



ERG RENEW S.P.A.
ANNUAL REPORT 2010

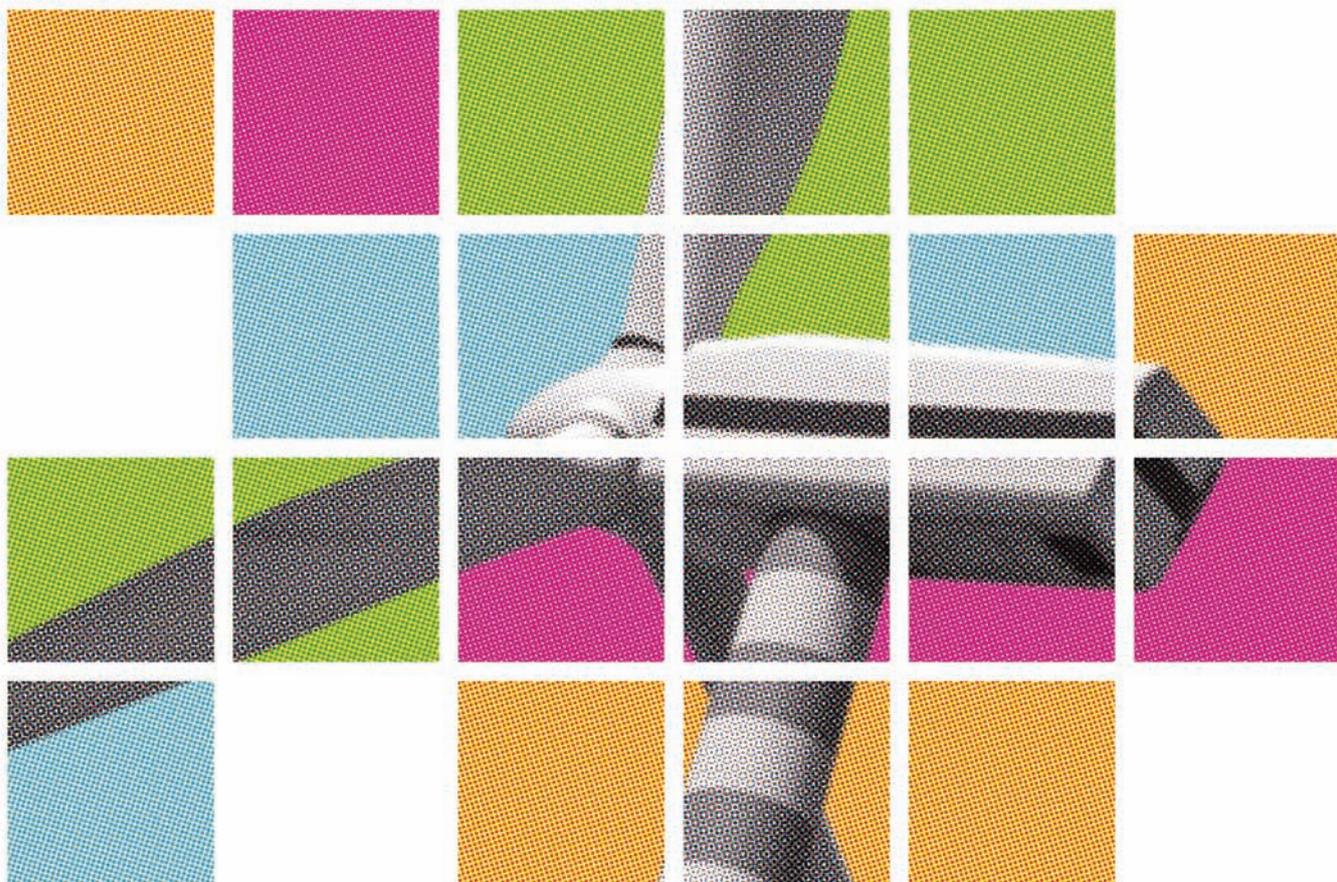


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CORPORATE BODIES

BOARD OF DIRECTORS

CHAIRMAN

PIETRO GIORDANO

DEPUTY CHAIRMAN

VITTORIO GARRONE

CHIEF EXECUTIVE OFFICER

FRANCESCO DEL BALZO

DIRECTORS

ITALO GIORGIO ALFIERI

(INDEPENDENT)

LUCA BETTONTE

LORENZO CAPRIO

(INDEPENDENT)

GIORGIO MAZZANTI

(INDEPENDENT)

ERNESTO MONTI

(INDEPENDENT)

PIETRO MUTI

BOARD OF STATUTORY AUDITORS

CHAIRMAN

LELIO FORNABAIO

STANDING AUDITORS

FRANCESCO GATTI

ANDREA MANZITTI

**MANAGER RESPONSIBLE FOR
PREPARING FINANCIAL REPORTS
(LAW 262/05)**

LUCA GIORGERINI

INDEPENDENT AUDITORS

DELOITTE & TOUCHE S.P.A.

ERG RENEW S.P.A.

MANAGEMENT REPORT



(Translated from the original version issued in Italian language)

FOREWORD

The Consolidated Financial Statements for the year ended 31 December 2010 have been prepared in accordance with the International Accounting Standards issued by the International Accounting Standards Board (IASB) and endorsed 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 Deloitte & Touche 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.

The Consolidated Financial Statements for the year ended 31 December 2010 report a net loss of EUR 15.9 million compared to a net loss of EUR 28 million in 2009, after having posted write-downs of concessions and equity investments concerning the wind business, for the amount of EUR 19.3 million.

FULL VOLUNTARY TENDER OFFER LAUNCHED BY ERG S.P.A.

On 14 December 2010 the parent company ERG S.p.A. announced its decision to launch a voluntary tender offer on all ordinary shares of ERG Renew not already owned, corresponding to 22.61% of share capital, at a price of EUR 0.97 per share. The Offer was designed to achieve delisting from the Electronic Share Market (*Mercato Telematico Azionario*) organised and managed by Borsa Italiana S.p.A. as regards the ordinary shares of ERG Renew, in order to allow the latter to benefit by a more suitable financial, organisational and management flexibility, such as might facilitate the implementation of its strategic plan and enable current investment and market placement objectives to be more rapidly attained and surpassed, through organic growth and/or acquisitions. In fact, whilst ERG Renew's current development plan, as already outlined and presented to the financial community based on capacity currently under construction and development, expects to achieve an installed capacity of 530 MW by the end of 2013, the benefits deriving from delisting will make it possible to more easily pursue further and different initiatives both in Italy and abroad.

On 13 January 2011, ERG Renew's Board of Directors approved the Statement required pursuant to CONSOB Regulations and judged the price of EUR 0.97 offered by ERG S.p.A. to be fair, based on a fairness opinion issued by the independent financial advisor Merrill Lynch. The outcome of the said offer, for which the acceptance period, having commenced on 24 January last, closed on 18 February, confirmed ERG S.p.A.'s attainment of a controlling interest of 94.641%. Having acquired a stake in ERG Renew's share capital of more than 90% but less than 95%, ERG S.p.A. will have the obligation to purchase from any shareholders so requesting the shares not surrendered under the Tender Offer, at a price to be determined by CONSOB.

ACQUISITION OF IVPC POWER 5 S.R.L. (NOW ERG EOLICA ADRIATICA S.R.L.)

It should be noted that, with effect from 23 July 2010, ERG Renew S.p.A. consolidates the activities of the new Ascoli Satriano and Rotello wind farms. In fact, in June 2010 ERG Renew S.p.A. reached an agreement with IVPC S.a.s., leading Italian operator in the sector of power generation from wind energy sources, for the purchase of a 100% equity interest in IVPC Power 5 S.r.l., whose name, following the closing completed by subholding company ERG Eolica Italia S.r.l. on 23 July 2010, was changed to ERG Eolica Adriatica S.r.l. The company owns two wind farms, including one in Molise (40 MW) which became commercially operational in January 2010, and one in Puglia (62 MW) which started commercial operation in June 2010, adding an overall installed capacity of 102 MW to the 208 MW already in production.

The acquisition price of the equity investment was EUR 69.5 million, of which EUR 59.5 million

was paid at the time of executing the deed for the sale and purchase of the company's quotas. As regards the balance of EUR 10 million, originally to be paid, according to contract, thirty months after the date of the closing and, therefore, on 31 December 2012, EUR 5 million was paid in November 2010 under an agreement reached and executed between the parties. The remaining amount of EUR 5 million will be paid according to the original terms on 31 December 2012.

Consolidation determined a higher price paid of EUR 41 million, which, if grossed up to take account of the tax effect, amounts to EUR 60 million assigned to the value of the wind farm lease agreements. The calculation of the amount ascribable to the item "Concessions" was made after allocating EUR 4.4 million to "Deferred Tax Assets" following quantification of the effects of the so-called "Tremonti-ter" rules based on the assumptions of eligibility for entry, quantification of the benefit and measurement of its potential recovery by way of future taxable income available to date.

The effects relating to the definition of the current values of ERG Eolica Adriatica's identifiable assets and liabilities are still being precisely determined and identified, also in view of the application of IFRS 3. As from the completion of these activities, which will take place within 12 months of the date of execution as set forth by such accounting principle, changes may arise in the determination of the higher price value, allocated to "Intangible Assets".

The acquisition was financially possible due to the support provided by the parent company ERG S.p.A., the latter having increased the credit line available to ERG Renew from the original amount of EUR 231 million to EUR 311 million, applying to such extension a different pricing and expiry date, as well as subordinating same in case of insolvency to the prior satisfaction of third-party lenders.

For further considerations, reference should be made to the Information Document drawn up in accordance with Articles 71 and 71-bis of the Regulations adopted by CONSOB under resolution 11971 dated 24 May 1999, as subsequently amended and supplemented, filed on 28 July 2010 and published by Borsa Italiana S.p.A. (www.borsaitaliana.it) and on the company's website, www.ergrenew.it.

IMPAIRMENT TEST

On 2 March 2010 the Board of Directors of ERG Renew S.p.A. approved the 2010-2013 Business Plan, which envisages *inter alia*, by the end of 2013, investments totalling EUR 254 million. The said plan, in view of the high degree of regulatory uncertainty at national and regional level, is based on the development of wind farm projects that are effectively "*cantierabili*", namely where the commencement of works has already been approved, with a view to enhancing the visibility and certainty of investments.

Without prejudice to the guidelines on which the aforesaid 2010-2013 Business Plan is based, the execution of same has been and will be required to take account of events that occurred during 2010 and already brought to the attention of shareholders and the market, leading to a slowdown in its execution despite the completed acquisition of the company ERG Eolica Adriatica S.r.l. More specifically, this slowdown is caused by the following factors: (i) the delay in coming on stream, now not expected to take place before the first six months of 2011, as regards the Ginestra and Fossa del Lupo wind farms, whose output should have contributed already as from 2010; (ii) the delay in obtaining authorisation for the construction of the Greneville wind farm in France, originally anticipated in the first six months of 2010, which will not be received prior to 2011. Therefore the coming on stream, originally scheduled for April 2011, cannot take place earlier than 2013; (iii) the uncertainty of the current scenario concerning authorisations for wind energy facilities, which features a high degree of fragmentation as regards regulatory responsibility, encumbering the activities and lengthening the times required for authorisation processes. In addition to this there is a general lack of uniformity of regulations albeit within the scope of an authorisation model apparently defined in a unitary manner for the whole of Italy, according to a plan which is

thwarted by the proliferation of local rules. As a result, it has been considered appropriate to downsize the plans for development of the pipeline in Italy which provided for the coming on stream of 60 MW in 2013: these expectations have been lowered to 40 MW; (iv) the fine-tuning of the methodologies for estimating potential outputs expected following a further year of production of all wind farms in operation; as a consequence, for some wind farms in operation the potential outputs expected have been reduced for the plan period; (v) the changes that occurred during the final months of 2010 in the rule-making and regulatory context and the consequent effects on expected trends in the selling prices of electricity and green certificates that have implied a change in overall market scenarios.

The Directors, in accordance with the provisions set forth by IAS 36, considered that the above mentioned endogenous and exogenous factors giving rise to a slowdown in the execution of the 2010-2013 Business Plan might be indicators of a potential loss of value of some non-current assets with a definite useful life and therefore developed specific impairment tests to evaluate the extent of any write-downs to be shown in the Company's separate and consolidated financial statements, taking into account the updating of 2010-2013 prospective data as a result of the above mentioned events.

More specifically, the impairment tests were developed in reference to the values of concessions pertaining to all wind farms in operation in France and the Italian Faeto wind farm, the latest one to come on stream, in view of the better estimates as regards site windiness and the changes in scenario of expected energy prices, and the values of the concessions relating to the Fossa del Lupo and Ginestra wind farms, currently under construction, which, given the uncertainty of the electricity price scenario characterising all Italian wind energy operations, are particularly penalised by the said delay in coming on stream.

On the other hand, insofar as concerns the other Italian wind farms, due to the earning capacity developed during the year and in previous years, it was not considered necessary to activate an impairment test, despite the above mentioned uncertainty as regards the energy price scenario.

The impairment tests, performed by independent assessors, indicated losses in value totalling EUR 19.3 million, ascribable to the values of French authorisations (EUR 11.7 million) and to the value of the authorisation for the Ginestra wind farm currently under construction (EUR 7.6 million). With regard to the separate financial statements, the write-downs associated with the French concessions led to the recording of an impairment of EUR 9.7 million from the equity interest held in ERG Eolienne France S.A.

As more clearly indicated in the explanatory notes, the quantification of write-downs was carried out taking into account the information available to date and reasonable estimates of the pattern in windiness, energy price and interest rate variables. The sensitivity analyses highlighted in the explanatory notes confirm the sensitivity of evaluations concerning the recoverability of non-current assets to the change in the mentioned variables; in this connection, the Directors will systematically monitor the trend in the aforementioned variables insofar as exogenous and not controllable for adjustments, if any, to the estimated recoverability of the values of non-current assets recognised in the Company's separate and consolidated financial statements.

TREMONTI TER

Insofar as concerns the so-called "Tremonti-ter" tax relief, which accounts for EUR 7.2 million of the item "Income taxes" (positive by EUR 10.3 million) and refers to the investments carried out involving the subsidiary ERG Eolica Ginestra S.r.l., the Directors point out that, notwithstanding the regulatory uncertainties that emerged during the months of September and October regarding the cumulability of the "Tremonti-ter" tax relief and the green certificates incentive system, they consider that the position adopted by the Government Lawyers (*Avvocatura di Stato*) on 18 January 2011 in favour of such cumulability, as well as the

confirmation expected to be given by way of legislative decree concerning the renewable energy sector, already executed by the respective Chamber and Senate Commissions and pending definitive enactment on the part of the Council of Ministers, have strengthened the assumptions for maintaining the said tax relief provision.

FUNDING REQUIREMENTS

It should be noted that, following the postponement of the cash capital increase approved in 2008, caused by the critical conditions of the financial markets, 2011 investments, as was the case in 2009 and 2010, are to be backed by the parent company ERG S.p.A. In fact, on 23 February 2011 the parent company ERG S.p.A. notified ERG Renew of its irrevocable commitment to continue supporting the company's financial needs, increasing from EUR 231 million to EUR 307 million the credit line intended to meet requirements for the implementation of the 2011 business plan and cover ordinary and current operations, extending the credit line's availment period until 31 December 2011 and extending the maturity date of the said credit line from 31 December 2011 to 31 December 2012. The other terms and conditions of the agreement, including the amount of EUR 80 million and maturity date of 31 December 2015 as regards an additional tranche of the loan transaction, remain unchanged.

DISCONTINUED OPERATIONS AND COMPARABILITY OF PRIOR YEAR DATA

Lastly, as previously announced by the Company, we report that the hydroelectric power plant business, represented by the investments held in Ecopower S.r.l. (100%) and I.S.E.A. S.r.l. (90%), has been discontinued. The results generated by this business and its disposal have been reclassified in the Income Statement, for the years 2009 and 2010, under discontinued operations, in accordance with IFRS 5.

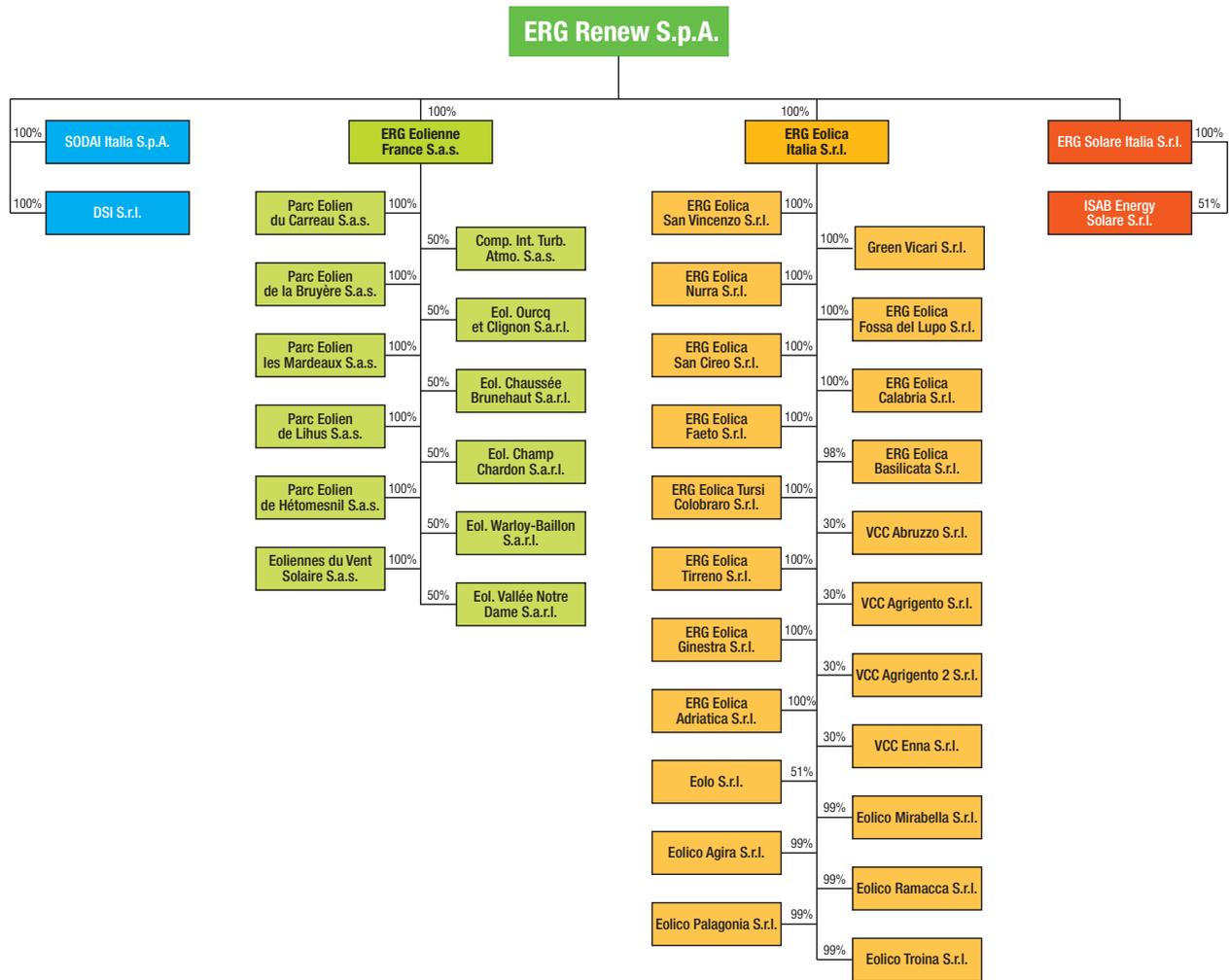
The results shown and commented in the Management Report reflect the consolidation of the company IVPC Power 5 S.r.l. (now ERG Eolica Adriatica S.r.l.), as mentioned above. In order, therefore, to enable a clearer interpretation and understanding of the year's performance, the summary table below shows for the main financial and economic data without considering the contribution of the new equity interest acquired, which owns the Ascoli Satriano and Rotello wind farms, with a total operating capacity of 102 MW.

ERG RENEW GROUP BUSINESS DESCRIPTION

The ERG Renew Group is active in the following businesses:

- **WIND – ITALY:** via its subsidiary ERG Eolica Italia S.r.l., ERG Renew generates electricity from wind sources. There are currently 8 wind farms in operation: San Vincenzo (42 MW), San Cireo (30 MW), Faeto (24 MW), Viticuso (9 MW), Green Vicari (37.5 MW), Pian de Corsi Baltera (1.6 MW), Ascoli Satriano (61.8 MW) and Rotello (40 MW), with installed capacity in operation totalling 245.9 MW; the latter two wind farms, whose overall capacity totals 101.8 MW, belong to the company ERG Eolica Adriatica S.r.l. (formerly IVPC Power 5 S.r.l.), acquisition of which was completed in July 2010, as already mentioned in the Foreword.
- **WIND – FRANCE:** via its subsidiary ERG Eolienne France S.a.s., ERG Renew generates electricity from wind sources. There are currently 6 facilities with a total installed capacity of 64.4 MW, including 9.2 MW pertaining to the Plogastel wind farm, which came into commercial operation at the end of April 2010. During 2008, ERG Eolienne France S.a.s. also completed two transactions whereby it purchased from the French Group GSEF a 50% stake in Cita Wind and in five project companies. Subsequently, ERG Eolienne France S.a.s. also executed a memorandum of understanding for the future acquisition of the company Eoliennes de Greneville, set up to build a wind farm south of Paris with capacity of 20 MW.
- **PHOTOVOLTAICS:** ERG Renew plans to diversify its presence in the field of renewable energy by also focusing on photovoltaics. ERG Renew is participating in a next generation solar power (so-called organic photovoltaics) research and development project, in partnership with Permasteelisa, Dyesol and some of the Italian universities. The Consortium set up for such purpose is profitably continuing its research activity. More specifically, specifications have been defined for the product which is to be developed. Activities have also commenced to prepare for planning the pilot line, with a view to moving on to the realisation phase during the first half of 2011. Moreover, the Company is installing a traditional plant at ISAB Energy's Sicilian industrial site in Priolo Gargallo (Syracuse) with a capacity of approximately 1 MW, which is scheduled to come on stream by the end of June 2011.
- **WATER SERVICES:** via its subsidiaries SODAI Italia S.p.A. and DSI S.r.l., ERG Renew performs treatment of industrial waste. While SODAI Italia S.p.A. operates via purification platforms adjacent to 20 workshops of Trenitalia, DSI S.r.l. treats solid and liquid waste on behalf of third parties, as well as for SODAI Italia. As already announced several times, the ERG Renew Group intends to terminate its activity in the segment because it is not considered core.

ERG RENEW AS AT 31 DECEMBER 2010



ERG RENEW STOCK MARKET PERFORMANCE

On 30 December 2010 the reference price of ERG Renew stock was EUR 0.96, with an increase of 47.7% over the 2009 year-end price, as compared with a trend of -14.099% in the European sector index (Dow Jones Utilities Index) and -12.096% in the FTSE MIB Index.

Below we show some data concerning the prices and trading volumes of ERG Renew stock during the 2010 financial period.

SHARE PRICE

	EUR
REFERENCE PRICE ON 12/31/2010	0.96
HIGH (02/02/2010) ⁽¹⁾	1.02
LOW (11/30/2010)	0.56
AVERAGE PRICE	0.81

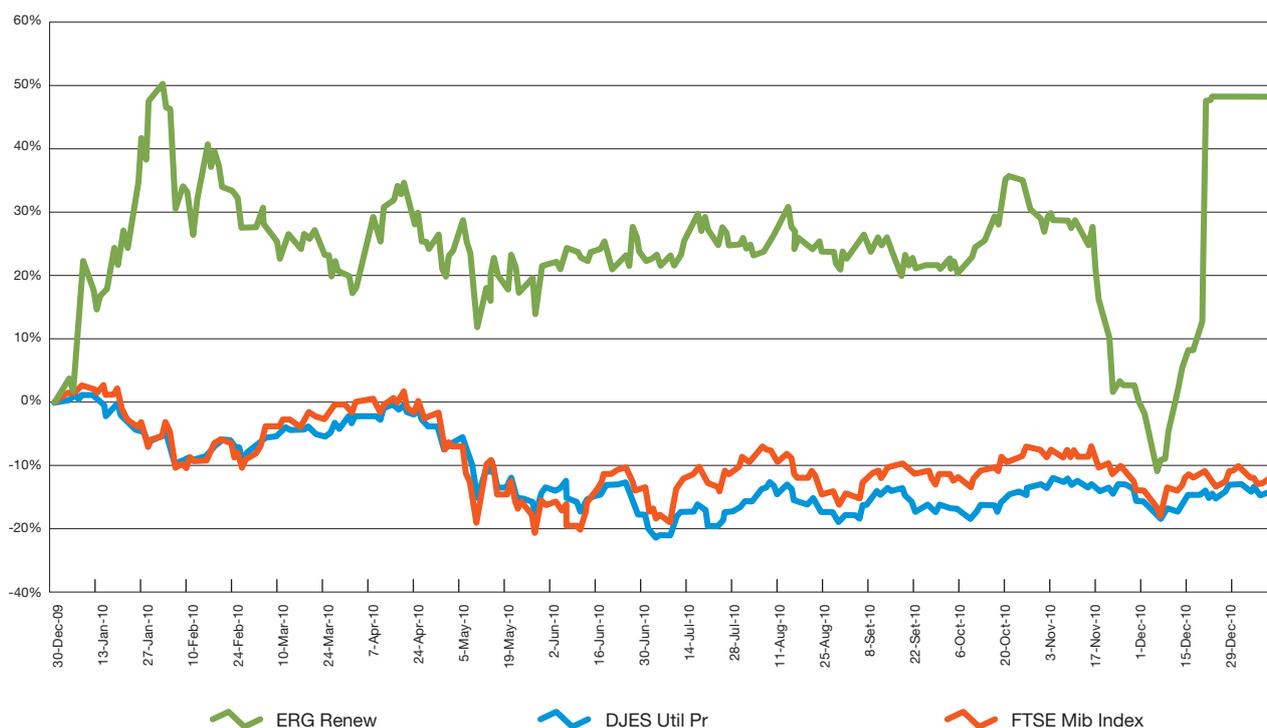
(1) intended as the lowest and highest prices recorded during the day's trading and therefore not the same as the official reference prices on the same date

DAILY VOLUME TRADED

	NO. OF SHARES
HIGHEST DAILY VOLUME (01/26/2010)	7,429,302
LOWEST DAILY VOLUME (09/06/2010)	5,300
AVERAGE VOLUME	400,550

At 30 December 2010, market capitalisation amounted to EUR 127.4 million (EUR 86.2 million at the end of 2009).

ERG RENEW SHARE PRICE PERFORMANCE VS. DOW JONES UTILITIES INDEX AND FTSE MIB INDEX



OPERATING AND FINANCIAL HIGHLIGHTS

		2010	2009	2010 PRO FORMA WITHOUT IVPC POWER 5 S.R.L.
MAIN ECONOMIC DATA (EUR THOUSAND)				
OPERATING REVENUES		72,667	49,915	57,512
EBITDA ⁽¹⁾		38,520	23,018	25,768
ADJUSTED EBITDA ⁽²⁾		38,520	23,018	25,768
EBIT		(10,949)	(12,888)	(17,852)
NET PROFIT (LOSS)		(15,634)	(27,766)	(18,436)
<i>OF WHICH MINORITY INTERESTS</i>		(219)	(186)	(219)
GROUP NET PROFIT (LOSS)		(15,853)	(27,952)	(18,655)
MAIN BALANCE SHEET AND FINANCIAL DATA (EUR MILLION)				
NET INVESTED CAPITAL		775.9	398.3	491.7
SHAREHOLDERS' EQUITY		93.9	107.3	89.0
NET FINANCIAL DEBT		682.0	291.0	472.0
<i>OF WHICH NON-RECOURSE PROJECT FINANCING</i>		393.1	182.6	202.7
FINANCIAL LEVERAGE		87.9%	73.1%	96.0%
INVESTMENTS		89.0	88.8	88.7
OPERATIONAL DATA				
INSTALLED WIND CAPACITY	MW	310.3	199.3	208.5
<i>INSTALLED CAPACITY IN ITALY</i>	MW	245.9	144.1	144.1
<i>INSTALLED CAPACITY IN FRANCE</i>	MW	64.4	55.2	64.4
SALE OF ELECTRICITY FROM WIND SOURCES	MWH	450,165	317,202	357,990
<i>SALE OF ELECTRICITY IN ITALY</i>	MWH	333,389	209,602	241,214
<i>SALE OF ELECTRICITY IN FRANCE</i>	MWH	116,776	107,600	116,776
LIQUID WASTE TREATED	M ³	452,343	410,343	452,343
SOLID WASTE TREATED	TONS	7,993	5,102	7,993
ELECTRICITY/GREEN CERTIFICATE PRICES				
ELECTRICITY SELLING PRICE IN ITALY	EUR/MWH	65.43	66.42	67.33
GREEN CERTIFICATES 2010	EUR/MWH	87.25	N/A	87.25
GREEN CERTIFICATES 2009	EUR/MWH	N/A	88.37	N/A
ELECTRICITY SELLING PRICE IN FRANCE *	EUR/MWH	85.09	85.68	85.09

(*) inclusive of incentive

(1) "EBITDA" corresponds to net income adjusted for taxes, for the result of asset disposal or discontinued operations, for financial income/expenses, as well as for depreciation/amortisation of tangible and intangible assets, and write-downs of non-current assets. EBITDA is a metric used by the Group to monitor and assess its operating performance and is not defined as an accounting metric within IFRSs. Given this, it must not be considered a metric alternative to intermediate reported results for assessment of operating performance. As the composition of EBITDA is not regulated by the reference accounting standards, the policy for calculation applied by the Group may not be the same as that adopted by others and therefore may not be comparable

(2) "Adjusted EBITDA" corresponds to EBITDA as defined above adjusted for non-recurring items, if any

HIGHLIGHTS BY DIVISION

(EUR THOUSAND)	2010	2009
OPERATING REVENUES		
WIND ITALY	54,004	33,527
WIND FRANCE	9,811	9,335
TOTAL WIND	63,815	42,862
WATER SERVICES	8,341	6,820
HOLDING DIVISION	511	233
TOTAL	72,667	49,915
EBITDA		
WIND ITALY	38,832	25,292
WIND FRANCE	7,585	6,640
TOTAL WIND	46,417	31,932
WATER SERVICES	2,012	1,060
HOLDING DIVISION	(9,909)	(9,974)
TOTAL	38,520	23,018
ADJUSTED EBITDA		
WIND ITALY	38,832	25,292
WIND FRANCE	7,585	6,640
TOTAL WIND	46,417	31,932
WATER SERVICES	2,012	1,060
HOLDING DIVISION	(9,909)	(9,974)
TOTAL	38,520	23,018
EBIT		
WIND ITALY	9,466	10,040
WIND FRANCE	(11,918)	(351)
TOTAL WIND	(2,452)	9,689
WATER SERVICES	1,521	(12,501)
HOLDING DIVISION	(10,018)	(10,076)
TOTAL	(10,949)	(12,888)
TANGIBLE AND INTANGIBLE ASSETS		
WIND ITALY	612,377	300,039
WIND FRANCE	66,821	85,009
TOTAL WIND	679,198	385,048
WATER SERVICES	7,988	8,359
HOLDING DIVISION	1,585	1,309
TOTAL	688,771	394,716
INVESTMENTS IN TANGIBLE AND INTANGIBLE FIXED ASSETS		
WIND ITALY	86,787	77,711
WIND FRANCE	1,419	8,573
TOTAL WIND	88,206	86,284
WATER SERVICES	339	1,940
HOLDING DIVISION	409	595
TOTAL	88,954	88,819

COMMENT ON RESULTS FOR THE YEAR

As announced in the Foreword, the 2010 Financial Statements, which show a Group net loss of EUR 15.9 million, featured write-downs of EUR 19.3 million as regards the wind energy business.

Operating **revenues** for FY2010 totalled EUR 72.7 million, up by 45.6% compared to EUR 49.9 million in 2009. This increase is ascribable to the wind business in Italy following the above mentioned consolidation of the two new Ascoli Satriano and Rotello wind farms and to the growth in output achieved by the other Italian wind farms with respect to 2009 (+15.1%); to the output of the French wind farms which, also thanks to the new Plogastel wind farm, increased by 8.5% compared to 2009; and to the Water Services business which was up by 22% compared to a year earlier as a result of the new services provided by SODAI for Trenitalia, the growth in quantities treated by both SODAI and DSI and the increase in tariffs on the part of DSI. This positive result was partially eroded by (i) a decline in the selling price of electricity in Italy, down from 66.42 EUR/MWh in 2009 to 65.43 EUR/MWh in 2010, (ii) the lower value assigned to green certificates, down from 88.37 EUR/MWh in 2009 to 87.25 EUR/MWh in 2010, (iii) the decrease in the electricity selling price in France, from 85.68 EUR/MWh in 2009 to 85.09 EUR/MWh in 2010, due to a reduction as regards some of the indices used to calculate the selling price.

EBITDA in 2010 amounted to EUR 38.5 million, with an increase of 67.3% compared to EUR 23 million recorded in 2009.

The trend in EBITDA reflects the following factors:

- **WIND – ITALY:** contribution of EUR 38.8 million compared to EUR 25.3 million reported in 2009 for the reasons already mentioned with regard to revenues, also reflecting a risk provision of EUR 2.1 million to cover the recovery of some areas of the Vicari wind farm as well as an appropriation of EUR 1 million to the bad debt provision in connection with a receivable that the company considers doubtful.
- **WIND – FRANCE:** contribution of EUR 7.6 million compared to EUR 6.6 million in 2009 for the reasons already mentioned with regard to revenues.
- **WATER SERVICES:** positive contribution of EUR 2 million, up by EUR 1 million compared to 2009. The growth is due to the reasons already mentioned with regard to revenues.
- **HOLDING DIVISION:** negative contribution of EUR 9.9 million, in line with the result achieved in 2009.

EBIT in 2010 was negative by EUR 10.9 million (EUR -12.9 million in 2009), after amortisation and depreciation totalling EUR 29.9 million (EUR 22.8 million in 2009) and write-downs amounting to EUR 19.3 million (EUR 13.1 million in 2009).

In 2010, the **Group net loss** amounted to EUR 15.9 million compared to a negative result of EUR 28 million in 2009. This result reflects (i) financial charges of EUR 15.3 million which, despite the lower interest rates compared to 2009, increased due to the already mentioned consolidation of the new Ascoli Satriano and Rotello wind farms financed through project financing. Furthermore, the financial charges also reflect the write-down of a financial receivable of EUR 1.3 million claimed by the French subholding Company ERG Eolienne France S.a.s. vis-à-vis its French investee company CITA Wind, considered difficult to recover; (ii) investment losses of EUR 0.7 million relating above all to the 50% equity investment held by

ERG Eolienne France S.a.s. in CITA S.a.s., a company carried at equity which performs development activities in the wind energy business in France, and to a marginal extent the equity investment of 51% held by ERG Renew in ISAB Energy Solare which, in December, completed the construction of a photovoltaic plant at the Priolo Gargallo (Syracuse) industrial site and is also carried at equity; *(iii)* a positive result of EUR 1 million from discontinued operations ascribable, on the one hand, to the recognition and receipt of a tax earn-out of EUR 1.6 million accrued in favour of ERG Renew up to 31 December 2008 on the sale to ACEA S.p.A., in July 2006, of the investment in TAD Energia Ambiente (waste to energy/waste management), following utilisation of part of the tax loss carryforwards generated by TAD Energia Ambiente and its subsidiaries in the years prior to the closing of the sale; on the other hand, such income was partially offset by the result from ordinary operations as regards the business of the hydroelectric power plants which, since they were subject to sale, was reclassified accordingly; *(iv)* positive taxes of EUR 10.3 million concerning the positive impact of deferred tax assets recognised and benefits available to the subsidiary ERG Eolica Ginestra S.r.l. under the so-called "Tremonti *ter*" tax relief (EUR 7.2 million). With regard to the said tax relief, the Directors point out that, notwithstanding the regulatory uncertainties that emerged during the months of September and October last year regarding the cumulability of the "Tremonti-*ter*" tax relief and the green certificates incentive system, they consider that the position adopted by the Government Lawyers (Avvocatura di Stato) on 18 January 2011 in favour of such cumulability, as well as the confirmation expected to be given by way of legislative decree already executed by the respective Chamber and Senate Commissions and pending definitive enactment on the part of the Council of Ministers, have strengthened the assumptions for maintaining the said tax relief provision.

Investments in 2010 totalled EUR 89 million (EUR 88.8 million in 2009) and almost exclusively concerned the wind business and, more specifically, the Fossa del Lupo (EUR 63.7 million) and Ginestra (EUR 22.1 million) wind farms. The 2010 investment budget of EUR 121 million, was not entirely allocated since *(i)* the portion pertaining to the French Greneville wind farm, amounting to EUR 30 million, was unable to be realised owing to failure to obtain the authorisation (ZDE – Zone de Développement Eolien), which should be received during 2011 and *(ii)* some delays affecting investments as regards the Fossa del Lupo wind farm, which will be completed in FY2011.

Net financial debt as at 31 December 2010 amounted to EUR 682 million, with an increase of EUR 391 million compared to 31 December 2009 (EUR 291 million). This major increase in debt is ascribable, above all, to the consolidation of the net debt pertaining to ERG Eolica Adriatica S.r.l. (EUR 210 million, including project financing of EUR 190.4 million); secondly, as this new acquisition was concluded with the financial support of ERG S.p.A., the latter having made available to ERG Renew a specific credit line for a maximum amount of EUR 80 million, to the disbursement of EUR 71 million as at 31 December 2010.

Net invested capital as at 31 December 2010 totalled EUR 775.9 million, up by EUR 377.7 million over the amount of EUR 398.3 million as at 31 December 2009. The increase is almost entirely ascribable to the consolidation of the new equity investment in ERG Eolica Adriatica S.r.l.

SIGNIFICANT EVENTS DURING THE YEAR

WIND – ITALY

On **26 January** ERG Eolica Ginestra S.r.l. executed the project finance loan agreement for the construction of its wind farm. Unicredit Mediocredito Centrale is Loan Arranger and co-arrangers are Barclays Bank and Centrobanca.

On **22 June** the Board of Directors of ERG Renew approved the acquisition of a 100% equity interest in the company IVPC Power 5 S.r.l., owner of 2 wind farms, one in Molise (40 MW), which became commercially operational in January 2010, and one in Puglia (62 MW), which started commercial operation in June 2010, with an overall installed capacity of 102 MW. The transaction closing was completed on 23 July by the subholding company ERG Eolica Italia S.r.l. The acquisition was financially possible due to the backing provided by the parent company ERG S.p.A., the latter having increased the credit line in favour of ERG Renew from the original amount of EUR 231 million to EUR 311 million, applying to such extension a different pricing and expiry date and subordinating same in case of insolvency to the prior satisfaction of third-party lenders. For further considerations, reference should be made to the Information Document drawn up in accordance with Articles 71 and 71-bis of the Regulations adopted by CONSOB under resolution 11971 dated 24 May 1999, as subsequently amended and supplemented, filed on 28 July 2010 and published by Borsa Italiana S.p.A. (www.borsaitaliana.it) and on the company's website, www.ergrenew.it.

As already frequently mentioned, on **23 July**, following the resolution adopted by ERG Renew's Board of Directors on 22 June 2010, ERG Eolica Italia S.r.l., subholding company for the wind business in Italy, completed the closing for the acquisition of 100% of the share capital of IVPC Power 5 S.r.l., owner of 2 wind farms, one in Molise (40 MW) commercially operational since January 2010 and one in Puglia (62 MW) which started commercial operation during the month of June 2010, with an overall installed capacity of 102 MW. On the same date, the Quotaholders' Meeting of the new investee company changed the company's name to ERG Eolica Adriatica S.r.l. and moved its registered office to Genoa. The acquisition was financially possible due to the backing provided by the parent company ERG S.p.A., the latter having increased the credit line in favour of ERG Renew from the original amount of EUR 231 million to EUR 311 million, applying to such extension a different pricing and expiry date and subordinating same in case of insolvency to the prior satisfaction of third-party lenders. For further considerations, reference should be made to the Information Document drawn up in accordance with Articles 71 and 71-bis of the Regulations adopted by CONSOB under resolution 11971 dated 24 May 1999, as subsequently amended and supplemented, filed on 28 July 2010 and published by Borsa Italiana S.p.A. (www.borsaitaliana.it) and on the company's website, www.ergrenew.it.

On **26 July 2010**, the areas where 4 of the 20 wind turbines which are to make up the Ginestra wind farm, currently under construction, are being installed were placed under preventive sequestration by the Benevento Judicial Authority. The order refers to alleged environmental torts arising from the execution of works in woodland, in the claimed absence of the required authorisation. Again in this case, the Company, considering its actions to be entirely correct, requested and obtained a hearing to re-examine the order, which took place on 20 September last and following which the order was confirmed. The Company has already presented a motion of release from seizure. Moreover, we report that the above areas were already concerned with a regional temporary suspension order regarding the Single Authorisation which, following the appeal to the Campania Regional Administrative Tribunal (TAR), was provisionally suspended.

WIND – FRANCE

The Plogastel wind farm, which has an installed capacity of 9.2 MW, entered into commercial operation ahead of schedule on **28 April**.

PHOTOVOLTAICS

On **29 June** the Quotaholders' Meeting of investee company Energie Pulite 2000 S.r.l. passed a resolution to change both the company's name, to ERG Solare Italia S.r.l., and the articles of association. The company will become the subholding company for the photovoltaics business, with concentration under same of all future projects concerning the business in question.

On **23 July** ERG Renew increased, from 12.4% to 24.7%, its stake in the DyePower Consortium, set up to perform research and development activities in the field of so-called organic photovoltaics.

HYDROELECTRIC POWER PLANTS

On **30 June** ERG Renew signed an agreement with a leading sector operator for the sale of the equity interests held in Ecopower S.r.l. and I.S.E.A. S.r.l., thereby carrying out the anticipated and previously announced disposal of what is no longer considered a core business. The closing for the sale of Ecopower was completed on the same date, while the sale of I.S.E.A. was completed on 30 July.

On **30 July**, following the agreement signed on 30 June with a leading sector operator concerning the sale of the equity investments held in Ecopower S.r.l. and I.S.E.A. S.r.l., ERG Renew completed the closing for the sale of the investment in ISEA S.r.l. The sale of the investment in Ecopower had already been completed on 30 June, at the time of signing the agreement. As a result of this last action, the Company has fulfilled its anticipated and previously announced disposal of the hydroelectric power plant business, which is no longer considered core.

WATER SERVICES

On **24 February** the Board of Directors of investee company SODAI Italia S.p.A. approved the new business plan, which is based on its ongoing contract with Trenitalia.

HOLDING DIVISION

On **12 January** the Company's Board of Directors approved the 2010 investment budget for the amount of EUR 121 million. The budget's financial sustainability was guaranteed by an irrevocable commitment assumed on 8 January 2010 by parent company ERG S.p.A. up to the amount of EUR 169 million and also intended to cover possible financial requirements connected with ordinary and current operations.

On **14 January** the Company executed with the parent company ERG S.p.A. an extension to the line of credit signed between the parties on 25 May 2009, increasing the original amount of EUR 140 million to EUR 231 million; the aim was to support ERG Renew also during 2010 with regard to potential financial cover for investments planned as well as any funding requirements to cover ordinary and current operations.

On **21 January** a decision was issued by the Board of Arbitration appointed, as contractually provided, to settle various disputes that have arisen between the Company and ACEA S.p.A.

regarding the sale to the latter of the “waste to energy/waste management” business in July 2006. The effects produced, which are not retroactively applicable, have been recognised – where appropriate – in these financial statements.

On **16 February** a new company was created under the name of ISAB Energy Solare S.r.l., owned 51% by ERG Renew and 49% by Princemark Ltd (a company belonging to the English group International Power), for the purpose of constructing a photovoltaic plant at the Priolo Gargallo (Syracuse) industrial site in Sicily, with a capacity equal to approximately 1 MW.

On **2 March** the Board of Directors approved the 2010-2013 Business Plan, which provides for investments totalling EUR 254 million and an installed capacity of 429 MW by the end of 2013. During the course of the meeting Raffaele Tognacca tendered his resignation as Chairman and Director of ERG Renew; the Board of Directors co-opted Pietro Muti to replace the resigning Director and appointed Pietro Giordano as Chairman of the Board.

On **13 April** the ERG Renew S.p.A. Shareholders’ Meeting approved the 2009 financial statements and noted the consolidated financial statements at 31 December 2009.

The Shareholders’ Meeting appointed Pietro Giordano as Chairman of the Board of Directors and Pietro Muti as Director of the Company, to replace the resigning Raffaele Tognacca. Both of these Executive Directors will remain in office until the Board’s natural expiry, which will coincide with the approval of the Annual Financial Statements for the year 2011.

Lastly, the Board of Directors appointed Vittorio Garrone as Executive Director entrusted with the task of supervising the functionality of the Internal Control system.

On **12 July** it was announced that ERG Renew and LUKOIL Group had signed a Memorandum of Understanding with a view to setting the basic terms and conditions for a cooperation in the market of renewable energy sources, particularly in the wind energy sector. Above all, the two companies will be evaluating business opportunities in the Eastern European countries and Russia.

On **16 July** an agreement was finalised with ACEA S.p.A. for the repurchase of past due trade receivables claimed by TAD Energia Ambiente and its subsidiaries vis-à-vis third-party customers. This was in compliance with the agreement signed in May 2006 which provided for all trade receivables past due as at 31 December 2005 and not paid during the 24 months following the date of the closing (4 July 2006) to be repurchased by ERG Renew. We report that, in respect of these receivables, which amount to a nominal value of approximately EUR 9 million, as from the 2006 financial year the Company, in addition to having acquired together with the receivables also a bad debt provision of EUR 1.1 million, set up a provision for liabilities, currently standing at around EUR 5.5 million, which has been reclassified as a bad debt provision: the Company, whilst continuing to give priority to monitoring the adequacy of the estimation processes regarding the collectability of the receivables recorded, considers there is reasonable certainty that the net amount of such receivables will be paid. Moreover, ACEA has recognised a tax earn-out in favour of ERG Renew, accrued as contractually envisaged up to 31 December 2008 and amounting to EUR 1.6 million.

On **14 December** the parent company ERG S.p.A. announced its decision to launch a voluntary tender offer on all ordinary shares of ERG Renew not already owned, corresponding to 22.61% of share capital, at a price of EUR 0.97 per share.

REGULATORY FRAMEWORK

Below we indicate and comment on the Italian legislator's main moves concerning the production of electricity from renewable energy sources. It remains understood that the regulations indicated below have to be supplemented by all the regulations that local entities, and regional, provincial and municipal authorities have enacted on the subject, which means that the approval process differs from region to region.

Legislative Decree 79 of 16 March 1999: Article 11 introduced the obligation, for producers and importers of electricity generated using non-renewable sources, to inject into the national electricity grid, starting from 2002, a minimum portion of electricity generated using plants fuelled by renewable sources that came on-stream after 1 April 1999. Generators and importers subject to this obligation can meet same by injecting into the grid electricity produced using renewable energy sources or by buying from other producers green certificates pertaining to the year in which the obligation must be fulfilled.

Legislative Decree 387/03: this is the legislative decree whereby Italy transposed European Directive 2001/77/EC into Italian law. It aims to promote electricity produced from renewable sources on the internal energy market and incorporates the definition of renewable sources. The Minister of Production Activities, in agreement with the Minister for the Environment and Territorial and Marine Protection, in compliance with the requirements of Article 20, paragraph 8, of Legislative Decree 387/03, on 24 October 2005 issued the decree concerning "Update of rules for the incentivisation of electricity produced from renewable sources pursuant to Article 11, paragraph 5 of Legislative Decree 79 of 16 March 1999". In abrogating the Ministerial Decrees of 11 November 1999 and 18 March 2002, this legislative decree laid down new rules for the qualification of renewable-energy source plants (RES-E plant qualification) and for the issuing of green certificates.

Ministerial Decree of 24 October 2005: with the provisions laid down by Article 11, first paragraph, the GSE (Italian national grid operator) adopted the technical procedures for qualification as RES-E plants (Italian acronym *IAFR* – plants fed by renewable sources) and for the issuing of green certificates, submitting them for approval by the Minister for Economic Development and the Minister for the Environment and Territorial and Marine Protection. These procedures were approved by way of Decree dated 21 December 2007, which was published, together with the procedures, in *Gazzetta Ufficiale* (Italian Official Journal) no.16 of 19/1/2008, ordinary supplement.

2007 Finance Law: Article 1, paragraph 1117 of Law 296 of 27 December 2006 established that, starting from 1 January 2007, government funding and incentives for the promotion of renewable energy sources can be granted solely for the production of electricity using renewable energy sources, as defined by Directive 2001/77/EC.

Law 222 of 29 November 2007 (so-called Accompaniment to the 2008 Finance Law, Article 26, paragraph 4-bis) and the **2008 Finance Law** (Law 244 of 24 December 2007) introduce further important changes concerning the incentivisation of energy produced by renewable source facilities.

By way of **Ministerial Decree dated 18 December 2008** (which abrogates Ministerial Decree dated 24 October 2005), the Minister for Economic Development, in agreement with the Minister for the Environment and Territorial and Marine Protection, implemented the items endorsed by the 2008 Finance Law and established the procedures for implementation of the new incentive mechanisms. This Ministerial Decree, also in order not to penalise investments underway, rules

that green certificates pertaining to productions matured and maturing up to the end of 2010 will, at their holders' request, be acquired by the *GSE*. This purchase, the application for which must be sent on or before 31 March of the year after the one to which certificates refer, will take place at a price equal to the market average during the three-year period prior to the year when the application is filed. The *GSE* will purchase the green certificates on or before 30 June.

The **2009 Community Law** enunciating the directive principles and criteria which were to be observed by the Government in its transposition of Directive 2009/28/EC on the promotion of the use of energy from renewable sources was definitively approved by the Italian Senate in fourth reading on 12 May 2010.

This transposition will be carried out through a specific legislative decree which, after obtainment of favourable opinions from the Unified Conference, the Italian Chamber's Production Activities and Environment Commissions and the Italian Senate's Industry Commission, such opinions having now been received, will be definitively approved by the Council of Ministers. This decree is expected to provide for the *GSE* to continue to purchase Green Certificates up until 2015, as operator of last resort, at a price corresponding to 78% of the product of 180 EUR/MWh less the average price of electricity for the previous year and, from 2016, for the Green Certificate incentive mechanism to be changed to a "tariff" regime.

BUSINESS DIVISIONS

WIND – ITALY

In Italy, ERG Renew operates in the generation of wind power, via its subsidiary ERG Eolica Italia S.r.l. There are currently 8 plants in operation: San Vincenzo (42 MW), San Cireo (30 MW), Faeto (24 MW), Viticuso (9 MW), Green Vicari (37.5 MW), Pian de Corsi Baltera (1.6 MW), Ascoli Satriano (61.8 MW) and Rotello (40 MW) with installed capacity in operation totalling 245.9 MW; the latter two wind farms, whose overall capacity totals 101.8 MW, belong to the company ERG Eolica Adriatica S.r.l.

Subject to plant availability, the results expected from each wind farm are clearly affected by the anemological (wind) characteristics of the site where the wind farm is located.

Operating profitability is also influenced by the selling price of electricity and green certificates, while net profitability is also affected by interest-rate trends.

ELECTRICITY AND GREEN CERTIFICATE SELLING PRICES

		2010	2009
ELECTRICITY/GREEN CERTIFICATE PRICES			
ELECTRICITY SELLING PRICES IN ITALY	EUR/MWH	65.43	66.42
GREEN CERTIFICATES 2010	EUR/MWH	87.25	N/A
GREEN CERTIFICATES 2009	EUR/MWH	N/A	88.37

Reference should be made to the explanatory notes in the next section “Summary of results” for the considerations made concerning the valuation of green certificates, in view of the (present and expected) trend of the related market and the electricity market.

SUMMARY OF RESULTS

		2010	2009
ECONOMIC RESULTS (EUR THOUSAND)			
OPERATING REVENUES		54,004	33,527
EBITDA		38,832	25,292
ADJUSTED EBITDA		38,832	25,292
AMORTISATION, DEPRECIATION AND WRITE-DOWNS		(29,366)	(15,252)
EBIT		9,466	10,040
INVESTMENTS IN TANGIBLE AND INTANGIBLE ASSETS		86,787	77,711
OPERATIONAL DATA			
PRODUCTION OUTPUT (MWH)		333,389	209,602
OF WHICH			
SAN VINCENZO		61,401	57,697
SAN CIREO		50,201	49,610
FAETO		38,875	26,445
VITICUSO		14,941	15,234
VICARI		74,613	59,363
PIAN DE CORSI BALTERA		1,183	1,253
ROTELLO		46,305	–
ASCOLI SATRIANO		45,870	–

In FY2010 operating **revenues** of the Wind Italy business increased by 61.1% over 2009, from EUR 33.5 to 54 million. This growth of EUR 20.5 million is ascribable both to the consolidation, with effect from 23 July 2010, of the new Ascoli Satriano and Rotello wind farms belonging to the company ERG Eolica Adriatica S.r.l., as has already been abundantly mentioned, and to the good output from the other wind farms. In fact, overall production, up from 209,602 MWh in 2009 to 333,389 MWh in 2010 (+59.1%), featured both the contribution of the new farms (92,175 MWh), and that of the other wind farms (241,214 MWh, up by 15.1%). On the other hand, we report that this positive performance in revenues was partly eroded by (i) the lower electricity selling price in Italy, down by 1.5% from 66.42 EUR/MWh in 2009 to 65.43 EUR/MWh in 2010 and (ii) the reduction in value assigned to green certificates, down by 1.3% from 88.37 EUR/MWh in 2009 to 87.25 EUR/MWh in 2010. As regards green certificates, their value was estimated based on the rules laid down by Ministerial Decree dated 18 December 2008, enacted by the Ministry for Economic Development in agreement with the Ministry for the Environment and Territorial and Marine Protection, and published in the Italian Official Journal (*Gazzetta Ufficiale*) on 12 January 2009, which regulated the transition from the old to the new incentive mechanism approved by the 2008 Finance Law. In effect, this decree, also in order to avoid penalising investments already underway, established that green certificates pertaining to production accrued and accruing up to the end of 2010 will, at their holders' request, be acquired by the GSE. This purchase, the application for which must be sent on or before 31 March of the year following the one to which the certificates refer, will take place at a price equal to the market average during the three-year period preceding the year of filing the application. The GSE will purchase the green certificates by 30 June. FY2010 is the last eligible period for taking advantage of the rules covered by the said decree. The Italian Government is therefore preparing a new legislative decree for the transposition of Directive 2009/28/EC on the use of energy from renewable sources: this decree, which has already been validated by the competent Chamber and Senate Commissions and is in the process of being enacted by the Council of Ministers, is expected to provide for the GSE to continue purchasing Green Certificates up until 2015, as operator of last resort, at a price corresponding to 78% of the product of 180 EUR/MWh less the average price of electricity for the previous year and, from 2016, for the Green Certificate incentive mechanism to be changed to a "tariff" regime. Lastly, we report that the growth in output and revenues continues to be negatively impacted by the upgrade interventions on the national transmission grid. In this connection, we report that in consideration of the lower electricity output during the year, the Company had assessed the indemnities under AEEG resolution 330/2007 pending indications from the GSE concerning the correct use of the algorithm pursuant to AEEG resolution 5/2010. These indications were received at the end of the financial year and involved a final assessment of revenues amounting to EUR 3.1 million, including both the adjustment for the first quarter of the year, and the indemnity pertaining to the last quarter.

FY2010 **EBITDA** for the wind Italy business was EUR 38.8 million, up by 53.5% compared to EUR 25.3 million in 2009. The growth was ascribable both to the contribution of the new Ascoli Satriano and Rotello wind farms and the higher output by the other wind farms. The increase was partially penalised, above all, by a provision for liabilities in the amount of EUR 2.1 million in respect of extraordinary interventions to recover some areas of the Vicari wind farm and a bad debt provision of EUR 1 million relating to a receivable considered by the company to be doubtful, as well as, to a marginal extent, by the negative trend in electricity selling prices and the value assigned to green certificates matured.

Amortisation and depreciation for the wind Italy business in FY2010 amounted to EUR 21.8 million, with an increase of EUR 6.5 million over EUR 15.3 million in 2009. This increase is mainly ascribable to the consolidation of the Ascoli Satriano and Rotello wind farms. The wind Italy business was also affected by **write-downs** of intangible assets following the impairment test

for the amount of EUR 7.6 million in reference to the Ginestra wind farm as a result of the anticipated scenarios and delays incurred in the plant's construction. A detailed description of this is provided in the Foreword.

