89%	YES	100%
		100%	–	23/04/2009				
YES	YES	100%	3	20/042012				
		67%	–	–				
		100%	–	–				
		INTERNAL CONTROL AND RISK COMMITTEE **9**			NOMINATIONS AND REMUNERATION COMMITTEE **7**			

COMPOSITION OF THE BOARD OF STATUTORY AUDITORS

TABLE 2

BOARD OF STATUTORY AUDITORS

OFFICE	MEMBERS	IN OFFICE SINCE	IN OFFICE UNTIL	LIST (M/m) *	INDIPENDENT IN ACCORDANCE WITH THE CODE	% ATTENDANCE (**)	NUMBER OF OTHER APPOINTMENTS (***)	SENIORITY IN OFFICE SINCE THE FIRST APPOINTMENT (****)
CHAIRMAN	MARIO PACCIANI	15/04/2010	App. Fin. Stat. 31/12/2012	M	YES	100%	1	29/04/2004
STANDING AUDITOR	LELIO FORNABAIO	15/04/2010	App. Fin. Stat. 31/12/2012	M	YES	100%	5	15/04/2010
STANDING AUDITOR	PAOLO FASCE	15/04/2010	App. Fin. Stat. 31/12/2012	M	YES	100%	4	27/04/2007
ALTERNATE AUDITOR	VINCENZO CAMPO ANTICO	15/04/2010	App. Fin. Stat. 31/12/2012	M	YES	–	–	15/04/2010
ALTERNATE AUDITOR	FABIO PORFIRI	15/04/2010	App. Fin. Stat. 31/12/2012	M	YES	–	–	15/04/2010
ALTERNATE AUDITOR	STEFANO REMONDINI	15/04/2010	App. Fin. Stat. 31/12/2012	M	YES	–	–	15/04/2010

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 REFERENCE YEAR **10**

NOTES

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

** This column shows the percentage of Auditors' 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).

*** This column shows the number of appointments as Director or Statutory Auditor held by the Auditors in other companies listed on regulated markets, also abroad, in financial, banking, insurance companies or in companies of significant size. Complete list of appointments in attached, in accordance with Article 144-quinquiesdecies of the CONSOB Issuers' Regulation, to the report on supervisory activities, prepared by the auditors in accordance with Article 153, paragraph 1 of the Consolidated Finance Act.

**** This columns shows the date of first appointment of the auditors.

BOARD OF DIRECTORS' PROPOSAL

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

- approve the Financial Statements for the year ended 31 December 2012, which close with a net profit of EUR 21,499,025.21;
- 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;
- to release a part of the unavailable portion of the "Reserve for first-time adoption of IAS/IFRS and retained earnings", i.e. EUR 145,484,000.00 corresponding to the write-down, net of the related tax expense, of the share in the TotalErg S.p.A. joint venture. Upon approval of the 2010 Financial Statements, a portion of the profit amounting to EUR 346,403,569.83, i.e. the unrealised portion of the capital gain, net of the related tax expense, deriving from the incorporation of the TotalErg joint venture, had been allocated to an unavailable reserve in accordance with Article 6, Paragraph 1 Letter a) of Italian Legislative Decree no. 38/2005;
- approve the payment of the dividend starting on 23 May 2013, subject to issuance of the coupon starting on 20 May 2013 and record date on 22 May 2013.

Genoa, 7 March 2013

On behalf of the Board of Directors
The Chairman
Edoardo Garrone

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(EUR THOUSAND)	NOTES		12/31/2012		12/31/2011
INTANGIBLE FIXED ASSETS	1		268,636		285,273
GOODWILL	2		22,896		25,673
PROPERTY, PLANT AND MACHINERY	3		1,556,327		1,617,156
EQUITY INVESTMENTS:	4		558,024		893,736
- CARRIED AT EQUITY		*556,523*		*892,656*	
- OTHER EQUITY INVESTMENTS		*1,502*		*1,081*	
OTHER FINANCIAL ASSETS	5		16,323		1,547
DEFERRED TAX ASSETS	6		208,743		244,095
OTHER NON-CURRENT ASSETS	7		16,007		23,723
NON-CURRENT ASSETS			**2,646,956**		**3,091,203**
INVENTORIES	8		192,613		308,288
TRADE RECEIVABLES	9		756,085		730,222
OF WHICH FROM RELATED PARTIES	*41*	*73,504*		*128,521*	
OTHER CURRENT RECEIVABLES AND ASSETS	10		128,695		172,981
OF WHICH FROM RELATED PARTIES	*41*	*14,064*		*60,903*	
CURRENT FINANCIAL ASSETS	11		37,257		19,743
OF WHICH WITH RELATED PARTIES	*41*	*8,313*		*2,280*	
CASH AND CASH EQUIVALENTS	12		999,325		532,670
CURRENT ASSETS			**2,113,975**		**1,763,904**
ASSETS HELD FOR SALE			**–**		**–**
TOTAL ASSETS			**4,760,931**		**4,855,107**
GROUP SHAREHOLDERS' EQUITY	13		1,775,703		1,727,764
MINORITY INTERESTS	14		195,399		150,509
SHAREHOLDERS' EQUITY			**1,971,102**		**1,878,273**
EMPLOYEES' SEVERANCE INDEMNITIES	15		3,461		3,484
DEFERRED TAX LIABILITIES	16		137,363		151,451
PROVISIONS FOR NON-CURRENT LIABILITIES AND CHARGES	17		16,719		12,574
NON-CURRENT FINANCIAL LIABILITIES	18		921,438		1,012,730
OF WHICH TOWARDS RELATED PARTIES	*41*	*–*		*9,022*	
OTHER NON-CURRENT LIABILITIES	19		120,688		203,234
NON-CURRENT LIABILITIES			**1,199,669**		**1,383,473**
PROVISIONS FOR CURRENT LIABILITIES AND CHARGES	20		37,755		37,359
TRADE PAYABLES	21		777,619		844,586
OF WHICH TOWARDS RELATED PARTIES	*41*	*96,521*		*115,461*	
CURRENT FINANCIAL LIABILITIES	22		627,752		503,147
OF WHICH TOWARDS RELATED PARTIES	*41*	*15,466*		*6,880*	
OTHER CURRENT LIABILITIES	24		147,034		208,269
OF WHICH TOWARDS RELATED PARTIES	*41*	*15,197*		*7,027*	
CURRENT LIABILITIES			**1,590,160**		**1,593,361**
LIABILITIES HELD FOR SALE			**–**		**–**
TOTAL LIABILITIES AND EQUITY			**4,760,931**		**4,855,107**

CONSOLIDATED INCOME STATEMENT

(EUR THOUSAND)	NOTES		FY 2012		FY 2011
REVENUES FROM ORDINARY OPERATIONS	28		8,264,842		6,770,291
OF WHICH FROM RELATED PARTIES	41	*876,925*		*828,004*	
OF WHICH NON-RECURRING ITEMS	40	*6,032*		*–*	
OTHER REVENUES AND INCOME	29		23,262		28,002
OF WHICH FROM RELATED PARTIES	41	*5,242*		*7,535*	
CHANGES IN PRODUCT INVENTORIES	30		(137,116)		57,618
CHANGES IN RAW MATERIALS INVENTORIES	31		21,444		(38,250)
COST OF PURCHASES	32		(7,212,050)		(5,894,946)
OF WHICH TOWARDS RELATED PARTIES	41	*(316,489)*		*(404,771)*	
OF WHICH NON-RECURRING ITEMS	40	*(4,316)*		*–*	
COSTS FOR SERVICES AND OTHER COSTS	33		(567,211)		(666,315)
OF WHICH TOWARDS RELATED PARTIES	41	*(351,128)*		*(384,790)*	
OF WHICH NON-RECURRING ITEMS	40	*(1,717)*		*–*	
PERSONNEL COSTS	34		(61,331)		(64,217)
OF WHICH NON-RECURRING ITEMS	40	*(956)*		*–*	
EBITDA FROM CONTINUING OPERATIONS			**331,840**		**192,183**
AMORTISATION, DEPRECIATION AND WRITE-DOWNS OF FIXED ASSETS	35		**(152,595)**		**(242,050)**
OF WHICH NON-RECURRING ITEMS		*(3,500)*		*(98,188)*	
GAINS (LOSSES) FROM SALE OF BUSINESS UNIT	36		**(1,630)**		**–**
FINANCIAL INCOME	40		117,202		136,322
OF WHICH FROM RELATED PARTIES	41	*–*		*99*	
OF WHICH NON-RECURRING ITEMS		*–*		*–*	
FINANCIAL EXPENSES			(169,731)		(174,697)
OF WHICH TOWARDS RELATED PARTIES	41	*(16)*		*(883)*	
OF WHICH NON-RECURRING ITEMS	40	*(4,145)*		*–*	
NET FINANCIAL INCOME (EXPENSES)	37		**(52,529)**		**(38,375)**
NET INCOME (LOSS) FROM INVESTMENTS CARRIED AT EQUITY			(26,407)		43,847
OF WHICH NON-RECURRING ITEMS	40	*(6,114)*		*(3,196)*	
OTHER NET INCOME (LOSS) FROM EQUITY INVESTMENTS			170,059		109,355
OF WHICH NON-RECURRING ITEMS	*40*	*223,134*		*109,267*	
NET INCOME (LOSS) FROM EQUITY INVESTMENTS	38		**143,652**		**153,202**
PROFIT BEFORE TAXES			**268,738**		**64,960**
INCOME TAXES	39		(68,838)		30,923
OF WHICH NON-RECURRING ITEMS	40	*3,268*		*40,807*	
NET PROFIT (LOSS) FROM CONTINUING OPERATIONS			**199,900**		**95,883**
NET INCOME FROM SOLD ASSETS AND LIABILITIES			–		–
OF WHICH NON-RECURRING ITEMS	40	*–*		*–*	
NET INCOME (LOSS) FOR THE YEAR			**199,900**		**95,883**
MINORITY INTERESTS			(48,675)		(30,788)
OF WHICH NON-RECURRING ITEMS	40	*2,899*		*–*	
GROUP SHARE OF NET PROFIT			**151,225**		**65,095**

(EUR)	NOTES	FY 2012	FY 2011
GROUP BASIC EARNINGS PER SHARE	42	**1.042**	**0.439**
GROUP DILUTED EARNINGS PER SHARE	42	**1.042**	**0.439**

CONSOLIDATED STATEMENT OF OTHER COMPONENTS OF COMPREHENSIVE INCOME

(EUR THOUSAND)	FY 2012	FY 2011
NET INCOME (LOSS) FOR THE YEAR	**199,900**	**95,883**
CHANGES IN THE CASH FLOW HEDGE RESERVE	(31,536)	(29,420)
CHANGES IN SECURITIES AVAILABLE FOR SALE	–	(64)
INCOME TAX ON OTHER COMPONENTS OF COMPREHENSIVE INCOME	10,722	10,024
OTHER COMPONENTS OF COMPREHENSIVE INCOME AFTER TAX	**(20,814)**	**(19,459)**
COMPREHENSIVE NET PROFIT (LOSS) FOR THE PERIOD	**179,086**	**76,424**
MINORITY INTERESTS	(48,663)	(30,571)
COMPREHENSIVE NET PROFIT (LOSS) PERTAINING TO THE GROUP	**130,423**	**45,853**

CONSOLIDATED STATEMENT OF CASH FLOWS

(EUR THOUSAND)	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES (A):		
NET INCOME (LOSS) FOR THE YEAR	199,900	95,883
- AMORTISATION, DEPRECIATION AND WRITE-DOWNS OF FIXED ASSETS	152,595	238,726
- NET CHANGE IN PROVISION FOR LIABILITIES AND CHARGES	4,541	(14,863)
- NET CHANGE IN DEFERRED TAX ASSETS AND LIABILITIES	21,264	(42,783)
- WRITE-DOWN OF RECEIVABLES AND "GREEN CERTIFICATES"	1,174	9,279
- NET CAPITAL GAIN/LOSS ON SALE OF NON-CURRENT ASSETS	(854)	53
- PORTION OF INCOME/EXPENSES FROM INVESTMENTS CARRIED AT EQUITY	26,407	(16,373)
- WRITE-DOWN OF EQUITY INVESTMENTS	–	25
- CAPITAL GAIN ON SALE OF EQUITY INVESTMENT IN ISAB S.R.L.	(226,536)	(109,267)
- NET CHANGE IN EMPLOYEES' SEVERANCE INDEMNITIES	(23)	(633)
CASH FLOWS BEFORE CHANGES IN WORKING CAPITAL	**178,468**	**160,047**
CHANGE IN WORKING CAPITAL:		
- CHANGE IN INVENTORY	115,675	(19,369)
- CHANGE IN TRADE RECEIVABLES	(27,037)	(286,502)
- CHANGE IN TRADE PAYABLES	(66,967)	183,873
- NET CHANGE IN OTHER RECEIVABLES/PAYABLES AND OTHER ASSETS/LIABILITIES	(91,268)	(88,972)
	(69,597)	**(210,970)**
TOTAL	**108,871**	**(50,923)**
CASH FLOWS FROM INVESTING ACTIVITIES (B):		
ACQUISITION OF INTANGIBLE FIXED ASSETS AND GOODWILL	(965)	(12,523)
ACQUISITION OF PROPERTY, PLANT, AND MACHINERY	(72,979)	(70,546)
INCREASES OF PROPERTY, PLANT AND MACHINERY DUE TO CYCLICAL MAINTENANCE	(3,621)	(6,735)
ACQUISITION OF EQUITY INVESTMENTS AND OTHER NON-CURRENT FINANCIAL ASSETS	(2,304)	(436)
COLLECTION FROM SALE OF ISAB S.R.L.	484,666	244,866
DISPOSALS OF INTANGIBLE FIXED ASSETS AND GOODWILL	643	2,084
DISPOSALS OF PROPERTY, PLANT AND MACHINERY AND RELATED CAPITAL GAINS/LOSSES	2,809	4,028
DISPOSAL OF EQUITY INVESTMENTS AND OTHER NON-CURRENT FINANCIAL ASSETS	37,897	(16,875)
TOTAL	**446,146**	**143,863**
CASH FLOWS FROM FINANCING ACTIVITIES (C):		
NEW NON-CURRENT LOANS	–	–
REPAYMENT OF NON-CURRENT LOANS	(153,960)	(326,525)
NET CHANGE IN OTHER NON-CURRENT FINANCIAL LIABILITIES	14,573	15,907
NET CHANGE IN SHORT-TERM BANK BORROWINGS	124,605	(407,148)
NET CHANGE IN OTHER CURRENT FINANCIAL ASSETS/LIABILITIES	33,491	(49,267)
SHARE CAPITAL INCREASES/REPAYMENTS	–	–
ACQUISITION OF TREASURY SHARES	(25,673)	–
DIVIDENDS PAID TO THIRD PARTIES	(62,745)	(66,977)
OTHER CHANGES IN SHAREHOLDERS' EQUITY	(18,653)	(38,803)
TOTAL	**(88,362)**	**(872,813)**
NET CASH FLOWS FOR THE YEAR (A+B+C)	**466,655**	**(779,874)**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**532,670**	**1,312,544**
NET CASH FLOWS FOR THE YEAR	466,655	(779,874)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**999,325**	**532,670**

	2012	2011
ADDITIONAL CASH FLOWS INFORMATION		
INCOME TAXES PAID	8,181	34,700
INTEREST PAID	45,310	53,060

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	SHARE CAPITAL	RESERVES	NET PROFIT (LOSS) FOR THE YEAR	TOTAL	MINORITY INTERESTS	TOTAL SHAREHOLDERS' EQUITY
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 AT 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 interests of ERG Renew (wholly owned by ERG S.p.A. as of 31 December 2011)
(2) net of the related tax effect

	SHARE CAPITAL	RESERVES	NET PROFIT (LOSS) FOR THE YEAR	TOTAL	MINORITY INTERESTS	TOTAL SHAREHOLDERS' EQUITY
BALANCE AS OF 12/31/2011	**15,032**	**1,647,636**	**65,094**	**1,727,764**	**150,509**	**1,878,273**
ALLOCATION OF 2011 PROFIT	–	65,095	(65,095)	–	–	–
DIVIDENDS	–	(58,980)	–	(58,980)	(3,765)	(62,745)
ACQUISITION OF TREASURY SHARES (1)	–	(25,673)	–	(25,673)	–	(25,673)
OTHER CHANGES (2)	–	2,169	–	2,169	(8)	2,161
NET PROFIT (LOSS) FOR 2012	–	–	151,225	151,225	48,675	199,900
CHANGES IN THE CASH FLOW HEDGE RESERVE (3)	–	(20,802)	–	(20,802)	(12)	(20,814)
COMPREHENSIVE NET PROFIT (LOSS) FOR THE PERIOD	**–**	**(20,802)**	**151,225**	**130,423**	**48,663**	**179,086**
BALANCE AS AT 12/31/2012	**15,032**	**1,609,445**	**151,224**	**1,775,704**	**195,398**	**1,971,102**

(1) additional details are provided in the chapter "Acquisition of treasury shares"
(2) mainly related to the change in the cash flow hedge reserve of joint ventures
(3) 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 the generation of energy from renewable sources and from thermoelectric plants, in the marketing of electricity, steam and gas, in the refinement and distribution of petroleum products, both in the Italian and in the international markets.

CRITERIA FOR THE PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

The Consolidated Financial Statements as of and for the year ended 31 December 2012 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 2012 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 in 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 recognised 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 2012 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 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 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)
ERG S.P.A.					
ERG NUOVE CENTRALI S.P.A.	SIRACUSA	100.00%	100.00%	5,000	10,813
ERG OIL SICILIA S.R.L.	ROME	100.00%	100.00%	6,310	35,370
ERG RENEW S.P.A.	GENOA	100.00%	100.00%	100,000	516,830
ISAB ENERGY S.R.L.	SIRACUSA	51.00%	51.00%	5,165	484,966
ISAB ENERGY SERVICES S.R.L.	SIRACUSA	51.00%	51.00%	700	8,387
ERG RENEW S.P.A. (2) (3) (4)					
EOLO S.R.L.	ATINA (FR)	51.00%	51.00%	20	1,752
ERG EOLICA ADRIATICA S.R.L.	GENOA	100.00%	100.00%	10	73,584
ERG EOLICA AMARONI S.R.L.	CATANZARO	100.00%	100.00%	10	213
ERG EOLICA BASILICATA S.R.L.	GENOA	100.00%	100.00%	38	(290)
ERG EOLICA CALABRIA S.R.L.	CATANZARO	100.00%	100.00%	10	184
ERG EOLICA CAMPANIA S.P.A.	GENOA	100.00%	100.00%	120	36,431
ERG EOLICA FAETO S.R.L.	GENOA	100.00%	100.00%	10	7,700
ERG EOLICA FOSSA DEL LUPO S.R.L.	CATANZARO	100.00%	100.00%	50	19,664
ERG EOLICA GINESTRA S.R.L.	GENOA	100.00%	100.00%	10	1,591
ERG EOLICA S. CIREO S.R.L.	GENOA	100.00%	100.00%	3,500	25,478
ERG EOLICA S. VINCENZO S.R.L.	GENOA	100.00%	100.00%	3,500	17,428
ERG EOLICA TIRRENO S.R.L.	PALERMO	100.00%	100.00%	10	79
ERG EOLIENNE FRANCE S.A.S.	PARIS	100.00%	100.00%	50	(10,175)
GREEN VICARI S.R.L.	PALERMO	100.00%	100.00%	119	12,223
ERG EOLIENNE FRANCE S.A.S.					
EOLIENNES DU VENT SOLAIRE S.A.S.	PARIS (F)	100.00%	100.00%	37	(1,525)
PARC EOLIEN DE LIHUS S.A.S.	PARIS (F)	100.00%	100.00%	1,114	(435)
PARC EOLIEN DE HETOMESNIL S.A.S.	PARIS (F)	100.00%	100.00%	1,114	(391)
PARC EOLIEN DE LA BRUYÈRE S.A.S.	PARIS (F)	100.00%	100.00%	1,060	(243)
PARC EOLIEN DU CARREAU S.A.S.	PARIS (F)	100.00%	100.00%	861	873
PARC EOLIEN LES MARDEAUX S.A.S.	PARIS (F)	100.00%	100.00%	1,097	(757)
ERG NUOVE CENTRALI S.P.A.					
ERG POWER S.R.L.	SIRACUSA	100.00%	100.00%	5,000	81,752

(1) data referring to the latest approved financial statements
(2) since 1 January 2012, the merger of ERG Eolica Italia S.r.l. into the parent company ERG Renew S.p.A. took effect
(3) since 1 August 2012, the merger of ERG Solare Italia S.r.l. into the parent company ERG Renew S.p.A. took effect
(4) since 30 November 2012, the merger of ERG Solare Italia S.r.l. into the parent company ERG Renew S.p.A. took effect

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 12/31/2012
ASSOCIATES						
ERG S.P.A.						
I-FABER S.P.A.	MILAN	23.00%	23.00%	5,652	13,547	3,302
ISAB S.R.L. [2]	SIRACUSA	20.00%	20.00%	50,000	1,074,987	257,994
						261,296
JOINT VENTURE						
ERG S.P.A.						
IONIO GAS S.R.L. IN LIQUIDATION	SIRACUSA	50.00%	50.00%	200	3,242	951
TOTALERG S.P.A. [3]	ROME	51.00%	51.00%	47,665	398,590	285,562
ERG RENEW S.P.A. [4]						
LUKERG RENEW GMBH [5]	VIENNA	50.00%	50.00%	100	(520)	–
ISAB ENERGY SOLARE S.R.L. [6]	SIRACUSA	51.00%	51.00%	100	51	–
ERG POWER S.R.L.						
PRIOLO SERVIZI S.C.P.A. [7]	SIRACUSA	19.34%	19.34%	25,600	45,032	8,712
						295,226
TOTAL						**556,522**

(1) 2012 data for subsidiaries and joint ventures; latest financial statements approved on the date of the Board of Directors meeting for associates and other companies
(2) please refer to the following paragraph "Put Option on equity investment in ISAB S.r.l."
(3) in joint venture with Total Holding Europe S.a.s.
(4) since 1 January 2012, the merger of ERG Solare Italia S.r.l. into the parent company ERG Renew S.p.A. took effect
(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. (38.3%) 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 [1]	SHAREHOLDERS' EQUITY [1]	CARRYING VALUE AS OF 12/31/2012
SUBSIDIARIES [2]						
ERG S.P.A.						
ERG PETRÓLEOS S.A.	MADRID (S)	100.00%	100.00%	3,050	(4,654)	–
ERG RENEW S.P.A.						
EOLICO TROINA S.R.L.	PALERMO	99.00%	99.00%	20	(25)	25
						25
ASSOCIATES [2]						
ERG S.P.A.						
CONSORZIO DELTA TI RESEARCH	MILAN	50.00%	50.00%	50	50	50
ERG RENEWS.P.A.						
CONSORZIO DYEPOWER	ROME	24.95%	24.95%	1,071	351	931
						981
OTHER COMPANIES						
ERG S.P.A.						
CAF INTERREG. DIPENDENTI S.R.L.	VICENZA	0.04%	0.06%	276	980	–
EMITTENTI TITOLI S.P.A.	MILAN	0.51%	0.51%	4,264	6,314	26
MEROIL S.A.	BARCELONA (S)	0.87%	0.87%	19,077	37,116	310
R.U.P.E. S.P.A.	GENOA	4.86%	4.86%	3,058	3,167	155
ISAB ENERGY S.R.L.						
I.A.S. - INDUSTRIA ACQUA SIRACUSANA S.P.A.	SIRACUSA	5.00%	2.55%	102	108	5
						496
TOTAL						**1,502**

(1) 2012 data for subsidiaries; latest financial statements approved on the date of the Board of Directors meeting for associates and other companies.
(2) companies measured at cost as they are not yet operational

The main transactions that were carried out involving Group equity investments are summarised as follows:
On **1 January 2012**, the accounting effects of the merger of ERG Eolica Italia S.r.l. into the parent company ERG Renew S.p.A. came into force.

On **22 February 2012** a capital contribution to Eolico Troina S.r.l. of EUR 50 thousand was made, of which EUR 25 thousand to cover the equity investment write-down provision and EUR 25 thousand on the carrying value of the equity investment itself.

On **27 March 2012** the third party held share of 2% of ERG Eolica Basilicata was acquired for EUR 1 thousand; the share in the company is not 100%.

On **12 June 2012** an amount of EUR 100 thousand was paid by way of price adjustment, for the acquisition of subsidiary company ERG Eolica Amaroni. This amount increased the value of the share owned by ERG Renew S.p.A.

On **20 June 2012**, the entire equity investment held by ERG S.p.A. in Espansione S.r.l. Soluzioni per l'Energia was sold.

On **1 August 2012**, the merger of ERG Solare Italia S.r.l. into the parent company ERG Renew S.p.A. came into force, with accounting effects from 1 January 2012 onwards.

On **3 September 2012**, ERG S.p.A sold 20% of its investment in ISAB S.r.l. for a provisional price of EUR 485 million. For additional details, please see the Section "**Put Option on equity investment in ISAB S.r.l.**".

On **13 September 2012**, the Board of Directors of ERG Renew approved the sale of the 51% equity investment held in Eolo S.r.l. to the minority shareholder, as it was deemed non strategic because of its geographic position and technical configuration. The aforesaid sale is subordinated to the purchaser's obtainment of financial support to take over the extant intra-group loan. To date, this condition precedent has not yet been fulfilled.

On **13 November 2012** ERG announced its decision to exit the project for the construction of a natural gas storage site in Rivara, in the province of Modena. On **22 November 2012** the Shareholders' Meeting of the Company **ERG Rivara Storage** voted the voluntary reduction of the share capital, releasing the Shareholders ERG from the obligation of paying the residual part subscribed but not yet paid, i.e. EUR 3.5 million, net of the simultaneous payment of EUR 1.4 million by ERG and it waives a credit of EUR 0.4 million. The value of the equity investment before the transaction amounted to EUR 9.5 million.
Overall, the impact of the above in the income statement was EUR 6.1 million, recognised among **expenses from equity investments**.

On **27 November 2012** the investee Ionio Gas S.r.l. was placed in liquidation. On **30 July 2012,** the Board of Directors of ERG S.p.A. had decided to exit the project for the construction of a Liquefied Natural Gas (LNG) regasification terminal in the Municipality of Melilli, in the Siracusa province, with a capacity of 8 billion cubic metres per year.

On **30 November 2012**, the merger of ERG Eolica Tursi Colobraro S.r.l. and ERG Eolica Nurra S.r.l. into the parent company ERG Renew S.p.A. came into force, with accounting effects from 1 January 2012 onwards.

LUKERG RENEW JOINT VENTURE

The investee is consolidated under the equity method of accounting starting on 1 July 2012, in view of the fact that it started operations as a result of the acquisition of the wind farms in Bulgaria.

- **Acquisition of wind farms in Bulgaria**
  In **June 2012,** LUKERG Bulgaria GmbH, investee of the joint venture LUKERG Renew GmbH, executed the deed of acquisition of all shares of the Bulgarian companies Wind Park Kavarna East EOOD, Wind Park Kavarna West EOOD and K&S Energy EOOD and of the eight equity investments held by the latter company, altogether owning **operational wind farms in Bulgaria,** in the region of Dobrich, with an installed capacity of approximately 40 MW. The enterprise value of the acquisition is approximately EUR 53 million. The financial resources necessary to pay the related Equity value to the seller were obtained as follows: approximately EUR 33.7 million by means of Project Financing and approximately EUR 22 million by means of a loan from the two financing Shareholders.
  For this purpose, at the end of September 2012 ERG Renew paid EUR 1 million to LUKERG Renew and EUR 9.35 million to LUKERG Bulgaria GMBH, reported herein among non-current financial assets.

- **Construction of wind farms in Romania**

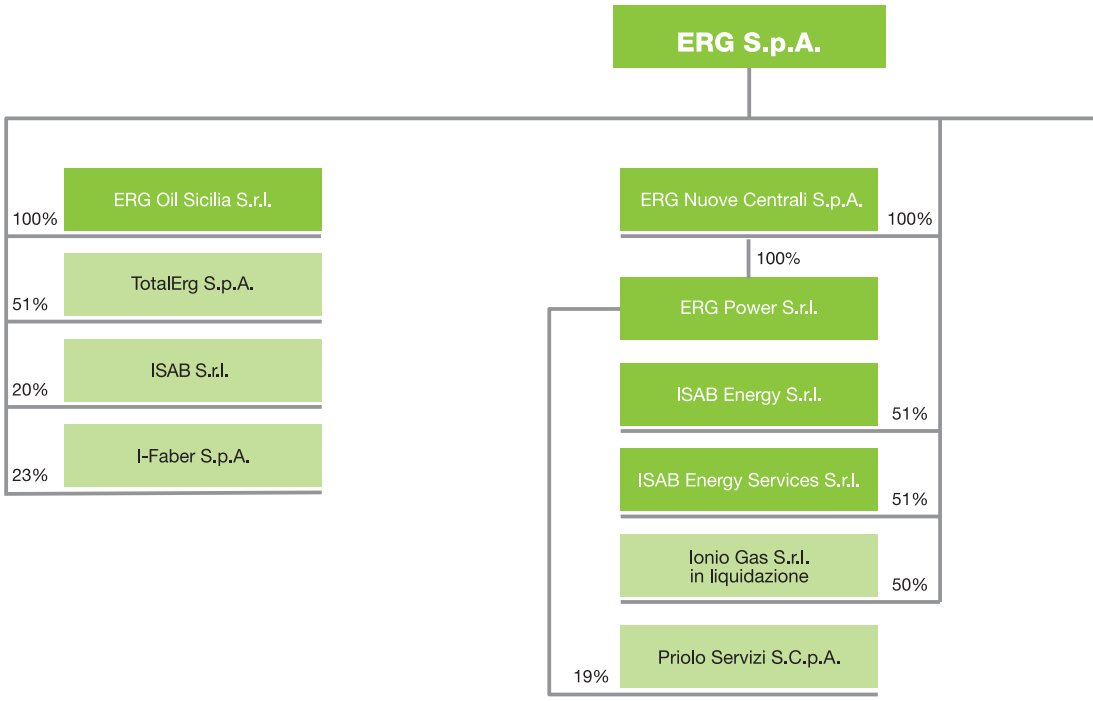
  On **17 December 2012** LUKERG Renew closed the acquisition, from Inergia SpA (Santarelli Group) of 100% of the capital of Land Power S.r.l., a Romanian company owning the authorisations required for the **construction of a wind farm in Romania**, in the Tulcea region, with a planned capacity of over 84 MW and estimated electricity generation, once fully in operation, of over 200 GWh per year.

  LUKERG Renew expects to start work for the construction of the wind farm in the first quarter of 2013, in order to start operations in the first six months of 2014. The total estimated capital expenditure for the construction of the park is approximately EUR 135 million. LUKERG Renew intends to finance the project with long-term non-recourse Project Financing with the European Bank for Reconstruction and Development, which is currently carrying out the due diligence process on the project.

  For this purpose, in December 2012 ERG Renew paid EUR 5.5 million to Lukerg Renew, reported herein among non-current financial assets.

