consolidated financial statements

erg s.p.a. annual report for the year ended 31.12.2007

table of contents

consolidated financial statements
for the year ended 31 december 2007

(thousand Euro)	Notes		31/12/2007		31/12/2006
Intangible fixed assets	1		251,073		223,382
Goodwill	2		121,368		110,016
Property, plant and machinery	3		2,234,787		1,966,879
Equity investments:	4		122,370		117,515
- carried at equity		*115,576*		*111,892*	
- other investments		*6,794*		*5,623*	
Other financial assets	5		12,996		12,070
of which with related parties	39	*11,821*		*11,759*	
Deferred tax assets	6		199,858		210,266
Other non-current assets	7		46,217		45,305
Non-current assets			**2,988,669**		**2,685,433**
Inventory	8		1,222,072		881,226
Trade receivables	9		722,889		801,020
of which with related parties	39	*84,583*		*75,549*	
Other current receivables and assets	10		174,901		227,113
of which with related parties	39	*32,644*		*11,301*	
Current financial assets	11		98,541		34,507
of which with related parties	39	*79,510*		*4,138*	
Cash and cash equivalents	12		180,996		169,856
Current assets			**2,399,399**		**2,113,722**
Assets held for sale			–		–
TOTAL ASSETS			**5,388,068**		**4,799,155**
Group shareholders' equity	13		1,333,761		1,218,847
Minority interests	14		125,295		179,460
Shareholders' equity			**1,459,056**		**1,398,307**
Staff leaving indemnities	15		29,598		33,124
Deferred tax liabilities	16		362,750		274,758
Provisions for non-current liabilities and charges	17		12,655		12,352
Non-current financial liabilities	18		1,084,806		782,751
Other non-current liabilities	19		427,191		369,378
Non-current liabilities			**1,917,000**		**1,472,363**
Provisions for current liabilities and charges	20		33,762		27,025
Trade payables	21		1,170,649		959,681
of which with related parties	39	*6,522*		*8,589*	
Current financial liabilities	22		572,751		777,897
Other current liabilities	23		234,850		163,882
of which with related parties	39	*1,516*		–	
Current liabilities			**2,012,012**		**1,928,485**
Liabilities held for sale			**–**		**–**
TOTAL LIABILITIES			**5,388,068**		**4,799,155**

(thousand Euro)	Notes		2007		2006
Revenues from ordinary operations	**27**		10,165,735		9,128,153
of which with related parties	***39***	*331,649*		*365,502*	
Other revenues and income	**28**		40,167		175,283
of which non-recurring items	***38***	*–*		*14,330*	
Changes in product inventories	**29**		197,876		62,658
Changes in raw material inventories	**30**		142,824		(103,849)
Cost of purchases	**31**		(9,120,860)		(8,061,990)
Costs for services and other costs	**32**		(688,676)		(586,071)
of which with related parties	***39***	*(55,725)*		*(97,779)*	
of which non-recurring items	***38***	*(30,700)*		*(7,278)*	
Personnel expenses	**33**		(185,493)		(172,222)
EBITDA			**551,573**		**441,962**
Amortisation, depreciation and write-downs	**34**		(185,371)		(157,148)
EBIT			**366,202**		**284,814**
Financial income			135,674		135,872
Financial expenses			(209,096)		(184,320)
NET FINANCIAL INCOME (EXPENSES)	**35**		**(73,422)**		**(48,448)**
Net income (expenses) from investments carried at equity			1,797		3,946
Other net income (expenses) from equity investments			4,967		(15)
NET INCOME (EXPENSES) FROM EQUITY INVESTMENTS	**36**		**6,764**		**3,931**
PROFIT BEFORE TAXES			**299,544**		**240,297**
Income taxes	**37**		(107,417)		(46,505)
of which non-recurring items	***38***	*10,718*		*61,538*	
NET PROFIT (LOSS) FROM CONTINUING OPERATIONS			**192,127**		**193,792**
Net profit (loss) from assets held for sale			–		–
NET PROFIT (LOSS) FOR THE PERIOD			**192,127**		**193,792**
Minority interests			(21,191)		(41,015)
of which non-recurring items	***38***	*–*		*(1,798)*	
NET PROFIT (LOSS) PERTAINING TO THE GROUP			**170,936**		**152,777**

(Euro)	Notes	2007	2006
EARNINGS PER SHARE	**41**	**1.142**	**1.018**
DILUTED EARNINGS PER SHARE	**41**	**1.142**	**1.018**

(thousand Euro)	Notes	2007	2006
CASH FLOW FROM OPERATIONS (A)			
- Net profit (loss) from continuing operations		192,127	193,792
- Amortisation, depreciation and write-downs of fixed assets	**34**	185,371	157,148
- Net change in provision for liabilities and charges	**17, 20**	7,040	(2,362)
- Net change in deferred tax assets and liabilities	**6, 16**	88,031	(81,519)
- Net capital gain/loss on sale of non-current assets		(4,561)	(4,438)
- Portion of income/expenses from investments carried at equity		(1.797)	(3,946)
- Net change in staff leaving indemnities	**15**	(3,526)	(1,453)
Cash flow from current operations		**462,685**	**257,222**
- Change in other operating assets and liabilities:			
- Change in inventory	**8**	(340,846)	41,379
- Change in trade receivables	**9**	78,745	21,495
- Change in trade payables	**21**	210,594	9,375
- Net change in other receivables/payables and other assets/liabilities		180,047	(259,163)
		128,540	**(186,914)**
TOTAL		**591,225**	**70,308**
CASH FLOW FROM INVESTMENTS (B)			
- Acquisition of intangible assets and goodwill	**1, 2**	(21,769)	(12,943)
- Acquisition of property, plant, and machinery	**3**	(358,577)	(352,237)
- Increases of property, plant and machinery due to cyclical maintenance	**3**	(17,898)	(23,225)
- Acquisition of equity interests in subsidiaries (Enertad and EnerFrance)		(75,772)	(153,779)
- Acquisition of equity investments and other non-current financial assets	**4, 5**	(8,715)	(13,315)
- Disposal of intangible assets	**1**	1,415	156
- Disposal of property, plant and machinery	**3**	10,413	17,555
- Disposal of equity investments and other non-current financial assets	**4, 5**	4,737	3,603
TOTAL		**(466,166)**	**(534,185)**
CASH FLOW FROM FINANCING ACTIVITIES (C)			
- New non-current loans	**18**	581,140	291,000
- Repayment of non-current loans	**18**	(197,520)	(198,790)
- Net change in other non-current financial liabilities	**18**	1,609	(4,864)
- Net change in short-term bank borrowings	**22**	(290,140)	450,099
- Net change in other short-term financial assets/liabilities	**11, 22**	(62,214)	74,447
- Net change in other financial assets/liabilities due to acquisition of equity interests in subsidiaries (Enertad and EnerFrance)		(55,235)	(10,016)
- Share capital increases/repayments		–	–
- Dividends paid to third parties		(95,797)	(97,047)
- Other changes in shareholders' equity		4,238	(16,430)
TOTAL		**(113,919)**	**488,399**
CASH FLOWS FROM ASSETS HELD FOR SALE (D):		**–**	**–**
NET CASH FLOW FOR THE YEAR (A+B+C+D)		**11,140**	**24,522**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**12**	**169,856**	**145,334**
NET CASH FLOW FOR THE YEAR		**11,140**	**24,522**
CASH AND CASH EQUIVALENTS AT YEAR-END	**12**	**180,996**	**169,856**

ADDITIONAL INFORMATION ON CASH FLOW STATEMENT	**2007**	**2006**
Payment of income taxes	91,960	260,081
Interest paid	72,812	45,370

statement of changes in consolidated shareholders' equity

(thousand Euro)	Share capital	Reserves	Profit (loss) for the period	Total	Minority interests	Total shareholders' equity
BALANCE AT 31/12/2005	**15,032**	**742,806**	**385,249**	**1,143,087**	**65,660**	**1,208,747**
Net profit from cash-flow hedging transactions (1)	–	(7,199)	–	(7,199)	–	**(7,199)**
TOTAL PROFIT OR LOSS FROM PERIOD TAKEN DIRECTLY TO SHAREHOLDERS' EQUITY	**–**	**(7,199)**	**–**	**(7,199)**	**–**	**(7,199)**
Allocation of 2005 profit	–	385,249	(385,249)	–	–	**–**
Dividends paid	–	(60,125)	–	(60,125)	(36,922)	**(97,047)**
Change in scope of consolidation	–	–	–	–	109,685	**109,685**
Acquisition of treasury shares	–	(11,210)	–	(11,210)	–	**(11,210)**
Other changes	–	1,518	–	1,518	23	**1,541**
2006 profit	–	–	152,777	152,777	41,015	**193,792**
BALANCE AT 31/12/2006	**15,032**	**1,051,039**	**152,777**	**1,218,847**	**179,460**	**1,398,307**
Net profit from cash-flow hedging transactions (1)	–	1,217	–	1,217	(41)	**1,176**
TOTAL PROFIT OR LOSS FROM PERIOD TAKEN DIRECTLY TO SHAREHOLDERS' EQUITY	**–**	**1,217**	**–**	**1,217**	**(41)**	**1,176**
Allocation of 2006 profit	–	152,777	(152,777)	–	–	**–**
Dividends paid	–	(59,866)	–	(59,866)	(35,931)	**(95,797)**
Change in scope of consolidation	–	–	–	–	(39,819)	**(39,819)**
Other changes	–	2,627	–	2,627	435	**3,062**
2007 profit	–	–	170,936	170,936	21,191	**192,127**
BALANCE AT 31/12/2007	**15,032**	**1,147,794**	**170,936**	**1,333,761**	**125,295**	**1,459,056**

(1) net of the relative tax effect

"ERG" means ERG S.p.A. and the companies included in the scope of consolidation.

The Group

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

Criteria for the preparation of the Consolidated Financial Statements

The Consolidated Financial Statements as at 31 December 2007 have been prepared, without any exception, in accordance with the International Accounting Standards issued by the International Accounting Standards Board (IASB) and endorsed by the European Union. Such standards also include all the international standards subject to interpretation (International Financial Reporting Standards - IFRS) and the interpretations of the International Financial Reporting Interpretation Committee (IFRIC) and the earlier Standing Interpretations Committee (SIC).
These standards were adopted by the ERG Group effective as of 1 January 2005.
The Consolidated Financial Statements, expressed in thousands of Euro, have been prepared in accordance with the general principle of cost, with the exception of the financial assets available for sale, financial assets held for trading and derivative instruments, which have been measured at fair value.
The Consolidated Financial Statements as at 31 December 2007 have been audited by the firm Reconta Ernst & Young S.p.A., in accordance with the procedures set forth by CONSOB regulations. The results of this activity will be published as soon as they are available.

Form and content of the Consolidated Financial Statements

ERG presents its Income Statement by nature, a form deemed more representative than presentation by function. The form chosen is in fact consistent with internal and management reporting procedures.
With reference to the Balance Sheet, the presentation format adopted makes a distinction between current and non-current assets and liabilities in accordance with section 51 et seq. of IAS 1.
The structure of the Cash Flow Statement is based on the indirect method.
Furthermore, as required by CONSOB Resolution 15519 of 27 July 2006, income and expenses arising from non-recurring transactions or events that do not recur frequently in the ordinary course of business have been indicated separately in the Income Statement. These items are discussed in an appropriate note.
Again in application of the aforesaid CONSOB resolution, amounts relating to related-party positions or transactions have been indicated separately in the Balance Sheet and Income Statement. These items are discussed in an appropriate note.

Disclosure relating to the net financial position can be found in the schedules on net financial debt included in the Report on Operations.

As regards the disclosure required pursuant to IAS 14, we point out that the primary format is by business segment while the secondary format is by geographical area.

Consolidation principles

Scope of consolidation

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

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

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

No companies have been consolidated using the proportional method.

Equity investments in companies included in the scope of consolidation

The financial statements of subsidiaries used for consolidation purposes were drawn up as at 31 December 2007 based on the same accounting standards adopted by the Group.

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

When preparing the Consolidated Financial Statements, the assets, liabilities, costs and revenues of the consolidated companies are included line by line for their full amount, attributing to minority shareholders, under separate headings of the Balance Sheet and Income Statement, their portion of shareholders' equity and profit or loss for the financial year. The portion of shareholders' equity pertaining to minority interests is calculated on the basis of the current values attributed to assets and liabilities at the date control was acquired, excluding their portion of any goodwill.

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

Infragroup transactions

Application of the line-by-line method to eliminate the influence of all infragroup transactions on the consolidated Balance Sheet and Income Statement results in elimination of reciprocal receivables and payables between the companies included in the scope of consolidation, as well as costs, revenues and profits, if significant, originating from sales of products and fixed assets.

Translation of financial statements drawn up in currencies other than the Euro

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

List of Group companies

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

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

Company (thousand Euro)	Registered office	Direct ownership	Group ownership	Share capital (1)	Shareholders' equity (1)
ERG S.p.A.					
Enertad S.p.A.	Milan	68.38%	68.38%	94,877	129,751
ERG Petroli S.p.A.	Rome	100.00%	100.00%	36,000	288,283
ERG Power & Gas S.p.A.	Rome	100.00%	100.00%	10,000	69,127
ERG Raffinerie Mediterranee S.p.A.	Syracuse	100.00%	100.00%	25,000	620,019
Enertad S.p.A.					
EnerFrance S.a.s.	Paris (F)	100.00%	68.38%	50	77
EOS Windenergy S.r.l.	Milan	100.00%	68.38%	30,000	28,675
Eolo S.r.l.	Atina (Frosinone)	51.00%	34.87%	20	389
SODAI Italia S.p.A.	Milan	51.00%	34.87%	15,615	13,523
DSI Servizi Industriali S.r.l.	Frosinone	100.00%	68.38%	100	562
Energie Pulite 2000 S.r.l.	Milan	100.00%	68.38%	120	104
EnerFrance S.a.s.					
Parc Eolien de Lihus S.a.s.	Paris (F)	100.00%	68.38%	1,114	362
Parc Eolien de Hetomesnil S.a.s.	Paris (F)	100.00%	68.38%	1,114	338
Parc Eolien de la Bruyère S.a.s.	Paris (F)	100.00%	68.38%	1,060	525
Parc Eolien du Carreau S.a.s.	Paris (F)	100.00%	68.38%	861	542
Parc Eolien les Mardeaux S.a.s.	Paris (F)	100.00%	68.38%	1,097	470
EOS Windenergy S.r.l.					
EOS 1 - Troia S.r.l. (San Vincenzo)	Milan	100.00%	68.38%	3,500	23,587
EOS 2 - Nurra S.r.l.	Milan	100.00%	68.38%	10	30
EOS 3 - Troia S.r.l. (San Cireo)	Milan	100.00%	68.38%	3,500	18,059
EOS 4 - Faeto S.r.l.	Milan	100.00%	68.38%	10	4,385
EOS 5 - Tursi Colobraro S.r.l.	Milan	100.00%	68.38%	10	38
EOS 6 - Joppolo S.r.l.	Milan	100.00%	68.38%	10	57
EOS 7 - Ginestra S.r.l.	Milan	100.00%	68.38%	10	71
EOS 7 - Ginestra S.r.l.					
WWEH 2 S.r.l.	Melfi (Potenza)	100.00%	68.38%	6,225	6,195
ERG Petroli S.p.A.					
ERG Petróleos S.A. (2)	Madrid (E)	100.00%	100.00%	22,000	11,271
Gestioni Europa S.p.A.	Rome	100.00%	100.00%	500	(657)
ERG Petroleos S.A.					
ERG Gestión Ibérica S.L. (3)	Madrid (E)	100.00%	100.00%	50	47
Gestioni Europa S.p.A.					
Gestioni Europa Due S.p.A.	Rome	95.00%	95.00%	200	153
ERG Power & Gas S.p.A.					
ERG Nuove Centrali S.p.A.	Syracuse	100.00%	100.00%	28,810	21,362
ISAB Energy S.r.l.	Syracuse	51.00%	51.00%	5,165	351,109
ISAB Energy Services S.r.l.	Syracuse	51.00%	51.00%	700	6,262

(1) 2007 figures
(2) 99% held by ERG Petroli S.p.A. and 1% by Gestioni Europa S.p.A.
(3) 99% held by ERG Petróleos S.p.A. and 1% by Gestioni Europa S.p.A.

On **20 February 2007** the company EOS 7 Ginestra S.r.l., founded on 19 February 2007 and 100% owned by EOS Windenergy S.r.l., acquired 100% of the company WWEH 2 S.r.l., which comprises the Ginestra degli Schiavoni wind farm.
On **28 June 2007** the equity interest in the company Gestioni Europa Due increased from 88.75% to 95% following coverage of losses and non-proportional recapitalisation by shareholders.

On **31 October 2007** Enertad, through EnerFrance S.a.s., a subsidiary specifically created as a wind-energy subholding for activities located in French territory, completed the purchase of five French companies owning five wind farms.

On **20 December 2007** ERG S.p.A., following exercise of the related call option, acquired 16,159,920 shares of Enertad S.p.A., accounting for 17.03% of share capital, taking its investment in this company to 68.38% of share capital.