In FY2010 **EBIT** for the wind Italy business was positive by EUR 9.5 million, down by EUR 0.5 million compared to EUR 10 million in 2009. The reasons are the same as those already described with regard to revenues, EBITDA, amortisation and depreciation and write-downs.

WIND – FRANCE

In France, ERG Renew operates in the sector of wind power generation via its subsidiary ERG Eolienne France S.a.s. There are currently 6 facilities with a total installed capacity of 64.4 MW, including 9.2 MW pertaining to the new Plogastel wind farm, which came into commercial operation at the end of April 2010.

SUMMARY OF RESULTS

	2010	2009
ECONOMIC RESULTS (EUR THOUSAND)		
OPERATING REVENUES	9,811	9,335
EBITDA	7,585	6,640
ADJUSTED EBITDA	7,585	6,640
AMORTISATION, DEPRECIATION AND WRITE-DOWNS	(19,503)	(6,988)
EBIT	(11,918)	(348)
INVESTMENTS IN TANGIBLE AND INTANGIBLE ASSETS	1,419	8,573
OPERATIONAL DATA		
PRODUCTION OUTPUT (MWH)	116,776	107,600
OF WHICH		
HETOMESNIL	20,890	21,399
LE MARDEAUX	21,589	21,249
LE CARREAU	21,572	21,337
LIHUS	20,733	19,943
LA BRUYERE	23,355	23,672
PLOGASTEL	8,637	–

FY2010 operating **revenues** of the wind France business, amounting to EUR 9.8 million, were up by 5.1% compared to EUR 9.3 million posted in 2009. This increase is due to the growth of 8.5% in electricity output, from 107,600 MWh in 2009 to 116,776 MWh in 2010, essentially owing to the contribution of the new Plogastel wind farm which came on stream last April and without which output would have increased only marginally by 0.5%. The foregoing was despite a drop in the electricity selling price, down from 85.68 EUR/MWh in 2009 to 85.09 EUR/MWh in 2010. This price – originally contractually agreed with the operator EDF at 82 EUR/MWh, including both the price of electricity sold and the incentive, valid for ten years and for a further five years according to the production performance of the wind farms – is indexed annually. The decrease with respect to 2009 is due to the reduction in some of the indices used to calculate the selling price.

The contribution of the wind France business to FY2010 consolidated **EBITDA** amounted to EUR 7.6 million, up by 14.2% compared to EUR 6.6 million in FY2009, for the reasons already explained with regard to revenues.

Amortisation and depreciation in FY2010, amounting to EUR 7.8 million, was up by EUR 0.8 million over FY2009 following the coming on stream last April of the new Plogastel wind farm.

The wind business in France also posted **write-downs** totalling EUR 11.7 million since, as a result of the periodic impairment test, a loss of value was identified for the equity investments pertaining to the wind farms in operation caused by the anticipated scenarios and the now consolidated anemological characteristics of the sites. A detailed description of this is provided in the Foreword.

EBIT of the wind France business in FY2010 was negative by EUR 11.9 million, with a net decline compared to the negative result of EUR 0.3 million posted in 2009.

WATER SERVICES

SUMMARY OF RESULTS

	2010	2009
ECONOMIC RESULTS (EUR THOUSAND)		
OPERATING REVENUES	8,341	6,820
EBITDA	2,012	1,060
ADJUSTED EBITDA	2,012	1,060
AMORTISATION, DEPRECIATION AND WRITE-DOWNS	(491)	(13,561)
EBIT	1,521	(12,501)
INVESTMENTS IN TANGIBLE AND INTANGIBLE ASSETS	339	1,940
OPERATIONAL DATA		
WASTE TREATED		
SODAI ITALIA – WASTE TREATED (M ³)	411,221	374,047
DSI - SERVIZI INDUSTRIALI - LIQUID WASTE TREATED (M ³)	41,122	36,296
DSI - SERVIZI INDUSTRIALI - SOLID WASTE TREATED (TONS)	7,993	5,102

FY2010 operating **revenues** of the water services business amounted to EUR 8.3 million, up by 22.3% compared to EUR 6.8 million in FY2009. The growth in revenues was due to the contributions from both SODAI (+13.3%) and DSI (+43.9%); the reasons stem, primarily, from the higher net volumes of liquid waste treated by both SODAI (+9.9%) and DSI (+13.3%); secondly, from the higher volumes of solid liquid waste treated by DSI (+56.7%), from an increase in the tariffs applied by DSI and SODAI compared to FY2009 and, lastly, from the new services provided by SODAI for Trenitalia.

FY2010 **EBITDA** for the water services business was positive by EUR 2 million, with an increase of EUR 0.9 million over FY2009. This positive trend is ascribable, apart from the reasons already mentioned regarding revenues, also to the margins generated by the new services performed by SODAI for Trenitalia. It should be noted that the EBITDA contributed by DSI, in the amount of EUR 0.2 million, has shown a downturn from the figure of EUR 0.3 million posted in FY2009, since last year the company recorded, as non-recurring income, an insurance indemnity pertaining to the fire which, in 2008, destroyed the solid waste crushing plant.

Amortisation and depreciation for the water services business in FY2010 totalled EUR 0.4 million, in line with FY2009. The financial year just concluded for the water services business did not feature the major write-downs that emerged at the end of FY2009.

In FY2010, **EBIT** for the water services business was positive by EUR 1.5 million, with an improvement of EUR 14 million over the negative result of EUR 12.5 million recorded in FY2009.

HOLDING DIVISION

	2010	2009
ECONOMIC RESULTS (EUR THOUSAND)		
REVENUES FROM ORDINARY OPERATIONS	511	233
EBITDA	(9,909)	(9,974)
ADJUSTED EBITDA	(9,909)	(9,974)
AMORTISATION, DEPRECIATION AND WRITE-DOWNS	(109)	(102)
EBIT	(10,018)	(10,076)
INVESTMENTS IN TANGIBLE AND INTANGIBLE ASSETS	409	295

The holding division's FY2010 **revenues** amounted to EUR 0.5 million and consisted of services rendered to affiliated companies and to the parent company ERG S.p.A.

In FY2010, **EBITDA** for the holding division was negative by EUR 9.9 million, in line with the result in 2009 when it was negative by EUR 10 million. This result reflects extraordinary charges of EUR 1 million pertaining to advisory services connected with the transaction for the purchase, finalised in July 2010, of the new Ascoli Satriano and Rotello wind farms, as well as advisory services of EUR 0.8 million in connection with other extraordinary operations currently being conducted and evaluated by the Company.

At **EBIT** level, in FY2010 the parent company posted a negative result of EUR 10 million, in line with the negative result of EUR 10.1 million recorded in FY2009, for the reasons already mentioned with regard to EBITDA.

INVESTMENTS

Investments made by the Group in FY2010 totalled EUR 89 million (EUR 88.8 million in FY2009). The following table shows the breakdown of investments by business division:

	2010	2009
INVESTMENTS (EUR THOUSAND)		
WIND ITALY	86,787	77,711
WIND FRANCE	1,419	8,573
TOTAL WIND	88,206	86,284
WATER SERVICES	339	1,940
HOLDING DIVISION	409	595
TOTAL	88,954	88,819

Investments, which almost exclusively concerned the wind business, were principally ascribable to the Fossa del Lupo (EUR 63.7 million) and Ginestra (EUR 22.1 million) wind farms. The 2010 investment budget of EUR 121 million closed at EUR 89 million, in view of the impossibility to realise the portion pertaining to the French Greneville wind farm, corresponding to EUR 30 million, following the failure to obtain authorisation (ZDE – Zone de Développement Éolien), which is expected to be received during 2011. However, the extent of overall investments during the course of the plan period is confirmed.

RISK MANAGEMENT DISCLOSURE

In performing its business activity, the Company encounters risks respectively arising from external factors relating to the reference macroeconomic scenario or to the sector where the Group operates, from strategic management choices made that expose it to specific risks and from internal risks of normal operational management.

The main risks to which the Group is exposed are summarised below.

RISK RELATING TO ERG RENEW PROFITABILITY

ERG Renew's future profitability is significantly affected by the trend in scenario variables beyond the Company's control, including the windiness of wind farms, which affects expected energy output, and assumptions concerning the price of electricity sold and the value of green certificates. More specifically, as indicated in the chapter "Summary of results", the scenario regulating the price of energy and green certificates is undergoing significant evolution with impacts that can today be determined with certainty.

Reference is made to the section "Foreword – Impairment test" for considerations regarding the risk of recoverability of non-current assets pertaining to the wind sector due to the uncertainties of the reference scenario concerning the Group's profitability.

RISK RELATING TO ERG RENEW'S MARKET

ERG Renew, as a constructor of electricity-generating plants, operates in a sector that is heavily dependent on significant structural investments. These activities involve the delivery and assembly of components, such as wind turbines for the wind farms, that only a very small number of suppliers is able to provide.

The possible interruption of business relations with any of these suppliers could cause the company a problem with the sourcing of key components, also for operation and maintenance purposes, or an increase in the costs and timing required in order to obtain such components from other suppliers.

Moreover, given the rapid growth in the demand for components, as a result of market expansion, characterised by an increasing level of competition between operators due to limited production capacity on the part of suppliers, there is a risk that certain suppliers may not be able to meet ERG Renew's demand or, again, that the price of such components may notably increase. This implies that, if the company should consider it appropriate to sign prior framework agreements with manufacturers of wind turbines even before having the certainty of the final destination of same in order to reduce lead times, the company would be exposed, in the event that the related orders are not issued as per contract, to the risk of failure to recover the "reservation fees" paid to the wind turbine manufacturers, as they would be withheld by the manufacturers as penalty.

Such occurrences might therefore have repercussions for ERG Renew as regards the construction of plants for which the supply has not yet been assured or on their construction in observance of the timing scheduled by the company, with negative consequences on economic and financial results.

RISK RELATING TO WIND FARM APPROVAL PROCESS

The creation of wind farms requires numerous authorisations or permits to be issued by the competent public authorities. More specifically, the approval process is particularly complex and, assuming availability of the site and the absence of any particular no-go factors, it is generally completed in a period of between one to three years. Therefore, ERG Renew cannot guarantee the favourable outcome of approval processes for farms under development.

Furthermore, failure to obtain the necessary authorisations or permits, or their subsequent repeal or cancellation may, respectively, delay or interrupt the construction and start-up of plants or cause an interruption or suspension of wind farms already operational – also because of the administrative dispute necessarily deriving from such circumstances.

Some Italian regions (specifically Basilicata and Calabria), via regional laws or administrative measures, have established moratoriums designed to postpone the procedures for obtaining the authorisations required for the construction of wind farms, pending approval of the Regional Energy and Environment Plan or the Regional Landscape Plan by the competent authorities, suspending all ongoing approval processes.

It cannot be excluded that other Italian regional governments may adopt similar moratorium measures. In such an event, these measures could delay approval processes for the construction of new wind farms and hinder expansion of ERG Renew's power generation business, with a consequent negative impact on the balance sheet and on economic and financial results.

As a result of the foregoing, starting from the 2008 financial year, the Company has deemed it appropriate to capitalise the development costs pertaining to new wind farms only as from the time when authorisation has been obtained.

RISK RELATING TO PROJECT-FINANCING CONTRACTS

The ERG Renew Group produces electricity from renewable energy sources via plants whose construction is predominantly financed by means of non-recourse project financing contracts, which are based solely on the repayment capacity of the vehicle financed.

These loan agreements envisage certain restrictions regarding the use of financial resources, during both the construction of plants and their operation. In addition, these agreements envisage that – in case of failure to comply with the above restrictions or with certain financial indicators, or if particularly serious events, facts or circumstances occur (such as insolvency, unpaid debt positions, specific contractual defaults or repeal of approvals) and if the matter

is not remedied within the established timeframe – the financing institutions have the right, *inter alia*, to apply the acceleration clause and to terminate the agreement, with consequent full repayment obligation by the established deadline and with possible prejudicial effects on the Group's economic and financial results.

Loans are also assisted by the usual pledges and guarantees in favour of the financing institutions, which include pledging of equity interests in the operating vehicles, creation of mortgages on buildings and special lien to plants, pledging of current accounts, and assignment as collateral of receivables arising from the grants allocated. We also point out that, pursuant to the loan agreements, cash balances held by the companies owning wind farms funded by means of project financing are subject to restriction.

INTEREST RATE RISK

The Group is exposed to interest rate risk due to the fact that its outstanding financial debt envisages the payment of financial charges calculated primarily on the basis of variable interest rates, above all linked to the Euribor.

In order to reduce the impact of this risk, ERG Renew has entered into long-term interest rate swap contracts designed to maintain its interest rates within pre-established ranges. As regards the project financing arrangements in place at ERG Renew's subsidiaries, the portion hedged varies from 50% to 100%.

However, there can be no certainty that the policies for managing interest rate risk set up by ERG Renew and its subsidiaries will be sufficient to – totally or partially – prevent any negative effects on the Group's results. Moreover, a rise in interest rates, if any, may cause an increase in the costs relating to debt financing or refinancing, with an adverse impact on Group results.

RISK RELATING TO OPERATING LEVERAGE

A significant percentage of the costs borne by ERG Renew consists of overhead expenses that are not affected by the quantity of electricity sold or green certificates assigned. Although ERG Renew is constantly committed to controlling costs, the possible impact of reductions, if any, in electricity selling prices and green certificate prices cannot be excluded.

SUMMARY OF FINANCIAL STATEMENTS

RECLASSIFIED INCOME STATEMENT

(EUR THOUSAND)	2010	2009
OPERATING REVENUES	72,667	49,915
OTHER REVENUES AND INCOME	2,011	4,560
TOTAL REVENUES	74,678	54,475
PURCHASE OF RAW, ANCILLARY AND CONSUMABLE MATERIALS AND GOODS FOR RESALE	(544)	(591)
SERVICES	(24,033)	(21,772)
PERSONNEL COSTS	(5,131)	(5,891)
OTHER OPERATING COSTS	(6,450)	(3,203)
EBITDA	38,520	23,018
AMORTISATION AND DEPRECIATION	(29,942)	(22,784)
WRITE-DOWNS	(19,527)	(13,121)
EBIT	(10,949)	(12,887)
NET FINANCIAL INCOME (EXPENSE)	(15,306)	(11,292)
INCOME (LOSS) FROM EQUITY INVESTMENTS	(674)	(3,876)
PROFIT BEFORE TAXES	(26,929)	(28,055)
INCOME TAXES	10,342	2,470
MINORITY INTERESTS	(219)	(186)
RESULT FROM DISCONTINUED OPERATIONS	953	(2,181)
GROUP NET PROFIT (LOSS)	(15,853)	(27,952)

The operating components contributing to EBIT have already been discussed in the above chapter "Comments on results for the year".

NET FINANCIAL INCOME (EXPENSES)

FY2010 net financial expenses totalled EUR 15.3 million, up by EUR 4 million over FY2009. This increase was due above all to the consolidation of indebtedness pertaining to the new Ascoli Satriano and Rotello wind farms and the growth in ERG Renew's debt vis-à-vis ERG S.p.A.; moreover, this cost item reflects a write-down of EUR 1.3 million in relation to all financial receivables due from the 50% investee company CITA Wind.

NET INCOME (LOSS) FROM EQUITY INVESTMENTS

The net loss from equity investments in FY2010 amounted to EUR 0.7 million: this loss concerns the valuation of the 50% stake held in the French company CITA Wind, valued at equity, as well as, to a marginal extent, the 51% investee company ISAB Energy Solare S.r.l., also valued at equity. Last December the latter company completed the construction of a 1 MW photovoltaic plant at the industrial site in Priolo Gargallo (Syracuse), which will become fully operational within the first six months of 2011.

INCOME TAXES

FY2010 income taxes show a positive balance of EUR 10.3 million: this figure reflects benefits totalling EUR 7.2 million, available to the subsidiary ERG Eolica Ginestra S.r.l., deriving from the so-called "Tremonti-ter" tax relief, and, secondly, the positive effect of deferred tax assets recognised. As regards the "Tremonti-ter" tax relief, the Directors point out that, notwithstanding the regulatory uncertainties that emerged during the months of September

and October concerning the cumulability of the “Tremonti-ter” tax relief and the green certificates incentive system, they consider that the position adopted by the Government Lawyers (*Avvocatura di Stato*) on 18 January 2011 in favour of such cumulability, as well as the confirmation expected to be given by way of legislative decree concerning the renewables sector already executed by the respective Chamber and Senate Commissions and pending definitive enactment on the part of the Council of Ministers, have strengthened the assumptions for maintaining the said tax relief provision.

RESULT FROM DISCONTINUED OPERATIONS

The profit of EUR 1 million from discontinued operations in FY2010 refers to the recognition and payment of a tax earn-out of EUR 1.6 million accrued by ERG Renew up to 31 December 2008 on the sale to ACEA S.p.A. in July 2006 of the investment in TAD Energia Ambiente S.p.A. (waste to energy/waste management) and matured following the utilisation of part of the prior years’ tax losses generated by TAD Energia Ambiente S.p.A. and its subsidiaries during the financial years preceding the sale closing. This positive result was partially offset by the negative performance during the period of the hydroelectric power plant business and the disposal of same which took place during the months of June and July 2010. In fact, following the agreement signed on 30 June 2010 with regard to the sale of the investments held in the companies Ecopower S.r.l. (100%) and I.S.E.A. S.r.l. (90%), the former perfected by way of relative closing on the same date and the latter on 30 July 2010, the result in question was removed from ordinary operations and reclassified accordingly.

RECLASSIFIED BALANCE SHEET

(EUR THOUSAND)	12/31/2010	12/31/2009	09/30/2010
CAPITAL ASSETS	692,876	401,908	685,141
TANGIBLE ASSETS	570,327	325,541	545,156
INTANGIBLE ASSETS	118,444	74,405	138,313
FINANCIAL ASSETS	4,105	1,962	1,672
WORKING CAPITAL	83,686	(3,124)	66,968
INVENTORIES	–	–	–
TRADE RECEIVABLES	19,685	11,048	12,266
OTHER ASSETS	123,464	72,520	120,870
TRADE PAYABLES	(14,201)	(52,430)	(16,019)
PROVISION FOR LIABILITIES AND CHARGES	(4,134)	(7,930)	(4,272)
OTHER LIABILITIES	(41,128)	(26,332)	(45,877)
EMPLOYEE LEAVING INDEMNITY	(615)	(489)	(560)
NET INVESTED CAPITAL	775,947	398,295	751,549
SHAREHOLDERS’ EQUITY	93,905	107,258	100,034
PARENT COMPANY	93,251	106,823	99,518
MINORITY INTEREST	654	435	516
NET FINANCIAL DEBT	682,042	291,037	651,515
SHAREHOLDERS’ EQUITY AND FINANCIAL DEBT	775,947	398,295	751,549

At 31 December 2010 net invested capital amounted to EUR 775.9 million, up by EUR 377.6 million compared to EUR 398.3 million at 31 December 2009. The increase was almost exclusively due to consolidation of the new equity investment in ERG Eolica Adriatica S.r.l. Financial leverage, expressed as the ratio of total net financial debt to net invested capital, was 87.9% (73.1% at 31 December 2009).

CAPITAL ASSETS

Capital assets, amounting to EUR 692.9 million, include tangible, intangible and financial assets. The increase of EUR 291 million over 31 December 2009 is ascribable, first of all, to the consolidation of the new investment in ERG Eolica Adriatica S.r.l., owner of the new Ascoli Satriano and Rotello wind farms, and, secondly, to the investments carried out during the year in the wind business.

WORKING CAPITAL

Net working capital rose by 86.8 million, from a negative balance of EUR 3.1 million at 31 December 2009 to a positive balance of EUR 83.7 million at 31 December 2010.

This increase is ascribable, first of all, to the consolidation of the new investment in ERG Eolica Adriatica, owner of the new Ascoli Satriano and Rotello wind farms, and, secondly, to the investments carried out in the wind energy business.

CONSOLIDATED NET FINANCIAL POSITION

From an operational standpoint, the consolidated Net Financial Position is detailed as follows:

(EUR THOUSAND)	12/31/2010	12/31/2009
CURRENT FINANCIAL ASSETS	74,872	58,381
PARENT COMPANIES	–	–
GROUP COMPANIES	–	–
THIRD PARTIES	49	17
CASH AND CASH EQUIVALENTS	70,653	53,995
CASH AND CASH EQUIVALENTS UNDER LIEN	4,170	4,170
RECEIVABLES FROM DERIVATIVE INSTRUMENTS	–	199
CURRENT FINANCIAL LIABILITIES	(60,037)	(60,022)
PARENT COMPANIES	(237)	(237)
ASSOCIATE COMPANIES	(353)	(240)
THIRD PARTIES	(57,603)	(54,183)
DERIVATIVE INSTRUMENTS	(1,844)	(5,362)
CURRENT FINANCIAL POSITION	14,835	(1,641)
NON-CURRENT FINANCIAL ASSETS	–	–
ASSOCIATE COMPANIES	–	–
THIRD PARTIES	–	–
NON-CURRENT FINANCIAL LIABILITIES	(696,877)	(289,396)
PARENT COMPANIES	(284,431)	(118,802)
GROUP COMPANIES	–	–
THIRD PARTIES	(379,416)	(169,647)
OTHER LENDERS	(4,840)	(947)
DERIVATIVE INSTRUMENTS	(28,190)	–
NON-CURRENT NET FINANCIAL POSITION	(696,877)	(289,396)
NET FINANCIAL POSITION	(682,042)	(291,037)

At 31 December 2010, the **consolidated net financial position** featured a net debt of EUR 682 million, with an increase of EUR 391 million over the net debt at 31 December 2009. This major growth in debt is mainly ascribable to (i) the consolidation of the net debt pertaining to ERG Eolica Adriatica – in the amount of EUR 210 million including EUR 190.4 of project financing – which owns the new Ascoli Satriano and Rotello wind farms acquired in July 2010; (ii) the further increase of EUR 165.6 million in the debt vis-à-vis ERG S.p.A. which, through a specific credit line for a maximum amount of EUR 311 million made available to ERG Renew, enabled the latter to support investments, complete the acquisition of the equity interest referred to in point (i) and cover ordinary and current operations.

Current financial assets, amounting to EUR 74.9 million, concern above all cash and cash equivalents of EUR 70.7 million primarily relating to the wind energy business and therefore with restricted availability under the project financings and EUR 4.2 million pledged as collateral for the granting of suretyships.

Current financial liabilities, amounting to EUR 60 million, mainly comprise:

- Financial payables of EUR 57.6 million due to third parties, of which EUR 33.2 million as short-term portion of the non-recourse debt relating to the wind business project financing, EUR 9.2 million as short-term portion of two medium/long-term credit lines available to the parent company ERG Renew and EUR 14.9 million in current account overdrafts;
- Derivatives payable of EUR 1.8 million concerning the put option for the same amount granted to Gepafin S.p.A. in October 2003 on its 0.27% stake in Ansaldo Fuel Cells S.p.A., in respect of which the exercise deadline of 29 January 2009 was punctually met. Moreover, by way of information, we point out that ERG Renew considered the option right to be non-existent and notified the counterparty of its objection to the exercise.

Non-current financial liabilities, totalling EUR 696.9 million, mainly comprise:

- EUR 284.4 million as balance utilised under the credit line made available up to the amount of EUR 311 million by the parent company ERG S.p.A. since February 2009 in order, primarily, to bring back under ERG Renew the outstanding debt of some of the former subsidiaries of ERG Power & Gas vis-à-vis the latter; secondly, to provide financial support for the investments carried out by ERG Renew during 2009 and the first nine months of 2010; thirdly, to support the acquisition of the investment in ERG Eolica Adriatica S.r.l. and regarding which the parent company ERG S.p.A. has made available a specific credit line up to the amount of EUR 80 million, of which at 31 December 2010 the amount of EUR 71 million was utilised; and, lastly, to cover the funding requirements arising from ERG Renew's ordinary and current operations;
- EUR 379.4 million, including EUR 359.9 million as medium/long-term portion of the non-recourse debt relating to the wind business project financing and EUR 19.5 million as medium/long-term portion of two credit lines available to the parent company ERG Renew;
- EUR 28.1 million for derivatives contracts executed by the wind companies to cover the interest rate risk on project financings.

RESEARCH AND DEVELOPMENT ACTIVITIES

ERG Renew directly performs research and development activities in the field of so-called organic photovoltaics through the DyePower Consortium, in which the company holds a stake of 24.7%, together with the companies Permasteelisa and Dysol Italia and the Universities of Ferrara, Turin and Rome "Tor Vergata".

ENVIRONMENT, HEALTH AND SAFETY

In keeping with ERG Renew's policy on Health, Safety, Environment and Quality, during 2010 inspections were carried out for the renewal of integrated environmental and quality management system certification, in compliance respectively with the UNI EN ISO 9001:2008 and UNI EN ISO 14001:2004 rules. Carried out during the same period were the renewal inspections for the integrated environmental and quality management system certifications of subsidiaries ERG Eolica San Vincenzo S.r.l. and ERG Eolica San Cireo S.r.l. and the upkeep inspection as regards ERG Eolica Faeto S.r.l., in reference to the aforesaid rules.

The company DSI has implemented an integrated environmental, safety and quality management system for its hazardous and non-hazardous special waste materials storage and treatment facility located in Frosinone, in compliance respectively with UNI EN ISO 9001:2000, UNI EN ISO 14001:2004 and BS-OHSAS 18001:2007 rules, as well as Regulation (EC) no.761 of the European Parliament and Council dated 19 March 2001, for which, in 2010, it obtained EMAS registration. Moreover, in 2010, DSI S.r.l. obtained the important integrated Quality, Safety and Environmental management system recognition.

SIGNIFICANT EVENTS AFTER THE END OF THE FINANCIAL YEAR

On **13 January 2011** the Board of Directors of ERG Renew approved the Statement envisaged by Article 103, 3rd paragraph of Legislative Decree 58/98 ("Consolidated Law on Finance - TUF") and Article 39 of the Regulations adopted by CONSOB under resolution no. 11971 dated 14 May 1991 and subsequent amendments ("Issuers' Regulations"), in relation to the Voluntary Tender Offer launched by the parent company ERG S.p.A. ("Offeror") in accordance with Article 102 of the TUF on all shares of ERG Renew not already owned by the Offeror, corresponding to 17.36% of share capital. The Board of Directors also noted the fairness opinion issued by the independent financial advisor Merrill Lynch International, who declared that, from a financial standpoint, the price of EUR 0.97 EUR per share proposed by the Offeror is fair.

On **16 February 2011** the Board of Directors of ERG Renew approved the findings of the impairment test described in the "Foreword".

On **23 February 2011** the parent company ERG S.p.A. notified ERG Renew of its irrevocable commitment to continue supporting the company's financial requirements, albeit subject to terms and conditions currently being reviewed and defined.

BUSINESS OUTLOOK

ERG Renew will continue to carry out the consequent actions for implementation of the 2010-2013 Business Plan approved by the Board of Directors on 2 March 2010. This will be done with the support of ERG S.p.A., the latter having notified to ERG Renew its irrevocable commitment to continue sustaining the company's financial needs by increasing, from EUR 231 million to EUR 307 million, the credit line finalised to meet requirements for the implementation of the 2011 business plan and to cover ordinary and current operations, extending the credit line's availment period up until 31 December 2011 and extending the credit line's maturity date from 31 December 2011 to 31 December 2012. All other terms and conditions of the agreement including the amount of EUR 80 million and the maturity date of 31 December 2015 as regards an additional tranche of the loan transaction remain unchanged.

WIND – ITALY

The Ginestra wind farm (40 MW) will commence production during the first quarter of 2011. Construction of the Fossa del Lupo wind farm is scheduled for completion during the first six months of 2011 and is expected to come on stream during the second half of 2011. The possible continuation of congestion on the National Transmission Grid in Puglia could penalise output as regards the wind farms in this region, in any case in line with the restrictions suffered during 2010. To a marginal extent, the phenomenon might also affect the Vicari wind farm in Sicily.

WIND – FRANCE

The construction authorisation (*ZDE*) for the Greneville wind farm, originally anticipated for the first few months of 2010, is considered obtainable during the current year.

PHOTOVOLTAICS

The next generation solar power (so-called organic photovoltaics) research and development activity, in partnership with Permasteelisa, Dyesol and some Italian Universities, will continue. More specifically, once the activities preparatory to planning the pilot line have been completed, the plan is to proceed with the implementation phase in the first half of 2011. During the first six months of 2011 the approximately 1 MW photovoltaic plant at the ISAB Energy industrial site in Priolo Gargallo (Syracuse) will come on stream.

WATER SERVICES

As already mentioned, the companies SODAI Italia S.p.A. and DSI S.r.l., which are no longer considered strategic, are to be sold. The relevant negotiations are at an advanced stage.

The Directors call attention to the possibility that facts, unknown as at the present time, may arise and could affect the implementation of some of the actions described above.

ONGOING RISKS AND DISPUTES

ERG Renew is a party to civil and administrative proceedings and legal actions in connection with its normal course of business. However, on the basis of information currently available and considering the risk provisions that have been appropriated, such proceedings and actions are not expected to give rise to significant negative effects on the consolidated financial statements.

We report that the company SAO S.p.A., until 4 July 2006 indirectly controlled by ERG Renew, is a party to proceedings of a fiscal nature. ERG Renew is involved due to the contractual guarantee granted to ACEA S.p.A., which at present indirectly controls 100% of SAO S.p.A., in connection with liabilities that arose subsequent to the sale closing but pertaining to the pre-sale period, as well as under a tax consolidation agreement existing at the time with all the companies then sold to ACEA S.p.A. Based on the assessments carried out with the assistance of its outside tax and legal consultants, ERG Renew considers the requests to be unfounded and has not, therefore, made any provision.

ERG RENEW S.P.A. OPERATIONAL AND FINANCIAL PERFORMANCE

We should first of all point out that the ERG Renew S.p.A. 2010 Financial Statements were drawn up in accordance with international accounting standards (IASs/IFRSs)

(EUR THOUSAND)	2010	2009
MAIN DATA		
REVENUES FROM SALES AND SERVICES	4,256	3,169
NET PROFIT (LOSS)	(17,749)	(22,647)
NET FINANCIAL POSITION	30,792	43,166

For ERG Renew S.p.A. FY2010 closed with **revenues from sales and services** of EUR 4.3 million, up by EUR 1.1 million compared to FY2009.

Net profit (loss) amounted to a negative EUR 17.7 million, with an improvement of EUR 4.9 million over FY2009, which closed with a loss of EUR 22.6 million.

The **net financial position** showed a positive balance of EUR 30.8 million, with a decrease of EUR 12.4 million compared to the balance of EUR 43.2 million at 31 December 2009.

BOARD COMMITTEES

During FY2010 the Internal Control Committee met on 12 January, 24 February, 11 May, 21 June, 2 August, 9 November and 13 December. The Nominations and Remuneration Committee met on 11 May, 21 June, 2 August and 13 December.

CORPORATE GOVERNANCE CODE

The Company has adopted the new Corporate Governance Code as recommended by Borsa Italiana in March 2006. Its application took place during 2007.

We point out that the "2010 Annual Corporate Governance Report", drawn up in accordance with the principles and guidelines of the new Corporate Governance Code, is annexed hereto. It should be noted that the Annual Corporate Governance Report and a copy of the Codes currently in force may also be obtained from the Company's registered office and on the website www.ergrenew.it.

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

The members of the Board of Directors and control bodies, strategically accountable managers, as well as their spouses not legally separated and under-age children, whether directly or through subsidiaries, trust companies or interposed persons, as appears from the register of shareholders, communications received and other information acquired from the members of the Board of Directors and control bodies, the general managers and strategically accountable managers, do not own shares of the issuer or shares or holdings in its subsidiaries.

TRANSACTIONS WITH PARENT, SUBSIDIARY AND ASSOCIATE COMPANIES

ERG Renew has dealings with the parent and affiliated companies, which provide it with services concerning:

- cash management;
- provision of administration, legal, personnel management and organisational services;
- property rental;
- management of communal services;
- purchase and re-billing of utilities.

During the course of 2010 ERG Renew was charged a total amount of EUR 3 million in connection with all staff services received from either the parent company ERG S.p.A. or affiliated company ERG Power & Gas S.p.A.

Reference should be made to the notes of the separate financial statements for a detailed quantitative analysis of these transactions in absolute terms and relative to the total assets and liabilities and total costs and revenues indicated in the separate financial statements.

MANAGEMENT AND COORDINATION BY ERG S.P.A.

ERG Renew is subject to management and coordination by ERG S.p.A., the scope of which is currently represented by the definition of business strategies, the indication of strategic guidelines for organisational aspects and personnel policies at a macro level, strategic finance management, management of communication policies and institutional relations, centralised management of corporate compliance, legal support for the most significant transactions, definition of common policies for internal audit and corporate security.

Set out below are the agenda items subjected to resolution by the ERG Renew Board of Directors in connection with the management and coordination activities performed by the ultimate Parent Company:

- Board meeting of 12 January 2010:
 - agenda item 1: Review and approval of the 2010 Investment Budget
- Board meeting of 11 May 2010:
 - agenda item 6: Remuneration of Directors appointed to special offices pursuant to Article 2389, third paragraph, of the Italian Civil Code
- Board meeting of 3 August 2010:
 - agenda item 2: Quarterly forecast regarding the trend in the annual investment budget of ERG Renew S.p.A. and its operating subsidiaries
- Board meeting of 13 December 2010:
 - agenda item 1: Review and approval of the 2011 Investment Budget

The following table shows the main figures of the parent company ERG S.p.A.

(EUR THOUSAND)	2009
ERG S.P.A. - MAIN DATA	
SHARE CAPITAL	15,032
TOTAL SHAREHOLDERS' EQUITY	869,109
TOTAL ASSETS	1,940,630
NET INCOME FROM EQUITY INVESTMENTS	744,204
OTHER OPERATING INCOME	30,649
NET PROFIT (LOSS)	698,258

MANAGEMENT AND COORDINATION BY ERG RENEW S.P.A.

ERG Renew subjects its subsidiary and associate companies to management and coordination. With these companies it has financial dealings regulated by normal market conditions. It supplies them with technical services concerning the development, design, construction and operation of wind farms and hydroelectric power plants. Reference should be made to the explanatory notes of the separate financial statements for a detailed quantitative analysis of these transactions in absolute terms and relative to the total assets and liabilities and total costs and revenues indicated in the separate financial statements.

TREASURY SHARES AND PARENT COMPANY SHARES OR QUOTAS OWNED

In compliance with Article 2428, paragraph 2, point 3 of the Italian Civil Code, it is herewith specified that, as at 31 December 2010, the Company did not own any treasury shares or shares in its parent companies.

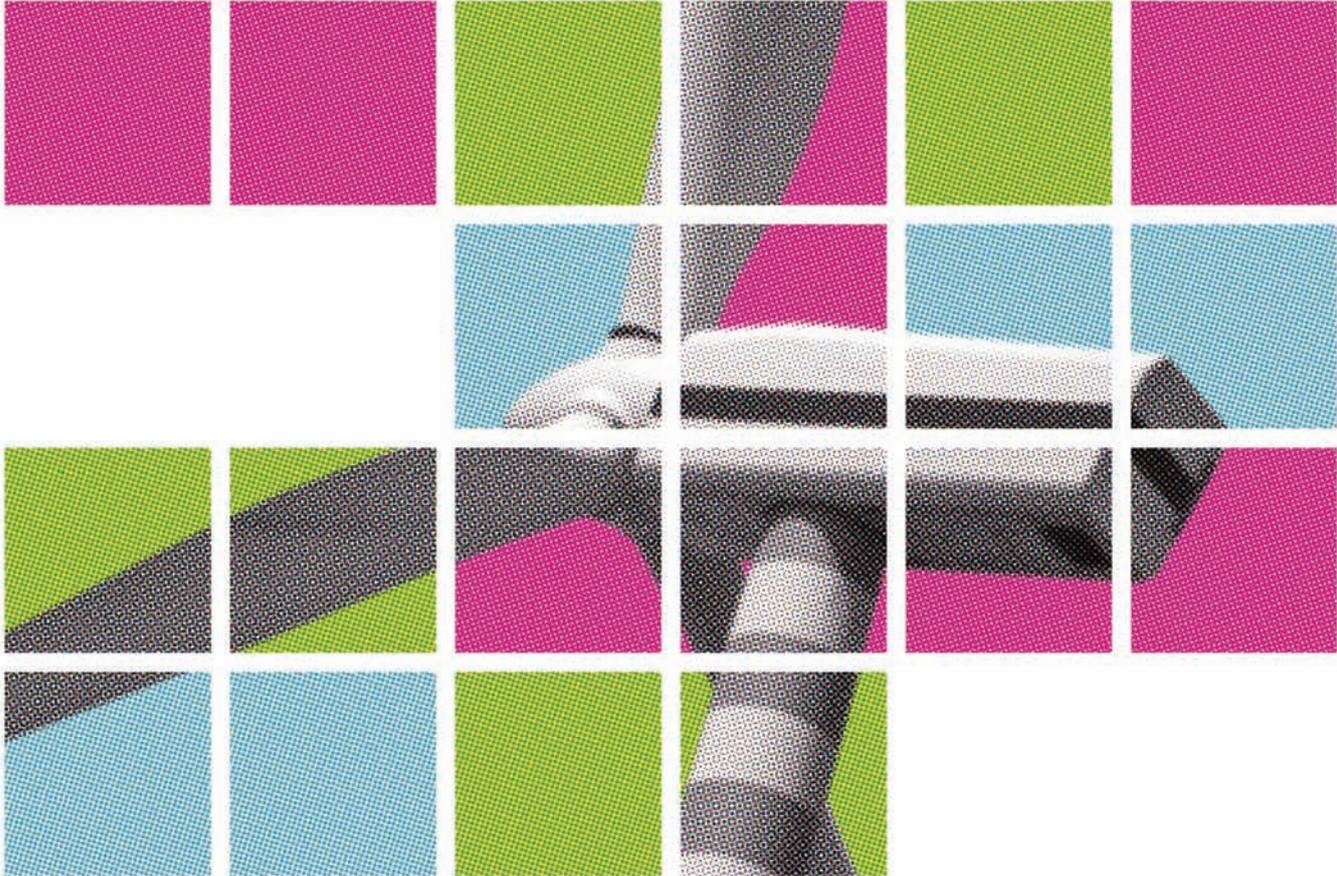
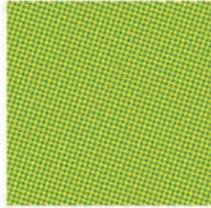
TREASURY SHARES AND PARENT COMPANY SHARES OR QUOTAS PURCHASED OR SOLD DURING THE YEAR

In compliance with Article 2428, paragraph 2, point 4 of the Italian Civil Code, it is herewith specified that during the year the Company did not acquire or sell any treasury shares or shares in its parent companies.

PRIVACY PROTECTION

During the course of 2010 the Company duly updated the "Security Policy Document" drawn up pursuant to Article 34, paragraph 1.g) of Legislative Decree 196/03 (Privacy Code), in the manners set forth by the "Technical regulations on minimum security measures", as per Annex B to the Code. The Security Policy Document represents the cornerstone via which the Company defines, promotes and updates its respective security policies in order to guarantee a sufficient level of protection for personal data being handled by persons in charge, with or without the use of computer tools, in full observance of the provisions laid down by the laws on personal data protection.

CORPORATE GOVERNANCE REPORT AND OWNERSHIP STRUCTURE



CORPORATE GOVERNANCE REPORT AND OWNERSHIP STRUCTURE

In compliance with current legislation on such matters, the Annual Corporate Governance Report provides a detailed description of the Corporate Governance procedure and the behavioural rules set up by the Company to ensure a correct and transparent governance and control system. In particular, emphasis is placed on information of a general nature concerning the Company, also including the description of ownership structures pursuant to Article 123 *bis* of the Consolidated Law on Finance (“TUF”), as well as the level of application of the recommendations contained in the individual principles and criteria expressed in the Corporate Governance Code for Listed Companies promoted by Borsa Italiana S.p.A. in the various editions issued from time to time, as last amended on 3 March 2010 (“Corporate Governance Code”) – available to the public on Borsa Italiana S.p.A.’s website (www.borsaitaliana.it) – and in keeping with current best practices at national and international level.

For such purpose appended at the foot of this report is a schedule¹ indicating which of the recommendations contained in the Corporate Governance Code have actually been adopted and, therefore, applied by the Company.

Moreover, with a view to ensuring a concise and intuitive disclosure, the data and information provided are set out at the end of this report in tabular form.

The text of the Articles of Association was last amended, by way of resolution of the Board of Directors dated 26 October 2010, in order to bring same into line with the mandatory provisions set forth by Legislative Decree no. 27 of 27 January 2010, on the matter of Shareholders’ Rights.

The present Corporate Governance structure has been achieved via the progressive introduction of rules of conduct in keeping with the most advanced principles recognised in this connection. This corporate policy has been implemented through:

- adoption of a Compensation Plan designed to align management interests with those of shareholders and reinforce the relationship between managers and the Company in terms of their sensitivity to the value of action and continuity over time;
- adoption of a Code of Ethics, shared with the ERG Group, as a tool for defining and communicating the Company’s duties and responsibilities to its stakeholders and as an essential element of an organisation and management model consistent with the provisions of Legislative Decree 231/2001, as amended;
- the presence of independent directors on the Board of Directors;
- adoption of the Corporate Governance Code for Listed Companies, as most recently amended in 2010 by the Borsa Italiana S.p.A. Corporate Governance Committee;
- adoption of the Code of Conduct for Directors of ERG Group companies, as revised on 10 November 2009;
- the definition of Guidelines for identification and execution of significant transactions and other corporate governance documents designed to ensure transparent and timely management of market relations;
- amendment of the Company’s Articles of Association to bring them into line with the regulatory changes introduced by the Company Law Reform and legislative provisions on the matter of Shareholders’ Rights;
- adoption of a specific process designed to ensure the substantive and procedural transparency and correctness of related party transactions carried out directly by ERG Renew S.p.A. or through subsidiaries of same.

¹ See Table 3 below.

The Company has always focused attention on fair relations between management and shareholders and the objective of creating value through its business operations. This policy has been implemented through:

- coordinated delegations of authority on the Board of Directors to ensure, on the one hand, that management authority and responsibilities are clear and complete and, on the other hand, that the activities performed are monitored and the results achieved assessed;
- systematic and adequate reports to the Board of Directors on actions taken in the course of exercising management authority and responsibilities;
- adoption of specific procedures to determine the remuneration of Directors and management.

This report is available in the specific section of the website www.ergrenew.it

ORGANISATION OF THE COMPANY

In keeping with Italian legislation on listed companies, the Company's organisation comprises the following:

- 1) a Board of Directors with responsibility for ordinary and extraordinary management;
- 2) a Board of Statutory Auditors with responsibility for monitoring: (i) compliance with the law and the Articles of Association, (ii) compliance with principles of fair management, (iii) the adequacy of the organisational structure, internal control system and the Company's administrative and accounting system, (iv) the financial reporting process, (v) the efficacy of internal control, internal audit and risk management systems, (vi) the legal review of annual accounts and consolidated accounts, (vii) the independence of the auditing firm, particularly as regards the performance of non-audit services for the entity subject to legal review of accounts;
- 3) an Internal Control Committee and a Nominations and Remuneration Committee with responsibility for, *inter alia*: (i) proposing director candidates to the Board of Directors upon the request of same, in the case set forth by Article 2386, first paragraph of the Italian Civil Code, whenever the need arises to replace an independent director; (ii) assessing, on specific request from the shareholders who intend to submit voting lists, the independence of director candidates to be proposed to the Company Shareholders' Meeting; (iii) on an annual basis, providing the Board of Directors with an appraisal regarding the Board's size, composition and functions, possibly expressing an opinion on the professionals it believes should sit on the Board; (iv) expressing an opinion regarding the maximum number of positions that should be held as director or statutory auditor at other companies listed on regulated markets, including foreign markets, at financial companies, banks, insurance companies or companies of a considerably large size, such as might be considered compatible with an efficient performance of the office of Director of the Company;
- 4) a Strategic Committee, delegated with consultative and advisory duties vis-à-vis the Boards of Directors of the Company and the subsidiaries, to be implemented through the preparation of evaluations and expression of opinions regarding the definition of business and financial strategies and individual significant transactions. The Strategic Committee maintains appropriate ties with the Committee set up at the parent company, ERG S.p.A., examines the long-term strategic plans and investment budget of the Company and of the subsidiary and/or affiliated operating companies, as well as major investments, evaluating the strategic appropriateness of same, defining any "toll gates," the specific Final Decision Process (FDP) and related follow-up.
Again with regard to significant investments, the Committee also assesses the economic and financial analyses for individual investments and, if necessary, the material aspects of a legal, corporate, administrative, tax and financial nature;
- 5) a Chief Executive Officer (see section on Composition of the Board of Directors);

- 6) a Shareholders' Meeting with competence to resolve at ordinary and extraordinary level on, *inter alia*: (i) the appointment and the removal, if necessary, of members of the Board of Directors, (ii) the appointment of members of the Board of Statutory Auditors, (iii) approval of the financial statements and allocation of profits, (iv) amendments to the articles of association, (v) purchase and disposal of treasury shares.

An external auditor engaged by the Shareholders' Meeting is responsible for auditing the Company accounts and books.

COMPOSITION OF SHARE CAPITAL

The Company's share capital, amounting to EUR 132,666,675.00, consists entirely of ordinary shares, each with a nominal value of EUR 1.00, fully paid and with voting rights at the Company's Ordinary and Extraordinary Shareholders' Meetings.

The Company is listed on the electronic share market (*MTA*) managed by Borsa Italiana S.p.A. and is included in the FTSE Italia small cap index.

According to the register of shareholders and information available, at 31 December 2010 ERG S.p.A. directly controlled the Company by virtue of its 82.136% interest in share capital.

At 31 December 2010 there were no other shareholders with significant interests in share capital pursuant to Article 123-*bis* of the Consolidated Law on Finance.

OTHER INFORMATION

At the date of drawing up this document:

- there are no restrictions on the transfer of securities;
- there are no securities that convey special control rights;
- there is no employee stock ownership plan;
- there are no restrictions on voting rights;
- the Company is not aware of the existence of any Shareholders' Agreements, as defined in Article 122 of the Consolidated Law on Finance;
- insofar as concerns the requirements set forth in Article 123-*bis*, paragraph 1.h) of Legislative Decree 58 of 24 February 1998, we should report the existence of ongoing loan transactions containing normal provisions with regard to change of control of the debtor which, in some cases, may in theory imply repayment of the loan in question in the event of any such change of control involving ERG Renew S.p.A. (loan granted by Natixis, for the amount of EUR 25 million, maturing on 2 August 2014, loan granted by Banca Popolare di Milano, for the amount of EUR 16 million, maturing on 30 April 2014, project finance loan in favour of subsidiary Green Vicari S.r.l. granted by Unicredit and BNP Paribas for the amount of EUR 50.5 million, maturing on 30 June 2019, and project finance loan in favour of subsidiary ERG Eolica Ginestra S.r.l. granted by Unicredit, Barclays Bank and Centrobanca for the amount of EUR 40 million, maturing on 30 June 2025);
- there are no agreements pursuant to Article 123-*bis*, paragraph 1.i) of the Consolidated Law on Finance;
- regarding the rules applicable to the appointment and replacement of Directors and amendments to the Articles of Association, reference is made to the relevant sections of this report;
- on 30 June 2008, the extraordinary shareholders' meeting resolved, pursuant to Article 2443 of the Italian Civil Code, to grant the Board of Directors, for a period of 5 years starting from the date of such resolution, the power to carry out paid capital increases in one or more stages, up to the maximum amount of EUR 200,000,000.00, inclusive of share premium, if any, by issuing ordinary shares having the same characteristics as those already in circulation;
- without prejudice to the foregoing, directors are not empowered to issue participatory financial instruments;
- directors are not empowered to purchase treasury shares.

SUBORDINATION TO MANAGEMENT AND COORDINATION BY ANOTHER COMPANY

The Board of Directors has taken note that ERG S.p.A., by virtue of its majority stake in the Company's share capital and the activities it performs in favour of the Company, subjects to management and coordination activity, pursuant to Article 2497 of the Italian Civil Code, ERG Renew, regarding which the conditions set forth in Article 37 of CONSOB regulation 16191/2007, as amended, do not exist.

ROLE OF THE BOARD OF DIRECTORS

Pursuant to Article 17 of the Articles of Association, the Board of Directors is vested with full powers for the Company's ordinary and extraordinary management.

In accordance with Company practice and criteria 1.C.1 *et seq.* of the Corporate Governance Code, the Company's Board of Directors:

- a) examines and approves the strategic, business and financial plans of the Company and the Group it heads, the Company's own corporate governance system and the Group's organisation;
- b) evaluates the adequacy of the organisational, administrative and general accounting structure of the Company and subsidiaries having strategic relevance, as established by the Managing Directors, with particular regard to the internal control system and the management of conflicts of interest;
- c) delegates powers to the Managing Directors, defining the limits thereof and terms for their exercise, and revokes them; it also determines the frequency, albeit no more than once per quarter, with which the delegated bodies must report to the board on the activities performed in the exercise of the powers delegated to them;
- d) after examining the proposals made by the Nominations and Remuneration Committee and consulting with the Board of Statutory Auditors, determines the remuneration of the Managing Directors and the other Directors appointed to particular positions and, if the shareholders' meeting has not already done so, the distribution of the overall compensation payable to the board members;
- e) evaluates the general performance of the Company, paying particular attention to the information received from the delegated bodies and periodically comparing the results achieved with those planned;
- f) examines and approves beforehand the transactions carried out by the Company and its subsidiaries, when these transactions are of material strategic, economic or financial relevance for the issuer, paying special attention to situations in which one or more directors hold an interest on their own behalf or on behalf of third parties and, in more general terms, transactions with related parties; for such purpose, the board determines general criteria for identifying significant transactions;
- g) at least once a year, it evaluates the size, composition and performance of the Board itself and its Committees, possibly expressing opinions regarding the professionals whose presence on the Board it considers appropriate;
- h) provides information in the Corporate Governance Report on the procedures for application and, in particular, on the number of board meetings held during the year and on the percentage of attendance as regards each Director.

On the basis of the information received from the Directors, each year the Board of Directors reviews and discloses in the Corporate Governance Report the positions of Director or Statutory Auditor held by the Directors in companies listed on regulated markets, including foreign markets, in financial companies, banks, insurance companies or companies of a considerably large size. The Board expresses its opinion on the maximum number of Director or Statutory Auditor positions in the companies referred to above, such as might be considered compatible with an efficient performance of the office of Director of the Company.

For this purpose, general criteria differentiated according to the commitment connected with each role (executive, non executive or independent director) have been identified, including with regard to the nature and size of the companies and whether or not they belong to the Company's Group.

For Directors in office, Article 18 of the Articles of Association authorises a waiver of the competition ban set forth by Article 2390 of the Italian Civil Code.

The Managing Directors have the task of promptly informing the members of the Board of Directors regarding the main legislative and regulatory changes affecting the Company, its subsidiaries and associates and the corporate bodies.

The Company's Board of Directors normally meets at least four times a year. During these meetings, it examines and resolves on operating performance in the various divisions, the final quarterly, half-yearly and annual results, the strategic plan, the budget, the proposals regarding its organisational structure and those concerning the significant transactions presented by the executive Directors. During the course of 2010 the Board met 9 times. As at the date of approval of this report the Board of Directors has already met three times; at least another three meetings are scheduled.

COMPOSITION OF THE BOARD OF DIRECTORS

Pursuant to Article 16 of the Articles of Association, the Company is managed by a Board of Directors, comprising between five and eleven members who serve for a term of three years. Their term of office expires as at the date of the Shareholders' Meeting called to approve the financial statements for the last financial year. The Directors may be re-elected.

On 21 April 2009 the Ordinary Shareholders' Meeting appointed the Board of Directors for the three years 2009 – 2011.

For the appointment of the Board of Directors only one list of candidates was presented by shareholder ERG S.p.A., and precisely:

1. Raffaele Tognacca
2. Vittorio Garrone
3. Francesco Del Balzo
4. Italo Giorgio Alfieri *
5. Luca Bettonte
6. Lorenzo Caprio *
7. Pietro Giordano
8. Giorgio Mazzanti *
9. Ernesto Monti *

On 2 March 2010, following the resignation tendered by Raffaele Tognacca as Chairman and Director of the Company, the Board of Directors co-opted Pietro Muti to replace the resigning Director and appointed Pietro Giordano as Chairman of the Board.

On 13 April 2010 the Shareholders' Meeting confirmed the appointment of Pietro Giordano as Chairman of the Board of Directors and Pietro Muti as Board Director. The Board of Directors Meeting, held following the conclusion of the Shareholders' Meeting, appointed Vittorio Garrone as Executive Director entrusted with the task of supervising the functionality of the Internal Control system.

The Board is currently made up of nine Directors, including five executive and four non-executive and independent¹.

* Persons having the requisites of independence set forth by the Consolidated Law on Finance and Corporate Governance Code.

¹ Having requisites of independence as set forth by the Consolidated Law on Finance and Corporate Governance Code.

The following Directors are in office as at the date of approval of this Report:

1. Pietro Giordano, Chairman of the Board of Directors (executive director with powers of ordinary and extraordinary management, with the exception of those powers which by law may not be delegated and those concerning the performance of certain actions¹; responsible for the Company's strategic development, via tasks of supervision, direction and control, of Institutional and International Relations, including Investor Relations, Corporate Affairs and Macro organisation activities, also performed as a service by the ultimate Parent Company ERG S.p.A.) appointed as Director by the Shareholders' Meeting on 21 April 2009 and as Chairman by the Board of Directors Meeting held on 2 March 2010; confirmed in this office by the Shareholders' Meeting on 13 April 2010;
2. Vittorio Garrone², Deputy Chairman (executive director with delegation of authority for the management, via tasks of supervision, direction and control, of activities relating to the implementation and development of the business of energy generation using renewable sources outside the national boundaries) appointed as board member by the Shareholders' Meeting on 21 April 2009 and as Deputy Chairman by the Board of Directors Meeting on the same date, also appointed by the Board of Directors Meeting on 13 April 2010 as Executive Director entrusted with the task of supervising the functionality of the Internal Control system;
3. Francesco Del Balzo, Chief Executive Officer (executive director with all powers of the Board of Directors, with the exception of those powers which by law may not be delegated, those falling to the Chairman and Deputy Chairman and those concerning the performance of certain actions³) appointed as board member by the Shareholders' Meeting on 21 April 2009 and as Chief Executive Officer by the Board of Directors Meeting on the same date;
4. Italo Giorgio Alfieri (independent non-executive director) appointed by the Shareholders' Meeting on 21 April 2009;
5. Luca Bettonte, Board Member (executive director *) appointed by the Shareholders' Meeting on 21 April 2009;
6. Lorenzo Caprio, Board Member (independent non-executive director) appointed by the Shareholders' Meeting on 21 April 2009;
7. Giorgio Mazzanti, Board Member (independent non-executive director) appointed by the Shareholders' Meeting on 21 April 2009;
8. Ernesto Monti, Board Member (independent non-executive director) appointed by the Shareholders' Meeting on 21 April 2009;
9. Pietro Muti, Board Member (executive director *) co-opted by the Board of Directors on 2 March 2010 and confirmed in such office by the Shareholders' Meeting on 13 April 2010.

Regarding the composition of the Board of Directors and the allocation of offices and powers within the ambit thereof, it has not been deemed necessary to designate a lead independent director.

Furthermore, in the light of what is prescribed, in particular, by Article 147-ter, fourth paragraph, of Legislative Decree 58 of 24 February 1998 – according to which if the board of directors has more than seven members, at least two members must have the requisites of independence – and by the Corporate Governance Code, it is considered that the number and the competences of the independent directors (in the persons of board members Italo Giorgio Alfieri, Lorenzo Caprio, Giorgio Mazzanti and Ernesto Monti) are adequate in relation to the size of the Board of Directors and the business performed by the Company.

1 Reference is made to the records filed and published at the Milan Chamber of Commerce.

2 Reference is made to the records filed and published at the Milan Chamber of Commerce.

3 Reference is made to the records filed and published at the Milan Chamber of Commerce.

* To be considered Executive Directors in accordance with "application criterion" 2.C.1 of the Corporate Governance Code, in view of the positions they hold within the parent company ERG S.p.A. which, in view of their relevance at Group level, also concern the Company.