THE ERG GROUP

SCOPE OF CONSOLIDATION AS AT 31 DECEMBER 2012



= subsidiaries

= joint venture and associates


100%
ERG Renew S.p.A.
100%
ERG Eolica San Vincenzo S.r.l.
100%
ERG Eolica San Cireo S.r.l.
100%
ERG Eolica Faeto 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.
100%
ERG Eolica Calabria S.r.l.
100%
ERG Eolica Fossa del Lupo S.r.l.
100%
Green Vicari S.r.l.
100%
ERG Eolica Adriatica S.r.l.
100%
ERG Eolica Campania S.p.A.
100%
ERG Eolica Amaroni S.r.l.
100%
ERG Solare Italia S.r.l.
100%
ISAB Energy Solare S.r.l.
100%
LUKERG Renew GmbH
50%
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%

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 2012 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 2012".

INTANGIBLE 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:

- 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
WIND TURBINES	5
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 amount of the asset to determine the amount of any impairment losses.
When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable value of the cash-generating unit to which the asset belongs.
The recoverable amount 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.
An impairment loss is recognised if the recoverable value is less than the carrying amount. Should the impairment of a fixed asset, other than goodwill, subsequently no longer apply or be reduced, the carrying amount of the asset or cash-generating unit is increased up to the new estimate of the recoverable amount, without exceeding the amount 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 and 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 2012, 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 amortisation process.
As of 31 December 2012, the Group held no investments classified as HTM.

- **Loans and 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 amortisation 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 provides the following measurement methods: fair value method and amortised cost method.

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 and 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 2012, 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 amortisation process.

Financial liabilities at FVTPL include Liabilities held for trading.

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

As of 31 December 2012, 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 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 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. Actuarial 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 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, 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 abovementioned 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 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 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 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.

As a result of the promulgation of Italian Law Decree no. 201/2011 and of the subsequent implementing Instruction of the Italian Fiscal Revenue Agency's Director, Protocol no. 2012/140973 of 17 December 2012 (which approved the Application for reimbursement and related instructions), in line with the indications provided by Assonime in Circular no. 1/2013 receivables were recognised deriving from the non-deduction, for IRES purposes, of the IRAP relating to expenses for employees and similar personnel for the tax periods from 2007 to 2011, with a Group-wide total amount of approximately EUR 2.8 million.

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 had already been applied starting in 2011 and as clarified by circular 53/E 2011 by the Italian Fiscal Revenue Agency, also with effect on the tax losses generated prior to 2011 and still being carried forward according to previous regulations.

On 14 September 2011, Italian 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 actual effect of the changes has entailed, 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.

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.

ENVIRONMENTAL CERTIFICATES

- "**White certificates**" (Energy Efficiency Certificates) are assigned upon achievement of energy savings through the application of efficient technologies and systems. "white certificates" are recorded among marketable financial assets in consideration of the existence of an active market organised and managed by the Electricity Market Operator (GME).
  "White certificates" are accounted for on an accrual basis and recognised among other current assets, in proportion to the savings of TOE (Tonnes of Oil Equivalent) actually recorded during the year.
  They are measured at their market value of the last month of the year, unless the market value at the end of the year is significantly lower than the "white certificates" intended for the market.
  The value of the "white certificates" intended for withdrawal by the GSE is measured on the basis of the value established in Article 9, paragraph 2 of Italian Ministerial Decree dated 5 September 2011, or at their prevailing price at the time the co-generation unit started operations.
  For the co-generation units that started operations before the entry into force of the aforementioned Italian Ministerial Decree, the reference price is the prevailing price at the same date of entry into force. The withdrawal price remains constant during the subsidised period.

- "**Green certificates**" from renewable sources are recorded on an accrual basis in view of the actual generation of energy from said sources.
  They are measured at a price amounting 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 published by the Italian Authority for Electrical Energy and Gas, no later than the 31st of January of each year.

In this regard, the Italian Legislative Decree dated 3 March 2011, implementing Directive 2009/28/EC on the promotion of the use of energy from renewable sources, should be recalled.
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 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.
Additionally, the Inter-ministerial Decree providing incentives for renewable electricity sources other than photovoltaic was published on 10 July 2012.
The incentives provided for plants already existing or completed by the end of the current year (with a transition period through 30 April 2013, for plants authorised to date), does not have any significant discontinuities (it confirms the calculation formula). Until 2015, the "green certificates" system will remain in force; and it will be converted, for the residual period of entitlement to the incentives, with the release of a premium feed-in tariff paid on monthly basis and calculated according to the same formula. Additionally, the timing for the withdrawal of the "green certificates" by the National Grid Operator (GSE) was defined (in accordance with Article 25, Paragraph 4, of the Legislative Decree published in the Official Gazette no. 71 dated 28 March 2011) for the "green certificates" issued for generation from renewable sources in the years from 2011 to 2015. In particular, the "green certificates" produced in the first half of 2012 will be withdrawn no later than 31 March 2013, whereas those produced in the second half of 2012 will be withdrawn no later than 30 September 2013.

- In relation to the obligation to hand over the "**green certificates**" **from non renewable sources** to the GSE, said certificates are recognised on an accrual basis. If the quantity of "green certificates" purchased before the end of the year of accrual is lower than the quantity necessary to fulfil legal obligations, the company recognises the expense still to be incurred for the certificates not yet purchased, as an offset to the liability to the GSE.
  If instead, at the end of the year, the quantity of "green certificates" purchased before the end of the year of accrual exceeds the quantity required to fulfil the legal obligation, the company recognises a prepaid expense equal to the costs to be adjusted, because they will accrue the following year.

  They are measured at purchase price if the purchase is completed before the end of the year. If the purchase is not completed at the end of the year, then the expense is measured at a price amounting 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 published by the Italian Authority for Electrical Energy and Gas, no later than the 31st of January of each year. If the market value at the end of the year is significantly lower than the aforesaid amount, the carrying amount is adjusted to said lesser value.

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 very nature, estimates and assumptions used may vary from year to year and, therefore, it cannot be excluded that in subsequent years the current financial statement values may differ as a result of the change in the subjective assessments used.

The main estimates for which the use of subjective assessments is more heavily required were used, inter alia, for:

- 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 equity investment in ISAB S.r.l.**");
- the impairment test for intangible and tangible fixed 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 determination of the sale price for the electricity generated by the IGCC plant of the subsidiary ISAB Energy S.r.l. To improve the estimates of the **CEC (Avoided Cost Component of Fuel) for 2012**, the procedures prescribed since 2010 by the official regulatory reference represented by Italian Ministerial Decree of 20 November 2012 were used.
  However, it cannot be excluded that the Italian Ministry of Economic Development may, during 2013, accept, even if only to a partial extent, the methodological elements proposed by the AEEG with its (non binding) opinion no. 535/2012/EEL of 13 December 2012, with the risk of impacts on the CEC from 2012 onwards. Based on the information current available, this hypothesis, while possible, is deemed unlikely by the Company, both for legal and technical reasons.

Estimates and assumptions are revised periodically and the effects of each change are reflected in the Consolidated Income Statement in the period when the change took place.

ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS APPLIED STARTING ON 1 JANUARY 2012

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. 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 November 2009, the IASB issued the following new standard, to be applied from 1 January 2015 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 amendment.

- **IFRS 9 - Financial Instruments**: the amendments pertain to the criteria for the recognition and measurement of financial assets and their classification in the financial statements. In particular, the new provisions establish, inter alia, a model for the classification and measurement of financial assets, based solely on the following categories: (i) assets measured at amortised cost; (ii) assets measured at fair value. The new provisions, moreover, prescribed that equity investments other than those in subsidiaries, joint ventures or affiliates shall be measured at fair value, recognising the effects in the income statement. If said equity investments are not held for trading purposes, fair value changes may be recognised in the statement of comprehensive income, maintaining in the income statement solely the effects connected with the distribution of dividends; when the equity investment is sold, the amounts recognised in the statement of comprehensive income shall not be allocated in the income statement. Moreover, on 28 October 2010 the IASB complemented the provisions of IFRS 9 including the criteria for the recognition and measurement of financial liabilities. In particular, the new provisions require, inter alia, that if a financial liability is measured at fair value, allocating the effects in the income statement, fair value variations connected to changes in the issuer's credit risk ("own credit risk") shall be recognised in the statement of comprehensive income; said component shall be recognised in the income statement to assure the symmetric representation with other financial statement items connected with the liability, avoiding accounting mismatches. The provisions of the IFRS 9 shall be effective starting from financial years beginning on or after 1 January 2015.

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 17 May 2012, the IASB issued amendments to **IAS 1 – Presentation of Financial Statements**. The amendments clarify that if additional comparative information is provided, it must be presented in accordance with IAS/IFRS. They also clarify that if an entity changes an accounting standard or performs a retrospective adjustment/reclassification, that entity shall present a statement of financial position also at the start of the comparison period ("third statement of financial position" in the financial statements), whilst in the Explanatory Notes no comparative disclosures are required also for this "third statement of financial position", aside from the items of interest. The amendments shall be applicable for the financial years starting on or after 1 January 2013, with early application allowed.

- On 17 May 2012, the IASB issued an amendment to **IAS 16 – Property, Plant and Equipment**, which clarifies that servicing equipment shall be classified under Property, plant and equipment if used for more than one financial year, otherwise under inventories. The amendment shall be applicable for the financial years starting on or after 1 January 2013, with early application allowed.

- On 17 May 2012, the IASB issued amendments to **IAS 32 – Financial Instruments: Presentation**, to clarify that direct taxes on distributions to owners of equity instruments and on transaction costs on equity instruments follow the rules of IAS 12. This amendment shall be applicable for the financial years starting on or after 1 January 2013, with early application allowed.

- On 17 May 2012, the IASB issued an amendment to **IAS 34 – Interim Financial Reporting**, to clarify that the total of the assets for a reportable segment shall be reported only if this information is regularly provided to the chief operating decision maker of the entity and a material change has occurred in the total assets of the segment with respect to the figures reported in the last annual financial statements. The amendment shall be applicable for the financial years starting on or after 1 January 2013, with early application allowed.

- Guide to the transition (**IFRS 10, IFRS 11, IFRS 12**): on 28 June 2012, the IASB issued the document "Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities", providing some clarifications and simplifications with reference to the transition requirements of the IFRS 10, IFRS 11 and IFRS 12 standards. The provisions shall be effective for the financial years starting on or after 1 January 2013.

- Investment entities (**IFRS 10; IFRS 12 and IAS 27**): on 31 October 2012, the IASB issued the document "Investment Entities" which regulates the activities carried out by specific types of entities qualified as investment entities. The IASB identifies as investment entities those entities whose sole purpose is to obtain an increase in the invested capital or income from the investment or both. The provisions shall be effective starting from financial years beginning on or after 1 January 2014.

Lastly, the IASB issued the following amendments; the process for their endorsement by the European Union had been completed by the date of this Report, but the amendments have not been adopted early by the Group:

- **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 Statements 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.

- **IAS 27 – Consolidated and Separate Financial Statements**: the purpose of the amendment to IAS 27 is to provide the rules to be enforced in accounting for equity investments in subsidiaries, jointly controlled entities and associates in the preparation of the Separate Financial Statements. The amendment, then, retains unchanged the prescriptions for the Separate Financial Statements, replacing the parts relating to the statutory financial statements with the prescriptions of the new IFRS 10, referenced herein for additional details.

- **IAS 28 – Investments in Associates and Joint Ventures**: the amendment to IAS 28 (as amended in 2011) defines the requirements for the application of the equity method in accounting for investments in associates and joint ventures.

- 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 its sale. As a result of this amendment, SIC-21 – Income Taxes – Recovery of Revalued Non-Depreciable Assets will not be applicable.

- 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.

- 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" 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 liabilities discount rate and not on the expected return of the assets, as before. Lastly, the amendment introduces new additional disclosures to be provided in the notes to the financial statements. The amendment is applicable from the year starting on or after 1 January 2013.

Currently, adoption of said changes is not expected to have significant effects on the Consolidated 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.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) was EUR 205 million; in accordance with the agreement provisions, 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 final adjustment of EUR 3.5 million on 26 October 2011, in view of which a gain of EUR 109 million was recognised; said gain was 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 investee's income in the first quarter of 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**

  3 September 2012 was the closing date of the transaction related to the exercise of the put option by ERG for 20% of the share capital of ISAB S.r.l. LUKOIL paid ERG provisional consideration of EUR 485 million, including the value of inventory.

  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 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 transaction, ERG's share decreased from 40% to 20% thus qualifying as an investment in an associate and no longer a joint control interest.

  ERG maintains 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 main impacts of the transaction were as follows:
  - a reduction in the value of the equity investment in ISAB S.r.l. by EUR 255 million, and of goodwill correlated therewith by EUR 3 million;
  - an improvement in net financial position by approximately EUR 485 million in relation to the collection of the sale price;

- recognition of the realised gain, amounting to EUR 222 million net of related tax effects;
- recognition of ancillary charges related to the transaction, amounting approximately to EUR 8 million;
- the income contributed by ISAB S.r.l. in 2012 is represented by 40% of the income of ISAB S.r.l. through August 2012 and 20% from September 2012 onwards. In 2011, the contribution of ISAB S.r.l. was recognised in the proportion of 51% through March 2011 and of 40% from April 2011 onwards.

The aforesaid economic effects are considered among non recurring items.
Lastly, on 31 January 2013 the balance of the definitive sale price, amounting to EUR 9 million, was collected.

With regards to the fair value measurement of the put option extant at 31 December 2012, please refer to the next paragraph.

- **Measurement of the put option**
  The fair value of the put option pertaining to the 20% held as at 31 December 2012 depends on the fair value of the underlying asset.
  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 at fair value as of 31 December 2012.

ACQUISITION OF TREASURY SHARES

On **10 May 2012,** the Board of Directors of ERG S.p.A. resolved to start implementing the plan to purchase and sell treasury shares, in accordance with the resolution of the Ordinary Shareholders' Meeting of 20 April 2012.

- **Purpose and duration**

The plan entails the purchase and sale of ERG ordinary shares as a form of investment to optimise the capital structure in view of maximising value creation for the company and its Shareholders, for up to 12 months starting on 20 April 2012, i.e. the date on which the aforesaid Shareholders' Meeting gave its authorisation.

- **Price and number of shares**

The purchase and sale of the shares are carried out in compliance with the Shareholders' Meeting resolution dated 20 April 2012.
The maximum number of shares which can be purchased to implement the plan approved by the Board of Directors is 5,416,000 (representing 3.6% of the share capital), with maximum outlay of EUR 35,200,000, without prejudice for any and all other limitations which may derive from provisions of law or from any further resolutions by the Shareholders' Meeting.
As at the date of the resolution by the Board of Directors, the Company owned 2,100,000 treasury shares (representing 1.397% of share capital).

On **14 May 2012**, ERG disclosed that it had appointed the independent authorised broker Intermonte SIM S.p.A. for the purchase and sale of ERG ordinary shares ("Shares") from 15 May 2012 onwards, according to the provisions of the resolution passed by the Board of Directors of ERG S.p.A. on 10 May 2012 and by the Ordinary Shareholders' Meeting on 20 April 2012.
For additional details about the operating procedures, please refer to the Press Release by ERG S.p.A. dated 14 May 2012 "Agreement for the purchase and sale of treasury shares".

On **25 June 2012** ERG disclosed that it had purchased the maximum number of 5,416,000 shares (representing 3.6% of the share capital) which could be purchased to implement the plan commented above. The total price was EUR 25.6 million (average carrying value EUR 4.735 per share).

Considering the shares already in the portfolio, ERG as at 31 December 2012 held 7,516,000 treasury shares representing 5.0% of the share capital for a total price of EUR 51.8 million (average carrying value of EUR 6.873 per share).

In accordance with IAS 32, treasury shares are presented as a reduction of shareholders' equity, through the use of Paid-in capital in excess of par.

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 an agreement 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, came into force on 1 January 2012. For more details, please see Note 36.

POWER-RENEWABLE ENERGY SOURCES SEGMENT IMPAIRMENT TEST

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

- acquisition of the Enertad group (now ERG Renew), starting from 2006 with subsequent step acquisitions concluded with the acquisition of 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 located 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 (Italy), 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 (Italy), with a total installed capacity of approximately 112 MW, for a total cost of EUR 100 million (see chapter "ERG Eolica Campania");
- incorporation of the LUKERG Renew joint venture, which in 2012 acquired wind farms operating in Bulgaria, and obtained an authorisation for wind farms to be developed in Romania.

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 carrying amounts 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 net carrying amount of these assets before the 2012 impairment test is as follows:
- approximately EUR 4 million allocated to the wind power plants in operation;
- approximately EUR 138 million allocated to permits and preliminary agreements for wind farms in operation and to be constructed;
- approximately EUR 20 million allocated to goodwill.

In view of the recognised goodwill values, for the 2012 consolidated financial statements their recoverable amount was measured, and the measurement models used in the previous tests of the intangibles associated with the previously commented business combinations were updated as well.
The Group then estimated the recoverable amount of the aforesaid assets. According to IAS 36, the recoverable amount 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. Specifically, the risk free rate was identified as the average return of the ten-year bonds of the reference country.

With reference to the carrying amounts allocated to **Authorisations 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 amount, 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 (6.3% for Italy, 5.50% for France, 8.2% for Bulgaria and 7.6% for Romania) 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 carrying amount of **Goodwill** was tested 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 amount, 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 (6.3% for Italy) 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 that the assumptions used are reasonable and, on the basis of the aforementioned assumptions, no impairment has emerged.
Lastly, in these Financial Statements tangible assets related to the Ginestra wind farm were written down by approximately EUR 3.5 million; their recoverable amount was found to be lower than the carrying amount by the same amount.

- **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 variables in processing and defining the basic assumptions used to determine the recoverable amount of the carrying amounts allocated to the "Renewable Energy Sources" business, and it also carried out a sensitivity analysis on the recoverable amount of the different 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 the event of a 5% reduction in revenues, persisting throughout the time interval of the plan, the recoverable amount of Goodwill would decrease by approximately EUR 8 million.
  Lastly, a 0.5% increase in the discount rate would have entailed a write-down of EUR 5 million to the Goodwill allocated to the "Renewable 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 amounts 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.
As a result of the impairment tests made in the 2011 financial statements, an impairment of the productive assets emerged, amounting to EUR 95 million before the tax effect. Therefore, goodwill was entirely written off (EUR 1.5 million) and the remaining part (EUR 94 million) reduced the value of the tangible fixed assets referred to the CCGT plant.
The carrying value of the plant as of 31 December 2012 was approximately EUR 341 million.
In preparing these Financial Statements, the recoverability of the carrying value of the aforesaid plant was verified in view of the persistency, in 2012 as well, of uncertainties and variability (or volatility) of the scenario that characterises the domestic electricity market.

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 Units. 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. 6.6%.
The impairment test was set up updating the assumptions used for the test, made for the 2011 financial statements; in particular, the estimates of the scenario of the electricity market, of the zone bonus in Sicily, of the profitability of the plant in the Dispatching Services Market and of the modulation activities were updated.

The Group's Management deemed the adopted assumptions to be reasonable, and no impairment emerged on the basis of the aforementioned assumptions.

- **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 CCGT plant and it also carried out a sensitivity analysis on the recoverable value of the CGU: the analysis showed that if cost savings targets were reached, recoverable value would increase by approximately EUR 17 million.
  On the contrary, if certain profitability targets tied to the plant modulation activity, foreseeable to date, were not attained, recoverable value would decrease by EUR 17 million.
  Lastly, a 0.5% increase in the discount rate would have entailed a write-down of approximately EUR 12 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 continue systematically to 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.

EQUITY INVESTMENT IN TOTALERG

ERG S.p.A. holds a 51% investment in the TotalErg S.p.A. joint venture, incorporated in 2010 through the merger of Total Italia S.p.A in ERG Petroli S.p.A.

TotalErg S.p.A. is one of the primary operators in the integrated downstream market with a network of over 3,000 sales outlets and it is also active in the refining and logistics business.

In the Consolidated Financial Statements as at 31 December 2012, the value of the equity investment amounted to EUR 286 million and it is measured using the equity method of accounting. The equity value also includes a gain (approximately EUR 70 million) recognised on the occasion of the aforesaid integration.

In 2012 TotalErg launched a project for the transformation of the Raffineria di Roma into a logistical facility, and a plan to rationalise the sales network, commented below. Moreover, during the year critical elements were noted, caused by significant volatility, particularly accentuated since the second quarter of 2012, of the "Oil" scenario and of the reference market in which the same CGU operates. This scenario had negative effects, specifically both on the final results of the investee and on the expected profitability forecasts.

On the occasion of these Financial Statements, the value of the equity investment was tested in consideration of the critical issues commented above.

To conduct this test, an independent expert was appointed in early 2013 and conducted the analyses using the draft Plan already prepared by the TotalErg management for the Shareholders ERG S.p.A. and used by ERG for the purposes of the ERG Group's 2013-2015 Business Plan presented to the financial community on 19 December 2012. These assumptions were subsequently complemented according to updates linked to development projects prepared subsequently.

The assumptions contained in such documents, although still in draft form and not yet approved by the Board of Directors of TotalErg, are deemed by the management to be reasonable and usable for the purposes of the impairment test.

For the purposes of the test, the CGU consists of TotalErg S.p.A. and by its investees, subsidiaries and associates.

The measurement was performed using the following criteria and assumptions:

- unlevered Discounted Cash Flow on 6 years of explicit projections plus a terminal value[1] calculated applying a multiple between 4.0x and 5.0x (in line with the market multiples observed in the past 10 years in the Integrated Downstream business) to the 2018 EBITDA of TotalErg;
- the adopted discount rate is TotalErg's WACC (7.6%) provided by ERG's management, which is substantially in line with the WACC calculated on the basis of market parameters (7.3%);
- the measurement was carried out on the basis of the draft consolidated economic-financial plan of TotalErg S.p.A., whose scope of consolidation includes TotalErg, Eridis, TotalGaz, Restiani, Guazzotti, Gestioni Europa and Raffineria di Roma;
- the economic-financial plan takes into account updates that rely on higher profitability in terms of EBITDA and improvements to the management of working capital on the basis of already executed agreements. These updates were judged to be reasonably likely by the Management.

As a result of the impairment test carried out according to the process described above, the recoverable value of the equity investment was found to be in line with its carrying value in the Consolidated Financial Statements.

1 To calculate the terminal value, the perpetuity method was not used, because it is not among the usual market practices for TotalErg's reference industry.

- **Sensitivity analysis**
  The result of the impairment test is derived from the information available to date and from the reasonable estimates on the evolution of variables tied to the expected margins, in particular with changes in the reference economic environment and in the discount rates. In particular, sensitivity analyses were conducted on the basis of changes in the discount rate and in the EV/EBITDA multiples applicable to the EBITDA of the last year of the explicit period.

  The analysis showed that:
  - a 0.5% increase in the discount rate would entail a write-down of the equity investment by approximately EUR 11 million;
  - a decrease in the EV/EBITDA multiple from 4.5x to 4.0x would entail a write-down of the equity investment by approximately EUR 32 million.

The above analyses confirm the sensitivity of the assessments of the recoverability of the equity investment 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.

The aforementioned projects started in 2012 by TotalErg are commented in detail below.

- **Project for the transformation of the Rome Refinery**
  On 17 May 2012, the Board of Directors of the TotalErg investee (51% ERG – 49% Total) approved the project to transform the industrial site of the Rome Refinery (Raffineria di Roma) – its wholly owned subsidiary – into a major logistical facility for the storage and handling of petroleum products.
  The project started after the definitive shutdown of the refining plants, which occurred in the third quarter of 2012.
  For the purposes of these Financial Statements, the equity valuation of the investee reflects provisions for liabilities and write-downs of assets, as provided respectively by IAS 37 and IAS 36 with respect to restructuring and impairment.
  In particular, the results of the period include the provisions for liabilities relating to provisions for the social plan, plant dismantlement, tank cleaning, liabilities for the social plan and the derecognition of assets referred to the facilities to be transformed for a total amount, net of tax effects, of EUR 97 million (of which ERG's share is EUR 50 million). These amounts are indicated among non-recurring items.

- **Network rationalisation plan**
  On 21 December 2012, the Board of Directors of TotalErg approved the launch of a plan for the rationalisation of the sales network. In view of this plan, expense provisions of approximately EUR 39 million were accrued and assets were written down by approximately EUR 3 million for a total impact of approximately EUR 24 million, net of tax effects (of which ERG's share is EUR 12 million). These amounts are presented among non-recurring items.

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	**307,675**	**67,337**	**3,905**	**378,917**
ACCUMULATED AMORTISATION	(47,618)	(46,026)	–	**(93,644)**
BALANCE AS AT 12/31/2011	**260,057**	**21,311**	**3,905**	**285,273**
ASSETS HELD FOR SALE	**–**	**–**	**–**	**–**
CHANGES DURING THE PERIOD:				
ACQUISITIONS	100	1,281	2,156	**3,537**
CAPITALISATION/RECLASSIFICATION	1,416	2,704	(4,246)	**(125)**
DISPOSALS AND DIVESTMENTS	–	(643)	–	**(643)**
AMORTISATION	(13,057)	(6,553)	–	**(19,610)**
WRITE-DOWNS	–	–	–	**–**
OTHER CHANGES	12	193	–	**205**
HISTORICAL COST	**309,183**	**61,356**	**1,815**	**372,354**
ACCUMULATED AMORTISATION	(60,655)	(43,063)	–	**(103,718)**
BALANCE AS AT 12/31/2012	**248,528**	**18,293**	**1,815**	**268,636**

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.

NOTE 2 – GOODWILL

"Goodwill" (EUR 22,896 thousand) represents the excess acquisition cost of acquired companies over the value of their shareholders' equity, measured at replacement cost at the acquisition date in accordance with the purchase-price allocation method prescribed by IFRS 3.
The decrease in the item relative to 31 December 2011, i.e. approximately EUR 3 million, pertains to Coastal Refining and it is entirely due to the sale of 20% of the equity investment in ISAB S.r.l., as commented above in the paragraph **Put Option on equity investment in ISAB S.r.l.**
The item is not amortised in the Income Statement and it is subject to impairment test on an annual basis or with higher frequency if there are indications, during the year, that the asset may have been impaired.
Goodwill acquired through business combinations was allocated to the cash-generating units corresponding to the following segments:

- Coastal refining: EUR 2,777 thousand;
- Power-Renewable Energy Sources: EUR 19,980 thousand;
- Other minor: EUR 139 thousand.

The above amounts refer to the values recognised in the Consolidated Financial Statements and they were subjected to the 2012 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 20% 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), 20% 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, no impairment is reported.

- **Power-Renewable Energy Sources**

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

NOTE 3 – PROPERTY, PLANT, AND MACHINERY

	LAND AND BUILDINGS	PLANT AND MACHINERY	OTHER ASSETS	ASSETS UNDER CONSTRUCTION	TOTAL
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 AT 12/31/2011	**71,117**	**1,456,247**	**4,978**	**84,814**	**1,617,156**
ASSETS HELD FOR SALE	**–**	**–**	**–**	**–**	**–**
CHANGES DURING THE PERIOD:					
CHANGES IN SCOPE OF CONSOLIDATION	–	–	–	–	**–**
ACQUISITIONS	84	38,463	375	34,057	**72,979**
CAPITALISATION/RECLASSIFICATION	4,282	58,476	(7)	(62,626)	**125**
INCREASES/DECR. FOR DISMANTLEMENT COSTS	–	3,621	–	–	**3,621**
DISPOSALS AND DIVESTMENTS	(380)	(63)	–	(2,819)	**(3,262)**
DEPRECIATION	(4,115)	(123,557)	(1,209)	–	**(128,881)**
WRITE-DOWNS	–	(3,874)	–	(230)	**(4,104)**
OTHER CHANGES	–	(1,307)	–	–	**(1,307)**
HISTORICAL COST	**98,372**	**2,276,788**	**16,559**	**53,196**	**2,444,915**
ACCUMULATED DEPRECIATION AND WRITE-DOWNS	(27,384)	(848,782)	(12,422)	–	**(888,588)**
BALANCE AS AT 12/31/2012	**70,988**	**1,428,006**	**4,137**	**53,196**	**1,556,327**

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 2012 of assets under construction (EUR 53 million) refers mainly to wind farms undergoing construction. The increase in the period refers to the "Amaroni" wind farm and to the thermoelectric energy generation plants. The decrease in the period is

tied to transfers from work in progress to assets in use, mainly the "Ginestra", "Fossa del Lupo" and Amaroni wind farms, which started commercial service on 1 October 2012. The "Ginestra" wind farm is not yet fully operational, so there is a residual amount of approximately EUR 11 million in fixed assets under construction.
For an analysis of capital expenditures, please refer to the capital expenditures section of the "**Report on Operations**".
With reference to IAS 23, the acquisitions include immaterial amounts of interest expenses pertaining to the capital expenditures of the Power - Renewable Energy Sources segment.
The other changes refer to reclassifications to other financial statement items.

NOTE 4 – EQUITY INVESTMENTS

	EQUITY INVESTMENTS				
	SUBSIDIARY COMPANIES	JOINT VENTURES	ASSOCIATES	OTHER COMPANIES	TOTAL
BALANCE AS AT 12/31/2011	**–**	**879,335**	**13,906**	**496**	**893,736**
CHANGES DURING THE PERIOD:					
CHANGES IN SCOPE OF CONSOLIDATION	–	–	–	–	**–**
ACQUISITIONS/SHARE CAPITAL INCREASES	25	1,883	396	–	**2,304**
SALE OF 20% OF ISAB S.R.L.	–	(255,353)	–	–	**(255,353)**
DISPOSALS AND DIVESTMENTS	–	–	(10,177)	–	**(10,177)**
RECLASSIFICATIONS	–	(258,579)	258,579	–	**–**
MEASUREMENT OF INVESTMENTS USING THE EQUITY METHOD	–	(72,060)	(426)	–	**(72,486)**
BALANCE AS AT 12/31/2012	**25**	**295,226**	**262,277**	**496**	**558,024**

With regards to the sale of 20% of ISAB S.r.l. – and the consequent reclassification from joint venture to affiliated company – reference is made to the Note **Put Option on equity investment in ISAB S.r.l.**

Acquisitions refer:
- to the capital contribution to Eolico Troina S.r.l. of EUR 50 thousand (EUR 25 thousand on the carrying value of the equity investment itself and EUR 25 thousand on the equity investment write-down provision);
- to payments for future capital increases in the TotalErg equity investment amounting to EUR 1.9 million;
- to payments in the consortium fund in the Dyepower Consortium, amounting to EUR 396 thousand.

Disposals refer:
- to the sale, on 20 June 2012, of the equity investment in Espansione S.r.l. Soluzioni per l'Energia (EUR 0.9 million);
- to ERG's departure from the Shareholders of ERG Rivara Storage, whose equity investment amounted to EUR 9.3 million.

Reclassifications refer to ISAB S.r.l. which, as a result of the exercise of the put option, is classified as an affiliate and no longer as a joint venture.

For further details, please refer to the previous section, **List of Group companies**.

The EUR 72 million decrease 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.). The highly negative result refers in particular to the investee TotalErg which during the period was affected both by the unfavourable economic scenario and by non-recurring expenses as already commented in the paragraph **Equity investment in TotalErg**.

