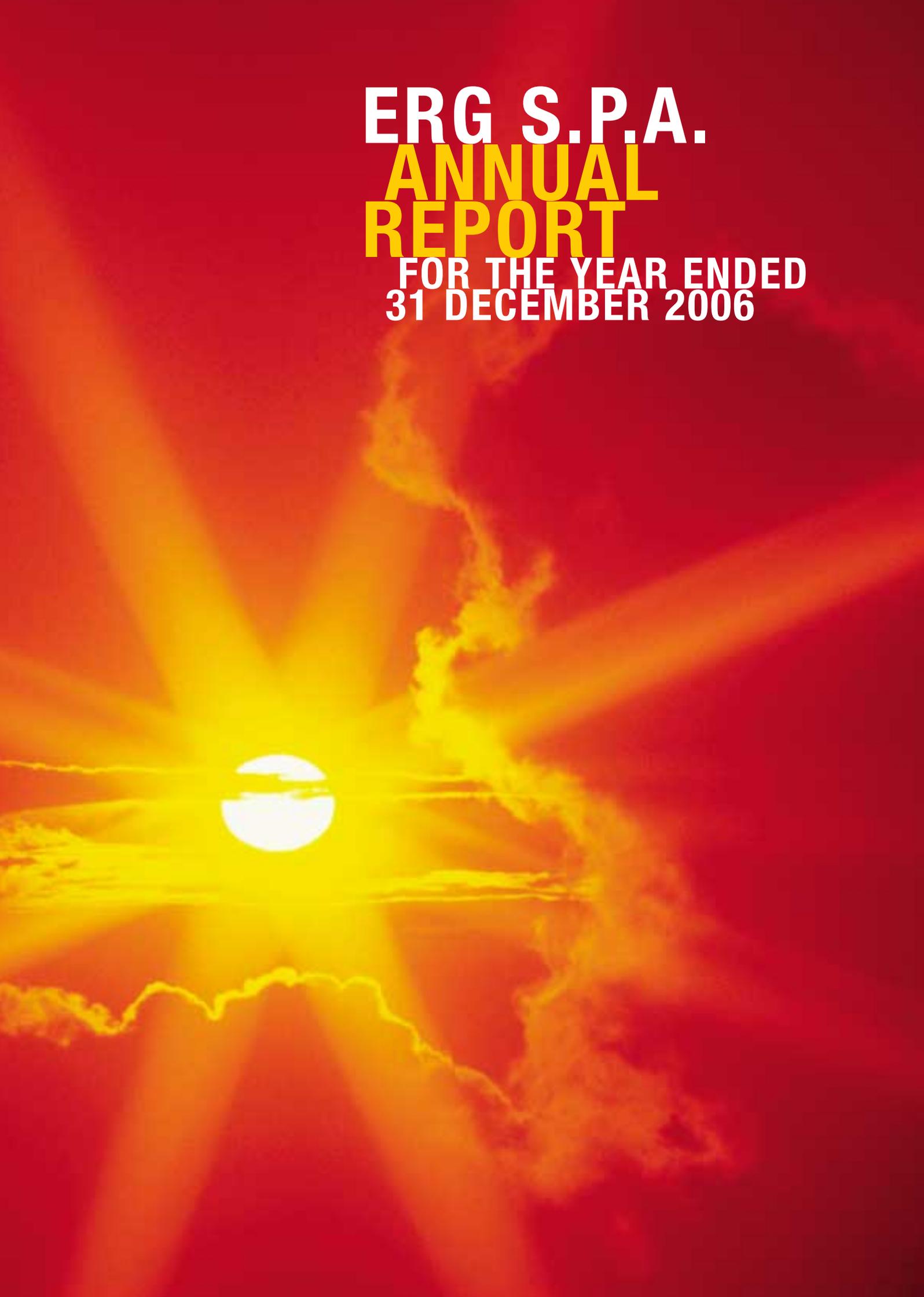


REPORT ON OPERATIONS



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ERG S.P.A.

**ANNUAL
REPORT**

**FOR THE YEAR ENDED
31 DECEMBER 2006**

LETTER TO THE SHAREHOLDERS

Dear Shareholders,

The first six months of 2006, which were hampered by certain extraordinary events that negatively impacted results, were counteracted by a strong upturn in profitability during the second half of the year, thereby showing the Group's ability to quickly react during critical moments.

On 30 April 2006 a fire broke out following a product leak in one of the pipelines at the ISAB Impianti Nord Refinery, causing it to shutdown. This led to a period of total production stoppage due to the simultaneous programmed shutdown of the ISAB Impianti Sud Refinery. The complex was fully operational again during the second half of the year.

The ISAB Energy plant also suffered unexpected partial shutdowns, as a result of faults that occurred in one of the transformers in April and in one of the two alternators in August. In both cases, the prompt return to operational status made it possible to limit the loss of production.

Following these events, the Group, which considers health, personal safety and environmental protection to be primary business values, set up all actions necessary to ascertain the causes and identify any internal deficiencies from either an operational or an engineering perspective, with a view to raising the prevention level, further improving the management of operational risks and pursuing its development in terms of sustainability.

It should also be pointed out that the economic losses

resulting from the incidents were largely compensated by insurance reimbursements.

On the whole, it was nevertheless a good year: the Power Generation and Integrated Downstream divisions posted very good operating results, with Power Generation achieving an all-time high. Apart from the incident, the Coastal Refining division also had to contend with a less favourable scenario compared to the previous year.

During the year, ERG Raffinerie Mediterranee went ahead with its major investment plan designed to enhance the refinery's conversion capacity, maximise the synergies offered by the integration of the Nord and Sud plants and bring the products into line with the European specifications which will come into effect in 2009.

Moreover, during the last programmed shutdown of the Impianti Sud, interventions were completed to develop a four-year general maintenance cycle, with an intermediate process shutdown for some plants. These procedures will help to increase refining capacity utilisation.

Lastly, the optimal configuration was identified for the ISAB Refinery, which, via a rationalisation of its volumes, will be able to fully utilise its conversion capacity. This configuration will be operational from the second half of 2007.

This first investment cycle will be completed during the first six months of 2007 and will provide a major boost to the refinery's profitability. A second cycle of high-yield targeted



investments is already underway, which will be completed over the next few years and will further improve refining earnings.

On 16 October ERG took an important step towards the Group's future: the acquisition of a 51.3% equity interest in

with respect to 2006. In order to boost competitiveness in the distribution area, ERG Petroli decided to target a radical repositioning of its offer range, focusing on customer centrality and defining a "Value Proposal" perceived by the customer as attractive and unique.



Enertad S.p.A., a listed company operating mainly in the sector of electricity production from renewable sources. The acquisition of the Enertad shareholding represents a further fundamental phase of the growth strategy in the renewable energy sector, where the Group – already operating through a joint venture in ERG CESA Eolica – aims to become a leading operator on the Italian market. Following acquisition of the controlling interest, ERG launched a takeover bid for the residual capital. However, this bid was only marginally accepted, a clear sign of the market's confidence in the company's prospects. It was considered appropriate for the company to remain listed in order to ensure it has maximum financial flexibility for its future growth. The Group's strategy is to consolidate its "multi-energy" configuration and the major investment plan for the next four years is aimed at developing all sectors in which it operates.

In the wind sector, the Group expects to carry out almost half of the investments during the next four years with an expenditure of over one billion Euro.

In the thermoelectric and gas sector the Group has other significant ventures centred round the industrial site in Sicily, such as the construction of a 480 MW cogenerative power plant and the construction of a liquified natural gas (LNG) regasification terminal.

In the Integrated Downstream division, we expect to see a growth in market share for the fuel distribution network and, as regards inland Refining, an improved economic scenario

To further enhance its identity ERG Petroli has already launched its restyling plan, which will provide all facilities with a strongly innovative and distinctive image.

Major attention was focused on energy issues throughout 2006: the ever-growing energy demand to support the still turbulent growth of the Asian economies; the strong political tensions in the major oil and gas producing areas; climatic events – with an exceptionally mild winter not only in the temperate zones – which induced even the hitherto more sceptical governments (such as the USA) to discuss environmental issues and consider policies at global level to reduce pollution and promote a more rational and diversified use of energy sources. Energy and the environment are expected to remain at the centre of attention for a long time to come. This will be the scenario within which ERG will continue to develop its project as a Group committed, from a sustainable growth perspective, to maximising the efficiency of its production structures and diversifying, insofar as possible, its offer of energy services.

Genoa, 27 April 2007

A handwritten signature in black ink, appearing to read 'Edoardo Garrone'.

Edoardo Garrone
Chairman

A handwritten signature in black ink, appearing to read 'Alessandro Garrone'.

Alessandro Garrone
Chief Executive Officer



ERG 2006

IN A FEW WORDS



ERG'S NUMBERS

1,968 SERVICE STATIONS

8% ROACE

11% ROE

5,098 MILLION KWH.
ELECTRICITY
PRODUCTION

2,820 EMPLOYEES

365 MILLION EURO.
INVESTMENTS

463 MILLION EURO.
EBITDA

2,754 MILLION EURO.
NET INVESTED
CAPITAL

MILLION EURO.
MAXIMUM MARKET
CAPITALISATION **3,828**

RETAIL MARKET
SHARE **7%**

MILLION EURO.
OPERATING
CASH FLOW **257**

THOUSAND BARRELS/DAY.
CRUDE OIL PROCESSING
IN THE REFINERIES **376**

MILLION EURO.
GROUP NET INCOME AT
REPLACEMENT COST **103**

MILLION EURO.
GROUP DEBT AT
YEAR-END 2006 **1,356**

MILLION EURO.
CONSOLIDATED
REVENUES **9,303**

MILLION EURO.
ACQUISITION
OF ENERTAD **154**

THE FACTS OF 2006

FEBRUARY Following the formal approval of the National Allocation Plan (NAP) by the European Commission, the Italian Government issued its final plan for the allocation of CO₂ quotas to individual industrial sites for the three-year period 2005-2007.

MARCH The ISAB Sud Refinery suffered a temporary stoppage caused by a power blackout in the power station supplying the plants' utilities. Lost production amounted to approximately 500 thousand barrels.

APRIL ERG S.p.A.'s Ordinary Shareholders' Meeting appointed the new Board of Directors for the three-year period 2006-2008, confirming Edoardo Garrone as Chairman, Alessandro Garrone as Chief Executive Officer, and Domenico D'Arpizio and Giovanni Mondini as Deputy Chairmen. It also appointed Pietro Giordano as Deputy Chairman.

ERG Petroli S.p.A.'s Ordinary Shareholders' Meeting appointed the new Board of Directors for the three-year period 2006-2008 and confirmed Domenico D'Arpizio as Chairman of the company. The new Board of Directors then appointed Pier Francesco Pinelli as Managing Director.

ERG Raffinerie Mediterranee S.p.A.'s Ordinary Shareholders' Meeting appointed the new Board of Directors for the three-year period 2006-2008 and elected Aldo Garozzo to the position of Chairman of the company. The new Board of Directors then appointed Guglielmo Landolfi as Managing Director.

ERG Power & Gas S.p.A.'s Ordinary Shareholders' Meeting appointed the new Board of Directors for the three-year period 2006-2008 and confirmed Giuseppe Gatti as Chairman of the company, also giving him executive powers.

A leak was reported in a pipe carrying crude oil from the tank farm to the processing units of the ISAB Nord Refinery. While work to secure the area was in progress the crude oil caught fire, also affecting pipes nearby. The refinery's plants were immediately shut down as a precautionary measure but they were not in any way affected by the fire, which was at all times contained within the area where it started.

MAY The US company Strasburger Enterprises Inc., one of the leading international players in the "convenience retailing" sector, acquired an 11.25% stake in the share capital of Gestioni Europa Due S.p.A.

Work began to restart the ISAB Nord Refinery, following the fire that occurred in April.

JUNE Within the scope of the works to restart the ISAB Nord Refinery, production reached 120,000 barrels of crude oil per day, equal to 80% of total capacity.

ERG S.p.A. filed with CONSOB (the Italian Stock Exchange Regulator) communications relating to the launch of a voluntary Public Offer for the purchase of 100% of the share capital of Enertad S.p.A., a listed company that operates in the sector of electricity generation from renewable sources.

During the same month, CONSOB authorised publication of the Offer Document at the price of Euro 3.00 per share.

JULY A blackout occurred in the supply of electricity from ENEL power stations caused by a severe storm that hit the province of Syracuse. The power cut, which lasted approximately 30 minutes, caused a slowdown of the ISAB Nord Refinery (on 12 July the FCC line had also come into operation) and the shutdown of the ISAB Sud Refinery and the ISAB Energy power plant. The loss of production due to this blackout amounted to approximately 450 thousand barrels for the ISAB Refinery and approximately 10 GWh for the ISAB Energy plant.

OCTOBER ERG acquired 51.33% of the share capital of Enertad S.p.A.

NOVEMBER ERG Power & Gas S.p.A. completed its acquisition from EssePi S.p.A. of a 90% equity interest in ISEA S.r.l., a company operating in the

renewable energy sector via the operation of five mini hydro plants with a total installed capacity of 2.7 MW.

DECEMBER A consortium company by the name of "Priolo Servizi Società consortile a r.l.", with registered office in Priolo Gargallo (Syracuse) and share capital of Euro 10,000.00, was set up by ERG Raffinerie Mediterranee S.p.A. (with a participation of 37.8%), ERG Nuove Centrali S.p.A. (21.5%), Polimeri Europa S.p.A. (35.7%) and Syndial S.p.A. (5%). The new company will operate for the Priolo Gargallo site, managing the provision of general services and supplying utilities and different types of water.

ERG announced the definition of the insurance reimbursement relating to the incident on 30 April 2006 involving the ISAB Nord Refinery. The reimbursement amounted to Euro 106 million, of which Euro 18 million for direct damages.



INTRODUCTION

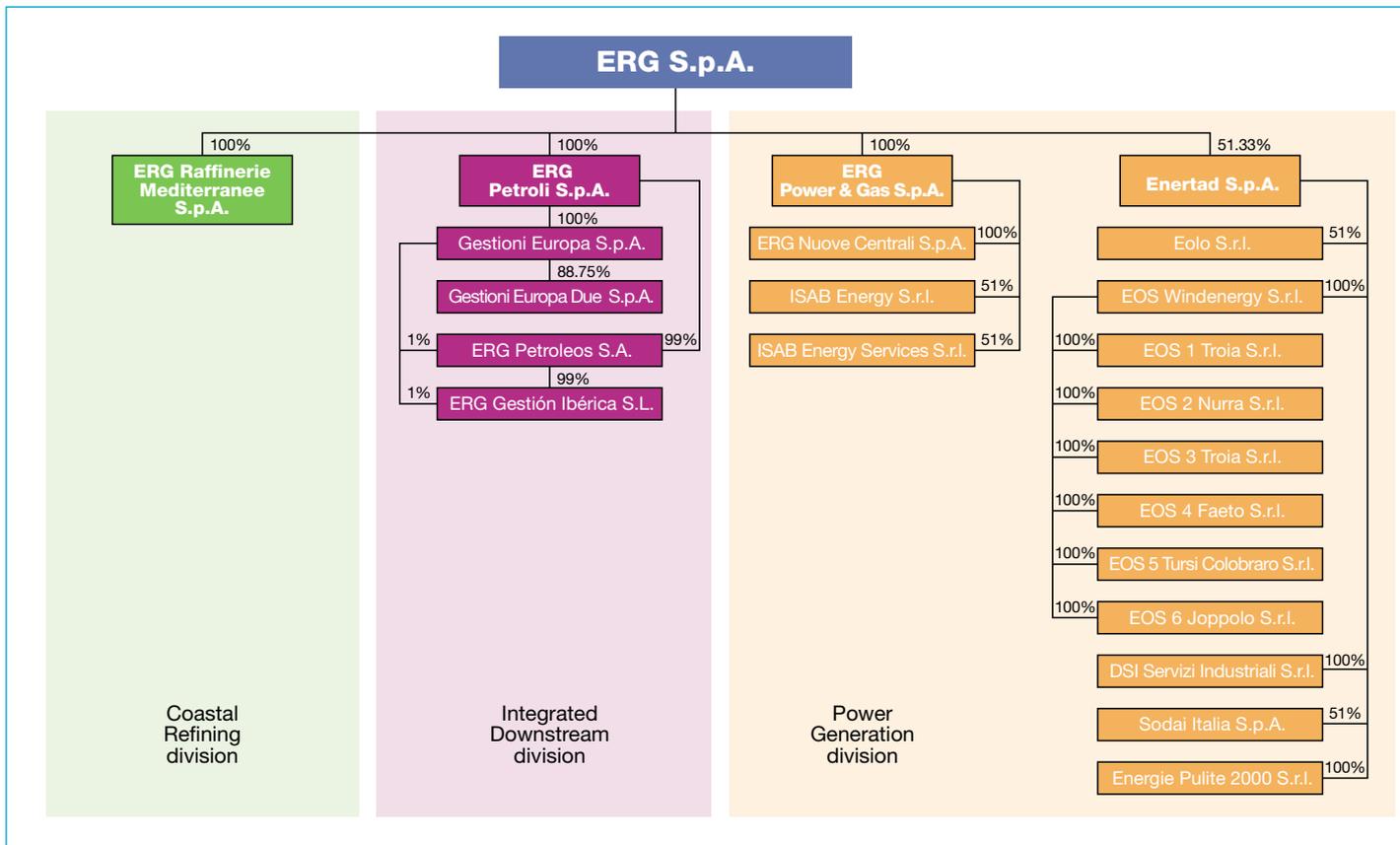
The Consolidated Annual Report & Accounts for the year ended on 31 December 2006 has been prepared in accordance with the International Accounting Standards issued by the International Accounting Standards Board (IASB) and approved by the European Union, inclusive of all international standards that have undergone interpretation (International Accounting Standards – IAS) and the interpretations of the International Financial Reporting Interpretation Committee (IFRIC) and of the previous Standing Interpretations Committee (SIC).

It is pointed out that, on 16 October 2006, ERG S.p.A. acquired control of the Enertad Group. The economic results and balance sheet of ERG illustrated below respectively take into account the Enertad Group's results in the fourth quarter and its balance sheet data as at 31 December 2006.

This document has been audited by Reconta Ernst & Young S.p.A. in accordance with the procedures specified by CONSOB (the Italian Stock Exchange Regulator) regulations. The results of this audit will be made public as soon as they become available.

SCOPE OF CONSOLIDATION AND BUSINESS DIVISIONS

ERG means ERG S.p.A. and the companies included in the consolidation area.



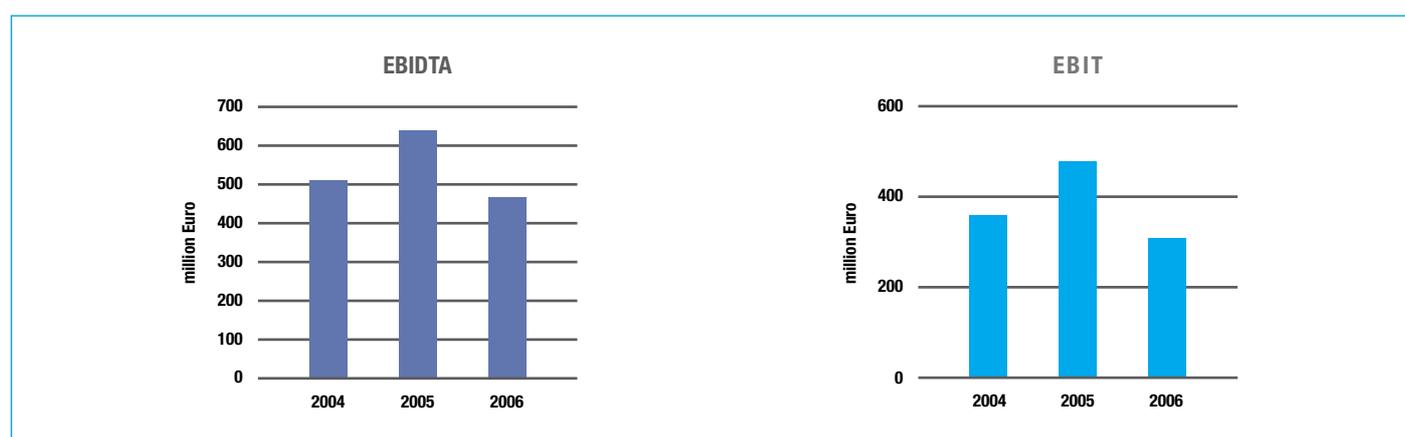
MAIN ECONOMIC AND FINANCIAL DATA

The figures provided below are stated in Euro. Where figures in the tables are shown in millions of Euro, totals may differ from the exact sum of the amounts forming them. For a better understanding of business performance, the economic results are presented showing gains (losses) on inventory and non-recurring

items separately. Inventory gains (losses) are equal to the difference between the current cost of products sold and that resulting from application of the weighted average cost. They essentially represent the higher (lower) value, in case of an increase (decrease) in prices, applied to inventory quantities existing at the start of the period and still present at the end of the period. Non-recurring items include significant income of an extraordinary nature.

(MILLION EURO)	2006	2005	2004
TOTAL REVENUES ⁽¹⁾	9,303	9,029	6,380
EBITDA	442	869	583
EBITDA AT REPLACEMENT COST ⁽²⁾	463	633	503
EBIT	285	712	433
EBIT AT REPLACEMENT COST ⁽²⁾	305	477	354
NET INCOME	194	421	224
OF WHICH NET GROUP INCOME	153	385	194
NET GROUP INCOME AT REPLACEMENT COST ⁽³⁾	103	230	144
CASH FLOW FROM OPERATIONS	47	435	602
INVESTMENTS/DISINVESTMENTS	(511)	(254)	(136)
CHANGES IN SHAREHOLDERS' EQUITY	(113)	(66)	(51)
CHANGE IN SCOPE OF CONSOLIDATION	(10)	–	2
CHANGE IN NET FINANCIAL DEBT	(587)	114	417
NET INVESTED CAPITAL	2,754	1,977	1,783
SHAREHOLDERS' EQUITY	1,398	1,209	900
NET FINANCIAL DEBT (EXCLUDING PROJECT FINANCING)	1,038	415	535
NON-RECOURSE PROJECT FINANCING ⁽⁴⁾	318	354	348
ROACE ⁽⁵⁾	8%	16%	12%
ROE ⁽⁵⁾	11%	25%	22%
FINANCIAL LEVERAGE	49%	39%	50%

⁽¹⁾ net of excise duties, swaps and forward dealings on crude oil and products
⁽²⁾ EBITDA and EBIT at replacement cost do not include inventory gains (losses) and non-recurring items
⁽³⁾ net Group income at replacement cost does not include inventory gains (losses), non-recurring items or their related theoretical tax liability
⁽⁴⁾ net of cash and cash equivalents
⁽⁵⁾ calculated on results at replacement cost



DIVISIONAL DATA

(MILLION EURO)	2006	2005	2004
REVENUES FROM ORDINARY OPERATIONS			
COASTAL REFINING	6,118	6,331	4,406
INTEGRATED DOWNSTREAM	3,629	3,174	2,190
POWER GENERATION	838	781	653
CORPORATE	19	18	24
INTERDIVISIONAL REVENUES	(1,476)	(1,345)	(920)
TOTAL	9,128	8,958	6,353
EBITDA			
COASTAL REFINING	149	307	232
INTEGRATED DOWNSTREAM	127	165	115
POWER GENERATION	213	183	169
CORPORATE	(27)	(22)	(12)
EBITDA AT REPLACEMENT COST ⁽¹⁾	463	633	503
<i>GAINS (LOSSES) ON INVENTORY</i>	<i>(28)</i>	<i>208</i>	<i>80</i>
<i>NON-RECURRING ITEMS ⁽²⁾</i>	<i>7</i>	<i>28</i>	<i>–</i>
TOTAL	442	869	583
AMORTISATION, DEPRECIATION AND WRITE-DOWNS			
COASTAL REFINING	(53)	(57)	(57)
INTEGRATED DOWNSTREAM	(44)	(43)	(37)
POWER GENERATION	(57)	(55)	(54)
CORPORATE	(3)	(2)	(2)
TOTAL	(157)	(156)	(150)
EBIT			
COASTAL REFINING	96	250	175
INTEGRATED DOWNSTREAM	83	123	78
POWER GENERATION	156	128	115
CORPORATE	(29)	(24)	(14)
EBIT AT REPLACEMENT COST ⁽¹⁾	305	477	354
<i>GAINS (LOSSES) ON INVENTORY</i>	<i>(28)</i>	<i>208</i>	<i>80</i>
<i>NON-RECURRING ITEMS ⁽²⁾</i>	<i>7</i>	<i>28</i>	<i>–</i>
TOTAL	285	712	433
TANGIBLE AND INTANGIBLE FIXED ASSETS			
COASTAL REFINING	758	617	490
INTEGRATED DOWNSTREAM	391	398	404
POWER GENERATION	1,141	763	744
CORPORATE	12	12	11
TOTAL	2,300	1,789	1,649
INVESTMENTS IN TANGIBLE AND INTANGIBLE FIXED ASSETS			
COASTAL REFINING	185	174	80
INTEGRATED DOWNSTREAM	36	40	37
POWER GENERATION	142	58	33
CORPORATE	3	3	2
TOTAL	365	274	152

⁽¹⁾ EBITDA and EBIT at replacement cost do not include inventory gains (losses) and non-recurring items

⁽²⁾ 2006 non-recurring items refer to insurance reimbursements received for the direct damage to plants following the fire on 30 April and the costs incurred by ISAB Energy for the purchase of green certificates

OPERATIONAL DATA

		2006	2005	2004
INVESTMENTS⁽¹⁾	<i>MILLION EURO</i>	365	274	152
EMPLOYEES AT END OF PERIOD		2,820	2,679	2,643
PROCESSING AT THE REFINERIES	<i>THOUSAND TONNES</i>	18,681	21,163	21,095
PROCESSING AT THE REFINERIES	<i>THOUSAND BARRELS/DAY</i>	376	426	424
ELECTRIC POWER PRODUCTION	<i>MILLION KWH</i>	5,098	5,266	5,516
ELECTRICITY SALES	<i>MILLION KWH</i>	4,561	4,797	5,107
EXPORT OF PETROLEUM PRODUCTS	<i>THOUSAND TONNES</i>	7,812	9,190	8,305
DOMESTIC RETAIL SALES	<i>THOUSAND TONNES</i>	2,019	2,082	2,113
DOMESTIC RETAIL MARKET SHARE⁽²⁾	<i>GASOLINE + DIESEL</i>	7.0%	7.1%	7.1%
DOMESTIC RETAIL OUTLETS AT END OF PERIOD	<i>NUMBER OF OUTLETS</i>	1,968	1,967	1,969
AVERAGE THROUGHPUT⁽³⁾	<i>M/OUTLET AT END OF PERIOD</i>	1,295	1,326	1,341
INVENTORY OF RAW MATERIALS AND PRODUCTS	<i>THOUSAND TONNES</i>	2,630	2,736	2,094

⁽¹⁾ investments in tangible and intangible fixed assets recorded during the period

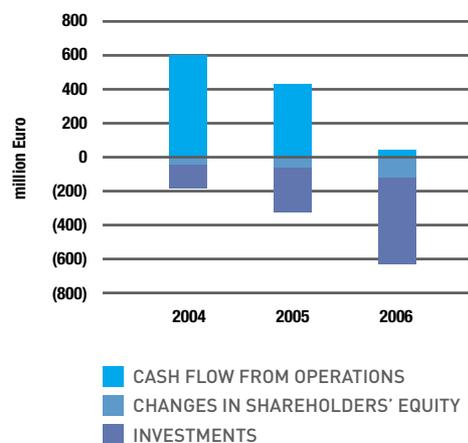
⁽²⁾ 2006 figures estimated

⁽³⁾ calculated on the basis of the number of retail outlets at the end of the period

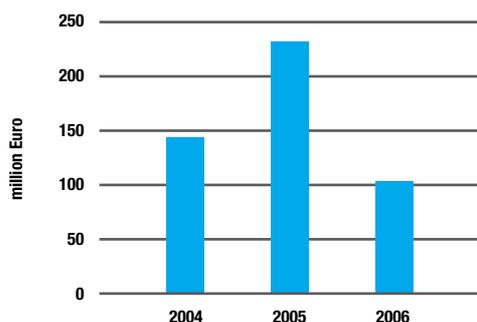
NET INVESTED CAPITAL



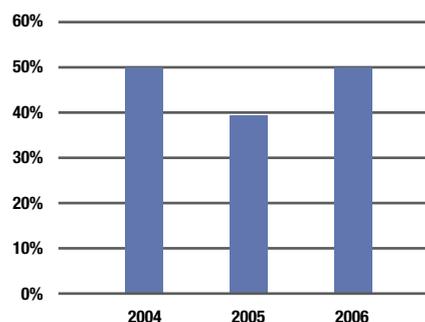
CASH FLOW



NET INCOME



FINANCIAL LEVERAGE



BUSINESS DESCRIPTION

ERG is the largest independent Group operating in the energy and petroleum sectors in Italy, quoted on the Stock Exchange since October 1997. It is active in crude oil processing, the distribution of petroleum products and power generation. Today it accounts for approximately 22% of the national refining capacity and is the second largest sector operator in Italy. ERG sales on the domestic market account for 9% of the national consumption of petroleum products. ERG Group activities are divided into three business areas:

COASTAL REFINING

Via its subsidiary ERG Raffinerie Mediterranee, which owns the ISAB Sud and ISAB Nord refineries in Priolo Gargallo (Syracuse), ERG manages one of the largest and most efficient refining complexes in Europe (capacity of 320,000 bbl/day) and is the largest Italian

exporter of petroleum products (mainly diesel and gasoline). ERG Med also supplies products to other oil companies operating in the country.

