# CONSOLIDATED FINANCIAL STATEMENTS

ERG S.P.A. ANNUAL REPORT FOR THE YEAR ENDED 31.12.2006

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# ERG S.P.A. ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2006

# CONSOLIDATED FINANCIAL STATEMENTS

# BALANCE SHEET

| (THOUSAND EURO) | NOTES | | 31/12/2006 | | 31/12/2005 |
|---|---|---|---|---|---|
| INTANGIBLE FIXED ASSETS | 1 | | 223,382 | | 90,113 |
| GOODWILL | 2 | | 110,016 | | 56,944 |
| PROPERTY, PLANT AND MACHINERY | 3 | | 1,966,879 | | 1,642,177 |
| EQUITY INVESTMENTS: | 4 | | 117,515 | | 99,082 |
| *- CARRIED AT EQUITY* | | *111,892* | | *97,815* | |
| *- OTHER INVESTMENTS* | | *5,623* | | *1,267* | |
| OTHER FINANCIAL ASSETS | 5 | | 12,070 | | 11,663 |
| *OF WHICH WITH RELATED PARTIES* | 39 | *11,759* | | *11,663* | |
| ADVANCE TAX ASSETS | 6 | | 210,266 | | 166,590 |
| OTHER NON-CURRENT ASSETS | 7 | | 45,305 | | 30,247 |
| **NON-CURRENT ASSETS** | | | **2,685,433** | | **2,096,816** |
| INVENTORIES | 8 | | 881,226 | | 922,605 |
| TRADE RECEIVABLES | 9 | | 801,020 | | 816,313 |
| *OF WHICH WITH RELATED PARTIES* | 39 | *75,549* | | *94,934* | |
| OTHER CURRENT RECEIVABLES AND ASSETS | 10 | | 227,113 | | 61,808 |
| *OF WHICH WITH RELATED PARTIES* | 39 | *11,301* | | – | |
| CURRENT FINANCIAL ASSETS | 11 | | 34,507 | | 7,161 |
| *OF WHICH WITH RELATED PARTIES* | 39 | *4,138* | | *664* | |
| CASH AND CASH EQUIVALENTS | 12 | | 169,856 | | 145,334 |
| **CURRENT ASSETS** | | | **2,113,722** | | **1,953,221** |
| **ASSETS HELD FOR SALE** | | | – | | – |
| **TOTAL ASSETS** | | | **4,799,155** | | **4,050,037** |
| GROUP SHAREHOLDERS' EQUITY | 13 | | 1,218,847 | | 1,143,087 |
| MINORITY INTERESTS | 14 | | 179,460 | | 65,660 |
| **SHAREHOLDERS' EQUITY** | | | **1,398,307** | | **1,208,747** |
| STAFF LEAVING INDEMNITIES | 15 | | 33,124 | | 34,140 |
| DEFERRED TAX LIABILITIES | 16 | | 274,758 | | 300,360 |
| PROVISIONS FOR NON-CURRENT LIABILITIES AND CHARGES | 17 | | 12,352 | | 12,169 |
| NON-CURRENT FINANCIAL LIABILITIES | 18 | | 782,751 | | 624,788 |
| OTHER NON-CURRENT LIABILITIES | 19 | | 369,378 | | 317,169 |
| **NON-CURRENT LIABILITIES** | | | **1,472,363** | | **1,288,626** |
| PROVISIONS FOR CURRENT LIABILITIES AND CHARGES | 20 | | 27,025 | | 26,231 |
| TRADE PAYABLES | 21 | | 959,681 | | 935,676 |
| *OF WHICH WITH RELATED PARTIES* | 39 | *8,589* | | *9,160* | |
| CURRENT FINANCIAL LIABILITIES | 22 | | 777,897 | | 296,311 |
| OTHER CURRENT LIABILITIES | 23 | | 163,882 | | 294,446 |
| **CURRENT LIABILITIES** | | | **1,928,485** | | **1,552,664** |
| **LIABILITIES HELD FOR SALE** | | | – | | – |
| **TOTAL LIABILITIES** | | | **4,799,155** | | **4,050,037** |

# INCOME STATEMENT

| (THOUSAND EURO) | NOTES | | 2006 | | 2005 |
|---|---|---|---|---|---|
| REVENUES FROM ORDINARY OPERATIONS | 27 | | 9,128,153 | | 8,958,363 |
| *OF WHICH WITH RELATED PARTIES* | 39 | *365,502* | | *588,562* | |
| OTHER REVENUES AND INCOME | 28 | | 175,283 | | 70,472 |
| *OF WHICH NON-RECURRING ITEMS* | 38 | *14,330* | | *33,068* | |
| CHANGES IN PRODUCT INVENTORIES | 29 | | 62,658 | | 133,220 |
| CHANGES IN RAW MATERIAL INVENTORIES | 30 | | (103,849) | | 271,359 |
| COST OF PURCHASES | 31 | | (8,061,990) | | (7,904,844) |
| COSTS FOR SERVICES AND OTHER COSTS | 32 | | (586,071) | | (495,996) |
| *OF WHICH WITH RELATED PARTIES* | 39 | *(97,779)* | | *(83,659)* | |
| *OF WHICH NON-RECURRING ITEMS* | 38 | *(7,278)* | | *(5,500)* | |
| PERSONNEL EXPENSES | 33 | | (172,222) | | (163,892) |
| **EBITDA** | | | **441,962** | | **868,682** |
| AMORTISATION, DEPRECIATION AND WRITE-DOWNS OF FIXED ASSETS | 34 | | (157,148) | | (156,206) |
| **EBIT** | | | **284,814** | | **712,476** |
| FINANCIAL INCOME | | | 135,872 | | 142,575 |
| *OF WHICH NON-RECURRING ITEMS* | 38 | – | | *10,676* | |
| FINANCIAL EXPENSES | | | (184,320) | | (155,379) |
| **NET FINANCIAL INCOME (EXPENSES)** | **35** | | **(48,448)** | | **(12,804)** |
| NET INCOME (EXPENSES) FROM INVESTMENTS CARRIED AT EQUITY | | | 3,946 | | 3,155 |
| OTHER NET INCOME (EXPENSES) FROM EQUITY INVESTMENTS | | | (15) | | 11 |
| **NET INCOME (EXPENSES) FROM EQUITY INVESTMENTS** | **36** | | **3,931** | | **3,166** |
| **PROFIT BEFORE TAXES** | | | **240,297** | | **702,838** |
| INCOME TAXES | 37 | | (46,505) | | (281,551) |
| *OF WHICH NON-RECURRING ITEMS* | 38 | *61,538* | | *(13,792)* | |
| **NET PROFIT (LOSS) FROM CONTINUING OPERATIONS** | | | **193,792** | | **421,287** |
| NET PROFIT (LOSS) FROM ASSETS HELD FOR SALE | | | – | | – |
| **NET PROFIT (LOSS) FOR THE PERIOD** | | | **193,792** | | **421,287** |
| MINORITY INTERESTS | | | (41,015) | | (36,037) |
| *OF WHICH NON-RECURRING ITEMS* | 38 | *(1,798)* | | – | |
| **NET PROFIT (LOSS) PERTAINING TO THE GROUP** | | | **152,777** | | **385,249** |

| (EURO) | | 2006 | 2005 |
|---|---|---|---|
| **NET EARNINGS PER SHARE** | **41** | **1.018** | **2.567** |
| **DILUTED EARNINGS PER SHARE** | **41** | **1.018** | **2.564** |

# CASH FLOW STATEMENT

| (THOUSAND EURO) | | 2006 | 2005 |
|---|---|---|---|
| **CASH FLOW FROM OPERATIONS (A)** | | | |
| - GROUP'S SHARE OF NET PROFIT | | 152,777 | 385,249 |
| - MINORITY SHARE OF NET PROFIT | | 41,015 | 36,037 |
| - AMORTISATION, DEPRECIATION AND WRITE-DOWNS | | 157,148 | 156,206 |
| - CHANGE IN PROVISIONS FOR LIABILITIES AND CHARGES | | (2,362) | 6,445 |
| - CHANGE IN DEFERRED AND SUBSTITUTE TAXES | | (81,519) | 71,818 |
| - NET INCOME (EXPENSES) FROM INVESTMENTS CARRIED AT EQUITY | | (3,946) | (3,155) |
| - BAD DEBT PROVISION | | 35 | 5,086 |
| - NET CHANGE IN STAFF LEAVING INDEMNITIES | | (1,453) | 175 |
| - NET CAPITAL GAINS AND LOSSES | | (4,438) | (134) |
| **CASH FLOW FROM CURRENT OPERATIONS** | | **257,257** | **657,727** |
| | | | |
| **CHANGES IN OPERATING ASSETS AND LIABILITIES** | | | |
| - INVENTORY | | 41,379 | (404,532) |
| - TRADE RECEIVABLES | | 21,460 | (310,374) |
| - TRADE PAYABLES | | 9,375 | 418,917 |
| - OTHER ASSETS | | (181,510) | (38,936) |
| - OTHER LIABILITIES | | (77,653) | 146,511 |
| | | **(186,949)** | **(188,414)** |
| | | | |
| **TOTAL** | | **70,308** | **469,313** |
| | | | |
| **CASH FLOW FROM INVESTMENTS (B)** | | | |
| - INVESTMENTS IN TANGIBLE FIXED ASSETS [1] | | (375,462) | (301,482) |
| - INVESTMENTS IN INTANGIBLE FIXED ASSETS | | (12,943) | (7,470) |
| - INVESTMENTS IN FINANCIAL FIXED ASSETS | | (13,315) | (20,321) |
| - ENERTAD ACQUISITION | | (153,779) | - |
| - PROCEEDS FROM DISPOSAL OF TANGIBLE FIXED ASSETS | | 17,555 | 9,682 |
| - PROCEEDS FROM DISPOSAL OF INTANGIBLE FIXED ASSETS | | 156 | 122 |
| - PROCEEDS FROM DISPOSAL OF FINANCIAL FIXED ASSETS | | 3,603 | 30,693 |
| **TOTAL** | | **(534,185)** | **(288,776)** |
| | | | |
| **CASH FLOW FROM FINANCING ACTIVITIES (C)** | | | |
| - NEW MEDIUM/LONG-TERM LOANS | | 291,000 | 145,000 |
| - REPAYMENTS OF MEDIUM/LONG-TERM LOANS | | (198,790) | (139,122) |
| - INCREASE (DECREASE) IN MEDIUM/LONG-TERM FINANCIAL PAYABLES/RECEIVABLES | | (4,864) | 2 |
| - INCREASE (DECREASE) IN SHORT-TERM BANK BORROWINGS | | 450,099 | (96,576) |
| - INCREASE (DECREASE) IN SHORT-TERM FINANCIAL PAYABLES/RECEIVABLES | | 74,447 | (103,617) |
| - INCREASE (DECREASE) IN FINANCIAL PAYABLES/RECEIVABLES AND BANK BORROWINGS FOR ENERTAD ACQUISITION | | (10,016) | – |
| - SHARE CAPITAL INCREASE | | – | – |
| - DIVIDENDS PAID | | (60,125) | (44,925) |
| - CHANGES IN MINORITY SHARE CAPITAL AND RESERVES | | (36,922) | (25,436) |
| - OTHER MINOR CHANGES | | (16,430) | 4,211 |
| **TOTAL** | | **488,399** | **(260,463)** |
| | | | |
| **NET CASH FLOW FOR THE YEAR (A+B+C)** | | **24,522** | **(79,926)** |
| **CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR** | | **145,334** | **225,260** |
| **CHANGES IN THE SCOPE OF CONSOLIDATION** | | **–** | **–** |
| **NET CASH FLOW FOR THE YEAR** | | **24,522** | **(79,926)** |
| **CASH AND CASH EQUIVALENTS AT END OF THE YEAR** | **(NOTE 12)** | **169,856** | **145,334** |

[1] including capitalised costs for cyclical maintenance, amounting to Euro 23,225 and 34,738 thousand in the individual periods

# STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY

| (THOUSAND EURO) | SHARE CAPITAL | RESERVES | PROFIT (LOSS) FOR THE PERIOD | TOTAL | MINORITY INTERESTS | TOTAL SHAREHOLDERS' EQUITY |
|---|---|---|---|---|---|---|
| **BALANCE AT 31/12/2004** | **16,178** | **632,189** | **193,922** | **842,289** | **57,889** | **900,178** |
| EFFECTS OF IMPLEMENTING IAS 32-39 | – | (50,578) | – | (50,578) | (2,830) | (53,408) |
| **BALANCE AT 1/1/2005** | **16,178** | **581,611** | **193,922** | **791,712** | **55,059** | **846,771** |
| NET PROFIT FROM CASH-FLOW HEDGING TRANSACTIONS (1) | – | 7,732 | – | 7,732 | – | 7,732 |
| **TOTAL PROFIT OR LOSS FROM PERIOD TAKEN DIRECTLY TO SHAREHOLDER'S EQUITY** | **–** | **7,732** | **–** | **7,732** | **–** | **7,732** |
| ALLOCATION OF 2004 PROFIT | – | 193,922 | (193,922) | – | – | – |
| DIVIDENDS PAID | – | (44,926) | – | (44,926) | (25,436) | (70,362) |
| OTHER CHANGES | (1,146) | 4,466 | – | 3,320 | – | 3,320 |
| 2005 PROFIT | – | – | 385,249 | 385,249 | 36,037 | 421,287 |
| **BALANCE AT 31/12/2005** | **15,032** | **742,806** | **385,249** | **1,143,087** | **65,660** | **1,208,747** |
| NET PROFIT FROM CASH-FLOW HEDGING TRANSACTIONS (1) | – | (7,199) | – | (7,199) | – | (7,199) |
| **TOTAL PROFIT OR LOSS FROM PERIOD TAKEN DIRECTLY TO SHAREHOLDER'S EQUITY** | **–** | **(7,199)** | **–** | **(7,199)** | **–** | **(7,199)** |
| ALLOCATION OF 2005 PROFIT | – | 385,249 | (385,249) | – | – | – |
| DIVIDENDS PAID | – | (60,125) | – | (60,125) | (36,922) | (97,047) |
| CHANGE IN SCOPE OF CONSOLIDATION | – | – | – | – | 109,685 | 109,685 |
| ACQUISITION OF TREASURY SHARES | – | (11,210) | – | (11,210) | – | (11,210) |
| OTHER CHANGES | – | 1,518 | – | 1,518 | 23 | 1,541 |
| 2006 PROFIT | – | – | 152,777 | 152,777 | 41,015 | 193,792 |
| **BALANCE AT 31/12/2006 (NOTE 13)** | **15,032** | **1,051,039** | **152,777** | **1,218,847** | **179,460** | **1,398,307** |

(1) net of the relative tax effect

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

ERG is intended as ERG S.p.A. and the companies included within the scope of the consolidation.

## THE GROUP

ERG is active in oil refining, the distribution of petroleum products in Italy and abroad and in power generation.

## CRITERIA FOR THE PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

The Consolidated Financial Statements as at 31 December 2006 were prepared, without any exception, in accordance with the International Accounting Standards issued by the International Accounting Standards Board (IASB) and approved by the European Union, which also include all the international standards subject to interpretation (International Financial Reporting Standards – IFRS) and the interpretations of the International Financial Reporting Interpretation Committee (IFRIC) and the earlier Standing Interpretations Committee (SIC).

These standards were adopted by the ERG Group with effect from 1 January 2005.

The consolidated financial statements, expressed in thousands of Euro, were prepared in accordance with the general principle of cost, with the exception of the financial assets available for sale, financial assets held for trading and derivative instruments, which were measured at fair value.

## CONTENT AND FORM OF THE CONSOLIDATED FINANCIAL STATEMENTS

ERG presents its income statement by nature, a form deemed more representative than presentation by destination. The form chosen, in fact, complies with internal and management reporting procedures.

With reference to the balance sheet, the presentation format adopted makes a distinction between current and non-current assets and liabilities in accordance with section 51 et seq. of IAS 1.

The structure of the cash flow statement is based on the indirect method. Furthermore, as required by CONSOB resolution 15519 of 27 July 2006, income and charges arising from non-recurring transactions or facts that do not recur frequently in the ordinary course of business have been indicated separately in the income statement. These items are commented in an appropriate note.

Again in application of the aforesaid CONSOB resolution, amounts relating to positions or transactions with related parties have been indicated separately in the balance sheet and income statement. These items are commented in an appropriate note. Disclosure relating to the net financial position can be found in the schedules on net financial debt included in the Report on Operations.

As regards the disclosure required pursuant to IAS 14, the primary format is by business segment while the secondary format is by geographic area.

## CONSOLIDATION PRINCIPLES

### SCOPE OF CONSOLIDATION

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

The associated companies where ERG S.p.A. exercises notable influence, or the companies where there is joint control over financial and operational policies, are valued using the equity method. The Group's share of the profits or losses is included in the consolidated financial statements as from the date when the notable influence commenced and up to the date when it ceases.

Should the Group's share of the losses of an associated company exceed the book value of the equity investment shown in the balance sheet, the carrying value is written-off and a provision made for the Group's share of the losses to the extent that the Group has legal or implicit obligations to cover the losses of the associated company or, in any event, make payments on its behalf.

No companies were consolidated using the proportional method.

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

The financial statements of subsidiaries used for consolidation purposes were drawn up at 31 December 2006 based on the same accounting standards adopted by the Group.

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

When preparing the consolidated financial statements the assets, liabilities, costs and revenues of the consolidated companies are included line by line for their full amount, attributing to minority shareholders, under separate headings of the balance sheet and income statement, their portion of shareholders' equity and profit or loss for the financial year. The portion of shareholders' equity pertaining to minority interests is determined on the basis of the current values attributed to assets and liabilities at the date control was acquired, excluding their portion of any goodwill.

The book value of the equity investments is offset against the corresponding portion of shareholders' equity of the investee companies, attributing to individual balance sheet assets and liabilities their current value as at the date control was acquired . Any residual difference, if positive, is booked to the asset item "Goodwill"; if negative it is booked to the income statement as provided in IFRS 3 (Business combinations).

## INTER-GROUP TRANSACTIONS

The application of the line by line method to eliminate the influence of all inter-group transactions in the consolidated financial statements, results in elimination of the reciprocal receivables and payables between the companies included within the scope of the consolidation, as well as costs, revenues and profits, if significant, originating from sales of products and technical fixed assets.

## TRANSLATION OF FINANCIAL STATEMENTS DRAWN UP IN A CURRENCY OTHER THAN EURO

ERG's consolidated financial statements have been drawn up in Euro, which is the functional currency of the Parent Company ERG S.p.A. and all the companies included within the scope of consolidation.

The financial statements of the companies valued according to the equity method that are expressed in currencies other than the Euro are translated into Euro by applying the year-end exchange rate to the individual items of the balance sheet.

Foreign exchange differences resulting from the translation of the shareholders' equity items at the current exchange rates at the financial year-end, compared to those at the end of the previous financial year, are charged directly to consolidated shareholders' equity.

# LIST OF GROUP COMPANIES

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

List of companies consolidated on a line by line basis:

| COMPANY (THOUSAND EURO) | REGISTERED OFFICE | DIRECT OWNERSHIP | GROUP'S OWNERSHIP | SHARE CAPITAL | SHAREHOLDERS' EQUITY [1] |
|---|---|---|---|---|---|
| **ERG S.P.A.** | | | | | |
| ENERTAD S.P.A. | MILAN | 51.33% | 51.33% | 94,877 | 132,821 |
| ERG PETROLI S.P.A. | ROME | 100.00% | 100.00% | 36,000 | 317,914 |
| ERG POWER & GAS S.P.A. | ROME | 100.00% | 100.00% | 10,000 | 66,512 |
| ERG RAFFINERIE MEDITERRANEE S.P.A. | SYRACUSE | 100.00% | 100.00% | 25,000 | 627,153 |
| **ENERTAD S.P.A.** | | | | | |
| EOS WINDENERGY S.R.L. | MILAN | 100.00% | 51.33% | 30,000 | 29,316 |
| EOLO S.R.L. | ATINA (FR) | 51.00% | 26.18% | 20 | 585 |
| SODAI ITALIA S.P.A. | MILAN | 51.00% | 26.18% | 15,615 | 14,430 |
| DSI SERVIZI INDUSTRIALI S.R.L. | FROSINONE | 100.00% | 51.33% | 100 | 751 |
| ENERGIE PULITE 2000 S.R.L. | MILAN | 100.00% | 51.33% | 120 | 225 |
| **EOS WINDENERGY S.R.L.** | | | | | |
| EOS 1 - TROIA S.R.L. (S. VINCENZO) | MILAN | 100.00% | 51.33% | 3,500 | 18,942 |
| EOS 2 - NURRA S.R.L. | MILAN | 100.00% | 51.33% | 10 | 61 |
| EOS 3 - TROIA S.R.L. (S. CIREO) | MILAN | 100.00% | 51.33% | 3,500 | 15,072 |
| EOS 4 - FAETO S.R.L. | MILAN | 100.00% | 51.33% | 10 | 5 |
| EOS 5 - TURSI COLOBRARO S.R.L. | MILAN | 100.00% | 51.33% | 10 | 56 |
| EOS 6 - JOPPOLO S.R.L. | MILAN | 100.00% | 51.33% | 10 | 42 |
| **ERG PETROLI S.P.A.** | | | | | |
| ERG PETROLEOS S.A. [2] | MADRID (E) | 100.00% | 100.00% | 22,000 | 12,088 |
| GESTIONI EUROPA S.P.A. | ROME | 100.00% | 100.00% | 500 | 179 |
| **GESTIONI EUROPA S.P.A.** | | | | | |
| GESTIONI EUROPA DUE S.P.A. | ROME | 88.75% | 88.75% | 500 | 253 |
| **ERG PETROLEOS S.A.** | | | | | |
| ERG GESTIÓN IBÉRICA S.L. [3] | MADRID (E) | 100.00% | 100.00% | 50 | 49 |
| **ERG POWER & GAS S.P.A.** | | | | | |
| ERG NUOVE CENTRALI S.P.A. | SYRACUSE | 100.00% | 100.00% | 29,010 | 41,629 |
| ISAB ENERGY S.R.L. | SYRACUSE | 51.00% | 51.00% | 5,165 | 341,325 |
| ISAB ENERGY SERVICES S.R.L. | SYRACUSE | 51.00% | 51.00% | 500 | 3,929 |

[1] 2006 figures

[2] 99% held by ERG Petroli S.p.A. and 1% by Gestioni Europa S.p.A.