"Equity investments" owned as of 31 December 2012 were as summarised below:

	MEASURED AT EQUITY	MEASURED AT COST	TOTAL
EQUITY INVESTMENTS			
- IN NON-CONSOLIDATED SUBSIDIARIES	–	25	**25**
- IN JOINT VENTURES	295,226	–	**295,226**
- IN ASSOCIATES	261,296	981	**262,277**
- IN OTHER COMPANIES	–	496	**496**
TOTAL	**556,522**	**1,502**	**558,024**

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 16,323 thousand (EUR 1,547 thousand at 31 December 2011) mainly comprise loans to unconsolidated Group companies.
The increase in the period refers to loans issued by ERG Renew S.p.A. to the companies held by the **LUKERG Renew joint venture**. For additional details, please refer to the related paragraph in the previous pages.

NOTE 6 – DEFERRED TAX ASSETS

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 and on the tax losses that can be carried forward. The rate used to calculate deferred taxes is the same as the nominal IRES (corporate income tax) rate (27.5%), increased, where so prescribed, by the IRAP (regional income tax) rate (3.90% - 4.82%).
Moreover, companies operating in the oil refining industry and companies producing and marketing petroleum products, electricity and gas and in the wind power business, with revenues in excess of EUR 10 million and taxable income above EUR 1 million, are subject to a 6.5% IRES surcharge ("Robin Tax"), further increased by 4% for the years 2011, 2012 and 2013.
Deferred tax assets as of 31 December 2012 amounting to EUR 208,743 thousand (EUR 244,095 thousand as of 31 December 2011) 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.
In consideration of the provisions of the aforementioned Italian Law no. 111/2011, receivables were recognised for tax losses from previous years and from this year, expected to be recovered in the medium term, amounting to EUR 34 million relating to tax losses of EUR 307 million.

Additionally, on 13 June 2012 ERG S.p.A. received from the Central Regulatory Directorate of the Italian Revenue Agency notice of the full acceptance of the requests submitted by ERG S.p.A., as a result of the request for private letter ruling filed in September 2011, as to whether it is possible to report, for Robin Hood Tax purposes, previous years' tax losses (amounting to approximately EUR 300 million) and of the excess non-deductible interest expenses (amounting to approximately EUR 45 million) as a result of the merger between ERG S.p.A. - ERG Raffinerie Mediterranee and ERG Power & Gas.
With reference to the tax losses and interest expense, commented above, deferred taxes assets amounting to approximately EUR 23 million were not recorded in the financial statements.

NOTE 7 – OTHER NON-CURRENT ASSETS

"Other non-current assets" amounting to EUR 16,007 thousand (EUR 23,723 thousand as of 31 December 2011) 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 reduction in the item refers mainly to VAT receivables arisen for the most part during the construction of the wind farms in the previous years and offset against VAT payable in the period.

NOTE 8 – INVENTORY

Closing inventories comprise the following categories.

	12/31/2012	12/31/2011
RAW, ANCILLARY AND CONSUMABLE MATERIALS	135,560	114,117
FINISHED PRODUCTS AND GOODS	57,053	194,171
TOTAL	**192,613**	**308,288**

The carrying value of inventory was determined by applying the weighted average cost method; 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 decreased (EUR -116 million) mainly as a consequence of the decrease in the quantity of finished products (EUR -220 thousand tonnes), partly offset by higher quantities of raw materials (EUR +40 thousand tonnes).
The change in the quantities of finished products is mainly due to products intended for resale in the short term (-103 thousand tonnes).
At 31 December 2012, following the comparison with market values, the carrying value of inventory was written down by EUR 6 million.
At 31 December 2012, there were not natural gas inventories as a consequence of ERG's exit from the business.

NOTE 9 – TRADE RECEIVABLES

Receivables are summarised as follows:

	12/31/2012	12/31/2011
CUSTOMER TRADE RECEIVABLES	697,695	614,732
RECEIVABLES DUE FROM GROUP COMPANIES	73,449	127,970
BAD DEBT PROVISION	(15,059)	(12,480)
TOTAL	**756,085**	**730,222**

The increase in "Trade receivables" is mainly due to the increase in receivables for "green certificates" and to adjustments on energy sales.
"Receivables from unconsolidated Group companies" refer mainly to the supply of petroleum products, utilities and site services to the affiliate ISAB S.r.l.
For information concerning related-party receivables, reference is made to Note 41.
The change in the Bad debt provision is represented by the provision of the period and in particular by the exposure with respect to the residual positions of customers transferred as a result of the sale of the business unit pertaining to electricity marketing (note **Income** (**charges**) **from sale of business unit**) in consideration of the uncertain times and likelihood of recovery of the receivables and of other specific critical credit situations.
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. 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:

	12/31/2012	12/31/2011
RECEIVABLES NOT YET DUE	**715,923**	**645,046**
RECEIVABLES PAST DUE AND NOT WRITTEN DOWN:		
UP TO 30 DAYS	17,420	34,543
UP TO 60 DAYS	500	855
UP TO 90 DAYS	387	2,392
MORE THAN 90 DAYS	21,855	47,387
TOTAL	**756,085**	**730,222**

NOTE 10 – OTHER CURRENT RECEIVABLES AND ASSETS

	12/31/2012	12/31/2011
TAX RECEIVABLES	33,684	38,126
EMISSIONS TRADING RECEIVABLES	18,391	27,971
SUNDRY RECEIVABLES	76,620	106,884
TOTAL	**128,695**	**172,981**

Tax receivables relate mainly to VAT receivables and income tax receivables, partially offset by the instalment payments on 2012 taxes.

Emissions trading receivables refer to the ISAB Energy receivable for reimbursement of 2012 emissions trading charges. The receivable as at 31 December 2011 was collected in December 2012.
Sundry receivables mainly comprise receivables from unconsolidated Group companies, advances paid to suppliers, prepaid expenses and receivables for hedging derivatives on commodities. The decrease in the item it tied to lower receivables from Group companies not consolidated line-by-line, referred mainly to the "tax consolidation" relationships with the companies of the TotalErg Group.

NOTE 11 – CURRENT FINANCIAL ASSETS

Current financial assets amounting to approximately EUR 37,257 thousand (EUR 19,743 thousand as at 31 December 2011) mainly refer to loans and to the positive fair value of the derivative instruments existing as at 31 December 2012. The change from 31 December 2011 is mainly tied to the increase in the position with respect to the clearing member Newedge Group in relation to the futures listed on the Ice Gasoil operations.

NOTE 12 – CASH AND CASH EQUIVALENTS

	12/31/2012	12/31/2011
BANK AND POSTAL DEPOSITS	999,319	532,664
CASH AND NOTES ON HAND	6	6
TOTAL	**999,325**	**532,670**

"Bank and postal deposits" mainly comprise the Group's short-term deposits with banks 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. The increase in the item is mainly due to the sale of 20% of ISAB S.r.l., already commented in the Note **Put Option on equity investment in ISAB S.r.l.**
For information on restricted liquidity, please refer to Note 25 – Covenants and negative pledges.

NOTE 13 – GROUP SHAREHOLDERS' EQUITY

SHARE CAPITAL

Fully paid-in share capital as of 31 December 2012 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 2011).

At 31 December 2012, the parent Company's Shareholders Register, relative to holders of significant interests, 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 7,455,028 shares, i.e. 4.959%.

As of 31 December 2012, 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 12 July 2012, Tradewinds Global Investors LLC notified the Company, in accordance with Article 120 of Legislative Decree no. 58/1998, that it had reduced the share it held in ERG S.p.A. as a discretional asset manager, to 4.959% of the share capital of the same company.

TREASURY SHARES

On 10 May 2012, the Board of Directors of ERG S.p.A. resolved to start implementing the plan to purchase and sell treasury shares, in accordance with the resolution of the Ordinary Shareholders' Meeting dated 20 April 2012, as a form of investment to optimise the capital structure in view of maximising value creation for the company and its Shareholders, with a maximum number of shares which can be purchased of 5,416,000 (representing 3.6% of the share capital), and a maximum outlay of EUR 35,200,000, without prejudice for any and all other limitation which may derive from provisions of law or from any further resolutions by the Shareholders' Meeting.

As at 31 December 2012 ERG S.p.A., having completed the acquisition plan, held 7,516,000 treasury shares, amounting to 5.0% of share capital. In accordance with IAS 32, treasury shares are presented as a reduction of shareholders' equity, through the use of Paid-in capital in excess of par.

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

For additional details, please refer to the paragraph **Acquisition of treasury shares**.

OTHER RESERVES

The "Reserves" amounting to EUR 1,609,445 thousand (EUR 1,647,636 thousand as of 31 December 2011) 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 INTERESTS
ISAB ENERGY S.R.L.	49.00%	189,750
ISAB ENERGY SERVICES S.R.L.	49.00%	4,191
EOLO S.R.L.	49.00%	1,458
TOTAL		**195,399**

Profit pertaining to minority interests for the period, amounting to EUR 48,675 thousand, is almost entirely attributable to minority shareholders of ISAB Energy S.r.l.

NOTE 15 – EMPLOYEES' SEVERANCE INDEMNITIES

This item, totalling EUR 3,461 thousand (EUR 3,484 thousand as at 31 December 2011), 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 Separate 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 income tax) rate (27.5%), increased, where so prescribed, by the IRAP (regional income 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"), further increased by 4% for the years 2011, 2012 and 2013.
Deferred tax liabilities amounting to EUR 137,363 thousand at 31 December 2012 (EUR 151,451 thousand as of 31 December 2011), are mainly recognised on the capital gain pertaining to the insurance indemnification of the direct damage incurred by ISAB Energy, on the fiscal amortisation 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 16,719 thousand (EUR 12,574 thousand as of 31 December 2011) 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.
The increase refers mainly to the allocation of dismantlement expenses on the wind farm in Italy with balancing entry to higher tangible fixed assets.

NOTE 18 – NON-CURRENT FINANCIAL LIABILITIES

The breakdown of this item is as shown below:

	12/31/2012	12/31/2011
MEDIUM/LONG-TERM MORTGAGES AND LOANS	289,071	439,164
- CURRENT PORTION OF MEDIUM/LONG-TERM LOANS	(168,605)	(150,734)
	120,466	**288,430**
MEDIUM/LONG-TERM PROJECT FINANCING	789,178	793,045
- CURRENT PORTION OF PROJECT FINANCING	(86,171)	(152,137)
	703,007	**640,908**
OTHER MEDIUM/LONG-TERM FINANCIAL PAYABLES	**97,965**	**83,392**
TOTAL	**921,438**	**1.012,730**

As of 31 December 2012, mortgages and loans totalled EUR 289 million (EUR 439 million as of 31 December 2011), of which an existing EUR 64 million granted by the European Investment Bank for investments in the "ERG Energia Sicilia" project. The loan is guaranteed for up to EUR 177 million.
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 at 31 December 2012, the weighted average interest rate of the mortgages, loans and Project Financing was 1.95% (3.23% as at 31 December 2011). The indicated rate does not take into account the interest rate hedging transactions.

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 2012 amounted to EUR 36 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 amortisation plan that transforms the floating rate into a fixed rate of 1.79%; the residual face value as of 31 December 2012 was EUR 36.9 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. Cireo S.r.l. with a balance of EUR 6 million as at 31 December 2012 (EUR 9 million as at 31 December 2011). The loan, stipulated in 2005, has a base credit line of EUR 34 million for an installed power of 30 MW, increasable to EUR 43 million for an additional power of 10 MW. 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 amortisation plan that transform the floating rate into a fixed rate of 3.30%. The residual face value as of 31 December 2012 was EUR 11 million;
- ERG Eolica Faeto S.r.l. with a balance of EUR 31 million as at 31 December 2012 (EUR 35 million as at 31 December 2011). The loan, stipulated in June 2007, has a base credit line of EUR 38 million for an installed power of 24 MW. The final payment is due on 31 December 2021. To hedge 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 2012 was EUR 16.6 million;
- Green Vicari S.r.l. with a balance of EUR 35 million as at 31 December 2012 (EUR 42 million as at 31 December 2011). The loan has a base credit line of EUR 53 million for an installed power of 37.5 MW. The final payment is due on 30 June 2019. To hedge interest rate risk, there are, until 31 December 2016, Interest Rate Swap agreements in line with the payment dates of the debt amortisation plan that transform the floating rate into a fixed rate of 2.235%. The residual face value as of 31 December 2012 was EUR 28 million.
  The covenant on the Project Financing of the Vicari wind farm had not been fulfilled as at 31 December 2011 and as at 30 June 2012, both remedied with waivers agreed with the Banks;
- The five French "Parc Eolien" companies headed by ERG Eolienne France whose balance as at 31 December 2012 amounted to EUR 30 million (EUR 35 million as at 31 December 2011). The Project Financing, with maturity of December 2019, pertains to five wind farms in France. The agreement prescribes a base credit line of EUR 56 million for a total installed power of 55.2 MW. The final payment is due on 31 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 amortisation plan that transform the floating rate into an average fixed rate of 4.27%. The residual face value as of 31 December 2012 was EUR 33.6 million;
- Eoliennes du Vent Solaire S.a.s., whose balance as at 31 December 2012 amounts to EUR 7 million (EUR 8 million as at 31 December 2011). The maturity of this Project Financing is 31 December 2025 and it pertains to the Plogastel-Saint-Germain wind farm. 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., with a balance of EUR 38 million as at 31 December 2012 (EUR 41 million as at 31 December 2011). 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 amortisation plan, which transform the floating rate into a fixed rate of 3.27%. The residual face value as of 31 December 2012 was EUR 36 million;

- ERG Eolica Adriatica S.r.l., with a balance of EUR 162 million as at 31 December 2012 (EUR 171 million as at 31 December 2011). 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 amortisation plan, which transform the floating rate into an average fixed rate of 4.84%. The residual face value as of 31 December 2012 was EUR 173 million;
- ERG Eolica Campania S.p.A., with a balance of EUR 91 million as at 31 December 2012 (EUR 102 million as at 31 December 2011). 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 amortisation plan, which transform the floating rate into an average fixed rate of 4.37%. The residual face value as of 31 December 2012 was EUR 24 million;
- ERG Eolica Fossa del Lupo S.r.l. whose balance as at 31 December 2012 was EUR 120 million. The loan was issued for EUR 126 million with the final payment in December 2025. To hedge interest rate risk, ERG Eolica Fossa del Lupo stipulated Interest Rate Swaps until 31 December 2025, in line with the payment dates of the debt amortisation plan, which transform the floating rate into a fixed rate of 2.26%. The residual face value as of 31 December 2012 was EUR 94.4 million.
- Lastly, with reference to the ERG Eolica S. Vincenzo S.r.l. loan, the company decided to use cash available at 31 December 2012 to extinguish the residual debt, optimising financial expenses and project financing management expenses. The loan, stipulated in 2005, had a baseline amount of EUR 36 million. According to the amortisation plan, the payment date for the last instalment was 31 December 2013.

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 outstanding as of 31 December 2012 was EUR 232 million.

The loan, secured with collateral whose duration is linked to the reimbursement of the loan, has an amortisation 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 amortisation plan that transform the floating rate into a fixed rate of 2.77%. The residual face value as of 31 December 2012 was EUR 217 million.

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

	MORTGAGES AND LOANS	PROJECT FINANCING
DUE BY 12/31/2013	168,605	86,171
DUE BY 12/31/2014	87,136	104,417
DUE BY 12/31/2015	33,330	75,818
DUE BY 12/31/2016	–	81,282
DUE BY 12/31/2017	–	79,346
DUE BEYOND 12/31/2017	–	362,144
TOTAL	**289,071**	**789,178**

The breakdown by due year for repayments on existing medium/long-term bank loans is as follows:

	12/31/2012	12/31/2011
SECURED BY GROUP TANGIBLE ASSETS		
WITH MATURITIES UP TO JUNE 2026	789,178	793,045
UNSECURED		
WITH MATURITIES UP TO DECEMBER 2015	289,071	439,164
TOTAL	**1,078,249**	**1,232,209**

Medium/long-term financial payables include liabilities deriving from the fair value measurement of the derivatives to hedge interest rates of EUR 76 million (EUR 52 million as at 31 December 2011) and, for the remainder, the interest-bearing loans granted to ISAB Energy S.r.l. by the IPM group which owns 49% of the company. Repayment is subject to the conditions set out in the Project Financing agreement.

NOTE 19 – OTHER NON-CURRENT LIABILITIES

	12/31/2012	12/31/2011
CIP 6 PRICE INCREASE	99,397	180,887
OTHER MINOR NON-CURRENT LIABILITIES	21,291	22,347
TOTAL	**120,688**	**203,234**

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 as revenue, according to international accounting standards, in proportion to the quantities of energy sold over the quantities expected to be sold over the entire lifetime of the 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 2012, to EUR 37,755 thousand (EUR 37,359 at 31 December 2011) and they comprise:

- the Provision for legal risks (EUR 1 million) related to potential liabilities from ongoing legal disputes;
- the Provision for clean-up costs (EUR 5 million) refers to the dismantling of the obsolete electric power plants of the North site;
- the Provisions for coverage of investee companies' losses (EUR 7 million) for the subsidiary ERG Petroleos, no longer operational, which is being closed, and to the Lukerg Renew joint venture in relation to the losses of the first year of operations;

- Other provisions for liabilities and charges (EUR 24 million) relate mainly to commercial agreements being defined, to expected liabilities in the commercial relations with operators and to demurrage charges accrued in the final part of the period and not yet claimed, to provisions for commercial adjustments pertaining to previous years.

NOTE 21 – TRADE PAYABLES

	12/31/2012	12/31/2011
TRADE PAYABLES	681,085	727,546
PAYABLES DUE TO GROUP COMPANIES	96,534	117,040
TOTAL	**777,619**	**844,586**

These are payables deriving from commercial transactions and are payable within the next year.
Payables to Group companies mainly refer to the affiliated company ISAB S.r.l.

NOTE 22 – CURRENT FINANCIAL LIABILITIES

	12/31/2012	12/31/2011
SHORT-TERM BANK BORROWINGS	**353,120**	**186,046**
OTHER SHORT-TERM FINANCIAL PAYABLES		
CURRENT PORTION OF MEDIUM/LONG-TERM BANK BORROWINGS	168,605	150,734
SHORT-TERM PROJECT FINANCING	86,171	152,137
OTHER FINANCIAL PAYABLES	19,856	14,230
	274,632	**317,101**
TOTAL	**627,752**	**503,147**

Relevant information about "Short-term bank borrowings" is as follows:
- as of 31 December 2012, short-term borrowings amounted to 52% of total credit lines granted (38% as of 31 December 2011);
- the average drawn on the short-term credit lines during the year was 44% of the total amounts granted (36% in 2011);
- these lines are revocable and unsecured;
- as of 31 December 2012, the weighted average interest rate on short-term borrowings was 2.09% (2.59% as of 31 December 2011).

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.

NOTE 23 – NET FINANCIAL POSITION

(EUR THOUSAND)	NOTES	12/31/2012	12/31/2011
MEDIUM/LONG-TERM BANK BORROWINGS	18	289,071	439,164
- CURRENT PORTION OF MORTGAGES AND LOANS	18, 22	(168,605)	(150,734)
MEDIUM/LONG-TERM FINANCIAL PAYABLES	18	97,965	83,392
TOTAL		**218,431**	**371,822**
MEDIUM/LONG-TERM PROJECT FINANCING	18	789,178	793,045
- CURRENT PORTION OF PROJECT FINANCING	18, 22	(86,171)	(152,137)
TOTAL		**703,007**	**640,908**
MEDIUM/LONG-TERM FINANCIAL INDEBTEDNESS		**921,438**	**1,012,730**
SHORT-TERM BANK BORROWINGS	22	521,725	336,780
SHORT-TERM FINANCIAL DEBTS	22	19,856	14,230
TOTAL		**541,581**	**351,010**
CASH AND CASH EQUIVALENTS	12	(891,625)	(437,332)
SECURITIES AND OTHER SHORT-TERM FINANCIAL RECEIVABLES	11	(37,257)	(19,743)
TOTAL		**(928,882)**	**(457,075)**
SHORT-TERM PROJECT FINANCING	18, 22	86,171	152,137
CASH AND CASH EQUIVALENTS	12	(107,700)	(95,338)
TOTAL		**(21,529)**	**56,799**
NET SHORT-TERM FINANCIAL INDEBTEDNESS		**(408,830)**	**(49,266)**
NET FINANCIAL POSITION		**512,608**	**963,464**

NOTE 24 – OTHER CURRENT LIABILITIES

	12/31/2012	12/31/2011
TAX PAYABLES	23,553	31,875
EXCISE DUTIES PAYABLE TO TAX AUTHORITIES	427	26,774
PAYABLES TO PERSONNEL	7,178	8,525
PAYABLES DUE TO SOCIAL SECURITY INSTITUTIONS	4,189	4,385
OTHER MINOR CURRENT LIABILITIES	111,687	136,710
TOTAL	**147,034**	**208,269**

"Tax payables" mainly refer to the estimate of income taxes owed for the period and VAT payable.
The decrease in payables for excise duties is a consequence of the sale of the electricity marketing businesses and of the cessation of wholesale oil activities in Sicily.

In 2012, taxes amounting approximately to EUR 16,8 million were paid as final payments for the 2011 fiscal year and as instalment payments for 2012.
Other minor current liabilities consist mostly of the short-term portion of the "CIP 6 tariff increase", already commented in Note 19.

NOTE 25 – GUARANTEES, COMMITMENTS AND RISKS (EUR 98,085 THOUSAND)

Sureties given (EUR 89,614 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 guarantees given pertain to sureties on bank loans. The amount is unchanged from 2011.

Our commitments (EUR 5,723 thousand)
Commitments to third parties refer mostly 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 banks 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 financial 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 2012).
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 2012:

- Debt Service Coverage Ratio (DSCR) no less than 1.1.
  The DSCR is calculated as the ratio between the project's cash flows (after tax) and debt servicing (principal and interest) prescribed by the amortisation 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 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 8 million as of 31 December 2012), 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 amortisation 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 1.30, 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 banks 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 7 million as of 31 December 2012), as well as a letter of patronage from ERG Renew S.p.A. The loan is also subject to the following covenants and negative pledges:
  - Historical Debt Service Coverage Ratio (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 amortisation 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 banks or by the hedging banks 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 banks 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 event 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 10 million as of 31 December 2012) 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 amortisation 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 banks or by the hedging banks 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 banks 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, 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 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 2 million as of 31 December 2012). The loan is subject to the following financial covenant pertaining to dividend distribution:
  - Historical 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 amortisation 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 banks or by the hedging banks 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 2012). 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 amortisation 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 banks or by the hedging banks 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 banks 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 the company 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 2 million as of 31 December 2012). The loan is also subject to the following covenants and negative pledges:
  - Historical and Prospective Debt Service Coverage Ratio (DSCRS): it is 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 amortisation 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 banks or by the hedging banks to the company according to the hedging contracts. If the Historical 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 expected 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. 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 banks 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.

The covenants for ERG Eolica Ginestra S.r.l. will be calculated the first time at 30 June 2013, because the calculation is performed for the first time 12 months after the operating trial.

- loan stipulated in October 2009 by the company 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 restricted bank accounts (EUR 22 million as of 31 December 2012). The base credit line of the loan is also subject to the following covenants and negative pledges:
  - Historical and Prospective Debt Service Coverage Ratio (DSCRS): it is 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 amortisation 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 banks or by the hedging banks to the company according to the hedging contracts. If the Historical 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): the BLCR is 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 23 million as of 31 December 2012). The loan is also subject to the following covenants and negative pledges:
  - Historical and Prospective Debt Service Coverage Ratio (DSCRS): it is 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 amortisation 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 banks or by the hedging banks 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.

- loan granted in March 2012 to the company ERG Eolica Fossa del Lupo 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 13 million as of 31 December 2012). The loan is also subject to the following covenants and negative pledges:
  - Historical and Prospective Debt Service Coverage Ratio (DSCRS): it is 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 amortisation 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 banks or by the hedging banks to the company according to the hedging contracts. If the Historic and/or Prospective DSCR are less than 1.15, ERG Eolica Fossa del Lupo Srl 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 Fossa del Lupo S.r.l. may not issue further guarantees on its assets except in the event of guarantees required by law.

During the year 2012 the company ERG Eolica San Vincenzo extinguished the loan stipulated in 2005.

- **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.

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:

- Annual Historical and Prospective Debt Service Coverage Ratio (DSCRS): it is 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 amortisation 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 banks or by the hedging banks 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 expected 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. 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 banks 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 NFP / Adjusted EBITDA): if it exceeds 4.0, the company may not distribute dividends to shareholders, or repay subordinated loans without prior authorisation by the banks;
- Ratio between Consolidated EBITDA and Consolidated Adjusted Financial Income and Expenses: if it is lower than 3.0, the company may not distribute dividends to shareholders, or repay subordinated loans without prior authorisation by the banks.

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.
At the closing date of the financial statements, the Company's covenants were fulfilled.

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 covenant represented by the ratio between Net Financial Position and Shareholders' Equity. The covenant, 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 covenant, 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.

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 2012.

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, it should be recalled 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 Inland Revenue Agency with appeal served on 11 January 2012. On 9 March 2012, the counter appeal was filed with the local section of the Regional Tax Commission, preliminarily served to the counterparties, arguing ERG's reasons also for the period after 2006. During the hearing of 11 February 2013, the Attorney General's Office and the Company's legal counsel presented to the Court their respective arguments. The decision is expected by the first half of 2013. 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 actions by **ERG Power** and **ISAB Energy** in relation respectively to high efficiency cogeneration (CAR) and to the reimbursement of "green certificates", on one hand the AEEG, contrary to jurisprudence, deems that the more stringent parameters indicated for high efficiency cogeneration (CAR) in Italian Legislative Decree no. 20/2007 prevail over the cogeneration criteria indicated in Resolution no. 42/02; on the other hand, the same Authority is adopting ever more restrictive criteria for CIP 6 plants and for the obtainment of the Green Certificate reimbursements. The recent resolutions that determined the aforesaid orientation of the AEEG (CAR: resolution no. 181/2011; "green certificates": 102/2011 and 81/2012) were challenged by the involved companies and we are awaiting the merit hearing dates to be set.
The related effects were already prudentially reflected in the previous years' Consolidated Financial Statements.
In general, with regards to "CIP 6/92 agreements", the company is carrying out the proper assessments to evaluate the opportunities.

With reference to the lawsuit filed by Versalis S.p.A. (formerly 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 (Generali and Chartis) as third parties in the proceeding and challenged the counterparty's entire claim. ENI Insurance and its re-insurers have also taken part in the lawsuit. At the hearing of 26 October 2011, the terms for the preliminary briefs and the related replies were set. All parties requested that testimonial evidence and expert witness reports be allowed. After the preliminary briefs were filed, the Judge allowed a court-appointed expert witness report (CTU) on a question that seems to exclude from the scope of indemnifiable damages the prejudice to the plaintiff for "impossibility to resume production due to causes deriving from damages to ERG plants or from impossibility for ERG to provide goods and services". The expert witness has not yet started work on the report, because ERG filed a request to challenge the Court-Appointed Expert Witness appointed by the Judge; thereupon, the Judge appointed another CTU who was sworn in during the hearing of 19 February 2013. During the same hearing, all parties designated their own expert

witnesses (CTP) and the Judge assigned the following terms: to the CTU until 31 October 2013 for the transmittal of the first draft of the report to the parties; to the CTP, until 15 December 2013 for the transmittal of their respective observations; to the CTU until 15 February 2014 to file the final document.

For the positions pertaining to the **TotalErg** joint venture, as a result of the ruling by the Rome Court of Appeal dated 23 February 2012 (which recognised as valid the original claims of the financial administration with respect to the obligation to pay the embarkation and debarkation tax for the Civitavecchia-Fiumicino harbour area, at Raffineria di Roma S.p.A.), on 2 July 2012 TotalErg paid two assessment notices for the March 1998 – August 2002 time interval and on 16 July 2012 it paid two additional assessment notices for the years from 2002 to 2005, for a total amount of approximately EUR 15.4 million reserving the right to request reimbursement. In November 2012, TotalErg and Raffinerie di Roma filed the appeal to the Court of Cassation, where the following cases were argued: (i) incorrect interpretation, by the Court of Appeal, of decision no. 7561 of 31 March 2006 of the Court of Cassation (in relation to the formal qualification as "harbour" in accordance with the law and to the consequent requirement to pay harbour duties; (ii) challenge of the retroactive effectiveness of the 2007 "Budget Law"; (iii) violation of EC Regulation no. 4055/86 in relation to the prohibition to discriminate in the circulation of goods and services of Italian, EC and extra-EC origin. Should the Court of Cassation decide on the matter, the case shall nevertheless be remanded to the Court of Appeal for the definition of the merits, including any amount to be returned to TotalErg.

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 28 – REVENUES FROM ORDINARY OPERATIONS

	2012	2011
REVENUES FROM SALES	8,044,638	6,566,344
REVENUES FROM SERVICES	134,225	153,322
REVENUES FROM "GREEN CERTIFICATES"	85,979	50,625
TOTAL	**8,264,842**	**6,770,291**

- **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 with 2011 is mainly due to the increase in average sale prices and to the higher traded volumes.

The following table shows the breakdown of revenues from sales:

	2012	2011
SALES TO GROUP COMPANIES	745,812	692,426
SALES TO THIRD PARTIES	7,298,826	5,873,918
TOTAL	**8,044,638**	**6,566,344**

- **Revenues from services** relate mainly to charges for internal consumption amounting to EUR 123,575 thousand (EUR 125,215 thousand in the first half of 2011) to ISAB S.r.l.

- **Revenues from** "**green certificates**" concern production during 2012 by the operational wind farms of the ERG Renew group. Measurement of the "green certificates" was calculated at the price of EUR 80.34/MWh determined on the basis of the expected realisable value.
  In reference to the regulations pertaining to "green certificates", please refer to the comments in **Criteria for the preparation of the financial statements**.

NOTE 29 – OTHER REVENUES AND INCOME

	2012	2011
INDEMNIFICATIONS	282	689
EXPENSE RECOVERIES	4,434	3,821
CAPITAL GAINS ON DISPOSALS	871	1,800
NON-RECURRING INCOME	2,476	3,356
INCOME FROM EMISSIONS TRADING	3,951	3,213
OTHER REVENUES	11,248	15,123
TOTAL	**23,262**	**28,002**

Additionally, "Other revenues" comprise, 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 ISAB S.r.l. affiliate.

NOTE 30 – CHANGES IN PRODUCT INVENTORIES

Product inventory values were measured by application of the weighted average cost method. The decrease by approximately EUR 137 million is tied to the reduction in the quantities in inventory (-220 thousand tonnes).

With regards to the decrease in the quantities, the change is mainly due to products intended for resale in the short term and to the reduction in the processing capacity at the ISAB refinery as a result of the exercise of the put option, already discussed above.

NOTE 31 – CHANGES IN RAW MATERIALS INVENTORIES

Raw materials inventory values were measured by application of the weighted average cost method. The increase, by approximately EUR 21 million, is due to the higher quantities in inventory (+40 thousand tonnes).

NOTE 32 – COST OF PURCHASES

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

The value at 31 December 2012 amounted to EUR 7,212 million (EUR 5,895 million in 2011); the increase compared with 2011, i.e. EUR 1,317 million, is mainly due to the higher average prices of raw material and to the higher traded volumes.