OTHER POSITIONS HELD AS DIRECTOR OR STATUTORY AUDITOR AT OTHER COMPANIES LISTED ON REGULATED MARKETS, INCLUDING FOREIGN MARKETS, AT FINANCIAL COMPANIES, BANKS, INSURANCE COMPANIES OR COMPANIES OF A CONSIDERABLY LARGE SIZE, AS AT 31 DECEMBER 2010

Pietro Giordano	<i>Deputy Chairman - ERG S.p.A.</i>
Vittorio Garrone	<i>Deputy Chairman – Sampdoria Marketing & Communication Member of the Board of Directors – U.C. Sampdoria Sole Director – Valloncrò S.r.l.</i>
Italo Giorgio Alfieri	<i>Deputy Chairman - Cassa di Risparmio di Venezia</i>
Luca Bettonte	<i>Member of the Board of Directors - ERG S.p.A.</i>
Lorenzo Caprio	<i>Member of the Board of Directors - Sogefi S.p.A. Member of the Board of Directors - Banca IMI S.p.A. Chairman of the Board of Statutory Auditors - Banca ITB S.p.A. Statutory Auditor - Aviva Italia S.p.A. Chairman of the Board of Statutory Auditors - Aviva Assicurazioni S.p.A. Chairman of the Board of Statutory Auditors - Aviva Previdenza S.p.A.</i>
Ernesto Monti	<i>Deputy Chairman - Astaldi S.p.A. Director - PMS S.p.A. Chairman - Finanziaria Tosinvest S.p.A. Director - Unicredit MCC S.p.A. Director - Ariscom S.p.A. Director - Alitalia S.p.A.</i>

CHAIRMAN OF THE BOARD OF DIRECTORS

Pursuant to Article 19 of the Articles of Association, the Board of Directors meets at either the registered office of the Company or elsewhere whenever the Chairman or, in case of his impediment, the Deputy Chairman deems necessary or when at least three members of the Board so request in writing.

The Chairman convenes the Board of Directors by way of letter, to be sent at least five full days before the meeting to each Director and Standing Auditor and, in urgent cases, by telegram or fax, to be sent at least two days beforehand. The Board Meeting is nevertheless considered to be validly constituted, even without formal calling, whenever all Directors and all Standing Auditors in office are present.

Resolutions are passed by an absolute majority vote of those present, and are confirmed by minutes transcribed in the specific book and signed by the meeting Chairman and Secretary.

The Board of Directors meetings may be held by videoconference and/or conference call, provided that all participants can be identified and are able to follow the debate and intervene in real time in the business being discussed. Provided that such conditions exist, the Board meeting is considered held in the place where the meeting Chairman and Secretary are located, for the purpose of drafting and signing the relative minutes.

The Chairman, Deputy Chairman, Chief Executive Officers and General Managers (if appointed) are empowered on a several basis to legally represent and sign on behalf of the Company.

The Chairman ensures that the members of the Board are provided with the necessary documents and information reasonably in advance of the meeting date (except in case of

necessity or urgency) so that Board members can express themselves on an informed basis with regard to the matters submitted for their examination and approval.

The Chairman coordinates the activities of the Board of Directors and presides over its meetings.

REPORTS TO THE BOARD OF DIRECTORS

The Chief Executive Officer reports (on at least a quarterly basis) to the Board of Directors and, at the same time, to the Board of Statutory Auditors, on the activity performed according to the delegations of authority granted to him.

He also provides adequate disclosures with regard to atypical and unusual transactions, transactions involving potential conflicts of interest and/or transactions with related parties, as defined in the procedure adopted by the Board of Directors in accordance with CONSOB regulations concerning identification of the concept of related parties.

INDEPENDENT DIRECTORS

According to the Corporate Governance Code, "Independent Directors" are those who do not normally fall under one of the following categories, to be considered as a non-exhaustive example:

- a) if, either directly or indirectly, including through subsidiaries, trust companies or intermediaries, the Independent Director controls the issuer or has a significant influence over it, or is party to a Shareholders Agreement through which one or more parties can exercise control or significant influence over the issuer;
- b) if he is, or has been in the previous three financial years, one of the issuer's key persons, where this is construed to be the Chairman of the entity, its legal representative, the Chairman of the Board of Directors, Executive Directors or Managers with strategic responsibilities at the company or entity in question, or at one of its strategically relevant subsidiaries or at a company subject to joint control with the issuer, or at a company or entity that, even together with others through a shareholders' agreement, controls the issuer or can exercise significant influence over it;
- c) if, directly or indirectly, he has or has had during the previous financial year significant commercial, financial or professional dealings:
 - with the issuer, with one of its subsidiaries or with any of its key persons;
 - with a party that, either individually or together with others through a shareholders' agreement, controls the issuer, or – when a company or entity is involved – with its key persons; or he is, or has been during the previous three years, an employee of one of the aforementioned parties;
- d) if he receives, or has received during the previous three financial years, from the issuer or from a subsidiary or parent company, a significant remuneration in addition to the "fixed" remuneration as a non-executive director of the issuer, including participation in incentive plans tied to company performance, even share-based incentive plans;
- e) if he has been a director at the issuer for more than nine years during the last twelve years;
- f) if he holds the position of executive director at another company where an executive director of the issuer holds the position of director;
- g) if he is a shareholder or director of a company or entity belonging to the network of the firm engaged as the issuer's independent auditor;
- h) if he is a close relative of any person who is in one of the situations described in the preceding points.

The Board of Directors has evaluated the independence of Directors Italo Giorgio Alfieri, Lorenzo Caprio, Giorgio Mazzanti and Ernesto Monti, in accordance with the recommendations of the

Corporate Governance Code, therefore giving greater importance to substance over form and bearing in mind the criteria for application contained therein.

The Board of Directors performed such evaluation during the first meeting subsequent to appointment and proceeds to ascertain on an annual basis the continued possession of such requisites.

In FY2010 the evaluation of independence was carried out during the board meeting held on 13 December. The Board of Statutory Auditors verified the correct application of the evaluation criteria and procedures adopted by the Board of Directors to evaluate the independence of its members.

HANDLING OF CONFIDENTIAL INFORMATION

Correct management of confidential information, with particular reference to “price sensitive” information, is ensured by the Chief Executive Officer, Francesco Del Balzo, who has been specifically delegated by the Board of Directors to regulate the public disclosure of documents and information regarding the Company.

The procedure, approved by the Board of Directors, provides for the aforementioned Chief Executive Officer to assume the role of Person in charge of managing confidential information and external disclosure of “Material Information”. The Board of Directors has approved the Internal Rules for the management of confidential information.

At its meeting on 21 March 2007, the Board of Directors approved the “Procedure for the management and handling of privileged information and public dissemination of announcements and information” already in force at the ERG Group.

More specifically, the key points of the aforesaid Rules are:

- the management of confidential information, with a list of obligations imposed on the directors, but also on the Company’s top management, for the handling of confidential information, drawing attention to (i) the ban on disclosure to third parties, and (ii) the duties and procedures for transmission of documents (specifically regulating the following means: fax, e-mail, registered mail or courier), as well as (iii) the handling of confidential information obtained from third parties. Furthermore, they require the Person in charge to ensure that the consultants, auditors and other collaborators (non-employees) used by the Company sign a confidentiality agreement covering confidential information concerning the Company that comes to their knowledge during the performance of their assignment. Lastly, they regulate operations involving the Investor Relator;
- the regulation of “Material Information” and its identification and handling, including the procedures for its public dissemination, with special reference to “price sensitive” information, regarding which the Person in charge is required to assess on a case-by-case basis whether an action or circumstance can materially impact the price of the listed financial instruments and, consequently, determine whether or not that information needs to be disclosed;
- the press release whereby the Person in charge must publish the “Material Information”, the rules governing its content and the internal procedure for approving the press release;
- the duties of the Person in charge with regard to dissemination of the press release.

All Directors are in any case required to maintain the confidentiality of and carefully manage the documents and information acquired in the course of their office and to comply with the adopted procedure.

Lastly, insofar as concerns regulations with regard to market abuse, it should be mentioned that Article 9 of Law 62 dated 18 April 2005, which transposed into our system directive

2003/6/EC, introduced *inter alia* the obligation for listed companies and parties having control relationships therewith (parent companies and subsidiaries), to establish, maintain and regularly update a register of the persons who, by virtue of their work or professional activity, or by reason of the functions carried out, have access to privileged information concerning the listed issuer or its subsidiaries (hereinafter, the "Register").

In this connection, in accordance with the said legislation, all activities necessary in order to establish and implement the Register have now been completed. In particular, a computer system has been set up for the purpose of managing the Register.

The Company has adopted a Code of Behaviour in the matter of "Internal Dealing" intended to regulate, with mandatory effect, the information obligations and limitations, if any, pertaining to transactions concerning shares issued by the Company or other financial instruments related thereto, carried out by relevant parties or by closely associated persons, pursuant to and for the purposes of the applicable provisions in force.

Lastly, it should be noted that with resolution of the Board of Directors on 21 April 2009, the Chief Executive Officer, Francesco Del Balzo, was assigned full powers and competences for decisions relating to the purposes for which and manner in which personal data are handled, including the security profile and therefore the said Chief Executive Officer was identified as the Data Controller within the meaning of Article 28 of Legislative Decree 196/2003, as amended. In accordance with the regulations, the Chief Executive Officer identified a Data Processor under Article 29 of Legislative Decree 196/2003, as amended. The said Data Controller and/or Data Processor will also have the authority to identify and/or confirm the Persons in charge of data processing pursuant to Article 30 of Legislative Decree 196/2003, as amended.

APPOINTMENT OF DIRECTORS

Pursuant to the Articles of Association, the directors are appointed on the basis of lists presented by Shareholders which, complete with information concerning the personal and professional characteristics of candidates and a declaration regarding those who satisfy independence requirements, must be deposited, as laid down by Article 147-ter, paragraph 1-bis, of the Consolidated Law on Finance, no later than **twenty-five days** prior to the date of the Shareholders' Meeting and must be made available to the public at least **twenty-one days** before the Shareholders' Meeting.

The lists may only be presented by Shareholders who, either individually or together with other Shareholders, represent at least the percentage of share capital established in accordance with the Regulations implementing the Consolidated Law on Finance, adopted by CONSOB under resolution no. 11971 of 14 May 1999, as amended ("Issuers' Regulations"), applicable at the date of calling the Shareholders' Meeting (currently 2.5%).

For the purpose of allocating the Directors to be elected, consideration will not be given to the lists that have failed to reach a percentage of votes equal to at least half of that required for their presentation.

The Directors will be elected as follows:

- a) from the list that obtains the majority of votes expressed by the Shareholders, based on their sequential order of listing, a number of Directors is drawn equal to the number of members to be elected less one, subject to the provision set forth in Article 16, paragraph 5, of the Articles of Association concerning the appointment of independent Directors;
- b) the remaining Director is drawn from the minority list that has obtained the highest number of votes;
- c) in case of presentation of only one list, or in case the other lists fail to reach the required quorum, the Directors are elected based on the list presented or that reaches the quorum up to the number of candidates presented therein.

NOMINATIONS AND REMUNERATION COMMITTEE

The Nominations and Remuneration Committee currently comprises the following Directors:

Ernesto Monti (<i>Chairman</i>)	<i>independent/non-executive</i>
Lorenzo Caprio	<i>independent/non-executive</i>
Italo Giorgio Alfieri	<i>independent/non-executive</i>

On the proposal by the Nominations and Remuneration Committee, the Board of Directors Meeting on 11 May 2010, having obtained the approval of the Board of Statutory Auditors, resolved to allocate, pursuant to Article 2389, third paragraph of the Italian Civil Code, a remuneration to be paid to the Chairman and Deputy Chairman of the Board of Directors and to the Chief Executive Officer.

The Board of Directors has assigned to the Nominations and Remuneration Committee the task of expressing an opinion, on an annual basis, with regard to the Board's size, composition and functions.

The Nominations and Remuneration Committee concluded and presented to the Board of Directors Meeting on 3 August 2010 its evaluation of the Board's performance in 2009, defining the procedures and criteria used to carry out such appraisal.

During the course of the 2010 financial year the Nominations and Remuneration Committee met four times.

INTERNAL CONTROL SYSTEM

The Internal Control System is the set of processes designed to monitor the efficiency of corporate transactions, the reliability of financial information, compliance with laws and regulations and the protection of corporate assets.

The Board of Directors is responsible for the Internal Control System. From time to time it determines the system's guidelines and periodically reviews its adequacy and actual performance, ensuring that the most important risks faced by the Company are promptly identified and appropriately managed. The Board of Directors discloses its assessments regarding the suitability of the internal control system to effectively supervise the normal risks pertaining to the main activities carried out by the Company and its subsidiaries and to monitor the economic and financial situation of the Company and the Group.

The Deputy Chairman, Vittorio Garrone, Executive Director entrusted with the task of supervising the functionality of the internal control system, coordinates the activities aimed at identifying the Company's principal risks, the latter being then subjected to examination by the Board of Directors, and implements the Board's guidelines via the planning, management and monitoring of the internal control system, appointing one or more persons in charge and providing them with adequate means.

The Board of Directors, with resolution dated 13 December 2010, on a proposal from the Executive Director entrusted with the task of supervising the functionality of the internal control system and having obtained the favourable opinion of the Internal Control Committee, appointed Devan De Paolis, already Head of Internal Audit at the Parent Company ERG S.p.A., as Person in Charge of Internal Control.

The Person in Charge of Internal Control is not hierarchically managed by anyone in charge of an operational area and reports directly to the Internal Control Committee and the Board of Statutory Auditors.

A special Internal Audit Division has been set up within the Group's corporate structure, which reports directly to the Executive Director entrusted with the task of supervising the functionality of the internal control system as regards the Parent Company ERG S.p.A.; this division is currently headed by Devan De Paolis.

INFORMATION CONCERNING THE MAIN FEATURES OF THE RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS WITH REGARD TO THE FINANCIAL REPORTING PROCEDURE, INCLUDING AT CONSOLIDATED LEVEL

The procedures used by ERG Renew S.p.A. to define its risk management and internal control system insofar as concerns the financial reporting process (hereinafter referred to as "System"), at Consolidated level, are set out below. This System aims to significantly mitigate risks in terms of dependability, reliability, accuracy and timeliness of financial reporting.

The Model described below, based on the Model of listed Parent Company ERG S.p.A., was submitted to the ERG Renew S.p.A. Internal Control Committee on 25 February 2009. The Model applies, from a rational, methodological perspective and as regards principles of process control and correctness, to the main ERG Renew Group companies to which it has been transmitted via publication on the Company Intranet and communication to all personnel.

Within this framework, all the Group's employees are required to comply with the instructions contained in the Model, particularly staff members performing administrative functions who are more directly involved in the preparation of the company's accounting documents, but also those of the other functional areas who contribute to the process, indirectly, through the preparation of documents and information, the entry and updating of data on the company's computer systems, and routine operational activities.

The Model is revised on a regular basis and each revision and/or supplement of special importance has to be submitted and presented beforehand to the Internal Control Committee.

Role

The task of the Manager Responsible for preparing the ERG Renew S.p.A. financial reports concerns above all implementation of the administrative-accounting procedures that govern the periodical company financial information formation process, monitoring application of the administrative-accounting procedures specified and, together with the Chief Executive Officer, issuing to the market certification regarding the fulfilment of the foregoing and the "reliability" of the financial documentation disseminated.

The role of the "Manager Responsible" comes within the wider context of Corporate Governance, structured according to the traditional model, which involves the presence of corporate bodies with varying control functions.

Within the ambit of the Group, the role of Manager Responsible for preparing the company's financial reports was assigned by the Board of Directors, with resolution of 29 June 2007, to the Chief Financial Officer of ERG Renew S.p.A., Luca Giorgerini.

ELEMENTS OF THE SYSTEM

Methodological approach

The reference legislation provides no indication regarding the operational procedures and instruments to be used by the System.

In this respect, normal practice makes reference to international best practices, with a view to ensuring maximum consistency between the aims of regulations and the approach of activities designed to implement same. Within the ambit of the ERG Renew Group it has been decided to adopt a working methodology that provides for the following logical phases:

- a) identification and assessment of the risks applicable to financial reporting;

- b) identification of controls in case of risks identified at either Company/Group level (entity level) or process level;
- c) evaluation of controls and management of the monitoring process both in plan terms and with regard to operations and effectiveness in order to reduce the risks to a level considered “acceptable” (information flows, gap management, remediation plans, reporting systems, etc.)

The entire process is managed by a specific Corporate Function (Special Projects and Compliance) on the staff of the “Manager Responsible” which, based on internal practice, regulates all procedures of an administrative-accounting nature, mapping and standardising those in force by defining interventions with regard to process, reporting systems or procedures designed to correct possible control deficiencies.

Risk identification and assessment

The purpose of Risk Assessment activity, which is carried out once a year, is to identify, based on a quantitative analysis and according to evaluations and parameters of a qualitative nature:

- a) the Companies within the Group’s consolidation perimeter to be included in the analysis;
- b) the risks at Group/identified operating Company level (Company/Entity Level Controls) pertaining to the general corporate context of the Internal Control System, with reference to the five components of the CoSO model issued by the Committee of Sponsoring Organizations of the Treadway Commission, leading practice at international level and adopted in Italy as benchmark model also by Borsa Italiana’s Corporate Governance Code (control environment, risk assessment, information and communication, control activity, monitoring);
- c) the general risks pertaining to the corporate reporting systems supporting the relevant processes (IT General Controls);
- d) the processes feeding the relevant consolidated financial statement accounts as regards intrinsic risk, for each operating company identified;
- e) for each relevant process, the specific financial reporting risks, with special reference to the so-called financial statement assertions (existence and event, completeness, rights and obligations, assessment and recording, presentation and disclosure).

The Risk Assessment conducted at Group consolidated financial statement level to determine the relevant perimeter for analysis purposes, is based on the combined application of two analysis parameters, one strictly quantitative (calculation of numeric threshold values against which to compare the consolidated financial statement data and those pertaining to the individual constituent companies) and a qualitative parameter (evaluation on the part of management, based on its knowledge of the company’s circumstances, of potential non-numerical risk aspects to be considered necessary or not necessary for the inclusion of a certain company/account/process within the analysis perimeter).

Insofar as concerns the strictly quantitative part of the analysis, the following elements are determined:

- “large portion” (coverage of Consolidated Financial Statements): this dimension is used to measure the wideness of the perimeter for analysis and evaluation of the controls, defined on the basis of the relative percentage weight on the main balance sheet items of the dimensions to be considered;
- “significant account”: reference is made to the quantitative dimension that the balance sheet items must have in order to be considered relevant, by applying a materiality threshold;
- “significant process”: the matching of account-processes determines the processes for which it is appropriate to evaluate controls, since the model includes all processes associated with the accounts that show balances above the thresholds previously determined.

Following the quantitative analysis described above, the Risk Assessment process then provides for an analysis activity to be carried out on the basis of qualitative elements, which serves a dual purpose:

- to integrate the exclusively quantitative part of the analysis, so as to include or exclude account-processes from the model perimeter based on management's knowledge of the Group's Companies, from an historical perspective and also considering expected business developments, and the professional opinion of management with regard to riskiness in relation to financial reporting;
- to define the "depth" to which the accounts-processes under analysis must be considered within the scope of the model and the level to which the relative controls must be mapped, documented and monitored.

The end result of the Risk Assessment process is represented by a document, which is distributed to the various departments involved, approved by the "Manager Responsible" and presented to the Internal Control Committee.

Identification of controls

Having identified the main risks at process level, the various operating Companies review the controls set up to support the associated control objective.

More specifically, the mapping of the account-processes and related controls constitutes the tool used to:

- represent the relevant processes and main associated risks based on what is defined within the scope of the Risk Assessment and the controls envisaged for the management of such risks;
- evaluate the purpose of the mapped controls in order to ascertain the capacity of the control to manage and mitigate the risk identified and, in particular, the underlying financial statement assertion;
- share with the process owners the functioning and representation of same, as well as the risks and control activities;
- implement the monitoring activity required to support the declarations that the "Manager Responsible" is required to issue.

The identification of the risks and related controls is carried out both with respect to the controls related to the financial statement assertions and as regards other control objectives within the scope of financial reporting, including:

- observance of authorisation limits;
- separation of operational and control tasks and responsibilities;
- physical security and existence of the company's assets;
- fraud prevention activities that impact the financial reporting;
- security of the corporate information systems and protection of personal data.

The mappings generated from time to time for a specific process are also used as a basis for the periodical testing activity designed to evaluate and monitor both the plan and the effectiveness of existing controls.

Assessment of controls and monitoring process

Considering the legal provisions with regard to formal procedures and in keeping with the above mentioned best practice, the methodology adopted provides for a constant monitoring of the processes covered by the model and an effective execution of the mapped controls. This monitoring is intended to evaluate the operational effectiveness of the controls, to be construed as the good functioning during the financial period of the controls mapped for analysis purposes.

To this end, once a year a plan of the monitoring (as well as refinement and optimisation, where necessary) activities is drawn up, in the form of a document presented to the Internal Control Committee defining the strategies and timing for the execution of the monitoring tests.

In particular, in order to enhance the utilisation of available resources ensuring a constant monitoring activity, the methodological approach used provides for the test activities to be performed regularly during the course of the year, subdividing the samplings so as to allow total coverage, throughout the year and by the close of the consolidated financial statements, of the accounts-processes mapped within the ambit of the model.

In addition to the test activities, the activity plan also envisages a possible mapping of new accounts-processes and monitoring of the remediation actions implemented with regard to the gaps found, if any.

Following execution of the test activities, the methodology adopted, in keeping with the responsibility approach indicated above, envisages the production of reports on the results of the activity performed, providing the basis for the "Manager Responsible" to issue the declarations legally required and the Internal Control Committee, insofar as concerns the most important deadlines of the half-yearly and annual financial reports, to evaluate and contribute to the work performed by the "Manager Responsible" and the functions through which he operates.

For this purpose, documents are drawn up which summarise the data as regards the number of tests performed for each process and the results of same, showing both a breakdown by Company and at general consolidated level.

When preparing the half-yearly Financial Report and the annual Financial Report, the documents produced also include a section describing the methodology adopted, the results of the Risk Assessment process and the plan of activities, together with a section providing an update on the remediation activities as regards the gaps found, if any, during the process and control mapping and monitoring activities.

The process and control monitoring activity included in the model, in addition to the test activity and reporting of the test results, also provides for the gaps found, if any, to be appropriately managed and corrected.

STRATEGIC COMMITTEE

The Strategic Committee operates in coordination with the parent company ERG S.p.A., within the ambit of the strategies and policies approved by the Board of Directors, through the definition of strategic business and portfolio guidelines and guidelines and policies in matters of strategic finance and with regard to individual, extraordinary finance operations, while monitoring the progress of their implementation over time.

The Strategic Committee is currently comprised of the following Directors:

Vittorio Garrone (<i>Chairman</i>)	<i>executive</i>
Luca Bettonte	<i>executive</i>
Francesco Del Balzo	<i>executive</i>
Pietro Giordano	<i>executive</i>
Pietro Muti	<i>executive</i>

During the course of 2010 the Strategic Committee met seven times.

ORGANISATION AND MANAGEMENT MODEL

On 10 April 2006 the Board of Directors approved the Company's "Organisation and Control Model", with a view to creating a structured and organic system of control procedures and activities designed to prevent the crimes referred to in Legislative Decree 231/2001, via the identification of specific activities subject to crime risk and their consequent proceduralisation.

The Model adopted by the Company is in keeping with the provisions set forth by the guidelines prepared in such connection by industry associations and offers shareholders the best guarantees for an efficient and correct management.

The Model is periodically updated in order to bring it into line with the regulatory changes subsequently introduced.

INDEPENDENT AUDITORS

Deloitte & Touche S.p.A. is the firm engaged pursuant to Articles 155 *et seq.* of the Consolidated Law on Finance to audit the Statutory and Consolidated Financial Statements and to review the statutory and consolidated half-yearly financial statements and the interim report on operations. Its activity covers 100% of the subsidiaries included in the scope of consolidation. The Shareholders' Meeting held on 28 April 2006 engaged this firm for the 2006-2011 financial years.

MANAGER RESPONSIBLE FOR PREPARING THE COMPANY'S FINANCIAL REPORTS

The role of Manager Responsible for preparing the company's financial reports has been assigned by the Board of Directors to the Chief Financial Officer, Luca Giorgerini.

INTERNAL CONTROL COMMITTEE

On 15 December 2006, the Board of Directors determined the duties of the Internal Control Committee. More specifically, the Committee's duties entail:

- a) together with the Manager Responsible for preparing the company's financial reports (where appointed), the Internal Audit Committee and the auditors, reviewing the fair use of accounting standards and their uniformity for the purposes of preparing the Consolidated Financial Statements;
- b) at the request of the specially appointed executive director, expressing opinions on specific aspects regarding identification of principal business risks and the planning, implementation and management of the Internal Control System;
- c) examining the work plan prepared by the persons in charge of internal control and the periodic reports prepared by same;
- d) assessing, together with the Internal Audit Committee the proposals made by the auditing firm with a view to their engagement as external auditor, as well as the work plan prepared for audit purposes and the results illustrated in the report and in the suggestion letter, if any, monitoring the effectiveness of the audit process;
- e) performing the other duties that are assigned by the Board of Directors;
- f) reporting to the Board of Directors at least once every six months, when the annual and half-yearly financial reports are approved, with regard to the activity performed and the adequacy of the Internal Control System.

Committee Meetings are attended by the Chairman of the Board of Statutory Auditors or another Standing Auditor delegated by same and, upon invitation by the Committee chairman and according to the matters to be discussed, representatives of the Company's management.

The Internal Control Committee is currently comprised of the following Directors:

Lorenzo Caprio (<i>Chairman</i>)	<i>independent/non-executive</i>
Giorgio Mazzanti	<i>independent/non-executive</i>
Ernesto Monti	<i>independent/non-executive</i>

During the course of 2010 the Internal Control Committee met seven times. As at the date of drawing up this report it has met twice and at least another three meetings are planned.

SUPERVISORY COMMITTEE

The Company's Supervisory Committee maintains direct and ongoing relations with the Internal Control Committee and performs its activity within the ambit of the ultimate Parent Company. A Supervisory Committee has been appointed for each sub-holding company.

On 6 August 2009, the Board of Directors changed the structure of the Supervisory Committee, following the assignment of new roles by the ultimate Parent Company ERG.

During the meeting held on 13 April 2010, the Board of Directors, in keeping with the new form of the Organisation and Management Model adopted by the Company, approved the following composition of the Supervisory Committee: (i) ERG S.p.A. independent Director Paolo Francesco Lanzoni, Chairman of the Supervisory Committee; (ii) Head of ERG S.p.A.'s Internal Audit function, Luigi Bricocoli; (iii) Head of the Risk Office function, Giovanni Antonio Martinengo.

Following the meeting on 13 December 2010, during which the Board of Directors resolved the appointment of Devan De Paolis, the new Head of the Company's Internal Audit function, as member of the Supervisory Committee, to replace the resigning Luigi Bricocoli, the Supervisory Committee now comprises the following:

Paolo Lanzoni (<i>Chairman</i>)	<i>Independent director of the ultimate Parent Company ERG S.p.A.</i>
Devan De Paolis	<i>Head of ERG S.p.A. Internal Audit function</i>
Giovanni Antonio Martinengo	<i>Head of ERG S.p.A. Risk Office function</i>

TRANSACTIONS WITH RELATED PARTIES

With its resolution dated 9 November 2010, the Board of Directors, in accordance with the provisions set forth by CONSOB resolution no.17221 of 12 March 2010 – subsequently amended by way of resolution no.17389 of 23 June 2010 – having obtained the favourable opinion of the Internal Control Committee and consulted the Board of Statutory Auditors, approved and adopted a specific internal procedure – effective starting from 1 January 2011 – designed to ensure the transparency and substantive procedural correctness of transactions with related parties carried out by ERG Renew S.p.A., either directly or through subsidiaries of same.

RELATIONS WITH INSTITUTIONAL INVESTORS AND OTHER SHAREHOLDERS

The Company actively undertakes to establish a dialogue with Shareholders and institutional investors, based on an understanding of their mutual roles.

Although the Shareholders' Meeting represents the best possibility for the Board of Directors to inform shareholders about the Company's performance and its prospects, ERG Renew S.p.A. believes that the quality and timeliness of such disclosure can also be sought via the continuous flow of information on the website www.ergrenew.it.

According to the respective subject matter handled, the pages of the aforesaid website provide not only historic, documental and accounting information (in particular, annual, half-yearly and quarterly reports), and information regarding significant events, the Company's Corporate Governance and the voting trust, but also information on the product line, its applications and issues of customer interest. Some of this information, particularly as regards press releases, is also available in English.

The Board of Directors has observed that, in reference to Article 11 of the Corporate Governance Code, considering the importance of relations with third parties, and particularly with institutional investors and minority shareholders, an investor relations manager should be appointed to handle relations with institutional investors and the other shareholders. The purpose of doing so is to ensure fairness and transparency, which are unquestionably appreciated by institutional investors, and establish a “bond of trust” with other shareholders. All such relations are clearly subject to the approved procedure governing the handling of confidential information.

The Board of Directors has appointed Emanuela Delucchi and confirmed Danilo Lodola, on the basis of their technical expertise and experience, to manage relations respectively with institutional investors and with the other Shareholders.

SHAREHOLDERS' MEETINGS

It is standard practice for the Company, during Shareholders' Meetings, to provide shareholders with information about the Company and its prospects. This is clearly done in compliance with the rules governing price sensitive information and, consequently, this information is promptly disclosed to the market, wherever appropriate.

The Shareholders' Meetings are normally attended by all Directors and Standing Statutory Auditors.

The Board of Directors has not drafted rules for the Shareholders' Meeting to be submitted to the latter for approval, deeming that the conditions for adopting such rules have not actually occurred. Indeed, experience with the Shareholders' Meetings hitherto held has shown that they have always been conducted in a productive and fair manner without the need for specific rules.

The Shareholders' Meeting may also be convened at a location other than the registered office, provided such location is within Europe, in accordance with the terms and procedures laid down by current legislation. The Chairman of the Shareholders' Meeting is responsible for establishing the right of Shareholders and proxies to attend the meeting.

The Shareholders' Meeting is presided over by the Chairman of the Board of Directors or, in his place, by the Deputy Chairman. Shareholders' Meeting resolutions must be recorded in minutes prepared pursuant to Article 2375 of the Italian Civil Code, and signed by the Chairman and the Secretary or by the notary public.

Pursuant to Article 14 of the Articles of Association, the Ordinary Shareholders' Meeting is validly constituted in first call when at least half of the share capital is represented, without considering nonvoting shares, and in second call regardless of the share capital represented by the participating Shareholders.

The Ordinary Shareholders' Meeting resolves by absolute majority vote, without considering abstentions from voting when calculating this majority.

The Extraordinary Shareholders' Meeting is regularly constituted and resolves with the attendance and majorities established by law.

The resolutions of the Shareholders' Meeting are voted upon according to the procedures laid down by current legislation. Voting by correspondence is not allowed. Appointments to corporate offices are by acclamation or relative majority vote, pursuant to law.

STATUTORY AUDITORS

Pursuant to Article 23 of the Articles of Association, the nominations for the position of Statutory Auditor submitted to the Shareholders' Meeting, accompanied by detailed information on the personal and professional qualifications of the candidates, are lodged at the Company's registered office at least fifteen days before the date scheduled for the Shareholders' Meeting in first call, together with the candidate lists.

The Statutory Auditors act freely and independently, even of the Shareholders that elected them.

The Statutory Auditors are required to maintain the confidentiality of the documents and information acquired in the course of performing their duties and to comply with the procedure for disclosure of these documents and information outside the Company.

In accordance with the provisions set forth in the Articles of Association, the Statutory Auditors are appointed on the basis of lists presented by Shareholders – showing the candidates according to a sequential order of listing – which must be deposited, as laid down by Article 147-ter, paragraph 1-bis, of the Consolidated Law on Finance, no later than twenty-five days prior to the date of the Shareholders' Meeting and must be made available to the public at least twenty-one days before the Shareholders' Meeting.

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 election of the Directors.

At the time of appointing the Board of Statutory Auditors currently in office the percentage of ownership necessary for the presentation of lists corresponded to 2.5% of share capital.

No shareholder may present or participate in the presentation of more than one list and each candidate may be included in only one list, under penalty of ineligibility.

The lists must be accompanied, in addition to the information pertaining to the presenting Shareholders and the declarations of same, as set forth by applicable regulatory provisions, by complete information on the personal and professional qualifications of the candidates and the declarations they are required to issue pursuant to the Articles of Association.

Candidates who fail to meet the requisites of independence, professionalism and honourableness set forth by Article 148, paragraph 3, of the Consolidated Law on Finance and those who hold the position of Statutory Auditor in more than five other listed companies cannot be appointed as auditors.

In cases where more than one list is presented, the following are elected: two standing and two alternate members are drawn from the list that has obtained the largest number of votes, based on their sequential order of listing; the third standing and the third alternate member are elected by selecting the candidates for the respective positions heading the list that has obtained the highest number of votes after the first, of those presented and voted for by minority Shareholders who are not even indirectly related to the Shareholders who presented or voted for the first list in terms of number of votes, in accordance with prevailing regulatory provisions. The standing member drawn from the minority list is appointed Chairman.

In the case of a parity between the lists, the candidate drawn from the list presented by Shareholders in possession of the largest quota of participation or, subordinately, the highest number of Shareholders, is elected.

The Board of Statutory Auditors is called upon to monitor compliance with the law and the Articles of Association, observance of principles of correct administration and the adequacy of the Company's organisational structure, internal control system and administrative-accounting procedures.

Lastly, within the ambit of the functions performed as Internal Audit Committee, its tasks can be summarised as follows:

- together with the "manager responsible" and the Internal Control Committee for the preparation of the company's financial reports (if appointed) and the auditors, monitoring the correct use of accounting standards and the homogeneity of same for the purpose of preparing the consolidated financial statements;
- monitoring the financial disclosure process;

- monitoring the effectiveness of the internal control, internal audit and risk management systems;
- monitoring the legal review of annual accounts and consolidated accounts;
- monitoring the independence of the auditing firm, particularly as regards the performance of non-audit services for the entity subject to legal review of accounts.

The Statutory Auditors in office at 31 December 2010, who were appointed by the Shareholders' Meeting on 22 April 2008 for three financial years – 2008, 2009 and 2010 – and specifically until approval of the 2010 annual report, are as follows:

1. Lelio Fornabaio	<i>Chairman of the Board of Statutory Auditors</i>
2. Francesco Gatti	<i>Standing Auditor</i>
3. Andrea Manzitti	<i>Standing Auditor</i>
4. Stefano Brunello	<i>Alternate Auditor</i>
5. Carlo Ravazzin	<i>Alternate Auditor</i>

OTHER POSITIONS AS DIRECTOR OR STATUTORY AUDITOR HELD BY THE STATUTORY AUDITORS, AS AT 31 DECEMBER 2010, AT OTHER COMPANIES LISTED ON REGULATED MARKETS, INCLUDING FOREIGN MARKETS, AT FINANCIAL COMPANIES, BANKS, INSURANCE COMPANIES OR COMPANIES OF A CONSIDERABLY LARGE SIZE:

Lelio Fornabaio	<i>Statutory Auditor at ERG S.p.A. Statutory Auditor at Prelios S.p.A. Statutory Auditor at HDI Assicurazioni S.p.A. Chairman of the Board of Statutory Auditors at InChiaro Assicurazioni S.p.A. Director at Ariscom Compagnia di assicurazioni S.p.A. Chairman of the Board of Statutory Auditors at Essediese S.p.A. Director at Lux Vide Finanziaria per iniziative audiovisive e telematiche S.p.A.</i>
Andrea Manzitti	<i>Standing Auditor at BNL S.p.A. Standing Auditor at Axa Italia S.p.A. Standing Auditor at Quixa S.p.A. Standing Auditor at Axa Partecipazioni S.p.A. Standing Auditor at Findomestic Banca S.p.A. Standing Auditor at Sind S.p.A. Board Director at Malacalza Investimenti S.r.l.</i>
Francesco Gatti	<i>Director at Raffaele Caruso S.p.A.</i>

NOTE

Having noted the "Guidelines for the preparation of the annual Corporate Governance Report" issued by Borsa Italiana S.p.A., the Company's Board of Directors announces that, with regard to the articles that are currently not envisaged in the "Corporate Governance Code" adopted by ERG Renew, as listed below, closer evaluation and possible adoption thereof are postponed until a later time.

Shareholders' Meetings

The Board of Directors has not considered it necessary to adopt the measures referred to under point 11.C.5 of the Corporate Governance Code, whilst reserving the right to do so in the future.

STRUCTURE OF BOARD OF DIRECTORS AND COMMITTEES AS AT 31 DECEMBER 2010

TABLE 1

BOARD OF DIRECTORS					
OFFICE	MEMBERS	EXECUTIVE	NON-EXECUTIVE	INDEPENDENT	****
CHAIRMAN	RAFFAELE TOGNACCA ^(a)	X			
CHAIRMAN	PIETRO GIORDANO ^(b)	X			67%
DEPUTY CHAIRMAN	VITTORIO GARRONE ^(c)	X			100%
CHIEF EXECUTIVE OFFICER	FRANCESCO DEL BALZO	X			100%
DIRECTOR	LUCA BETTONTE	X			66%
DIRECTOR	PIETRO MUTI ^(d)	X			57%
DIRECTOR	ITALO GIORGIO ALFIERI		X	X	100%
DIRECTOR	LORENZO CAPRIO		X	X	89%
DIRECTOR	GIORGIO MAZZANTI		X	X	89%
DIRECTOR	ERNESTO MONTI		X	X	100%
NUMBER OF MEETINGS HELD DURING THE YEAR IN QUESTION				BOD: 9	

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 on regulated markets, including foreign markets, in financial/banking/insurance companies, or in companies of a considerably large size. In the annual corporate governance report full details are provided of such offices.
- *** An "X" in this column indicates that a Board member forms part of a given committee.
- **** This column indicates directors' percent attendance respectively at BoD and Committee meetings

NUMBER OF OTHER OFFICES **	INTERNAL CONTROL COMMITTEE		NOMINATIONS AND REMUNERATION COMMITTEE		EXECUTIVE COMMITTEE (IF ANY)	
	***	****	***	****	***	****
1						
3						
1						
1			X	100%		
6	X	86%	X	100%		
	X	86%				
6	X	100%	X	100%		
INTERNAL CONTROL COMMITTEE: 7			NOMINATIONS AND REMUNERATION COMMITTEE: 4			

- (a) In office until 03/2/2010
- (b) Director until 03/2/2010 - Appointed Chairman on 04/13/2010
- (c) Appointed by the Board of Directors on 04/13/2010 as Executive Director entrusted with the task of supervising the functionality of the Internal Control System
- (d) Co-opted by the Board of Directors on 03/2/2010 and confirmed in such position by the Shareholders' Meeting on 04/13/2010

BOARD OF STATUTORY AUDITORS

TABLE 2

OFFICE	MEMBERS	PERCENT ATTENDANCE AT MEETINGS OF THE BOARD OF STATUTORY AUDITORS	NUMBER OF OTHER OFFICES**
CHAIRMAN	LELIO FORNABAIO	100%	7
STANDING AUDITOR	ANDREA MANZITTI	86%	7
STANDING AUDITOR	FRANCESCO GATTI	100%	1
NUMBER OF MEETINGS HELD DURING THE YEAR IN QUESTION: 7			
QUORUM REQUIRED FOR PRESENTATION OF LISTS BY MINORITY SHAREHOLDERS FOR THE ELECTION OF ONE OR MORE STANDING AUDITORS (AS PER ARTICLE 148 OF THE ITALIAN CONSOLIDATED LAW ON FINANCE): 2.5%			
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 on regulated markets, including foreign markets, in financial/banking/insurance companies, or in companies of a considerably large size. The complete list of offices is annexed, pursuant to Article 144- <i>quinquiesdecies</i> of the CONSOB Issuers' Regulations, to the report on supervisory activity performed, prepared by the statutory auditors in accordance with Article 153, 1st paragraph of the Consolidated Law on Finance.			

OTHER PROVISIONS OF THE CORPORATE GOVERNANCE CODE

TABLE 3

	YES	NO	Summary of reasons for any departures from Code recommendations
DELEGATION SYSTEM AND TRANSACTIONS WITH RELATED PARTIES			
HAS THE BOARD DELEGATED POWERS, DEFINING THEIR:			
A) LIMITS	X		
B) METHOD OF EXECUTION	X		
C) AND FREQUENCY OF REPORTING?	X		
HAS THE BOARD RESERVED THE RIGHT TO EXAMINE AND APPROVE TRANSACTIONS OF PARTICULAR ECONOMIC, EQUITY-RELATED OR FINANCIAL SIGNIFICANCE (INCLUDING TRANSACTIONS WITH RELATED PARTIES)?	X		
HAS THE BOARD DEFINED GUIDELINES AND CRITERIA FOR IDENTIFYING "SIGNIFICANT" TRANSACTIONS?	X		
ARE THE ABOVE-MENTIONED GUIDELINES AND CRITERIA DESCRIBED IN THE REPORT?	X		
HAS THE BOARD DEFINED SPECIFIC PROCEDURES FOR THE EXAMINATION AND APPROVAL OF TRANSACTIONS WITH RELATED PARTIES?	X		
ARE THE PROCEDURES FOR APPROVING TRANSACTIONS WITH RELATED PARTIES DESCRIBED IN THE REPORT?	X		
PROCEDURES FOR THE MOST RECENT APPOINTMENT OF DIRECTORS AND STATUTORY AUDITORS			
WAS THE DEPOSIT OF CANDIDATURES FOR DIRECTORSHIP MADE AT LEAST TEN DAYS IN ADVANCE?	X		
WERE THE CANDIDATURES FOR DIRECTORSHIPS ACCOMPANIED BY FULL INFORMATION?	X		
WERE THE CANDIDATURES FOR DIRECTORSHIPS ACCOMPANIED BY AN INDICATION OF ELIGIBILITY TO BE QUALIFIED AS INDEPENDENT?	X		
WAS THE DEPOSIT OF THE CANDIDATURES FOR THE POSITION OF STATUTORY AUDITOR MADE AT LEAST TEN DAYS IN ADVANCE?	X		
WERE THE CANDIDATURES FOR THE POSITION OF STATUTORY AUDITOR ACCOMPANIED BY FULL INFORMATION?	X		
SHAREHOLDERS' MEETINGS			
HAS THE COMPANY APPROVED RULES FOR SHAREHOLDERS' MEETINGS?		X	TO DATE, THE COMPANY HAS NOT CONSIDERED IT APPROPRIATE TO ADOPT RULES FOR SHAREHOLDERS' MEETINGS
ARE THE RULES ATTACHED TO THE REPORT (OR DOES IT INDICATE WHERE THEY CAN BE OBTAINED/DOWNLOADED)?		X	
INTERNAL CONTROL			
HAS THE COMPANY APPOINTED PERSONS RESPONSIBLE FOR INTERNAL CONTROL?	X		
ARE SUCH APPOINTED PERSONS HIERARCHICALLY INDEPENDENT OF HEADS OF OPERATIONAL AREAS?	X		
ORGANISATIONAL UNIT RESPONSIBLE FOR INTERNAL CONTROL (PURSUANT TO ARTICLE 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 THE INVESTOR RELATIONS AND CORPORATE AFFAIRS MANAGERS			INVESTOR RELATIONS EMANUELA DELUCCHI PHONE 0102401806, FAX 0102401659, E-MAIL EDELUCCHI@ERG.IT CORPORATE AFFAIRS DIVISION DANILO LODOLA PHONE 0102401898, FAX 0102401652, E-MAIL DLODOLA@ERG.IT

BOARD OF DIRECTORS' PROPOSAL

Dear Shareholders,

Your Company's Financial Statements for the year ended 31 December 2010, prepared in accordance with international accounting standards (IASs/IFRSs), show a loss of EUR 17,749,465.38 that we propose be carried forward in the "Retained earnings" reserve.

If you agree with this, we invite you to approve the Management Report and the Financial Statements consisting of the Balance Sheet, the Income Statement and the Explanatory Notes thereto.

Genoa, 2 March 2011

On behalf of the Board of Directors
The Chairman
Pietro Giordano

A black rectangular box containing a white handwritten signature, which appears to be "Pietro Giordano".

GLOSSARY

AEEG (AUTORITÀ PER L'ENERGIA ELETTRICA E IL GAS) = ITALIAN ELECTRICITY AND GAS AUTHORITY

An independent authority set up pursuant to Law no. 481 of 14 November 1995 with regulatory and control functions in the electricity and gas sectors. An independent authority is a public administration that takes its decisions based on legislation enacted and its own procedures and regulations with a major degree of autonomy in its judgements and evaluations from the executive body. The regulatory powers in the sector refer to the determination of the tariffs, the quality of the services and the technical-economic conditions of access and interconnection to the grids, in services where the market would be unable to guarantee the best interest of users and consumers due to technical, legal and other restrictions that limit the normal functioning of competition.

GME (GESTORE DEL MERCATO ELETTRICO S.P.A.)

This is the company, set up by Gestore della Rete di Trasmissione Nazionale S.p.A. (now Gestore dei Servizi Elettrici - GSE S.p.A.), with the mission of organising and managing transactions in the electricity market, according to criteria of neutrality, transparency, objectivity and competition between producers, also ensuring the economic management of an adequate availability of reserve capacity.

GREEN CERTIFICATES (GC)

Certificates that, pursuant to Article 5 of the Decree of the Ministry of Industry dated 11 November 1999, attest the production of electricity from renewable energy sources as required from producers and importers of electricity generated from non-renewable sources for a quantity exceeding 100 GWh/year. Green Certificates are issued by the GSE for the first eight years of a plant's functioning and, until 31 December 2007, had a value equal to 50 MWh and could be sold or acquired on the Green Certificates Market by parties with a surplus or deficit of production from renewable sources. The 2008 Finance Law establishes that, as from 1 January 2008, each Green Certificate has a value equal to 1 MWh, and the incentivised period is increased from eight to fifteen years.

GSE (GESTORE DEI SERVIZI ELETTRICI S.P.A.)

The *GSE* has a central role in the promotion, incentivisation and development of renewable sources in Italy. The sole shareholder of the *GSE* is the Ministry of Economy and Finance, which exercises shareholder rights together with the Ministry of Production Activities. The *GSE* is the parent company of two subsidiaries *AU (Acquirente Unico)* and *GME (Gestore del Mercato Elettrico)*.

MW (MILLION WATTS)

Unit of measurement of a plant's electricity production capacity.

WASTE MANAGEMENT

All activities relating to the collection, transportation and sorting of waste. This business was discontinued in 2006.

WASTE TO ENERGY

The process of transforming waste into energy. This business was discontinued in 2006.

WIND ENERGY

Energy generated from wind

WIND TURBINE

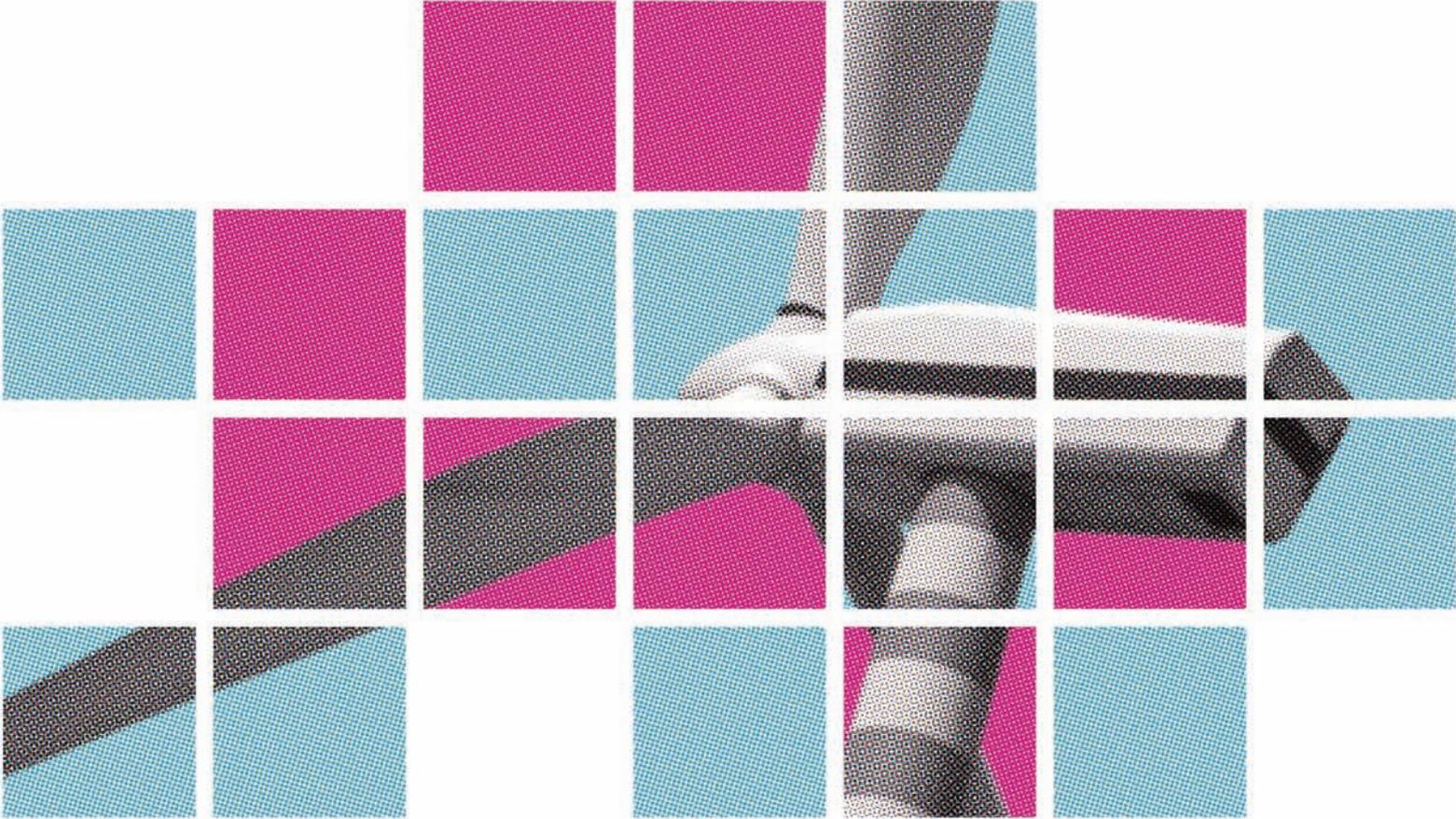
Plant capable of transforming the kinetic energy of wind into mechanical energy, which in turn is used to produce electricity.

ZDE (ZONE DE DÉVELOPPEMENT EOLIEN)

Authorisation granted in France for the construction of a wind farm.

ERG RENEW S.P.A.

CONSOLIDATED FINANCIAL STATEMENTS



(Translated from the original version issued in Italian language)

ERG RENEW S.P.A. CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(EUR THOUSAND)	NOTES	12/31/2010	12/31/2009
PROPERTY, PLANT AND EQUIPMENT	1	570,327	325,541
INTANGIBLE FIXED ASSETS	2	118,444	74,405
EQUITY INVESTMENTS	3	1,472	1,962
FINANCIAL ASSETS	4	725	622
DERIVATIVES RECEIVABLES	17	172	199
OTHER RECEIVABLES	5	14,852	9,248
TAX ASSETS	6	19,343	14,032
DEFERRED TAX ASSETS	7	32,911	13,773
NON-CURRENT ASSETS		758,246	439,782
TRADE RECEIVABLES	8	19,686	11,048
OTHER RECEIVABLES	9	44,067	28,655
TAX ASSETS	10	14,094	5,506
AVAILABLE-FOR-SALE EQUITY INVESTMENTS	11	2	2
CASH AND CASH EQUIVALENTS	12	74,823	58,165
CURRENT ASSETS		152,672	103,376
ASSETS HELD FOR SALE		-	-
TOTAL ASSETS		910,918	543,158
GROUP SHAREHOLDERS' EQUITY		93,251	106,823
MINORITY INTERESTS		654	435
SHAREHOLDERS' EQUITY	13	93,905	107,258
EMPLOYEES' SEVERANCE INDEMNITIES	14	615	489
PROVISIONS FOR LIABILITIES AND CHARGES	15	4,134	7,930
FINANCIAL PAYABLES NET OF CURRENT PORTION	16	384,256	170,594
FINANCIAL PAYABLES DUE TO PARENT COMPANIES NET OF CURRENT PORTION	16	284,431	118,802
DERIVATIVES PAYABLES	17	28,190	3,518
OTHER PAYABLES	18	4,055	4,495
DEFERRED TAX LIABILITIES	19	30,234	16,268
NON-CURRENT LIABILITIES		735,915	322,096
FINANCIAL PAYABLES - CURRENT PORTION	16	58,194	54,660
DERIVATIVES PAYABLES	17	1,844	1,844
TRADE PAYABLES	20	14,221	52,430
OTHER PAYABLES	21	5,384	4,236
TAX LIABILITIES	22	1,455	634
CURRENT LIABILITIES		81,098	113,804
LIABILITIES HELD FOR SALE		-	-
TOTAL LIABILITIES		910,918	543,158

(Translated from the original version issued in Italian language)

ERG RENEW S.P.A. CONSOLIDATED INCOME STATEMENT

(EUR THOUSAND)	NOTES	2010	2009
OPERATING REVENUES		72,667	49,915
OTHER REVENUES AND INCOME		2,011	4,560
PRODUCTION VALUE	24	74,678	54,475
PRODUCTION COSTS			
RAW, ANCILLARY AND CONSUMABLE MATERIALS AND GOODS		(544)	(591)
SERVICES	25	(24,033)	(21,772)
PERSONNEL EXPENSES	26	(5,131)	(5,891)
OTHER OPERATING EXPENSES	27	(6,450)	(3,203)
AMORTISATION AND DEPRECIATION	28	(29,942)	(22,784)
WRITE-DOWNS AND PROVISIONS	29	(19,527)	(13,121)
EBIT		(10,949)	(12,887)
NET FINANCIAL INCOME (EXPENSES)	30	(15,306)	(11,292)
INCOME (LOSS) FROM EQUITY INVESTMENTS	31	(674)	(3,876)
PROFIT BEFORE TAXES		(26,929)	(28,055)
INCOME TAXES	32	10,342	2,470
NET PROFIT (LOSS) FROM CONTINUING OPERATIONS		(16,587)	(25,585)
NET PROFIT (LOSS) FROM DISCONTINUED OPERATIONS	33	953	(2,181)
NET PROFIT (LOSS) FOR THE PERIOD		(15,634)	(27,766)
MINORITY INTERESTS		(219)	(186)
GROUP NET PROFIT (LOSS)		(15,853)	(27,952)
EARNING PER SHARE			
NOT DILUTED		(0.119)	(0.211)

(Translated from the original version issued in Italian language)

ERG RENEW S.P.A. CONSOLIDATED STATEMENT OF OTHER COMPONENTS OF COMPREHENSIVE INCOME

(EUR THOUSAND)	2010	2009
NET PROFIT (LOSS) FOR THE PERIOD	(15,634)	(27,766)
CHANGES IN CASH FLOW HEDGE RESERVE	3,132	(249)
INCOME TAX RELATING TO OTHER COMPREHENSIVE INCOME COMPONENTS	(851)	75
OTHER COMPONENTS OF COMPREHENSIVE NET PROFIT (LOSS)	2,281	(174)
COMPREHENSIVE NET PROFIT (LOSS)	(13,353)	(27,940)
MINORITY INTERESTS	(219)	(186)
GROUP COMPREHENSIVE NET PROFIT (LOSS)	(13,572)	(28,126)

(Translated from the original version issued in Italian language)

STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY

	SHARE CAPITAL	LEGAL RESERVE	OTHER RESERVES	PROFIT (LOSS) FOR THE PERIOD	GROUP SHAREHOLDERS' EQUITY	MINORITY INTERESTS	TOTAL SHAREHOLDERS' EQUITY
BALANCE AT 12/31/2008	132,667	1,388	25,100	(24,410)	134,745	239	134,984
ALLOCATION OF 2008 PROFIT (LOSS)	-	-	(24,410)	24,410	-	-	-
PERSONNEL EXPENSES FOR INCENTIVE PLANS	-	-	214	-	214	-	214
OTHER CHANGES	-	-	(10)	-	(10)	10	-
2009 PROFIT (LOSS)	-	-	-	(27,952)	(27,952)	186	(27,766)
<i>CHANGE IN THE FAIR VALUE OF HEDGING DERIVATIVES</i>	-	-	(174)	-	(174)	-	(174)
COMPREHENSIVE NET PROFIT (LOSS)	-	-	(174)	(27,952)	(28,126)	186	(27,940)
BALANCE AT 12/31/2009	132,667	1,388	720	(27,952)	106,823	435	107,258
ALLOCATION OF 2009 PROFIT (LOSS)	-	-	(27,952)	27,952	-	-	-
PERSONNEL EXPENSES FOR INCENTIVE PLANS	-	-	-	-	-	-	-
OTHER CHANGES	-	-	-	-	-	-	-
2010 PROFIT (LOSS)	-	-	-	(15,853)	(15,853)	219	(15,634)
<i>CHANGE IN THE FAIR VALUE OF HEDGING DERIVATIVES</i>	-	-	2,281	-	2,281	-	2,281
COMPREHENSIVE NET PROFIT (LOSS)	-	-	2,281	(15,853)	(13,572)	219	(13,353)
BALANCE AT 12/31/2010	132,667	1,388	(24,951)	(15,853)	93,251	654	93,905

(Translated from the original version issued in Italian language)

CONSOLIDATED STATEMENT OF CASH FLOWS

(EUR THOUSAND)	2010	2009
OPERATING ACTIVITIES		
EBIT	(10,949)	(12,887)
ADJUSTMENTS FOR:		
DEPRECIATION OF TANGIBLE FIXED ASSETS	25,592	20,107
WRITE-DOWN OF TANGIBLE FIXED ASSETS	264	657
WRITE-DOWN OF OTHER EQUITY INVESTMENTS AND RECEIVABLES	674	3,625
AMORTISATION OF INTANGIBLE FIXED ASSETS	4,350	2,677
WRITE-DOWN OF INTANGIBLE FIXED ASSETS	19,263	12,464
CAPITAL GAIN ON SALE OF FIXED ASSETS	-	(1)
PROVISIONS FOR STAFF INCENTIVE PLANS	-	214
PROVISIONS FOR LIABILITIES AND CHARGES	1,765	2,103
TOTAL ADJUSTMENTS	51,908	41,846
CHANGES IN WORKING CAPITAL		
(INCREASE) / DECREASE IN TRADE AND OTHER RECEIVABLES	(10,978)	4,680
(DECREASE) IN TRADE AND OTHER PAYABLES	(1,478)	(9,671)
TOTAL CHANGE IN WORKING CAPITAL	(12,456)	(4,991)
CHANGE IN SCOPE OF CONSOLIDATION	(18,657)	-
CASH FLOW GENERATED FROM OPERATING ACTIVITIES	9,846	23,968
INCOME TAXES PAID	(184)	(557)
INTEREST PAID	(18,024)	(11,527)
NET CASH FLOW FROM OPERATING ACTIVITIES	(8,362)	11,884
INVESTING ACTIVITIES		
INTEREST RECEIVED	220	1,097
PAYMENTS FOR THE (PURCHASE) / SALE OF FINANCIAL ASSETS	(103)	12,146
(PURCHASES) OF EQUITY INTERESTS IN SUBSIDIARIES	(54,881)	-
<i>PORTION OF PRICE PAID USING CASH OR CASH EQUIVALENTS</i>	<i>(64,580)</i>	-
<i>CASH OR CASH EQUIVALENTS OF EQUITY INTERESTS ACQUIRED THROUGH DEMERGER</i>	<i>9,699</i>	-
SALES OF EQUITY INTERESTS IN SUBSIDIARIES	2,451	-
<i>PORTION OF PRICE RECEIVED IN CASH OR CASH EQUIVALENTS</i>	<i>2,550</i>	-
<i>CASH OR CASH EQUIVALENTS OF EQUITY INTERESTS SOLD</i>	<i>(99)</i>	-
EQUITY INTERESTS ACQUIRED IN OTHER COMPANIES	(184)	(156)
INVESTMENTS IN TANGIBLE AND INTANGIBLE ASSETS	(84,189)	(47,272)
PROCEEDS FROM THE SALE OF TANGIBLE AND INTANGIBLE ASSETS	6,546	108
CHANGE IN SCOPE OF CONSOLIDATION	(256,011)	-
NET CASH FLOW FROM INVESTING ACTIVITIES	(386,151)	(34,077)
FINANCING ACTIVITIES		
REPAYMENT OF LOANS	(29,392)	(23,138)
NEW LOANS RECEIVED	47,233	31,918
LOANS REPAYED TO OTHER GROUP COMPANIES	-	(64,224)
NEW LOANS OBTAINED FROM PARENT COMPANIES	165,629	118,802
NEW LOANS GRANTED TO JOINTLY CONTROLLED COMPANIES	(1,734)	-
CHANGE IN SCOPE OF CONSOLIDATION	217,859	-
NET CASH FLOW FROM FINANCING ACTIVITIES	399,595	63,358
NET INCREASE IN CASH AND CASH EQUIVALENTS	5,082	41,165
NET FINANCIAL DEBT AT THE BEGINNING OF THE YEAR	54,841	13,676
NET FINANCIAL DEBT AT YEAR-END	59,923	54,841
COMPRISING		
BANK AND POSTAL ACCOUNTS	74,820	58,161
CASH AND NOTES ON HAND	3	4
BANK OVERDRAFTS	(14,900)	(3,324)
OF WHICH CASH AND CASH EQUIVALENTS NOT FREELY AVAILABLE	4,170	4,170

(Translated from the original version issued in Italian language)

EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

GENERAL

ERG Renew S.p.A. (the Company) is a joint stock company, incorporated in Italy and registered with the Milan Companies' Register, and is listed on the Milan electronic share market. The Group operates in the sector of electricity production using renewable sources (wind). The main activities of the Company and its subsidiaries (the Group) are described in Note 34 under the "Other information" section of these Explanatory Notes.

