



70 YEARS OF ENERGY

report on operations

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

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The cover of the annual report features a composite image. At the top, a white wind turbine blade extends horizontally against a clear blue sky. Below this, a large, fluffy white cloud is set against a blue sky. In the foreground, a worker wearing a white hard hat and dark clothing is shown in profile, looking towards the right. A large, curved, metallic-looking object, possibly a turbine component, is positioned in the lower right, partially obscuring the worker. In the background, a field of wind turbines is visible on a grassy hillside under a blue sky with scattered clouds.

erg s.p.a. annual report
for the year ended 31 december 2007

Dear Shareholders,

The current year marks ERG's seventieth anniversary; a success story, based on entrepreneurial skills and ethical values. Our objective is to continue to grow by fostering the development of our multi-energy group strategy. Enthusiasm in accepting new challenges and competence and reliability in order to meet them are an integral part of our way of doing business.

This cultural heritage has formed over the years thanks to all the people who, with their work, passion and professionalism, have made the Group's development possible. We particularly wish to remember our Deputy Chairman Domenico D'Arpizio, a person endowed with undeniable professional and human qualities who, after more than thirty-five years spent in ERG, unexpectedly left us in November of last year. The year 2007, notwithstanding the disappointing economic results reported, saw the conclusion of major initiatives which allow us to look optimistically towards 2008.

In the Power Generation sector, and particularly as regards activities to develop the "renewables" business, besides having completed the integration of Enertad's facilities, we perfected the agreement with Acciona for the distribution of wind power assets pertaining to the ERG CESA Eolica joint-venture, paving the way for an autonomous strengthening of ERG in energy production from renewable sources; in fact, we are currently completing the process of combining Enertad's assets with those of ERG. We also acquired five already operational wind farms in France and continued work on the construction of the Vicari (Sicily) and Faeto (Puglia) wind farms, both of which will commence operation during 2008. The start-up of the new wind farms and the absence of programmed maintenance shutdowns at the ISAB Energy plant will therefore give rise to a significant increase in output during the current year. As regards the year just ended, although plant performance was in keeping with expectations, the economic results were down slightly, above all as a result of some delays in implementation of the long-term investment plan. In the thermoelectric sector, the delays were caused by environmental problems, which have since been overcome, connected with the NuCe Nord repowering works. As far as renewable energy sources are concerned, the timing has proved lengthier than originally expected due to the long and complex authorisation procedures for the construction of some wind farms.

In the Integrated Downstream sector, during 2007 the sales outlet restyling project achieved 50% completion and will be terminated in 2008. Thanks in part to this major renewal in terms of customer service, an upturn in sales and profitability can be expected over the coming year.

Moreover, the final results for 2007 were adversely affected by certain scenario factors such as the reduction in marketing margins, the rise in product costs and the particularly mild winter, which led to a fall-off in the demand for heating products. As regards Coastal Refining, we completed investments for the ISAB Refinery's new configuration which, during the course of 2008, will give rise to an improvement in plant performance. The results in this sector will be favourably affected by

the absence of programmed maintenance shutdowns. The scenario factors which, on the other hand, negatively impacted 2007 results were primarily the strong appreciation of the Euro versus the Dollar, the reduction in the differential between light and heavy crudes and the growth in fuel oil prices. Moreover, the Power Generation and Coastal Refining sectors were both affected by the downward adjustment of the CIP 6 tariff.

The year just ended saw the completion of a project of great importance for the entire ERG Group: during the next few months we shall in fact be publishing our first Group Sustainability Report. Our mission is to integrate the creation of economic and financial shareholder value, which continues to be our primary objective, with the pursuit of social and environmental value in all our activities. In order to make the change effective, we shall be drawing on our wealth of values and our ability to put them into practice in all circumstances.

The Group thus continues its strategy of consolidation and growth as a multi-energy operator, in Italy and abroad, with interventions directed towards increasingly reducing the volatility of results and consequently business risk, at the same time enhancing the competitiveness of individual operational areas. This strategy cannot be pursued without careful development of managerial resources and constant pursuit of high efficiency levels, issues to which ERG is devoting utmost attention.



EDOARDO GARRONE
Chairman

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



ALESSANDRO GARRONE
Chief Executive Officer

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





70 YEARS OF ENERGY

erg 2007 in a few words



Service stations 1,959

Maximum market capitalisation. Million euro 3,231

ROACE 4%

Retail market share 6.9%

ROE 4%

Operating cash flow. Million euro 463

Electricity production. Million kWh 5,604

Crude oil processing in the refineries. Thousand barrels/day 393

Employees 2,825

Net Group income at replacement cost. Million euro 39

Investments. Million euro 380

Group debt at year-end 2007. Million euro 1,378

EBITA at replacement cost. Million euro 361

Consolidated revenues. Million euro 10,206

Net invested capital. Million euro 2,837

erg in a few words

Origins, Development and Integration.

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

This led to the formation of Edoardo Garrone’s firm in Via Romairone, San Quirico, Genoa. The trade mark chosen for the company, which became a refinery shortly after the end of the Second World War, was a dice (in Italian “dado” from “Dado”, affectionate diminutive of Edoardo), with a three-letter acronym reproduced on its faces. The initials of “Edoardo Raffineria Garrone” written on the faces of the dice spell ... ERG.

Following the war, in a country in need of total reconstruction, the huge power requirement, which



was accentuated by the devastation of the power stations, resulted in crude oil becoming the most suitable energy source to satisfy the national requirements for economy, availability and flexibility of supplies.

The refining business, thanks to the favourable situation and the fortunate geographical position of the plants, thus became strategic for ERG.

Having consolidated its role in Italy, the company reached its first important international agreement in 1956 with British Petroleum, which subsequently for some years held

a significant minority stake in ERG.

By 1963, the refinery’s annual processing capacity had already reached 6.5 million tonnes.

In 1971 ERG, along with other private groups, became a shareholder of ISAB, a company formed to construct a large refinery in Sicily and, in 1985, in anticipation of the closure of the San Quirico refinery, it assumed control of ISAB with a shareholding that grew over the years until, in 1997, it reached 100%.

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

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

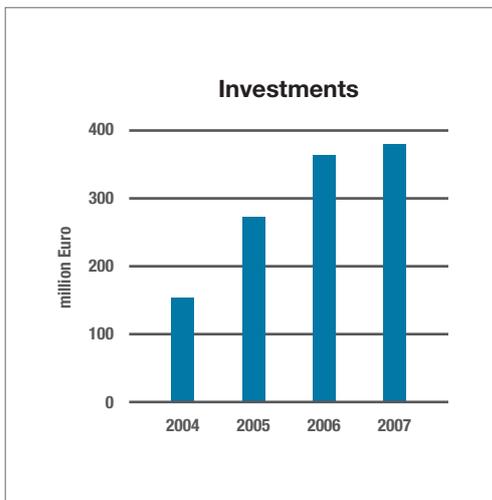
With the latter transaction ERG obtained control of a further 1,700 service stations. Thus the ERG Network was formed, recognisable, on all Italian roads, by the trademark of three rampant panthers. More recently, at the end of 1993, following an agreement between ERG and Edison Mission Energy, one of the world’s major power producers, ISAB Energy was formed: this company was destined to

construct the first Italian gasification plant using heavy oil products for the production of clean power. The innovative industrial project was financed by a Project Financing of about 1,900 billion Lire, which had no precedent in Italy.

From flotation to the year 2000.

Starting from 1995 the Garrone family assigned full responsibility at Group level to the company’s management. This initiated the extensive process of transforming what was, for almost 60 years, a family owned and managed business.

Through a rationalisation of its corporate structure and decisive refocusing on the core energy



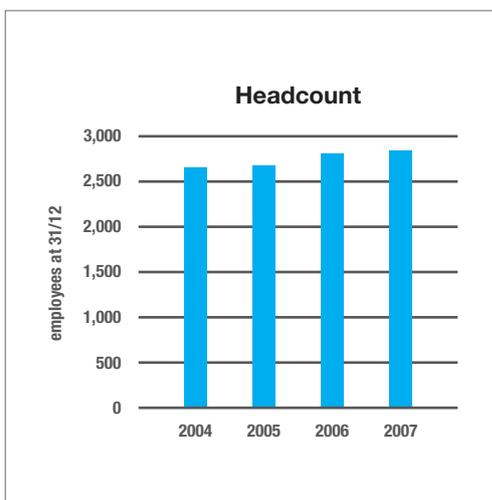
business, ERG prepared for listing on the Stock Market with a view to creating the conditions for a more efficient financing of the new development phase that awaited.

The global offer comprised a public offer for the subscription and sale in Italy of 70.25 million shares and a private placement of 30.75 million shares reserved for Italian and foreign institutional investors. ERG’s shares were admitted to listing on the Italian Electronic Stock Market in October 1997.

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

Today.

ERG Raffinerie Mediterranee was formed in October 2002 (72% ERG, 28% ENI); this company was



entrusted with the management of one of the largest and most efficient refineries in Europe, achieved through the merger and integration of ERG’s ISAB Refinery with the former AGIP refinery, both located in Priolo (Syracuse). The integration of the two refineries took place through the construction of an oil pipeline system and other works to adapt and improve production efficiency and environmental compatibility, so as to give the new ‘supersite’ a highly competitive positioning in the international scenario.

Alessandro Garrone was appointed as Chief Executive Officer of ERG at the end of 2002. In 2003, after forty years, Riccardo Garrone resigned his position as Chairman of ERG. His place was taken by his eldest son Edoardo.

The "Fondazione Edoardo Garrone" was set up on 23 December 2004, as a natural development of the commitment of the Garrone and Mondini families and the ERG Group companies in the social and cultural field.

The Foundation's main activities concern the organisation of seminars and conferences and the performance and publishing of studies and research.

Its purpose is to effectively contribute to the dissemination, enjoyment and understanding of culture, art and science as well as to actively cooperate in ethical and solidarity-inspired projects.

ERG's "multi-energy" strategy and its commitment to alternative energy saw a further enhancement in 2005 with the establishment of Ionio Gas S.r.l., a 50-50 joint venture between ERG Power & Gas S.p.A. and Shell Energy Italia S.r.l. for the design, construction, management and maintenance of a terminal to receive and regasify Liquefied Natural Gas at the ISAB Impianti Nord Refinery in Priolo.

In 2005, ERG was included in the MIDEX Index within Borsa Italiana's Blue Chip segment. The move from the STAR to the Blue Chip segment took place following the significant increase in stock market capitalisation of ERG's shares.

In 2006, ERG acquired a 51.33% equity interest in Enertad S.p.A., a listed company that operates in the sector of electricity generation from renewable sources; in 2007 the stake held was increased to 68.38%. The acquisition of the Enertad shareholding constituted a decisive step within the scope of strategies pursued by the Group aimed at enhancing and consolidating its position in the field of renewable energy.

Board of Directors

Edoardo Garrone Chairman

Domenico D'Arpizio ⁽¹⁾ Deputy Chairman

Pietro Giordano Deputy Chairman

Giovanni Mondini Deputy Chairman

Alessandro Garrone Chief Executive Officer

Massimo Belcredi

Lino Cardarelli

Riccardo Garrone

Giuseppe Gatti

Antonio Guastoni

Paolo Francesco Lanzoni

Gian Piero Mondini

Guido Sebastiano Zerbino

Board of Statutory Auditors

Mario Pacciani Chairman

Fabrizio Cavalli Standing Auditor

Paolo Fasce Standing Auditor

Luca Bettonte Manager Responsible (Law 262/05)

External Auditors

Reconta Ernst & Young S.p.A.

(1) until 19 november 2007





70 YEARS OF ENERGY

report
on operations

The Consolidated Annual Report & Accounts for the year ended on 31 December 2007 have been prepared in accordance with the International Accounting Standards issued by the International Accounting Standards Board (IASB) and approved by the European Union, inclusive of all international standards that have undergone interpretation (International Accounting Standards - IAS) and the interpretations of the International Financial Reporting Interpretation Committee (IFRIC) and of the previous Standing Interpretations Committee (SIC).

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

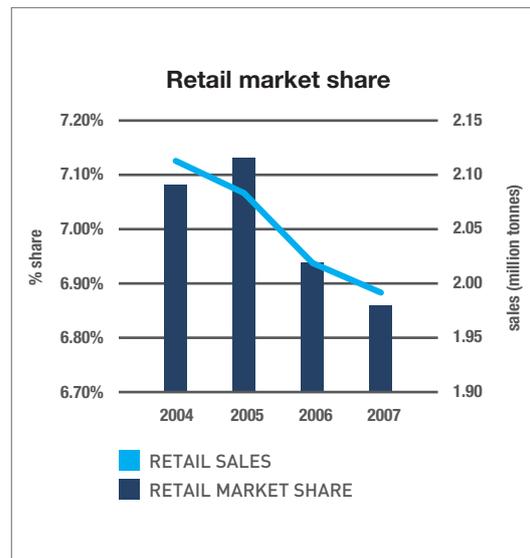
Business description

ERG S.p.A., listed on the Milan Stock Exchange, is the parent company of a Group active in crude oil processing, the distribution of petroleum products, the production of power and steam and marketing of gas.

Today it accounts for approximately 19%⁽¹⁾ of the national refining capacity and is the second largest sector operator in Italy.

ERG⁽²⁾ sales on the domestic market cover 9% of the national consumption of petroleum products.

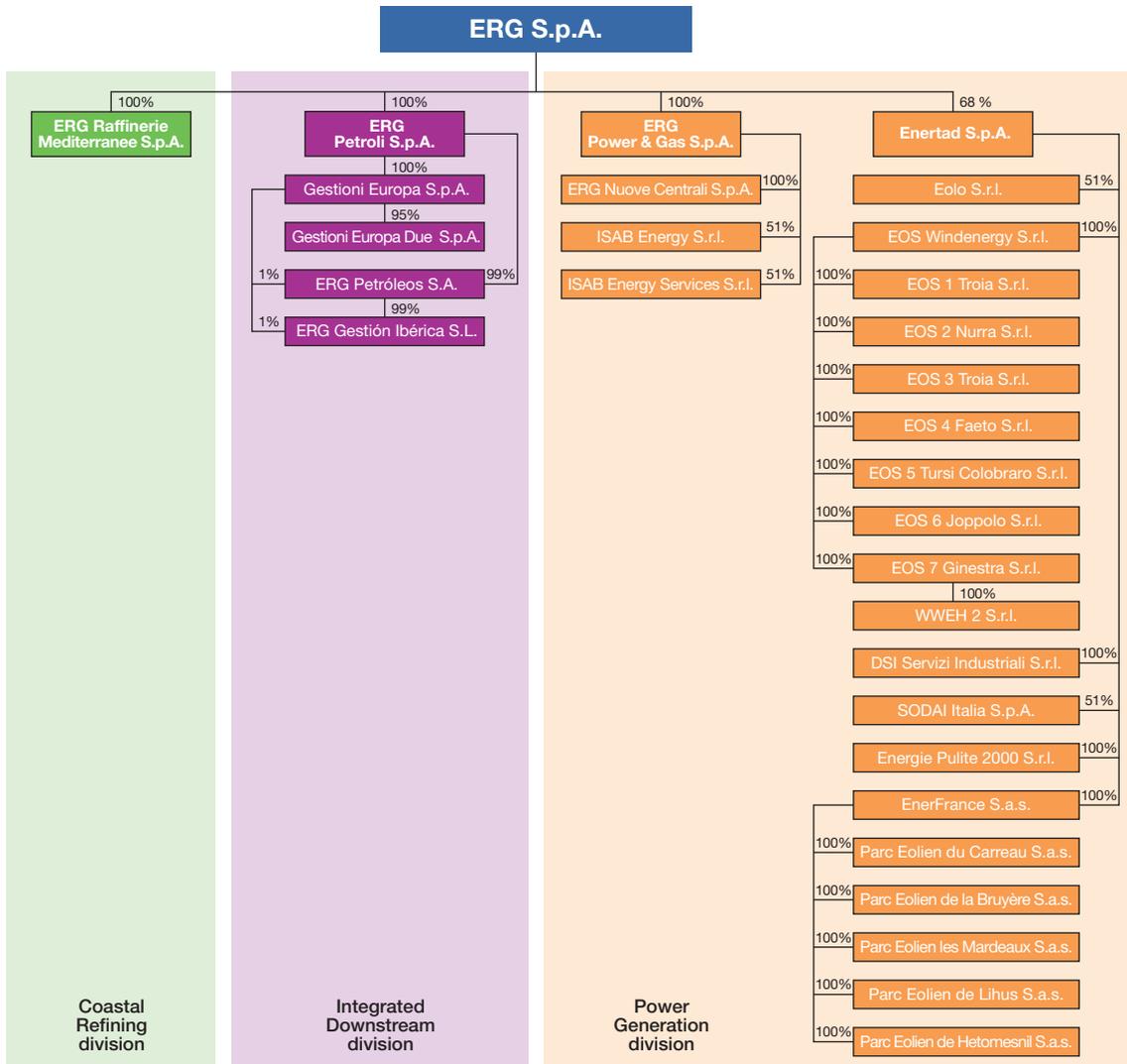
Its electricity sales represent approximately 2% of the Italian domestic market.



(1) from August 2007, following transition to the new structure at the ISAB Refinery, which took refining capacity from 380 thousand to 320 thousand barrels/day

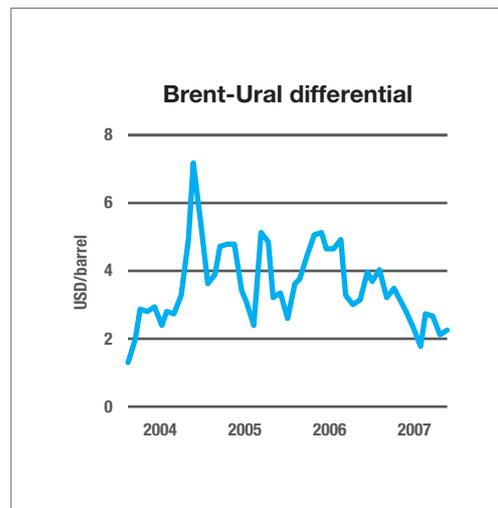
(2) ERG means ERG S.p.A. and the companies included in the consolidation area

The following table sets out the companies consolidated on a line-by-line basis which, with respect to the previous financial year, as from 1 November 2007 include the companies owned by EnerFrance S.a.s.



scope of consolidation and business divisions

ERG's strategy is to become a diversified "multi-energy" group, whose main objective is to create lasting value by increasing profitability and continuously reducing its dependence on volatile exogenous factors, also through a balanced management of its portfolio. Over the past few years the Group has been reorganised into three main business areas each dedicated to a specific market, with a view to consolidating and developing the activities of each business area within its own particular market.



Coastal Refining: in the Priolo area, ERG owns a refining supersite, leader in the Mediterranean in terms of both size and complexity, integrated with power generation and chemical activities, reflecting ERG's strategy to achieve high-conversion and efficient refining capable of flexibly processing more profitable crudes in order to obtain high value-added products. ERG continues to pursue a plant improvement strategy that will allow it to promptly adjust to changes in world oil demand, which is growing and is more and more oriented towards "transportation fuels", diesel in particular.

Integrated Downstream: ERG pursues an ongoing process of organisational enhancement of its network, through acquisitions and investments to upgrade its plants with a view to improving its structural position vis-à-vis the market leaders.

In pursuing this objective, ERG's strategy entails looking for opportunities for further expansion through acquisitions and joint ventures, and maximising the profitability of the retail network as well as improving its long-term sustainability. All of these objectives are realised via a sales force structure increasingly focused on customer satisfaction and investments for the structural improvement of sales outlets. The restyling project involving over 1,600 service stations is a part of this strategy.

Power Generation: the objective is to operate in the electricity and gas markets through the management and repowering of existing electrical assets, concentrating development on renewable energy sources, particularly wind power, in order to become one of the leading operators in Italy and pursue growth outside Italy. Improvement of the electricity business encompasses the aim of entering the Italian gas market as a stable operator over the long-term, giving maximum priority to the design and construction of the Liquefied Natural Gas (LNG) regasification terminal within the Priolo/Augusta/Melilli industrial complex.

ERG share price performance in 2007

On 28 December 2007, the reference price for ERG (Midex) stock was Euro 12.88, 26.0% less than its price at the end of 2006, as compared with a 7.4% decrease in the European sector index (Stoxx Energy Index) and a 7.8% decrease in the Mibtel index.

Below are some figures relating to the daily prices and volumes of ERG shares during the period 2 January 2007 - 28 December 2007:

	Euro
Reference price at 28/12/07	12.88
High (10/4/07) ⁽¹⁾	21.73
Low (18/12/07) ⁽¹⁾	12.25
Average price	17.37

	No. of shares
Highest daily volume (15/5/07)	6,359,077
Lowest daily volume (2/1/07)	270,099
Average volume	1,576,581

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

Market capitalisation as at 31 December 2007 was approximately Euro 1,936 million (Euro 2,615 million at the end of 2006).

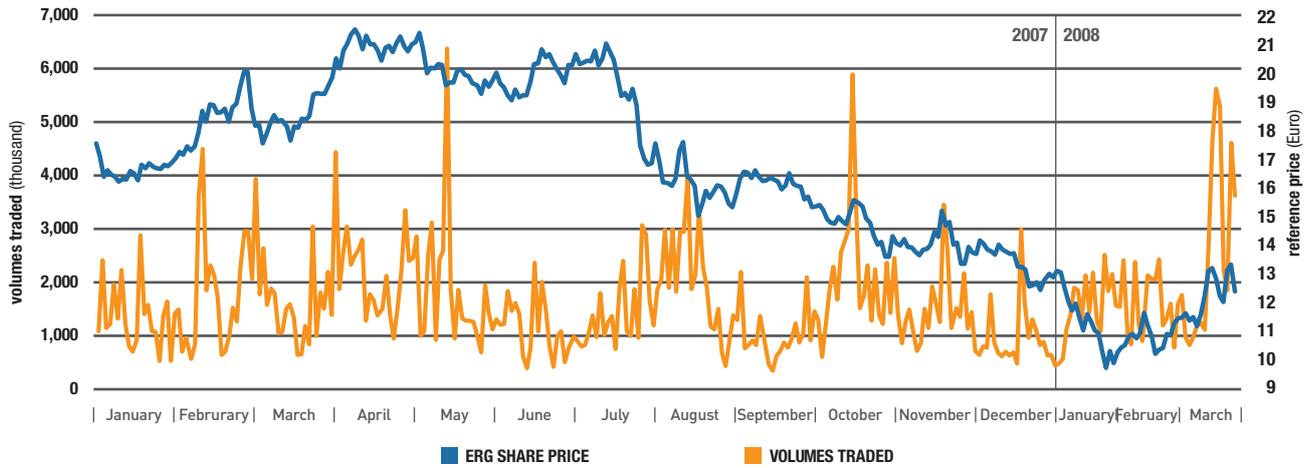
ERG share price performance in 2008

On 7 March, the reference price of ERG (Midex) stock was Euro 12.41, 3.6% less than at the end of 2007, in comparison with a 14.0% reduction in the European sector index (Stoxx Energy Index) and a 16.1% reduction in the Mibtel index.