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

	2012	2011
SERVICE COSTS	496,069	592,860
RENTS AND LEASES	17,728	17,267
WRITE-DOWNS OF RECEIVABLES	1,174	9,279
ACCRUALS OF PROVISIONS FOR LIABILITIES AND CHARGES	3,510	4,292
DUTIES AND TAXES	39,876	32,372
OTHER OPERATING EXPENSES	8,854	10,245
TOTAL	**567,211**	**666,315**

The breakdown of Service costs is as follows:

	2012	2011
PROCESSING COSTS	323,675	358,072
COMMERCIAL, DISTRIBUTION AND TRANSPORTATION COSTS	33,275	76,123
REPAIRS AND MAINTENANCE	30,410	32,607
UTILITIES AND SUPPLIES	2,002	2,368
INSURANCE	25,062	26,448
CONSULTING SERVICES	12,606	18,244
ADVERTISING AND PROMOTIONS	1,421	3,519
OTHER SERVICES	67,618	75,479
TOTAL	**496,069**	**592,860**

"Processing costs" refer to crude oil processing carried out at the ISAB S.r.l. refinery. The decrease is due to the reduction in the processing shares from 40% to 20% since September 2012.
"Commercial, distribution and transportation cost" decreased as a result of the absence of the costs linked to the marketing of electricity whose business unit was sold to IREN.
"Repairs and maintenance" mainly consist of the costs for routine maintenance of electricity generation plants.
The decrease in Consulting services compared to 2011 relates to the higher costs incurred in 2011 with reference to the extraordinary transactions completed last year.
Other services include the 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.
Write-downs of receivables in 2011 referred 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.
Duties and taxes mainly relate to the costs for the "green certificates" of thermoelectric generation plants, local authority taxes on property (IMU) and state taxes. The increase is due to the higher IMU taxation and to the previous years' "green certificates", amounting to EUR 5.3 million, isolated among non recurring items.
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

	2012	2011
SALARIES AND WAGES	39,656	42,031
SOCIAL SECURITY CONTRIBUTIONS	11,920	13,153
EMPLOYEES' SEVERANCE INDEMNITIES	2,679	2,715
OTHER COSTS	7,076	6,318
TOTAL	**61,331**	**64,217**

The other costs include additional employees' severance indemnities.

The following table shows the breakdown of the ERG Group's personnel (average headcount during the period):

	2012	2011
EXECUTIVES	46	54
MANAGERS	156	169
STAFF	332	370
WORKMEN	88	102
TOTAL	**622**	**695**

As of 31 December 2012, the total number of employees was 613.

NOTE 35 – AMORTISATION, DEPRECIATION AND WRITE-DOWNS OF FIXED ASSETS

	2012	2011
AMORTISATION OF INTANGIBLE FIXED ASSETS	19,610	18,437
DEPRECIATION OF TANGIBLE FIXED ASSETS	128,881	125,425
WRITE-DOWNS OF FIXED ASSETS	4,104	98,188
TOTAL	**152,595**	**242,050**

The value of amortisation and depreciation increased slightly, mostly as a result of the newly purchased and commissioned wind farms.

"Write-downs of fixed assets" includes:

- in 2012, write-downs in the Renewable Energy Sources segment;
- in 2011, write-downs resulting from the impairment test on the CCGT thermoelectric energy generating plant and to the sale of DSI Servizi Industriali S.r.l. e SODAI Italia S.p.A.

NOTE 36 – GAINS (LOSSES) FROM SALE OF BUSINESS UNIT

On **10 November 2011** ERG and IREN, through its subsidiary IREN Mercato, signed a binding Framework agreement for the purposes of 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 intended mainly to be supplied to end customers.

The Framework Agreement also calls for the acquisition by IREN Mercato of the ERG's business unit dedicated to marketing and selling electricity to over 15,000 business and mid-business customers, thereby ensuring 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 were executed in December 2011 and they came into force on **1 January 2012**.

During the period, the costs pertaining to the disposal of the commercial activity were accrued. For clearer disclosure, the impacts on the Consolidated Income Statement were reported in the single item Gains (losses) from sale of business unit and they are as follows:

	2012
CAPITAL GAIN FROM SALE OF BUSINESS UNIT	3,300
WRITE-DOWN OF RECEIVABLES	(1,771)
WRITE-DOWN OF INTANGIBLE FIXED ASSETS	(750)
RENTS AND LEASES	(2,036)
OTHER OPERATING EXPENSES	(373)
TOTAL	**(1,630)**

NOTE 37 – NET FINANCIAL INCOME (EXPENSES)

	2012	2011
INCOME		
FOREIGN CURRENCY EXCHANGE GAINS	100,952	112,216
INTEREST INCOME ON BANK ACCOUNTS	10,128	10,886
OTHER FINANCIAL INCOME	6,122	13,220
	117,202	**136,322**
EXPENSES		
FOREIGN CURRENCY EXCHANGE LOSSES	(99,707)	(100,615)
INTEREST ON SHORT-TERM BANK BORROWINGS	(6,001)	(5,369)
INTEREST ON MEDIUM/LONG-TERM BANK BORROWINGS	(8,885)	(15,467)
INTEREST ON PROJECT FINANCING	(30,424)	(32,224)
OTHER FINANCIAL EXPENSES	(24,714)	(21,022)
	(169,731)	**(174,697)**
TOTAL	**(52,529)**	**(38,375)**

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. Interest income on bank accounts is in line with the previous year, since the higher return on liquidity offset the effect of the reduction in the average volume of liquidity managed. Interest on medium/long-term bank borrowings decreased, mainly because of smaller volumes of corporate loans. Medium-term interest on Project Financing is substantially in line with the previous year, in view of the lower rates which were partly offset by the higher financed amounts. Other financial income and Other financial expenses"refer mainly to the result of the derivative financial instruments. In particular in 2012 Other financial income includes the effects connected to the fair value measurement of the collar transaction hedging a portion of the oil inventory at the ISAB Refinery, carried out in reference to the exercise of the Put option on 20% of the equity investment in ISAB S.r.l. for a value of EUR -4 million.
In 2011 Other financial income also included the effect of the capitalisation of the interest expense (EUR 4 million), in accordance with IAS 23.

NOTE 38 – NET INCOME (EXPENSES) FROM EQUITY INVESTMENTS

Net income and expenses from equity investments amounting to EUR 143,652 thousand (EUR 153,202 thousand in 2011) 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 2012 mainly comprises:

- the capital gain (EUR 226.5 million) realised as a result of the sale of 20% of the equity investment in ISAB S.r.l.. The gain is presented among non-recurring items;
- the performance of the joint ventures TotalErg S.p.A. (EUR -92 million) and ISAB S.r.l. (EUR 21 million). In particular, the result of TotalErg, as commented in the dedicated paragraph, was affected inter alia by the provisions and write-down of the assets referred to the plan for rationalising the sales outlet network and to the investee company Raffineria di Roma S.r.l. as a result of the announced plan for the transformation of the industrial site into a logistical facility;
- the capital loss pertaining to the sale of the investee Rivara Storage i.e. EUR -6 million (please refer to List of **Group companies**).

In particular in 2011 the item mainly comprised:

- the Capital gain (EUR 109.3 million) realised as a result of the sale of 11% of the equity investment in ISAB S.r.l.. The gain was 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.

NOTE 39 – INCOME TAXES

	2012	2011
CURRENT INCOME TAXES	85,926	39,319
TAXES FROM PREVIOUS YEARS	(4,136)	(304)
DEFERRED TAXES	(12,952)	(69,778)
TOTAL	**68,838**	**(30,923)**

Income taxes for the period were calculated taking into account the forecasted taxable income and they were affected by the "Robin 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' Separate 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, and from tax losses that can be carried forward.

The Taxes relating to previous years refer mainly to the already commented IRES tax benefit deriving from the tax deductibility of the IRAP for previous years' personnel costs.
In this regard, it should be pointed out that as a result of the promulgation of Italian Law Decree no. 201/2011 and of the subsequent implementing Instruction of the Fiscal Revenues Agency Director, protocol no. 2012/140973 of 17 December 2012 (which approved the Application for reimbursement and related instructions), income was recognised deriving from the non-deduction, for IRES purposes, of the IRAP relating to expenses for employees and similar personnel for the tax periods from 2007 to 2011 (with a Group-wide total amount of approximately EUR 2.8 million).

Additionally, deferred tax assets amounting to EUR 17.6 million (deferred tax liabilities amounting to EUR 8.6 million in 2011), calculated on the fair value of derivatives accounted for under the cash flow hedge technique, were accrued directly to shareholders' equity.

RECONCILIATION BETWEEN REPORTED AND THEORETICAL TAX CHARGES

IRES (CORPORATE TAX)		
PROFIT BEFORE TAXES	268,738	
THEORETICAL IRES TAXATION AT 38%	**102,120**	
IMPACT OF EQUITY INVESTMENT EXEMPTION ON GAIN FROM SALE OF 20% ISAB		(72,180)
IMPACT OF CONSOLIDATION ADJUSTMENTS NOT RELEVANT TO THE CALCULATION OF TAXES		29,739
IMPACT OF PERMANENT TAX CHANGES		(2,415)
CURRENT AND DEFERRED IRES		**57,264**
IRAP (REGIONAL TAX)		
EBIT	179,245	
LABOUR AND BAD DEBT COSTS	62,505	
TOTAL	**241,750**	
THEORETICAL IRAP AT 3.9%	**9,428**	
EFFECT STEMMING FROM IRAP RATE INCREASE FOR SOME COMPANIES		509
IMPACT OF PERMANENT DIFFERENCES AND CONSOLIDATION ADJUSTMENTS NOT RELEVANT TO THE CALCULATION OF INCOME TAXES		5,773
CURRENT AND DEFERRED IRAP		**15,710**
TOTAL THEORETICAL TAXES	**111,549**	
TOTAL IRES AND IRAP IN THE CONSOLIDATED FINANCIAL STATEMENTS		**72,974**
TAXES FROM PREVIOUS YEAR		**(4,136)**
SUBSTITUTE TAXES		**–**
TOTAL INCOME TAXES AS REPORTED IN THE CONSOLIDATED FINANCIAL STATEMENTS		**68,838**

The impacts of the consolidation adjustments refer mainly to the results of the joint ventures TotalErg S.p.A. and ISAB S.r.l. measured under the equity method.

NOTE 40 – NON-RECURRING ITEMS

(EUR THOUSAND)		2012		2011
REVENUES FROM ORDINARY OPERATIONS	1)	(6,032)		–
COST OF PURCHASES	2)	(4,316)		–
COSTS FOR SERVICES AND OTHER COSTS	3)	(1,717)		–
PERSONNEL COSTS	4)	(956)		–
AMORTISATION, DEPRECIATION AND WRITE-DOWNS OF FIXED ASSETS	5)	(3,500)	A)	(98,188)
GAINS (LOSSES) FROM SALE OF BUSINESS UNIT	6)	(1,630)		–
NET FINANCIAL INCOME (EXPENSES)	7)	(4,145)		–
NET INCOME (LOSS) FROM EQUITY INVESTMENTS	8)	217,020	B)	106,072
INCOME TAXES	9)	3,268	C)	40,807
MINORITY INTERESTS		2,899		–
GROUP SHARE OF NET PROFIT		**200,891**		**48,690**

In 2012:

1) the item comprises:
- allocations in view of negative commercial adjustments pertaining to previous years for an amount of EUR 11.4 million (Power-Thermoelectric segment);
- allocations of receivables for "white certificates" pertaining to the 2010 production, amounting to EUR 5.4 million.

2) the item includes the expenses pertaining to obligations to purchase "green certificates" pertaining to previous years, amounting to EUR 4.3 million;

3) the item comprises:
- allocations for previous years pertaining to positive commercial adjustments and obligations for "green certificates", amounting to EUR 1.5 million;
- ancillary expenses tied to the sale of 20% of the equity interest in ISAB S.r.l., amounting to EUR 3.2 million.

4) the item includes EUR 1 million of additions to labour costs tied to the sale of 20% of the equity investment in ISAB S.r.l.

5) the item includes the impairment of assets relating to the Ginestra wind farm, as commented in the impairment test chapter;

6) the item includes the net expenses tied to the sale of the business unit to IREN;

7) the item includes the negative impact of collar transactions hedging part of the oil inventories at the ISAB refinery and carried out in relation to the exercise of the put option on 20% of the equity investment in ISAB S.r.l. ;

8) the item comprises:
- the capital gain (EUR 227 million) realised from the sale of 20% of the equity investment in ISAB S.r.l.;
- capital loss pertaining to the equity investment in ERG Rivara Storage, as commented in the **Scope of consolidation**;
- other expenses, amounting to approximately EUR 3 million.

9) yhe item comprises:
- the tax effect of the aforementioned items;
- the income relating to the recognition of receivables deriving from non-deduction, for IRES purposes, of the IRAP related to expenses for employees and similar personnel for the tax periods from 2007 to 2011.

In 2011:

A) the item comprised:

- the write-downs (EUR 95 million) pertaining to the impairment test on the CCGT thermo-electric generation plant;
- the write-downs (EUR 3 million) pertaining to the sale of DSI Servizi Industriali S.r.l. and SODAI Italia S.p.A.

B) the item comprised:

- the capital gain (EUR 109 million) realised as a result of the sale of 11% of the equity investment in ISAB S.r.l.;
- 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 effects.

C) the item comprised:

- the recognition of deferred tax receivables related to previous year's tax losses, not allocated in the previous years;
- 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.

NOTE 41 – RELATED PARTIES

Consolidated Statement of Financial Position

	NOTES	SUBSIDIARIES	ASSOCIATES	JOINT VENTURES	OTHER RELATED PARTIES	TOTAL
TRADE RECEIVABLES	9	–	58,418	15,086	–	**73,504**
OTHER CURRENT RECEIVABLES AND ASSETS	10	–	964	13,100	–	**14,064**
CURRENT FINANCIAL ASSETS	11	8,313	–	–	–	**8,313**
NON-CURRENT FINANCIAL LIABILITIES	18	–	–	–	–	**–**
TRADE PAYABLES	21	–	(29,319)	(67,202)	–	**(96,521)**
CURRENT FINANCIAL LIABILITIES	22	(242)	(15,210)	(14)	–	**(15,466)**
OTHER CURRENT LIABILITIES	23	–	(830)	(5,191)	(9,176)	**(15,197)**

Consolidated Income Statement

	NOTES	SUBSIDIARIES	ASSOCIATES	JOINT VENTURES	OTHER RELATED PARTIES	TOTAL
REVENUES FROM ORDINARY OPERATIONS	28	–	189,517	631,464	55,944	**876,925**
OTHER REVENUES AND INCOME	29	–	–	5,242	–	**5,242**
COST OF PURCHASES	32	–	(8,772)	(127,116)	(180,601)	**(316,489)**
COSTS FOR SERVICES AND OTHER COSTS	33	–	(81,922)	(257,667)	(11,539)	**(351,128)**
FINANCIAL INCOME	36	–	–	–	–	**–**
FINANCIAL EXPENSES	36	–	(16)	–	–	**(16)**

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 ISAB S.r.l. joint venture 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 2012, there is a net liability towards San Quirico (EUR 9.3 million) for 2012 taxes.

With regard to the other transactions with related parties, as defined by IAS 24, during the year EUR 357 thousand were paid to I.E.C. s.r.l. and EUR 148 thousand to Sampdoria Marketing & Communication Srl..
Additionally, in May 2012 EUR 700 thousand were paid to the Edoardo Garrone Foundation as an extraordinary contribution for 2012 and in October 2012, EUR 100 thousand were paid as contribution for 2012.

NOTE 42 – EARNINGS PER SHARE

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

		2012	2011
GROUP SHARE OF NET PROFIT	FIGURES IN THOUSANDS OF EUROS	151,225	65,095
AVERAGE NUMBER OF SHARES OUTSTANDING	UNIT	145,060,615	148,220,000
BASIC EARNINGS PER SHARE FROM CONTINUING OPERATIONS	FIGURES IN EUROS	1.042	0.439
DILUTED EARNINGS PER SHARE FROM CONTINUING OPERATIONS	FIGURES IN EUROS	1.042	0.439

There are no potentially dilutive securities that impact the Group's share of net profit..

RECONCILIATION WITH ERG S.P.A. SHAREHOLDERS' EQUITY AND NET INCOME

	SHAREHOLDERS' EQUITY		INCOME (LOSS) FOR THE YEAR	
(EUR THOUSAND)	12/31/2012	12/31/2011	2012	2011
ERG S.P.A. SHAREHOLDERS' EQUITY AND NET INCOME FOR THE PERIOD	**1,551,592**	**1,615,182**	**21,499**	**19,928**
ELIMINATION OF THE EFFECTS OF TRANSACTIONS AMONG CONSOLIDATED COMPANIES:				
- ELIMINATION OF INTRA-GROUP PROFITS ON INVENTORIES AND FIXED ASSETS	(9,247)	(9,627)	–	–
- ELIMINATION OF INTRA-GROUP DIVIDENDS	–	–	(11,519)	(40.471)
	(9,247)	**(9,627)**	**(11,519)**	**(40,471)**
DEFERRED TAXES				
- DEFERRED TAXES ON CONSOLIDATION ADJUSTMENTS	33,473	37,949	(3,819)	33.952
ELIMINATION OF THE CARRYING VALUE OF EQUITY INVESTMENTS				
- DIFFERENCE BETWEEN THE CARRYING VALUE AND THE PRO RATA VALUE OF SHAREHOLDERS' EQUITY	458,937	305,068	–	–
- PRO RATA PROFITS OF SUBSIDIARY COMPANIES	–	–	193,738	82.474
- RECOGNITION OF ASSETS AND LIABILITIES FROM BUSINESS COMBINATIONS	(63,653)	(70,300)	–	–
	395,284	**234,768**	**193,738**	**82,474**
GROUP SHAREHOLDERS' EQUITY AND NET INCOME FOR THE PERIOD	**1,971,102**	**1,878,272**	**199,900**	**95,883**
MINORITY SHARE OF SHAREHOLDERS' EQUITY AND NET INCOME FOR THE PERIOD	(195,399)	(150,509)	(48,675)	(30,788)
ERG GROUP CONSOLIDATED SHAREHOLDERS' EQUITY AND NET INCOME FOR THE PERIOD	**1,775,703**	**1,727,764**	**151,225**	**65,095**

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	RENEWABLE ENERGY SOURCES	OTHER	*RECONCILIATION ITEMS*	IAS REPORTED
12/31/2012						
REVENUES FROM THIRD PARTIES	11,688	1,651	177	6	–	–
INTRA-SEGMENT REVENUES	(846)	(216)	–	(4)	–	–
NET REVENUES FROM ORDINARY OPERATIONS	**10,842**	**1,435**	**177**	**2**	***(4,192)***	**8,265**
EBITDA AT REPLACEMENT COST	**21**	**328**	**137**	**(28)**	***(126)***	**332**
AMORTISATION, DEPRECIATION AND WRITE-DOWNS	(97)	(76)	(66)	(3)	*89*	(153)
EBIT AT REPLACEMENT COST	**(77)**	**253**	**71**	**(31)**	***(37)***	**179**
CAPITAL EXPENDITURES IN FIXED ASSETS	**51**	**35**	**39**	**1**	***(50)***	**77**

(FIGURES IN EUR MILLIONS)	REFINING & MARKETING	POWER & GAS	RENEWABLE ENERGY SOURCES	OTHER	*RECONCILIATION ITEMS*	IAS REPORTED
12/31/2011						
REVENUES FROM THIRD PARTIES	10,939	1,435	114	7	–	–
INTRA-SEGMENT REVENUES	(1,125)	(221)	–	(4)	–	–
NET REVENUES FROM ORDINARY OPERATIONS	**9,815**	**1,214**	**113**	**3**	***(4,375)***	**6,770**
EBITDA AT REPLACEMENT COST	**6**	**239**	**69**	**(31)**	***(92)***	**192**
AMORTISATION, DEPRECIATION AND WRITE-DOWNS	(109)	(84)	(50)	(4)	*5*	(242)
EBIT AT REPLACEMENT COST	**(102)**	**155**	**19**	**(35)**	***(87)***	**(50)**
CAPITAL EXPENDITURES IN FIXED ASSETS	**77**	**22**	**53**	**2**	***(73)***	**82**

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".

NOTE 44 – DIVIDENDS

Dividends paid by ERG S.p.A. in 2012 (EUR 59.0 million) and 2011 (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.

On 7 March 2013, the ERG S.p.A. Board of Directors proposed the payment to shareholders of a dividend of EUR 0.40 per share. The dividend shall be available for payment starting on 23 May 2013, subject to the issuance of the coupon from 20 May 2013 and record date on 22 May 2013.

NOTE 45 – FINANCIAL INSTRUMENTS

12/31/2012	FVTPL (1)	L&R (2)	AFS (3)	OTHER LIABILITIES	HEDGING DERIVATIVES	TOTAL	*OF WHICH NON CURRENT*	FAIR VALUE
INVESTMENTS IN OTHER COMPANIES	–	–	1,502	–	–	1,502	–	1,502
FINANCIAL RECEIVABLES	–	50,316	111	–	–	50,427	*16,323*	50,427
DERIVATIVE FINANCIAL INSTRUMENTS	59	–	–	–	15,504	15,563	–	15,563
TRADE RECEIVABLES	–	756,085	–	–	–	756,085	–	756,085
FINANCIAL SECURITIES CLASSIFIED AS CURRENT ASSETS	–	–	–	–	–	–	–	–
OTHER RECEIVABLES	–	40,013	–	–	–	40,013	*6,142*	40,013
CASH AND CASH EQUIVALENTS	–	999,325	–	–	–	999,325	–	999,325
TOTAL ASSETS	**59**	**1,845,739**	**1,613**	**–**	**15,504**	**1,862,915**	***22,465***	**1,862,915**
MORTGAGES AND LOANS	–	–	–	289,071	–	289,071	*120,466*	285,731
NON-RECOURSE PROJECT FINANCING	–	–	–	789,178	–	789,178	*703,007*	784,119
SHORT-TERM BANK BORROWING	–	–	–	353,120	–	353,120	–	353,120
FINANCIAL PAYABLES	–	–	–	40,625	–	40,625	*21,904*	40,625
DERIVATIVE FINANCIAL INSTRUMENTS	–	–	–	–	75,855	75,855	*75,229*	75,855
TRADE PAYABLES	–	–	–	777,619	–	777,619	–	777,619
OTHER PAYABLES	–	–	–	34,853	–	34,853	*8,694*	34,853
TOTAL LIABILITIES	**–**	**–**	**–**	**2,284,466**	**75,855**	**2,360,321**	**929,300**	**2,351,921**

(1) FVTPL: Fair value through profit or loss
(2) L&R: Loans and receivables
(3) AFS: Available for sale financial investments

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	–	–	1,081	–	–	1,081	-	1,081
FINANCIAL RECEIVABLES	–	14,668	934	–	–	15,602	*13,834*	15,602
DERIVATIVE FINANCIAL INSTRUMENTS	1,071	–	–	–	6,399	7,470	*3,374*	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**	**2,015**	**–**	**6,399**	**1,396,721**	***24,157***	**1,396,721**
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	*50,788*	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**	***1,071,057***	**2,407,211**

(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	–	59	–
- HEDGING DERIVATIVES	–	15,504	–
TOTAL	**–**	**15,563**	**–**
FINANCIAL LIABILITIES			
- FVTPL	–	–	–
- HEDGING DERIVATIVES	–	75,855	–
TOTAL	**–**	**75,855**	**–**

The Group has no financial instrument classifiable in Level 3.
Financial instruments classified in level 1 are futures on petroleum products, whose value is quoted 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 EXPANSION - MONTE CARLO SIMULATION	- ZERO COUPON CURVES OF THE REFERENCE CURRENCIES - ECB SPOT RATES - EXCHANGE RATE IMPLICIT VOLATILITY	- REUTERS	LEVEL 2
COMMODITY DERIVATIVES	COMMODITY SWAP - CRUDE OILS - PETROLEUM 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 Finance 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.

	2012	2011
AAA RATING	–	7,386
AA+ / AA- RATING	1,170	49,845
A+ / A- RATING	85,059	125,778
BBB+ / BBB- RATING	465,712	243,048
BB+ / BB- RATING	34,718	65,952
B+ / B- RATING	–	–
RECEIVABLES FROM GROUP COMPANIES	123,732	113,546
NOT ASSIGNED	5,527	39,490
TOTAL	**715,918**	**645,046**

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 2012 and as of 31 December 2011, based on undiscounted contractual payments.

12/31/2012	PAYABLES BY MATURITY				
(EUR THOUSAND)	ON DEMAND	UNDER 3 MONTHS	3-12 MONTHS	1-5 YEARS	MORE THAN 5 YEARS
MORTGAGES AND LOANS	–	4,085	169,263	123,339	–
NON-RECOURSE PROJECT FINANCING	–	2,965	105,712	427,075	454,613
SHORT-TERM BANK BORROWING	353,120	–	–	–	–
DERIVATIVE INSTRUMENTS	–	145	20,045	46,772	11,466
FINANCIAL PAYABLES	–	178	2,042	14,349	9,793
TRADE PAYABLES	159,731	617,888	–	–	–
TOTAL LIABILITIES	**512,851**	**625,261**	**297,063**	**611,535**	**475,871**

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 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 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
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)	2012	2011
SHOCK-UP (VARIATION IN EUR/DOLLAR EXCHANGE RATE **+10%**)	3.2	5.7
SHOCK-DOWN (VARIATION IN EUR/DOLLAR EXCHANGE RATE **-10%**)	(3.9)	(5.6)

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 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)	2012	2011
SHOCK-UP (INTEREST RATE VARIATION **+1%**)	0.8	5.5
SHOCK-DOWN (INTEREST RATE VARIATION **-1%**)	(0.1)	(4.6)

Impact on shareholders' equity

(EUR MILLION)	2012	2011
SHOCK-UP (INTEREST RATE VARIATION = **+1%**)	28.4	23.7
SHOCK-DOWN (INTEREST RATE VARIATION = **-1%**)	(27.3)	(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 risk management policy for the price of oil commodities for refinement prescribes the use of instruments and methods that can achieve the monthly average annual prices reported in Platt's quotations for raw materials and finished products.

Concerning the management of the price risk tied to trading activities, internal policies prescribe flat price hedging (price risk tied to different accrual periods).

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 monthly average refining margin and flat price hedging, the Group uses derivative instruments such as Futures and Commodity Swaps 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 shareholders' equity (due to adjustments to the fair value of the derivative instruments comprising the cash flow hedge reserve) of a +/- 25% change in the price of commodities.

Impact on Consolidated Income Statement

(EUR MILLION)	2012	2011
SHOCK-UP (VARIATION IN COMMODITIES PRICE **+25%**)	(18.2)	(8.7)
SHOCK-DOWN (VARIATION IN COMMODITIES PRICE **-25%**)	18.2	8.7

Impact on shareholders' equity

(EUR MILLION)	2012	2011
SHOCK-UP (VARIATION IN COMMODITIES PRICE **+25%**)	9.4	17.4
SHOCK-DOWN (VARIATION IN COMMODITIES PRICE **-25%**)	(9.4)	(17.4)

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 2012 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), petroleum 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 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 2012, they consisted of the following:

	TYPE	HEDGED RISK	UNDERLYING FINANCIAL INSTRUMENTS		FAIR VALUE 12/31/2012
					EUR THOUSAND
	CASH FLOW HEDGING INSTRUMENTS				
A	INTEREST RATE SWAPS AND INTEREST RATE CAPS	ECONOMIC INTEREST RATE RISK	EUR MILLION	882	(76,409)
B	PRODUCT PRICE RISK SWAPS	HEDGE FOR PRODUCT PRICE FLUCTUATIONS	BARRELS	262,500	272
C	GAS PRICE RISK SWAPS	COMMODITY TRANSACTION RISK	MILLION SMC	73	(318)
	TOTAL CASH FLOW HEDGING INSTRUMENTS				**(76,455)**
	NON HEDGE ACCOUNTING INSTRUMENTS				
D	FORWARDS ON SHORT-TERM CURRENCY EXCHANGE RATES	EXCHANGE RATE TRANSACTION RISK	MILLIONS OF DOLLARS	114	8
B	PRODUCT DIFFERENTIAL/PRICE RISK SWAPS	HEDGE FOR PRODUCT PRICE FLUCTUATIONS	TONNES	50,000	27
E	FUTURES TO HEDGE COMMODITY PRICE RISK	HEDGE FOR PRODUCT PRICE FLUCTUATIONS	TONNES	105,100	33
	TOTAL NON HEDGE ACCOUNTING INSTRUMENTS				**68**
	TOTAL ERG GROUP DERIVATIVE FINANCIAL INSTRUMENTS				**(76,387)**

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 Power;
- ISAB Energy;
- company in the Renewable energies sector.

As of 31 December 2011 there was a total negative fair value in the amount of approximately EUR 76 million. The change is recognised in the Cash Flow Hedge reserve.

B Product differential/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 financial instrument is guaranteed.
The positive fair value at 31 December 2012 is not significant.

C 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.
The negative fair value at 31 December 2012 is not significant.

NON HEDGE ACCOUNTING INSTRUMENTS

D 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 2013.
The positive fair value at 31 December 2012 is not significant.

E 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.
The positive fair value at 31 December 2012 is not significant.

NOTE 47 – INDEPENDENT AUDIT FEES

In accordance with Article 149-duodecies of Consob's Issuers' Regulations, we set out below the costs for 2012 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.

	2012
AUDITING SERVICES	573
SERVICES OTHER THAN AUDITING	569
TOTAL	**1,142**

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 74 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 226 thousand;
- other services for EUR 269 thousand pertaining mainly to agreed-upon procedures performed voluntarily on quarterly data and other minor services.

The fees accrued in 2012 for the services performed by Reconta Ernst & Young S.p.A., audit firm of the ERG Renew Group, appointed by the Shareholders' Meeting on 14 April 2012, are also shown.

	2012
AUDITING SERVICES	225
SERVICES OTHER THAN AUDITING	220
TOTAL	**445**

NOTE 48 – OTHER INFORMATION

Disclosures 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 7 March 2013, 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, 7 March 2013

On behalf of the Board of Directors
The Chairman
Edoardo Garrone

REPRESENTATIONS COVERING THE CONSOLIDATED FINANCIAL STATEMENTS PURSUANT TO ARTICLE 81 OF CONSOB REGULATION NO. 11971 DATED 14 MAY 1999, AS AMENDED

1. The undersigned Luca Bettonte, Chief Executive Officer of ERG S.p.A, and Giorgio Coraggioso, Manager responsible for preparing the financial reports of ERG S.p.A, taking into account the provisions set out in Article 154-bis, subsections 3 and 4, of Italian Legislative Decree no. 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 Consolidated Financial Statements as of and for the year ended 31 December 2012.

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 2012 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 by 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, 7 March 2013

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 2012 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 Italian Legislative Decree no. 39 of 27 January 2010 and with Article 41 Paragraph 2 of Italian 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:

- verifying the existence and adequacy, within the organisation of ERG S.p.A., of a function responsible for relations with subsidiaries and affiliates;
- examining 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;
- obtaining 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. to obtain 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 we have become aware in the performance of our supervisory duties and in the exercise of our 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 20% equity investment in 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 presented 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 Ginestra wind farm of ERG Renew S.p.A. 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 2012 Financial Statements;
- 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 Italian Legislative Decree 58/1998 (Consolidated Finance Act).