The ISAB Sud and ISAB Nord refineries are certified ISO 14001.

INTEGRATED DOWNSTREAM

Via its subsidiary ERG Petroli, ERG manages the Marketing and Logistics divisions; furthermore, ERG Petroli owns important shareholdings in two refineries: one in Treocate, near Milan, and one near Rome (combined capacity of 60,000 bbl/day).

The ERG logistics system is one of the largest in Italy and is strategically positioned to allow the distribution of petroleum products throughout the country. The distribution of petroleum products in Italy is carried out via a network of some 2,000 service stations, which account for around 7% of the domestic market. ERG Petroli sells gasoline, diesel, fuel oil, bitumen and LPG on the Wholesale market, via a network of wholesalers in Italy and Switzerland. ERG Petroli also



operates in the Retail and Wholesale markets in Spain, via its subsidiary ERG Petroleos (100% ERG Petrol).

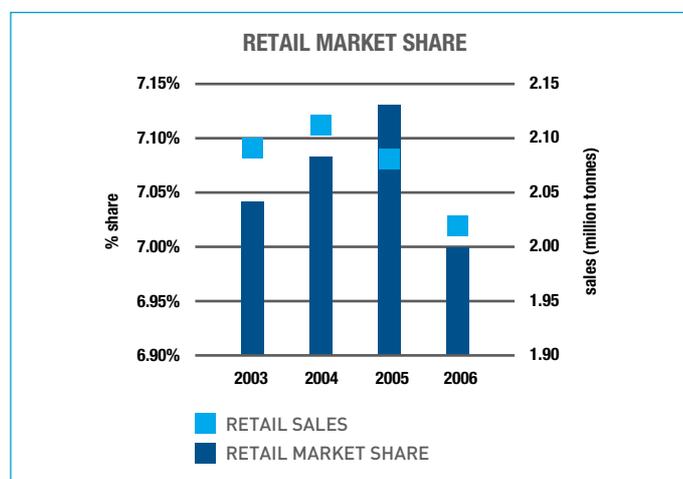
POWER GENERATION

Via its subsidiary ERG Power & Gas ERG manages and develops the production and marketing of electrical power, steam and gas. In particular, ISAB Energy (51% ERG Power & Gas), certified ISO 14001, owns a power station with a capacity of 528 MW, which uses as its fuel syngas deriving from the gasification of residues from the ISAB Impianti Sud Refinery.

Projects are already underway for the repowering of the two power plants inside the ISAB Sud and ISAB Nord refineries to 99 MW and 450 MW respectively. They will have natural gas as a feedstock. ERG CESA Eolica (50% ERG Power & Gas), active in the development of wind farms, has 33 MW of generating capacity in operation and 188 MW already authorised. The company's industrial plan is to reach 540 MW by 2010. Enertad (51% ERG), a company listed on the

Milan Stock Exchange, generates electricity from wind sources with an installed capacity of 77 MW and an Italian market share of 4.5%. Its business plan for the 3-year period 2007-2010 envisages further growth to reach a total capacity of 390 MW, of which 169 MW already authorised.

Furthermore, ERG Power & Gas has entered into a 50:50 joint venture with Shell Energy Italia for the development of a liquid natural gas regasification plant within the Augusta/Priolo/Melilli industrial complex in the Syracuse area.



ERG'S HISTORY

ORIGINS, DEVELOPMENT AND INTEGRATION

The history of the ERG Group commenced on 2 June 1938, when the Podestà di Genova granted Edoardo Garrone, grandfather of the current chairman Edoardo, a licence for “marketing products derived from the processing of crude oil and coal tar”.



Thus Edoardo Garrone's firm was formed in Via Romairone, San Quirico, Genoa. The “dado” (dice) trade mark (from “Dado”, affectionate diminutive of Edoardo) was chosen for the company, which became a refinery shortly after the end of the Second World War. A three-letter acronym was reproduced on the face of the trade mark. One reads ... ERG from the initials of “Raffineria Edoardo Garrone” written on the face of the dice.

Following the war, in a country in need of total reconstruction, the huge power requirement, which was accentuated by the devastation of the power stations, resulted in crude oil becoming the most suitable energy source to satisfy the national requirements for economy, availability and flexibility of supplies. The refining business, thanks to the favourable situation and the fortunate geographical position of the plants, thus became strategic for ERG.

Having consolidated its role in Italy, the company reached its first important international agreement in 1956 with British Petroleum, which thereafter held a significant minority share in ERG for some years.

The annual processing capacity of the refinery had already reached 6.5 million tonnes by 1963.

At this point ERG decided on a major strategic initiative: the construction of the Arquata Scrivia deposit, in the lower part of Val Padana, one of the most important in Italy.

This work permitted the San Quirico refinery to overcome the problems related to the lack of space and the Ligurian road network, by transferring the shipment of petroleum products, destined for all the industrial centres in north-western Italy, beyond the Apennines through a system of oil pipe lines. In 1971 ERG became a shareholder, along with other private groups, of ISAB, a company formed to construct a large refinery in Sicily and, in 1985, in anticipation of the closure of the San Quirico refinery, it assumed the control of ISAB with a shareholding that grew over the years until it reached 100% in 1997.

After having developed its business prevalently in the refining sector, the company also began to grow nationally in the commercial distribution sector, where, however, it was already present with its own service station network in north-western Italy.



This strategy was implemented in two phases: the first, in 1984, was the acquisition of ELF Italiana's entire service station network - 780 stations - and the second, in 1986 was the acquisition of Chevron Oil Italiana.

With the latter transaction ERG obtained control of a further 1,700 service stations. Thus the ERG Network was formed, recognisable by the trademark of three rampant panthers on all Italian roads.

More recently, at the end of 1993, following an agreement between ERG and Edison Mission Energy, one of the world's major power producers, ISAB Energy was formed: this company was destined to construct the first Italian gasification plant using heavy oil products for the production of clean power. The innovative industrial project was financed by Project Financing of about Lira 1,900 billion, which had no precedent in Italy.

FROM THE QUOTATION TO 2000

In 1995 the Garrone family entrusted the full responsibility for Group to the company's management. In this way the extensive process commenced of transformation of what was, for almost 60 years, a family owned and managed business. ERG prepared, through rationalisation of the corporate structure and decisive refocusing on the core energy business, for a listing on the Stock Market so as to

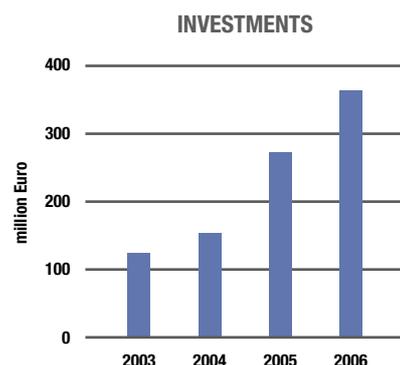
create the conditions for more efficient financing of the new development phase that was expected.

The global offer constituted a public offer for the subscription and sale in Italy of 70.25 million shares and a private placement of 30.75 million shares reserved for national and foreign institutional investors.

The ERG shares were listed on the Italian Computerised Stock Market System in October 1997. The applications from Italian private investors were 26 times oversubscribed, while those from institutional investors were 6 times more than the shares reserved for them. The response from Group employees was particularly significant: 70% of the staff, 1,115 people, decided to buy the company's shares.

The structural improvement of the retail network continued between 1998 and 2000, with the acquisition and construction of new stations giving ERG a 7% share of the Italian market.

The ISAB Energy power station came into operation on 18 April 2000: it was the first Italian plant, the third in the world, for gasification of the crude oil residues and electricity production. It had a gross capacity of 512 MW and an estimated production of between 3 to 4 billion kWh/year, equal to over 1.5% of the entire national electricity requirement. ERG, from a petroleum company, became active in the energy sector in the broader sense.



TODAY

ERG Raffinerie Mediterranee was formed in October 2002 (72% ERG, 28% ENI); this company was entrusted with the management of one of the largest and most efficient refineries in Europe, achieved through the merger and integration of ERG's ISAB refinery with the former AGIP refinery, both in Priolo (Syracuse). The



integration of the two refineries will take place through the construction of an oil pipeline system and other works to up-date and improve production efficiency and environmental compatibility, so as to give the new 'super site' an very highly competitive position in the international scenario. Alessandro Garrone was appointed as Chief Executive Officer of ERG at the end of 2002. Riccardo Garrone, after forty years as ERG's Chairman, resigned from this position in 2003. His eldest son Edoardo took his place.

In 2004 ERG promoted its institutional image with the new corporate advertising campaign, which in July was published in the main national press, with the objective of refreshing the Group's image.

Also in July 2004 ERG presented its new institutional website with a renewed image reflecting the strategic positioning of a "multi- energy" group.

The site is directed at everyone who out of interest, work, or study wishes to learn about ERG. This applies in particular to journalists, investors, analysts and shareholders, for whom the contents and services that

have been designed represent a comprehensive source of information and a dynamic instrument for corporate relations.

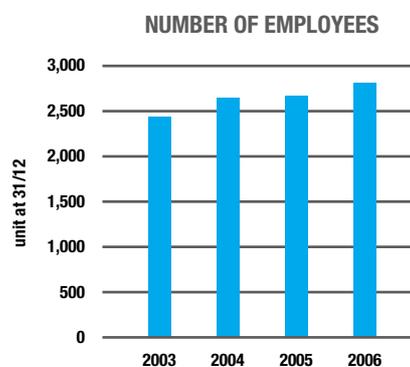
ERG obtained first place for the contents of the investor relations section in the STAR index.

In the WebrankingTM 2004 - ItaliaTop80 classification prepared by the Swedish company "Hallvarsson& Hallvarsson" in collaboration with the Corriere della Sera and Financial Times, ERG was placed 6th out of the eighty Italian companies listed.

ERG (along with only 12 other Italian companies) publishes an interactive version of its financial statements on the web.

The "Fondazione Edoardo Garrone" was set up on 23 December, as a natural evolution of the commitment of the Garrone and Mondini families and the ERG Group in the social and cultural field.

The Foundation's main activities will be the



organisation of seminars and congresses and promoting and publishing studies and research.

The objective is to supply a concrete contribution to the diffusion, fruition and comprehension of culture, art and science as well as to actively co-operate in ethically viable projects.

In 2005, ERG renewed its sponsorship contract with U.C. Sampdoria for the 2005-2006 and 2006-2007 football seasons.

ERG's "multi-energy" strategy and its commitment to alternative energy saw a further enhancement in 2005, by way of Ionio Gas S.r.l., a 50:50 joint venture set up between ERG Power & Gas S.p.A. and Shell Energy Italia S.r.l., which will operate in the design, construction, management and maintenance of a terminal to receive and regasify Liquid Natural Gas at the ISAB Impianti Nord refinery in Priolo. The Calabria Region Service Conference has approved a project to create a wind farm in the province of Crotona, with an installed electric power of about 120 MW. Work on the construction of the park is scheduled to commence early in 2006, and the facility should start production by the beginning of 2007.

In 2005, ERG became part of the Midex index within the Blue Chip segment of the Italian stock exchange. The move from the STAR to the Blue Chip segment

took place following the significant increase in stock market capitalisation of ERG's shares.

A celebration was held in Syracuse on 9 and 10 December to mark thirty years of activity at the ISAB refinery in Priolo. This event, which was the first to involve all Group employees, was an important opportunity to take stock and review the history and business experience of ERG in Sicily, and to illustrate ERG's development and investment strategies.

In 2006, ERG acquired a 51.33% interest in Enertad S.p.A., a listed company that operates in the sector of electricity generation from renewable sources.

The acquisition of the Enertad shareholding constituted the final stage of an operation launched during 2006, which forms part of the strategies pursued by ERG in the field of renewable energy.



BOARD OF DIRECTORS

EDOARDO GARRONE CHAIRMAN

DOMENICO D'ARPIZIO DEPUTY CHAIRMAN

PIETRO GIORDANO DEPUTY CHAIRMAN

GIOVANNI MONDINI DEPUTY CHAIRMAN

ALESSANDRO GARRONE CHIEF EXECUTIVE OFFICER

MASSIMO BELCREDI

PASQUALE CARDARELLI

RICCARDO GARRONE

GIUSEPPE GATTI

ANTONIO GUASTONI

PAOLO FRANCESCO LANZONI

GIAN PIERO MONDINI

GUIDO SEBASTIANO ZERBINO

BOARD OF STATUTORY AUDITORS

ALFIO LAMANNA CHAIRMAN

MARIO PACCIANI

FABRIZIO CAVALLI

EXTERNAL AUDITORS

RECONTA ERNST & YOUNG S.P.A.



REPORT ON OPERATIONS

ERG SHARE PRICE PERFORMANCE IN 2006

At 29 December 2006 the reference price of ERG shares was Euro 17.40, 14.3% lower than the 2005 year-end price, against a growth of 4.0% in the European energy sector index and 19.1% in the Mibtel index.

Below are some of the figures relating to the daily prices and volumes of ERG shares during the period

2 January 2006 – 29 December 2006:

	EURO
REFERENCE PRICE AT 29/12/06	17.40
HIGH (24/4/06) ⁽¹⁾	25.48
LOW (25/9/06) ⁽¹⁾	14.74
AVERAGE PRICE	18.97

	No. OF SHARES
HIGHEST DAILY VOLUME (5/10/06)	5,616,863
LOWEST DAILY VOLUME (6/1/06)	165,700
AVERAGE VOLUME	1,172,964

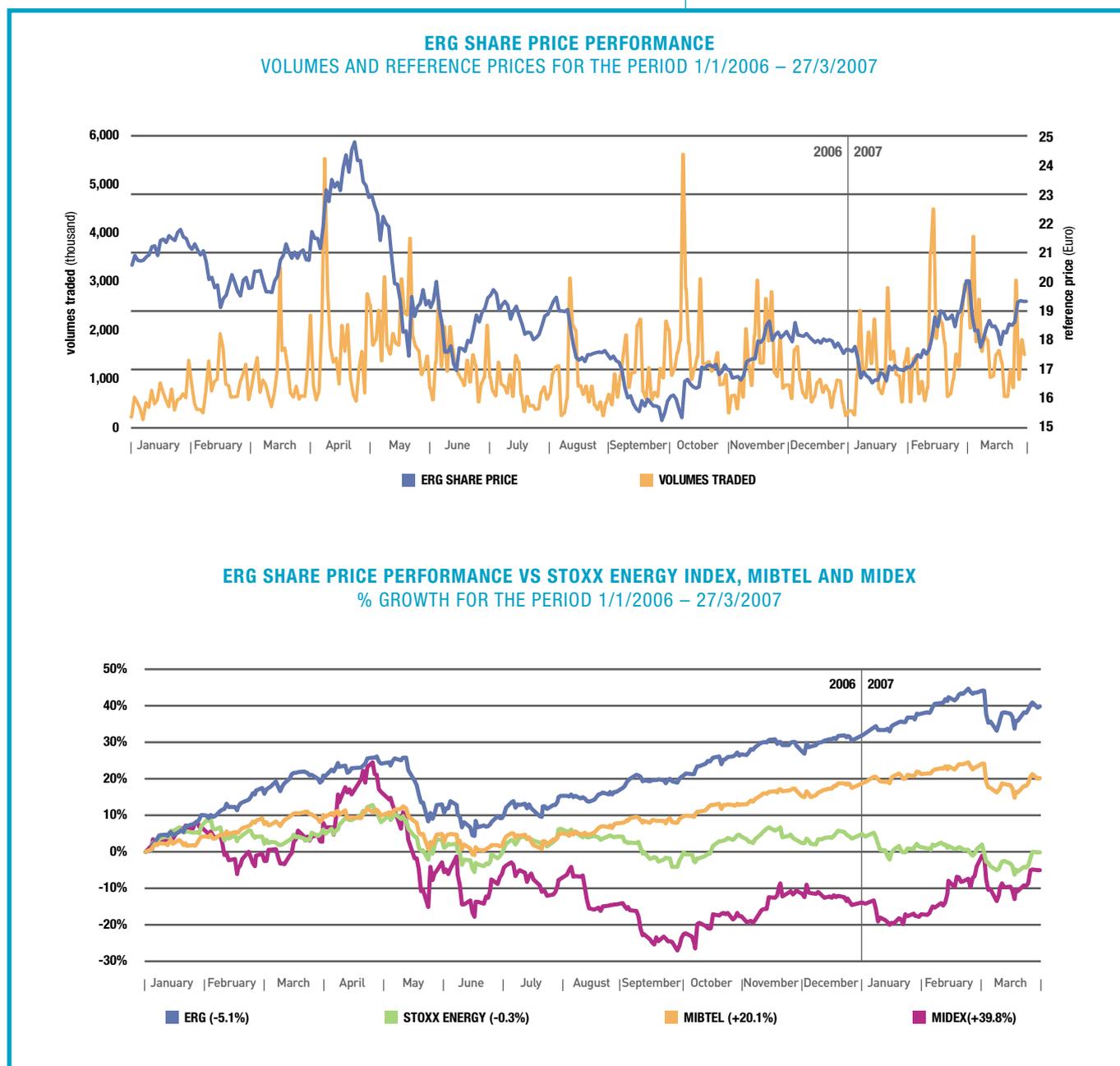
⁽¹⁾ the lowest and highest prices recorded during the day's trading and therefore not the same as the official reference prices on the date concerned

Market capitalisation as at 31 December 2006 was approximately Euro 2,615 million (Euro 3,050 million at the end of 2005).

ERG SHARE PRICE PERFORMANCE IN 2007

Below are some figures relating to the daily prices of ERG shares during the period 2 January 2007 – 27 March 2007:

	EURO
REFERENCE PRICE AT 27/3/07	19.26
HIGH (26/2/07)	20.19
LOW (10/1/07)	16.18
AVERAGE PRICE	17.80



COMMENTS ON THE RESULTS FOR THE YEAR

The results for the period, shown in comparison to the previous year's figures, are commented below.

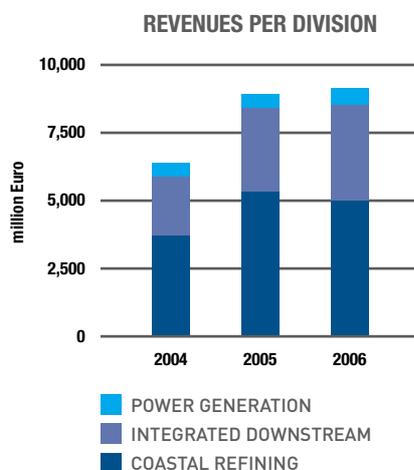
ECONOMIC AND FINANCIAL RESULTS

Consolidated year-end accounts – expressed in Euro – recorded a Group net profit of Euro 152.8 million (385.2 million in 2005) after depreciation, amortisation and write-downs of Euro 157.1 million (156.2 million in 2005) and income taxes for the year of Euro 46.5 million (281.6 million in 2005).

Group net income at replacement cost⁽¹⁾ amounted to Euro 103.4 million (230.4 million in 2005).

An analysis of the year's performance shows the following:

- An increase in consolidated revenues, which, despite the lower quantities sold, rose from Euro 9,029 to 9,303 million as a consequence of higher sales prices.
- A decrease in EBITDA at replacement cost (from Euro 633 to 463 million) mainly as a result of:
 - The decrease in EBITDA at replacement cost for the Coastal Refining division (from Euro 307 to 149 million) as a result of both the less favourable scenario in the sector and lower processing throughput;
 - The decrease in EBITDA at replacement cost for the Integrated Downstream division (from Euro 165 to 127 million) due to the poorer results of the Inland Refineries only partly offset by the results from Marketing;
 - The increase in EBITDA, despite lower output, for the Power Generation division from Euro 183 to 213 million, thanks to a more favourable scenario, the revision of some contracts with third-party site operators, and the consolidation of Enertad.
- A net financial indebtedness of Euro 1,356 million, up by Euro 587 million compared to 31 December 2005, mainly due to the acquisition of Enertad S.p.A., investments made



during the period, tax payments, dividends paid, and to the lower cash flow connected with the lower level of plant activity.

Generally speaking, the level of indebtedness as at 31 December, compared with the year's average level, reflected the advance payment of excise duties⁽²⁾ and advance payment of VAT for the month of December.

Moreover, net indebtedness as at 31 December 2006 did not yet reflect the positive effect of insurance reimbursements amounting to approximately Euro 113 million for damage sustained by the plants during 2006 (of which Euro 101 million was received in February 2007).

Data relating to reported year-end accounts as at 31 December 2006 do not differ significantly from those shown in the 2006 Preliminary Report.

EVENTS DURING THE YEAR

PLANT SHUTDOWNS

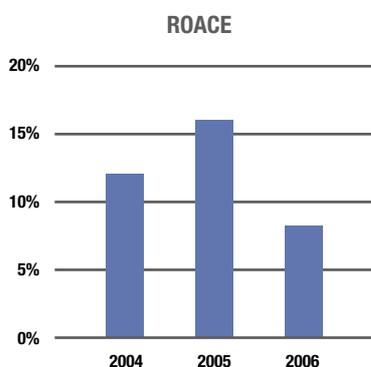
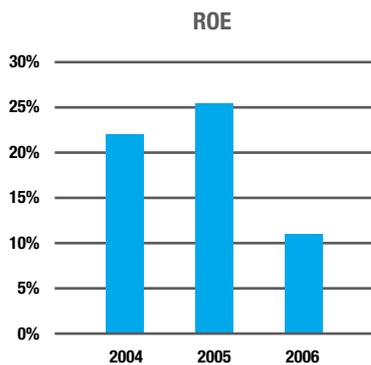
On **13 March** the ISAB Impianti Sud Refinery suffered a temporary stoppage caused by a power blackout in the power station supplying the plants' utilities.

Lost production amounted to approximately 500 thousand barrels.

On **28 April** shareholders and the public were informed about the fault affecting one of the two main transformers at ISAB Energy's power generation plant, with a forecast – as a consequence of the estimated loss of power generation output, net of estimated insurance reimbursements – of a maximum reduction in consolidated EBITDA of Euro 28 million, equivalent to approximately Euro 10 million in terms of Group net income. This estimate was subsequently revised, projecting a reduction of Euro 17 million in EBITDA and of approximately Euro 5 million

NOTES

- (1) excluding inventory gains (losses), non-recurring items and related theoretical taxes
- (2) in compliance with the ministerial decree dated 11 December 2006, on 27 December 2006 ERG paid excise duties of Euro 69 million for the first half of December (in December 2005 excise duties paid amounted to Euro 74 million)



in terms of Group net profit (i.e. profit attributable to parent company shareholders).

On **30 April** a leak was reported in a pipe carrying crude oil from the tank farm to the processing units of the ISAB Impianti Nord Refinery. While work to secure the area was in progress the crude oil caught fire, also affecting pipes nearby. The refinery's plants were immediately shut down as a precautionary measure but they were not in any way affected by the fire, which was at all times contained within the area where it started.

On **31 May** work began to restart the ISAB Impianti Nord Refinery, which had been shut down following the fire on 30 April. Following the restart-up of the thermoelectric power plant and the restarting of the topping, vacuum and visbreaking units, as of **4 June** production reached 120,000 barrels of crude per day, equal to 80% of the Impianti Nord capacity.

On **28 June** ISAB Energy power generation plant achieved output capacity of approximately 510 MW, compared with its maximum rated capacity of 528 MW, thanks to the temporary use of a replacement transformer installed following the breakdown on 10 April 2006 affecting one of the plant's main transformers.

On **17 July** a blackout occurred in the supply of electricity from ENEL power stations caused by a severe storm that hit the province of Syracuse. The power cut, which lasted approximately 30 minutes, caused a slowdown of the ISAB Impianti Nord Refinery (on 12 July the FCC line had also come into operation) and the shutdown of the ISAB Impianti Sud Refinery and the ISAB Energy power plant.

The loss of production due to this blackout amounted to approximately 450 thousand barrels for the ISAB Refinery and approximately 10 GWh for the ISAB Energy plant.

On **1 August** a fault occurred in the alternator of one of the two steam turbines of the ISAB Energy power generation plant which caused a reduction of approximately 100 MW in operating capacity.

On **8 September** the alternator of one of the two steam turbines of the ISAB Energy power generation plant that had broken down on 1 August came back on stream.

The time taken to restore the alternator to working order – 38 days – was much shorter than had been initially estimated (2-5 months). Consequently, the economic loss, amounting to Euro 10 million in terms of consolidated EBITDA and Euro 3 million as regards Group net income, was much lower than forecast (between Euro 19 and 27 million for consolidated EBITDA and between Euro 6 and 10 million for Group net income).

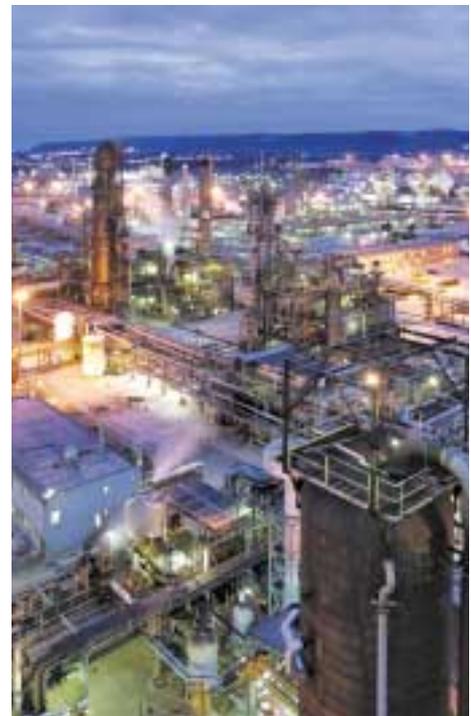
ENERTAD S.P.A.

On **5 June** ERG S.p.A. filed with CONSOB documents relating to the launch of a voluntary Public Offer for the purchase of 100% of the share capital of Enertad S.p.A., a listed company that operates in the sector of electricity generation from renewable sources.

On **27 June** CONSOB authorised publication of the Offer Document relating to the voluntary Public Offer to purchase 100% of the Enertad S.p.A. share capital at the price of Euro 3.00 per share.

On **27 July** ERG S.p.A. and Alerion Industries S.p.A. announced that they had reached an understanding for the definition of guidelines for the joint development of their respective activities in the wind power sector, as well as, in case of success of the takeover bid launched by ERG on Enertad S.p.A. on 6 July, their respective dealings as Enertad S.p.A. shareholders. As part of this agreement ERG undertook to raise the value of its offer for Enertad S.p.A. from Euro 3.00 to 3.10 per share by 3 August. The understanding reached between ERG and Alerion was subject to the condition subsequent that approval on the part of the banks was to be obtained by 2 August 2006.

On **3 August** ERG and Alerion Industries S.p.A. announced the occurrence of the condition subsequent contained in the agreement reached on 27 July, since some of the banks that executed the convention failed to express their approval. Therefore, ERG S.p.A. did not modify the voluntary Public Offer, which closed on 9 August with an insufficient number of acceptances for the effectiveness condition of the offer to be fulfilled. The parties – in consideration of the positive feedback



shown by most of the aforesaid banks and the necessity to wait for the approval of their respective executive bodies – nevertheless agreed to continue the strategy defined in the 27 July agreement, pending receipt, by 20 September 2006, of final approval on the part of the above-mentioned banks.

On **20 September** ERG and Alerion Industries S.p.A. announced that the banks had expressed themselves in favour of the agreement. Since in some cases these positive responses needed to be formalised, ERG and Alerion agreed to wait until 16 October before proceeding with the operation that would lead ERG to acquire the majority of Enertad share capital, thereby implementing the terms of the 27 July agreement.

On **16 October** ERG acquired 51.33% of Enertad S.p.A.

Acquisition of the shareholding in Enertad constituted the final stage of an operation initiated during 2006, which forms part of the strategies pursued by ERG in the field of renewable energy, and wind power in particular, a sector where ERG is already operating through a joint venture in ERG CESA Eolica and in which it aims to become one of the leading operators on the Italian market.

Also on 16 October, ERG and Alerion drew up a series of contractual agreements, which together reflect the contents of the framework agreement entered into on 27 July. This framework agreement envisaged, among other things, the execution of a shareholders' agreement between ERG and Alerion designed to regulate their common holding in Enertad and granting of a call option in favour of ERG on Alerion's entire holding (16,159,920 shares representing 17% of share capital). This option, the price of which, determined according to generally accepted practices, is Euro 0.70 per share, will be exercisable by ERG between 1 July 2007 and 16 December 2007, at a fixed price of Euro 3.10 per share.

On **30 November**, CONSOB authorised publication of the offer document relating to the mandatory full takeover bid launched by ERG, in a communication dated 9 November, following its acquisition of a majority interest in Enertad, on the remaining Enertad shares, pursuant to Articles 102 and 106 of the

Consolidated Finance Act and the provisions set forth in the Issuers' Regulations.

On **15 December** the Shareholders' Meeting of Enertad S.p.A. appointed the members of the new Board of Directors for the three-year period 2006-2008. The new Board of Directors subsequently appointed Giuseppe Gatti as Chairman, Salvatore Russo as Deputy Chairman and Managing Director, and Paolo Panella as Managing Director.

27 December marked the end of the mandatory full takeover bid launched by ERG S.p.A. on all ordinary shares representing the entire share capital of Enertad S.p.A., less the shares already owned by ERG. The ordinary shares received in acceptance of the bid totalled 12,683, for an overall value of approximately Euro 39 thousand.