These financial statements are expressed in EUR as this is the currency in which the majority of the Group's transactions are denominated.

SUMMARY OF PRINCIPAL ACCOUNTING STANDARDS

The Consolidated Financial Statements have been prepared in accordance with the requirements of the National Commission for Companies and the Stock Exchange (CONSOB) Issuers' Regulations and comply with the valuation and measurement criteria established by the International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) and adopted by the European Commission as per the procedure indicated in Article 6 of Regulation (EC) No. 1606/2002 of the European Parliament and the Council dated 19 July 2002, and the documents of the International Financial Reporting Interpretations Committee (IFRIC). In particular, in the preparation of the consolidated financial statements, all IAS/IFRS standards applicable to accounting aspects significant for the Group were applied without exception.

In order to confirm the going concern requirement, the Group performed an analysis of the financial resources available and future cash flows envisaged in the new 2010 - 2013 Business Plan, as updated on 13 January 2011. From this analysis, as more particularly specified in the Management Report and in the Explanatory note on "Risk disclosure", it emerged that, in view of the financial support pledged by ERG S.p.A. (as described in Note 16 "Financial Payables" and Note 37 "Related-party transactions"), there are no uncertainties, as defined by IAS 1, paragraphs 23-24, regarding the company's capacity to operate as a going concern.

The Consolidated Financial Statements at 31 December 2010 have been audited by Deloitte & Touche S.p.A. in accordance with the procedure set forth by CONSOB regulations.

The financial statements have been prepared on the basis of the historical cost criterion, except for the revaluation of some financial instruments.

As regards the layout of the financial statements, the ERG Renew Group presents the statement of financial position showing a distinction between current and non-current assets and liabilities, while the Income Statement features classification of revenues and costs according to their nature, a format considered more representative than the so-called classification "by function". The statement of shareholders' equity includes all recorded changes in shareholders' equity. The Statement of the other components of Comprehensive Income, as required by the revised version of IAS 1, shows the income components recognised in equity. Lastly, the Statement of Cash Flows has been prepared using the "indirect" method. Amounts are reported in thousands of EUR.

With reference to CONSOB Resolution no. 15519 of 27 July 2006, the income and charges deriving from non-recurring operations or from events that are unusual in the normal course

of business have not been reported separately in the Income Statement. These accounts are commented, however, in the present section in the paragraph "Non-recurring events and operations". Again in reference to the above mentioned CONSOB Resolution, the amounts pertaining to related-party positions and transactions have not been reported separately in the Statement of Financial Position and in the Income Statement, with the exception of the item "Financial payables due to parent companies net of current portion" amounting to EUR 284 million. These items are commented in Note 37 "Related-party transactions". Regarding the disclosure required pursuant to IFRS 8, we point out that in Note 34 information is reported by business division.

The main accounting policies adopted are shown below.

CONSOLIDATION PRINCIPLES

The Consolidated Financial Statements include the financial statements of the Parent Company and the companies controlled by same (its subsidiaries) and are prepared as at 31 December of each year. Control is acquired when an entity has the power to determine the financial and operational policies of another entity in such a way as to obtain benefits from its business. In particular, Parent Company control derives from legal majority ownership of shares and voting rights in the investee companies.

The financial statements consolidated at year-end are those prepared by the respective boards of directors, which approved them prior to approval of the Consolidated Financial Statements by the Board of Directors of the Parent Company. The economic results of subsidiaries acquired or sold during the year are included in the consolidated Income Statement from the effective date of acquisition until the effective date of sale. Where necessary, adjustments are made to subsidiaries' financial statements in order to align accounting policies with those used by the Group. Subsidiaries' financial statements are consolidated using the line-by-line consolidation method, recording the full amounts of assets, liabilities, costs and revenues of the individual companies, regardless of the stake held, and eliminating the book value of the consolidated equity investments held by the Company against the related shareholders' equity. Minority interests in the net assets of subsidiaries consolidated are identified separately from Group shareholders' equity. These minority interests are calculated based on the percentage held in the fair value of the assets and liabilities recorded at the original acquisition date and in the changes in shareholders' equity after this date. Unrealised gains and losses, when they are not insignificant, deriving from infragroup operations between consolidated companies are eliminated, as are all significantly sized items giving rise to payables and receivables and to costs and revenues between Group companies. Equity investments in non-operating subsidiaries are classified under the item "Equity investments" and valued using the principle stated in reference to such item of the Consolidated Statement of Financial Position.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are recognised at cost, including directly allocated ancillary costs and those necessary to bring the asset to the condition appropriate for the use for which it was acquired, net of related depreciation provision and cumulative impairments, if any. During the year in question and in previous years, no revaluations were performed, either voluntarily and/or in accordance with monetary revaluation laws.

Costs include dismantling and removal of the asset and costs for reinstating the site where the asset is located, whenever the requirements of IAS 37 are met. Assets comprising components, of significant amount, and with different useful lives are considered separately in the calculation of depreciation. Land, whether without buildings or adjacent to civil and industrial buildings, is not depreciated as it has an indefinite useful life. The "Land" category includes excavation and road works and land rights incurred prior to the start-up of wind farms. These

costs are depreciated over the duration of the concession. Depreciation is calculated on a straight-line basis, according to the assets' estimated useful life, by applying the following rates:

Wind turbines – depreciation is calculated taking into account the different useful lives of each component (so-called Component Analysis) of the wind farm

Land – not depreciated

Land rights and other civil engineering works (included in the item "Land") 3.5%

Buildings 2.5% - 5%

Electrical works 5%

Plant and machinery 5% - 10% - 20% - 30%

Industrial and commercial equipment 10% – 20%

Other capital goods 12% - 15% - 20%

Plant and machinery under construction for production purposes, or for purposes not yet determined, are recognised at cost, net of write-downs for loss in value. Costs include professional fees, if any, and for some assets, the financial charges capitalised in accordance with the Group's accounting policies. Depreciation of these assets, as for all fixed assets, commences from the moment when the assets are available for use. Assets held under finance lease contracts are depreciated according to the estimate of their useful life as with owned assets or, if shorter, based on the end date of the lease contract. The gains and losses deriving from the sale or disposal of assets are calculated as the difference between sale proceeds and the asset's net book value and are recognised in the Income Statement for the year.

INTANGIBLE ASSETS

Research costs are expensed in the Income Statement in the year in which they are incurred. Development costs relate to the wind farm planning and implementation charges, during the phase following identification of the wind farm with relevant authorisations and until the purchase of the related business division. They mainly concern technical consultancies for the planning and construction phase. Costs pertaining to wind farms that, as at the date of preparation of the financial statements, have not been identified as future development costs, are directly charged to the Income Statement.

Intangible assets generated internally are recorded under assets only if all of the following conditions apply:

- the asset is identifiable (as, for example, software or new processes);
- it is probable that the asset created will generate future economic benefits;
- the development costs of the asset can be measured reliably.

Internally generated assets are amortised on a straight-line basis over their useful life. They are reviewed once a year and any changes, where possible, are applied prospectively.

Patents, concessions, licences and trademarks are initially recognised at purchase cost and are amortised on a straight-line basis over their expected useful life, as defined in the note on assets. No revaluations were carried out during the year in question or in previous years, either voluntarily and/or in accordance with monetary revaluation laws.

BUSINESS COMBINATIONS

Business combinations are recorded according to the purchase method. The purchase cost of the business combination is measured as the aggregate of the fair values, at the acquisition date, of assets given, liabilities incurred or assumed and financial instruments issued by the Group, in exchange for control of the company acquired, plus any costs directly attributable to the business combination. The identifiable assets, liabilities, and contingent liabilities of the

company acquired that meet IFRS 3 requirements for recognition are recorded at their fair value as at the date of acquisition. Goodwill acquired in a business combination is recorded as an asset and is initially measured at cost, represented by the excess of acquisition cost over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. Minority interests in the company acquired are initially measured according to their share of the fair value of assets, liabilities and contingent liabilities recognised.

OTHER EQUITY INVESTMENTS

Investments in non-operating subsidiaries and associates and in other companies, consisting of non-current financial assets that are not held for trading, and for which the fair value is not available, are recorded at cost less write-downs due to impairment, if any. The write-downs are reinstated up to the limit of historical cost if the reasons for the impairment no longer apply.

GOODWILL

In the case of company acquisitions, the acquired and identifiable assets, liabilities and contingent liabilities are recognised at their fair value as at acquisition date.

The positive difference between purchase cost and the Group's share of the fair value of these assets and liabilities is classified as goodwill and recognised in accounts as an intangible asset. Any negative difference ("negative goodwill") is instead recognised in the Income Statement at the time of acquisition.

Goodwill is not amortised but subjected annually – or more frequently if specific events or changes in circumstances indicate the occurrence of impairment – to the tests envisaged by IAS 36 (Impairment of Assets).

NON-CURRENT ASSETS HELD FOR SALE

Non-current assets (and asset disposal groups) classified as held for sale are measured at their previous carrying value or market value, whichever is lower, net of their selling costs. Non-current assets (and asset disposal groups) are classified as held for sale when it is expected that their carrying value will be recovered via a disposal transaction instead of via their utilisation in the company's business operations. This condition is applicable only when the sale is highly probable, the asset (or group of assets) is available for immediate sale in its current conditions and Management has made a commitment to sell, for a sale that should take place within 12 months following the date of classification under this item.

REVENUE RECOGNITION

Revenues are recognised when it is possible to determine their value reliably and it is likely that the relative economic benefits will be received by the Group. Depending on the type of transaction, revenues are recognised on the basis of the specific criteria indicated below.

Sale of goods and services

Revenues are recorded when the significant risks and rewards of ownership of the assets are transferred to the purchaser. Revenues for services are recognised with reference to the stage of completion of activities. If it is not possible to determine the value of revenues reliably, they are recognised up to the costs incurred that it is believed will be recovered.

In particular, revenues from the sale of electricity are recognised at the time of injection into the electricity grid, even though not yet invoiced, and are determined by supplementing with appropriate estimates the revenues recorded based on specific meter reading instruments. These revenues are calculated in accordance with the legal provisions of Electricity Authority resolutions applicable during the period, while also taking account of the equalisation regulations for the time being in force.

Revenues from green certificates produced by Group plants for sale to producers or importers of energy from non-renewable sources or to the National Grid (Gestore dei Servizi Elettrici – GSE (the latter is obliged to acquire the unsold green certificates from producers using renewable sources by the end of the third year after their production) are recognised in the year when the certificate matures, i.e. the year of production of electricity from renewable sources.

The Ministerial Decree of 18 December 2008 enacted by the Ministry for Economic Development in agreement with the Minister for the Environment and Territorial and Marine Protection, and published in the Gazzetta Ufficiale (Italian Official Journal) on 12 January 2009, regulated the transition from the old incentive mechanism to the new one endorsed by the 2008 finance law. The above Ministerial Decree establishes that green certificates pertaining to production matured and maturing up to the end of 2010 will, at their holders' request, be acquired by the GSE. This purchase, the application for which must be sent on or before 31 March of the year following the one to which certificates refer, will take place by the end of June at a price equal to the market average during the three-year period preceding the year of filing the application.

The average purchase price of green certificates is systematically recalculated when interim reports and the next year's annual report are prepared, based on the market trend.

Interest income is recognised in accordance with the accrual principle, based on the amount financed and the effective interest rate applicable.

Dividends are recorded when the entitlement of shareholders to receive payment of same is established.

PUBLIC GRANTS

Public grants obtained against investments in equipment are recorded in the Income Statement over the period necessary to match them with the related costs. Operating subsidies (granted to provide immediate financial assistance to the company or to compensate for expenses and losses incurred in a previous year) are fully recognised in the Income Statement at the time when conditions for recognition have been met.

LEASING

Lease agreements are classified as finance leases when the terms of the agreement are such that they substantially transfer all of the risks and rewards of ownership to the lessee. All other lease transactions are considered operating leases.

The assets covered by finance lease agreements are recorded as Group assets at their fair value at the acquisition date, or, if lower, at the present value of the minimum lease payments owed. The corresponding liability towards the lessor is included in the statement of financial position under liabilities for finance leases. Lease payments are divided between a capital portion and an interest portion in order to apply a constant interest rate to the residual liability. The financial expenses are charged directly to the Income Statement for the period, unless they are attributable to specific assets, in which case they are capitalised in accordance with the general Group policies on financial expenses.

The costs for lease instalments arising from operating leases are recorded on a straight-line basis according to the contract's duration.

EMPLOYEE BENEFITS

The benefits guaranteed to employees paid out upon termination of employment or thereafter, through defined benefit plans (such as: employees' severance indemnities and additional months of salary) or other long-term benefits are recognised in the period when the right accrues. These provisions and benefits are not financed.

Employees' severance indemnities constitute a defined benefit plan valued based on actuarial criteria, which means that the amount accrued must be projected to the future to estimate the amount to be paid at the time of termination of employment and then discounted to present value, using the "projected unit credit method", to take account of the period of time that will pass before payment actually takes place. The Group constantly monitors the employees' severance indemnity liability, calculated in accordance with the above mentioned criteria, and at the same time calculates the liability to personnel in compliance with the rules laid down by Article 2120 of the Italian Civil Code.

In view of the scarce significance of the outright value of this statement of financial position (balance sheet) component and the difference in the liability calculated according to the two methods, the Group has recorded the employees' severance indemnity provisions by allocating the liability legally accrued at year-end pursuant to Article 2120 of the Italian Civil Code.

SHARE-BASED PAYMENTS (STOCK OPTIONS)

From FY2005 to FY2009 the Group accorded additional benefits to some members of senior management through stock option plans, used to provide incentives and maintain management loyalty (the period of accrual for such benefits expired as from 1 January 2010). The total fair value of stock options on grant date is recorded in the Income Statement as a cost. Changes in fair value after grant date do not affect the initial value. The remuneration cost, corresponding to the options' fair value, is recognised under personnel expenses on a straight-line basis over the period between the grant date and vesting date, and directly offset in equity.

FINANCIAL EXPENSES

The financial expenses directly attributable to the acquisition, construction or production of fixed assets requiring a significant period of time before they are ready for use or sale, are included in the costs of such fixed assets, up to the moment when they are ready for use or sale. The revenues received from the temporary investment of liquidity obtained from the above-mentioned loans are deducted from the capitalised interest.

All other financial expenses are charged to the Income Statement at the time they are incurred.

INCOME TAXES

Income taxes for the year represent the total of current and deferred taxes.

Current taxes are based on the year's taxable result in compliance with current regulations and, for participating companies, within the domestic tax consolidation system. Taxable income differs from the result reported in the Income Statement as it excludes positive and negative components that will be taxable or deductible in other financial years and also excludes accounts that will never be taxable or deductible. The liability for current income taxes is calculated using the tax rates current or enacted as at the end of the reporting period. Deferred taxes are the taxes that are expected to be paid or recovered on the temporary differences between the carrying value of assets and liabilities in the financial statements and the corresponding fiscal value resulting from calculation of the taxable income, recorded in accordance with the statement of financial position (balance sheet) liability method.

Deferred tax liabilities are recognised for all taxable temporary differences, whereas deferred tax assets are recognised to the extent that the existence of future taxable results, such as to enable the use of the deductible temporary differences, is considered probable.

The amount of deferred tax assets is reviewed at the end of each reporting period and reduced when the existence of sufficient taxable income to permit the recovery of all or part of these assets is no longer likely.

Deferred taxes are calculated based on the tax rates that are expected to be in force at the time of realisation of the asset or settlement of the liability. Deferred taxes are charged directly to the Income Statement with the exception of those relating to items taken directly to equity, in which case related deferred taxes are also recognised in equity.

Deferred tax assets and liabilities are compensated when they refer to income taxes owed to the same tax authority and the Group intends to pay the amount on a net basis.

IMPAIRMENT

At the end of each reporting period, the Group reviews the carrying value of its tangible, intangible and financial assets to determine whether there is evidence of these assets having suffered reductions in value. Where such evidence exists, the recoverable amount of these assets is estimated to determine the amount of the impairment loss. Where it is not possible to estimate the recoverable amount of an asset individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs, this being identified as the asset's legal entity and operating segment.

The recoverable amount is the net selling price or value in use, whichever is higher. In measuring the value in use, the estimated future cash flows are discounted to their present value at a pre-tax rate that reflects the market's current assessment of the time value of money and the risks specific to the asset.

In particular, the recoverable amount of the cash-generating units (which normally coincide with the legal entity to which the fixed assets refer) is verified by determining the value in use. The principal assumptions used to calculate the value in use concern the discount rate, the growth rate, the expected variation in the selling prices of electricity and green certificates, or the wastewater disposal service performed, and the trend in direct costs during the period assumed for calculation purposes. The Group's Management therefore adopted an after-tax discount rate that reflects the market's current assessment of the cost of money and the specific risk associated with the different cash-generating units. The growth rates used are based on growth forecasts pertaining to the relevant industrial sector of the legal entity. The variations in selling prices as regards the wastewater disposal service and direct costs are based on past experience, future market expectations and foreseeable changes in the specific regulatory situation of some of the Group's assets (with special reference to the anticipated trend in the price of electricity and green certificates). The Group prepares operating cash flow forecasts derived from the latest four-year plans approved and determines the terminal value on the basis of a medium and long-term growth rate in keeping with that of the specific sector in question. At least once a year, at the time of preparing the consolidated financial statements, the Group also verifies the recoverability of the goodwill.

Similar estimation processes are necessary in case of reference to the presumed realisable value due to the uncertainty inherent in each transaction.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be lower than its carrying value, the carrying value of the asset is reduced to the lower recoverable value. A loss in value is immediately recognised in the Income Statement.

When there is no longer any reason to maintain a write-down, the carrying value of the asset (or cash-generating unit) is increased to the new value deriving from estimation of its recoverable value, albeit without exceeding the net carrying value the asset would have had if it had not been written down for impairment. Reinstatement of value is immediately recognised in the Income Statement.

FINANCIAL INSTRUMENTS

Financial assets and liabilities are recorded in the financial statements when the Group becomes a party to the instrument's contractual clauses.

TRADE AND OTHER RECEIVABLES

Trade receivables are stated at their nominal value reduced by appropriate bad debt provision to reflect the estimated losses on receivables.

The estimate of the amounts considered non-recoverable is made when it is considered likely that the company will be unable to recover the receivable's full amount. Customer trade receivables refer to the amounts invoiced that have still to be collected as at the date of this document, as well as to the portion of revenues pertaining to the year but invoiced after year-end.

FINANCIAL ASSETS

Financial assets are recognised at the trading date at cost corresponding to the nominal value, including transaction costs.

At the end of subsequent reporting periods, the financial assets that the Group companies have the intention and ability to hold to maturity are recognised at amortised cost, net of write-downs made to reflect impairment.

Financial assets other than those held to maturity are classified among those available for sale, and are measured at the original nominal value corresponding to the realisable value.

For available-for-sale financial assets, the gains and losses arising from changes in fair value are directly recognised in equity until the assets are sold or have suffered impairment; in such case, the total gains or losses previously recorded in equity are recognised in the Income Statement for the period.

IAS 39 envisages classification of financial assets in the following categories:

- Financial assets at fair value through profit or loss (FVTPL);
- Held-to-maturity (HTM) investments;
- Loans and receivables (L&R);
- Available-for-sale (AFS) financial investments.

All financial assets are initially recognised at fair value, plus – in the case of assets other than FVTPL assets – ancillary costs.

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

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

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

This category comprises:

- Assets held for trading (HFT);
- Assets designated as FVTPL financial assets at the time of initial recognition.

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

As at 31 December 2010, there were no financial assets designated at FVTPL.

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

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

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

As at 31 December 2010, the Group held no investments classified as HTM.

- **Loans & Receivables (L&R)**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Following initial recognition, these assets are measured at amortised cost using the effective interest rate method, net of provisions for impairment, if any.

Gains and losses are recognised in the Income Statement when loans and receivables are derecognised for accounting purposes or if impairment occurs, as well as via the amortisation process.

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

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

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

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

AFS financial investments include equity investments in companies other than subsidiaries and associates in which ERG Renew's direct or indirect ownership percentage is less than 20%. When fair value cannot be reliably calculated, equity investments are measured at cost, written down for impairment, if any, and dividends from such companies are included under "Other net income (losses) from equity investments".

When the reasons for write-downs cease to exist, equity investments measured at cost are written back up to the limit of impairments recorded and the relevant effect is recognised in the Income Statement.

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

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

Fair value

In the case of securities widely traded in regulated markets, fair value is determined in reference to stock market prices recorded at close of trading at the end of the reporting period.

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

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

Amortised cost method

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

IMPAIRMENT OF FINANCIAL ASSETS

At the end of each reporting period, the Group verifies whether a financial asset or group of financial assets has suffered an impairment in value.

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

The carrying value of the asset is reduced by using a provision. The impairment amount is recognised in the Income Statement.

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

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

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

The carrying value of the receivable is reduced by using a specific provision. Impaired receivables are written off if they are deemed unrecoverable.

CASH AND CASH EQUIVALENTS

This item includes cash and bank current accounts and deposits repayable on demand and other highly liquid short-term financial investments, readily convertible into cash and subject to a non-significant risk of a change in value.

FINANCIAL LIABILITIES

Interest bearing bank loans and overdrafts are recognised based on the amounts received, net of direct costs.

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

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

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

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

Every gain or loss is recorded in the Income Statement when the liability is discharged, as well as via the amortisation process.

Financial liabilities at FVTPL include “Held-for-trading liabilities”.

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

As at 31 December 2010, there were no financial liabilities designated at FVTPL, with the exception of the non-hedge portion of IRS derivatives pertaining to the company ERG Eolica Adriatica S.r.l., the impact of which on the Income Statement amounted to EUR 1.2 million.

DERECOGNITION OF FINANCIAL ASSETS AND LIABILITIES

A financial asset (or, where applicable, part of a financial asset or part of a group of similar financial assets) is derecognised when:

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

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

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

TRADE PAYABLES

Trade payables, which mature within the normal commercial terms, are recognised at their nominal value.

DERIVATIVE INSTRUMENTS

Derivative instruments are initially recognised at cost, and adjusted to fair value at the end of subsequent reporting periods.

Changes in the fair value of derivative instruments designated to hedge future cash flows relating to contractual obligations of the Group's Companies and expected future operations are recorded directly in equity. If the contractual obligations or the expected future operations that are hedged result in the recognition of an asset or liability, when the asset or liability is recorded, the associated gains or losses which were recorded directly in equity are included in the initial measurement of the acquisition cost or the carrying value of the asset or liability. For cash flow hedges which do not result in the recognition of an asset or liability, the amounts recorded directly in equity will be recognised in the Income Statement in the same period in which the contractual obligation or the expected operation impacts the Income Statement, for example, when an expected sale actually takes place.

Changes in the fair value of the derivative instruments that do not qualify as hedges are recognised in the Income Statement for the period when they arise.

The hedge accounting method is abandoned when the hedging instrument has matured, is sold, expires, or is exercised, or no longer qualifies as a hedge. In this case, the accumulated gains or losses of the hedging instrument directly recorded in equity are maintained until the expected operation occurs. If it is expected that the hedged operation will not occur, the accumulated gains or losses recorded directly in equity are transferred to the Income Statement for the period.

Put options on unlisted equity interests exercisable by third parties vis-à-vis the Group are recorded at the present value of the overall amount paid for the option and are measured as a component of the investment's purchase cost.

PROVISIONS FOR LIABILITIES AND CHARGES

Provisions for liabilities and charges are recorded when the Group has a current legal or implied obligation deriving from a past event, if an outlay of resources to fulfil the obligation is likely and the amount of the obligation can be reliably estimated. The provisions are made at the end of the reporting period, based on Management's best estimate of the costs required to fulfil the obligation, and are discounted to present value when the effect is significant.

EARNINGS PER SHARE

Earnings per share (EPS) is calculated by dividing the net profit for the period attributable to the Company's ordinary shareholders by the weighted average number of ordinary shares outstanding during the period concerned.

USE OF ESTIMATES

Preparation of the Consolidated Financial Statements in accordance with International Accounting Standards requires estimates and assumptions to be made that affect the values of assets and liabilities shown in the financial statements and the information provided concerning potential assets and liabilities at the end of the reporting period. If in future these estimates and assumptions, which are based on Management's best evaluation, should differ from actual circumstances, they will be appropriately modified during the period in which the circumstances change.

In particular, the most complex estimations concern the calculation of possible impairments of non-current assets and provisions for liabilities and charges.

Recoverability of the value of non-current assets

The procedure for determining the impairment of non-current assets, described under the accounting policy "Impairment", in estimating value in use, implies utilisation of the investee companies' Business Plans. The latter are based on a combination of assumptions and hypotheses made by the Boards of Directors of investee companies concerning future events and actions, which may not necessarily occur.

The total value of non-current assets shown in the consolidated financial statements, prior to testing in order to ascertain the recoverability of same, amounts to EUR 777 million; more specifically, of this amount around EUR 760 million concerns the wind sector, approximately EUR 9 million concerns the hydro sector and around EUR 8 million refers to the Holding division.

● **Wind sector**

With reference to the wind sector, EUR 137 million of the non-current assets concerns intangible assets, EUR 562 million concerns property, plant and equipment and EUR 61 million refers to financial assets. In particular, the nature of the said assets can be further detailed as follows:

- approximately EUR 97 million concerns concessions pertaining to the wind Italy sector;
- approximately EUR 25.6 million concerns concessions pertaining to the wind France sector;
- approximately EUR 13.8 million concerns other intangible assets with finite useful life pertaining to the wind Italy sector;
- approximately EUR 0.6 million concerns goodwill;
- approximately EUR 562 million concerns property, plant and equipment;
- approximately EUR 61 million concerns equity investments and financial receivables.

Intangible assets

Exogenous and endogenous events that occurred during FY2010, as described in the Report on Operations under the section "Impairment test" to which reference is made for further details – in addition to suggesting the need to update the economic and financial forecasts

contained in the 2010-2013 Business Plan, originally approved in March 2010 – were viewed by the Directors as indicators of a potential impairment of certain non-current assets with finite useful life; given this situation, therefore, in accordance with IAS 36, specific impairment tests were developed to assess the extent of possible write-downs to be reflected in the Company's consolidated financial statements as a result of the slowdown in implementation of the 2010-2013 Business Plan following the above mentioned occurrences.

The task of performing the impairment test was assigned in February 2011 to an independent expert who conducted the analysis using financial flows drawn from the revised 2010-2013 Business Plan examined by the ERG Renew Board of Directors on 13 January 2011, and extended over subsequent periods according to the expected useful life.

More specifically, the impairment tests were developed in reference to the value of concessions relating to all French wind farms in operation (EUR 25.6 million) and to the value of the concession regarding the Ginestra wind farm currently under construction (EUR 7.6 million) which, against a background of uncertainty in the energy price scenario affecting all Italian wind businesses, is specifically penalised by delays in coming on stream.

On the other hand, insofar as concerns the other Italian wind farms, due to the earning capacity developed during the year and in previous years, it was not considered necessary to activate an impairment test, despite the aforesaid uncertainty as regards the energy price scenario.

More specifically, with regard to the above mentioned impairment test carried out in respect of the concessions, the following assumptions were made:

- for the calculation of recoverable value, intended as the value in use, the present value of operating cash flows associated with the assets for the first twenty years of operation of the wind farms was estimated;
- the expected variation was determined as regards sale prices and the trend in direct costs during the period assumed for the calculation based on past experience, adjusted for future market expectations;
- for the purpose of discounting the cash flows, a discount rate was used corresponding to the WACC for the sector (6.5%) plus a spread (1%) tied to the higher riskiness of the asset being assessed; as regards the French wind farms, the discount rate corresponding to the WACC for the sector was established as 6.0%, again plus a spread (1%) tied to the higher riskiness of the asset being assessed;
- no terminal value was assumed beyond the precise forecast period.

The Group's Management considered the assumptions adopted to be reasonable and consequently, based on the assumptions outlined above, an overall impairment emerged which, net of the related tax effect, amounted to EUR 15.6 million, of which EUR 8 million ascribable to the French authorisations and EUR 7.6 million to the value of the authorisation for the Ginestra wind farm, under construction.

The write-down was calculated taking into account the information currently available and reasonable estimates of the trend in variables concerning windiness, energy prices and interest rates.

In particular, we report that the criterion used to determine the price of energy and green certificates could vary as a result of developments in the reference regulatory context, currently being approved by the legislative bodies.

The Group took account of the aforesaid uncertainties in its elaboration and definition of the basic assumptions used to determine the recoverable value of the assets subjected to impairment testing and also prepared sensitivity analyses regarding the recoverable value of such assets in the event of changes in energy and green certificate selling prices and interest rates.

In the case of a 5% reduction in electricity and green certificate prices (carried out only as regards the Italian subsidiaries) extended over the entire duration of the plan, the recoverable value of assets subjected to impairment would not change since the value of the concessions pertaining to subsidiary ERG Eolica Ginestra are already fully written down. On the other hand, in the case of a 5% increase in prices, extended over the duration of the plan, the write-down of assets subjected to impairment test would decrease by the amount of EUR 3.2 million.

Lastly, we report that a 0.5% increase in the discount rate would also have implied an increase in the write-down of the intangible assets subjected to impairment test by EUR 1.5 million, whereas a 0.5% reduction in the discount rate would have implied a lower write-down of the intangible assets subjected to impairment test by EUR 3.5 million.

The sensitivity analyses referred to above confirm the sensitivity of the non-current asset recoverability assessments to a change in the above mentioned variables; in view of this, the Directors will systematically monitor the trend in the aforesaid exogenous and non-controllable variables in order to make adjustments, if necessary, to the estimated recoverability of the carrying values of non-current assets in the Company's Consolidated Financial Statements.

Financial assets

With reference to the investment in associate Compagnie Internationale des Turbines Atmosphériques S.a.s. (hereinafter CITA S.a.s.) following the decision by the Directors of same to develop business in the photovoltaic sector (currently not yet significantly fully implemented by the associate company) – the Group has engaged independent experts to perform a technical analysis in order to identify any problems in operations in the new sector. The recoverability of the investment's carrying value will be determined based on the associate company's new operational prospects still being identified. Based on the present situation of uncertainty regarding the development prospects for the business, it was also considered prudent to write down the loan granted to the Investee company in the amount of EUR 1.2 million. The book value of the investment – carried at equity – currently stands at EUR 1.1 million (original acquisition cost EUR 2.6 million), having been written down during the year by EUR 0.7 million.

● **Hydro sector**

Performance during the year of investments in the hydro sector appears in keeping with the 2010 – 2013 Business Plan forecasts; since no endogenous and exogenous indicators were observed, such as to suggest a risk of impairment as regards non-current assets pertaining to the hydro sector (all with finite useful life), it was not considered necessary to develop any impairment tests.

● **Photovoltaic sector**

Lastly, a write-down of EUR 7 thousand was recorded as regards the investment in ISAB Energy Solare S.r.l., a company 51% owned and carried at equity; this company operates in the research, promotion and implementation of industrial plants for the production of energy from solar sources via photovoltaic conversion.

Recoverability of deferred tax assets

The consolidated financial statements at 31 December 2010 show a deferred tax receivable of EUR 33 million, which includes the calculation of the so-called Tremonti-*ter* tax relief (Decree Law 78/2009 converted with amendments into Law 102/2009) relating to the investments carried out by Group Companies ERG Eolica Ginestra S.r.l. (EUR 7.2 million recognised in the Income Statement in FY2010) and ERG Eolica Adriatica S.r.l. (EUR 4.4 million, considered – pursuant to IFRS 3 – within the ambit of the investment's excess purchase price allocation with respect to the shareholders' equity acquired), since, albeit within the context of regulatory

uncertainty that emerged during the months of September and October regarding the cumulability of the so-called "Tremonti-ter" tax relief and the green certificates incentive system, the Government Lawyers (Avvocatura di Stato) on 18 January 2011 issued an opinion in favour of the cumulability of the said incentives and tax relief, thereby confirming the Company's earlier interpretation.

Recognition of the deferred tax receivable is supported by the Group's prospective taxability arising from expected profitability based on the 2010-2013 Business Plan as revised on 13 January 2011, considering the renewal of tax consolidation for the three years 2010-2012, and the reasonable expectation of a further renewal of the tax consolidation procedure for the three years 2013-2015. As mentioned in Note 41 and in the "Risk Management Disclosure" section of the Management Report, the Group's future profitability is significantly affected by the trend in scenario variables beyond the Group's control, including the windiness of wind farms, which affects expected electricity output, and the assumptions concerning the price of electricity sold and the value of green certificates starting from FY2011.

The Directors will systematically monitor the trend in the aforesaid exogenous and non-controllable variables in order to make adjustments, if necessary, to the estimated recoverability of the carrying values of deferred tax assets in the Company's consolidated financial statements.

Provisions for bad debts and discounting of receivables

With reference to estimation of the credit recovery risk and assessment of collection times for same for the purpose of discounting the receivables that are non-interest bearing, the Directors rely on communications received from the operating functions in charge of negotiation with the counterparties concerned as well as, in case of assistance from outside legal advisors, on the communications received from same on the status of disputes.

Insofar as concerns the receivables due from promoters of the Nurra wind farm, during the course of 2010 events occurred such as to give rise to uncertainty regarding the outcome of the authorisation procedures for the said wind farm, leading to the write-down of a receivable relating to the deposits paid – owing to the incapacity of promoters to reimburse same – by the amount of EUR 1 million (compared to a total receivable of EUR 2.5 million).

On the other hand, as regards the original receivable of EUR 4.2 million relating to the Tursi Colobraro project, expectations as regards the deferred collection of same led to discounting for the total amount of EUR 1.3 million starting from FY2008.

Due to the uncertainty regarding the trend in authorisation procedures, it cannot be ruled out that the realisation of the above mentioned receivables may take place for amounts other than those estimated for the purpose of drawing up the financial statements as at 31 December 2010. This uncertainty is applicable also as regards other receivables for which non-recovery estimates have been made based on the status of disputes or insolvency proceedings and for which the bad debt provision at 31 December 2010 is deemed adequate.

Provision for liabilities and charges

With regard to estimation of the risk of contingent liabilities arising from litigation, the Directors rely on the communications received on the progress of recovery procedures and litigations communicated by the legal advisors who represent the Group in the disputes. These estimates are determined taking into account the progressive evolution of the disputes and in consideration of minimum thresholds payable.

In particular, during FY2009 there was a major development in the ongoing arbitration proceedings with ACEA S.p.A., initiated as contractually provided to settle numerous disputes

that have arisen between the Company and ACEA S.p.A. concerning the sale of the “Waste to Energy” and “Waste Management” businesses, which, on 20 January 2010 led to an award subject to appeal by the parties according to the terms provided by law. The board’s final assessment substantially accepted the reasons put forward by ERG Renew and, consequently, it is considered that the provision appropriated in prior years for a total amount of EUR 5.4 million to cover the liabilities deriving to the Group as a result of the arbitrators’ decisions – such provision having been reclassified as at 31 December 2010 from “Provision for liabilities and charges” to “Bad Debt Provision” (Note 8) – can be considered sufficient. In particular, in partial execution of the aforesaid arbitration award, ERG Renew S.p.A. repurchased from ACEA S.p.A. the receivables assigned within the scope of the sale of the above mentioned businesses; from a financial standpoint, the disbursement for the said repurchase was offset against revenues in the form of a “tax earn-out” of EUR 1.6 million (Note 33 “Net profit (loss) from discontinued operations”). This “tax earn-out” was regulated by the original sale agreement entered into between ACEA S.p.A. and ERG Renew S.p.A; the aforesaid arbitration award confirmed the obligation for ACEA S.p.A. to pay the price increase and, following the agreements reached with ACEA S.p.A., the tax earn-out was settled between the parties in July 2010 and financially offset against the receivables repurchase transaction.

Moreover, during FY2010 a risk provision of EUR 2.3 million was appropriated in respect of extraordinary interventions to recover certain areas of wind farms owned by Green Vicari S.r.l. and ERG Eolica Adriatica S.r.l., damaged as a result of particularly adverse weather conditions.

The risk of uncertainty insofar as concerns these specific estimative processes is particularly significant and, therefore, it cannot be excluded that the provision for liabilities to date – considered by the Directors to be appropriate – may prove insufficient upon the final outcome of pending litigations.

ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS APPLIED AS FROM 1 JANUARY 2010

The following accounting standards, amendments and interpretations were applied by the Group for the first time starting from 1 January 2010. In particular, the revised version of IFRS 3 introduced major changes, as described below, primarily concerning: regulation of the acquisition of subsidiaries by stages; the option to measure at fair value minority interests, if any, purchased in a partial acquisition; recognition in the Income Statement of all costs associated with business combinations and the recording at the acquisition date of liabilities for conditional payments.

- **IFRS 3 Business combinations**

- ***Acquisition of a subsidiary by stages***

In the case of acquisition of a subsidiary by stages, IFRS 3 (2008) states that a business combination is only achieved at the time when a controlling interest is acquired and that, at such time, all identifiable net assets pertaining to the acquired company must be measured at fair value; minority interests must be measured based on their fair value or based on the proportionate share of fair value of identifiable net assets of the acquired company (method already allowed under the previous version of IFRS 3).

In an acquisition by stages of a controlling interest in an investee company, the shareholding previously held, until such time accounted for according to the provisions laid down by IAS 39 – Financial instruments: recognition and measurement, or IAS 28 – Investments in associates, or according to IAS 31 – Interests in joint ventures, must be treated as though it had been sold and repurchased at the date of acquiring the controlling interest. The shareholding in question must therefore be measured at its fair value as at the date of sale and the profits and losses resulting from such measurement must be recognised in the Income Statement. Moreover, all amounts previously recognised in equity as “Other comprehensive income and losses”, which should be charged to the Income Statement following the sale of the business in question, must be reclassified in the Income Statement. Goodwill or the revenues deriving from the transaction concluded by way of the subsequent acquisition must be determined as the sum of the price paid to obtain control, the value of the minority interest (measured according to one of the methods permitted by the standard), the fair value of the minority stake previously held, after deducting the fair value of the net identifiable assets acquired.

According to the previous version of the standard, the acquisition of control by stages was recorded transaction by transaction, as a series of separate acquisitions that generated overall a goodwill calculated as the sum of the goodwill generated by all the individual transactions.

- ***Incidental transaction costs***

IFRS 3 (2008) provides for incidental costs pertaining to business combination transactions to be recognised in the Income Statement for the period in which they are incurred. According to the previous version of the standard these costs were included in the calculation of the cost of purchasing the net assets of the acquired company.

- ***Recording of conditional payments***

IFRS 3 (2008) provides for conditional payments to be considered a part of the price for the transfer of the acquired net assets and measured at fair value as at the date of acquisition. Likewise, if the business combination agreement envisages the right to return certain price components upon the occurrence of certain conditions, this right is classified as an asset by the acquirer. Subsequent changes, if any, in fair value must be recorded as an adjustment to the original accounting treatment only insofar as

determined by additional or better information concerning such fair value and if they occur within 12 months of the date of acquisition; all other variations must be taken to the Income Statement.

The previous version of the standard stated that conditional payments were to be recorded at the date of acquisition only if the payment of same was considered probable and their amount could be reliably determined. Moreover, all subsequent variations in the value of such payments was always recorded as an adjustment of goodwill.

- **IAS 27 Consolidated and Separate Financial Statements**

The changes to IAS 27 primarily concern the accounting treatment of transactions and events that modify the stakes held in subsidiaries and the allocation to minority interests of the subsidiary's losses. In accordance with the standard's provisional rules, the Group has adopted such changes to IAS 27 prospectively, recording the effects on the accounting treatment of certain acquisitions and sales of minority interests pertaining to subsidiaries.

IAS 27 (2008) states that, once a controlling interest in a business has been acquired, the transactions in which the parent company acquires or sells additional minority quotas without any change in the control exercised over the subsidiary are transactions with shareholders and must therefore be recognised in equity. It follows that the book value of the controlling stake and the minority interests must be adjusted to reflect the variations in the interest held in the subsidiary and any difference between the amount of the adjustment made to the minority interest and the fair value of the price paid or received in connection with the transaction is taken directly to equity and allocated to the parent company's shareholders. There will not be any adjustment to the value of goodwill or gains and losses recognised in the Income Statement. Moreover, the additional costs deriving from such transactions must be recognised in equity in accordance with the requirements set forth by IAS 32, paragraph 35.

Previously, in the absence of a Standard or specific interpretation in this connection, in the case of acquisitions of minority interests in companies already controlled, the Group had adopted the so-called "Economic entity approach", which provided for recognition of the difference between purchase cost and the book values of assets and liabilities acquired deducting same from Shareholders' Equity. On the other hand, in the case of a sale of minority interests without loss of control, the Group records in the Income Statement the difference between the book value of assets and liabilities sold and the sale price.

- **IFRS 5 – Non-current assets held for sale and discontinued operations**

If a company is engaged in a disposal plan that involves the loss of control of an investee company, all assets and liabilities of the subsidiary must be reclassified as assets held for sale, even if after the sale the company will continue to maintain a minority stake in the subsidiary. The amendment has been prospectively applied as from 1 January 2010.

- **IFRIC 18 – Transfer of assets from customers**

This standard explains the accounting treatment to be adopted if the company enters into an agreement whereby it receives from one of its customers a tangible asset which it will need to use to connect the customer to a grid or to provide same with a certain access to the supply of goods and services (such as for example the supply of electricity, gas, water). In some cases, in fact, the company receives funds from the customer in order to build or acquire such tangible asset to be used in carrying out the agreement. The interpretation has been applied prospectively since 1 January 2010.

- **IFRS 8 – Operating segments**

This amendment, applicable as from 1 January 2010, requires companies to provide the total value of assets for each segment subject to disclosure, wherever such value is periodically reported to the entity's chief operating decision-maker. This information was previously required even without such stipulation.

- **IAS 36 – Impairment of assets**

This amendment, prospectively applicable as from 1 January 2010, requires the size of each operating unit or group of operating units over which the goodwill is allocated for impairment test purposes not to exceed an operating segment as defined in paragraph 5 of IFRS 8, prior to the combination permitted under paragraph 12 of the said IFRS on the basis of analogous economic characteristics or other elements of similarity.

AMENDMENTS AND INTERPRETATIONS NOT YET APPLICABLE AND NOT ADOPTED BY THE GROUP IN ADVANCE

- On 8 October 2009, the IASB issued an amendment to **IAS 32 – Financial instruments: presentation: classification of rights issues** in order to regulate the accounting treatment of the rights issues (rights, options or warrants) expressed in a currency other than the issuer's functional currency. Previously these rights were recorded as liabilities from derivative financial instruments; on the other hand, the amendment establishes, subject to certain conditions, for these rights to be classified under equity regardless of the currency in which the exercise price is denominated. The amendment in question must be applied retrospectively from 1 January 2011. Adoption of the amendment in question is not expected to entail significant effects on the Group's financial statements.
- On 4 November 2009 the IASB issued a revised version of **IAS 24 – Related party disclosures** which simplifies the nature of information required in the case of transactions with State-controlled related parties and clarifies the definition of related parties. The standard must be applied from 1 January 2011. Adoption of this amendment will not have any effect on the evaluation of balance sheet items.
- On 12 November 2009 the IASB published standard **IFRS 9 – Financial instruments**: the same standard was then amended on 28 October 2010. The standard, applicable from 1 January 2013, represents the first part of a step process designed to fully replace IAS 39 and introduce new criteria for the classification and measurement of financial assets and liabilities and for the derecognition of financial assets. In particular, for the financial assets the new standard uses a unique approach based on the procedures for handling financial instruments and the contractual cash flow characteristics of the said financial assets in order to determine the criterion for the measurement of same, replacing the various rules set forth by IAS 39. As regards financial liabilities, on the other hand, the main change concerns the accounting treatment of variations in fair value of a financial liability designated as financial liability measured at fair value through the Income Statement (FVTPL), in cases where such variations are due to the change in creditworthiness of the liability in question. According to the new standard such variations must be recorded under "Other comprehensive profits and losses" and will no longer pass through the Income Statement. As at the date of these financial statements the competent bodies of the European Union have not yet reached a conclusion regarding the homologation process required for application of the new standard.
- On 6 May 2010 the IASB issued a series of changes to the IFRSs ("Improvements") which will become applicable from 1 January 2011; the following are those which will entail a change in the presentation, recognition and measurement of balance sheet items, without considering on the other hand those that will merely give rise to changes in terminology or editorial changes, with minimum effects in accounting terms, or those impacting standards or interpretations not applicable by the Group:

- **IFRS 3 (2008) – Business combinations:** the amendment clarifies that the minority interest components which do not entitle holders to receive a proportionate share of the subsidiary's net assets must be measured at fair value or in accordance with the requirements of the applicable accounting standards. For example, therefore, a stock option plan granted to employees, in the event of a business combination, must be measured according to the rules of IFRS 2 and the portion of equity of a convertible bond must be measured in accordance with IAS 32. Moreover, the Board looked into the subject of share-based payment plans that are replaced within the ambit of a business combination, adding a specific guideline designed to explain the accounting treatment of same.
- **IFRS 7 – Financial instruments: supplementary information:** the amendment underlines the interaction between the supplementary qualitative and quantitative information required by the standard as regards the nature and extent of risks inherent in financial instruments. This should help users of the financial statements to correlate the information provided and establish a general description as to the nature and extent of the risks deriving from the financial instruments. Moreover, the request for disclosure concerning the financial assets that have expired but have been renegotiated or written down and disclosure as regards the fair value of collateral has been eliminated.
- **IAS 1 – Presentation of Financial Statements:** the amendment requires a reconciliation of changes as regards each component of equity to be included in the notes or in the balance sheet schedules.
- **IAS 34 – Interim financial reporting:** by way of some examples clarifications are provided regarding the additional information to be shown in the Interim Financial Reports.

We consider that the adoption of these amendments will not entail significant effects on the Group's financial statements.

Lastly we report that on 7 October 2010 the IASB published amendments to standard **IFRS 7 – Financial instruments: supplementary information**, applicable with regard to the accounting periods commencing on or after 1 July 2011. The amendments were issued in order to enhance the understanding of transfer transactions of financial assets, including the understanding of potential effects deriving from any form of risk still retained by the company having transferred such assets. Moreover, the amendments call for additional disclosures in the event that a disproportionate amount of such transactions is set up at the end of a reporting period. As at the date of these financial statements the competent bodies of the European Union have not yet reached a conclusion regarding the homologation process required for application of the amendments.

NON-RECURRING EVENTS AND OPERATIONS

FY2010 featured a number of non-recurring events, analysed in these explanatory notes, the effects of which on the Consolidated Financial Statements are set out below:

DESCRIPTION	SHAREHOLDERS' EQUITY		PROFIT (LOSS)		DEBT	CASH FLOWS
	AMOUNT	%	AMOUNT	%	AMOUNT	AMOUNT
VALUE IN FINANCIAL STATEMENTS	93,905	100	(15,853)	100	(682,042)	5,082
EARN-OUT ON ACEA SALE	1,617	1.7	1,617	(10.2)	1,617	1,617
INSURANCE INDEMNITIES	859	0.9	859	(5.4)	859	859
TOTAL NON-RECURRING OPERATIONS	2,476	2.6	2,476	(15.6)	2,476	2,476
TAX EFFECT	(270)		(270)		-	-
GROSS NOTIONAL VALUE IN FINANCIAL STATEMENTS	91,699		(18,059)		(684,518)	2,606

The nature of the item "Earn-out on ACEA sale" is described in Note 33 "Net profit (loss) from discontinued operations".

Insurance indemnities primarily refer to compensation for damages incurred by some of the French wind farm installations as a result of a fire (Note 24 "Production value").

Lastly, for completeness of information we recall that, within the scope of the ordinary estimative processes described in the above section "Use of estimates", the 2010 consolidated Income Statement reflects write-downs of non-recurring assets totalling EUR 19.5 million (EUR 18.8 million in 2009), provisions for liabilities and charges totalling EUR 2.7 million (EUR 1.7 million in 2009), as well as the realisation of capital losses from the sale of the mini-hydro business management companies amounting to EUR 0.6 million.

EXTRAORDINARY TRANSACTIONS

Sale of mini-hydro business

During the months of June and July 2010 the Group sold its entire equity investment in the mini-hydro sector companies to Scotta Energia Automazione S.r.l., which operates in the field of renewable energy sources, with particular regard to hydroelectric power.

This sale was carried out as provided in the 2010-2013 Business Plan, which identified the aforesaid sector as being non-core. In particular, the following companies were sold:

- Ecopower S.r.l. wholly-owned by ERG Renew S.p.A.
- I.S.E.A. S.r.l. in which ERG Renew S.p.A. held an equity interest of 90%

The sale price paid to ERG Renew S.p.A. for the quotas held in Ecopower S.r.l. amounted to EUR 200 thousand, plus payment for financial receivables claimed by ERG Renew S.p.A., at the time of sale, vis-à-vis its subsidiary. The aforesaid amount was paid by bank transfer on 30 June 2010. The net capital loss realised as a result of the above mentioned sale is described in detail in Note 33 "Net profit (loss) from discontinued operations".

The sale price paid to ERG Renew S.p.A. for the quotas held in I.S.E.A. S.r.l. amounted to EUR 2,350 thousand, plus payment for financial receivables claimed by ERG Renew S.p.A., at the time of sale, vis-à-vis its subsidiary. The aforesaid amount was paid by bank transfer on 30 July 2010.

The net capital loss realised as a result of the above mentioned sale is described in detail in Note 33 "Net profit (loss) from discontinued operations".

To allow identification of the impact on consolidated assets and liabilities at 31 December 2009 of the assets and liabilities pertaining to I.S.E.A. S.r.l. and Ecopower S.r.l. – since the said

companies have not been reclassified under IFRS 5 – the following table shows the breakdown of the total assets and liabilities of the sold companies I.S.E.A. S.r.l. and Ecopower S.r.l. included in the Consolidated Annual Financial Statements at 31 December 2009:

	TOTAL 12/31/2009
TANGIBLE ASSETS	2,037
INTANGIBLE ASSETS	3,193
TAX ASSETS	–
NON-CURRENT ASSETS	5,230
TRADE RECEIVABLES	144
OTHER RECEIVABLES	54
TAX ASSETS	188
CASH AND CASH EQUIVALENTS	99
CURRENT ASSETS	485
TOTAL ASSETS	5,715
GROUP SHAREHOLDERS' EQUITY	2,997
MINORITY INTERESTS	(14)
SHAREHOLDERS' EQUITY	2,983
PROVISIONS FOR LIABILITIES AND CHARGES	6
NON-CURRENT PORTION OF FINANCIAL PAYABLES	947
NON-CURRENT LIABILITIES	953
CURRENT PORTION OF FINANCIAL PAYABLES	1,474
TRADE PAYABLES	226
OTHER PAYABLES	72
TAX LIABILITIES	7
CURRENT LIABILITIES	1,779
TOTAL LIABILITIES	5,715

Acquisition of IVPC Power 5 S.r.l. (now ERG Eolica Adriatica S.r.l.)