On 20 March 2013, the Independent Auditors issued the report in accordance with Articles 14 and 16 of Italian Legislative Decree 39/2010, declaring that the consolidated financial statements as at 31 December 2012 are in accordance with the IFRS, and with the regulations promulgated to implement Article 9 of Italian 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, 20 March 2013

The Board of Statutory Auditors
Mario Pacciani

Paolo Fasce

Lelio Fornabaio

AUDITORS' REPORT

Deloitte.

Deloitte & Touche S.p.A.
Mura di Santa Chiara, 1
16128 Genova
Italia

Tel: +39 010 5317011
Fax: +39 010 5317022
www.deloitte.it

AUDITOR'S REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS PURSUANT TO ART. 14 AND 16 OF LEGISLATIVE DECREE N. 39 OF JANUARY 27, 2010

To the Shareholders of
ERG S.p.A.

1. We have audited the consolidated financial statements of ERG S.p.A. and its subsidiaries (the "ERG Group") as of and for the year ended December 31, 2012, which comprise the consolidated statement of financial position, the consolidated income statement, the consolidated statement of other components of comprehensive income, the consolidated statement of cash flows, the consolidated statement of changes in shareholders' equity and the related notes to the consolidated 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 auditor's report issued on March 13, 2012.

3. In our opinion, the consolidated financial statements of the ERG Group as of December 31, 2012 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, 2012.

DELOITTE & TOUCHE S.p.A.

Signed by
Fabrizio Fagnola
Partner

Genoa, Italy
March 20, 2013

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

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NOTES TO THE SEPARATE FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION

(EUR)	NOTES	12/31/2012		12/31/2011	
INTANGIBLE FIXED ASSETS	1		3,400,980		6,487,698
GOODWILL	2		2,777,255		5,554,510
PROPERTY, PLANT AND MACHINERY	3		13,943,637		14,850,309
EQUITY INVESTMENTS	4		1,157,704,353		1,534,883,032
OTHER FINANCIAL ASSETS	5		166,960,246		149,507,842
OF WHICH WITH RELATED PARTIES	37	*166,848,796*		*148,574,076*	
DEFERRED TAX ASSETS	6		31,471,597		23,559,857
OTHER NON-CURRENT ASSETS	7		2,740,142		1,386,430
NON-CURRENT ASSETS			**1,378,998,209**		**1,736,229,679**
INVENTORIES	8		158,005,419		265,427,007
TRADE RECEIVABLES	9		394,876,568		505,493,052
OF WHICH FROM RELATED PARTIES	37	*89,020,642*		*159,392,298*	
OTHER RECEIVABLES AND CURRENT ASSETS	10		109,832,283		120,822,689
OF WHICH FROM RELATED PARTIES	37	*49,383,551*		*76,094,705*	
CURRENT FINANCIAL ASSETS	11		56,972,570		54,183,466
OF WHICH FROM RELATED PARTIES	37	*31,297,885*		*37,290,701*	
CASH AND CASH EQUIVALENTS	12		840,992,952		410,828,864
CURRENT ASSETS			**1,560,679,791**		**1,356,755,078**
TOTAL ASSETS			**2,939,678,000**		**3,092,984,757**
SHAREHOLDERS' EQUITY	13		**1,551,592,486**		**1,615,182,308**
EMPLOYEES' SEVERANCE INDEMNITIES	14		1,225,156		1,273,094
DEFERRED TAX LIABILITIES	15		6,011,091		8,492,109
PROVISIONS FOR NON-CURRENT LIABILITIES AND CHARGES	16		10,648,170		10,649,298
NON-CURRENT FINANCIAL LIABILITIES	17		119,684,148		283,629,946
OTHER NON-CURRENT LIABILITIES	18		7,670,109		6,602,594
OF WHICH TOWARDS RELATED PARTIES	37	*5,810,916*		*6,602,594*	
NON-CURRENT LIABILITIES			**145,238,674**		**310,647,042**
PROVISIONS FOR CURRENT LIABILITIES AND CHARGES	19		53,762,660		51,678,611
TRADE PAYABLES	20		583,009,222		706,687,369
OF WHICH TOWARDS RELATED PARTIES	37	*47,215,386*		*94,617,746*	
CURRENT FINANCIAL LIABILITIES	21		573,207,466		316,192,082
OF WHICH TOWARDS RELATED PARTIES	37	*72,099,128*		*5,258,304*	
OTHER CURRENT LIABILITIES	22		32,867,493		92,597,345
OF WHICH TOWARDS RELATED PARTIES	37	*19,734,157*		*27,738,836*	
CURRENT LIABILITIES			**1,242,846,840**		**1,167,155,407**
TOTAL LIABILITIES AND EQUITY			**2,939,678,000**		**3,092,984,757**

INCOME STATEMENT

(EUR)	NOTES	2012		2011	
REVENUES FROM ORDINARY OPERATIONS	25		7,357,142,833		6,105,826,593
OF WHICH FROM RELATED PARTIES	37	*1,212,162,614*		*1,274,155,001*	
OF WHICH NON-RECURRING ITEMS	36	*5,385,000*		*–*	
OTHER REVENUES AND INCOME	26		21,835,711		19,834,085
OF WHICH FROM RELATED PARTIES	37	*10,861,053*		*11,887,536*	
CHANGES IN PRODUCT INVENTORIES	27		(129,963,430)		57,510,023
CHANGE IN RAW MATERIALS INVENTORIES	27		22,541,843		(43,297,598)
COST OF PURCHASES	28		(6,824,842,522)		(5,598,476,277)
OF WHICH TOWARDS RELATED PARTIES	37	*(152,815,434)*		*(236,982,953)*	
COSTS FOR SERVICES AND OTHER COSTS	29		(542,862,812)		(639,209,604)
OF WHICH TOWARDS RELATED PARTIES	37	*(458,967,132)*		*(489,433,967)*	
OF WHICH NON-RECURRING ITEMS	36	*(5,805,000)*		*–*	
PERSONNEL COSTS	30		(34,231,291)		(33,018,605)
OF WHICH NON-RECURRING ITEMS	36	*(956,000)*		*–*	
EBITDA			**(130,379,668)**		**(130,831,383)**
AMORTISATION, DEPRECIATION AND WRITE-DOWNS OF FIXED ASSETS	31		**(5,506,177)**		**(7,250,221)**
GAINS (LOSSES) FROM SALE OF BUSINESS UNIT	32		**(1,630,000)**		**–**
OF WHICH NON-RECURRING ITEMS	36	*(1,630,000)*		*–*	
FINANCIAL INCOME	33		119,790,592		149,998,044
OF WHICH FROM RELATED PARTIES	37	*10,266,994*		*27,313,372*	
FINANCIAL EXPENSES	33		(120,887,363)		(124,621,046)
OF WHICH TOWARDS RELATED PARTIES	37	*(2,929,163)*		*(398,502)*	
NET FINANCIAL INCOME (EXPENSES)	32		**(1,096,771)**		**25,376,998**
OF WHICH NON-RECURRING ITEMS	36	*(4,145,020)*		*–*	
NET INCOME (LOSS) FROM EQUITY INVESTMENTS	33		114,832,885		98,613,944
OF WHICH NON-RECURRING ITEMS	36	*69,019,510*		*59,717,063*	
OTHER NET INCOME (LOSS) FROM EQUITY INVESTMENTS			–		–
NET INCOME (LOSS) FROM EQUITY INVESTMENTS			**114,832,885**		**98,613,944**
PROFIT BEFORE TAXES			**(23,779,732)**		**(14,090,662)**
INCOME TAXES	35		45,278,757		34,018,877
OF WHICH NON-RECURRING ITEMS		*53,951*		*–*	
NET PROFIT (LOSS) FROM CONTINUING OPERATIONS			**21,499,025**		**19,928,215**
NET PROFIT (LOSS) FROM DISCONTINUED OPERATIONS			–		–
NET INCOME (LOSS) FOR THE YEAR			**21,499,025**		**19,928,215**

STATEMENT OF OTHER COMPONENTS OF COMPREHENSIVE INCOME

(EUR THOUSAND)	2012	2011
NET INCOME (LOSS) FOR THE YEAR	**21,499**	**19,928**
CHANGES IN THE CASH FLOW HEDGE RESERVE	(678)	(4,400)
CHANGES IN SECURITIES AVAILABLE FOR SALE	–	(57)
INCOME TAX ON OTHER COMPONENTS OF COMPREHENSIVE INCOME	241	1,668
OTHER COMPONENTS OF COMPREHENSIVE INCOME AFTER TAX	**(437)**	**(2,790)**
COMPREHENSIVE NET PROFIT (LOSS) FOR THE PERIOD	**21,062**	**17,138**

STATEMENT OF CASH FLOWS

(EUR THOUSAND)	NOTES	12/31/2012	12/31/2011
CASH FLOWS FROM OPERATING ACTIVITIES (A)			
NET PROFIT (LOSS) FROM CONTINUING OPERATIONS		21,499	19,928
- AMORTISATION, DEPRECIATION AND WRITE-DOWNS OF FIXED ASSETS	31	5,507	7,250
- NET CHANGE IN PROVISION FOR LIABILITIES AND CHARGES	16,19	2,084	15,847
- NET CHANGE IN DEFERRED TAX ASSETS AND LIABILITIES	6, 15	(10,392)	(2,393)
- WRITE-DOWN OF RECEIVABLES	9	1,792	8,264
- NET CAPITAL GAIN/LOSS ON SALE OF NON-CURRENT ASSETS		(853)	84
- NET WRITE-DOWNS OF FINANCIAL FIXED ASSETS	4	148,717	33,981
- CAPITAL GAIN ON EXERCISE OF PUT OPTION IN ISAB S.R.L. (1)		(261,868)	(122,327)
- NET CHANGE IN EMPLOYEES' SEVERANCE INDEMNITIES	14	(48)	(612)
CASH FLOW BEFORE CHANGES IN WORKING CAPITAL		**(93,562)**	**(39,977)**
CHANGE IN WORKING CAPITAL:			
- CHANGE IN INVENTORY	8	107,422	(14,212)
- CHANGE IN TRADE RECEIVABLES	9	108,825	(214,790)
- CHANGE IN TRADE PAYABLES	20	(123,709)	143,110
- NET CHANGE IN OTHER RECEIVABLES/PAYABLES AND OTHER ASSETS/LIABILITIES		(48,177)	(24,687)
		44,361	**(110,580)**
TOTAL		**(49,200)**	**(150,556)**
CASH FLOWS FROM INVESTING ACTIVITIES (B)			
ACQUISITION OF INTANGIBLE FIXED ASSETS AND GOODWILL	1, 2	(1,795)	(4,256)
ACQUISITION OF PROPERTY, PLANT, AND MACHINERY	3	(398)	(429)
ACQUISITION OF EQUITY INVESTMENTS	4	(1,883)	(474,068)
COLLECTION FROM EXERCISE OF PUT OPTION ISAB S.R.L. (1)		484,666	244,866
DISPOSALS OF INTANGIBLE FIXED ASSETS	1	642	212
DISPOSALS OF PROPERTY, PLANT AND MACHINERY	3	891	(19)
DISPOSALS OF EQUITY INVESTMENTS	4	10,324	68
TOTAL		**492,447**	**(233,626)**
CASH FLOWS FROM FINANCING ACTIVITIES (C)			
NEW NON-CURRENT LOANS		-	-
REPAYMENT OF NON-CURRENT LOANS		(134,786)	(220,802)
NET CHANGE IN OTHER NON-CURRENT FINANCIAL ASSETS/LIABILITIES	5, 17	(47,409)	385,106
NET CHANGE IN SHORT-TERM BANK BORROWINGS	21	256,991	(452,331)
NET CHANGE IN OTHER CURRENT FINANCIAL ASSETS	11	(2,790)	30,179
SHARE CAPITAL INCREASES/REPAYMENTS		–	–
DIVIDENDS		(58,980)	(59,288)
OTHER CHANGES IN SHAREHOLDERS' EQUITY	13	(26,110)	(2,790)
TOTAL		**(13,084)**	**(319,926)**
CASH FLOWS FROM DISCONTINUED OPERATIONS (D)		**–**	**–**
NET CASH FLOW FOR THE YEAR (A+B+C)		**430,162**	**(704,109)**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	12	**410,829**	**1,114,939**
NET CASH FLOW FOR THE YEAR		430,162	(704,109)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	12	**840,993**	**410,829**

(1) Please refer to the paragraph "**Put Option on equity investment in 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 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 AT 12/31/2011	**15,032**	**1,580,223**	**19,928**	**1,615,182**
ALLOCATION OF 2011 PROFIT	–	19,928	(19,928)	–
DIVIDENDS	–	(58,980)	–	(58,980)
ACQUISITION OF TREASURY SHARES	–	(25,673)	–	(25,673)
2012 PROFIT	–	–	21,499	21,499
CHANGES IN THE CASH FLOW HEDGE RESERVE	–	(437)	–	(437)
CHANGES IN AVAILABLE FOR SALE RESERVE	–	–	–	–
OTHER CHANGES	–	–	–	–
BALANCE AS AT 12/31/2012	**15,032**	**1,515,061**	**21,499**	**1,551,592**

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 the generation of energy from renewable sources and from thermoelectric plants, in the marketing of electricity, steam and gas, in the refining and distribution of petroleum products both in Italy and abroad.

CRITERIA FOR THE PREPARATION OF THE SEPARATE FINANCIAL STATEMENTS

The Separate Financial Statements as of and for the year ended 31 December 2012 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 2012 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 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.

ACCOUNTING STANDARDS AND VALUATION CRITERIA

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 2012.

INTANGIBLE 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. The

amortisation 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.
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.
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.
There were no finance lease transactions as defined in IAS 17.
The depreciation rates applied are as follows:

	%	PERCENTAGE OF DEPRECIATION AS OF 12/31/2012
INDUSTRIAL BUILDINGS	2.75 - 5.5	48%
GENERAL PLANT	10	51%
OFFICE FURNITURE AND FITTINGS	12	64%
ELECTRONIC MACHINERY	20	75%
EQUIPMENT	25	100%
INCREMENTAL EXPENSES	8 - 25	61%

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 amount of the asset to determine the amount of any impairment losses.

The recoverable amount 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.
An impairment loss is recognised if the recoverable value is less than the carrying amount. Should the impairment of a fixed asset, other than goodwill, subsequently no longer apply or be reduced, the carrying amount of the asset or cash-generating unit is increased up to the new estimate of the recoverable amount, without exceeding the amount 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 the income statement.
The risk arising from any losses exceeding shareholders' equity is recognised in a specific reserve to the extent that the investor has committed to meet legal or constructive obligations vis-à-vis the investee company or in any case to cover its losses.

FINANCIAL ASSETS

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

- financial assets at fair value through profit or loss (FVTPL);
- held-to-maturity (HTM) investments;
- loans and 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 amortisation process.
As of 31 December 2012, ERG held no investments classified as HTM.

- **Loans and 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 and receivables are derecognised for accounting purposes or if impairment occurs, as well as via the amortisation 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.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, 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 provides the following measurement methods: fair value method and amortised cost method.

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 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 and 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 method.

Every gain or loss is recognised in the income statement when the liability is settled, as well as via the amortisation process.

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

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

DERECOGNITION OF FINANCIAL ASSETS AND LIABILITIES

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

- the rights to receive cash flows from the asset have expired;
- ERG 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 recognised at their fair value and the effects are presented in the income statement; accordingly, the hedged instruments are adjusted to reflect changes in the fair value associated with the hedged risk.

When the derivatives hedge 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). 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 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.

Actuarial 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 abovementioned 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 2012, 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 upon different contractual specifications, or upon 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, the financial statements include deferred tax assets and deferred tax liabilities arising from the temporary differences between statutory performance and the related taxable income, including those stemming from previous years' 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 recognised in the Separate 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.

As a result of the promulgation of Italian Law Decree no. 201/2011 and of the subsequent implementing Instruction of the Italian Fiscal Revenue Agency's Director, Protocol no. 2012/140973 of 17 December 2012 (which approved the Application for reimbursement and related instructions), in line with the indications provided by Assonime in Circular no. 1/2013, receivables were recognised deriving from the non-deduction, for IRES purposes, of the IRAP relating to expenses for employees and similar personnel for the tax periods from 2007 to 2011, with total amount of approximately EUR 1.9 million.

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 (TUIR) 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 had already been applied starting in 2011 and as clarified by circular 53/E 2011 by the Italian Fiscal Revenue Agency, also with effect on the tax losses generated prior to 2011 and still being carried forward according to previous regulations.

ENVIRONMENTAL CERTIFICATES

- "**White certificates**" (Energy Efficiency Certificates) are assigned upon achievement of energy savings through the application of efficient technologies and systems. "White certificates" are recorded among marketable financial assets in consideration of the existence of an active market organised and managed by the Electricity Market Operator (GME).
  "White certificates" are accounted for on an accrual basis and recognised among other current assets, in proportion to the savings of TOE (Tonnes of Oil Equivalent) actually recorded during the year. They are measured at their market value of the last month of the year, unless the market value at the end of the year is significantly lower than the "white certificates" intended for the market.
  The value of the "white certificates" intended for withdrawal by the GSE is measured on the basis of the value established in Article 9, paragraph 2 of Italian Ministerial Decree dated 5 September 2011, or at their prevailing price at the time the co-generation unit started operations. For the co-generation units that started operations before the entry into force of the aforementioned Italian Ministerial Decree, the reference price is the prevailing price at the same date of entry into force. The withdrawal price remains constant during the subsidised period.

- In relation to the obligation to hand over **the** "**green certificates**" **from non renewable sources** to the GSE, said certificates are recognised on an accrual basis. If the quantity of "green certificates" purchased before the end of the year of accrual is lower than the quantity necessary to fulfil legal obligations, the company recognises the expense still to be incurred for the certificates not yet purchased, as an offset to the liability to the GSE.
  If instead, at the end of the year, the quantity of "green certificates" purchased before the end of the year of accrual exceeds the quantity required to fulfil the legal obligation, the company recognises a prepaid expense equal to the costs to be adjusted, because they will accrue the following year.

  They are measured at purchase price if the purchase is completed before the end of the year.
  If the purchase is not completed at the end of the year, then the expense is measured at a price amounting 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 published by the Italian Authority for Electrical Energy and Gas, no later than the 31st of January of each year.

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 very nature, estimates and assumptions used may vary from year to year, and therefore, it cannot be excluded that in subsequent years the current financial statement values may differ as a result of the change in the subjective assessments used.
The main estimates for which the use of subjective assessments is more heavily required were used, inter alia, for:

- 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 equity investment in ISAB S.r.l."**);
- the impairment test for intangible and tangible fixed assets and for other equity investments, described in detail in the **Impairment test on equity investments** 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 determination of the purchase price of the feedstock produced by the IGCC plant of the subsidiary ISAB Energy S.r.l. The price is indexed to the CEC (Avoided Cost of Fuel) component applied in sales of electricity by ISAB Energy.

  To estimate said component for 2012, the procedures prescribed since 2010 by the official regulatory reference represented by Italian Ministerial Decree of 20 November 2012 were used.

  However, it cannot be excluded that the Italian Ministry of Economic Development may, during 2013, accept, even if only to a partial extent, the methodological elements proposed by the AEEG with its (non binding) opinion no. 535/2012/EEL of 13 December 2012, with the risk of impacts on the CEC from 2012 onwards. Based on the information current available, this hypothesis, while possible, is deemed unlikely by the Company, both for legal and technical reasons.

Estimates and assumptions are revised periodically and the effects of each change are reflected in the income statement in the period when the change took place.

ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS APPLIED STARTING ON 1 JANUARY 2012

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. The adoption of this amendment did not have any effect from the viewpoint of the measurement of items in the Separate 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 November 2009, the IASB issued the following new standard, to be applied from 1 January 2015 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 amendment.

- **IFRS 9 – Financial Instruments.**

  The amendments pertain to the criteria for the recognition and measurement of financial assets and their classification in the financial statements. In particular, the new provisions establish, inter alia, a model for the classification and measurement of financial assets, based solely on the following categories: (i) assets measured at amortised cost; (ii) assets

measured at fair value. The new provisions, moreover, prescribed that equity investments other than those in subsidiaries, joint ventures or affiliates shall be measured at fair value, recognising the effects in the income statement. If said equity investments are not held for trading purposes, fair value changes may be recognised in the statement of comprehensive income, maintaining in the income statement solely the effects connected with the distribution of dividends; when the equity investment is sold, the amounts recognised in the statement of comprehensive income shall not be allocated in the income statement. Moreover, on 28 October 2010 the IASB complemented the provisions of IFRS 9 including the criteria for the recognition and measurement of financial liabilities. In particular, the new provisions require, inter alia, that if a financial liability is measured at fair value, allocating the effects in the income statement, fair value variations connected to changes in the issuer's credit risk ("own credit risk") shall be recognised in the statement of comprehensive income; said component shall be recognised in the income statement to assure the symmetric representation with other financial statement items connected with the liability, avoiding accounting mismatches. The provisions of the IFRS 9 shall be effective starting from financial years beginning after 1 January 2015.

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 17 May 2012, the IASB issued amendments to **IAS 1 – Presentation of Financial Statements**. The amendments clarify that if additional comparative information is provided, it must be presented in accordance with IAS/IFRS. They also clarify that if an entity changes an accounting standard or performs a retrospective adjustments/ reclassification, that entity shall present a statement of financial position also at the start of the comparison period ("third statement of financial position" in the financial statements), whilst in the explanatory notes no comparative disclosures are required also for this "third statement of financial position", aside from the items of interest. The amendments shall be applicable for the financial years starting on or after 1 January 2013, with early application allowed.

- On 17 May 2012, the IASB issued an amendment to **IAS 16 – Property, Plant and Equipment**, which clarifies that servicing equipment shall be classified under Property, plant and equipment if used for more than one financial year, otherwise under inventories. The amendment shall be applicable for the financial years starting on or after 1 January 2013, with early application allowed.

- On 17 May 2012, the IASB issued amendments to **IAS 32 – Financial Instruments Presentation**, to clarify that direct taxes on distributions to owners of equity instruments and on transaction costs on equity instruments follow the rules of IAS 12. This amendment shall be applicable for the financial years starting on or after 1 January 2013, with early application allowed.

- On 17 May 2012, the IASB issued an amendment to **IAS 34 – Interim Financial Reporting**, to clarify that the total of the assets for a reportable segment shall be reported only if this information is regularly provided to the chief operating decision maker of the entity and a material change has occurred in the total assets of the segment with respect to the figures reported in the last annual financial statements. The amendment shall be applicable for the financial years starting on or after 1 January 2013, with early application allowed.

- Guide to the transition (**IFRS 10, IFRS 11, IFRS 12**): on 28 June 2012, the IASB issued the document "Consolidated Financial Statements, Joint Arrangements and Disclosure of

Interests in Other Entities", providing some clarifications and simplifications with reference to the transition requirements of the IFRS 10, IFRS 11 and IFRS 12 standards. The provisions shall be effective for the financial years starting on or after 1 January 2013.

- Investment entities (**IFRS 10; IFRS 12 and IAS 27**): on 31 October 2012, the IASB issued the document "Investment Entities" which regulates the activities carried out by specific types of entities qualified as investment entities. The IASB identifies as investment entities those entities whose sole purpose is to obtain an increase in the invested capital or income from the investment or both. The provisions shall be effective starting from financial years beginning on or after 1 January 2014.

Lastly, the IASB issued the **following amendments**; the process for their endorsement by the European Union had been completed by the date of this Report, but the amendments have not been adopted early by the Group:

- **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 Statements 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.

- **IAS 27 – Consolidated and Separate Financial Statements:** the purpose of the amendment to IAS 27 is to provide the rules to be enforced in accounting for equity investments in subsidiaries, jointly controlled entities and associates in the preparation of the Separate Financial Statements. The amendment, then, retains unchanged the prescriptions for the Separate Financial Statements, replacing the parts relating to the statutory financial statements with the prescriptions of the new IFRS 10, referenced herein for additional details.
- **IAS 28 – Investments in Associates and Joint Ventures:** the amendment to IAS 28 (as amended in 2011) defines the requirements for the application of the equity method in accounting for investments in associates and joint ventures.

- 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 its sale. As a result of this amendment, SIC-21 – Income Taxes – Recovery of Revalued Non-Depreciable Assets will not be applicable. The amendment would have been applicable starting 1 January 2012.

- 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.

- 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" 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 liabilities discount rate and not on the expected return of the assets, as before. Lastly, the amendment introduces new additional disclosures to be provided in the notes to the financial statements. The amendment is applicable from the year starting on or after 1 January 2013.

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.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) was EUR 205 million; in accordance with the agreement provisions, 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 final 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 was considered a non-recurring item.

- **Sale of 20% of ISAB S.r.l. in 2012**

3 September 2012 was the closing date of the transaction related to the exercise of the put option by ERG for 20% of the share capital of ISAB S.r.l. LUKOIL paid ERG provisional consideration of EUR 485 million, including the value of inventory.
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 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 transaction, ERG's share decreased from 40% to 20% thus qualifying as an investment in an associate and no longer a joint control interest.
ERG maintains 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 main impacts of the transaction were as follows:

- a reduction in the value of the equity investment in ISAB S.r.l. by EUR 220 million, and of goodwill correlated therewith by EUR 3 million;
- an improvement in net financial position by approximately EUR 485 million in relation to the collection of the sale price;
- recognition of the realised gain, amounting to EUR 257 million net of related tax effects;
- recognition of ancillary charges related to the transaction, amounting approximately to EUR 8 million.

Lastly, on 31 January 2013 the balance of the definitive sale price, amounting to EUR 9 million, was collected.
With regard to the fair value measurement of the put option extant at 31 December 2012, please refer to the next paragraph.

- **Measurement of the put option**

The fair value of the put option pertaining to the 20% held as at 31 December 2012 depends on the fair value of the underlying asset.
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 Separate Financial Statements, the put option could not be presented at fair value as of 31 December 2012.

ACQUISITION OF TREASURY SHARES

On **10 May 2012**, the Board of Directors of ERG S.p.A. resolved to start implementing the plan to purchase and sell treasury shares, in accordance with the resolution of the Ordinary Shareholders' Meeting of 20 April 2012.

- **Purpose and Duration**

The plan entails the purchase and sale of ERG ordinary shares as a form of investment to optimise the capital structure in view of maximising value creation for the company and its shareholders, for up to 12 months starting on 20 April 2012, i.e. the date on which the aforesaid Shareholders' Meeting gave its authorisation.

- **Price and number of shares**

The purchase and sale of the shares are carried out in compliance with the shareholders' meeting resolution dated 20 April 2012.
The maximum number of shares which can be purchased to implement the plan approved by the Board of Directors is 5,416,000 (representing 3.6% of the share capital), with maximum outlay of EUR 35,200,000, without prejudice for any and all other limitations which may derive from provisions of law or from any further resolutions by the Shareholders' Meeting.
As at the date of the resolution by the Board of Directors, the Company owned 2,100,000 treasury shares (representing 1.397% of share capital).

On **14 May 2012**, ERG disclosed that it had appointed the independent authorised broker Intermonte SIM S.p.A. for the purchase and sale of ERG ordinary shares ("Shares") from 15 May 2012 onwards, according to the provisions of the resolution passed by the Board of Directors of ERG S.p.A. on 10 May 2012 and by the Ordinary Shareholders' Meeting on 20 April 2012.
For additional details about the operating procedures, please refer to the Press Release by ERG S.p.A. dated 14 May 2012 "Agreement for the purchase and sale of treasury shares".

On **25 June 2012** ERG disclosed that it had purchased the maximum number of 5,416,000 shares (representing 3.6% of the share capital) which could be purchased to implement the plan commented above. The total price was EUR 25.6 million (average carrying value EUR 4.735 per share).

Considering the shares already in the portfolio, ERG as at 31 December 2012 held 7,516,000 treasury shares representing 5.0% of the share capital for a total price of EUR 51.8 million (average carrying value of EUR 6.873 per share).
In accordance with IAS 32, treasury shares are presented as a reduction of shareholders' equity, through the use of Paid-in capital in excess of par.

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 an agreement 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, came into force on 1 January 2012.
For more details, please see Note 32.

IMPAIRMENT TEST ON EQUITY INVESTMENTS

- **ERG Renew S.p.A.**

  For the 2012 Separate Financial Statements, as in previous years, the carrying amount of the equity investment in ERG Renew S.p.A. was tested.
  The Company estimated the recoverable amount of the aforesaid asset. According to IAS 36, the recoverable amount of an asset of of a cash-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 amount is based on the following underlying assumptions: discount rates (set at 6.3% for wind farms in Italy, 5.5% for wind farms in France, 8.2% for projects in Romania and 7.6% 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 amount 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 variables in processing and defining the basic assumptions used to determine the recoverable amount of the carrying amounts allocated to the "Renewable Energy Sources" business, and it also carried out a sensitivity analysis on the recoverable amount of the different 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 the event of a 5% reduction in revenues, persistent throughout the time interval of the plan, the value of the equity investment would not have been reduced at all.
  Lastly, a 0.5% increase in the discount rate would not have entailed any reduction in the value 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 amount of non-current assets in the Financial Statements.

- **TotalErg S.p.A.**

  ERG S.p.A. holds a 51% investment in the TotalErg S.p.A. joint venture, incorporated in 2010 through the merger of Total Italia S.p.A in ERG Petroli S.p.A.

  The transaction had entailed loss of control over ERG Petroli S.p.A. (previously, a wholly owned subsidiary) and the acquisition of an equity investment in the aforesaid joint venture recognised in the Financial Statements with the cost method, determined according to the method described below.

  IAS 27 prescribes that as a result of the disposal of controlling shares, any residual interest held in the entity subjected to disposal is measured at fair value.

  The fair value of the new equity investment was determined, at the time of the loss of control, according to the values mutually exchanged by the parties and used for the definition of the share swap for the purposes of reaching the 51/49 interests prescribed by the agreements. Therefore, said fair value represented the initial carrying value of the new company, amounting to EUR 432 million, with the consequent recognition of a capital gain of EUR 346 million in the 2010 income statement. In view of the capital gain in question, the shareholders' meeting to approve the 2010 Financial Statements had made unavailable a portion of the equity reserves of the same amount.

  In 2012, ERG made payments of EUR 1.9 million for future capital increase, raising the value of the equity investment to EUR 434 million.

  TotalErg S.p.A. is one of the primary operators in the integrated downstream market with a network of over 3,000 sales outlets and it is also active in the refining and logistics business.

  In 2012 TotalErg launched a project for the transformation of the Raffineria di Roma into a logistical facility, and a plan to rationalise the sales network, commented below. Moreover, during the year critical elements were noted, caused by significant volatility, particularly accentuated since the second quarter of 2012, of the "OIL" scenario and of the reference market in which the same CGU operates. This scenario had negative effects, specifically both on the final results of the investee and on the expected profitability forecasts.

  On the occasion of these Financial Statements, the value of the equity investment was tested in consideration of the critical issues commented above.