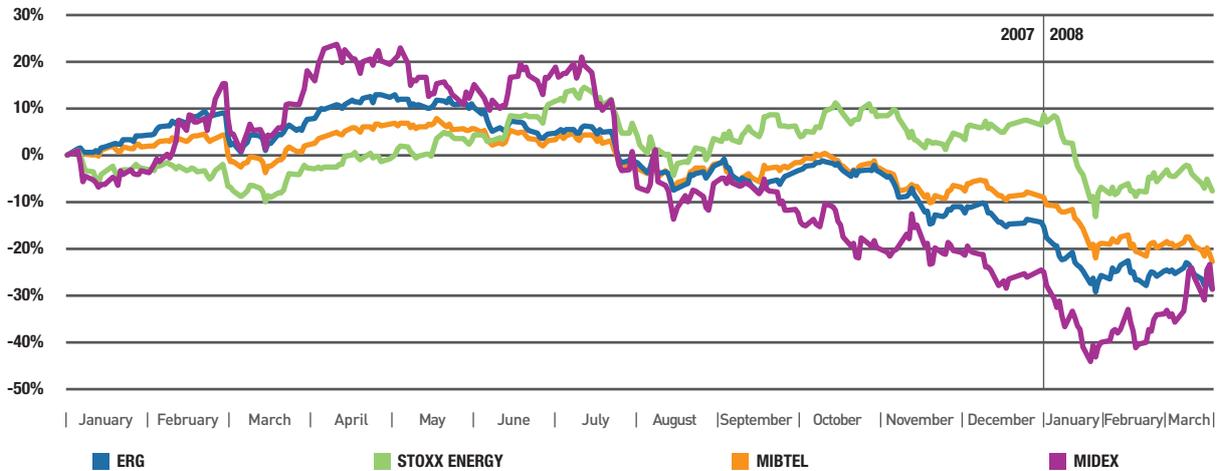
	Euro
Reference price at 7/3/08	12.41
High (28/2/08)	13.65
Low (22/1/08)	8.86
Average price	11.45

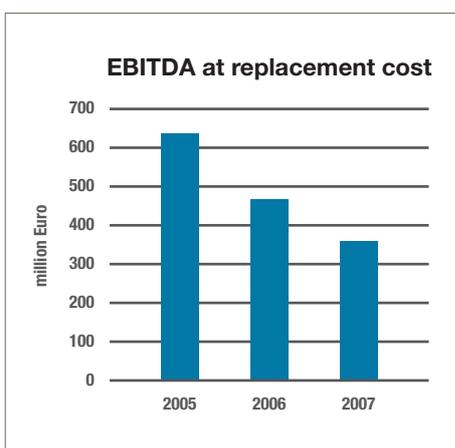
ERG share price performance

Volumes and reference prices for the period 2/1/2007 – 7/3/2008



ERG share price performance vs. Stoxx Energy Index, Mibtel, and Midex % growth for the period 1/1/2007 – 7/3/2008

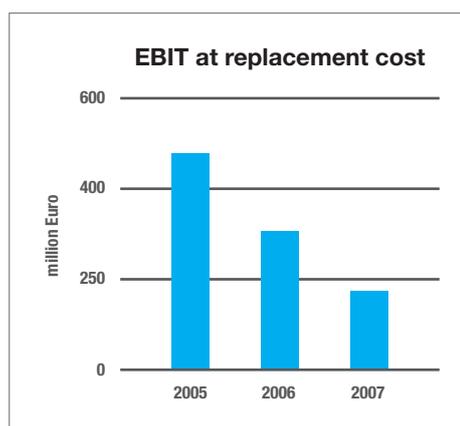




The figures provided below are stated in Euro. Where figures in the tables are shown in millions, totals may differ from the exact sum of the amounts forming them.

To assist understanding of business performance, the operating results are also shown at replacement cost, excluding gains (losses) on inventory and non-recurring items. Inventory gains (losses) are equal to the difference between the current cost of

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



(million Euro)	2007	2006	2005
Total revenues ⁽¹⁾	10,206	9,303	9,029
EBITDA	552	442	869
EBITDA at replacement cost	361	463	633
EBIT	366	285	712
EBIT at replacement cost	176	305	477
Net income	192	194	421
of which net Group income	171	153	385
Net Group income at replacement cost	39	103	230
Cash flow from operations	573	47	435
Investments/Disinvestments	(448)	(511)	(254)
Changes in shareholders' equity	(92)	(113)	(66)
Change in scope of consolidation	(55)	(10)	-
Change in net financial debt	(22)	(587)	114
Net invested capital	2,837	2,754	1,977
Shareholders' equity	1,459	1,398	1,209
Net financial debt (excluding Project Financing)	1,098	1,038	415
Non-recourse Project Financing ⁽²⁾	280	318	354
ROACE ⁽³⁾	4%	8%	16%
ROE ⁽³⁾	4%	11%	25%
Financial leverage	49%	49%	39%

(1) net of excise duties on sales of petroleum products

(2) net of cash and cash equivalents

(3) net income and NOPAT calculated at replacement cost

(million Euro)	2007	2006	2005
Revenues from ordinary operations:			
Coastal Refining	7,143	6,118	6,331
Integrated Downstream	3,708	3,629	3,174
Power Generation	898	838	781
Corporate	23	19	18
Interdivisional revenues	(1,606)	(1,476)	(1,345)
Total	10,166	9,128	8,958
EBITDA:			
Coastal Refining	117	149	307
Integrated Downstream	87	127	165
Power Generation	185	213	183
Corporate	(28)	(27)	(22)
EBITDA at replacement cost⁽¹⁾	361	463	633
<i>Gains (losses) on inventory</i>	221	(28)	208
<i>Non-recurring items⁽²⁾</i>	(31)	7	28
Total	552	442	869
Amortisation, depreciation and write-downs:			
Coastal Refining	(62)	(53)	(57)
Integrated Downstream	(48)	(44)	(43)
Power Generation	(73)	(57)	(55)
Corporate	(3)	(3)	(2)
Total	(185)	(157)	(156)
EBIT:			
Coastal Refining	55	96	250
Integrated Downstream	39	83	123
Power Generation	112	156	128
Corporate	(31)	(29)	(24)
EBIT at replacement cost⁽¹⁾	176	305	477
<i>Gains (losses) on inventory</i>	221	(28)	208
<i>Non-recurring items⁽²⁾</i>	(31)	7	28
Total	366	285	712
Tangible and intangible fixed assets:			
Coastal Refining	811	758	617
Integrated Downstream	415	391	398
Power Generation	1,369	1,141	763
Corporate	12	12	12
Total	2,607	2,300	1,789
Investments in tangible and intangible fixed assets:			
Coastal Refining	118	185	174
Integrated Downstream	77	36	40
Power Generation	182	142	58
Corporate	4	3	3
Total	380	365	274

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

(2) in 2007, non-recurring items refer to the costs resulting from the settlement with Alerion and the costs for clean-up of the area designated for construction of the new Turbogas plant at the Nord production site. 2006 non-recurring items refer to insurance reimbursements received against damages occurred at the plants following the fire on 30 April and to expenses incurred by ISAB Energy for the acquisition of green certificates pertaining to previous financial years

EBITDA at replacement cost includes, *inter alia*, the following items:

(million Euro)	2007	2006	2005
Insurance reimbursements			
Coastal Refining	–	84	–
Power Generation ⁽¹⁾	–	20	–
TOTAL	–	104	–
Revision of rates pursuant to AEEG Resolution 249/06			
Coastal Refining	(18)	–	–
Power Generation ⁽²⁾	(25)	–	–
TOTAL	(43)	–	–

(1) of which 12 referring to the ISAB Energy IGCC plant and 8 to the ERG Nuove Centrali plants

(2) of which -24 referring to the ISAB Energy IGCC plant and -1 to the ERG Nuove Centrali plants

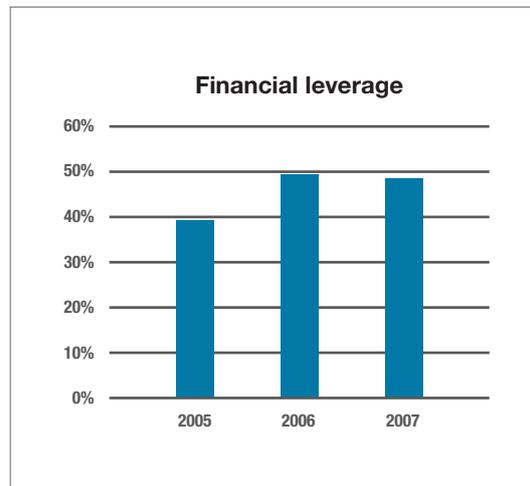
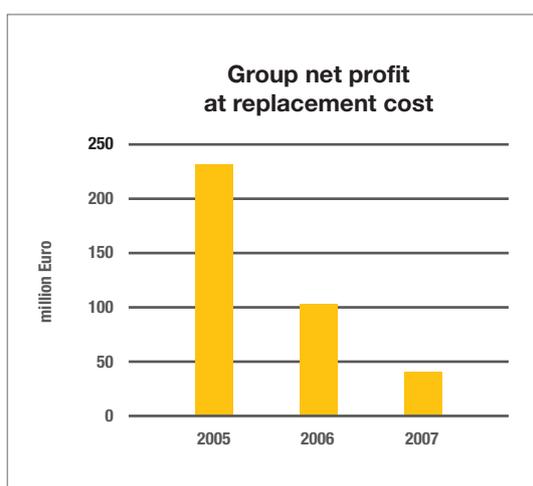
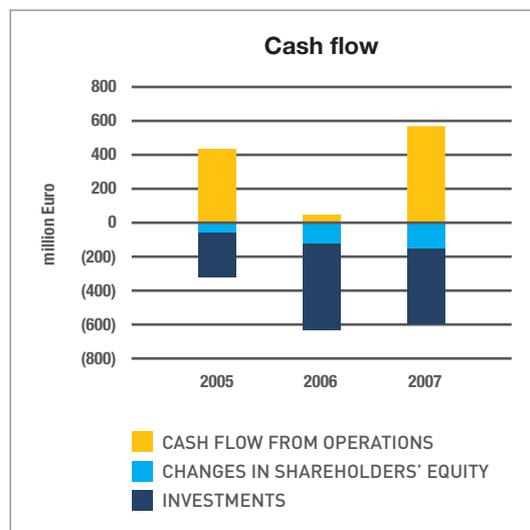
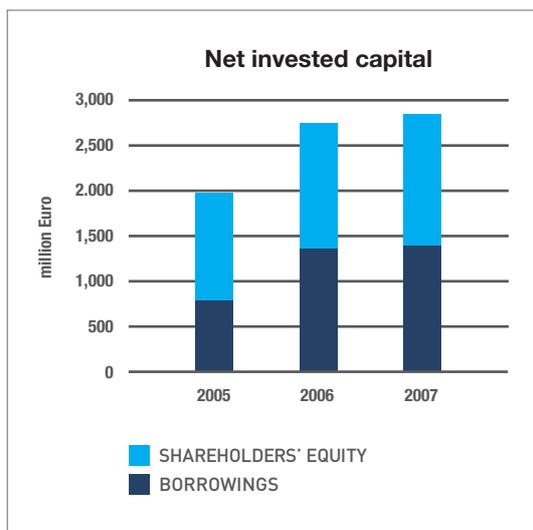
		2007	2006	2005
Investments ⁽¹⁾	<i>million Euro</i>	380	365	274
Employees at end of period		2,825	2,820	2,679
Processing at refineries ⁽²⁾	<i>thousand tonnes</i>	19,607	18,681	21,163
Processing at refineries ⁽²⁾	<i>thousand barrels/day</i>	393	376	426
Electric power production	<i>million kWh</i>	5,604	5,098	5,266
Electricity sales	<i>million kWh</i>	4,819	4,561	4,797
Export of petroleum products	<i>thousand tonnes</i>	9,967	7,812	9,190
Domestic Retail sales	<i>thousand tonnes</i>	1,991	2,019	2,082
Domestic Retail market share ⁽³⁾	<i>gasoline + diesel</i>	6.9%	6.9%	7.1%
Domestic Retail outlets at end of period	<i>number of outlets</i>	1,959	1,968	1,967
Average throughput ⁽⁴⁾	<i>m³/outlet at end of period</i>	1,274	1,295	1,326
Inventory of raw materials and products	<i>thousand tonnes</i>	2,833	2,630	2,736

(1) investments in tangible and intangible assets gross of disposals

(2) aggregate processing of Inland Refineries and Coastal Refining

(3) 2007 figures estimated

(4) calculated on the basis of the number of Retail outlets at the end of the period



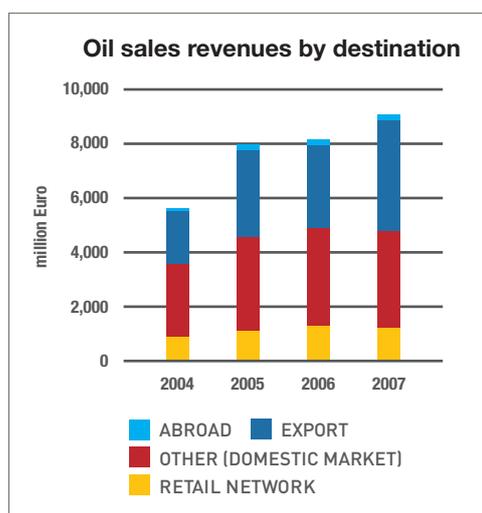
main consolidated operational data

Petroleum products

Total sales amounted to 19.4 million tonnes, of which 51% abroad and the remaining 49% in the domestic market (8.9% of domestic consumption vs. 8.6% in 2006).

68% of sales were handled directly by the Coastal Refining division, with the Integrated Downstream division handling the remaining 32%.

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



(thousand tonnes)	2007	2006	2005
Refining and logistics			
Cargo export	9,486	7,331	8,699
Home market supply	5,627	5,996	6,678
Total refining and logistics	15,113	13,327	15,376
Marketing			
Domestic Retail market	1,991	2,019	2,082
Domestic Wholesale market	1,804	1,936	1,966
Wholesale export	117	137	174
Abroad	365	345	317
Total marketing	4,276	4,436	4,539
TOTAL PETROLEUM PRODUCTS	19,389	17,763	19,916

Power Generation

The following table shows ERG electricity sales:

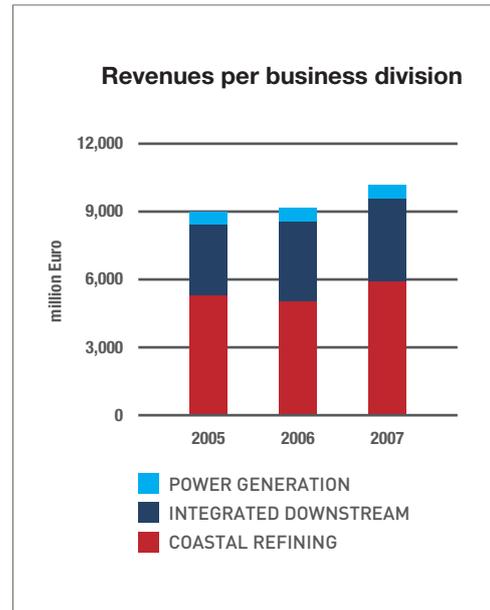
(million kWh)	2007	2006	2005
ISAB Energy	3,809	4,001	4,108
ERG Nuove Centrali plants	832	526	689
Enertad	178	34	–
TOTAL	4,819	4,561	4,797

Steam sales to industrial plants at the Priolo/Melilli site amounted to 1,372 thousand tonnes (1,517 in 2006).

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

Economic and financial results

ERG Group consolidated year-end accounts featured Group net income of Euro 170.9 million (Euro 152.8 million in 2006) after depreciation, amortisation, and write-downs of Euro 185.4 million (Euro 157.1 million in 2006) and Euro 107.4 million in income taxes for the year (Euro 46.5 million in 2006). Group net income at replacement cost ⁽¹⁾ amounted to Euro 39.3 million (Euro 103.4 million in 2006). EBITDA at replacement cost was Euro 361.3 million (Euro 462.6 million in 2006), down by 22% from the previous year as a result of the lower contributions by all business divisions. An analysis of the year's performance shows the following:



Coastal Refining

EBITDA at replacement cost of Euro 117 million (Euro 149 million in 2006) was less than in the previous year in spite of an improved unitary contribution margin. The higher unitary margin largely reflected better industrial performance in 2007, the positive impact of the new refinery configuration and the start-up of new plants, while it was partially penalised by the lower profitability of feedstock sales to ISAB Energy.

The decrease in EBITDA in absolute terms largely reflects non-recurrence of the positive effect of the insurance reimbursement pertaining to 2006 for the accident that occurred at the Impianti Nord, during a period when refining earnings were higher than annual averages.

Integrated Downstream

EBITDA at replacement cost totalled Euro 87 million in 2007 (Euro 127 million in 2006), and was lower than that recorded during the previous year due to the less favourable situation as regards marketing and refining earnings, reduced availability of plants for Inland Refineries due to programmed shutdowns and lower Retail sales, reflecting market trends.

(1) excluding inventory gains (losses), non-recurring items and related theoretical taxes

Power Generation

EBITDA at replacement cost in the Power Generation sector totalled Euro 185 million (Euro 213 million in 2006). It was lower than a year earlier due to:

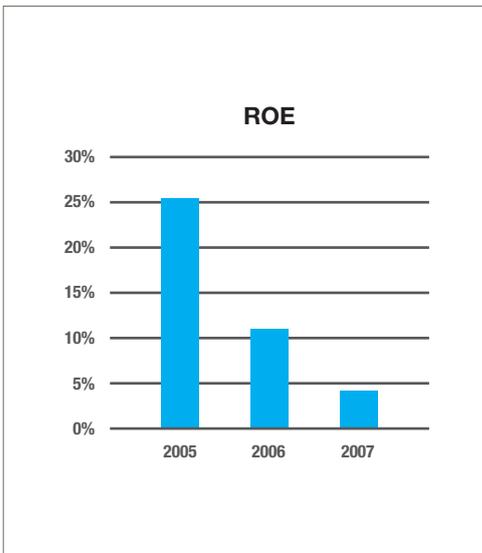
- lower earnings on the part of ISAB Energy penalised by lower production following the programmed general shutdown and recalculation of the Avoided Fuel Cost by the Autorità per l'Energia Elettrica e il Gas (AEEG - the Italian Electricity & Gas Authority);
- ERG Nuove Centrali plant earnings that were substantially the same as in 2006 as a result of lower revenues from the sale of CO₂ emissions rights due to the scenario effect, which were offset by the positive contribution made by Turbogas Sud;
- greater contribution by Enertad, which had only been consolidated from the fourth quarter of 2006.

The net financial debt of Euro 1,378 million was Euro 22 million higher than at 31 December 2006. Cash flow from operations was Euro 573 million, including insurance reimbursements of Euro 113 million, making it possible to finance investments in Italy and abroad for Euro 503 million and pay dividends totalling Euro 96 million.

Generally speaking, the level of indebtedness as at 31 December, compared with the year's average level, reflected the advance payment of excise duties⁽¹⁾ and advance payment of VAT for the month of December.

(1) in compliance with the ministerial decree dated 13 November 2007, on 27 December 2007 ERG paid excise duties of Euro 68 million for the first half of December (in December 2006 excise duties paid amounted to Euro 69 million)





On **23 January** the Autorità Garante della Concorrenza e del Mercato (AGCOM - Italian Antitrust Authority) announced the launch of an enquiry to establish whether or not a potential agreement exists between oil companies with a view to jointly fixing fuel prices.

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

The oil companies concerned submitted a document setting out their commitments. These commitments were

accepted by the AGCOM, which concluded its investigation on 20 December 2007.

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

On **20 February** EOS 7 Ginestra S.r.l., a company indirectly controlled by Enertad S.p.A., acquired 100% of the company WWEH 2 S.r.l., owner of the wind park at Ginestra degli Schiavoni (BN), with an installable capacity of 40 MW. The acquisition was subject to the condition precedent of approval by the AGCOM, which on **27 March** informed EOS 7 Ginestra that it had found no cause to undertake an investigation.

On **19 April** the Extraordinary Shareholders' Meetings of ERG Nuove Centrali S.p.A. and ISAB Energy Services S.r.l. approved the plan for partial demerger of ERG Nuove Centrali, with transfer to ISAB Energy Services S.r.l. of the business division performing Operation & Maintenance activities.

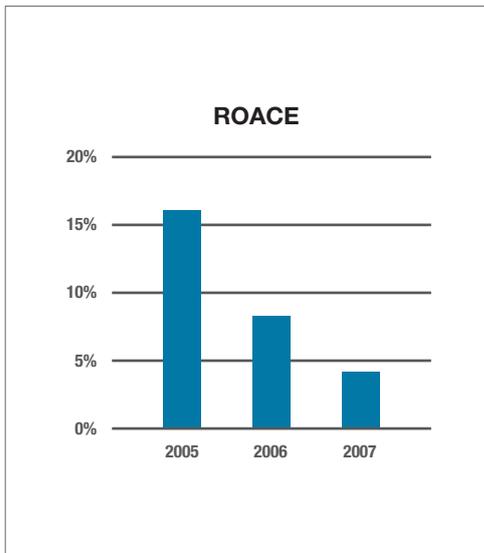
On **27 April** shareholders and the public were informed of the breakdown on 25 April involving the train two turbo generator at ISAB Energy. The technical analyses conducted found that the fault was localised in the stator winding of the Turbogas 2 generator, ruling out any structural defect of the plant.

On **19 June** shareholders and the public were informed that the failure had been repaired, according to schedule, during the general plant shutdown and the estimated economic loss of Euro 6 million in terms of consolidated EBITDA and Euro 2 million at Group net income level was confirmed.

On **9 May** the Lombardy TAR (Regional Administrative Tribunal) accepted the appeal filed by ISAB Energy against Resolution 249/06, which envisaged new rules for calculating the CIP 6 "Avoided Fuel Cost" tariff component.

On **22 May** Trenitalia informed Enertad of its intention to exercise the put option in respect of its shareholding (49%) in the company SODAI Italia S.p.A. On **11 June** Enertad informed Trenitalia that it did not consider the put option for the shares of SODAI Italia S.p.A. (49%) to be valid. On **1 August** Trenitalia served on Enertad a deed of nomination of arbitrator for the purpose of initiating arbitration proceedings in accordance with the agreement signed on 23 December 2003.

Shareholders and the public were informed on **28 May** that the agreement for sponsorship of the U.C.



Sampdoria football team by ERG S.p.A. was renewed for two years at Euro 2.7 million per year.

On **13 June** the company EOS 4 Faeto signed a non-recourse project financing agreement with Mediocredito Centrale and Efibanca for a total of Euro 43 million, for the construction of the Faeto wind farm (24 MW).

On **26 June** the ERG Nuove Centrali S.p.A. Deed of Demerger was signed as a result of which, with effect from **1 July 2007**, the ERG Nuove Centrali S.p.A. business division performing Operation & Maintenance activities was transferred to ISAB Energy Services S.r.l.

Following the assignment of quotas carried out on such date between the two ISAB Energy Services S.r.l. quotaholders, the respective interests were returned to the proportion held prior to the demerger (ERG Power & Gas 51% - IPM IES B.V. 49%).

Via subscription of a capital increase, on **30 July** ERG Power & Gas acquired a 27.01% equity interest in Espansione S.r.l., a company operating in the electric power supply sector.

On **8 August** the Public Prosecutor at the Court of Syracuse authorised the final release of Area XXII, thereby permitting full resumption of works for the repowering of the ISAB Nord power plants.

On **3 October** Enertad signed the preliminary contract for the purchase of five French companies which own five wind farms, in operation since the end of 2006, with a total installed capacity of about 55 MW. The price of the transaction was agreed at Euro 24.9 million, in addition to Euro 5 million paid as reimbursement of a shareholder loan granted by the seller to the five purchased companies, while the enterprise value is Euro 80.1 million. The acquisition was finalised with material transfer of ownership of the shares on **31 October**.

On **5 October** the Italian Electricity and Gas Authority (AEEG) submitted an appeal to the Council of State against the judgment handed down by the Lombardy Regional Administrative Tribunal (TAR) accepting the appeal filed by ISAB Energy in connection with Resolution 249/06, which laid down new rules for calculating the CIP 6 tariff component relating to the "Avoided Fuel Cost", wherein it requested for the effects of such judgment to be suspended. However, on **30 October**, the Council of State set the date for the hearing on 22 January 2008 to directly discuss the merits of the appeal, as reported in the section "Significant events after the end of the financial year".

On **11 October** the Extraordinary Shareholders' Meeting of ERG CESA Eolica S.p.A., a company jointly owned by ERG Power & Gas and Acciona Eolica CESA, approved a full demerger plan for the company, resulting in the creation of two distinct business units having the same economic value to be assigned respectively to Acciona Eolica CESA Italia and to ERG Eolica S.r.l., the latter to be entirely controlled by ERG Power & Gas.

In particular, ERG Eolica will be assigned the business unit comprising the Pian dei Corsi wind farm

in the province of Savona, already in operation, with a capacity of 1.6 MW, the Vicari wind farm in the province of Palermo, currently under construction, with a capacity of 37.5 MW and the Fossa del Lupo wind farm in the province of Catanzaro, already authorised, with a capacity of 110 MW. In this connection, we report that a preliminary analysis of the plan for integration with ERG CESA Eolica is presently underway with Enertad.

This integration comes within the Group's strategy aimed at concentrating within a single company all activities pertaining to the generation of electricity from renewable sources.

On **16 October** the ERG Group and Nordex AG entered into an agreement for the supply of N90/2500KW wind turbines, up to a total of forty-four units, for the Fossa del Lupo wind farm.

The agreement has an economic value estimated at around Euro 104 million.

On **11 November** the Savona coastal depot resumed full maritime activity upon completion of the new terminal.

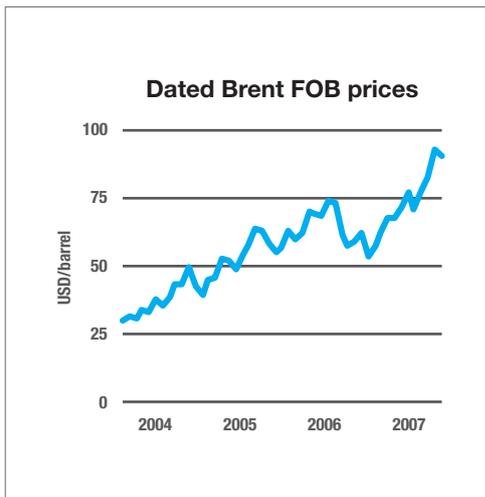
On **20 November** Luca Bettonte joined the ERG Group as Chief Financial Officer of ERG S.p.A.