On 23 July 2010, ERG Renew S.p.A. reached an agreement with IVPC S.a.s., leading Italian operator in the sector of power generation from wind energy sources, for the purchase of a 100% equity interest in IVPC Power 5 S.r.l., whose name, following the closing completed on the same date through subholding company ERG Eolica Italia S.r.l., was changed to ERG Eolica Adriatica S.r.l.

The company owns two wind farms, including one in Molise (40 MW) which became commercially operational in January 2010, and one in Puglia (62 MW) which started commercial operation in June 2010, adding an overall installed capacity of 102 MW to the 208 MW already in production, whereas, with respect to what is envisaged in the 2010-2013 Business Plan, the expected installed capacity at the end of 2013 increases from 428 MW to 530 MW.

The acquisition price of the equity investment was EUR 69.5 million, of which EUR 59.5 million was paid at the time of executing the deed for the sale and purchase of the company's quotas. As regards the balance of EUR 10 million, originally to be paid, according to contract, thirty months after the date of the closing and, therefore, on 31 December 2012, EUR 5 million was paid in November 2010 under an agreement reached and executed between the parties. The remaining amount of EUR 5 million will be paid according to the original terms on 31 December 2012.

The effects relating to the definition of the current values of ERG Eolica Adriatica's identifiable assets and liabilities are still being precisely determined and identified, also in view of the application of IFRS 3. Following the completion of these activities, which will take place within 12 months of the date of execution as set forth by such accounting standard, changes may arise in the determination of the portion of the purchase price allocated to the value of the concessions.

The acquisition was financially possible due to the support provided by the parent company ERG S.p.A., the latter having increased the credit line available to ERG Renew from the original amount of EUR 231 million to EUR 311 million, applying to such extension a different pricing and maturity date, as well as subordinating same in case of insolvency to the prior satisfaction of third-party lenders (Note 16 "Financial liabilities").

As mentioned, the acquisition was recorded based on the provisions of IFRS 3 on Business Combinations; according to the said standard it is necessary to (i) determine the overall cost of the acquisition; (ii) allocate, as at the date of acquisition, the cost of the business combination as regards the assets acquired and liabilities undertaken, including those not recorded prior to acquisition; (iii) record the goodwill acquired through the combination.

The breakdown and measurement of the assets and liabilities of the acquired company ERG Eolica Adriatica S.r.l. at the date of acquisition is as follows:

	BOOK VALUE	ADJUSTMENT TO ACQUISITION SITUATION	ADJUSTED VALUE
TANGIBLE ASSETS	192,834	–	192,834
INTANGIBLE ASSETS	8,318	60,089	68,407
FIXED ASSETS	201,152	60,089	261,241
NET WORKING CAPITAL	(1,956)	–	(1,956)
OTHER ASSETS	40,585	–	40,585
OTHER LIABILITIES	(1,027)	(18,868)	(19,895)
NET INVESTED CAPITAL	37,602	(18,868)	18,734
TOTAL	238,754	41,221	279,975
GROUP SHAREHOLDERS' EQUITY	28,173	41,221	69,394
NET FINANCIAL DEBT	210,581	–	210,581
TOTAL	238,754	41,221	279,975

In determining the fair value of the assets and liabilities acquired, the main differences identified refer to the measurement of intangible assets and in particular the agreements and authorisations for the wind farms for the production of electricity at incentivised tariffs. The measurement of such assets was carried out using the support of financial measurement models prepared during the investment opportunity evaluation phase and led to the recording of higher values for the intangible assets, before the related tax effect included under the adjustments for "Other liabilities", respectively by around EUR 60 million, and EUR 19 million, corresponding to the overall present value of the cash flows expected from exploitation of the agreements and authorisations acquired. Identification of the amount of the higher price paid to be assigned to the item "Concessions" was determined after allocating EUR 4.4 million to "Deferred tax assets", such sum corresponding to the portion of the purchase price allocated in the sale and purchase contract to the calculation of the so-called "Tremontiter" tax relief; the future taxable income of the acquired company – albeit subject to the uncertainty of the regulatory scenario as regards the price of electricity – confirms the

recoverability of the said benefit for an amount corresponding to at least the quantification attributed to same by the parties in the contract of sale and purchase.

During the period between the date of acquisition (23 July 2010) and the close of the company's accounting period ERG Eolica Adriatica S.r.l. contributed to the Income Statement of the ERG Renew Group revenues of EUR 15,240 thousand and an operating margin of EUR 12,752 thousand. If the acquisition had taken place on 1 January 2010, total revenues for the ERG Renew Group would have been higher by EUR 25,977 thousand and the operating margin by EUR 20,273 thousand.

For further considerations, reference is made to the Information Document drawn up in accordance with Articles 71 and 71-bis of the Regulations adopted by CONSOB under resolution 11971 dated 24 May 1999, as subsequently amended and supplemented, filed on 28 July 2010 and published by Borsa Italiana S.p.A. (www.borsaitaliana.it) and on the company's website, www.ergrenew.it.

COMPARABILITY OF FINANCIAL STATEMENTS

For the purpose of comparing the consolidated financial statements at 31 December 2010 with those at 31 December 2009, the following reclassifications are reflected as at 31 December 2009:

- reclassification from the item "Other payables" under Current liabilities to the corresponding item under "Non-current liabilities", to record according to their maturity within one year or beyond one year the deferred income relating to the capital grants received by the companies Green Vicari S.r.l. and Eolo S.r.l. The reclassification amounts to EUR 4,495 thousand as at 31 December 2009;
- reclassification of EUR 199 thousand from the item "Derivatives receivables" under "Current assets" to the corresponding item under "Non-current assets" in order to take account of the actual terms for settlement of the receivable in question;
- reclassification of EUR 3,518 thousand from the item "Derivatives payables" under "Current liabilities" to the corresponding item under "Non-current liabilities" in order to take account of the actual terms for settlement of the payable in question.

The aforesaid reclassifications did not determine any effect on the year's result or on shareholders' equity at 31 December 2009 as shown in the Consolidated Annual Financial Statements approved by the Corporate Bodies.

SCOPE OF CONSOLIDATION

The following table shows the group companies that are consolidated on a line-by-line basis:

COMPANY (EUR THOUSAND)	REGISTERED OFFICE	SHARE CAPITAL	% OWNERSHIP	DIRECT PARENT COMPANY
ERG RENEW S.P.A.	MILAN	132,667	–	PARENT COMPANY
<i>WIND SECTOR:</i>				
EOLIENNES DU VENT SOLAIRE S.A.S.	PARIS	37	100.00	ERG EOLIENNE FRANCE S.A.S.
EOLO S.R.L.	FROSINONE	20	51.00	ERG EOLICA ITALIA S.R.L.
ERG EOLICA ADRIATICA S.R.L.	GENOA	10	100.00	ERG EOLICA ITALIA S.R.L.
ERG EOLICA BASILICATA S.R.L.	GENOA	38	98.00	ERG EOLICA ITALIA S.R.L.
ERG EOLICA CALABRIA S.R.L.	CATANZARO	10	100.00	ERG EOLICA ITALIA S.R.L.
ERG EOLICA FAETO S.R.L.	GENOA	10	100.00	ERG EOLICA ITALIA S.R.L.
ERG EOLICA FOSSA DEL LUPO S.R.L.	CATANZARO	50	100.00	ERG EOLICA ITALIA S.R.L.
ERG EOLICA GINESTRA S.R.L.	GENOA	10	100.00	ERG EOLICA ITALIA S.R.L.
ERG EOLICA ITALIA S.R.L.	GENOA	30,000	100.00	ERG RENEW S.P.A.
ERG EOLICA TIRRENO S.R.L.	PALERMO	10	100.00	ERG EOLICA ITALIA S.R.L.
ERG EOLICA NURRA S.R.L.	GENOA	10	100.00	ERG EOLICA ITALIA S.R.L.
ERG EOLICA SAN CIREO S.R.L.	GENOA	3,500	100.00	ERG EOLICA ITALIA S.R.L.
ERG EOLICA SAN VINCENZO S.R.L.	GENOA	3,500	100.00	ERG EOLICA ITALIA S.R.L.
ERG EOLICA TURSÌ COLOBRARO S.R.L.	GENOA	10	100.00	ERG EOLICA ITALIA S.R.L.
ERG EOLIENNE FRANCE S.A.S.	PARIS	50	100.00	ERG RENEW S.P.A.
GREEN VICARI S.R.L.	PALERMO	119	100.00	ERG EOLICA ITALIA S.R.L.
PARC EOLIEN DE LIHUS S.A.S.	PARIS	1,114	100.00	ERG EOLIENNE FRANCE S.A.S.
PARC EOLIEN DE HETOMESNIL S.A.S.	PARIS	1,114	100.00	ERG EOLIENNE FRANCE S.A.S.
PARC EOLIEN DE LA BRUYÈRE S.A.S.	PARIS	1,060	100.00	ERG EOLIENNE FRANCE S.A.S.
PARC EOLIEN DU CARREAU S.A.S.	PARIS	861	100.00	ERG EOLIENNE FRANCE S.A.S.
PARC EOLIEN LES MARDEAUX S.A.S.	PARIS	1,097	100.00	ERG EOLIENNE FRANCE S.A.S.
<i>WATER SERVICES BUSINESS:</i>				
DSI - SERVIZI INDUSTRIALI S.R.L.	FROSINONE	100	100.00	ERG RENEW S.P.A.
SODAI ITALIA S.P.A.	MILAN	7,000	100.00	ERG RENEW S.P.A.
<i>OTHER:</i>				
ERG SOLARE ITALIA S.R.L.	GENOA	120	100.00	ERG RENEW S.P.A.

The scope of consolidation at 31 December 2010 showed changes with respect to 31 December 2009 following both the transaction for the sale of investee companies Ecopower S.r.l. and I.S.E.A. S.r.l., operating in the mini-hydro sector and sold respectively on 30 June 2010 and 30 July 2010, and the acquisition of investee company ERG Eolica Adriatica S.r.l. which took place on 23 July 2010. Both of these operations are described in detail in the above section "Extraordinary transactions".

We also report that the company Energie Pulite S.r.l., as from 29 June 2010, has changed its name to ERG Solare Italia S.r.l. The aforementioned company is now the ERG Renew Group photovoltaics business subholding company, to which the investee companies operating in the said sector will subsequently be transferred.

Lastly, for completeness of information we report that during the year the company ERG Eolica Joppolo S.r.l. changed its name to ERG Eolica Tirreno S.r.l.

The impact of the above mentioned variations in the scope of consolidation, where relevant for the purpose of comparing the financial data for 2009 and 2010, is commented in the Explanatory Notes

MANAGEMENT AND COORDINATION BY ERG S.P.A.

ERG Renew S.p.A. is subject to management and coordination by ERG S.p.A. The key data of the latter's last approved financial statements are shown below. The data refer to financial statements for the year ended on 31 December 2009 (amounts in thousands of EUR):

NAME OF COMPANY THAT EXERCISES MANAGEMENT AND COORDINATION ACTIVITY	ERG S.P.A.
REGISTERED OFFICE	VIA NICOLA PICCINNI, 2 - MILAN
BUSINESS SECTOR (SUMMARY)	MANAGEMENT OF EQUITY INVESTMENTS
SHARE CAPITAL	15,032
TOTAL SHAREHOLDERS' EQUITY	869,109
TOTAL ASSETS	1,940,630
NET INCOME FROM EQUITY INVESTMENTS	744,204
OTHER OPERATING INCOME	30,649
NET PROFIT (LOSS)	698,258

ANALYSIS OF THE STATEMENT OF FINANCIAL POSITION

NON-CURRENT ASSETS

1 – PROPERTY, PLANT AND EQUIPMENT

The breakdown of property, plant and equipment, the related depreciation provisions, and changes in same during the year, are shown in the following table:

	LAND AND BUILDINGS	PLANT AND EQUIPMENT	OTHER ASSETS	ASSETS UNDER CONSTRUCTION	TOTAL
HISTORICAL COST	33,344	232,824	3,084	117,712	386,964
DEPRECIATION AND WRITE-DOWNS	(3,668)	(55,002)	(1,521)	(1,232)	(61,423)
BALANCE AT 12/31/2009	29,676	177,822	1,563	116,480	325,541
MOVEMENTS DURING PERIOD:					
CHANGES IN SCOPE OF CONSOLIDATION	302	187,682	(314)	3,127	190,797
ACQUISITIONS	522	1,709	132	84,115	86,478
DISPOSALS AND DIVESTMENTS	(436)	(116)	(40)	(6,041)	(6,633)
RECLASSIFICATIONS	1,177	8,091	71	(9,339)	–
DEPRECIATION	(1,501)	(23,831)	(260)	–	(25,592)
WRITE-DOWNS	(260)	–	–	(4)	(264)
HISTORICAL COST	34,909	430,190	2,933	189,574	657,606
DEPRECIATION AND WRITE-DOWNS	(5,429)	(78,833)	(1,781)	(1,236)	(87,279)
BALANCE AT 12/31/2010	29,480	351,357	1,152	188,338	570,327

“Change in scope of consolidation” comprises EUR 192,834 thousand for property, plant and equipment pertaining to ERG Eolica Adriatica S.r.l. – acquired on 23 July 2010 – less the amount of EUR 2,037 thousand regarding property, plant and equipment pertaining to I.S.E.A. S.r.l and Ecopower S.r.l., which were sold during the financial year under review (see section “Extraordinary transactions”).

The item acquisitions refers to: (i) investments of EUR 86,145 thousand in wind power installations; (ii) investments of EUR 300 thousand in water services equipment; (iii) other investments amounting to EUR 33 thousand.

“Disposals and divestments” primarily concern the sale to Terna, at carrying value, of the ERG Eolica Faeto S.r.l. and ERG Eolica Ginestra S.r.l. electrical substations, according to the provisions of agreements signed respectively on 26 May 2010 and 29 November 2010, based on which the assets subject to sale were assigned to form an integral part of the National Transmission Grid.

Depreciation for the year was calculated adopting the same estimates of residual useful life used to draw up the consolidated financial statements at 31 December 2009.

“Tangible assets under construction” concern above all investments in the wind sector and, specifically, the wind farms owned by ERG Eolica Ginestra S.r.l. (EUR 75,340 thousand) and ERG Eolica Fossa del Lupo S.r.l. (EUR 108,732 thousand).

The items “Land and buildings” and “Plant and equipment” refer to; (i) investments in the wind sector amounting to EUR 372,305 thousand, (ii) investments of EUR 7,656 thousand in the water services sector and (iii) other investments totalling EUR 876 thousand. In particular,

“Land and buildings” as regards the wind sector concern excavation works, roadworks and land rights incurred prior to start-up of the wind farms; investments in “Plant and equipment” as regards the wind business refer to wind turbines and related electrical works. The items “Land and buildings” and “Plant and equipment” include investments totalling EUR 876 thousand relating to the industrial site of Arzene (Pordenone) which were non-operational at the end of the reporting period. The carrying value at 31 December 2010 is in line with market value.

In FY2010 interest amounting to EUR 3,996 thousand was capitalised on loans connected with investments. The total amount of financial charges capitalised during previous years in respect of special purpose loans for the period prior to the coming into operation of the fixed assets amounted to EUR 6,526 thousand; their net carrying value at 31 December 2010 was EUR 3,647 thousand.

At 31 December 2010, the net carrying value of “Property, plant and equipment” included EUR 444,695 thousand for assets pledged as guarantees to third parties in relation to project financing contracts entered into by the group companies operating in the wind sector.

The item “Write-downs” primarily refers to some damaged assets in respect of which an insurance indemnity was received, as described in the above section “Non-recurring events and operations”.

Lastly, at least once a year, at the time of drawing up the consolidated financial statements, the Group tests tangible assets for impairment.

If property, plant and equipment had been accounted for net of the related capital grants paid by public entities and indemnities as per Note 18 “Other payables – Non-current liabilities” and Note 21 “Other payables – Current liabilities” in accordance with the IFRS amendments issued by the IASB in 2008, the effect on the financial statements at 31 December 2010 would have been as follows:

DESCRIPTION	NET CARRYING VALUE	GRANTS AND INDEMNITIES	VALUE NET OF GRANT
LAND AND BUILDINGS	29,480	–	29,480
PLANT AND EQUIPMENT	351,357	(4,495)	346,862
OTHER ASSETS	1,152	–	1,152
ASSETS UNDER CONSTRUCTION	188,338	–	188,338
TOTAL	570,327	(4,495)	565,832

2 – INTANGIBLE FIXED ASSETS

The breakdown of intangible assets, related amortisation provisions and changes during the year is shown in the following table:

	CONCESSIONS LICENCES AND TRADEMARKS	GOODWILL	OTHER INTANGIBLE ASSETS	ASSETS IN PROGRESS	TOTAL
HISTORICAL COST	63,555	18,030	5,875	13,268	100,728
AMORTISATION AND WRITE-DOWNS	(5,092)	(14,206)	(738)	(6,287)	(26,323)
BALANCE AT 12/31/2009	58,463	3,824	5,137	6,981	74,405
MOVEMENTS DURING PERIOD:					
CHANGE IN SCOPE OF CONSOLIDATION	68,407	(2,946)	(247)	–	65,214
ACQUISITIONS	7	–	85	2,384	2,476
TRANSFERS AND DISPOSALS	–	–	–	(38)	(38)
RECLASSIFICATIONS	601	(2)	42	(641)	–
AMORTISATION	(4,146)	–	(204)	–	(4,350)
WRITE-DOWNS	(19,263)	–	–	–	(19,263)
HISTORICAL COST	132,570	15,082	5,755	14,973	168,380
AMORTISATION AND WRITE-DOWNS	(28,501)	(14,206)	(942)	(6,287)	(49,936)
BALANCE AT 12/31/2010	104,069	876	4,813	8,686	118,444

“Change in scope of consolidation” comprises EUR 68,407 thousand for intangible assets pertaining to ERG Eolica Adriatica S.r.l. – acquired on 23 July 2010 – less the amount of EUR 3,193 thousand regarding intangible assets pertaining to I.S.E.A. S.r.l and Ecopower S.r.l., which were sold during the financial year under review (see section “Extraordinary transactions”). The item “Acquisitions” mainly refers to investments in the wind sector (EUR 2,061 thousand). “Concessions, licences and trademarks” almost entirely concern the concessions for wind farms acquired either directly or together with the related business units.

Development costs, industrial patents and trademarks are measured at cost. Costs relating to wind farms which, at the end of the reporting period, had not been identified as future developments have been directly expensed in the Income Statement.

In particular, the regulatory scenario concerning investments for the construction and start-up of wind installations indicates an unforeseen fragmentation of regulatory responsibility and a profound procedural uncertainty. There is in fact a lack of uniformity in terms of local rules, albeit with an approval model apparently established in a unitary manner for the whole of Italy. There is consequently a heavy increase in the activities required to obtain construction permits and protraction of the time necessary to complete bureaucratic approval processes. The Group has therefore decided to capitalise development costs only when the approval process has been successfully completed.

It is estimated that intangible assets, with the exception of goodwill, have a limited and finite useful life; they are therefore amortised on a straight-line basis as follows:

- *development costs*: five years. In particular, development costs are amortised when the expected revenues arise against the cost capitalised;
- *industrial patents and intellectual property rights*: five years;
- *concessions, licences and trademarks*: concessions are amortised on a straight-line basis over the residual duration of the concessions to which they refer.

At least once a year, at the time of drawing up the consolidated financial statements, the Group tests intangible assets for impairment. Reference is made to the section "Use of estimates" for considerations made with regard to the write-down of intangible assets allocated to concessions (write-down of EUR 19,263 thousand entirely ascribable to the wind sector).

3 – EQUITY INVESTMENTS

The reported balance includes:

	OTHER EQUITY INVESTMENTS
HISTORICAL COST	11,346
WRITE-DOWNS	(9,384)
BALANCE AT 12/31/2009	1,962
MOVEMENTS DURING PERIOD:	
ACQUISITIONS/INCORPORATIONS/CAPITAL INCREASES	184
WRITE-DOWNS	(674)
HISTORICAL COST	11,530
WRITE-DOWNS	(10,058)
BALANCE AT 12/31/2010	1,472

The detail of companies included in "Other equity investments" is shown below:

	REGISTERED OFFICE	%	CARRYING VALUE
OTHER COMPANIES			
ANSALDO FUEL CELLS S.P.A.	GENOA	0.46	–
CITA S.A.S.	ALFORTVILLE	50.00	1,144
DYEPower CONSORTIUM	ROME	24.70	192
EOLICO AGIRA S.R.L.	PALERMO	99.00	20
EOLICO MIRABELLA S.R.L.	PALERMO	99.00	12
EOLICO PALAGONIA S.R.L.	PALERMO	99.00	20
EOLICO RAMACCA S.R.L.	PALERMO	99.00	20
EOLICO TROINA S.R.L.	PALERMO	99.00	20
ISAB ENERGY SOLARE S.R.L.	SYRACUSE	51.00	44
VCC AGRIGENTO S.R.L.	L'AQUILA	30.00	–
VCC AGRIGENTO 2 S.R.L.	L'AQUILA	30.00	–
VCC ABRUZZO S.R.L.	L'AQUILA	30.00	–
VCC ENNA S.R.L.	L'AQUILA	30.00	–
TOTAL			1,472

The item "Acquisitions/Incorporations/Capital increases" includes the incorporation, during the first half of 2010, of the company ISAB Energy Solare S.r.l., in which ERG Renew S.p.A. holds an equity interest of 51%; the objective of this company is the research, promotion, implementation, exploitation, operation and maintenance of industrial plants for the production of energy from solar sources via photovoltaic conversion .

The same item also includes the acquisition on the part of ERG Renew S.p.A. of an additional stake of 12.3% in the DyePower Consortium (giving a total stake of 24.7%). This Consortium, a non-profit organisation, aims to promote, plan and perform research and development in the sector of organic/hybrid photovoltaics, specifically in relation to "dye-sensitized" solar cells on glass and other non-metallic rigid products. The Consortium can also provide services to its

members in designing, assessing and carrying out research projects in the photovoltaic sector, at both national and international level. During the year consortium costs of EUR 0.7 million were recorded, from the date of the consortium's incorporation, pertaining to the Group; it has been decided that the Group's overall financial commitment with regard to the Consortium cannot exceed EUR 2.5 million, including accumulated consortium costs.

Reference is made to the section "Use of estimates" for considerations concerning the recoverability of the higher carrying value as regards the equity investment CITA S.a.s according to the prospects for future profitability from the investee company's new commitment in the photovoltaic sector, which led to the write-down of financial receivables and the investment's carrying value by EUR 2 million.

The companies CITA S.a.s. and ISAB Energy Solare S.r.l. have been measured using the equity method (Note 31).

4 – FINANCIAL ASSETS

The reported balance includes:

BALANCE AT 12/31/2009	622
MOVEMENTS DURING PERIOD:	
INCREASES	103
BALANCE AT 12/31/2010	725

The amount of EUR 725 thousand relates to an annual-premium capital redemption insurance policy taken out with RAS S.p.A. and held as a secured pledge to RAS S.p.A., for the issue by same of a surety policy in favour of subsidiary ERG Eolica San Vincenzo S.r.l., for the benefit of owners of land on which the investee company's wind farm is located. The duration of the contract is from 8 March 2004 to 8 March 2011, subject to permanent secured pledge up to the expiry of the concession; the annual premium is EUR 103 thousand.

5 – OTHER RECEIVABLES – NON-CURRENT ASSETS

The reported balance includes:

	12/31/2010	12/31/2009
NURRA CONSORTIUM DEPOSIT	1,000	2,000
ADVANCE PAID BY ERG EOLIENNE FRANCE	2,400	2,400
OTHER ADVANCES	8,040	3,635
RECEIVABLE DUE FROM THE FAETO MUNICIPALITY	270	360
RECEIVABLE DUE FROM THE GINESTRA MUNICIPALITY	400	–
NON-INTEREST BEARING LOAN - UPS S.R.L.	50	50
FINANCIAL RECEIVABLES DUE FROM GROUP COMPANIES	1,734	763
OTHER RECEIVABLES	958	40
TOTAL	14,852	9,248

The amount of EUR 1,000 thousand refers to the residual amount of a deposit paid by the company ERG Eolica Nurra S.r.l. to the Reclamation Consortium of Nurra under the lease of business unit agreement signed on 9 June 2004. When the wind farm comes into operation, the said amount will be deducted from the value of the lease agreement (reference is made

to the section "Use of estimates" for considerations regarding the recoverability of this receivable).

The advance of EUR 2,400 thousand was paid by the French Subholding company ERG Eolienne France S.a.s. against the future acquisition of Greneville wind farm located in the area south of Paris.

The amount indicated under "Other advances" refers almost entirely to the wind sector and particularly concerns the advances paid to promoters for the signing of new wind farm purchase agreements.

The item increased following the reclassification under "Other receivables – Non-current assets" of the receivable claimed by ERG Eolica Italia S.r.l. vis-à-vis Nordex, in connection with a framework agreement for the supply of wind turbines, originally due to expire on 31 December 2010. During the year, negotiations held with the supplier led to an extension of the expiry date beyond FY2011. The item also includes the receivable relating to the Tursi Colobraro project, which originally amounted to EUR 4.2 million and is stated net of discounting of EUR 1.3 million (reference is made to the section "Use of estimates" for considerations regarding the recoverability of this receivable).

The receivables due from the Faeto and Ginestra municipalities refer to an advance on the annual payments for commission on the future revenue streams generated by the wind farms located in the municipalities of Faeto and Ginestra.

Financial receivables due from Group companies entirely refer to an interest-bearing loan based on the Euribor plus 200 basis points granted by ERG Renew S.p.A. to the newly-incorporated company ISAB Energy Solare S.r.l. (Note 3) against future financial commitments vis-à-vis same.

The balance of EUR 763 thousand at 31 December 2009 referred to a loan granted to the company CITA S.a.s., representing an interest-bearing loan disbursed after the company's acquisition; the said receivable, which increased during the year, was written down at 31 December 2010 by a total amount of EUR 1,267 thousand in connection with the considerations made concerning the recoverability of same as more clearly explained in the above section "Use of estimates".

The increase in "Other receivables" essentially refers to receivables pertaining to the company ERG Eolica Adriatica S.r.l. acquired during 2010, as mentioned in the section "Extraordinary transactions"; these mainly concern the advances paid to the Municipalities as set forth by the Agreements entered into with same.

6 – TAX ASSETS – NON-CURRENT ASSETS

The balance of EUR 19,343 thousand reported for non-current tax assets, as was the case at 31 December 2009, consists entirely of the VAT credit claimed by the Group's companies, posted under non-current assets to take account of the effective conditions for settlement of such receivable. EUR 9.3 million of this receivable concerns the company Eolica Adriatica, acquired during the course of FY2010.

7 – DEFERRED TAX ASSETS

The breakdown of deferred tax assets and changes during the year are shown in the following table:

	12/31/2010		12/31/2009	
	AMOUNT OF TEMPORARY DIFFERENCES	TAX EFFECT	AMOUNT OF TEMPORARY DIFFERENCES	TAX EFFECT
DEPREC., AMORT., PROVS. & WRITE-DOWNS	23,782	6,540	19,389	5,332
LOSS CARRYFORWARDS	82,463	24,824	19,199	5,534
<i>OF WHICH CHANGE IN SCOPE OF CONSOLIDATION</i>	<i>41,051</i>	<i>12,890</i>	<i>27</i>	<i>9</i>
OTHER DIFFERENCES	5,334	1,547	9,275	2,907
BALANCE AT END OF PERIOD	111,579	32,911	47,863	13,773

At the end of the reporting period, as shown in the above table, the Group had deferred tax assets on prior year losses amounting to EUR 22,730 thousand, as resulting from domestic tax consolidation applied by the Group, also including the contribution of ERG Eolica Adriatica S.r.l. acquired during FY2010; the Group also has EUR 2,094 thousand in taxes relating to prior year losses, subject to unlimited carryforward, pertaining to the French operating companies acquired during FY2007. Reference is made to the section "Use of estimates" for considerations regarding the estimative process for determining the presumed recoverability of deferred tax assets.

The notable growth during the year is due to recognition of the so-called Tremonti-*ter* tax relief on the company ERG Eolica Ginestra S.r.l. (in respect of which benefits amount overall to EUR 25.8 million with a tax effect of EUR 7.1 million recognised in the Income Statement) and to the effect deriving from the consolidation of ERG Eolica Adriatica S.r.l. whose deferred tax receivable amounts to approximately EUR 10.5 million, of which EUR 4.4 million relating to the Tremonti-*ter* tax relief, calculated based on the provisions of the contract for sale and purchase of the Company. The quantification of the benefit was carried out in prudent application of the aforesaid legislation and taking into account the prospects for recoverability of same via future taxable incomes.

Reference is made to the report on operations for considerations concerning the cumulability of the "Tremonti-*ter*" tax relief and Green Certificates.

CURRENT ASSETS

8 – TRADE RECEIVABLES

The reported balance includes:

	12/31/2010	12/31/2009
RECEIVABLES DUE FROM THIRD PARTIES	19,495	10,376
TRADE RECEIVABLES DUE FROM PARENT COMPANIES	140	475
TRADE RECEIVABLES DUE FROM GROUP COMPANIES	51	197
TOTAL	19,686	11,048

The Group considers that the carrying value of trade receivables, net of the related bad debt provision, approximates their presumed realisable value.

The increase in trade receivables due from third parties includes the acquisition by ERG Renew S.p.A. of ACEA S.p.A. receivables, previously assigned as part of the transaction described in the section "Use of estimates"; this purchase took place following the partial execution of the arbitration award described in the said section. The amount of such receivables, totalling EUR 10 million, is stated net of the related bad debt provision of EUR 6.5 million, comprising EUR 5.4 million recorded in prior years under the item "Provisions for liabilities and charges", which – in addition to a bad debt provision of EUR 1.1 million already included in the net amount of the receivables repurchased as a result of the award – is intended as an adjustment of the net carrying value of such receivables.

The changes in the bad debt provision are summarised below:

BALANCE AT 12/31/2009	122
RECLASSIFICATION FROM THE PROVISION FOR LIABILITIES	5,435
PROVISION ACQUIRED - ACEA TRANSACTION	1,113
BALANCE AT 12/31/2010	6,670

Trade receivables due from third parties pertaining to the company ERG Eolica Adriatica S.r.l. acquired during FY2010 – as mentioned in the section "Extraordinary transactions" - amount to EUR 4.8 million.

The item trade receivables also includes the reimbursements from Terna, in connection with the reduction in output imposed by same, pursuant to Resolution ARG/elt 5/10 (EUR 3,306 thousand), which following the definitions of calculation methodologies were not received in FY2010.

Moreover, in respect of a number of other receivables considered doubtful, an additional provision was calculated in the amount of EUR 122 thousand; this provision was estimated based on historical data concerning bad debts and an assessment of the current economic situation and mainly referred to the hydro sector.

A breakdown of counterparties as regards the trade receivables due from parent companies and Group companies at 31 December 2010 and a description of the nature of these transactions are given in Note 37 "Related-party transactions".

9 – OTHER RECEIVABLES – CURRENT ASSETS

The reported balance is broken down as follows:

	12/31/2010	12/31/2009
ADVANCES	1,172	974
OTHER SUNDRY RECEIVABLES	40,800	26,833
ACCRUED INCOME AND PREPAID EXPENSES	2,095	848
TOTAL	44,067	28,655

The increase in the item “Advances” is connected with loans granted during the year to land owners in order to have land of interest to the Group released from encumbrances; these loans were recovered by offsetting against the rental fees payable for the land in question.

Other sundry receivables

	12/31/2010	12/31/2009
RECEIVABLES FOR GREEN CERTIFICATES	34,775	18,348
CAUTIONARY DEPOSITS	1,360	5,748
OTHER RECEIVABLES DUE FROM PARENT COMPANIES	3,698	1,741
OTHER SUNDRY RECEIVABLES	967	996
TOTAL	40,800	26,833

The overall growth in “Receivables for green certificates” is ascribable, with compensatory effects, to the following events:

- i) reduction due to the payment of green certificates pertaining to FY2009 in connection with Group production. This payment was made in accordance with the provisions set forth by Ministerial Decree dated 18 December 2008, issued by the Ministry for Economic Development, in agreement with the Ministry for the Environment and Territorial and Marine Protection; this Decree rules that green certificates pertaining to productions matured and maturing up to the end of 2010 will, at their holders’ request, be purchased by the GSE on or before 30 June. More specifically, following the request to the GSE in March 2009 on the part of the subsidiaries, on 30 June 2010 the purchase of same was made by the GSE with simultaneous payment of the amount of EUR 18,459 thousand valued, as regulated by the aforesaid Decree, at the average market price for the three years 2007-2009, namely the three-year period preceding the financial period during which the holder submitted the purchase request. The difference between the amount assessed as at 31 December 2009 and the amount actually received in 2010, corresponding to EUR 111 thousand, reflects the differential between the sum estimated and that actually received from the GSE;
- ii) increase resulting from the valorisation of green certificates matured by the Group in FY2010 referring to the output of the following wind farms: Troia San Vincenzo (Foggia), Troia San Cireo (Foggia), Viticuso Vallerotonda (Frosinone), Pian dei Corsi e Baltera (Savona), Vicari (Palermo), Faeto (Foggia), Ascoli Satriano (Foggia), Rotello (Campobasso) – the latter two in reference to the company ERG Eolica Adriatica S.r.l. acquired on 23 July 2010 – for a total number of 398,562 green certificates. The per unit value assigned to the green certificates amounted to 87.25 EUR/MWh as estimated under the aforesaid Decree (for a regulatory update in this connection reference is made to the section “Use of estimates”). The consolidation of ERG Eolica Adriatica accounted for EUR 13.9 million.

The decrease in the item "Cautionary deposits" essentially concerns the reclassification under non-current assets of the receivable claimed from Nordex as a result of the negotiations held with the supplier, leading to an extension of the expiry date (see Note 5). The remaining balance is ascribable above all to advance payments made in connection with a wind farm project in Poland, due to mature in June 2011. The receivable is secured by a promissory note.

The breakdown by counterparty of the other receivables due from parent companies and a description of the nature of such transactions are given in Note 37 "Related-party transactions".

The remaining sundry receivables relate to individually negligible amounts shown net of a bad debt provision of EUR 118 thousand.

Accrued income and prepaid expenses

	12/31/2010	12/31/2009
UTILITIES	580	310
INSURANCE	607	336
OTHER ACCRUED INCOME AND PREPAID EXPENSES	908	202
TOTAL	2,095	848

The increase in "Accrued income and prepaid expenses" essentially refers to accrued income and prepaid expenses pertaining to the company ERG Eolica Adriatica S.r.l. acquired during 2010 as mentioned in the section "Extraordinary transactions".

10 – TAX ASSETS – CURRENT ASSETS

The reported balance includes:

	12/31/2010	12/31/2009
VAT RECEIVABLES	12,520	3,434
OTHER SUNDRY TAX RECEIVABLES	1,574	2,072
TOTAL	14,094	5,506

The increase essentially concerns the growth in the VAT credit position pertaining to the companies not included in the Group VAT procedure, as well as a VAT receivable of EUR 8.9 million, relating to investee company ERG Eolica Adriatica S.r.l. acquired during 2010 (see section "Extraordinary transactions"). Regarding ERG Eolica Adriatica S.r.l.'s VAT receivable, on 26 June 2009 a request was submitted for reimbursement of EUR 4.7 million; notification of payment was obtained from the Fiscal Revenues Agency in November 2010.

11 – AVAILABLE-FOR-SALE EQUITY INVESTMENTS

The balance exclusively comprises the 3.33% participatory interest, unchanged during the current year, in the company Utilità Progetti e Sviluppo S.r.l.

12 – CASH AND CASH EQUIVALENTS

The reported balance includes:

	12/31/2010	12/31/2009
BANK AND POSTAL DEPOSITS	70,650	53,991
RESTRICTED BANK AND POSTAL DEPOSITS	4,170	4,170
CASH AND NOTES ON HAND	3	4
TOTAL	74,823	58,165

Reference is made to the Consolidated Statement of Cash Flows and to Nota 23 “Net financial position” for details of the change in the item under review.

The item principally relates to the credit balances on bank current accounts, the carrying value of which represents the nominal value. It also includes EUR 53,803 thousand of cash and cash equivalents relating to the wind companies that have project financing contracts in place.

“Restricted bank and postal deposits” amounting to EUR 4,170 thousand at 31 December 2010 refer to: (i) EUR 2,550 thousand for a deposit on a restricted account at Banca Popolare Emilia e Romagna as guarantee for a suretyship issued by the bank to the Campania region in connection with the potential concession of a public grant; (ii) EUR 1,620 thousand for a deposit on a restricted account at Banca Monte dei Paschi di Siena as guarantee for a suretyship issued by the bank to the Basilicata region in connection with the Tursi Colobraro wind farm.

SHAREHOLDERS' EQUITY AND LIABILITIES

13 – SHAREHOLDERS' EQUITY

Share capital consists of 132,666,675 ordinary shares with a par value of EUR 1.00 each, fully subscribed and paid up.

The reported balance includes:

	12/31/2010	12/31/2009
SHARE CAPITAL	132,667	132,667
LEGAL RESERVE	1,388	1,388
CASH FLOW HEDGE RESERVE	43	(2,237)
STOCK OPTION RESERVE	–	1,276
OTHER RESERVES	63,873	62,596
LOSS CARRIED FORWARD	(88,867)	(60,915)
LOSS FOR THE YEAR	(15,853)	(27,952)
GROUP SHAREHOLDERS' EQUITY	93,251	106,823
MINORITY INTERESTS	654	435
TOTAL	93,905	107,258

The breakdown of changes in shareholders' equity is provided in the specific schedule, to which reference is made.

The reconciliation of the Parent company and Group shareholders' equity and net profit (loss) at 31 December 2010 can be summarised as follows:

	SHAREHOLDERS' EQUITY AT 12/31/2009	OTHER COMPONENTS TAKEN DIRECTLY TO SH. EQUITY	NET PROFIT (LOSS) FOR THE YEAR	SHAREHOLDERS' EQUITY AT 12/31/2010
ERG RENEW S.P.A. SHAREHOLDERS' EQUITY AND NET PROFIT (LOSS)	116,017	–	(17,749)	98,268
EFFECTS OF CONSOLIDATION ENTRIES	(9,194)	2,281	(2,363)	(9,276)
PRO-RATA NET PROFIT (LOSS) OF THE CONSOLIDATED COMPANIES	–	–	4,259	4,259
GROUP SHAREHOLDERS' EQUITY AND NET PROFIT (LOSS)	106,823	2,281	(15,853)	93,251

The consolidated shareholders' equity is lower than the corresponding value of the separate financial statements since, as regards the latter, some losses pertaining to the equity investments in the wind sector, and ERG Eolica Italia S.p.A. in particular, are deemed to be of a non-permanent nature and therefore do not give rise to write-downs of the investments' carrying values.

Other reserves comprise the following:

Cash flow hedge reserve

The Group has derivatives transactions in place (Note 17) as mentioned in the section "Summary of principal accounting standards"; the change in the fair value of "effective" instruments is recorded in this shareholders' equity reserve.

Stock option reserve

The Group had a stock option plan in place for Directors of the Parent Company holding specific

corporate offices and for executives whose roles made them more directly responsible for the Group's economic and operating results. Exercise of the option rights could take place after three years from the grant date and for a period of not more than five years thereafter (expiring on 31 December 2010). Once the options had expired, the unexercised options would lapse and consequently would no longer attribute any right to assignees.

The ERG Renew S.p.A. Extraordinary Shareholders' Meeting of 23 December 2004 resolved to grant the Board of Directors the power to carry out paid capital increases in one or more stages for a period of five years from the date of the Shareholders' resolution for a maximum nominal amount of EUR 3.6 million through the issue of a maximum number of 3,600,000 ordinary ERG Renew S.p.A. shares, with normal entitlement, of a par value of EUR 1,00 each. These shares were to be offered in subscription to Directors holding corporate offices and to the senior managers of ERG Renew S.p.A. or subsidiary companies within the meaning of Article 2359 of the Italian Civil Code, whose roles made them more directly responsible for the Group's results, in accordance with the regulation approved by the Board of Directors. The issue price could not be lower than the nominal value, and was to correspond to the arithmetical average of the official prices of ERG Renew shares recorded on the electronic share market (MTA) managed by Borsa Italiana S.p.A. during the 30 days preceding the assignment of the shares by the Board of Directors.

The ERG Renew S.p.A. Board of Directors, at its meetings on 1 February 2005, 14 June 2006 and 15 December 2006, resolved to execute respectively tranches I, II and III of the stock option plan, assigning the option rights to some beneficiaries identified in accordance with the criteria defined by the Remunerations Committee and already approved. At the same meetings, the Board also established the subscription price, calculated in accordance with the formula contained in the regulation, for the new shares coming from the exercise of option rights.

The fair value of the option was estimated utilising the Black-Scholes model and taking account of the terms and conditions for attribution of the option.

As at 31 December 2010 the aforesaid options had been entirely cancelled; cancellation was carried out, as regards 1,320,000 shares, once the possibility to exercise such rights on the part of some assignees who had resigned during the previous period no longer existed, and as regards 406,200 shares, following the waiver of such rights on the part of the remaining assignees.

14 – EMPLOYEES' SEVERANCE INDEMNITIES

The provision is set aside to cover the liability accrued in favour of employees in compliance with current legislation and national and company-level collective labour agreements. It is subject to index-linked revaluation.

The details of changes in employees' severance indemnities during the year are illustrated in the following table:

BALANCE AT 12/31/2009	489
MOVEMENTS DURING PERIOD:	
PROVISIONS	246
UTILISATIONS	(120)
BALANCE AT 12/31/2010	615

Given the scarce significance both of the outright amount of the reported item and of the difference compared to the liability calculated using the "Projected Unit Credit Method" (PUCM), the Group has provisioned the legal liability accrued at the end of the period for employees' severance indemnities in accordance with Article 2120 of the Italian Civil Code.

15 – PROVISIONS FOR LIABILITIES AND CHARGES

The breakdown of the total balance reported was as follows:

	12/31/2010	12/31/2009	CHANGES		
			INCREASES	DECREASES	OTHER
ENVIRONMENTAL ENHANCEMENT, RESTORATION	1,102	552	550	–	–
PROVISION TO COVER SUBSIDIARIES' LOSSES	–	251	–	(251)	–
OTHER RISKS	2,477	7,127	2,199	(1,414)	(5,435)
CHANGE IN SCOPE OF CONSOLIDATION	555	–	–	–	555
TOTAL	4,134	7,930	2,749	(1,665)	(4,880)

The total amount of provisions for liabilities and charges was appropriated to cover the risk of adverse outcomes relating to various litigation proceedings involving Group companies, taking into account the assessments of the lawyers assisting the Group in the respective disputes. It reflects the limitations inherent in the use of estimates, as described in the section "Accounting standards, evaluation criteria and use of estimates".

In particular, the provision for other risks at 31 December 2009 included the amount of EUR 5,435 thousand, recorded against contingent liabilities resulting from contractual agreements in relation to extraordinary disposals of equity investments carried out in previous years. Following partial execution of the arbitration award, as described in detail in the above section "Use of estimates", involving ERG Renew S.p.A. and ACEA S.p.A., the aforesaid provision was removed from the provision for liabilities and charges and reclassified as an adjustment to the value of receivables (Note 8).

At 31 December 2010, the provision for liabilities and charges included the amount of EUR 2,335 thousand relating to provisions that had become necessary to cover the risk of extraordinary maintenance interventions at the wind farms owned by subsidiaries Green Vicari S.r.l. and ERG Eolica Adriatica S.r.l.

These provisions, as mentioned in the section "Use of estimates", are set aside to cover the outcome of disputes directly concerning the Group or indirectly concerning same as a result of guarantees issued and are considered sufficient to meet the aforesaid risks.

The "Change in scope of consolidation" refers almost entirely to the provisions for liabilities pertaining to the company ERG Eolica Adriatica S.r.l. acquired on 23 July 2010 (see section "Extraordinary transactions") and mainly concerns environmental restoration costs.

Below we give details of the legal and fiscal proceedings and disputes currently involving the Group's companies.

Wind

ERG Eolica Italia S.r.l. (also as ERG Eolica S.r.l.'s amalgamating entity) v. CESP Calabria S.r.l. Court of Castrovillari – Proceedings filed by CESP Calabria S.r.l. to obtain compensation for alleged damages totalling EUR 21 million incurred as a result of contractual non-performance. In addition to ERG Eolica, the summons also concerned companies belonging to the Acciona group, such companies, in the case of conviction, being jointly liable together with ERG Eolica. The proceedings filed by CESP Calabria are based on a rather well-constructed legal assumption. CESP in fact accuses ERG CESA Eolica S.p.A. of contractual non-performance, even though it never entered into any legal agreement with such company. The alleged contractual link between the companies would, in fact, be indirect, since CESP entered into an agreement with TISOL S.r.l. and TISOL S.r.l., in turn, concluded with ERG CESA Eolica S.p.A. an agreement with substantially similar contents. CESP S.p.A. did not receive any payment from TISOL S.r.l. for services rendered under the agreement and is now asking ERG Eolica Italia and Acciona for payment (as assigns of ERG CESA Eolica S.p.A.). TISOL S.r.l. also appeared in court by way of act

of spontaneous intervention ad adiuvandum in favour of ERG Eolica Italia S.r.l. and Acciona. At the hearing on 16 April 2010 the judge reserved the right to evaluate the preliminary and prejudicial objections submitted by the defendants. The next hearing will be scheduled, if necessary, to make a decision, in the event that the aforesaid objections are rejected.

ERG Eolica Italia v. Messrs. Torina. – Genoa Court – Messrs. Torina have submitted an appeal in Cassation to settle jurisdiction with a view to challenging the order dated 18 June 2010 pursuant to Section 279 of the Italian penal code, whereby the Court of Genoa refused jurisdiction to decide on the dispute filed by Messrs. Torina, in favour of the jurisdiction of the Rome Chamber of Arbitration.

The Region of Sicily (Regional Environmental Protection Agency - A.R.T.A.) / ERG Eolica Italia S.r.l. (Roccapalumba project) – Region of Sicily Administrative Justice Council. On 13 April 2010 the Sicilian Regional Council for the Territory and the Environment (Assessorato Regionale al Territorio ed all'Ambiente della Regione Sicilia) served notice of appeal against judgment no. 2410/10 issued by the Sicilian Regional Administrative Tribunal (TAR) on 4 March 2010, whereby the Administrative Judge of first instance accepted the appeal against the administrative silence filed by ERG Eolica Italia. The judgment of the Sicilian TAR ordered the A.R.T.A. to rule on the EIA petition requested at that time by the Company in connection with the Roccapalumba project. The aforesaid A.R.T.A. then proposed encumbrance claiming its lack of jurisdiction for issuing the requested order prior to convocation of the conference on services in accordance with Legislative Decree 387/2003. At the provisional hearing on 8 June 2010 the Council of Administrative Justice (CGA) accepted the A.R.T.A.'s appeal and, therefore, temporarily suspended the effectiveness of the judgment of first instance. The scheduling of the hearing to discuss the merits of the case is pending.

ERG Eolica Italia / Puglia Region – Puglia TAR – appeal against refusal of the EIA with regard to the Conversano wind farm project. The company challenged the order of the Puglia Region refusing the EIA in connection with the project to install a wind farm in the Municipality of Conversano (Bari). The order in fact shows contours of illegitimacy due to breach of the law and excess power. The appeal is accompanied by a petition for temporary suspension of the encumbered order. The discussion hearing is scheduled for 20 April 2011.

Green Vicari S.r.l./ Brulli Energia S.r.l. – Court of Palermo. By way of summons dated 16 September 2010 Brulli Energia S.r.l. sued Green Vicari S.r.l. to obtain compensation for damages calculated by the plaintiff at around EUR 1,969,000.00. The claimed damages purportedly derive from liabilities which the plaintiff describes as either: a) contractual, for breach of the wind farm connection agreement, as well as the agreement for the creation of land rights in favour of Brulli; b) not laid down by contract, owing to the serious construction defect and consequent collapse of the banking constructed by Green Vicari to house the Brulli Energia electrical substation. Green Vicari has appeared in court totally challenging the legitimacy of the charges and the demands made on it, and requesting by way of counterclaim that Brulli Energia be sentenced to pay the sum of EUR 19 thousand, as amount due for the unpaid transfer of land rights, and compensation for damages. At the hearing on 3 February 2011 Brulli Energia challenged Green Vicari's line of defence and claimed that the counterclaim for compensation of damages was invalid. The Judge considered that the claim of invalidity was groundless and assigned to the parties the terms for the lodging of briefs as per Section 183, sixth paragraph, of the Italian penal code, with effect from 1 April 2011, adjourning the case to the hearing on 17 October 2011.

Green Vicari – Mr. Disparti (surveyor) – Court of Palermo. On 7 September 2010 the Company was served with a writ of seizure on behalf of the surveyor Disparti, over the sums deposited in the current accounts held in the name of Green Vicari up to the amount of EUR 44 thousand.

The seizure is based on a court order issued by the Court of Palermo and never served upon Green Vicari and relates to emoluments that the surveyor is requesting for alleged professional services rendered for the company. As things stand, the company has no records to show that the services were actually carried out and therefore Green Vicari has opposed the Court Order that gave rise to the enforcement procedure.

Green Vicari / Nucleonova S.r.l. – Civil Court of Termini Imerese (Palermo). On 5 November 2010 Green Vicari S.r.l. was served with a writ of summons in order for it to be sentenced to carry out a number of restoration works on the roads adjacent to the Vicari wind farm, as well as to obtain compensation for damage estimated at a total amount of EUR 29 thousand. This damage purportedly comes under two separate headings: 1) damage sustained by the motor vehicle belonging to Nucleonova as a result of the holes created in the public road network by the heavy vehicles used in connection with the wind farm worksite; 2) damping-off as regards various plants at the Nucleonova nursery, allegedly ascribable to the dust raised by the passage of heavy vehicles used by the wind farm worksite. From an initial analysis, the causal connection between the behaviours for which Green Vicari is held responsible by the plaintiff and the damage claimed by Nucleonova does not appear easy to prove. The first appearance hearing is scheduled for 1 March 2011.

ERG Eolica Basilicata S.r.l. v. Basilicata Region:- Basilicata TAR – proceedings filed on 10 November 2008 to obtain annulment, upon suspension, of the enforceability of the Basilicata Regional Council's resolution no. 977 dated 18 June 2008, which rejected the request from ERG Eolica Basilicata S.r.l. for authorisation to construct a wind farm in the Municipality of Palazzo San Gervasio (Potenza). The petition claims that rejection was flawed by breach and false application of Article 3 of Basilicata Regional Law no. 9 of 26 April 2007, by breach and false application of Article 5 of Law no. 10 of 9 January 1991, as well as, alternatively, by invalidity of the Basilicata 2001 Regional Energy Plan and unconstitutionality of Regional Law no. 9/2007. At the hearing to discuss the precautionary petition on 28 January 2009 the Basilicata TAR rejected the suspension request submitted by ERG Eolica Basilicata S.r.l. The Company appealed before the Council of State which, again at precautionary level, rejected the company's act of appeal. The scheduling of the hearing for discussion of the merits by the Basilicata TAR is pending.

ERG Eolica Ginestra S.r.l. / Campania Region / Various authorities – Campania TAR, Naples – Proceedings filed by ERG Eolica Ginestra in order to obtain the annulment, upon suspension of the effectiveness, of Management Decrees nos. 277/2010 and 333/2010, whereby the Campania Region imposed the partial suspension, for a period of no less than 90 days, of authorisation orders nos. 438/2006, 134/2008 and 416/2009 relating to the construction of the Ginestra degli Schiavoni wind farm. The two decrees concerned with the act of appeal justified the suspension by the need to ascertain the existence of woodlands which might be subject to protection only as regards the areas concerned with the installation of 5 of the turbines making up the wind farm. The Campania TAR discussed the precautionary appeal submitted by ERG Eolica Ginestra to council chamber on 1 July 2010 and, on such occasion, accepted the request for temporary suspension of effectiveness of the Decrees. The scheduling of the hearing to discuss the merits is pending. As things stand, the Company can duly proceed with works for the construction of the 5 wind turbines concerned with the challenged Decrees.

I.V.P.C. S.r.l. v. Campania Region / ERG Eolica Ginestra S.r.l. - Campania TAR, Naples – proceedings filed on 11 November 2008 in order to obtain the annulment, upon suspension of the effectiveness, of Management Decree no. 13 of 10 June 2008, concerning the transfer in favour of EOS 7 Ginestra S.r.l. of the single authorisation for the construction of the so-called "Ginestra degli Schiavoni" wind farm. The appeal claims that the act of registration is flawed by alleged breaches and false application of Articles 7 and 9 of Law 241/1990 and Article 12 of Legislative

Decree 387/2003, as well as excess power contours. The petitioner basically claims that by transferring the single authorisation substantial changes are authorised with respect to the original project and, as a consequence, a much more in-depth investigation phase would be necessary than the one carried out. In particular, these changes would allegedly be detrimental to a nearby wind farm owned by the petitioner, giving rise to the reasons for the petition. The hearing to discuss the precautionary petition took place on 22 January 2009, at which time IVPC's lawyers waived the precautionary petition and spontaneously requested cancellation of the case.

Eolico Mirabella S.r.l., Eolico Ramacca S.r.l., Eolico Palagonia S.r.l., Eolico Troina S.r.l., Eolico Agira S.r.l., Green Vicari S.r.l., ERG Eolica Italia S.r.l. v. Region of Sicily - Sicilian TAR - Palermo. All the proceedings mentioned were filed by the ERG Renew Group wind companies operating in Sicily and concerned Sicily's new Regional Energy and Environmental Plan (PEAR), published on 26 March 2009. In the various proceedings the forecasts which, from time to time, constitute an obstacle for the development of the individual projects were disputed. ERG Eolica Italia S.r.l. submitted an appeal in reference to all projects not yet spun off. The appeals were not accompanied by a precautionary petition and the order scheduling the hearing to discuss the merits of the various cases is still pending.

ERG Eolica Fossa del Lupo S.r.l. – Amaroni Energia S.r.l. – Extraordinary appeal to the President of the Republic and subsequent transposition of the proceedings before the Calabrian TAR – On 15 July 2010 ERG Eolica Fossa del Lupo S.r.l. filed an extraordinary appeal to the Head of State in order to obtain cancellation of the single authorisation issued by the Region of Calabria to the company Amaroni Energia S.r.l. for the construction of a wind farm in the Municipality of Amaroni. Part of the wind turbines comprising the Amaroni project are, in fact, adjacent to a number of wind turbines pertaining to the Fossa del Lupo facility whose output is therefore purportedly damaged as a result of interference phenomena. Considering the authorisation order relating to the Amaroni project to be flawed due to both breaches of law and excess power, and its intention being to appeal as above, ERG Eolica Fossa del Lupo filed the aforesaid extraordinary appeal. On 16 September 2010 the company Amaroni Energia S.r.l. requested transposition of the appeal before the Calabrian TAR. ERG Eolica Fossa del Lupo appeared in court in October 2010, and Amaroni Energia in December 2010. The scheduling of the hearing to discuss the merits of the case is still pending.

ERG Eolica San Vincenzo S.r.l. / Mr. Vincenzo Buffo – Court of Lucera. The lawsuit was filed by a private party, who owns lands adjacent to the Troia - San Vincenzo wind farm, complaining of damage to his land due to alleged emissions (specifically run-offs of meteoric water) originating from a road inside the wind farm. The request for compensation on the part of the Plaintiff amounts to EUR 20 thousand. The first hearing to discuss the case was held on 22 June 2010 and the terms for the lodging of briefs pursuant to Section 183 of the Italian penal code are pending. The plaintiff's lawyer has announced that a settlement proposal will be made to Eolica San Vincenzo's defence counsel.

Eolo S.r.l./ Maco S.r.l. – Court of Cassino, Sora Division. This is an ordinary case filed through writ of summons served on 2 December 2010, by Eolo's contractor, the company Maco S.r.l., for payments allegedly due for the performance of works not provided for in the contract, in the amount of EUR 198 thousand, plus accessory costs. The first instance hearing is scheduled for 13 May 2011.

Water services

In November 2005, the Court of Rome rejected a company's application for provisional enforcement of a court order against DSI S.r.l. for the payment of EUR 343 thousand, an amount

already included under trade payables for waste disposal services carried out in a period prior to ERG Renew's entry into DSI S.r.l.

DSI S.r.l. had immediately filed its opposition of the aforesaid court order. With a view to satisfying the reciprocal claims, on 15 February 2010 a settlement agreement was executed, with consequent utilisation of the specific provision set aside in prior financial periods.