  To conduct this test, an independent expert was appointed in early 2013 and conducted the analysis using the draft Plan already prepared by the TotalErg management for the shareholders ERG S.p.A. and used by ERG for the purposes of the ERG Group's 2013-2015 Business Plan presented to the financial community on 19 December 2012. These assumptions were subsequently complemented according to updates linked to development projects prepared subsequently.

  The assumptions contained in such documents, although still in draft form and not yet approved by the Board of Directors of TotalErg, are deemed by the management to be reasonable and usable for the purposes of the impairment test.

  For the purposes of the test, the CGU consists of TotalErg S.p.A. and by its investees, subsidiaries and associates.

  The measurement was performed using the following criteria and assumptions:

  – Unlevered Discounted Cash Flow on 6 years of explicit projections plus a terminal value[1] calculated applying a multiple between 4.0x and 5.0x (in line with the market multiples observed in the past 10 years in the Integrated Downstream business) to the 2018 EBITDA of TotalErg;

1 To calculate the terminal value, the perpetuity method was not used, because it is not among the usual market practices for TotalErg's reference industry.

- The adopted discount rate is TotalErg's WACC (7.6%) provided by ERG's management, which is substantially in line with the WACC calculated on the basis of market parameters;
- The measurement was carried out on the basis of the draft consolidated economic-financial plan of TotalErg S.p.A., whose scope of consolidation includes TotalErg, Eridis, TotalGaz, Restiani, Guazzotti, Gestioni Europa and Raffineria di Roma;
- The economic-financial plan takes into account updates that rely on higher profitability in terms of EBITDA and improvements to the management of working capital on the basis of already executed agreements. These updates were judged to be reasonably likely by the Management.

The impairment test described above showed a loss deriving from the excess of the carrying value of the TotalErg equity investment in the financial statements of ERG S.p.A. relative to its recoverable value; in particular, the recoverable value, estimated according to the measurement paradigm, was found to be substantially in line with the value of the same equity investment measured according to the equity method in the Consolidated Financial Statements of ERG S.p.A. The impairment, amounting to EUR 148 million, was allocated as a reduction in the value of the equity investment and the write-down was recognised in the income statement.

Sensitivity analysis

The result of the impairment test is derived from the information available to date and from the reasonable estimates on the evolution of variables tied to the expected margins, in particular with changes in the reference economic environment and in the discount rates.In particular, sensitivity analyses were conducted on the basis of changes in the discount rate and in the EV/EBITDA multiples applicable to the EBITDA of the last year of the explicit period.

The analyses showed that:

- a 0.5% increase in the discount rate would entail a further decrease by EUR 11 million in the value of the equity investment;
- a decrease in the EV/EBITDA multiple from 4.5x to 4.0x would entail a further decrease by EUR 32 million in the value of the equity investment.

The above analyses confirm the sensitivity of the assessments of the recoverability of the equity investment 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 Separate Financial Statements.

- **ERG Nuove Centrali S.p.A.**

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 Business Unit, which operates the CCGT through a tolling agreement and places the generated energy on the free market.

In the preparation of the 2011 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.
Said test had resulted in an impairment of EUR 63 million, net of the tax effect. This impairment was allocated to the carrying value of the equity investment in ERG Nuove Centrali, which therefore had been completely written off. The residual difference (amounting to EUR 29 million) was then recognised in a provision for charges on equity investments.
For the 2012 financial statements, the aforesaid values were tested, estimating 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. 6.6%.
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.
The impairment test described above substantially confirmed the values recognised in the 2011 financial statements.
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 CCGT plant and it also carried out a sensitivity analysis on the recoverable value of the CGU: this analysis showed that if the cost saving targets were attained, the recoverable value would increase by approximately EUR 11 million. If, on the contrary, certain currently foreseeable profitability targets linked to the plant modulation capacity were not positively attained, then the recoverable value would decrease by EUR 11 million.
Lastly, it should be noted that a 0.5% increase in the discount rate would have resulted in a decrease amounting to approximately EUR 8 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 continue systematically to 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 Separate Financial Statements.

ANALYSIS OF THE STATEMENT OF FINANCIAL POSITION

NOTE 1 – INTANGIBLE FIXED ASSETS

	OTHER INTANGIBLE ASSETS	ASSETS IN PROGRESS	TOTAL
BALANCE AS AT 12/31/2011	**5,325**	**1,163**	**6,488**
MOVEMENTS DURING THE YEAR:			
ACQUISITIONS	1,281	514	**1,795**
CAPITALISATION/RECLASSIFICATION	1,157	(1,157)	**–**
DISPOSALS AND DIVESTMENTS	(642)	–	**(642)**
AMORTISATION	(4,240)	–	**(4,240)**
BALANCE AS AT 12/31/2012	**2,881**	**520**	**3,401**

To enhance understandability, movements during the period relating to reclassifications, disposals and divestments are shown net of the related accumulated amortisation 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 2,777 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 2011 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 subject to impairment test on an annual basis or with higher frequency if there are indications, during the year, that the asset may have been 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	16,716	769	10,295	53	**27,833**
ACCUMULATED DEPRECIATION AND WRITE-DOWNS	(6,148)	(377)	(6,458)	–	**(12,983)**
BALANCE AS AT 12/31/2011	**10,568**	**392**	**3,837**	**53**	**14,850**
MOVEMENTS DURING THE YEAR:					
ACQUISITIONS	–	71	222	105	**398**
CAPITALISATION/RECLASSIFICATION		14	21	(34)	**–**
DISPOSALS AND DIVESTMENTS	(38)	–	–	–	**(38)**
OTHER CHANGES	–	–	–	–	**–**
DEPRECIATION	(488)	(62)	(717)	–	**(1,267)**
HISTORICAL COST	16,678	849	10,538	124	**28,188**
ACCUMULATED DEPRECIATION AND WRITE-DOWNS	(6,636)	(434)	(7,175)	–	**(14,245)**
BALANCE AS AT 12/31/2012	**10,042**	**415**	**3,363**	**124**	**13,944**

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 the year:

	EQUITY INVESTMENTS				
	SUBSIDIARY COMPANIES	JOINT VENTURE	ASSOCIATES	OTHER COMPANIES	TOTAL
HISTORICAL COST	754,111	882,018	18,508	491	**1,655,127**
WRITE-DOWNS	(110,043)	(8,384)	(1,819)	–	**(120,246)**
BALANCE AS AT 12/31/2011	**644,068**	**873,635**	**16,689**	**491**	**1,534,883**
MOVEMENTS DURING THE PERIOD:					
ACQUISITIONS/SHARE CAPITAL INCREASES	–	1,883	–	–	**1,883**
DISPOSALS AND DIVESTMENTS	–	(220,021)	(10,324)	–	**(230,345)**
WRITE-DOWNS/USE OF PROVISION TO COVER LOSSES	–	(148,717)	–	–	**(148,717)**
RECLASSIFICATIONS	–	(220,021)	220,021	–	
HISTORICAL COST	754,111	443,860	228,205	491	**1,426,666**
WRITE-DOWNS	(110,043)	(157,101)	(1,819)	–	**(268,963)**
BALANCE AS AT 12/31/2012	**644,068**	**286,760**	**226,386**	**491**	**1,157,704**

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

- On **20 June 2012**, the entire equity investment held by ERG S.p.A. in Espansione S.r.l. Soluzioni per l'Energia was sold.
- On **3 September 2012**, ERG S.p.A sold 20% of its interest in ISAB S.r.l. for a provisional price of EUR 485 million. For additional details, please see the Section "**Put Option on equity investment in ISAB S.r.l.**".

- On **13 November 2012** ERG announced its decision to exit the project for the construction of a natural gas storage site in Rivara, in the province of Modena. On **22 November 2012** the Shareholders' Meeting of the Company **ERG Rivara Storage** voted the voluntary reduction of the share capital, releasing the shareholders ERG from the obligation of paying the residual part subscribed but not yet paid, i.e. EUR 3.5 million, net of the simultaneous payment of EUR 1.4 million by ERG and it waives a credit of EUR 0.4 million. The value of the equity investment before the transaction amounted to EUR 9.5 million. Overall, the impact of the above in the income statement was EUR 6.3 million, recognised among **expenses from equity investments**;
- On **27 November 2012** the investee **Ionio Gas S.r.l.** was placed in liquidation. On **30 July 2012**, the Board of Directors of ERG S.p.A. had decided to exit the project for the construction of a Liquefied Natural Gas (LNG) regasification terminal in the Municipality of Melilli, in the Siracusa province, with a capacity of 8 billion cubic metres per year.

Therefore, **Disposals and divestments** refer:

- for EUR 824 thousand, to the divestment of the equity investment in Espansione S.r.l. Soluzioni per l'Energia;
- for EUR 220,021 thousand, to the exercise of the put option on 20% of the ISAB S.r.l. shares, as described in the paragraph Put Option on the equity investment in ISAB S.r.l.;
- for EUR 9,500 thousand, to the sale of the equity investment in ERG Rivara Storage S.r.l. closed on 22 November 2012.

Of the **Write-downs**, EUR 148 million refer to the impairment of the equity investment in TotalErg as a result of the impairment test and EUR 717 thousand refer to the equity investment in Ionio Gas S.r.l., whose carrying value was aligned to the estimate of the liquidation equity as at 31 December 2012.

Reclassifications refer to ISAB S.r.l. which, as a result of the exercise of the put option, is classified as an affiliate and no longer as a joint venture.

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 OFFFICE	SHARE CAPITAL	%	SHAREHOLDERS' EQUITY (1)	NET PROFIT (LOSS) (1)	OUR STAKE IN SHAREHOLDERS' EQUITY (1)	BOOK VALUE
SUBSIDIARIES							
ERG NUOVE CENTRALI S.P.A.	SIRACUSA	5,000	100.00%	10,813	(538)	10,813	–
ERG OIL SICILIA S.R.L.	ROME	6,310	100.00%	35,370	3,634	35,672	13,546
ERG PETROLEOS S.A.	MADRID	3,050	100.00%	(4,654)	(7)	(4,654)	–
ERG RENEW S.P.A.	GENOA	100,000	100.00%	516,830	113	518,971	615,532
ISAB ENERGY S.R.L.	SIRACUSA	5,165	51.00%	484,966	44,039	247,377	14,863
ISAB ENERGY SERVICES S.R.L.	SIRACUSA	700	51.00%	8,387	7,508	4,277	127
TOTAL SUBSIDIARIES							**644,068**
JOINT VENTURE							
IONIO GAS S.R.L. IN LIQUIDATION	SIRACUSA	200	50.00%	3,242	(541)	1,621	950
TOTALERG S.P.A.	ROME	47,665	51.00%	398,590	(136,433)	203,281	285,810
TOTAL JOINT VENTURE							**286,760**
ASSOCIATES							
CONSORZIO DELTA TI RESEARCH	MILAN	50	50.00%	50	–	25	50
I-FABER S.P.A.	MILAN	5,652	23.00%	13,547	1,755	3,116	6,315
ISAB S.R.L.	SIRACUSA	50,000	20.00%	1,057,260	(2,099)	211,452	220,021
TOTAL ASSOCIATES							**226,386**
OTHER COMPANIES							
CAF INTERREGIONALE DIPENDENTI S.R.L.	VICENZA	276	0.04%	980	34	–	–
EMITTENTI TITOLI S.P.A.	MILAN	4,264	0.51%	6,314	959	32	26
MEROIL S.A.	BARCELONA	19,077	0.87%	37,116	3,620	323	310
R.U.P.E. S.P.A.	GENOA	3,058	4.86%	3,167	4	149	155
TOTAL OTHER COMPANIES							**491**
TOTAL EQUITY INVESTMENTS							**1,157,704**

(1) 2012 data for subsidiaries and jointly controlled companies; 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 measurement of the equity investment in TotalErg S.p.A., please see the paragraph entitled **TotalErg S.p.A. 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

	12/31/2012	12/31/2011
BALANCE AT BEGINNING OF PERIOD	**149.508**	**451.227**
MOVEMENTS DURING PERIOD:		
DISBURSEMENTS AND INTEREST	25,449	211,831
REPAYMENTS	(7,175)	(513,064)
WRITE-DOWNS	–	–
RECLASSIFICATIONS	(822)	(486)
OTHER CHANGES	–	–
BALANCE AT END OF PERIOD	**166,960**	**149,508**

The balance of "Other financial assets" as of 31 December 2012 comprises:

- for EUR 133.7 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 24.2 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 3.2% as of 31 December 2012;
- for EUR 8.9 million, the receivable from the subsidiary ISAB Energy S.r.l. relating to the subordinated loan pertaining to the Hydrogen plant owned by ISAB Energy, within which ERG took over from ISAB S.r.l. starting in December 2012.

The net increase of the period, i.e. EUR 17.5 million, is mainly due:

- as to the Subordinated Loan Agreement to ERG Power S.r.l., to new disbursements (EUR 8.8 million), interest accrued during the period (EUR 6.8 million) and repayments of EUR 4.7 million;
- as to the Subordinated Loan Agreement to ISAB Energy S.r.l., to interest accrued during the period (EUR 0.8 million) and repayments of EUR 1 million;
- for EUR 8.9 million for the subordinated loan pertaining to the Hydrogen plant owned by ISAB Energy, within which ERG took over from ISAB S.r.l. starting in December 2012, from the subsidiary ISAB Energy S.r.l.;
- to repayments (EUR 1.5 million) from ERG Renew consequent to the extinction of the credit line;
- as to the receivable from the Italian Carbon Fund, to the reclassification (EUR 0.8 million) from "Other financial assets" to "Other current receivables and assets" as a result of the assignments of Cers during 2012.

NOTE 6 – DEFERRED TAX ASSETS

	12/31/2012		12/31/2011	
	TEMPORARY DIFFERENCES	TAX EFFECT	TEMPORARY DIFFERENCES	TAX EFFECT
PROVISIONS FOR RISK AND FUTURE LIABILITIES	35,430	13,156	29,954	11,296
BAD DEBT PROVISION	3,204	1,089	3,204	1,089
TAX LOSSES AND OTHER TEMPORARY DIFFERENCES	235,866	17,226	35,586	11,174
TOTAL		**31,472**		**23,560**

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") 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 2012, i.e. EUR 31.5 million (EUR 24 million as of 31 December 2011), are mainly recognised in view of tax losses and allocations to provisions for liabilities and charges.

In particular, in view of the provisions of the aforementioned Italian Law no. 111/2011, receivables were recognised pertaining to tax losses from previous periods and for the period, expected to be recovered in the medium term, for an amount of EUR 15 million (6.5% of total tax losses of EUR 232 million).

Additionally, on 13 June 2012 the Company received from the Central Regulatory Directorate of the Italian Revenue Agency notice of the full acceptance of the requests submitted by ERG S.p.A., as a result of the request for private letter ruling filed in September 2011, as to whether it is possible to report, for Robin Hood Tax purposes, previous years' tax losses (amounting to approximately EUR 300 million) and of the excess non-deductible interest expenses (amounting to approximately EUR 45 million) as a result of the merger between ERG S.p.A. - ERG Raffinerie Mediterranee and ERG Power & Gas.

With reference to the tax losses and interest expense commented above, deferred tax assets amounting to approximately EUR 23 million were not recognised in the financial statements.

NOTE 7 – OTHER NON-CURRENT ASSETS

	12/31/2012	12/31/2011
MEDIUM/LONG TERM TAX RECEIVABLES	1,913	–
OTHER MEDIUM/LONG TERM RECEIVABLES	484	918
MEDIUM/LONG TERM ACCRUED INCOME AND PREPAID EXPENSES	344	469
TOTAL	**2,741**	**1,386**

Other non-current assets mainly relate to security deposits for lease agreements, to security deposits paid by the Power & Gas Business Unit to the Electricity Market Operator for the purchase of the "green certificates" on the market, to security deposits paid to the National Grid Operator in view of CIP6 agreements and to accrued income and prepaid expenses relating to IT consulting work.

NOTE 8 – INVENTORY

	12/31/2012	12/31/2011
RAW, ANCILLARY AND CONSUMABLE MATERIALS	103,129	80,587
FINISHED PRODUCTS AND GOODS	54,876	184,840
TOTAL	**158,005**	**265,427**

The carrying value of inventory was determined by applying the weighted average cost method; 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 using the weighted average cost method, and market value.
The value of inventory decreased (EUR -107 million) mainly as a consequence of the combined effect of the decrease in the quantity of product inventories (EUR -212 thousand tonnes), and the increase in the quantities of raw materials (+46 thousand tonnes).
As at 31 December 2012, there were no inventories of finished products referred to purchases intended for resale in the short term (whose value amounted to EUR 75 million as at 31 December 2011).
At 31 December 2012, following comparison with market values, the carrying value of inventory at the end of the period was written down by EUR 5.2 million, increasing the existing inventory write-down provision.

NOTE 9 – TRADE RECEIVABLES

Receivables are summarised as follows:

	12/31/2012	12/31/2011
CUSTOMER TRADE RECEIVABLES	313,019	351,860
RECEIVABLES DUE FROM GROUP COMPANIES	89,021	159,391
BAD DEBT PROVISION	(7,164)	(5,759)
TOTAL	**394,877**	**505,493**

The breakdown of trade receivables is substantially as follows:

- trade receivables amounting approximately to EUR 239 million pertaining to the Refining & Marketing Business Unit relate to deliveries of petroleum products and services performed at market values to third party customers and intercompany and due within twelve months; they declined compared to last year, also as a result of the decrease in the refining business;
- trade receivables amounting approximately to EUR 152 million pertaining to the Power & Gas Business Unit, 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 1.8 million), net of usage (EUR 0.4 million).
The accrual for the period is determined mainly by the non-collectability of residual

receivables as a result of the sale of the business unit pertaining to the sale of electricity to retail customers.
Moreover, the accrual for the period includes EUR 0.2 million in receivables that became uncollectible in 2012.
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 provision", 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 provision changed as follows:

	12/31/2011	ALLOCATIONS	USES	12/31/2012
BAD DEBT PROVISION	5,759	1,792	(387)	7,164
TOTAL	**5,759**	**1,792**	**(387)**	**7,164**

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

(EUR THOUSAND)	12/31/2012 (1)	12/31/2011 (1)
RECEIVABLES NOT YET DUE	**290,482**	**282,511**
RECEIVABLES DUE:		
UP TO 30 DAYS	2,922	20,667
UP TO 60 DAYS	–	1,398
UP TO 90 DAYS	–	1,231
MORE THAN 90 DAYS	12,452	40,294
TOTAL	**305,856**	**346,01**

(1) the table shows the maturities of "Trade receivables" net of "Bad debt provision"

NOTE 10 – OTHER CURRENT RECEIVABLES AND ASSETS

	12/31/2012	12/31/2011
TAX RECEIVABLES	22,411	22,743
OTHER RECEIVABLES DUE FROM GROUP COMPANIES	47,974	76,095
SUNDRY RECEIVABLES	39,447	21,985
TOTAL	**109,832**	**120,823**

"Tax receivables" relate mainly to receivables from the tax authorities for consolidated IRES (EUR 10,322 thousand), to the payment of advances on excise taxes on electricity and gas (respectively, EUR 2,152 thousand and EUR 814 thousand), to the IRES and IRAP of the current year (EUR 2,193 thousand) and to other receivables from Tax Authorities (EUR 4,950 thousand).
"Other receivables due from Group companies" consist of receivables from subsidiaries and jointly controlled companies for "tax consolidation" IRES and Group VAT.
"Sundry receivables" consist mainly of receivables for "green certificates" in inventory for compliance with 2013 obligations, amounting to approximately EUR 32,066 thousand, and receivables for deposits paid to the Electricity Market Operator (EUR 2,163 thousand).

NOTE 11 – CURRENT FINANCIAL ASSETS

	12/31/2012	12/31/2011
FINANCIAL RECEIVABLES FROM SUBSIDIARIES AND ASSOCIATES	31,298	37,290
OTHER SHORT-TERM FINANCIAL RECEIVABLES	25,675	16,892
TOTALE	**56,973**	**54,183**

"Financial receivables from subsidiaries and associates" comprise mainly the receivable from ERG Nuove Centrali S.p.A. (EUR 22,986 thousand) within the centralised treasury agreement and the receivable from ERG Petroleos S.A. (EUR 8,312 thousand).
"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 3,152 thousand), the credit balance for transactions completed as of 31 December 2012 on the same platform (EUR 15,650 thousand) and financial accrued income (EUR 3,981 thousand), credits from IREN for the residual instalments pertaining to the sold business unit (EUR 2,750 thousand).

NOTE 12 – CASH AND CASH EQUIVALENTS

	12/31/2012	12/31/2011
BANK AND POSTAL DEPOSITS	840,988	410,826
CASH AND NOTES ON HAND	5	3
TOTAL	**840,993**	**410,829**

"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, 2011 and 2012.

NOTE 13 – SHAREHOLDERS' EQUITY

Share Capital
Fully paid-in share capital as of 31 December 2012 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 2011).
On 31 December 2012 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%
- ERG S.p.A. (treasury shares) held 7,516,000 shares, i.e. 5.000%;
- Tradewinds Global Investors LLC held 7,455,028 shares, i.e. 4.959%;

As of 31 December 2012, 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.

Treasury shares
On 10 May 2012, the Board of Directors of ERG S.p.A. resolved to start implementing the plan to purchase and sell treasury shares, in accordance with the resolution of the Ordinary Shareholders' Meeting dated 20 April 2012, as a form of investment to optimise the capital structure in view of maximising value creation for the company and its shareholders, with a maximum number of shares which can be purchased of 5,416,000 (representing 3.6% of the

share capital), and a maximum outlay of EUR 35,200,000, without prejudice for any and all other limitation which may derive from provisions of law or from any further resolutions by the Shareholders' Meeting.

As at 31 December 2012 ERG S.p.A., having completed the acquisition plan, held 7,516,000 treasury shares, amounting to 5.0% of share capital. In accordance with IAS 32, treasury shares are presented as a reduction of shareholders' equity, through the use of Paid-in capital in excess of par.
The original cost of treasury shares, write-downs for reductions in value, and gains and losses deriving from any subsequent sales are presented as changes in shareholders' equity.
For additional details, please refer to the paragraph **Acquisition of treasury shares**.

Reserves

	12/31/2012	12/31/2011
PAID-IN CAPITAL IN EXCESS OF PAR	22,863	48,536
LEGAL RESERVE	3,236	3,236
RESERVE FOR FIRST-TIME ADOPTION OF IAS/IFRS AND RETAINED EARNINGS	1,029,465	1,065,905
CASH FLOW HEDGE RESERVE	(568)	(131)
2010 MERGER SURPLUS	250,563	250,563
OTHER RESERVES	209,502	212,114
TOTAL	**1,515,061**	**1,580,223**

- "**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, which took place:
  - in 2006 for an amount of EUR 11,210 thousand,
  - in 2008 for an amount of EUR 14,779 thousand,
  - in 2012 for an amount of EUR 25,672 thousand,
- The "**Reserve for first-time adoption of IAS/IFRS and retained earnings**" consists of adjustments made to the Separate Financial Statements of ERG S.p.A. at the time of conversion (mainly for the derecognition of dividends receivable) and retained earnings. The decrease reflects the allocation of income from the previous year and the distribution of the 2012 dividend.
- The "**Cash flow hedge reserve**" was accrued relative to the fair value of cash flow hedging contracts net of related taxes.
- "**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.

(EUR THOUSAND)	AMOUNT	POSSIBLE USE	AMOUNT AVAILABLE AND DISTRIBUTABLE	PORTION SUBJECT TO TAX ON DISTRIBUTION
SHARE CAPITAL	15,032	–	–	15,032
PAID-IN CAPITAL IN EXCESS OF PAR	22,863	A B C	22,863	–
LEGAL RESERVE	3,236	B	–	–
RESERVE FOR FIRST-TIME ADOPTION OF IAS/IFRS AND RETAINED EARNINGS	1,029,465	A B C	683,062	–
CASH FLOW HEDGE RESERVE	(568)	-	-	–
OTHER RESERVES	460,065	A B C	460,065	226,361
NET PROFIT (LOSS) FOR THE YEAR	21,499	A B C	21,499	–
TOTAL	**1,551,592**		**1,187,489**	**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 (TUIR), 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 11.2 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.
The unavailable portion of the "Reserve for first-time adoption of IAS/IFRS and retained earnings" refers to the unavailable reserve[2] allocated by the Shareholders' Meeting of 14 April 2011 to include part of the earnings of the year 2010, i.e. EUR 346,404 thousand, constituting the unrealised portion, net of the related tax expense, of the capital gain deriving from the incorporation of the TotalErg S.p.A. joint venture.
Following approval of the 2012 Financial Statements, a part of the unavailable portion of the "Reserve for first-time adoption of IAS/IFRS and retained earnings" will be released, i.e. EUR 145,484,000.00 corresponding to the write-down, net of the related tax expense, of the share in the TotalErg S.p.A. joint venture.

NOTE 14 – EMPLOYEES' SEVERANCE INDEMNITIES

	12/31/2012	12/31/2011
BALANCE AT BEGINNING OF PERIOD	**1,273**	**1,885**
INCREASES	1,439	1,535
DECREASES	(1,487)	(2,147)
BALANCE AT END OF PERIOD	**1,225**	**1,273**

2 In accordance with Article 6, paragraph 1, letter a) of Italian Legislative Decree no. 38/2005.

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

	12/31/2012		12/31/2011	
	TEMPORARY DIFFERENCES	TAX EFFECT	TEMPORARY DIFFERENCES	TAX EFFECT
EXCESS AND ACCELERATED DEPRECIATION	18,733	731	39,886	1,555
OTHER FINANCIAL INSTRUMENTS	272	103	349	122
ACTUARIAL VALUATION OF EMPLOYEES' SEVERANCE INDEMNITIES	588	200	588	200
UNREALISED GAINS ON FOREIGN EXCHANGE	4,213	1,432	1,773	603
CAPITAL GAIN ON TOTALERG TRANSACTION	10,220	3,474	17,620	5,990
OTHER DEFERRED TAX LIABILITIES	1,273	71	63	22
TOTAL		**6,011**		**8,492**

Deferred tax liabilities are recognised on 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 oil refining 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 2012 amount to EUR 6.0 million (EUR 8.5 million as of 31 December 2011).

NOTE 16 – PROVISIONS FOR NON-CURRENT LIABILITIES AND CHARGES

The value of provisions for non-current liabilities and charges amounts to EUR 10,648 thousand (EUR 10,649 thousand as of 31 December 2011) and it mainly comprises provisions for environmental liabilities pertaining to the refinery systems of the Priolo site.

NOTE 17 – NON-CURRENT FINANCIAL LIABILITIES

	12/31/2012	12/31/2011
MEDIUM AND LONG TERM MORTGAGES AND LOANS	284,271	419,664
- CURRENT PORTION OF MEDIUM AND LONG TERM LOANS	(165,405)	(136,034)
OTHER MEDIUM AND LONG TERM FINANCIAL DEBTS	818	–
TOTAL	**119,684**	**283,630**

As of 31 December 2012, medium/long-term mortgages and loans totalled EUR 284 million, including EUR 64 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 2012.
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 25 million. The swap fixed the effective interest rate at 1.64%. As of 31 December 2012 the weighted average interest rate on mortgages and loans was 1.79% (2.95% as of 31 December 2011).

The following table shows the breakdown and maturity of existing mortgages and loans:

	MORTGAGES AND LOANS
DUE BY 12/31/2013	165,405
DUE BY 12/31/2014	85,141
DUE BY 12/31/2015	33,725
TOTAL	**284,271**

NOTE 18 – OTHER NON-CURRENT LIABILITIES

The value as of 31 December 2012, i.e. EUR 7,670 thousand (EUR 6,603 at 31 December 2011) 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	
	12/31/2012	12/31/2011	INCREASES	DECREASES
PROVISIONS FOR COVERAGE OF INVESTEE COMPANIES' LOSSES	33,526	33,526	–	–
PROVISIONS FOR ENVIRONMENTAL LIABILITIES	158	158	–	–
PROVISION FOR LEGAL RISKS	1,045	1,541	60	(556)
OTHER PROVISIONS	19,033	16,453	4,524	(1,945)
TOTAL	**53,762**	**51,679**	**4,584**	**(2,500)**

The value of the provisions for liabilities and charges at 31 December 2012 is deemed sufficient to meet possible future liabilities and charges.

NOTE 20 – TRADE PAYABLES

	12/31/2012	12/31/2011
TRADE PAYABLES	535,830	612,069
PAYABLES DUE TO GROUP COMPANIES	47,179	94,618
TOTAL	**583,009**	**706,687**

"Trade payables" stem from commercial transactions with domestic and foreign suppliers and are payable within the next year.
Trade payables decreased compared with 31 December 2011 mainly because of:

- the decrease by EUR 116 million in refining payables, due to business effects, and decreases in payables for purchases and sales, in line with the changes in receivables for purchases and sales carried out in the final months of the year pertaining to the Refining & Marketing

Business Unit;

- the decrease, by approximately EUR 8 million, of trade payables pertaining to the Power & Gas Business. As at 31 December 2012, the item does not include – compared to 2011 – the payables related to the business unit sold with effect since 1 January 2012, whereas it does include trade payables for purchases of electricity and natural gas held for resale to the Refineries and for use by the CCGT.

NOTE 21 – CURRENT FINANCIAL LIABILITIES

	12/31/2012	12/31/2011
SHORT-TERM BANK BORROWINGS		
SHORT-TERM BANK BORROWINGS IN EUROS	335,504	170,954
SHORT-TERM BANK BORROWINGS IN FOREIGN CURRENCIES	–	–
	335,504	**170,954**
OTHER SHORT-TERM FINANCIAL PAYABLES		
SHORT-TERM PORTIONS OF MEDIUM-LONG TERM BANK BORROWINGS	165,405	136,034
FINANCIAL PAYABLES DUE TO GROUP COMPANIES	72,099	8,469
OTHER SHORT-TERM FINANCIAL PAYABLES	199	735
	237,703	**145,238**
TOTAL	**573,207**	**316,192**

As at 31 December 2012, the weighted average interest rate on short-term borrowings was 2.07% (2.48% as at 31 December 2011).

"Financial payables due to Group companies" include mainly:

- the payable to ERG Renew S.p.A. (EUR 23,841 thousand) and to ERG Oil Sicilia S.r.l. (EUR 33,049 thousand) within the respective centralised cash management agreements;
- the payable to ISAB S.r.l. (EUR 15,209 thousand) within the Cash Surplus Management Agreement.

As at 31 December 2012, the payable to ERG Rivara Storage S.r.l. was reduced to zero by effect of the extinction of the payable as a result of the sale of the equity investment, closed on 22 November 2012.

NOTE 22 – OTHER CURRENT LIABILITIES

	12/31/2012	12/31/2011
TAX PAYABLES	3,469	26,828
EXCISE DUTIES PAYABLE TO TAX AUTHORITIES	427	8,361
PAYABLES DUE TO EMPLOYEES	3,683	3,935
PAYABLES DUE TO SOCIAL SECURITY INSTITUTIONS	2,115	2,342
OTHER MINOR CURRENT LIABILITIES	23,173	51,132
TOTAL	**32,867**	**92,597**

"Tax payables" were reduced significantly from 2011 because of lower VAT payables by approximately EUR 9,701 thousand and lower payables to the Customs Office of Augusta by

approximately EUR 11,157 thousand.
The decrease in excise duties payable is due to the sale of the electricity marketing activities, with effect on 1 January 2012.
"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 Management Compensation Plan.
"Payables due to social security institutions" relate to the social contributions to be paid on December 2012 wages and salaries.
"Other minor current liabilities" mainly include payables to investee companies for Group VAT (EUR 10,137 thousand), the payable to investee companies for consolidation IRES (EUR 8,730 thousand) and other payables.
The decrease relative to last year is mainly due to lower advances from third party customers and advances received from ISAB Energy for CO_2.