On **20 December**, following exercise of its call option, ERG acquired 16,159,920 shares of Enertad S.p.A., equivalent to 17.03% of the share capital, at a price of Euro 3.10 per share, raising its equity investment in this company to 68.38%.

On **28 December** ERG reached a settlement with Alerion in the dispute over failure to complete purchase of the Alerion wind farms as set forth by the agreement signed on 27 July 2006.

As a result of this settlement, ERG paid Alerion, for its failure to effect purchase and subject to abandonment of all further claims, a total amount of Euro 13 million.

International

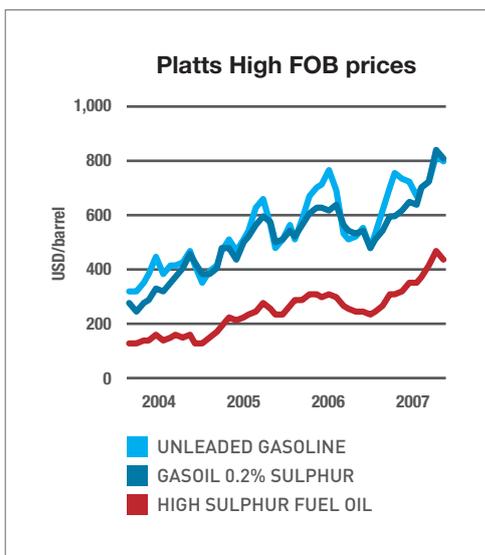


The 2007 financial year was characterised by a steady increase in the cost of raw material, from just over USD 50/barrel at the beginning of the year to record values close to USD 100/barrel. This increase was caused principally by the OPEC cuts associated with lower production in Nigeria, the persistence of severe geopolitical tensions and major purchases by numerous investment funds on the commodities market.

The average price of Brent crude oil consequently reached USD 72.40/barrel, higher than the values

recorded during the same period of 2006 (+USD 7.30).

According to the International Energy Agency (IEA), average world demand for oil in 2007 reached 85.8 million barrels/day (+1.0 million barrels/day over the 2006 average), mainly driven by consumption in non-OECD Asian countries.



Overall supply was largely stable, at 85.5 million barrels/day (+0.1 million barrels/day compared to 2006): against a strong growth in supply by non-OPEC countries, OPEC effectively limited its output.

In 2007 the refined products market was characterised by higher demand for gasoline (especially in the second quarter) and fuel oil as compared with the same period in 2006, with substantial firmness in the demand for diesel and middle distillates.

Consequently, refining margins (in US dollars) achieved good levels, largely in line with those for 2006.

Italy

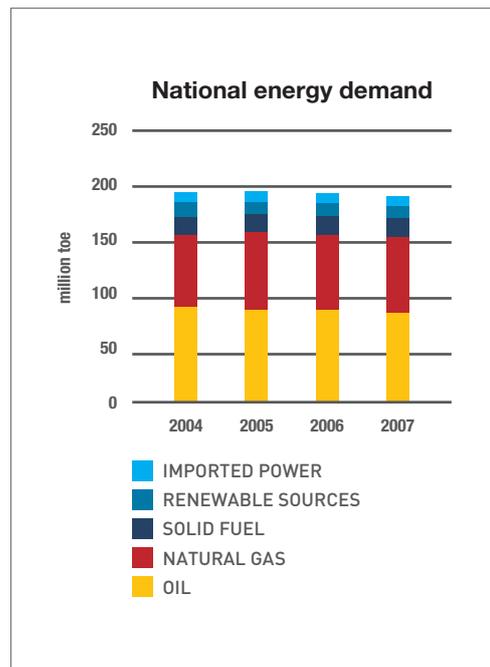
During 2007 primary energy consumption in Italy amounted to 195.4 million TOE (tonnes of oil equivalent), down by 1.4% compared to the previous year. Although consumption rose significantly during the last quarter of 2007, the decrease reported for the entire year stemmed principally from lower energy demand for heating during the first few months of the year due to particularly mild weather. GDP rose by 1.8% in 2007.

National demand for petroleum products (83.8 million tonnes) decreased by 3.2% over the previous year (86.7 million tonnes). This decrease stemmed principally from lower consumption of gasoline (-6.2%), fuel LPG (-6.7%) and fuel oil (-31%), which was not offset by the increased consumption of automotive diesel (+2.6%), petrochemical feedstock (+2.7%) and jet fuel (+5.8%).

Gross domestic consumption of natural gas increased slightly (+0.5%) over 2006. The drop in consumption during the first few months of the year, largely due to mild weather, was offset by the increase that occurred at the end of the year. National output continued to decrease compared to the previous year (-11.5%) and imports fell by 4.5%.

As far as electricity is concerned, national demand grew by 0.7% over 2006, rising to 339.8 billion kWh. Gross national output totalled about 314.4 billion kWh (+0.1%), with a decrease in hydroelectric output (-10.1%). There was a significant growth in wind power (+40.7%), while thermoelectric (+1.3%) and geothermal (+0.8%) output also rose.

Electricity imports from abroad increased by 4.3%, while exports increased by 63.9%. The import-export balance increased by 2.1% compared to 2006.



The most important events that characterised the energy sector in 2007 were:

- annulment by the Lombardy TAR in May 2007 of AEEG Resolution 249/06, which had revised the criteria for calculating avoided fuel for the purpose of determining the CIP 6 price of electricity, while leaving the previous calculation methods unchanged. The *Avvocatura dello Stato* (Attorney-General) then withdrew the interlocutory motion for suspension of the legal effects of the TAR judgment. Finally, the Council of State ruled on the merits of the case at the 22 January 2008 hearing, accepting the appeal filed by the AEEG and restoring the validity of Resolution 249/06;
- publication of Law 222 of 29 November 2007 (Tax Rider to the 2008 Finance Law), converting into law, with amendments, Decree Law 159 of 1 October 2007 and “setting out urgent interventions in economic and financial matters, for development and social equity”. This law contains, *inter alia*, the “LNG release” provision. In fact, section 46 of the measure provides for a streamlining of the authorisation procedures for LNG regasification terminals;
- publication of Law 243/2007, converting Decree Law 180/2007, with amendments, and setting out “extension of deadlines for Integrated Environmental Authorisation (IEA) and transitory provisions”. The measure postponed from 30 October to 31 March 2008 the deadline for obtaining the IEA by the plants concerned (energy activities, production and transformation of metal, mineral products industry, chemical industry, waste management and raising of livestock);
- publication by the Italian Electricity and Gas Authority (AEEG) of the Integrated Text of Unbundling Measures for companies operating in the electricity and gas sectors. The new text overcomes the



previously existing asymmetries arising from the different measures set forth by the applicable resolutions, nos. 310/01 and 311/01, respectively concerning the electricity sector and the gas sector.

The most significant aspect of the new provisions is the evolution of the principle of administrative separation into functional separation, which translates into the obligation for vertically integrated companies to maintain a neutral position in the operation of infrastructure and activities considered essential for the market’s development (transmission,

dispatching, distribution, and measurement of electricity; regasification, stocking, transport, dispatching, distribution, and measurement of natural gas);

- publication of the 11 September 2007 Decree by the Ministry for Economic Development, in which measures are introduced for limiting the consumption of natural gas; it envisages, *inter alia*, that the end customers who satisfy the requirements set out in the decree can jointly undertake to limit their consumption through their respective sales businesses, which consequently assume responsibility for the overall result of limiting consumption by these customers and benefit from incentives determined by the AEEG;

- publication of the Legislative Decree adopting Directive 2004/39 (MiFID - Market in Financial Instruments Directive). The measure departs from the Consolidated Law on Financial Intermediation of February 1998 ("Draghi Law") by introducing a significant deregulation of the gas and electricity derivatives market and providing for the possibility that the contracts that could hitherto only be made through an authorised intermediary can now be offered to the public by energy companies (albeit in compliance with the separation obligations set forth by appropriate sector regulations). Approval of the Decree must be followed by a series of implementing regulations;
- redefinition of biofuel penetration targets via the obligation for producers of transport diesel and gasoline to place biofuels of agricultural origin on the market in an amount equal to 1% from 2007, 2% from 2008, 3% from 2009 (an objective that was newly introduced by the 2008 Finance Law) and 5.75% from 2010, based on the total fuels sold during the previous year;
- on 23 January the Italian Antitrust Authority launched an enquiry to establish whether nine oil companies had tacitly colluded to fix fuel prices. The oil companies concerned submitted a response setting out their individual commitments in order to pass the enquiry. The Antitrust Authority accepted these commitments and concluded its investigation on 20 December;
- publication of Decree Law 7 of 31 January 2007, setting out "urgent measures for the protection of consumers, promotion of competition, development of economic activities and the formation of new enterprises", converted into Law 40 of 2 April 2007. Among other things, this measure eliminated the minimum distance between sales outlets and the restrictions imposed by previous legislation as regards the advertising of fuel prices along the national road network;
- reduction by the European Commission of the ceiling for CO₂ emissions as regards the National Allocation Plan of quotas for 2008-2012 (NAP2), from the proposed 209 million tonnes/year to 196 million tonnes/year approved with reservations. It was also established that Italy can use the so-called flexible mechanisms for no more than 15% of the total, as opposed to the expected 25%;
- publication of the 2008 Finance Law. This measure contains many interesting innovations, from the reform of renewable energy sources to correction of the 2007 Finance Law on CIP 6 incentives for plants fuelled by renewable and assimilated sources, the full powers granted to the AEEG on Avoided Fuel Costs, royalties for stocking and class action lawsuits. It also introduced a mobile excise tax on fuels, the "centesimo per il clima" (climate cent), "Mister prezzi" (Mr. Prices) and an amendment to the rules governing tenders for gas concessions.

In particular, a series of provisions were included designed to promote renewable sources: "Rules for the incentivisation of electricity produced from renewable sources", "Rules for promoting the diffusion of renewable energy sources", "Connection of facilities, purchase and transmission of electricity from renewable sources", "Harmonisation of Government and Regional functions connected with renewable sources". As regards the incentivisation of renewable sources, provision was made for an annual increase in the mandatory quota of green certificates equal to +0.75% for the period 2007-2012 (during the previous period it was +0.35%), differentiation by source

and the 15 year duration of green certificates. The value of the GSE (National Grid) green certificates is obtained by subtracting from an initial reference value (180 Euro/MWh subject to revision every 3 years) the value of the electricity selling price recorded during the previous year. On 26 February, by way of Resolution 24/08, the AEEG set at 67.12 Euro/MWh the selling price for electricity produced by facilities fuelled by renewable sources and withdrawn by the GSE ("dedicated withdrawal"). The value of GSE green certificates for 2008 therefore amounts to 112.88 Euro/MWh;

- completion of electricity market deregulation (social tariffs and other measures): following publication of Law 125 of 3 August 2007, which converted Decree Law 73 of 18 June 2007, with amendments, and set out "urgent measures for implementation of European Union provisions with regard to deregulation of energy markets", a series of significant deadlines for completing deregulation of the electricity market came into effect;
- publication of Legislative Decree 20 of 8 February 2007, implementing Directive 2004/8/EC on the promotion of cogeneration based on a useful heat demand in the domestic energy market. This law introduces new parameters for recognition of cogeneration.



Coastal Refining

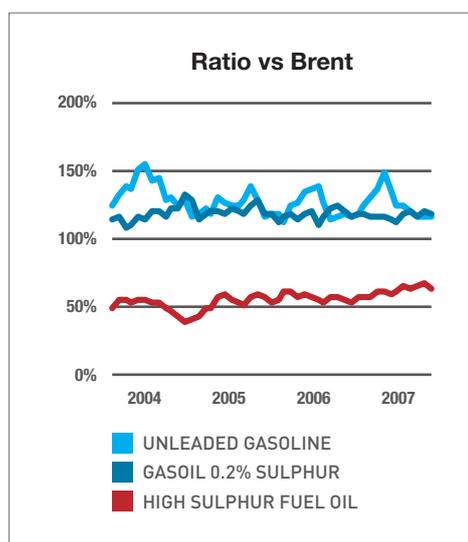
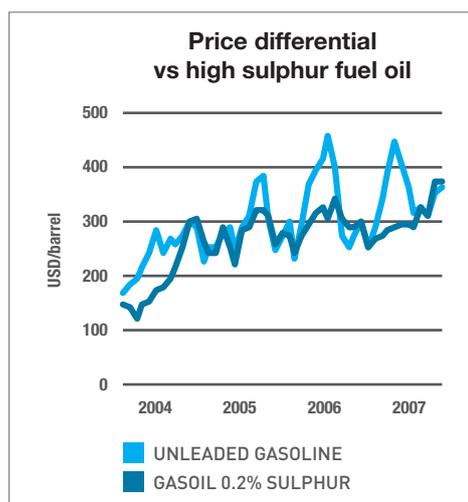
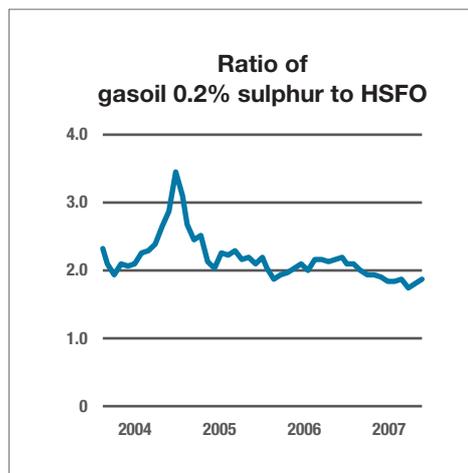
Introduction

The Coastal Refining business is carried on by ERG Raffinerie Mediterranee (ERGMed) and includes procurement of crude oils and their processing at the ISAB Refinery at Priolo, as well as the sale of products to the cargo market. Revenues include cargo sales, sales to other ERG Group companies (including the supply of feedstock to ISAB Energy and the supply of products to ERG Petroli and to the thermoelectric power plants), sales to petrochemical companies (the Eni Group and others), as well as services to the industries located in the

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

Until the beginning of the third quarter of 2007, the two production sites were differentiated according to type of conversion and mix of processed crude oils. More specifically, the ISAB Sud plant, equipped with thermal conversion units, produced mainly middle distillates and, because it has a high desulphurisation capacity, was capable of processing mainly medium-heavy crude oils with a high sulphur content. The ISAB Nord plant, which

is equipped for catalytic conversion and is structured to produce greater quantities of light distillates, used medium-heavy and light crude oils in similar quantities. In July, a major programme of more than Euro 300 million in investments launched in 2003 was completed. It will reinforce the sustainability of the ISAB Refinery both economically, through its increased conversion capacity, and environmentally, through the reduction of air pollution and improved quality of gasoline and fuel oils in advance of EU regulations that will come into force in 2009. In August transition to the new Refinery structure was completed, reducing refining capacity from 380 thousand to 320 thousand



barrels/day, through a reduction in marginal processing. This finalised the productive integration of the Impianti Sud and Impianti Nord plants, which comprise a single refining complex with a vast range of conversion plants (catalytic cracking, thermal cracking, visbreaking, hydrocracking, deasphalting), vacuum distillation and treatment of products. The Nelson complexity index has risen, with the new configuration, from 7.6 to 9.3. This value was determined with the assistance of the firm Shaw Stone & Webster.

Factors affecting the results of operations

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

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

	2007	2006	2005
(USD per barrel)			
Brent crude oil price ⁽¹⁾	72.37	65.10	54.41
Ural crude oil price ⁽²⁾	69.50	60.95	50.55
Brent - Ural differential	2.87	4.15	3.86
(USD per tonne)			
Brent crude oil price	546	492	411
Ural crude oil price	507	445	369
Unleaded gasoline - Ural differential ⁽³⁾	179	166	145
Transport diesel - Ural differential ⁽³⁾	155	155	168
Gasoil 0.2% sulphur - Ural differential ⁽³⁾	135	132	127
Fuel oil-Ural differential ⁽³⁾	(167)	(164)	(148)
Gasoline - fuel oil differential	347	330	293
Gasoil 0.2% sulphur - fuel oil differential	303	296	275
Transport diesel - gasoil 0.2% sulphur differential	19	23	41
Gasoil 0.2% sulphur - fuel oil price ratio	1.89	2.06	2.25
Euro/USD exchange rate	1.370	1.256	1.244

Source Platt's

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

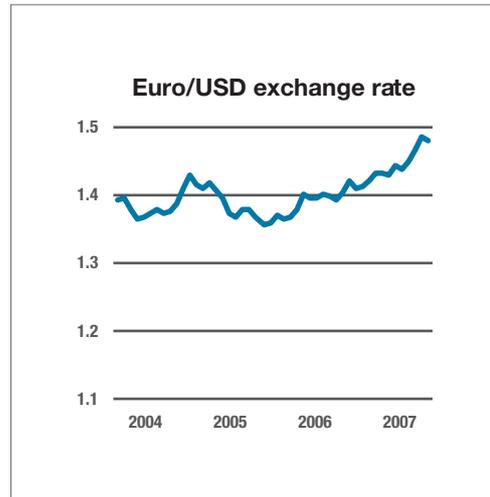
(2) benchmark heavy crude oil, on mean CIF basis

(3) on a high FOB Mediterranean basis

Crude oil price: the average price for the raw material rose steadily throughout 2007 (up to record values close to USD 100/barrel), due to production caps imposed by OPEC, lower production in Nigeria and, above all, geopolitical tensions and major purchases by many investment funds on the paper market. The average price of Brent crude oil was USD 72.40/barrel, higher than the values reported in the same period of 2006 (+USD 7.30/barrel).

Demand: global oil demand averaged 85.8 million barrels/day according to International Energy Agency (IEA) reports, up by 1.0 million barrels/day from the same period in 2006. The growth in demand is mainly attributable to non-OECD Asian countries.

Supply: OPEC continued its policy of capping production, which was aimed more at balancing actual demand (and thus limiting stocks) rather than directly controlling prices. Annual average production was 35.4 million barrels/day (this figure includes

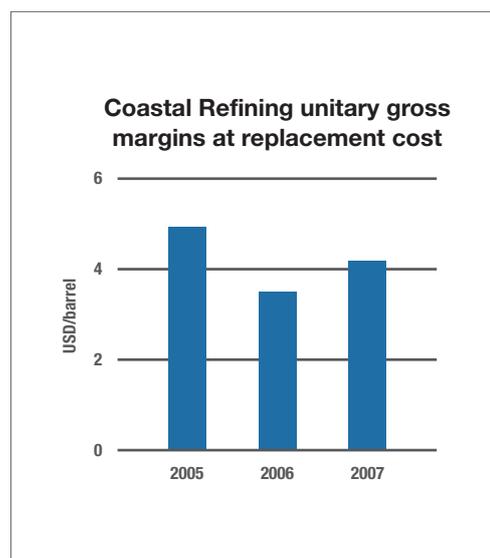


condensates and excludes Ecuador, which joined OPEC in December 2007), down by about 0.3 from the 2006 average. There was a growth in the output of non-OPEC countries, with production of 50.1 million barrels/day, up by about 0.4 million from the 2006 average.

Inventories: there was consequently a reduction in global inventory levels (crude oil and petroleum products) during the year, although they remained in line with the average level reported over the past five years.

Brent-Ural differential: the Brent-Ural differential averaged approximately USD 2.90/barrel in 2007, down by USD 1.30 from the 2006 average. The reduction stemmed largely from the strong demand for fuel oil and the consequent increase in the intrinsic value of Ural crude with respect to Brent, and from the lower volumes exported by OPEC.

Products: especially during the spring, the 2007 financial year was characterised by a significant increase in gasoline prices, resulting from low stocks and protracted maintenance work at numerous United States refineries. The differential between gasoline and fuel oil was thus slightly higher than the average for 2006. Price trends for middle and heavy distillates were substantially in line with 2006, while they strengthened for fuel oils.



Industry refining margins: industry refining margins in 2007 were largely the same as the values reported in 2006.

EMC “notional” refinery margins

In 2007 EMC (Energy Market Consultants) expanded the assessment of its published notional margins. In particular, referring to the Mediterranean area, it also introduced quotations with FOB values of products obtained from the yields of Ural and Azeri Light crudes.

In order to better represent the profitability of its ISAB refinery, ERG decided to adopt the EMC margin at FOB yields as its new “notional” benchmark, obtained with a mix of 50% of the two crudes indicated above.

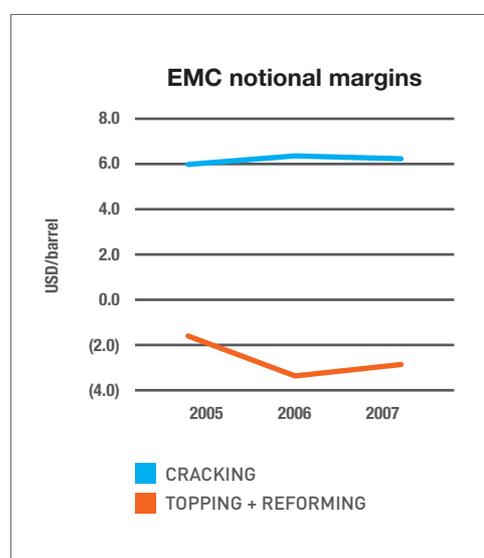
Compared with the previous benchmark, the new benchmark:

- envisages a slate of raw materials with an API grade that is more representative than what is actually processed in the Mediterranean area and by ISAB;
- measures the yields in finished products with FOB prices, as is typically done for coastal refineries such as ISAB.

However, this new benchmark continues to offer the advantage of being based on typical crudes of the Mediterranean spot market, which are also particularly “liquid”.

The EMC notional margin continues to refer to a complex refinery characterised by catalytic conversions dedicated to the production of gasoline (Fluid Catalytic Cracking plant).

The following table illustrates the refining margins defined above for the periods indicated:



		2007	2006	2005
Topping + Reforming	USD/barrel	(2.86)	(3.31)	(1.55)
Cracking Upgrading	USD/barrel	6.17	6.35	5.92
Combined cycle	USD/barrel	3.31	3.04	4.37
	Euro/barrel ⁽¹⁾	2.42	2.42	3.51

(1) average Euro/USD exchange rate used for each period = 1.370, 1.256 and 1.244

ERG Coastal Refining unitary contribution margins at replacement cost

The unitary contribution margins at replacement cost⁽¹⁾, which are deemed more representative of refining profitability, are reported starting from 2007. The contribution margins are lower than the refining margins illustrated in the previous reports (USD 5.19/barrel in 2006 and USD 6.32/barrel in 2005) since they are expressed net of variable production costs (mainly costs for utilities).

	2007	2006	2005
USD/barrel ⁽²⁾	4.21	3.50	4.93
Euro/barrel ⁽³⁾	3.07	2.78	3.96
Euro/tonne ⁽⁴⁾	22.4	20.4	29.1

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

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

(3) average Euro/USD exchange rate used for each period = 1.370, 1.256 and 1.244

(4) barrel/tonne conversion factor of 7.297, 7.322 and 7.331 in the respective periods

The unitary contribution margins in Euro/barrel for 2007 are higher than in 2006 notwithstanding the negative impact of appreciation of the Euro against the dollar and the lower profitability of sales of feedstock to ISAB Energy. These sales were penalised in comparison with the previous year by appreciation in the price of fuel oil and the reduction in feedstock price following revision of the avoided fuel cost by the Italian Electricity and Gas Authority.

These higher margins resulted both from the following positive effects in 2007:

- the profitability of the new gasoil desulphurisation plant, the new catalytic cracking loading plant, and the new refinery structure;
- the general improvement in plant performance;
- termination of the processing agreement with Eni;

and a series of negative events that occurred in 2006:

- bad weather and the electrical blackout that occurred in the first quarter of 2006, which penalised the costs for demurrage and plant performance;
- less profitable processing due to the costs caused by the incident on 30 April 2006 at the Impianti Nord;
- the programmed shutdown of the Impianti Sud in the second quarter of 2006, which prevented exploitation of the significant improvement in the scenario during May and June 2006;
- the electrical blackout that occurred on 17 July 2006.