DSI S.r.l. has an ongoing dispute with a services supplier and related compensation request for a total amount of EUR 500 thousand. By way of judgment issued on 19 November 2010 in the civil case of second instance (filed on 21 December 2010 under no. 5346/10), the Rome Appeals Court accepted the principal appeal filed by DSI Servizi Industriali S.r.l. and entirely amended the first instance judgment, also sentencing the supplier to repay the second instance court costs. In respect of the aforesaid dispute, the 2010 financial statements still show a provision for liabilities of EUR 111 thousand, specifically set aside in 2009, maintained on the books pending the lapse of the terms for appeal in Cassation on the part of the losing party.

Holding division

ERG Renew S.p.A. v. GEPAFIN S.p.A. – Court of Terni – Proceedings filed by GEPAFIN S.p.A. in order to have ERG Renew S.p.A. judicially sentenced to purchase the equity interest held by GEPAFIN S.p.A. in Ansaldo Fuel Cells S.p.A., for an overall amount of more than EUR 1,800 thousand. GEPAFIN S.p.A.'s claim is based on an agreement with EnerTAD S.p.A. executed in 2003, effectively containing a put option having the characteristics described above (commitment on the part of EnerTAD S.p.A. to purchase the shareholding owned by GEPAFIN in Ansaldo Fuel Cells). On the other hand, there are valid legal reasons for claiming that such agreement elapsed by law (as a result of the corporate law reform) prior to exercise of the put option on the part of GEPAFIN, consequently releasing ERG Renew S.p.A. On 17 March 2010 the court having jurisdiction confirmed the decision expressed during the hearing on 23 February 2010 and rejected all GEPAFIN S.p.A.'s preliminary motions, adjourning to the hearing on 26 April 2011 as regards the statement of conclusions.

ERG Renew S.p.A. v. ACEA S.p.A. – Arbitration – The arbitration Award issued on 27 January 2010 in connection with the above dispute envisaged the repurchase of trade receivables guaranteed by ERG Renew in the contract for sale and purchase of shares in A.R.I.A. S.p.A. (formerly Tad Energia Ambiente S.p.A.) dated 17 May 2006. The repurchase of the receivables was carried out by means of deeds drawn up on 16 July 2010 and activities are underway to identify the procedures for continuing the credit recovery actions already in process and to undertake those not yet commenced (see section "Use of estimates").

ERG Renew S.p.A. v. Sari Group S.r.l. (now Waste Italia S.p.A) and Waste Italia S.p.A. (now Unendo S.p.A.) – Arbitration – With the arbitration Award issued on 30 January 2009 in relation to the above dispute, the Board of Arbitration substantially recognised ERG Renew's rights arising from the DSI acquisition transaction, recalculating the amounts due by way of compensation based on the findings of the preliminary investigation. In executing the Award, Waste Italia and Unendo refused to make payment of the VAT corresponding to EUR 77 thousand. Consequently, on 15 April 2010, an immediately enforceable Court Order was issued, followed by an injunction to pay (in the amount of EUR 80 thousand). Waste Italia and Unendo filed their opposition to the Court Order and the case's first appearance hearing was scheduled for 18 December 2010, being later postponed until March 2011. ERG Renew has yet to appear in court.

In view of the above mentioned disputes, the provisions for liabilities and charges shown in the consolidated financial statements at 31 December 2010 are considered sufficient to cover the probable risks quantifiable as at the present date, albeit subject to the uncertainties associated with exposure as regards any litigation proceedings.

16 – FINANCIAL LIABILITIES

The following is a breakdown of financial liabilities, net of the current portion:

	12/31/2010	12/31/2009
LOAN FROM BANCA POPOLARE DI MILANO	8,000	11,200
LOAN FROM BANCA NATIXIS	11,500	17,500
FINANCIAL LEASE CHARGES	–	947
PAYABLES DUE TO ACQUISITION OF EQUITY INVESTMENTS	4,840	–
PROJECT FINANCING	359,916	140,947
TOTAL	384,256	170,594
NON-CURRENT PORTION OF FINANCIAL PAYABLES DUE TO PARENT COMPANIES	284,431	118,802
TOTAL	668,687	289,396

The repayment schedule for the above mentioned non-current loans received from Banca Natixis and Banca Popolare di Milano, which carry interest rates in line with those of the market, is as follows:

	MORTGAGES AND LOANS
BY 2012	14,700
BY 2013	3,200
BEYOND 2013	1,600
TOTAL	19,500

The agreement entered into by ERG Renew S.p.A. with Banca Natixis in August 2007 concerns a medium/long-term loan disbursed on 26 October 2007 to purchase the companies of the ERG Eolienne France S.a.s. Group. The agreement provides for the repayment schedule detailed below:

	DATE	AMOUNT
REPAYMENT INSTALMENT	02/02/2011	3,000
REPAYMENT INSTALMENT	08/02/2011	3,000
REPAYMENT INSTALMENT	02/02/2012	4,500
REPAYMENT INSTALMENT	08/02/2012	7,000

After 2 August 2012, ERG Renew S.p.A. can ask Banca Natixis to extend the duration of the residual loan amount of EUR 7,000 thousand for another 24 months. Early repayment is possible for a minimum sum of EUR 5,000 thousand.

The loan is unsecured and requires compliance with the following covenants:

- *Net Debt / Equity*: less than 1.8;
- *Interest Cover Ratio (Interest expense/Consolidated EBITDA)*: above 3.5 until 31 December 2009 and 4.0 thereafter.

During the first six months of 2009 the loan was restructured, increasing the guarantees offered to the bank, with the intervention of ERG S.p.A., and the economic conditions were revised, excluding the exceeding of covenant threshold values as potential cause of default. The agreement entered into by ERG Renew S.p.A. in March 2007 with Banca Popolare di Milano is a medium/long-term loan replacing a credit line for the same amount, again with Banca Popolare di Milano. The agreement provides for a repayment plan based on six-monthly

instalments of EUR 1,600 thousand starting on 30 October 2009, with the last instalment on 30 April 2014.

The loan is unsecured and does not require any compliance with covenants. Early repayment is possible for a minimum amount of EUR 5,000 thousand starting from the twenty-fourth month after the date of execution of the loan agreement.

The total amount of financial lease charges at 31 December 2009 referred to three financial lease contracts pertaining to I.S.E.A. S.r.l. which was sold on 30 July 2010 (see section "Extraordinary transactions").

"Payables due to acquisition of equity investments" concern the balance still outstanding for the acquisition of ERG Eolica Adriatica S.r.l., which matures on 31 December 2012. This non-interest bearing payable has been discounted to present value as at 31 December 2010.

The balance of EUR 284,431 thousand refers entirely to the utilisation of a credit line granted by ERG S.p.A. to ERG Renew S.p.A. on 25 May 2009. More specifically, ERG S.p.A. committed to supporting ERG Renew S.p.A., during FY2009 and up to the amount of EUR 140 million, with financial backing for investments planned in 2009 in addition to any funding required to cover the ordinary and current operations of the Company and the Group during the same period. The credit line includes a first tranche – line A (6-month EURIBOR plus a spread of 2%) for the amount of EUR 70 million – intended to finance 2009 investments and ERG Renew S.p.A.'s ordinary and current operations, and a second tranche – line B (6-month EURIBOR plus a spread of 1% up until 31 December 2009, 6-month EURIBOR plus a spread of 2% up until maturity on 31 December 2011) for an additional amount of EUR 70 million – intended to permit the former subsidiaries of ERG Power & Gas S.p.A. (now part of ERG S.p.A.) to repay their financial debts vis-à-vis the latter.

With effect from 1 January 2010 ERG S.p.A. has confirmed, for FY2010, the financial support required for ERG Renew S.p.A. to implement 2010 investment plans and cover operational needs, raising the financing amount, under a single line of credit, up to a maximum of EUR 231 million.

This credit line, originally available until 31 December 2010 and subsequently extended to 31 December 2011, has been further extended until 31 December 2012, with the possibility for additional extensions to be agreed in writing between the parties. The rate was based on 6-month EURIBOR plus a spread of 2%.

In order to cover investments planned during FY2011 the parent company ERG S.p.A., in February 2011, formally committed to irrevocably renewing its financial support for ERG Renew, already undertaken in 2009 and 2010, increasing the credit line from EUR 231 million to 307 million.

Following the subsequent acquisition of the company ERG Eolica Adriatica S.r.l. (see section "Extraordinary transactions"), ERG S.p.A. raised the aforesaid credit line in favour of ERG Renew S.p.A. up to the overall amount of EUR 311 million, by granting ERG Renew an additional "Tranche B" up to a maximum amount of EUR 80 million to be used exclusively for the acquisition of a 100% equity interest in the company in question as well as accessory costs, if any, related to the acquisition. This "Tranche B" will mature on 31 December 2015 with repayment in a lump sum on maturity, subject to ERG's option to request early redemption thereof in the event of share capital increase transactions within ERG Renew, and spread of 300 basis points with respect to Euribor. The Loan was subsequently granted by ERG Renew to ERG Eolica Italia at the same terms and conditions with an increase of 5 basis points in the spread. At 31 December 2010 the amount of EUR 71 million had been utilised under the credit line.

Debt positions relating to project financing are described – for both the current and non-current portions – in the following sub-section "Project Financing".

The breakdown of the current portion of financial liabilities is detailed below:

	12/31/2010	12/31/2009
PAYABLES DUE TO OTHER LENDERS	237	237
PAYABLES DUE TO OTHER GROUP COMPANIES	353	240
CURRENT ACCOUNT OVERDRAFTS	14,901	3,324
LOAN FROM BANCA POPOLARE DI MILANO	3,200	3,200
LOAN FROM BANCA NATIXIS	6,000	6,000
PROJECT FINANCING	33,503	41,659
TOTAL	58,194	54,660

Payables due to other lenders include the amount of EUR 62 thousand payable to the company ATE S.r.l., quotaholder of the company Eolo S.r.l. in which the Group holds a 51% interest.

The breakdown of payables due to Group companies, together with the nature of such transactions, are described in Note 37 "Related-party transactions".

Current account overdrafts, amounting to EUR 14,900 thousand, represent the Group's financial debt repayable at sight; the average interest rate for the year was 1.99% and the book value corresponds to the nominal value.

The amounts relating to the two outstanding loans (with Banca Popolare di Milano and Banca Natixis) concern the repayment instalments due respectively on 30 April 2011 and 30 October 2011 (Banca Popolare di Milano – for a total amount of EUR 3,200 thousand) and on 2 February 2011 and 2 August 2011 (Banca Natixis – for a total amount of EUR 6,000 thousand).

Debt positions relating to project financing are described – for both the current and non-current portions – in the following sub-section "Project Financing".

Project financing

As at 31 December 2010 the Group had in place the following project financing contracts, with interest rates in keeping with those of the market:

- A contract executed in 2005 by ERG Eolica San Vincenzo S.r.l., of which the balance at 31 December 2010 was EUR 8,576 thousand. The loan provides for a base credit line of EUR 36 million. The first repayment instalment of EUR 1,857 thousand was paid on 30 June 2006; the last instalment is due on 31 December 2013. The guarantees given include a leasehold mortgage, special liens on assets and a 100% pledge over the company's share capital and restricted current accounts (EUR 3 million at 31 December 2010), as well as a comfort letter from ERG Renew S.p.A. The loan is also subject to the following covenants and negative pledges:
 - *Debt Service Coverage Ratio (DSCR)*: this is determined at 30 June and 31 December of each year and is calculated as the ratio between the project's cash flow for the half-year in progress and the previous half-year, net of VAT flows for repayment of the VAT capital portion, and the total base line principal amount repayable as per the repayment schedule, plus the sum of the interest, commissions, and costs paid or payable in relation to the credit lines. If less than 1.30, ERG Eolica San Vincenzo S.r.l. cannot distribute dividends to quotaholders, nor repay subordinated debt, without prior authorisation from the banks. In the event that the value is less than 1.05 and the company fails to put in place any of the remedies contractually provided, the banks can request termination of the loan agreement and enforcement of the guarantees;

- *Average Debt Service Coverage Ratio (ADSCR)*: this is determined at 30 June and 31 December of each year and is calculated as the average of the DSCRs relating to subsequent periods up to maturity of the loan. In the event that the value is lower than 1.05 and the company fails to put in place any of the remedies contractually provided, the bank may request termination of the loan agreement and enforcement of the guarantees.
- The Project Financing provides for a “negative pledge” which protects the creditor’s right over the assets given by the debtor as a guarantee for loan repayment. This means that ERG Eolica San Vincenzo S.r.l. cannot provide further guarantees on its assets except in the case of guarantees given in accordance with the law.

On the basis of assessments and recalculations carried out by the Group’s Management, the Directors consider that the Group will not receive notification from the credit institutions regarding breaches of the financial covenants as at 31 December 2010.

- A contract executed in 2005 by the company ERG Eolica San Cireo S.r.l. of which the balance at 31 December 2010 was EUR 17,482 thousand. The loan provides for a base credit line of EUR 34 million for installed capacity of 30 MW, which can be increased to EUR 43 million for a further 10 MW. The first repayment instalment was made on 30 June 2007; the last instalment is due on 31 December 2014. In order to hedge against fluctuations in interest rates, Interest Rate Swap transactions have been put in place, up to 31 December 2014, in keeping with the maturities of the loan repayment plan, changing the variable rate to a fixed rate of 3.30%; the residual nominal value at 31 December 2010 is EUR 18 million. The guarantees given include a leasehold mortgage, special liens on assets and a 100% pledge over the company’s share capital and restricted current accounts (EUR 10 million at 31 December 2010), as well as a comfort letter from ERG Renew S.p.A. The loan is also subject to the following covenants and negative pledges.
 - *Debt Service Coverage Ratio (DSCR)*: this is determined at 30 June and 31 December of each year and is calculated as the ratio between the project’s cash flow for the half-year in progress and the previous half-year, net of VAT flows for repayment of the VAT capital portion, and the total base line principal amount repayable as per the repayment schedule, plus the sum of the interest, commissions, and costs paid or payable in relation to the credit lines and the sums paid or payable by the company to the hedging banks or by the hedging banks to the company pursuant to hedging contracts. If less than 1.30, ERG Eolica San Cireo S.r.l. cannot distribute dividends to quotaholders, nor repay subordinated debt, without prior authorisation from the banks. In the event that the value is less than 1.05 and the company fails to put in place any of the remedies contractually provided, the banks can request termination of the loan agreement and enforcement of the guarantees.
 - The Project Financing provides for a “negative pledge” which protects the creditor’s right over the assets given by the debtor as a guarantee for loan repayment. This means that ERG Eolica San Cireo S.r.l. cannot provide further guarantees on its assets except in the case of guarantees given in accordance with the law.

On the basis of assessments and recalculations carried out by the Group’s Management, the Directors consider that the Group will not receive notification from the credit institutions regarding breaches of the financial covenants as at 31 December 2010.

- A contract executed on 13 June 2007 by ERG Eolica Faeto S.r.l., of which the balance at 31 December 2010 was EUR 39,794 thousand, relating to construction of a wind farm located in the municipality of Faeto in the province of Foggia. The loan provides for a base credit line of EUR 37.9 million for installed capacity of 24 MW. The first repayment instalment for

the VAT portion was paid on 31 December 2009, while reimbursement of the first instalment as regards the base credit line is scheduled on 30 June 2010; the last instalment is due on 31 December 2021. In order to hedge against fluctuations in interest rates, Interest Rate Swap transactions have been put in place up to 31 December 2013, determining a maximum variable rate of 5%; the residual nominal value at 31 December 2010 is EUR 19 million. The guarantees given include a mortgage on buildings, a special lien on assets and a 100% pledge on the company's share capital and restricted current accounts (EUR 10 million at 31 December 2010), as well as a comfort letter from ERG Renew S.p.A. The loan is also subject to the following covenants and negative pledges:

- *Historical Debt Service Coverage Ratio (DSCR)*: this is determined as the ratio between the project's cash flow for the half-year in progress and the previous half-year, net of VAT flows for repayment of the VAT capital portion, and the total base line principal amount repayable as per the repayment schedule, the sum of the interest, commissions, and costs paid or payable in relation to the credit lines and the sums paid or payable by the company to the hedging banks or by the hedging banks to the company pursuant to hedging contracts. If less than 1.10, ERG Eolica Faeto S.r.l. cannot distribute dividends to quotaholders, nor repay subordinated debt, without prior authorisation from the banks. In the event that the value is less than 1.05 and the company fails to put in place any of the remedies contractually provided, the banks can request termination of the loan agreement and enforcement of the guarantees.
- The Project Financing provides for a "negative pledge" which protects the creditor's right over the assets given by the debtor as a guarantee for loan repayment. This means that ERG Eolica Faeto S.r.l. cannot provide further guarantees on its assets except in the case of guarantees given in accordance with the law.

On the basis of assessments and recalculations carried out by the Group's Management, the Directors consider that the Group will not receive notification from the credit institutions regarding breaches of the financial covenants as at 31 December 2010.

- A contract executed on 1 August 2007 by Green Vicari S.r.l., of which the balance at 31 December 2010 was EUR 50,005 thousand, relating to construction of a wind farm located in the municipality of Vicari in the province of Palermo. The loan includes an anticipation credit line of EUR 22,791 thousand and an additional line of EUR 28,832 thousand, for installed capacity of 37.5 MW. The first repayment instalment was paid on 30 June 2009; the last instalment is due on 30 June 2019. In order to hedge against fluctuations in interest rates, Interest Rate Swap transactions have been put in place, up to 31 December 2016, in keeping with the maturities of the loan repayment plan, changing the variable rate to a fixed rate of 2.235%; the residual nominal value at 31 December 2010 is EUR 35 million. The guarantees given include a leasehold mortgage, special liens on assets and a 100% pledge over the company's share capital and restricted current accounts (EUR 15 million at 31 December 2010), as well as a comfort letter from ERG Renew S.p.A. The loan is also subject to the following covenants and negative pledges:
 - *Average Debt Service Coverage Ratio (ADSCR)*: this is determined at 30 June and 31 December of each year and is calculated as the ratio between the project's cash flow, net of VAT flows, for the two previous half-years and the total base line and subsidised loan principal amount repayable as per the repayment schedule, the sum of the interest, commissions, and costs paid or payable in relation to the credit lines and the sums paid or payable by the company to the hedging banks or by the hedging banks to the company pursuant to hedging contracts. If less than 1.10, Green Vicari S.r.l. cannot distribute dividends to quotaholders, nor repay subordinated debt, without prior authorisation from the banks. In the event that the value is less than 1.05 and the company fails to put in place any of the remedies contractually provided, the banks can request termination of the loan agreement and enforcement of the guarantees.

- The Project Financing provides for a “negative pledge” which protects the creditor’s right over the assets given by the debtor as a guarantee for loan repayment. This means that Green Vicari S.r.l. cannot provide further guarantees on its assets except in the case of guarantees given in accordance with the law.

On the basis of assessments and recalculations carried out by the Group’s Management, the Directors consider that the Group will not receive notification from the credit institutions regarding breaches of the financial covenants as at 31 December 2010.

- The French operating companies have a single project financing contract in place relating to construction of the five wind farms located in France. The balance as at 31 December 2010 was split as follows between the companies:

COMPANY	BALANCE AT 12/31/2010
PARC EOLIEN DE LIHUS S.A.S.	7,880
PARC EOLIEN DE HETOMESNIL S.A.S.	7,924
PARC EOLIEN DE LA BRUYÈRE S.A.S.	7,860
PARC EOLIEN DU CARREAU S.A.S.	6,865
PARC EOLIEN LES MARDEAUX S.A.S.	8,913
TOTAL	39,442

The contract provides for a base credit line of EUR 56.1 million for total installed capacity of 55.2 MW. The first repayment took place on 30 June 2007; the last instalment falls due on 30 December 2019. In order to hedge against interest rate risk, the five companies have nine Interest Rate Swap contracts in place up until 31 December 2019, in keeping with the maturities of the loan repayment plan, changing the variable rate to an average fixed rate of 4.27%; the residual nominal value at 31 December 2010 is EUR 40 million. The guarantees given include a leasehold mortgage and a 100% pledge over the company’s share capital and restricted current accounts (EUR 1 million at 31 December 2010). The loan is subject to the following covenant concerning the distribution of dividends:

- *Historical Debt Service Coverage Ratio (DSCR)*: this is determined as the ratio between the project’s cash flow for the half-year in progress and the previous half-year, net of VAT flows for repayment of the VAT capital portion, and the total base line principal amount repayable as per the repayment schedule, the sum of the interest, commissions, and costs paid or payable in relation to the credit lines and the sums paid or payable by the company to the hedging banks or by the hedging banks to the company pursuant to hedging contracts. If less than 1.10, the French companies cannot distribute dividends to shareholders, nor repay subordinated debt, without prior authorisation from the banks.
- The Project Financing also provides for a “negative pledge” which protects the creditor’s right over the assets given by the debtor as a guarantee for loan repayment. This means that the French companies cannot provide further guarantees on their assets.

On the basis of assessments and recalculations carried out by the Group’s Management, the Directors consider that the Group will not receive notification from the credit institutions regarding breaches of the financial covenant as at 31 December 2010.

- A contract executed in 2009 by the company Eoliennes du Vent Solaire S.a.s., of which the balance at 31 December 2010 was EUR 7,489 thousand. The loan provides for a base credit line of EUR 7.9 million for installed capacity of 9.2 MW. The repayment instalments will be spread over 15 years starting from the date of acceptance of the final inspection certificate. The guarantees given include a leasehold mortgage and a 100% pledge on the company’s

share capital and restricted current accounts (EUR 1 million at 31 December 2010). The loan is also subject to the following covenants and negative pledges.

- *Debt Service Coverage Ratio (DSCR)*: this is calculated as the ratio between the project's cash flow for the half-year in progress and the previous half-year, net of VAT flows for repayment of the VAT capital portion, and the total base line principal amount repayable as per the repayment schedule, the sum of the interest, commissions, and costs paid or payable in relation to the credit lines and the sums paid or payable by the company to the hedging banks or by the hedging banks to the company pursuant to hedging contracts. If less than 1.15, Eoliennes du Vent Solaire S.a.s. cannot distribute dividends to shareholders, nor repay subordinated debt, without prior authorisation from the banks. In the event that the value is less than 1.10 and the company fails to put in place any of the remedies contractually provided, the banks can request termination of the loan agreement and enforcement of the guarantees.
- The Project Financing provides for a "negative pledge" which protects the creditor's right over the assets given by the debtor as a guarantee for loan repayment. This means that ERG Eoliennes du Vent Solaire S.a.s. cannot provide further guarantees on its assets. The covenants will be calculated starting from when the company has been in operation for 12 months.

- A contract executed in January 2010 by the company ERG Eolica Ginestra S.r.l. of which the balance at 31 December 2010 was EUR 39,878 thousand. The loan provides for a base credit line of EUR 70,287 thousand for installed capacity of 40 MW, with the last maturity in June 2025. The loan's current disbursement amounts to EUR 42.280 thousand. In order to hedge against fluctuations in interest rates, ERG Eolica Ginestra S.r.l. has put in place Interest Rate Swap transactions up until 30 June 2025, in keeping with the maturities of the loan repayment plan, changing the variable rate to a fixed rate of 3.27%; the residual nominal value at 31 December 2010 was EUR 38 million. The guarantees given include a leasehold mortgage, special liens on assets and a 100% pledge over the company's share capital and restricted current accounts (EUR 4 million at 31 December 2010). The loan is also subject to the following covenants and negative pledges.

- *Historical and Prospective Debt Service Coverage Ratio (DSCR)*: this is calculated for each period of 12 months preceding and subsequent to each calculation date, as the ratio between the project's cash flow, net of VAT flows, and the total base line principal amount repayable as per the repayment schedule, the sum of the interest, commissions, and costs paid or payable in relation to the credit lines and the sums paid or payable by the company to the hedging banks or by the hedging banks to the company pursuant to hedging contracts. If the Historical and/or Prospective DSCRs are less than 1.15, ERG Eolica Ginestra S.r.l. cannot distribute dividends to quotaholders, nor repay subordinated debt, without prior authorisation from the banks. In the event that the value of the Historical DSCR is less than 1.05 and the company fails to put in place any of the remedies contractually provided, the banks can request termination of the loan agreement and enforcement of the guarantees.
- *Loan Life Cover Ratio (LLCR)*: the LLCR is calculated as the ratio between net present value, discounted at the weighted average cost of the debt, of the operating cash flows anticipated by the company during the periods between the calculation date and the year in which the debt falls due, and the amount of debt outstanding at the calculation date. If less than 1.20, ERG Eolica Ginestra S.r.l. cannot distribute dividends to quotaholders, nor repay subordinated debt, without prior authorisation from the banks. In the event that the value is less than 1.10 and the company fails to put in place any of the remedies contractually provided, the banks can request termination of the loan agreement and enforcement of the guarantees.

- The Project Financing provides for a “negative pledge” which protects the creditor’s right over the assets given by the debtor as a guarantee for loan repayment. This means that ERG Eolica Ginestra S.r.l. cannot provide further guarantees on its assets except in the case of guarantees given in accordance with the law.

The covenants will be calculated with effect from the Company’s coming on stream.

- A contract executed in October 2009 by ERG Eolica Adriatica S.r.l. of which the balance at 31 December 2010 was EUR 190,408 thousand. The loan provides for a base credit line of EUR 180 million, a VAT line of EUR 23 million and a mezzanine line of EUR 7 million, for installed capacity of 102 MW, with last maturity in June 2022. In order to hedge against interest rate risk, as at 30 June 2022 there were Interest Rate Swap contracts in place up until 30 June 2022, in keeping with the maturities of the loan repayment plan, changing the variable rate to an average fixed rate of 4.84%; the residual nominal value at 31 December 2010 was EUR 186 million. The guarantees given include a leasehold mortgage, special liens on assets and a 100% pledge over the company’s share capital and restricted current accounts (EUR 10 million at 31 December 2010). The loan base line is subject to the following covenants and negative pledges:

- *Historical and Prospective Debt Service Coverage Ratio (DSCR)*: this is calculated for each period of 12 months preceding and subsequent to each calculation date, as the ratio between the project’s cash flow, net of VAT flows, and the total base line principal amount repayable as per the repayment schedule, the sum of the interest, commissions, and costs paid or payable in relation to the credit lines and the sums paid or payable by the company to the hedging banks or by the hedging banks to the company pursuant to hedging contracts. If the Historical and/or Prospective DSCRs are less than 1.20, ERG Eolica Adriatica S.r.l. cannot distribute dividends to quotaholders, nor repay subordinated debt, without prior authorisation from the banks. In the event that the value of the Historical and/or Prospective DSCRs are less than 1.05 and the company fails to put in place any of the remedies contractually provided, the banks can request termination of the loan agreement and enforcement of the guarantees.
- *Balloon Coverage Ratio (BLCR)*: the BLCR is calculated as the ratio between the net present value, discounted at the weighted average cost of the debt, the operating cash flows anticipated by the company during the periods between the last repayment date and the 60 months subsequent thereto and the amount of the last loan instalment (Balloon). If less than 1.50, ERG Eolica Adriatica S.r.l. cannot distribute dividends to quotaholders, nor repay subordinated debt, without prior authorisation from the banks.
- The Project Financing provides for a “negative pledge” which protects the creditor’s right over the assets given by the debtor as a guarantee for loan repayment. This means that ERG Eolica Adriatica S.r.l. cannot provide further guarantees on its assets except in the case of guarantees given in accordance with the law.

The covenants will be calculated starting from when the company has been in operation for 12 months.

The mezzanine line of the Project Financing is subject to the following covenants:

- *Historical and Prospective Combined Debt Service Coverage Ratio (CDSCR)*: this is calculated for each period of 12 months preceding and subsequent to each calculation date, as the ratio between the project's cash flow, net of VAT flows, and the total principal amount repayable (base line and mezzanine line) as per the repayment schedule, the sum of the interest, commissions, and costs paid or payable in relation to the credit lines and the sums paid or payable by the company to the hedging banks or by the hedging banks to the company pursuant to hedging contracts. If the Historical and/or Prospective CDSCRs are less than 1.10, ERG Eolica Adriatica S.r.l. cannot distribute dividends to quotaholders, nor repay subordinated debt, without prior authorisation from the banks. In the event that the value of the Historical and/or Prospective CDSCRs are less than 1.05 and the company fails to put in place any of the remedies contractually provided, the banks can request termination of the loan agreement and enforcement of the guarantees.

The covenants will be calculated starting from when the company has been in operation for 12 months.

17 – DERIVATIVES PAYABLES AND RECEIVABLES

Payables and receivables from derivatives are reported in the financial statements as follows:

	12/31/2010	12/31/2009
DERIVATIVES RECEIVABLES	172	199
TOTAL	172	199

	12/31/2010	12/31/2009
DERIVATIVES PAYABLES	28,190	3,518
PAYABLES FOR PUT OPTIONS	1,844	1,844
TOTAL	30,034	5,362

Payables and receivables from derivatives

The table below shows the derivatives outstanding as at 31 December 2010:

CONTRACTING COMPANY	ISSUING BANK	CONTRACT	FAIR VALUE	MATURITY
ERG EOLICA FAETO S.R.L.	EFIBANCA	CAP	16	12/31/2013
ERG EOLICA FAETO S.R.L.	MCC	CAP	16	12/31/2013
ERG RENEW S.P.A.	B. POP. DI MILANO	CAP	1	10/30/2012
GREEN VICARI S.R.L.	BNP PARIBAS BNL	IRS	139	06/30/2019
TOTAL DERIVATIVES RECEIVABLES			172	
ERG EOLICA SAN CIREO S.R.L.	EFIBANCA	IRS	(317)	12/31/2014
ERG EOLICA SAN CIREO S.R.L.	BBVA	IRS	(317)	12/31/2014
PARC EOLIEN DE LIHUS S.A.S.	HSH NORDBANK	IRS	(323)	12/30/2019
PARC EOLIEN DE LIHUS S.A.S.	HSH NORDBANK	IRS	(361)	12/30/2019
PARC EOLIEN DE HETOMESNIL S.A.S.	HSH NORDBANK	IRS	(315)	12/30/2019
PARC EOLIEN DE HETOMESNIL S.A.S.	HSH NORDBANK	IRS	(348)	12/30/2019
PARC EOLIEN DE LA BRUYÈRE S.A.S.	HSH NORDBANK	IRS	(338)	12/30/2019
PARC EOLIEN DE LA BRUYÈRE S.A.S.	HSH NORDBANK	IRS	(372)	12/30/2019
PARC EOLIEN DU CARREAU S.A.S.	HSH NORDBANK	IRS	(391)	12/30/2019
PARC EOLIEN LES MARDEAUX S.A.S.	HSH NORDBANK	IRS	(335)	12/30/2019
PARC EOLIEN LES MARDEAUX S.A.S.	HSH NORDBANK	IRS	(368)	12/30/2019
ERG EOLICA ADRIATICA S.R.L.	BNP PARIBAS BNL	IRS	(7,732)	06/15/2022
ERG EOLICA ADRIATICA S.R.L.	ING	IRS	(7,732)	06/15/2022
ERG EOLICA ADRIATICA S.R.L.	RBS	IRS	(7,732)	06/15/2022
ERG EOLICA ADRIATICA S.R.L.	BNP PARIBAS BNL	IRS	(230)	06/15/2022
ERG EOLICA ADRIATICA S.R.L.	ING	IRS	(230)	06/15/2022
ERG EOLICA ADRIATICA S.R.L.	RBS	IRS	(230)	06/15/2022
ERG EOLICA GINESTRA S.R.L.	UNICREDIT	IRS	(173)	06/30/2025
ERG EOLICA GINESTRA S.R.L.	CENTROBANCA	IRS	(173)	06/30/2025
ERG EOLICA GINESTRA S.R.L.	BARCLAYS	IRS	(173)	06/30/2025
TOTAL DERIVATIVES PAYABLES			(28,190)	

During 2010 the Group entered into the following new derivatives contracts:
ERG Eolica Adriatica S.r.l. – issuing banks BNP Paribas, ING BANK N.V. and The Royal Bank of Scotland Plc:

- three interest rate swap contracts entered into for hedging purposes, having a total initial notional value of EUR 179.5 million, which, with effect from 30 September 2009, regulate the variable Euribor differential with a fixed rate contractually determined; it should be noted that only part of the derivatives is designated for hedge accounting;
- three interest rate swap contracts entered into for hedging purposes, having a total initial notional value of EUR 7 million, which, with effect from 26 February 2010, regulate the variable Euribor differential with a fixed rate contractually determined.

ERG Eolica Ginestra S.r.l. – issuing banks Unicredit, Centro Banca, Barclays:

- three IRS contracts, having a total notional value of EUR 38 million, which replace the variable rate used in the project financing with a fixed rate.

Green Vicari S.r.l. – issuing bank Unicredit :

- an IRS contract, having an initial notional value of EUR 35.3 million, which, with effect from 31 December 2010, replaces the variable rate with a fixed rate. This contract replaced the previous CAP contract which, with effect from 31 December 2008, set a maximum limit of 4.75% on the loan's benchmark rate.

Moreover, summarised below are the main features of the derivatives contracts already in place as at 31 December 2009:

ERG Eolica San Ciro S.r.l. – issuing banks Efibanca and BBVA:

- two IRS contracts, having a notional value of EUR 16 million, relating to the first lot of the investment in the wind farm, which replace the variable rate used in the project financing with a fixed rate.

ERG Renew S.p.A. – issuing bank Banca Popolare di Milano:

- a CAP contract, having an initial notional value of EUR 7.2 million and maturity on 30 October 2012, which with effect from 30 October 2009 sets a maximum limit of 5% on the loan's benchmark rate.

ERG Eolica Faeto S.r.l. – issuing banks Efibanca and MCC:

- two CAP contracts having an initial notional value of EUR 4.8 million, each relating to the first lot of the investment in the wind farm, which, with effect from 31 December 2007, set a maximum limit of 5% as regards the variable rate used in the project financing (6-month Euribor).

French companies – issuing bank HSH Norbank:

- eight IRS contracts, having a total initial notional value of EUR 23.3 million which, with effect from 29 December 2006, replace the variable rate with a fixed rate;
- an IRS contract, having a total initial notional value of EUR 9.7 million which, with effect from 30 June 2006, replaces the variable rate with a fixed rate.

The fair value of these contracts as at 1 January 2010 and 31 December 2010 is included in the net financial position under "E – Current financial receivables" (positive portion) and under "G – Current portion of non-current debt" (negative portion).

All the Group's derivatives outstanding at 31 December 2010 can be classified as level two; the relative fair value is determined via evaluation techniques based on variables that are directly (or indirectly) observable on the market.

In order to determine the market value of derivatives, ERG Renew S.p.A. utilises various measurement and evaluation models, a summary of which is given in the following table:

TYPE	INSTRUMENT	PRICING MODEL	CALCULATION TOOL	MARKET DATA USED	DATA PROVIDER	IFRS 7 HIERARCHY
INTEREST RATE DERIVATIVES	INTEREST RATE SWAP	DISCOUNTED CASH FLOW	– MS EXCEL	– DEPOSIT RATES (EURIBOR)	– REUTERS	LEVEL 2
			– FINCAD XL	– SWAP RATES		
INTEREST RATE DERIVATIVES	INTEREST RATE OPTION (CAO, COLLAR)	BLACK & SCHOLES	– MS EXCEL	– DEPOSIT RATES (EURIBOR)	– REUTERS	LEVEL 2
			– FINCAD XL	– SWAP RATES	– ICAP (VIA REUTERS)	
				– IMPLIED VOLATILITY SHORT-TERM RATES		

The net income posted to the year’s Income Statement in connection with the adjustment of fair value at 31 December 2009 to fair value at 31 December 2010 amounted to EUR 1,854 thousand.

Minority put options on unlisted interests

The balance concerns the valuation of a put option on 0.69% of Ansaldo Fuel Cells S.p.A. granted by ERG Renew S.p.A. to Gepafin S.p.A. with expiry on 29 January 2009. Gepafin S.p.A. has notified exercise of its put option. ERG Renew S.p.A., considering this right on the shares of Ansaldo Fuel Cells S.p.A. to be invalid, has informed Gepafin S.p.A. that it will not purchase the shares concerned with the option. The related payable, currently still outstanding, is however recognised in the financial statements. The value of the option is EUR 1,844 thousand, which was the maximum exercise value as at 31 December 2010.

18 – OTHER PAYABLES – NON-CURRENT LIABILITIES

As anticipated in the section “Comparability of financial statements”, the balance shown under “Other payables” - non-current portion as at 31 December 2010 and 31 December 2009, concerns the non-current portion of deferred income pertaining to capital grants received by the companies Green Vicari S.r.l. and Eolo S.r.l. These liabilities have been classified as non-current in order to take account of the effective terms for settlement of same.

19 – DEFERRED TAX LIABILITIES

The following table shows the breakdown of deferred tax liabilities and changes during the year:

	12/31/2010		12/31/2009	
	AMOUNT OF TEMPORARY DIFFERENCES	TAX EFFECT	AMOUNT OF TEMPORARY DIFFERENCES	TAX EFFECT
AMORTISATION/DEPRECIATION	10,664	2,047	12,193	2,472
CAPITAL GAINS ON BUSINESS COMBINATIONS	98,820	27,837	42,463	13,787
OF WHICH CHANGE IN SCOPE OF CONSOLIDATION	60,089	18,867	–	–
OTHER DIFFERENCES	1,254	350	231	9
BALANCE AT END OF PERIOD	110,738	30,234	54,887	16,268

The item “Change in scope of consolidation” refers to the tax effect of capital gains on business combinations arising in connection with the company ERG Eolica Adriatica S.r.l. acquired on 23 July 2010 (see section “Extraordinary transactions”).

20 – TRADE PAYABLES

The reported balance includes:

	12/31/2010	12/31/2009
TRADE PAYABLES	13,799	49,430
COMMERCIAL PAYABLES DUE TO PARENT COMPANIES	402	195
COMMERCIAL PAYABLES DUE TO GROUP COMPANIES	20	2,805
TOTAL	14,221	52,430

At 31 December 2009 "Trade payables" included payables of around EUR 42 million connected with tangible assets, purchased towards the end of the year and settled during 2010, in relation to the ERG Eolica Ginestra S.r.l, ERG Eolica Fossa del Lupo S.r.l. and Eolienne du Vent Solaire S.a.s. wind farms.

The carrying value of trade payables approximates their fair value.

"Commercial payables due to Group companies" declined significantly, particularly as a result of a payment made in 2010 by the company Green Vicari S.r.l. in favour of ERG Power & Gas S.p.A. (which has now merged with ERG S.p.A.).

The details of the counterparties involved in payables due to parent and group companies and the nature of these transactions is described in Note 37 "Related-party transactions".

21 – OTHER PAYABLES – CURRENT LIABILITIES

The reported balance includes:

	12/31/2010	12/31/2009
PAYABLES DUE TO SOCIAL SECURITY INSTITUTIONS	310	394
PAYABLES DUE TO EMPLOYEES	587	523
PAYABLES DUE TO DIRECTORS AND STATUTORY AUDITORS	291	403
PAYABLES DUE TO PUBLIC ENTITIES	1,572	790
PAYABLES FOR WATER DISCHARGE (SEWERAGE CONTRIBUTIONS)	393	332
OTHER PAYABLES DUE TO PARENT COMPANIES	181	21
OTHER SUNDRY PAYABLES	930	685
ACCRUED EXPENSES AND DEFERRED INCOME	1,120	1,088
TOTAL	5,384	4,236

The growth in the item "Payables due to public entities" concerns above all the consolidation of ERG Eolica Adriatica S.r.l.

The item "Other payables" includes various amounts individually considered non-significant.

Accrued expenses and deferred income

	12/31/2010	12/31/2009
EQUIPMENT GRANTS	440	440
OTHER ACCRUED EXPENSES AND DEFERRED INCOME	680	648
TOTAL	1,120	1,088

The item "Equipment grants" refers to the current portion of the balance remaining of grants received (EUR 4,495 thousand), which will be credited to the Income Statement in subsequent financial years (Note 18 Other payables – non-current liabilities).

22 – TAX LIABILITIES

	12/31/2010	12/31/2009
CURRENT INCOME TAXES	1,109	256
WITHHOLDING TAXES	230	350
OTHER TAX LIABILITIES	116	28
TOTAL	1,455	634

This item mainly includes current tax payables accrued to 31 December 2010, as well as taxes withheld as withholding agent, paid in January 2011, and other minor tax liabilities.

23 – NET FINANCIAL POSITION

A breakdown of the Group's consolidated net financial position is set out below:

(EUR THOUSAND)	12/31/2010	12/31/2009
CASH AND CASH EQUIVALENTS	70,653	53,995
CURRENT ACCOUNT OVERDRAFTS	(14,900)	(3,324)
RESTRICTED BANK AND POSTAL ACCOUNTS	4,170	4,170
SHORT-TERM NET FINANCIAL POSITION	59,923	54,841
FINANCIAL RECEIVABLES DUE FROM OTHERS	49	17
DERIVATIVES RECEIVABLES	–	199
FINANCIAL ASSETS	49	216
TOTAL CURRENT FINANCIAL ASSETS	59,972	55,057
PAYABLES DUE TO OTHER LENDERS	(237)	(237)
PAYABLES DUE TO GROUP COMPANIES	(353)	(240)
BANK PAYABLES	(42,703)	(50,859)
DERIVATIVES PAYABLES	(1,844)	(5,362)
TOTAL CURRENT FINANCIAL LIABILITIES	(45,137)	(56,698)
PAYABLES DUE TO OTHER LENDERS	(4,840)	(947)
PAYABLES DUE TO PARENT COMPANIES	(284,431)	(118,802)
BANK PAYABLES	(379,416)	(169,647)
DERIVATIVES PAYABLES	(28,190)	–
TOTAL NON-CURRENT FINANCIAL LIABILITIES	(696,877)	(289,396)
NET FINANCIAL POSITION	(682,042)	(291,037)

For the sake of expository clarity, we mention that, with a view to comparing the consolidated financial statements as at 31 December 2010 and 31 December 2009, in ERG Renew's consolidated Statement of financial position at 31 December 2010 the following reclassifications, not reflected in the net financial position, have been shown as at 31 December 2009:

- reclassification of EUR 199 thousand from the item "Derivatives receivables" under Current assets to the corresponding item of Non-current assets, in order to take account of the effective terms for settlement of such receivable;
- reclassification of EUR 3,518 thousand from the item "Derivatives payables" under Current liabilities to the corresponding item of Non-current liabilities, in order to take account of the effective terms for settlement of such payable.

The aforesaid reclassifications did not determine any effect on the year's result or on shareholders' equity at 31 December 2009 as shown in the Consolidated Annual Financial Statements approved by the Corporate Bodies.

The trend in net financial position is commented on in the Management Report and in the Statement of Cash Flows.

During the first six months of 2010 the loan agreement entered into by the company Green Vicari S.r.l. was subject to renegotiation, with consequent amendment to the maturity for repayment of the Anticipation line, which moved from short term to medium/long term, assuming the same repayment terms as the Supplementary Line.

The increase in net financial debt is due above all to the acquisition of ERG Eolica Adriatica S.r.l. whose net financial position at 31 December 2010 amounted to EUR 210 million.

Moreover, again as a consequence of acquisition of the 100% equity interest in ERG Eolica Adriatica S.r.l., ERG S.p.A. extended the line of credit in favour of ERG Renew by EUR 80 million; the impact of this extension of credit line on net financial debt at 31 December 2010 amounted to EUR 71 million.

The said Group net financial position is set out in accordance with CONSOB recommendations contained in Circular 6064293 of July 2006:

DESCRIPTION		12/31/2010	12/31/2009
A CASH	(1)	74,823	58,165
B OTHER LIQUID ASSETS	(1)	-	-
C SECURITIES HELD FOR TRADING	(1)	-	-
D CASH AND CASH EQUIVALENTS (A) + (B) + (C)		74,823	58,165
E CURRENT FINANCIAL RECEIVABLES		49	216
F CURRENT BANK PAYABLES	(2)	14,900	3,324
G CURRENT PORTION OF NON-CURRENT DEBT		45,137	56,698
H OTHER CURRENT FINANCIAL PAYABLES		-	-
I CURRENT FINANCIAL DEBT (F)+(G)+(H)		60,037	60,022
J NET CURRENT FINANCIAL DEBT (I)-(E)-(D)		(14,835)	1,641
K NON-CURRENT FINANCIAL RECEIVABLES		-	-
L NON-CURRENT BANK PAYABLES		379,416	169,647
M BONDS ISSUED		-	-
N OTHER NON-CURRENT PAYABLES		317,461	119,749
O NON-CURRENT FINANCIAL DEBT (L)+(M)+(N)		696,877	289,396
P NET FINANCIAL DEBT (J)-(K)+(O)		682,042	291,037
RECONCILIATION WITH THE STATEMENT OF CASH FLOWS AND STATEMENT OF FINANCIAL POSITION:			
(1) CASH AND CASH EQUIVALENTS		74,823	58,165
(2) BANK PAYABLES		14,900	3,324

INCOME STATEMENT ANALYSIS

In accordance with IFRS 5, the comparative Income Statement for FY09 shows, under the item "Net profit (loss) from discontinued operations", the costs and revenues, income and charges pertaining to the companies sold as part of the disposal operation commented in the above section "Extraordinary transactions" which, in the FY2009 annual consolidated Income Statement, were classified, according to their nature, under costs and revenues, income and charges from ongoing operations.

Moreover, the FY2010 economic result pertaining to the sold companies has been classified, again in accordance with the provisions set forth by IFRS 5, under the item "Net profit (loss) from discontinued operations" (Note 33). As a result all the corresponding items shown in the Consolidated Statement of Cash Flows at 31 December 2009 have been restated.

24 – PRODUCTION VALUE

The value shown in the financial statements can be broken down as follows:

	2010	2009
OPERATING REVENUES	72,667	49,915
OTHER REVENUES AND INCOME	2,011	4,560
TOTAL	74,678	54,475

Operating revenues

	2010	2009
REVENUES FROM SALES AND SERVICES	42,937	31,317
OTHER OPERATING REVENUES	29,730	18,598
TOTAL	72,667	49,915

ERG Eolica Adriatica S.r.l. contributed the amount of EUR 15.2 million to group revenues.

"Revenues from sales and services" include the amount of EUR 3,073 thousand paid by Terna to subsidiaries ERG Eolica San Cireo S.r.l., ERG Eolica San Vincenzo S.r.l., ERG Eolica Faeto S.r.l. and ERG Eolica Adriatica S.r.l. in connection with the reduction in electricity output owing to problems on the national transmission grid in Puglia and Sicily.

Reference is made to the Management Report for a more complete analysis of the trend in revenues from sales and services.

Operating revenues can be broken down between the Group's business sectors as follows:

	2010	2009
WIND – SALE OF ELECTRICITY	34,596	24,497
WATER SERVICES	8,341	6,820
TOTAL REVENUES FROM SALES AND SERVICES	42,937	31,317
WIND – GREEN CERTIFICATES	29,219	18,347
OTHER	511	251
TOTAL OTHER OPERATING REVENUES	29,730	18,598
TOTAL OPERATING REVENUES	72,667	49,915

The item "Wind – Green certificates" refers to the value assigned to green certificates matured by the Group in FY2010 as regards the output of the Troia San Vincenzo (Foggia), Troia San Cireo (Foggia), Viticuso - Vallerotonda (Frosinone), Pian dei Corsi e Baltera (Savona), Vicari (Palermo), Faeto (Foggia) Ascoli Satriano (Foggia) and Rotello (Campobasso) wind farms – the latter two owned by the company ERG Eolica Adriatica S.r.l. acquired on 23 July 2010 – for a total number of 331,498 green certificates. The per unit value assigned to the green certificates, as estimated under the aforesaid Decree, is 87.25 EUR/MWh, as more clearly analysed in the Management Report and in the above section "Use of estimates".

Other revenues and income

The reported amount is broken down as follows:

	2010	2009
OPERATING SUBSIDIES	387	515
INDEMNITIES	859	682
OTHER INCOME	765	3,363
TOTAL	2,011	4,560

"Indemnities", considered income of a non-recurring nature, concern insurance reimbursements for the damage incurred by some French wind farms and by ERG Eolica San Cireo S.r.l. and ERG Eolica San Vincenzo S.r.l., settlement of which took place during the year.

We mention that "Other income" in 2010 included an indemnity, under a settlement agreement, amounting to EUR 1,119 thousand as compensation for damage incurred by ERG Eolica San Cireo S.r.l. in connection with the construction of a long-distance power line and non-recurring income of EUR 682 thousand as insurance indemnity paid for the damage incurred by subsidiary DSI S.r.l.

A breakdown of the amounts relating to transactions with Group companies is summarised in Note 37 "Related-party transactions".

25 – SERVICES

The reported amount is broken down as follows:

	2010	2009
SERVICES	12,177	11,636
UTILITIES	452	439
SUNDRY COSTS	7,469	6,647
RENT, LEASE AND SIMILAR	3,935	3,050
TOTAL	24,033	21,772

The increase in the items “Services” and “Rent, lease and similar” essentially concerns the growth in the wind business, the charges pertaining to ERG Eolica Adriatica S.r.l. (EUR 2.1 million) acquired during the current financial year and the rise in technical, legal and financial advisory costs.

The item “Services” includes advisory costs, amounting to EUR 1.9 million, of which EUR 1 million is ascribable to the acquisition of the company ERG Eolica Adriatica S.r.l. (see section “Extraordinary transactions”) and EUR 0.9 million relates to other extraordinary operations being conducted and evaluated by the Company.

“Sundry costs” mainly concern operating expenses for the upkeep and routine maintenance of the industrial sites, insurance costs, municipal commission and other expense categories and minor charges directly related to operating activities. The overall increase in the aforesaid costs is essentially due to the above mentioned growth in the wind sector business.

26 – PERSONNEL EXPENSES

The reported amount is broken down as follows:

	2010	2009
SALARIES AND WAGES	3,552	4,054
SOCIAL SECURITY EXPENSES	1,055	1,271
EMPLOYEES' SEVERANCE INDEMNITIES	246	265
OTHER COSTS	278	301
TOTAL	5,131	5,891

The decrease in personnel expenses is mainly due to the fact that, starting from FY2010, no provisions were set aside for stock options following the conclusion of the vesting period.

27 – OTHER OPERATING EXPENSES

The reported amount is broken down as follows:

	2010	2009
INDIRECT TAXES	1,370	1,045
OTHER PROVISIONS	2,749	1,497
WRITE-DOWNS OF RECEIVABLES	1,000	–
OTHER OPERATING EXPENSES	1,331	661
TOTAL	6,450	3,203

The increase in “Other operating expenses” is essentially ascribable to (i) the provision of EUR 2,100 thousand set aside by Green Vicari S.r.l. to cover the potential risk of extraordinary interventions at the wind farms owned by same; (ii) the provision of EUR 0.2 million set aside by ERG Eolica Adriatica to cover extraordinary interventions to be carried out at the wind farm following a landslide and (iii) the write-down of EUR 1 million as regards receivables due from the promoters of the Nurra wind farm. Additional information concerning the aforesaid amounts is provided in the section “Use of estimates”.

28 – AMORTISATION AND DEPRECIATION

The reported amount is broken down as follows:

	2010	2009
AMORTISATION OF INTANGIBLE FIXED ASSETS	4,350	2,677
DEPRECIATION OF TANGIBLE FIXED ASSETS	25,592	20,107
TOTAL	29,942	22,784

The growth in depreciation over FY2009 reflects the full year of depreciation in 2010 as regards the ERG Eolica Faeto wind farm, which came on stream during FY2009, the coming on stream of the Eoliennes du Vent Solaire S.a.s. wind farm (EUR 0.6 million), and the impact of the change in scope of consolidation (EUR 5.9 million).

29 – WRITE-DOWNS AND PROVISIONS

The reported amount is broken down as follows:

	2010	2009
WRITE-DOWN OF FIXED ASSETS	19,527	13,121
TOTAL	19,527	13,121

Reference is made to the section “Use of estimates” for details concerning impairment tests.

30 – NET FINANCIAL INCOME (EXPENSES)

The reported balance includes:

	2010	2009
FINANCIAL INCOME	3,299	2,841
FINANCIAL EXPENSES	(18,605)	(14,133)
TOTAL	(15,306)	(11,292)

Financial income

	2010	2009
INTEREST AND COMMISSION FROM BANKS	3,145	2,424
INTEREST AND COMMISSION FROM OTHERS	69	387
INTEREST FROM GROUP COMPANIES	85	30
TOTAL	3,299	2,841

It is important to note that the balance of “Interest and commission from others” as at 31 December 2009 included income of EUR 338 thousand relating to the favourable arbitration award in connection with ERG Renew S.p.A.’s acquisition of a 100% equity interest in DSI S.r.l.

The item “Interest and commission from banks” almost entirely refers to the company ERG Eolica Adriatica (EUR 2 million), and concerns the income from valuation of the ineffective portion of derivatives (charges of EUR 1.2 million) and the measurement of the fair value of the speculative portion of such derivatives at 31 December 2010 (income of EUR 1.7 million).

Financial expenses

	2010	2009
INTEREST PAYABLE TO OTHERS	10,871	11,544
INTEREST PAYABLE TO GROUP COMPANIES	6,416	2,383
WRITE-DOWN OF FINANCIAL RECEIVABLE DUE FROM A GROUP COMPANY	1,267	–
BANK CHARGES AND COMMISSION	51	206
TOTAL	18,605	14,133

The significant rise in “Interest payable to Group companies” concerns above all the increase in debt vis-à-vis the parent company ERG S.p.A. as a result of the credit line described in Note 16.

Details of all financial income and expenses vis-à-vis Group companies are provided in Note 37 “Related-party transactions”.

The consolidation of ERG Eolica Adriatica S.r.l. accounted for EUR 5.4 million.

The “Write-down of financial receivable due from a Group company” amounting to EUR 1,267 thousand refers to the loan granted to the company CITA S.a.s. which was written down as at 31 December 2010 based on the considerations indicated in the Management Report and in the section “Use of estimates”.

31 – INCOME (LOSS) FROM EQUITY INVESTMENTS

The reported balance includes:

	2010	2009
VALUATION USING THE EQUITY METHOD	(674)	(724)
WRITE-DOWN OF "OTHER EQUITY INVESTMENTS"	–	(3,152)
TOTAL	(674)	(3,876)

The item "Valuation using the equity method" includes the valuation at equity of the companies CITA S.a.s. and ISAB Energy Solare S.r.l.

Reference is made to the section "Use of estimates" for considerations concerning the write-down of equity investments.

32 – INCOME TAXES

Italian income taxes are calculated on estimated taxable income for the year, according to the rates currently prevailing, based on present regulations and the domestic tax consolidation system. Taxes for other jurisdictions are calculated according to the tax rates applicable in the countries concerned.

The reported amount is broken down as follows:

	2010	2009
CURRENT INCOME TAXES	(1,482)	(636)
PRIOR YEAR TAX ADJUSTMENTS	99	(270)
DEFERRED INCOME TAXES	11,725	3,376
TOTAL	10,342	2,470

The significant rise in deferred tax assets reflects the "Tremonti-ter" tax relief calculated by ERG Eolica Ginestra S.r.l., the impact of which on the Income Statement amounted to EUR 7.1 million as described in the section "Use of estimates".

The reconciliation between the tax liability reported in the consolidated financial statements and the theoretical tax liability, based on the theoretical tax rates prevailing in Italy, is as shown below:

	TAXABLE AMOUNT	TAX
IRES (CORPORATION TAX)		
PROFIT BEFORE TAXES	(26,929)	
THEORETICAL IRES TAXATION AT 27.5%		-
IMPACT OF PERMANENT TAX ADJUSTMENTS AND CONSOLIDATION ADJUSTMENTS NOT RELEVANT TO THE CALCULATION OF TAXES		-
CURRENT IRES		-
DEFERRED IRES		11,725
CURRENT AND DEFERRED IRES		11,725
IRAP (REGIONAL TAX)		
EBIT	(10,949)	
PERSONNEL EXPENSES AND WRITE-DOWNS	25,332	
TOTAL	14,383	
THEORETICAL IRAP TAXATION AT 3.9%		(561)
IRAP RATE INCREASED FOR SOME COMPANIES		-
IMPACT OF PERMANENT TAX ADJUSTMENTS AND CONSOLIDATION ADJUSTMENTS NOT RELEVANT TO THE CALCULATION OF TAXES		(921)
CURRENT AND DEFERRED IRAP		(1,482)
TOTAL THEORETICAL TAXES		(561)
TOTAL IRES AND IRAP PER FINANCIAL STATEMENTS		10,243
TAXES FROM PREVIOUS YEAR		99
TOTAL TAXES AS REPORTED IN FINANCIAL STATEMENTS		10,342

33 – NET PROFIT (LOSS) FROM DISCONTINUED OPERATIONS

The net profit (loss) from discontinued operations can be broken down as follows:

	2010
CAPITAL GAIN ON SALE OF ECOPOWER S.R.L.	23
NET PROFIT (LOSS) FOR THE YEAR – ECOPOWER S.R.L.	(72)
WRITE-DOWN OF NON-CURRENT ASSETS – ECOPOWER S.R.L.	(49)
CAPITAL LOSS ON SALE OF I.S.E.A. S.R.L.	(456)
NET PROFIT (LOSS) FOR THE YEAR – I.S.E.A. S.R.L.	(159)
WRITE-DOWN OF NON-CURRENT ASSETS – I.S.E.A. S.R.L.	(615)
EARN-OUT ON ACEA SALE	1,617
TOTAL	953

The net profit (loss) from discontinued operations detailed above includes the capital gains and write-downs of non-current assets relating to the sale of companies operating in the mini-hydro sector (see transactions described in the foregoing section “Extraordinary transactions”).