As a result of the takeover bid, ERG S.p.A. holds 48,717,614 Enertad S.p.A. ordinary shares, equal to 51.34% of share capital. Transfer of ownership of the shares took place at the time of payment on 4 January 2007.

OTHER SIGNIFICANT EVENTS

On **30 January** Opam Oils S.r.l., following the deed of merger, absorbed the companies Green Oils S.r.l. and Europetrol S.r.l., changing its name to Europam S.r.l.

On **9 February** Europam S.r.l. increased its share capital to Euro 23,758,900 following the transfer of businesses from Black Oils S.p.A. and ERG Petroli S.p.A. As a result of these operations, ERG Petroli S.p.A.'s shareholding in Europam S.r.l. decreased from 50% to 26%.

On **23 February**, following formal approval of the National Allocation Plan (NAP) by the European Commission, the Italian Government issued its final plan for the allocation of CO₂ quotas to individual industrial sites for the three-year period 2005-2007.

On **26 April** ERG Raffinerie Mediterranee S.p.A.'s Ordinary Shareholders' Meeting appointed the new Board of Directors for the three-year period 2006-2008 and elected Aldo Garozzo to the position of Chairman of the company. The new Board of



Directors then appointed Guglielmo Landolfi as Managing Director.

On **26 April** ERG Petroli S.p.A.'s Ordinary Shareholders' Meeting appointed the new Board of Directors for the three-year period 2006-2008 and confirmed Domenico D'Arpizio as Chairman of the company. The new Board of Directors then appointed Pier Francesco Pinelli as Managing Director.

On **26 April** ERG Power & Gas S.p.A.'s Ordinary Shareholders' Meeting appointed the new Board of Directors for the three-year period 2006-2008 and confirmed Giuseppe Gatti as Chairman of the company, also giving him executive powers.

On **28 April** ERG S.p.A.'s Ordinary Shareholders' Meeting appointed the new Board of Directors for the three-year period 2006-2008 and confirmed Edoardo Garrone as Chairman of the Company.

On **28 April** ERG S.p.A.'s Board of Directors confirmed Alessandro Garrone as Chief Executive Officer, and Domenico D'Arpizio and Giovanni Mondini as Deputy Chairmen, and appointed Pietro Giordano as Deputy Chairman.

On **4 May** the U.S. company Strasburger Enterprises Inc., one of the leading international players in the convenience retailing sector, acquired an 11.25% stake in the share capital of Gestioni Europa Due S.p.A.

On **22 August** ERG informed the market about the commencement of buyback operations – approved by the Board of Directors on 10 August as authorised by the Shareholders' Meeting on 28 April 2006 – concerning a maximum number of 648,590 treasury shares corresponding to 648,590 subscription rights allocated as part of the current long-term incentive plan.

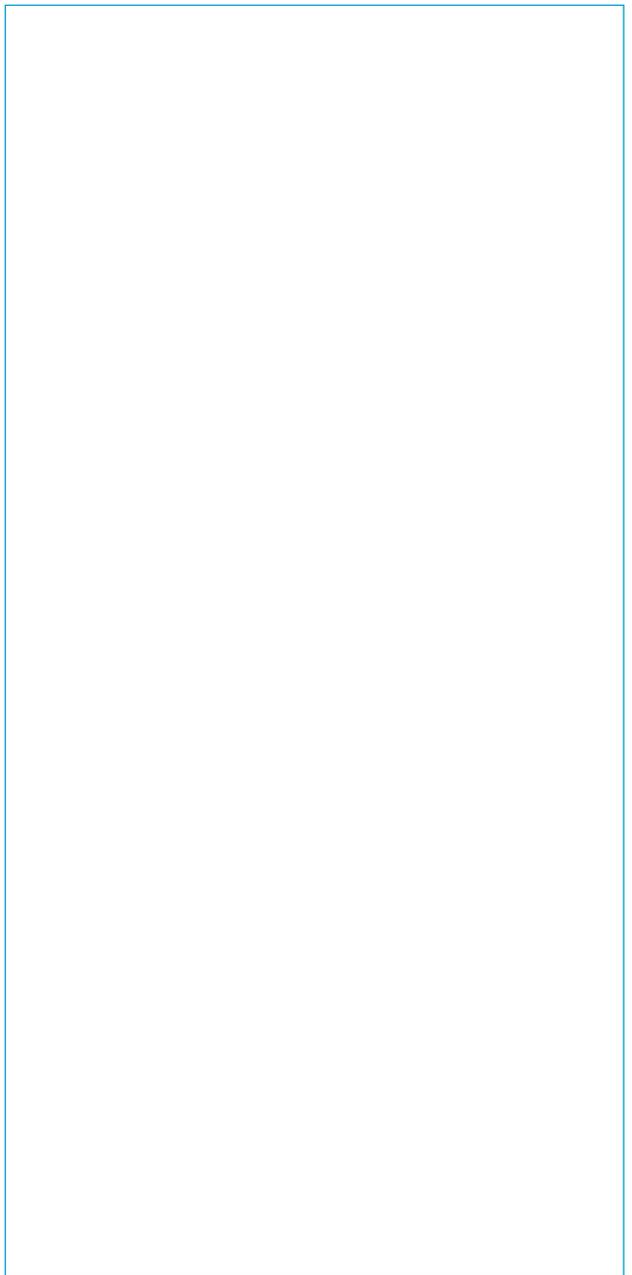
On **31 August** ERG announced that it had completed the treasury share buyback operation to service the current Stock Option Plan, as approved by the Board of Directors at its 10 August meeting and disclosed to the market on 22 August 2006. As envisaged by the Board resolution, 648,590 shares were repurchased, at a weighted average per-share price of Euro 17.27 for a total of Euro 11,198,751.

On **26 September** ERG Power & Gas set up five companies,

called Eolico Troina S.r.l., Eolico Mirabella S.r.l., Eolico Agira S.r.l., Eolico Ramacca S.r.l., and Eolico Palagonia S.r.l., of which it owns 99% of share capital. The companies will develop, create, and operate wind farms.

On **10 November** ERG Power & Gas S.p.A. completed its acquisition from EssePi S.p.A. of a 90% equity interest in ISEA S.r.l., a company operating in the renewable energy sector via the operation of five mini hydro plants with a total installed capacity of 2.7 MW.

On **17 November** ERG informed the market of its intention to challenge resolution 249/06 issued by the Autorità per l'Energia Elettrica e il Gas (the Italian Electricity & Gas Authority - AEEG) on 15 November because the measure changes the formula for calculating the CIP 6 tariff, as from 2007, in a manner that is inconsistent with the resolution's recitals. ERG therefore reserved the right to take all legal actions necessary to safeguard its rights, although it hopes that it will be possible to recommence discussions with the Authority on the contents of the resolution. Based on the scenarios considered and the indications emerging from the resolution, the adverse effect on the Group's operating performance in 2007 could be about Euro 30 million in terms of consolidated EBITDA and approximately



Euro 13 million as regards Group net income, net of taxes and minority interests in ISAB Energy.

On **15 December** a consortium company by the name of “Priolo Servizi Società consortile a r.l.”, with registered office in Priolo Gargallo (Syracuse) and share capital of Euro 10,000.00, was set up by ERG Raffinerie Mediterranee S.p.A. (with a participation of 37.8%), ERG Nuove Centrali S.p.A. (21.5%), Polimeri Europa S.p.A. (35.7%) and Syndial S.p.A. (5%). The new company will operate for the Priolo Gargallo site, managing the provision of general services and supplying utilities and different types of water.

On **19 December** ERG announced the definition of the insurance reimbursement relating to the incident on 30 April 2006 involving the ISAB Impianti Nord Refinery. The reimbursement amounted to Euro 106 million, of which Euro 18 million for direct damages.

THE ENERGY MARKET

INTERNATIONAL

2006 featured a robust increase in the average cost of raw material. The average price of Brent rose by approximately US\$ 10.7/barrel in comparison with the average price recorded in 2005, mainly due to the series of geopolitical tensions that characterised the first eight months of the year.

According to the International Energy Agency (IEA), average world demand for oil in 2006 reached 84.4 million barrels/day (approximately 0.8 million barrels/day higher than in 2005), mainly driven by consumption in non-OECD Asian countries. Overall supply was also up, rising to 85.3 million barrels/day (+0.8 million barrels/day compared to 2005).

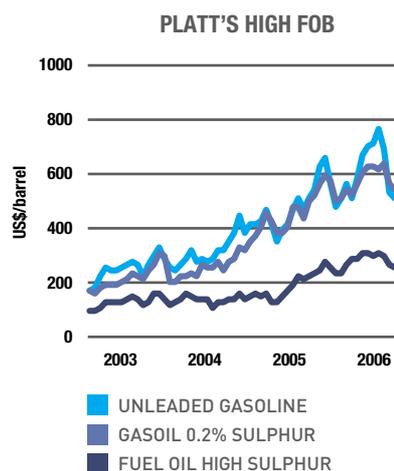
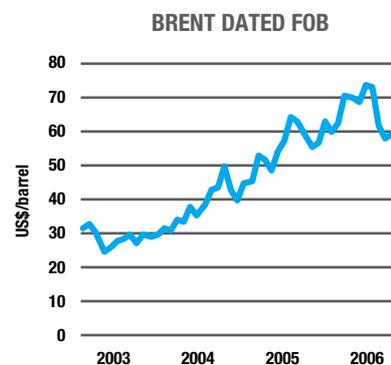
2006 featured a substantial stability of gasoline, a slight weakening of diesel, and a strengthening of heavy distillates compared to 2005. As a consequence, refining margins (in US dollars) achieved good levels, albeit lower than those for the same period in 2005.

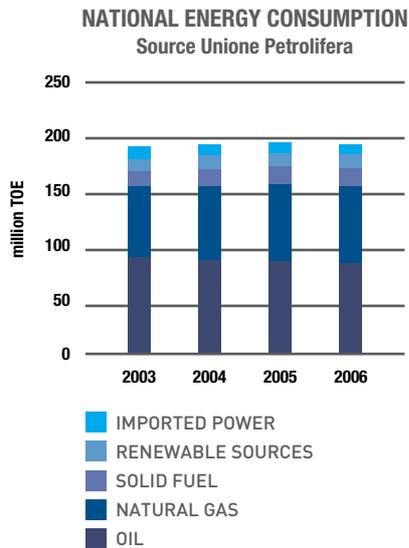
ITALY

During 2006 primary energy consumption in Italy amounted to 192 million TOE (tonnes of oil equivalent), down by 1.2% compared to the previous year. GDP increased by 1.9%.

National demand for petroleum products (85.7 million tonnes) decreased by 1.2% over the previous year (86.7 million tonnes). This decrease was mainly due to lower consumption of gasoline (-6.2%), fuel LPG (-8.5%), and fuel oil (-2.8%), which was not offset by the increased consumption of transport diesel (+3.9%). Petrochemical feedstock was also sharply down (-5.5%).

Gross domestic consumption of natural gas decreased by 2.1% compared to 2005 and national production fell by 9.6%, whereas imports increased by 5.4%. Lower natural gas consumption was mainly due to the mild winter, which featured temperatures above the seasonal average.





As far as electricity is concerned, national demand grew by 2.2% over 2005, rising to 337.8 billion kWh.

Gross national output in 2006 amounted to some 315.1 billion kWh (+3.7%), with increases in production from thermoelectric (+4.0%) and geothermal (+3.8%) sources, and a substantial increase in wind energy (+37.0%), plus a marginal increase also in hydroelectric output (+0.2%).

Electricity imports from abroad decreased by 7.8%, while exports increased by 44.7%. The import-export balance decreased by 9% compared to 2005.

REGULATORY FRAMEWORK

The most important events that characterised the energy sector in 2006 were:

- The issuing of Legislative Decree no. 216 of 4 April 2006, which completes the procedure for implementation of the Kyoto Protocol.

Among other things, this Legislative Decree lays down provisions as regards requesting and granting authorisations for the emission of greenhouse gases; the allocation, transfer and return of emission quotas; the Italian emissions registry and the auditing of CO₂ emissions reports; and the closure and grouping of plants.

In addition to this, since the same measure also implements European Directive 2004/101/EC, the Legislative Decree has established that, for the purposes of returning quotas, plant operators can also use credits deriving from the Clean Development Mechanism and Joint Implementation projects. It is pointed out that the Legislative Decree should be read and applied jointly with the provisions included in the national plan (DEC/RAS/074/2006 of 23 February 2006) for

the final allocation of CO₂ quotas to individual industrial sites. The plan sets an overall average annual emissions limit of 223.1 million tonnes of CO₂ for the period 2005-2007. In December 2006, after a brief period of public consultation, the Italian government submitted the National Allocation Plan for CO₂ quotas for 2008-2012 to the European Commission, for definitive approval. The plan submitted envisages a total average annual emissions limit of 209 million tonnes of CO₂, with further cuts for the refining and power generation sectors compared to allocations for the first period (2005-2007).

- The issuing of the Decree by the Ministry for Economic Development (formerly the Ministry for Productive Activities) of 24 January 2006 concerning the re-establishment of oil reserves which applicant companies had been authorised to use in order to deal with the severe market tensions caused by hurricanes Katrina and Rita. The measure requires the re-establishment of stocks by 30 June.

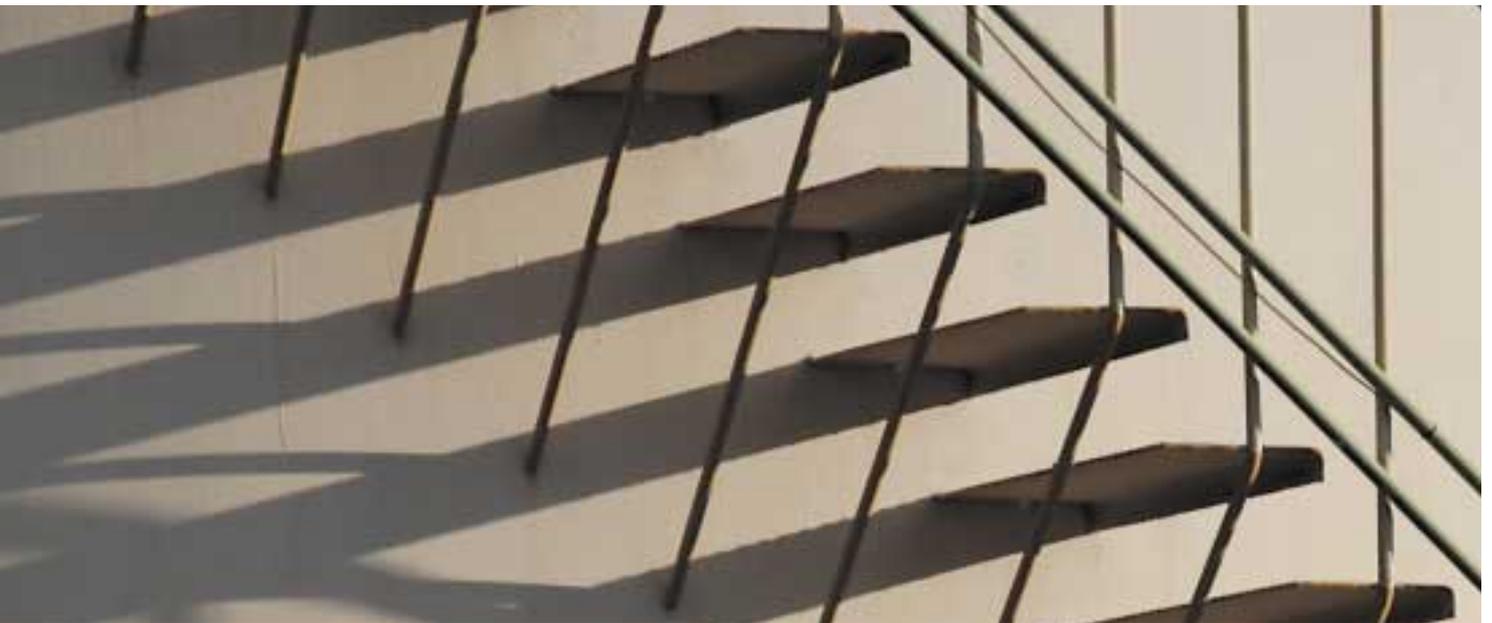
By way of a measure published in Gazzetta Ufficiale no. 242 of 12 October 2006, the said Ministry issued a decree concerning modifications to rules governing substitutions between oil products subject to reserve obligations. This specifically concerns the procedures for conversion between product categories and raw materials and for substitution between product categories.

- Redefinition of biofuel penetration targets via the obligation for manufacturers of transport diesel and gasoline to place biofuels of agricultural origin on the market in an amount equal to 1% as from 2007, 2.5% as from 2008, and 5.75% as from 2010, based on total fuels sold in the previous year.
- The publication of Legislative Decree no. 152 of 3 April 2006 pursuant to the mandate conferred on the Government in Law no. 308/2004 to reorganise, coordinate and integrate legislation on environmental matters. The subsequent decrees implementing the aforesaid Legislative Decree have however been suspended by the Government, with a view to



amending some of the regulations contained in the Legislative Decree.

- Continuation of the negotiations between Unione Petrolifera (the main association of oil companies operating in Italy) and haulage industry associations for the stipulation of a framework agreement governing contracts between companies and carriers in the light of liberalisation of the current obligatory tariff bands envisaged by Italian Law no. 32 of 2005.



- The issuing by the Ligurian Regional Authority, as part of its 2006 finance bill, of a measure establishing a Regional Gasoline Tax of Euro 0.03096 /litre (including VAT).
- The issuing of decrees by the Ministry for Economic Development to implement Law no. 239/04 (the Marzano Law) governing access to the national gas pipeline grid.
- The signing by the Lombardy Regional Authority of an agreement with seven oil companies (including ERG), Unione Petrolifera and 30 companies operating in the sector designed to achieve a wider distribution of automotive methane gas. Based on this agreement, by the end of 2008 the Region will be able to count on 126 outlets distributing this product.

- The publication of Law no. 296 of 2006 (2007 Finance Law). Among other things, the Finance Law provides for a number of interventions in the energy sector and, in particular:
 - interventions with regard to excise duties, such as attribution of a portion to regional authorities and reduction of excise duty on methane gas;
 - modification of criteria for assignment of distribution services for motorway service areas.
- The issuing, among others, of resolution no. 113/06 by the Italian Electricity & Gas Authority providing for reimbursement of charges incurred for the purchase of green certificates, solely for electricity generated by “CIP 6 plants” fed by sources similar to renewable sources.
- The issuing of a consultation paper by the Electricity & Gas Authority recommending, among other things, criteria for the reimbursement to “CIP 6 plants”, pursuant to Title II, point 7bis of CIP (Inter-ministerial Prices Committee) regulation no. 6/92, of the costs arising from application of European Directive 2003/87/EC, in connection with the purchase of CO₂ quotas deriving from the imbalance between emissions and allocations.
- The issuing of a resolution by the Electricity & Gas Authority concerning the review, for 2007, of “Avoided Fuel Cost” (CEC component) for “CIP 6 plants” in relation to the expiry of the SNAM/Confindustria (Italian confederation of industry) agreement for the supply of gas for power generation as from 1 January 2007.
- The issuing of resolution no. 318/06 whereby the Electricity & Gas Authority sets the new withdrawal prices for electricity generated using renewable sources.

STRATEGY

ERG's strategy is to become a diversified "multi-energy" group whose main objective is to create lasting value by increasing profitability and reducing dependence on particularly volatile exogenous factors.

In line with that strategy, in recent years the Group has been reorganised into three main Business areas dedicated to specific markets, with the objective of achieving a balanced creation of value, development of opportunities and expansion of business activities.

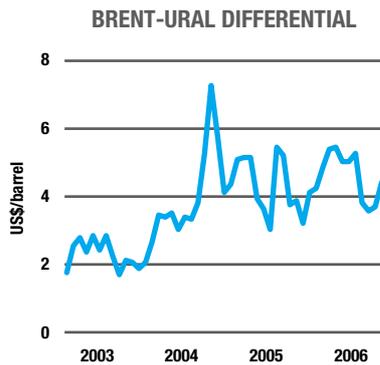
COASTAL REFINING

In the Priolo area, ERG owns a refining supersite, leader in the Mediterranean in terms of both size and complexity, integrated with power generation and chemical activities, reflecting ERG's strategy to achieve high-conversion refining capable of processing low-cost crude in order to obtain products (gasoline and diesel) with a high added value. The integration of the two facilities (ISAB Nord and ISAB Sud) makes it possible to maximise synergies, consequently enhancing the system's competitiveness. ERG is also continuing its investment plan to increase plant conversion capacity. In a scenario where the refinery industry has difficulty in keeping pace with the evolution of global oil demand, with growth increasingly oriented towards gasoline and diesel, this should translate into good operating results, as expected.

INTEGRATED DOWNSTREAM

The ongoing process of organisational enhancement as regards the ERG Network, implemented in the past few years via acquisitions and investments to upgrade facilities, has made it possible to narrow the structural gap between ERG and the market leaders.

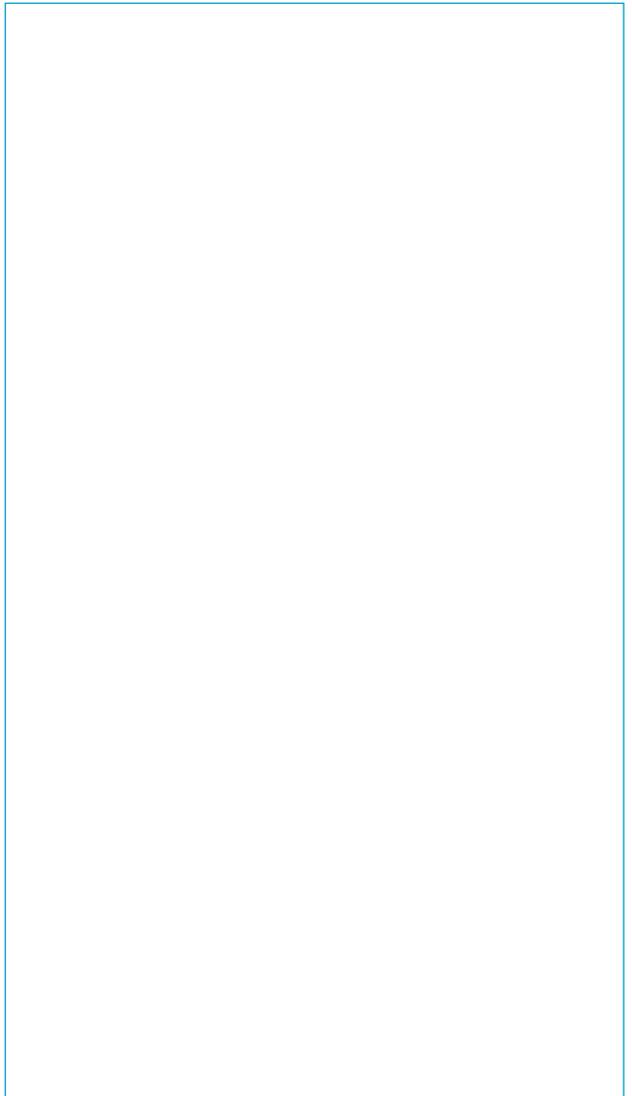
In pursuing this objective, ERG's strategy entails looking for opportunities for further expansion via acquisitions from majors and/or independent operators and through joint ventures, as



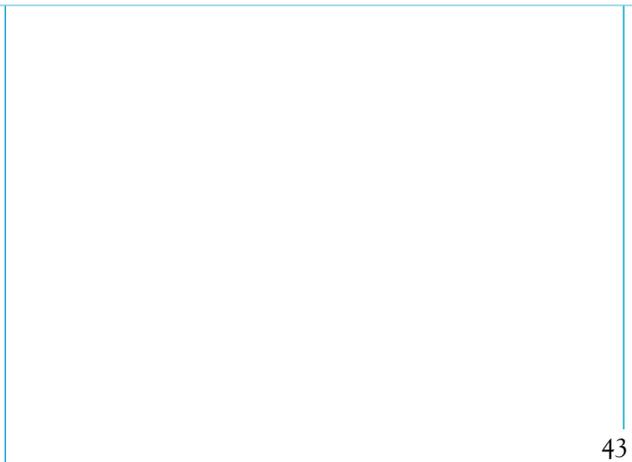
well as maximising the profitability of its retail network while also improving its long-term sustainability, via the new structure of the sales force increasingly oriented towards customer satisfaction and important investments for the organisational improvement of outlets.

POWER GENERATION

The objective is to operate in the electricity and gas markets maximising profitability via the management and repowering of existing power generation assets and the development of competitive and sustainable growth opportunities, so as to become a significant player in the Italian market. The objective of increased power generation capacity is in the process of being achieved via the repowering of thermoelectric plants present at the ISAB Refinery as well as the development of new generation capacity, both thermoelectric and, in particular, using renewable sources. The aim is to double power generation capacity by the end of 2008. In the gas sector, the company aims to enter the Italian market to operate as a stable



long-term player. A demonstration of this is the creation of the company Ionio Gas S.r.l. (a 50/50 joint venture between ERG Power & Gas and Shell Energy Italia) for the construction and operation of a liquefied natural gas (LNG) regasification terminal in the industrial district of Priolo/Augusta/Melilli in the province of Syracuse.

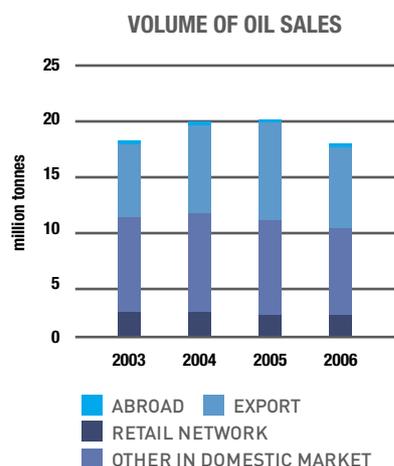


SALES

PETROLEUM PRODUCTS

Total sales amounted to 17.8 million tonnes, of which 44% abroad and the remaining 56% in the domestic market (8.6% of domestic consumption). 65% of sales were handled directly by the Coastal Refining division, with the Integrated Downstream division handling the remaining 35%.

The following table shows the breakdown of ERG petroleum product sales by distribution channel:

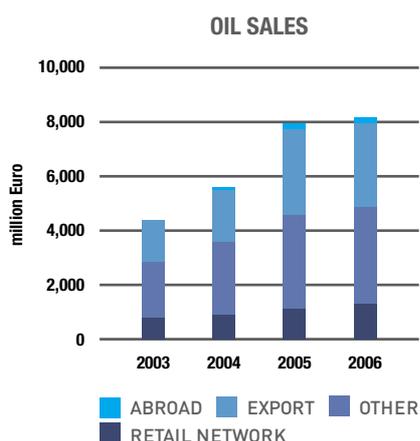


(THOUSAND TONNES)	2006	2005	2004
REFINING AND LOGISTICS			
CARGO EXPORT	7,331	8,699	7,865
HOME MARKET SUPPLY	5,996	6,678	7,201
TOTAL REFINING AND LOGISTICS	13,327	15,376	15,065
MARKETING			
DOMESTIC RETAIL MARKET	2,019	2,082	2,113
DOMESTIC WHOLESALE MARKET	1,936	1,966	1,960
WHOLESALE EXPORT	137	174	161
ABROAD	345	317	280
TOTAL MARKETING	4,436	4,539	4,514
TOTAL PETROLEUM PRODUCTS	17,763	19,916	19,579

POWER GENERATION

The following table shows ERG electricity sales:

(MILLION KWH)	2006	2005	2004
ISAB ENERGY	4,001	4,108	4,452
ERG NUOVE CENTRALI PLANTS	526	689	655
ENERTAD	34	-	-
TOTAL	4,561	4,797	5,107



Steam sales to industrial plants at the Priolo/Melilli site amounted to 1,517 thousand tonnes (1,685 in 2005).

COASTAL REFINING

INTRODUCTION

The Coastal Refining business is performed by ERG Raffinerie Mediterranee (ERGMed) and includes procurement of crude oils and their processing at the ISAB Refinery in Priolo, for both own account and third parties, and the sale of products to the cargo market.

The ISAB Refinery, whose two production sites, Impianti Nord and Impianti Sud, are interconnected by a system of oil pipelines, is a leading refining centre in the Mediterranean in terms of both size and complexity, and is integrated with electrical and chemical activities.

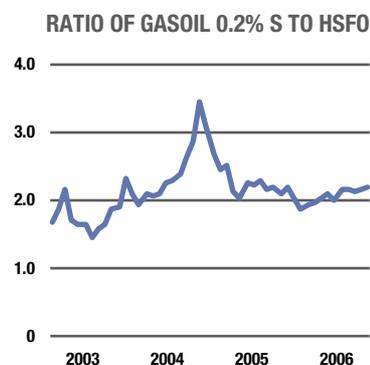
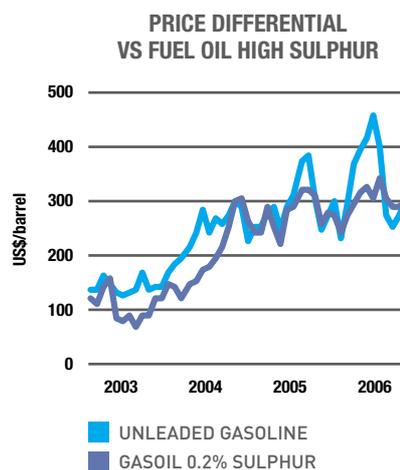
The overall balanced distillation capacity is over 19 million tonnes (approximately 380 thousand barrels/day).