NOTE 23 – GUARANTEES, COMMITMENTS AND RISKS

	12/31/2012	12/31/2011
SURETIES IN FAVOUR OF GROUP COMPANIES	69,406	65,208
SURETIES ISSUED IN FAVOUR OF THIRD PARTIES	2,676	22,688
OUR COMMITMENTS TO THIRD PARTIES	5,383	8,859
TOTAL	**77,466**	**96,755**

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 503 million (EUR 344 million in 2011) guaranteeing trade receivables existing as of 31 December 2012, issued by banks in favour of the Company's suppliers and forward commitments to purchase currency worth EUR 216 million (EUR 203 million in 2011), 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 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, it should be recalled 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 Inland Revenue Agency with appeal served on 11 January 2012. On 9 March 2012, the counter appeal was filed with the local section of the Regional Tax Commission, preliminarily served to the counterparties, arguing ERG's reasons also for the period after 2006. During the hearing of 11 February 2013, the Attorney General's Office and the Company's legal counsel presented to the Court their respective arguments. The decision is expected by the first half of 2013. Starting from 2007 the related taxes had already been recognised in the separate 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 Versalis S.p.A. (formerly 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 (Generali and Chartis) as third parties in the proceeding and challenged the counterparty's entire claim. ENI Insurance and its re-insurers have also taken part in the lawsuit. At the hearing of 26 October 2011, the terms for the preliminary briefs and the related replies were set. All parties requested that testimonial evidence and expert witness reports be allowed. After the preliminary briefs were filed, the Judge allowed a court-appointed expert witness report (CTU) on a question that seems to exclude from the scope of indemnifiable damages the prejudice to the plaintiff for "impossibility to resume production due to causes deriving from damages to ERG plants or from impossibility for ERG to provide goods and services". The expert witness has not yet started work on the report, because ERG filed a request to challenge the Court-Appointed Expert Witness (CTU) appointed by the Judge; thereupon, the Judge appointed another CTU who was sworn in during the hearing of 19 February 2013. During the same hearing, all parties designated their own expert witnesses (CTP) and the Judge assigned the following terms: to the CTU until 31 October 2013 for the transmittal of the first draft of the report to the parties; to the CTP, until 15 December 2013 for the transmittal of their respective observations; to the CTU until 15 February 2014 to file the final document.

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

	2012	2011
REVENUES FROM SALES	7,218,532	5,954,040
REVENUES FROM SERVICES	138,611	151,786
TOTAL	**7,357,143**	**6,105,827**

The following table shows the breakdown of **revenues from sales** by Business Unit:

	2012	2011
REFINING & MARKETING BUSINESS UNIT	6,336,516	5,166,991
POWER & GAS BUSINESS UNIT	882,016	787,049
TOTAL	**7,218,532**	**5,954,040**

SALES OF THE REFINING & MARKETING BUSINESS UNIT

	2012	2011
THIRD PARTIES	264,375	928,026
GROUP COMPANIES	775,722	869,926
EXPORTS	5,296,419	3,369,039
TOTAL	**6,336,516**	**5,166,991**

The increase compared with 2011 is mainly due to the increase in average sale prices and to the higher traded volumes.

SALES OF THE POWER & GAS BUSINESS UNIT

	2012	2011
ELECTRICITY (1)	487,533	481,332
STEAM	31,499	31,715
DEMINERALISED WATER	5,034	3,918
OTHER UTILITIES	470	401
SALE TO ISAB S.R.L. (ELECTRICITY, GAS AND OTHER)	215,436	173,152
GAS	83,190	71,149
CO_2	33,842	7,190
"GREEN CERTIFICATES"	11,506	10,323
ENERGY EFFICIENCY CERTIFICATES	13,504	7,870
TOTAL	**882,016**	**787,049**

(1) including income deriving from the hedging of zone prices

The revenues of the Power & Gas Business Unit 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 CO_2, "green certificates" and Energy Efficiency Certificates. The income from Energy Efficiency Certificates (TEE) refer to the 2011 high-efficiency cogeneration of the CCGT plant following the Italian Ministerial Decree promulgated

in 2011. The income includes the TEE accrued in 2012. After the letters received from the GSE, the adjustments to the TEE recognised in the financial statements as at 31 December 2011 for 2011 production were allocated, and the TEE on the 2010 production were allocated.

Revenues from services refer mainly to charges for internal consumption to ISAB S.r.l. (EUR 123,575), services rendered to subsidiaries (EUR 11,080 thousand), associated companies (EUR 119 thousand) and joint ventures (EUR 1,608 thousand) and others to third parties.

NOTE 26 – OTHER REVENUES AND INCOME

	2012	2011
OTHER REVENUES FROM GROUP COMPANIES	10,524	11,444
EXPENSE RECOVERIES FROM THIRD PARTIES	4,367	3,393
OTHERS	6,945	4,996
TOTAL	**21,836**	**19,834**

"Other revenues from Group companies" are essentially revenues for the sale of mandatory stocks to ERG Oil Sicilia S.r.l. (EUR 4,117 thousand) and TotalErg S.p.A. (EUR 1,758 thousand) and other recoveries and charges to Group companies.

NOTE 27 – CHANGES IN INVENTORYE

	2012	2011
CHANGES IN PRODUCT INVENTORIES	(129,963)	57,510
CHANGE IN INVENTORIES OF RAW MATERIALS	22,542	(43,298)
TOTAL	**(107,421)**	**14,212**

The values of product and raw material inventories were determined applying the weighted average cost method. The decrease in finished product inventories relates to the lower quantities of goods for resale in the short term (EUR -75 million). The increase by approximately EUR 23 million in raw material inventories is due to the dual effect of increases in the quantity in inventory and in the average prices in the period.

NOTE 28 – COST OF PURCHASES

Cost of purchases, amounting to EUR 6,825 million, refers:

- to the Refining & Marketing Business Unit, 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 Business Unit, in particular to the purchase costs of fuels (diesel and ATZ and BTZ fuel oil by ISAB S.r.l.), utilities (electricity and steam), CO_2 (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

	2012	2011
SERVICE COSTS	516,616	604,611
RENTS AND LEASES	4,810	6,025
ACCRUALS OF BAD DEBT PROVISIONS / LOSSES	–	8,279
ACCRUALS OF PROVISIONS FOR LIABILITIES AND CHARGES	3,351	2,908
DUTIES AND TAXES	13,273	13,064
OTHER OPERATING EXPENSES	4,813	4,323
TOTAL	**542,863**	**639,210**

The breakdown of Service costs was as follows:

	2012	2011
PROCESSING COSTS	323,676	358,072
COMMERCIAL, DISTRIBUTION AND TRANSPORTATION COSTS	25,463	67,162
REPAIRS AND MAINTENANCE	247	438
UTILITIES AND SUPPLIES	557	868
INSURANCE	2,970	4,224
CONSULTANCY AND BROKERAGE	7,344	6,937
ADVERTISING AND PROMOTIONS	1,013	3,059
FEES PAID TO DIRECTORS AND STATUTORY AUDITORS	7,181	8,445
TOLLING FEE	132,935	129,321
OTHER SERVICES	15,229	26,085
TOTAL	**516,616**	**604,611**

The decrease amounting to EUR 87,995 thousand in the value of service costs compared with 31 December 2011 is mainly due:

- to the decrease (EUR 34,396 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 20% of ISAB S.r.l.;
- to the decrease (EUR 41,699 thousand) in "commercial, distribution and transportation costs" mainly generated by the cessation of transport expenses as a result of the sale of the business of selling electricity on the free market;
- to the decrease (EUR 10,856 thousand) in the "other services", mainly because of the lower charges from Terna, tied to the sale of the commercial business unit and to lower other services.

NOTE 30 – PERSONNEL COSTS

	2012	2011
SALARIES AND WAGES	20,442	21,508
SOCIAL SECURITY EXPENSES	6,034	6,525
EMPLOYEES' SEVERANCE INDEMNITIES	1,439	1,437
OTHER COSTS	6,316	3,548
TOTAL	**34,231**	**33,019**

The following table shows the breakdown of ERG S.p.A. personnel (average headcount during the period):

	2012	2011
EXECUTIVES	40	44
MANAGERS	111	120
STAFF	135	155
TOTAL	**286**	**320**

As at 31 December 2012, the total number of employees was 280 (306 as at 31 December 2011).

NOTE 31 – AMORTISATION, DEPRECIATION AND WRITE-DOWNS OF FIXED ASSETS

	2012	2011
AMORTISATION OF INTANGIBLE FIXED ASSETS	4,240	5,988
DEPRECIATION OF TANGIBLE FIXED ASSETS	1,267	1,262
WRITE-DOWNS OF FIXED ASSETS	–	–
TOTAL	**5,507**	**7,250**

NOTE 32 – GAINS (LOSSES) FROM SALE OF BUSINESS UNIT

On **10 November 2011** ERG and IREN, through the subsidiary IREN Mercato, signed a binding Framework agreement for the purposes of the stipulation of an agreement 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 intended mainly to be supplied to end customers.

The Framework Agreement also calls for the acquisition by IREN Mercato of the ERG's business unit dedicated to marketing and selling electricity to over 15,000 business and mid-business customers, thereby ensuring its continuity in operation. The consideration recognised by IREN Mercato to ERG for the transaction, net of trade receivables, was set to EUR 3.3 million.

Both agreements were executed in December 2011 and they came into force on **1 January 2012**.

During the period, the costs pertaining to the disposal of the commercial activity were accrued.

For clearer disclosure, the impacts on the separate income statement were reported in the single item "Gains (losses) from sale of business unit" and they are as follows:

	2012
CAPITAL GAIN FROM SALE OF BUSINESS UNIT	3,300
WRITE-DOWN OF RECEIVABLES	(1,771)
WRITE-DOWN OF INTANGIBLE FIXED ASSETS	(750)
RENTS AND LEASES	(2,036)
OTHER OPERATING EXPENSES	(373)
TOTAL	**(1,630)**

NOTE 33 – NET FINANCIAL INCOME (EXPENSES)

	2012	2011
INCOME		
FOREIGN CURRENCY EXCHANGE GAINS	100,948	112,178
INTEREST INCOME ON BANK ACCOUNTS	9,800	9,733
FROM RECEIVABLES PRESENTED UNDER NON-CURRENT FINANCIAL ASSETS	7,707	1,336
FROM SUBSIDIARIES	674	23,211
OTHER FINANCIAL INCOME	662	3,541
	119,791	**149,998**
EXPENSES		
FOREIGN CURRENCY EXCHANGE LOSSES	(99,625)	(100,558)
FROM SUBSIDIARIES	(695)	(59)
INTEREST ON SHORT-TERM BANK BORROWINGS	(5,718)	(4,704)
INTEREST ON MEDIUM/LONG-TERM BORROWINGS	(8,615)	(14,979)
OTHER FINANCIAL EXPENSES	(6,235)	(4,323)
	(120,887)	**(124,621)**
TOTAL	**(1,096)**	**25,377**

Income and expenses from subsidiaries are related to interest on cash account and cash pooling relationships with Group companies. Income from subsidiaries decreased mostly because of the decrease in interest with respect to ERG Renew and ERG Power.
Interest income on bank accounts relates to the investment of available cash in deposit accounts. Interest expense on medium/long-term borrowings decreased mostly as a result of the decrease in residual debt. "Other financial expenses" include other expenses related to financial instruments totalling EUR 4.7 million.

NOTE 34 – NET INCOME (EXPENSES) FROM EQUITY INVESTMENTS

	2012	2011
DIVIDENDS AND OTHER INCOME FROM SUBSIDIARIES	11,519	29,031
CAPITAL GAIN ON EXERCISE OF PUT OPTION IN ISAB S.R.L.	261,868	122,327
DIVIDENDS AND OTHER INCOME FROM ASSOCIATES AND JOINT VENTURE	–	11,440
DIVIDENDS AND OTHER INCOME FROM OTHER COMPANIES	15	15
WRITE-BACKS	–	–
WRITE-DOWNS	(148,718)	(62,858)
OTHER EXPENSES	(9,852)	(1,341)
TOTAL	**114,832**	**98.,614**

Dividends and other income from subsidiaries relate to dividends distributed by ISAB Energy Services S.r.l. (EUR 3.8 million) and ERG Oil Sicilia S.r.l. (EUR 7.7 million).
The ISAB S.r.l. capital gain (EUR 261.9 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 other companies" refer to dividends distributed by Meroil S.A.
Of the "Write-downs", EUR 148 million refer to the impairment of the equity investment in TotalErg as a result of the impairment test and EUR 717 thousand refer to the equity investment in Ionio Gas S.r.l.
Of the "Other expenses", EUR 3.4 million pertain to the associate ISAB S.r.l. and EUR 6.3 million pertain to the equity investment in ERG Rivara Storage S.r.l.

NOTE 35 – INCOME TAXES

	2012	2011
IRES (CORPORATION INCOME TAX)	–	–
IRAP (REGIONAL INCOME TAX)	–	–
TAXES FROM PREVIOUS YEAR	1,981	(80)
SUBSTITUTE TAXES	–	–
BENEFIT FROM "TAX CONSOLIDATION" AND DEFERRED TAX LIABILITIES	43,298	34,099
TOTAL	**45,279**	**34,019**

Income taxes for the period were calculated on the basis of expected taxable income.
Deferred taxes for the year, amounting to a positive EUR 43,298 thousand, include the recovery, for IRES purposes, of ERG S.p.A.'s tax loss of the year 2012 for an amount, net of fiscal transparency, of EUR 33,439 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 2,018 thousand.
The company also recognised deferred tax assets on the IRES surtax (Robin Hood Tax) on the 2012 tax loss in the amount of EUR 7,841 thousand.
The taxes for previous years, i.e. EUR 1,981 thousand, refer mainly to the IRES tax benefit deriving from the tax deductibility of the IRAP relating to personnel costs in previous years.

Below is a summary of financial balances resulting from the "tax consolidation" regime:

	12/31/2012	12/31/2011
RECEIVABLES FROM GROUP COMPANIES (PAYABLE FROM TAX AUTHORITIES)	(38,403)	(38,375)
PAYABLES FROM GROUP COMPANIES (RECEIVABLES FROM TAX AUTHORITIES)	8,730	3,142
ERG S.P.A. NET RECEIVABLE POSITION	40,222	41,200
TOTAL	**10,548**	**5,967**

The net receivable position, i.e. EUR 10,548 thousand, includes the receivable for IRES reimbursement application for IRAP, tax periods 2007-2011, amounting to EUR 3,330 thousand.

RECONCILIATION BETWEEN REPORTED AND THEORETICAL TAX CHARGES

	TAXABLE INCOME	TAX
PROFIT BEFORE TAXES	**(23,780)**	
THEORETICAL TAXATION (34% RATE)		**(8,085)**
TEMPORARY DIFFERENCES TAXABLE IN SUBSEQUENT YEARS	–	
TEMPORARY DIFFERENCES DEDUCTIBLE IN SUBSEQUENT FINANCIAL YEARS	20,053	
RECOVERY OF TEMPORARY DIFFERENCES BROUGHT FROM PREVIOUS YEARS	(21,601)	
PERMANENT TAX CHANGES (1)	149,339	
EXERCISE OF 20% PUT OPTION IN ISAB S.R.L.	(250,404)	
OTHER	(954)	
IRES TAXABLE AMOUNT (TAX LOSS)	**(127,347)**	
IRES RECOVERY ON REPORTED TAX LOSS		**(43,298)**

(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	**(137,516)**	
COSTS AND REVENUES NOT RELEVANT FOR IRAP PURPOSES	**34,231**	
COSTS AND REVENUES RECLASSIFIED FOR IRAP PURPOSES	**–**	
THEORETICAL TAXABLE INCOME FOR IRAP PURPOSES	**(103,285)**	
THEORETICAL TAXATION (4.82% RATE)		**(4,978)**
TEMPORARY DIFFERENCES TAXABLE IN SUBSEQUENT YEARS	–	
TEMPORARY DIFFERENCES DEDUCTIBLE IN SUBSEQUENT FINANCIAL YEARS	25,014	
RECOVERY OF TEMPORARY DIFFERENCES BROUGHT FROM PREVIOUS YEARS	(1,920)	
PERMANENT TAX CHANGES	1,681	
TAXABLE IRAP INCOME	**(78,510)**	

NOTE 36 – NON-RECURRING ITEMS

The non-recurring items of 2012 refer to:

- allocations of receivables for "white certificates" pertaining to the 2010 production, amounting to EUR 5.4 million;
- allocations pertaining to previous years with regard to negative commercial adjustments, amounting to EUR 2.7 million;
- the capital gain (EUR 227 million) realised from the sale of 20% of the equity investment in ISAB S.r.l.;
- ancillary expenses tied to the sale of 20% of the equity interest in ISAB S.r.l., amounting to EUR 4.2 million;
- capital loss pertaining to the equity investment in ERG Rivara Storage, amounting to EUR 6.3 million;
- the impairment of the equity investment in TotalErg, i.e. EUR 148 million, as a result of the impairment test;
- net expenses tied to the sale of the business unit to IREN, amounting to EUR 1.6 million;
- the item includes the negative impact of collar transactions hedging part of the oil inventories at the ISAB refinery and carried out in relation to the exercise of the put option on 20% of the equity investment in ISAB S.r.l., i.e. EUR 4.1 million;
- the income relating to the recognition of receivables deriving from non-deduction, for IRES purposes, of the IRAP related to expenses for employees and similar personnel for the tax periods from 2007 to 2011.

NOTE 37 – RELATED PARTIES

YEAR 2012 – Statement of financial position - Assets

(EUR THOUSAND)	OTHER FINANCIAL ASSETS	TRADE RECEIVABLES	OTHER RECEIVABLES AND CURRENT ASSETS	CURRENT FINANCIAL ASSETS
RELATED PARTIES				
ERG POWER S.R.L.	133,739	2,425	239	–
ISAB ENERGY S.R.L.	33.,110	21,850	29,276	–
ISAB S.R.L.	–	55,542	–	–
ERG PETRÓLEOS S.A.	–	1	–	31,298
TOTALERG S.P.A.	–	1,492	8,598	–
ERG OIL SICILIA S.R.L.	–	2,445	1,896	–
TOTALGAZ ITALIA S.R.L.	–	–	3,565	–
ISAB ENERGY SERVICES S.R.L.	–	248	3,196	–
PRIOLO SERVIZI S.C.P.A.	–	2.855	–	–
SAN QUIRICO S.P.A.	–	–	1,409	–
ERG RENEW S.P.A.	–	865	–	–
RAFFINERIE DI ROMA S.P.A.	–	865	–	–
GESTIONI EUROPA S.P.A.	–	–	523	–
ERIDIS S.R.L.	–	–	359	–
IONIO GAS S.R.L. IN LIQUIDATION	–	318	–	–
ERG EOLICA ADRIATICA S.R.L.	–	2	273	–
OTHER	–	112	48	–
TOTAL GROUP COMPANIES	**166,849**	**89,021**	**49,384**	**31,298**
PERCENTAGE OF TOTAL	*100%*	*23%*	*45%*	*55%*

YEAR 2012 – 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.	5,811	26,118	15,210	830
ERG OIL SICILIA S.R.L.	–	–	33,049	4,987
ERG RENEW S.P.A.	–	8	23,841	79
ERG POWER S.R.L.	–	20,213	–	–
ISAB ENERGY S.R.L.	–	89	–	4,991
TOTALERG S.P.A.	–	435	–	3,206
ERG NUOVE CENTRALI S.P.A.	–	–	–	2,829
RAFFINERIE DI ROMA S.P.A.	–	–	–	1,037
ISAB ENERGY SERVICES S.R.L.	–	(1)	–	850
CONSORZIO DELTA TI RESEARCH	–	310	–	–
ERG EOLICA BASILICATA S.R.L.	–	–	–	277
IONIO GAS S.R.L. IN LIQUIDATION	–	–	–	263
GESTIONI EUROPA S.P.A.	–	–	–	216
OTHER	–	8	–	133
TOTAL GROUP COMPANIES	**5,811**	**47,179**	**72,099**	**19,698**
SAMPDORIA MARKETING & COMMUNICATION S.R.L.	–	36	–	36
I.E.C. S.R.L.	–	–	–	–
FONDAZIONE EDOARDO GARRONE ONLUS	–	–	–	–
TOTAL OTHER COMPANIES		**36**	**–**	**36**
TOTAL	**5,811**	**47,215**	**72,099**	**19,734**
PERCENTAGE OF TOTAL	*76%*	*8%*	*13%*	*60%*

YEAR 2012 – Income Statement - Revenues and Income

(EUR THOUSAND)	REVENUES FROM ORDINARY OPERATIONS	OTHER REVENUES AND INCOME	FINANCIAL INCOME
RELATED PARTIES			
ISAB S.R.L.	622,209	2,230	1,428
ERG OIL SICILIA S.R.L.	335,402	4,266	58
TOTALERG S.P.A.	159,605	3,432	447
ISAB ENERGY S.R.L.	58,798	–	904
PRIOLO SERVIZI S.C.P.A.	18,756	–	–
ERG POWER S.R.L.	6,367	135	6,804
RAFFINERIE DI ROMA S.P.A.	5,734	–	–
ERG RENEW S.P.A.	3,528	726	87
ESPANSIONE S.R.L.	882	–	–
ISAB ENERGY SERVICES S.R.L.	749	42	–
ERG NUOVE CENTRALI S.P.A.	16	–	502
OTHER	116	30	37
TOTAL GROUP COMPANIES	**1,212,163**	**10,861**	**10,267**
PERCENTAGE OF TOTAL	*16%*	*50%*	*9%*

YEAR 2012 – Income Statement - Costs and Expenses

(EUR THOUSAND)	COST OF PURCHASES	COSTS FOR SERVICES AND OTHER COSTS	FINANCIAL EXPENSES
RELATED PARTIES			
ISAB S.R.L.	138,417	323,929	665
ISAB ENERGY S.R.L.	240	133,119	–
ERG POWER S.R.L.	10,140	–	–
ERG EOLICA ADRIATICA S.R.L.	3,480	–	–
TOTALERG S.P.A.	–	–	1,569
CONSORZIO DELTA TI RESEARCH	–	610	–
ERG RENEW S.P.A.	–	3	587
RAFFINERIE DI ROMA S.P.A.	538	–	–
ERG OIL SICILIA S.R.L.	–	–	107
OTHER	–	2	–
TOTAL GROUP COMPANIES	**152,815**	**457,662**	**2,929**
SAMPDORIA MARKETING & COMMUNICATION S.R.L.	–	148	–
I.E.C. S.R.L.	–	357	–
FONDAZIONE EDOARDO GARRONE ONLUS	–	800	–
TOTAL OTHER COMPANIES	**–**	**1,305**	**–**
TOTAL	**152,815**	**458,967**	**2,929**
PERCENTAGE OF TOTAL	*2%*	*85%*	*2%*

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 regard to the other transactions with related parties, as defined by IAS 24, during the year EUR 357 thousand were paid to I.E.C. S.r.l. and EUR 148 thousand to Sampdoria Marketing & Communication S.r.l.

NOTE 38 – 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.

	2012	2011
AUDITING SERVICES	325	300
SERVICES OTHER THAN AUDITING	460	441
TOTAL	**785**	**741**

"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:

- tax consultancy services for EUR 226 thousand;
- other services for EUR 234 thousand pertaining mainly to agreed-upon procedures performed voluntarily on quarterly data and other minor services.

NOTE 39 – DIVIDENDS

Dividends paid by ERG S.p.A. in 2012 (EUR 59.0 million) and 2011 (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 7 March 2013, the Board of Directors of ERG S.p.A. proposed the payment to shareholders of a dividend of EUR 0.40 per share. The dividend shall be available for payment from 23 May 2013, subject to issuance of the coupon starting on 20 May 2013 and with record date of 22 May 2013.

NOTE 40 – FINANCIAL INSTRUMENTS

Financial instruments existing as at 12/31/2012

	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	–	220,668	111	–	–	**220,779**	*159,441*	220,779
DERIVATIVE FINANCIAL INSTRUMENTS	59	–	–	–	15,504	**15,563**	*15,052*	15,563
TRADE RECEIVABLES	–	394,877	–	–	–	**394,877**	–	394,877
FINANCIAL SECURITIES CLASSIFIED AS CURRENT ASSETS	–	–	–	–	–	–	–	–
OTHER RECEIVABLES	–	39,843	–	–	–	**39,843**	1	39,843
CASH AND CASH EQUIVALENTS	–	840,968	–	–	–	**840,968**	–	840,968
TOTAL ASSETS	**59**	**1,496.356**	**602**	**–**	**15,504**	**1,512,520**	***174,494***	**1.,512,520**
MORTGAGES AND LOANS	–	–	–	284,271	–	**284,271**	*118,866*	280,999
SHORT–TERM BANK BORROWING	–	–	–	335,479	–	**335,479**	–	335,479
FINANCIAL PAYABLES	–	–	–	71,164	–	**71,164**	–	71,164
DERIVATIVE FINANCIAL INSTRUMENTS	–	–	–	–	1,804	**1,804**	*1,178*	1,804
TRADE PAYABLES	–	–	–	582,979	–	**582,979**	–	582,979
OTHER PAYABLES	–	–	–	29,837	–	**29,837**	*5,811*	29,837
TOTAL LIABILITIES	**–**	**–**	**–**	**1,303,730**	**1,804**	**1,305.534**	***125,855***	**1,302,261**

(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 at 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 BORROWING	–	–	–	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

NOTE 41 – 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 analyses 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 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)	2012
AAA RATING	–
AA+ / AA- RATING	947
A+ / A- RATING	68,865
BBB+ / BBB- RATING	133,572
BB+ / BB- RATING	28,099
B+ / B- RATING	–
-	
NOT ASSIGNED	58,998
TOTAL	**290,482**

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 2012 and 31 December 2011, based on undiscounted contractual payments.

12/31/2012	PAYABLES BY MATURITY				
(EUR THOUSAND)	ON DEMAND	UNDER 3 MONTHS	3-12 MONTHS	1-5 YEARS	MORE THAN 5 YEARS
MORTGAGES AND LOANS	–	4,074	166,035	1,217,319	–
NON-RECOURSE PROJECT FINANCING	–	–	–	–	–
SHORT-TERM BANK BORROWING	335,504	–	–	–	–
DERIVATIVE FINANCIAL INSTRUMENTS	–	–	–	1,135	–
FINANCIAL PAYABLES	72,298	–		–	–
TRADE PAYABLES	108,628	474,381	–	–	–
TOTAL LIABILITIES	**516,430**	**478,455**	**166,035**	**1,218,454**	**–**

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 BORROWING	170,954	–	–	–	–
DERIVATIVE FINANCIAL 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**	**655,436**	**189,976**	**303,187**	**–**

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 comprises interest rate risk, or changes in the future interest rate trend that may cause higher costs for the company. Management of these risks is regulated by the guidelines indicated in the Group's 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, which impact the economic results of the business. The net cash flows generated by the company in currencies other than the Euro (reference currency) constitute the exposure to 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)	2012	2011
SHOCK-UP (INTEREST RATE VARIATION **+10%**)	3.2	5.7
SHOCK-DOWN (INTEREST RATE VARIATION **-10%**)	(3.9)	(5.6)

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 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)	2012	2011
SHOCK-UP (INTEREST RATE VARIATION **+1%**)	0.4	–
SHOCK-DOWN (INTEREST RATE VARIATION **-1%**)	0.4	–

Impact on shareholders' equity

(EUR MILLION)	2012	2011
SHOCK-UP (INTEREST RATE VARIATION **+1%**)	(0.1)	0.8
SHOCK-DOWN (INTEREST RATE VARIATION **-1%**)	(0.5)	(0.5)

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 risk management policy for the price of oil commodities for refinement prescribes the use of instruments and methods that can achieve the average monthly prices reported in Platt's quotations for raw materials and finished products.

With regard to the management of the price risk tied to trading activities, the internal policies prescribe hedging the flat price (price risk tied to different accrual periods).

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 average monthly refining margin and to hedge the float price, it uses derivative instruments such as Futures and Commodity Swaps 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 shareholders' equity (due to adjustments to the fair value of the derivative instruments comprising the cash flow hedge reserve) of a +/- 25% change in the price of commodities.

Impact on Income Statement

(EUR MILLION)	2012	2011
SHOCK-UP (VARIATION IN COMMODITIES PRICE **+25%**)	(18.2)	(8.7)
SHOCK-DOWN (VARIATION IN COMMODITIES PRICE **-25%**)	18.2	8.7

Impact on shareholders' equity

(EUR MILLION)	2012	2011
SHOCK-UP (VARIATION IN COMMODITIES PRICE **+25%**)	9.4	17.4
SHOCK-DOWN (VARIATION IN COMMODITIES PRICE **-25%**)	(9.4)	(17.4)

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 2012, they consisted of the following:

	TYPE	HEDGED RISK	UNDERLYING ASSET		FAIR VALUE 12/31/2012 (EUR THOUSAND)
	CASH FLOW HEDGING INSTRUMENTS				
A	INTEREST RATE SWAPS AND INTEREST RATE CAPS	ECONOMIC INTEREST RATE RISK	EUR MILLION	75	(818)
B	PRODUCT PRICE RISK SWAPS	HEDGING FOR PRODUCT PRICE FLUCTUATIONS	BARRELS	262,500	272
C	GAS PRICE RISK SWAPS	COMMODITY TRANSACTION RISK	SMC MILLION	73	(318)
	TOTAL CASH FLOW HEDGING INSTRUMENTS				**(864)**
	NON HEDGE ACCOUNTING INSTRUMENTS				
D	FORWARDS ON SHORT-TERM CURRENCY EXCHANGE RATES	EXCHANGE RATE TRANSACTION RISK	MILLIONS OF DOLLARS	114	8
B	PRODUCT DIFFERENTIAL/PRICE RISK SWAPS	HEDGING FOR PRODUCT PRICE FLUCTUATIONS	TONNES	50,000	27
E	FUTURES TO HEDGE COMMODITY PRICE RISK	HEDGING FOR PRODUCT PRICE FLUCTUATIONS	TONNES	105,100	33
	TOTAL NON HEDGE ACCOUNTING INSTRUMENTS				**68**
	TOTAL ERG GROUP DERIVATIVE FINANCIAL INSTRUMENTS				**(796)**

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 2012, there was a total negative fair value amounting to EUR 0.8 million presented in the Cash Flow Hedge reserve.

B Product differential/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 financial instrument is guaranteed. The positive fair value at 31 December 2012 is not significant.

C 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.
The negative fair value at 31 December 2012 is not significant.

NON HEDGE ACCOUNTING INSTRUMENTS

D 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 2013. The positive fair value at 31 December 2012 is not significant.

E Futures to hedge commodity price risk

These futures hedge the risk of price fluctuations the quantities of crude oil held in inventory. 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.
The positive fair value at 31 December 2012 is not significant.