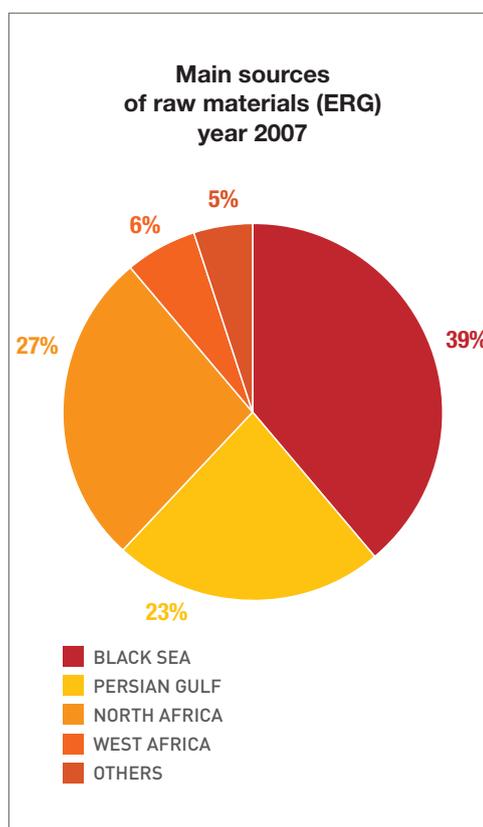
The improved unitary margin of ERG with respect to the EMC "notional" margin calculated as described above is due to a steady increase in the conversion capacity of the ISAB refinery following realisation of the strategic investment plan undertaken in 2003.

Procurement

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

In 2007 the areas of origin for raw materials were: the Black Sea 39% (43% in 2006), North Africa 27% (23%), Persian Gulf 23% (23%), others 11% (11%), of which 6% West Africa. The reduction in supplies from the Black Sea and the increase in supplies from North Africa (essentially Libya) reflect both the higher

profitability of the latter crude oils and processing on the Group's own account of Buattifel following termination of the processing contract with Eni.



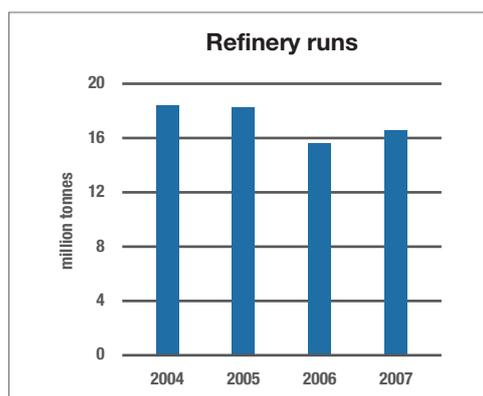
Processing

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

(thousand tonnes)	2007	2006	2005
Processing			
Own account processing ⁽¹⁾	16,631	14,126	16,274
Processing on behalf of third parties	–	1,401	1,934
TOTAL PROCESSING	16,631	15,528	18,208

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

The higher level of processing in 2007 reflects the general programmed shutdown of the ISAB Impianti Sud Refinery and the incident at the Impianti Nord in 2006. The impact of these events more than offset the lower level of processing resulting from economic choices dictated by the lower profitability of topping crude oil (also carried out with marginal processing in 2006), the lower cost of processing residue (which saturates the



capacity of conversion plants, with less topping) and the new Refinery structure, which was completed in August 2007.

Notwithstanding the higher volumes of residue processing, the API grade in 2007 (32.3) was slightly higher than in 2006 (31.9), mainly on account of increased processing of light crudes from Libya.

Production

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

(thousand tonnes)	2007		2006		2005	
Raw materials:						
Crude oil ⁽¹⁾	14,725	88.5%	12,702	89.9%	15,429	94.8%
Residues and other semi-finished products	1,906	11.5%	1,425	10.1%	845	5.2%
Total processing ⁽¹⁾	16,631	100.0%	14,126	100.0%	16,274	100.0%
Blending additives	542		1,096		1,143	
Total raw materials ⁽¹⁾	17,173		15,222		17,417	
Production						
LPG	293	1.8%	237	1.6%	267	1.6%
Naphtha	764	4.6%	838	5.7%	919	5.5%
Gasoline	2,951	17.9%	2,473	16.8%	2,724	16.2%
Jet fuel	468	2.8%	557	3.8%	639	3.8%
Diesel	7,533	45.8%	6,281	42.8%	7,261	43.2%
Vacuum diesel	297	1.8%	365	2.5%	342	2.0%
Fuel oil	2,738	16.6%	2,581	17.6%	3,229	19.2%
Fuel gas	100	0.6%	61	0.4%	106	0.6%
Bitumen ⁽²⁾	883	5.4%	937	6.4%	908	5.4%
Sulphur	101	0.6%	83	0.6%	104	0.6%
Other petrochemical products	317	1.9%	270	1.8%	316	1.9%
Total production	16,445	100.0%	14,684	100.0%	16,815	100.0%
Consumption and losses	728		539		602	

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

(2) asphalt for ISAB Energy's IGCC plant

The improvement in light distillate and diesel yields from 2006 reflects the change in configuration completed in August 2007, completion of the plan of investments undertaken in 2003 and the costs resulting from events that took place in 2006. The yield of fuel oil in 2007 was also impacted by plant work and was lower than in 2006 despite the lower production of asphalt following the general programmed shutdown of the ISAB Energy IGCC plant.

The lower yield of jet fuel stemmed principally from the higher quantity of residue processed.

Summary of the main results

(million Euro)	2007	2006	2005
Revenues from third parties	5,943	5,014	5,339
Interdivisional revenues	1,200	1,103	992
Revenues from ordinary operations	7,143	6,118	6,331
EBITDA at replacement cost⁽¹⁾⁽²⁾	117	149	307
Amortisation, depreciation and write-downs	(62)	(53)	(57)
EBIT at replacement cost⁽¹⁾⁽²⁾	55	96	250
Net tangible and intangible fixed assets	811	758	617
Investments in tangible and intangible fixed assets	118	185	174

(1) in 2006 figures include insurance reimbursements of Euro 80 million for consequential damages

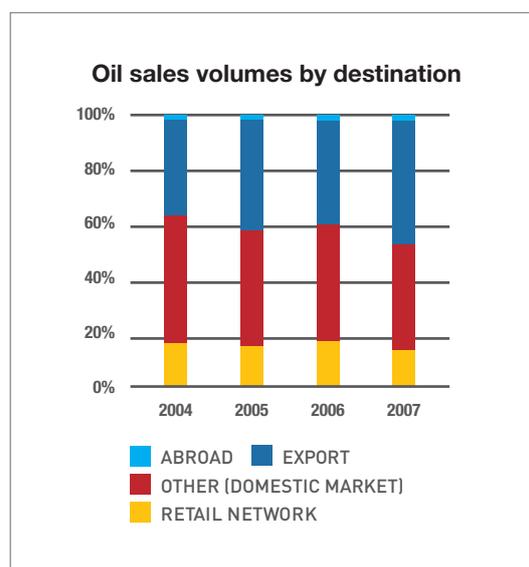
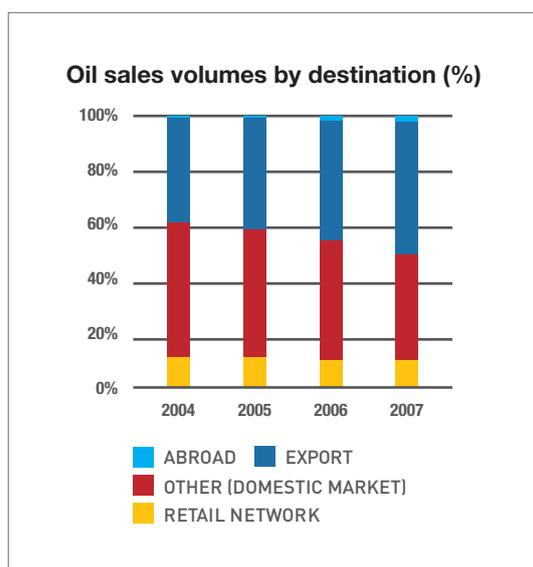
(2) figures do not include:

- inventory gains (losses), amounting in the various period to Euro +170, -31 and +116 million respectively;
- in 2006, non-recurring items relating to insurance reimbursements for direct damage totalling Euro 14 million

Revenues were higher in 2007 than in 2006 mainly in consequence of higher sale volumes and partly due to higher prices in Euro.

EBITDA at replacement cost was lower than in 2006 despite the higher unitary contribution margin basically associated with the better performance in 2007.

The reasons for this negative variance are connected with the impact of the insurance reimbursement paid for 2006 (and not included in the unitary contribution margin for 2006) following the incident at the Impianti Nord that occurred during a period characterised by higher refining margins compared to the average margins during the year.



Integrated Downstream

Introduction

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

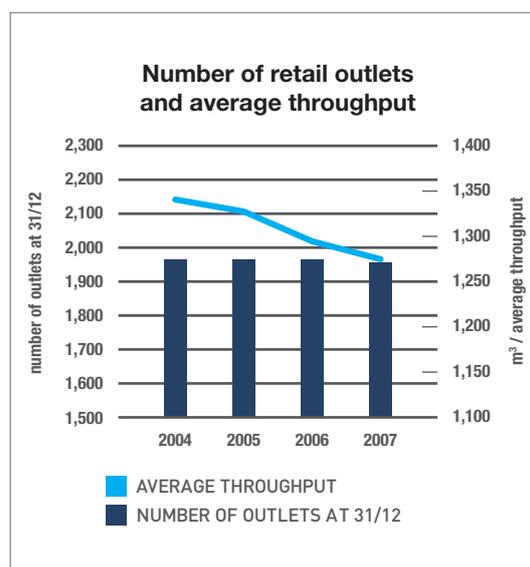
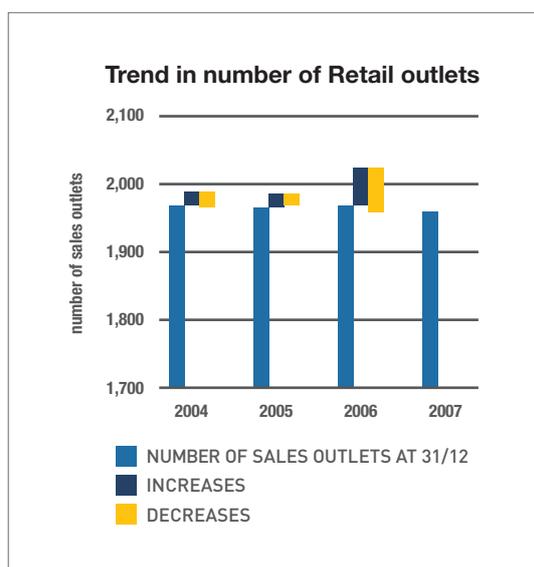
The business incorporates activities pertaining to the Retail and Wholesale networks, Lubricants, in Italy and abroad, as well as logistics and the Inland Refineries.

Summary of the main results

(million Euro)	2007	2006	2005
Revenues from third parties	3,630	3,531	3,081
Interdivisional revenues	78	98	93
Revenues from ordinary operations	3,708	3,629	3,174
EBITDA at replacement cost⁽¹⁾	87	127	165
Amortisation, depreciation and write-downs	(48)	(44)	(43)
EBIT at replacement cost⁽¹⁾	39	83	123
Net tangible and intangible fixed assets	415	391	398
Investments in tangible and intangible fixed assets	77	36	40

(1) figures do not include inventory gains (losses), amounting in the various periods to Euro +51, +3 and +92 million

EBITDA for the year at replacement cost totalled Euro 87 million and was less than the corresponding item for the previous year due to the less favourable scenario for marketing and refining margins, the reduced availability of plants for Inland Refineries and lower Retail sales, although they were largely in line with market trends.

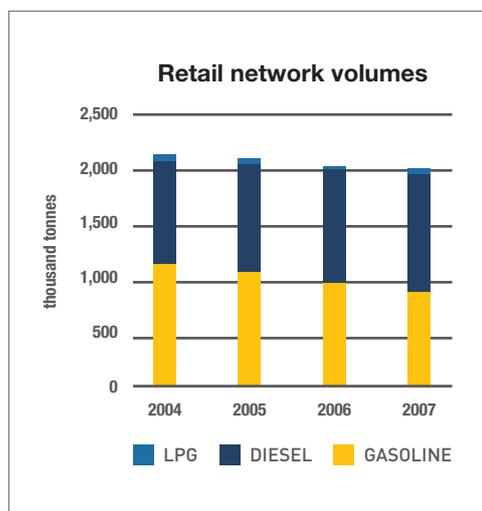


Marketing

With a market share of around 7%, ERG is one of the leading service station operators in Italy.

Relying in part on the strength of its highly developed logistics system, ERG is one of the leading operators on the Italian Wholesale market.

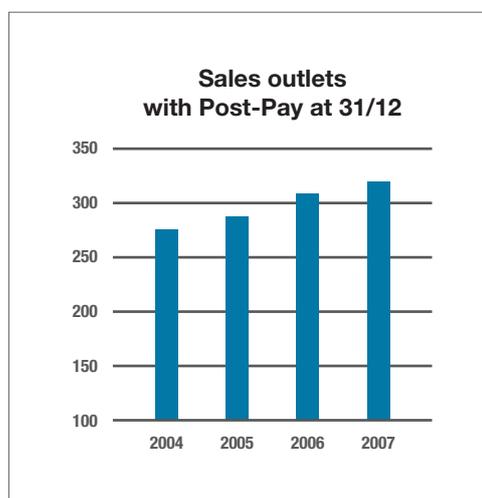
The achievement of this result is assisted by a strategy of consolidating sales through participation in consumer resale companies, to which approximately 40% of volumes are allocated.



Factor affecting the results of operations

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

- domestic consumption of gasoline and diesel on the Retail network which were largely stable in comparison with 2006;
- a shift in demand, again in the Retail network, from gasoline, consumption of which decreased by 5.9% in the year, to diesel, consumption of which instead grew by 4.4%;
- unitary margins lower than those reported in 2006.



Retail network

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

Fuel consumption on the domestic Retail market in 2007 was virtually unchanged from the previous year (-0.1%). In this context, the ERG Retail network performed slightly below market levels, even if the decrease in volumes stemmed from sales with low profit margins. ERG's market share for fuel was 6.9% (7.5% for gasoline and 6.4% for diesel), substantially in line with what was reported for 2006 (7.6% for gasoline and 6.5% for diesel).

In the coming months, this performance should benefit from higher sales associated with the launch of the restyling programme. At 31 December 2007, 731



sales outlets had already been remodelled, with approximately 900 scheduled in 2008.

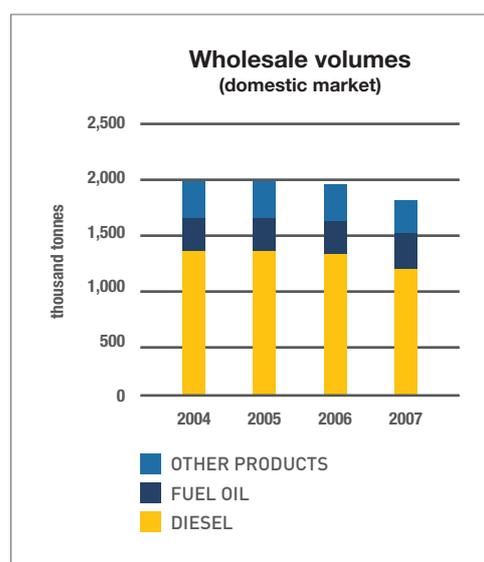
As at 31 December 2007 ERG's Italian Retail network consisted of 1,959 outlets (1,968 as at 31 December 2006) with 58 new outlets and 67 no longer active.

Average throughput, based on the number of retail outlets as at 31 December, totalled 1,274 m³ compared to 1,295 m³ in 2006. Overall Retail network margins were lower than in 2006, with satisfactory performance for gasoline and a sharp reduction for diesel margins.

Wholesale market

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

The 2007 financial year was characterised by lower industry demand, particularly for heating gas oil (-21.2%), mainly due to mild weather during the first part of the year. This decrease caused greater price competition by most operators, with a consequently generalised contraction in margins. In this context, ERG diesel sales in 2007 decreased by 9.0% from 2006.



Lubricants

In 2007 the national lubricants market reported the same volumes as in 2006, with a reduction in sales on the Retail network (-27% from 2006).

Domestic lubricants sales by ERG in 2007 were substantially the same as in 2006, while the 15% decrease in sales on the ERG Retail network was lower than that reported for the sector as a whole, so that its market share rose to 6.5% (5.6% in 2006).

Abroad

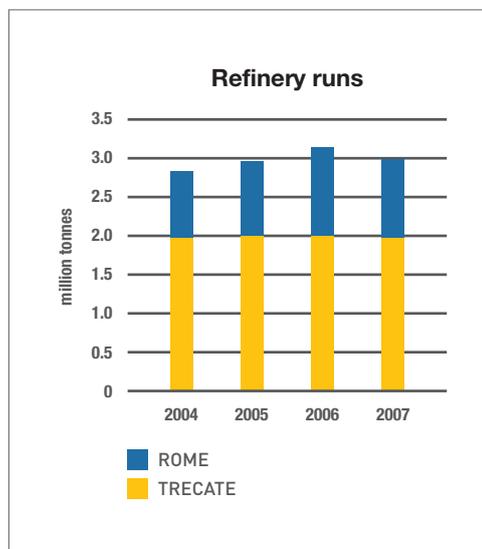
Spain. The sales of ERG Petroleos S.A., a company operating in the Spanish Retail and Wholesale markets, totalled approximately 365 thousand tonnes in 2007 (15% gasoline and 85% diesel) up more than 5% from the previous year.

As at 31 December 2007 the Spanish Retail network comprised 112 outlets, of which 74 owned by ERG (41 directly managed by ERG Gestión Ibérica S.L.). The streamlining plan continued with the transfer of 12 service stations to independent operators from the beginning of the year.

Switzerland. ERG Petroli Suisse S.A., a company active in the Retail market in the Canton of Ticino with 16 outlets, sold approximately 14.4 thousand tonnes of fuels in 2007, with a 7.9% increase over the previous year.

Inland Refineries

The Inland Refineries, located in two of the areas featuring the greatest intensity of consumption in Italy, have a total annual balanced distillation capacity, as far as ERG's share is concerned, of 3.2 million tonnes (approximately 60 thousand barrels/day) and differ according to the type of conversion. The Rome Refinery is equipped with thermal conversion, whereas the Sarpom Refinery is equipped with catalytic conversion, capable of producing higher quantities of light distillates. Moreover, while the Sarpom Refinery uses essentially light crude oils with a low sulphur content, the Rome Refinery uses mainly heavier crude oils.



As regards the factors influencing the Inland Refineries' economic results, reference is made to what has already been said concerning Coastal Refining. In particular, we point out that the Rome Refinery's margins depend on the profitability of medium-heavy crude oils and on the relationship between the prices of middle distillates compared with fuel oil. The results of refineries with catalytic conversion (Sarpom), on the other hand, are mainly affected by the relationship between light distillates and fuel oil and, to a lesser extent, by the profitability of light crude oils. The overall results of the Inland Refineries in 2007 were below those for 2006, mainly due to the less favourable situation on the oil market and lower processing volumes.

Unitary contribution margins at replacement cost of ERG's Inland Refineries

The unitary contribution margins at replacement cost⁽¹⁾, which are deemed more representative of refining profitability, are reported starting from 2007.

The contribution margins are lower than the refining margins shown in the previous reports (USD 4.08/barrel in 2006 and USD 5.40/barrel in 2005), since they are expressed net of variable production costs.

	2007	2006	2005
USD/barrel	3.48	3.59	5.03
Euro/barrel ⁽²⁾	2.54	2.86	4.04
Euro/tonne ⁽³⁾	18.8	21.2	30.1

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

(2) average Euro/USD exchange rate used for each period = 1.370, 1.256 and 1.244

(3) barrel/tonne conversion factor used for each period = 7.386, 7.414 and 7.439

The unitary contribution margins in 2007 were less than in 2006, mainly due to the less favourable scenario, reflecting the lower profitability of light crude oils and the weakness of the dollar with respect to the Euro. The margins of the Inland Refineries in 2007 were lower than those for Coastal Refining due to the lower complexity of the refineries and the lower profitability of light crude oils (typically processed in Inland Refineries) compared with heavy crude oils and residues, which are used more at the Coastal Refining plants.

Processing

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

(thousand tonnes)	2007	2006	2005
Processing			
Sarpom Trecate Refinery	1,972	1,991	1,999
Rome Refinery	1,004	1,162	956
TOTAL PROCESSING ⁽¹⁾	2,976	3,153	2,955

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

The processing volumes at Inland Refineries were lower than in 2006 due to reduced availability of plants following the programmed shutdowns of two refineries (the shutdown of several Sarpom plants in October and a general shutdown of the Rome Refinery in May and June).



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

(thousand tonnes)	2007		2006		2005	
Raw materials:						
Crude oil ⁽¹⁾	2,976	100.0%	3,153	100.0%	2,955	100.0%
Total processing ⁽¹⁾	2,976	100.0%	3,153	100.0%	2,955	100.0%
Blending additives	13		15		9	
Total raw materials ⁽¹⁾	2,989		3,167		2,964	
Production:						
LPG	128	4.5%	135	4.5%	133	4.7%
Naphtha	23	0.8%	5	0.2%	15	0.5%
Gasoline	593	20.9%	636	21.1%	584	20.8%
Jet fuel	267	9.4%	208	6.9%	223	7.9%
Diesel	1,061	37.4%	1,227	40.8%	1,161	41.3%
Vacuum diesel	69	2.4%	75	2.5%	58	2.1%
Fuel oil	549	19.3%	556	18.5%	469	16.7%
Bitumen	146	5.1%	162	5.4%	164	5.8%
Sulphur	6	0.2%	6	0.2%	6	0.2%
Total production	2,841	100.0%	3,011	100.0%	2,811	100.0%
Consumption and losses	148		157		153	

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

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

Power Generation

Introduction

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

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

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

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

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

ERG Power & Gas’s subsidiaries are:

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

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



ISAB Energy Services (of which ERG Power & Gas holds 51%) handles the operation and maintenance of the IGCC (Integrated Gasification Combined Cycle) complex on behalf of ISAB Energy, the solvent deasphalting plant on behalf of ERG Raffinerie Mediterranee and, from 1 July 2007, also the ERG Nuove Centrali plants, effectively becoming the only operation and maintenance company for the electrical plants at the ERG Group’s Priolo site.

ERG Eolica (of which ERG Power & Gas owns 100%). ERG Eolica, the newly incorporated beneficiary company effective 1 February 2008 of the business unit pertaining to ERG following the full demerger of ERG CESA Eolica (50-50 joint venture of ERG Power & Gas and the Spanish company CESA), pursues the development and management of wind farms in Italy, with 1.6 MW in operation.

Ionio Gas (of which ERG Power & Gas holds 50%) is a joint venture with Shell Energy Italia S.r.l., whose purpose is to design, construct, operate and maintain a terminal to receive and regasify Liquefied Natural Gas, to be located at the Priolo site.

ERG Power & Gas also holds equity interests in:

- five project companies (99% owned) for the development, construction and operation of wind farms;
- ISEA S.r.l., a 90%-owned company which in turn owns five mini-hydroelectric plants;
- Ecopower S.r.l., a company acquired in September 2007 (100% owned), owner of one hydro power plant in operation and five electric power generation plants pending start-up, located in the north of Italy, with an overall capacity of 2 MW.

Enertad, directly controlled by ERG S.p.A. with a 68.38% interest following purchase on 20 December 2007 of 17% of the company's share capital owned by Alerion, is a company listed on the Milan Stock Exchange which controls companies operating in electricity production from renewable sources (wind power) and water treatment (water services).

The wind power business comprises sixteen companies, including two subholding companies (Eos Windenergy S.r.l. and EnerFrance S.a.s.), eight operational companies and six companies at development stage, with a total installed capacity of over 132 MW (77 MW in Italy and 55 MW in France) and over 100 MW in additional authorised capacity.

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

Factors affecting the results of operations

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

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

The selling prices of electricity produced by ISAB Energy are controlled by CIP (Inter-ministerial Prices Committee) Regulation 6 of 29 April 1992 (better known as CIP 6/92).

ISAB Energy has a "take-or-pay" contract with the GSE (National Grid) the price of which, for 15 years, is partly linked to the price of natural gas for thermoelectric use. Feedstock is purchased from ERG Raffinerie Mediterranee under another "take-or-pay" contract of the same duration linked to the trend in the price of natural gas for thermoelectric use.

The operating results of the **ERG Nuove Centrali** plants are affected by the change in demand for the site's electricity and steam, and partly by the time lag between variations in the selling price of electricity and the price of fuel oil, which is the main feedstock for the plants in question.

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

Wind farms consist in wind-power generators able to transform the wind's kinetic energy into mechanical energy, which in turn is used to generate electricity. Subject to availability of the plants, each wind farm's expected results are clearly affected by the anemological characteristics of the site where the wind farm is located.

The economic results are also influenced by electricity selling prices and by the price of green certificates.