[3] 99% held by ERG Petroleos S.A. and 1% by Gestioni Europa S.p.A.

On 16 October 2006, ERG S.p.A. acquired 51.33% of the share capital of Enertad S.p.A., a company listed on the Milan Stock Exchange which controls a group of companies operating in industrial services and activities for the production of electricity from renewable sources and water treatment. During the year the holding in Gestioni Europa Due was reduced from 100% to 88.75% following the sale to the U.S. company Strasburger Enterprises Inc. of an 11.25% shareholding.

Companies valued according to the equity method:

| COMPANY (THOUSAND EURO) | REGISTERED OFFICE | DIRECT OWNERSHIP | GROUP'S OWNERSHIP | SHARE CAPITAL | SHAREHOLDERS' EQUITY [1] | BOOK VALUE AT 31/12/06 |
|---|---|---|---|---|---|---|
| **SUBSIDIARY COMPANIES [2]** | | | | | | |
| **ERG S.P.A.** | | | | | | |
| PRIMOPREMIO S.R.L. IN LIQUIDATION | MILAN | 100.00% | 100.00% | 15 | 14 | 15 |
| **ERG PETROLI S.P.A.** | | | | | | |
| ERG PETROLI (SUISSE) S.A. | LAUSANNE (CH) | 99.45% | 99.45% | 342 | 905 | 900 |
| SIGEA S.P.A. | GENOA | 65.00% | 65.00% | 103 | 1,526 | 1,010 |
| **ERG POWER & GAS S.P.A.** | | | | | | |
| ISEA S.R.L. | MILAN | 90.00% | 90.00% | 51 | 156 | 3,078 |
| | | | | | | **5,004** |
| **ASSOCIATED COMPANIES** | | | | | | |
| **ERG S.P.A.** | | | | | | |
| I-FABER S.P.A. | MILAN | 23.00% | 23.00% | 5,652 | 7,783 | 1,735 |
| PRIMOPREMIO GESTIONI S.R.L. | MILAN | 30.00% | 30.00% | 10 | 11 | 3 |
| **ERG PETROLI S.P.A.** | | | | | | |
| CENTRO PETROLI S.R.L. | TAGGIA (IM) | 24.00% | 24.00% | 156 | 955 | 212 |
| DE.CO S.C.A.R.L. | ROME | 25.00% | 25.00% | 5,440 | 5,552 | 1,350 |
| ELYO ITALIA S.R.L. | MILAN | 40.00% | 40.00% | 39,000 | 50,048 | 24,228 |
| ENERPETROLI S.R.L. | VITERBO | 44.40% | 44.40% | 250 | 4,007 | 1,594 |
| EUROPAM S.R.L. [3] | MILAN | 26.00% | 26.00% | 23,759 | 32,184 | 8,193 |
| LAMPOGAS LOMBARDA S.R.L. | CROSIO DELLA VALLE (VA) | 46.50% | 46.50% | 710 | 1,211 | 545 |
| LAMPOGAS NORD S.R.L. | CAMERI (NO) | 46.50% | 46.50% | 1,032 | 1,318 | 622 |
| LAMPOGAS PAVESE S.R.L. | BELGIOIOSO (PV) | 46.50% | 46.50% | 1,330 | 1,810 | 831 |
| LAMPOGAS PIEMONTESE S.R.L. | SETTIMO TORINESE (TO) | 46.50% | 46.50% | 1,800 | 2,254 | 1,014 |
| MED OIL S.R.L. | SULMONA (AQ) | 50.00% | 50.00% | 2,789 | 2,674 | 1,308 |
| NATALIZIA PETROLI S.R.L. | FROSINONE | 49.00% | 49.00% | 3,200 | 6,528 | 2,898 |
| NELSA S.R.L. | LURATE CACCIVIO (CO) | 26.00% | 26.00% | 1,000 | 5,493 | 1,313 |
| PETROL COMPANY S.R.L. | CATANIA | 50.00% | 50.00% | 1,300 | 3,444 | 1,936 |
| RAFFINERIA DI ROMA S.P.A. | ROME | 28.13% | 28.13% | 2,000 | 13,361 | 3,873 |
| SARPOM S.P.A. | ROME | 25.86% | 25.86% | 38,448 | 179,545 | 36,703 |
| SERVIZIO MARE S.R.L. | TAGGIA (IM) | 24.00% | 24.00% | 10 | 179 | 59 |
| **ERG POWER & GAS S.P.A.** | | | | | | |
| ERG CESA EOLICA S.P.A. [4] | ROME | 50.00% | 50.00% | 11,000 | 33,722 | 17,936 |
| IONIO GAS S.R.L. [5] | SYRACUSE | 50.00% | 50.00% | 200 | 249 | 141 |
| ROMA ENERGIA S.R.L. | ROME | 20.00% | 20.00% | 50 | 1,235 | 244 |
| **ERG RAFFINERIE MEDITERRANEE S.P.A.** | | | | | | |
| DYNERGY S.R.L. | GENOA | 37.50% | 37.50% | 179 | 454 | 152 |
| | | | | | | **106,888** |
| **TOTAL** | | | | | | **111,892** |

(1) 2006 figures for subsidiaries; latest approved financial statements at the date of ERG S.p.A.'s Board of Directors Meeting for associated companies

(2) these companies have been accounted for using the equity method as their inclusion within the scope of consolidation would have been immaterial

(3) the company – formerly Opam Oils S.r.l. – changed its name following the merger with Opam Oils of Europetrol and Green Oils at the beginning of 2006

(4) joint venture with the Spanish company Corporación Eólica Cesa S.L.

(5) joint venture with Shell Energy Italia S.r.l.

The main aggregate figures for 2006 relating to ERG's holding of the companies carried at equity are shown below:

| (MILLION EURO) | 2006 | 2005 |
|---|---|---|
| ASSETS | 414 | 359 |
| LIABILITIES | 299 | 259 |
| REVENUES | 610 | 575 |
| NET INCOME | 3 | 9 |

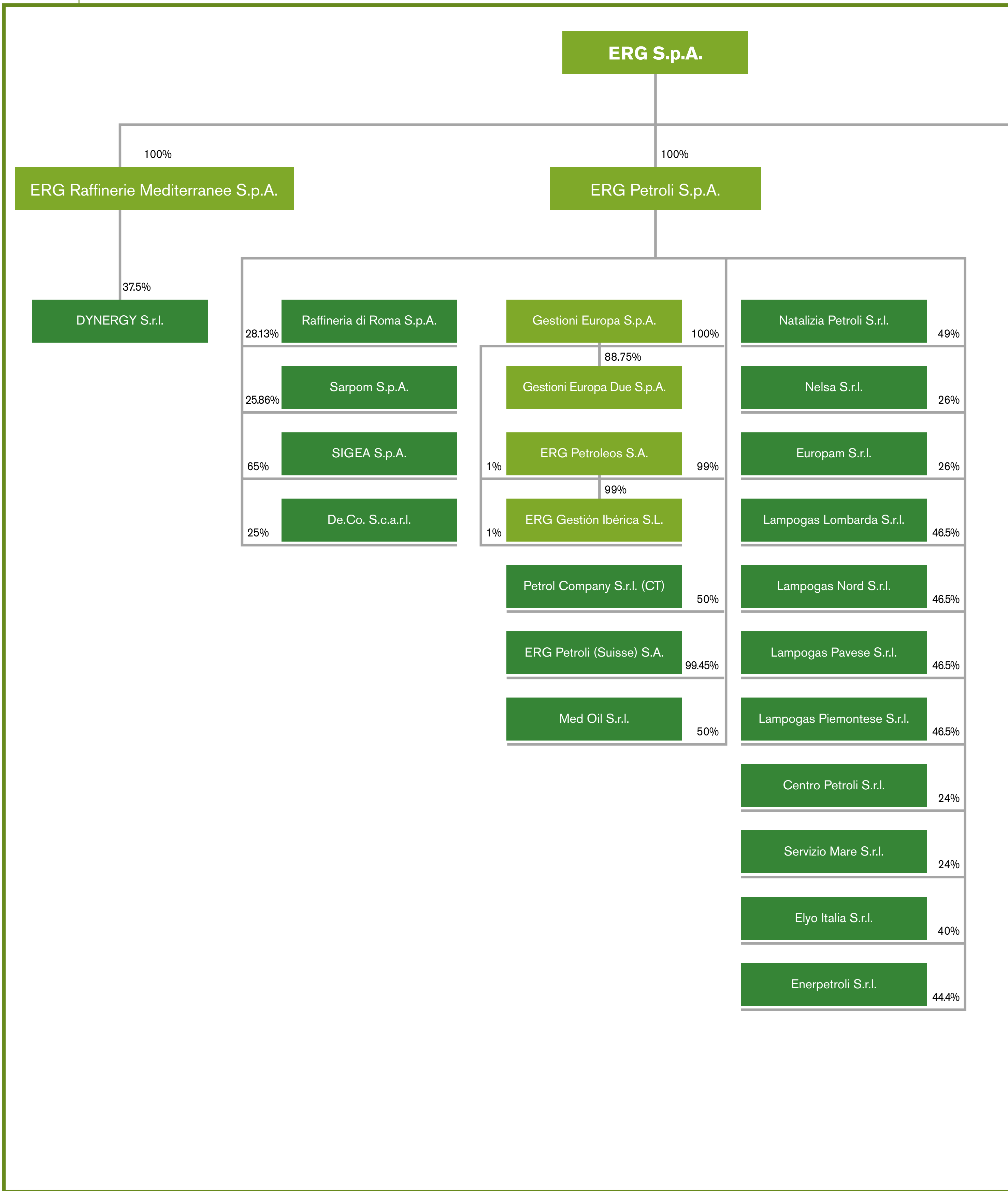
Companies carried at cost:

| COMPANY (THOUSAND EURO) | REGISTERED OFFICE | DIRECT OWNERSHIP | GROUP'S OWNERSHIP | SHARE CAPITAL | SHAREHOLDERS' EQUITY [1] | BOOK VALUE AT 31/12/06 |
|---|---|---|---|---|---|---|
| **SUBSIDIARY COMPANIES [2]** | | | | | | |
| **ERG POWER & GAS S.P.A.** | | | | | | |
| EOLICO TROINA S.R.L. | ROME | 99.00% | 99.00% | 20 | N.A. | 20 |
| EOLICO MIRABELLA S.R.L. | ROME | 99.00% | 99.00% | 20 | N.A. | 20 |
| EOLICO AGIRA S.R.L. | ROME | 99.00% | 99.00% | 20 | N.A. | 20 |
| EOLICO RAMACCA S.R.L. | ROME | 99.00% | 99.00% | 20 | N.A. | 20 |
| EOLICO PALAGONIA S.R.L. | ROME | 99.00% | 99.00% | 20 | N.A. | 20 |
| **ERG RAFFINERIE MEDITERRANEE S.P.A.** | | | | | | |
| PRIOLO SERVIZI S.C.AR.L. [3] | MELILLI (SR) | 59.30% | 59.30% | 10 | N.A. | 6 |
| | | | | | | **105** |
| **OTHER COMPANIES** | | | | | | |
| **ERG S.P.A.** | | | | | | |
| SVILUPPO ITALIA LIGURIA S.C.P.A. [4] | GENOA | 1.25% | 1.25% | 5,442 | 7,441 | 68 |
| CAF INTERREG. DIPENDENTI S.R.L. [5] | VICENZA | 0.04% | 0.04% | 276 | 914 | – |
| EMITTENTI TITOLI S.P.A. | MILAN | 0.51% | 0.51% | 4,264 | 6,240 | 26 |
| LIGURCAPITAL S.P.A. | GENOA | 3.64% | 3.64% | 5,681 | 9,236 | 207 |
| R.U.P.E. S.P.A. | GENOA | 5.27% | 5.27% | 2,800 | 2,749 | 155 |
| **ENERTAD S.P.A.** | | | | | | |
| ANSALDO FUEL CELLS S.P.A. | TERNI | 4.77% | 2.45% | 24,281 | 24,052 | 4,263 |
| **ERG PETROLI S.P.A.** | | | | | | |
| IMMOB. UNIONE COMM.TI ROMA S.P.A. | ROME | 0.03% | 0.03% | 2,066 | 1,930 | 1 |
| MEROIL S.A. | BARCELONA (E) | 1.52% | 1.52% | 10,901 | 18,215 | 441 |
| PORTO PETROLI DI GENOVA S.P.A. | GENOA | 8.98% | 8.98% | 2,068 | 4,197 | 348 |
| **ERG RAFFINERIE MEDITERRANEE S.P.A.** | | | | | | |
| IAS-INDUSTRIA ACQUA SIRACUSANA S.P.A. [6] | SYRACUSE | 10.00% | 7.55% | 102 | 108 | 10 |
| | | | | | | **5,518** |
| **TOTAL** | | | | | | **5,623** |

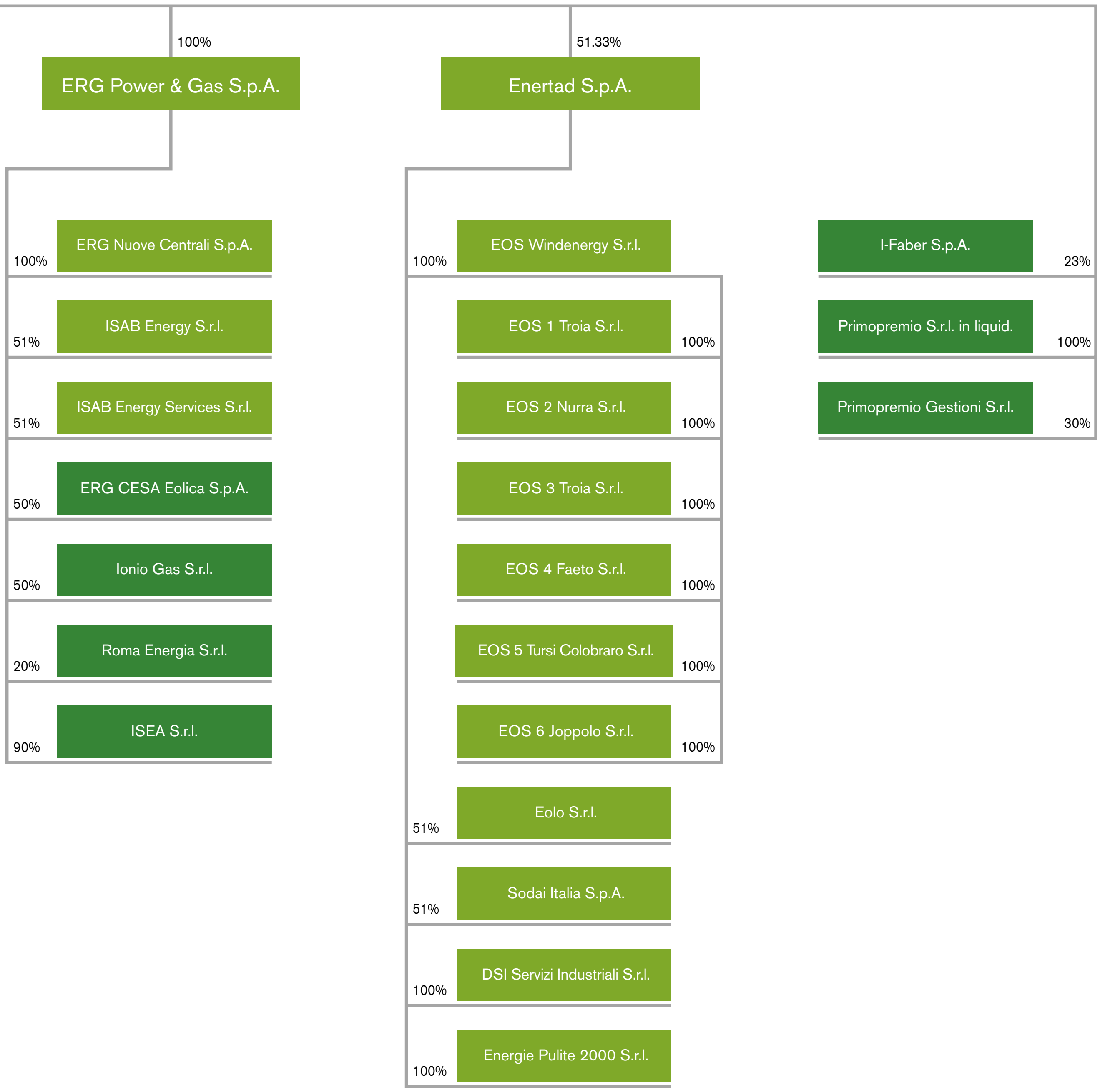
[1] latest approved financial statements at the date of ERG S.p.A.'s Board of Directors Meeting
[2] companies valued at cost as they are not yet operational
[3] held by ERG Raffinerie Mediterranee S.p.A. (37.8%) and ERG Nuove Centrali S.p.A. (21.5%)
[4] formerly Bic Liguria S.c.p.A.
[5] held by ERG S.p.A. (0.02%) and ERG Petroli S.p.A. (0.02%)
[6] held by ERG Raffinerie Mediterranee S.p.A. (5%) and ISAB Energy S.r.l. (5%)

The equity investments held by ERG S.p.A. in Istud S.p.A. and Sogea S.c.r.l. were sold during the year.

# THE ERG GROUP



# SCOPE OF CONSOLIDATION AT 31 DECEMBER 2006




= companies consolidated using the line-by-line method

= companies valued according to the equity method

# EVALUATION CRITERIA

The main principles adopted for preparation of the Consolidated Financial Statements at 31 December 2006, which are unchanged with respect to the previous financial year, are shown below.

## INTANGIBLE FIXED ASSETS

Intangible fixed assets are recorded under assets, according to the provisions of IAS 38 – Intangible assets, wherever these are identifiable, it is probable that their use will generate future economic benefits, and their cost can be measured reliably.

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

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

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

There are no intangible assets with an indefinite useful life or development costs.

Research costs are expensed directly to the income statement in the period in which they are incurred.

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

## GOODWILL

When a company is acquired, the assets, liabilities and potential liabilities acquired and identifiable are recorded at their current value (fair value) as at the acquisition date.

The positive difference between the cost of acquisition and the Group's share of the current value of these assets and liabilities is classified as goodwill and recorded in the financial statements as an intangible asset.

Any negative difference ("negative goodwill") is instead recorded in the income statement at the time of the acquisition.

Goodwill is not amortised, but is subject to impairment tests pursuant to IAS 36 – Impairment of assets every year or more frequently if specific events or circumstances indicate the possibility that there may have been a loss in value.

## PROPERTY, PLANT AND MACHINERY

Property, plant and machinery are recorded at the cost of acquisition or production.

Expansion, modernisation and transformation costs and maintenance costs are capitalised only if they increase the future economic benefits of the asset to which they refer.

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

The cost of the assets, where there are current obligations to do so, includes charges for dismantling, removal of assets and site restoration to be incurred at the time structures are abandoned, which are recorded as a contra-entry in a specific provision. These charges are booked as from the date when they can be reliably estimated for those assets where a future disposal, and the time when this will happen, is foreseeable.

Capitalised charges are allocated to the income statement via amortisation.

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

Land is not depreciated, even if acquired together with a building. Assets reassignable free of charge are depreciated over the estimated life of the asset or the duration of the concession, whichever is the shorter.