List of equity investments valued according to the equity method:

Company (thousand Euro)	**Registered office**	**Direct ownership**	**Group ownership**	**Share capital** [1]	**Shareholders' equity** [1]	**Book value at 31/12/07**
Subsidiary companies [2]						
ERG S.p.A.						
Primopremio S.r.l. in liquidation	Milan	100.00%	100.00%	15	(27)	–
ERG Petroli S.p.A.						
ERG Petroli (Suisse) S.A.	Lausanne (CH)	99.45%	99.45%	332	952	947
SIGEA S.p.A.	Genoa	65.00%	65.00%	103	1,731	1,153
ERG Power & Gas S.p.A.						
ISEA S.r.l.	Genoa	90.00%	90.00%	51	174	3,016
Ecopower S.r.l.	Genoa	100.00%	100.00%	11	(19)	1,722
						6,838
Associated companies						
ERG S.p.A.						
I-Faber S.p.A.	Milan	23.00%	23.00%	5,652	7,980	1,652
ERG Petroli S.p.A.						
Centro Petroli Impianti S.r.l. [3]	Taggia (Imperia)	34.00%	34.00%	n.a.	n.a.	316
De.Co S.c.ar.l.	Rome	25.00%	25.00%	5,440	5,388	813
Elyo Italia S.r.l.	Milan	40.00%	40.00%	39,000	51,553	25,550
Enerpetroli S.r.l.	Viterbo	44.40%	44.40%	250	3,600	1,115
Europam S.r.l.	Milan	24.30%	24.30%	25,421	36,581	8,903
Lampogas Lombarda S.r.l.	Crosio della Valle (Varese)	46.50%	46.50%	710	1,174	551
Lampogas Nord S.r.l.	Cameri (Novara)	46.50%	46.50%	1,032	1,342	625
Lampogas Pavese S.r.l.	Belgioioso (PV)	46.50%	46.50%	1,330	1,773	835
Lampogas Piemontese S.r.l.	Settimo Torinese (Turin)	46.50%	46.50%	1,800	2,150	997
Med Oil S.r.l.	Pescara	50.00%	50.00%	2,789	2,613	1,277
Natalizia Petroli S.r.l.	Frosinone	49.00%	49.00%	3,200	5,994	3,147
Nelsa S.r.l.	Lurate Caccivio (Como)	26.00%	26.00%	1,000	5,618	1,427
Raffineria di Roma S.p.A.	Rome	28.13%	28.13%	2,000	7,776	3,713
Sarpom S.p.A.	Rome	25.86%	25.86%	38,448	179,030	38,715
ERG Power & Gas S.p.A.						
ERG CESA Eolica S.p.A. [4]	Rome	50.00%	50.00%	11,000	29,628	16,166
Ionio Gas S.r.l. [5]	Syracuse	50.00%	50.00%	200	249	1,727
Roma Energia S.r.l.	Rome	20.00%	20.00%	50	1,221	241
Espansione S.r.l.	Varese	27.01%	27.01%	274	1,053	788
ERG Raffinerie Mediterranee S.p.A.						
Dynergy S.r.l.	Genoa	37.50%	37.50%	179	523	181
						108,739
TOTAL						**115,576**

(1) 2007 figures for subsidiaries; latest approved financial statements as at the date of ERG S.p.A.'s Board of Directors' Meeting for associated companies

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

(3) the company was founded in August 2007 following demerger of Centro Petroli S.r.l.

(4) joint venture with the Spanish company Corporación Eólica Cesa S.L.; on 25 January the deed of full demerger of ERG CESA Eolica S.p.A. was drawn up, by virtue of which and effective 1 February 2008, the company assigned all its assets and liabilities to two beneficiary companies, namely Acciona Eolica Cesa Italia S.r.l. (shareholder = Acciona) and ERG Eolica S.r.l. (shareholder = ERG)

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

The main aggregate figures for 2007 relating to ERG's holdings in the companies carried at equity are shown below:

(million Euro)	2007	2006
Assets	510	414
Liabilities	394	299
Revenues	667	610
Net income	2	3

List of equity investments carried at cost:

Company (thousand Euro)	Registered office	Direct ownership	Group ownership	Share capital (1)	Shareholders' equity (1)	Book value at 31/12/07
Subsidiary companies (2)						
ERG Power & Gas S.p.A.						
Eolico Troina S.r.l.	Rome	99.00%	99.00%	20	17	235
Eolico Mirabella S.r.l.	Rome	99.00%	99.00%	20	18	93
Eolico Agira S.r.l.	Rome	99.00%	99.00%	20	18	167
Eolico Ramacca S.r.l.	Rome	99.00%	99.00%	20	16	450
Eolico Palagonia S.r.l.	Rome	99.00%	99.00%	20	17	205
ERG Raffinerie Mediterranee S.p.A.						
Priolo Servizi S.c.a.r.l. (3)	Melilli (Syracuse)	59.30%	59.30%	10	n.a.	125
						1,274
Other companies						
ERG S.p.A.						
Sviluppo Italia Liguria S.c.p.A.	Genoa	1.25%	1.25%	5,442	7,515	68
CAF Interreg. Dipendenti S.r.l. (4)	Vicenza	0.06%	0.06%	276	914	–
Emittenti titoli S.p.A.	Milan	0.51%	0.51%	4,264	6,231	26
Ligurcapital S.p.A.	Genoa	3.64%	3.64%	5,681	9,272	207
R.U.P.E. S.p.A.	Genoa	5.00%	5.00%	2,973	2,898	155
Enertad S.p.A.						
Ansaldo Fuel Cells S.p.A.	Genoa	4.78%	3.27%	24,281	24,052	4,263
Utilità progetti e sviluppo S.r.l.	Milan	3.33%	2.28%	50	3,656	2
ERG Petroli S.p.A.						
Immob. Unione Comm.ti Roma S.p.A.	Rome	0.03%	0.03%	2,066	1,776	1
Meroil S.A.	Barcelona (E)	1.52%	1.52%	10,901	19,999	441
Porto Petroli di Genova S.p.A.	Genoa	8.98%	8.98%	2,068	4,553	348
ERG Raffinerie Mediterranee S.p.A.						
IAS - Industria Acqua Siracusana S.p.A. (5)	Syracuse	10.00%	7.55%	102	108	10
						5,520
TOTAL						**6,794**

(1) latest approved financial statements as at the date of ERG S.p.A.'s Board of Directors Meeting

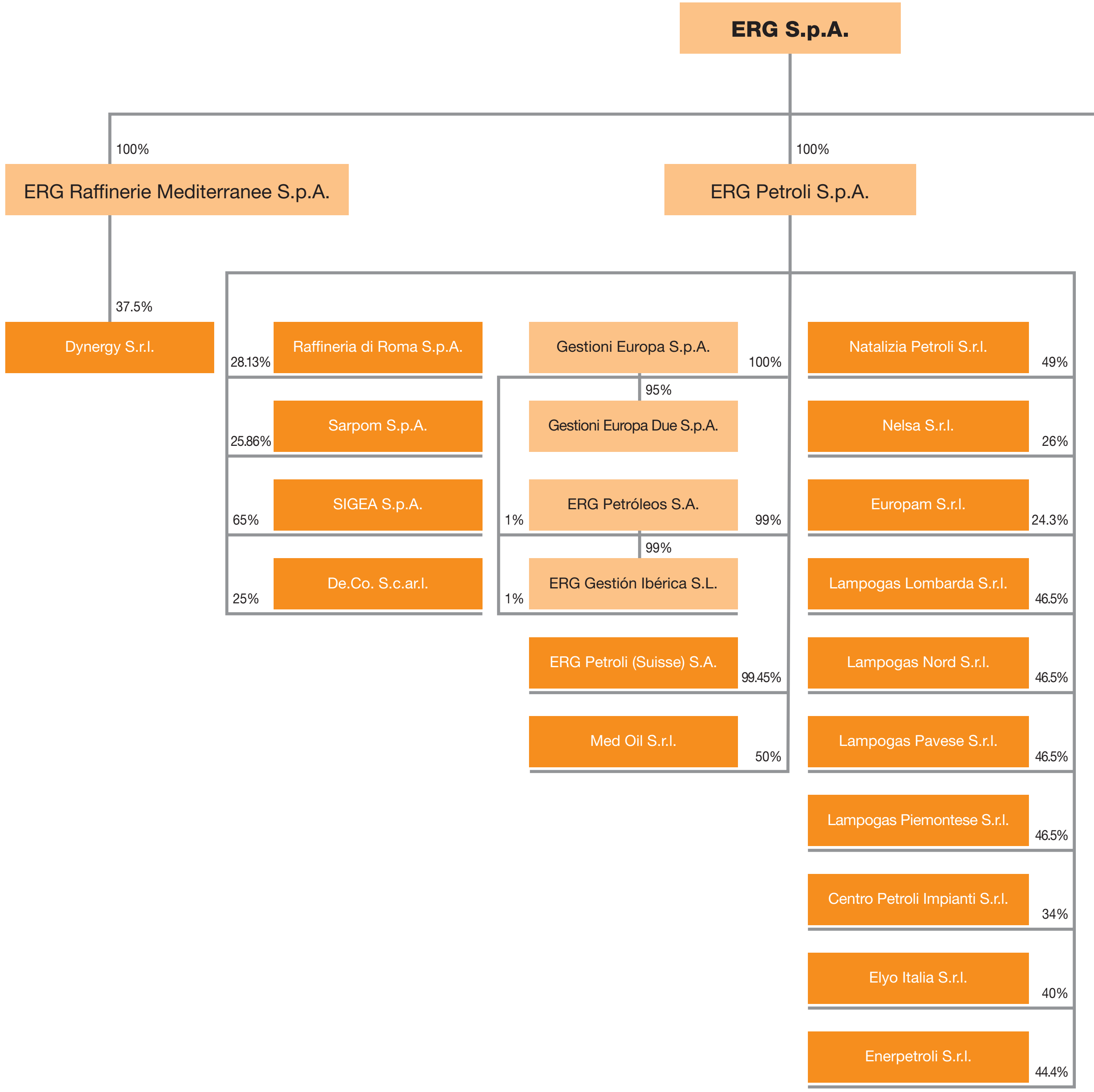
(2) companies carried at cost as they are not yet operational

(3) held by ERG Raffinerie Mediterranee S.p.A. (37.8%) and ERG Nuove Centrali S.p.A. (21.5%)

(4) held by ERG S.p.A. (0.02%), ERG Petroli S.p.A. (0.02%), and ERG Raffinerie Mediterranee S.p.A. (0.02%)

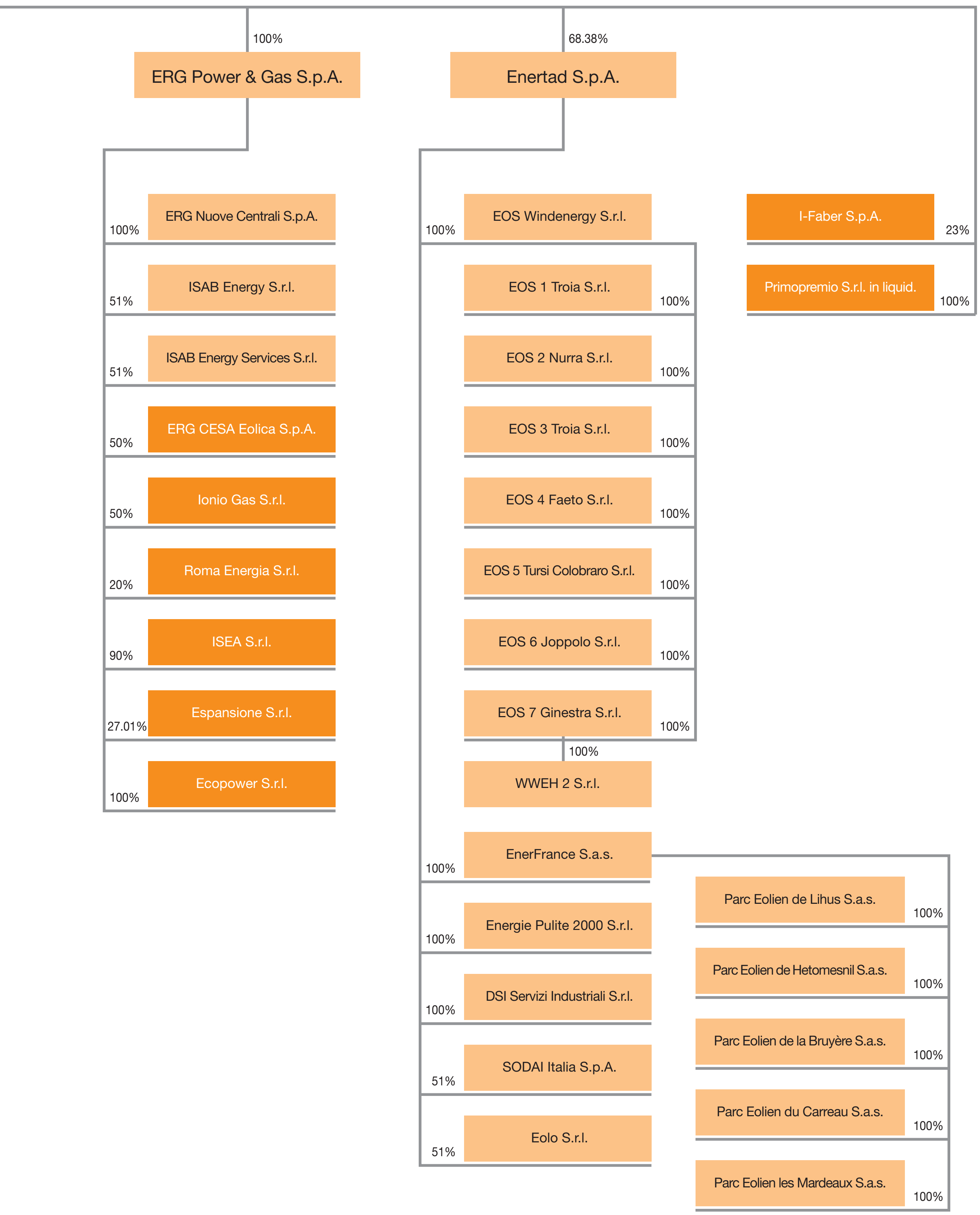
(5) held by ERG Raffinerie Mediterranee S.p.A. (5%) and ISAB Energy S.r.l. (5%)

Scope of consolidation as at 31 December 2007



= companies consolidated on line-by-line basis

= companies carried at equity


100%
ERG Power & Gas S.p.A.
68.38%
Enertad S.p.A.
100%
ERG Nuove Centrali S.p.A.
51%
ISAB Energy S.r.l.
51%
ISAB Energy Services S.r.l.
50%
ERG CESA Eolica S.p.A.
50%
Ionio Gas S.r.l.
20%
Roma Energia S.r.l.
90%
ISEA S.r.l.
27.01%
Espansione S.r.l.
100%
Ecopower S.r.l.
100%
EOS Windenergy S.r.l.
EOS 1 Troia S.r.l.
100%
EOS 2 Nurra S.r.l.
100%
EOS 3 Troia S.r.l.
100%
EOS 4 Faeto S.r.l.
100%
EOS 5 Tursi Colobraro S.r.l.
100%
EOS 6 Joppolo S.r.l.
100%
EOS 7 Ginestra S.r.l.
100%
100%
WWEH 2 S.r.l.
100%
EnerFrance S.a.s.
100%
Energie Pulite 2000 S.r.l.
100%
DSI Servizi Industriali S.r.l.
51%
SODAI Italia S.p.A.
51%
Eolo S.r.l.
Parc Eolien de Lihus S.a.s.
100%
Parc Eolien de Hetomesnil S.a.s.
100%
Parc Eolien de la Bruyère S.a.s.
100%
Parc Eolien du Carreau S.a.s.
100%
Parc Eolien les Mardeaux S.a.s.
100%
I-Faber S.p.A.
23%
Primopremio S.r.l. in liquid.
100%

Evaluation criteria

The main principles adopted for preparation of the Consolidated Financial Statements at 31 December 2007, which are the same as those applied in the previous financial year, are as shown below.

Intangible fixed assets

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

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

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

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

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

Research costs are expensed directly in the Income Statement in the period when they are incurred.

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

Goodwill

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

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

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

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

Property, plant and machinery

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

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

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

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

Capitalised charges are allocated to the Income Statement via amortisation.

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

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

There were no finance lease transactions as defined in IAS 17.

The depreciation rates applied are as follows:

	%
Industrial and commercial buildings	2.7 - 5.5
Ordinary buildings	3.0
Light constructions	10.0
General plants	6.2 - 12.0
Specific plants	6.2 - 10.0
IGCC plant	3.3 - 8.2
Pipelines, tanks and pipes	6.5 - 12.5
Service stations	7.4
Motor vehicles, furniture and furnishings, sundry assets	12.1 - 25.0

Write-down of assets (impairment test)

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

When it is not possible to estimate the recoverable value of an individual asset, the Group estimates the recoverable value of the cash-generating unit to which the asset belongs.

The recoverable value of an asset is the higher between its fair value, less the costs of the sale, and its value in use determined as the present value of estimated future cash flows.

Impairment is recorded if the recoverable value is less than the carrying value. Should a loss in value of an asset, other than goodwill, subsequently no longer apply or be reduced, the carrying value of the asset or cash-generating unit is increased up to the new estimate of the recoverable value, without exceeding the value that would have been determined if no loss had been recorded.

Financial assets

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

- financial assets at fair value through profit or loss (FVTPL);
- held-to-maturity (HTM) investments;
- loans & receivables (L&R);
- available-for-sale (AFS) financial investments.

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

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

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

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

  This category comprises:

  – assets held for trading (HFT);

  – assets designated as FVTPL financial assets at the time of initial recognition.

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

  As at 31 December 2007, no financial asset had been designated at FVTPL.

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

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

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

  As at 31 December 2007, the Group held no investments classified as HTM.

- *Loans & receivables (L&R)*

  Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Following initial recognition, these assets are measured at amortised cost using the effective interest rate method, net of the provision for impairment, if any. Gains and losses are recognised in the Income Statement when loans and receivables are derecognised for accounting purposes or if impairment occurs, as well as via the amortisation process.

  Trade receivables are shown at their fair value, which corresponds to their nominal value, and are subsequently reduced for impairment, if any. Trade receivables whose due date is not consistent with normal trading terms and which do not earn interest are discounted to their present value.

- *Available-for-sale (AFS) financial assets*

  Available-for-sale (AFS) financial assets are financial assets, other than derivative financial instruments, that have been designated as such or are not classified in any of the previous three categories.

  Following initial recognition, AFS financial assets are measured at fair value and gains and losses are reported under a separate heading within equity.