Moreover, the net profit (loss) from discontinued operations includes the recognition, on the part of the company ACEA S.p.A. in favour of ERG Renew S.p.A., of an additional price arising from the sale of TAD Energia Ambiente, which took place in FY2006. This additional price was regulated by the original contract of sale entered into between ACEA S.p.A. and ERG Renew S.p.A., during the course of 2006, relating to the sale of ERG Renew S.p.A.’s investee companies operating in the waste-to-energy sector. The arbitration award issued on 20 January 2010 confirmed the obligation for ACEA S.p.A. to pay the additional price. Following the agreements reached with ACEA after the aforesaid arbitration award had been issued, the earn-out was settled between the parties in July 2010 for the amount of EUR 1,617 thousand and was considered as non-recurring income.

Lastly, we report that the net profit (loss) from discontinued operations in FY2009, corresponding to an overall negative amount of EUR 2,181 thousand, briefly includes, in application of IFRS 5, the costs and revenues, income and charges pertaining to the companies sold as part of the sale transaction commented above in the section “Extraordinary transactions”; which in the 2009 annual consolidated Income Statement had been classified, according to their nature, under costs and revenues, income and charges from continuing operations.

OTHER INFORMATION

34 – INFORMATION BY BUSINESS DIVISION AND GEOGRAPHICAL AREA

Even after the transaction concerning the sale of subsidiaries operating in the mini-hydro sector (see section "Extraordinary transactions"), the Group is active in the sectors of energy generation from renewable sources (wind power) and water services.

For management control purposes the Group is currently organised into two operating areas. These divisions form the basis on which the Group reports business segment information.

The Income Statement by business segment and the related financial information have been modified and restated. With the application of IFRS 5, the costs and revenues, income and charges for FY2009 pertaining to the companies sold as part of the extraordinary operation, previously classified, according to their nature, under costs and revenues, income and charges from continuing operations, are now briefly included under "Net profit (loss) from discontinued operations".

Business segment reporting - FY2010

FY2010	WIND	WATER SERVICES	NOT ALLOCATED	TOTAL
NET REVENUES FROM ORDINARY OPERATIONS	64,773	9,121	4,307	78,201
LESS: INTERDIVISIONAL REVENUES	(958)	(780)	(3,796)	(5,534)
REVENUES FROM THIRD PARTIES	63,815	8,341	511	72,667
EBITDA	46,417	2,012	(9,909)	38,520
AMORTISATION, DEPRECIATION AND WRITE-DOWNS	(48,869)	(491)	(109)	(49,469)
EBIT	(2,452)	1,521	(10,018)	(10,949)
INVESTMENTS IN FIXED ASSETS ⁽¹⁾	88,206	339	409	88,954

(1) = relating to intangible and tangible assets

Business segment reporting - FY2009

FY2009	WIND	WATER SERVICES	NOT ALLOCATED	TOTAL
NET REVENUES FROM ORDINARY OPERATIONS	43,110	7,626	3,169	53,905
LESS: INTERDIVISIONAL REVENUES	(248)	(806)	(2,936)	(3,990)
REVENUES FROM THIRD PARTIES	42,862	6,820	233	49,915
EBITDA	31,932	1,060	(9,974)	23,018
AMORTISATION, DEPRECIATION AND WRITE-DOWNS	(22,243)	(13,561)	(101)	(35,905)
EBIT	9,689	(12,501)	(10,075)	(12,887)

FY2009	WIND	WATER SERVICES	MINI-HYDRO	NOT ALLOCATED	TOTAL
INVESTMENTS IN FIXED ASSETS ⁽¹⁾	86,283	1,940	243	295	88,761

(1) = relating to intangible and tangible assets

The financial performance of the business lines is described in detail in the Management Report, to which reference is made.

35 – EARNINGS PER SHARE

Basic earnings per share (EPS) is calculated using the following data:

	12/31/2010	12/31/2009
NET PROFIT (LOSS)		
NET PROFIT (LOSS) USED TO CALCULATE BASIC EARNINGS PER SHARE	(15,853)	(27,952)

	12/31/2010	12/31/2009
NUMBER OF SHARES		
WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES USED TO CALCULATE BASIC EARNINGS PER SHARE	132,666,675	132,666,675

36 – PROFESSIONAL SERVICES OF THE AUDITING FIRM DELOITTE & TOUCHE S.P.A.

In accordance with Article 149-duodecies of the Issuers' Regulations, the following table shows a detailed breakdown of services provided to Group companies during the year by the auditing firm Deloitte & Touche S.p.A.:

	DELOITTE & TOUCHE S.P.A.	OTHER COMPANIES BELONGING TO THE DELOITTE NETWORK
AUDITING SERVICES	268	75
SERVICES OTHER THAN AUDITING FOR THE ISSUANCE OF CERTIFICATION	16	–
OTHER SERVICES	100	–
TOTAL FEES	384	75

The item "Auditing services" refers to activities regarding certification of the Consolidated and Separate annual and interim Financial Reports and accounting control during the year performed by Deloitte & Touche S.p.A. and its French correspondents.

"Services other than auditing for the issuance of certification" performed by Deloitte & Touche S.p.A. refer to auditing activities connected with the review of the Separate Annual Accounts for the purposes set forth in resolution no. 11 dated 18 January 2007 of the Italian Authority for Electricity and Gas (Unbundling).

The item "Other services" mainly refers to two due diligence studies performed during FY2010.

37 – RELATED-PARTY TRANSACTIONS

The transactions taking place during the year between the Parent company and its subsidiaries – which are related parties of such Company – have been eliminated in the Consolidated Financial Statements and are not shown in these notes.

The Group receives from the parent company ERG S.p.A. services regulated by service contracts above all as regards administrative, financial and organisational activities, institutional and international relations, assistance with extraordinary operations, corporate affairs and planning and control as well as charges for the use of the computer system and office rental. These activities, covered by service contracts, are performed in a coordinated

manner with the organisation of the ERG Renew Group, which in any case maintains its own contractual autonomy vis-à-vis its suppliers, and can be itemised as follows:

- Administration and Fiscal provides for the operational coordination of financial reporting activities, fiscal policies as well as activities intended to implement and activate the Group administrative processes for the correct application of accounting policies and supports the ERG Renew Group in the protection of its assets;
- Finance intended as support for treasury analysis and reporting operations as well as activities concerning the handling of relations with the banking and financial system, also for the granting of possible public subsidies for new investments;
- Risk Management supports and assists top management in defining risk management policies in observance of risk-related Group Policies, and supports the corporate functions in their identification, prevention, reduction and hedging of critical risks for the business in relation to the Group's tangible and intangible assets using, where necessary, the consultancy and intermediation of the insurance broker or specialised consultants and defines and implements guidelines for the identification, handling and periodic review of all categories of risk associated with the Group's industrial and financial activities;
- Audit monitors the controls exercised by management in order to assess the adequacy of the control systems put in place and the results obtained by way of their application. It verifies and evaluates the correct application of corporate policies, procedures and bookkeeping with a view to furnishing useful suggestions for carrying out management control activities;
- Corporate Security supports the company's Management in protecting its tangible/intangible assets against internal/external risks or attacks of an intentional nature, analysing the areas of exposure and defining appropriate security management strategies and policies;
- Planning develops the medium and long-term scenarios (and related sensitivities), supporting the Businesses' Forecasting, Budgeting and Planning operations; it also develops and evaluates, in collaboration with the Functions concerned, strategic studies and projects (for example, Italian and international market analyses, support for identification of new business opportunities, studies and projects with regard to technological innovation in the sector of renewable energy sources); it also collaborates with the Functions concerned for the definition and maintaining of asset evaluation methodologies and tools, and provides the required support for the evaluation of specific initiatives, monitoring the consistency of same with respect to the Group business model;
- Merger & Acquisition provides support for the evaluation and development of new business opportunities, also researching and analysing potential partnerships, and guarantees an activity of support for the competent functions as regards technical, economic, financial pre-feasibility analysis; in the subsequent phases of opportunity development, it also provides support with definition and optimisation of the "business model" in close coordination with the competent divisions. It provides support for the management of tenders during the "due diligence" phase (coordination of the project team and advisors, handling of relations with the counterparty), and for the finalisation of project documentation, in close coordination with top management and with the individual divisions concerned;
- Institutional and International Relations promotes and implements all reasonable initiatives designed to minimise risks and remove the causes that might jeopardise the health and safety of own employees as well as the local community in the area where operations are carried out; it develops a relationship of constructive cooperation, imbued with utmost transparency and trust, both within its own organisation and with the external community and the Institutions in the handling of issues relating to Health, Safety and the Environment;
- Communications realises and implements the Group's editorial line (in paper and electronic format). It performs advisory activities and direct operational management of institutional communications events;

- Personnel promotes the definition and ensures implementation of personnel policies in keeping with the Group's strategic vision and encourages the involvement and participation of employees at all levels for the achievement of corporate objectives; it supports the realisation of organisational analyses aimed at optimising activities and staff; it provides support for the management and development of payroll programmes in accordance with legal, contractual and corporate requirements;
- Information Systems provides support for the development, management and maintenance of the corporate information system (comprising the processing, automation, control and telecommunications systems) in line with the most state-of-the-art information technologies; it ensures the methodological development and technical realisation of the information system, ensuring its management with a view to achieving the most suitable working conditions according to the skills available and the required service levels.

As compensation for the activities performed, for execution of the assignment on a continuous basis, the Group pays the amounts determined based on the standard average staff cost increased for accessory charges, general expenses, lump-sum reimbursement of costs incurred in carrying out the assignment and remuneration for services supplied. However, at the end of the year, in order to determine the changes to be made, if any, as an adjustment to the aforesaid fees estimated for 2010 and subsequent years in case of renewal, the ERG Group companies are required to furnish a schedule summarising the services performed. For activities performed in carrying out specific non-recurring tasks, as from time to time assigned, a sum will be paid upon completion as analytically calculated based on the time dedicated in terms of hours only as regards the head of the staff function concerned, valued at standard cost, plus reimbursement of expenses specifically incurred to perform the assignment.

During 2010 the amount of EUR 284,431 thousand was recorded on ERG Renew S.p.A.'s books, entirely in relation to a credit line granted by ERG S.p.A. to ERG Renew S.p.A. on 25 May 2009. More specifically, ERG S.p.A. committed to supporting ERG Renew S.p.A., during FY2009 and up to the amount of EUR 140 million, with financial backing, as necessary, for investments planned in 2009 and providing any funding requirements during such period for the ordinary and current operations of the Company and the Group.

The aforesaid line of credit includes a first tranche - line A (6-month Euribor plus a spread of 2%) for the amount of EUR 70 million - intended to finance 2009 investments and ERG Renew S.p.A.'s ordinary and current operations, and a second tranche - line B (6-month Euribor plus a spread of 1% up until 31 December 2009, 6-month Euribor plus a spread of 2% up to maturity on 31 December 2011) for an additional EUR 70 million - intended to permit the former subsidiaries of ERG Power & Gas S.p.A. to repay their financial debts vis-à-vis the latter.

With effect from 1 January 2010 ERG S.p.A. had decided to confirm, for FY2010, the financial support for ERG Renew S.p.A. required to implement the 2010 investment plan and cover operational needs, raising the financing amount, under a single line of credit, up to a maximum of EUR 231 million.

This line of credit, originally available until 31 December 2010 and subsequently extended until 31 December 2011, has been further extended until 31 December 2012, subject to further possible extensions to be agreed in writing between the parties. The rate is based on 6-month Euribor plus a spread of 2%.

In order to cover investments planned during FY2011 the parent company ERG S.p.A., in February 2011, formally committed to irrevocably renewing its financial support for ERG Renew, already undertaken in 2009 and 2010, increasing the credit line from EUR 231 million to 307 million.

Following the subsequent acquisition of the company ERG Eolica Adriatica S.r.l. (see section “Extraordinary transactions”), ERG S.p.A. raised the aforesaid credit line in favour of ERG Renew S.p.A. up to the overall amount of EUR 311 million, by granting ERG Renew an additional “Tranche B” up to a maximum amount of EUR 80 million to be used exclusively for the acquisition of a 100% equity interest in the company in question as well as accessory costs, if any, related to the acquisition. This “Tranche B” will mature on 31 December 2015 with repayment in a lump sum on maturity, subject to ERG’s option to request early redemption thereof in the event of share capital increase transactions within ERG Renew, and a spread of 300 basis points with respect to Euribor. The Loan was subsequently granted by ERG Renew to ERG Eolica Italia S.r.l. at the same terms and conditions, with an increase of 5 basis points in the spread. At 31 December 2010 the amount of EUR 71 million had been utilised under the credit line.

Moreover, during the current year, the Group (i) performed technical services for the parent company ERG S.p.A. (ii) charged back to the parent company ERG S.p.A. expenses totalling EUR 487 thousand in connection with the secondment of personnel during 2010.

The detail of the remaining transactions between the Group and other related parties is shown below:

FINANCIAL DATA

FY2010

	TRADE		FINANCIAL		OTHER	
	RECEIVABLES	PAYABLES	RECEIVABLES	PAYABLES	RECEIVABLES	PAYABLES
PARENT COMPANIES						
ERG S.P.A.	140	402	–	284,551	3,698	181
TOTAL PARENT COMPANIES	140	402	–	284,551	3,698	181
SUBSIDIARIES						
EOLICO AGIRA S.R.L.	1	–	–	20	–	–
EOLICO MIRABELLA S.R.L.	–	–	1	–	–	–
EOLICO PALAGONIA S.R.L.	1	–	–	32	–	–
EOLICO RAMACCA S.R.L.	1	–	–	84	–	–
EOLICO TROINA S.R.L.	–	–	–	97	–	–
TOTAL SUBSIDIARIES	3	–	1	233	–	–
JOINTLY CONTROLLED COMPANIES						
ISAB ENERGY SOLARE S.R.L.	47	–	1,781	–	–	–
TOTAL JOINTLY CONTROLLED COMPANIES	47	–	1,781	–	–	–
GROUP COMPANIES						
ERG NUOVE CENTRALI S.P.A.	1	–	–	–	–	–
ERG OIL SICILIA S.R.L.	–	20	–	–	–	–
TOTAL GROUP COMPANIES	1	20	–	–	–	–

Insofar as concerns financial payables due to Parent and other Group companies reference is made to Note 16 “Financial liabilities”.

We report that regarding the company ATE S.r.l., owner of a 49% stake in Eolo S.r.l., the Group has recorded a financial payable of EUR 62 thousand as described in Note 16 “Financial liabilities”.

FY2009

	TRADE		FINANCIAL		OTHER	
	RECEIVABLES	PAYABLES	RECEIVABLES	PAYABLES	RECEIVABLES	PAYABLES
PARENT COMPANIES						
ERG S.P.A.	475	196	-	118,802	1,741	21
TOTAL PARENT COMPANIES	475	196	-	118,802	1,741	21
ASSOCIATE COMPANIES						
CITA S.A.S.	-	-	-	-	763	-
TOTAL ASSOCIATE COMPANIES	-	-	-	-	763	-
SUBSIDIARIES						
EOLICO AGIRA S.R.L.	1	-	36	-	-	-
EOLICO MIRABELLA S.R.L.	2	-	-	8	-	-
EOLICO PALAGONIA S.R.L.	1	-	31	-	-	-
EOLICO RAMACCA S.R.L.	1	-	-	23	-	-
EOLICO TROINA S.R.L.	-	-	-	19	-	-
TOTAL SUBSIDIARIES	5	-	67	50	-	-
GROUP COMPANIES						
ERG NUOVE CENTRALI S.P.A.	1	-	-	-	-	-
ERG POWER & GAS S.P.A.	168	2,805	-	-	-	-
ERG RAFFINERIE MEDITERRANEE S.P.A.	23	-	-	-	-	-
GREEN VICARI S.R.L.	-	-	-	240	-	-
ISAB ENERGY S.R.L.	1	-	-	-	-	-
TOTAL GROUP COMPANIES	193	2,805	-	240	-	-

PROFIT AND LOSS DATA

Economic transactions are carried out at values in keeping with those of the market. In FY2010 these services related mainly to administration and human resources management services. The FY2009 profit and loss data have been modified and restated to take account of the transaction for the sale of subsidiaries operating in the mini-hydro sector, as previously mentioned in the section "Extraordinary transactions".

FY2010

	REVENUES FROM SALES AND SERVICES	OTHER REVENUES AND INCOME	PURCHASING COSTS	COSTS FOR SERVICES	FINANCIAL INCOME	FINANCIAL EXPENSES
PARENT COMPANIES						
ERG S.P.A.	345	142	-	3,379	-	6,416
TOTAL PARENT COMPANIES	345	142	-	3,379	-	6,416
ASSOCIATE COMPANIES						
CITA S.A.S.	-	-	-	-	40	-
TOTAL ASSOCIATE COMPANIES	-	-	-	-	40	-
JOINTLY CONTROLLED COMPANIES						
ISAB ENERGY SOLARE S.R.L.	50	-	-	-	45	-
TOTAL JOINTLY CONTROLLED COMPANIES	50	-	-	-	45	-
SUBSIDIARIES						
EOLICO AGIRA S.R.L.	2	-	-	-	-	-
EOLICO PALAGONIA S.R.L.	1	-	-	-	-	-
EOLICO RAMACCA S.R.L.	1	-	-	-	-	-
TOTAL SUBSIDIARIES	4	-	-	-	-	-
GROUP COMPANIES						
ERG OIL SICILIA S.R.L.	-	2	-	-	-	-
ERG PETROLI S.P.A.	-	-	28	-	-	-
TOTALERG S.P.A.	-	-	9	-	-	-
TOTAL GROUP COMPANIES	-	2	37	-	-	-

FY2009

	REVENUES FROM SALES AND SERVICES	OTHER REVENUES AND INCOME	PURCHASING COSTS	COSTS FOR SERVICES	FINANCIAL INCOME	FINANCIAL EXPENSES
PARENT COMPANIES						
ERG S.P.A.	229	395	–	2,229	–	1,328
TOTAL PARENT COMPANIES	229	395	–	2,229	–	1,328
ASSOCIATE COMPANIES						
CITA S.A.S.	–	–	–	–	29	–
TOTAL ASSOCIATE COMPANIES	–	–	–	–	29	–
SUBSIDIARIES						
EOLICO AGIRA S.R.L.	6	–	–	–	–	–
EOLICO MIRABELLA S.R.L.	3	–	–	–	–	–
EOLICO PALAGONIA S.R.L.	3	–	–	–	1	–
EOLICO RAMACCA S.R.L.	2	–	–	–	–	–
EOLICO TROINA S.R.L.	2	–	–	–	–	–
TOTAL SUBSIDIARIES	16	–	–	–	1	–
GROUP COMPANIES						
ERG NUOVE CENTRALI S.P.A.	2	–	–	–	–	–
ERG PETROLI S.P.A.	–	–	28	50	–	–
ERG POWER & GAS S.P.A.	–	320	–	1,717	–	1,055
ISAB ENERGY S.R.L.	4	–	–	–	–	–
TOTAL GROUP COMPANIES	6	320	28	1,767	–	1,055

38 – REMUNERATION OF DIRECTORS AND GENERAL MANAGERS

The remuneration paid during the year to Directors and General Managers is shown in the following table:

	2010	2009
REMUNERATION	871	851
NON-MONETARY BENEFITS	10	–
OTHER BENEFITS	24	164
TOTAL	905	1,015

The fees paid to Directors are established by the Remuneration Committee. Details of such fees are shown in the Explanatory Notes to the Separate Financial Statements of the consolidating company ERG Renew S.p.A., presented together with these consolidated financial statements.

39 – COMMITMENTS AND CONTINGENT LIABILITIES

The total value of overall commitments of the Group's companies at the end of the reporting period amounted to EUR 41,129 thousand. The breakdown was as follows:

- EUR 11,500 thousand mostly related to the guarantees issued by Group companies as regards the supply contracts connected with construction of the wind farms;
- EUR 9,066 thousand related to the guarantees issued by Group companies, based on current regulations, in favour of the Fiscal Revenues Agency (Agenzia delle Entrate) and the competent VAT offices;
- EUR 17,208 thousand related to the guarantees issued by Group companies in favour of various public entities in connection with operating activities in the water services and wind sectors;
- EUR 3,355 thousand related to guarantees issued in favour of HSH Nordbank AG in connection with ongoing project financings pertaining to the French wind farms.

40 – HEADCOUNT

The Group's average headcount is set out in the following table:

	12/31/2010	12/31/2009
EXECUTIVES	6	9
WHITE-COLLAR WORKERS	69	63
TOTAL	75	72

41 – RISK DISCLOSURE

Set out below is the breakdown of financial assets and liabilities as required by IFRS 7 according to the categories envisaged by IAS 39.

FY2010

	NOTES	12/31/2010	LOANS & RECEIVABLES	HEDGING DERIVATIVES	HT M
ASSETS					
FINANCIAL ASSETS	4	725	725	–	–
OTHER RECEIVABLES	5	14,852	14,852	–	–
DERIVATIVES RECEIVABLES	17	172	–	172	–
TOTAL NON-CURRENT FINANCIAL ASSETS		15,749	15,577	172	–
TRADE RECEIVABLES	8	19,686	19,686	–	–
CASH AND CASH EQUIVALENTS	12	74,823	74,823	–	–
TOTAL CURRENT FINANCIAL ASSETS		94,509	94,509	–	–
TOTAL FINANCIAL ASSETS		110,258	110,086	172	–

HT M: held to maturity

	NOTES	12/31/2010	LIABILITIES AT AMORTISED COST	HEDGING DERIVATIVES	HT M
LIABILITIES					
FINANCIAL PAYABLES NET OF CURRENT PORTION	16	384,256	384,256	-	-
DERIVATIVES PAYABLES	17	28,190	-	26,288	-
TOTAL NON-CURRENT FINANCIAL LIABILITIES		412,446	384,256	26,288	-
CURRENT PORTION OF FINANCIAL PAYABLES	16	58,194	58,194	-	-
DERIVATIVES PAYABLES	17	1,844	1,844	-	-
TRADE PAYABLES	20	14,221	14,221	-	-
TOTAL CURRENT FINANCIAL LIABILITIES		74,259	74,259	-	-
TOTAL FINANCIAL LIABILITIES		486,705	458,515	26,288	-

HT M: held to maturity

FY2009

	12/31/2009	LOANS & RECEIVABLES	HEDGING DERIVATIVES	HT M
ASSETS				
FINANCIAL ASSETS	622	622	-	-
OTHER RECEIVABLES	9,248	9,248	-	-
TOTAL NON-CURRENT FINANCIAL ASSETS	9,870	9,870	-	-
TRADE RECEIVABLES	11,048	11,048	-	-
OTHER FINANCIAL RECEIVABLES	-	-	-	-
DERIVATIVES RECEIVABLES	199	-	199	-
CASH AND CASH EQUIVALENTS	58,165	-	-	-
TOTAL CURRENT FINANCIAL ASSETS	69,412	69,213	199	-
TOTAL FINANCIAL ASSETS	79,282	79,083	199	-

HT M: held to maturity

	12/31/2009	LIABILITIES AT AMORTISED COST	HEDGING DERIVATIVES	HT M
LIABILITIES				
FINANCIAL PAYABLES NET OF THE CURRENT PORTION	289,396	289,396	-	-
TOTAL NON-CURRENT FINANCIAL LIABILITIES	289,396	289,396	-	-
CURRENT PORTION OF FINANCIAL PAYABLES	54,660	54,660	-	-
DERIVATIVES PAYABLES	5,362	1,844	3,518	-
TRADE PAYABLES	52,430	52,430	-	-
TOTAL CURRENT FINANCIAL LIABILITIES	112,452	108,934	3,518	-
TOTAL FINANCIAL LIABILITIES	401,848	398,330	3,518	-

HT M: held to maturity

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

- Credit risk: the possibility of default by a counterparty or potential deterioration of the creditworthiness assigned;
- Market risk: deriving from exposure to fluctuations in interest rates;
- Liquidity risk: the risk that the financial resources available are insufficient to meet payment obligations;
- Operating risk: the risk of potential losses deriving from accidents, malfunctioning, plant breakdowns, exogenous events, with personal injuries and environmental damage, as well as inadequacy or improper functioning of procedures, human resources and internal management systems.

The Group attributes great importance to the management of risks and to control systems, as a means of guaranteeing efficient management of the risks undertaken. Consistently with this objective, a risk management system has been adopted with formalised strategies, policies and procedures that assure identification, measurement and control of the degree of exposure to individual risks at centralised level for the entire Group.

As regards exposure to the risk of offences pursuant to Legislative Decree no. 231/01, the Group's companies have adopted Organisation, Management and Control Models. These identify analytically the corporate activities where offences relating to the above mentioned regulation may occur. Specific operating protocols have been prepared in order to schedule development and implementation of the entity's decisions concerning the offences to be prevented.

The Group's companies have also set up Supervisory Committees, whose task is to periodically monitor mapping of the areas at risk of offences and carry out systematic checks to ascertain that the operating protocols contemplated in the Models are duly observed.

CREDIT RISK

Exposure to credit risk, inherent in the possibility of default by counterparties or deterioration of the creditworthiness assigned to same, is managed by means of appropriate analysis and evaluation of each individual counterparty.

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

The tables below provide information on the Group's exposure to credit risk as at 31 December 2010 and 31 December 2009:

	12/31/2010	30 DAYS	PAST DUE AGEING		
			60 DAYS	90 DAYS	MORE THAN 90 DAYS
NON-CURRENT FINANCIAL ASSETS NOT PAST DUE	15,749	–	–	–	–
TRADE RECEIVABLES	13,768	–	–	–	–
CASH AND CASH EQUIVALENTS	74,823	–	–	–	–
TOTAL CURRENT FINANCIAL ASSETS NOT PAST DUE	88,591	–	–	–	–
PAST DUE TRADE RECEIVABLES	12,587	–	–	–	–
BAD DEBT PROVISION	(6,670)	–	–	–	–
TOTAL PAST DUE CURRENT FINANCIAL ASSETS	5,917	2	178	104	5,633
TOTAL FINANCIAL ASSETS	110,257	2	178	104	5,633

Trade receivables more than 90 days past due in the amount of EUR 5,917 thousand mainly comprise Group receivables acquired by the Group from the company ACEA S.p.A. following partial execution of the arbitration award; for considerations concerning the credit risk connected with these positions reference is made to the detailed description provided in the above section "Use of estimates – write-down of receivables".

	12/31/2009	PAST DUE AGEING			
		30 DAYS	60 DAYS	90 DAYS	MORE THAN 90 DAYS
NON-CURRENT FINANCIAL ASSETS NOT PAST DUE	9,870	-	-	-	-
TRADE RECEIVABLES	8,185	-	-	-	-
OTHER FINANCIAL RECEIVABLES	-	-	-	-	-
DERIVATIVES RECEIVABLES	199	-	-	-	-
CASH AND CASH EQUIVALENTS	58,165	-	-	-	-
TOTAL CURRENT FINANCIAL ASSETS NOT PAST DUE	66,549	-	-	-	-
PAST DUE TRADE RECEIVABLES	2,985	-	-	-	-
BAD DEBT PROVISION	(122)	-	-	-	-
TOTAL PAST DUE CURRENT FINANCIAL ASSETS	2,863	735	636	25	1,467
TOTAL FINANCIAL ASSETS	79,282	735	636	25	1,467

MARKET RISK

The Group's liabilities are primarily exposed to financial risks relating to changes in interest rates. In order to manage the risk of fluctuations in interest rates the Group uses derivatives, which mostly come under the contractual category of interest rate swaps. In particular, the Group's policy is to convert part of its variable interest-rate payables to a fixed interest rate in order to normalise financial expenditures. These instruments, being effective, have been designated as "cash flow hedges" with the exception, as previously mentioned, of part of the IRS derivatives pertaining to the company ERG Eolica Adriatica S.r.l. which are not considered as hedging instruments and whose impact on the Income Statement amounts to a financial charge of EUR 1.2 million. Reference is made to Note 17 "Derivatives receivables and payables" for a breakdown of the categories of instruments used, the reference notional value and the fair value at 31 December 2010.

The use of these instruments is centralised with the consolidating company ERG Renew S.p.A., which has the task of assessing the financial risks and defining the relevant hedging policies. ERG Renew S.p.A. operates directly on the market on behalf of the subsidiaries, which are then required to execute the contract. The derivative contracts are concluded with primary banks in order to reduce the risk of contractual non-performance. The Group does not use derivative instruments for trading purposes.

Exposure to the risk of interest rate movements has reached a significant level due to the development of project financing initiatives in some investee companies operating in the wind sector.

All the derivatives are measured at fair value, in accordance with IAS 39, corresponding to the Mark to Market value indicated by the reference market, and the fairness of same is verified by means of valuation models and instruments.

The Group has therefore defined a strategy to manage the interest rate risk that aims to normalise financial expenditure relating to interest rate movements. In FY2010 the Group's management of derivatives was consistent with the guidelines established in this strategy.

While, as mentioned, reference is made to Note 17 for information on outstanding derivatives contracts, set out below is an analysis of the impact on the pre-tax result (for the ineffective or trading portion) and on shareholders' equity (for the effective portion of the hedge) of the changes in fair value of the derivatives in the event of interest rate fluctuations of +/-1%, with all other variables remaining the same.

Impact on the Income Statement

	2010	2009
SHOCK UP (CHANGE IN INTEREST RATE + 1%)	5,976	356
SHOCK DOWN (CHANGE IN INTEREST RATE -1%)	1,210	(228)

Impact on shareholders' equity

	2010	2009
SHOCK UP (CHANGE IN INTEREST RATE + 1%)	15,468	1.487
SHOCK DOWN (CHANGE IN INTEREST RATE -1%)	(14,631)	(1.591)

LIQUIDITY RISK

Liquidity risk is the risk that financial resources may not be sufficient to cover all obligations falling due. The parent company ERG S.p.A. has formally given its unconditional commitment to support ERG Renew as regards its investments planned during FY2010 up to the maximum requirement of EUR 307 million (Note 16).

The following tables summarise the Group's financial liabilities as at 31 December 2010 and 31 December 2009 based on contractual payments not discounted to present value.

	12/31/2010	2 YEARS	3 YEARS	MATURITY 4 YEARS	5 YEARS	MORE THAN 5 YEARS
NON-CURRENT FINANCIAL LIABILITIES NOT PAST DUE	412,446	50,181	45,713	34,052	27,401	255,099
FINANCIAL PAYABLES MATURING DURING THE YEAR	58,194	-	-	-	-	-
DERIVATIVES PAYABLES	1,844	-	-	-	-	-
TRADE PAYABLES	14,221	-	-	-	-	-
TOTAL CURRENT FINANCIAL LIABILITIES NOT PAST DUE	74,259	-	-	-	-	-
TOTAL PAST DUE CURRENT FINANCIAL LIABILITIES	-	-	-	-	-	-
TOTAL FINANCIAL LIABILITIES	486,705	50,181	45,713	34,052	27,401	255,099

The financial liabilities not past due shown in the above table, solely for the purpose of IFRS 7 disclosure, also include the portion of interest to be paid in future years and, consequently, not yet included in the financial payable recognised at 31 December 2010. The total amount of interest on the payable not yet matured is EUR 17,287 thousand and was calculated utilising the latest variable interest rate available. We point out that, due to the hedging operations previously reported, the synthetic rate is fixed at the contractual conditions specific to each derivative.

Moreover, the financial liabilities not yet past due include payables connected with project financing contracts totalling EUR 393,074 thousand, to which the cash flows channelled from wind revenues are allocated.

The remaining financial liabilities not past due with respect to those indicated above are offset by the current assets analysed in the previous sub-section "Credit risk" with consequent overall financial equilibrium.

	12/31/2009	2 YEARS	3 YEARS	MATURITY		
				4 YEARS	5 YEARS	MORE THAN 5 YEARS
NON-CURRENT FINANCIAL LIABILITIES NOT PAST DUE	298,285	154,828	38,458	23,156	17,885	63,958
FINANCIAL PAYABLES MATURING DURING THE YEAR	55,906	-	-	-	-	-
DERIVATIVES PAYABLES	5,362	-	-	-	-	-
TRADE PAYABLES	52,430	243	-	-	-	169
TOTAL CURRENT FINANCIAL LIABILITIES NOT PAST DUE	113,698	243	-	-	-	169
TOTAL PAST DUE CURRENT FINANCIAL LIABILITIES	-	-	-	-	-	-
TOTAL FINANCIAL LIABILITIES	411,983	155,071	38,458	23,156	17,885	64,127

The financial liabilities not past due shown in the above table, solely for the purpose of IFRS 7 disclosure, also include the portion of interest to be paid in future years and, consequently, not yet included in the financial payable recognised at 31 December 2009. The total amount of interest on the payable not yet matured is EUR 10,135 thousand and was calculated utilising the latest variable interest rate available. We point out that, due to the hedging operations previously reported, the synthetic rate is fixed at the contractual conditions specific to each derivative.

Moreover, the financial liabilities not yet past due comprise payables connected with project financing contracts to which the cash flows channelled from wind revenues are allocated.

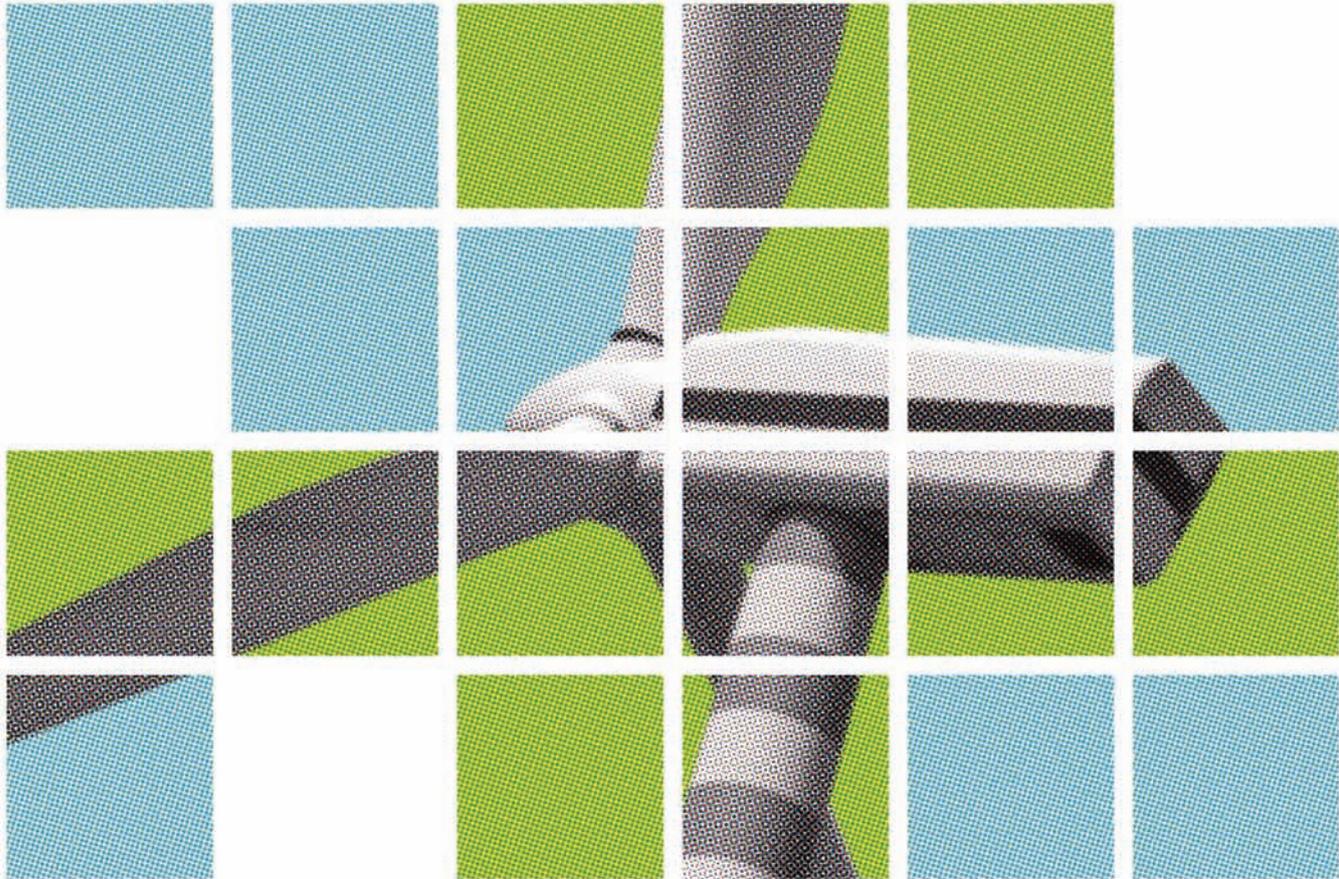
42 – PUBLICATION DATE OF FINANCIAL STATEMENTS

On 2 March 2011 the Board of Directors of ERG Renew S.p.A. authorised the publication of the Financial Statements, reserving the right to make formal additions and changes by the date of filing, to be carried out pursuant to Article 2429 of the Italian Civil Code.

These financial statements represent in a true and fair manner the Group's Statement of financial position, as well as the economic result for the year.

ERG RENEW S.P.A.

SEPARATE FINANCIAL STATEMENTS



(Translated from the original version issued in Italian language)

ERG RENEW S.P.A. STATEMENT OF FINANCIAL POSITION

(EUR THOUSAND)	NOTES	12/31/2010	12/31/2009
PROPERTY, PLANT AND EQUIPMENT	1	86	72
INTANGIBLE ASSETS	2	623	337
EQUITY INVESTMENTS IN SUBSIDIARIES AND ASSOCIATE COMPANIES	3	58,382	66,152
FINANCIAL RECEIVABLES DUE FROM SUBSIDIARIES	4	348,043	187,534
OTHER EQUITY INVESTMENTS	5	192	150
FINANCIAL ASSETS	6	725	622
DERIVATIVES RECEIVABLES	21	1	7
OTHER RECEIVABLES	7	1,784	50
TAX ASSETS	8	–	492
DEFERRED TAX ASSETS	9	3,946	4,176
NON-CURRENT ASSETS		413,782	259,592
TRADE RECEIVABLES	10	3,752	1,206
TRADE RECEIVABLES DUE FROM PARENT, SUBSIDIARY AND ASSOCIATE COMPANIES	11	7,005	4,269
FINANCIAL RECEIVABLES DUE FROM SUBSIDIARIES	12	–	8,212
OTHER RECEIVABLES	13	5,003	3,759
TAX ASSETS	14	1,127	1,020
AVAILABLE-FOR-SALE EQUITY INVESTMENTS	15	2	2
CASH AND CASH EQUIVALENTS	16	12,686	13,424
CURRENT ASSETS		29,575	31,892
ASSETS HELD FOR SALE		–	–
TOTAL ASSETS		443,357	291,484
SHAREHOLDERS' EQUITY		98,268	116,017
TOTAL SHAREHOLDERS' EQUITY	17	98,268	116,017
EMPLOYEES' SEVERANCE INDEMNITIES	18	182	143
PROVISIONS FOR LIABILITIES AND CHARGES	19	9,457	5,435
FINANCIAL PAYABLES NET OF CURRENT PORTION	20	19,500	28,700
FINANCIAL PAYABLES DUE TO PARENT COMPANIES NET OF CURRENT PORTION	20	284,431	118,802
NON-CURRENT LIABILITIES		313,570	153,080
FINANCIAL PAYABLES - CURRENT PORTION	20	23,509	12,524
DERIVATIVES PAYABLES	21	1,844	1,844
TRADE PAYABLES	22	3,310	1,761
OTHER PAYABLES	23	2,737	6,094
TAX LIABILITIES	24	119	164
CURRENT LIABILITIES		31,519	22,387
LIABILITIES HELD FOR SALE		–	–
TOTAL LIABILITIES		443,357	291,484

(Translated from the original version issued in Italian language)

ERG RENEW S.P.A. INCOME STATEMENT

(EUR THOUSAND)	NOTES	2010	2009
REVENUES FROM SALES AND SERVICES		4,256	3,169
OTHER OPERATING REVENUES AND INCOME		258	727
PRODUCTION VALUE	26	4,514	3,896
OPERATING COSTS			
RAW, ANCILLARY AND CONSUMABLE MATERIALS AND GOODS	27	(70)	(59)
SERVICES	28	(10,174)	(9,529)
PERSONNEL EXPENSES	29	(3,065)	(4,067)
OTHER OPERATING EXPENSES	30	(884)	(134)
AMORTISATION AND DEPRECIATION	31	(109)	(102)
EBIT		(9,788)	(9,995)
NET FINANCIAL INCOME/(EXPENSES) VIS-À-VIS THIRD PARTIES	32	(1,105)	(1,521)
NET FINANCIAL INCOME/(EXPENSES) VIS-À-VIS SUBSIDIARIES AND PARENT COMPANIES	33	763	1,623
NET INCOME (LOSS) FROM EQUITY INVESTMENTS	34	(9,769)	(14,825)
PROFIT (LOSS) BEFORE TAXES		(19,899)	(24,718)
INCOME TAXES	35	2,150	2,071
NET PROFIT (LOSS) FOR THE PERIOD		(17,749)	(22,647)

(Translated from the original version issued in Italian language)

ERG RENEW S.P.A. STATEMENT OF OTHER COMPONENTS OF COMPREHENSIVE INCOME

(EUR THOUSAND)	2010	2009
NET PROFIT (LOSS) FOR THE PERIOD	(17,749)	(22,647)
CHANGES IN CASH FLOW HEDGE RESERVE	-	66
INCOME TAX RELATING TO OTHER COMPREHENSIVE INCOME COMPONENTS	-	(20)
OTHER COMPONENTS OF COMPREHENSIVE NET PROFIT (LOSS)	-	46
COMPREHENSIVE NET PROFIT (LOSS)	(17,749)	(22,601)

ERG RENEW S.P.A. STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	SHARE CAPITAL	LEGAL RESERVE	OTHER RESERVES	PROFIT (LOSS) CARRIED FORWARD	PROFIT (LOSS) FOR THE YEAR	TOTAL SHAREHOLDERS' EQUITY
BALANCE AT 12/31/2008	132,667	1,388	58,540	(38,830)	(15,361)	138,404
ALLOCATION OF 2008 PROFIT (LOSS)	-	-	-	(15,361)	15,361	-
PERSONNEL EXPENSE FOR INCENTIVE PLANS	-	-	214	-	-	214
<i>PROFIT (LOSS) FOR THE PERIOD</i>	-	-	-	-	(22,647)	(22,647)
<i>CHANGE IN THE FAIR VALUE OF HEDGING DERIVATIVES</i>	-	-	46	-	-	46
COMPREHENSIVE NET PROFIT (LOSS)	-	-	46	-	(22,647)	(22,601)
BALANCE AT 12/31/2009	132,667	1,388	58,800	(54,191)	(22,647)	116,017
ALLOCATION OF 2009 PROFIT (LOSS)	-	-	-	(22,647)	22,647	-
COMPREHENSIVE NET PROFIT (LOSS)	-	-	-	-	(17,749)	(17,749)
BALANCE AT 12/31/2010	132,667	1,388	58,800	(76,838)	(17,749)	98,268

(Translated from the original version issued in Italian language)

ERG RENEW S.P.A. STATEMENT OF CASH FLOWS

(EUR THOUSAND)	2010	2009
OPERATING ACTIVITIES		
EBIT	(9,788)	(9,995)
ADJUSTMENTS FOR:		
DEPRECIATION OF TANGIBLE ASSETS	18	19
AMORTISATION OF INTANGIBLE ASSETS	91	83
INCOME/LOSSES FROM EQUITY INTERESTS	9,769	14,825
PROVISIONS FOR STAFF INCENTIVE PLANS	-	214
PROVISIONS	39	37
TOTAL ADJUSTMENTS	9,917	15,178
CHANGES IN WORKING CAPITAL		
(INCREASE)/DECREASE IN TRADE AND OTHER RECEIVABLES AND PAYABLES	(3,445)	4,698
(DECREASE) IN TRADE AND OTHER RECEIVABLES AND PAYABLES - SUBSIDIARIES	(4,132)	(13,298)
TOTAL CHANGE IN WORKING CAPITAL	(7,577)	(8,600)
CASH FLOW GENERATED FROM OPERATING ACTIVITIES	(7,448)	(3,417)
INTEREST PAID	(7,644)	(3,570)
NET CASH FLOW USED IN OPERATING ACTIVITIES	(15,092)	(6,987)
INVESTING ACTIVITIES		
INTEREST RECEIVED	7,302	3,672
(PURCHASE)/SALE OF FINANCIAL ASSETS	(103)	12,146
SALES OF EQUITY INTERESTS IN SUBSIDIARIES	2,550	-
EQUITY INVESTMENTS ACQUIRED/SHARE CAPITAL INCREASES IN OTHER COMPANIES	(443)	(156)
INVESTMENTS IN TANGIBLE AND INTANGIBLE ASSETS	(410)	(295)
SALES OF TANGIBLE AND INTANGIBLE ASSETS	1	-
NET CASH FLOW FROM INVESTING ACTIVITIES	8,897	15,367
FINANCING ACTIVITIES		
NEW LOANS RECEIVED FROM PARENT COMPANIES	165,629	118,802
INCREASE IN FINANCIAL RECEIVABLES DUE FROM SUBSIDIARIES	(160,509)	(107,795)
INCREASE IN FINANCIAL RECEIVABLES DUE FROM JOINTLY CONTROLLED COMPANIES	(1,734)	-
INCREASE IN FINANCIAL PAYABLES DUE TO SUBSIDIARIES	285	1,807
REPAYMENT OF LOANS	(9,200)	(3,100)
INCREASE IN FINANCIAL PAYABLES DUE TO OTHER LENDERS	175	-
NET CASH FLOW FROM FINANCING ACTIVITIES	(5,354)	9,714
NET INCREASE IN CASH AND CASH EQUIVALENTS	(11,549)	18,094
NET CASH AND CASH EQUIVALENTS/(NET FINANCIAL DEBT) AT BEGINNING OF YEAR	10,101	(7,993)
NET CASH AND CASH EQUIVALENTS/(NET FINANCIAL DEBT) AT YEAR-END	(1,448)	10,101
COMPRISING		
BANK AND POSTAL ACCOUNTS	12,686	13,424
CASH AND NOTES ON HAND	-	-
BANK OVERDRAFTS	(14,134)	(3,323)
OF WHICH RESTRICTED CASH AND CASH EQUIVALENTS	4,170	4,170

(Translated from the original version issued in Italian language)

EXPLANATORY NOTES TO SEPARATE FINANCIAL STATEMENTS

GENERAL

The Separate Financial Statements of ERG Renew S.p.A. ("the Company") have been drawn up in accordance with the requirements of the National Commission for Companies and the Stock Exchange (CONSOB) Issuers' Regulations and comply with the valuation and measurement criteria established by the International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) and adopted by the European Commission as per the procedure indicated in Article 6 of Regulation (EC) No. 1606/2002 of the European Parliament and Council dated 19 July 2002, and the documents of the International Financial Reporting Interpretations Committee (IFRIC). In particular, in the preparation of the Separate Financial Statements, all IAS/IFRS standards applicable to accounting aspects significant for the Company were applied, without exception.

In order to confirm the going concern requirement, the Company performed an analysis of the financial resources available and future cash flows envisaged in the new 2010-2013 Business Plan, as per the revised version approved by the Directors on 13 January 2011. From this analysis it emerged that, as more particularly specified in the Management Report and in the explanatory note on "Risk disclosure", bearing in mind the financial support commitment undertaken by ERG S.p.A. (Note 20 and Note 41), there are no uncertainties, within the meaning of IAS 1, paragraphs 23-24, regarding the company's capacity to operate as a going concern.

Insofar as concerns the layout of the financial statements, in keeping with the form of presentation adopted in drawing up the consolidated financial statements, the Company presents the statement of financial position showing a distinction between current and non-current assets and liabilities, while the Income Statement features a classification of revenues and costs according to their nature. The statement of shareholders' equity includes all recorded changes in shareholders' equity. The Statement of Comprehensive Income, as required by the revised version of IAS 1, shows the income components recognised in equity. Lastly, the statement of cash flows has been prepared using the "indirect" method. Amounts are reported in thousands of EUR.

The financial statements have been prepared based on the historical cost principle, except as regards the revaluation of some financial instruments.

With reference to CONSOB Resolution no. 15519 of 27 July 2006, the income and charges deriving from non-recurring operations or from unusual events in the normal course of business have not been reported separately in the Income Statement. These items are commented, however, in the present section in the paragraph "Non-recurring events and operations".

The Separate Financial Statements as at 31 December 2010 have been audited by Deloitte & Touche S.p.A. in accordance with the procedures set forth by CONSOB regulations.

The main accounting policies adopted are shown below.

SUMMARY OF PRINCIPAL ACCOUNTING STANDARDS

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are recognised at cost, including directly allocated ancillary costs and those necessary to bring the asset to the condition appropriate for the use for which it was acquired, net of related depreciation provision and any cumulative impairment of value. During the year in question and in previous years, no revaluations were carried out either voluntarily and/or in accordance with monetary revaluation laws. Similarly, interest charges on special purpose loans have not been capitalised.

If assets comprise components of significant amounts, and with different useful lives, these components are considered separately in calculating the depreciation of the asset in question. Depreciation is calculated on a straight-line basis, according to the estimated useful life of assets, by applying the following rates:

<i>Plant and machinery</i>	20%
<i>Other tangible assets</i>	12% - 20%

The depreciation of these assets, as for all tangible assets, begins when the assets are available for use. Assets held under finance lease contracts are depreciated based on their estimated useful life as in the case of owned assets or, if shorter, based on the end date of the lease contract. The gains and losses deriving from the sale or disposal of assets are calculated as the difference between sale proceeds and the asset's net book value and are recognised in the Income Statement for the year.

INTANGIBLE ASSETS

Intangible assets are recorded under assets only if all of the following conditions apply:

- the asset is identifiable (as, for example, software or new processes);
- it is probable that the asset created will generate future economic benefits;
- the development costs of the asset can be measured reliably.

Patents, concessions, licences and trademarks are initially recognised at purchase cost and are amortised on a straight-line basis over their expected useful life, as defined in the note under assets. No revaluations were performed during the year in question or in previous years, either voluntarily and/or in accordance with monetary revaluation laws. Similarly, interest charges on special purpose loans have not been capitalised.

EQUITY INVESTMENTS

Equity investments in subsidiaries are recognised at cost, adjusted for impairment. The positive difference, arising on purchase, between acquisition cost and the fair value of the applicable portion of the investee company's shareholders' equity is therefore included in the carrying value of the investment. The write-downs, if any, of such positive difference are not reinstated in subsequent periods, even where the reasons for the write-down no longer exist. If the portion of the investee company's losses pertaining to the Company exceeds the carrying value of the investment, the value of the investment is written off and the Company's share of further losses is recorded as a provision under liabilities in cases where it has the obligation to cover such losses.

Other investments, consisting of non-current financial assets not held for trading are recognised at cost less write-downs for impairment, if any.

IMPAIRMENT

At the end of each reporting period, the Company reviews the carrying value of its tangible and intangible assets and equity investments to determine whether there is evidence of these assets having suffered reductions in value. Where such evidence exists, the recoverable amount of these assets is estimated to determine the amount of the impairment. Where it is not possible to estimate the recoverable amount of an asset individually, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs, this being defined as the legal entity and operating segment.

The recoverable amount is the net selling price or value in use, whichever is higher. In measuring the value in use, the estimated future cash flows are discounted to their present value at a pre-tax rate that reflects the market's current assessment of the time value of money and the risks specific to the asset.

In particular, the recoverable amount of the cash-generating units (which normally coincide with the legal entity to which the fixed assets refer) is verified by determining the value in use. The principal assumptions used to calculate the value in use concern the discount rate, the growth rate, the expected variation in the selling prices of electricity and green certificates, or the wastewater disposal service performed, and the trend in direct costs during the period assumed for calculation purposes. The Company's Management therefore adopted an after-tax discount rate that reflects the market's current assessment of the cost of money and the specific risk associated with the different cash-generating units. The growth rates used are based on growth forecasts pertaining to the relevant industrial sector of the legal entity. The variations in selling prices as regards the wastewater disposal service and direct costs are based on past experience, future market expectations and foreseeable changes in the specific regulatory situation of some of the Company's assets (with special reference to the anticipated trend in the price of electricity and green certificates). Reference is made to the section "Use of estimates – Recoverability of the carrying value of non-current assets" for considerations concerning the assumptions adopted with regard to the prospective data used for impairment testing purposes.

Similar estimation processes are necessary in case of reference to the presumed realisable value due to the uncertainty inherent in each transaction.

If the recoverable amount of an asset (or of a cash-generating unit) is estimated to be lower than its carrying value, the carrying value of the asset is reduced to the lower recoverable value. A loss in value is recognised immediately in the Income Statement.

When there is no longer any reason to maintain a write-down, the carrying value of the asset (or of the cash-generating unit) concerned is increased to the new value deriving from estimation of its recoverable value, albeit without exceeding the net carrying value the asset would have had if it had not been written down for impairment. Reinstatement of value is immediately recognised in the Income Statement.

FINANCIAL INSTRUMENTS

Financial assets and liabilities are recorded in the financial statements when the Company becomes a party to the instrument's contractual clauses.

FINANCIAL ASSETS

Financial assets are recognised at the trading date at cost corresponding to the nominal value, including transaction costs.

At the end of subsequent reporting periods, the financial assets that the Company has the intention and ability to hold to maturity are recognised at amortised cost, net of write-downs made to reflect impairment.

Financial assets other than those held to maturity are classified among those available for sale, and are measured at the original nominal value corresponding to the realisable value.

IAS 39 envisages classification of financial assets in the following categories:

- Financial assets at fair value through profit or loss (FVTPL);
- Held-to-maturity (HTM) investments;
- Loans and receivables (L&R);
- Available-for-sale (AFS) financial assets.

All financial assets are initially recognised at fair value, plus – in the case of assets other than FVTPL assets – ancillary costs.

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

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

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

This category comprises:

- Assets held for trading (HFT);
- Assets designated as FVTPL financial assets at the time of initial recognition.

Assets held for trading are all those assets acquired for sale in the short term. Derivatives, including those separated out, are classified as financial instruments held for trading unless they have been designated as effective hedging instruments.

Gains and losses on assets held for trading are taken to the Income Statement.

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

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

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

As at 31 December 2010, the Company held no investments classified as HTM.

- **Loans and receivables (L&R)**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Following initial recognition, these assets are measured at amortised cost using the effective interest rate method, net of the provision for impairment, if any.

Gains and losses are recognised in the Income Statement when loans and receivables are derecognised for accounting purposes or if impairment occurs, as well as via the amortisation process.

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

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

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

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

AFS financial assets include equity investments in companies other than subsidiaries and associates in which the Company's direct or indirect ownership percentage is less than 20%. When fair value cannot be reliably calculated, equity investments are measured at cost, written down for impairment, if any, and dividends from such companies are included in "Other net income (losses) from equity investments".

When the reasons for write-downs cease to exist, equity investments measured at cost are written back up to the limit of impairments recorded and the relevant effect is recognised in the Income Statement.

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

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

Fair value

In the case of securities widely traded in regulated markets, fair value is determined in reference to stock market prices at close of trading at the end of the reporting period.

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

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

Amortised cost method

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

FINANCIAL LIABILITIES

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

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

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

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

Every gain or loss is recorded in the Income Statement when the liability is discharged, as well as via the amortisation process.

Financial liabilities at FVTPL include "Liabilities held for trading".

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

IMPAIRMENT OF FINANCIAL ASSETS

At the end of each reporting period, ERG Renew S.p.A. verifies whether a financial asset or group of financial assets has suffered an impairment in value.