There were no financial 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 |
| LIGHT CONSTRUCTIONS | 10.0 |
| GENERAL PLANT | 6.2-12.0 |
| SPECIFIC PLANT | 6.2-10.0 |
| WIND FARM INSTALLATIONS | 9 |
| IGCC PLANT | 3.3-8.2 |
| PIPELINES, TANKS AND PIPES | 6.5-12.5 |
| SERVICE STATIONS | 7.4 |
| MOTOR VEHICLES, FURNITURE AND FURNISHINGS, SUNDRY ASSETS | 12.1-25.0 |

## WRITE-DOWN OF ASSETS (IMPAIRMENT TEST)

The Group verifies, at least once a year, the recoverability of the carrying value of intangible assets and property, plant and machinery, to determine whether there is any indication that these assets have suffered a loss in value. Should such an indication exist, it is necessary to estimate the recoverable value of the asset to determine the amount of any write-downs.

When it is not possible to estimate the recoverable value of an individual asset, the Group estimates

the recoverable value of the cash-generating unit to which the asset belongs.
The recoverable value of an asset is the higher of its fair value, less the costs of the sale, and its value in use determined as the present value of estimated future cash flows.
An impairment is recorded if the recoverable value is less than the carrying value. Should a loss in value of an asset, other than goodwill, subsequently no longer apply or be reduced, the carrying value of the asset or cash-generating unit is increased up to the new estimate of the recoverable value, without exceeding the value that would have been determined if no loss had been recorded.

## FINANCIAL INSTRUMENTS

### Equity investments

The companies other than subsidiaries and associated companies, in which ERG S.p.A. directly or indirectly holds less than 20% of equity, were classified as non-current assets and these are measured at fair value with the effects recorded under shareholders' equity. When the fair value cannot be reliably measured, the equity investments are valued at cost and written down for any losses in value, and the dividends distributed by these companies are included in the item "Other net income (expenses) from equity investments".
Should the reasons for a write-down cease to exist, equity investments valued at cost are written up to the extent that they were previously written down, and the effect recorded in the income statement.
The risk deriving from any losses exceeding the shareholders' equity is recorded in an appropriate provision to the extent to which the holding company is committed to fulfil the legal or implicit obligations of the subsidiary company, or in any event cover its losses.

### Trade receivables

Trade receivables are recorded at their fair value, which corresponds to their nominal value less any losses in value. Trade receivables for which collection does not fall within normal commercial terms and do not produce interest are discounted.

### Cash and cash equivalents

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

### Trade payables

Trade payables for which due dates fall within normal commercial terms are not discounted but recorded at cost (identified from their nominal value).

### Receivables and loans

Receivables generated by the company and loans included both under non-current assets and current assets are recorded at cost, which is represented by the fair value of the initial consideration given in exchange, and subsequently valued using the amortised cost method.

Receivables with maturities exceeding one year, interest-free or bearing interest at less than the market rate, are discounted using market rates.
Derivative instruments are included under financial assets.

**Financial liabilities**

These relate to the financial payables and derivative instruments. Financial liabilities, other than derivative financial instruments, are initially recorded at their market value (fair value). Subsequently, they are valued at their amortised cost using the effective interest rate method.

**Derivative financial instruments**

Derivative instruments are assets and liabilities recorded at their fair value.
ERG carries out transactions with derivative instruments to hedge the risk deriving from the fluctuations in raw material and product prices, foreign exchange and interest rates.
Derivatives are classified as hedging instruments, consistently with IAS 39, when the relationship between the derivative and the hedged item is formally documented and the effectiveness of the hedging, verified both in advance and periodically, is high.
When derivatives hedge the risk of a change in the fair value of the underlying asset hedged (fair value hedge), these are recorded at their fair value and the effects are booked to the income statement. Accordingly, the hedged instruments are adjusted to reflect the changes in the fair value associated with the hedged risk. When the derivative hedges the risk of a change in the cash flows of the underlying asset hedged (cash flow hedge), the effective amount of the changes in the fair value of the derivatives is initially recorded to shareholders' equity and subsequently booked to the income statement consistently with the economic effects produced by the hedged transaction.
Changes in the fair value of the derivatives that do not have the formal requisites to be considered as hedges under IAS/IFRS are recorded in the income statement.
ERG has applied IAS 32 and IAS 39 with effect from 1 January 2005.

**Assignment of receivables**

Non-recourse assignments of receivables to the factoring company are recorded pursuant to IAS 39. In cases where these transactions do not meet IAS requisites they remain recorded in the company's financial statements.

**Treasury shares**

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

## INVENTORIES

Inventories of raw materials and petroleum products are valued at the lower of cost and market value, determining cost by application of the weighted average cost method on a quarterly basis.
Valuation of inventories includes the direct costs of materials and labour and indirect production costs (variable and fixed). Provisions are calculated for the write-down of materials, finished products, spare parts and other supplies considered as obsolete or slow-moving, by taking into account their expected future use and realisable value. Inventories of ancillary materials, consumables and lubricants are valued at the lower of weighted average cost and current market value.

## TRANSACTIONS IN FOREIGN CURRENCIES

Transactions in foreign currencies are booked at the exchange rate prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate prevailing at the reference date of the financial statements. Non-monetary items are maintained at the translation exchange rate of the transaction except in the case of a persistent unfavourable trend in the exchange rate. The exchange rate differences generated on elimination of items at rates differing from those at which they were translated at the time of their initial recording and those relative to the monetary items at year-end are recorded in the income statement under "Financial expenses and income".

## PROVISIONS FOR LIABILITIES AND CHARGES

ERG records provisions for liabilities and charges when:

- there is a current legal or implicit obligation to third parties;
- it is probable that Group resources will be committed to fulfil the obligation;
- a reliable estimate can be made of the amount of the obligation itself.

Changes in the estimates are reflected in the income statement for the period in which the change occurred. When the financial effect over time is significant and the dates of payment of the obligations can be estimated, the provision is subject to discounting, utilising a discount rate that reflects the current valuation of the cost of money in relation to time. The increase in the provision connected to the passing of time is recognised in the income statement under "Financial income (expenses)". When the liability relates to property, plant or equipment (for example dismantling and restoration of sites), the provision is recorded as a contra entry to the asset to which it refers, and recognition in the income statement takes place through the depreciation process.
Significant contingent liabilities, represented by the following, are illustrated in the notes to the financial statements:

- possible (but not probable) obligations arising from past events, the existence of which will be confirmed only on the happening of one or more uncertain future events that are not totally under the company's control;

- current obligations arising from past events the amount of which cannot be reliably estimated, or for which it is probable that fulfilment will not be onerous.

### EMPLOYEE BENEFITS

The staff leaving indemnities provision (TFR) of Italian companies is considered as a defined benefit plan and is recognised according to the provisions for other defined benefit plans.
The liability relating to defined benefit plans is determined, separately for each plan, on the basis of actuarial assumptions, by estimating the amount of the future benefits to which the employees are entitled at the reference date, and accrued over the period of maturation of the rights; the liability is valued by independent actuaries.
The actuarial gains and losses relative to defined benefit plans arising from changes in the actuarial assumptions used, or changes in the plan conditions, are recognised pro rata in the income statement for the remaining average working life of the employees participating in the plan, if and to the extent that their net value not recorded at the end of the previous financial year exceeds the higher of 10% of the liability relative to the plan and 10% of the fair value of the assets servicing the plan.

### STOCK OPTION PLANS

Under IFRS 2 (Share-based Payments), stock options in favour of employees are measured at fair value at the time of their assignment based on models taking into account the factors and elements prevailing at such time (option exercise price and duration, current price of underlying shares and expected volatility of share price, etc.).
The right becomes exercisable after a certain period and subject to certain conditions.
The overall value of the options is apportioned pro rata temporis over the above-mentioned period and recorded under a specific shareholders' equity item, with an item of the income statement as a contra entry. The previously determined fair value of each option is not reviewed or updated at the end of every financial year, but remains definitively acquired in shareholders' equity; on this date, however, the estimate of the number of options that will mature up to the due date is updated (and thus of the number of employees who will have the right to exercise the options).
The change in the estimate is recognised as a reduction of shareholders' equity with a contra entry to the income statement.
ERG has applied IFRS 2 with effect from 1 January 2005 and thus to all the stock option plans assigned after that date.
ERG, upon first-time adoption of IFRS and applying the transitional provisions contained in IFRS 2, has availed itself of the faculty of exemption from the application of the standard because ERG's existing stock option plans at 1 January 2005 (the transition date) were prior to 7 November 2002.

### RECOGNITION OF REVENUES

Revenues from sales and services are recorded when effective transfer of the relevant risks and

advantages typical of ownership occurs, which coincides with the time of delivery or based on different contractual specifications, or on completion of the service.
ISAB Energy's sales revenues are based on a sales contract with the GSE (National Grid operator), regulated by the tariff determined in regulation 6/1992 of the Italian Inter-Ministerial Prices Committee (Comitato Interministeriale Prezzi), known as CIP 6, valid for a 20-year period and already authorised by the EU for 15 years. Regulation 6/1992 provides for the recognition of an incremental tariff amount for the first eight years of operation (2000-2008). This incentive component represents a timing advance of part of the tariff for the overall sales obtainable from the contract: the incentive is, accordingly, recognised from an accounting viewpoint as revenues in proportion to the quantity of energy sold pro rata to the anticipated sales over the entire contract.
The accruals for revenues relative to partially provided services are recognised according to the payments made, always provided that it is possible to reliably determine the stage of completion and there are no significant uncertainties as to the amount and existence of the revenue and related costs; otherwise, they are recorded within the limits of the recoverable costs incurred.
Revenues are recorded net of returns, discounts, rebates and allowances, as well as any directly related taxes. If a deferment of payment is expected, which does not fall under normal commercial terms, the financial component that will be attributed as income in the deferment period is separated from revenues. Exchanges between goods or services of a similar nature and value do not determine the recording of revenues and costs as they are not representative of sales transactions.
Revenues relating to green certificates are recorded based on production in the period and are evaluated on the basis of the legal regulations and prevailing resolutions of the Electricity Authority during the period, also taking into account the prevailing pro tempore equalising regulations.
Operating subsidies (contributi in conto impianti) are recorded at the time when a formal assignment is made and any possible restriction on their collection is removed and are recognised in the income statement in relation to the duration of the investments, with the purpose of offsetting the economic-technical depreciation of the facilities concerned.

### DIVIDENDS

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

### FINANCIAL INCOME AND EXPENSES

These are recorded by accrual on the basis of the interest due on the net value of the related financial assets and liabilities utilising the effective interest rate.

### TAXES

Current taxes are provided for based on the estimated tax charge for the period, taking into account also the effects relating to participation of most Group companies in "tax consolidation".

Income taxes are recorded in the income statement, with the exception of those relative to items directly debited or credited to a shareholders' equity reserve. In these cases, the tax effect is directly recognised under shareholders' equity.
Furthermore, based on the accrual accounting principle, deferred-tax assets and liabilities arising from timing differences caused by adjustments made to the financial statements of consolidated companies in order to align them with the Group's accounting principles, as well as timing differences between the statutory accounts and taxable amounts, are provided for in the consolidated financial statements.
Provisions for taxes that may arise from the transfer of undistributed profits of subsidiary companies are made only when there is a real intention to transfer such profits.
Deferred tax provisions are not made for the available reserves of companies consolidated line by line, as it is reasonably foreseeable that these profits will not be taxable at the time of their eventual distribution, because of the effect of participation in tax consolidation. Conversely, provisions for deferred taxation of the profits of consolidated companies carried at equity are made in relation to the tax charge that the Group will incur when earnings are distributed.
Deferred tax assets, including those relative to tax losses carried forward, are only recorded in the financial statements if their future recovery is probable.
Deferred taxes are calculated on the basis of the tax rates expected in the periods in which the taxable timing differences will be reversed.
Deferred tax assets and deferred tax liabilities are classified under non-current assets and liabilities.
Income taxes for the year were determined by taking into account the provisions of Legislative Decree 223/2006 (Bersani Decree) and subsequent amendments.

## EARNINGS PER SHARE

Earnings per share are calculated by dividing net profit for the period attributable to the company's ordinary shareholders by the weighted average number of the ordinary shares in circulation in the period.
To calculate diluted earnings per share, the weighted average number of ordinary shares outstanding is adjusted by assuming the conversion of all potential shares that would result in a diluting effect.

## USE OF ESTIMATES

Preparation of the financial statements and explanatory notes pursuant to IFRS requires the company to make estimates and assumptions that have an effect on the values of the assets and liabilities shown on the financial statements and the information relating to potential assets and liabilities.
These estimates are used, amongst other things, to record provisions for bad debts, inventory obsolescence, amortisation, depreciation and write-downs, employee benefits, taxes and other allocations and provisions. The final figures could differ from these estimates. The estimates and

assumptions are periodically reviewed and the effects of each change are reflected in the income statement in the period in which the change is made.

### NEW STANDARDS

The IASB has issued the following documents that are applicable for the first time with effect from 1 January 2006.

- IAS 19 **– Employee benefits**: amendment issued in December 2004, effective from 1 January 2006;
- IAS 39 **– Financial instruments**: a first amendment was issued in April 2005. The IASB then issued a final amendment in June 2005 effective from 1 January 2006;
- IAS 39 **– Financial instruments**: issued in August 2005, effective from 1 January 2006;
- IFRS 4 **– Insurance contracts**: issued in August 2005, effective from 1 January 2006;

In relation to the aforesaid documents, no effects on the shareholders' equity and profit for the period were noted, as they relate to situations that are not applicable to the Group.

Listed below are the new accounting standards or interpretations issued by the IASB that will be effective in the next few years:

- IAS 1 **– Presentation of financial statements**, **Capital disclosures**: issued in August 2005, effective from 1 January 2007;
- IFRS 7 **– Financial instruments, Disclosures**: issued in August 2005, effective from 1 January 2007;
- IFRS 8 **– Operating segments**: issued in November 2006, applicable with effect from 1 January 2009, replacing IAS 14 – **Segment Reporting**;
- IFRIC 8 **– Scope of application of IFRS 2**: applicable with effect from 1 January 2007;
- IFRIC 12 **– Service Concession Arrangements**: applicable from 1 January 2008.

The Group is evaluating the possible impact that these changes may have on future financial statements.

## TAX REALIGNMENT OF ASSETS

In June 2006, certain Group companies, also in consideration of the clarifications provided by the Italian Fiscal Revenues Agency in circular no. 18 E of 13/06/2006, decided to carry out the tax realignment of their assets pursuant to Italian Law 266/05. In observance of these legislative provisions, the fiscal values of "Plant and machinery" as at 31 December 2004 and still existing as at 31 December 2005 were realigned with the economic-technical values shown in the financial statements.

This realignment did not affect the value of the assets recorded in the consolidated financial statements or those of the individual companies. The tax realignment of the assets produced a net positive effect on the consolidated financial statements of approximately Euro 64 million, which was recognised under "Income tax" following the transfer to the income statement of the deferred taxes provision allocated in preceding financial years at a full rate equal to approximately Euro 95 million against recording of the relative substitute tax (12%) equal to some Euro 31 million.

## ENERTAD ACQUISITION

On 16 October 2006 the ERG Group acquired the Enertad Group. The transaction was completed through acquisition by ERG S.p.A. of 51.33% of Enertad S.p.A., a listed company that operates through its subsidiaries mainly in the sector of production of electricity from wind sources. Following the acquisition, and based on applicable legislation, ERG S.p.A. launched a Public Offer on the remaining Enertad S.p.A. shares; the Public Offer was concluded on 27 December without substantial changes in the holding already acquired previously.

The acquisition was recorded based on the provisions of IFRS 3 on business combinations. Under this standard for the purposes of correct recording of the transaction it is necessary to:

- determine the overall cost of the acquisition;
- allocate the cost of the business combination, as at the date of acquisition, to the assets acquired and liabilities assumed, including those not recorded prior to the acquisition;
- record the goodwill acquired in the business combination.

The total cost of the acquisition was approximately Euro 154 million.

| (MILLION EURO) | |
|---|---|
| ACQUISITION OF 51.33% OF THE SHARES | 151.0 |
| ANCILLARY CHARGES | 2.8 |
| **TOTAL ACQUISITION COST** | **153.8** |

Shown below are the details of the assets and liabilities acquired at their book value and restated value, based on the provisions of IFRS 3 ("Purchase Price Method"), to take their fair value into account.

### VALUATION OF ENERTAD'S ASSETS AND LIABILITIES AT THE DATE OF ACQUISITION

| (MILLION EURO) | ENERTAD GROUP | ADJUSTMENTS TO THE ACQUISITION SITUATION | ENERTAD GROUP ADJUSTED |
|---|---|---|---|
| *TANGIBLE FIXED ASSETS* | *91.1* | *12.1* | *103.2* |
| *INTANGIBLE FIXED ASSETS* | *11.9* | *125.2* | *137.1* |
| *GOODWILL* | *25.5* | *(12.4)* | *13.0* |
| *FINANCIAL FIXED ASSETS* | *4.3* | *–* | *4.3* |
| NON-CURRENT ASSETS | 132.6 | 124.9 | 257.6 |
| NET WORKING CAPITAL | (8.4) | – | (8.4) |
| STAFF LEAVING INDEMNITIES | (0.4) | – | (0.4) |
| OTHER ASSETS | 39.9 | 3.2 | 43.1 |
| OTHER LIABILITIES | (6.6) | (51.9) | (58.5) |
| **NET INVESTED CAPITAL** | **157.1** | **76.2** | **233.3** |
| GROUP SHAREHOLDERS' EQUITY | 147.0 | 74.4 | 221.3 |
| MINORITY INTERESTS | 0.1 | 1.8 | 2.0 |
| NET FINANCIAL DEBT | 10.0 | – | 10.0 |
| **SHAREHOLDERS' EQUITY AND FINANCIAL DEBT** | **157.1** | **76.2** | **233.3** |

The main differences identified in the determination of the fair value of the assets acquired and liabilities assumed refer to valuation of intangible fixed assets, and in particular of the preliminary contracts (rights whereby Enertad will be able to acquire ownership of projects already authorised or soon to be authorised) and authorisations for wind farms in operation and those to be constructed in future. The valuation of these assets was carried out based on an appropriate appraisal drawn up by independent experts and resulted in the booking of higher values of some Euro 125 million. The adjustment to tangible fixed assets refers to the higher value of the wind farms in operation with respect to those recorded by the Enertad Group based on a historical cost criterion.

Value adjustment of goodwill booked in the Enertad financial statements refers to the lower value recognised for the water business on acquisition, based on the future profitability expectations of the Sodai subsidiary.

The adjustment of the other liabilities relates to the deferred taxes correlated to the higher values recorded.

Based on IFRS 3, in business combinations, the difference between the overall acquisition cost and net value of the assets and liabilities acquired must be recognised on a residual basis as goodwill.

## MEASUREMENT OF RESIDUAL GOODWILL

| (MILLION EURO) | |
|---|---|
| OVERALL ACQUISITION COST | 153.8 |
| ENERTAD GROUP SHAREHOLDERS' EQUITY AT CURRENT VALUES (ERG'S 51.33% SHARE) | 113.6 |
| **GOODWILL** | **40.2** |

Based on the provisions of IFRS 3, valuation of the assets and liabilities carried out by ERG must be considered as temporary and could possibly be modified in the 12 months subsequent to the date of Enertad's acquisition.

## ENERTAD CONTRIBUTION TO THE 2006 CONSOLIDATED FINANCIAL STATEMENTS

The Enertad results for the 2006 year are not representative of the future contribution to ERG's consolidated financial statements as they are characterised by significant transactions relating to the sales of assets.
The impact that Enertad had on the 2006 consolidated income statement (figures relative to the period subsequent to the acquisition date) are shown below.

| (MILLION EURO) | |
|---|---|
| TOTAL REVENUES | 9.9 |
| EBITDA | 6.6 |
| EBIT | 4.1 |
| NET PROFIT (LOSS) PERTAINING TO THE GROUP | 1.8 |

# BALANCE SHEET ANALYSIS

## NOTE 1 - INTANGIBLE FIXED ASSETS

| | CONCESSIONS AND LICENSES | OTHER INTANGIBLE ASSETS | ASSETS UNDER CONSTRUCTION | TOTAL |
|---|---|---|---|---|
| **HISTORICAL COST** | 167,781 | 46,838 | 3,609 | 218,228 |
| AMORTISATION | (111,208) | (16,907) | – | (128,115) |
| **BALANCE AT 31/12/05** | **56,573** | **29,931** | **3,609** | **90,113** |
| | | | | |
| **MOVEMENTS DURING THE PERIOD** | | | | |
| CHANGE IN SCOPE OF CONSOLIDATION | 72,207 | 64,905 | – | 137,112 |
| ACQUISITIONS | 98 | 1,452 | 11,393 | 12,943 |
| CAPITALISATION/RECLASSIFICATION | 9 | 8,479 | (8,463) | 25 |
| DISPOSALS AND DIVESTMENTS | (719) | (430) | – | (1,150) |
| AMORTISATION | (6,601) | (9,054) | – | (15,655) |
| WRITE-DOWNS | – | (8) | – | (8) |
| | | | | |
| **HISTORICAL COST** | 187,173 | 173,775 | 6,539 | 367,488 |
| AMORTISATION | (65,606) | (78,500) | | (144,106) |
| **BALANCE AT 31/12/06** | **121,567** | **95,275** | **6,539** | **223,382** |

The increase in the item during the period is mainly due to the change in the scope of the consolidation and in particular the fair value recording of the preliminary contracts and authorisations for the wind farms (in operation and to be constructed in future) identified in connection with the "Enertad" business combination.