  AFS financial assets include equity investments in companies other than subsidiaries and associated companies in which ERG's direct or indirect ownership percentage is less than 20%. When fair value cannot be reliably calculated, equity investments are measured at cost, written down for impairment, if any, and dividends from such companies are included in "Other net income (expenses) from equity investments". When the reasons for write-downs cease to exist, equity investments measured at cost are written back up to the limit of impairments recorded and the relevant effect is recognised in the Income Statement.

  The risk arising from any losses exceeding shareholders' equity is recognised in a specific reserve to the extent that the investor has committed to meet legal or constructive obligations vis-à-vis the investee company or in any case to cover its losses.

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

Fair value

In the case of securities widely traded in regulated markets, fair value is determined in reference to quoted market prices at the close of trading on balance sheet date.

Regarding investments for which no active market exists, fair value is determined using measurement techniques based on:

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

Amortised cost method

"Held-to-maturity investments" and "Loans & receivables" are measured at amortised cost, calculated using the effective interest rate method, net of impairment provisions, if any. This calculation takes into account all purchase discounts or premiums and includes any fees which are an integral part of the effective interest rate and transaction costs.

Impairment of financial assets

At each balance sheet date, the Group verifies whether a financial asset or group of financial assets has suffered an impairment in value.

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

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

The Group assesses the existence of factual evidence of impairment at an individual level.

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

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

The carrying value of the receivable is reduced via use of specific provision. Impaired receivables are reversed if they are deemed unrecoverable.

Cash and cash equivalents

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

Financial liabilities

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

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

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

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

Every gain or loss is recorded in the Income Statement when the liability is discharged, as well as via the amortisation process. Financial liabilities at FVTPL include "Held-for-trading liabilities".

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

As at 31 December 2007, there was no financial liability designated at FVTPL.

Derecognition of financial assets and liabilities

A financial asset (or, where applicable, part of a financial asset or part of a group of similar financial assets) is derecognised (removed from the balance sheet) when:

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

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

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

Derivative financial instruments and hedging transactions

Derivative instruments are initially recognised at their fair value on the date when they are stipulated. This fair value is then subject to periodic revaluation.

They are posted as assets when their fair value is positive and as liabilities when it is negative.

ERG carries out transactions with derivative instruments to hedge the risk deriving from the fluctuations in raw material and product prices, foreign exchange and interest rates.

Derivatives are classified as hedging instruments, consistently with IAS 39, when the relationship between the derivative and the hedged item is formally documented and the effectiveness of the hedging, verified both beforehand and periodically, is high.

When derivatives hedge the risk of a change in the fair value of the underlying asset hedged (fair value hedge), they are recorded at their fair value and the effects are booked to the Income Statement. Accordingly, the hedged instruments are adjusted to reflect the changes in the fair value associated with the hedged risk. When the derivative hedges the risk of a change in the cash flows of the underlying asset hedged (cash flow hedge), the effective amount of changes in the fair value of the derivatives is initially recognised in shareholders' equity and subsequently booked to the Income Statement consistently with the economic effects produced by the hedged transaction. Changes in the fair value of the derivatives that do not have the formal requisites to qualify as hedges under IAS/IFRS are recorded in the Income Statement.

Treasury shares

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

Inventories

Inventories of raw materials and petroleum products are valued at the lower of cost and market value, determining cost by application of the weighted average cost method on a quarterly basis.

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

Inventories of ancillary materials, consumables and lubricants are valued at the lower of weighted average cost and current market value.

Transactions in foreign currencies

Transactions in foreign currencies are booked at the exchange rate prevailing on the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate prevailing at the balance sheet reference date. Non-monetary items are maintained at the translation exchange rate of the transaction except in the case of a persistently unfavourable trend in the exchange rate. Exchange rate differences generated on elimination of items at rates differing from those at which they were translated at the time of their initial recognition and those relating to monetary items at year-end are recorded in the Income Statement under “Financial income and expenses”.

Provisions for liabilities and charges

ERG records provisions for liabilities and charges when:

- there is a present legal or constructive obligation to third parties;
- it is probable that the use of Group resources will be required to fulfil the obligation;
- a reliable estimate can be made of the amount of the obligation.

Changes in the estimates are reflected in the Income Statement for the period in which the change occurred.

When the financial effect over time is significant and the dates of payment of the obligations can be estimated, the provision is subject to discounting, utilising a discount rate that reflects the current valuation of the cost of money in relation to time. The increase in the provision connected to the passing of time is recognised in the Income Statement under “Financial income (expenses)”.

When the liability relates to property, plant or machinery (for example dismantling and restoration of sites), the provision is recorded as a contra entry to the asset to which it refers, and recognition in the Income Statement takes place through the depreciation process.

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

- possible (but not probable) obligations arising from past events, the existence of which will be confirmed only upon occurrence of one or more uncertain future events that are not fully under the company’s control;
- present obligations arising from past events, the amount of which cannot be reliably estimated, or for which it is probable that fulfilment will not be onerous.

Employee benefits

The staff leaving indemnities provision (TFR) of Italian companies is considered as a defined benefit plan and is recognised according to the provisions for other defined benefit plans.

The liability relating to defined benefit plans is determined, separately for each plan, on the basis of actuarial assumptions, by estimating the amount of the future benefits to which employees are entitled as at the reference date, and accrued over the period of maturation of the rights; the liability is valued by independent actuaries.

Gains and losses relative to defined benefit plans arising from changes in the actuarial assumptions used, or changes in the plan conditions, are recognised *pro rata* in the Income Statement for the remaining average working life of the employees participating in the plan, if and to the extent that their net value not recorded at the end of the previous financial year exceeds the higher between 10% of the liability pertaining to the plan and 10% of the fair value of plan assets.

Stock option plans

Under IFRS 2 (Share-based Payments), stock options in favour of employees are measured at fair value at the time of their assignment based on models taking into account the factors and elements prevailing at such time (option exercise price and duration, current price of underlying shares, expected volatility of share price, etc.).

The right becomes exercisable after a certain period and subject to certain conditions.

The overall value of the options is apportioned *pro rata temporis* over the above-mentioned period and recorded under a specific shareholders' equity item, with an item of the Income Statement as a contra entry.

The previously determined fair value of each option is neither reviewed nor updated at the end of each financial year, but remains definitively acquired in shareholders' equity; at such time, however, the estimate of the number of options that will mature up to expiry is updated (and hence of the number of employees who will have the right to exercise the options).

The change in the estimate is recognised as a reduction of shareholders' equity with a contra entry to the Income Statement.

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

Recognition of revenues

Revenues from sales and services are recorded when effective transfer of the relevant risks and advantages typical of ownership occurs, which coincides with the time of delivery or based on different contractual specifications, or on completion of the service.

ISAB Energy's sales revenues are based on a sales contract with the GSE (National Grid operator), regulated by the tariff determined in regulation 6/1992 of the Italian Inter-Ministerial Prices

Committee (*Comitato Interministeriale Prezzi*), known as CIP 6, valid for a 20-year period and already authorised by the European Union for 15 years. Regulation 6/1992 provides for the recognition of an incremental tariff amount for the first eight years of operation (2000-2008). This incentive component represents a timing advance of part of the tariff for the overall sales obtainable from the contract. The incentive is accordingly recognised as revenues for accounting purposes in proportion to the quantity of energy sold and *pro rata* to the anticipated sales over the entire contract.
The appropriations for revenues relative to partially provided services are recognised according to the payment accrued, provided that it is possible to reliably determine the stage of completion and there are no significant uncertainties as to the amount and existence of the revenue and related costs. Otherwise, they are recorded within the limits of the recoverable costs incurred.
Revenues are recorded net of returns, discounts, rebates and allowances, as well as of any directly related taxes. If a deferment of payment is expected, which does not fall under normal commercial terms, the financial component that will be attributed as income in the deferment period is separated from revenues. Exchanges between goods or services of a similar nature and value, since they do not constitute sales transactions, do not give rise to recognition of revenues and costs.
Revenues relating to green certificates are recorded based on production in the period and are calculated on the basis of the legal regulations and prevailing resolutions of the Electricity and Gas Authority (AEEG) during the period, also taking into account the prevailing *pro tempore* equalising regulations. Equipment grants (*contributi in conto impianti*) are recorded at the time when a formal assignment is made and any possible restriction on their collection is removed. They are recognised in the Income Statement in relation to the duration of the investments, with the purpose of offsetting the economic-technical depreciation of the facilities concerned.

Dividends

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

Financial income and expenses

These are recognised in the Income Statement by accrual based on the interest due on the net value of the related financial assets and liabilities utilising the effective interest rate.

Taxes

Current taxes are provided for based on the estimated tax charge for the period, taking into account also the effects relating to participation of most Group companies in "tax consolidation".
Income taxes are recorded in the Income Statement, with the exception of those relating to items directly debited or credited to a shareholders' equity reserve. In these cases, the tax effect is also directly recognised under shareholders' equity.

Furthermore, based on the accrual accounting principle, deferred tax assets and liabilities arising from temporary differences caused by adjustments made to the financial statements of consolidated companies in order to align them with the Group's uniform accounting principles, as well as temporary differences between the statutory accounts and related taxable amounts, are provided for in the Consolidated Financial Statements.

Provisions for taxes that may arise from the transfer of undistributed profits of subsidiary companies are made only when there is a real intention to transfer such profits. Deferred tax assets (or advance taxes), including those relating to tax losses carried forward, are only recorded in the financial statements if their future recovery is probable. Deferred taxes are calculated on the basis of the tax rates expected in the periods in which the taxable temporary differences will be reversed. Deferred tax assets and deferred tax liabilities are classified under non-current assets and liabilities.

Earnings per share

Earnings per share are calculated by dividing net profit for the period attributable to the company's ordinary shareholders by the weighted average number of the ordinary shares in circulation in the period concerned.

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

Use of estimates

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

New standards

The IASB has issued the following documents, already endorsed by the European Union, applicable for the first time with effect from 1 January 2007:

- IAS 1 – *Presentation of Financial Statements: Capital Disclosures:* amendment issued in August 2005 and effective from 1 January 2007;
- IFRS 7 – *Financial Instruments: Disclosures*: issued in August 2005 and effective from 1 January 2007;
- IFRIC 8 – *Scope of IFRS 2*: issued in January 2006 and effective from 1 January 2007;

- IFRIC 9 – *Reassessment of Embedded Derivatives*: issued in March 2006 and effective from 1 January 2007;
- IFRIC 10 – *Interim Financial Reporting and Impairment*: issued in July 2006 and effective from 1 January 2007.

These documents have no significant impact on shareholders' equity and net income for the period.

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

- IFRIC 11 – *Group and Treasury Share transactions*: issued in November 2006;
- IFRS 8 – *Operating Segments*: issued in November 2006 and effective as from 1 January 2009.

We also point out that ERG has applied IFRIC 11 – *Group and Treasury Share Transactions* in advance of the mandated deadline. It has already been endorsed by the European Union and is effective as from 1 January 2008.

The Group is assessing the potential impact of IFRS 8 on future financial statements.

As far as staff leaving indemnities are concerned, we point out that the item includes the effects of the changes introduced by the 2007 Finance Law (i.e. the Italian National Budget) and subsequent decrees and regulations, regarding allocation of the amounts of staff leaving indemnities (TFR) accruing from 1 January 2007.

More specifically, in accordance with IAS 19, as from 1 January 2007 the new regulation changes the nature of TFR from a "defined benefit plan" to a "defined contribution plan". For IAS purposes, only the TFR provision accrued as up to 31 December 2006 remains a defined benefit plan.

Consequently, the accounting treatment of the amounts accruing from 1 January 2007 is similar to that of other contribution schemes, both in the case of beneficiaries opting for supplemental pension plans and in the case of allocation to the Treasury Fund established at the INPS (the Italian state social security institute).

Furthermore, in accordance with IAS 19, these changes imply recalculation of TFR accrued as up to 31 December 2006. This recalculation (or "curtailment", as defined in paragraph 109 of IAS 19) is essentially based on the exclusion from the actuarial calculation of future pay and assumed pay increases. As a result of this curtailment, both the actuarial losses and gains accumulated as up to 31 December 2006 and not recognised in the Income Statement, in accordance with the 'corridor' approach, and the effect of recalculating the liability accrued as up to the same date, have been charged to the Income Statement.

EnerFrance acquisition

On 31 October 2007, the Group wholly acquired five French operating companies owning the same number of wind farms located in France, with total installed capacity of 55.2 MW. The deal is part of our strategy of reinforcement and geographical diversification of the wind energy business via entry into the French market. The latter enjoys an incentive regime for renewable energy sources featuring great predictability and stability over time.

Specifically, we purchased the following companies:

- Parc Eolien de Lihus S.a.s.
- Parc Eolien de Hetomesnil S.a.s.
- Parc Eolien de la Bruyère S.a.s.
- Parc Eolien du Carreau S.a.s.
- Parc Eolien les Mardeaux S.a.s.

The acquisition was announced to the market with a press release on 3 October 2007, the date when the acquisition contract was signed. On the same date the preliminary agreement with Theta Energy for purchase of 100% of the above mentioned companies was drawn up. The acquisition was completed on 31 October 2007 with actual transfer of the equity interests to EnerFrance S.a.s. – Enertad's wholly owned subsidiary, specifically set up as a wind-energy subholding company for assets located in French territory – and payment of the relevant price.

The acquisition was accounted for in accordance with the provisions of IFRS 3 on business combinations. Under this standard, for the purposes of correct recording of the transaction, it is necessary to:

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

The total cost of the acquisition was approximately Euro 24.9 million.

Acquisition cost

(million Euro)	
Purchase of equity interest	24.4
Ancillary charges	0.5
TOTAL ACQUISITION COST	**24.9**

Financial coverage of the transaction was assured, for Euro 25 million, by a medium/long-term credit facility granted by the Italian branch of a leading French bank. The loan, stipulated on 2 August 2007, has a 5-year duration as from stipulation date, subject to possible renewal for a further 2-year period, if so requested by Enertad S.p.A. at the end of the fourth year. Set out below are the details of the assets and liabilities acquired, at their book value and restated value, as per the requirements of IFRS 3 (Purchase Price Method), to take into account their fair value.

Valuation of the assets and liabilities of the companies acquired by EnerFrance, as at acquisition date

(million Euro)	Book value	Adjustments to acquisition situation	Restated value
Tangible fixed assets	*59.8*	*–*	*59.8*
Intangible fixed assets	*–*	*30.5*	*30.5*
Goodwill	*–*	*–*	*–*
Financial fixed assets	*–*	*–*	*–*
Capital assets	59.8	30.5	90.3
Net working capital	0.2	–	0.2
Staff leaving indemnities	–	–	–
Other assets	0.9	–	0.9
Other liabilities	(1.2)	(10.1)	(11.3)
Net invested capital	**59.8**	**20.3**	**80.1**
Group shareholders' equity	4.6	20.3	24.9
Minority interests	–	–	–
Net financial debt	55.2	–	55.2
Shareholders' equity and financial debt	**59.8**	**20.3**	**80.1**

The main differences identified in determining the fair value of the assets acquired and liabilities assumed refer to valuation of intangible fixed assets, and in particular of the contracts and authorisations to generate electricity at incentive-based tariffs for the wind farms in operation. Valuation of these assets was carried out based on models prepared during evaluation of the investment opportunity and led to the booking of higher intangible asset values of around Euro 30 million, before the related tax effect included among the adjustments of other liabilities. These higher values correspond to the total present value of cash flows expected from exploitation of the contracts and authorisations acquired.
Based on IFRS 3 requirements, the valuation of assets and liabilities performed when drawing up the present year-end consolidated accounts must be considered provisional and may be subject to changes in the 12 months following acquisition date.

EnerFrance contribution to 2007 Consolidated Financial Statements

In the period between acquisition date (31 October 2007) and financial year-end date the EnerFrance group companies contributed to the Group's Income Statement with revenues of Euro 2 million and EBIT of Euro 0.5 million. If the acquisition had taken place at the beginning of the 2007 financial year, the Group's total revenues would have been Euro 9.7 million higher and EBIT Euro 2.6 million higher.

Note 1 - Intangible fixed assets

	Concessions and licenses	Other intangible assets	Assets in progress	Total
Historical cost	**187,173**	**173,775**	**6,539**	**367,488**
Amortisation	(65,606)	(78,500)	–	(144,106)
BALANCE AT 31/12/06	**121,567**	**95,275**	**6,539**	**223,382**
Movements during the financial year:				
Change in scope of consolidation	30,482	–	–	30,482
Acquisitions	8,824	3,522	9,102	21,448
Capitalisation/reclassification	412	8,719	(14,004)	(4,873)
Disposals and divestments	(256)	(164)	(994)	(1,415)
Amortisation	(8,251)	(9,634)	–	(17,885)
Write-downs	(26)	(40)	–	(66)
Historical cost	**225,367**	**141,800**	**643**	**367,810**
Amortisation	(72,615)	(44,122)	–	(116,737)
BALANCE AT 31/12/07	**152,752**	**97,678**	**643**	**251,073**

The increase in the item during the period is mainly due to the change in the scope of consolidation and in particular to recognition of the fair value of contracts and authorisations for the wind farms in operation identified in connection with the "EnerFrance" business combination.

Concessions and licences mainly comprise authorisations for service stations for distribution of fuel and authorisations for the wind farms (in operation and to be built in future), amortised based on their residual life.

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

Assets in progress mainly comprise software developed internally.

Note 2 - Goodwill

"Goodwill" (Euro 121,368 thousand) represents the higher value of the acquisition cost of acquiree companies over the value of their shareholders' equity, measured at fair value as at acquisition date in accordance with the purchase-price allocation method envisaged by IFRS 3.

The increase of Euro 11,352 thousand with respect to 31 December 2006 was due to acquisition of a further 17% equity interest in Enertad (Euro 11,031 thousand), of which control had already been acquired in the previous financial year, and to adjustment of Enertad goodwill to the put option on SODAI Italia S.p.A. shares (Euro 321 thousand).

Goodwill impairment test

Goodwill is not systematically amortised in the Income Statement and is subject to impairment testing. This test is performed annually, unless evidence that this asset may have suffered impairment emerges during the year.