Electricity market

In 2007, the demand for electricity in Italy was 339,839 GWh, up 0.7% from 2006.

The domestic supply composition in 2007 was met 72.3% from thermoelectric generation (71.6% in 2006), 11.3% from hydroelectric production (12.6% in 2006), 2.9% from geothermal and wind power (2.6% in 2006) with the remaining 13.5% imported from abroad (13.2% in 2006).

The net import balance was 45,930 GWh (+2.1%). Estimated CIP 6 output was 53,756 GWh, with an increase over the same period in 2006 (+4.0%).

During 2007, the demand for electricity was mainly concentrated in Northern Italy (156.6 TWh, accounting for 46.1% of entire domestic demand).

Summary of main results

(million Euro)	2007	2006	2005
Revenues from third parties	593	582	538
Interdivisional revenues	306	256	243
Revenues from ordinary operations	898	838	781
EBITDA ⁽¹⁾	185	213	183
Amortisation, depreciation and write-downs	(73)	(57)	(55)
EBIT ⁽¹⁾	112	156	128
Net tangible and intangible fixed assets	1,369	1,141	763
Investments in tangible and intangible fixed assets	182	142	58

(1) figures do not include non-recurring items for:

- in 2007, about Euro 18 million in costs for clean-up of the area dedicated to construction of the new Turbogas plant at the Impianti Nord site;
- in 2006, the costs net of expected recoveries for the acquisition of green certificates for previous years amounting to Euro 7 million

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

(million Euro)	2007	2006	2005
ISAB Energy/ISAB Energy Services	153	195	192
ERG Power & Gas/ERG Nuove Centrali	13	12	(9)
Enertad	19	7	–
TOTAL	185	213	183

ISAB Energy

In 2007 electric power output was 3,809 GWh.

The plant's capacity utilisation factor was 82% following the programmed shutdown in the second quarter of 2007 and the reduction in output requested in November by Terna S.p.A., pursuant to existing contractual relationships, so that it could perform work on its transmission network.

In 2006 electric power output was 4,001 GWh (with a theoretical net capacity utilisation of 86%).

The reduction in EBITDA from 2006 is due not only to lower output, but principally to:

- the downward adjustment of sales tariffs by the Italian Electricity and Gas Authority (as confirmed by the Council of State decision of 22 January 2008), which cost the company about Euro 24 million;
- the receipt in 2006 of an insurance reimbursement amounting to approximately Euro 12 million for incidents that occurred at the plant.

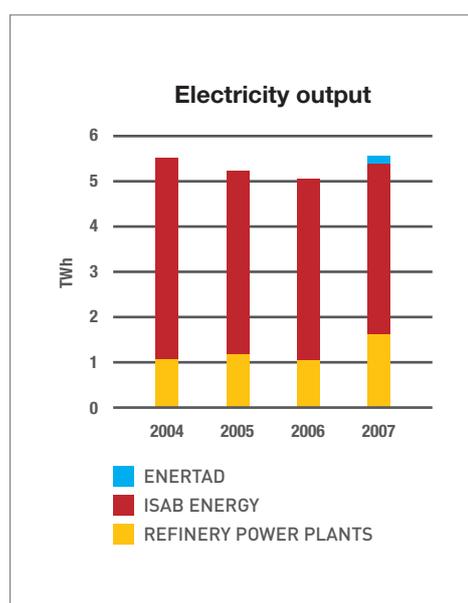
ERG Nuove Centrali plants

Net electricity output of the counter-pressure and condensation plants totalled 1,115 GWh, of which approximately 55% was used for refinery consumption.

Net steam supply was 3,414 thousand tonnes, of which about 73% used for refinery consumption.

Although it benefited from about Euro 14 million for the new Turbogas Sud plant and the return to service of the SA1N1 plant, EBITDA in 2007 was about the same as in 2006. This stemmed principally from the reduced value on the spot market of CO₂ quotas, which had made a positive contribution of Euro 13 million to the 2006 result.

The start-up of the new Turbogas Sud plant (502 GWh generated during the year) made it possible to operate with a new plant configuration that can improve



profitability and satisfy the power requirements of the ISAB Refinery Impianti Sud plants, by operating two of the three existing groups.

Enertad

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

Consolidated revenues in 2007 totalled Euro 39 million and included, starting from November 2007, the revenues of the wind farms acquired in France.

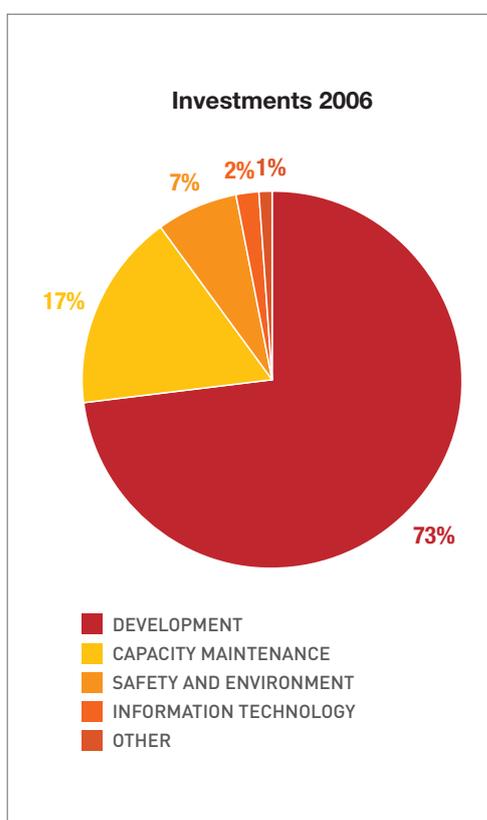
EBITDA in 2007 was Euro 19 million. It was impacted by not only the lower price of 2007 green certificates but also the price revision of unsold 2006 green certificates.



The ERG Group made investments of Euro 380.1 million (Euro 365.2 million in 2006) of which Euro 21.4 million for intangible fixed assets (12.9 million in 2006) and Euro 358.6 million for tangible fixed assets (352.2 million in 2006).

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

(million Euro)	2007	2006	2005
Coastal Refining	118	185	174
Integrated Downstream	77	36	40
Power Generation	182	142	58
Corporate	4	3	3
TOTAL	380	365	274



As regards the **Coastal Refining** division, in July 2007 the plant for hydrotreatment of catalytic cracking feedstock came into operation, completing the major investment programme undertaken in 2003.

Together with integration of the two production sites (Impianti Nord and Impianti Sud) and operation of the new gasoil desulphurisation plant, the start-up of this plant made it possible to increase the conversion and production of low-sulphur gasoline and diesel (50 and 10 ppm sulphur content) at the ISAB Refinery.

Work on the projects envisaged in the ISAB Refinery development plan also continued with a view to improving its performance in terms of safety, reliability, and profitability.

Most of the investments made in the **Integrated Downstream** division concerned the Italian Retail

network. About Euro 31 million were invested in the project for restyling of ERG Petroli retail outlets, which began in 2007 and is expected to be completed by the end of 2008.

The remaining investments were made for development of the road and motorway retail network. These particularly include the opening of 11 new company retail outlets, three of which in the hypermarket format and two on motorways. Reconstruction, modernisation and upgrading of existing retail outlets continued, together with maintenance and improvement of safety and environmental regulation compliance.

In the **Power Generation** division, site activities for the repowering of the ISAB Nord power stations resumed in September after a slowdown due to institutional and authorisation problems.

The overall project is 75% complete, with construction 25% complete.

ISAB Energy is proceeding with all activities pertaining to the "Hydrogen" project, which provides for the construction of a third gasifier and installation of a membrane section. With regard to this project, during the general shutdown of ISAB Energy the connections for the new hydrogen plant and third gasifier were successfully and punctually installed.

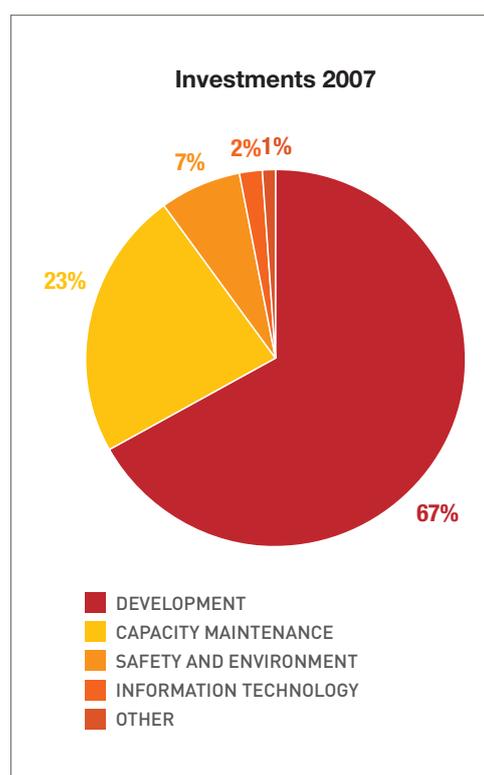
In the renewable energy sector, construction work continued on the Vicari wind farm, with its start-up scheduled for 2008.

At Enertad, in 2007 construction began on the wind farm at Faeto (Foggia). The advanced stage of completion makes it possible to confirm its operational start-up in 2008.

During the second half of 2007, construction began on the Ginestra (Benevento) wind farm, with notification of the competent Authorities and realisation of preliminary works and upgrading of existing roads. Plans for 2008 include the purchase of wind turbines and continuation of construction activities. An appeal is currently pending before the Basilicata Regional Administrative Tribunal (TAR) regarding the Tursi Colobraro (Matera) wind farm. This appeal was filed against the injunction served by the Region preventing the continuation of works, which had been started by the Promoter during the second half of 2006. The hearing is expected to be scheduled shortly.

The construction site for the wind farm at Troia San Vincenzo (Foggia) is being opened and the investment is scheduled for completion by the end of 2008.

Authorisation and development activities continued on other projects, some of which are expected to be completed by the end of 2008.



The following table shows the investment breakdown by type:

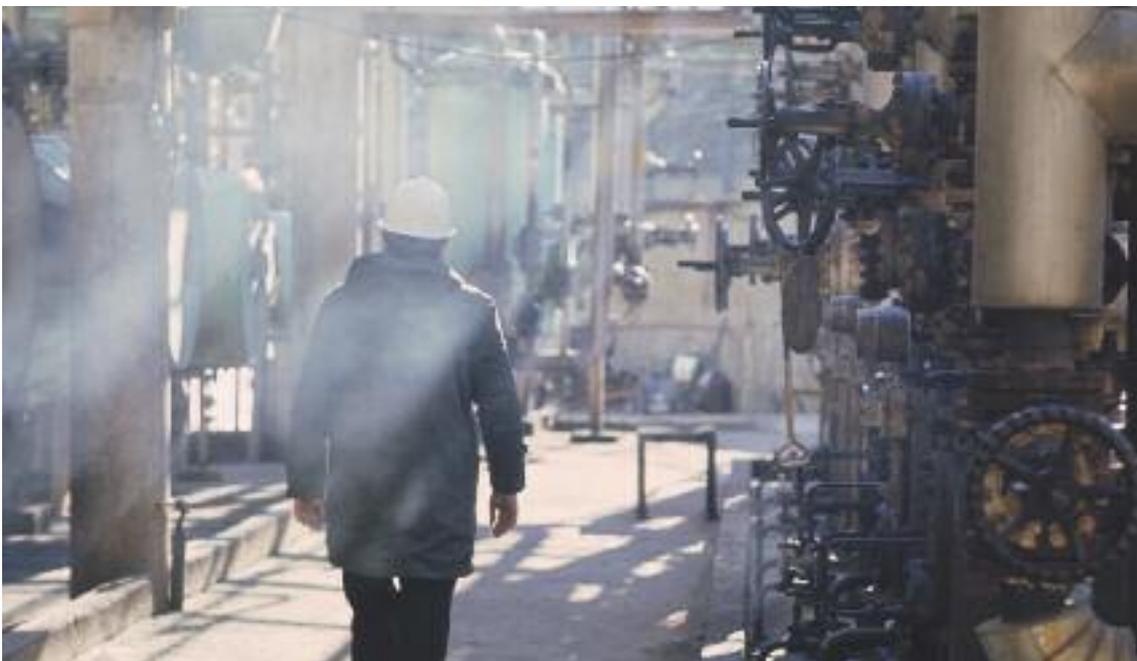
(million Euro)	2007	2006	2005
Development	256	269	201
Capacity maintenance	86	61	31
Safety and environment	26	24	34
Information technology	7	9	7
Other	5	3	2
TOTAL	380	365	274

Of total investments, 67% was dedicated to **development**. In the Coastal Refining sector (23% of the total), investments focused on upgrading of the conversions and desulphurisation, as well as improvement of performance (HSE, reliability, and improvement of yields), while the investments made in the Power Generation sector (65%) were focused mainly on repowering of the ISAB Nord power plants. The remaining 11% was invested in the Integrated Downstream sector, above all in the Retail network.

Of investments in **capacity maintenance**, 46% went to Coastal Refining, 42% to Integrated Downstream and the remaining 12% to Power Generation. Investments made in **safety and the environment** comprised 53% in Coastal Refining, 36% in Integrated Downstream and the remaining 11% in Power Generation.

As regards investments in **information technology**, major projects associated with specific business applications are being completed, according to schedule:

- study of the Refinery Information System at ERG Raffinerie Mediterranee, which envisages revision of the process, from acquisition of the primary field data to preparation of the processing financial statements and generation of KPI (Key Performance Indicators);
- the “Maintenance Information System”, which provides for a streamlining of the plant maintenance process, was started up at ERG Power & Gas and ISAB Energy, while the “Electricity Sale” project to support the business in the sale of electricity to customers is at the study phase;
- at ERG Petroli, the following projects were completed: the “Operator’s Portal”, through which all operators of network outlets can access administrative and management functions on a Web based platform, and the “Liabilities Cycle Portal”, through which the company manages the notification and exchange of commercial documents with its suppliers.



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

ERG's objective is to minimise the risks identified which mostly concern the following categories: financial, credit, liquidity and operational risks.

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

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

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

Sustainability

ERG has commenced activities to define the Group's sustainability commitments taking into account the requests made by relevant stakeholders and the creation of economic value that is sustainable over time in relation to its plan for future investments. This has prompted integration of economic and financial objectives with social and environmental objectives, which are summarised and illustrated in the Sustainability Report. This new communication and, above all, management tool will replace and expand on the HSE Report, particularly in perspective terms. For the past eight years, this Report has been one of the principal tools for reporting on the social responsibility of ERG.

Safety

ERG has launched a multi-year "Prevention Project" with a view to enhancing awareness and involvement at all organisational levels on the issues of risk prevention and management. The aim of these initiatives is to achieve "zero accident" level. This programme flanks and complements the development of Health and Safety Management Systems in operation at the Group's industrial sites.

Safety management and certification systems

The programme for certification of ERG's industrial sites was consolidated during 2007, in accordance with the Group HSE Guidelines for the implementation of effective Management Systems designed to minimise impact and optimise prevention activities.

ISO 14001 certification was completed for the industrial sites of ISAB Energy, ERG Raffinerie Mediterranee, and ERG Petroli. The procedure has been initiated for the same certification as regards ERG Nuove Centrali's power generation plants.

In addition, the project has been launched for OHSAS 18001 certification of occupational health and safety for the entire Priolo refining site. This certification had already been obtained for both ERG Petroli's Trecate and Savona depots and ISAB Energy's IGCC facility.

Environmental characterisation and clean-up of industrial sites

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

These activities are all-important in relation to the construction of new plants and modification of existing assets.

Emissions trading

In December 2006 the Italian Government submitted to the European Commission its draft National Allocation Plan (NAP) for the assignment of CO₂ quotas to individual industrial sites during the period

2008-2012. Following assessment by the Commission, it was updated in December 2007 and the Draft assignment decision (Schema di decisione di assegnazione) was drawn up.

With respect to what had already been done in the past and in keeping with current investment objectives, ERG updated its reporting protocols in line with international best practices. The ERG sites also had their 2006 CO₂ emissions certified by an accredited independent organisation, as required by European guidelines.

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

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

Health

ERG has a constant commitment to local communities, and especially to protection of their health and general development of a health-conscious culture. In this respect, the activities relating to the voluntary Health Prevention project in the Priolo area is worthy of special mention. A series of broad spectrum initiatives for the prevention of pathologies occurring in the local area according to Health Ministry and/or World Health Organisation assessments have been carried out. The programme consists of clinical and instrumental diagnosis, information, and health education. In 2007 these activities were extended to the entire Group.

Product quality

In the field of product quality, the most important activities concerned the increase of capacity to produce fuels with lower environmental impact, particularly in terms of sulphur content.

With particular regard to the marketing area, ERG has increased its range of products with sulphur content not exceeding 10 mg/kg.

ERG also actively promotes the use of biofuels in the automotive sector, as envisaged by European and national laws.

Organisation

At 31 December 2007 the ERG Group had a total of 2,825 employees (5 more than at 31 December 2006), ending a year that saw 378 new hires, 384 people leaving and the transfer of 11 individuals who previously worked at non-consolidated companies.

More specifically:

- ERG S.p.A. reported an increase of 10 employees, resulting on the one hand from the strengthening of certain control functions and, on the other hand, from the transitory employment of several individuals temporarily seconded to subsidiaries;
- the number of employees at ERG Petroli remained stable overall (+3 individuals) following reinforcement of the commercial organisation and some streamlining in the "Procurement and Logistics" unit; as regards the ERG Petroli subsidiaries that operate service stations, the number of employees in Italy increased by 35 following the growth in the number of managed sales outlets, while there was a reduction of 37 employees in Spain following a streamlining of directly-owned service stations;
- ERG Raffinerie Mediterranee reduced its staff by 22 employees upon completion of its business plan, which entailed the shutdown of several obsolete plants at the Impianti Nord site, the complete interconnection of the Nord and Sud sites and the start-up of new strategic plants (again at the Impianti Nord site). Furthermore, a major reorganisation of different production units of the surviving entity was carried out, concluding on 1 January 2008 with another 65 departures;
- ERG Power & Gas increased its staffing levels by nine employees, largely as a result of the strengthening of commercial areas. On the other hand, at its subsidiaries, staffing levels underwent their first revision (-3 employees) following the transfer of ERG Nuove Centrali personnel to the company ISAB Energy Services in connection with the centralisation of Operation & Maintenance activities;
- Enertad and its subsidiaries reported an increase of 10 employees within the scope of its business expansion.

The turnover process in the Group – which has been underway for several years – continued, causing a further reduction in the average age of employees, to just over 42 years, and an improvement in educational levels, with about 80% of all employees holding a high-school diploma or university degree (excluding service-station staff).

In 2007 the macrostructure of ERG S.p.A. was further streamlined with a view to simplifying lines of reporting to top management and assigning responsibilities according to broad areas of supervision. The Administration, Finance and Control Division was created and placed under the supervision of a prominent Chief Financial Officer. This new division incorporated all administration, tax, finance, audit, investor-relations and risk-management functions.

Upon conclusion of the phase of completing the strategic investments and plant integration at ERG Raffinerie Mediterranee, organisational changes were defined to reduce hierarchical levels (particularly

in the plant operation, development and construction area) and create a single unit for the setting and control of objectives, with the establishment of the Planning, Programming and Control Division. Marketing activities were reorganised at ERG Petroli in 2007 in order to enhance the attention given to the strategic objective of "customer focus". Reorganisation of the Savona and Trecale Depots continued in the Procurement Division, through the streamlining of several processes and the centralisation of certain staff services shared by the two entities.

A new commercial organisation was set up at ERG Power & Gas to support the consolidation and development of the customer base in the end-user market and start trading in the electricity and gas markets. The organisational structures of its subsidiaries were completely revised with a view to creating a single centre of excellence for Operation & Maintenance, while simultaneously realising the best conditions for efficiency. Consequently the organisational structures of ERG Nuove Centrali were merged with ISAB Energy Services and are currently undergoing streamlining.

The organisational structure of Enertad was redesigned, on the one hand, by upgrading its business lines in order to manage and develop all the ERG Group's activities for the generation of electricity from renewable resources and, on the other hand, by improving the efficiency of staff functions according to the Group's organisational model.

Development

Implementation of the Group's Managerial Development Plan continued in 2007. In particular, following definition of the new Corporate Skills System, training activities were initiated in order to support and develop the managerial culture.

A survey was also carried out on the Managerial Development Model, with the participation of Executives, Managers and certain young employees. While the survey results revealed a healthy internal atmosphere, they also generated important suggestions that will contribute to improved orientation of the programmes that the Group plans to carry out in 2008-2009 for realising its goal of managerial excellence.

Industrial relations

During 2007 normal dialectics with the relevant trade union organisations continued, in a non-conflictual climate.

The renewal process as regards the economic part of the National Collective Labour Agreement was completed on 11 December 2007.

ERG and culture

Once again in 2007, ERG continued to develop and sponsor cultural activities.

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

The purpose of the Foundation is to promote cultural and social events, perform studies and research, and organise seminars and conferences, with the aim of contributing towards the dissemination, enjoyment and understanding of culture, art and science, as well as to actively cooperate in ethical and solidarity-inspired projects.



In 2007, consistently with its identity as an operational foundation, the Garrone Foundation expanded the scope of initiatives and actual projects carried out in Genoa and Syracuse.

The cultural initiatives offered at its headquarters included the "Librarium" photography exhibition of Fulvio Magurno and the second series of "Le Virtù Repubblicane", events dedicated to the study of the Italian Constitution and fundamental rights. In collaboration with the Teatro dell'Archivolto in Genoa, it presented "Le parole tra noi", conversations with leading cultural figures (Corrado Augias, Michele Serra, Nick Hornby and Dacia Maraini), organised by the journalist Giovanna Zucconi.

As part of the framework project "Siracusa Futuro", it consolidated its activities in the Syracuse area with a presentation of the integrated plan for the tourist and cultural development of the territory, "Il nostro futuro è un antico sempre presente", and organisation of the second specialised course of the "Scuola di Alti Studi in Economia del Turismo Culturale - Cattedra Edoardo Garrone". It also arranged the series of events entitled "Intorno al Miqweh di Siracusa. La cultura dell'incontro".

Finally, it launched and tested at national level the primary school teaching programme entitled "Scuola Leggendo" and, together with the Sandretto Re Rebaudengo Foundation, it inaugurated the "Residenze per Giovani Curatori" project to promote contemporary art and curatorship practices in Italy.

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

At Syracuse it is the principal sponsor of the series of classical plays organised by the National Institute of Ancient Drama Foundation (Fondazione Istituto Nazionale del Dramma Antico) at the Greek Theatre, which is considered one of the most important events for classical theatre worldwide and the most important cultural event in Sicily.



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

ERG is a promoter for inclusion of the city of Syracuse and the Pantalica archaeological site on the UNESCO World Heritage List, and is sponsor of "I Segni di Siracusa - I Segni del Mondo", an initiative for a competition to create a new logo for the city.

ERG supports the course in industrial chemistry organised by the University of Messina at the University Association "Megara Ibleo", with the participation of the cities of Priolo, Melilli and Augusta. Its support includes the contribution of its own technical experts. ERG also finances research and development projects and scholarships on issues of environmental interest that involve the area where it operates in the Province of Syracuse, offered by the Department of Chemistry at the University of Messina.

In 2007 ERG sponsored the fifth edition of the Science Festival (Genoa, 5 October - 6 November 2007), whose central theme was Curiosity, a basic element in the development of knowledge.

ERG supported one of the principal events as part of this

initiative: "Life, a journey through time", an exhibition of photographs by the German Frans Lanting, photographer for National Geographic, and one of the greatest nature photographers of our times. ERG was a leading sponsor of the exhibition "Musica Picta", organised by the Syracuse Cultural Heritage Agency (Soprintendenza ai Beni Culturali), which collected pictorial works thematically linked with music and musical instruments from collections throughout Italy.



ERG and social development

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

In this spirit ERG supports above all the social realities closest to home. Its many, repeated interventions in Genoa and in the Syracuse area bear witness to this.



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

At Priolo, ERG built a new athletic field for use by junior teams. It also restored the Sports Centre on Via Piazza Armerina in Syracuse. ERG supports the activities of the entire youth sector of the Unione Sportiva Dilettanti Siracusa (amateur sports association), including the Junior national championship team. At Priolo ERG contributes to the activity of the Day Centre for the elderly by financing a series of social events throughout the year.

In the Syracuse area, ERG is committed to supporting the public health department through initiatives aimed at improving the service. The Group has signed an agreement with ASL 8 (the local public health unit) in Syracuse to set up a network of oncology clinics in the province, particularly supporting the recruitment of additional medical and paramedic personnel to be employed at three local

hospitals (Augusta, Lentini and Avola). ERG has thus become a partner in implementing a system for the prevention and cure of oncological diseases. This programme is considered to be an avant-garde model for the management and quality of services provided to citizens.