Concessions and licences mainly comprise authorisations for service stations for distribution of fuel and authorisations for the wind farms, amortised based on their residual life.

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

Assets under construction mainly comprise software developed internally.

## NOTE 2 - GOODWILL

"Goodwill" (Euro 110,016 thousand) represents the higher value of the acquisition cost of acquiree companies as against the value of shareholders' equity, where this cannot be allocated to other balance sheet items.

The increase of some Euro 53 million with respect to 31 December 2005 arose from the acquisition of Enertad (Euro 40 million of which deriving from allocation of the acquisition cost).

## GOODWILL IMPAIRMENT TEST

Goodwill is not systematically amortised in the income statement and is subject to a test, carried out on an annual basis, aimed at identifying a possible loss in value (impairment test).

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

- Coastal Refining: Euro 34,498 thousand
- Integrated Downstream: Euro 20,986 thousand
- Power Generation: Euro 54,433 thousand

### COASTAL REFINING

The recoverable amount of the Coastal Refining unit was measured based on its value in use. The calculation was carried out based on the cash flow projections contained in the four-year financial plan approved by top management. Estimates for subsequent years were made applying the scenario used for investment valuations, in line with the market's structural growth rate. The discount rate (WACC before taxes) applied to the prospective cash flows was 11.8%.

### INTEGRATED DOWNSTREAM

The recoverable amount of the Integrated Downstream unit was measured based on its value in use. The calculation was carried out based on the cash flow projections contained in the four-year financial plan approved by top management. Estimates for subsequent years were made applying the scenario used for investment valuations, in line with the market's structural growth rate. The discount rate (WACC before taxes) applied to the prospective cash flows was 9.3%.

### POWER GENERATION

The recoverable amount of the Power Generation unit was determined based on its value in use. The calculation was carried out based on the cash flow projections contained in the four-year financial plan approved by top management. Estimates for subsequent years were made applying the scenario used for investment valuations, in line with the market's structural growth rate. The discount rate (WACC before taxes) applied to the prospective cash flows was 9.0%.

With regard to impairment testing of the recoverable value of Enertad goodwill, the assumptions of the relative Purchase Price Allocation were used.

The main assumptions used for cash flows projections are shown below.

**Estimated gross margins**

The forecast is based on the price scenario for petroleum products, electricity and raw materials devised for the 2007-2010 Plan and, for the subsequent period, on projection of this scenario for the purposes of investment valuation. For Coastal Refining and Power Generation the forecast also takes into account the trend in plant yields following completion of investments in progress and, for Marketing, the expected improvement of Retail and Wholesale gross margins.

**Weighted Average Cost of Capital (WACC)**

WACC calculations were used for Coastal Refining, Integrated Downstream and Power Generation. It should be noted that the analysis carried out at the end of 2006 did not point to any impairment of goodwill.

## NOTE 3 - PROPERTY, PLANT AND MACHINERY

| | LAND AND BUILDINGS | PLANT AND MACHINERY | OTHER ASSETS | ASSETS UNDER CONSTRUCTION | TOTAL |
|---|---|---|---|---|---|
| **HISTORICAL COST** | 305,721 | 2,180,887 | 38,035 | 334,113 | 2,858,756 |
| DEPRECIATION AND WRITE-DOWNS | (125,895) | (1,069,813) | (20,871) | – | (1,216,579) |
| **BALANCE AT 31/12/05** | **179,826** | **1,111,074** | **17,164** | **334,113** | **1,642,177** |
| | | | | | |
| **MOVEMENTS DURING THE PERIOD** | | | | | |
| CHANGE IN SCOPE OF CONSOLIDATION | 14,100 | 87,049 | 1,233 | 810 | 103,192 |
| ACQUISITIONS | 155 | 187 | 602 | 351,294 | 352,238 |
| CAPITALISATION/RECLASSIFICATION | 14,113 | 156,599 | 3,403 | (174,140) | (25) |
| INCREASES FOR CYCLICAL MAINTENANCE | – | 23,225 | – | – | 23,225 |
| DISPOSALS AND DIVESTMENTS | (1,047) | (4,432) | (608) | (6,356) | (12,443) |
| DEPRECIATION | (10,286) | (126,997) | (3,709) | – | (140,992) |
| WRITE-DOWNS | (398) | – | (39) | (56) | (493) |
| | | | | | |
| **HISTORICAL COST** | 334,352 | 2,451,118 | 42,892 | 505,763 | 3,334,125 |
| DEPRECIATION AND WRITE-DOWNS | (137,110) | (1,204,829) | (25,307) | – | (1,367,246) |
| **BALANCE AT 31/12/06** | **197,242** | **1,246,289** | **17,586** | **505,763** | **1,966,879** |

For greater clarity, movements during the period relating to changes in the scope of consolidation, reclassifications, disposals and divestments are shown net of the respective provisions for depreciation and write-downs.

The increase during the period, apart from the investments made, is mainly due to the change in the scope of the consolidation and, in particular, to the fair value recording of the wind farms in operation identified in connection with the "Enertad" business combination.

Assets under construction increased as a result of the investments made mainly in Coastal Refining and Power Generation. The decrease of Euro 174,140 thousand mainly results from the transfer of assets in progress to fixed assets during the period.

An analysis of the investments made during the period can be found in the Report on Operations in the "Investments" chapter.

Increases for cyclical maintenance refer to the costs incurred by the ISAB Refinery for programmed maintenance shutdown of the Impianti Sud.

As at 31 December 2006 mortgages and collateral liens totalling approximately Euro 36 million had been attached to assets in connection with bank mortgage loans and borrowings.

ISAB Energy's IGCC plant and Enertad's wind plants (Troia S. Vincenzo and Troia S. Cireo) were pledged in connection with the respective Project Financing contracts.

## NOTE 4 - EQUITY INVESTMENTS

| | EQUITY INVESTMENTS | | | |
|---|---|---|---|---|
| | SUBSIDIARY COMPANIES | ASSOCIATED COMPANIES | OTHER COMPANIES | TOTAL |
| **BALANCE AT 31/12/05** | **1,744** | **96,071** | **1,267** | **99,082** |
| **MOVEMENTS DURING THE PERIOD** | | | | |
| CHANGE IN SCOPE OF CONSOLIDATION | – | – | 4,263 | **4,263** |
| ACQUISITIONS/CAPITAL INCREASES | 3,174 | 10,118 | 23 | **13,315** |
| DISPOSALS AND DIVESTMENTS | – | – | (2) | **(2)** |
| WRITE-DOWNS/UTILISATION OF PROVISION FOR LOSSES | – | – | (33) | **(33)** |
| EVALUATION OF COMPANIES BY EQUITY METHOD | 191 | 699 | – | **891** |
| **BALANCE AT 31/12/06** | **5,109** | **106,888** | **5,518** | **117,515** |

"Equity investments" held at 31 December 2006 were as follows:

| | CARRIED AT EQUITY | CARRIED AT COST | TOTAL |
|---|---|---|---|
| **EQUITY INVESTMENTS** | | | |
| - IN NON-CONSOLIDATED SUBSIDIARY COMPANIES | 5,004 | 105 | 5,109 |
| - IN ASSOCIATED COMPANIES [1] | 106,888 | – | 106,888 |
| - IN OTHER COMPANIES | – | 5,518 | 5,518 |
| **TOTAL** | **111,892** | **5,623** | **117,515** |

[1] of which Euro 18,077 thousand in joint ventures

Details of the equity investments have already been given in the schedules on the scope of consolidation.

Changes in equity investments during the year 2006 were as follows:

| | |
|---|---|
| **CHANGE IN SCOPE OF CONSOLIDATION** | **4,263** |
| | |
| **ACQUISITIONS - FORMATIONS - CAPITAL INCREASES** | |
| ERG CESA EOLICA S.P.A. | 5,600 |
| EOLICO TROINA S.R.L. | 20 |
| EOLICO MIRABELLA S.R.L. | 20 |
| EOLICO AGIRA S.R.L. | 20 |
| EOLICO RAMACCA S.R.L. | 20 |
| EOLICO PALAGONIA S.R.L. | 20 |
| EUROPAM S.R.L. | 3,068 |
| IONIO GAS S.R.L. | 1,450 |
| ISEA S.R.L. | 3,069 |
| OTHER SMALLER COMPANIES | 29 |
| | **13,315** |
| | |
| **DISPOSALS - REPAYMENTS - LIQUIDATIONS** | **(2)** |
| | |
| **WRITE-DOWNS/USE OF PROVISION TO COVER LOSSES** | **(33)** |
| | |
| **NET CHANGE IN THE VALUE OF COMPANIES CARRIED AT EQUITY** | **891** |
| | |
| **TOTAL** | **18,433** |

The change in the scope of consolidation relates to the equity investment in Ansaldo Fuel Cells, acquired in connection with the "Enertad" business combination.

As to the principal changes in 2006 mention should be made of the acquisition of 90% of the share capital of ISEA, a company that owns five mini-hydro power plants, and the formation of five companies to develop, build and operate wind farms.

The write-down of Euro 33 thousand relates to the equity investment in Sogea S.c.r.l., sold in 2006.

The positive change of Euro 0.9 million from valuation with the equity method is due to the results for the period, after dividends received from these companies.

## NOTE 5 - OTHER FINANCIAL ASSETS

"Other financial assets" of Euro 12,070 thousand (Euro 11,663 thousand at 31 December 2005) mainly comprise a loan – required to purchase technical fixed assets, granted at market conditions to Raffineria di Roma S.p.A. by ERG Petroli S.p.A. in proportion to the latter's shareholding.

## NOTE 6 - ADVANCE TAX ASSETS

Provision for advance taxes is made, if their future recovery on the timing differences, subject to advance taxation, between the value of assets and liabilities in statutory financial statements and their related taxable amounts is likely.

The advance taxes were as follows:

| | 31/12/06 | | 31/12/05 | |
|---|---|---|---|---|
| | AMOUNT OF TIMING DIFFERENCES | TAX EFFECT | AMOUNT OF TIMING DIFFERENCES | TAX EFFECT |
| PROVISIONS FOR LIABILITIES AND CHARGES | 22,669 | 8,392 | 27,695 | 10,112 |
| DEPRECIATION EXCEEDING FISCAL LIMIT | 39,436 | 14,690 | 13,554 | 5,049 |
| MAINTENANCE EXCEEDING FISCAL LIMIT | 74,993 | 27,935 | 40,409 | 15,052 |
| WRITE-DOWNS OF EQUITY INVESTMENTS | 3,156 | 1,042 | 6,596 | 2,177 |
| CAPITALISED FINANCIAL CHARGES | 59,339 | 2,522 | 62,230 | 2,645 |
| DEFERRED CIP 6 INCOME | 351,874 | 131,073 | 297,088 | 110,665 |
| AMORTISED COST FINANCIAL CHARGES | 20,229 | 6,676 | 18,564 | 6,126 |
| OTHER CHANGES | 43,053 | 14,586 | 30,044 | 10,586 |
| **TOTAL** | | **206,915** | | **162,412** |

It should be noted that the rate used to calculate advance taxes is the same as the nominal IRES (corporation tax) rate of 33%, increased, where envisaged, by the IRAP (regional tax) rate of 4.25%. Advance taxes also include the residual substitute taxes paid on merger differences in the amount of Euro 3,351 thousand (Euro 4,178 thousand at 31 December 2005).

In compliance with the principle of prudent accounting advance taxes of about Euro 24 million against the tax losses of a number of consolidated companies were not recognised because their utilisation is unlikely.

## NOTE 7 - OTHER NON-CURRENT ASSETS

"Other non-current assets" of Euro 45,305 thousand (Euro 30,247 thousand at 31 December 2005) are mainly related to prepaid expenses for rental costs (beyond 12 months) and to the catalysers in use at the ISAB Refinery plants that have not yet been utilised in the refining process.

## NOTE 8 - INVENTORIES

"Inventories" comprise the following categories:

| | 31/12/06 | 31/12/05 |
|---|---|---|
| RAW, ANCILLARY AND CONSUMABLE MATERIALS | 360,647 | 464,685 |
| FINISHED PRODUCTS AND GOODS | 520,579 | 457,920 |
| **TOTAL** | **881,226** | **922,605** |

The value of the inventories was determined by applying the weighted average cost method. As a result, the value is affected not only by the level of the year-end 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 on the quantities that were unchanged with respect to the beginning of the period.

The decrease in value of raw material inventories (crude oil) is due to the significant decline in stocks (1,050 against 1,330 thousand tonnes at 31 December 2005).

On the other hand, the value of inventories of finished products increased due to higher stocks (1,580 against 1,406 thousand tonnes at 31 December 2005).

It should be noted that comparison of inventory values with the relevant realisable values resulted in a write-down of some Euro 10 million for raw materials and about Euro 12 million for products.

## NOTE 9 - TRADE RECEIVABLES

Below is a breakdown of receivables:

| | 31/12/06 | 31/12/05 |
|---|---|---|
| CUSTOMER RECEIVABLES | 730,583 | 731,961 |
| RECEIVABLES DUE FROM GROUP COMPANIES | 75,513 | 94,776 |
| BAD DEBT PROVISION | (5,076) | (10,424) |
| **TOTAL** | **801,020** | **816,313** |

"Customer receivables" are guaranteed by sureties amounting to approximately Euro 66 million with respect to Wholesale customers, approximately Euro 80 million with respect to Retail network dealers paying by direct debit and about Euro 14 million with respect to Cargo customers.

"Receivables due from Group companies" refer to the supply of petroleum products at market value to associated companies. The "bad debt provision" was used to the extent of about Euro 5 million due to partial receipt of some receivables previously considered doubtful, following a transaction settlement.

It should be noted that all trade receivables are due within 12 months.

## NOTE 10 - OTHER CURRENT RECEIVABLES AND ASSETS

| | 31/12/06 | 31/12/05 |
|---|---|---|
| TAX RECEIVABLES | 45,730 | 12,553 |
| RECEIVABLES FROM ARBITRAGE TRANSACTIONS ON CRUDE OIL AND PRODUCTS | 7,319 | 15,424 |
| INDEMNITIES TO BE RECEIVED | 115,797 | 783 |
| SUNDRY RECEIVABLES | 58,267 | 33,048 |
| **TOTAL** | **227,113** | **61,808** |

"Tax receivables" mainly refer to advance payments on 2006 taxes and Group VAT receivables for which reimbursement has been requested; these include Euro 10.9 million for ERG Raffinerie Mediterranee's IRES receivable paid to San Quirico S.p.A. (holding company of ERG S.p.A.) following acceptance of domestic tax consolidation. It should also be noted that ERG Power & Gas and its subsidiary Ionio Gas S.r.l. have accepted the transparent taxation regime.

"Receivables from arbitrage transactions on crude oil and products" relate to the balance of future purchase transactions and spot sales of crude oil and petroleum products existing at year-end.

The "indemnities to be received" mainly refer to the fire at the ISAB Impianti Nord Refinery and to ISAB Energy's transformer failure. "Sundry receivables" mainly include receivables assigned to factoring companies, advances paid to suppliers and payments already made against future services.

## NOTE 11 - CURRENT FINANCIAL ASSETS

"Current financial assets" of about Euro 34,507 thousand (Euro 7,161 thousand at 31 December 2005) mainly refer to the positive fair value of existing derivative instruments at 31 December 2006, receivables from non-consolidated Group companies and insurance policies taken out by Enertad as a guarantee for Trenitalia's put option on the subsidiary Sodai Italia S.p.A.

The increase in the item during the period is mainly due to the fair value of the call option on Enertad's shares (commented on in Note 34) and the change in the scope of consolidation.

## NOTE 12 - CASH AND CASH EQUIVALENTS

| | 31/12/06 | 31/12/05 |
|---|---|---|
| BANK AND POSTAL DEPOSITS | 166,512 | 143,266 |
| CASH AND NOTES ON HAND | 3,344 | 2,068 |
| **TOTAL** | **169,856** | **145,334** |

The item "Bank and postal deposits" consists mainly of the balance in bank accounts, through which all the income and expenditure of ISAB Energy S.r.l. relating to the Project Financing (Euro 75.0 million) passes, and temporary liquidity occurring in the other companies at 31 December 2006.

It should be noted that the current accounts of ISAB Energy are bound by the conditions set out in the Project Financing contract. In particular, there is a restricted preferential current account for Euro 16.7 million in favour of the financing institutions as an "Insurance reserve account" (to guarantee the lower insurance coverage with respect to that contractually required).

## NOTE 13 - GROUP SHAREHOLDERS' EQUITY

### SHARE CAPITAL

The fully paid-up share capital at 31 December 2006 amounted to 150,320,000 shares with a par value of Euro 0.10 each for a total of Euro 15,032,000 (unchanged with respect to 31 December 2005).

At 31 December 2006 the Company's Shareholders Register showed the following:

- San Quirico S.p.A. held 83,619,940 shares, i.e. 55.628%;
- Polcevera S.A. (Luxembourg) held 10,380,060 shares, i.e. 6.905%;
- ERG S.p.A. held 655,456 treasury shares, i.e. 0.436%.

At 31 December 2006 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, Mr. Edoardo Garrone.

It should be noted that on 29 April 2004 the Extraordinary Shareholders' Meeting amended the Articles of Association to permit the Board of Directors to issue convertible bonds, for a period of 5 years from the date of the resolution, up to an amount of Euro 150 million. These convertible bonds will not have option rights.

The ERG S.p.A.'s Shareholders' Meeting held on 28 April 2006 authorised the Board of Directors, pursuant to Art. 2357 of the Italian Civil Code, to purchase treasury shares for a period of 12 months as from the date of the resolution within a revolving limit (intending thereby the maximum number of treasury shares held in portfolio from time to time) of 15,000,000 (fifteen million) shares at a unitary price, including ancillary acquisition charges, to be no more than 30% lower in minimum, and no more than 10% higher in maximum, with respect to the reference price recorded by the share during the stock market session on the day prior to each individual transaction.
In conformity with the aforesaid resolution ERG S.p.A.'s Board of Directors, on 10 August 2006, approved the acquisition of a maximum number of 648,590 treasury shares. This corresponds to 648,590 subscription rights assigned in connection with the long-term incentive plan in force, the Regulations of which provide ERG with the facility to assign treasury shares instead of new issue shares against the exercise of the subscription rights in question.
These acquisitions were completed in the month of August.

## TREASURY SHARES

At 31 December 2006 ERG S.p.A. held 655,456 treasury shares, i.e. 0.436% of share capital. With effect from 1 January 2005, treasury shares are recorded as a reduction of shareholders' equity in application of IAS 32. The original cost of the treasury shares, write-downs for value impairment, and revenues and losses deriving from any subsequent sales are recorded as movements in shareholders' equity.

## STOCK OPTION PLANS

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

ERG S.p.A.'s Board of Directors approved a new long-term incentive plan on 5 August 2005, which provides for the assignation of registered and non-transferable subscription rights to ERG shares to the Group's executives. The system has a three-year duration and provides for assignment of the rights, year-on-year, with a par exercise price, namely a price corresponding to the arithmetic average value of the ERG share official quotations during the thirty days prior to assignment. The system does not envisage cash settlement. The right to exercise the options is subject to having been employed by the Group for three years as from the date of assignment. The following table summarises the relevant data for the rights assigned in October 2005 and in October 2006:
The fair value of the options granted was estimated using the Black-Scholes model and taking into

| | 2006 ASSIGNMENT | 2005 ASSIGNMENT |
|---|---|---|
| NUMBER OF RIGHTS ASSIGNED [1] | 745,119 | 635,575 |
| EXERCISE PRICE (EURO) | 15.61 | 21.08 |
| FAIR VALUE AT DATE OF ASSIGNMENT (EURO) | 4.07 | 6.18 |

[1] the number is shown net of the rights cancelled during 2006

account the terms and conditions for assignment of the options.

The following table shows the assumptions used for the model:

The portion pertaining to the cost of share-based payment transactions is Euro 1,540 thousand (Euro

| | 2006 ASSIGNMENT | 2005 ASSIGNMENT |
|---|---|---|
| AVERAGE VOLATILITY OF ERG SHARE PRICE | 31.20% | 29.34% |
| RISK-FREE INTEREST RATE | 3.56% | 2.35% |
| EXPIRY OF RIGHT | 4 YEARS | 4 YEARS |

323 thousand in 2005), broken down as follows:

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

| | 2006 | 2005 |
|---|---|---|
| COSTS FOR SERVICES AND OTHER COSTS | 1,329 | 245 |
| PERSONNEL EXPENSES | 211 | 77 |
| **TOTAL** | **1,540** | **323** |

Enertad has an existing stock option plan for the company's directors holding specific corporate offices and executives whose roles make them more directly responsible for business and operating results.