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

- Coastal Refining: Euro 34,498 thousand;
- Integrated Downstream: Euro 20,986 thousand;
- Power Generation: Euro 65,884 thousand.

Coastal Refining

The recoverable amount of the Coastal Refining unit was measured based on its value in use. The calculation was carried out based on the cash flow projections contained in the four-year financial plan developed by top management. Estimates for subsequent years were made applying the scenario used for investment valuations, in line with the market's structural growth rate. The discount rate (WACC before taxes) applied to prospective cash flows was 11.9%.

Integrated Downstream

The recoverable amount of the Integrated Downstream unit was measured based on its value in use. The calculation was carried out based on the cash flow projections contained in the four-year financial plan developed by top management. Estimates for subsequent years were made applying the scenario used for investment valuations, in line with the market's structural growth rate. The discount rate (WACC before taxes) applied to the prospective cash flows was 9.4%.

Power Generation

The recoverable amount of the Power Generation unit was determined based on its value in use. Again, the calculation was carried out based on the cash flow projections contained in the four-year financial plan developed by top management. Estimates for subsequent years were made applying the scenario used for investment valuations, in line with the market's structural growth rate. The discount rate (WACC before taxes) applied to the prospective cash flows was 10.3% for the thermoelectric segment and 9.0% for the renewables segment.

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

Estimated gross margins The forecast is based on the price scenario for petroleum products, electricity and raw materials devised for the 2008-2011 Plan and, for the subsequent period, on projection of this scenario for the purposes of investment valuation. For Refining and Power Generation the forecast also takes into account the trend in plant yields following completion of investments in progress and, for Marketing, the expected improvement of Retail and Wholesale gross margins.

Weighted Average Cost of Capital (WACC) WACC calculations were used for Coastal Refining, Integrated Downstream and Power Generation.
It should be noted that the analysis performed at the end of 2007 did not indicate any impairment of goodwill.

Note 3 - Property, plant and machinery

	Land and buildings	Plant and machinery	Other assets	Assets under construction	Total
Historical cost	**334,352**	**2,451,118**	**42,892**	**505,763**	**3,334,125**
Depreciation and write-downs	(137,110)	(1,204,829)	(25,307)	–	(1,367,246)
BALANCE AT 31/12/06	**197,242**	**1,246,289**	**17,586**	**505,763**	**1,966,879**
Movements during the financial year:					
Change in scope of consolidation	6,905	52,927	–	–	59,832
Acquisitions	1,708	11,700	1,759	343,410	358,577
Capitalisation/reclassification	36,219	334,658	5,537	(371,541)	4,873
Increases for cyclical maintenance	–	17,898	–	–	17,898
Disposals and divestments	(1,119)	(2,519)	(108)	(2,107)	(5,852)
Depreciation	(11,576)	(149,558)	(4,760)	–	(165,894)
Write-downs	(231)	(804)	–	(491)	(1,526)
Other changes	–	–	–	–	–
Historical cost	**374,484**	**2,841,927**	**49,730**	**475,034**	**3,741,175**
Depreciation and write-downs	(145,336)	(1,331,336)	(29,716)	–	(1,506,388)
BALANCE AT 31/12/07	**229,148**	**1,510,591**	**20,014**	**475,034**	**2,234,787**

For greater clarity, movements during the period relating to reclassifications, disposals and divestments are shown net of the respective provisions for depreciation and write-downs.
The increase during the period, apart from the investments made, was mainly due to the change in the scope of consolidation and, in particular, to recognition at fair value of the wind farms in operation identified as part of the "EnerFrance" business combination.

Assets under construction increased as a result of the investments made mainly in Coastal Refining and Power Generation.

We also point out that, during the period, investments of some Euro 31 million were made in connection with the restyling plan for ERG Petroli sales outlets. The plan will be completed by the end of 2008 with a total outlay of some Euro 70 million.

The decrease of Euro 372 million was mainly due to transfers from work in progress to fixed assets.

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

Increases for cyclical maintenance mainly refer to the costs incurred by ISAB Energy for programmed maintenance shutdown of the IGCC plant.

As at 31 December 2007 mortgages and collateral liens totalling approximately Euro 36 million were attached to assets in connection with bank mortgage loans and borrowings.

We point out that the ISAB Energy's IGCC plant and Enertad's wind plants (Troia San Vincenzo, Troia San Cireo and Faeto), and also those of EnerFrance are pledged in connection with the respective Project Financing contracts.

Note 4 - Equity investments

	Equity investments			
	Subsidiary companies	Associated companies	Other companies	Total
BALANCE AT 31/12/06	**5,109**	**106,888**	**5,518**	**117,515**
Movements during the financial year:				
Acquisitions/capital increases	2,921	5,792	2	8,715
Disposals and divestments	(69)	(2,803)	–	(2,872)
Values of companies carried at equity	150	(1,138)	–	(987)
BALANCE AT 31/12/07	**8,111**	**108,739**	**5,520**	**122,370**

"Equity investments" owned as at 31 December 2007 were as summarised below:

	Carried at equity	Carried at cost	Total
Equity investments:			
- in non-consolidated subsidiary companies	6,838	1,274	8,111
- in associated companies (1)	108,739	–	108,739
- in other companies	–	5,520	5,520
TOTAL	**115,576**	**6,794**	**122,370**

(1) of which Euro 17,893 thousand in joint ventures

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

The following changes in equity investment occurred during 2007:

Acquisitions - formations - capital increases	
Centro Petroli Impianti S.r.l.	468
Ecopower S.r.l.	1,752
Eolico Agira S.r.l.	147
Eolico Mirabella S.r.l.	73
Eolico Palagonia S.r.l.	185
Eolico Ramacca S.r.l.	430
Eolico Troina S.r.l.	215
Espansione S.r.l.	824
Ionio Gas S.r.l.	4,500
Priolo Servizi S.c.a.r.l.	119
Other	2
	8,715
Disposals - returns - liquidations - incorporations	**(2,872)**
Net change in the value of companies carried at equity	**(987)**
TOTAL	**4,856**

The decrease of Euro 2.9 million mainly refers to cancellation of the equity interest in Petrolcompany following the demerger deed attributing to its direct parent ERG Petroli, effective 1 November 2007, part of its assets consisting of a business division comprising 13 road service stations.

The negative change of Euro 1.0 million from valuation using the equity method is due to the results for the period, net of dividends received from these companies.

Note 5 - Other financial assets

"Other financial assets" of Euro 12,996 thousand (Euro 12,070 thousand at 31 December 2006) mainly comprise a loan granted to Raffineria di Roma S.p.A (Euro 11,821 thousand) by ERG Petroli S.p.A., at normal market conditions, in proportion to the latter's shareholding.

Note 6 - Deferred tax assets

Provision is made for deferred tax assets, if their future recovery on the temporary differences, subject to advance taxation, between the value of assets and liabilities for statutory financial reporting purposes and their values for tax calculation purposes, is likely.

The deferred tax assets were determined as follows:

	31/12/07		31/12/06	
	Amount of temporary differences	Tax effect	Amount of temporary differences	Tax effect
Provisions for liabilities and charges	42,970	13,301	22,669	8,392
Depreciation exceeding fiscal limit	55,283	17,360	39,436	14,690
Maintenance exceeding fiscal limit	70,525	22,147	74,993	27,935
Write-downs of equity investments	–	–	3,156	1,042
Capitalised financial charges	55,509	2,359	59,339	2,522
Deferred CIP 6 income	402,566	126,405	351,874	131,073
Amortised cost financial charges	21,628	5,948	20,229	6,676
Other changes	39,529	9,814	43,053	14,586
TOTAL		**197,334**		**206,915**

It should be noted that the rate used to calculate deferred tax assets is equal to the nominal IRES (corporation tax) rate of 27.5%, increased, where so envisaged, by the IRAP (regional tax) rate of 3.90%. The tax effect of temporary differences has thus been adjusted to reflect the reduction of statutory tax rates as from the 2008 financial year and recorded under the item "Income taxes".

Deferred tax assets also include the residual substitute taxes paid on merger differences in the amount of Euro 2,524 thousand (Euro 3,351 thousand at 31 December 2006).

Consistently with the principle of prudent accounting, deferred tax assets of about Euro 24 million against previous years' tax losses of a number of consolidated companies were not recognised because their utilisation is unlikely.

Note 7 - Other non-current assets

Other non-current assets of Euro 46,217 thousand (Euro 45,305 thousand at 31 December 2006) mainly refer to the portion of catalysers in use at the ISAB Refinery plants that have not yet been utilised in the refining process and down payments on agreements for the purchase of new wind farms.

Note 8 - Inventories

Closing inventories comprise the following categories:

	31/12/07	31/12/06
Raw, ancillary and consumable materials	503,617	360,647
Finished products and goods	718,455	520,579
TOTAL	**1,222,072**	**881,226**

The value of inventories was determined by applying the weighted average cost method. As a result, the value is affected not only by the exact level of end-of-period stocks, but also by fluctuations in the purchase prices of raw materials and finished products, which, based on the weighted average cost method, also impacts the quantities that have not changed with respect to the beginning of the period. The increase in the value of inventories stems from the average increase in the prices and stocks of raw materials (1,094 compared to 1,050 thousand tonnes at 31 December 2006) and finished products (1,739 compared to 1,580 thousand tonnes at 31 December 2006).

Note 9 - Trade receivables

Receivables are summarised as follows:

	31/12/07	31/12/06
Customer receivables	643,040	730,583
Receivables due from Group companies	84,583	75,513
Bad debt provision	(4,734)	(5,076)
TOTAL	**722,889**	**801,020**

The decrease in trade receivables (down by approximately Euro 78 million compared to 31 December 2006) was mainly due to lower year-end sales and to provision by ISAB Energy for lower revenues from the GSE (national grid operator) following the tariff adjustment established by the Italian Electricity and Gas Authority (AEEG) and confirmed by the Council of State ruling dated 22 January 2008.

"Customer receivables" are guaranteed by sureties amounting to approximately Euro 68 million for Wholesale customers, approximately Euro 78 million for Retail network dealers paying by direct debit, and about Euro 2 million for Cargo customers.

"Receivables due from Group companies" refer to the supply of petroleum products to associated companies at market prices. The increase from 31 December 2006 was due to the increase in selling prices.

All trade receivables are due within twelve months.

Trade receivables refer 66% to Integrated Downstream, 18% to Coastal Refining, and 16% to Power Generation.

Of receivables outstanding as at 31 December 2007, 98% refer to sales in European countries.

For information concerning related-party receivables, reference should be made to Note 39.

The following changes took place in bad debt provision:

	2007	2006
BALANCE AT BEGINNING OF PERIOD	**5,076**	**10,696**
Provision for the period	82	39
Utilisation during the period	(424)	(5,660)
BALANCE AT END OF PERIOD	**4,734**	**5,076**

In 2006 the "Bad debt provision" was used following partial collection of some receivables previously considered unlikely to be collected, based on a settlement agreement.

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

	31/12/07	31/12/06
Receivables not yet due	650,727	709,633
Receivables past due and not written down:		
up to 30 days	52,380	71,799
up to 60 days	2,314	1,067
up to 90 days	691	366
more than 90 days	16,778	18,155
TOTAL	**722,889**	**801,020**

We believe that the provisions made to cover bad debts and contingencies are sufficient to address the risk of potential liabilities on past-due receivables.

Note 10 - Other current receivables and assets

	31/12/07	31/12/06
Tax receivables	102,106	45,730
Receivables from arbitrage transactions on crude oil and products	12,181	7,319
Indemnities to be received	646	115,797
Sundry receivables	59,968	58,267
TOTAL	**174,901**	**227,113**

"Tax receivables" mainly refer to the balance receivable on 2007 taxes. They include the amount of Euro 31.4 million for ERG Raffinerie Mediterranee's IRES receivable vis-à-vis San Quirico S.p.A. (holding company of ERG S.p.A.) following acceptance of domestic tax consolidation.

"Receivables from arbitrage transactions on crude oil and products" relate to the balance of forward purchase transactions and spot sales of crude oil and petroleum products outstanding at the end of the period.

The decrease in receivables for "Indemnities to be received" was due to the collection of insurance indemnities relating to the fire at the ISAB Impianti Nord Refinery and to ISAB Energy's transformer breakdown.

"Sundry receivables" mainly include receivables assigned to factoring companies, advances paid to suppliers and payments already made against future services.

Note 11 - Current financial assets

Current financial assets of about Euro 98,541 thousand (Euro 34,507 thousand at 31 December 2006) mainly refer to the positive fair value of derivative instruments outstanding at 31 December 2007 (Euro 5,936 thousand), receivables due from non-consolidated Group companies (Euro 79,510 thousand) and insurance policies taken out by Enertad as a guarantee for Trenitalia's put option on the subsidiary SODAI Italia S.p.A. (Euro 12,600 thousand).

The increase in the item over 2006 was mainly due to short-term loans granted during the year to non-consolidated Group companies in the wind-energy sector.

Note 12 - Cash and cash equivalents

	31/12/07	31/12/06
Bank and postal deposits	177,986	166,512
Cash and notes on hand	3,010	3,344
TOTAL	**180,996**	**169,856**

The item "Bank and postal deposits" consists mainly of the balance in bank accounts, through which all the income and expenditure of ISAB Energy S.r.l. and Enertad relating to Project Financing (Euro 88.0 million) passes, and of temporary liquidity occurring in the other companies as at 31 December 2007.

Note 13 - Group shareholders' equity

Share capital

Fully paid-up share capital as at 31 December 2007 consisted of 150,320,000 shares with a par value of Euro 0.10 each for a total of Euro 15,032,000 (the same as at 31 December 2006).

On 31 December 2007 the Company's Shareholders Register showed the following situation:

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

As at 31 December 2007, San Quirico S.p.A. and Polcevera S.A. were controlled by the Garrone and Mondini families, heirs of the founder of the ERG Group, Edoardo Garrone.

It should be noted that on 29 April 2004 the Extraordinary Shareholders' Meeting amended the Articles of Association to permit the Board of Directors to issue convertible bonds, even excluding pre-emption rights, for a period of 5 years from the date of the resolution, up to an amount of Euro 150 million.

The ERG S.p.A. Shareholders' Meeting held on 27 April 2007 authorised the Board of Directors, pursuant to Article 2357 of the Italian Civil Code, to purchase own shares for a period of 12 months from the date of the resolution up to a revolving limit (meaning the maximum number of treasury shares held in portfolio from time to time) of 15,000,000 (fifteen million) shares at a unitary price, including ancillary acquisition charges, to be no more than 30% lower in minimum, and no more than 10% higher in maximum, than the reference price recorded by the share during the stock market session on the day prior to each individual transaction.

Treasury shares

As at 31 December 2007 ERG S.p.A. held 655,456 treasury shares, i.e. 0.436% of share capital. Pursuant to IAS 32, treasury shares are recorded as a reduction of shareholders' equity. The original cost of the treasury shares, write-downs for value impairment, and revenues and losses deriving from any subsequent sales are recorded as movements in shareholders' equity.

Stock option plans

ERG S.p.A. stock option plans ERG S.p.A.'s Board of Directors approved a new long-term incentive plan on 5 August 2005, which provides for the attribution of registered and non-transferable subscription rights to ERG shares to the Group's executives.

The system has a three-year duration and provides for assignment of the rights, year by year, with a par exercise price, namely a price corresponding to the arithmetic average value of the ERG share's official prices during the thirty days prior to assignment. The system does not envisage cash settlement.

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

The following table summarises the data relating to the rights assigned from 2005 to 2007:

	Assignments 2007	Assignments 2006	Assignments 2005
Number of rights assigned (1)	745,335	719,090	635,575
Exercise price (Euro) (2)	16.06	15.61	21.08
Fair value at date of assignment (Euro) (2)	3.74	4.07	6.18

(1) the number is shown net of rights cancelled
(2) weighted average value based on options assigned

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

The following table shows the assumptions used for the model:

	2007	2006	2005
Average volatility of ERG share price (1)	31.99%	31.20%	29.34%
Risk-free interest rate (1)	3.59%	3.56%	2.35%
Expiry of right	4 years	4 years	4 years

(1) weighted average value based on the options assigned

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

	2007	2006	2005
Costs for services and other costs	2,245	1,329	245
Personnel expenses	360	211	77
TOTAL	**2,605**	**1,540**	**323**

Enertad S.p.A. stock option plans Enertad has a stock option plan in place for the company's Directors holding specific corporate offices and for executives whose roles make them more directly responsible for business and operating results.

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

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

	2006 3rd assignment	2006 2nd assignment	2005 1st assignment
Number of rights assigned (1)	730,600	730,600	605,000
Exercise price (Euro)	3.32	3.19	3.24
Fair value at date of assignment (Euro)	0.74	0.74	0.74

(1) the number is shown net of the rights cancelled

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

The portion of the cost of share-based payment transactions pertaining to 2007 amounted to Euro 509 thousand.

Other reserves

"Other reserves", totalling Euro 1,147,794 (Euro 1,051,039 as at 31 December 2006) consist mainly of retained earnings, the "Share premium reserve", the "Stock option reserve", and the "Cash flow hedge reserve".

Note 14 - Minority interests

Minority interests arise from the line-by-line consolidation of the following companies that have other shareholders:

	% of minority shareholders	minority shares
Enertad S.p.A.	31.62%	75,844
Gestioni Europa Due S.p.A.	5.00%	20
ISAB Energy S.r.l.	49.00%	46,132
ISAB Energy Services S.r.l.	49.00%	3,299
TOTAL		**125,295**

Note 15 - Staff leaving indemnities

	31/12/07	31/12/06
BALANCE AT BEGINNING OF PERIOD	**33,124**	**34,140**
Change in scope of consolidation	–	437
Social security cost for current services	9,231	7,536
Financial charges relating to obligations undertaken	1,223	1,308
Effect of employee leaving indemnity reform (curtailment)	(315)	–
Benefits paid	(13,665)	(10,297)
BALANCE AT END OF PERIOD	**29,598**	**33,124**

The item includes the estimate of the liability relating to the staff leaving indemnities payable to employees when they terminate their employment.