CASH FLOW HEDGE RESERVE

	12/31/2012	12/31/2011
BALANCE AS AT 12/31/2011	**(131)**	**2,527**
CHANGES IN FAIR VALUE	(405)	(161)
REVERSAL IN INCOME STATEMENT	(32)	(2,497)
BALANCE AS AT 12/31/2012	**(568)**	**(131)**

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.

NOTA 42 – PUBLICATION DATE OF THE SEPARATE FINANCIAL STATEMENTS

On 7 March 2013, 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, 7 March 2013

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 Luca Bettonte, Chief Executive Officer of ERG S.p.A, and Giorgio Coraggioso, Manager responsible for preparing the financial reports of ERG S.p.A, taking into account the provisions set out in Article 154-bis, paragraphs 3 and 4, of Italian Legislative Decree no. 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 2012.

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 2012 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 by 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, 7 March 2013

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 continued fulfilment of the requirements set out by Article 2397 of the Italian Civil Code and the lack of grounds for invalidation, ineligibility and incompatibility set out by Articles 2382 and 2399 of the Italian Civil Code and by Article 148, Paragraph 3, of Italian Legislative Decree 58/98.
The Board of Statutory Auditors carried out the evaluations necessary to deem confirmed the independence requirements of each statutory auditor, also according to the criteria set out by the Corporate Governance Code of listed companies for directors and by the Standards of Behaviour of the Board of Statutory Auditors prepared by the National Board of Chartered Accountants.
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 Italian 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 20 April 2012 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 2012, the Board of Statutory Auditors carried out the supervisory activities required of the Board of Statutory Auditors, in accordance with Article 149 of Italian 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 CONSOB's recommendations and notices on accounting audits and on the activities of the Board of Statutory Auditors.
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 2012 financial year, the Board of Statutory Auditors met ten times and attended the Shareholders' Meeting, ten meetings of the Board of Directors and nine meetings of the Internal Control and Risk Committee;
- 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 frequency of the meetings of the Board of Directors and the directors' average attendance rate were adequate and we can undertake that no significant resolutions were passed without providing sufficient

information to the directors and statutory auditors. 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 to the economic-financial congruity of transactions, when appropriate;

- the Board of Directors receives adequate information from the Chief Executive Officer and from the Internal Control and Risk 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 about the overall activity carried out by the Company, in the various segments where it operated, also through subsidiaries and affiliates, 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 from the Independent Auditors and from the statutory auditors of the subsidiaries.
- the Board of Statutory Auditors received adequate information, in particular, about:
  - definition of the sale, through the exercise of the put option, of 20% of the share capital of ISAB S.r.l. and impact on income and cash flow;
  - abandonment of the projects of Ionio Gas and Rivara Storage in the gas business;
  - purchase of treasury shares, within the limits of the authorisation approved by the Shareholders' Meeting;
  - acquisitions of wind farms in Romania and Bulgaria by LUKERG (joint venture between ERG and LUKOIL);
  - effectiveness of the agreements pertaining to the sale of the business unit "Electricity Marketing" and impacts on income and cash flow;
  - settlement with Polimeri Europa 2009 relating to the year 2009 and its impacts on the 2012 Financial Statements;
  - 2013-2015 Business Plan, approved by the Board of Directors in December 2012, with the favourable opinion of the Strategic Committee, characterised by a significant strategic repositioning of the Group;
  - plan for the reconversion of the industrial site of Raffineria di Roma (wholly owned by TotalErg S.p.A.) into a major logistical hub for the storage and handling of petroleum products, shutting down the refinery;
  - distribution network restructuring plan (TotalErg S.p.A.);
  - acquisition of the IP Maestrale Group, formalised at the start of the current year and consequently without any impact on the 2012 Financial Statements;
  - developments in the regulatory framework.

The Company, by a resolution of the Board of Directors, with the favourable opinion of the Internal Control and Risk Committee, shared by the Board of Statutory Auditors, selected the option, introduced by CONSOB with its Resolution no. 18079 of 20 January 2012, of waiving the obligation to make available to the public an information document upon carrying out significant transactions, i.e. mergers, demergers, capital increases by transfer in kind, acquisition and sale; this decision was disclosed to the public.

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. In particular, the Board of Statutory Auditors monitored compliance with the provisions set out in Article 115-bis of the Consolidated Finance Act and of the Regulations about updates to the Register of persons having access to privileged information. 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.
The Board of Statutory Auditors participated in the process for formulating the update proposal, consistently with the change in organisational structure, with the Procedure for transactions with related parties, submitted by the Internal Control and Risk Committee and approved by the Board of Directors, verifying that the update is in line with the provisions of the Regulations for transactions with related parties adopted by CONSOB.

The Board of Statutory Auditors attended the meetings of the Nominations and Remuneration in which the short and medium term incentive Plan was examined and the progress of the objectives was verified, along with the medium/long term incentive plan (LTI) and the Policy for the remuneration of directors and key executives, proposed by the Nominations and Remuneration Committee and approved by the Board of Directors.
The Board of Statutory Auditors, agreeing with the conclusions of the Nominations and Remuneration Committee, expressed, during the year, its favourable opinion with regard to the resolutions of the Board of Directors, pertaining to:

- the allocation of the fixed annual remuneration for Directors tasked with specific duties, commensurate to the effort and defined (with the assistance of specialised consulting firms) through market benchmarking with listed companies;
- the allocation of a variable remuneration to the Chief Executive Officer, tied to value creation in the medium/long term, determined according to the rules prescribed in the LTI – Medium/long term incentive System;
- the payment of bonuses in view of extraordinary transactions completed successfully in 2012, to the executive Directors who participated in the transactions, in proportion to the economic benefit of the transaction, to the contribution actual given by each Director and to the amount of his/her remuneration.

The Board of Statutory Auditors acknowledges that all above decisions were made, at the proposal or with the well-reasoned favourable opinion of the Nominations and Remuneration Committee, in accordance with the Group's current guidelines, consistently with the Remuneration Policy and in compliance with the provisions of the Procedure for transactions with related parties. All information about the nature and the amount of such compensation is provided in the Report on Remuneration (in accordance with Article 123-ter of Italian Legislative Decree no. 58/98).

On 30 July 2012, the Board of Directors di ERG S.p.A. resolved to adhere to the new edition – December 2011 – of the Corporate Governance Code of listed companies. The Board of Statutory Auditors concretely ascertained compliance with the aforesaid Code, as adequately represented in the Report on Corporate Governance and Ownership, in accordance with Article 124-ter of the Consolidated Finance Act and with Article 89-bis of the CONSOB Regulations. The Board of Statutory Auditors verified, in accordance with Article 3, Paragraph 5 of the Corporate Governance Code, within the scope of its oversight on the concrete enforcement of corporate governance rules, the correct application of the criteria and verification procedures adopted by the Board of Directors, with regard to the positive assessment of the directors' independence, agreeing with the Board's orientation to give preference to substance (guarantee of independent judgement) rather than to form (automatic enforcement of the nine-year limit in office).
The Board of Statutory Auditors 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.

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 from the heads of the various company functions and from the Independent Auditors.
The Board of Statutory Auditors evaluated and oversaw the adequacy of the internal control system, expressing its positive assessment of the reorganisation of the system.
Attendance at the meetings of the Internal Control and Risk Committee has enabled both the timely exchange of relevant information for the performance of the respective duties and coordination with the activity of the Committee in carrying out the function, assigned to the Board of Statutory Auditors by Article 19 of Italian Legislative Decree no. 39/2010, of Internal Control and Audit Committee, aimed, in particular, at supervising the financial disclosure process and the effectiveness of the internal control, internal audit and risk management systems.
Within the scope of this activity, in particular, the Board of Statutory Auditors received and examined:

a) the periodic reports on the activities carried out, prepared:
   - by the Internal Control and Risk Committee;
   - by the Head of Internal Control;
   - by the Internal Audit Risk and Compliance Division.
b) the reports prepared by the Internal Audit Risk and Compliance function at the conclusion of the auditing and monitoring activities.

In the course of the periodic meetings with the Internal Audit Risk and Compliance Divisions, no deficiencies in the available resources were noted and no restrictions were found to have been imposed on the monitoring activity.
In particular, the internal control System was deemed adequate, both in terms of design and operation, in relation to the process for managing tax aspects.
With regard to risk management, the Board of Statutory Auditors noted that, in compliance with the guidelines, transactions are carried out to minimise the commodity price risks and financial risks (exchange rate and interest rate), solely for hedging purposes, without taking speculative positions; derivative financial instruments were used, as defined by Article 2427-bis of the Italian Civil Code (options, swaps, futures and forward). In accordance with Article 2427-bis of the Italian Civil Code, the Notes to the Financial Statements provide the mark to market values taken from the reference market, verifying their fairness through measurement instruments and models.

With reference to the organisational and procedural activities performed in accordance with Italian 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 emerged for the purposes of the implementation and effectiveness of the organisation, management and control Model.
For the matters under its responsibility, the Board of Statutory Auditors:

- verified that the members of the Supervisory Committee meet the professional requirements prescribed by the Model in accordance with Italian 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 and the organisational changes made in the ERG Group , always paying close attention to the evolution in 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 the 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 Italian Law 262/05.
In this regard, the Board of Statutory Auditors examined the proposed updates to the Model in accordance with Italian Law 262/2005, as a result of the organisational and corporate changes that took place in the Group, risk assessment and the results of the tests, acknowledging the outcome of the tests on the checks made and the plan of scheduled 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 2012.
The adequacy of the administrative-accounting system was also assessed through the acquisition of information from the heads of the respective functions 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 the public disclosure obligations in accordance with Article 114, Paragraph 2 of Italian Legislative Decree no. 58/98.

With reference to supervisory activities on health, safety and environmental matters, the Board of Statutory Auditors verified, also by visiting the Priolo industrial site, that the corporate bodies and the Management pay close attention to these issues, whose policy is an integral part of the Code of Ethics, verifying both the focus on constant training, 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 2012, 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 to implement, maintain and certify, according to recognised standards (ISO 14001 Environment and OHSAS 18001 Health and Safety),

effective management Systems for the minimisation of specific risks, pursuing the Group objective of certifying all industrial sites in accordance with these standards.
In the course of 2012, the ERG Group updated its security policies, to assure an adequate level of protection of the personal data subjected to processing, in accordance with the Privacy Code (Italian Legislative Decree no. 196/2003) and with the Instructions issued by the Authority.

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 transactions were noted, either with third parties or intra-group and/or with related parties, that exhibited atypical or unusual aspects, in terms of content, nature, dimensions and timing, that were not adequately described to the Board and disclosed to the public, when required;
- 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 for rationalisation and cost-efficiency purposes with subsidiaries and affiliates outside the scope of consolidation; they are part of ordinary operations, are settled at market conditions and are illustrated in the Report on Operations and in the Notes to the Financial Statements. In particular, the Board of Statutory Auditors reviewed and approved the document containing the main income data of the intercompany service agreements for the year 2012, appreciating the analysis in the identification of the criteria for allocating costs to individual companies, according to the services used;
- the Company had other transactions with related parties, as defined by IAS 24, which are also illustrated in the Notes to the Consolidated Financial Statements;
- the Board of Statutory Auditors verified the existence and compliance with suitable procedures to assure that intra-group transactions, and transactions with related parties, are carried out transparently and in compliance with substantial and procedural correctness standards, assessing that the transactions were in the best interest of the company and that the information provided by the directors in the Report on Operations and in the Notes to the Financial Statements is adequate.

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 Italian 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 Italian Legislative Decree no. 39 of 27 January 2010, the Independent Auditors issued formal confirmation of its independence, with a declaration dated 20 March 2013, and it disclosed the non-audit services rendered to the company, also through entities belonging to the network; in this regard, the Board of

Statutory Auditors verified that the disclosure matched the information received and verified during the year.
On 20 March 2013, the Independent Auditors delivered to the Board of Statutory Auditors, in its capacity as the "Committee for internal control and accounting audits in accordance with Article 19 of Italian 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, verifying that no appointments were made for services that may compromise the Independent Auditors' independence in accordance with Article 17 of Italian 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, for the limited audit of the Half-yearly Financial Report and for the voluntary audit of the interim Reports, the Independent Auditors Deloitte & Touche S.p.A. received total compensation of EUR 325 thousand.
The compensation was updated in 2012, consistently with the contractual conditions of the original proposal, as a result of the increased amount of work deriving from the appointment of the audit firm Reconta Ernst & Young S.p.A. as independent auditor of ERG Renew S.p.A. In relation to this circumstance, in accordance with Article 14, Paragraph 6 of Italian Legislative Decree no. 39/2010, Deloitte is involved in the planning and performance of the audit of ERG Renew. The Board of Statutory Auditors found the increase in compensation to be fair, in view of the higher number of hours expected, leaving unchanged the contractual hourly fee.
Additionally, ERG S.p.A. contracted Deloitte & Touche S.p.A. for additional services amounting to EUR 223 thousand for the following work:

- Agreed audit procedures on periodic reports — EUR 202 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 237 thousand, broken down as follows:

- Deloitte ERS (Enterprise Risk Service) — EUR 11 thousand
- Studio Tributario e societario Deloitte for tax advice service — EUR 226 thousand

The Board of Statutory Auditors examined the proposed professional consultation services and verified that the activity is not incompatible with audit activities, in accordance with Article 160 of the Issuers Regulation, as confirmed by CONSOB in the document "outcome of the consultation" of 4 May 2007.
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 573 thousand and additional appointments, for a total amount of EUR 332 thousand.
Additionally, companies connected to the Independent Auditors' network were given appointments for a total compensation of EUR 237 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 26 February 2013, 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 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: partial write-down of the carrying value of the equity investment in TotalErg S.p.A.;
  - in the Consolidated Financial Statements: write-down of tangible fixed assets referred to the Ginestra wind farm.

  The Board of Statutory Auditors approved the reasons why, in accordance with the indications of IAS 39, the put option recognised by LUKOIL with respect to the 20% equity investment in 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 Italian 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;
- In accordance with Article 123-ter of Italian Legislative Decree 58/1998 (CFA), the Report on Remuneration is submitted to the Shareholders' Meeting.

On 20 March 2013, the Independent Auditors issued the report in accordance with Articles 14 and 16 of Italian Legislative Decree 39/2010, declaring that the Financial Statements as at 31 December 2012 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 Italian 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.

The audit report contains the judgements on the consistency between the Financial Statements and the Report on Operations and the information in the Report on Corporate Governance per Article 123-bis of Italian Legislative Decree no. 58/98.

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 2012 and to the proposal of the Board of Directors for the allocation of the profit for the year.

Distinguished Shareholders,
with the approval of the Financial Statements as at 31 December 2012, the appointment we received from the Shareholders' Meeting on 15 April 2010 expires.
In thanking you for the trust and confidence you have placed in us, we wish to point out that the agenda of the next Shareholders' Meeting includes, in addition to the approval of the Financial Statements and connected resolutions, the appointment of the Board of Statutory Auditors for the three-year time interval from 2013 to 2015.

Genoa, 20 March 2013

The Board of Statutory Auditors
Mario Pacciani

Paolo Fasce

Lelio Fornabaio

AUDITORS' REPORT

Deloitte.

Deloitte & Touche S.p.A.
Mura di Santa Chiara, 1
16128 Genova
Italia

Tel: +39 010 5317011
Fax: +39 010 5317022
www.deloitte.it

AUDITOR'S REPORT ON THE SEPARATE 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 separate financial statements of ERG S.p.A. as of and for the year ended December 31, 2012, which comprise the statement of financial position, the income statement, the statement of other components of comprehensive income, the statement of cash flows, the statement of changes in shareholders' equity 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 auditor's report issued on March 13, 2012.

3. In our opinion, the separate financial statements of ERG S.p.A. as of December 31, 2012 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, 2012.

DELOITTE & TOUCHE S.p.A.

Signed by
Fabrizio Fagnola
Partner

Genoa, Italy
March 20, 2013

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

STATEMENT OF FINANCIAL POSITION (IN ACCORDANCE WITH IAS)

(EUR THOUSAND)	ERG RENEW S.P.A. 12/31/2012	ERG RENEW GROUP 12/31/2012
TANGIBLE FIXED ASSETS	2,026	683,657
INTANGIBLE FIXED ASSETS	1,672	225,378
EQUITY INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES	235,842	955
FINANCIAL RECEIVABLES FROM SUBSIDIARIES	204,133	–
OTHER EQUITY INVESTMENTS	–	–
FINANCIAL ASSETS	16,212	19,762
RECEIVABLES FOR DERIVATIVES	–	–
OTHER RECEIVABLES	5,725	8,318
TAX ASSETS	1,256	4,794
DEFERRED TAX ASSETS	6,287	56,167
NON-CURRENT ASSETS	**473,154**	**999,031**
INVENTORIES		
TRADE RECEIVABLES FROM THIRD PARTIES	1,374	104,873
TRADE RECEIVABLES FROM PARENT COMPANIES, SUBSIDIARIES AND ASSOCIATES	11,094	–
FINANCIAL RECEIVABLES FROM SUBSIDIARIES	29,311	–
OTHER FINANCIAL RECEIVABLES	–	–
OTHER RECEIVABLES	21,053	35,317
TAX ASSETS	388	10,070
EQUITY INVESTMENTS AVAILABLE FOR SALE	–	–
CASH AND CASH EQUIVALENTS	5,391	94,072
CURRENT ASSETS	**68,611**	**244,332**
ASSETS HELD FOR SALE	**1,900**	**9,164**
TOTAL ASSETS	**543,665**	**1,252,527**
GROUP SHAREHOLDERS' EQUITY	**–**	**548,898**
MINORITY INTERESTS	**–**	**828**
SHAREHOLDERS' EQUITY	**516,830**	**–**
	516,830	**549.726**
EMPLOYEES' SEVERANCE INDEMNITIES	304	308
PROVISIONS FOR LIABILITIES AND CHARGES	9,948	9,190
FINANCIAL PAYABLES NON CURRENT PORTION	1,600	472,925
FINANCIAL PAYABLES FROM PARENT COMPANIES NON CURRENT PORTION	–	–
PAYABLES FOR DERIVATIVES	–	58,445
OTHER PAYABLES	–	2,785
DEFERRED TAX LIABILITIES	–	69,704
NON-CURRENT LIABILITIES	**11,852**	**613,357**
FINANCIAL PAYABLES CURRENT PORTION	3,546	52,770
PAYABLES FOR DERIVATIVES	1,844	1,844
TRADE PAYABLES	3,436	13,439
OTHER PAYABLES	5,991	8,951
TAX LIABILITIES	165	5,580
CURRENT LIABILITIES	**14,983**	**82,584**
LIABILITIES HELD FOR SALE	**–**	**6,860**
TOTAL LIABILITIES AND EQUITY	**543,665**	**1,252,527**

INCOME STATEMENT (IN ACCORDANCE WITH IAS)

(EUR THOUSAND)	ERG RENEW S.P.A. 12/31/2012	ERG RENEW GROUP 12/31/2012
REVENUES FROM SALES AND SERVICES	4.247	174.973
OTHER REVENUES AND INCOME	347	2.606
VALUE OF PRODUCTION	**4.594**	**177.579**
PURCHASES OF RAW MATERIALS, CONSUMABLES AND GOODS	(75)	(422)
SERVICE COSTS	(8.146)	(32.512)
PERSONNEL COSTS	(3.547)	(3.790)
OTHER OPERATING EXPENSES	(1.962)	(5.066)
DEPRECIATION AND AMORTISATION	(731)	(60.506)
WRITE-DOWNS AND PROVISIONS	–	(4.104)
COSTS OF PRODUCTION	**(14.461)**	**(106.400)**
EBIT	**(9.867)**	**71.179**
NET FINANCIAL INCOME AND EXPENSES	(433)	(23,807)
FINANCIAL INCOME (EXPENSES) FROM/TO SUBSIDIARIES AND PARENT COMPANIES	6,735	–
INCOME (EXPENSES) FROM EQUITY INVESTMENTS	(2,011)	(1,733)
PROFIT BEFORE TAXES	**(5,575)**	**45,639**
CURRENT, DEFERRED AND PREPAID INCOME TAXES	5,688	(17,235)
PROFIT (LOSS) FROM CONTINUING OPERATIONS	**–**	**–**
NET PROFIT (LOSS) FROM DISCONTINUED OPERATIONS	–	–
NET PROFIT (LOSS) FOR THE PERIOD	**113**	**28,404**
MINORITY INTEREST	-	(89)
GROUP PROFIT (LOSS)	**113**	**28,315**

STATEMENT OF FINANCIAL POSITION

(EUR THOUSAND)	ISAB ENERGY S.R.L. 12/31/2012	ISAB ENERGY SERVICES S.R.L. 12/31/2012	ERG OIL SICILIA S.R.L. 12/31/2012
ASSETS			
A) RECEIVABLES FROM SHAREHOLDERS	**–**	**–**	**–**
B) FIXED ASSETS			
INTANGIBLE	13,337	–	2,272
TANGIBLE	491,620	–	21,818
FINANCIAL	5	–	11
	504.962		**24,100**
C) CURRENT ASSETS			
INVENTORIES	12,129	–	1,475
RECEIVABLES	294,678	18,188	59,366
FINANCIAL ASSETS	–	–	–
CASH AND CASH EQUIVALENTS	40,239	4,179	6
	347,046	**22,367**	**60,848**
D) ACCRUED INCOME AND PREPAID EXPENSES	**7,525**	**11**	**859**
TOTAL ASSETS	**859,534**	**22,378**	**85,807**
LIABILITIES			
A) SHAREHOLDERS' EQUITY			
SHARE CAPITAL	5,165	700	6,310
PAID-IN CAPITAL IN EXCESS OF PAR	–	–	–
REVALUATION RESERVE	–	37	18,000
LEGAL RESERVE	1,033	140	1,262
CONSOLIDATION RESERVE	–	–	–
OTHER RESERVES	28,709	2	6,165
RETAINED EARNINGS (ACCUMULATED LOSSES)	406,021	–	–
PROFIT (LOSS) FOR THE YEAR	44,039	7,508	3,634
	484,966	**8,387**	**35,370**
MINORITY INTEREST			
SHARE CAPITAL	–	–	–
PROFIT (LOSS) FOR THE YEAR	–	–	–
	–	**–**	**–**
B) PROVISIONS FOR LIABILITIES AND CHARGES			
TAXES	39,622	–	2,714
OTHERS	12,752	–	475
	52,375	**-**	**3,189**
C) EMPLOYEES' SEVERANCE INDEMNITIES	**–**	**2,030**	**143**
D) PAYABLES			
PAYABLES DUE TO SHAREHOLDERS FOR LOANS	57,326	–	–
BANKS / OTHER LENDERS	36,903	–	17,269
ADVANCES	–	–	–
SUPPLIERS	84,666	2,327	23,134
SUBSIDIARIES/AFFILIATES/ PARENT COMPANIES/ASSOCIATES	129,164	4,645	4,470
TAX PAYABLES	12,865	495	33
SOCIAL SECURITY INSTITUTIONS	–	1,688	59
OTHER PAYABLES	156	2,805	1,421
	321,079	**11,961**	**46,386**
E) ACCRUED LIABILITIES AND DEFERRED INCOME	**1,113**	**–**	**718**
TOTAL LIABILITIES	**859,534**	**22,378**	**85,807**

INCOME STATEMENT

(EUR THOUSAND)	ISAB ENERGY S.R.L. 12/31/2012	ISAB ENERGY SERVICES S.R.L. 12/31/2012	ERG OIL SICILIA S.R.L. 12/31/2012
A) VALUE OF PRODUCTION			
REVENUES FROM SALES AND SERVICES	546,928	42,473	800,323
INVENTORY CHANGES	182	–	(7,335)
OWN WORK CAPITALISED	464	–	–
OTHER REVENUES AND INCOME	21,425	1,880	1,073
	568,999	**44,353**	**794,060**
B) PRODUCTION COSTS			
FOR PURCHASES	(315,549)	(184)	(760,685)
FOR SERVICES	(68,722)	(10,040)	(16,430)
LEASES AND RENTAL EXPENSES	(532)	(824)	(4,391)
PERSONNEL	–	(22,177)	(1,133)
AMORTISATION, DEPRECIATION AND WRITE-DOWNS	(48,623)	–	(4,834)
INVENTORY CHANGES	(729)	–	–
PROVISIONS	(3,950)	–	(46)
OTHER OPERATING EXPENSES	(43,570)	(140)	(655)
	(481,675)	**(33,365)**	**(788,173)**
DIFFERENCE BETWEEN PRODUCTION VALUE AND COSTS	**87,324**	**10,988**	**5,888**
C) FINANCIAL INCOME AND EXPENSES			
INCOME FROM EQUITY INVESTMENTS	–	–	–
OTHER FINANCIAL INCOME	–	4	113
INTEREST AND OTHER FINANCIAL EXPENSES	(3,962)	(38)	(216)
FOREIGN EXCHANGE GAINS AND LOSSES	(79)	3	–
	(4,041)	**(31)**	**(103)**
D) VALUE ADJUSTMENTS TO FINANCIAL ASSETS			
REVALUATIONS	–	–	–
WRITE-DOWNS	–	–	–
	–	**–**	**–**
E) EXTRAORDINARY INCOME AND EXPENSES			
EXTRAORDINARY INCOME	–	–	24
EXTRAORDINARY EXPENSES	(302)	850	(44)
	(302)	**850**	**(20)**
PROFIT BEFORE TAXES	**82,981**	**11,807**	**5,764**
INCOME TAXES FOR THE YEAR	(38,943)	(4,299)	(2,131)
PROFIT (LOSS) BEFORE MINORITY INTEREST	**44,039**	**7,508**	**3,634**
PROFIT (LOSS) MINORITY INTEREST	–	–	–
PROFIT (LOSS) FOR THE YEAR	**44,039**	**7,508**	**3,634**

STATEMENT OF FINANCIAL POSITION

(EUR THOUSAND)	TOTALERG S.P.A. 12/31/2012	TOTALERG GROUP 12/31/2012
ASSETS		
A) RECEIVABLES FROM SHAREHOLDERS	**–**	**–**
B) FIXED ASSETS		
INTANGIBLE	40,107	52,771
TANGIBLE	447,419	535,642
FINANCIAL	105,122	88,901
	592,648	**677,314**
C) CURRENT ASSETS		
INVENTORIES	403,952	430,290
RECEIVABLES	716,281	807,208
FINANCIAL ASSETS	–	–
CASH AND CASH EQUIVALENTS	91,566	102,450
	1,211,799	**1,339,948**
D) ACCRUED INCOME AND PREPAYMENTS	**37,961**	**41,058**
TOTAL ASSETS	**1,842,407**	**2,058,320**
LIABILITIES		
A) SHAREHOLDERS' EQUITY		
SHARE CAPITAL	47,665	47,665
PAID-IN CAPITAL IN EXCESS OF PAR	–	–
REVALUATION RESERVE	133,726	133,726
LEGAL RESERVE	9,533	9,533
CONSOLIDATION RESERVE	–	57,774
OTHER RESERVES	172,466	172,506
RETAINED EARNINGS (ACCUMULATED LOSSES)	171,631	171,815
PROFIT (LOSS) FOR THE YEAR	(136,433)	(165,689)
	398,590	**427,330**
MINORITY INTEREST		
SHARE CAPITAL	–	9,047
PROFIT (LOSS) FOR THE YEAR	–	737
	–	**437.114**
B) PROVISIONS FOR LIABILITIES AND CHARGES		
TAXES	45,037	46,289
OTHERS	90,084	142,944
	135.121	**189.233**
C) EMPLOYEES' SEVERANCE INDEMNITIES	**7,169**	**11,270**
D) PAYABLES		
PAYABLES DUE TO SHAREHOLDERS FOR LOANS	–	–
BANKS/OTHER LENDERS	428,326	447,946
ADVANCES	170	2,060
SUPPLIERS	427,307	529,142
SUBSIDIARIES/AFFILIATES/PARENT COMPANIES/ASSOCIATES	199,225	177,524
TAX PAYABLES	166,288	171,683
SOCIAL SECURITY INSTITUTIONS	2,213	4,448
OTHER PAYABLES	70,850	77,873
	1,294,378	**1,410,676**
E) ACCRUED LIABILITIES AND DEFERRED INCOME	**7,150**	**10,027**
TOTAL LIABILITIES	**1,842,407**	**2,058,320**

INCOME STATEMENT

(EUR THOUSAND)	TOTALERG S.P.A. 12/31/2012	TOTALERG GROUP 12/31/2012
A) PRODUCTION VALUE		
REVENUES FROM SALES AND SERVICES	11,567,562	11,922,348
INVENTORY CHANGES	(178,893)	(179,147)
OWN WORK CAPITALISED	–	3,568
OTHER REVENUES AND INCOME	41,007	50,335
	11,429,676	**11,797,104**
B) PRODUCTION COSTS		
FOR PURCHASES	(10,678,786)	(10,969,212)
FOR SERVICES	(462,919)	(452,766)
LEASES AND RENTAL EXPENSES	(122,738)	(124,237)
PERSONNEL	(54,731)	(92,101)
AMORTISATION, DEPRECIATION AND WRITE-DOWNS	(72,385)	(100,275)
INVENTORY CHANGES	(17,022)	(15,837)
PROVISIONS	(26,186)	(26,770)
OTHER OPERATING EXPENSES	(14,791)	(16,831)
	(11,449,557)	**(11,798,029)**
DIFFERENCE BETWEEN PRODUCTION VALUE AND COSTS	**(19,881)**	**(925)**
C) FINANCIAL INCOME AND EXPENSES		
INCOME FROM EQUITY INVESTMENTS	8,042	1
OTHER FINANCIAL INCOME	4,998	1,039
INTEREST AND OTHER FINANCIAL EXPENSES	(24,633)	(27,031)
FOREIGN EXCHANGE GAINS AND LOSSES	(4,740)	(4,740)
	(16,332)	**(30,731)**
D) VALUE ADJUSTMENTS TO FINANCIAL ASSETS		
REVALUATIONS	–	2,797
WRITE-DOWNS	(65,000)	(253)
	(65,000)	**2,544**
E) EXTRAORDINARY INCOME AND EXPENSES		
EXTRAORDINARY INCOME	3,982	9,655
EXTRAORDINARY EXPENSES	(73,769)	(206,367)
	(69,787)	**(196,712)**
PROFIT BEFORE TAXES	**(171,000)**	**(225,824)**
INCOME TAXES FOR THE YEAR	34,567	60,872
PROFIT (LOSS) BEFORE MINORITY INTEREST	**(136,433)**	**(164,952)**
PROFIT (LOSS) MINORITY INTEREST	–	737
PROFIT (LOSS) FOR THE YEAR	**(136,433)**	**(165,689)**

ERG S.P.A.

Torre WTC
via De Marini, 1 - 16149 Genoa
Phone +39 0102401 - Fax +39 0102401585

www.erg.it

REGISTERED OFFICE

via De Marini, 1 - 16149 Genoa

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Company Register Genoa
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VAT 10122410151

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This publication is available in pdf format at www.erg.it
Written by: Direzione Amministrazione - amministrazione@erg.it
Editing: Immagine e Corporate Image - immagine@erg.it
Translation: Agostini Associati - Milan