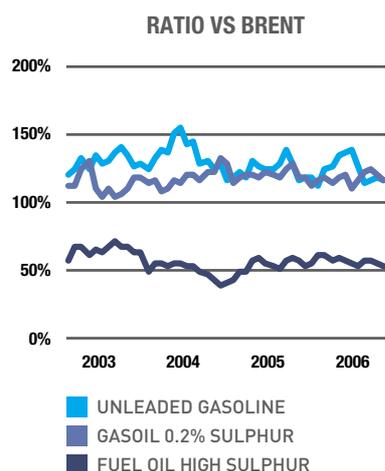
Revenues include cargo sales, sales to other ERG Group companies (including the supply of feedstock to ISAB Energy and the supply of products to ERG Petroli and to the thermoelectric power plants), sales to petrochemical companies (the ENI Group and others), as well as services to the industries located in the Priolo industrial district.

Third-party processing currently consists of the processing contract with ENI for approximately 2.2 million tonnes/year (approximately 50 thousand barrels/day), which ended on 31 December 2006.

The refining complex includes an extensive range of conversion (catalytic cracking, thermal cracking, hydrocracking, deasphalting), vacuum distillation and product treatment plants, which, with start-up on 3 October of the new diesel desulphuration plant at the Impianti Sud, currently have a Nelson complexity index of 7.6 (7.4 in the first 9 months).

The two production sites differ in terms of type of conversion and the mix of crude oils processed. More specifically, the ISAB Sud plant, being equipped with thermal conversion units, produces mainly middle distillates and, because it has a high





desulphurisation capacity, is capable of processing mainly medium-heavy crude oils with a high sulphur content. The ISAB Nord plant, which is equipped for catalytic conversion, is structured to produce greater quantities of light distillates, using medium-heavy and light crude oils in similar quantities. An investment plan that includes new conversion and desulphurisation plants is currently being implemented. The plants' construction is now being completed and they are scheduled to come on-stream by the end of the second quarter of 2007.

FACTORS AFFECTING THE RESULTS OF OPERATIONS

The economic results are influenced by the trend in petroleum product prices, both in absolute terms and in relative terms compared to crude oil prices, and by fluctuations in the Euro/US\$ exchange rate.

The table below shows, for the periods indicated, the average prices for some of the most important petroleum market indicators as regards both raw materials and products.

	2006	2005	2004
(US\$ PER BARREL)			
BRENT CRUDE OIL PRICE ⁽¹⁾	65.10	54.41	38.21
URAL CRUDE OIL PRICE ⁽²⁾	60.95	50.55	34.61
BRENT-URAL DIFFERENTIAL	4.15	3.86	3.60
(US\$ PER TONNE)			
BRENT CRUDE OIL PRICE	492	411	289
URAL CRUDE OIL PRICE	445	369	252
UNLEADED GASOLINE-URAL DIFFERENTIAL ⁽³⁾	166	145	137
TRANSPORT DIESEL-URAL DIFFERENTIAL ⁽³⁾	155	168	116
GASOIL 0.2% SULPHUR-URAL DIFFERENTIAL ⁽³⁾	132	127	93
FUEL OIL-URAL DIFFERENTIAL ⁽³⁾	(164)	(148)	(111)
GASOLINE-FUEL OIL DIFFERENTIAL	330	293	248
GASOIL 0.2% SULPHUR-FUEL OIL DIFFERENTIAL	296	275	204
TRANSPORT DIESEL-GASOIL 0.2% SULPHUR DIFFERENTIAL	23	41	23
GASOIL 0.2% SULPHUR-FUEL OIL PRICE RATIO	2.06	2.25	2.44
EURO/US\$ EXCHANGE RATE	1.256	1.244	1.244

Source: Platt's

⁽¹⁾ benchmark light crude oil, on mean FOB basis

⁽²⁾ benchmark heavy crude oil, on mean CIF basis

⁽³⁾ on a high FOB Mediterranean basis

Crude oil price

We highlight a particularly high average price for raw materials during the 2006 financial year (US\$ 65.1/barrel for Brent FOB), some US\$ 10.7/barrel higher than the 2005 average, with a 20% increase.

The high crude oil prices experienced in the period were mainly due to the geopolitical tensions characterising the first eight months of 2006 – together with speculative factors – rather than to effective market fundamentals.

Demand

Global oil demand (84.4 million barrels/day according to IEA reports) grew on average by approximately 0.8 million barrels/day compared to 2005, mainly due to the continuous development of non-OECD Asian countries.

Supply

OPEC produced an average of some 34.4 million barrels/day (including condensates), 0.2 million more than in 2005.

Production in non-OPEC countries also increased, rising to 50.9 million barrels/day, up by 0.6 million compared to 2005.

Brent-Ural differential

In 2006 the Brent-Ural differential averaged US\$ 4.1/barrels, up by about US\$ 0.3/barrels compared to 2005.

Inventories

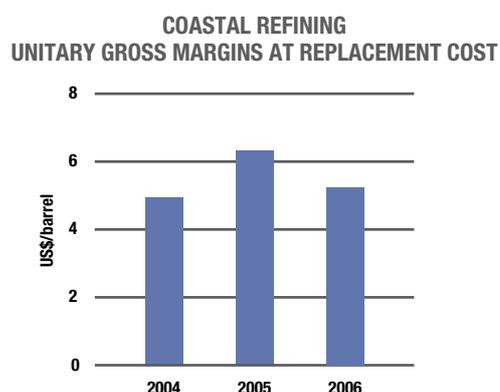
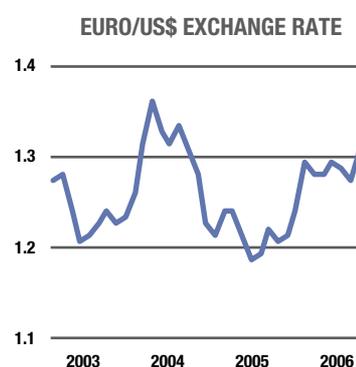
Global inventory levels (crude oil and products) remained in the upper part of the average range for the last 5 years.

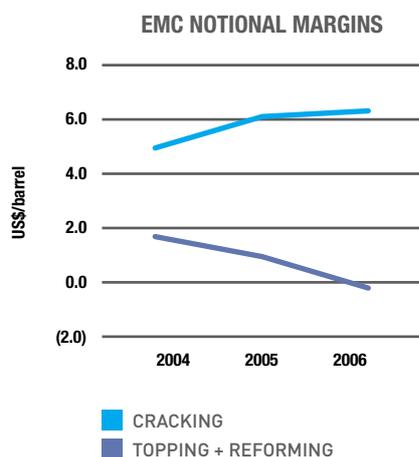
Products

Gasoline was essentially stable in 2006 compared to the previous year.

On the other hand diesel, especially transport diesel, reported a slight weakening compared to 2005 in terms of diesel/raw material price differential.

Heavy distillates strengthened over 2005 thanks to brisk demand underpinned, in the first part of 2006, by reduced availability of Russian gas supplies and later on by exports to the Far East.





Industry refining margins

Refining margins, in US Dollars, were good, albeit lower than in 2005, mainly due to the strength of distillates.

URAL CRUDE OIL REFINING MARGINS (EMC "NOTIONAL" REFINERY)

The following table shows, for the periods indicated, refining margins calculated for an EMC (Energy Market Consultants) "notional" refinery in the Mediterranean, with Ural crude processing:

		2006	2005	2004
TOPPING + REFORMING	<i>US\$/BARREL</i>	-0.16	0.95	1.70
CRACKING UPGRADING	<i>US\$/BARREL</i>	6.27	6.08	4.96
TOTAL	<i>US\$/BARREL</i>	6.11	7.03	6.66
	<i>EURO/BARREL⁽¹⁾</i>	4.87	5.65	5.35

⁽¹⁾ average Euro/US\$ exchange rate used for each period = 1.256, 1.244, and 1.244

ERG COASTAL REFINING UNITARY GROSS MARGINS AT REPLACEMENT COST

The table below shows values for Coastal Refining unitary gross margins at replacement cost⁽¹⁾:

	2006	2005	2004
US\$/BARREL⁽²⁾	5.19	6.32	4.98
EURO/BARREL⁽³⁾	4.13	5.08	4,00
EURO/TONNE⁽⁴⁾	30.3	37.2	29.4

⁽¹⁾ unitary gross margins at replacement cost do not include inventory gains (losses) due to the difference between the current cost of products sold and that resulting from application of weighted average cost

⁽²⁾ calculated on total own account and third party processing

⁽³⁾ average Euro/US\$ exchange rate used for each period = 1.256, 1.244 and 1.244

⁽⁴⁾ barrel/tonne conversion factor used for each period = 7.322, 7.331 and 7.345

Unitary refining margins in the 2006 financial year were below those of 2005 partly because of the less favourable scenario but above all due to the lower margin processing as a result of the penalisations caused by the incident on 30 April.

It is worth remembering that the plant shutdown made it impossible to take advantage of the notable improvement in scenario that occurred in May and June.

The lower gross margin of ERG Coastal Refining compared to that of the EMC "notional" refinery was also mainly due to the

marginal topping/reforming processes performed by the ERG Refinery and third-party processing, which has lower unitary margins than the remaining processing.

PROCUREMENT

ERG meets its raw material requirements for Coastal Refining and for Inland Refining mainly by purchasing directly from crude-oil producing countries, with which it has established long-term relationships. Structurally, most of its demand is covered by agreements which, although they guarantee supplies, have prices that vary in line with the international market trend. These agreements also normally provide for the option to cancel or reduce the periodical supplies.

During 2006 raw materials were procured from the following areas: Black Sea 43% (53% in 2005), Persian Gulf 23% (21%), North Africa 23% (17%), others 11% (9%) of which 4% from the North Sea and 3% from West Africa. We particularly mention that the decrease in the percentage of Black Sea supplies compared with the same period of last year was basically due to smaller purchases of Ural as a consequence of the programmed general shutdown of the ISAB Impianti Sud Refinery, which is more specialised than the Impianti Nord in processing this raw material.

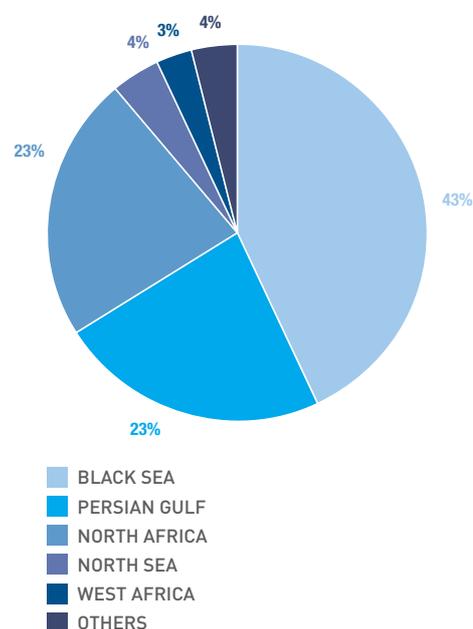
PROCESSING

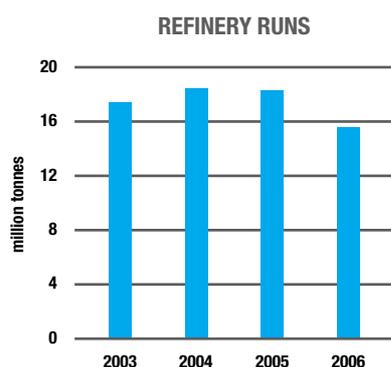
The following table shows the breakdown of volumes processed by refinery:

(THOUSAND TONNES)	2006	2005	2004
PROCESSING			
OWN ACCOUNT PROCESSING ⁽¹⁾	14,126	16,274	16,239
PROCESSING ON BEHALF OF THIRD PARTIES	1,401	1,934	2,046
TOTAL PROCESSING	15,528	18,208	18,285

⁽¹⁾ raw and topping fed semi-finished products

MAIN SOURCES OF RAW MATERIALS (ERG) YEAR 2006





In 2006 the total quantities of crude oil and residue processed amounted to 15.5 million tonnes (of which 1.4 million for third parties), 2.7 million less than the amount processed in 2005 due to:

- the programmed shutdown of the ISAB Sud plants;
- the incident that occurred on 30 April at the ISAB Nord plants;
- the power blackout at the ISAB Sud power plants in March and the blackout at the ENEL power plants in July;
- last year's marginal topping-fed and lighter raw material processing due to the better scenario.

It is worth remembering that in 2005 there was a general shutdown of the ISAB Nord plants, which have a lower capacity than those of ISAB Sud. Own account processing of crude oil and residues accounted for 91% of the total. The API grade (31.9) was in line with that of 2005.

PRODUCTION

The following table shows the breakdown of own account processing and output by product type:

(THOUSAND TONNES)	2006		2005		2004	
RAW MATERIALS						
CRUDE OIL ⁽¹⁾	12,702	89.9%	15,429	94.8%	15,460	95.2%
RESIDUES AND OTHER	1,425	10.1%	845	5.2%	779	4.8%
SEMI-FINISHED PRODUCTS						
TOTAL PROCESSING ⁽¹⁾	14,126	100.0%	16,274	100.0%	16,239	100.0%
BLENDING ADDITIVES	1,096		1,143		1,112	
TOTAL RAW MATERIALS ⁽¹⁾	15,222		17,417		17,351	
PRODUCTION						
LPG	237	1.6%	267	1.6%	290	1.7%
NAPHTHA	838	5.7%	919	5.5%	935	5.6%
GASOLINE	2,473	16.8%	2,724	16.2%	2,705	16.2%
JET FUEL	557	3.8%	639	3.8%	789	4.7%
DIESEL	6,281	42.8%	7,261	43.2%	7,105	42.5%
VACUUM DIESEL	365	2.5%	342	2.0%	332	2.0%
FUEL OIL	2,581	17.6%	3,229	19.2%	2,992	17.9%
FUEL GAS	61	0.4%	106	0.6%	116	0.7%
BITUMEN ⁽²⁾	937	6.4%	908	5.4%	1,014	6.1%
SULPHUR	83	0.6%	104	0.6%	101	0.6%
OTHER PETROCHEMICAL PRODUCTS	270	1.8%	316	1.9%	349	2.1%
TOTAL PRODUCTION	14,684	100.0%	16,815	100.0%	16,728	100.0%
CONSUMPTION AND LOSSES	539		602		623	

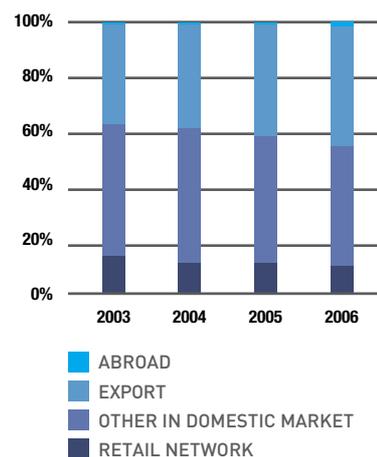
⁽¹⁾ raw materials and topping fed semi-finished products

⁽²⁾ asphalt for ISAB Energy's IGCC plant

The percentage yields of light distillates were about 0.8% higher than in 2005. More specifically, the higher gasoline yield was due both to the better yield of the FCC plant and to the type of crudes processed at the ISAB Nord plants (low-sulphur crudes accounted for 50% as opposed to 42% in 2005). The lower gasoline volume was substantially due to the programmed shutdown of the ISAB Sud plants in 2006, whilst the FCC plant's loss of production due to the fire on 30 April was basically equal to that caused by the programmed shutdown in 2005. Lower diesel yield was essentially attributable to greater processing of residue, with respect to crude oil, done as a matter of economic choice. Bitumen production, linked to ISAB Energy's requirements for the IGCC plant, was substantially unchanged, although higher in percentage terms as a result of reduced processing.

SUMMARY OF MAIN RESULTS

BREAKDOWN OF OIL SALES BY VOLUME



(MILLION EURO)	2006	2005	2004
REVENUES FROM THIRD PARTIES	5,014	5,339	3,736
INTERDIVISIONAL REVENUES	1,103	992	669
REVENUES FROM ORDINARY OPERATIONS	6,118	6,331	4,406
EBITDA AT REPLACEMENT COST ⁽¹⁾	149	307	232
AMORTISATION, DEPRECIATION AND WRITE-DOWNS	(53)	(57)	(57)
EBIT AT REPLACEMENT COST ⁽¹⁾	96	250	175
NET TANGIBLE AND INTANGIBLE FIXED ASSETS	758	617	490
INVESTMENTS IN TANGIBLE AND INTANGIBLE FIXED ASSETS	185	174	80

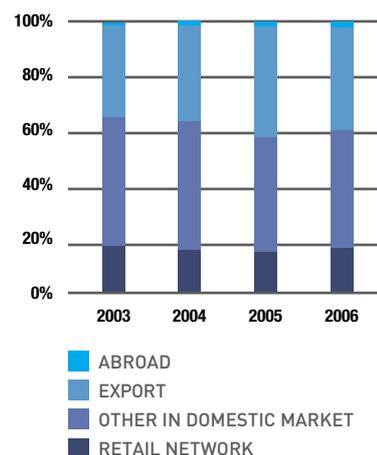
⁽¹⁾ figures do not include:

- inventory gains (losses), amounting in the various period to Euro -31, +116 and +37 million respectively;
- non-recurring items relating to insurance reimbursements for direct damage amounting to Euro 14 million and the repayment, received in 2005, of harbour dues relating to prior years amounting to 28 million

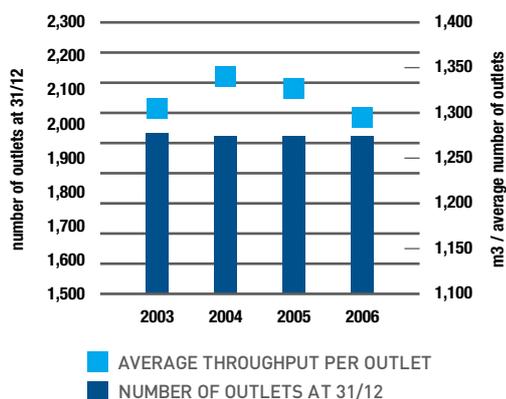
Coastal Refining's revenues in the 2006 financial year were lower than in 2005, since the effect of the lower quantities produced was only partly offset by the increase in prices. EBITDA at replacement cost – which includes the insurance reimbursement of Euro 80 million for consequential damages – was lower than in 2005 mainly because of:

- the deterioration of refining margins;
- the programmed shutdown for cyclical maintenance of the

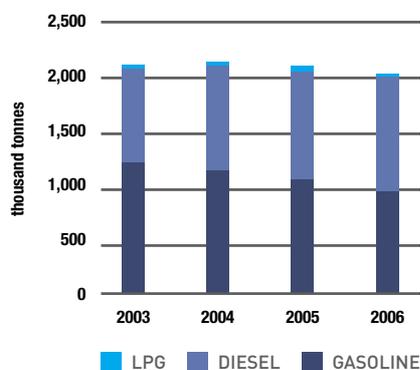
BREAKDOWN OF OIL SALES



BREAKDOWN OF RETAIL OUTLETS AND SALES
average throughput calculated on the basis of
the average number of outlets



NETWORK VOLUMES



ISAB Sud plants (the programmed shutdown of the ISAB Nord plants, which have a lower capacity than the ISAB Sud plants, took place in 2005);

- the shutdown of the ISAB Nord plants due to the incident that occurred on 30 April;
- the increase in the price of utilities.

A number of temporary shutdowns (in particular the power blackout at the ISAB Sud power plants in March and the blackout of ENEL power station in July) and the exceptionally poor weather conditions during the early months of the year, which gave rise to huge demurrage charges, also had an adverse effect.

INTEGRATED DOWNSTREAM

INTRODUCTION

These activities are performed by ERG Petroli and by its subsidiaries and investee companies.

The business incorporates activities pertaining to the Retail and Wholesale networks, Lubricants, in Italy and abroad, as well as logistics and the Inland Refineries.

SUMMARY OF THE MAIN RESULTS

(MILLION EURO)	2006	2005	2004
REVENUES FROM THIRD PARTIES	3,531	3,081	2,139
INTERDIVISIONAL REVENUES	98	93	51
REVENUES FROM ORDINARY OPERATIONS	3,629	3,174	2,190
EBITDA AT REPLACEMENT COST ⁽¹⁾	127	165	115
AMORTISATION, DEPRECIATION AND WRITE-DOWNS	(44)	(43)	(37)
EBIT AT REPLACEMENT COST ⁽¹⁾	83	123	78
NET TANGIBLE AND INTANGIBLE FIXED ASSETS	391	398	404
INVESTMENTS IN TANGIBLE AND INTANGIBLE FIXED ASSETS	36	40	37

⁽¹⁾ figures do not include inventory gains (losses), amounting in the various periods to Euro +3, +92 and +42 million

EBITDA at replacement cost for the 2006 financial year, amounting to Euro 127 million, was below that of the previous year due to the lower results of the Inland Refineries, which were only partly offset by marketing activities.

MARKETING

With a market share of 7%, ERG is one of the leading service station operators in Italy. This performance is the result of a policy of continuous development implemented since the late 1980s through acquisitions, investments, and rationalisation. Thanks in part to its extensive logistics system, ERG is a leader in the Italian Wholesale market with a 9% share of diesel sales. This market share has been achieved also via a strategy of consolidating sales through stakes in resale companies, to which some 40% of diesel sales are destined.

FACTORS AFFECTING THE RESULTS OF OPERATIONS

Marketing results are affected by a combination of factors, among which we specifically highlight:

- Domestic consumption of gasoline and diesel in the Retail network, which remained in line with that of 2005;
- A shift in demand, again in the Retail network, from gasoline, consumption of which decreased by 6.2% in the year, to diesel, consumption of which instead grew by 5.3%.

RETAIL NETWORK

Through its Retail network the Group sells gasolines, diesel, transport LPG, and lubricants, as well as car accessories and non-oil products.

In 2006, fuel consumption in the reference domestic market was stable.

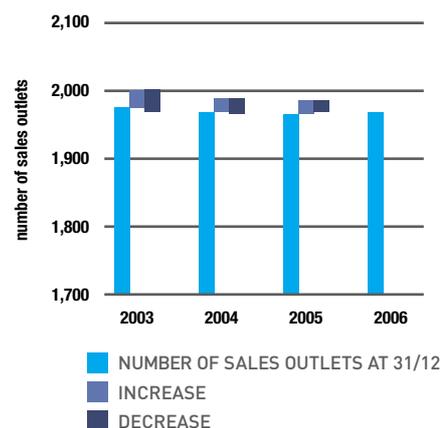
During the year ERG significantly revised its strategy for the marketing organisation, combating the competition's aggressive promotional campaigns with local initiatives.

ERG's share of the fuels market in 2006 was 7.0% (of which 7.6% for gasoline and 6.5% for diesel) – slightly lower than the 7.1% of 2005 (of which 7.8% for gasoline and 6.5% for diesel).

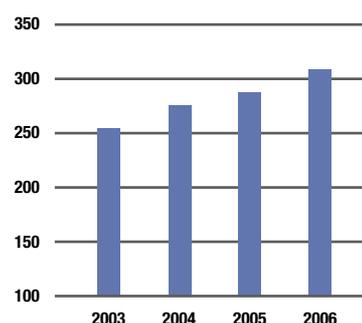
As at 31 December 2006 ERG's Italian Retail network consisted of 1,968 outlets (1,967 as at 31 December 2005). This increase included 19 new outlets and 18 no longer active.

Average throughput, based on the number of retail outlets as at 31 December, totalled 1,295 m³ compared to 1,326 m³ in 2005.

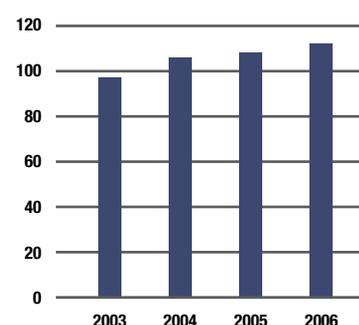
BREAKDOWN OF RETAIL NETWORK

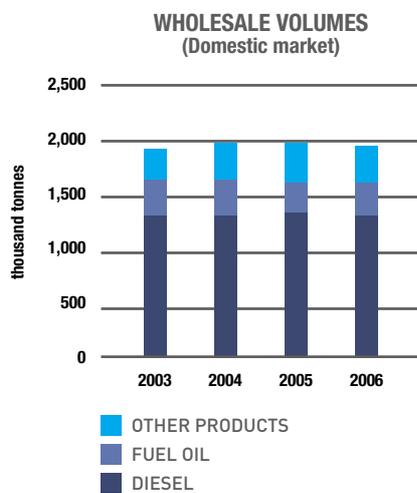


SALES OUTLETS WITH POST-PAYMENT AT 31/12



SALES OUTLETS WITH C-STORE AT 31/12





WHOLESALE MARKET

ERG operates in the Wholesale market, selling petroleum products mainly to companies which in turn resell them to end-users in their own local markets.

In 2006 the sector generally recorded a drop of 1.2% in the Wholesale demand for diesel compared to 2005.

ERG's diesel sales in the same period decreased by 2.6%. As a result, ERG's market share was 8.8% (8.9% in 2005).

Exports to Switzerland totalled 137 thousand tonnes compared to 174 thousand in 2005.

ERG owns direct equity interests in 11 retail companies. Sales to investee companies and their affiliates accounted for 33% of total Wholesale volumes (unchanged with respect to 2005), and in particular 43% of diesel sales (44% in 2005).

LUBRICANTS

In 2006, sales volumes in the domestic Lubricants market were lower than in 2005 (-1.4%), with a growth of 1.2% in the industrial sector and a 4.6% fall in the motor oils market.

In particular, there was a sharp downturn in the demand for motor oils in the Retail network (-8.9%), because of the unfavourable economic situation, together with the ongoing developments in vehicle technology and in the quality of products that prolong the average life of motor oils, reducing the number of changes.

ERG's Retail sales decreased by 6.3%, with a market share of 5.6% (5.4% in 2005).

Total Lubricants sales in 2006 were essentially in line with those of 2005.

ABROAD

Spain

Sales by ERG Petroleos S.A., a company operating in the Spanish Retail and Wholesale markets, totalled approximately 345 thousand tonnes (18% gasoline and 82% diesel), with an increase of about 9% over the same period in 2005, due to the notable rise in both Retail (+7%) and Wholesale (+10%) sales. As at 31 December 2006 the Spanish Retail network comprised

119 outlets, of which 75 owned by ERG (52 directly managed by ERG Gestión Ibérica S.L.). As part of the rationalisation plan, 6 service stations were closed and outlets were transferred to independent operators.

Switzerland

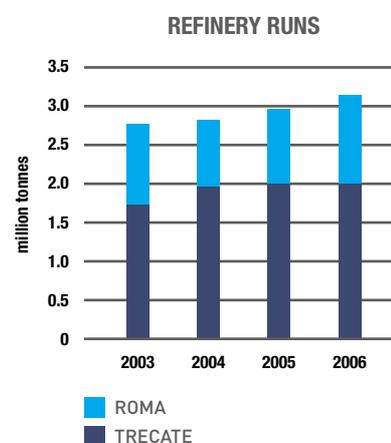
ERG Petroli Suisse S.A., a company operating in the Retail market in the Canton of Ticino with 16 sales outlets, sold approximately 14 thousand tonnes of fuels (mainly gasoline) with a 17% increase over the previous year.

INLAND REFINERIES

The Inland Refineries, located in two of the areas featuring the greatest intensity of consumption in Italy, have a total annual balanced distillation capacity, as far as ERG's share is concerned, of 3.2 million tonnes (approximately 64 thousand barrels/day) and differ according to the type of conversion. The Rome Refinery is equipped with thermal conversion, whereas the Sarpom Refinery is equipped with catalytic conversion, capable of producing higher quantities of light distillates. Moreover, while the Sarpom Refinery uses essentially light crude oils with a low sulphur content, the Rome Refinery uses mainly heavier crude oils.

As regards the factors influencing the Inland Refineries' economic results, reference is made to what has already been said concerning Coastal Refining.

In this respect, we point out that the characteristics of the Inland Refineries compared to the coastal refineries can lead to



a difference in the results achieved in individual quarters, depending on the period's scenario.

In particular, we point out that the Rome Refinery's margins depend on the profitability of medium-heavy crude oils and on the relationship between the prices of middle distillates compared with fuel oil.

The results of refineries with catalytic conversion (Sarpom), on the other hand, are mainly affected by the relationship between light distillates and fuel oil and, to a lesser extent, by the profitability of light crude oils.

UNITARY GROSS MARGINS AT REPLACEMENT COST OF ERG'S INLAND REFINERIES

The unitary gross margins at replacement cost⁽¹⁾ of the Inland Refineries are shown in the following table:

	2006	2005	2004
US\$/BARREL	4.08	5.40	3.80
EURO/BARREL ⁽²⁾	3.25	4.34	3.05
EURO/TONNE ⁽³⁾	24.1	32.3	22.8

⁽¹⁾ unitary gross margins at replacement cost do not include inventory gains (losses) arising from the difference between the current cost of products sold and the cost obtained by applying the weighted average cost

⁽²⁾ average Euro/US\$ exchange rate used for each period = 1.256, 1.244 and 1.244

⁽³⁾ barrel/tonne conversion factor used for each period = 7.414, 7.439 and 7.481

Refining margins were lower than those of 2005 because of a less favourable scenario, especially as regards topping-fed processing.

PROCESSING

The breakdown of volumes processed by refinery is shown in the following table:

(THOUSAND TONNES)	2006	2005	2004
PROCESSING			
SARPOM TRECATE REFINERY	1,991	1,999	1,963
ROME REFINERY	1,162	956	847
TOTAL PROCESSING⁽¹⁾	3,153	2,955	2,809

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

The Inland Refineries' processing remained at high levels thanks also to the good operating performance.