It also reflects the impact of the changes introduced by the 2007 Finance Law regarding allocation of the amounts accruing for staff leaving indemnities (TFR). More specifically, pursuant to IAS 19, starting from 2007, the new law changes the nature of TFR from a "defined benefit plan" to a "defined contribution plan". This redefinition is based essentially on the exclusion of future pay and assumed pay increases from the actuarial calculation.

We point out that actuarial gains and losses (arising from changes in actuarial assumptions applied) have not been taken into account because their net value – not recognised at the end of 2006 – was less than 10% of the year-end liability (the corridor method).

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

Discount rate	4.5%
Inflation rate	2.0%
Average turnover rate	5.0%
Average rate of salary increase	3.0%

Note 16 - Deferred tax liabilities

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

The breakdown of such liabilities is as shown below:

	31/12/07		31/12/06	
	Amount of temporary differences	Tax effect	Amount of temporary differences	Tax effect
Excess and accelerated depreciation	291,551	91,359	166,927	62,180
Bad debt provision	14,195	3,903	10,771	3,554
Inventory valuation at WAC	565,541	177,769	326,781	121,570
Capitalised maintenance costs	37,615	11,811	35,281	13,142
Capital gains on business combinations	164,217	51,564	136,577	50,875
Other changes	86,508	26,344	64,059	23,437
TOTAL		**362,750**		**274,758**

It should be noted that the rate used to calculate deferred taxes is the same as the nominal IRES (corporation tax) rate (27.5%), increased, where so envisaged, by the IRAP (regional tax) rate (3.90%). The tax effect on temporary differences has thus been adjusted to reflect the reduction in tax rates as from the 2008 financial year and recorded under the item "Income Taxes". It is pointed out that deferred taxes calculated on the fair value of derivative instruments booked using the cash flow hedge technique were recorded with a contra entry in shareholders' equity (Euro 1.2 million).

Note 17 - Provisions for non-current liabilities and charges

Provisions for non-current liabilities and charges of Euro 12,655 thousand (Euro 12,352 thousand as at 31 December 2006) mainly consist of the provision relating to the cost of dismantling, removal and site restoration of plants for which future disposal is foreseen.

Note 18 - Non-current financial liabilities

The breakdown of this item is as shown below:

	31/12/07	31/12/06
Medium/long-term mortgages and loans	951,688	543,221
- current portion of medium/long-term loans	(152,971)	(71,661)
	798,717	**471,560**
Medium/long-term Project Financing	367,831	392,678
- current portion of Project Financing	(104,351)	(102,487)
	263,480	**290,191**
Other medium/long-term financial payables	22,609	21,000
TOTAL	**1,084,806**	**782,751**

As at 31 December 2007 mortgages and loans totalled Euro 952 million (Euro 543 million at 31 December 2006), of which Euro 175 million was provided by the European Investment Bank (EIB) for the "ERG Energia Sicilia" project. Bank sureties for the amount of Euro 177 million were issued as collateral for the loan.

The significant increase with respect to 2006 reflects the new loans granted in 2007 and the change in the scope of consolidation.

To reduce the risk of future interest rate fluctuations with regard to outstanding loans, the following hedging measures were implemented:

- Interest Rate Collar transactions, expiring in 2010, for a notional value of Euro 80 million, which establish for each year of the period considered different interest rate ranges between a minimum of 3.75 % and a maximum of 4.60%;
- Interest Rate Swap transactions, expiring in 2011, for a notional value of Euro 106 million, which fix the effective interest rate at 3.88%;
- Interest Rate Swap transactions, expiring in 2009, for a notional value of Euro 108 million, which fix the effective average interest rate at 4.4%;
- Interest Rate Cap transactions, with effective start date on 30 October 2009 and expiring in 2012, for a notional value of Euro 7 million, which fix a maximum for the financing rate limit of 5%.

As at 31 December 2007 the weighted average interest rate on mortgages and loans was 5.33% (4.22% at 31 December 2006).

It should be noted that a variable premium, linked to the performance of Enertad shares in two periods identified, was paid to the lending institution against one of the loans granted. Under IAS 39 the aforesaid premium is considered an embedded derivative. It was therefore unbundled from the value of the payable and booked at fair value (Euro -4.0 million as at 31 December 2007) under financial liabilities, with a corresponding increase in the effective loan rate.

ISAB Energy Project Financing

These are loans granted by a pool of international banks for initial amounts of approximately 90% of the cost of the ISAB Energy plant. The balance outstanding as at 31 December 2007 was Euro 240.5 million.

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

The variable interest on the loan is linked to Euribor and EIB rates. To hedge the risk deriving from interest rate fluctuations, ISAB Energy has set up Interest Rate Cap transactions starting in June 2006, for a notional value of Euro 189 million expiring on 15 December 2008, which fix a maximum rate of 3.78%.

Enertad Project Financing

This concerns the following loans granted for the construction of wind farms:

- loan signed in 2005 by EOS 1 Troia S.r.l. (San Vincenzo), the balance of which was Euro 27.8 million at 31 December 2007. The loan provides for a base credit line of Euro 36 million. The last instalment is due on 31 December 2013. The interest rate is 5.30% up to acceptance of the final inspection certificate and subsequently the interest rate will be 5.05%;
- loan signed in 2005 by EOS 3 Troia S.r.l. (San Cireo), the balance of which was Euro 31.4 million at 31 December 2007. The loan provides for a base credit line of Euro 34 million for installed power of 30 MW, increasable to Euro 43 million for another 10 MW. The last instalment is due on 31 December 2014. The interest is equal to the Euribor 6-month rate + 1.60% up to acceptance of the final inspection certificate and subsequently the rate will be equal to the Euribor 6-month rate + 1.45%.

  To hedge the risk deriving from interest rate fluctuations, Enertad has set up Interest Rate Swap transactions up to 31 December 2014, according to the due dates of the loan repayment plan, thus changing the variable rate into fixed rates (3.30% and 3.35%) on a notional value of Euro 34 million, corresponding to the potential maximum amount of the loan;
- loan signed in June 2007 by EOS 4 Faeto S.r.l., the balance of which, at 31 December 2007, was Euro 14 million, relating to the first disbursement. The loan provides for a base credit line of Euro 38 million for installed power of 24 MW. The first repayment instalment is due on 31 December 2008, and the last instalment is due on 30 June 2020. The interest rate payable is the Euribor 6-month rate + 0.90% throughout the credit line utilisation period, after which the spread will range between 0.90% and 1.10% based on the value of the historical DSCR (see comment in Note 25). In order to protect itself against the risk of interest rate fluctuations, Enertad has set up Interest Rate Cap transactions up to 31 December 2013, according to the due dates of the loan repayment plan. These establish a maximum limit of 5% for the variable rate on a notional amount of Euro 10 million relating to the first part of the investment.

We also point out that, following the "EnerFrance" business combination, as at 31 December 2007 Project Financing was in place, expiring in June 2019, for a total of Euro 54.1 million relating to five wind farms in France.

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

It should also be noted that, in December, the Interest Rate Swap contracts of the company EOS 3 Troia S.r.l, relating to the second part of the investment in the wind farm, were terminated early, with a consequent positive impact on the Income Statement of Euro 0.3 million.

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

	31/12/07	31/12/06
Secured by Group tangible assets		
with maturities up to December 2020	387,831	412,678
Unsecured		
with maturities up to December 2015	931,688	523,221
TOTAL	**1,319,519**	**935,899**

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

	Mortgages and loans	Project Financing
by 2008	152,971	104,351
by 2009	319,919	24,794
by 2010	149,308	52,290
by 2011	149,378	42,983
by 2012	75,540	56,061
beyond 2012	104,572	87,352
TOTAL	**951,688**	**367,831**

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

Note 19 - Other non-current liabilities

	31/12/07	31/12/06
CIP 6 tariff increase	402,567	351,875
Equipment grants	10,747	6,791
End-of-contract bonuses	8,925	8,054
Other minor non-current liabilities	4,952	2,658
TOTAL	**427,191**	**369,378**

The "CIP 6 tariff increase" refers to the incentive component for the sale of electricity by ISAB Energy, already received from GSE (National Grid operator), the amount of which was deferred to the following years based on IFRS requirements. ISAB Energy's sales revenues are in fact based on a contract of sale to the GSE regulated by the tariff determined in regulation 6/1992 of the Inter-ministerial Prices

Committee (CIP 6), signed for 20 years and already authorised by the European Union for 15 years. Regulation 6/1992 provides for recognition of an incremental tariff amount for the first eight years of operation (2000-2008).

This incentive component represents a timing advance of part of the overall sales tariff obtainable from the contract: the incentive is, accordingly, recorded as per international accounting standards as revenues in proportion to the quantity of energy sold *pro rata* to sales expected over the entire contract.

"Equipment grants" represent the residual portion of grants received and will be recorded in future financial years as "Other revenues and income" to partially offset depreciation charged on the facilities in question. The increase in the period relates to collection of a portion of grant assigned pursuant to Italian Law 488/1992.

"End-of-contract bonuses" represent the amount that will be payable to service station operators covered by free usage contracts.

Note 20 - Provisions for current liabilities and charges

			Changes	
	31/12/07	**31/12/06**	**Increases**	**Decreases**
Losses on equity investments	251	219	32	–
Provision for demurrage charges	3,958	6,575	1,978	(4,595)
Provision for legal risks	9,995	8,918	1,447	(370)
Provision for sales of equity investments	3,553	3,000	1,200	(647)
Other provisions for liabilities and charges	16,005	8,313	13,995	(6,303)
TOTAL	**33,762**	**27,025**	**18,652**	**(11,915)**

The "Provision for demurrage charges" refers to demurrage incurred in the last part of the period and not yet requested from the counterparty.

The "Provision for legal risks" is related to potential liabilities from legal disputes underway.

The "Provision for sales of equity investments" relates to the potential liability deriving from the equity investments sold by Enertad during 2006.

"Other provisions for liabilities and charges" mainly refer to anticipated charges in commercial dealings with service station operators, provisions for transactions currently being settled and additional charges envisaged for reclamation of the area earmarked for construction of the new Turbogas generator at the Impianti Nord site.

Note 21 - Trade payables

	31/12/07	31/12/06
Payables due to suppliers	1,165,100	951,161
Payables due to Group companies	5,549	8,520
TOTAL	**1,170,649**	**959,681**

These are payables deriving from commercial relationships and are payable within the next financial year.

Payables for crude oil purchases at year-end are covered by guarantees issued to suppliers by banks for about Euro 271 million. On the other hand, contractors for fixed asset investments have issued sureties to Group companies for around Euro 32 million, as a guarantee for the plants built.

Payables to Group companies mainly refer to associated companies.

Note 22 - Current financial liabilities

	31/12/07	31/12/06
Short-term bank borrowings	**284,183**	**574,323**
Other short-term financial payables		
Current portion of medium/long-term bank borrowings	152,971	71,661
Short-term Project Financing	104,351	102,487
Other financial payables	31,246	29,426
	288,568	**203,574**
TOTAL	**572,751**	**777,897**

As at 31 December 2007, short-term borrowings amounted to 24% of total credit lines granted (55% as at 31 December 2006).

These credit lines are unsecured and are generally repayable on demand.

As at 31 December 2007, the weighted average interest rate on short-term borrowings was 4.89% (4.16% as at 31 December 2006). Other financial payables mainly comprise short-term payables to companies controlled by IPM Eagle, liabilities arising from the fair value measurement of financial instruments, and the liability relating to the put option of Euro 17.5 million granted by Enertad to Trenitalia on 49% of the subsidiary SODAI Italia S.p.A., to be exercised in the period between 1 April and 31 May of 2007, 2008 and 2009. In this connection, we point out that, on 22 May 2007, Trenitalia expressed its intention of exercising the aforesaid put option. On 11 June 2007 Enertad responded to Trenitalia that it did not consider valid the put option for the shares of SODAI Italia and also informed same that it intended to start arbitration proceedings pursuant to the agreement signed on 23 December 2003.

Note 23 - Other current liabilities

	31/12/07	31/12/06
Taxes payable	59,917	15,509
Excise duties payable to tax authorities	77,918	67,801
Company and Amex coupons payable	30,173	21,610
Payables due to employees	18,428	15,916
Payables due to social security institutions	9,945	9,144
Rents payable	3,881	8,453
Other minor current liabilities	34,588	25,449
TOTAL	**234,850**	**163,882**

"Taxes payable" mainly refer to VAT payable.

As regards "Excise duties payable to tax authorities", we would mention that, generally speaking, under current regulations excise duties for the entire month are normally paid on the 16th day of the month following that of accrual, while only for the month of December are the excise duties for the first two weeks paid in advance at the end of the month in question. The balance of excise duties payable was therefore affected by the advance payment of Euro 68 million (Euro 69 million in 2006).

The item "Company coupons payable" refers to fuel coupons still in circulation which will be paid to the service station operators.

"Payables due to employees" refer to sums owing for the period but not yet paid and include holidays, unused time off in lieu, productivity bonuses, and bonuses linked to Group value creation.

"Payables due to social security institutions" relate to the contributions on salaries and wages for the month of December and, following the regulatory changes introduced by the 2007 Finance Law, part of staff leaving indemnities accruing as from 1 January 2007.

"Rents payable" represent the portion pertaining to the current year that must be paid in the next financial year.

"Other minor current liabilities" principally comprise payables for forward crude oil and product contracts, advances from customers and sums payable to Directors. As at 31 December this item included the debt of Euro 13 million vis-à-vis Alerion Industries S.A. arising from the transaction concerning non-acquisition of wind farms.

Note 24 - Guarantees, commitments and risks (Euro 183,537 thousand)

Sureties given

	31/12/07	31/12/06
In favour of Group companies	258	19,637
In favour of third parties	87,126	96,316
TOTAL	**87,384**	**115,953**

Sureties given are mainly related to guarantees granted for payment of excise duties, use of Group VAT receivables and generally in favour of public entities. In 2006, sureties in favour of Group companies included guarantees for the construction of wind farms.

Other corporate guarantees (Euro 13,086 thousand)

These refer to letters of patronage issued in support of bank credit lines for associated company SIGEMI S.r.l. (Euro 15,617 thousand as at 31 December 2006).

Third party assets (Euro 39,308 thousand)

Third party assets are mainly goods on consignment at the ISAB refinery (Euro 72,878 thousand as at 31 December 2006).

Group commitments

	31/12/07	31/12/06
ISAB Energy S.r.l. Project Financing	27,534	27,029
Other commitments	12,780	14,335
TOTAL	**40,314**	**41,364**

The commitment of Euro 27,534 thousand represents the surety issued through Banca Nazionale del Lavoro S.p.A. in favour of Intesa Sanpaolo, following renegotiation of the Project Financing contract between ISAB Energy S.r.l. and a consortium of Italian and foreign banks.

"Other commitments" mainly refer to commitments undertaken to acquire hardware, software, and IT consultancy services.

Risks (Euro 3,445 thousand)

The risks outstanding as at 31 December 2007 (Euro 53,994 thousand as at 31 December 2006) mainly referred to direct irrevocable remittances credited by the bank for which confirmation of execution of payment by the main debtor had not yet been received by the bank at year-end.

Note 25 - Covenants and negative pledges

ISAB Energy Project Financing

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

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

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

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

The guarantees given also entail a 100% pledge of the company's capital and other guarantees on the restricted current accounts of ISAB Energy (Euro 36.8 million as at 31 December 2007).

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

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

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

1. Debt Service Coverage Ratio (DSCR) of not less than 1.1: if ISAB Energy exceeds this limit, it cannot proceed with distribution of dividends to quotaholders, nor can it repay subordinated loans without prior authorisation from the banks.

   The DSCR is determined on 30 June and 31 December each year and is calculated as the ratio between the project's operating cash flow net of taxes and repayment of the loans as envisaged in the repayment plan in the same half-year, including both interest and capital due.
2. Loan-Life Coverage Ratio (LLCR) of not less than 1.1: exceeding this limit, results in loan default. The LLCR is determined on 30 June and 31 December each year and is calculated as the ratio between the net present value, discounted as weighted average cost of debt, of the operating cash flows generated by the company in the periods between calculation date and the loan's maturity year, and the amount of debt outstanding as at calculation date.

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

Enertad Project Financing

These are loans granted for the construction of wind farms:

- loan signed in 2005 by EOS 1 Troia S.r.l. (San Vincenzo). The loan provides for a base credit line of Euro 36 million and matures on 31 December 2013.

  The guarantees granted entail the mortgage of real estate, a special lien on assets, a pledge of 100% of the company's share capital and restricted current accounts (Euro 6.8 million as at 31 December 2007), as well as a letter of patronage from Enertad S.p.A.

  The loan is also subject to the following covenants and negative pledges:

  – Debt Service Coverage Ratio (DSCR) of not less than 1.30: if EOS 1 Troia S.r.l. exceeds this limit it cannot proceed with distribution of dividends to quotaholders, nor can it repay subordinated loans without prior authorisation from the banks. The DSCR is determined on 30 June and 31 December each year and is calculated as the ratio between the project's operating cash flow for the current and preceding half-year, net of VAT flows destined for the repayment of the capital quota of the VAT credit line, and the overall amount of the loan repaid as provided in the repayment plan for the capital quota of the base credit line and the sum of the interest, commissions and costs paid or payable in relation to the credit lines;

  – the project provides for a negative pledge that protects the creditor's rights over the assets granted by the debtor as a guarantee for the loan repayment. Consequently, EOS 1 Troia S.r.l. cannot grant further guarantees on its assets except in the case of guarantees granted according to law;

- loan signed in 2005 by EOS 3 Troia S.r.l. (San Cireo). The loan provides for a base credit line of Euro 34 million for installed power of 30 MW (increasable to Euro 43 million for an additional 10 MW) and matures on 31 December 2014.

  The guarantees granted entail the mortgage of real estate, a special lien on assets, a pledge of 100% of the company's share capital and on restricted current accounts (Euro 8.0 million as at 31 December 2007), as well as a letter of patronage from Enertad S.p.A.