In 2007, school and university visits were made to the industrial plants at Syracuse. The ERG Group participated in the National Electricity Day, organised for the third year running by Assoelettrica (the Italian association of electricity enterprises), with the opening of the ISAB Energy Cogeneration Plant at Priolo Gargallo. It was visited by over 1,000 high-school students on that occasion.



ERG has given its support to street education activities with the "Guida Sicura per i Giovani" and "La Strada siamo noi" projects for schools respectively in Genoa and Syracuse.

ERG promotes environmental sustainability projects and enhances the value of both natural resources and historical-archaeological assets. In particular, ERG participates in the Saline di Priolo Nature Reserve project, operated by LIPU, for which it has financed the construction of a bird-watching path, associating its brand with the principal initiatives undertaken to promote and spread knowledge of the reserve, which is located in the heart of the industrial zone.

Health Plan

People's health and safety are a key value in ERG's business culture and represent a constant commitment in its relations with the community.

The Health Plan is part of this. Its aim is to carry out broad-ranging preventive campaigns with regard to cancer and other diseases as targeted by the Ministry for Health and/or the World Health Organisation.

The project – targeting all personnel who want to undergo voluntary full oncological screening – is being developed in collaboration with the local health authorities and in accordance with the suggestions of trade union organisations. During 2007 activity featured approximately 600 medical examinations.

The "Progetto OSAS. Come respiro quando dormo" project was initiated in 2007. It involves all employees at the Syracuse site in collaboration with the Palermo CNR (National Research Council) and the Syracuse hospital. The purpose of the study is to identify those employees who suffer from apnea disorders that disturb sleep.

ERG and sport

ERG has renewed its sponsorship of the U.C. (Unione Calcio) Sampdoria football team through 30 June 2009. This team participates in Italy's Serie A professional football league. ERG and Sampdoria jointly organise and support the "Torneo Ravano ERG", the most important junior school tournament in Europe, reserved for primary school children.

In the Syracuse area ERG supports the “Trofeo Archimede” and “Trofeo Elettra” trophies, with the traditional participation of schools in all localities throughout the Province of Syracuse. Over 500 primary and junior secondary school pupils participated in the 2007 edition of the trophy.

ERG was one of the sponsors of the 2007 edition of “Stelle nello Sport”, a project conceived and organised to promote sport in Liguria.

In the world of motor sports, ERG sponsored:

- **Rally:** the Mitsubishi Lancer IX winner of the Italian Group N Championship;
- **Enduro:** an overall world title and an overall Italian Championship with Honda;
- **Motorcycle:** Overall Italian Vice-Champion and seventh place in the world competition with Honda.

ERG sponsors the women’s basketball team Trogylos, which plays in Serie A1, past winners of the league championship (twice in 1989 and 2000) and the Cupwinners Cup in 1990. ERG also sponsors the Augusta Amateur Sports Association five-a-side football team, which plays in the Serie A league, and other junior clubs in Priolo and Melilli.







70 YEARS OF ENERGY

summary of
financial statements

Income Statement

(million Euro)	2007	2006	2005
Revenues from ordinary operations	10,165.7	9,128.2	8,958.4
Other revenues and income	40.2	175.3	70.5
Total revenues	10,205.9	9,303.4	9,028.8
Purchase expenses and changes in inventory	(8,780.2)	(8,103.2)	(7,500.3)
Services and other operating costs	(874.2)	(758.3)	(659.9)
EBITDA	551.6	442.0	868.7
Amortisation, depreciation and write-downs of fixed assets	(185.4)	(157.1)	(156.2)
EBIT	366.2	284.8	712.5
Net financial income (expenses)	(73.4)	(48.4)	(12.8)
Net income (loss) from equity investments	6.8	3.9	3.2
Profit before tax	299.5	240.3	702.8
Income taxes	(107.4)	(46.5)	(281.6)
Net profit	192.1	193.8	421.3
Minority interests	(21.2)	(41.0)	(36.0)
GROUP NET PROFIT	170.9	152.8	385.2

(million Euro)	2007	2006	2005
EBITDA	551.6	442.0	868.7
<i>Net of gains/losses on inventory</i>	<i>(221.0)</i>	<i>27.7</i>	<i>(207.8)</i>
<i>Net of non-recurring items</i>	<i>30.7</i>	<i>(7.1)</i>	<i>(27.6)</i>
EBITDA at replacement cost⁽¹⁾	361.3	462.6	633.4
EBIT	366.2	284.8	712.5
<i>Net of gains/losses on inventory</i>	<i>(221.0)</i>	<i>27.7</i>	<i>(207.8)</i>
<i>Net of non-recurring items</i>	<i>30.7</i>	<i>(7.1)</i>	<i>(27.6)</i>
EBIT at replacement cost⁽¹⁾	175.9	305.4	477.2
Group net profit	170.9	152.8	385.2
<i>Net of gains/losses on inventory</i>	<i>(151.6)</i>	<i>17.4</i>	<i>(130.4)</i>
<i>Net of non-recurring items</i>	<i>20.0</i>	<i>(66.8)</i>	<i>(24.5)</i>
Group net profit at replacement cost⁽²⁾	39.3	103.4	230.4

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

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

The non-recurring items in 2007 refer to Euro 13 million in costs arising from the settlement agreement made by ERG S.p.A. with Alerion in December 2007 and approximately Euro 18 million in costs for clean-up of the area designated for construction of the new Turbogas plant at the Impianti Nord site. In 2006 non-recurring items included, net of applicable taxes, the insurance reimbursements received for direct damage caused by the fire on 30 April 2006, the costs incurred by ISAB Energy for the acquisition of green certificates and the release of the deferred tax provision, net of applicable substitute tax, corresponding to the tax realignment of fixed assets carried out by certain Group companies.

Revenues from ordinary operations

Revenues from sales mainly consist of revenues from the sale of petroleum products and electricity. The following table shows the breakdown of revenues by division:

(million Euro)	2007	2006	2005
Coastal Refining	7,143.0	6,117.8	6,331.1
Integrated Downstream	3,707.6	3,629.4	3,174.0
Power Generation	898.2	838.4	780.7
Corporate	22.9	18.5	17.6
Interdivisional revenues	(1,605.9)	(1,476.0)	(1,345.1)
TOTAL	10,165.7	9,128.2	8,958.4

Coastal Refining revenues totalled about Euro 7,143 million, with an increase of approximately Euro 1,025 million as a result of the greater quantities sold and higher sale prices.

Integrated Downstream sales totalled about Euro 3,708 million, up slightly (+2%) from 2006.

Power Generation revenues totalled about Euro 898 million, with an increase of about Euro 60 million as a result of greater production at ERG Nuove Centrali plants and the consolidation of Enertad, which more than offset the lower revenues of ISAB Energy following the revision of sales tariffs by the Italian Electricity and Gas Authority and lower production.

Other revenues and income

Other revenues and income mainly comprise rental income, insurance reimbursements, indemnities, expense recoveries, and capital gains on the sale of fixed assets. The decrease is mainly attributable to lower insurance reimbursements and lower proceeds from sales of CO₂ rights.

Purchase expenses and changes in inventory

Purchase expenses refer mainly to purchases of crude oil and other semi-finished products, and also include transport expenses and ancillary costs. They show an increase of approximately Euro 1,059 million,

mainly due to greater processing volumes and higher crude oil prices. Inventories of raw materials increased by about Euro 143 million (+44 thousand tonnes compared to 31 December 2006) and about Euro 198 million for finished products (+159 thousand tonnes). According to the weighted average cost method, the change in inventories is impacted not only by the exact quantity of inventories in stock at the end of the year, but also by fluctuations in the purchase prices of raw materials and finished products, which rose significantly during the period. There was a decrease of about Euro 104 million during 2006 for raw materials and an increase of about Euro 63 million for finished products.

Services and other operating costs

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

Other operating costs mainly relate to labour costs, rental costs, and taxes other than income taxes. The approximately Euro 116 million increase in costs stemmed primarily from higher costs for utilities, labour, insurance and settlement agreements, which were only partially offset by lower marketing costs.

Amortisation, depreciation and write-downs

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

(million Euro)	2007	2006	2005
Coastal Refining	61.7	53.0	56.8
Integrated Downstream	47.7	44.1	42.5
Power Generation	72.9	57.3	54.7
Corporate	3.0	2.7	2.2
TOTAL	185.4	157.1	156.2

The increase in amortisation, depreciation and write-downs for Coastal Refining and Power Generation was due to the operational start-up of new plants.

Net financial income (expenses)

In 2007 foreign exchange differences totalled Euro -3 million (Euro -19 million in 2006), and the effects connected with fair value measurement of derivative financial instruments was Euro -8 million (Euro +1 million in 2006). The negative amount in 2007 is primarily associated with the change in the fair value of the call option on Enertad shares.

In 2006 this item included the results of hedging on refining margins for Euro 13.1 million.

Net of these effects, there was a general increase in financial expenses due to the increase in average debt and interest rates.

Net income (loss) from equity investments

The net income from equity investments mainly comprised the results of companies carried at equity and the gains on disposal of equity investments.

Income taxes

Income taxes in 2007 totalled Euro 107 million and include the positive effect (approximately Euro 29 million) on deferred tax liabilities as a result of the reduction in tax rates. In 2006, income taxes were impacted by the extraordinary positive effect of Euro 64 million arising from the tax realignment of fixed assets.

The tax rate at replacement cost, derived from the ratio between income taxes and profit before tax net of the gain/loss on inventory and non-recurring items, is 45% (45% in 2006).

Balance Sheet

(million Euro)	31/12/2007	31/12/2006	31/12/2005
Fixed assets	2,743.8	2,431.7	1,902.7
Net working capital	696.4	654.8	729.9
Staff leaving indemnities	(29.6)	(33.1)	(34.1)
Other assets	419.4	480.5	255.9
Other liabilities	(993.3)	(779.6)	(877.1)
Net invested capital	2,836.7	2,754.3	1,977.4
Group shareholders' equity	1,333.8	1,218.8	1,143.1
Minority interests	125.3	179.5	65.7
Net financial debt	1,377.6	1,356.0	768.6
Shareholders' equity and financial debt	2,836.7	2,754.3	1,977.4

At 31 December 2007 net invested capital was Euro 2,837 million.

Financial leverage, expressed as the ratio of total net financial debt (including project financing) to net invested capital, was 48.6% (49.2% as at 31 December 2006).

Fixed assets

Fixed assets include tangible, intangible and financial assets. The increase from the previous year is attributable to the major investments made during the period.

Net working capital

Net working capital includes inventory, trade receivables and payables, and excise duties payable. The sharp rise in the aggregate value of inventories due both to the precise amount of total inventories at the end of the year and the higher prices of raw materials and finished products which, in accordance with the weighted average cost method, also impact the quantities that have remained unchanged from the beginning of the year, are partially offset by the increase in trade payables and the reduction in trade receivables.

Staff leaving indemnities

This item comprises the effects of changes introduced by the 2007 Finance Law as regards the destination of staff leaving indemnity (TFR) accruals. In particular, for the purpose of application of IAS 19, starting from 2007 the new law modifies the nature of TFR from a "defined benefit plan" to a "defined contribution plan". This redetermination is essentially based on exclusion of the actuarial calculation of future retributions and related assumed increases.

Other assets

These consist mainly of deferred tax assets, receivables for net credits resulting from calculation of 2007 income taxes and payments already made for future services. The decrease from 31 December 2006 is mainly due to collection of insurance reimbursements against the damage sustained by plants in 2006.

Other liabilities

These mainly concern the deferred tax liabilities calculated on the differences between statutory reporting values and corresponding fiscal values (principally fixed assets and inventories), the estimate of income taxes owed for the period, the provisions for liabilities and charges, excise tax and VAT payables and the deferred income resulting from deferred recognition in the income statement of the CIP 6 tariff increase on sales of electricity by subsidiary ISAB Energy.

The increase from 31 December 2006 is mainly due to the higher values for deferred tax liabilities, VAT payables and the CIP 6 deferred income.

Net financial debt

(million Euro)	31/12/2007	31/12/2006	31/12/2005
Medium/long-term financial debt	1,084.4	782.4	624.8
Short-term financial debt	293.2	573.5	143.8
TOTAL	1,377.6	1,356.0	768.6

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

(million Euro)	31/12/2007	31/12/2006	31/12/2005
Medium/long-term bank borrowings	951.7	543.2	362.0
Current portion of loans	(153.0)	(71.7)	(91.6)
Medium/long-term financial payables	22.2	20.7	21.7
Total	820.9	492.2	292.1
Medium/long-term Project Financing	367.8	392.7	424.4
Current portion of Project Financing	(104.4)	(102.5)	(91.7)
Total Project Financing	263.5	290.2	332.7
TOTAL	1,084.4	782.4	624.8

Medium/long-term financial payables refer to the interest-bearing loans granted to ISAB Energy S.r.l. by IPM Eagle which, via its subsidiaries, owns 49% of the company; reimbursement is subject to compliance with the conditions set out in the Project Financing agreement.

"Project Financing" payables relate to:

- loans of Euro 241 million paid out to ISAB Energy S.r.l. by a pool of international banks. These loans were originally granted for an amount equal to approximately 90% of the cost of the cogeneration plant;
- loans of Euro 127 million paid out to Enertad's subsidiaries for the construction of wind farms.

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

(million Euro)	31/12/2007	31/12/2006	31/12/2005
Short-term bank borrowings	437.2	646.0	193.6
Other short-term financial payables	31.2	29.4	11.0
Short-term financial payables	468.4	675.4	204.6
Cash and cash equivalents	(93.0)	(94.9)	(74.7)
Securities and other short-term financial receivables	(98.5)	(34.5)	(7.2)
Short-term financial assets	(191.5)	(129.4)	(81.9)
Short-term Project Financing	104.4	102.5	91.7
Cash and cash equivalents	(88.0)	(75.0)	(70.6)
Project Financing	16.3	27.5	21.1
TOTAL	293.2	573.5	143.8

Other short-term financial payables primarily refer to short-term debts with IPM Eagle subsidiaries, liabilities deriving from the fair-value measurement of financial instruments, and the payable relating to the put option for Euro 17.5 million granted by Enertad to Trenitalia S.p.A. for 49% of the subsidiary SODAI Italia S.p.A., to be exercised in the period between 1 April and 31 May of the years 2007, 2008, and 2009.

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

The increase in the item over 2006 stems principally from the higher financial receivables due from non-consolidated Group companies in the renewable energy sector.

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

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

(million Euro)	2007	2006	2005
CASH FLOW FROM OPERATING ACTIVITIES			
Adjusted cash flow from current operations ⁽¹⁾	272.6	355.6	714.0
Payment of income tax	(92.0)	(260.1)	(203.0)
Change in net working capital	220.6	39.1	(85.4)
Other changes in operating assets and liabilities	172.3	(87.4)	9.0
TOTAL	573.4	47.1	434.6
CASH FLOW FROM INVESTMENT ACTIVITIES			
Net investments in tangible and intangible fixed assets ⁽²⁾	(368.5)	(347.5)	(264.4)
Net investments in financial fixed assets	(4.0)	(9.7)	10.4
Enertad acquisition	(50.9)	(153.8)	–
EnerFrance (Theta) acquisition	(24.9)	–	–
TOTAL	(448.3)	(511.0)	(254.0)
CASH FLOW FROM SHAREHOLDERS' EQUITY:			
Capital increase	–	–	–
Dividends paid	(95.8)	(97.0)	(70.4)
Other changes in shareholders' equity	4.3	(16.4)	4.2
TOTAL	(91.5)	(113.5)	(66.2)
CHANGE IN SCOPE OF CONSOLIDATION	(55.2)	(10.0)	–
CHANGE IN NET FINANCIAL DEBT	(21.6)	(587.4)	114.4
NET FINANCIAL DEBT AT BEGINNING OF YEAR	1,356.0	768.6	883.0
CHANGE DURING THE YEAR	21.6	587.4	(114.4)
NET FINANCIAL DEBT AT CLOSE OF YEAR	1,377.6	1,356.0	768.6

(1) the item does not include inventory gains (losses), deferral of the CIP 6 tariff increase, current income tax for the period and insurance reimbursements not yet collected

(2) the item does not include capitalised cyclical maintenance costs

Net cash flow generated from operating activities was positive by about Euro 573 million. It should be remembered that, compared with the year's average, the level of indebtedness as at 31 December is adversely impacted by the advance payment of excise duties and VAT. For a detailed analysis of investments carried out, reference is made to the specific section.

The statutory individual year-end financial statements of ERG S.p.A. as at 31 December 2007 have been drawn up on the basis of the International Accounting Standards promulgated by the International Accounting Standards Board (IASB) and approved by the European Union, inclusive of all international standards that have undergone interpretation (International Accounting Standards - IAS) and the interpretations of the International Financial Reporting Interpretation Committee (IFRIC) and of the previous Standing Interpretations Committee (SIC).

Income Statement

(million Euro)	2007	2006	2005
Net income from equity investments	111.6	87.0	50.5
Net financial income (expenses)	(29.2)	(10.5)	(5.3)
Income from ordinary operations	82.4	76.5	45.1
Other operating income	32.5	26.8	24.4
Other operating expenses	(76.5)	(56.2)	(48.5)
Profit before taxes	38.4	47.1	21.0
Income taxes	28.3	15.0	13.4
Net profit	66.6	62.1	34.3

Net income from equity investments

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

Net financial income (expenses)

Net financial expenses increased mainly due to the change in the fair value of the call option on Enertad shares (exercised in December 2007), the company's greater average debt and the rise in interest rates.

Other operating income

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

Other operating expenses

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

The increase in this item is related to the costs of Euro 13 million arising from the settlement

agreement reached with Alerion in December 2007, the rise in labour costs and the charges for guarantee and indemnity agreements connected with the purchase of equity investments.

Income taxes

The item includes the balance of taxes deriving from tax consolidation net of amounts to be recouped or to be attributed to Group companies.

The net positive value mainly consists of the IRES tax on ERG S.p.A.'s 2007 tax loss, which is recouped thanks to the tax consolidation mechanism.

Balance Sheet

(million Euro)	31/12/2007	31/12/2006	31/12/2005
Fixed assets	502.5	448.4	294.7
Net working capital	(6.9)	(6.1)	0.7
Staff leaving indemnities	(3.2)	(3.9)	(3.9)
Other assets	68.3	53.7	72.1
Other liabilities	(65.8)	(35.8)	(61.4)
Net invested capital	494.9	456.3	302.3
Shareholders' equity	109.7	98.7	106.8
Net financial debt	385.2	357.6	195.5
Shareholders' equity and financial debt	494.9	456.3	302.3

As at 31 December 2007 net invested capital amounted to about Euro 495 million, with an increase of approximately Euro 39 million.

Fixed assets

Fixed assets consist mainly of financial fixed assets. The change from the previous year is primarily attributable to the increase due to the acquisition of an additional 17% of Enertad following exercise of the call option. The long-term financial receivables due from subsidiary ERG Raffinerie Mediterranee are reclassified under net financial debt.

Net working capital

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

Other assets

These consist principally of receivables due from Tax Authorities and Group companies in connection with the tax consolidation procedure and Group VAT. The item also includes receivables for advance taxes and prepaid expenses.

Other liabilities

These consist principally of payables due to Tax Authorities and Group companies in connection with the tax consolidation procedure and Group VAT.

Net financial debt

(million Euro)	31/12/2007	31/12/2006	31/12/2005
Medium/long-term financial debt	423.7	270.3	94.1
Short-term financial debt	(38.5)	87.3	101.4
TOTAL	385.2	357.6	195.5

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

(million Euro)	31/12/2007	31/12/2006	31/12/2005
Medium/long-term bank borrowings	671.6	522.8	311.5
Medium/long-term financial receivables	(163.6)	(180.9)	(175.9)
Current portion of loans	(84.4)	(71.6)	(41.5)
TOTAL	423.7	270.3	94.1

The increase in medium-long/term bank borrowings was due to the receipt of new loans obtained during 2007.

Medium/long-term financial receivables relate to a loan granted by ERG to ERG Raffinerie Mediterranee due to expire in 2015.

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

(million Euro)	31/12/2007	31/12/2006	31/12/2005
Short-term bank borrowings	84.5	71.6	44.5
Other short-term financial payables	4.0	7.5	2.4
Short-term payables due to subsidiaries	166.0	166.5	271.5
Short-term gross financial debt	254.6	245.6	318.4
Cash and cash equivalents	(1.1)	(0.2)	–
Securities and other medium/long-term financial receivables	(2.1)	(12.5)	–
Short-term receivables from subsidiaries	(289.8)	(145.5)	(216.9)
Short-term financial assets	(293.0)	(158.3)	(216.9)
TOTAL	(38.5)	87.3	101.4

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

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

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

(million Euro)	31/12/2007	31/12/2006	31/12/2005
CASH FLOW FROM OPERATING ACTIVITIES			
Cash flow from ordinary operations	70.6	65.8	36.5
Changes in operating assets and liabilities	14.5	(1.5)	0.3
	85.1	64.2	36.7
CASH FLOW FROM INVESTMENT ACTIVITIES			
Investments	(57.0)	(156.7)	(2.6)
Divestments	–	0.4	2.4
	(57.0)	(156.2)	(0.2)
CASH FLOW FROM SHAREHOLDERS' EQUITY AND DIVIDENDS			
Capital increase and share premium reserve	–	–	–
Dividends paid	(59.9)	(60.1)	(44.9)
Other changes	4.2	(10.0)	0.1
	(55.6)	(70.1)	(44.8)
CHANGE IN FINANCIAL DEBT	(27.6)	(162.1)	(8.3)
NET FINANCIAL DEBT AT BEGINNING OF YEAR	357.6	195.5	187.2
CHANGE DURING THE YEAR	27.6	162.1	8.3
NET FINANCIAL DEBT AT CLOSE OF YEAR	385.2	357.6	195.5

Coastal Refining division

Dynergy S.r.l. The company was established in July 2001 and is 37.5% owned by ERG Raffinerie Mediterranee. It provides technical and commercial consulting services to petroleum and petrochemical companies. The company's financial year ended on 30 June 2007 with a profit of Euro 0.2 million.

Priolo Servizi S.c.a.r.l. The company, established on 15 December 2006, is 37.8% owned by ERG Raffinerie Mediterranee and 21.5% owned by ERG Nuove Centrali. It will become operational during 2008 in the sector of ancillary factory services for companies in the Priolo petrochemical zone.

Integrated Downstream division

Retail network

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

The company expects to close 2007 with revenues of Euro 28.2 million.

Med Oil S.r.l. The company, established in December 2003, is 50% owned by ERG Petroli S.p.A. It has 19 service stations located in Central Italy. The company expects to essentially break even at 31 December 2007.

Wholesale network

Elyo Italia S.r.l. The company, 40% owned by ERG Petroli S.p.A., controls a group of companies operating in the sale of petroleum products and in energy, technology and facility management services. The company's financial year, which ended on 30 September 2007, posted a consolidated production value of Euro 520.5 million and consolidated net profit of Euro 3.5 million. The investment in a cogeneration plant is moving ahead according to plan.

Enerpetroli S.r.l. The company, 44.4% owned by ERG Petroli S.p.A., is a primary dealer in the Viterbo area, with both Retail and Wholesale networks.

During the financial year, within the scope of broader commercial agreements, ERG Petroli finalised the sale of a business division comprising 29 service stations.

The company expects to close the year with revenues of Euro 106.6 million and a net profit of approximately Euro 0.9 million.

(1) data processed in accordance with Italian GAAP

Europam S.r.l. The company, 24.30% owned by ERG Petroli S.p.A., operates in both Wholesale and Retail and is developing its energy services sector.

The company ended its financial year on 30 June 2007 with a profit of Euro 1.1 million after deducting depreciation totalling Euro 5.0 million.

Following the extraordinary transactions already carried out during the previous financial year, the company performed a capital increase with share premium for a total of Euro 3.3 million, against the transfer by shareholder Black Oils S.p.A. of a business division comprising service stations. As a result of this operation, the equity interest held by ERG Petroli S.p.A. fell from 26.00% to 24.30%.

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

The 2007 financial year is expected to close with revenues of Euro 22.0 million and a total net profit of approximately Euro 0.9 million.

Natalizia Petroli S.r.l. The company, 49% owned by ERG Petroli S.p.A., operates in the Lazio and Campania regions.

The 2007 financial year is expected to close with a net profit of about Euro 0.4 million.

Logistics

SIGEA S.p.A. The company is 65% owned by ERG Petroli S.p.A. and 35% owned by Ecofuel S.p.A. SIGEA has a 40% stake in SIGEMI S.r.l., a percentage that corresponds to its share of use of SIGEMI's logistics system. Clean-up of the Arquata site continued in 2007, and is nearing completion. The company expects to close 2007 with revenues of Euro 13.4 million, essentially breaking even.