Processing at the Sarpom Refinery was in line with that of 2005, whilst that of the Rome Refinery benefited from the increase in our equity interest (from 22.5% to 28.1%).

Below we show the Inland Refineries' production by product type:

(THOUSAND TONNES)	2006		2005		2004	
RAW MATERIALS						
CRUDE OIL ⁽¹⁾	3,153	100%	2,955	100.0%	2,809	100.0%
TOTAL PROCESSING ⁽¹⁾	3,153	100%	2,955	100.0%	2,809	100.0%
BLENDING ADDITIVES	15		9		5	
TOTAL RAW MATERIALS ⁽¹⁾	3,167		2,964		2,814	
PRODUCTION						
LPG	135	4.5%	133	4,7%	124	4.6%
NAPHTHA	5	0.2%	15	0,5%	40	1.5%
GASOLINE	636	21.1%	584	20,8%	553	20.7%
JET FUEL	208	6.9%	223	7,9%	199	7.4%
DIESEL	1,227	40.8%	1,161	41,3%	1,081	40.5%
VACUUM DIESEL	75	2.5%	58	2.1%	45	1.7%
FUEL OIL	556	18.5%	469	16.7%	466	17.5%
BITUMEN	162	5.4%	164	5,8%	154	5.8%
SULPHUR	6	0.2%	6	0,2%	6	0.2%
TOTAL PRODUCTION	3,011	100.0%	2,811	100.0%	2,667	100.0%
CONSUMPTION AND LOSSES	157		153		147	

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

The Inland Refineries' processing yields differed only marginally from those of the previous year, as no significant changes occurred in refinery configuration. These minor differences were mainly due to the different types of crude oil processed.





POWER GENERATION

INTRODUCTION

This business is carried out by ERG Power & Gas and its subsidiaries. As from the fourth quarter of 2006, the Power Generation sector also comprises the activities of Enertad S.p.A. – a company directly controlled by ERG S.p.A. – and its subsidiaries.

ERG Power & Gas is the company that operates in the energy sector and pursues development opportunities for electricity and gas, while also handling the marketing of utilities (mainly electricity and steam) produced by the plants of its subsidiary ERG Nuove Centrali.

The portion of electricity produced that is not used by the ISAB Refinery is sold to third-party buyers at the Priolo/Melilli site, to the GSE (National Grid) and to “wholesale buyers”.

Steam and other utilities are also provided to the ISAB Refinery and to third-party industrial plants at the Priolo/Melilli site.

Fuel for the production of electricity and steam – consisting of fuel gas and fuel oil – is supplied by ERG Raffinerie Mediterranee.

ERG Power & Gas's subsidiaries are:

ERG Nuove Centrali (of which ERG Power & Gas holds 100%) owns the utilities production plants located at the ISAB Sud and ISAB Nord Refineries.

ISAB Energy (of which ERG Power & Gas holds 51%) produces electricity at its Priolo plant – with an output of 528 MW – using residues from crude processing originating from the adjacent ISAB Sud Refinery. The electricity generated is sold to GSE at the CIP 6 tariff.

ISAB Energy Services (of which ERG Power & Gas holds 51%) handles the operation and maintenance of the IGCC (Integrated Gasification Combined Cycle) complex and the Solvent Deasphalting plant on behalf of ISAB Energy and ERG Raffinerie Mediterranee respectively.

ERG CESA Eolica (of which ERG Power & Gas holds 50%), a joint

venture with the Spanish company CESA, develops and operates wind farms in Italy. At present the company has 33 MW in operation and 161 MW already authorised.

Ionio Gas (of which ERG Power & Gas hold 50%) is a joint venture with Shell Energy Italia S.r.l., whose purpose is to design, construct, operate and maintain a terminal to receive and regasify LNG.

In addition, in 2006 ERG Power & Gas set up five project companies (99% owned) for the development, construction and operation of wind farms. It also acquired a 90% equity interest in ISEA S.r.l., a company that owns five mini hydro plants.

Enertad, directly controlled by ERG S.p.A. through a 51.33% interest, is a company listed on the Milan Stock Exchange, which controls companies operating in electricity production from renewable sources (wind power) and water treatment (water services).

The wind business comprises eight companies, including one subholding company (EOS Windenergy S.r.l.), three operational companies, and four non-operational companies, with a total installed capacity of 77 MW and an additional capacity of 169 MW already authorised.

The water services business includes the companies DSI Servizi Industriali S.r.l. and Sodai Italia S.p.A. (the latter is 49% owned by Trenitalia S.p.A.). Sodai uses its own purification plant to treat industrial waste water originating exclusively from Trenitalia S.p.A. facilities, while DSI uses its own purification plant to treat industrial liquid and solid waste, both brought to its plant via road transport vehicles.

FACTOR AFFECTING THE RESULTS OF OPERATIONS

The Power Generation division's economic results are affected by factors connected with the general scenario and the performance of the production plants.

The results of **ISAB Energy** are only marginally affected by variations in the scenario, owing to the index-linking contained in electricity sales contracts and in raw materials purchase





contracts. The selling prices of electricity produced by ISAB Energy are controlled by CIP (Inter-ministerial Prices Committee) regulation no. 6 of 29 April 1992 (better known as CIP 6/92). ISAB Energy has a 20-year “take-or-pay” contract with the GSE (National Grid) the price of which is partly linked to the price of natural gas for thermoelectric use. Feedstock is purchased from ERG Raffinerie Mediterranee under another 20-year “take-or-pay” contract linked to the trend in the price of natural gas for thermoelectric use.

The operating results of the **ERG Nuove Centrali plants** are affected both by plant availability and by the change in demand for the site’s electricity and steam, and partly by the time lag between variations in the selling price of electricity (relating to the electricity market and supply contracts) and variations in the price of fuel oil, which is the main feedstock for the plants in question.

Enertad’s results depend above all on the wind business.

Wind farms consist in wind-power generators able to transform the wind’s kinetic energy into mechanical energy, which in turn is used to generate electricity. Subject to availability of the plants, each wind farm’s expected results are clearly affected by the anemological characteristics of the site where the wind farm is located. The economic results are also influenced by electricity selling prices and by the price of green certificates.

ELECTRICITY MARKET

In 2006 the demand for electricity totalled 337,796 GWh, up by 2.2% over 2005.

The domestic supply composition in 2006 was met 71.6 % from thermoelectric generation (+4% over 2005), 12.6% from hydroelectric production (+0.2%), and 2.6% from geothermal and wind power, with the remaining 13.2% imported from abroad. In particular, it is worth emphasising that, compared with last year, wind energy alone has increased as a percentage of the total by 37.0%, partly due to the start-up of new wind farms.

Net electricity output, amounting to 301,726 GWh, was up by 3.8% over 2005, whereas the import-export balance of 44,718 GWh continued to decrease significantly (-9%). CIP 6 production, at an estimated 51,699 GWh, was down by 4.3%.

During 2006 the greatest demand for electricity was concentrated in Northern Italy (156.2 TWh, accounting for 46.2% of entire domestic demand).

SUMMARY OF MAIN RESULTS

(MILLION EURO)	2006	2005	2004
REVENUES FROM THIRD PARTIES	582	538	477
INTERDIVISIONAL REVENUES	256	243	176
REVENUES FROM ORDINARY OPERATIONS	838	781	653
EBITDA ⁽¹⁾	213	183	169
AMORTISATION, DEPRECIATION AND WRITE-DOWNS	(57)	(55)	(54)
EBIT ⁽¹⁾	156	128	115
NET TANGIBLE AND INTANGIBLE FIXED ASSETS	1,141	763	744
INVESTMENTS IN TANGIBLE AND INTANGIBLE FIXED ASSETS	142	58	33

⁽¹⁾ figures do not include non-recurring items relating to expenses of Euro 7 million, net of expected recoveries, for the purchase of green certificates for 2005

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

(MILLION EURO)	2006	2005	2004
ISAB ENERGY ⁽¹⁾	195	192	179
ERG NUOVE CENTRALI PLANTS ⁽²⁾	12	(9)	(10)
ENERTAD	7	-	-
TOTAL	213	183	169

⁽¹⁾ includes the EBITDA of ISAB Energy and ISAB Energy Services
⁽²⁾ includes the EBITDA of ERG Nuove Centrali and ERG Power & Gas

ISAB ENERGY

Output totalled 4,001 GWh. The plant recorded a utilisation factor of 86% and was affected by a fault in the transformer of one of the two gas turbines and an alternator failure as regards one of the steam turbines.

In 2005, when general plant maintenance was performed, electricity output totalled 4,108 GWh (obtained with a theoretical net capacity utilisation of 89%).

Total revenues amounted to Euro 533 million (Euro 470 million in 2005).

Based on an inspection carried out by the Cassa Conguaglio (Equalisation Fund), on 21 December the Autorità per l'Energia Elettrica e il Gas (the Italian Electricity & Gas Authority - AEEG) notified ISAB Energy of its failure to reach the plant's cogeneration requirements starting from 2002, giving rise to the obligation to acquire green certificates as from that year, but also thereby retracting previous certifications on the part of the National Grid Operator in reference to the years 2002-2004. For the above reason, ISAB Energy will appeal against the AEEG rulings, although it has already prudently included in the 2006 results the charges relating to 2005 and 2006, net of the reimbursements provided for in resolution no. 113/06.

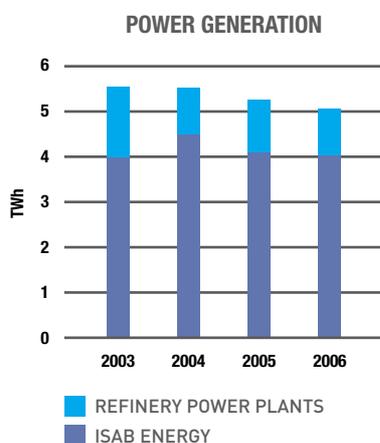
ERG NUOVE CENTRALI PLANTS

In addition to electricity, ERG Nuove Centrali plants also produce steam and other utilities used by ISAB Refinery and by industrial customers on the site. Electricity and steam accounted respectively for 44% and 54% of total revenues.

In terms of EBITDA the utilities business posted a result of Euro 12 million.

Results benefited from the revision of some on-site contracts (about Euro 9 million), from the sale of CO₂ emissions rights (about Euro 13 million), and payment of insurance indemnities (approximately Euro 8 million) for consequential damages relating to the incident that occurred at the ISAB Nord Refinery on 30 April. On the other hand, they were adversely affected both by the oil scenario (in particular by the purchase price of fuel oil, which increased more than proportionately compared with the tariffs defined in current on-site contracts and the electricity market prices), and reduced plant availability (also because of the incident at the ISAB Nord Refinery on 30 April).

Net electricity output of the counter-pressure and condensation plants totalled 1,062 GWh, of which approximately 52% was used for refinery consumption. Net steam supply amounted to 4.1 million tonnes, of which approximately 76% used by ERG



Raffinerie Mediterranee.

As regards plant operation prior to the incident that occurred in the ISAB Nord Refinery on 30 April, the CT1 unit, shut down due to a failure since 22 September 2005, resumed operation in February 2006.

As instead regards the counter-pressure units, SA1N3 did not show any particular problems. Conversely, SA1N1 (the production of which is sold to the National Grid operator at the CIP 6 tariff) was affected by a number of events that reduced its output.

Regarding the incident that occurred in the ISAB Nord Refinery on 30 April, we point out that no plant was directly involved. The only damage was to the fuel oil and fuel gas pipes of the counter-pressure plants and the steam, demi water, air and nitrogen lines.

ENERTAD

It is worth remembering that the results of the Enertad Group are included in the ERG consolidated results as from the 4th quarter of 2006.

Consolidated revenues totalled Euro 10 million, with an increase over 2005.

EBITDA amounted to Euro 7 million, higher than in 2005, mainly thanks to the contribution of the wind business, which during the period was characterised by a positive trend in production following the start-up of several new wind farms, the increase in electricity selling prices, and the increase in the prices of green certificates.

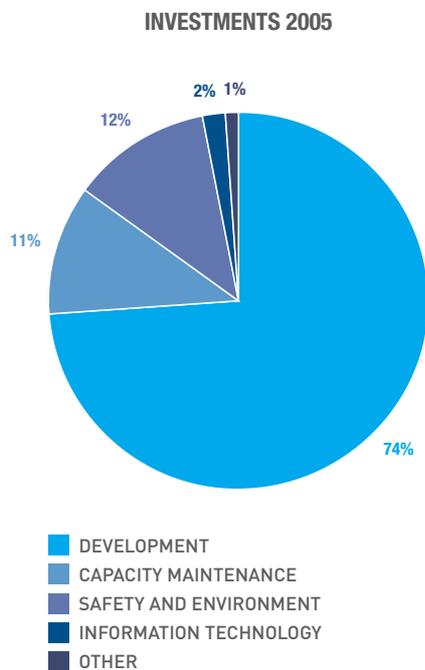


INVESTMENTS

The ERG Group made investments of Euro 365.2 million (Euro 274.2 million in 2005) of which Euro 12.9 million for intangible fixed assets (7.5 million in 2005) and Euro 352.2 million for tangible fixed assets (266.7 million in 2005).

The breakdown of investments by business division is shown in the following table:

(MILLION EURO)	2006	2005	2004
COASTAL REFINING	185	174	80
INTEGRATED DOWNSTREAM	36	40	37
POWER GENERATION	142	58	33
CORPORATE	3	3	2
TOTAL	365	274	152



As far as **Coastal Refining** is concerned, work continued on the projects included in the plan for integration and development of the ISAB Refinery. In particular, 3 October marked the start-up, at the ISAB Sud Refinery, of the new gasoil deep desulphurisation plant, which has increased the output potential of low-sulphur diesel (50 ppm and 10 ppm of sulphur). At the ISAB Nord Refinery, work is nearing completion on construction of the plant to provide hydrotreatment of feedstock for the catalytic cracking plant, which will increase the ISAB Refinery's production of low-sulphur gasoline (50 ppm and 10 ppm of sulphur).

Moreover, during the general programmed shutdown for maintenance of the ISAB Sud Refinery in the second quarter, in addition to all the activities scheduled in the maintenance plan, improvement work was also carried out that will make it possible to change from an 18-month to a 4-year maintenance shutdown cycle. Steps were also taken to enhance the performance of some plants (e.g. Visbreaker, Mild Hydrocracker) in terms of safety, reliability and distillate yields.

As far as **Integrated Downstream** is concerned, most of the investments were made in the Italian Retail network and Logistics.

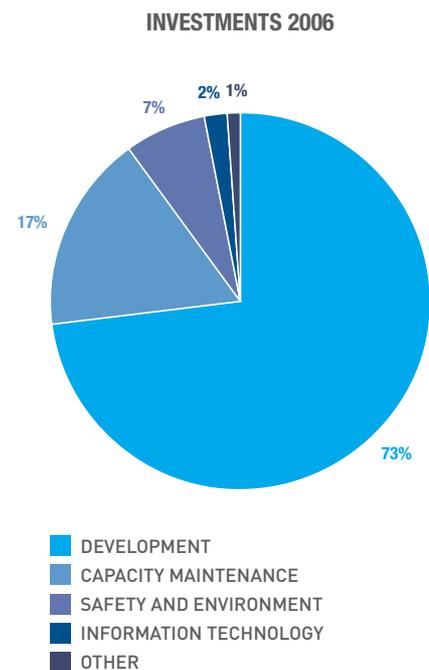
Of these investments Euro 10 million was used to develop the road and motorway retail network (inauguration of 6 new outlets, of which 3 in hypermarket format and 3 new motorway outlets). Approximately Euro 9 million was used to rebuild or refurbish existing units. Approximately Euro 11 million was used for maintenance and safety investments and for ongoing compliance with environmental regulations.

As far as logistics are concerned, investments were nearly all dedicated to development and maintenance projects in the Treccate and Savona area.

Investments made in Spain by ERG Petroleos S.A. mainly focused on development of both the road and motorway retail network.

As far as **Power Generation** is concerned, at 2006 year-end the project for repowering the ISAB Nord power stations had achieved overall completion status of about 40%, with detailed engineering work exceeding 80%. Some problems relating to the environmental release of the area where the power station is to be built caused site-work problems during 2006. As regards the project for repowering the ISAB Sud power stations, construction was completed and work commenced on pre-start-up activities for the new plant. The plant in fact operated for the first time in parallel with the electricity grid and has now become an operational reality of the Priolo site.

As regards the renewable energy sector, the whole of 2006 was a very constructive year for development and expansion of the sector, with the setting up of new companies and the advancement of important development investments.



The following table shows the investment breakdown by type:

(MILLION EURO)	2006	2005	2004
DEVELOPMENT	269	201	98
CAPACITY MAINTENANCE	61	31	23
SAFETY AND ENVIRONMENT	24	34	23
INFORMATION TECHNOLOGY	9	7	7
OTHER	3	2	1
TOTAL	365	274	152

74% of investments were dedicated to **development**. As regards the Coastal Refining sector (43% of the total), investments focused mainly on the construction of desulphurisation plants and on continuation of activities relating to the Priolo site's integration plan. Power Generation investments (49%) were mainly dedicated to repowering of the ISAB Sud and ISAB Nord power stations. The remaining 8% was invested in the Integrated Downstream sector.

Of investments in **capacity maintenance**, 83% went to Coastal Refining, 9% to Integrated Downstream and the remaining 8% to Power Generation.

Investments in **safety and environment** were carried out 53% by Coastal Refining, 31% by Integrated Downstream, and the remaining 16% by Power Generation.

As regards investments in **information technology**, major projects associated with specific business applications are at an advanced stage of completion, according to schedule: in ERG, the SAP Portal project, scheduled for completion within the first six months of 2007; in ERG Petroli the Opera project (a system enabling the commercial areas to become autonomous profit centres), of which the second phase has been completed; in ERG Power & Gas the "Production Scheduling" project is now nearing completion, while in ISAB Energy the "Maintenance Optimisation" project was launched during the year.

In addition, work continued, according to schedule, on the following projects: the Refining Information System (Siraff) in ERG Raffinerie Mediterranee, which will support Supply Chain activities, and in ERG Petroli the project concerning the integrated credit management system.

RISK MANAGEMENT

ERG identifies and evaluates all types of risk associated with the Group's activities, adopting the most advanced risk management methods, in order to optimise the management of risks (elimination, reduction, transfer) and safeguard shareholder value.

ERG's objective is to minimise the risks observed, which come under the following categories: financial, credit, liquidity risks, and operating risks.

The stages and principles governing this activity envisage – within the scope of guidelines established in the Group Risk Management Policy – a Risk Management function, which measures and monitors risk exposure levels in line with defined objectives.

In managing financial risks, the ERG Group uses financial derivatives (such as options, forward transactions and swaps), solely for the purpose of hedging and without assuming any speculative positions, in accordance with its "industrial" business philosophy.

For greater detail on the derivatives used by ERG, reference is made to the relevant comment in the Notes to Consolidated Financial Statements.



HEALTH, SAFETY AND ENVIRONMENT

REFINERY FIRE

On 30 April a fire occurred at the ISAB Nord Refinery due to loss of crude oil from a pipeline. The most probable cause of combustion was the contact of hydrocarbon fumes with the hot points of pipelines present in the area.

The emergency was managed with the primary objective of minimising the risk of the fire spreading. For this reason, it was deemed safer to confine the flames to a limited area and manage combustion burn-out in a controlled manner.

The incident caused a total of 6 casualties: 4 with minor injuries and 2 with more serious injuries, who recovered during the four months following the event.

Inquiries into the incident have been initiated by both ERG and the competent authorities.

ERG also decided, as regards its Refinery Management Systems, to launch an audit of prevention activities, considered to be a fundamental element of business sustainability.



SAFETY MANAGEMENT AND CERTIFICATION SYSTEMS

During 2006 the programme of certification for the ERG industrial sites continued, consistently with Group HSE Guidelines for the implementation of effective management systems designed to minimise impacts and optimise prevention activities.

ISO 14001 certification was completed for the industrial sites of

ISAB Energy, ERG Raffinerie Mediterranee, and ERG Petroli. The procedure has been initiated for the same certification as regards ERG Nuove Centrali's power generation plants. In addition, the project has been launched for OHSAS 18001 certification of occupational health and safety for the entire Priolo refining site. This certification has already been obtained for both ERG Petroli's Trecate and Savona depots and ISAB Energy's IGCC facility.

ENVIRONMENTAL CHARACTERISATION AND CLEAN-UP OF INDUSTRIAL SITES

The matter of sub-soil pollution has continued to be one of the focal points of prevention and mitigation activities, particularly in the Priolo industrial area, which has been declared a site of national interest by the Ministry for the Environment and Territorial and Marine Protection and has been given special attention as regards characterisation and clean-up. These activities are all-important in relation to the construction of new plants and modification of existing assets.

EMISSIONS TRADING

In December 2006 the Italian government submitted to the European Commission the draft National Allocation Plan (NAP) for the assignment of CO₂ quotas to individual industrial sites during the period 2008-2012.

With respect to what had already been done in the past and in keeping with current investment objectives, ERG updated its reporting protocols in line with international best practices. The ERG sites also had their 2005 CO₂ emissions certified by an accredited independent organisation, as required by European guidelines.

The protocol and the operating procedures are an integral part of the ERG Management System for application of the Emissions Trading Directive. The system also defines responsibilities for compliance with obligations vis-à-vis the Authorities, how CO₂ is to be valued in programming and planning activities, emissions optimisation, and hedging of risks using quota trading operations and/or financial instruments.

In June 2006 ERG decided to participate in the Italian Carbon Fund – set up by the Italian Ministry for the Environment in agreement with the World Bank. The Fund's objective is to purchase on the market low-cost credits coming from so-called CDM (Clean Development Mechanism) projects. This is a tool introduced by the Kyoto Protocol to obtain credits, which can be spent as part of the emissions trading system, while financing projects to reduce greenhouse gas emissions in developing countries.

HEALTH

ERG has a constant commitment vis-à-vis the local community, particularly insofar as health protection is concerned. In this respect, the activities relating to the voluntary Health Prevention project in the Priolo area is worthy of special mention. Its aim is to implement a broad-ranging prevention programme against diseases that are emerging in the area, based on assessments carried out by the Italian Ministry for Health and/or the World Health Organisation. The programme consists of clinical and instrumental diagnosis, information, and health education.

PRODUCT QUALITY

In the field of product quality, the most important activities concerned the increase of capacity to produce fuels with lower environmental impact, particularly in terms of sulphur content. With particular regard to the marketing area, ERG has increased its range of products with sulphur content not exceeding 10 mg/kg.

ERG is evaluating opportunities related to the promotion and use of biofuels in the automotive sector, as envisaged in European and Italian regulations.

HUMAN RESOURCES

ORGANISATION

As at 31 December 2006, the ERG Group had a total of 2,820 employees (+141 compared to 31 December 2005), ending a year that saw 421 new hires and 280 people leaving, net of inter-company transfers.

The increase in headcount was largely due to acquisition of the Enertad Group companies, which took place in October, with entry of related resources (62 employees).

More specifically:

- ERG S.p.A. adjusted its headcount (+11 resources) in order to strengthen the holding company's coordination, direction and control activities.
- ERG Petroli reduced its headcount by 12, basically as a result of optimisation in the "Supply & Logistics" area and some exits from the General Commercial Division; on the other hand, as regards ERG Petroli's subsidiaries managing service stations, in Italy there was a 65-head increase connected with the growth in the number of outlets managed, whilst in Spain there was a 27-head decrease following rationalisation of directly owned outlets.
- ERG Raffinerie Mediterranee adjusted its headcount (+17 resources) in connection with the start-up of new plants in the ISAB Nord unit.
- ERG Power & Gas increased its headcount by 17 as regards the subholding company and by 8 as regards the subsidiaries as a result of business growth.

The turnover process in the Group – which has been underway for several years – continued, leading to a further reduction in average age, now 43 years, and an adjustment to the educational level, bringing the number of employees with a diploma or university degree to 75% of the total employee population.

In 2006, ERG S.p.A.'s macro organisation was reviewed and revised according to the following basic principles: to simplify



reports to the Chairman and to the CEO, to structure the organisation in major areas of responsibility, to assign such areas to highly experienced managers, and to give these managers full autonomy, so as to achieve effective and timely action.

More specifically, all activities concerning institutional relations, communication and HSE have been grouped together in the Institutional & International Relations division, whilst the General Secretariat now includes a concentration of activities relating to compliance, governance rules, and protection of Group rights and interests via the management of internal audit and corporate security, and coordination of legal matters.

As regards ERG Raffinerie Mediterranee, the company's macro organisation was modified. More specifically, in addition to the completion and operational start-up of the General Technical division (responsible for integrated management of production and plant development), the General Scheduling & Supply division was reorganised, with a view to achieving an increasingly improved integration of processing scheduling, raw materials procurement, sale of products, and management of associated risks.



In ERG Petroli, during 2006 reorganisation was completed of the General Commercial division, which now comprises the activities of the Retail, Wholesale and Lubricants businesses. In order to achieve the strategic objective of “customer focus”, the main business processes have been reviewed and re-engineered, with the result that “field” commercial and technical personnel are concentrated on typically commercial activities, while more typically administrative sales-support activities are centralised at head office.

Lastly, in ERG Power & Gas, apart from continuing the organisational development of the subholding company and the subsidiary ERG CESA Eolica in line with business growth, the organisational set-up of the subsidiary ISAB Energy Services was reviewed and revised. More specifically, plant operation and maintenance activities were grouped together in the “Plant Management” Function, with the aim of optimising overall plant performance.

DEVELOPMENT

During 2006 we began implementing the new managerial development plan, which aims to maintain and develop high level managerial profiles and achieve a general level of excellence in the Group’s human resources. Managers and an initial group of “middle managers” have been very actively involved in revising the corporate competency model and HR management tools have been redesigned to support the development of resources and foster, via internal career paths, managerial growth.

INDUSTRIAL RELATIONS

During 2006 normal dialectics with the relevant trade union organisations continued, in a non-conflictual climate. The renewal process as regards the regulatory and economic part of the national collective labour agreement was completed on 30 March 2006.



CULTURAL AND SOCIAL ACTIVITIES

ERG AND CULTURE

Once again in 2006, ERG continued to develop and sponsor cultural activities.

The company is a founder member and supporter of the Edoardo Garrone Foundation, set up in 2004 and dedicated to the founder of ERG, as a natural development of the Garrone and Mondini families' involvement, as well as of ERG itself, in the social and cultural field.

The purpose of the Foundation is to promote cultural and social events, perform studies and research, and organise seminars and conferences, with the aim of contributing towards the dissemination, enjoyment and understanding of culture, art and science, as well as to actively cooperate in ethical and solidarity-inspired projects. In 2006 the Foundation, continuing along its strategic and operational path, financed and produced a number of important projects in Genoa and Syracuse.

At its headquarters in Genoa, Palazzo Ambrogio di Negro in Banchi, the Foundation organised "Le Virtù Repubblicane" (Republican Virtues), a cycle of meetings dedicated to the key issues of the Italian Constitution, and other cultural activities (conferences, readings, and exhibitions).

As part of the "Siracusa Futuro" project, the first course of the Scuola di Alti Studi in Economia del Turismo Culturale (School of Higher Studies in Economics of Cultural Tourism), Edoardo Garrone Chair, was inaugurated in Syracuse and took place in October and November.

The ERG Group has a great tradition of supporting cultural institutions and events.

ERG is a member of Civita, an association actively involved in the promotion and management of Italy's cultural heritage and in the safeguarding, enhancement and enjoyment of artistic and cultural assets through exhibitions, films and European projects.

In 2006, ERG sponsored the restoration and re-presentation to



Fondazione Edoardo Garrone



the public of the painting **The Burial of Saint Lucy** by Caravaggio, which returned to the church of Santa Lucia al Sepolcro in Syracuse after an absence of 35 years.

ERG sponsored the “Laboratorio Zelig”, a series of theatrical shows by young comedians making their debut, which took place at Genoa’s Teatro Cargo.

ERG also sponsored the sixth edition of “Circumnavigando” – the International Festival of Contemporary Theatre and Circus. The Festival, which took place in Genoa at the end of 2006, featured three main segments: theatrical performances in Genoa’s main squares, contemporary circus shows and a series of side events ranging from exhibitions held in collaboration with the Science Festival, to a European workshop and live shows held in the city’s historical palazzos.

ERG AND SOCIAL DEVELOPMENT

Solidarity and social commitment are part of ERG’s system of values.

In this spirit ERG supports above all the social realities closest to home. Its many, repeated interventions in Genoa and in the Syracuse area bear witness to this: donations to build or refurbish social, sports and education centres; organisation of cultural and sports events; scholarships; and projects for schools and for pre-school and senior citizen facilities.

ERG supported the “Concerto del Cuore” project, a charity evening whose proceeds were used to purchase a CAT scanner for Istituto Scientifico Pediatrico Giannina Gaslini of Genoa (the “Gaslini”, as it is affectionately known, is a leading children’s hospital and biomedical research institute).

ERG supports the activities of “Make a Wish Italia Onlus”, an important and highly respected worldwide charity organisation whose aim is to “make a dream come true” for children with serious illnesses, and to support their families.

In the Syracuse area ERG supports hospitals, local health departments, and research institutes via donations for the purchase of medical and healthcare machinery and equipment. It has donated a next generation ultrasound scanner and





mammography equipment to the local health unit.