  The loan is also subject to the following covenants and negative pledges:

  – Debt Service Coverage Ratio (DSCR) of not less than 1.30: if EOS 3 Troia S.r.l. exceeds this limit it cannot proceed with distribution of dividends to quotaholders, nor can it repay subordinated loans without prior authorisation from the banks.

    The DSCR is determined on 30 June and 31 December each year and is calculated as the ratio between the project's operating cash flow for the current and preceding half-year, net of VAT flows to be used for repayment of the capital quota of the VAT credit line, and the overall amount of the loan repaid as envisaged in the repayment plan for the capital quota of the base credit line, the sum of the interest, commissions and costs paid or payable in relation to the credit lines, and the sums paid or payable by the company to hedging banks or by hedging banks to the company pursuant to the hedging contracts;

  – the project provides for a negative pledge that protects the creditor's rights over the assets granted by the debtor as a guarantee for the loan repayment. Consequently, EOS 3 Troia S.r.l. cannot grant further guarantees on its assets except in the case of guarantees granted according to law;

- loan signed in June 2007 by EOS 4 Faeto S.r.l. The loan provides for a base credit line of Euro 38 million for installed power of 24 MW and matures on 30 June 2020.

  The guarantees granted entail the mortgage of real estate, a special lien on assets, a pledge of 100% on the company's share capital and on restricted current accounts (Euro 1.0 million as at 31 December 2007), as well as a letter of patronage from Enertad S.p.A.

  The loan is also subject to the following covenants and negative pledges:

  – historical Debt Service Coverage Ratio (DSCR) of not less than 1.10: if EOS 4 Faeto S.r.l. exceeds this limit it cannot proceed with distribution of dividends to quotaholders, nor can it repay subordinated loans without prior authorisation from the banks.

    The DSCR is determined on 30 June and 31 December each year and is calculated as the ratio between the project's operating cash flow for the current and preceding half-year, net of VAT flows to be used for repayment of the capital quota of the VAT credit line, and the overall amount of the loan repaid as envisaged in the repayment plan for the capital quota of the base credit line, the sum of the interest, commissions and costs paid or payable in relation to the credit lines, and the sums paid or payable by the company to hedging banks or by hedging banks to the company pursuant to the hedging contracts;

   - the project provides for a negative pledge that protects the creditor's rights over the assets granted by the debtor as a guarantee for the loan repayment. Consequently, EOS 4 Faeto S.r.l. cannot grant further guarantees on its assets except in the case of guarantees granted according to law;
- loan concerning construction of the five wind farms located in France. The loan provides for a base credit line of Euro 56.7 million for total installed power of 55.2 MW. The first repayment took place on 30 June 2007 and the last instalment is due on 30 December 2019. The rate of interest is 6-month Euribor + 1.45%.

  The guarantees granted entail the mortgage of real estate and a pledge of 100% on the company's share capital and on restricted current accounts (Euro 2.8 million as at 31 December 2007).

  The loan is not subject to financial covenants as regards dividend distribution.

  The contract also provides for a negative pledge that protects the creditor's rights over the assets granted by the debtor as a guarantee for the loan repayment. Consequently, the French companies cannot grant further guarantees on their assets.

Other covenants and negative pledges

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

The loan is also subject to a covenant relative to the ratio between net financial debt and gross operating margin (EBITDA), which must be less than or equal to 3.5 from 30 June 2007 onwards.

In the case of failure to maintain the aforesaid ratio, the bank shall have the right to withdraw from the contract, declare the acceleration clause as having come into effect on the borrowing company, or declare the contract rescinded.

In consideration of the major volatility that had emerged in the market, on 31 December 2007 Unicredit issued a suspension of application of the aforementioned covenant.

Note 26 - Contingent liabilities

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

In particular, we report that in 2007 ERG Raffinerie Mediterranee was served with some demands for payment by the Syracuse Customs Agency, which alleged that the company was not entitled to exemption, as applied by the company, from payment of harbour dues for loading and unloading of freight at the Santa Panagia bay jetty in Syracuse (Sicily) for the years 2001-2007.

On the basis of reviews carried out with the assistance of independent counsel, ERG considers these charges to be illegitimate and/or unconstitutional. It has accordingly set aside no provisions for the years up to 2006 included.

As regards 2007, taking into account the interpretative regulation contained in the 2007 Finance Law, it has prudently made provision for harbour dues pertaining to the year, being confident that it can demonstrate the legitimacy of its positions to the Revenue Authorities.

We also point out that ERG, via its subsidiary ISAB Energy, is the plaintiff in legal actions designed to defend its prerogatives and rights arising from the CIP 6/92 system, with special reference to the cogeneration status of its plant and to the obligation, confirmed by the Lombardy Regional Administrative Tribunal's ruling dated 5 February 2008, to cover some years of production via the purchase of green certificates.

ERG, with the support of its independent legal advisors, considers the claims of the Italian Electricity and Gas Authority (AEEG) to be illegitimate and believes it can reasonably pursue actions to defend itself, also via the quest for appropriate guarantee instruments for 2008 and pending conclusion of the proceedings underway.

Note 27 - Revenues from ordinary operations

	2007	2006
Revenues from sales	10,070,485	8,975,945
Revenues from services	80,261	147,500
Revenues from green certificates	14,989	4,708
TOTAL	**10,165,735**	**9,128,153**

Revenues from sales consist principally of petroleum product sales and include the sale of electricity and the supply of water and steam to the National Grid (Gestore dei Servizi Elettrici - GSE) and other customers in the industrial district of Priolo.

The values indicated are net of the excise duties recovered from customers of Euro 2,387,296 thousand (Euro 2,323,383 thousand as at 31 December 2006) and net of trade exchanges for Euro 502,691 thousand (Euro 395,921 thousand as at 31 December 2006).

We point out that ISAB Energy's revenues from electricity sales decreased following downward revision of sales tariffs by the Electricity and Gas Authority (AEEG).

The following table shows the breakdown of sales revenues:

	2007	2006
Sales to Group companies	291,760	326,359
Sales to third parties	9,778,725	8,649,586
TOTAL	**10,070,485**	**8,975,945**

Revenues from services refer principally to charges to associated companies Raffineria di Roma S.p.A. and Sarpom S.p.A. for internal consumption in the amount of Euro 39,410 thousand and the income for general and support services provided to third parties at the Priolo industrial site. The decrease compared to the previous year was due to termination of the contract for third-party processing at the ISAB Impianti Nord Refinery and lower expense recovery for promotional campaigns.

Revenues from green certificates concern production during 2007 of the Enertad wind farms in operation. Valuation of the green certificates was prudently calculated at the price of Euro 98/MWh determined on the basis of presumed disposal value.

Note 28 - Other revenues and income

	2007	2006
Operating subsidies and equipment grants	1,847	1,103
Rents receivable	5,282	6,027
Indemnities	1,712	121,653
Expense recoveries	6,384	5,278
Capital gains from disposals	5,646	5,792
Non-recurring income	4,832	12,103
Sale of CO_2 emissions rights	260	9,867
Other	14,204	13,460
TOTAL	**40,167**	**175,283**

In 2006 the item "Indemnities" consisted mainly of insurance reimbursements relating to the claim events that occurred in the period.

"Capital gains from disposals" refer principally to the sale of service stations to associated company Enerpetroli.

"Non-recurring income" mainly refers to the release of surplus provisions allocated during prior financial periods (in 2006 Euro 5 million against charges for CO_2 emissions) and reversal of debt positions.

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

The item "Other" includes income for compulsory reserves.

Note 29 - Changes in product inventories

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

The increase of about Euro 198 million relates both to higher production costs associated with crude oil prices and to higher quantities at the end of the period (+159 thousand tonnes).

Note 30 - Changes in raw materials inventories

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

The increase of about Euro 143 million relates both to higher purchase costs and to higher quantities at the end of the period (+44 thousand tonnes).

Note 31 - Cost of purchases

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

The total as at 31 December 2007 amounted to Euro 9,121 million (Euro 8,062 million as at 31 December 2006). The increase with respect to 31 December 2006 (Euro 1,059 million) was attributable both to the increase in prices and to a higher level of processing.

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

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

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

Note 32 - Costs for services and other costs

	2007	2006
Services	542,689	465,667
Rents paid	59,430	54,954
Bad debt provision	837	35
Provision for liabilities and charges	18,316	12,091
Duties and taxes	38,560	38,994
Other operating expenses	28,844	14,330
TOTAL	**688,676**	**586,071**

The breakdown of costs for services was as follows:

	2007	2006
Processing costs	90,725	94,176
Commercial, distribution and transportation costs	45,845	47,757
Maintenance and repairs	115,108	110,188
Consultancy	40,970	36,309
Utilities	98,521	32,263
Insurance	37,507	29,909
Advertising and promotions	17,493	28,859
Other services	96,520	86,206
TOTAL	**542,689**	**465,667**

“Processing costs” refer to associated companies Sarpom S.p.A. and Raffineria di Roma S.p.A. for crude oil processing at these refineries and the processing costs from Polimeri Europa.
The item “Maintenance and repairs” includes both routine maintenance expenses concerning the refining and electricity production plants and routine maintenance of the service stations. It also includes costs of around Euro 13 million for reclamation of the area earmarked for construction of the new Turbogas generator at the Impianti Nord site.
The increase in the item “Consultancy” mainly relates to the projects underway and to environmental analyses at service stations.
“Utilities” are related above all to costs incurred by refinery plants and normal utility expenses. The increase over 2006 stems from the higher consumption of natural gas following the start-up of the Turbogas plant for the generation of electricity used by the ISAB Impianti Sud Refinery.
The increase in the item “Insurance” was due to the revision of insurance premiums following the claim events occurring in 2006 and the addition of new plants.
The decrease in advertising and promotion expenses stems mainly from the new customer-focused commercial policy for the Retail network, which resulted in a shift of promotional campaigns from national to local level.
“Other services” include the emoluments of Directors and Statutory Auditors, costs relating to plant safety, bank charges, general expenses, staff travel and accommodation expenses, expenses for training and refresher courses, and other personnel costs.
“Rents paid” consist mainly of rents paid to service station dealers. It should be noted that there are no operational leasing contracts of significant amounts.
“Provisions for liabilities and charges” refer above all to the appropriations to cover transactions in the process of definition and for demurrage arising in the latter part of the period. They also include, for 2007, the additional costs envisaged for reclamation of the area earmarked for construction of the new Turbogas generator at the Impianti Nord site.
The item “Duties and taxes” mainly concerns expenses for green certificates, local property taxes, regional tax on gasoline, state treasury and port taxes, the tax on the occupation of public areas, and taxes on competition awards and advertising. The item includes costs owed by ISAB Energy for green certificates and the charges for harbour dues pertaining to the period requested for the jetty used by the ISAB Impianti Sud Refinery. These items, which are contested by ERG, were prudently appropriated in the Income Statement pending the outcome of the appeals filed.
The “Other operating expenses” include membership subscription fees, costs incurred in connection with accidents, and ordinary capital losses on the disposal of retired service stations. The increase in the item relates to the charges (Euro 13 million) resulting from the settlement agreement signed by ERG S.p.A. and Alerion to define the controversy arising due to termination of the commitment to purchase and sell wind farms.

Note 33 - Personnel expenses

	2007	2006
Salaries and wages	124,760	118,483
Social security expenses	37,488	36,255
Staff leaving indemnities	10,139	8,844
Other costs	13,106	8,640
TOTAL	**185,493**	**172,222**

The increase in personnel expenses stems not only from the higher average number of employees but also from supplementary amounts paid to outgoing personnel and normal wage increases.
The following table shows the breakdown of ERG personnel (average headcount during the period):

	2007	2006
Executives	119	106
Managers	372	343
White-collar employees	1,400	1,323
Blue-collar employees	933	998
TOTAL	**2,823**	**2,770**

As at 31 December 2007 total employee headcount numbered 2,825 (2,820 as at 31 December 2006).

Note 34 - Amortisation, depreciation and write-downs

	2007	2006
Amortisation of intangible fixed assets	17,885	15,655
Depreciation of tangible fixed assets	165,894	140,992
Write-downs	1,592	501
TOTAL	**185,371**	**157,148**

The increase in amortisation and depreciation stems principally from the start-up of new plants at the Priolo production site.

Note 35 - Net financial income (expenses)

	2007	2006
Income		
Foreign exchange gains	111,762	98,423
Interest income on bank accounts	10,711	7,449
Other financial income	13,201	30,000
	135,674	**135,872**
Charges		
Foreign exchange losses	(114,572)	(117,539)
Interest payable on short-term bank borrowings	(18,578)	(13,668)
Interest payable on medium/long-term bank borrowings	(32,534)	(12,696)
Interest payable on Project Financing	(21,707)	(17,920)
Financial charges relating to Project Financing	(2,198)	(4,772)
Other financial expenses	(19,507)	(17,725)
	(209,096)	**(184,320)**
TOTAL	**(73,422)**	**(48,448)**

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

"Interest income on bank accounts" arose mainly on current accounts held by ISAB Energy S.r.l., ERG Raffinerie Mediterranee S.p.A. and Enertad.

"Other financial income" refers mainly to the positive results of derivative instruments and to income from exchange-rate hedges. In 2006 the item included the results of refining margin hedges amounting to Euro 20 million.

The "Financial charges relating to Project Financing" include the commissions paid to the project's lending institutions. In 2006 this account also included the losses incurred on the interest rate swap used to hedge interest rates payable.

"Other financial expenses" consist mainly of bank commissions, charges deriving from assignment of receivables, premiums on exchange rate hedging contracts, and charges relating to derivative instruments. In 2006 the item included negative results of Euro 7 million on refining margin hedges. During 2007 net losses of Euro 8 million were booked relating to changes in the fair value of derivative instruments (Euro +1 million in 2006).

Note 36 - Net income (expenses) from equity investments

Income and expenses from equity investments amounting to Euro 6,764 thousand (Euro 3,931 thousand as at 31 December 2006) mainly comprise the results of companies carried at equity and capital gains on the sale of equity interests.

Note 37 - Income taxes

	2007	2006
Current income tax	20,512	128,363
Taxes from previous years	(745)	(339)
Substitute taxes	533	31,322
Deferred and advance taxes	87,117	(112,841)
TOTAL	**107,417**	**46,505**

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

“Substitute taxes” in 2006 consisted mainly of the substitute tax of approximately Euro 31 million on the tax realignment of assets pursuant to Law 266 of 23 December 2005.

“Deferred and advance taxes” originated from the temporary differences deriving from adjustments made to consolidated companies’ financial statements in application of the Group’s uniform accounting policies and the temporary differences between the statutory and tax values of assets and liabilities.

In 2007 this item includes the positive effect of some Euro 29 million arising from application of the tax rates established by the 2008 Finance Law with effect from 1 January 2008.

We point out that the positive effect of deferred and advance taxes in 2006 derived principally from reversal of approximately Euro 95 million of deferred tax provisions following tax realignment of assets.

Furthermore, deferred tax assets of Euro 1.2 million (Euro 154 thousand in 2006) were charged directly to equity. These were calculated on the fair value of the derivative instruments recognised using the cash flow hedge technique.

Reconciliation between reported and theoretical tax charges

IRES (Corporation tax)		
Profit before taxes	299,544	
Theoretical IRES taxation at 33%	**98,850**	
Impact of permanent tax adjustments and consolidation adjustments not relevant to the calculation of taxes		9,088
Impact of tax rate adjustment		(25,927)
Current, deferred and advance IRES		**82,011**
IRAP (Regional tax)		
EBIT	366,202	
Personnel expenses and write-downs of receivables	186,330	
Total	**552,532**	
Theoretical IRAP taxation at 4.25%	**23,483**	
IRAP rate increased for some companies		5,667
Impact of permanent tax adjustments and consolidation adjustments not relevant to the calculation of taxes		(24)
Impact of tax rate adjustment		(3,508)
Current, deferred and advance IRAP		**25,618**
Total theoretical taxes	**122,332**	
Total IRES and IRAP per financial statements		**107,629**
Taxes from previous years		**(745)**
Substitute taxes		**533**
TOTAL TAXES AS REPORTED IN FINANCIAL STATEMENTS		**107,417**

The consolidation adjustments that are not relevant to tax calculation mainly refer to the results of companies carried at equity.

Note 38 - Non-recurring items

(thousand Euro)	2007	2006
Other revenues and income	–	14,330
Costs for services and other costs	(30,700)	(7,278)
Financial income	–	–
Income taxes	10,718	61,538
Minority interests	–	(1,798)
NET PROFIT (LOSS) PERTAINING TO THE GROUP	**(19,982)**	**66,792**

In 2007 non-recurring items referred to:

- charges of Euro 13 million relating to the settlement agreement signed by ERG SpA and Alerion to define the controversy arising following the non-purchase/sale of wind farms;
- costs amounting to around Euro 17.7 million for reclamation of the area earmarked for construction of the new Turbogas generator at the Impianti Nord site.

Non-recurring items in 2006 referred to:

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

Note 39 - Related parties

Balance Sheet

	Notes	Subsidiaries	Associated	Other related parties	Total
Other financial assets	**5**	–	11,821	–	**11,821**
Trade receivables	**9**	799	83,784	–	**84,583**
Other current receivables and assets	**10**	12	393	32,239	**32,644**
Current financial assets	**11**	2,213	77,297	–	**79,510**
Trade payables	**21**	(1)	(5,547)	(974)	**(6,522)**
Other current liabilities	**23**	(81)	(1,435)	–	**(1,516)**

Income Statement

	Notes	Subsidiaries	Associated	Other related parties	Total
Revenues from ordinary operations	**27**	5,512	326,137	–	**331,649**
Other revenues and income	**28**	154	2,270	887	**3,312**
Cost of purchases	**31**	–	(217)	–	**(217)**
Costs for services and other costs	**32**	(8,547)	(43,770)	(3,408)	**(55,725)**
Financial income	**35**	175	1,065	–	**1,240**

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

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

We point out that, following the request of the ultimate parent company San Quirico S.p.A., ERG Raffinerie Mediterranee has agreed to participate in domestic tax consolidation for the three-year period 2006-2008.