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

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

The fair value of the options granted was estimated using the Black-Scholes model and taking into

| | III ASSIGNMENT 2006 | II ASSIGNMENT 2006 | I ASSIGNMENT 2005 |
|---|---|---|---|
| NUMBER OF RIGHTS ASSIGNED [1] | 765,300 | 765,300 | 605,000 |
| EXERCISE PRICE (EURO) | 3.23 | 3.19 | 3.24 |

[1] the number is shown net of the rights cancelled during 2006

account the terms and conditions of attribution of the options.

The portion pertaining to the cost of share-based payment transactions, for the period subsequent to the acquisition of Enertad, is immaterial.

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### RESERVES

| | 31/12/06 | 31/12/05 |
|---|---|---|
| CONSOLIDATION RESERVE | 961,457 | 621,067 |
| SHARE PREMIUM RESERVE | 63,315 | 74,525 |
| CASH FLOW HEDGE RESERVE | 940 | 7,732 |
| STOCK OPTION RESERVE | 2,234 | 323 |
| OTHER RESERVES | 23,093 | 39,159 |
| **TOTAL** | **1,051,039** | **742,806** |

The "share premium reserve" refers to the share premium paid by the shareholders on subscription to shares resulting from the share capital increases on 14 October 1997, 2 July and 5 August 2002; the decrease in the item relates to the acquisition of treasury shares in August 2006.

The "cash flow hedge reserve" was constituted against the fair value of contracts to cover financial flows, after taxes.

The "stock options reserve" includes the portions accrued on stock option plans.

"Other reserves" mainly include the monetary revaluation reserve and retained earnings.

## NOTE 14 - MINORITY INTERESTS

Minority interests arise from the line by line consolidation of the following companies having other shareholders:

| | % OF MINORITY SHAREHOLDERS | MINORITY SHARES |
|---|---|---|
| ENERTAD S.P.A. | 48.66% | 111,743 |
| GESTIONI EUROPA DUE S.P.A. | 11.25% | 45 |
| ISAB ENERGY S.R.L. | 49.00% | 65,610 |
| ISAB ENERGY SERVICES S.R.L. | 49.00% | 2,061 |
| **TOTAL** | | **179,460** |

## NOTE 15 - STAFF LEAVING INDEMNITIES

| | 31/12/06 | 31/12/05 |
|---|---|---|
| **BALANCE AT BEGINNING OF PERIOD** | **34,140** | **33,965** |
| CHANGE IN SCOPE OF CONSOLIDATION | 437 | – |
| SOCIAL SECURITY COST FOR CURRENT SERVICES | 7,536 | 5,708 |
| FINANCIAL CHARGES RELATING TO OBLIGATIONS UNDERTAKEN | 1,308 | 1,340 |
| BENEFITS PAID | (10,297) | (6,873) |
| **BALANCE AT END OF PERIOD** | **33,124** | **34,140** |

The item includes an estimate of the liability relating to the staff leaving indemnities payable to employees when they terminate their employment. The estimate is made using actuarial methods.

It should be noted that actuarial profits and losses (due to changes in the actuarial assumptions used) have not been taken into account because their net unrecorded value at the end of the prior financial year was less than 10% of year-end liabilities. Actuarial profits and losses at 31 December 2006 were around Euro 2,402 thousand (Euro 3,085 thousand at 31 December 2005).

The main assumptions used to determine the actuarial value of the liability for staff leaving indemnities are shown below:

| | |
|---|---|
| DISCOUNT RATE | 4.0% |
| INFLATION RATE | 1.5% |
| AVERAGE TURNOVER RATE | 5.0% |
| AVERAGE RATE OF SALARY INCREASE | 3.0% |

## NOTE 16 - DEFERRED TAX LIABILITIES

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

This provision consists of:

| | 31/12/06 | | 31/12/05 | |
|---|---|---|---|---|
| | AMOUNT OF TIMING DIFFERENCES | TAX EFFECT | AMOUNT OF TIMING DIFFERENCES | TAX EFFECT |
| EXCESS AND ACCELERATED DEPRECIATION | 166,927 | 62,180 | 342,352 | 127,526 |
| BAD DEBT PROVISION | 10,771 | 3,554 | 9,081 | 2,997 |
| INVENTORY VALUATION USING WEIGHTED AVERAGE COST | 326,781 | 121,570 | 368,867 | 137,272 |
| CAPITALISED MAINTENANCE COSTS | 35,281 | 13,142 | 30,394 | 11,321 |
| FINANCIAL INSTRUMENTS | 15,430 | 5,142 | 11,182 | 3,690 |
| ACTUARIAL VALUATION OF STAFF LEAVING INDEMNITY | 5,469 | 1,805 | 6,039 | 1,993 |
| CAPITAL GAINS ON BUSINESS COMBINATIONS | 136,577 | 50,875 | – | – |
| OTHER CHANGES | 43,160 | 16,490 | 46,027 | 15,561 |
| **TOTAL** | | **274,758** | | **300,360** |

It should be noted that the rate used to calculate deferred taxes is the same as the nominal IRES rate (33%), increased, where envisaged, by the IRAP rate (4.25%).

The decrease in deferred taxes is attributable to the tax realignment of assets, carried out pursuant to Law no. 266 of 23 December 2005. About Euro 95 million calculated on "excess and accelerated depreciation" was released from the provision for deferred taxes.

It should be noted that deferred taxes calculated on the fair value of derivative instruments booked using the cash flow hedge technique were recorded with a contra entry to shareholders' equity (Euro 0.2 million).

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

| | 31/12/06 | 31/12/05 | CHANGES INCREASES | CHANGES DECREASES |
|---|---|---|---|---|
| PROVISION FOR PLANT DISMANTLING CHARGES | 11,789 | 11,425 | 364 | – |
| OTHER PROVISIONS | 563 | 744 | 47 | (228) |
| **TOTAL** | **12,352** | **12,169** | **411** | **(228)** |

The "provision for plant dismantling charges" refers to charges for dismantling, removal and site restoration of plants for which a future disposal is expected.

## NOTE 18 - NON-CURRENT FINANCIAL LIABILITIES

The composition of this item is given below:

| | 31/12/06 | 31/12/05 |
|---|---|---|
| MEDIUM/LONG-TERM MORTGAGES AND LOANS | 543,221 | 361,952 |
| - CURRENT PORTION OF MEDIUM/LONG-TERM LOANS | (71,661) | (91,560) |
| | **471,560** | **270,392** |
| MEDIUM/LONG-TERM PROJECT FINANCING | 392,678 | 424,362 |
| - CURRENT PORTION OF PROJECT FINANCING | (102,487) | (91,677) |
| | **290,191** | **332,685** |
| OTHER MEDIUM/LONG-TERM FINANCIAL PAYABLES | **21,000** | **21,711** |
| **TOTAL** | **782,751** | **624,788** |

Mortgages and loans totalled Euro 543 million at 31 December 2006, of which Euro 175 million was provided by the European Investment Bank for the "ERG Ambiente Energia Sicilia" project. It should be noted that bank sureties amounting to Euro 177 million were granted as guarantee for the loan.

The significant increase with respect to 2005 is related to the granting of new loans totalling Euro 291 million in 2006.

To reduce the risk of future interest rate fluctuations Interest Rate Collar transactions were set up against current mortgages on notional values of Euro 80 million at 31 December 2006. These fix the effective interest rate in the period in question from a minimum of 2.50% to a maximum of 4.20%. These transactions mature on 15 December 2010 and fix different interest rate intervals for each year.

The following were also concluded:

- Interest Rate Swap transactions for a nominal value of Euro 27 million at 31 December 2006, maturing in 2007, which fix the effective interest rate at 3.10%.
- Interest Rate Swap transactions for a nominal value of Euro 106 million at 31 December 2006, maturing in 2011, which fix the effective interest rate at 3.88%.

At 31 December 2006 the weighted average interest rate on mortgages and loans was 4.22% (2.63% at 31 December 2005).

It should be noted that a variable premium, linked to the performance of Enertad shares in two periods identified, was paid to the lending institution against one of the loans granted. Under IAS 39 the aforesaid premium is considered an implicit derivative and was accordingly unbundled from the value of the payable and booked at fair value (Euro -6.3 million at 31 December 2006) under financial liabilities, with a corresponding increase in the effective loan rate.

### ISAB ENERGY PROJECT FINANCING

These are loans granted by a pool of international banks for initial amounts of approximately 90% of the cost of the ISAB Energy plant. The balance outstanding at 31 December 2006 was Euro 334 million. The repayment plan for these loans, which are secured by special liens and a mortgage on the plant, entails 29 instalments starting from 15 December 2000 (last instalment due on 15 December 2014). The variable interest on the loan is linked to Euribor and EIB rates. To hedge the risk deriving from interest rate fluctuations, ISAB Energy carried out Interest Rate Swap transactions up to 15 June 2006, related to the due dates of the repayment plan, which transformed the variable rate to a fixed rate of 3.78% on a nominal value decreasing in proportion to the repayments.

As from June 2006 the interest rate hedging has been carried out via options on the interest rates (Interest Rate Caps) for a nominal value of Euro 259 million, which expire on 15 December 2008 and fix the maximum interest rate at 3.78%.

### ENERTAD PROJECT FINANCING

This relates to the following loans granted for the construction of wind farms:

- Loan signed in 2005 by EOS 1 Troia S.r.l. (S. Vincenzo), the balance of which was Euro 26.2 million in the financial statements as at 31 December 2006. The loan provides for a base credit line of Euro 36 million. The first repayment instalment of Euro 1.9 million was paid on 30 June 2006 and the last instalment is due on 31 December 2013. The interest rate is 5.30% up to acceptance of the final inspection certificate and subsequently the interest rate will be 5.05%.
- Loan signed in 2005 by EOS 3 Troia S.r.l. (S. Cireo), the balance of which was Euro 32.6 million in the financial statements as at 31 December 2006. The loan provides for a base credit line of Euro 34 million for installed power of 30 MW, increasable to Euro 43 million for a further 10 MW. The first planned repayment instalment is on 30 June 2007 and the last instalment is due on 31 December 2014. The interest is equal to the Euribor 6-month rate + 1.60% up to acceptance of the final inspection certificate and subsequently the interest will be equal to the Euribor 6-month rate + 1.45%. To hedge the risk deriving from interest rate fluctuations, Enertad put into place Interest Rate Swap transactions up to 31 December 2014, related to the due dates of the loan repayment plan, which changed the variable rate to fixed rates (3.30% and 3.35%) on a nominal value of Euro 43 million, corresponding to the potential maximum amount of the loan.

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

| | 31/12/06 | 31/12/05 |
|---|---|---|
| **SECURED BY GROUP TANGIBLE ASSETS** | | |
| MATURING UP TO DECEMBER 2018 | 412,678 | 424,362 |
| **UNSECURED** | | |
| MATURING UP TO DECEMBER 2014 | 523,221 | 361,952 |
| **TOTAL** | **935,899** | **786,314** |

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

| | MORTGAGES AND LOANS | PROJECT FINANCING |
|---|---|---|
| BY 2007 | 71,661 | 102,487 |
| BY 2008 | 80,642 | 83,849 |
| BY 2009 | 136,991 | 31,230 |
| BY 2010 | 79,556 | 45,260 |
| BY 2011 | 79,626 | 36,379 |
| BEYOND 2011 | 94,745 | 93,473 |
| **TOTAL** | **543,221** | **392,678** |

Other financial payables refer to interest-bearing loans granted to ISAB Energy S.r.l. by IPM Eagle which, through its subsidiaries, holds 49% of the company. Reimbursement is subject to the conditions set out in ISAB Energy's Project Financing contract.

## NOTE 19 - OTHER NON-CURRENT LIABILITIES

| | 31/12/06 | 31/12/05 |
|---|---|---|
| CIP 6 TARIFF INCREASE | 351,875 | 297,088 |
| EQUIPMENT GRANTS | 6,791 | 7,735 |
| END-OF-CONTRACT BONUSES | 8,054 | 7,827 |
| OTHER MINOR NON-CURRENT LIABILITIES | 2,658 | 4,519 |
| **TOTAL** | **369,378** | **317,169** |

The "CIP 6 tariff increase" refers to the incentive component for the sale of electricity by ISAB Energy, already received from GSE (National Grid operator), the amount of which was deferred to the following years based on IFRS requirements. In fact, ISAB Energy's sales revenues are based on a contract of sale to the GSE regulated by the tariff determined in Regulation 6/1992 of the Inter-ministerial Prices Committee (CIP 6), signed for 20 years and already authorised by the EU for 15 years. Regulation 6/1992 provides for recognition of an incremental tariff amount for the first eight years of operation (2000-2008). This incentive component represents a timing advance of part of the overall sales tariff obtainable from the contract: the incentive is, accordingly, recorded as per international accounting standards as revenues in proportion to the quantity of energy sold pro rata to sales expected over the entire contract. The “operating subsidies” represent the residual portion of grants received and will be recorded in future financial years as “Other revenues and income” to partially offset depreciation charged on the facilities in question. The “end-of-contract bonuses” represents the amount that will be payable to service station operators covered by free usage contracts.

## NOTE 20 - PROVISIONS FOR CURRENT LIABILITIES AND CHARGES

| | | | CHANGES | |
|---|---|---|---|---|
| | 31/12/06 | 31/12/05 | INCREASES | DECREASES |
| LOSSES ON EQUITY INVESTMENTS | 219 | 269 | – | (50) |
| PROVISION FOR EMISSIONS TRADING | 59 | 6,368 | 59 | (6,368) |
| PROVISION FOR DEMURRAGE CHARGES | 6,575 | 4,070 | 5,389 | (2,884) |
| PROVISION FOR LEGAL RISKS | 3,418 | 5,503 | 768 | (2,853) |
| PROVISION FOR EQUITY INVESTMENTS SALES | 3,000 | – | 3,000 | – |
| OTHER PROVISION FOR LIABILITIES AND CHARGES | 13,754 | 10,021 | 6,121 | (2,388) |
| **TOTAL** | **27,025** | **26,231** | **15,337** | **(14,543)** |

The “provision for Emissions Trading” refers to accruals made by ISAB Energy raised for $CO_2$ quotas pursuant to Community Directive 2004/01/EC, shown, as in the income statement, net of rights assigned or acquired. The “provision for demurrage charges” refers to demurrage incurred in the last part of the period and not yet requested from the counterparty.

The “provision for legal risks” is related to potential risks from legal disputes underway.

The “provision for equity investments sales” relates to the potential liability deriving from the equity investments sold by Enertad during the course of 2006.

“Other provisions for liabilities and charges” mainly refer to past and anticipated charges envisaged in commercial dealings with operators.

## NOTE 21 -TRADE PAYABLES

| | 31/12/06 | 31/12/05 |
|---|---|---|
| PAYABLES DUE TO SUPPLIERS | 951,161 | 926,518 |
| PAYABLES DUE TO GROUP COMPANIES | 8,520 | 9,158 |
| **TOTAL** | **959,681** | **935,676** |

These are payables deriving from commercial relationships and are payable within the next financial year. Payables for crude oil purchases at year-end are covered by guarantees issued to suppliers by banks for about Euro 50 million. On the other hand, contractors for fixed asset investments have issued sureties to Group companies for around Euro 53 million, as a guarantee for the plants built.

Payables to Group companies mainly refer to associated companies.

## NOTE 22 - CURRENT FINANCIAL LIABILITIES

| | 31/12/06 | 31/12/05 |
|---|---|---|
| **SHORT-TERM BANK BORROWINGS** | | |
| SHORT-TERM BANK BORROWINGS IN EURO | 551,901 | 102,028 |
| SHORT-TERM BANK BORROWINGS IN FOREIGN CURRENCY | 22,422 | – |
| | **574,323** | **102,028** |
| **OTHER SHORT-TERM FINANCIAL PAYABLES** | | |
| CURRENT PORTION OF MEDIUM/LONG-TERM BANK BORROWINGS | 71,661 | 91,560 |
| SHORT-TERM PROJECT FINANCING | 102,487 | 91,677 |
| OTHER FINANCIAL PAYABLES | 29,426 | 11,046 |
| | **203,574** | **194,283** |
| **TOTAL** | **777,897** | **296,311** |

At 31 December 2006 short-term borrowings amounted to 55% of the total credit lines available (8% at 31 December 2005).

These credit lines are unsecured and are generally repayable at sight.

At 31 December 2006 the weighted average interest rate on short-term borrowings was 4.16% (2.86% at 31 December 2005).

"Other financial payables" mainly comprise short-term payables to companies controlled by IPM Eagle, liabilities arising from the fair value measurement of financial instruments and the liability relating to the put option of Euro 17.2 million granted by Enertad to Trenitalia on 49% of the subsidiary Sodai Italia S.p.A., to be exercised in the period between 1 April and 31 May of 2007, 2008 and 2009.

## NOTE 23 - OTHER CURRENT LIABILITIES

| | 31/12/06 | 31/12/05 |
|---|---|---|
| TAXES PAYABLE | 15,509 | 140,988 |
| EXCISE DUTIES PAYABLE TO TAX AUTHORITIES | 67,801 | 73,315 |
| COMPANY AND AMEX COUPONS | 21,610 | 19,745 |
| PAYABLES TO EMPLOYEES | 15,916 | 16,897 |
| PAYABLES DUE TO SOCIAL SECURITY INSTITUTIONS | 9,144 | 8,616 |
| RENTS PAYABLE | 8,453 | 9,702 |
| OTHER MINOR CURRENT LIABILITIES | 25,449 | 25,183 |
| **TOTAL** | **163,882** | **294,446** |

"Taxes payable" are mainly related to estimates for income taxes for the period and VAT payable. The significant decrease against the previous year is due to the lower tax charge for the financial year.

Regarding "excise duties payable to tax authorities" it should be remembered that, according to existing regulations, excise duties are normally paid on the 16th day of the following month, but only in December the payment of duties pertaining to the first fifteen days is brought forward to the end of that month. As a result, the balance of the excise duties payable is affected by the advance payment of

Euro 69 million (74 million in 2005). The item “company coupons payable” refers to fuel coupons still in circulation which will be paid to the service station operators. “Payables to employees” refer to sums due for the period but not yet paid and include holidays, unused paid leave entitlement, productivity premiums and bonuses linked to Group value creation. “Payables due to social security institutions” relate to the contributions on salaries and wages for the month of December. “Rents payable” represent the portion pertaining to the current year that must be paid in the next financial year. “Other minor current liabilities” principally include payables for forward crude oil and product contracts, advances from customers and sums payable to directors.

## NOTE 24 - GUARANTEES, COMMITMENTS AND RISKS (EURO 299,806 THOUSAND)

### SURETIES GIVEN

| | 31/12/06 | 31/12/05 |
|---|---|---|
| IN FAVOUR OF GROUP COMPANIES | 19,637 | 387 |
| IN FAVOUR OF THIRD PARTIES | 96,316 | 63,273 |
| **TOTAL** | **115,953** | **63,660** |

Sureties are mainly related to guarantees granted for payment of excise duties, use of Group VAT receivables and construction of wind farms.

### OTHER CORPORATE GUARANTEES (EURO 15,617 THOUSAND)

These refer to letters of patronage issued in support of bank credit lines for the associated companies Sarpom and SIGEMI S.r.l. (Euro 15,617 thousand at 31 December 2005).

### THIRD PARTY ASSETS (EURO 72,878 THOUSAND)

Third party assets are mainly goods on consignment at the ISAB Refinery (Euro 129,609 thousand at 31 December 2005).

### GROUP COMMITMENTS

| | 31/12/06 | 31/12/05 |
|---|---|---|
| PROJECT FINANCING ISAB ENERGY S.R.L. | 27,029 | 27,901 |
| OTHER COMMITMENTS | 14,335 | 7,813 |
| **TOTAL** | **41,364** | **35,714** |

The commitment of Euro 27,029 thousand represents the surety issued through Banca Nazionale del Lavoro S.p.A. in favour of Sanpaolo Imi S.p.A., following renegotiation of the Project Financing contract between ISAB Energy S.r.l. and a consortium of Italian and foreign banks. “Other commitments” mainly refer to commitments undertaken to purchase hardware, software and information system consultancy.

### RISKS (EURO 53,994 THOUSAND)

These are mainly risks relating to direct irrevocable remittances credited by the bank for which confirmation of execution of payment by the main debtor had not yet been received by the bank at 31 December (Euro 54,642 thousand at 31 December 2005).

## NOTE 25 - COVENANTS AND NEGATIVE PLEDGES

### ISAB ENERGY PROJECT FINANCING

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

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

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

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

It is specified that to guarantee all the ISAB Energy S.r.l. obligations in relation to the Project Financing, the ERG Group pledged its entire holding in ISAB Energy S.r.l. to Sanpaolo IMI S.p.A.

Furthermore, in 2003 a restricted preferential current account was opened in favour of the financing institutions, destined as an "Insurance reserve account" (to guarantee the lower insurance coverage with respect to that provided for in the loan agreement); following renewal on 15 April 2006 the restricted current account amounted to Euro 16.7 million at 31 December 2006.