Inland Refineries

Raffineria di Roma S.p.A. The company expects to essentially break even at the close of the 2007 financial year.

During 2007 the refinery processed about 3.6 million tonnes of product (approximately 1.0 million tonnes of which were for ERG Petroli).

Sarpom S.p.A. The company, which is 25.86% owned by ERG Petroli S.p.A., expects to close the financial year with a small loss.

During 2006 the refinery processed approximately 7.5 million tonnes of product (of which 2.0 million tonnes for ERG Petroli).

Power Generation division

Ecopower S.r.l. The company, which is 100% owned by ERG Power & Gas, is owner of an operational hydroelectric plant and five power plants yet to be started up for the production of electricity in northern Italy, with a capacity of 2 MW. The company expects to close 2007 with a small loss.

ERG CESA Eolica S.p.A. The company (a 50-50 joint venture of ERG Power & Gas and the Spanish company Cesa), which pursues the development and operation of wind power generation plants in Italy, closed the 2007 financial year with a loss of about Euro 4.0 million.

On 1 February 2008 the company was dissolved following its complete demerger and ERG Eolica was incorporated as the beneficiary company of the business unit assigned to ERG.

Ionio Gas S.r.l. The company, 50% owned by ERG Power & Gas, was founded in December 2005 with the aim of building a regasification plant in the area adjacent to the Melilli Refinery. The company expects to close 2007 with a loss of approximately 5.8 million.

ISEA S.r.l. The company, which is 90% owned by ERG Power & Gas, owns five mini-hydroelectric plants located in northern Italy, with a combined capacity of about 5 MW. It expects to close 2007 essentially at breakeven.

Roma Energia S.r.l. The company, 20% owned by ERG Power & Gas, was founded in July 2001 with the aim of building a power station in the area adjacent to the Rome refinery. The company expects to close 2007 with a small loss.

Treasury shares

No treasury shares were acquired in 2007.

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

Branch offices

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

ERG S.p.A.'s management and coordination of subsidiaries

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

- definition of business strategies;
- indication of strategic guidelines for organisational aspects and personnel policies at a macro level;
- strategic finance and Group treasury management;
- management of tax-related issues, especially as regards planning;
- management of communication policies and institutional relations;
- management of environmental, health and safety policies;
- centralised management of information systems;
- definition of risk management policies;
- centralised management of corporate obligations;
- legal support for the most significant transactions (Special Projects);
- definition of common policies for internal audit and corporate security;
- definition of guidelines for the preparation of financial statements;
- management of non-oil purchases.

The directly and indirectly controlled subsidiaries managed and coordinated as described above are ERG Petroli S.p.A., ERG Raffinerie Mediterranee S.p.A., ERG Power & Gas S.p.A. (in addition to the wind power project companies controlled by the latter), ERG Eolica S.p.A. (in addition to the wind power project companies controlled by the latter), ERG Nuove Centrali S.p.A., ISAB Energy S.r.l., ISAB Energy Services S.r.l., Gestioni Europa S.p.A., Gestioni Europa Due S.p.A. and SIGEA S.p.A. ERG S.p.A. also manages and coordinates its subsidiary Enertad S.p.A. within an ambit presently represented by the definition of business strategies, indication of strategic guidelines for organisational aspects and personnel policies at a macro level, management of strategic finance, management of communication policies and institutional relations, centralised management of corporate obligations, legal support for the most significant transactions and definition of common policies for internal audit and corporate security. In 2007, ERG S.p.A. continued managing the various directly and indirectly owned interests, also via service contracts for staff activities, for a total amount of Euro 22,850 thousand. It also received services for Euro 397 thousand from ERG Raffinerie Mediterranee S.p.A. and Euro 217 thousand from ERG Petroli S.p.A. ERG S.p.A. manages a centralised treasury (cash pooling) system for some subsidiaries and also maintains financial current account relationships with ERG Petroli S.p.A., ERG Raffinerie Mediterranee S.p.A. and ERG Power & Gas S.p.A. ERG S.p.A. also manages, as consolidator, the Group VAT and tax consolidation (both domestic and global) with the Group's main subsidiaries.

All transactions refer to ordinary operations and are settled at market rates.

Privacy - Security Policy Document

In 2007 the ERG Group duly updated its "Security Policy Document".

Shareholdings owned by Directors, Statutory Auditors, General Managers, and Executive with strategic responsibilities

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

NAME	COMPANY	NUMBER OF SHARES HELD AT THE END OF THE PREVIOUS YEAR	NUMBER OF SHARES PURCHASED	NUMBER OF SHARES SOLD	NUMBER OF SHARES HELD AT THE END OF THE CURRENT YEAR
ALESSANDRO GARRONE	ERG S.P.A.	2,000	—	—	2,000
DOMENICO D'ARPIZIO	ERG S.P.A.	230,000	—	—	230,000 ⁽¹⁾
DOMENICO D'ARPIZIO	ENERTAD S.P.A.	20,000	—	—	20,000 ⁽¹⁾
FABRIZIA GIORDANO ⁽²⁾	ERG S.P.A.	12,725	—	—	12,725
RICCARDO GIORDANO ⁽²⁾	ERG S.P.A.	12,725	—	—	12,725
GUIDO SEBASTIANO ZERBINO	ERG S.P.A.	2,000	—	—	2,000
MARIA CATERINA GASTALDO ⁽³⁾	ERG S.P.A.	985	—	—	985
MARIA LUISA POZZOLI ⁽⁴⁾	ERG S.P.A.	630	—	630	—
STRATEGIC EXECUTIVES	ERG S.P.A.	6,350	5,000	—	11,350

1) on the part of his heirs

2) son/daughter of Pietro Giordano

3) wife of Alfio Lamanna

4) wife of Antonio Guastoni





70 YEARS OF ENERGY

significant events
after the end
of the financial year
business outlook

On **22 January** the Board of Directors of ERG S.p.A., acting in accordance with the Shareholders' Meeting resolution of 27 April 2007, approved the purchase of a maximum number of 1,444,544 treasury shares, equal to 0.9610% of share capital, to service the current long-term incentive plan. The operation was completed on **25 January** with purchase of the maximum number of shares envisaged in the Board of Directors' resolution at a weighted average price of Euro 10.23 for a total value of Euro 14,778,808.

On **23 January** the Council of State published its decision accepting the arguments put forward by the Italian Electricity and Gas Authority (AEEG) and rejecting the reasoning previously set out in the Lombardy TAR judgment of 2007. By way of this decision, AEEG Resolution 249/2006, which lays down new rules for calculating the CIP 6 "avoided fuel cost" tariff component, became enforceable again already as from 2007. The Group companies affected by this issue prudently recognised the economic impact of this decision on their 2007 results, as reflected in these financial statements. The ERG Group will consider the actions it may take in future, including through relevant business associations, in order to protect its legitimate interests.

On **25 January** the deed was drawn up for the full demerger of ERG CESA Eolica S.p.A., a joint venture between Acciona and ERG Power & Gas, whereby the said company assigned all of its assets, with effect from 1 February 2008, to two beneficiary companies, Acciona Eolica Cesa Italia S.r.l. (shareholder: Acciona) and ERG Eolica S.r.l. (shareholder: ERG).

On **4 March** ERG carried out a securitisation of trade receivables for an average amount of Euro 150 million. This transaction, arranged in cooperation with Natixis (Mandated Lead Arranger) and The Bank of Tokyo-Mitsubishi UFJ, Ltd, provides for the assignment on a revolving basis of trade receivables pertaining to ERG Petroli S.p.A. and has a duration of five years.

On **6 March** ERG announced its entry into the free electricity market with the sale to end customers of 650 million kWh of electricity supplies for the whole of 2008.

Coastal Refining

The business outlook for the principal operating indicators is illustrated as follows:

Oil demand: in 2008 oil demand is expected to reach an average of 87.8 million barrels/day (source IEA). The increase over 2007 should be approximately 2.3%, equivalent to around 2.0 million barrels/day, mainly attributable to the non-OECD area.

Oil supply: the output of non-OPEC countries (excluding Angola and Ecuador, which have joined OPEC) in 2008 should continue to increase, contributing towards meeting the expected growth in global demand. The parallel expected growth in OPEC production capacity should permit an increase in reserve capacity.

Crude oil price: the expected increase in OPEC and non-OPEC production capacity should, in a stable geopolitical and financial scenario, permit a steady reduction in the annual average crude oil quotations from the extremely high levels reached at the end of 2007 and beginning of 2008.

Brent-Ural differential: the Brent-Ural differential should remain substantially in line or slightly above the average for 2007.

Refining margins: the continued strong demand for light and middle distillates suggests that margins should remain in line with the average recorded in recent financial years.

In this context, the contribution for the entire year of investments in the new refinery configuration and postponement until 2009 of the shutdown that was initially scheduled for 2008 following early achievement of the objective to switch to general shutdowns according to a four-year cycle, offer the promise of an improved economic performance.

Integrated Downstream

As regards the Retail network, following the expected completion of the restyling plan, connected with the project for growth through acquisitions, there is expected to be an improvement in both sales and profitability.

Margins on the Wholesale network are expected to improve compared to 2007.

As regards the Inland Refineries, in view of the refining scenario illustrated above, unitary refining margins are expected to be in keeping with the average for recent financial years.

A general programmed shutdown of the Sarpom refinery is anticipated during the year.

Power Generation

At ISAB Energy scheduled maintenance work and requests for reduced output by Terna S.p.A. for a total impact of about 20 equivalent days are expected in 2008, although electric power output is expected to be higher than in 2007.

Starting from November 2008 the company will no longer benefit from the CIP 6 sales tariff surcharge.

ERG Nuove Centrali plants are expected to increase their electricity output in 2008 compared to 2007, having obtained elimination of the 61 MW power limit for the new Impianti Sud Turbogas plant. Furthermore, re-environmentalisation activities involving the counter-pressure plants at the Impianti Nord site, which will allow a reduction of the current atmospheric emissions, in accordance with the most recent environmental laws, are expected to be completed during the year.

Bearing in mind the foregoing, the profitability of the thermoelectric sector is expected to be slightly higher than in 2007.

In the wind power sector, the expected start-up of the Faeto and Vicari wind farms during the year, together with the full-year contribution from the French wind farms, will imply a significant increase in profitability.





70 YEARS OF ENERGY

corporate
governance report
management
incentive schemes

Evolution of approach

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

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

This corporate policy was implemented via:

- coordinated delegation of powers within the Board of Directors in such a way as to assure clarity and completeness of executive accountabilities, and monitoring of activities and assessment of results achieved;
- regular and adequate reporting to the Board on actions taken in the exercise of powers and of managerial responsibilities;
- adoption of specific procedures to determine remuneration for Directors and management.

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

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

- adoption of a Group Compensation Plan to align the interests of management with those of shareholders, and strengthen the relationship between managers and the company in terms of awareness of the importance of ERG stock's value and of continuity over time;
- appointment of independent directors on the Board;
- approval of a Code of Conduct for the Directors of Group companies;
- acceptance of the Italian Corporate Governance Code for Listed Companies since its first edition in 1999, reviewed in 2002;
- ERG's presence from 2001 to 2005 in STAR, a segment of the stock market introduced by Borsa Italiana S.p.A. (the company managing the Milan Stock Exchange) to give significant visibility to companies prominent for the special attention paid to corporate governance matters;
- definition of guidelines for the identification and execution of significant transactions and of other governance documents designed to assure transparent and timely management of the Group's relationship with the market;
- introduction of a Code of Business Ethics as a tool for defining and communicating ERG's duties and responsibilities towards its stakeholders, as well as being an imperative element of an organisational and operational model consistent with the requirements of Italian Legislative Decree 231/2001;

- amendment of the Articles of Association to bring them into line with the regulatory changes introduced by way of the Italian Company Law Reform;
- acceptance of the third edition (2006) of the Italian Corporate Governance Code for Listed Companies.

Information on Company ownership at the date of 31 December 2007 (in accordance with Art. 123-bis of the Consolidated Finance Act)

Share capital structure

	n. of shares	% of total share capital	Listed (name the markets)/ unlisted	Rights and obligations
Ordinary shares	150,320,000	100	Italian Stock Exchange/ Blue Chips segment	
Shares with limited voting rights	0	0		
Shares without voting rights	0	0		

Significant investors in the share capital

Declarant	Direct shareholder	% of ordinary capital held	% of voting capital held
San Quirico S.p.A.	San Quirico S.p.A.	55.6280	55.6280
San Quirico S.p.A.	Polcevera S.A.	6.9053	6.9053

Authorisation to increase the share capital and purchase treasury shares

The Board of Directors has the right to issue convertible bonds, in one or more stages, up to an overall maximum amount of Euro 150,000,000 (one hundred and fifty million), even excluding pre-emption rights provided that the bonds to be issued are acquired by institutional investors without subsequent placement with the public market, subject to a conversion ratio determined based on the nominal value of each bond divided by the ERG official price on the day of placement of the bonds, multiplied by a factor between 1.2 and 1.6, over a period of five years from the date of the shareholders' resolution adopted on 29 April 2004, all in observance of the procedure and limits set forth by Article 2420-ter of the Italian Civil Code.

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 and therefore for a period of 12 months from the date of the resolution, to purchase treasury shares up to a revolving limit (intending thereby the maximum number of treasury shares from time to time held in portfolio) of 15,000,000 (fifteen million) shares at a unitary price, including additional purchase charges, to be no more than 30% lower in minimum

and no more than 10% higher in maximum with respect to the reference price recorded by the share during the stock exchange session on the day prior to each individual transaction. The purchase must be carried out using the distributable profits and available reserves as shown in the last approved financial statements, in compliance with Article 132 of Legislative Decree dated 24 February 1998 and in the manners set forth by Article 144-bis, 1, letter b) of the Issuers' Regulations and namely: "on markets regulated according to the operating procedures established in the rules for the organisation and management of such markets, which do not allow the direct matching of buy orders against predetermined sell orders".

Corporate Governance

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

ERG corporate governance comprises the Statutory Bodies, the Board committees, and the documents that regulate their operation.

Statutory bodies

Board of Directors

The current Board of Directors consists of thirteen members appointed by the Shareholders' Meeting held on 28 April 2006 and will hold office until approval of the annual financial statements for the year ending 31 December 2008. In accordance with the Articles of Association, directors are appointed on the basis of lists presented by shareholders which, accompanied by information on the personal and professional characteristics of the candidates and the declaration relating to their possession of independence requirements, if appropriate, must be lodged at the Company's registered office at least fifteen days prior to the Shareholders' Meeting.

The lists may only be presented by shareholders who, either individually or with other shareholders, represent at least the percentage of share capital established in accordance with the CONSOB Regulation prevailing as at the date of convocation of the Shareholders' Meeting (currently 2%).

As regards the renewal of the Board of Directors which took place during the Shareholders' Meeting held on 28 April 2006, it should be noted that, whilst the voting list procedure was introduced by way of resolution of the Extraordinary Shareholders' Meeting held on 29 June 2007, the recommendations of the Italian Corporate Governance Code with regard to transparency of the election procedure in appointing the Board of Directors were already observed when appointing the Board of Directors currently in office. Specifically, the curricula vitae of candidates were lodged at the

company's registered office 15 days prior to the Shareholders' Meeting and at the same time were published on the website www.erg.it in the Shareholders/Corporate Governance section.

Members:

EDOARDO GARRONE - Chairman

DOMENICO D'ARPIZIO - Deputy Chairman (*until 19 November 2007*)

GIOVANNI MONDINI - Deputy Chairman

PIETRO GIORDANO - Deputy Chairman

ALESSANDRO GARRONE - Chief Executive Officer

MASSIMO BELCREDI - Director

LINO CARDARELLI - Director

RICCARDO GARRONE - Director

GIUSEPPE GATTI - Director

ANTONIO GUASTONI - Director

PAOLO FRANCESCO LANZONI - Director

GIAN PIERO MONDINI - Director

GUIDO SEBASTIANO ZERBINO - Director

Non-executive directors:

RICCARDO GARRONE

GIAN PIERO MONDINI

GUIDO SEBASTIANO ZERBINO

Independent directors:

MASSIMO BELCREDI

LINO CARDARELLI

ANTONIO GUASTONI

PAOLO FRANCESCO LANZONI

The Board of Directors assessed the independence of the Directors listed above according to the recommendations of the Corporate Governance Code, giving special consideration to the substance over the form and bearing in mind the application criteria set forth therein.

The Board of Directors conducted this assessment in its first meeting subsequent to appointment and periodically proceeds (during the board meeting called to examine the first quarterly report) to check that these requirements are still valid. During the 2007 financial period, the Board reported completion of this assessment, which showed that the independent directors continued to hold their independence requirements, and announced the results in the Board meeting on 14 May 2007.

The Board of Statutory Auditors verified the correct application of the criteria and certification procedures adopted by the Board to assess the independence of its members.

With regard to the composition of the Board of Directors and the distribution within same of offices and powers, it was not considered necessary to designate a lead independent director.

In 2007, the independent Directors met once in the absence of the other Directors.

Other offices held by directors:

EDOARDO GARRONE	Director of Pininfarina S.p.A.
ALESSANDRO GARRONE	Director of Enertad S.p.A. Director of YARPA Investimenti SGR S.p.A. Director of Banca Passadore e C. S.p.A. Director of MutuiOnline S.p.A.
MASSIMO BELCREDI	Director of Arca SGR S.p.A. Director of Banca Italease S.p.A.
LINO CARDARELLI	Deputy Chairman of Ambromobiliare S.p.A. Managing Director of Solidago A.G.
RICCARDO GARRONE	Chairman of Banco San Giorgio S.p.A. Chairman of Capitalimpresa S.p.A. Chairman of U.C. Sampdoria S.p.A.
GIUSEPPE GATTI	Chairman of Enertad S.p.A. Chairman of Iride Mercato S.p.A. Chairman of Grandi Reti S.c.ar.l. Director of Actelios S.p.A.
PIETRO GIORDANO	Director of Enertad S.p.A.
ANTONIO GUASTONI	Director of Editoriale Giorgio Mondadori S.p.A. Director of Cairo Editore S.p.A. Chairman of the Board of Statutory Auditors, Leonardo Alternative SGR S.p.A. Standing Auditor of Leonardo SGR S.p.A. Standing Auditor of Grande Jolly S.p.A. Standing Auditor of Finlombarda SGR S.p.A. Chairman of the Board of Statutory Auditors of the Milan CCIAA (Chamber of Commerce)
PAOLO FRANCESCO LANZONI	Managing Director of FIN. SAG S.r.l. Director of Effusia SGR S.p.A. Director of Finservice S.p.A. Director of Dolphin Tanker S.p.A.

Other attendees of Board meetings

The head of Administration, Finance and Control attends Board of Directors meetings.

Depending on the topics discussed, Group management representatives also take part in the Board meetings.

Directors' remuneration

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

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

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

Powers

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

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

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

Frequency of Board meetings

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

During the 2007 financial year the Board of Directors held 12 meetings, while for the year 2008 there are expected to be no fewer than 8 meetings.

In 2007, the Board of Directors passed resolutions on 40 different matters and for 38 of these the related informational documentation was transmitted beforehand to Directors and Auditors.

Activities performed

The participation of directors in the activity of the Board and the Committees during 2007 was high in terms of presence at meetings and actual involvement in the works.

In the course of 2007, the Board of Directors performed the activities and responsibilities referred to in application criterion 1.C.1 of the Italian Corporate Governance Code for listed companies in accordance with the role that the Code attributes to the Board of a listed company.

In particular, as regards letter g) of this application criterion, the Board of Directors has attributed

to the Nominations and Remuneration Committee (see below) the task of conducting a preliminary activity with a view to enabling the Board of Directors to more efficiently carry out, on an annual basis, an evaluation of the size, composition and functioning of the Board and the Committees.

In its meeting on 14 February 2008, the Nominations and Remuneration Committee initiated an evaluation process, to be completed by the end of 2008, regarding the Board's performance during 2007, by defining the methods and criteria for carrying out such an evaluation.

The Board has also requested the Nominations and Remuneration Committee to draw up a proposal regarding the general criteria for determining the maximum number of administration and control roles considered compatible with the effective performance of the activity of director.

These criteria are expected to be adopted by the end of 2008.

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

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

The document also identifies the principles of conduct to be applied in execution of transactions, with special reference to transactions initiated by subsidiaries, which must be examined and approved beforehand by ERG S.p.A.'s Board of Directors, and to those with related parties, for which the direct involvement of the Internal Control Committee is required. The Internal Control Committee is called upon, *inter alia*, to evaluate the need or opportunity to obtain the opinion of independent experts and, if so, to name such experts.

Board of Statutory Auditors

The present Board of Statutory Auditors was appointed by the Shareholders' Meeting held on 27 April 2007 and will remain in office until approval of the Financial Statements for the year ending on 31 December 2009.

In compliance with the Articles of Association, the Board of Statutory Auditors is appointed on the basis of lists presented by Shareholders at least 15 days before the Shareholders' Meeting, which must set out the names of candidates in numbered, sequential order.

Candidate lists may only be presented by shareholders who, at the time of presenting the list, are in possession of a shareholding equal to that required for the presentation of lists for the election of directors.

At the time of appointment of the Board of Statutory Auditors presently in office, the shareholding

required in order to present the lists was equal to 3% of share capital whereas the current minimum shareholding is 2%.

No shareholder may present or vote for more than one list and each candidate may be included in only one list, on pain of ineligibility.

The lists are accompanied, in addition to the information pertaining to the shareholders who have presented them and their declarations as set forth by applicable regulatory provisions, also by full information on the personal and professional characteristics of the candidates and the declarations of same as set forth by the Articles of Association.

Candidates cannot be elected to the position of Statutory Auditor unless they possess the requirements of independence, professionalism, and integrity as provided by Article 148 section 3, of the Consolidated Finance Act or if they already hold the position of Standing Auditor in more than five listed companies.

Members:

MARIO PACCIANI - Chairman

FABRIZIO CAVALLI - Standing Auditor

PAOLO FASCE - Standing Auditor

UMBERTO TRENTI - Alternate Auditor

MICHELE CIPRIANI - Alternate Auditor

Alfio Lamanna, appointed Chairman of the Board of Statutory Auditors, on 27 April 2007, submitted his resignation on 29 June 2007 and was replaced by Standing Auditor, Mario Pacciani, in accordance with the Articles of Association.

The Board of Statutory Auditors will be completed with the appointment of the missing alternate auditor during the Shareholders' Meeting called to approve the Financial Statements for the year ended 31 December 2007.

The Board of Statutory Auditors, having evaluated the personal and professional characteristics of each auditor, has concluded that its members can be qualified as independent, also based on the criteria set forth by the Corporate Governance Code for directors.

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

MARIO PACCIANI Chairman of the Board of Statutory Auditors of Boero Bartolomeo S.p.A.

FABRIZIO CAVALLI Standing Auditor of Pininfarina S.p.A.

PAOLO FASCE Standing Auditor of Boero Bartolomeo S.p.A.

Shareholders' Meetings

Article 10 of the Articles of Association states that holders of voting rights who, based on the procedures laid down in the notice of meeting, exhibit a pass certificate issued in compliance with current legislation at least two working days before the meeting, shall be entitled to attend the meeting.

Meeting regulation

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

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

Board committees

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

Internal Control Committee

Members:

MASSIMO BELCREDI - Chairman

ANTONIO GUASTONI

PAOLO FRANCESCO LANZONI

The members of the Internal Control Committee have adequate experience in accounting and finance.

The Chairman of the Board of Statutory Auditors or another Statutory Auditor takes part in this Committee's work. In addition, the Chairman of the Board of Directors (in his role as director appointed to oversee the functioning of the internal control system), the Chief Executive Officer and the Director of Finance, Administration and Control may also participate.

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

The Committee organises its tasks in such a way as to combine comprehensive information flows and efficiency of operation with maximum independence of its members.

In particular, the resolution phase takes place in the absence of other parties.

Tasks

The Internal Control Committee has consultative and propositive functions vis-à-vis the Board of Directors and performs the role and responsibilities provided by the Corporate Governance Code.

In 2007, the Committee held 11 meetings during which, besides prior review of the Annual Report

and Accounts and the half-yearly report, matters relating to the following macro-issues were also discussed: Corporate Governance, the Control System, Italian Law 231/01, Risk Management and Administration Area.