As regards the above, against collection of the dividends resolved by ERG Raffinerie Mediterranee S.p.A. for 2007, San Quirico S.p.A., as envisaged by contractual agreements, must pay ERG S.p.A. the amount of Euro 0.9 million for prejudice caused to ERG S.p.A. by non-consolidation of ERG Raffinerie Mediterranee S.p.A.

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

- on 25 May 2007 the sponsorship contract with U.C. Sampdoria S.p.A. – a football club controlled by the principal shareholder of ERG – was renewed through to 30 June 2009. The contract was subjected to a detailed cost-benefit analysis carried out by the departments involved and an opinion on the same was also obtained, in accordance with the Code of conduct regarding transactions with related parties, from an independent expert chosen by the Internal Control Committee at the request of the Board of Directors. The independent expert reviewed the sponsorship's cost/economic value ratio and confirmed that the economic conditions of the contract were consistent with the average market values for football club sponsorship in Italy. The relevant costs pertaining to 2007 total Euro 2.9 million and include the last part of the previous contract, which expired on 30 June 2007;
- on 14 May 2007 the Board of Directors of ERG S.p.A., having noted the projects defined for 2007 by the Edoardo Garrone Foundation, a non-profit organisation of which ERG S.p.A. is a partner, and deeming these to be consistent with the Group's communication strategies, approved payment of an annual contribution, the costs of which for 2007 amounted to Euro 0.5 million.

Note 40 - Reconciliation with ERG S.p.A. shareholders' equity and profit

	Shareholders' equity 31/12/07	31/12/06	Profit for the year 2007	2006
Shareholders' equity and profit the period of ERG S.p.A.	**109,714**	**98,703**	**66,632**	**62,129**
Elimination of the effects of transactions between consolidated companies:				
Elimination of infragroup profits on inventories and fixed assets	(1,283)	(1,283)	–	–
Elimination of infragroup dividends	–	–	(151,424)	(128,454)
	(1,283)	**(1,283)**	**(151,424)**	**(128,454)**
Deferred taxes:				
Deferred taxes on consolidation adjustments	(4,784)	(734)	(4,050)	20
Elimination of the carrying value of equity investments:				
Difference between carrying value and pro-rata value of shareholders' equity	1,161,405	1,123,079	–	–
Pro-rata results of investee companies	–	–	280,969	260,097
Recording of assets and liabilities from business combinations	194,004	178,542	–	–
	1,355,409	**1,301,621**	**280,969**	**260,097**
Shareholders' equity and profit for the period	**1,459,056**	**1,398,307**	**192,127**	**193,792**
Shareholders' equity and profit for the period pertaining to minority interests	(125,295)	(179,460)	(21,191)	(41,015)
ERG GROUP CONSOLIDATED SHAREHOLDERS' EQUITY AND PROFIT FOR THE PERIOD	**1,333,761**	**1,218,847**	**170,936**	**152,777**

Note 41 - Earnings per share

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

		2007	2006
Group's share of net profit	*thousand Euro*	170,936	152,777
Average number of outstanding shares		149,664,544	150,096,937
Earnings per share	*Euro*	1.142	1.018
Diluted earnings per share	*Euro*	1.142	1.018

Diluted earnings per share are calculated considering the insignificant dilutive effect as regards the average number of outstanding shares deriving from the stock option plans. There are no dilution factors that impact the Group's share of net profit.

Note 42 - Dividends

The dividends paid by ERG S.p.A. in 2007 (Euro 59.9 million) and 2006 (Euro 60.1 million), as resolved upon approval of the financial statements for the previous year, amounted to Euro 0.40 for each of the shares with rights as at the dividend date.

On 10 March 2008 ERG S.p.A.'s Board of Directors proposed payment of a dividend of Euro 0.40 per share to shareholders. The dividend will be paid as from 22 May 2008, subject to an ex-dividend date of 19 May 2008.

Note 43 - Financial instruments

31/12/2007	FVTPL [1]	L&R [2]	AFS [3]	Other liabilities	Hedging derivatives	Total	*of which non current*	Fair value
Investments in other companies	–	–	5,520	–	–	5,520	*5,520*	5,520
Financial receivables	–	92,240	13,361	–	–	105,601	*12,996*	105,601
Derivative instruments	1,788	–	–	–	4,883	6,671	*–*	6,671
Trade receivables	–	722,889	–	–	–	722,889	*–*	722,889
Other receivables	–	60,280	–	–	–	60,280	*20,003*	60,280
Cash and cash equivalents	–	180,996	–	–	–	180,996	*–*	180,996
TOTAL ASSETS	**1,788**	**1,049,045**	**18,612**	**–**	**4,883**	**1,081,957**	***38,519***	**1,081,957**
Mortgages and loans	–	–	–	951,688	–	951,688	*798,717*	875,574
Non–recourse Project Financing	–	–	–	367,831	–	367,831	*263,480*	379,793
Short–term bank borrowing	–	–	–	284,183	–	284,183	*–*	284,183
Financial payables	–	–	–	42,630	–	42,630	*22,609*	46,211
Derivative instruments	14,195	–	–	–	–	14,195	*–*	14,195
Trade payables	–	–	–	1,170,649	–	1,170,649	*–*	1,170,649
Other payables	–	–	–	73,231	–	73,231	*12,090*	73,231
TOTAL LIABILITIES	**14,195**	**–**	**–**	**2,890,212**	**–**	**2,904,407**	***1,096,896***	**2,843,836**

31/12/2006	FVTPL [1]	L&R [2]	AFS [3]	Other liabilities	Hedging derivatives	Total	*of which non current*	Fair value
Investments in other companies	–	–	5,518	–	–	5,518	*5,518*	5,518
Financial receivables	–	20,211	10,850	–	–	31,061	*311*	31,061
Derivative instruments	13,828	–	–	–	1,688	15,516	*–*	15,516
Trade receivables	–	801,020	–	–	–	801,020	*–*	801,020
Other receivables	2,702	162,248	–	–	–	164,950	*18,327*	164,950
Cash and cash equivalents	–	169,856	–	–	–	169,856	*–*	169,856
TOTAL ASSETS	**16,530**	**1,153,335**	**16,368**	**–**	**1,688**	**1,187,921**	***24,156***	**1,187,921**
Mortgages and loans	–	–	–	543,221	–	543,221	*471,560*	543,857
Non-recourse Project Financing	–	–	–	392,678	–	392,678	*290,191*	417,407
Short-term bank borrowing	–	–	–	574,323	–	574,323	*–*	574,323
Financial payables	–	–	–	44,070	–	44,070	*21,000*	48,636
Derivative instruments	6,356	–	–	–	–	6,356	*–*	6,356
Trade payables	–	–	–	959,681	–	959,681	*–*	959,681
Other payables	–	–	–	63,677	–	63,677	*10,712*	63,677
TOTAL LIABILITIES	**6,356**	**–**	**–**	**2,577,650**	**–**	**2,584,006**	***793,463***	**2,613,937**

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

Note 44 - Information on risks

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

- credit risk: the possibility of default by a counterparty or potential deterioration of the creditworthiness assigned;
- market risk: deriving from exposure to fluctuations in exchange rates, mainly between the Euro and US dollar, interest rates, and Enertad share prices, as well as changes in the prices of products sold and raw material purchases (commodity price volatility risk);
- liquidity risk: the risk of available financial resources being insufficient to fulfil payment commitments;
- operating risk: the risk of potential losses deriving from accidents, malfunctioning, plant breakdowns, exogenous events, with damage to people and the environment, as well as inadequacy or improper functioning of procedures, human resources and internal management systems.

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

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

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

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

Credit risk

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

The credit risk concerning the Group's financial assets features a maximum risk, in the event of counterparty insolvency, equal to such assets' carrying value.

The following table provides information on the ERG Group's exposure to credit risk as at 31 December 2007, via classification of assets according to creditworthiness reflecting the internal ratings assigned.

(thousand Euro)	31/12/07	31/12/06
AAA Rating	59,075	159,912
AA+/AA- Rating	79,237	55,305
A+/A- Rating	167,068	198,848
BBB+/BBB- Rating	76,552	104,916
BB+/BB- Rating	4,629	11,354
B+/B- Rating	21,493	38,690
Receivables due from Group companies	84,583	75,843
Not rated	158,090	64,764
TOTAL	**650,727**	**709,633**

Liquidity risk

Liquidity risk is the risk that financial resources may be insufficient to cover all obligations falling due. To date the ERG Group assures, via cash flow generation and diversification of its sources of financing with availability of credit lines, access to sources of funding on the market sufficient to meet its scheduled financial requirements.

The following table summarises the maturity profile of the Group's financial liabilities as at 31 December 2007, based on contractual payments not discounted to present value.

31/12/2007	Payables by maturity				
(million Euro)	**on demand**	**less than 3 months**	**3-12 months**	**1-5 years**	**more than 5 years**
Mortgages and loans	–	4,827	195,181	772,947	120,575
Non-recourse Project Financing	–	3,978	107,275	227,292	116,838
Short-term bank borrowing	284,183	–	–	–	–
Derivative instruments	–	–	–	16,695	–
Financial payables	–	19,088	1,532	11,054	22,862
Trade payables	–	1,155	14	2	1
TOTAL LIABILITIES	**284,183**	**29,048**	**304,002**	**1,027,989**	**260,276**

31/12/2006	Payables by maturity				
(million Euro)	on demand	less than 3 months	3-12 months	1-5 years	more than 5 years
Mortgages and loans	–	1,678	93,431	433,474	114,656
Non-recourse Project Financing	–	7,171	117,453	245,797	112,216
Short-term bank borrowing	574,323	–	–	–	–
Derivative instruments	–	–	–	6,265	–
Financial payables	–	19,843	1,434	10,784	22,281
Trade payables	–	948	8	4	1
TOTAL LIABILITIES	**574,323**	**29,641**	**212,326**	**696,323**	**249,153**

Market risk

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

Exchange rate risk

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

The net flows generated by the business in currencies other than Euro (reference currency) constitute an exposure to exchange rate risk.

The following table highlights the sensitivity to reasonably possible changes in the USD exchange rate, all else remaining equal, of profit before taxes (due to changes in the fair value of financial assets and liabilities).

(million Euro)	2007	2006
Shock-up (change in Euro/USD exch. rate **+10%**)	4,9	(17,0)
Shock-down (change in Euro/USD exch. rate **-10%**)	(5,9)	31,1

Interest rate risk

Interest rate risk means an unexpected change in the future interest rate trend that could determine higher costs for the business.

The following table shows – in case of reasonable interest rate changes, all else remaining equal – their impact on profit before taxes (due to changes in the fair value of financial assets and liabilities) and on Group shareholders' equity (due to changes in the fair value of derivatives in cash flow hedges).

Impact on Income Statement

(million Euro)	2007	2006
Shock-up (interest rate change **+1%**)	(2.7)	(0.8)
Shock-down (interest rate change **-1%**)	5.2	3.4

Impact on shareholders' equity

(million Euro)	2007	2006
Shock-up (interest rate change **+1%**)	5.5	3.5
Shock-down (interest rate change **-1%**)	(6.1)	(3.7)

Commodity risk

The goods price risk is inherent in unexpected changes in the price of raw materials, the various supplies of goods and services, and the prices for finished products and services offered for sale on the market. The present risk management policy relating to commodities prices envisages use of all tools/methods necessary to achieve the annual average market prices for purchase of raw materials and sale of finished products, based on Platt's reference prices.

This makes it possible to target the related annual average market margins representative of and consistent with ERG's industrial/plant set-up.

The main factor driving the volatility of Group margins is the Refining Margin, for which achievement of the annual average benchmark is targeted also via the use of swaps on the pricing of petroleum commodities.

The following table, which considers financial derivatives linked to commodities, shows – in the event of reasonable potential changes in commodities prices, all else remaining equal – the impact of such changes on profit before taxes (due to changes in the fair value of financial assets and liabilities) and Group shareholders' equity (due to changes in the fair value of derivatives in cash flow hedges).

Impact on Income Statement

(million Euro)	2007	2006
Shock-up (commodity price change **+10%**)	(13.0)	(10.5)
Shock-down (commodity price change **-10%**)	13.0	10.5

Impact on shareholders' equity

(million Euro)	2007	2006
Shock-up (commodity price change **+10%**)	(0.8)	–
Shock-down (commodity price change **-10%**)	0.8	–

Equity price risk

In 2007, the equity price risk consisted of the embedded derivative connected with one of the ERG S.p.A. loans (see Note 18). In 2006, the equity price risk also referred to ERG S.p.A.'s call option on Enertad shares owned by Alerion.

The following table shows a sensitivity analysis highlighting the impact – in the event of reasonable potential changes in the value of Enertad stock, all else remaining equal – on profit before taxes (due to changes in the fair value of financial assets and liabilities).

(million Euro)	2007	2006
Shock-up (change in Enertad share price **+20%**)	(2.5)	8.6
Shock-down (change in Enertad share price **-20%**)	2,.1	(5.4)

Operating risk

Operating risks, which include risks arising from the company's responsibility for criminal offences (pursuant to Legislative Decree 231/01), are identified, monitored and measured through the Operating Risk Management process. Pursuit of the objectives thus identified makes it possible to:

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

Particular interest is devoted to management of environmental risks by developing each business unit in full compliance with existing laws and regulations. ERG is constantly committed to ensuring that operations of the various corporate entities take place observing the health and safety of employees and third parties, as well as of the environment.

Derivative instruments used

The main types of derivative instruments used to manage financial risks, with the sole purpose of hedging, are the following:

Options: a contract whereby one of the parties, on payment of a sum to the counterparty (premium), acquires the right to buy (call option) or sell (put option), at a future date, a certain quantity of financial instruments at an established price (strike price).

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

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

The derivative instruments arranged by ERG and aiming to address exposure to financial risks existing at 31 December 2007 were as follows:

- Hedging instruments to manage exchange rate risks on sales expected in the reference quarters, through the signing of "Average Rate Option" contracts, also called Asian options, which have the characteristic of depending on an average value calculated on the basis of prices as recorded on a previously established set of dates. The pay-off for an Asian option depends on the average value of the underlying asset in the period considered. The pay-off is equal to the difference between the value of the underlying exchange rate and the fixed strike;
- Interest Rate Options to fix cap and floor limits on the fluctuations of the variable interest rate on loans. These instruments fix upper and lower limits on the variable interest rate on loans;
- Interest Rate Swaps to bring about the risk profile considered as most expedient for bank borrowing and bonds at fixed and variable rates. Interest Rate Swaps provide, or can lead to, determined maturities and the exchange with counterparties of interest flows, calculated on a reference notional value, at the fixed or variable rates agreed;
- Forward instruments used to manage exchange rate risks on purchases and sales expected in the reference periods. They are agreements to buy or sell an underlying asset (currency) at a certain future date, for a certain price. In Forward contracts one of the parties assumes a long position and undertakes to buy the underlying asset at a certain pre-fixed price. Conversely, the other party assumes a short position, undertaking to sell the same asset at the same date for the same price;
- Swap instruments used to manage commodity volatility risks on purchases and sales expected in the reference periods. This refers to contracts signed with international specialised companies operating in the commodities sector and with major national and international banks.

The Swaps are private agreements between two companies for the exchange, at defined dates, of future payment flows.

Market value of derivative instruments

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

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

Summary of derivative instruments used

Type	Risk covered	Reference notional value		Fair value at 31/12/07
Cash flow hedge instruments				(thousand Euro)
A. Interest Rate Swaps and Interest Rate Caps	Interest rate economic risk	thousand Euro	321,197	4,148
B. Crack spread margins	Commodity economic risk	tonnes	160,000	735
Total cash flow hedge instruments				**4,883**
Non-hedge accounting instruments				
C. Foreign exchange forwards	Foreign exchange transaction risk	thousand Dollars	819,400	(7,210)
D. Crude oil price risk swaps	Commodity transaction risk	barrels	2,954,000	(1,433)
E. Product price risk swaps	Commodity transaction risk	tonnes	227,000	(1,540)
F. Interest Rate Swaps, Interest Rate Collars and Interest Rate Caps	Interest rate economic risk	thousand Euro	269,021	1,787
Total non-hedge accounting instruments				**(8,397)**
TOTAL ERG GROUP DERIVATIVE INSTRUMENTS				**(3,514)**

Cash flow hedge instruments

A. Interest Rate Swaps and Interest Rate Caps

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

The loans in question concern:

- ERG S.p.A. for an amount of Euro 151 million maturing in 2011 and of Euro 100 million maturing in 2012;
- Enertad S.p.A. for a credit line of Euro 16 million maturing in 2014;
- EOS 3 Troia S.r.l. (Project Financing) for an amount of Euro 34 million as at 31 December 2007 maturing in 2014;
- EOS 4 Faeto S.r.l. (Project Financing) for an amount of Euro 38 million as at 31 December 2007, with the last instalment falling due on 30 June 2020;
- EnerFrance's subsidiaries for an amount of Euro 57 million and with the last instalment falling due on 30 December 2019.

As at 31 December 2007, there was a total positive fair value of Euro 4.1 million (1.7 million as at 31 December 2006) recognised in the cash flow hedge reserve.

B. Crack spread margins

Transactions hedging the price volatility risk relating to future purchases of raw materials and future sale of finished products, undertaken for the months of December 2007 and January 2008.

As at 31 December 2007, the fair value of these transactions was Euro 0.7 million, almost entirely recognised in the cash flow hedge reserve.

Cash flow hedge reserve

	31/12/07	31/12/06
BALANCE AT BEGINNING OF PERIOD	**1,535**	**7,733**
Change in scope of consolidation	660	793
Change in fair value	646	5,765
Use in Income Statement	(131)	(12,756)
BALANCE AT END OF PERIOD	**2,710**	**1,535**

We point out that the "Margined commodity swap" and "Foreign exchange forward" derivative instruments existing as at 31 December 2005 were closed in 2006, with consequent reclassification of 12.1 million of the cash flow hedge reserve to the Income Statement. The overall result taken to the Income Statement in 2006 was 14.2 million (of which 1.6 million recorded among financial components as a non-effective portion).