ERG develops and organises, together with CIAPI (the International Centre for Integrated Professional Training), an initiative called "Il Capitale Invisibile" (Invisible Capital). The project, now in its fifth year, is intended to provide guidance to middle school students on choosing a subsequent training path, by way of a series of activities targeting the career tutors of the schools involved, the parents, and the children. The project involved over 1,000 pupils from comprehensive schools in the province of Syracuse.

The street education project for schools "La Strada siamo noi", together with the "Trofeo Archimede" and "Trofeo Elettra" projects, are important sports and educational events that ERG, again in 2006, financed and managed for the benefit of schools. Seminars, internships, tutoring and training courses in collaboration with schools and universities were also held at the Group's three headquarters. In the Syracuse area, there were also many school and university visits to ERG's industrial sites, as part of the company's longstanding "open doors" policy. The ERG Group supported the National Electricity Day, organised for the second year by Assoelettrica (the Italian association of electricity enterprises), opening the doors of ISAB Energy's cogeneration power station in Priolo Gargallo.

ERG promotes environmental sustainability projects and enhances the value both of natural resources and historical-archaeological assets. In this context, it has signed a memorandum of understanding with the Plemmirio Consortium to set up an interactive aquarium that reproduces the marine habitat and the biological diversity of Plemmirio's protected area. In particular, ERG plans to increase and enhance the social aims of the Plemmirio Marine Protected Area, with special reference to children and adolescents, and the disabled.

HEALTH PLAN

People's health and safety are a key value in ERG's business culture and represent a constant commitment in its relations with the community. The Health Plan is part of this. Its aim is to

carry out broad-ranging preventive campaigns with regard to cancer and other diseases as targeted by the Ministry for Health and/or the World Health Organisation.

The project – targeting all personnel who want to undergo voluntary full oncological screening – is being developed in collaboration with the local health authorities and in accordance with the suggestions of trade union organisations. During 2006 activity featured approximately 600 medical examinations. Conscious of the fact that prevention is achieved also via focused information and building of awareness, ERG has started publication of the periodical “Prevenzione Sanitaria News”. The aim of the publication is to involve personnel and health specialists, who – without limiting themselves to work-related illnesses – educate readers in the risks connected with their habits or life styles which, unbeknown to them, are harmful.

ERG AND SPORT

ERG is the official sponsor of U.C. Sampdoria, a football team that plays in Italy’s Serie A. Together, ERG and Sampdoria organise and support the “Torneo Ravano ERG”, the biggest school tournament in Europe, dedicated to primary school children. ERG was one of the sponsors of the 2005 edition of “Stelle nello Sport”, a project conceived and organised to promote sport in Liguria. ERG continued its support for the Italian water polo team “Pro Recco” which was European champion in the 2004-2005 season.

In the world of motor sports, ERG sponsored:

- Rally: the Fiat Grande Punto Super 2000 winner of the Italian championship;
- Enduro: one Italian title and two second places in the world championship with Honda;
- Motard: Italian champion and fifth place in the world championship with Honda;
- Offshore: fifth place in the world PowerBoat P1 championship.

ERG also sponsored the Women’s Basketball team Trogylos, which plays in Serie A1, past winners of the league championship (twice, in 1989 and 2000) and the Cupwinners Cup (1990).







SUMMARY OF
FINANCIAL
STATEMENTS

SUMMARY OF ERG GROUP FINANCIAL STATEMENTS

INCOME STATEMENT

(MILLION EURO)	2006	2005	2004
REVENUES FROM ORDINARY OPERATIONS	9,128.2	8,958.4	6,352.8
OTHER REVENUES AND INCOME	175.3	70.5	27.3
TOTAL REVENUES	9,303.4	9,028.8	6,380.1
PURCHASE EXPENSES AND CHANGES IN INVENTORY	(8,103.2)	(7,500.3)	(5,163.8)
SERVICES AND OTHER OPERATING COSTS	(758.3)	(659.9)	(633.2)
EBITDA	442.0	868.7	583.1
AMORTISATION, DEPRECIATION AND WRITE-DOWNS OF FIXED ASSETS	(157.1)	(156.2)	(149.9)
EBIT	284.8	712.5	433.2
NET FINANCIAL INCOME (EXPENSES)	(48.4)	(12.8)	(54.6)
NET INCOME (LOSS) FROM EQUITY INVESTMENTS	3.9	3.2	5.0
PROFIT BEFORE TAX	240.3	702.8	383.6
INCOME TAXES	(46.5)	(281.6)	(159.6)
PROFIT FOR THE PERIOD	193.8	421.3	224.0
MINORITY INTERESTS	(41.0)	(36.0)	(30.1)
GROUP NET PROFIT	152.8	385.2	193.9

(MILLION EURO)	2006	2005	2004
EBITDA	442.0	868.7	583.1
NET OF GAINS/LOSSES ON INVENTORY	27.7	(207.8)	(79.6)
NET OF NON-RECURRING ITEMS	(7.1)	(27.6)	0.0
EBITDA AT REPLACEMENT COST ⁽¹⁾	462.6	633.4	503.5
EBIT	284.8	712.5	433.2
NET OF GAINS/LOSSES ON INVENTORY	27.7	(207.8)	(79.6)
NET OF NON-RECURRING ITEMS	(7.1)	(27.6)	–
EBIT AT REPLACEMENT COST ⁽¹⁾	305.4	477.2	353.7
GROUP NET PROFIT	152.8	385.2	193.9
NET OF GAINS/LOSSES ON INVENTORY	17.4	(130.4)	(49.9)
NET OF NON-RECURRING ITEMS	(66.8)	(24.5)	–
GROUP NET PROFIT AT REPLACEMENT COST ⁽²⁾	103.4	230.4	144.0

⁽¹⁾ EBITDA and EBIT at replacement cost do not include inventory gains (losses) and non-recurring items

⁽²⁾ group net profit at replacement costs does not include inventory gains (losses) and non-recurring items net of related theoretical taxes

REVENUES FROM ORDINARY OPERATIONS

Revenues from sales mainly consist of revenues from the sale of petroleum products and electricity. Revenues from services refer mainly to income from third-party processing at the ISAB Nord Refinery and charges for internal consumption at Raffineria di Roma S.p.A. and Sarpom S.p.A.

The following table shows the breakdown of revenues by division:

(MILLION EURO)	2006	2005	2004
COASTAL REFINING	6,117.8	6,331.1	4,405.7
INTEGRATED DOWNSTREAM	3,629.4	3,174.0	2,190.3
POWER GENERATION	838.4	780.7	653.4
CORPORATE	18.5	17.6	23.7
INTERDIVISIONAL REVENUES	(1,476.0)	(1,345.1)	(920.2)
TOTAL	9,128.2	8,958.4	6,352.8

Coastal Refining revenues amounted to approximately Euro 6,118 million, lower than those of 2005 mainly because of lower quantities sold, only partly offset by higher selling prices.

Integrated Downstream revenues amounted to approximately Euro 3,629 million, with an increase of approximately Euro 455 million, mainly thanks to higher average selling prices.

Power Generation revenues amounted to approximately Euro 838 million, with an increase of approximately Euro 58 million, despite lower production, attributable to higher selling prices and to the consolidation of Enertad as from the fourth quarter of 2006.

OTHER REVENUES AND INCOME

Other income and revenues mainly comprise rental income, insurance reimbursements, indemnities, expense recoveries, and capital gains on the sale of fixed assets.

The increase over 2005 (which included the repayment of prior years' harbour dues totalling Euro 33 million) was mainly ascribable to insurance reimbursements for damage incurred by the plants, broken down as follows:

- Euro 98 million (of which 80 million for consequential damages) accorded to ERG Raffinerie Mediterranee (Coastal Refining) for the fire on 30 April involving the ISAB Nord Refinery;
- Euro 8 million accorded to ERG Nuove Centrali (Power Generation) for consequential damages arising from the ISAB Nord Refinery shutdown following the 30 April fire;
- Euro 12 million (of which 11 million for consequential damages) accorded to ISAB Energy (Power Generation) for the breakdown of a transformer of one of the two gas turbines on 10 April.

The increase was also due to income of approximately Euro 16 million relating to CO₂ emissions rights. This income is recognised in accounts only at the time of sale to third parties. The figure therefore does not take into account further potential gains from sales, not yet made, of allocated rights surplus to those effectively used.

PURCHASE EXPENSES AND CHANGES IN INVENTORY

Purchase expenses mainly relate to purchases of crude oil and other semi-finished products and also include transport costs and ancillary charges.

Purchase expenses increased by approximately Euro 157 million, despite the lower processing volume, due to the increase in crude oil prices.

As regards inventory – measured using the “weighted average cost” method – there was a decrease of approximately Euro 104 million in raw materials due to lower end-of-period quantities (-280 thousand tonnes in comparison with 31 December 2005) and an increase of approximately Euro 63 million for finished products (+174 thousand tonnes).

Apart from the exact end-of-period quantities, inventory change was also affected by the oscillation of raw-material and finished-product prices, which, based on the weighted average cost method, also impacts quantities which, compared with the beginning of the period, remained unchanged.

The comparison of inventory values with related realisable values led to a write-down of about Euro 10 million for raw materials and Euro 12 million for products.

In 2005 there was an increase of approximately Euro 271 million for raw materials and about Euro 133 million for finished products.

SERVICES AND OTHER OPERATING COSTS

Services costs include processing costs, determined in line with industry parameters, for the Trecate and Rome refineries, maintenance costs, commercial expenses (including product transportation costs), and the costs of insurance, marketing and other services provided by third parties.

Other operating costs mainly relate to labour costs, rental costs, and taxes other than income taxes.

The increase in costs of approximately Euro 98 million was mainly due to higher processing charges, maintenance costs, labour costs, insurance costs, utility costs, and to the costs relating to ISAB Energy’s obligation to purchase green certificates for the years 2005-2006 (Euro 15.3 million) following the decision of the Italian Electricity & Gas Authority on 21 December 2006.

AMORTISATION, DEPRECIATION AND WRITE-DOWNS

The following table shows the breakdown by division of the item “Amortisation, depreciation and write-downs”:

(MILLION EURO)	2006	2005	2004
COASTAL REFINING	53.0	56.8	57.0
INTEGRATED DOWNSTREAM	44.1	42.5	36.6
POWER GENERATION	57.3	54.7	53.9
CORPORATE	2.7	2.2	2.4
TOTAL	157.1	156.2	149.9

NET FINANCIAL INCOME (EXPENSES)

Financial income (expenses) include foreign exchange differences amounting to Euro -19.1 million (+6.9 million in 2005), the results of refining margin hedges amounting to Euro 13.1 million, and the effects of the fair value measurement of financial derivatives amounting to Euro 0.7 million.

In 2005 the item included interest of Euro 10.7 million on the repayment of harbour dues. Net of these amounts, there was an increase in financial expenses due to the increase in ERG's average indebtedness, also following the acquisition of Enertad.

NET INCOME (LOSS) FROM EQUITY INVESTMENTS

Income from investments includes the profit or loss of companies carried at equity.

INCOME TAXES

Income taxes, amounting to Euro 47 million, included Euro 128 million of current taxes, Euro 31 million of substitute taxes and a positive deferred tax balance of Euro 113 million. The positive deferred-tax effect was mainly due to the release of the provision of Euro 95 million following the tax realignment of assets⁽¹⁾.

NOTE

(1) pursuant to Italian Law no. 266/05, the fiscal value of "plant & machinery" present as at 31 December 2004 and still present as at 31 December 2005 has been aligned with the economic-technical value reported in the financial statements. Tax realignment of assets gave rise to a net positive effect on the consolidated accounts of Euro 64.2 million following the release of the deferred tax provision made in previous years at the full tax rate and amounting to Euro 94.7 million against posting of related substitute tax (12%) amounting to Euro 30.5 million

BALANCE SHEET

(MILLION EURO)	31/12/2006	31/12/2005	31/12/2004
FIXED ASSETS	2,431.7	1,902.7	1,816.3
NET WORKING CAPITAL	654.8	729.9	436.7
STAFF LEAVING INDEMNITIES	(33.1)	(34.1)	(34.0)
OTHER ASSETS	480.5	255.9	216.9
OTHER LIABILITIES	(779.6)	(877.1)	(652.8)
NET INVESTED CAPITAL	2,754.3	1,977.4	1,783.2
GROUP SHAREHOLDERS' EQUITY	1,218.8	1,143.1	842.3
MINORITY INTERESTS	179.5	65.7	57.9
NET FINANCIAL DEBT	1,356.0	768.6	883.0
SHAREHOLDERS' EQUITY AND FINANCIAL DEBT	2,754.3	1,977.4	1,783.2

As at 31 December 2006 net invested capital amounted to approximately Euro 2,754 million, with an increase of approximately Euro 777 million.

Financial leverage, expressed as the ratio of total net financial debt (including project financing) to net invested capital, was 49.2% (38.9% as at 31 December 2005).

FIXED ASSETS

Fixed assets include tangible, intangible and financial assets. The increase over the previous year was ascribable to the major investments made during the period, in particular in the Coastal Refining and Power Generation divisions, and to the change in consolidation area.

NET WORKING CAPITAL

Net working capital includes inventory, trade receivables and payables, and excise duties payable. The decrease in this item was due to the decline in total inventory value due, in turn, to both the exact end-of-period inventory level and the decrease in raw material and product prices which, based on the weighted average cost method, also affected the quantities that had not changed since the start of the period.

There was also a decrease in trade receivables and payables mainly relating to the decrease in prices.

OTHER ASSETS

These mainly consist of advance tax credits, receivables relating to IRES (corporation tax), and receivables relating to insurance indemnities.

The increase in the item was mainly due to the insurance reimbursements receivable for plant damage suffered in 2006.

OTHER LIABILITIES

These mainly concern deferred taxes calculated on the differences between statutory reporting values and corresponding fiscal values (mainly assets and inventory), tax payables (relating to estimated taxes for the year and VAT) and deferred income arising from deferred recognition in the income statement of the CIP 6 tariff increase on the electricity sales of the subsidiary ISAB Energy. The decrease compared to 31 December 2005 was mainly due to the release of the deferred taxation provision following tax realignment of assets and to lower taxes payable partly offset by the higher deferred taxes recorded within the scope of the “Enertad” business combination.

NET FINANCIAL DEBT

(MILLION EURO)	31/12/2006	31/12/2005	31/12/2004
MEDIUM/LONG-TERM FINANCIAL DEBT	782.4	624.8	666.9
SHORT-TERM FINANCIAL DEBT	573.5	143.8	216.1
TOTAL	1,356.0	768.6	883.0

The following table shows ERG’s medium/long-term financial debt:

(MILLION EURO)	31/12/2006	31/12/2005	31/12/2004
MEDIUM/LONG-TERM BANK BORROWINGS	543.2	362.0	281.4
CURRENT PORTION OF LOANS	(71.7)	(91.6)	(55.5)
MEDIUM/LONG-TERM FINANCIAL PAYABLES	20.7	21.7	21.7
TOTAL	492.2	292.1	247.6
MEDIUM/LONG-TERM PROJECT FINANCING	392.7	424.4	499.1
CURRENT PORTION OF PROJECT FINANCING	(102.5)	(91.7)	(79.8)
TOTAL PROJECT FINANCING	290.2	332.7	419.3
TOTAL	782.4	624.8	666.9

Medium/long-term financial payables relate to interest-bearing loans granted to ISAB Energy S.r.l. by IPM Eagle which, via its subsidiaries, holds 49% of the company; reimbursement is subject to compliance with the conditions specified in the project financing contract.

“Non-recourse Project Financing” payables relate to:

- Loans of Euro 334 million paid out to ISAB Energy S.r.l. by a pool of international banks. These loans were originally granted for an amount equal to approximately 90% of the cost of the cogeneration plant.
- Loans of Euro 59 million paid out in 2005 to Enertad’s subsidiaries for the construction of wind farms.

The breakdown of short-term financial debt was as follows:

(MILLION EURO)	31/12/2006	31/12/2005	31/12/2004
SHORT-TERM BANK BORROWINGS	646.0	193.6	254.1
OTHER SHORT-TERM FINANCIAL PAYABLES	29.4	11.0	111.2
SHORT-TERM FINANCIAL PAYABLES	675.4	204.6	365.3
CASH AND CASH EQUIVALENTS	(94.9)	(74.7)	(74.4)
SECURITIES AND OTHER SHORT-TERM FINANCIAL RECEIVABLES	(34.5)	(7.2)	(3.7)
SHORT-TERM FINANCIAL ASSETS	(129.4)	(81.9)	(78.1)
SHORT-TERM PROJECT FINANCING	102.5	91.7	79.8
CASH AND CASH EQUIVALENTS	(75.0)	(70.6)	(150.9)
PROJECT FINANCING	27.5	21.1	(71.1)
TOTAL	573.5	143.8	216.1

Other short-term financial payables primarily refer to short-term debts with IPM Eagle subsidiaries, liabilities deriving from the fair-value measurement of financial instruments, and the payable relating to the put option for Euro 17.2 million granted by Enertad to Trenitalia S.p.A. for 49% of the subsidiary Sodai Italia S.p.A., to be exercised in the period between 1 April and 31 May of the years 2007, 2008, and 2009.

Securities and other short-term financial receivables mainly refer to assets arising from the fair value measurement of financial instruments, amounts receivable from non-consolidated Group companies, and to insurance policies taken out by Enertad as security for the put option held by Trenitalia on the subsidiary Sodai Italia S.p.A.

The amount of cash and cash equivalents comprises the current account balances of ISAB Energy, restricted pursuant to the conditions specified in the project financing contract, and temporary liquidity at the end of the period.

For a more detailed analysis of changes in indebtedness, reference is made to the information already provided in the section "Comments on the results for the year".

Analysis of variations in net financial debt during the periods in question shows the following:

(MILLION EURO)	2006	2005	2004
CASH FLOW FROM OPERATING ACTIVITIES			
ADJUSTED CASH FLOW FROM CURRENT OPERATIONS ⁽¹⁾	355.6	714.0	506.0
PAYMENT OF INCOME TAXES	(260.1)	(203.0)	(31.4)
OTHER CHANGES IN OPERATING ASSETS AND LIABILITIES	(48.4)	(76.4)	127.2
TOTAL	47.1	434.6	601.8
CASH FLOW FROM INVESTMENT ACTIVITIES			
NET INVESTMENTS IN TANGIBLE AND INTANGIBLE FIXED ASSETS ⁽²⁾	(347.5)	(264.4)	(143.8)
NET INVESTMENTS IN FINANCIAL FIXED ASSETS	(9.7)	10.4	7.5
ENERTAD ACQUISITION	(153.8)	–	–
TOTAL	(511.0)	(254.0)	(136.3)
CASH FLOW FROM SHAREHOLDERS' EQUITY			
CAPITAL INCREASE	–	–	–
DIVIDENDS PAID	(97.0)	(70.4)	(50.5)
OTHER CHANGES IN SHAREHOLDERS' EQUITY	(16.4)	4.2	–
TOTAL	(113.5)	(66.2)	(50.5)
CHANGE IN SCOPE OF CONSOLIDATION	(10.0)	–	1.6
CHANGE IN NET FINANCIAL DEBT	(587.4)	114.4	416.6
NET FINANCIAL DEBT AT BEGINNING OF YEAR	768.6	883.0	1,299.5
CHANGE DURING THE YEAR	587.4	(114.4)	(416.6)
NET FINANCIAL DEBT AT CLOSE OF YEAR	1,356.0	768.6	883.0
⁽¹⁾ the item does not include inventory gains (losses), deferral of the CIP 6 tariff increase, current income tax for the period and insurance reimbursements not yet collected			
⁽²⁾ the item does not include capitalised cyclical maintenance costs			

Net cash flow generated from operating activities was positive by about Euro 47 million.

It should be remembered that, compared with the year's average, the level of indebtedness as at 31 December is adversely impacted by the advance payment of excise duties and VAT.

For a detailed analysis of investments carried out, reference is made to the specific section.

SUMMARY OF ERG S.P.A. FINANCIAL STATEMENTS

The statutory individual year-end financial statements of ERG S.p.A. as at 31 December 2006 have been drawn up on the basis of the International Accounting Standards promulgated by the International Accounting Standards Board (IASB) and approved by the European Union, inclusive of all international standards that have undergone interpretation (International Accounting Standards – IAS) and the interpretations of the International Financial Reporting Interpretation Committee (IFRIC) and of the previous Standing Interpretations Committee (SIC).

INCOME STATEMENT

(MILLION EURO)	2006	2005
NET INCOME FROM EQUITY INVESTMENTS	87.0	50.5
NET FINANCIAL INCOME (EXPENSES)	(10.5)	(5.3)
INCOME FROM ORDINARY OPERATIONS	76.5	45.1
OTHER OPERATING INCOME	26.8	24.4
OTHER OPERATING EXPENSES	(56.2)	(48.5)
PROFIT BEFORE TAXES	47.1	21.0
INCOME TAXES	15.0	13.4
NET PROFIT FOR THE YEAR	62.1	34.3

NET INCOME FROM EQUITY INVESTMENTS

Dividends posted in the periods considered derived mainly from the shareholdings in ERG Petroli S.p.A. and in ERG Power & Gas S.p.A.

NET FINANCIAL INCOME (EXPENSES)

Net financial expenses increased as a result of charges relating to acquisition of 51% of Enertad and the company's higher average debt.

OTHER OPERATING INCOME

The item mainly comprises revenues for services rendered to subsidiaries, as well as the recovery of costs charged back to Group companies.

OTHER OPERATING EXPENSES

Other operating expenses include service costs, lease and rental costs, miscellaneous operating expenses, labour costs and depreciation.

The increase in the item mainly related to costs – not capitalised, as per IAS 38 – concerning the study

of extraordinary operations and to higher costs incurred for the project to improve the Group's non-oil purchases (partly charged back to Group companies).

INCOME TAXES

The item includes the balance of taxes deriving from tax consolidation net of amounts to be recouped or to be attributed to Group companies. The net positive value mainly consists of the IRES tax on ERG S.p.A.'s 2006 tax loss, which is recouped immediately thanks to the tax consolidation mechanism.

BALANCE SHEET

(MILLION EURO)	31/12/2006	31/12/2005
FIXED ASSETS	448.4	294.7
NET WORKING CAPITAL	(6.1)	0.7
STAFF LEAVING INDEMNITIES	(3.9)	(3.9)
OTHER ASSETS	53.7	72.1
OTHER LIABILITIES	(35.8)	(61.4)
NET INVESTED CAPITAL	456.3	302.3
SHAREHOLDERS' EQUITY	98.7	106.8
NET FINANCIAL DEBT	357.6	195.5
SHAREHOLDERS' EQUITY AND FINANCIAL DEBT	456.3	302.3

As at 31 December 2006 net invested capital amounted to about Euro 456 million, with an increase of approximately Euro 154 million.

FIXED ASSETS

Fixed assets consist mainly of financial fixed assets. The change over the previous year was mainly attributable to the increase due to the acquisition of 51% of Enertad for Euro 154 million.

NET WORKING CAPITAL

Net working capital consists of trade receivables and payables mostly vis-à-vis Group companies. The decrease was due to higher trade payables mainly for services concerning the study and evaluation of extraordinary operations and for IT services.

OTHER ASSETS

These are primarily receivables due from Group companies in relation to tax consolidation and to Group VAT. The item also includes receivables for advance taxes and prepaid expenses.

OTHER LIABILITIES

These consist mainly of amounts payable to Group companies in relation to tax consolidation and to Group VAT.

NET FINANCIAL DEBT

(MILLION EURO)	31/12/2006	31/12/2005
MEDIUM/LONG-TERM FINANCIAL DEBT	270.3	94.1
SHORT-TERM FINANCIAL DEBT	87.3	101.4
TOTAL	357.6	195.5

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

(MILLION EURO)	31/12/2006	31/12/2005
MEDIUM/LONG-TERM BANK BORROWINGS	522.8	311.5
MEDIUM/LONG-TERM FINANCIAL RECEIVABLES	(180.9)	(175.9)
CURRENT PORTION OF LOANS	(71.6)	(41.5)
TOTAL	270.3	94.1

The increase in medium/long-term bank borrowings was due to the receipt of new loans obtained during 2006.

Medium/long-term financial receivables relate to a loan from ERG to ERG Raffinerie Mediterranee.

The breakdown of short-term financial debt was as shown below:

(MILLION EURO)	31/12/2006	31/12/2005
SHORT-TERM BANK BORROWINGS	71.6	44.5
OTHER SHORT-TERM FINANCIAL PAYABLES	7.5	2.4
SHORT-TERM PAYABLES DUE TO SUBSIDIARIES	166.5	271.5
SHORT-TERM GROSS FINANCIAL DEBT	245.6	318.4
CASH AND CASH EQUIVALENTS	(0.2)	–
SECURITIES AND OTHER MEDIUM/LONG-TERM FINANCIAL RECEIVABLES	(12.5)	–
SHORT-TERM RECEIVABLES FROM SUBSIDIARIES	(145.5)	(216.9)
SHORT-TERM FINANCIAL ASSETS	(158.3)	(216.9)
TOTAL	87.3	101.4

Short-term financial payables and receivables vis-à-vis subsidiaries mainly comprise the balances of the financial current and centralised treasury accounts operated with other Group companies as part of centralised management of Group finance.

Other short-term financial payables and receivables mainly include the fair value of derivatives in place at year-end.

The following table shows the changes in net financial debt for the two periods considered:

(MILLION EURO)	31/12/2006	31/12/2005
CASH FLOW FROM OPERATING ACTIVITIES		
CASH FLOW FROM ORDINARY OPERATIONS	65.8	36.5
CHANGES IN OPERATING ASSETS AND LIABILITIES	(1.5)	0.3
	64.2	36.7
CASH FLOW FROM INVESTMENT ACTIVITIES		
INVESTMENTS	(156.7)	(2.6)
DIVESTMENTS	0.4	2.4
	(156.2)	(0.2)
CASH FLOW FROM SHAREHOLDERS' EQUITY AND DIVIDENDS		
CAPITAL INCREASE AND SHARE PREMIUM RESERVE	–	–
DIVIDENDS PAID	(60.1)	(44.9)
OTHER CHANGES	(10.0)	0.1
	(70.1)	(44.8)
CHANGE IN FINANCIAL DEBT	(162.1)	(8.3)
NET FINANCIAL DEBT AT BEGINNING OF YEAR	195.5	187.2
CHANGE DURING THE YEAR	162.1	8.3
NET FINANCIAL DEBT AT CLOSE OF YEAR	357.6	195.5

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

COASTAL REFINING DIVISION

DYNERGY S.R.L. The company was established in July 2001 and is 37.5% owned by ERG Raffinerie Mediterranee. It provides technical and commercial consulting services to petroleum and petrochemical companies. The company's financial year ended on 30 June 2006 with a profit of Euro 0.1 million.

PRIOLO SERVIZI S.C.A.R.L. The company, established on 15 December 2006, is 37.8% owned by ERG Raffinerie Mediterranee and 21.5% owned by ERG Nuove Centrali. It will become operational during 2007 in the sector of ancillary factory services for companies in the Priolo petrochemical zone.

INTEGRATED DOWNSTREAM DIVISION (RETAIL NETWORK)

ERG PETROLI (SUISSE) S.A. The company, 99.45% owned by ERG Petroli S.p.A., operates a network of 16 service stations in the Canton of Ticino. During 2006 it recorded sales volumes above those of the previous year.

The company expects to close 2006 substantially at breakeven, with revenues of Euro 15.6 million.

PETROL COMPANY S.R.L. The company, 50% owned by ERG Petroli S.p.A., owns 31 service stations in Eastern Sicily. Sales volumes were substantially stable compared with the previous year. The company expects to close 2006 with revenues of Euro 2.4 million and a net profit of Euro 1.1 million.

MED OIL S.R.L. The company, established in December 2003, is 50% owned by ERG Petroli S.p.A. It has 15 service stations located in Central Italy. The company is in the development phase, and expects to close accounts as at 31 December 2006 substantially at breakeven.

INTEGRATED DOWNSTREAM DIVISION (WHOLESALE)

ELYO ITALIA S.R.L. The company, 40% owned by ERG Petroli S.p.A., controls a group of companies operating in the sale of petroleum products and in energy, technology and facility management services. The company's financial year, which ended on 30 September 2006, featured consolidated production value of Euro 544.7 million and consolidated net profit of Euro 3 million.

The investment in a cogeneration plant is moving ahead according to plan.

ENERPETROLI S.R.L. The company, 44.4% owned by ERG Petroli S.p.A., is a primary dealer in the Viterbo area, with both Retail and Wholesale networks. The company expects to close the year with revenues of Euro 114.9 million and a net profit of approximately Euro 2 million.

LAMPOGAS GROUP This is a group of four companies, all of which are 46.5% owned by ERG Petroli S.p.A. and are active in Northern Italy in the LPG distribution sector.

It expects to close 2006 with revenues of Euro 23.1 million and a total net profit of approximately Euro 0.8 million.

NATALIZIA PETROLI S.R.L. The company, 49% owned by ERG Petroli S.p.A., operates in the Lazio and Campania regions. It expects to close 2006 substantially at breakeven.

EUROPAM S.R.L. The company, 26% owned by ERG Petroli S.p.A., operates in both Wholesale and Retail and is developing its energy services sector. The company ended its financial year on 30 June 2006 with a profit of Euro 1 million after deducting depreciation totalling Euro 3.9 million. The company absorbed two companies operating in the same sector, and then increased its assets in the Retail sector by transfers of business from its shareholders. As a result of these operations, which were completed in the early months of 2006, ERG Petroli's percentage of ownership fell from 50.0% to 26.0%, and the company changed its name (formerly Opam Oils S.r.l.) to Europam S.r.l.