Below are the most relevant issues dealt with by the Committee:

1) Regarding Group Governance

- the ICC examined the Governance structure of listed subsidiary Enertad and the documents which represent its foundation;
- it examined an updated document concerning both the management and coordination activity carried out by the parent company and the companies subject to such activity with particular reference to the extension of the management and coordination activity to listed subsidiary Enertad and the sphere delimiting such activity;
- it reviewed the situation resulting from CONSOB's implementation of changes to the Issuers' Regulations affecting how listed companies must adjust their Articles of Association to match the provisions of Italian Law 262/05;
- it examined the draft of the Directors' Report to the Extraordinary Shareholders' Meeting called to deliberate on the proposal to modify ERG S.p.A.'s Articles of Association, declaring its approval of the proposed amendments to the Articles of Association as set out in the aforesaid Board of Directors' report to the Extraordinary Shareholders' Meeting and instructed the secretary to convey such opinion to the Board of Directors;
- at the request of the Board of Directors, the ICC identified an independent expert to draw up a fairness opinion on the plan to sponsor the Sampdoria football club, approved the results of this opinion and provided relevant information to the Board of Directors so that it could adopt the appropriate resolutions;
- it declared its approval of the overall layout of the draft Code of Conduct for Internal Dealing, formulating a proposal for the definition of black-out periods and suggesting attribution to the Supervisory Committee (of the parent company and the subsidiaries, as applicable) of the authority to levy or propose the penalties set forth in the Code for violations of the rules contained therein;
- it monitored the process of application of the new principles introduced into the Corporate Governance Code for listed companies, formulating a proposal to the Board of Directors of ERG S.p.A. designed to enable completion of the process of adaptation of the ERG governance system to the new governance code by the end of the 2007 financial year;
- it held a meeting with the Enertad S.p.A. Internal Control Committee, during which were first of all discussed issues of common interest concerning in particular how the Enertad control system fits into the overall ERG Group control system, the integration of Enertad's organisational structure within ERG S.p.A. and completion of the process to adapt the Corporate Governance Code for listed companies.

2) Regarding the Control System

- it examined the document summarising the activities of the Audit division during the year 2006 and the plan of activities for the year 2007, acknowledging the results of the reviews conducted during the audit activities and underlining the need, for the areas concerned with the organisational changes, to perform an evaluation of the risk assessment conducted in order to proceed with any changes that become necessary;
- it declared its approval of the objectives set forth in the Audit function operating plan for the year 2007;
- it prepared a report on the activities carried out by the Committee during the year 2006 and on the adequacy of the internal control system and communicated such information to the Board of Directors;
- it reviewed the report by the head of internal control, which indicated an appropriate functioning of the internal control system overall and in particular of all the management control activities performed by the administration department;
- in keeping with the 2006 Corporate Governance Report and, in particular, to complete the adaptation of ERG's governance structure to the Corporate Governance Code to be carried out during 2007, the ICC formulated a proposal to the Board of Directors to identify the head of internal control as the person responsible for the Internal Audit function;
- it examined a document describing the responsibilities assigned to the roles of director appointed to oversee the internal control system and head of internal control and the interfunctional relationships between them;
- it examined the final document of the "Control System" project, declaring its approval of the contents with specific reference to the definition of the operational interventions to be carried out and the relevant timing;
- it approved the report on the activities carried out in the first half of the year and on the adequacy of the internal control system and communicated this to the Board of Directors at its meeting on 25 September 2007;
- it examined and approved the Internal Control System guidelines, drawn up also based on the conclusive document of the Working Group activity on the Internal Control system, duly informing the Board of Directors during the meeting on 12 December 2007;
- it reviewed the plan relating to adaptation of the Internal Control System to Italian Law 262/05, developed using the consulting services of Ernst & Young, and declared approval of its criteria and methods.

3) Regarding the obligations related to Italian Law 231/01

- it examined the report by the Supervisory Committee on the activities carried out in 2006 and on the plan of activities for 2007;
- it examined the Organisation and Management Model of ERG Petroli S.p.A. and ISAB Energy Services S.r.l. and, in particular, the Operating Protocols that represent an integral part of same;

- it noted the report by the Supervisory Committee on the activities carried out during the first half of the year;
- it noted the plan of activities of the Group companies' Supervisory Committees for the year 2008, except for the one pertaining to the Supervisory Committee of Enertad, which was submitted for examination by the Internal Control Committee of such Company;
- it examined the section of the ERG S.p.A. Organisation and Management Model concerning the area at risk of "Market Abuse" offences and the protocol to which it refers, confirming its agreement with the content of these documents.

4) Regarding Risk Management

- it reviewed a document explaining the Enterprise Risk Management project, coordinated by the Risk Management function with the cooperation of McKinsey, particularly dwelling on the project's objective, the risk management approach criteria identified for the ERG Group and the general outline of activities based on which advancement of the project will be structured;
- it declared its approval of the objective and the methodological criteria of the Enterprise Risk Management project, recommending, however, appropriate coordination with the Control System Project;
- it reviewed the progress of the "Enterprise Risk Management" project, confirming its approval of the methodology and recommending that completion of the design activities be promptly reported to the Committee.

5) Regarding the Administration and Tax Area

- it reviewed the accounting documents relating to the 2006 financial year, dwelling in particular on the accounting handling of derivatives, the impairment test for the purpose of evaluating the start-up amounts recorded in the financial statements and, specifically, the impairment test conducted by Enertad on its subsidiary, SODAI Italia S.p.A.;
- it declared its approval of the criteria used to prepare the draft statutory and consolidated financial statements for the period ended 31 December 2006 and informed the Board of Directors to such effect;
- it examined and approved a document setting out the valuation elements as regards the benefits achieved as a result of the tax consolidation relating to the three years 2004-2006 and indications as regards renewal of the option for the three years 2007-2009;
- it examined and approved a document prepared by the Administration and Tax Division setting out the economic data of the intercompany services contracts relating to the year 2007 and the criteria for charging back the services referred to therein;
- it confirmed to the Board of Directors having reviewed the Half-yearly Report at 30 June 2007 and approved the criteria used to prepare same.

Nominations and Remuneration Committee

Members:

MASSIMO BELCREDI

PAOLO FRANCESCO LANZONI

GUIDO SEBASTIANO ZERBINO

The Chairman and the CEO takes part in this committee's work.

With resolution of 21 December 2007, the Board of Directors modified the name and tasks of the Remuneration Committee, which is now known as the Nominations and Remuneration Committee.

Tasks

The Nominations and Remuneration Committee makes recommendations to the Board regarding the remuneration of the CEO and directors holding specific offices, as well as recommendations, at the CEO's request, for setting criteria for remuneration of the company's senior management and for the definition of the Group management incentive scheme. The Committee also submits to the Board of Directors, where requested, the candidates to the office of Board member in the cases set forth by Article 2386, first paragraph, of the Italian Civil Code, whenever it is necessary to replace an independent director; assesses, on the specific request of shareholders who intend to submit lists, the independence of the candidates to the role of director to submit to the shareholders' meeting; and performs preliminary activities in order to allow the Board of Directors to carry out their annual evaluation regarding the size, composition and functioning of the Board as effectively as possible. To this end, it can express its opinion on the professional figures whose presence in the Board is considered appropriate. In order to optimise performance of these tasks, the Committee may use the services of outside consultants, paid by the company.

Whenever the Committee discusses elaboration of its recommendations for remuneration of the Chairman and the CEO, such persons leave the meeting.

During 2007 the committee, in its previous configuration as the Remuneration Committee, held 5 meetings, during which recommendations were prepared concerning the emoluments of the CEO and of other directors holding specific positions within the Board; definition of targets for 2007 in relation to the short-term incentive scheme; value creation achieved in 2006, and the number of rights to be allocated to the Chairman, to two Deputy Chairmen, and to the CEO for the third year of the long-term incentive scheme.

Strategic Committee

On 30 January 2008, the Board of Directors reviewed the mission and the composition of the Strategic Committee, instituted in August 2002 as the Strategy and Finance Committee and denominated as Strategic Committee pursuant to the resolution taken on 28 April 2006.

Members:

EDOARDO GARRONE

ALESSANDRO GARRONE

GIOVANNI MONDINI

PIETRO GIORDANO

GIUSEPPE GATTI

LUCA BETTONTE

The Committee plays a consultative role and also a role of assistance vis-à-vis the CEO of the holding company and the Board of Directors of the holding company and operating companies.

It performs its work within the scope of the strategies and policies approved by the Board of Directors by defining strategic business and portfolio guidelines, and guidelines and policies on strategic finance and for individual operations of extraordinary finance, monitoring the progress of their implementation over time.

The Committee also examines the multi-year strategic plans and the investment budgets of the Group and the operating companies as well as the significant investments at Group level, evaluating their strategic congruence.

Rules of Corporate Governance

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

- Rules for the handling of sensitive and confidential information;
- Procedure for public dissemination of statements and information;
- Code of Conduct for Internal Dealing;
- Guidelines for identification and execution of significant transactions;
- Code of Conduct for directors of Group companies;
- Subholding company reporting procedure for significant transactions;
- Procedure for execution of related-party transactions.

Rules for the handling of sensitive and confidential information

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

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

Procedure for public dissemination of statements and information

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

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

Code of Conduct for Internal Dealing

With its resolution of 9 August 2007, the Board of Directors adopted a Code of Conduct which aims to give transparency to financial operations carried out by Relevant Persons, namely those persons who, by virtue of their roles within the Group have significant decision-making power or considerable knowledge of the company strategies such as to help them in investment decisions regarding the financial instruments issued by the Company.

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

Guidelines for identification and execution of significant transactions

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

Code of Conduct for directors of Group companies

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

Subholding company reporting procedure for significant transactions

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

Procedure for execution of related-party transactions

On 14 March 2006, the Board of Directors passed a resolution adopting principles of conduct which, completing the provisions made in the Guidelines for identification and execution of significant transactions, set out the criteria and approach to be applied in executing related-party transactions. With its resolution of 21 December 2007, the Board of Directors integrated the principles of conduct by establishing the criteria to be used to identify transactions that have to be approved subject to the opinion of the Internal Control Committee and/or with the assistance of independent experts concerning which the methods for selection were also defined.

Other information

Set out below is information concerning the internal control system, the supervisory committee, investor relations, the organisation and management model, the independent auditors, the Manager responsible for preparing the company's financial reports, and the management and coordination activity.

The internal control system

The Board of Directors passed a resolution on 14 May 2007 identifying the executive director appointed to oversee the functioning of the internal control system in the person of the Chairman, Edoardo Garrone. Upon the proposal by Mr. Garrone, the person in charge of the Audit function, Carlo Alfredo De Vita, was appointed as head of Internal Control.

The proposal was formulated by the Internal Control Committee following an in-depth preliminary enquiry in terms of both benchmarking and examination of the existing and prospective structure of the internal control system.

The internal control system operating within the Group is not an autonomous and specific corporate function, but comprises the coordinated operations of various functions to which, within the organisational structure, are assigned the responsibilities pertaining to the overall control activity. These functions are, above all, the Audit Department and the Administration, Finance and Control Division. They are joined by other functions whose responsibilities include monitoring the compliance of corporate actions with current laws and regulations.

The Internal Control System is monitored by the Internal Control Committee on behalf of the director responsible for overseeing the internal control system, who is responsible for ensuring its functionality and adequacy. The Board of Directors evaluates on an annual basis the adequacy, efficacy and effective functioning of the internal control system based on the elements made available to it by the director in charge of overseeing the functioning of the system and the Internal Control Committee.

In 2007, a project was developed to streamline the entire internal control system, via the mapping and classification of the parties comprising it, schematisation of its main internal reporting flows and description of the responsibilities and areas of current activities.

Within the scope of this project, which will be completed in 2008 through implementation of the necessary organisational changes, the policy lines of the internal control system have been defined and were approved by the Board of Directors on 12 December 2007.

Supervisory Committee

On 10 March 2005, the Board of Directors of ERG S.p.A. changed the structure of the Supervisory Committee, previously enshrined in the Internal Auditing function, by creating a committee of five members, i.e. the independent director Paolo Francesco Lanzoni, as Chairman, and the heads of the company's Auditing, Corporate Security, Human Resources and Legal & Corporate Affairs functions. The Supervisory Committee, which maintains a direct and ongoing relationship with the Internal Control Committee, performs its activity within the parent company. As regards subholding companies, a Supervisory Committee has been appointed in each of them consisting of the independent director of Erg S.p.A., Paolo Francesco Lanzoni, as Chairman, the head of the holding company's Corporate Security function, Luigi Bricocoli, and of the subholdings' respective Human Resources managers. As instead regards the listed subsidiary Enertad S.p.A., the Supervisory Committee consists of Paolo Francesco Lanzoni (Chairman), Luigi Bricocoli, Renzo Fossati, Danilo Lodola, and Claudio Pirani. The Supervisory Committee met five times in 2007.

Investor relations

The company manages relationships with its shareholders, institutional investors and the market by means of the investor relations function, which is part of the Administration, Finance and Control division. As part of investor relations activities, meetings are regularly arranged both in Italy and abroad with representatives of the financial community. ERG's policy is to provide the fullest possible information on its activities and strategies, also via constant updating and innovation of its website.

The Organisation and Management Model

With resolution of 21 December 2004, the Board of Directors adopted the Organisation and Management Model pursuant to Legislative Decree 231/2001.

The Model has since been periodically updated to adapt it to the regulatory changes subsequently introduced.

The Independent auditors

The assignment for the accounting audit relating to the financial years 2006, 2007, and 2008 was granted by the Shareholders' Meeting of 28 April 2006 to Reconta Ernst & Young.

Manager responsible for preparing the company's financial reports

With resolution dated 29 June 2007, the Board of Directors assigned the role of Manager responsible for preparing the company's financial reports to the Administration and Tax division Manager, Graziella Merello.

Subsequently, with resolution dated 14 February 2008, having noted the organisational changes carried out, the Board assigned this role to the Administration, Finance and Control Manager, Luca Bettonte.

Management and coordination

ERG S.p.A. is a subsidiary of San Quirico S.p.A. which does not however exercise any management and coordination activity over its subsidiary, within the meaning of Articles 2497 et seq. of the Italian Civil Code, also in view of the fact that a provision of its Articles of Association expressly prohibits the company from carrying out management and coordination activities with regard to its subsidiaries. Acknowledgement of this circumstance is given in the resolution of the ERG S.p.A. Board of Directors dated 28 March 2007.

Commitment

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

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

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

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

Structure of Board of Directors and committees

Table 1

BOARD OF DIRECTORS					
OFFICE	MEMBERS	EXECUTIVE	NON-EXECUTIVE	INDEPENDENT	****
CHAIRMAN	EDOARDO GARRONE	YES			100%
DEPUTY CHAIRMAN	GIOVANNI MONDINI	YES			100%
DEPUTY CHAIRMAN	DOMENICO D'ARPIZIO ^{A)}	YES			92%
DEPUTY CHAIRMAN	PIETRO GIORDANO	YES			100%
CEO	ALESSANDRO GARRONE	YES			100%
DIRECTOR	MASSIMO BELCREDI			YES	100%
DIRECTOR	LINO CARDARELLI			YES	75%
DIRECTOR	RICCARDO GARRONE		YES		100%
DIRECTOR	GIUSEPPE GATTI	YES			100%
DIRECTOR	ANTONIO GUASTONI			YES	100%
DIRECTOR	PAOLO FRANCESCO LANZONI			YES	100%
DIRECTOR	GIAN PIERO MONDINI		YES		83%
DIRECTOR	GUIDO SEBASTIANO ZERBINO		YES		100%
NUMBER OF MEETING HELD DURING THE YEAR IN QUESTION		BoD: 12	INTERNAL CONTROL COMMITTEE: 11		
NOTES					
* the asterisk indicates whether the director has been designated via lists presented by minority shareholders					
** this column shows the number of directorships or statutory auditor appointments held by the person concerned in other companies listed in Italian or foreign regulated markets, in financial/banking/insurance companies, or in companies of major size. In the Corporate Governance Report any such offices are indicated in full detail					
*** in this column a "YES" indicates a Board member's membership of a given committee					
**** this column indicates Directors' percent attendance respectively of BoD and Committee meetings					
a) until 19 November 2007					

NUMBER OF OTHER OFFICES **	INTERNAL CONTROL COMMITTEE		NOMINATIONS & REMUNERATION COMMITTEE		NOMINATIONS COMMITTEE (if any)		EXECUTIVE COMMITTEE (if any)	
	***	****	***	****	***	****	***	****
1					=	=	=	=
					=	=	=	=
					=	=	=	=
1								
4					=	=	=	=
2	YES	100%	YES	100%	=	=	=	=
2								
3					=	=	=	=
4					=	=	=	=
7	YES	100%			=	=	=	=
4	YES	100%	YES	80%	=	=	=	=
					=	=	=	=
			YES	100%	=	=	=	=
NOMINATIONS & REMUNERATION COMMITTEE: 5			NOMINATIONS COMMITTEE: =			EXECUTIVE COMMITTEE: =		

Board of Statutory Auditors

Table 2

OFFICE	MEMBERS	% ATTENDANCE OF MEETINGS OF BOARD OF STATUTORY AUDITORS	NUMBER OF OTHER OFFICES**
CHAIRMAN UNTIL 29/06/2007	ALFIO LAMANNA	100%	===
CHAIRMAN SINCE 29/06/2007	MARIO PACCIANI	100%	1
STANDING AUDITOR	FABRIZIO CAVALLI	63%	1
STANDING AUDITOR SINCE 29/06/2007	PAOLO FASCE	100%	1
ALTERNATE AUDITOR	UMBERTO TRENTI		
ALTERNATE AUDITOR	MICHELE CIPRIANI		
ALTERNATE AUDITOR UNTIL 29/06/2007	PAOLO FASCE		
NUMBER OF MEETINGS HELD DURING THE YEAR IN QUESTION: 8			
QUORUM REQUIRED FOR SUBMITTAL OF LISTS BY MINORITY SHAREHOLDERS FOR THE ELECTION OF ONE OR MORE STANDING AUDITORS (AS PER ART. 148 OF THE ITALIAN CONSOLIDATED FINANCE ACT): 2%			
NOTES			
* the asterisk indicates whether the Statutory Auditor has been designated via lists presented by minority shareholders			
** this column shows the number of directorships or Statutory Auditor appointments held by the person concerned in other companies listed in Italian regulated markets. In the Corporate Governance Report any such offices are indicated in full detail.			

Other provisions of the Italian Corporate Governance code

Table 3

	YES	NO	Summary of reasons for any departures from Code recommendations
Power delegation and related-party transaction system			
Has the BoD delegated powers defining their:	x		
a) limits?	x		
b) method of exercise?	x		
c) frequency of reporting?	x		
Has the BoD reserved as its prerogative the review and approval of transactions particularly important in business, capital and financial terms (including related-party transactions)?	x		
Has the BoD defined guidelines and criteria for identification of "significant" transactions?	x		
Are the above guidelines and criteria described in the report?	x		Summarily
Does the BoD have appropriate procedures for the examination and approval of transactions with associated parties?	x		
Are the procedures for approval of transactions with associated parties described in the report?	x		Summarily
Procedures for most recent appointment of Directors and Statutory Auditors			
Were candidacies for directorship lodged at least 10 days beforehand?	x		
Were candidacies for directorship accompanied by exhaustive information?	x		
Were candidacies for directorship accompanied by an indication of eligibility for classification as independent Directors?	x		
Were candidacies for the office of Statutory Auditor lodged at least 10 days beforehand?	x		
Were candidacies for the office of Statutory Auditor accompanied by exhaustive information?	x		
Shareholders' Meetings			
Has the company approved a regulation for Shareholders' Meetings?	x		
Is the regulation attached to the report (or is it indicated where it can be obtained/downloaded)?	x		
Internal control			
Has the company appointed internal controllers?	x		
Are the internal controllers free of hierarchical relationships with the heads of operating areas?	x		
Organisational unit responsible for internal control (as per art. 9.3 of the Code)		Internal Audit	
Investor Relations			
Has the company appointed an Investor Relations Manager?	x		
Organisational unit and contact details (address/telephone/fax/e-mail) of Investor Relations Manager			Investor Relations - Paolo Merli Tel. 010/2401376 – Fax 010/2401598 e-mail: pmerli@erg.it

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The other characteristic features of the scheme are:

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

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

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

- encourage decisions that assure sustainable, enduring Value Creation;
- avoid risks of "under-investment";
- increase retention of key people.

The long-term incentive scheme grants registered and non-transferable subscription rights for company shares to be issued in accordance with Art. 2441, paragraph 8, of the Italian Civil Code, or rights

to purchase ERG shares held as treasury shares, to be assigned to certain employees at a price equivalent to the cost of exercising subscription rights for newly issued shares.

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

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

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

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

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

The third assignment, on 1 October 2007, consisted of 745,335 rights assigned at an exercise price of Euro 16.06 to the Chairman, two Deputy Chairmen and CEO of ERG S.p.A., to Group companies' Managing Directors, and to some selected executives, for a total of 16 people.

The number of rights to be assigned was determined at the time of assignment by the Board of Directors, on proposal of the Remuneration Committee, with reference to the Chairman, Deputy Chairmen and the CEO of ERG S.p.A., and by the CEO with respect to the other beneficiaries.

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

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





70 YEARS OF ENERGY

board of directors'
proposal

Shareholders,

We close this report by inviting you to:

- approve the financial statements of your company for the period ended 31 December 2007 which close with a net profit of Euro 66,632,265.07;
- approve the payment to shareholders of a dividend of Euro 0.40 per share with dividend rights outstanding at the coupon detachment date, excluding the company's own shares, in accordance with Article 2357-ter of the Italian Civil Code, via use of the year's earnings;
- allocate the remaining profit for the year to be carried forward as retained earnings;
- approve the payment of the dividend as from 22 May 2008, subject to detachment of coupon as from 19 May 2008.

Genoa, 10 March 2008

On behalf of the Board of Directors

The Chairman

Edoardo Garrone

A handwritten signature in black ink, consisting of a series of fluid, connected strokes. The signature is positioned below the name 'Edoardo Garrone'.





70 YEARS OF ENERGY

glossary

Aerogenerator

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

API

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

Business Process Reengineering

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

CIP 6 tariff

Tariff paid by the GSE (Gestore dei Servizi Elettrici – national grid) to producers of electricity who use renewable and assimilated sources under the terms of the CIP 6/92 provision.

Combined cycle

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

CO₂

Carbon dioxide. Gas formed by all processes relating to combustion, breathing, decomposition of organic material, due to complete oxidation of the carbon. Carbon dioxide emissions represent approximately 80% of greenhouse gas emissions produced by the European Union.

C-Store

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

Desulphurisation

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

Excise duties

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

“Expander” unit

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

FCC - Fluid Catalytic Cracking - line

A catalytic cracking plant with a fluid bed.

Financial leverage

$$\frac{\text{Net financial indebtedness}}{\text{Net invested capital}}$$

Gas turbine

Power plant producing electricity using gas-powered turbines.

Green certificates

Annual certificates assigned for power generated from renewable sources using facilities that have come into operation after 1 April 1999. Each certificate is issued by the national grid in relation to the year's output from renewable sources (estimated figures based on expected output or final figures) and can be used to comply with the renewable energy input obligation as regards the year to which it refers and the next two years.

Hot oil

An oil heating system that allows the transfer of heat to both the IGCC and Solvent Deasphalting plants.

HSE (Health, Safety, Environment)

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

HS fuel oil

High Sulphur content fuel.

IAS

International Accounting Standards.

IGCC Feedstock

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

IGCC plant

Integrated Gasification Combined Cycle plant, integrated facility for the gasification of refining residues and combined generation of electricity and heat.

ISO 14000

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

Kilowatt-hour (kWh)

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

Light - heavy crude oils

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

LPG (Liquefied Petroleum Gas)

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

Margins (Topping + Reforming)

Margins (value of products minus the cost of raw material used) obtained from the processing of crude oil at the primary distribution (Topping) plant and the subsequent processing of virgin naphta, the lightest fraction coming from the topping process, at the octane upgrading plant (catalytic reforming plant) from which one of the main components of gasoline is obtained.

MW

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

Non-recourse Project Financing

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

NO_x

Oxides of nitrogen (especially NO and NO₂). Gases mainly produced by the photochemical oxidation of nitrogen in the atmosphere and as a secondary reaction in the high-temperature combustion of fossil fuels. Together with sulphur dioxide (SO₂), they are the cause of acid rain.

Octanisation

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

Post payment

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

Refining and atmospheric distillation

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

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

Revamping

Refinery interventions to improve or increase the processing capacity.

ROACE

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

ROE

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

SAP system

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

Solvent Deasphalting Unit

A plant which produces asphalt using a solvent extraction process.

Synthesis gas

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

Technical balanced distillation

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

TOE (Tonnes of oil equivalent)

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

Topping plant

Crude oil refining plant used for atmospheric distillation.

Unione Petrolifera

The Italian association of oil companies.

Vsb Vacuum

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

Wind energy

Energy generated from wind.

ERG S.p.A.

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