The ISAB Energy Project Financing is also subject to the following covenants:

1. Debt Service Coverage Ratio (DSCR) of not less than 1.15: in the event that ISAB Energy exceeds this limit it cannot proceed with a distribution of dividends to shareholders, nor repay subordinated loans without prior authorisation of the banks.

   The DSCR is determined on 30 June and 31 December each year and is calculated as the ratio between the operating cash flow of the project net of taxes and the repayment of the loans provided in the repayment plan in the same half-year, including both interest and capital due.

2. Loan Life Coverage Ratio (LLCR) of not less than 1.20: in the event that ISAB Energy exceeds this limit it cannot proceed with a distribution of dividends to shareholders, nor repay subordinated loans without the prior authorisation of the banks.
   The LLCR is determined on 30 June and 31 December each year and is calculated as the ratio between the sum of the discounted values of the operating cash flows, net of taxes, that the Project is capable of generating up to the date of the final repayment of the loans and the amount of the long-term bank debt not yet repaid.

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

#### ENERTAD PROJECT FINANCING

These are loans granted for the construction of wind farms:

- Loan signed in 2005 by EOS 1 Troia S.r.l. (S. Vincenzo). The loan provides for a base credit line of Euro 36 million and matures on 31 December 2013.
  The guarantees granted entail the mortgage of surface rights, a special lien on assets, a pledge of 100% of the company's share capital and a letter of patronage from Enertad S.p.A.
  The loan is also subject to the following covenants and negative pledges:
  – Debt Service Coverage Ratio (DSCR) of not less than 1.30: in the event that EOS 1 Troia S.r.l. exceeds this limit it cannot proceed with a distribution of dividends to shareholders, nor repay subordinated loans without the prior authorisation of the banks.
    The DSCR is determined on 30 June and 31 December each year and is calculated as the ratio between the operating cash flow of the project for the current and preceding half-year, net of VAT flows destined for the repayment of the capital quota of the VAT credit line, and the overall amount of the loan repaid as provided in the repayment plan for the capital quota of the base credit line and the sum of the interest, commissions and costs paid or payable in relation to the credit lines.
  – The Project provides for a negative pledge that protects the creditor's rights over the assets granted by the debtor as a guarantee for the loan repayment. Consequently, EOS 1 Troia S.r.l. cannot grant further guarantees on its assets except in the case of guarantees granted according to law.
- Loan signed in 2005 by EOS 3 Troia S.r.l. (S. Cireo). The loan provides for a base credit line of Euro 34 million for installed power of 30 MW (increasable to Euro 43 million for a further 10 MW) and matures on 31 December 2014.
  The guarantees granted entail the mortgage of surface rights, a special lien on assets, a pledge of 100% of the company's share capital and a letter of patronage from Enertad S.p.A.

The loan is also subject to the following covenants:

- Debt Service Coverage Ratio (DSCR) of not less than 1.30: in the event that EOS 3 Troia S.r.l. exceeds this limit it cannot proceed with a distribution of dividends to shareholders, nor repay subordinated loans without the prior authorisation of the banks.
  The DSCR is determined on 30 June and 31 December each year and is calculated as the ratio between the operating cash flow of the project for the current and preceding half-year, net of VAT flows to be used for repayment of the capital quota of the VAT credit line, and the overall amount of the loan repaid as provided in the repayment plan for the capital quota of the base credit line, the sum of the interest, commissions and costs paid or payable in relation to the credit lines, and the sums paid or payable by the company to hedging banks or by hedging banks to the company pursuant to the hedging contracts.
- The Project provides for a negative pledge that protects the creditor's rights over the assets granted by the debtor as a guarantee for the loan repayment. Consequently, EOS 3 Troia S.r.l. cannot grant further guarantees on its assets except in the case of guarantees granted according to law.

### OTHER COVENANTS AND NEGATIVE PLEDGES

The loan granted by Unicredit entails a negative pledge clause which establishes that ERG S.p.A. undertakes, on its own behalf and on behalf of a number of its subsidiaries (ERG Raffinerie Mediterranee S.p.A., ERG Petroli S.p.A. and ERG Power & Gas S.p.A.), not to pledge fixed assets as collateral security without the lending institution's prior agreement; the possibility to grant guarantees for an amount not exceeding Euro 10 million on the assets of ERG Raffinerie Mediterranee S.p.A.'s ISAB Refinery is excepted.
The loan is also subject to a covenant relative to the ratio between net financial debt and gross operating margin, which must be less than or equal to 4.0 as at 31 December 2006, and less than or equal to 3.5 from 30 June 2007 onwards.
In the case of failure to maintain the aforesaid ratio, the bank shall have the right to withdraw from the contract, declare the acceleration clause as having come into effect on the borrowing company, or declare the contract rescinded.

## NOTE 26 - CONTINGENT LIABILITIES

ERG is a party to civil and administrative proceedings and legal actions connected with the normal course of its operations. However, on the basis of the information presently available and considering the liability provisions raised, ERG considers that these proceedings and actions will not determine significant negative effects on its consolidated financial statements.

# CONSOLIDATED INCOME STATEMENT ANALYSIS

## NOTE 27 - REVENUES FROM ORDINARY OPERATIONS

| | 2006 | 2005 |
|---|---|---|
| REVENUES FROM SALES | 8,975,945 | 8,812,577 |
| REVENUES FROM SERVICES | 147,500 | 145,786 |
| REVENUES FROM GREEN CERTIFICATES | 4,708 | – |
| **TOTAL** | **9,128,153** | **8,958,363** |

"Revenues from sales" are mainly made up of petroleum product sales and include the sale of electrical power and the supply of water and steam to the National Grid operator (Gestore dei Servizi Elettrici – GSE) and other customers in the industrial district of Priolo. The values indicated are net of the excise duties recovered from customers amounting to Euro 2,323,383 thousand (Euro 2,398,502 thousand at 31 December 2005) and net of trade exchanges for Euro 395,921 thousand (Euro 432,321 thousand at 31 December 2005). The following table shows a breakdown of sales revenues:

| | 2006 | 2005 |
|---|---|---|
| SALES TO GROUP COMPANIES | 326,359 | 309,865 |
| SALES TO THIRD PARTIES | 8,649,586 | 8,502,712 |
| **TOTAL** | **8,975,945** | **8,812,577** |

"Revenues from services" refer mainly to income from third-party processing carried out at the ISAB Impianti Nord Refinery amounting to Euro 70,625 thousand and charges to the associated companies Raffineria di Roma S.p.A. and Sarpom S.p.A. for internal consumption in the amount of Euro 38,698 thousand. The revenues from green certificates relate to the fourth quarter 2006 production of the Enertad wind farms in operation. Valuation of the green certificates was prudentially calculated at the price of Euro 122/MWh determined on the basis of the minimum price for the certificates communicated by the GSE for 2006 of Euro 125.28.

## NOTE 28 - OTHER REVENUES AND INCOME

| | 2006 | 2005 |
|---|---|---|
| OPERATING SUBSIDIES | 1,103 | 1,138 |
| RENTS RECEIVABLE | 6,027 | 5,632 |
| INDEMNITIES | 121,653 | 8,961 |
| EXPENSE RECOVERIES | 5,278 | 6,799 |
| CAPITAL GAINS FROM DISPOSALS | 5,792 | 2,577 |
| NON-RECURRING INCOME | 12,103 | 5,073 |
| REPAYMENT OF HARBOUR DUES | – | 33,068 |
| SALE OF $CO_2$ EMISSIONS RIGHTS | 9,867 | – |
| OTHER | 13,460 | 7,224 |
| **TOTAL** | **175,283** | **70,472** |

"Indemnities" mainly refer to the insurance reimbursements relating to the claims made in the period.

In particular these included:

- Euro 98 million (80 million of which for consequential damages) paid to ERG Raffinerie Mediterranee in respect of the fire on 30 April at the ISAB Impianti Nord Refinery;
- Euro 8 million paid to ERG Nuove Centrali to cover consequential damages arising from the shutdown of the ISAB Impianti Nord following the fire on 30 April;
- Euro 12 million (11 million of which for consequential damages) paid to ISAB Energy in respect of the breakdown of the transformer of one of the two gas turbines that occurred on 10 April.

"Non-recurring income" mainly refers to the release of surplus provisions allocated during prior financial periods and reversal of debt positions.

"Sales of $CO_2$ emissions rights" relate to the income earned in the period from sales of part of these rights to third parties.

The item "other" includes income for compulsory reserves and revenues for penalties charged.

## NOTE 29 - CHANGES IN PRODUCT INVENTORIES

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

The increase of about Euro 63 million relates to the higher quantities at the end of the period (+174 thousand tonnes).

## NOTE 30 - CHANGES IN RAW MATERIALS INVENTORIES

The raw materials inventory values were determined by applying the weighted average cost method.

The decrease of approximately Euro 104 million is due to the lower quantities at the end of the period (-280 thousand tonnes).

## NOTE 31 - COST OF PURCHASES

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

The value at 31 December 2006 amounted to Euro 8,062 million (Euro 7,905 million at 31 December 2005). The increase with respect to 2005, notwithstanding lower processing, is attributable to the increase in the average crude oil price.

The figures are shown net of excise duties paid and trade exchanges and include the effect of arbitrage transactions on crude oil and products deriving from the difference between forward purchase prices and spot sale prices for crude oil and petroleum products relating to commercial transactions that did not involve the physical transfer of goods.

These transactions, carried out with leading international counterparties, are aimed at reducing the risk deriving from price fluctuations due to:

- Temporary increases in inventories above programmed levels;

- Significant differences between the time of purchase of the raw material and that of its effective processing.

## NOTE 32 - COSTS FOR SERVICES AND OTHER COSTS

| | 2006 | 2005 |
|---|---|---|
| SERVICES | 465,667 | 385,455 |
| RENTS PAID | 54,954 | 48,779 |
| BAD DEBT PROVISION | 35 | 5,086 |
| PROVISION FOR LIABILITIES AND CHARGES | 12,091 | 17,363 |
| DUTIES AND TAXES | 38,994 | 23,371 |
| OTHER OPERATING EXPENSES | 14,330 | 15,942 |
| **TOTAL** | **586,071** | **495,996** |

Costs for services comprise:

| | 2006 | 2005 |
|---|---|---|
| PROCESSING COSTS | 94,176 | 81,324 |
| COMMERCIAL, DISTRIBUTION AND TRANSPORTATION COSTS | 47,757 | 53,503 |
| MAINTENANCE AND REPAIRS | 110,188 | 83,466 |
| CONSULTANCY | 36,309 | 25,486 |
| UTILITIES | 32,263 | 24,087 |
| INSURANCE | 29,909 | 25,894 |
| ADVERTISING AND PROMOTIONS | 28,859 | 24,938 |
| OTHER SERVICES | 86,206 | 66,757 |
| **TOTAL** | **465,667** | **385,455** |

"Processing costs" refer to the associated companies Sarpom S.p.A. and Raffineria di Roma S.p.A. for crude oil processing and the processing costs from Polimeri Europa.

The item "maintenance and repairs" relates to both ordinary maintenance expenses of the refining and electricity production plants and ordinary maintenance of the service stations; the increase with respect to the previous financial year mainly relates to the repair of damage arising from accidents during the period at the ISAB Impianti Nord Refinery and ISAB Energy's electricity production plants.

The increase in the item "consultancy" is mainly related to the projects in progress and environmental analysis at service stations.

"Utilities" are mainly related to costs incurred by refinery plants and normal utility expenses.

"Other services" include, for example, the emoluments of the Directors and Statutory Auditors, costs relating to plant safety, bank charges, general expenses, personnel travel and accommodation expenses, expenses for training and refresher courses and other personnel costs.

It should be noted that the costs for services include amounts paid to Group companies totalling Euro 94,484 thousand mainly related to processing fees.

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

"Allocations to provision for liabilities and charges" mainly concern the amounts allocated for demurrage arising in the last part of the period and charges expected in the commercial relationships with the operators.

The item "duties and taxes" mainly refers to expenses for green certificates, local property taxes, regional tax on gasoline, state treasury and port taxes, the tax on the occupation of public areas and taxes on competition awards and advertising.

In particular in 2006 these included the costs relating to ISAB Energy's obligation to buy green certificates for the years 2005-2006 following the decision of the Electricity and Gas Authority of 21 December 2006.

"Other operating expenses" include subscription fees, the costs incurred following accidents and ordinary capital losses on the disposal of abandoned sales outlets.

## NOTE 33 - PERSONNEL EXPENSES

| | 2006 | 2005 |
|---|---|---|
| SALARIES AND WAGES | 118,483 | 113,140 |
| SOCIAL SECURITY EXPENSES | 36,255 | 35,395 |
| STAFF LEAVING INDEMNITIES | 8,844 | 7,048 |
| OTHER COSTS | 8,640 | 8,309 |
| **TOTAL** | **172,222** | **163,892** |

The table below shows the breakdown of personnel (average employees for the period):

| | 2006 | 2005 |
|---|---|---|
| EXECUTIVES | 106 | 95 |
| MANAGERS | 343 | 332 |
| WHITE-COLLAR EMPLOYEES | 1,323 | 1,260 |
| BLUE-COLLAR EMPLOYEES | 998 | 984 |
| **TOTAL** | **2,770** | **2,670** |

The total number of employees at 31 December 2006 was 2,820 (2,679 at 31 December 2005).

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

| | 2006 | 2005 |
|---|---|---|
| AMORTISATION OF INTANGIBLE FIXED ASSETS | 15,655 | 14,637 |
| DEPRECIATION OF TANGIBLE FIXED ASSETS | 140,992 | 141,371 |
| WRITE-DOWNS | 501 | 198 |
| **TOTAL** | **157,148** | **156,206** |

## NOTE 35 - NET FINANCIAL INCOME (EXPENSES)

| | 2006 | 2005 |
|---|---|---|
| **INCOME** | | |
| FOREIGN EXCHANGE GAINS | 98,423 | 112,143 |
| INTEREST INCOME ON BANK ACCOUNTS | 7,449 | 5,075 |
| OTHER FINANCIAL INCOME | 30,000 | 25,357 |
| | **135,872** | **142,575** |
| **CHARGES** | | |
| FOREIGN EXCHANGE LOSSES | (117,539) | (105,225) |
| INTEREST PAYABLE ON SHORT-TERM BANK BORROWINGS | (13,668) | (3,340) |
| INTEREST PAYABLE ON MEDIUM/LONG-TERM BANK BORROWINGS | (12,696) | (8,529) |
| INTEREST PAYABLE ON THE PROJECT FINANCING | (17,920) | (17,573) |
| FINANCIAL CHARGES RELATING TO THE PROJECT FINANCING | (4,772) | (9,701) |
| OTHER FINANCIAL EXPENSES | (17,725) | (11,011) |
| | **(184,320)** | **(155,379)** |
| **TOTAL** | **(48,448)** | **(12,804)** |

"Foreign exchange gains/losses" refer to both the differences between the Euro/US$ exchange rate used to record purchases/sales and the related payments/receipts, and the exchange rate risk hedging operations set up in respect of commercial transactions.

"Interest income on bank accounts" arose mainly on current accounts held by ISAB Energy S.r.l. and by ERG Raffinerie Mediterranee S.p.A. The item "other financial income" refers mainly to the positive results of derivative instruments; in 2005 this item included interest relating to the repayment of prior years' harbour dues of Euro 10.7 million.

"Financial charges relating to the Project Financing" include the losses incurred on the "Interest Rate Swap" transaction to cover interest rate payables and the commission paid to the project's financing banks.

"Other financial expenses" mainly comprise bank commissions, charges deriving from assignment of receivables, premiums on exchange rate hedging contracts and charges relating to derivative instruments.

## NOTE 36 - NET INCOME (EXPENSES) FROM EQUITY INVESTMENTS

Income and expenses from equity investments amounting to Euro 3,931 thousand (Euro 3,166 thousand at 31 December 2006) mainly comprise the results of companies carried at equity.

## NOTE 37 - INCOME TAXES

| | 2006 | 2005 |
|---|---|---|
| CURRENT INCOME TAX | 128,363 | 212,031 |
| TAXES FOR PREVIOUS YEARS | (339) | (2,298) |
| SUBSTITUTE TAXES | 31,322 | 827 |
| DEFERRED AND ADVANCE TAXES | (112,841) | 70,991 |
| **TOTAL** | **46,505** | **281,551** |

The allocation of income taxes for the period was calculated by taking into account the expected taxable income.

"Substitute taxes" mainly concern the substitute tax of approximately Euro 31 million on the tax realignment of assets pursuant to Italian Law no. 266 of 23 December 2005.

"Deferred and advance taxes" originated from the timing differences deriving from adjustments to the financial statements of the consolidated companies in application of the Group's accounting policies and the timing differences between the statutory and tax values of assets and liabilities.

The positive effect of deferred and advance taxes principally derives from a reversal of the deferred tax provision for about Euro 94.7 million as a result of the tax realignment of assets.

It should also be noted that deferred tax liabilities of Euro 154 thousand were booked directly to shareholders' equity. These were calculated on the fair value of the derivative instruments recognised using the cash flow hedge technique.

## RECONCILIATION BETWEEN THE FINANCIAL STATEMENTS TAX CHARGE AND THEORETICAL TAX CHARGE

| | | |
|---|---|---|
| **IRES (CORPORATION TAX)** | | |
| **PROFIT BEFORE TAXES** | 240,297 | |
| **THEORETICAL IRES TAXATION AT 33%** | **79,298** | |
| IMPACT OF PERMANENT TAX ADJUSTMENTS AND CONSOLIDATION ADJUSTMENTS NOT RELEVANT TO THE ASSESSMENT OF TAXES | | 5,349 |
| **CURRENT, DEFERRED AND ADVANCE IRES** | | **84,647** |
| **IRAP (REGIONAL TAX)** | | |
| EBIT | 284,814 | |
| PERSONNEL EXPENSES AND WRITE-DOWNS OF RECEIVABLES | 172,257 | |
| **TOTAL** | **457,071** | |
| **THEORETICAL IRAP TAXATION AT 4.25%** | **19,426** | |
| IRAP RATE INCREASED FOR SOME COMPANIES | | 5,203 |
| IMPACT OF PERMANENT TAX ADJUSTMENTS AND CONSOLIDATION ADJUSTMENTS NOT RELEVANT TO THE ASSESSMENT OF TAXES | | 906 |
| **CURRENT, DEFERRED AND ADVANCE IRAP** | | **25,535** |
| **TOTAL THEORETICAL TAXES** | **98,724** | |
| **TOTAL FINANCIAL STATEMENTS IRES AND IRAP** | | **110,182** |
| **TAXES FROM PREVIOUS YEARS** | | **(339)** |
| **SUBSTITUTE TAXES** | | **31,322** |
| **RELEASE OF DEFERRED TAX PROVISION FOLLOWING TAX REALIGNMENT** | | **(94,660)** |
| **TOTAL TAXES AS REPORTED IN FINANCIAL STATEMENTS** | | **46,505** |

The consolidation adjustments that are not relevant to tax assessment mainly refer to the results of companies accounted for according to the equity method.

## NOTE 38 - NON-RECURRING ITEMS

### INCOME STATEMENT

| | NOTE | 2006 | 2005 |
|---|---|---|---|
| OTHER REVENUES AND INCOME | **28** | 14,330 | 33,068 |
| COSTS FOR SERVICES AND OTHER COSTS | **32** | (7,278) | (5,500) |
| FINANCIAL INCOME | | – | 10,676 |
| INCOME TAXES | **37** | 61,538 | (13,792) |
| MINORITY INTERESTS | | (1,798) | – |
| **NET PROFIT (LOSS) PERTAINING TO THE GROUP** | | **66,792** | **24,452** |

These are significant income components of a non-recurring nature.

In particular they refer to:

- Insurance reimbursements for direct damages of some Euro 14 million and related tax effect; these are a part of the insurance reimbursements for direct damages (Euro 18 million) paid to ERG Raffinerie Mediterranee against the fire of 30 April that has its contra entry in the capitalisation of the investments made on the damaged plants.
- Charges, net of the anticipated recoveries, relating to ISAB Energy's obligation to buy green certificates for the year 2005 of about Euro 7 million and related tax effect.
- The effect deriving from the tax realignment of assets comprising the release to the income statement of the deferred tax provision allocated in prior financial years amounting to approximately Euro 95 million (which will imply future tax savings as a result of higher tax-deductible amortisation and depreciation) against the payment in 2006 of the related substitute tax amounting to approximately Euro 31 million.

In 2005, non-recurring items concerned the reimbursement of Euro 28 million of prior years' harbour dues, accrued interest amounting to Euro 11 million and the related tax effect.