Non-hedge accounting instruments

C. Forwards on short-term exchange rates

These are transactions to cover exchange rate risk on cash flows generated by the expected purchases of raw materials and sales of finished products for the month of January 2008.

At 31 December 2007 a negative fair value was recorded of about Euro -7.2 million (Euro +0.9 million as at 31 December 2006), which was booked to the Income Statement.

D. Crude oil price risk swap

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

At 31 December 2007, a negative fair value of about Euro -1.4 million was recorded (Euro +1,8 million as at 31 December 2006) and recognised in the Income Statement.

E. Product price risk swap

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

At 31 December 2007, a negative fair value of about Euro -1.5 million was recorded and recognised in the Income Statement (Euro +0.9 million as at 31 December 2006).

F. Interest Rate Swaps, Interest Rate Collars and Interest Rate Caps

In respect of loans outstanding as at 31 December 2007, Interest Rate Collar transactions have been executed, in which the instrument sets limits that are lower and higher than the interest rate of the variable rate loan. These transactions, which expire on 15 December 2010, establish different interest rate ranges for periods of time specified in the contract. Moreover, in respect of the above loans, Interest Rate Swap transactions have been executed, due to expire on 31 December 2007, which fix the interest rate at a certain level. As at 31 December 2007, in respect of the ISAB Energy Project Financing and in relation to individual tranches, Interest Rate Cap transactions are in place, due to expire on 15 December 2008, which enable a maximum rate to be set for the loans in question. At the end of the period, a positive fair value was recorded amounting to approximately Euro 1.8 million (Euro +0.9 million as at 31 December 2006). This change was recognised in the Income Statement.

Note 45 - Information by business division

Information by business division is provided in compliance with IAS 14 – Segment Reporting. The primary disclosure format is by business division while the secondary format is by geographical area. This function is based on the nature of the risks and benefits inherent in ERG's business and reflects the internal organisational structure and the business reporting system.

Information by business division

	Coastal Refining	Integrated Downstream	Power Generation	Corporate	Total
2007					
Net revenues from ordinary operations	7,143,024	3,707,590	898,159	22,862	
Less: interdivisional revenues	(1,199,751)	(77,883)	(305,572)	(22,694)	
Revenues from third parties	**5,943,273**	**3,629,707**	**592,587**	**168**	**10,165,735**
EBITDA	**287,187**	**137,932**	**167,497**	**(41,043)**	**551,573**
Amortisation, depreciation and write-downs	(61,737)	(47,749)	(72,891)	(2,994)	(185,371)
EBIT	**225,450**	**90,183**	**94,606**	**(44,037)**	**366,202**
Investments in fixed assets [1]	**117,700**	**76,829**	**181,958**	**3,538**	**380,025**

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

	Coastal Refining	Integrated Downstream	Power Generation	Corporate	Eliminations/ adjustments	Total
2007						
Fixed assets [1]	810,555	415,217	1,369,400	12,056	–	2,607,228
Other segment assets	1,048,828	998,992	367,086	517,925	(751,937)	2,180,894
Group assets not allocated [2]	–	–	–	–	–	599,946
TOTAL ASSETS	**1,859,383**	**1,414,209**	**1,736,486**	**529,981**	**(751,937)**	**5,388,068**
Segment liabilities	876,864	404,031	694,112	62,109	(266,246)	1,770,870
Group liabilities not allocated [3]	–	–	–	–	–	2,158,142
TOTAL LIABILITIES	**876,864**	**404,031**	**694,112**	**62,109**	**(266,246)**	**3,929,012**

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

	Coastal Refining	Integrated Downstream	Power Generation	Corporate	Total
2006					
Net revenues from ordinary operations	6,117,764	3,629,426	838,440	18,515	
Less: interdivisional revenues	(1,103,284)	(98,254)	(256,074)	(18,380)	
Revenues from third parties	**5,014,480**	**3,531,172**	**582,366**	**135**	**9,128,153**
EBITDA	**132,377**	**130,268**	**206,074**	**(26,757)**	**441,962**
Amortisation, depreciation and write-downs	(53,016)	(44,141)	(57,336)	(2,655)	(157,148)
EBIT	**79,361**	**86,127**	**148,738**	**(29,412)**	**284,814**
Investments in fixed assets [1]	**184,853**	**35,537**	**141,934**	**2,856**	**365,180**

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

	Coastal Refining	Integrated Downstream	Power Generation	Corporate	Eliminations/ adjustments	Total
2006						
Fixed assets [1]	757,591	390,651	1,140,525	11,510	–	2,300,277
Other segment assets	1,007,374	829,953	406,583	473,512	(686,055)	2,031,367
Group assets not allocated [2]	–	–	–	–	–	467,511
Total assets	**1,764,965**	**1,220,604**	**1,547,108**	**485,022**	**(686,055)**	**4,799,155**
Segment liabilities	697,035	368,457	595,381	47,315	(226,056)	1,482,132
Group liabilities not allocated [3]	–	–	–	–	–	1,918,716
Total liabilities	**697,035**	**368,457**	**595,381**	**47,315**	**(226,056)**	**3,400,848**

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

Information by geographical area

	Italy	Rest of Europe	Non-European countries	Total
2007				
Net revenues from ordinary operations [1]	7,340,042	3,735,939	695,654	
Less: interdivisional revenues	(1,605,900)	–	–	
Revenues from third parties	**5,734,142**	**3,735,939**	**695,654**	**10,165,735**
Total assets [2]	**5,132,859**	**237,297**	**17,912**	**5,388,068**
Investments in fixed assets	**375,803**	**4,222**	**–**	**380,025**

(1) breakdown of revenues from ordinary operations based on geographical location of customer
(2) breakdown of divisional assets based on their geographical location and that of the customer

	Italy	Rest of Europe	Non-European countries	Total
2006				
Net revenues from ordinary operations [1]	7,100,656	2,644,996	858,493	
Less: interdivisional revenues	(1,475,992)	–	–	
Revenues from third parties	**5,624,664**	**2,644,996**	**858,493**	**9,128,153**
Total assets [2]	**4,570,031**	**143,386**	**85,738**	**4,799,155**
Investments in fixed assets	**362,898**	**2,282**	**–**	**365,180**

(1) breakdown of revenues from ordinary operations based on geographical location of customer
(2) breakdown of divisional assets based on their geographical location and that of the customer

Note 46 - Fees paid to Directors, Statutory Auditors, and Executives with strategic responsibilities

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

	2007
Directors	4,747
Statutory Auditors	301
Executives with strategic responsibilities	1,477
TOTAL	**6,525**

Note 47 - Independent auditing fees

In accordance with Article 149-duodecies of the Issuers' Regulations, we set out below the costs for 2007 relating to services rendered by the independent auditor Reconta Ernst & Young S.p.A., the ERG group's main auditor, and by the companies belonging to its network.

	2007
Auditing services	1,267
Services other than auditing	766
TOTAL	**2,033**

Auditing services comprise full audits of year-end financial statements, limited audits of half-year reports, and the checks voluntarily requested of quarterly data and of other information disclosed by the Group. Services other than auditing mainly consist of services for the issue of environmental attestations, due diligence procedures supporting acquisitions and assistance with regard to tax and environmental matters, and risk management pursuant to Italian Law 262/05 (manager responsible for preparing the company's financial reports).

Note 48 - Exchange rates

The exchange rates at 31 December 2007 used for the translation of financial statements expressed in foreign currencies are as shown below:

	2007
Euro/Swiss Franc	1.65

Note 49 - Other information

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

Note 50 - Publication date of Financial Statements

On 10 March 2008 ERG S.p.A.'s Board of Directors authorised the publication of the Financial Statements, reserving the right to make additions and formal changes by the date of filing pursuant to Art. 2429 of the Italian Civil Code.

Genoa, 10 March 2008

On Behalf of the Board of Directors

The Chairman

Edoardo Garrone

Certification of the Consolidated Financial Statements in accordance with Article 81-ter of CONSOB Regulation 11971 of 14 May 1999, as subsequently amended and supplemented

1. The undersigned Alessandro Garrone, Chief Executive Officer of ERG S.p.A., and Luca Bettonte, Manager Responsible for preparing the company financial reports of ERG S.p.A., also taking account of the provisions set forth by Article 154-bis, paragraphs 3 and 4, of Legislative Decree 58 dated 24 February 1998, certify:
   - the adequacy in relation to the characteristics of the business and
   - the effective application

   of the administrative and accounting procedures for the preparation of the consolidated financial statements, during the period 1 January 2007 - 31 December 2007.

2. The undersigned also certify that the Consolidated Financial Statements:
   a) correspond to the results shown in the accounting books and records;
   b) having been drawn up in conformity with the International Accounting Standards issued by the International Accounting Standards Board (IASB) and endorsed by the European Union, to the best of their knowledge, are able to provide a true and fair view of the financial position and economic results of ERG S.p.A. and of the group of companies included within the scope of consolidation.

Genoa, 10 March 2008

The Chief Executive Officer

The Manager Responsible for preparing the company's financial reports

The 2007 consolidated financial statements of ERG S.p.A., duly transmitted to us within the terms required by law, together with the Report on operations, were drawn up in accordance with the international financial reporting standards (IFRS) issued by the International Accounting Standards Board (IASB) and approved by the European Commission.
In accordance with Legislative Decree no. 58 of 24 February 1998 (Consolidated Law on Finance) and Article 41, point 3, of Legislative Decree no. 127 of 9 April 1991, the task of ascertaining that the consolidated financial statements comply with legal provisions and correspond to the accounting records and consolidation entries is assigned to the auditing firm.
Our supervisory activity has been carried out in observance of the principles of conduct for Statutory Auditors set by the *Consigli Nazionali dei Dottori Commercialisti e dei Ragionieri* (Italian National Councils of Professional and Certified Public Accountants) and particularly concerned:

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

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

- the consolidation area has been determined and the principles used to consolidate the investee companies chosen in compliance with the provisions set forth by the IFRS;
- the provisions of law concerning the formation and layout of the financial statements and Report on operations have been observed;
- we have monitored the adequacy of the instructions imparted by the competent function of ERG S.p.A. in order to obtain the data flows required for consolidation purposes, reviewing the information supplied by the subsidiaries, subjected to legal control on the part of their respective Boards of Statutory Auditors;
- the financial statements correspond to the facts and information that have come to the knowledge of the Board of Statutory Auditors during the exercise of its supervisory duties and its powers of audit and inspection;

- the Chief Executive Officer and the Manager responsible for preparing the company's financial reports have issued the certification required pursuant to Article 81-ter of CONSOB regulation no. 11971/1999, as subsequently amended and supplemented, and Article 154-bis, paragraphs 3 and 4, of the Consolidated Law on Finance (Legislative Decree 58/1998);
- the Report on Group Operations is consistent with the data and entries shown in the consolidated financial statements and provides full information on the Group's economic-financial performance.

Lastly, the report issued by the auditing firm Reconta Ernst & Young S.p.A. on 26 March 2008 does not contain any observations or requests for information.

Genoa, 5 April 2008

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

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INDEPENDENT AUDITORS' REPORT
pursuant to Article 156 of Legislative Decree No. 58 of February 24, 1998
(Translation from the original Italian text)

To the Shareholders of
ERG S.p.A.

1. We have audited the consolidated financial statements comprising the consolidated balance sheet, the consolidated statement of operations, changes in shareholder's equity and cash flows and the related explanatory notes of ERG S.p.A. and subsidiaries (the "ERG Group"), as of and for the year ended December 31, 2007. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

   For the opinion on the consolidated financial statements of the prior year, which are presented for comparative purposes, reference should be made to our report dated April 10, 2007.

3. In our opinion, the consolidated financial statements of ERG S.p.A. as of December 31, 2007 and for the year then ended are in accordance with IFRS as adopted by the European Union and the standards issued in accordance with art. 9 of Italian Legislative Decree n° 38/2005 and present clearly and give a true and fair view of the financial position, the result of operations, the changes in shareholder's equity and the cash flows of ERG Group as of December 31, 2007.

Milan, March 26, 2008

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

Reconta Ernst & Young S.p.A.
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erg s.p.a. financial statements at 31 december 2007

(Euro)	Notes		31/12/2007		31/12/2006
Intangible fixed assets	**1**		4,195,642		4,264,857
Goodwill			–		–
Property, plant and machinery	**2**		7,860,701		7,245,232
Equity investments	**3**		489,621,637		436,905,282
Other financial assets	**4**		164,331,688		180,914,750
of which with related parties	***30***	*163,571,000*		*180,914,750*	
Advance tax assets	**5**		530,815		1,585,769
Other non-current assets	**6**		79,718		2,457,494
Non-current assets			**666,620,201**		**633,373,384**
Inventory			–		–
Trade receivables	**7**		2,836,280		3,004,649
of which with related parties	***30***	*2,686,768*		*2,964,189*	
Other current receivables and assets	**8**		67,731,735		49,707,001
of which with related parties	***30***	*19,137,963*		*26,783,304*	
Current financial assets	**9**		291,946,438		158,090,505
of which with related parties	***30***	*289,842,484*		*145,543,999*	
Cash and cash equivalents	**10**		1,100,480		167,904
Current assets			**363,614,933**		**210,970,060**
Assets held for sale			**–**		**–**
TOTAL ASSETS			**1,030,235,134**		**844,343,444**
Shareholders' equity	**11**		**109,714,066**		**98,703,277**
Staff leaving indemnities	**12**		3,247,135		3,948,157
Deferred tax liabilities	**13**		1,483,271		820,667
Provisions for non-current liabilities and charges			–		–
Non-current financial liabilities	**14**		587,221,473		451,229,757
Other non-current liabilities			–		–
Non-current liabilities			**591,951,880**		**455,998,582**
Provisions for current liabilities and charges	**15**		237,983		261,632
Trade payables	**16**		9,687,889		9,136,059
of which with related parties	***30***	*1,302,141*		*277,878*	
Current financial liabilities	**17**		254,573,580		245,550,851
of which with related parties	***30***	*166,010,928*		*166,454,619*	
Other current liabilities	**18**		64,069,736		34,693,044
of which with related parties	***30***	*31,403,487*		*28,533,181*	
Current liabilities			**328,569,188**		**289,641,585**
Liabilities held for sale			**–**		**–**
TOTAL LIABILITIES			**1,030,235,134**		**844,343,444**

(Euro)	Notes		31/12/2007		31/12/2006
Net income from equity investments	**22**		111,558,710		86,973,331
of which with related parties	***30***	*111,553,000*		*87,000,000*	
Other operating income	**23**		32,500,646		26,836,646
of which with related parties	***30***	*30,668,080*		*26,520,894*	
of which non-recurring items	***29***	*13,000,000*		*–*	
Cost of purchases			(342,789)		(278,798)
Costs for services and other costs	**24**		(50,954,836)		(34,040,588)
of which with related parties	***30***	*(5,569,597)*		*(5,110,005)*	
Personnel expenses	**25**		(22,248,245)		(19,273,160)
Amortisation, depreciation and write-downs of fixed assets	**26**		(2,992,774)		(2,654,662)
Financial income	**27**		22,530,744		11,921,521
of which with related parties	***30***	*19,962,372*		*11,552,109*	
Financial expenses	**27**		(51,687,932)		(22,383,807)
of which with related parties	***30***	*(9,327,758)*		*(8,004,311)*	
PROFIT BEFORE TAXES			**38,363,525**		**47,100,483**
Income taxes	**28**		28,268,740		15,028,463
of which non-recurring items	***29***	*4,290,000*			
NET PROFIT (LOSS) FROM CONTINUING OPERATIONS			**66,632,265**		**62,128,946**
Net profit (loss) from assets held for sale			–		–
NET PROFIT (LOSS) FOR THE PERIOD			**66,632,265**		**62,128,946**

(thoudand Euro)	2007	2006
CASH FLOW FROM OPERATIONS (A)		
- Net profit for the year	66,632	62,129
- Amortisation, depreciation and write-downs	2,993	2,655
- Change in provisions for liabilities and charges	(24)	(315)
- Change in deferred and substitute taxes	1,717	1,368
- Net write-down of financial fixed assets	15	33
- Bad debt provision	–	–
- Net change in staff leaving indemnities	(701)	74
- Net capital gains and losses	–	(180)
Cash flow from current operations	**70,632**	**65,764**
Changes in operating assets and liabilities		
- Inventory	–	–
- Trade receivables	169	1,264
- Trade payables	552	5,595
- Other assets	13,730	18,256
- Other liabilities	–	(26,652)
	14,451	**(1,537)**
TOTAL	**85,083**	**64,227**
CASH FLOW FROM INVESTMENTS (B)		
- Investments in tangible fixed assets	(1,767)	(645)
- Investments in intangible fixed assets	(1,773)	(2,211)
- Investments in financial fixed assets	(53,496)	(153,801)
- Proceeds from disposal of tangible fixed assets	–	317
- Proceeds from disposal of intangible fixed assets	–	119
- Proceeds from disposal of financial fixed assets	3	–
TOTAL	**(57,033)**	**(156,221)**
CASH FLOW FROM FINANCING ACTIVITIES (C)		
- New medium/long-term loans	250,000	262,329
- Repayments of medium/long-term loans	(105,600)	(51,000)
- Increase (decrease) in medium/long-term financial payables/receivables	17,345	(4,985)
- Increase (decrease) in short-term bank borrowings	106	(2,928)
- Increase (decrease) in short-term financial payables/receivables	(133,348)	(41,145)
- Share capital increase	–	–
- Dividends paid	(59,866)	(60,125)
- Other minor changes	4,246	(9,990)
TOTAL	**(27,117)**	**92,156**
NET CASH FLOW FOR THE YEAR (A+B+C)	**932**	**163**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**168**	**5**
CHANGES IN THE SCOPE OF CONSOLIDATION	**–**	**–**
NET CASH FLOW FOR THE YEAR	**932**	**163**
CASH AND CASH EQUIVALENTS AT YEAR-END	**1,100**	**168**

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