INTEGRATED DOWNSTREAM DIVISION (LOGISTICS)

SIGEA S.P.A. The company is 65% owned by ERG Petroli S.p.A. and 35% owned by Praoil S.p.A. SIGEA has a 40% stake in SIGEMI S.r.l., a percentage that corresponds to its share of use of SIGEMI's logistics system. The company expects to close 2006 with revenues of Euro 12.8 million, substantially breaking even.

INTEGRATED DOWNSTREAM DIVISION (INLAND REFINERIES)

RAFFINERIA DI ROMA S.P.A. The company expects to close the 2006 financial period, having achieved revenues of Euro 109.6 million, with a loss of approximately Euro 5.3 million.

During 2006 the refinery processed about 4.1 million tonnes of product (approximately 1.2 million tonnes of which were for ERG Petroli).

SARPOM S.P.A. The company, 25.86% owned by ERG Petroli S.p.A., expects to close the year with a profit of approximately Euro 1.1 million.

During 2006 the refinery processed approximately 7.6 million tonnes of product (of which 2.0 million tonnes for ERG Petroli).

POWER GENERATION DIVISION

ERG CESA EOLICA S.P.A. The company is 50% owned by ERG Power & Gas. During 2006 capital contributions totalling Euro 5.6 million were made in order to finance the company's operations.

The company expects to close 2006 with a loss of approximately 2.0 million.

ROMA ENERGIA S.R.L. The company, 20% owned by ERG Power & Gas, was founded in July 2001 with the aim of building a power station in the area adjacent to the Rome refinery.

The company expects to close 2006 with a small loss.

IONIO GAS S.R.L. The company, 50% owned by ERG Power & Gas, was founded in December 2005 with the aim of building a regasification plant in the area adjacent to the Melilli Refinery. The company

expects to close 2006 with a loss of about Euro 2.9 million due to initial costs that cannot be capitalised.

ISEA S.R.L. The company, 90% owned by ERG Power & Gas, was acquired on 10 November 2006 for a price of Euro 3.1 million. The company, which owns five mini hydro plants located in Northern Italy, expects to end 2006 with a substantially breakeven result.

TREASURY SHARES

During 2006, 648,590 shares were purchased for a total value of Euro 11.2 million to service the existing Stock Option Plan.

As at 31 December, ERG S.p.A. owned 655,456 shares for a value of Euro 11.2 million. In accordance with IAS 32, treasury shares are recorded as a reduction of shareholders' equity.

BRANCH OFFICES

ERG S.p.A. has its registered office in Milan and its main executive office in Genoa.

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

ERG S.p.A. manages and coordinates the operations of its directly and indirectly controlled subsidiaries. In particular, it defines business strategies and provides strategic guidelines for organisational aspects and personnel policies. It provides strategic finance and treasury services for the Group, together with management of tax matters, mainly in terms of tax planning, and management of communication policies, plus policies concerning environment, health and safety and IT systems. The directly and indirectly controlled subsidiaries managed and coordinated as described above are ERG Petroli S.p.A., ERG Raffinerie Mediterranee S.p.A., ERG Power & Gas S.p.A., ERG Nuove Centrali S.p.A., ISAB Energy S.r.l., ISAB Energy Services S.r.l., Gestioni Europa S.p.A., Gestioni Europa Due S.p.A., and SIGEA S.p.A. As regards the subsidiary Enertad S.p.A., the effective scope of management and coordination as regards this company will be specified during 2007.

In 2006 ERG S.p.A. continued managing the various directly and indirectly owned interests, also via service contracts for staff activities, for a total amount of Euro 18,510 thousand. ERG also received services for Euro 286 thousand from ERG Raffinerie Mediterranee S.p.A. ERG S.p.A. manages the treasury of a number of subsidiaries centrally and has financial current accounts with ERG Petroli S.p.A., ERG Raffinerie Mediterranee S.p.A. and ERG Power & Gas S.p.A. ERG S.p.A. also manages, as consolidator, the Group VAT and tax consolidation (both domestic and global) with the Group's main subsidiaries. All transactions refer to ordinary operations and are regulated at market conditions.

PRIVACY - SECURITY POLICY DOCUMENT

During 2006 the ERG Group updated its Security Policy Document, also in view of the technical and organisational changes made to the Group information system.

SHAREHOLDINGS OWNED BY DIRECTORS, STATUTORY AUDITORS, GENERAL MANAGERS, AND STRATEGICALLY ACCOUNTABLE MANAGERS

With reference to the relevant CONSOB resolutions, in the following table we show the shareholdings owned by Directors, Statutory Auditors, General Managers, and strategically accountable Managers in the company and in its subsidiaries.

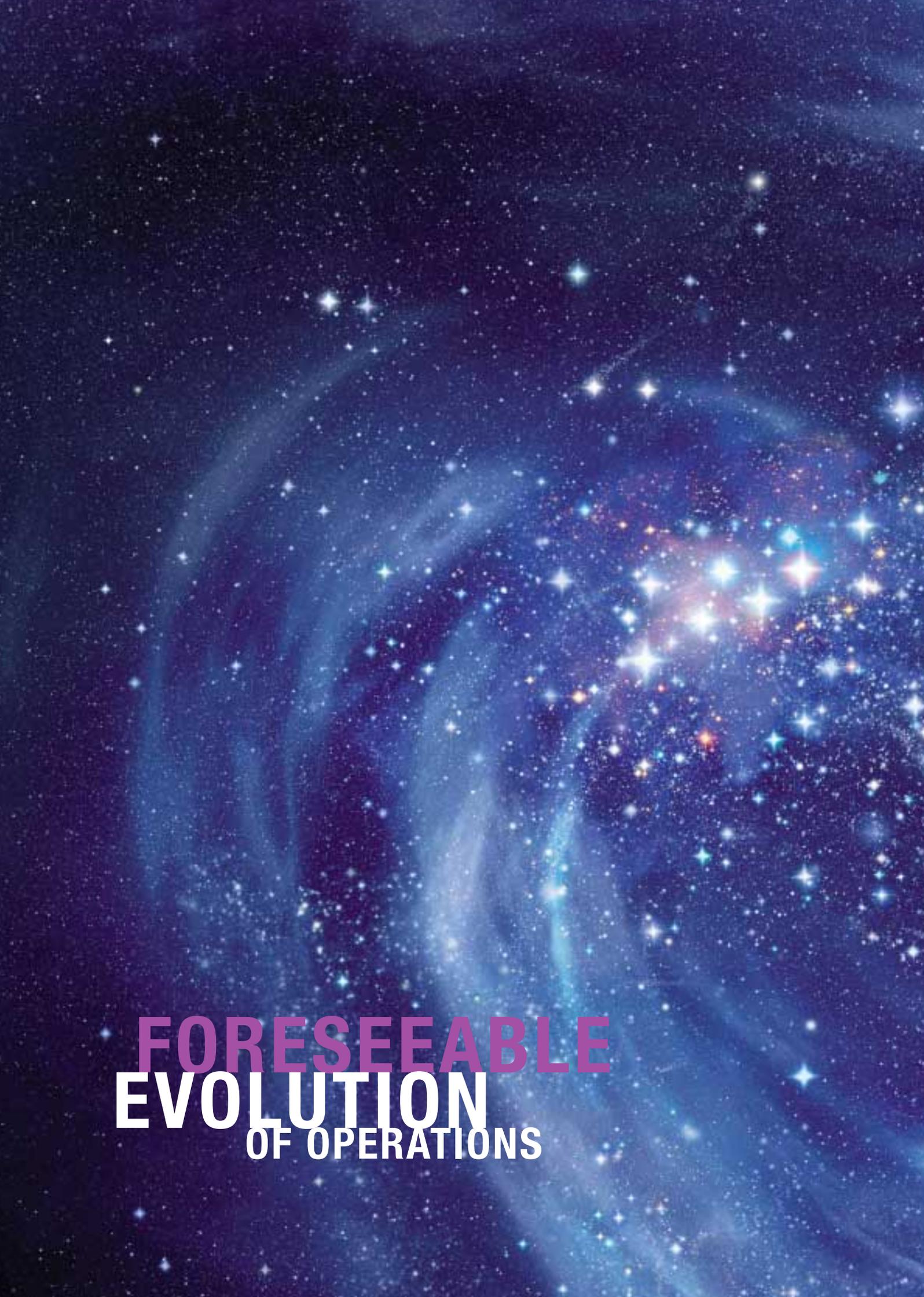
NAME	COMPANY	NUMBER OF SHARES HELD AT THE END OF THE PREVIOUS YEAR	NUMBER OF SHARES PURCHASED	NUMBER OF SHARES SOLD	NUMBER OF SHARES HELD AT THE END OF THE CURRENT YEAR
ALESSANDRO GARRONE	ERG S.P.A.	2,000	–	–	2,000
DOMENICO D'ARPIZIO	ERG S.P.A.	320,000	–	90,000	230,000
DOMENICO D'ARPIZIO	ENERTAD S.P.A.	–	20,000	–	20,000
PIETRO GIORDANO ⁽¹⁾	ERG S.P.A.	20,000	5,450	25,450	–
FABRIZIA GIORDANO	ERG S.P.A.	–	12,725	–	12,725
RICCARDO GIORDANO	ERG S.P.A.	–	12,725	–	12,725
GUIDO SEBASTIANO ZERBINO	ERG S.P.A.	2,000	–	–	2,000
MARIA CATERINA GASTALDO ⁽²⁾	ERG S.P.A.	985	–	–	985
ANDREA CARLO GUASTONI ⁽³⁾	ERG S.P.A.	–	1,333	1,333	–
MARIA GUASTONI ⁽³⁾	ERG S.P.A.	–	333	333	–
MARIA LUISA POZZOLI ⁽⁴⁾	ERG S.P.A.	–	630	–	630
STRATEGICALLY ACCOUNTABLE MANAGERS	ERG S.P.A.	6,350	–	–	6,350

⁽¹⁾ on 29/9/2006, the 25,450 shares were gifted to his daughter Fabrizia Giordano (12,725 shares) and son Riccardo Giordano (12,725 shares)

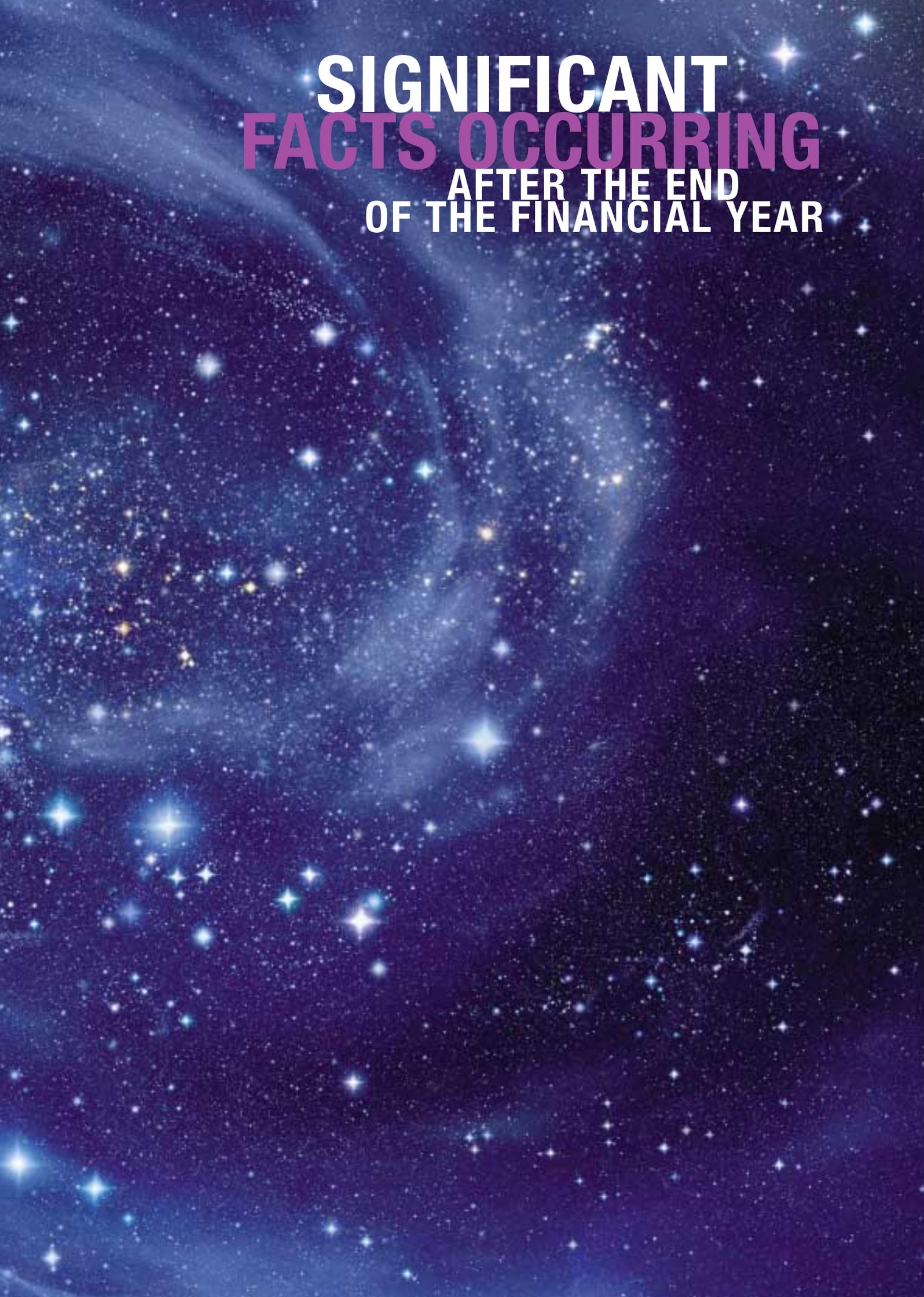
⁽²⁾ wife of Alfio Lamanna

⁽³⁾ son/daughter of Antonio Guastoni

⁽⁴⁾ wife of Antonio Guastoni and majority shareholder of the company ZEDAR Servizi Aziendali S.r.l., in whose name the shares are held



FORESEEABLE
EVOLUTION
OF OPERATIONS



**SIGNIFICANT
FACTS OCCURRING
AFTER THE END
OF THE FINANCIAL YEAR**

SIGNIFICANT FACTS OCCURRING AFTER THE END OF THE FINANCIAL YEAR

On **23 January** the Italian Antitrust Authority announced the launch of an enquiry – to be concluded by 31 March 2008 – to establish whether or not a potential agreement exists between oil companies with a view to jointly fixing fuel prices.

ERG has stated that it is willing to supply all data, information, and evaluation elements in order to clarify its position and total lack of involvement with the aforesaid charges.

As investors and the media have already been informed, ERG adopts a transparent methodology for recommended price formation, based on clear and objective criteria, which is duly divulged to its service station managers, the institutions and consumers.

On **12 February** the Board of Directors of ERG Power & Gas co-opted Raffaele Tognacca onto the Board and appointed him as Managing Director.

FORESEEABLE EVOLUTION OF OPERATIONS

COASTAL REFINING

Oil demand

In 2007 oil demand is expected to reach an average of 85.8 million barrels/day (source IEA). The average increase should be approximately 1.6% over 2006, equivalent to approximately 1.4 million barrels/day, mainly attributable to the non-OECD area.

Oil supply

Production in non-OPEC countries during 2007 should feature a further increase (topping the level of 52 million barrels/day), making a significant contribution towards meeting the expected growth in global demand. The parallel expected growth in OPEC production capacity should permit a progressive increase in reserve capacity.

Crude oil prices

In 2007 the increase in production capacity – without any worsening in geopolitical tensions – should allow crude oil prices to remain at lower levels than those recorded during 2006.

Brent-Ural differential

The Brent-Ural differential, influenced by demand which is constantly oriented towards light crudes, by the growing availability of crudes exported to the Mediterranean from the former Soviet Union countries, and by the good signs of recovery of Iraqi exports, should remain quite wide and in any event in line with the levels experienced in 2006.

Refining margins

The strong demand expected for middle distillates, together with the continued high utilisation of refining capacity, suggests that annual average margins should consolidate at good levels.

INTEGRATED DOWNSTREAM

For Retail, 2007 margins are expected to be in line with those of 2006, with a growth of market share. For Wholesale, the objective in 2007 is to consolidate the level of sales and margins achieved in 2006, particularly for diesel.

For Inland Refineries, in 2007 a still favourable economic scenario is expected, with satisfactory refining margins.

POWER GENERATION

The Power Generation division's activity will be focused on the continuation of its investment plan, with special reference to the repowering process underway and to the development of possible innovative investments on existing plants. Besides this, further growth will be pursued in the field of renewable energy, as regards both wind power and other sources, in the traditional thermoelectric sector and in the gas sector.

As regards ISAB Energy, 2007 is set to be a year of very strong commitment on the maintenance front in view of the 45-day general shutdown scheduled during the second quarter.

Also, during the last part of 2006, there were some regulatory interventions that might influence ISAB Energy's economic results in 2007:

- On 15 November the AEEG (Electricity & Gas Authority) published its resolution no. 249/06 establishing, with effect from 2007, new rules for calculating the CIP 6 tariff component relating to the so-called "avoided fuel cost". ISAB Energy has decided to oppose the resolution before the competent Regional Administrative Tribunal.
- On 1 December the Ministry for the Environment issued a decree containing the new plan for allocation of CO₂ quotas for the period 2008-2012. This decree apparently penalises ISAB Energy with respect to other electricity players in terms of quota allocation. In parallel, however, the AEEG intervened with a consultation paper published on 15 December 2006. The paper concerns the approach for reimbursement of possible costs for the purchase of CO₂ quotas relating to plants, such as ISAB Energy, operating on the basis of CIP 6 tariffs. The paper reflects ISAB Energy's position on the matter, as also documented in the opposition filed against the previous allocation plan.



MANAGEMENT INCENTIVE SCHEMES



CORPORATE **GOVERNANCE** POLICY

CORPORATE GOVERNANCE POLICY

EVOLUTION OF APPROACH

The current governance structure has been developed over time by gradually introducing rules of conduct in the ERG corporate approach reflecting the most advanced recognised principles of corporate governance. Even before the company was listed in October 1997, one of its key features was the focus on a proper relationship between management and shareholders and on ensuring that business operations were directed towards value creation.

This corporate policy was implemented via:

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

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

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

- Adoption of a Group Compensation Plan to align the interests of management with those of shareholders, and strengthen the relationship between managers and the company in terms of awareness of the importance of ERG stock's value and of continuity over time;
- Appointment of independent directors on the Board;
- Approval of a Code of Conduct for the directors of Group companies;
- Acceptance of the first edition (2002) of the Italian Corporate Governance Code for Listed Companies, which led to implementation of almost all the Code's recommendations;
- ERG's presence from 2001 to 2005 in STAR, a segment of the stock market introduced by Borsa Italiana S.p.A. (the company managing the Milan Bourse) to give significant visibility to companies prominent for the special attention paid to corporate governance matters;
- Definition of (a) guidelines for the identification and execution of significant transactions and of (b) other governance documents designed to assure transparent and timely management of the Group's relationship with the market;
- Introduction of a Code of Business Ethics as a tool for defining and communicating ERG's duties and responsibilities towards its stakeholders, as well as being an imperative element of an organisational and operational model consistent with the requirements of Italian Legislative Decree no. 231/2001;
- Amendment of the Articles of Association to bring them into line with the regulatory changes introduced by way by the Italian Company Law Reform.

CORPORATE ORGANISATION SYSTEM

ERG S.p.A.'s corporate organisation system complies with the requirements of the Italian Civil Code and of other, specific regulations relating to companies – in particular with those contained in Italian Legislative Decree no. 58 of 24 February 1998 (the Italian Consolidated Finance Act) – and, overall, reflects adherence to the Italian Corporate Governance Code for Listed Companies in its various editions, which have succeeded each other over the years.

This report refers to the 2002 edition of the Code but contains a specific section providing an overview of application – either already in place or to be implemented by the end of 2007 – of the 2006 edition of the Code.

The cornerstones of our corporate organisation are the statutory bodies, committees, functions, and corporate procedures.

STATUTORY BODIES

BOARD OF DIRECTORS

The current Board of Directors consists of 11 (eleven) members appointed by the Shareholders' Meeting held on 28 April 2006 and will hold office until the approval of annual financial statements for the year ending on 31 December 2008.

We point out that, in line with standard current practice, when shareholders' meetings are called to decide on the appointment of directors, candidates' curricula vitae are lodged at the company's registered office at least 10 days before the shareholders' meeting.

As regards renewal of the Board of Directors at the Shareholders' Meeting on 28 April 2006, we point out that candidates' curricula vitae were lodged at the company's registered office 15 days before the meeting and simultaneously published on the website www.erg.it.

Members:

EDOARDO GARRONE - Chairman

GIOVANNI MONDINI - Deputy Chairman

DOMENICO D'ARPIZIO - Deputy Chairman

PIETRO GIORDANO - Deputy Chairman

ALESSANDRO GARRONE - Chief Executive Officer

MASSIMO BELCREDI - Director

LINO CARDARELLI - Director

RICCARDO GARRONE - Director

GIUSEPPE GATTI - Director

ANTONIO GUASTONI - Director

PAOLO FRANCESCO LANZONI - Director

GIAN PIERO MONDINI - Director

GUIDO SEBASTIANO ZERBINO - Director

Of which:

Non-executive directors:

RICCARDO GARRONE

GIAN PIERO MONDINI

GUIDO SEBASTIANO ZERBINO

Independent directors:

MASSIMO BELCREDI

LINO CARDARELLI

ANTONIO GUASTONI

PAOLO FRANCESCO LANZONI

The Board of Directors checked that the directors listed above meet the necessary independence requisites at the time of their appointment, based on the criteria contained in the edition of the Italian Corporate Governance Code published in March 2006. It regularly checks (during the Board meeting held to examine the first quarterly interim report) that these requisites are still valid.

Other offices held by directors:

EDOARDO GARRONE	Director of Pininfarina S.p.A.
ALESSANDRO GARRONE	Director of BPC Investimenti SGR S.p.A. Director of Banca Passadore e C. S.p.A. Director of MutuiOnline S.p.A.
MASSIMO BELCREDI	Director of Arca SGR S.p.A.
LINO CARDARELLI	Deputy Chairman of Legler S.p.A. Deputy Chairman of Ambromobiliare S.p.A.
RICCARDO GARRONE	Chairman of Banco San Giorgio S.p.A. Chairman of Capitalimpresa S.p.A. Chairman of U.C. Sampdoria S.p.A.
GIUSEPPE GATTI	Chairman of Iride Mercato S.p.A. Chairman of Grandi Reti S.p.A. Director of Actelios S.p.A.
ANTONIO GUASTONI	Director of Editoriale Giorgio Mondadori S.p.A. Director of Leonardo SGR S.p.A. Director of Cairo Editore S.p.A. Chairman of Board of Statutory Auditors of Media Finanziaria di Partecipazioni S.p.A.
PAOLO FRANCESCO LANZONI	Managing Director of FIN. SAG S.r.l. Director of Impresa & Finanza SGR S.p.A. Director of Effusia SGR S.p.A.

Other attendees of Board meetings

The head of the Administration & Tax division and the head of Tax & Tax Consolidation attend Board

meetings during which draft annual accounts or specific administrative problems are reviewed and discussed.

Directors' remuneration

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

The Shareholders' Meeting also fixes the remuneration of the directors serving on committees within the Board.

The emoluments of the Chairman, Deputy Chairmen, and of the Chief Executive Officer are determined by the Board of Directors on the basis of a recommendation made by the Remuneration Committee.

Powers

The Board of Directors has delegated the Chairman, Edoardo Garrone, to manage, performing the tasks of supervision, direction, and control, the staff functions performed by the Corporate Affairs unit, as regards corporate affairs and internal auditing, and by the Institutional & International Relations division, giving him all powers to perform the assignment delegated to him.

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

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

The Board of Directors:

- Examines and approves the company's strategic, business, and financial plans and the corporate structure of the Group headed by the company;
- Examines and approves transactions of significant business, capital and financial importance, with special reference to related-party transactions;
- Checks the adequacy of the general administrative and organisational approach of the company and Group as set up by the CEO;
- Reports to shareholders at shareholders' meetings.

Furthermore, with a resolution dated 13 February 2003, the Board defined the guidelines for the identification and execution of significant transactions, examination and approval of which – as recommended by the Italian Corporate Governance Code – remain the exclusive responsibility of the Board.

The guidelines – the original text of which was amended for the first time with a Board resolution passed on 6 August 2004 and by subsequent resolutions passed on 13 February and 10 August 2006 – indicate the criteria to be used to identify major significant transactions. These criteria are quantitative and qualitative, stemming from the specific nature of the parties involved (transactions with related parties and infragroup transactions).

The document also identifies the principles of conduct to be applied in execution of transactions, with special reference to transactions initiated by subsidiaries, which must be examined and approved

beforehand by ERG S.p.A.'s Board of Directors, and to those with related parties, where it is necessary or appropriate to obtain the opinion of independent experts.

Frequency of Board meetings

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

During 2006 the Board of Directors held 15 meetings. It expects to hold no less than 9 meetings in 2007. When the nature of agenda items so permits, documentation concerning the matters to be examined is sent to directors prior to meetings.

BOARD OF STATUTORY AUDITORS

The present Board of Statutory Auditors was appointed by the shareholders' meeting held on 29 April 2004 and will remain in office until shareholders' approval of year-end financial statements for the year ended on 31 December 2006. In compliance with the Articles of Association, the Board of Statutory Auditors is appointed on the basis of lists presented by shareholders at least ten days prior to the shareholders' meeting, which must set out the names of candidates in numbered, sequential order. Only shareholders who, either individually or together with other shareholders, can demonstrate overall possession of at least 3% (three per cent) of the ordinary shares are entitled to present the lists. The said shares or the certificate issued by custodians, for at least the minimum quantity indicated above, must be lodged with the legal deadline established for the purpose of attendance of and participation in shareholders' meetings. Each shareholder can present, or participate in the presentation of, only one list and each candidate can appear on only one list, on pain of ineligibility. A description of the candidates' professional experience must be provided at the foot of the lists presented by shareholders, or as an attachment thereto.

Candidates already holding office as Standing Auditor in more than five listed companies cannot be appointed as statutory auditors.

We point out that the Board of Statutory Auditors has not deemed it appropriate to assess statutory auditors' independence as envisaged by the new principle introduced by the Italian Corporate Governance Code because its term of office will end at the time of the Shareholders' Meeting held to approve year-end accounts as at 31 December 2006.

Members:

ALFIO LAMANNA - Chairman

MARIO PACCIANI - Standing Auditor

FABRIZIO CAVALLI - Standing Auditor

UMBERTO TRENTI - Alternate Auditor

MICHELE CIPRIANI - Alternate Auditor

PAOLO FASCE - Alternate Auditor

Other offices held by Statutory Auditors on the Boards of Statutory Auditors of listed companies:

ALFIO LAMANNA	Standing Auditor of Premuda S.p.A.
MARIO PACCIANI	Chairman of Board of Statutory Auditors of Boero Bartolomeo S.p.A.
FABRIZIO CAVALLI	Standing Auditor of Pininfarina S.p.A.
PAOLO FASCE	Standing Auditor of Boero Bartolomeo S.p.A.

SHAREHOLDERS' MEETINGS

Meeting Regulation

At the Ordinary Shareholders' Meeting held on 27 April 2001 shareholders approved a regulation governing the proceedings of ordinary and extraordinary shareholder meetings.

Article 14 of our Articles of Association expressly gives the Ordinary Shareholders' Meeting the possibility of adopting a meeting regulation.

COMMITTEES

Board committees

The Board of Directors has set up an Internal Control Committee and a Remuneration Committee, with consultative and propositive functions.

Internal Control Committee

Members:

MASSIMO BELCREDI - Chairman

PAOLO FRANCESCO LANZONI

ANTONIO GUASTONI

The Chairman of the Board of Statutory Auditors or another Statutory Auditor takes part in this Committee's work. The Chairman of the Board of Directors and the CEO can also participate.

Depending on the topics discussed, Group management representatives also take part in the Committee's meetings.

Tasks

The Internal Control Committee has consultative and propositive functions vis-à-vis the Board of Directors.

More specifically, the Committee:

- Assists the Board of Directors in the following tasks envisaged by the Italian Corporate Governance Code for Listed Companies: definition of guidelines for internal control and corporate risk management; periodical verification of the adequacy and effective operation of the internal control system; and verification that the main corporate risks are suitably identified and managed.
- Evaluates the constant adequacy over time of the organisation and effective operation of the internal control and corporate risk management system.
- Assesses the work plan prepared by the person responsible for internal control and by the risk manager, then receiving regular periodic reports from them.

- Assesses, together with the company's administrative managers and independent auditors, the adequacy of the accounting standards and policies used and their uniformity for the purposes of preparation of consolidated financial statements.
- Evaluates the proposals for award of the independent auditing assignment made by independent auditing firms, as well as the work plan drawn up for the audit and the findings contained in the report and in the letter of recommendations, if any.
- Maintains appropriate contacts with the independent auditor, the Board of Statutory Auditors, the internal control and corporate risk management system and with the other functions in the Group organisation that interface with these entities, so as to contribute to the effective and coordinated operation of their respective activities in common areas of action.
- Reports to the Board, at least every six months, during approval of the annual financial statements and half-yearly report, on its activities and on the adequacy of the internal control and corporate risk management system.
- Assists the Supervisory Committee, set up in accordance with the requirements of Italian Legislative Decree no. 231/01, in performing the tasks assigned to it by the aforesaid regulation, giving adequate support as regards the more specifically organisational and preventative aspects related to such tasks and assuring the necessary liaison with the Board of Directors.
- Assesses the constant adequacy over time of the corporate procedures designed to regulate, in operational terms, the external disclosure of documents and information concerning the company and Group, with special reference to price-sensitive information.
- Provides the Board, the Chairman and the Chief Executive Officer with any other consultative and propositive input, deemed by the Committee to be necessary or useful for improving performance of their respective responsibilities in the areas of corporate control and information disclosure.
- Carries out any other tasks assigned to it by the Board of Directors.