## NOTE 39 - RELATED PARTIES

### BALANCE SHEET

| | NOTE | SUBSIDIARIES | ASSOCIATED COMPANIES | OTHER RELATED PARTIES | TOTAL |
|---|---|---|---|---|---|
| OTHER FINANCIAL ASSETS | **5** | – | 11,759 | – | **11,759** |
| TRADE RECEIVABLES | **9** | 398 | 75,115 | 36 | **75,549** |
| OTHER CURRENT RECEIVABLES AND ASSETS | **10** | – | – | 11,301 | **11,301** |
| CURRENT FINANCIAL ASSETS | **11** | 4,116 | 22 | – | **4,138** |
| OTHER NON-CURRENT LIABILITIES | **19** | (204) | – | – | **(204)** |
| TRADE PAYABLES | **21** | (893) | (7,627) | (69) | **(8,589)** |

## INCOME STATEMENT

| | NOTE | SUBSIDIARIES | ASSOCIATED COMPANIES | OTHER RELATED PARTIES | TOTAL |
|---|---|---|---|---|---|
| REVENUES FROM ORDINARY OPERATIONS | **27** | 5,166 | 360,336 | – | **365,502** |
| OTHER REVENUES AND INCOME | **28** | 1,616 | – | 347 | **1,963** |
| COST OF PURCHASES | **31** | – | (19) | – | **(19)** |
| COSTS FOR SERVICES AND OTHER COSTS | **32** | (8,611) | (85,876) | (3,292) | **(97,779)** |
| FINANCIAL INCOME | **35** | 15 | 462 | – | **477** |

Transactions with subsidiary and affiliated companies not included in the scope of consolidation essentially concern the exchange of goods, the supply of services and the provision and use of financing. All transactions form part of ordinary operations and are regulated at market terms and conditions. More specifically, processing contracts are in place with affiliated companies Sarpom S.p.A. and Raffineria di Roma S.p.A.

The Group sells petroleum products to subsidiary and affiliated companies operating in the Retail and Wholesale markets. It is also charged for service station leasing contracts by companies that form part of the Retail division and for the transportation of products by companies within the Logistics division.

It should be pointed out that, following the request of the parent company San Quirico S.p.A., ERG Raffinerie Mediterranee has agreed to participate in domestic tax consolidation for the 3-year period 2006-2008.

Consequently, in 2006 ERG Raffinerie Mediterranee arranged to pay the IRES advance for 2006 (Euro 44.4 million) directly on behalf of the Parent Company.

With regard to the other relationships with related parties, as per IAS 24, it should be noted that:

- On 27 May 2005, after an in-depth cost/benefit evaluation carried out by the competent functions, the sponsorship contract with U.C. Sampdoria S.p.A. – a football company controlled by ERG's principal shareholder – was renewed until 30 June 2007. The economic conditions of this contract are in line with the average valuations of the football sponsorship market in Italy.

  The costs for 2006 were Euro 2.8 million.
- On 12 May 2006 ERG S.p.A.'s Board of Directors, having taken note of the projects defined for the year 2006 by the Edoardo Garrone Foundation, a non-profit organisation of which ERG S.p.A. is a partner, and having considered that these were consistent with the Group's communication strategies, approved the disbursement of an annual contribution the costs of which were Euro 0.4 million for 2006.

  Income of Euro 0.2 million from the foundation relates to services performed.
- On 22 December the transfer to Golfo S.r.l., a subsidiary of Polcevera S.A., of the sub-concession for 2 parking places in Portofino was completed. The consideration was determined as a total of Euro 150 thousand based on sworn appraisals.

- During the course of 2006 ERG S.p.A. availed itself of the collaboration of Vittorio Garrone through a project work contract. The costs for 2006 amounted to Euro 58 thousand.

## NOTE 40 - RECONCILIATION WITH ERG S.P.A. SHAREHOLDERS' EQUITY AND PROFIT

| | SHAREHOLDERS' EQUITY | | PROFIT FOR THE PERIOD | |
|---|---|---|---|---|
| | 31/12/06 | 31/12/05 | 2006 | 2005 |
| **SHAREHOLDERS' EQUITY AND PROFIT FOR THE PERIOD OF ERG S.P.A.** | **98,703** | **106,690** | **62,129** | **34,349** |
| **ELIMINATION OF THE EFFECTS OF TRANSACTIONS BETWEEN CONSOLIDATED COMPANIES:** | | | | |
| - ELIMINATION OF INTER-GROUP PROFITS ON INVENTORIES AND FIXED ASSETS | (1,283) | (1,283) | – | – |
| - ELIMINATION OF INTER-GROUP DIVIDENDS | – | – | (128,454) | (104,059) |
| | **(1,283)** | **(1,283)** | **(128,454)** | **(104,059)** |
| **DEFERRED TAXES** | | | | |
| - DEFERRED TAXES ON CONSOLIDATION ADJUSTMENTS | **(734)** | **(754)** | **20** | **(589)** |
| **ELIMINATION OF THE CARRYING VALUE OF EQUITY INVESTMENTS** | | | | |
| - DIFFERENCE BETWEEN CARRYING VALUE AND PRO RATA VALUE OF SHAREHOLDERS' EQUITY | 1,123,079 | 1,050,438 | – | – |
| - PRO-RATA RESULTS OF INVESTEE COMPANIES | – | – | 260,097 | 491,586 |
| - RECORDING OF ASSETS AND LIABILITIES FROM BUSINESS COMBINATIONS | 178,542 | 53,656 | – | – |
| | **1,301,621** | **1,104,094** | **260,097** | **491,586** |
| **SHAREHOLDERS' EQUITY AND PROFIT FOR THE PERIOD** | **1,398,307** | **1,208,747** | **193,792** | **421,287** |
| SHAREHOLDERS' EQUITY AND PROFIT FOR THE PERIOD PERTAINING TO MINORITY INTERESTS | (179,460) | (65,660) | (41,015) | (36,037) |
| **ERG GROUP CONSOLIDATED SHAREHOLDERS' EQUITY AND PROFIT FOR THE PERIOD** | **1,218,847** | **1,143,087** | **152,777** | **385,249** |

## NOTE 41 - NET EARNINGS PER SHARE

The earnings per share calculation is based on the following figures:

| | | 2006 | 2005 |
|---|---|---|---|
| GROUP'S SHARE OF NET PROFIT | *THOUSAND EURO* | 152,777 | 385,249 |
| AVERAGE NUMBER OF OUTSTANDING SHARES | | 150,096,937 | 150,083,447 |
| NET EARNINGS PER SHARE | *EURO* | 1.018 | 2.567 |
| DILUTED NET EARNINGS PER SHARE | *EURO* | 1.018 | 2.564 |

The diluted net earnings per share is calculated by considering the dilution effect, which is not significant, in relation to the average number of shares in circulation deriving from the stock option plans. There are no dilution factors affecting the Group's share of the net profit.

# NOTE 42 - DIVIDENDS

The following dividends were paid in 2005 and 2006:

| | 2006 | 2005 |
|---|---|---|
| DIVIDENDS TO ERG S.P.A.'S SHAREHOLDERS | 60,125 | 44,926 |
| DIVIDENDS TO SHAREHOLDERS OF ISAB ENERGY S.R.L. AND ISAB ENERGY SERVICES S.R.L. | 36,922 | 25,436 |
| **TOTAL** | **97,047** | **70,362** |

The dividends paid by ERG S.p.A. in 2005 and 2006, approved on the occasion of the approval of the previous year's financial statements, amounted to Euro 0.30 and 0.40, respectively, for each of the shares with rights at the dividend date.
On 28 March 2007 ERG S.p.A.'s Board of Directors proposed, in line with that already advised on 28 February 2007, the payment of a dividend of Euro 0.40 per share to shareholders.
The dividend will be paid with effect from 10 May 2007, subject to an ex-dividend date of 7 May 2007.

# NOTE 43 - INFORMATION ON RISKS

## RISK HEDGING

The following are the main risks identified and actively managed by the ERG Group:

- Financial risk: deriving from exposure to fluctuations in exchange rates, mainly between the Euro and US dollar, and interest rates as well as changes in prices of the products sold and raw materials purchased (commodity price volatility risk);
- Bad debt risk: the possibility of default by a counterparty or potential deterioration of the creditworthiness assigned;
- Liquidity risk: the risk of available financial resources being insufficient to fulfil payment commitments;
- Operating risk: the risk of potential losses deriving from accidents, malfunctioning, plant breakdowns, with damages to people and environment, as well as inadequacy or improper functioning of procedures, human resources and internal management systems.

## FINANCIAL RISK

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

### Exchange rate risk

The exchange rate risk arises from variations in the exchange rates of the various foreign currencies with respect to the Euro that impact on the economic results of the business.
The net flows in currencies generated by the business other than Euro (reference currency) constitute an exposure to exchange rate risk.

### Interest rate risk

The interest rate risk identifies the unexpected change in the future interest rate trend that could determine higher costs for the business.

### Commodity risk

The goods price risk is inherent in unexpected changes in the price of raw materials, the various supplies of goods and services and the prices for finished products and services offered for sale on the market.

## BAD DEBT RISK

Exposure to bad debt risk, inherent in the possibility of default by a counterparty or deterioration of the creditworthiness assigned to customers, is managed through evaluation of an internal credit rating for each individual counterparty. Assignation of the rating class provides an estimate of the probability of default by the counterparty and the degree of trustworthiness is indicated for every level, which is carefully monitored and must never be exceeded.

## LIQUIDITY RISK

The corporate functions established to guarantee the correct application of the Group's liquidity policy are Finance Management, and in connection with said Management, Operational Finance and Risk Management Function, which is responsible for certification and monitoring of the financial instruments used in accordance with limits imposed. As of today we consider that we have access to sufficient loan sources to satisfy the financial needs programmed.

## OPERATING RISK

Operating risks, which include risks arising from the company's responsibility for criminal offences (pursuant to Legislative Decree no. 231/01), are identified, monitored and measured through the Operating Risks Management process. Pursuing the objectives identified allows:

- Guarantee of operational continuity and functioning of the production chain through adoption of the best international standards for evaluation and management of industrial risks by means of a Business Impact Analysis and implementation of a Business Continuity Plan;
- Protection of tangible and intangible assets, values, and professional and intellectual know-how for the purpose of maximising value creation for shareholders through business growth.

Particular interest is given to management of environmental risks by making sure development of each business unit fully complies with existing laws and regulations. ERG is constantly committed to ensuring that the operations of the various corporate entities are in compliance with the health and safety of the employees and third parties, as well as the environment.

## RISK MANAGEMENT

The ERG Group attaches great importance to risk management and to control systems to ensure efficient management of the risks assumed. The Risk Management process measures and controls the

degree of exposure to individual risks centrally for the entire Group and verifies consistency with the limits assigned, providing its analyses, both to the individual subsidiaries and the Parent Company's Risks Committee and top management for strategic decisions.
As regards exposure to the risk relating to offences pursuant to Legislative Decree no. 231/01, the Group's companies have adopted Organisational, Management and Control Models. These identify analytically the corporate activities in connection with which crimes ascribable to the aforesaid legislation could be committed and envisage specific operational protocols aimed at planning for development and implementation of the entity's decisions in order to prevent offences.
The Group's companies have also appointed Supervisory bodies, whose task is to periodically monitor the mapping of the areas at risk of an offence and carry out systematic checks to ascertain regular compliance with operational protocols envisaged in the Models.

## DERIVATIVE INSTRUMENTS USED

The principal typologies of derivative instruments adopted in the management of 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 price).

**Forward or arbitrage contracts**

These provide for the exchange between two parties of a specific asset at a future date and at a price pre-fixed at the time that the contract is signed.

**Swap**

A contract that represents an exchange between two parties of a payments flow (also called cash flows) at certain dates. The payments can be expressed in the same currency or in different currencies and their amount is determined in relation to an underlying asset. The underlying asset can be of various types and notably influences the characteristics of the contract that can assume, in practice, different forms.

The derivative instruments arranged by ERG and directed at meeting the exposure to financial risks existing at 31 December 2006 were as follows:

- Hedging instruments to manage exchange rate risks on sales expected in the reference quarters, through the signing of "Average Rate Option" contracts, also called Asian options, which have the characteristic of depending on an average value calculated on the basis of prices as recorded on a previously established set of dates. The pay-off for an Asian option depends on the average value of the underlying asset in the period considered. The pay-off is equal to the difference between the value of the underlying exchange rate and the fixed strike.

- A Call Option contract on the Enertad shares owned by Alerion whereby, against payment of a premium, the right is obtained to be able to acquire the aforesaid shares at a pre-established price and at a future date.
- Interest Rate Options to fix cap and floor limits on the fluctuations of the variable interest rate on loans. These instruments fix higher and lower limits to the variable interest rate on loans.
- Interest Rate Swaps to bring about the risk profile considered as most expedient for bank borrowing and bonds at fixed and variable rates. Interest Rate Swaps provide, or can lead to, determined maturities and the exchange with counterparties of interest flows, calculated on a reference notional value, at the fixed or variable rates agreed.
- Forward instruments used to manage exchange rate risks on purchases and sales expected in the reference periods. This refers to agreements to buy or sell an underlying currency at a certain future date, for a certain price. In Forward contracts one of the parties assumes a long position and undertakes to buy the underlying asset at a certain pre-fixed price. Conversely, the other party assumes a short position, undertaking to sell the same asset at the same date for the same price.
- Swap instruments used to manage commodity volatility risks on purchases and sales expected in the reference periods. This refers to contracts signed with international specialised companies operating in the commodities sector and with major national and international banks. The Swaps are private agreements between two companies for the exchange, at defined dates, of future payment flows.

### MARKET VALUE OF THE DERIVATIVE INSTRUMENTS

ERG uses various valuation models for the purpose of determining the market value of the derivative instruments. In particular ERG receives the mark to market values, valued by the reference market, and through valuation instruments and models verifies fairness and consistency where possible. The instruments habitually valued are the following:

- Options: measurement of the intrinsic value and time value of the instrument;
- Forward: market value at the time of recording;
- Swap: market value at the time of recording.

## SUMMARY OF DERIVATIVE INSTRUMENTS USED

The following table shows ERG's derivative financial instruments in place as at 31 December 2006:

| | TYPE | RISK COVERED | REFERENCE NOTIONAL VALUE | | FAIR VALUE 31/12/2006 |
|---|---|---|---|---|---|
| | | | | | THOUSAND EURO |
| | **CASH FLOW HEDGE INSTRUMENTS** | | | | |
| A | FOREIGN EXCHANGE OPTION | FOREIGN EXCHANGE ECONOMIC RISK | *THOUSAND DOLLARS* | 150,000 | 371 |
| B | INTEREST RATE SWAP | INTEREST RATE ECONOMIC RISK | *THOUSAND EURO* | 148,920 | 1,688 |
| | **TOTAL CASH FLOW HEDGE INSTRUMENTS [1]** | | | | **2,060** |
| | **FAIR VALUE HEDGE INSTRUMENTS** | | | | |
| C | BRENT SWAP INVENTORY | COMMODITY FAIR VALUE RISK | *BARRELS* | 600,000 | 182 |
| | **TOTAL FAIR VALUE HEDGE INSTRUMENTS** | | | | **182** |
| | **NON-HEDGE ACCOUNTING INSTRUMENTS** | | | | |
| D | FOREIGN EXCHANGE FORWARD | FOREIGN EXCHANGE TRANSACTION RISK | *THOUSAND DOLLARS* | 776,766 | 852 |
| E | CRUDE OIL PRICE RISK SWAP | COMMODITY TRANSACTION RISK | *BARRELS* | 1,807,000 | 1,770 |
| F | PRODUCT PRICE RISK SWAP | COMMODITY TRANSACTION RISK | *TONNES* | 124,000 | 932 |
| G | INTEREST RATE SWAP, INTEREST RATE COLLAR AND INTEREST RATE CAP | INTEREST RATE ECONOMIC RISK | *THOUSAND EURO* | 400,879 | 919 |
| H | CALL OPTION ON SHARES | LISTED SHARES PRICE RISK | *NO. OF SHARES* | 16,159,920 | 11,594 |
| | **TOTAL NON-HEDGE ACCOUNTING INSTRUMENTS [2]** | | | | **16,066** |

[1] the effective portion of these instruments, deferred to shareholders' equity through the cash flow hedge reserve, was Euro 1.7 million

[2] the change in fair value is booked to the income statement

## CASH FLOW HEDGE INSTRUMENTS

**A. Exchange rate options**

At 31 December 2006, ERG had two option contracts (average rate options) to hedge against the foreign exchange risk for the first quarter of 2007.

These are transactions to hedge the fluctuation risk, relating to the fluctuation of the exchange rate between the currency of denomination (US dollars) and the reporting currency (Euro), for the value of expected sales in foreign currency during the first quarter of 2007. The market value of these options at 31 December 2006 was Euro 0.4 million.

**B. Interest rate swap**

Transactions to hedge the economic interest rate risk deriving from the variability risk of the interest rate paid on loans.

These loans relate to ERG S.p.A. for an amount of Euro 151 million maturing in 2011 and Enertad S.p.A.'s EOS 3 Project financing for an amount of Euro 30 million at 31 December 2006 maturing in 2014. The notional amounts of the Interest Rate Swaps are respectively Euro 106 million for ERG S.p.A. and Euro 43 million for Enertad S.p.A., corresponding to the maximum amount of the hypothesised loan.

At 31 December a positive fair value was recorded of Euro 1.7 million, booked to the Cash Flow Hedge Reserve.

"Margined commodity swaps" and "Foreign exchange forward" derivative instruments, existing at 31 December 2005, were closed in 2006, with a consequent reclassification of the cash flow hedge reserve of 12.1 million to the income statement. The overall result recorded to the income statement in 2006 was 14.2 (1.6 of which recorded in the financial components).

## FAIR VALUE HEDGE INSTRUMENTS

**C. Brent Swap Inventory**

Transactions to hedge the economic price risk deriving from the lack of alignment of the cost of procurement of the raw materials in the inventory to the average market price of the time period considered.

At 31 December a positive fair value of Euro 0.2 million was recorded in the income statement. Accordingly, the raw materials hedged were adjusted to reflect the changes in fair value associated with the risk hedged.

## NON-HEDGE ACCOUNTING INSTRUMENTS

**D. Forward on short-term exchange rates**

These are transactions to cover exchange rate risk on cash flows generated by the expected purchases of raw materials and sales of finished products for the month of January 2007.

At 31 December 2006 a positive fair value was recorded of about Euro 0.9 million, which was booked to the income statement.

**E. Crude oil price risk swap**

These are swap transactions to cover the risk of price fluctuations on raw materials purchases. They are contracts whereby the parties undertake to pay or receive, at an agreed maturity, the difference between the spot price and forward price for the quantity of crude oil in question (notional principal). Settlement between the parties only concerns the price differentials and does not entail any exchange of goods.

At 31 December, a positive fair value was recorded, recognised in the income statement, amounting to about Euro 1.8 million (Euro -2.8 million at 31/12/2005).

**F. Product price risk swap**

These are swap transactions to cover the risk of price fluctuations on product sales. They are contracts whereby the parties undertake to pay or receive, at an agreed maturity, the difference between the spot price and forward price for the quantity of products in question (notional principal). Settlement between the parties only concerns the price differentials and does not entail any exchange of goods.

At 31 December, a positive fair value was recorded, recognised in the income statement, amounting to about Euro 0.9 million (Euro + 0.2 million at 31/12/2005).

**G. Interest Rate Swaps / Interest Rate Collars / Interest Rate Caps**

In respect of loans outstanding as at 31 December 2006, Interest Rate Collar transactions have been executed, in which the instrument sets limits that are lower and higher than the interest rate of the variable rate loan.

These transactions, which expire on 15 December 2010, establish different interest rate ranges for periods of time specified in the contract.

Moreover, in respect of the above loans, Interest Rate Swap transactions have been executed, due to expire on 31 December 2007, which fix the interest rate at a certain level.

At 31 December 2006, in respect of the ISAB Energy Project Financing and in relation to individual tranches, Interest Rate Cap transactions are in place, due to expire on 15 December 2008, which enable a maximum rate to be set for the loans in question.

At the end of the period, a positive fair value was recorded amounting to approximately Euro 0.9 million (Euro -2.5 million at 31/12/2005), the change in which was recognised in the income statement.

**H. Call Option on Enertad shares**

In connection with the agreements between ERG and Alerion relating to the “Enertad” business combination on 16 October a call option was signed in ERG’s favour on all the shares held by Alerion at a price of Euro 11.3 million. The option will be exercisable by ERG S.p.A. between 1 July 2007 and 16 December 2007 at a pre-established price of Euro 3.10 per share.

At 31 December a positive fair value was recorded of about Euro 11.6 million with an impact on the income statement of Euro 0.3 million.

## NOTE 44 - INFORMATION BY DIVISION AND GEOGRAPHIC AREA

Information by division and by geographic area is provided in compliance with IAS 14 – Segment Reporting. The primary disclosure format is by business segment while the secondary format is by geographic area.

This distinction is based on the nature of the risks and benefits inherent in ERG's business and reflects the internal organisational structure and the management reporting system.

### INFORMATION BY BUSINESS DIVISION

| | COASTAL REFINING | INTEGRATED DOWNSTREAM | POWER GENERATION | CORPORATE | TOTAL |
|---|---|---|---|---|---|
| **2006** | | | | | |
| NET REVENUES FROM ORDINARY OPERATIONS | 6,117,764 | 3,629,426 | 838,440 | 18,515 | |
| LESS: INTERDIVISIONAL REVENUES | (1,103,284) | (98,254) | (256,074) | (18,380) | |
| **REVENUES FROM THIRD PARTIES** | **5,014,480** | **3,531,172** | **582,366** | **135** | **9,128,153** |
| **EBITDA** | **132,377** | **130,268** | **206,074** | **(26,757)** | **441,962** |
| AMORTISATION, DEPRECIATION AND WRITE-DOWNS | (53,016) | (44,141) | (57,336) | (2,655) | (157,148) |
| **EBIT** | **79,361** | **86,127** | **148,738** | **(29,412)** | **284,814** |
| **INVESTMENTS IN FIXED ASSETS [1]** | **184,853** | **35,537** | **141,934** | **2,856** | **365,180** |

[1] relate to intangible assets, goodwill and property, plant and machinery

| | COASTAL REFINING | INTEGRATED DOWNSTREAM | POWER GENERATION | CORPORATE | ELIMINATIONS/ ADJUSTMENTS | TOTAL |
|---|---|---|---|---|---|---|
| **2006** | | | | | | |
| FIXED ASSETS [1] | 757,591 | 390,651 | 1,140,525 | 11,510 | – | 2,300,277 |
| OTHER SEGMENT ASSETS | 1,007,374 | 829,953 | 406,583 | 473,512 | (686,055) | 2,031,367 |
| GROUP ASSETS NOT ALLOCATED [2] | – | – | – | – | – | 467,511 |
| **TOTAL ASSETS** | **1,764,965** | **1,220,604** | **1,547,108** | **485,022** | **(686,055)** | **4,799,155** |
| SEGMENT LIABILITIES | 697,035 | 368,457 | 595,381 | 47,315 | (226,056) | 1,482,132 |
| GROUP LIABILITIES NOT ALLOCATED [3] | – | – | – | – | – | 1,918,716 |
| **TOTAL LIABILITIES** | **697,035** | **368,457** | **595,381** | **47,315** | **(226,056)** | **3,400,848** |

[1] comprise intangible assets, goodwill and property, plant and machinery
[2] relate to advance tax assets, receivables from state treasury and cash and cash equivalents
[3] relate to tax liabilities and financial payables

| | COASTAL REFINING | INTEGRATED DOWNSTREAM | POWER GENERATION | CORPORATE | TOTAL |
|---|---|---|---|---|---|
| **2005** | | | | | |
| NET REVENUES FROM ORDINARY OPERATIONS | 6,331,091 | 3,174,014 | 780,748 | 17,642 | |
| LESS: INTERDIVISIONAL REVENUES | (991,743) | (93,081) | (242,799) | (17,509) | |
| **REVENUES FROM THIRD PARTIES** | **5,339,348** | **3,080,933** | **537,949** | **133** | **8,958,363** |
| **EBITDA** | **450,113** | **257,496** | **183,017** | **(21,944)** | **868,682** |
| AMORTISATION, DEPRECIATION AND WRITE-DOWNS | (56,803) | (42,544) | (54,658) | (2,201) | (156,206) |
| **EBIT** | **393,310** | **214,952** | **128,359** | **(24,145)** | **712,476** |
| **INVESTMENTS IN FIXED ASSETS** (1) | **173,896** | **39,789** | **57,911** | **2,618** | **274,214** |

(1) relate to intangible assets, goodwill and property, plant and machinery

| | COASTAL REFINING | INTEGRATED DOWNSTREAM | POWER GENERATION | CORPORATE | ELIMINATIONS/ ADJUSTMENTS | TOTAL |
|---|---|---|---|---|---|---|
| **2005** | | | | | | |
| FIXED ASSETS (1) | 616,752 | 397,853 | 763,064 | 11,566 | – | 1,789,234 |
| OTHER SEGMENT ASSETS | 853,326 | 903,606 | 322,283 | 355,718 | (518,624) | 1,916,309 |
| GROUP ASSETS NOT ALLOCATED (2) | – | – | – | – | – | 344,494 |
| **TOTAL ASSETS** | **1,470,078** | **1,301,459** | **1,085,347** | **367,284** | **(518,624)** | **4,050,037** |
| SEGMENT LIABILITIES | 691,388 | 422,569 | 472,864 | 21,525 | (202,818) | 1,405,528 |
| GROUP LIABILITIES NOT ALLOCATED (3) | – | – | – | – | – | 1,435,762 |
| **TOTAL LIABILITIES** | **691,388** | **422,569** | **472,864** | **21,525** | **(202,818)** | **2,841,290** |

(1) comprise intangible assets, goodwill and property, plant and machinery
(2) relate to advance tax assets, receivables from state treasury and cash and cash equivalents
(3) relate to tax liabilities and financial payables

## INFORMATION BY GEOGRAPHIC AREA

| | ITALY | EUROPE | REST OF WORLD | TOTAL |
|---|---|---|---|---|
| **2006** | | | | |
| NET REVENUES FROM ORDINARY OPERATIONS [1] | 7,100,656 | 2,644,996 | 858,493 | |
| LESS: INTERDIVISIONAL REVENUES | (1,475,992) | – | – | |
| **REVENUES FROM THIRD PARTIES** | **5,624,664** | **2,644,996** | **858,493** | **9,128,153** |
| **TOTAL ASSETS [2]** | **4,570,031** | **143,386** | **85,738** | **4,799,155** |
| **INVESTMENTS IN FIXED ASSETS** | **362,898** | **2,282** | **–** | **365,180** |

[1] breakdown of revenues from ordinary operations based on geographic location of customer
[2] breakdown of segment assets based on their geographical location and that of the customer

| | ITALY | EUROPE | REST OF WORLD | TOTAL |
|---|---|---|---|---|
| **2005** | | | | |
| NET REVENUES FROM ORDINARY OPERATIONS [1] | 6,653,018 | 3,323,111 | 327,366 | |
| LESS: INTERDIVISIONAL REVENUES | (1,345,132) | – | – | |
| **REVENUES FROM THIRD PARTIES** | **5,307,886** | **3,323,111** | **327,366** | **8,958,363** |
| **TOTAL ASSETS [2]** | **3,774,843** | **231,941** | **43,253** | **4,050,037** |
| **INVESTMENTS IN FIXED ASSETS** | **270,977** | **3,237** | **–** | **274,214** |

[1] breakdown of revenues from ordinary operations based on geographic location of customer
[2] breakdown of segment assets based on their geographical location and that of the customer

# NOTE 45 - FEES PAID TO DIRECTORS, STATUTORY AUDITORS AND EXECUTIVES WITH STRATEGIC RESPONSIBILITIES

The amounts of fees paid to the Parent Company's Directors, Statutory Auditors and Executives with strategic responsibilities, for carrying out these functions also in other companies included within the scope of consolidation, were as follows:

| | 2006 |
|---|---|
| DIRECTORS | 5,856 |
| STATUTORY AUDITORS | 224 |
| EXECUTIVES WITH STRATEGIC RESPONSIBILITIES | 1,003 |
| | **7,084** |

## NOTE 46 - EXCHANGE RATES

The exchange rates used at the financial year-end (latest exchange rate available on 29 December 2006) for the translation of financial statements expressed in foreign currencies are shown below:

| | 2006 |
|---|---|
| EURO/SWISS FRANC | 1.61 |

## NOTE 47 - OTHER INFORMATION

Information on significant events after the end of the financial year is given in the appropriate chapters of the Report on Operations.

## NOTE 48 - PUBLICATION DATE OF THE FINANCIAL STATEMENTS

On 28 March 2007 ERG S.p.A.'s Board of Directors authorised the publication of the financial statements, reserving the right to make additions and formal changes by the date of filing pursuant to Art. 2429 of the Italian Civil Code.

Genoa, 28 March 2007

On behalf of the Board of Directors

The Chairman

Edoardo Garrone

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

Shareholders,

The 2006 Consolidated Financial Statements of ERG S.p.A., duly transmitted to us within the terms required by law, together with the Report on Operations, were drawn up in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and approved by the European Commission.
In accordance with Legislative Decree no. 58 of 24 February 1998 (Consolidated Law on Finance) and Article 41, point 3, of Legislative Decree no. 127 of 9 April 1991, the task of ascertaining that the consolidated financial statements comply with legal provisions and correspond to the accounting records and consolidation entries is assigned to the auditing firm. Our supervisory activity has been carried out in observance of the principles of conduct for Statutory Auditors set by the Consigli Nazionali dei Dottori Commercialisti e dei Ragionieri (National Councils of Professional and Certified Public Accountants) and particularly concerned:

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

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

- the consolidation area has been determined and the principles used to consolidate the investee companies chosen in compliance with the provisions set forth by the IFRS;
- the provisions of law concerning the formation and layout of the financial statements and Report on Operations have been observed;

- we have monitored the adequacy of the instructions imparted by the competent function of ERG S.p.A. in order to obtain the data flows required for consolidation purposes, reviewing the information supplied by the subsidiaries, subject to legal control on the part of their respective Boards of Statutory Auditors;
- the financial statements correspond to the facts and information that have come to the knowledge of the Board of Statutory Auditors during the exercise of its supervisory duties and its powers of audit and inspection;
- the Report on Group Operations is consistent with the data and entries shown in the consolidated financial statements and provides full information on the Group's economic-financial performance.

Lastly, the report issued by the auditing firm Reconta Ernst & Young S.p.A. on 10 April 2007 does not contain any observations or requests for information.

Genoa, 11 April 2007

The Board of Statutory Auditors

Alfio Lamanna

Mario Pacciani

Fabrizio Cavalli

ERNST & YOUNG

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

To the Shareholders of
ERG S.p.A.

1. We have audited the consolidated financial statements comprising the consolidated balance sheet, the consolidated statement of operations, changes in shareholder's equity and cash flows and the related explanatory notes of ERG S.p.A. and subsidiaries (the "ERG Group"), as of and for the year ended December 31, 2006. These consolidated financial statements are the responsibility of the Company's management. 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 and procedures recommended by CONSOB (the Italian Stock Exchange Regulatory Agency). In accordance with such standards and procedures, we planned and performed our audit to obtain the information necessary to determine whether the consolidated financial statements are materially misstated and if such financial statement, taken as a whole, may be relied upon. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, as well as assessing the appropriateness and correct application of the accounting principles and the reasonableness of the estimates made by management. We believe that our audit provides a reasonable basis for our opinion.

   For the opinion on the consolidated financial statements of the prior year, which are presented for comparative purposes, reference should be made to our report dated April 5, 2006.

3. In our opinion, the consolidated financial statements of ERG S.p.A. as of December 31, 2006 and for the year then ended are in accordance with IFRS as adopted by the European Union and the standards issued in accordance with art. 9 of Italian Legislative Decree n° 38/2005 and present clearly and give a true and fair view of the financial position, the result of operations, the changes in shareholder's equity and the cash flows of ERG Group as of December 31, 2006.

Genoa, April 10, 2007

Reconta Ernst & Young S.p.A.
signed by: Alberto Romeo
(Partner)

Reconta Ernst & Young S.p.A.
Sede Legale: 00196 Roma - Via G.D. Romagnosi, 18/A
Capitale Sociale € 1.259.500,00 i.v.
Iscritta alla S.O. del Registro delle Imprese presso la C.C.I.A.A. di Roma
Codice fiscale e numero di iscrizione 00434000584
P.I. 00891231003
(vecchio numero R.I. 6697/89 - numero R.E.A. 250904)

# ERG S.P.A.
# FINANCIAL STATEMENTS AT 31 DECEMBER 2006

# BALANCE SHEET

| (EURO) | NOTE | | 31/12/2006 | | 31/12/2005 |
|---|---|---|---|---|---|
| INTANGIBLE FIXED ASSETS | 1 | | 4,264,857 | | 3,864,865 |
| GOODWILL | | | – | | – |
| PROPERTY, PLANT AND MACHINERY | 2 | | 7,245,232 | | 7,700,991 |
| EQUITY INVESTMENTS | 3 | | 436,905,282 | | 283,137,997 |
| OTHER FINANCIAL ASSETS | 4 | | 180,914,750 | | 175,938,478 |
| *OF WHICH WITH RELATED PARTIES* | 30 | *180,914,750* | | *175,938,478* | |
| ADVANCE TAX ASSETS | 5 | | 1,585,769 | | 2,452,662 |
| OTHER NON-CURRENT ASSETS | 6 | | 2,457,494 | | 21,611 |
| **NON-CURRENT ASSETS** | | | **633,373,384** | | **473,116,604** |
| INVENTORY | | | – | | – |
| TRADE RECEIVABLES | 7 | | 3,004,649 | | 4,268,563 |
| *OF WHICH WITH RELATED PARTIES* | 30 | *2,964,189* | | *4,067,876* | |
| OTHER CURRENT RECEIVABLES AND ASSETS | 8 | | 49,707,001 | | 69,523,460 |
| *OF WHICH WITH RELATED PARTIES* | 30 | *26,783,304* | | *67,113,452* | |
| CURRENT FINANCIAL ASSETS | 9 | | 158,090,505 | | 216,938,047 |
| *OF WHICH WITH RELATED PARTIES* | 30 | *145,543,999* | | *216,938,396* | |
| CASH AND CASH EQUIVALENTS | 10 | | 167,904 | | 4,764 |
| **CURRENT ASSETS** | | | **210,970,060** | | **290,734,834** |
| **ASSETS HELD FOR SALE** | | | **–** | | **–** |
| **TOTAL ASSETS** | | | **844,343,444** | | **763,852,038** |
| SHAREHOLDERS' EQUITY | 11 | | 98,703,277 | | 106,689,910 |
| STAFF LEAVING INDEMNITIES | 12 | | 3,948,157 | | 3,874,024 |
| DEFERRED TAX LIABILITIES | 13 | | 820,667 | | 375,308 |
| PROVISIONS FOR NON-CURRENT LIABILITIES AND CHARGES | | | – | | – |
| NON-CURRENT FINANCIAL LIABILITIES | 14 | | 451,229,757 | | 270,000,000 |
| OTHER NON-CURRENT LIABILITIES | | | – | | – |
| **NON-CURRENT LIABILITIES** | | | **455,998,582** | | **274,249,332** |
| PROVISIONS FOR CURRENT LIABILITIES AND CHARGES | 15 | | 261,632 | | 576,506 |
| TRADE PAYABLES | 16 | | 9,136,059 | | 3,541,500 |
| *OF WHICH WITH RELATED PARTIES* | 30 | *277,878* | | *238,582* | |
| CURRENT FINANCIAL LIABILITIES | 17 | | 245,550,851 | | 318,372,278 |
| *OF WHICH WITH RELATED PARTIES* | 30 | *166,454,619* | | *271,520,621* | |
| OTHER CURRENT LIABILITIES | 18 | | 34,693,044 | | 60,422,512 |
| *OF WHICH WITH RELATED PARTIES* | 30 | *28,533,181* | | *7,262,887* | |
| **CURRENT LIABILITIES** | | | **289,641,585** | | **382,912,796** |
| **LIABILITIES HELD FOR SALE** | | | **–** | | **–** |
| **TOTAL LIABILITIES** | | | **844,343,444** | | **763,852,038** |

# INCOME STATEMENT

| (EURO) | NOTE | | 2006 | | 2005 |
|---|---|---|---|---|---|
| NET INCOME FROM EQUITY INVESTMENTS | 22 | | 86,973,331 | | 50,455,040 |
| *OF WHICH WITH RELATED PARTIES* | 30 | *87,000,000* | | *50,450,000* | |
| OTHER OPERATING INCOME | 23 | | 26,836,646 | | 24,362,874 |
| *OF WHICH WITH RELATED PARTIES* | 30 | *26,520,894* | | *23,173,719* | |
| COST OF PURCHASES | | | (278,798) | | (246,414) |
| COSTS FOR SERVICES AND OTHER COSTS | 24 | | (34,040,588) | | (27,126,289) |
| *OF WHICH WITH RELATED PARTIES* | 30 | *(5,110,005)* | | *(4,380,949)* | |
| PERSONNEL EXPENSES | 25 | | (19,273,160) | | (18,934,964) |
| AMORTISATION, DEPRECIATION AND WRITE-DOWNS OF FIXED ASSETS | 26 | | (2,654,662) | | (2,201,294) |
| FINANCIAL INCOME | 27 | | 11,921,521 | | 6,255,487 |
| *OF WHICH WITH RELATED PARTIES* | 30 | *11,552,109* | | *6,138,124* | |
| FINANCIAL EXPENSES | 27 | | (22,383,807) | | (11,599,629) |
| *OF WHICH WITH RELATED PARTIES* | 30 | *(8,004,311)* | | *(3,811,092)* | |
| **PROFIT BEFORE TAXES** | | | **47,100,483** | | **20,964,811** |
| INCOME TAXES | 28 | | 15,028,463 | | 13,384,050 |
| **NET PROFIT (LOSS) FROM CONTINUING OPERATIONS** | | | **62,128,946** | | **34,348,861** |
| NET PROFIT (LOSS) FROM ASSETS HELD FOR SALE | | | – | | – |
| **NET PROFIT (LOSS) FOR THE PERIOD** | | | **62,128,946** | | **34,348,861** |

# CASH FLOW STATEMENT

| (THOUSAND EURO) | 2006 | 2005 |
|---|---|---|
| **CASH FLOW FROM OPERATIONS (A)** | | |
| - NET PROFIT FOR THE YEAR | 62,129 | 34,349 |
| - AMORTISATION, DEPRECIATION AND WRITE DOWNS | 2,655 | 2,201 |
| - CHANGE IN PROVISIONS FOR LIABILITIES AND CHARGES | (315) | (695) |
| - CHANGE IN DEFERRED AND SUBSTITUTE TAXES | 1,368 | 1,996 |
| - NET WRITE-DOWN OF FINANCIAL FIXED ASSETS | 33 | – |
| - BAD DEBT PROVISION | – | – |
| - NET CHANGE IN STAFF LEAVING INDEMNITIES | 74 | (1,261) |
| - NET CAPITAL GAINS AND LOSSES | (180) | (134) |
| **CASH FLOW FROM CURRENT OPERATIONS** | **65,764** | **36,456** |
| **CHANGES IN OPERATING ASSETS AND LIABILITIES** | – | – |
| - INVENTORIES | – | – |
| - TRADE RECEIVABLES | 1,264 | (2,074) |
| - TRADE PAYABLES | 5,595 | (1,179) |
| - OTHER ASSETS | 18,256 | 7,363 |
| - OTHER LIABILITIES | (26,652) | (3,827) |
| | **(1,537)** | **283** |
| **TOTAL** | **64,227** | **36,739** |
| **CASH FLOW FROM INVESTMENTS (B)** | | |
| - INVESTMENTS IN TANGIBLE FIXED ASSETS | (645) | (621) |
| - INVESTMENTS IN INTANGIBLE FIXED ASSETS | (2,211) | (1,997) |
| - INVESTMENTS IN FINANCIAL FIXED ASSETS | (153,801) | (2) |
| - PROCEEDS FROM DISPOSAL OF TANGIBLE FIXED ASSETS | 317 | 416 |
| - PROCEEDS FROM DISPOSAL OF INTANGIBLE FIXED ASSETS | 119 | – |
| - PROCEEDS FROM DISPOSAL OF FINANCIAL FIXED ASSETS | – | 2,019 |
| **TOTAL** | **(156,221)** | **(185)** |
| **CASH FLOW FROM FINANCING ACTIVITIES (C)** | | |
| - NEW MEDIUM/LONG-TERM LOANS | 262,329 | 95,000 |
| - REPAYMENTS OF MEDIUM/LONG-TERM LOANS | (51,000) | (19,500) |
| - INCREASE (DECREASE) IN MEDIUM/LONG-TERM FINANCIAL | – | – |
| PAYABLES RECEIVABLES | (4,985) | (95,828) |
| - INCREASE (DECREASE) IN SHORT-TERM BANK BORROWINGS | (2,928) | 2,351 |
| - INCREASE (DECREASE) IN SHORT-TERM FINANCIAL PAYABLES/RECEIVABLES | (41,145) | 26,251 |
| - SHARE CAPITAL INCREASE | – | – |
| - DIVIDENDS PAID | (60,125) | (44,926) |
| - OTHER MINOR CHANGES | (9,990) | 84 |
| **TOTAL** | **92,156** | **(36,568)** |
| **NET CASH FLOW FOR THE YEAR (A+B+C)** | **163** | **(14)** |
| **CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR** | **5** | **19** |
| **NET CASH FLOW FOR THE YEAR** | **163** | **(14)** |
| **CASH AND CASH EQUIVALENTS AT YEAR-END** | **168** | **5** |

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Share Capital Euro 15,032,000 fully paid.

R.E.A. Milan no. 1344017

Company Register Milan

and Fiscal Code 94040720107

VAT 10122410151



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