During 2006 the Committee held 12 meetings. During these meetings, besides prior review of the statutory individual annual report & accounts and of the half-yearly report, the Committee examined the Internal Auditing function's work plan and the Supervisory Committee's activity plan.

It expressed opinions on the finalisation or revision of some governance documents. It examined the implications of the market-abuse regulation and the adjustments to be made to the Articles of Association following the coming into force of Italian Law no. 262/05. It checked application of Articles 2497 et seq. of the Italian Civil Code. It expressed a positive opinion on the document concerning the Group's risk management policy. It examined the organisational & operating model of ERG S.p.A. and of the operating subsidiaries. Lastly, it reviewed the new Italian Corporate Governance Code for Listed Companies, making a recommendation to the Board of Directors concerning formal adherence to the new Code.

Remuneration Committee

Members:

MASSIMO BELCREDI

PAOLO FRANCESCO LANZONI

GUIDO SEBASTIANO ZERBINO

The CEO takes part in this Committee's work.

Tasks

The Remuneration Committee makes recommendations to the Board regarding the remuneration of the CEO and of directors holding specific positions offices, as well as recommendations, at the CEO's request, for setting criteria for remuneration of the company's senior management and for the definition of Group management incentive scheme. In order to optimise performance of these tasks, the Committee may use the services of outside consultants, paid by the company. Whenever the Committee discusses elaboration of its recommendations for remuneration of the Chairman and CEO, the latter leaves the meeting.

During 2006 the committee held 6 meetings, during which recommendations were prepared concerning (a) the emoluments of the CEO and of other directors holding specific positions in the Board; (b) definition of targets for 2006 in relation to the short-term incentive scheme; (c) value creation achieved in 2005, and (d) the number of rights to be allocated to the Chairman, to two Deputy Chairmen, and to the CEO for the second year of the long-term incentive scheme. In addition, the Committee reviewed – expressing a positive opinion – a document illustrating the Group's management compensation policy.

Appointments Committee

The Board of Directors has not deemed it appropriate to set up an Appointments Committee, since it was considered not to be consistent with the present shareholder structure and the way in which relationships between the latter and the Board of Directors operate.

Strategic Committee

On 28 April 2006 the Board of Directors revised the mission and membership of the Strategic Committee, originally created in August 2002 as the Strategy & Finance Committee.

Members:

DOMENICO D'ARPIZIO – Chairman

EDOARDO GARRONE

ALESSANDRO GARRONE

GIOVANNI MONDINI

PIETRO GIORDANO

The Committee plays a consultative role and also a role of assistance vis-à-vis the CEO and Board of

Directors of the holding company and of operating companies. Its activity takes the form of prior evaluation of:

- The main strategic choices set to affect the business activity of Group companies and business portfolio balance;
- Long-term strategic business plans defined by the holding company;
- Individual strategic or major Group projects, as defined in the Investment Process Guidelines;
- Strategic finance policies;
- Individual extraordinary finance operations.

CORPORATE FUNCTIONS AND PROCEDURES

The corporate functions and procedures that are important in terms of their effects on the company's overall governance approach are the following:

- The internal control system;
- Investor relations;
- Rules concerning the handling of sensitive and confidential information;
- Procedure for public dissemination of announcements and information;
- Guidelines for identification and execution of significant transactions;
- Code of Conduct for directors of Group companies;
- Subholding company reporting procedure for significant transactions;
- Procedure for execution of related-party transactions.

The internal control system

The internal control system operating within the Group is not a separate and specific corporate function, but consists of the coordinated operations of various organisational functions assigned responsibilities pertaining to the overall control activity.

These functions are primarily Internal Auditing, Budget Control, and Administration & Tax. They are joined by other functions whose responsibilities include monitoring the compliance of corporate actions with current laws and regulations.

The internal control system – which has historically been headed by the person in charge of the Administration & Tax division but which, during 2007, will be formally indicated as being headed by the Internal Auditing manager – is monitored by the Internal Control Committee on behalf of the Board of Directors and of the CEO, who is responsible for assuring its functionality and adequacy.

Supervisory Committee

On 10 March 2005, the Board of Directors of ERG S.p.A. changed the structure of the Supervisory Committee, previously enshrined in the Internal Auditing function, by creating a committee of five members, i.e. the independent director Paolo Francesco Lanzoni, as Chairman, and the heads of the company's Auditing, Corporate Security, Human Resources and Legal & Corporate Affairs functions. The Supervisory Committee, which maintains a direct and ongoing relationship with the Internal

Control Committee, performs its activity within the parent company. As regards subholding companies, each of them has appointed its own Supervisory Committee consisting of the independent director of Erg S.p.A., Paolo Francesco Lanzoni, as Chairman, the head of the holding company's Corporate Security function, Luigi Bricocoli, and of the subholdings' respective Human Resources managers. As instead regards the listed subsidiary Enertad S.p.A., the Supervisory Committee consists of Paolo Francesco Lanzoni (Chairman), Luigi Bricocoli, Renzo Fossati, Danilo Lodola, and Claudio Pirani.

Investor relations

The company manages relationships with its shareholders, institutional investors and the market by means of the investor relations function, which is part of the Finance division.

As part of investor relations activities, meetings are regularly arranged both in Italy and abroad with representatives of the financial community. ERG's policy is to provide the fullest possible information on its activities and strategies, also via constant updating and innovation of its website.

Rules for the handling of sensitive and confidential information

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

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

These instructions and rules were revised during 2006 to adapt them to the new regulations introduced by Italian Law no. 62 of 18 April 2005.

Procedure for public dissemination of statements and information

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

The procedure defines the tasks and responsibilities of the functions involved, identifies the criteria, methods and timing of the various procedural stages, and establishes the appropriate decision-making levels for the dissemination of statements and information.

The procedure was revised during 2006 to adapt it to the new regulations introduced by Italian Law no. 62 of 18 April 2005.

Guidelines for the identification and execution of significant transactions

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

Code of Conduct for directors of Group companies

With a resolution dated 21 March 2000, the Board of Directors adopted a Code of Conduct for directors appointed in Group companies, in order to provide them with uniform rules of conduct for performing their duties within a systematic framework of reference and in observance of corporate governance principles. Bearing in mind, however, the formal aspects inherent in directors' responsibilities and the relationship between the individual companies appointing them and the Group, it was decided not to make the Code compulsory, instead accentuating its spirit of moral suasion, the aim of this being to assure that its application, when the Code requires directors to conduct themselves in specific ways, is the result of spontaneous support for the Code rather than mere performance of a duty.

The Code was modified by a Board resolution on 5 August 2005, in order to adapt it to Italian Company Law Reform.

Subholding company reporting procedure for significant transactions

On 14 March 2006 the Board of Directors passed a resolution introducing a reporting procedure in compliance with which subholding companies – based on a specified approach and timing – inform the parent company of transactions, qualifying as significant according to the guidelines mentioned above, that they have undertaken directly, applying exceptions envisaged in the guidelines.

Procedure for execution of related-party transactions

On 14 March 2006 the Board of Directors passed a resolution which, to complete the provisions made in the guidelines for identification and execution of significant transactions, introduces a procedure indicating the criteria and approach to be applied in the execution of related-party transactions.

Code of Conduct regarding transactions in financial instruments issued by

ERG S.p.A. (Internal Dealing)

In compliance with Articles 2.6.3 and 2.6.4 of the "Regulation for markets organised and managed by Borsa Italiana S.p.A.", the Board of Directors adopted a Code of Conduct which aims to render transparent financial transactions executed by Relevant Persons, i.e. by those persons who, by virtue of their positions within the Group, have major decision-making power or significant knowledge of corporate strategies such as to give them an advantage in their investment decisions concerning financial instruments issued by the company.

This document has become obsolete, as from 1 April 2006, due to the coming into force of the new Internal Dealing rules introduced by Italian Law no. 62 of 18 April 2005.

Adherence to the Italian Corporate Governance Code published in March 2006

With the Board resolution passed on 19 December 2006, ERG S.p.A. officially adhered to the new Italian Corporate Governance Code for Listed Companies published in March 2006.

As per the requirements of Section IA.2.6 of the Instructions accompanying the Regulation for Markets Organised and Managed by Borsa Italiana S.p.A., and applying the guidelines given in the joint memorandum of Borsa Italiana S.p.A. and Assonime (the Italian association of joint stock companies) of

16 November 2006, below we provide information on the status of adaptation of ERG S.p.A.'s corporate governance system to the recommendations contained in the new Code.

1. Board of Directors' Role

ERG's corporate governance system is already consistent with the new principles introduced in the Code, with the exception of the requirements indicated in the following points:

- **1.C.1. letter g):** "At least once a year the Board of Directors performs an evaluation of the Board's size and membership and of the operation of the Board itself and of its committees, expressing orientations, if any, concerning the professional figures whose presence on the Board is considered appropriate".
- **1.C.3.:** "The Board of Directors expresses its orientation concerning the maximum number of offices held as director or statutory auditor that can be considered compatible with effective performance of office as a director of the issuer. To this end it identifies general criteria differentiated according to the degree of commitment connected with each role, also in relation to the nature and size of companies where such offices are held, and to their membership of the issuer's group. Directors' membership of committees set up within the Board can also be taken into account".

During 2007 ERG S.p.A.'s Board of Directors will have to pass a resolution defining how to put the recommendation in point **1.C.3.** into practice.

As instead regards the recommendation in point **1.C.1. letter g)**, reference is made to Article 3. Independent directors, below.

2. Board of Directors' Membership

ERG's governance system is already consistent with the new principles introduced in the Code.

3. Independent directors

ERG's governance system is already consistent with the new principles introduced in the Code since, as already highlighted in the earlier section concerning the Board of Directors, the independence of directors appointed by the Shareholders' Meeting on 28 April 2006 was assessed according to the criteria contained in the March 2006 edition of the Italian Corporate Governance Code.

We point out only the application rule **3.C.6.:** "Independent directors meet at least once a year in the other directors' absence". Criterion **3.C.6.** will be put into practice. One of the items on this meeting's agenda will be performance of investigatory and support activities for the Board concerning the self-assessment recommended in the new Code of the Board's size, membership and operation.

Information on this investigatory and assessment activity will be provided in our Annual Corporate Governance Report.

4. Handling of corporate information

ERG's governance system is already consistent with the new principles introduced in the Code.

5. Creation and operation of internal committees of the Board of Directors

ERG's governance system is already consistent with the new principles introduced in the Code.

6. Appointment of directors

ERG's governance system is already consistent with the new principles introduced in the Code.

We note the provisions of the point shown below, which was already present in the previous edition of the Code.

6.P.2.: "The Board of Directors evaluates whether to set up and appointments committee – with the majority of its members consisting of independent directors – inside the Board".

ERG's Board of Directors confirms its evaluation, based on which it is believed that, given the company's shareholder structure, an appointments committee is not necessary.

7. Directors' remuneration

ERG's governance system is already consistent with the new principles introduced in the Code.

8. Internal control system

ERG's governance system is already consistent with the new principles introduced in the Code except for what is envisaged in the following point:

8.C.1.: "The Board of Directors, aided by the Internal Control Committee, identifies an executive director (normally the CEO) made responsible for overseeing the internal control system's functionality, and, having received the Internal Control Committee's opinion, appoints or revokes one or more internal control supervisors and defines their remuneration consistently with corporate policies".

The Board of Directors will:

- Identify the executive director appointed to oversee the internal control system's functionality;
- Appoint, as proposed by the director made responsible for overseeing the internal control system's functionality, an internal control manager;
- Identify this manager in the Internal Auditing function.

9. Directors' interests and related-party transactions

ERG's governance system is already consistent with the new principles introduced in the Code except for what is envisaged in the following point:

9.C.1.: "The Board of Directors, having consulted with the Internal Control Committee, establishes the approach for approval and execution of transactions undertaken by the issuer, or by its subsidiaries, with related parties. More specifically, it defines the specific transactions (or determines the criteria for identifying transactions) which must be approved after an opinion is expressed by the Internal Control Committee and/or with the assistance of independent experts".

The Board of Directors will supplement the rules of conduct for related-party transactions by defining specific criteria for transactions requiring approval by the Board with the assistance of independent experts, plus the approach for appointing such experts.

10. Statutory auditors

ERG's governance system is already consistent with the new principles introduced in the Code with the exception of the following points:

10.C.2.: “Statutory auditors are chosen from among persons who can be rated as independent also based on the criteria envisaged by the Code for directors. The Board of Statutory Auditors checks observance of the said criteria after appointment and annually thereafter, reporting on the outcome of this check in the annual corporate governance report”.

3.C.5.: “The Board of Statutory Auditors, as part of the tasks attributed to it by law, checks proper application of the criteria and verification procedures adopted by the Board of Directors to assess its members. The outcome of these controls is disclosed to the market in the annual corporate governance report or in the statutory auditors’ report to the shareholders’ meeting”.

We point out that the Board of Statutory Auditors currently holding office will lapse at the time of the Shareholders’ Meeting held to approve year-end accounts as at 31 December 2006.

11. Shareholder relations

ERG’s governance system is already consistent with the new principles introduced in the Code.

Timing of adaptation

The process of adapting ERG’s governance system to the new Italian Corporate Governance Code will be completed by the end of 2007.

Commitment

With this statement made by the Board of Directors, ERG wishes to confirm its commitment to:

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

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

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

TABLE 1

STRUCTURE OF BOARD OF DIRECTORS AND COMMITTEES

BOARD OF DIRECTORS						
OFFICE	MEMBERS	EXECUTIVE	NON-EXECUTIVE	INDEPENDENT	****	
CHAIRMAN	EDOARDO GARRONE ^(a)	YES			100%	
DEPUTY CHAIRMAN	GIOVANNI MONDINI	YES			93%	
DEPUTY CHAIRMAN	DOMENICO D'ARPIZIO	YES			93%	
DEPUTY CHAIRMAN	PIETRO GIORDANO ^(b)	YES			100%	
CHIEF EXECUTIVE OFFICER	ALESSANDRO GARRONE	YES			100%	
DIRECTOR	MASSIMO BELCREDI			YES	100%	
DIRECTOR	PASQUALE CARDARELLI ^(b)			YES	91%	
DIRECTOR	RICCARDO GARRONE		YES		93%	
DIRECTOR	GIUSEPPE GATTI	YES			93%	
DIRECTOR	ANTONIO GUASTONI			YES	93%	
DIRECTOR	PAOLO FRANCESCO LANZONI			YES	100%	
DIRECTOR	GIAN PIERO MONDINI		YES		100%	
DIRECTOR	GUIDO SEBASTIANO ZERBINO		YES		100%	
NUMBER OF MEETINGS HELD DURING THE YEAR IN QUESTION		BOD: 15	INTERNAL CONTROL COMMITTEE: 12			

NOTES

* the asterisk indicates whether the director has been designated via lists presented by minority shareholders

** this column shows the number of directorships or statutory auditor appointments held by the person concerned in other companies listed in Italian or foreign regulated markets, in financial/banking/insurance companies, or in companies of major size. In the annual corporate governance report any such offices are indicated in full detail

*** in this column an "X" indicates a Board member's membership of a given committee

**** this column indicates directors' percent attendance respectively of BoD and Committee meetings.

(a) member of the Remuneration Committee until 28 April 2006

(b) appointed on 28 April 2006

	INTERNAL CONTROL COMMITTEE		REMUNERATION COMMITTEE		APPOINTMENTS COMMITTEE (IF ANY)		EXECUTIVE COMMITTEE (IF ANY)	
	***	****	***	****	***	****	***	****
NUMBER OF OTHER OFFICES **			X ^(a)	50%	=	=	=	=
					=	=	=	=
					=	=	=	=
		100%			=	=	=	=
	X	100%	X	100%	=	=	=	=
					=	=	=	=
					=	=	=	=
	X	100%			=	=	=	=
	X	92%	X	100%	=	=	=	=
					=	=	=	=
			X	100%	=	=	=	=
REMUNERATION COMMITTEE: 6			APPOINTMENTS COMMITTEE: =			EXECUTIVE COMMITTEE: =		

TABLE 2

BOARD OF STATUTORY AUDITORS

OFFICE	MEMBERS	% ATTENDANCE OF MEETINGS OF BOARD OF STATUTORY AUDITORS	NUMBER OF OTHER OFFICES**
CHAIRMAN	ALFIO LAMANNA	100%	1
STANDING AUDITOR	MARIO PACCIANI	100%	1
STANDING AUDITOR	FABRIZIO CAVALLI	100%	1
ALTERNATE AUDITOR	UMBERTO TRENTI		–
ALTERNATE AUDITOR	MICHELE CIPRIANI		–
ALTERNATE AUDITOR	PAOLO FASCE		1
NUMBER OF MEETINGS HELD DURING THE YEAR IN QUESTION: 7			
QUORUM REQUIRED FOR SUBMITTAL OF LISTS BY MINORITY SHAREHOLDERS FOR THE ELECTION OF ONE OR MORE STANDING AUDITORS (AS PER ART. 148 OF ITALIAN CONSOLIDATED FINANCE ACT): 3%			
NOTES			
* the asterisk indicates whether the statutory auditor has been designated via lists presented by minority shareholders			
** this column shows the number of directorships or statutory auditor appointments held by the person concerned in other companies listed in Italian regulated markets. In the annual corporate governance report any such offices are indicated in full detail			

TABLE 3

OTHER PROVISIONS OF ITALIAN CORPORATE GOVERNANCE CODE

	YES	NO	SUMMARY OF REASONS FOR ANY DEPARTURES FROM CODE RECOMMENDATIONS
POWER DELEGATION AND RELATED-PARTY TRANSACTION SYSTEM			
HAS THE BOD DELEGATED POWERS DEFINING THEIR:	X		
A) LIMITS?	X		
B) METHOD OF EXERCISE?	X		
C) FREQUENCY OF REPORTING?	X		
HAS THE BOD RESERVED AS ITS PREROGATIVE THE REVIEW AND APPROVAL OF TRANSACTIONS PARTICULARLY IMPORTANT IN BUSINESS, CAPITAL AND FINANCIAL TERMS (INCLUDING RELATED-PARTY TRANSACTIONS)?	X		
HAS THE BOD DEFINED GUIDELINES AND CRITERIA FOR IDENTIFICATION OF "SIGNIFICANT" TRANSACTIONS?	X		
ARE THE ABOVE GUIDELINES AND CRITERIA DESCRIBED IN THE REPORT?	X		SUMMARILY
DOES THE BOARD HAVE APPROPRIATE PROCEDURES FOR THE EXAMINATION AND APPROVAL OF TRANSACTIONS WITH ASSOCIATED PARTIES?	X		
ARE THE PROCEDURES FOR APPROVAL OF TRANSACTIONS WITH ASSOCIATED PARTIES DESCRIBED IN THE REPORT?	X		SUMMARILY
PROCEDURES FOR MOST RECENT APPOINTMENT OF DIRECTORS AND STATUTORY AUDITORS			
WERE CANDIDACIES FOR DIRECTORSHIP LODGED AT LEAST 10 DAYS BEFOREHAND?	X		
WERE CANDIDACIES FOR DIRECTORSHIP ACCOMPANIED BY EXHAUSTIVE INFORMATION?	X		
WERE CANDIDACIES FOR DIRECTORSHIP ACCOMPANIED BY AN INDICATION OF ELIGIBILITY FOR CLASSIFICATION AS INDEPENDENT DIRECTORS?	X		
WERE CANDIDACIES FOR THE OFFICE OF STATUTORY AUDITOR LODGED AT LEAST 10 DAYS BEFOREHAND?	X		
WERE CANDIDACIES FOR THE OFFICE OF STATUTORY AUDITOR ACCOMPANIED BY EXHAUSTIVE INFORMATION?	X		
SHAREHOLDERS' MEETINGS			
HAS THE COMPANY APPROVED A REGULATION FOR SHAREHOLDERS' MEETING?	X		
IS THE REGULATION ATTACHED TO THE REPORT (OR IS IT INDICATED WHERE IT CAN BE OBTAINED/DOWNLOADED)?	X		
INTERNAL CONTROL			
HAS THE COMPANY APPOINTED INTERNAL CONTROLLERS?	X		
ARE THE INTERNAL CONTROLLERS FREE OF HIERARCHICAL RELATIONSHIPS WITH THE HEADS OF OPERATING AREAS?		X	THE INTERNAL CONTROLLER HAS BEEN IDENTIFIED AS BEING THE HEAD OF THE ADMINISTRATION & TAX DIVISION DUE TO THE FACT THAT BUSINESS ACTIVITY IS PERFORMED VIA PROCESSES IN WHICH THE DIVISION IS THE FINAL STAGE.
ORGANISATIONAL UNIT RESPONSIBLE FOR INTERNAL CONTROL (AS PER ART. 9.3 OF THE CODE)			ADMINISTRATION & TAX DIVISION
INVESTOR RELATIONS			
HAS THE COMPANY APPOINTED AN INVESTOR RELATIONS MANAGER?	X		
ORGANISATIONAL UNIT AND CONTACT DETAILS (ADDRESS/TELEPHONE/FAX/E-MAIL) OF INVESTOR RELATIONS MANAGER			FINANCE DIVISION JONATHAN GIBSON GENOVA, VIA DE MARINI, 1 TEL. +39 010 2401513 – FAX +39 010 2401598 E-MAIL: JGIBSON@ERG.IT

MANAGEMENT INCENTIVE SCHEMES

The following information is provided in accordance with CONSOB recommendation no. 11508 of 15 February 2000.

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

More specifically, at senior top management level, the plan provided for:

- "Basic" compensation partly linked to ERG's share price performance during the year;
- Annual "bonuses" linked to "value creation" achieved during the year and calculated in proportion to the entity of value achieved;
- Long-term incentive schemes, ascribing benefits to management in proportion to share price performance, once again linked to "value creation" achieved during the period of reference.

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

To this end, during 2004, using the services of qualified experts, the Committee completed its review of the plan. It did so defining a new short-term incentive system, which envisaged payment to executives and top management, based on a differentiated approach, of annual bonuses, calculated on the basis both of company performance and of achievement of individual goals.

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

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

The new short- and long-term incentive schemes are illustrated below.

The short-term incentive plan, approved by ERG S.p.A.'s Board of Directors on 12 November 2004, is based on a number of fundamental objectives that can be summarised as being to:

- Introduce a single incentive system comprising both company and individual performance;
- Define a market-related benchmark bonus for each scheme participant;
- Measure individual performance according to a consistent system of goals and indicators;
- Evaluate company performance in terms of value created/destroyed;
- Define minimum and maximum bonus thresholds.

The scheme's participants are the Managing Directors of ERG S.p.A. and the subholding companies and all executives of Group companies.

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

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

As regards company objectives, reference is made to each individual area's business performance based on the following parameters and weighting:

- Corporate area: 100% Group Economic Profit (Value Creation);
- Coastal Refining division: 70% divisional EBITDA and 30% Group Economic Profit;
- Integrated Downstream division: 70% divisional EBITDA and 30% Group Economic Profit;
- Power Generation division: 70% divisional EBITDA and 30% Group Economic Profit.

In addition, a distinction is made between top management and executives, so as to assign different risk profiles and increase the system's degree of "aggressiveness" vis-à-vis top management.

The other characteristic features of the scheme are:

- Setting of a cap for bonuses actually paid, corresponding to 200% of the individual benchmark bonus;
- Setting of a floor for bonuses actually paid, corresponding to 25% of the individual benchmark bonus;
- Allocation of executives to five merit ranges.

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

The key objectives of the new long-term incentive scheme, approved, as stated earlier, by the Board of Directors on 5 August 2005, are to:

- Encourage decisions that assure sustainable, enduring Value Creation;
- Avoid risks of "under-investment";
- Increase retention of key people.

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

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

ERG S.p.A.'s Board of Directors has set at 2.1 million the maximum number of shares, either newly issued or treasury shares, to service the scheme for the entire 3-year duration.

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

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

The number of rights to be assigned to each of the beneficiaries was determined by the Board of Directors, based on the recommendation of the Remuneration Committee, as regards the Chairman and CEO of ERG S.p.A., and by the CEO as regards the other beneficiaries.

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

As done in the case of the first assignment, the number of rights to be assigned to each of the beneficiaries was determined by the Board of Directors, based on the recommendation of the Remuneration Committee, as regards the Chairman, the Deputy Chairmen and CEO of ERG S.p.A., and by the CEO as regards the other beneficiaries.

The scheme's regulation contains specific provisions regarding the effects of termination of employment and of dependent self-employment occurring while the options can still be exercised. In this respect it makes a distinction between termination due to (a) voluntary resignation, dismissal for just cause and voluntary redundancy in the case of employees and resignation or revocation in the case of the Chairman and the Managing Directors – in which case the options become totally null and void – (b) termination due to death, permanent disability, compulsory redundancy, expiry without renewal of a dependent self-employment contract or expiry without renewal of appointment in the case of the Chairman and the Managing Directors – in which case the options remain valid and are transferred to heirs in the eventuality of a participant's death.

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





BOARD OF DIRECTORS' PROPOSAL

BOARD OF DIRECTORS' PROPOSAL

Shareholders,

We close this report by inviting you to:

- approve the financial statements – the first to be drawn up in accordance with IFRS standards – for the period ended 31 December 2006, which close with a net profit of Euro 62,128,946.45;
- approve the payment to shareholders of a dividend of Euro 0.40 per share with dividend rights outstanding at the coupon detachment date, excluding the company's own shares, in accordance with Article 2357-ter of the Italian Civil Code, via use of the year's earnings;
- allocate the remaining profit for the year to be carried forward as retained earnings;
- approve the payment of the dividend as from 10 May 2007, subject to detachment of coupon as from 7 May 2007.

Genoa, 28 March 2007

On behalf of the Board of Directors

The Chairman

Edoardo Garrone







GLOSSARY

AEROGENERATOR

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

API

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

BALANCED DISTILLATION

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

BUSINESS PROCESS REENGINEERING

Method of organisational analysis aimed at the revision of corporate business procedures from a process perspective, in order to optimise them and improve inter-functional interfaces.

CIP 6 TARIFF

Tariff paid by the national grid, GSE (Gestore dei Servizi Elettrici), to producers of electricity who use sources classified as renewable subject to the CIP 6/92 provision.

Its aim is to cover the higher costs compared with plants using conventional sources to produce electricity.

COMBINED CYCLE

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

CO₂

Carbon dioxide. Gas formed by all processes relating to combustion, breathing, decomposition of organic material, due to complete oxidation of the carbon. Carbon dioxide emissions represent approximately 80% of greenhouse gas emissions produced by the European Union. Changes in the concentrations of carbon dioxide in the atmosphere, essentially due to anthropic activities (combustion, deforestation), are the cause of climate changes.

C-STORE

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

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

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

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

A catalytic cracking plant with a fluid bed.

Net financial indebtedness

Net invested capital

Power plant producing electricity using gas-powered turbines.

Annual certificates awarded for power generated from renewable sources using facilities that have come into operation after 1 April 1999. Each certificate has a value equal to 100 MWh, or multiples thereof, is issued by the national grid and is valid only for the year to which it refers.

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

An oil heating system that transfers heat to the IGCC and Solvent Deasphalting plants of the ISAB Refinery.

High Sulphur content fuel (3.5%).

International Accounting Standards.

DESULPHURISATION

EXCISE DUTY

“EXPANDER” UNIT

FCC LINE (Fluid Catalytic Cracking)

FINANCIAL LEVERAGE

GAS TURBINE

GREEN CERTIFICATES

HSE (Health, Safety, Environment)

HOT OIL

HS FUEL OIL

IAS

IGCC FEEDSTOCK

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

IGCC PLANT

Integrated Gasification Combined Cycle plant, for the production of syngas from refining residues and subsequent combined production of electricity and heat.

ISO 14000

Series of international standards setting out principles, requirements and provisions with regard to the management of environmental issues.

KILOWATT-HOUR (KWH)

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

LIGHT - HEAVY CRUDE OILS

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

LPG

(Liquid Petroleum Gas)

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

MW

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

NON-RECOURSE PROJECT FINANCING

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

NO_x

Oxides of nitrogen (especially NO and NO₂). Gases mainly

produced by the photochemical oxidation of nitrogen in the atmosphere and as a secondary reaction in the high-temperature combustion of fossil fuels. Together with sulphur dioxide (SO₂), they are the cause of acid rain.

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

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

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

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

Refinery interventions to improve or increase the processing capacity.

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

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

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

A plant which produces asphalt by extracting from the VSB Vacuum plant high-quality deasphalted oil, which has no asphaltenes or metals.

OCTANISATION

POST PAYMENT

REFINING AND ATMOSPHERIC DISTILLATION

REVAMPING

ROACE

ROE

SAP SYSTEM

SOLVENT DEASPHALTING

SYNTHESIS GAS

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

TOE

(Tonnes of oil equivalent)

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

TOPPING PLANT

Refining plant used for atmospheric distillation.

UNIONE PETROLIFERA

The Italian association of oil companies.

VSB VACUUM

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

WIND ENERGY

Energy generated from wind.

ERG S.P.A.

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