If there is objective evidence that a loan or receivable posted at amortised cost has suffered impairment, the amount of such impairment is measured as the difference between the asset's carrying value and the present value of estimated future cash flows (excluding future bad debt losses not yet incurred) discounted at the asset's original effective interest rate calculated as at the date of initial recognition.

The carrying value of the asset is reduced by using a provision. The impairment amount is recognised in the Income Statement.

ERG Renew S.p.A. assesses the existence of factual evidence of impairment at an individual level.

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

As regards trade receivables, a provision for impairment is made when there is objective evidence (such as, for example, the likelihood of the debtor's insolvency or serious financial difficulties) that ERG Renew S.p.A. will be unable to recover all amounts owed according to the original conditions.

The carrying value of the receivable is reduced by using a specific provision. Impaired receivables are written off if they are deemed unrecoverable.

DERECOGNITION OF FINANCIAL ASSETS AND LIABILITIES

A financial asset (or, where applicable, part of a financial asset or part of a group of similar financial assets) is derecognised when:

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

In cases where the Company has transferred rights to receive cash flows from an asset and has neither transferred nor retained substantially all risks and rewards, or has not lost control of the asset, the asset is recognised in the accounts of ERG Renew S.p.A. to the extent of its residual involvement in such asset. A financial liability is derecognised when the liability's underlying obligation has been extinguished, cancelled, or fulfilled.

TRADE AND OTHER RECEIVABLES

Trade receivables are stated at their nominal value reduced by appropriate bad-debt provision to reflect the estimated losses on receivables.

The estimate of the amounts considered non-recoverable is made when it is considered likely that the company will be unable to recover the receivable's full amount. Customer trade receivables refer to the amounts invoiced which, at the date of the present document, have still to be collected as well as to the portion of revenues relating to the year but invoiced after year-end.

CASH AND CASH EQUIVALENTS

This item includes cash and bank current accounts, deposits repayable on demand and other highly liquid short-term financial investments, which are readily convertible into cash and are subject to a non-significant risk of a change in value.

EMPLOYEE BENEFITS

The benefits guaranteed to employees and paid on the termination of employment or thereafter, through defined benefit plans (such as: employees' severance indemnity and additional months of salary) or other long-term benefits, are recognised in the period when the right accrues. These provisions and benefits are not financed.

Considering the scarce significance of the outright value of the statement of financial position (balance sheet) item "Employees' severance indemnities" and of the difference between the liability calculated based on the "Projected Unit Credit" actuarial method and the method envisaged by Article 2120 of the Italian Civil Code, the Company has recorded employees' severance indemnity provisions by appropriating the legal liability accrued at the end of the year in accordance with Article 2120 of the Italian Civil Code.

SHARE-BASED PAYMENTS (STOCK OPTIONS)

Since FY2005 the Company has accorded additional benefits to some members of senior management through stock option plans (the period of accrual for such benefits expired as from 1 January 2010). The total fair value of stock options on grant date is recorded in the Income Statement as a cost. Changes in fair value after grant date do not affect the initial value. The remuneration cost, corresponding to the options' fair value, is recognised under personnel expenses on a straight-line basis over the period between the grant date and vesting date, and directly offset in equity.

PROVISIONS FOR LIABILITIES AND CHARGES

Provisions for liabilities and charges are recorded when the Company has a current legal or implied obligation deriving from a past event, if an outlay of resources to fulfil the obligation is likely and the amount of the obligation can be reliably estimated. The provisions are made at the end of the reporting period, based on Management's best estimate of the costs required to fulfil the obligation, and are discounted to present value when the effect is significant.

TRADE PAYABLES

Trade payables, which mature within the normal commercial terms, are recognised at their nominal value.

DERIVATIVE INSTRUMENTS

Derivative instruments are initially recognised at cost, and adjusted to fair value at the end of subsequent reporting periods.

Changes in the fair value of derivative instruments designated to hedge future cash flows relating to contractual obligations of the Company and expected future operations are recorded directly in equity. If the hedged contractual obligations or expected future operations result in the recognition of assets or liabilities, when the assets or liabilities are recorded, the associated gains or losses which were directly recorded in equity are included in the initial measurement of the acquisition cost or the carrying value of the asset or liability.

For cash flow hedges which do not result in the recognition of assets or liabilities, the amounts that were recorded directly in equity will be recognised in the Income Statement

in the same period in which the contractual obligation or expected future operation is recognised in the Income Statement, for example, when an expected sale actually takes place.

Changes in the fair value of derivative instruments that do not qualify as hedges are recognised in the Income Statement for the period in which they arise.

The hedge accounting method is abandoned when the hedging instrument has matured, is sold, expires, or is exercised, or no longer qualifies as a hedge. In this case, the accumulated gains or losses of the hedging instrument recorded directly in equity are maintained until the expected operation effectively occurs. If it is expected that the hedged operation will not occur, the accumulated gains or losses recorded directly in equity are transferred to the Income Statement for the period.

Put options pertaining to non-listed shareholdings exercisable by third parties vis-à-vis the Company are recorded at the fair value of the overall amount paid for the option and are measured as a component of the investment's purchase cost.

NON-CURRENT ASSETS HELD FOR SALE

Non-current assets (and asset disposal groups) classified as held for sale are measured at their previous carrying value or market value, whichever is lower, net of their selling costs. Non-current assets (and asset disposal groups) are classified as held for sale when it is expected that their carrying value will be recovered via a disposal transaction instead of via their utilisation in the company's business operations. This condition is applicable only when the sale is highly probable, the asset (or group of assets) is available for immediate sale in its current conditions and Management has made a commitment to sell, for a sale that should take place within twelve months following the date of classification under this item.

REVENUE RECOGNITION

Revenues are recognised when it is possible to determine their value reliably and it is likely that the relative economic benefits will be received by the Company. Depending on the type of transaction, revenues are recognised on the basis of the specific criteria indicated below:

- *Sale of goods*: revenues are recorded when the significant risks and rewards of ownership of the assets are transferred to the purchaser.
- *Performance of services*: revenues for services rendered are recognised in reference to the stage of completion of activities. If it is not possible to determine the value of revenues reliably, they are recognised up to the costs incurred that it is believed will be recovered.

Interest income is recognised by applying the accrual accounting principle, based on the amount lent and the effective interest rate applicable. Dividends are recognised on a cash basis. Dividends received are recognised in the Income Statement, when the right to receive the payment is established, only insofar as they stem from the distribution of earnings subsequent to acquisition of the investee company. Conversely, if they stem from distribution of the investee company's reserves prior to acquisition, the dividends are posted as a reduction of the investment's cost.

FINANCIAL EXPENSES

Financial expenses are charged to the Income Statement when they are incurred, based on the accrual accounting principle.

INCOME TAXES

Income taxes for the year represent the total of current and deferred taxes.

Current taxes are based on the year's taxable result in observance of regulations in force within the domestic tax consolidation system. Taxable income differs from the result reported in the Income Statement as it excludes positive and negative components that will be taxable or deductible in other financial years and also excludes items that will never be taxable or deductible. The liability for current income taxes is calculated using the tax rates prevailing or enacted at the end of the reporting period.

Deferred taxes are the taxes that are expected to be paid or recovered on the temporary differences between the carrying value of assets and liabilities in the financial statements and the corresponding fiscal value resulting from calculation of the taxable income, recorded in accordance with the statement of financial position (balance sheet) liability method.

Deferred tax liabilities are recognised for all temporary taxable differences, whereas deferred tax assets are recognised to the extent that the existence of future taxable results such as to enable the use of the deductible temporary differences is considered probable.

The amount of deferred tax assets is reviewed at the end of each reporting period and reduced insofar as the existence of sufficient taxable income to permit the recovery of all or part of these assets is no longer likely.

Deferred taxes are calculated based on the tax rates that are expected to be in force at the time of realisation of the asset or settlement of the liability. Deferred taxes are charged directly to the Income Statement, with the exception of those relating to items taken directly to equity, in which case related deferred taxes are also recognised in equity.

Deferred tax assets and liabilities are compensated when they refer to income taxes owed to the same tax authority and the Company intends to pay the current tax assets and liabilities on a net basis.

USE OF ESTIMATES

Preparation of the Separate Financial Statements in accordance with International Accounting Standards requires estimates and assumptions to be made that affect the values of assets and liabilities shown in the financial statements and the information provided concerning potential assets and liabilities at the end of the reporting period. If in future these estimates and assumptions, which are based on Management's best evaluation, should differ from actual circumstances, they will be appropriately modified during the period in which the circumstances change.

In particular, the most complex estimations concern the calculation of possible impairments of non-current assets, appropriations to cover receivables risks and provisions for liability and charges.

Recoverability of the value of non-current assets

The procedure for determining the impairment of equity interests in subsidiaries and associate companies and tangible assets and other equity investments, described under the accounting policy "Impairment", in estimating value in use, implies utilisation of the investee companies' Business Plans. The latter are based on a combination of assumptions and hypotheses made by the Boards of Directors of investee companies concerning future events and actions, which may not necessarily occur.

The total value of non-current assets shown in the separate financial statements, prior to testing in order to ascertain the recoverability of same, amounts to EUR 414.3 million; more specifically, of this amount EUR 0.6 million concerns the wind sector, EUR 0.1 million concerns

tangible assets and approximately EUR 413.6 million concerns financial assets, of which EUR 58.9 million refers to the net carrying value of equity investments and the remainder to financial receivables due from subsidiaries.

Equity investments in the wind sector

Exogenous and endogenous events that occurred during FY2010, as described in the Management Report under the section "Impairment test" to which reference is made for further details – in addition to suggesting the need to update the economic and financial forecasts contained in the 2010 – 2013 Business Plan, originally approved in March 2010 – were viewed by the Directors as indicators of a potential impairment of some equity investments in the wind sector; given this situation, therefore, in accordance with IAS 36, specific impairment tests were developed to assess the extent of possible write-downs to be reflected in the Company's Separate Financial Statements as a result of the slowdown in implementation of the 2010-2013 Business Plan following the above mentioned occurrences.

The task of performing the impairment test was assigned in February 2011 to an independent expert who conducted the analysis using financial flows drawn from the revised 2010-2013 Business Plan examined by the ERG Renew Board of Directors on 13 January 2011, and extended over subsequent periods according to the expected useful life.

More specifically, the impairment tests were developed in reference to the values of the equity investments that own the wind farms in operation in France – shown in the balance sheet of ERG Eolienne France S.a.s. – to the value of the equity investment relating to the Italian Faeto wind farm – the last one to come on stream – as well as to the values of the equity investments in Fossa del Lupo S.r.l. and ERG Eolica Ginestra S.r.l. which against a background of uncertainty in the energy price scenario affecting all Italian wind operations, are specifically penalised by delays in the start-up of production. On the other hand, insofar as concerns the other Italian wind farms, due to the earning capacity developed during the year and in previous years, it was not considered necessary to activate an impairment test on the value of the equity investments in the companies owning same.

In particular, with regard to the above mentioned impairment tests on equity investments in the wind sector, the following assumptions were made:

- for the calculation of recoverable value, intended as the value in use, the present value of operating cash flows associated with the assets for the first twenty years of operation of the wind farms was estimated;
- the expected variation was determined as regards sale prices and the trend in direct costs during the period assumed for the calculation based on past experience, adjusted for future market expectations;
- for the purpose of discounting the cash flows, a discount rate was used corresponding to the WACC for the sector (6.5% for Italy and 6.0% for France);
- for each wind farm managed by the equity investment a terminal value was estimated, determined by discounting to present value the cash flows for the 20 years subsequent to the last year of explicit forecast. A growth rate of 1.5% was estimated based on the average expected inflation rate. The terminal value thus obtained was prudently discounted by 50%.

Moreover, with reference to ERG Eolienne France S.a.s.'s investment in associate company CITA S.a.s. – following the decision by the Directors of same to develop the photovoltaics business (currently not yet significantly implemented by the associate company) – the Group has engaged independent experts to perform a technical analysis in order to identify the problems, if any, connected with operations in the new sector. The recoverability of the investment's carrying value will be determined based on the associate company's new

operational prospects, which are still being identified. Given the present situation of uncertainty regarding the development prospects for the business, the financial statements of ERG Eolienne France S.a.s. show a write-down of the investment's book value to the investee company's equity value of EUR 1.4 million and a write-down of a financial receivable due to ERG Eolienne France S.a.s. by the investee company in the amount of EUR 1.3 million.

The Group's Management considered the assumptions adopted to be reasonable and consequently, based on the assumptions outlined above, an overall impairment emerged, net of the related tax effect of EUR 10 million (of which EUR 9.5 million appropriated under provision for liabilities), as regards the equity investment in ERG Eolienne France S.a.s. (the holding company for the equity investments that own the French wind farms) after same had reflected the write-downs of its investee companies, including CITA S.a.s.

The write-downs were calculated taking into account the information currently available and reasonable estimates as regards the trend in variables concerning windiness, energy prices and interest rates. In particular, the variations in revenues and direct costs are based on past experience, future market expectations and foreseeable changes in the regulatory situation specific to some of the investee company operations.

In particular, we report that the criterion used to determine the price of energy and green certificates could vary as a result of developments in the reference regulatory context, currently being approved by the legislative bodies.

The Group took account of the aforesaid uncertainties in its elaboration and definition of the basic assumptions used to determine the recoverable value of the equity investments subjected to impairment testing and also prepared sensitivity analyses regarding the recoverable value of such assets in the event of changes in energy and green certificate selling prices and interest rates.

In the case of a 5% reduction in electricity and green certificate prices (carried out only as regards the Italian subsidiaries) extended over the entire duration of the plan, the recoverable value of equity investments subjected to impairment testing would incur a further reduction of EUR 1.3 million showing a write-down by the same amount. In the case of a 5% increase in prices, extended over the duration of the plan, there would be no change to the write-down already reflected in the financial statements.

Lastly, we report that a 0.5% increase in the discount rate would also have implied an increase of EUR 2 million in the write-down of the equity investments subjected to impairment testing, whereas a 0.5% reduction in the discount rate would have implied a lower write-down of the equity investments subjected to impairment testing of EUR 2.2 million.

The sensitivity analyses referred to above confirm the sensitivity of the equity investment recoverability assessments to a change in the above mentioned variables; in view of this, the Directors will systematically monitor the trend in the aforesaid exogenous and non-controllable variables in order to make adjustments, if necessary, to the estimated recoverability of the carrying values of equity investments in the Company's separate financial statements.

Equity investments in the hydro sector

Performance during the year of equity investments in the hydro sector appears in keeping with the forecasts contained in the 2010-2013 Business Plan, as revised in January 2011; since no endogenous or exogenous indicators were observed, such as to suggest a risk of impairment as regards these equity investments, it was not considered necessary to develop any impairment tests.

Recoverability of deferred tax assets

The Separate Financial Statements as at 31 December 2010 show a deferred tax receivable of EUR 3.9 million, recognition of which is supported by the Group's prospective taxability arising from expected profitability based on the 2010-2013 Business Plan, considering the renewal of tax consolidation for the three-year period 2010-2012, and the reasonable expectation of a further renewal of the tax consolidation procedure for the three years 2013-2015. As mentioned in the "Risk Management Disclosure" section of the Management Report, the Group's future profitability is significantly affected by the trend in scenario variables beyond the Group's control, including the windiness of wind farms, which affects expected electricity output, and the assumptions concerning the price of electricity sold and the value of green certificates starting from the year 2011.

Provisions for liabilities and charges

With regard to estimation of the risk of contingent liabilities arising from litigation, the Directors rely on the reports received on the progress of recovery and litigation procedures communicated by the legal advisors who represent the Company in the disputes. These estimates are determined taking into account the progressive evolution of the disputes, and in consideration of minimum thresholds payable.

In particular, during FY2009 there was a major development in the ongoing arbitration proceedings with ACEA S.p.A., initiated as contractually provided to settle numerous disputes that have arisen between the Company and ACEA S.p.A. concerning the sale of the "Waste to Energy" and "Waste Management" businesses, which, on 20 January 2010, led to an award subject to appeal by the parties according to the terms provided by law. The board's final assessment substantially accepted the reasons put forward by ERG Renew and, consequently, it is considered that the provision appropriated in prior years for a total amount of EUR 5.4 million to cover the liabilities deriving to the Group as a result of the arbitrators' decisions – such provision having been reclassified as at 31 December 2010 from "Provision for liabilities and charges" to "Bad Debt Provision" (Note 10) – can be considered sufficient. In particular, in partial execution of the aforesaid arbitration award, ERG Renew S.p.A. repurchased from ACEA S.p.A. the receivables assigned within the scope of the sale of the above mentioned businesses; from a financial standpoint, the disbursement for the said repurchase was offset against revenues in the form of a "tax earn-out" of EUR 1.6 million (see section "Non-recurring events and transactions"). This "tax earn-out" was regulated by the original sale agreement entered into between ACEA S.p.A. and ERG Renew S.p.A; the aforesaid arbitration award confirmed the obligation for ACEA S.p.A. to pay the price increase and, following the agreements reached with ACEA S.p.A., the tax earn-out was settled between the parties in July 2010 and financially offset against the receivables repurchase transaction.

The risk of uncertainty insofar as concerns these specific estimation processes is particularly significant and, therefore, it cannot be excluded that the provision for liabilities to date – considered by the Directors to be appropriate – may prove insufficient upon the final outcome of pending litigations.

ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS APPLIED AS FROM 1 JANUARY 2010

The following accounting standards, amendments and interpretations were applied by the Group for the first time starting from 1 January 2010. In particular, the revised version of IFRS 3 introduced major changes, as described below, primarily concerning: regulation of the acquisition of subsidiaries by stages; the option to measure at fair value minority interests, if any, purchased in a partial acquisition; recognition in the Income Statement of all costs

associated with business combinations and the recording at the acquisition date of liabilities for conditional payments.

- **IFRS 3 Business combinations**

- ***Acquisition of a subsidiary by stages***

In the case of acquisition of a subsidiary by stages, IFRS 3 (2008) states that a business combination is only achieved at the time when a controlling interest is acquired and that, at such time, all identifiable net assets pertaining to the acquired company must be measured at fair value; minority interests must be measured based on their fair value or based on the proportionate share of fair value of identifiable net assets of the acquired company (method already allowed under the previous version of IFRS 3).

In an acquisition by stages of a controlling interest in an investee company, the shareholding previously held, until such time accounted for according to the provisions laid down by IAS 39 – Financial instruments: recognition and measurement, or IAS 28 – Investments in associates, or according to IAS 31 – Interests in joint ventures, must be treated as though it had been sold and repurchased at the date of acquiring the controlling interest. The shareholding in question must therefore be measured at its fair value as at the date of “sale” and the profits and losses resulting from such measurement must be recognised in the Income Statement. Moreover, all amounts previously recognised in equity as “Other comprehensive income and losses”, which should be charged to the Income Statement following the sale of the business in question, must be reclassified in the Income Statement. Goodwill or the revenues deriving from the transaction concluded by way of the subsequent acquisition must be determined as the sum of the price paid to obtain control, the value of the minority interest (measured according to one of the methods permitted by the standard), the fair value of the minority stake previously held, after deducting the fair value of the net identifiable assets acquired. According to the previous version of the standard, the acquisition of control by stages was recorded transaction by transaction, as a series of separate acquisitions that generated overall a goodwill calculated as the sum of the goodwill generated by all the individual transactions.

- ***Incidental transaction costs***

IFRS 3 (2008) provides for incidental costs pertaining to business combination transactions to be recognised in the Income Statement for the period in which they are incurred. According to the previous version of the standard these costs were included in the calculation of the cost of purchasing the net assets of the acquired company.

- ***Recording of conditional payments***

IFRS 3 (2008) provides for conditional payments to be considered a part of the price for the transfer of the acquired net assets and measured at fair value as at the date of acquisition. Likewise, if the business combination agreement envisages the right to return certain price components upon the occurrence of certain conditions, this right is classified as an asset by the acquirer. Subsequent changes, if any, in fair value must be recorded as an adjustment to the original accounting treatment only insofar as determined by additional or better information concerning such fair value and if they occur within 12 months of the date of acquisition; all other variations must be taken to the Income Statement.

The previous version of the standard stated that conditional payments were to be recorded at the date of acquisition only if the payment of same was considered probable and their amount could be reliably determined. Moreover, all subsequent variations in the value of such payments was always recorded as an adjustment of goodwill.

- **IAS 27 Consolidated and Separate Financial Statements**

The changes to IAS 27 primarily concern the accounting treatment of transactions and events that modify the stakes held in subsidiaries and the allocation to minority interests of the subsidiary's losses. In accordance with the standard's provisional rules, the Group has adopted such changes to IAS 27 prospectively, recording the effects on the accounting treatment of some acquisitions and sales of minority interests pertaining to subsidiaries.

IAS 27 (2008) states that, once a controlling interest in a business has been acquired, the transactions in which the parent company acquires or sells additional minority quotas without any change in the control exercised over the subsidiary are transactions with shareholders and must therefore be recognised in equity. It follows that the book value of the controlling stake and the minority interests must be adjusted to reflect the variations in the interest held in the subsidiary and any difference between the amount of the adjustment made to the minority interest and the fair value of the price paid or received in connection with the transaction is taken directly to equity and allocated to the parent company's shareholders. There will not be any adjustment to the value of goodwill or gains and losses recognised in the Income Statement. Moreover, the additional costs deriving from such transactions must be recognised in equity in accordance with the requirements set forth by IAS 32, paragraph 35.

Previously, in the absence of a Standard or specific interpretation in this connection, in the case of acquisitions of minority interests in companies already controlled, the Group had adopted the so-called "Economic entity approach", which provided for recognition of the difference between purchase cost and the book values of assets and liabilities acquired deducting same from Shareholders' Equity. On the other hand, in the case of a sale of minority interests without loss of control, the Group records in the Income Statement the difference between the book value of assets and liabilities sold and the sale price.

- **IFRS 5 – Non-current assets held for sale and discontinued operations**

If a company is engaged in a disposal plan that involves the loss of control of an investee company, all assets and liabilities of the subsidiary must be reclassified as assets held for sale, even if after the sale the company will continue to maintain a minority stake in the subsidiary. The amendment has been prospectively applied as from 1 January 2010.

- **IFRIC 18 – Transfer of assets from customers**

This standard explains the accounting treatment to be adopted if the company enters into an agreement whereby it receives from one of its customers a tangible asset which it will need to use to connect the customer to a grid or to provide same with a certain access to the supply of goods and services (such as for example the supply of electricity, gas, water). In some cases, in fact, the company receives funds from the customer in order to build or acquire such tangible asset to be used in carrying out the agreement. The interpretation has been applied prospectively since 1 January 2010.

- **IFRS 8 – Operating segments**

This amendment, applicable as from 1 January 2010, requires companies to provide the total value of assets for each segment subject to disclosure, wherever such value is periodically reported to the entity's chief operating decision-maker. This information was previously required even without such stipulation.

- **IAS 36 – Impairment of assets**

This amendment, prospectively applicable as from 1 January 2010, requires the size of each operating unit or group of operating units over which the goodwill is allocated for impairment test purposes not to exceed an operating segment as defined in paragraph 5 of IFRS 8, prior to the combination permitted under paragraph 12 of the said IFRS on the basis of analogous economic characteristics or other elements of similarity.

AMENDMENTS AND INTERPRETATIONS NOT YET APPLICABLE AND NOT ADOPTED BY THE GROUP IN ADVANCE

- On 8 October 2009, the IASB issued an amendment to **IAS 32 – Financial instruments: presentation: classification of rights issues** in order to regulate the accounting treatment of the rights issues (rights, options or warrants) expressed in a currency other than the issuer's functional currency. Previously these rights were recorded as liabilities from derivative financial instruments; on the other hand, the amendment establishes, subject to certain conditions, for these rights to be classified under equity regardless of the currency in which the exercise price is denominated. The amendment in question must be applied retrospectively from 1 January 2011. Adoption of the amendment in question is not expected to entail significant effects on the Group's financial statements.
- On 4 November 2009 the IASB issued a revised version of **IAS 24 – Related party disclosures** which simplifies the nature of information required in the case of transactions with State-controlled related parties and clarifies the definition of related parties. The standard must be applied from 1 January 2011. Adoption of this amendment will not have any effect on the evaluation of balance sheet items.
- On 12 November 2009 the IASB published standard **IFRS 9 – Financial instruments**: the same standard was then amended on 28 October 2010. The standard, applicable from 1 January 2013, represents the first part of a step process designed to fully replace IAS 39 and introduce new criteria for the classification and measurement of financial assets and liabilities and for the derecognition of financial assets. In particular, for the financial assets the new standard uses a unique approach based on the procedures for handling financial instruments and the contractual cash flow characteristics of the said financial assets in order to determine the criterion for the measurement of same, replacing the various rules set forth by IAS 39. As regards financial liabilities, on the other hand, the main change concerns the accounting treatment of variations in fair value of a financial liability designated as financial liability measured at fair value through the Income Statement (FVTPL), in cases where such variations are due to the change in creditworthiness of the liability in question. According to the new standard such variations must be recorded under "Other comprehensive profits and losses" and will no longer pass through the Income Statement. As at the date of these financial statements the competent bodies of the European Union have not yet reached a conclusion regarding the homologation process required for application of the new standard.
- On 6 May 2010 the IASB issued a series of changes to the IFRSs ("Improvements") which will become applicable from 1 January 2011; the following are those which will entail a change in the presentation, recognition and measurement of balance sheet items, without considering on the other hand those that will merely give rise to changes in terminology or editorial changes, with minimum effects in accounting terms, or those impacting standards or interpretations not applicable by the Group:
 - **IFRS 3 (2008) – Business combinations**: the amendment clarifies that the minority interest components which do not entitle holders to receive a proportionate share of the subsidiary's net assets must be measured at fair value or in accordance with the requirements of the applicable accounting standards. For example, therefore, a stock option plan granted to employees, in the event of a business combination, must be measured according to the rules of IFRS 2 and the portion of equity of a convertible bond must be measured in accordance with IAS 32. Moreover, the Board looked into the subject of share-based payment plans that are replaced within the ambit of a business combination, adding a specific guideline designed to explain the accounting treatment of same.
 - **IFRS 7 – Financial instruments: supplementary information**: the amendment underlines the interaction between the supplementary qualitative and quantitative information required by the standard as regards the nature and extent of risks inherent in financial

instruments. This should help users of the financial statements to correlate the information provided and establish a general description as to the nature and extent of the risks deriving from the financial instruments. Moreover, the request for disclosure concerning the financial assets that have expired but have been renegotiated or written down and disclosure as regards the fair value of collateral has been eliminated.

- **IAS 1 – Presentation of financial statements:** the amendment requires a reconciliation of changes as regards each component of equity to be included in the notes or in the balance sheet schedules.
- **IAS 34 – Interim financial reporting:** by way of some examples clarifications are provided regarding the additional information to be shown in the Interim Financial Reports.

We consider that the adoption of these amendments will not entail significant effects on the Group's financial statements.

Lastly we report that on 7 October 2010 the IASB published amendments to standard **IFRS 7 – Financial instruments: supplementary information**, applicable with regard to the accounting periods commencing on or after 1 July 2011. The amendments were issued in order to enhance the understanding of transfer transactions of financial assets, including the understanding of potential effects deriving from any form of risk still retained by the company having transferred such assets. Moreover, the amendments call for additional disclosures in the event that a disproportionate amount of such transactions is set up at the end of a reporting period. As at the date of these financial statements the competent bodies of the European Union have not yet reached a conclusion regarding the homologation process required for application of the amendments.

NON-RECURRING EVENTS AND OPERATIONS

FY2010 featured a number of non-recurring events, analysed in these explanatory notes, the effects of which on the separate financial statements are set out below:

DESCRIPTION	SHAREHOLDERS' EQUITY		PROFIT (LOSS)		DEBT AMOUNT	CASH FLOWS AMOUNT
	AMOUNT	%	AMOUNT	%		
VALUE IN FINANCIAL STATEMENTS	98,268	100	(17,749)	100	30,792	(11,549)
EARN-OUT ON ACEA SALE	1,617	1.6	1,617	(9.1)	1,617	1,617
TOTAL NON-RECURRING OPERATIONS	1,617	1.6	1,617	(9.1)	1,617	1,617
TAX EFFECT	–		–		–	–
<i>GROSS NOTIONAL VALUE IN FINANCIAL STATEMENTS</i>	<i>96,651</i>		<i>(19,366)</i>		<i>29,175</i>	<i>(13,166)</i>

The nature of the item "Earn-out on ACEA sale" is described in the section "Use of estimates – Provisions for liabilities and charges" and in Note 33.

Lastly, for completeness of information we recall that, within the scope of the ordinary estimation processes described in the above section "Use of estimates – Recoverability of the value of non-current assets," the FY2010 separate Income Statement reflects write-downs of non-current assets totalling EUR 10 million (EUR 14.8 million in 2009) as well as the realisation of capital losses from the sale of the mini-hydro business management companies amounting to EUR 1.4 million, as more particularly described in the following section "Extraordinary transactions."

EXTRAORDINARY TRANSACTIONS

Sale of mini-hydro business

During the months of June and July 2010 the Company sold its entire equity investment in the mini-hydro sector companies to Scotta Energia Automazione S.r.l., which operates in the field of renewable energy sources, with particular regard to hydroelectric power.

This sale was carried out as provided in the 2010-2013 Business Plan, which identified the aforesaid sector as being non-core. In particular, the following companies were sold:

- Ecopower S.r.l. wholly-owned by ERG Renew S.p.A.
- I.S.E.A. S.r.l. in which ERG Renew S.p.A. held an equity interest of 90%

The sale price paid to ERG Renew S.p.A. for the quotas held in Ecopower S.r.l. amounted to EUR 200 thousand, plus payment for financial receivables claimed by ERG Renew S.p.A., at the time of sale, vis-à-vis its subsidiary. The aforesaid amount was paid by bank transfer on 30 June 2010. The net capital gain realised as a result of the above mentioned sale is described in detail in Note 34 "Net income (loss) from equity investments".

The sale price paid to ERG Renew S.p.A. for the quotas held in I.S.E.A. S.r.l. amounted to EUR 2,350 thousand, plus payment for financial receivables claimed by ERG Renew S.p.A., at the time of sale, vis-à-vis its subsidiary. The aforesaid amount was paid by bank transfer on 30 July 2010. The net capital loss realised as a result of the above mentioned sale is described in detail in Note 34 "Net income (loss) from equity investments".

COMPARABILITY OF FINANCIAL STATEMENTS

For the purpose of comparing the Separate Financial Statements at 31 December 2010 with those at 31 December 2009, a reclassification has been made at 31 December 2009 in the amount of EUR 7 thousand from the item "Derivatives receivables" under "Current assets" to the corresponding item under "Non-current assets" in order to take account of the actual terms for settlement of the receivable in question. This reclassification did not determine any effect on the year's result or on shareholders' equity at 31 December 2009 as shown in the Separate Annual Financial Statements approved by the Corporate Bodies.

MANAGEMENT AND COORDINATION BY ERG S.P.A.

ERG Renew S.p.A. is subject to management and coordination by ERG S.p.A. The key data of the latter's last approved financial statements are shown below. The data refer to financial statements for the year ended 31 December 2009 (amounts in thousands of EUR):

NAME OF COMPANY THAT EXERCISES MANAGEMENT AND COORDINATION ACTIVITY	ERG S.P.A.
REGISTERED OFFICE	VIA NICOLA PICCINNI, 2 - MILAN
BUSINESS SECTOR (SUMMARY)	MANAGEMENT OF EQUITY INVESTMENTS
SHARE CAPITAL	15,032
TOTAL SHAREHOLDERS' EQUITY	869,109
TOTAL ASSETS	1,940,630
NET INCOME FROM EQUITY INVESTMENTS	744,204
OTHER OPERATING INCOME	30,649
NET PROFIT (LOSS)	698,258

ANALYSIS OF THE STATEMENT OF FINANCIAL POSITION

NON-CURRENT ASSETS

1 – PROPERTY, PLANT AND EQUIPMENT

The breakdown of property, plant and equipment, the relative depreciation provisions, and changes in same during the year, are shown in the following table:

	PLANT AND EQUIPMENT	OTHER ASSETS	ASSETS UNDER CONSTRUCTION	TOTAL
HISTORICAL COST	15	188	48	251
DEPRECIATION AND WRITE-DOWNS	(14)	(165)	–	179)
BALANCE AT 12/31/2009	1	23	48	72
MOVEMENTS DURING PERIOD:				
ACQUISITIONS	–	33	–	33
RECLASSIFICATIONS	–	37	(37)	–
DISPOSALS	(1)	–	–	(1)
DEPRECIATION	–	(18)	–	(18)
HISTORICAL COST	15	258	11	284
DEPRECIATION AND WRITE-DOWNS	(15)	(183)	–	(198)
BALANCE AT 12/31/2010	–	75	11	86

No interest was capitalised during the year. The Company does not hold any tangible assets under finance lease contracts. Acquisitions during the year mainly refer to the purchase of anemometric towers, which will come into operation from 2011.

2 – INTANGIBLE ASSETS

The breakdown of intangible assets, related amortisation provisions, and changes during the year, is shown in the following table:

	CONCESSIONS LICENCES AND TRADEMARKS	OTHER INTANGIBLE ASSETS	ASSETS IN PROGRESS	TOTAL
HISTORICAL COST	106	709	41	856
AMORTISATION	(106)	(413)	–	(519)
BALANCE AT 12/31/2009	–	296	41	337
MOVEMENTS DURING PERIOD:				
ACQUISITIONS	–	70	307	377
RECLASSIFICATIONS	–	41	(41)	–
AMORTISATION	–	(91)	–	(91)
HISTORICAL COST	106	820	307	1,233
AMORTISATION	(106)	(504)	–	(610)
BALANCE AT 12/31/2010	–	316	307	623

Acquisitions during the year concern above all a new project being developed, located in a foreign country, as well as applications software. These assets are estimated to have a limited and finite useful life and are therefore amortised on a straight-line basis over a period of five years.

3 – EQUITY INVESTMENTS IN SUBSIDIARY AND ASSOCIATE COMPANIES

Details of direct equity investments in subsidiary and associate companies and the relative changes during the year are shown in the following table:

	12/31/2009	ACQUISITIONS/ INCORPORATIONS	INCREASES	DECREASES	DISPOSALS	WRITE-DOWNS	12/31/2010
SUBSIDIARIES							
DSI - SERVIZI INDUSTRIALI S.R.L.	2,124	-	-	-	-	-	2,124
ECOPOWER S.R.L.	180	-	-	-	(180)	-	-
ERG SOLARE ITALIA S.R.L.	220	-	200	-	-	(200)	220
ERG EOLICA ITALIA S.R.L.	49,460	-	-	-	-	-	49,460
ERG EOLIENNE FRANCE S.A.S.	526	-	-	-	-	(526)	-
SODAI ITALIA S.P.A.	10,300	-	-	(3,773)	-	-	6,527
I.S.E.A. S.R.L.	3,342	-	150	-	(3,342)	(150)	-
TOTAL SUBSIDIARIES	66,152	-	350	(3,773)	(3,522)	(876)	58,331
JOINTLY CONTROLLED COMPANIES							
ISAB ENERGY SOLARE S.R.L.	-	51	-	-	-	-	51
TOTAL JOINTLY CONTROLLED COMPANIES	-	51	-	-	-	-	51
TOTAL	66,152	51	350	(3,773)	(3,522)	(876)	58,382

Reference is made to the section "Use of estimates – Recoverability of the value of non-current assets" for considerations regarding the write-down of equity investments. More specifically, it should be noted that the overall write-down of EUR 10 million charged to the year's Income Statement was credited against the value of the equity investment in ERG Eolienne S.a.s. up to the amount of the residual carrying value and – as regards the difference of EUR 9,457 thousand – to the item "Provisions for liabilities and charges" (Note 19).

The item "Acquisitions / Incorporations" includes the incorporation, during the first six months of 2010, of the company ISAB Energy Solare S.r.l., in which ERG Renew S.p.A. holds an equity interest of 51%; the objective of this company is the research, promotion, implementation, exploitation, operation and maintenance of industrial plants for the production of energy from solar sources via photovoltaic conversion.

"Increases" amounting to EUR 350 thousand refer to contributions of capital paid during the year by ERG Renew S.p.A. respectively to ERG Solare Italia S.r.l. (EUR 200 thousand), and I.S.E.A. S.r.l. (EUR 150 thousand) to cover losses; both payments were subsequently written down by the same amount.

The decrease of EUR 3,773 thousand refers to the reduction in share capital, pursuant to Article 2445 of the Italian Civil Code, as per resolution taken by subsidiary SODAI Italia S.p.A., carried out via a reduction, by the same amount, of the financial payable outstanding between the two companies (Note 36 "Related party transactions").

The transactions for the disposal of the companies Ecopower S.r.l. and I.S.E.A. S.r.l. are described in the section "Extraordinary transactions". The balance of EUR 9,769 thousand shown in the Income Statement for the item "Net income (loss) from equity investments" is broken down in the corresponding Note 34 and includes write-downs of equity investments totalling EUR 876 thousand as shown in the above table.

Details of the subsidiaries and associate companies directly or indirectly owned at the time of approving the Company's financial statements are set out below:

	REGISTERED OFFICE	SHARE CAPITAL	% HELD		PARENT COMPANY
			DIRECTLY	INDIRECTLY	
CITA S.A.S.	ALFORVILLE	38	–	50	ERG EOLIENNE FRANCE S.A.S.
DSI - SERVIZI INDUSTRIALI S.R.L.	FROSINONE	100	100	–	ERG RENEW S.P.A.
ERG SOLARE ITALIA S.R.L.	GENOA	120	100	–	ERG RENEW S.P.A.
EOLICO AGIRA S.R.L.	PALERMO	20	–	99	ERG EOLICA ITALIA S.R.L.
EOLICO MIRABELLA S.R.L.	PALERMO	20	–	99	ERG EOLICA ITALIA S.R.L.
EOLICO PALAGONIA S.R.L.	PALERMO	20	–	99	ERG EOLICA ITALIA S.R.L.
EOLICO RAMACCA S.R.L.	PALERMO	20	–	99	ERG EOLICA ITALIA S.R.L.
EOLICO TROINA S.R.L.	PALERMO	20	–	99	ERG EOLICA ITALIA S.R.L.
EOLIENNES DU VENT SOLAIRE S.A.S.	PARIS	37	–	100	ERG EOLIENNE FRANCE S.A.S.
EOLIENNES DE L'OURCQ ET DU CLIGNON S.A.R.L.	ALFORVILLE	2	–	50	ERG EOLIENNE FRANCE S.A.S.
EOLIENNES DE LA CHAUSSÉE BRUNEHAUT S.A.R.L.	ALFORVILLE	2	–	50	ERG EOLIENNE FRANCE S.A.S.
EOLIENNES DU CHAMP CHARDON S.A.R.L.	ALFORVILLE	2	–	50	ERG EOLIENNE FRANCE S.A.S.
EOLIENNES DE WARLOY-BAILLON S.A.R.L.	ALFORVILLE	2	–	50	ERG EOLIENNE FRANCE S.A.S.
EOLIENNES DE LA VALLÉE NOTRE DAME S.A.R.L.	ALFORVILLE	2	–	50	ERG EOLIENNE FRANCE S.A.S.
EOLO S.R.L.	FROSINONE	20	–	51	ERG EOLICA ITALIA S.R.L.
ERG EOLICA ADRIATICA S.R.L.	GENOA	10	–	100	ERG EOLICA ITALIA S.R.L.
ERG EOLICA BASILICATA S.R.L.	GENOA	38	–	98	ERG EOLICA ITALIA S.R.L.
ERG EOLICA CALABRIA S.R.L.	CATANZARO	10	–	100	ERG EOLICA ITALIA S.R.L.
ERG EOLICA FAETO S.R.L.	GENOA	10	–	100	ERG EOLICA ITALIA S.R.L.
ERG EOLICA FOSSA DEL LUPO S.R.L.	CATANZARO	50	–	100	ERG EOLICA ITALIA S.R.L.
ERG EOLICA GINESTRA S.R.L.	GENOA	10	–	100	ERG EOLICA ITALIA S.R.L.
ERG EOLICA ITALIA S.R.L.	GENOA	30,000	100	–	ERG RENEW S.P.A.
ERG EOLICA TIRRENO S.R.L.	PALERMO	10	–	100	ERG EOLICA ITALIA S.R.L.
ERG EOLICA NURRA S.R.L.	GENOA	10	–	100	ERG EOLICA ITALIA S.R.L.
ERG EOLICA SAN CIREO S.R.L.	GENOA	3,500	–	100	ERG EOLICA ITALIA S.R.L.
ERG EOLICA SAN VINCENZO S.R.L.	GENOA	3,500	–	100	ERG EOLICA ITALIA S.R.L.
ERG EOLICA TURSI COLOBRARO S.R.L.	GENOA	10	–	100	ERG EOLICA ITALIA S.R.L.
ERG EOLIENNE FRANCE S.A.S.	PARIS	50	100	–	ERG RENEW S.P.A.
GREEN VICARI S.R.L.	PALERMO	119	–	100	ERG EOLICA ITALIA S.R.L.
ISAB ENERGY SOLARE S.R.L.	SYRACUSE	100	50	–	ERG RENEW S.P.A.
PARC EOLIEN DE LIHUS S.A.S.	PARIS	1,114	–	100	ERG EOLIENNE FRANCE S.A.S.
PARC EOLIEN DE HETOMESNIL S.A.S.	PARIS	1,114	–	100	ERG EOLIENNE FRANCE S.A.S.
PARC EOLIEN DE LA BRUYÈRE S.A.S.	PARIS	1,060	–	100	ERG EOLIENNE FRANCE S.A.S.
PARC EOLIEN DU CARREAU S.A.S.	PARIS	861	–	100	ERG EOLIENNE FRANCE S.A.S.
PARC EOLIEN LES MARDEAUX S.A.S.	PARIS	1,097	–	100	ERG EOLIENNE FRANCE S.A.S.
SODAI ITALIA S.P.A.	MILAN	7,000	100	–	ERG RENEW S.P.A.
VCC AGRIGENTO S.R.L.	L'AQUILA	12	–	30	ERG EOLICA ITALIA S.R.L.
VCC AGRIGENTO 2 S.R.L.	L'AQUILA	10	–	30	ERG EOLICA ITALIA S.R.L.
VCC ABRUZZO S.R.L.	L'AQUILA	10	–	30	ERG EOLICA ITALIA S.R.L.
VCC ENNA S.R.L.	L'AQUILA	10	–	30	ERG EOLICA ITALIA S.R.L.

The following were recorded in 2010: (i) the transaction for the sale of investee companies Ecopower S.r.l. and I.S.E.A. S.r.l., operating in the mini-hydro sector, which were sold respectively on 30 June 2010 and 30 July 2010 – see section “Extraordinary transactions” – (ii) the acquisition of investee company ERG Eolica Adriatica S.r.l. carried out on 23 July 2010.

Regarding the second transaction, we report that on 23 July 2010 ERG Renew S.p.A. concluded an agreement with IVPC S.a.s., leading Italian operator in the sector of power generation from wind energy sources, for the purchase of a 100% equity interest in IVPC Power 5 S.r.l., whose name, following the closing completed on the same date through subholding company ERG Eolica Italia S.r.l., was changed to ERG Eolica Adriatica S.r.l. The company owns two wind farms,

including one in Molise (40 MW) which became commercially operational in January 2010, and one in Puglia (62 MW) which started commercial operation in June 2010, adding an overall installed capacity of 102 MW to the 208 MW already in production, whereas, with respect to what is envisaged in the 2010-2013 Business Plan, the expected installed capacity at the end of 2013 increases from 428 MW to 530 MW.

The acquisition price of the equity investment was EUR 71 million, of which EUR 59.5 million was paid at the time of executing the deed for the sale and purchase of the company's quotas. As regards the balance of EUR 10 million, originally to be paid, according to contract, thirty months after the date of the closing and, therefore, on 31 December 2012, EUR 5 million was paid in November 2010 under an agreement reached and executed between the parties. The remaining amount of EUR 5 million will be paid according to the original terms on 31 December 2012.

The acquisition was financially possible due to the support provided by the parent company ERG S.p.A., the latter having increased the credit line available to ERG Renew from the original amount of EUR 231 million to EUR 311 million, applying to such extension a different pricing and maturity date, as well as subordinating same in case of insolvency to the prior satisfaction of third-party lenders (Note 20).

For further considerations, reference is made to the Information Document drawn up in accordance with Articles 71 and 71-bis of the Regulations adopted by CONSOB under resolution 11971 dated 24 May 1999, as subsequently amended and supplemented, filed on 28 July 2010 and published by Borsa Italiana S.p.A. (www.borsaitaliana.it) and on the company's website, www.ergrenew.it.

We also report that the company Energie Pulite S.r.l., as from 29 June 2010, has changed its name to ERG Solare Italia S.r.l. The aforementioned company is now the ERG Renew Group photovoltaics business subholding company, to which the investee companies operating in the said sector will subsequently be transferred.

Lastly, for completeness of information we report that during the year the company ERG Eolica Joppolo S.r.l. changed its name to ERG Eolica Tirreno S.r.l.

The Company's separate financial statements reflect the impact on its financial position and Income Statement as a result of these acquisitions as well as the performance of all investee companies indirectly controlled by the Company.

Set out below are the main financial and economic data pertaining to the subsidiaries directly or indirectly controlled and consolidated on a line-by-line basis:

	ASSETS	LIABILITIES	SHAREHOLDERS' EQUITY	PRODUCTION VALUE
DSI - SERVIZI INDUSTRIALI S.R.L.	5,739	5,739	–	3,601
ERG SOLARE ITALIA S.R.L.	990	805	185	16
EOLIENNES DU VENT SOLAIRE S.A.S. *	11,334	11,715	(381)	600
EOLO S.R.L.	9,841	8,443	1,398	2,273
ERG EOLICA ADRIATICA S.R.L.	255,675	206,999	48,676	27,955
ERG EOLICA BASILICATA S.R.L.	38	160	(122)	–
ERG EOLICA CALABRIA S.R.L.	309	204	105	–
ERG EOLICA FAETO S.R.L.	54,392	42,392	12,000	6,083
ERG EOLICA FOSSA DEL LUPO S.R.L.	133,304	121,301	12,003	–
ERG EOLICA GINESTRA S.R.L.	92,552	90,562	1,990	–
ERG EOLICA ITALIA S.R.L.	185,443	151,060	34,383	1,186
ERG EOLICA TIRRENO S.R.L.	581	279	302	–
ERG EOLICA NURRA S.R.L.	2,002	1,536	466	–
ERG EOLICA SAN CIREO S.R.L.	42,589	20,211	22,378	8,027
ERG EOLICA SAN VINCENZO S.R.L.	39,063	20,445	18,618	9,734
ERG EOLICA TURSÌ COLOBRARO S.R.L.	978	945	33	–
ERG EOLIENNE FRANCE S.A.S. *	36,530	39,243	(2,713)	–
GREEN VICARI S.R.L.	75,131	65,594	9,537	13,278
PARC EOLIEN DE LIHUS S.A.S. *	10,518	10,622	(104)	2,180
PARC EOLIEN DE HETOMESNIL S.A.S. *	10,052	10,184	(132)	1,870
PARC EOLIEN DE LA BRUYÈRE S.A.S. *	10,112	10,029	83	2,008
PARC EOLIEN DU CARREAU S.A.S. *	8,532	7,718	814	1,875
PARC EOLIEN LES MARDEAUX S.A.S. *	10,270	10,433	(163)	1,832
SODAI ITALIA S.P.A.	10,064	2,358	7,706	5,977

* values expressed according to International Accounting Standards

The higher carrying values according to the historical cost criteria compared with the Company's share of equity are based on the subsidiaries' future income prospects, which confirm the recoverability thereof albeit taking into account the uncertainties referred to in the section "Use of Estimates – Recoverability of the value of non-current assets".

4 – FINANCIAL RECEIVABLES FROM SUBSIDIARIES – NON-CURRENT ASSETS

The reported balance includes:

	12/31/2010	12/31/2009
FINANCIAL RECEIVABLES DUE FROM SUBSIDIARIES, NON-CURRENT PORTION	348,043	187,534
TOTAL	348,043	187,534

“Financial receivables due from subsidiaries” are classified under the non-current section in order to take account of the effective terms for settlement of current account receivables on the part of investee companies, which cause them not to be treated as current items. They are mostly settled against share capital operations in the investee companies, with a corresponding increase in the carrying value of the investments.

The growth in the aforesaid receivables during the period is due to the development of investees’ activities in the wind sector, with special reference to the companies whose wind farms were under construction in FY2010. The increase is also ascribable to the acquisition, through subholding company ERG Eolica Italia S.r.l., of ERG Eolica Adriatica S.r.l., as already described in Note 3.

Evaluation of the recoverability of receivables (as described in the accounting standard “Impairment – Financial assets”) did not give rise to the need for write-downs. A breakdown of counterparties as regards financial receivables due from subsidiaries is provided in Note 36 “Related party transactions”.

5 – OTHER EQUITY INVESTMENTS

The changes in other equity investments are summarised in the following table:

	OTHER EQUITY INVESTMENTS
HISTORICAL COST	7,014
WRITE-DOWNS	(6,864)
BALANCE AT 12/31/2009	150
MOVEMENTS DURING PERIOD:	
INCORPORATION / CAPITAL INCREASES	42
HISTORICAL COST	7,056
WRITE-DOWN	(6,864)
BALANCE AT 12/31/2010	192

Details of other companies are as follows:

	REGISTERED OFFICE	SHARE CAPITAL	DIRECTLY	% HELD INDIRECTLY	PARENT COMPANY	CARRYING VALUE
OTHER EQUITY INVESTMENTS						
ANSALDO FUEL CELLS S.P.A.	GENOA	20,505	0.46	–	ERG RENEW S.P.A.	–
DYEPOWER CONSORTIUM	GENOA	387	24.70		ERG RENEW S.P.A.	192
						192

The item “Incorporation / Capital increases” includes the acquisition on the part of ERG Renew S.p.A. of an additional stake of 12.3% in the DyePower Consortium (giving a total stake of 24.7%). This Consortium, a non-profit organisation, aims to promote, plan and perform research and development in the sector of organic/hybrid photovoltaics, specifically in relation to “dye-sensitized” solar cells on glass and other non-metallic rigid products. The Consortium can also provide services to its members in designing, assessing and carrying out research projects in the photovoltaic sector, at both national and international level. During the year consortium costs of EUR 0.7 million were recorded, from the date of the consortium’s incorporation, pertaining to the Group; it has been decided that the Group’s overall financial commitment with regard to the Consortium cannot exceed EUR 2.5 million, including accumulated consortium costs.

The item “Other equity investments” also concerns the company Ansaldo Fuel Cells S.p.A., which is active in the applied development of technologies pertaining to the production of energy from (hydrogen) fuel cells and whose residual value at 31 December 2010 is zero, following the write-down of EUR 1,107 recorded as at 31 December 2009.

6 – FINANCIAL ASSETS

The reported balance is as follows:

	FINANCIAL ASSETS
BALANCE AT 12/31/2009	622
MOVEMENTS DURING PERIOD:	
INCREASES	103
BALANCE AT 12/31/2010	725

The amount of EUR 725 thousand relates to an annual-premium capital redemption insurance policy taken out with RAS S.p.A. and held as a secured pledge to RAS S.p.A., for the issue of a surety policy in favour of subsidiary ERG Eolica San Vincenzo S.r.l., for the benefit of owners of land on which the investee company’s wind farm is located. The duration of the contract is from 8 March 2004 to 8 March 2011 and the annual premium is EUR 103 thousand.

7 – OTHER RECEIVABLES – NON-CURRENT ASSETS

The increase of EUR 1,734 thousand essentially comprises an interest-bearing loan based on the Euribor plus 200 basis points granted by ERG Renew S.p.A. to the newly-incorporated company ISAB Energy Solare S.r.l. to cover the future financial commitments vis-à-vis same.

8 – TAX ASSETS – NON-CURRENT ASSETS

It is worth remembering that tax assets as at 31 December 2009 consisted entirely of the VAT credit claimed by ERG Renew S.p.A. as a result of the VAT procedure in force until 31 December 2008, posted under non-current assets in order to take account of the effective terms for settlement of such receivable.

We report that in February 2010 the parent company ERG S.p.A. submitted the VAT form for fiscal year 2009, including ERG Renew and some of its subsidiaries. The ERG Renew group VAT procedure is therefore no longer effective as from 1 January 2009.

9 – DEFERRED TAX ASSETS

The breakdown of deferred tax assets and changes during the year are shown in the following table:

	12/31/2010		12/31/2009	
	AMOUNT OF TEMPORARY DIFFERENCES	FISCAL EFFECT	AMOUNT OF TEMPORARY DIFFERENCES	FISCAL EFFECT
TEMPORARY DIFFERENCES	5,649	1,556	6,070	1,662
LOSSES CARRIED FORWARD	8,691	2,390	9,140	2,514
BALANCE AT END OF PERIOD	14,340	3,946	15,210	4,176

At the end of the reporting period, as indicated in the table, the Company showed losses from previous years of EUR 8,691 thousand, as resulting from the domestic tax consolidation procedure applied by the Group. The related deferred tax assets amounting to EUR 2,390 thousand have been recognised based on the 2010-2013 Business Plan which confirms the recoverability of same via future taxable income from tax consolidation, considering the renewal of the said tax consolidation for the period 2010-2012 and the reasonable expectation of further renewal of tax consolidation for the three years 2013 – 2015. Reference is made to the section “Use of estimates – Recoverability of deferred tax assets” for considerations regarding the uncertainties connected with estimation of the Group’s future taxable income.

CURRENT ASSETS

10 – TRADE RECEIVABLES

The reported balance includes:

	12/31/2010	12/31/2009
RECEIVABLES DUE FROM THIRD PARTIES	3,752	1,206
TOTAL	3,752	1,206

The increase in trade receivables due from third parties includes ERG Renew S.p.A.'s purchase of ACEA S.p.A. receivables, previously assigned as part of the transaction described in the section "Use of estimates – Provisions for liabilities and charges"; this purchase took place following the partial execution of the arbitration award described in the said section. The amount of such receivables, totalling EUR 10 million, is stated net of the related bad debt provision of EUR 6.5 million, comprising EUR 5.4 million recorded in prior years under the item Provisions for liabilities and charges, which – in addition to a bad debt provision of EUR 1.1 million already included in the net amount of the receivables repurchased as a result of the award – is intended as an adjustment of the net carrying value of such receivables (see section "Use of estimates").

11 – TRADE RECEIVABLES DUE FROM PARENT COMPANIES, SUBSIDIARIES AND ASSOCIATES

Details of the reported balance are set out below:

	12/31/2010	12/31/2009
RECEIVABLES DUE FROM PARENT COMPANIES	140	473
RECEIVABLES DUE FROM SUBSIDIARIES	6,865	3,603
RECEIVABLES DUE FROM GROUP COMPANIES	–	193
TOTAL	7,005	4,269

The Company considers that the carrying value of trade receivables approximates the presumed realisable value of same.

The breakdown at 31 December 2010 and 2009 of the counterparties for trade receivables due from subsidiaries and Group companies and the nature of such transactions are described in Note 36 "Related party transactions".

The most significant increases concern the positions with regard to ERG Eolica Ginestra S.r.l. and ERG Eolica Fossa del Lupo S.r.l.

12 – FINANCIAL RECEIVABLES DUE FROM SUBSIDIARIES – CURRENT ASSETS

The balance of EUR 8,212 thousand as at 31 December 2009 entirely concerned the financial receivable claimed by ERG Renew S.p.A. from subsidiary Eolo S.r.l. This receivable had been classified under current assets in order to take account of the effective conditions for settlement of same, which was to take place either via recourse to the credit market on the part of the indirect subsidiary or, in second instance, as contra entry for operations on its shareholders' equity even through subholding company ERG Eolica Italia S.r.l. During FY2010 ERG Renew assigned the receivable, without recourse, to ERG Eolica Italia S.r.l.

13 – OTHER RECEIVABLES – CURRENT ASSETS

The breakdown of the reported balance is as follows:

	12/31/2010	12/31/2009
OTHER RECEIVABLES DUE FROM SUBSIDIARIES	3,581	2,278
OTHER RECEIVABLES DUE FROM PARENT COMPANIES	–	102
GUARANTEE DEPOSITS	1,109	889
OTHER RECEIVABLES	260	378
ACCRUED INCOME AND PREPAID EXPENSES	53	112
TOTAL	5,003	3,759

The item “Other receivables due from subsidiaries” principally concerns (EUR 3,553 thousand) the positions with regard to subsidiaries participating in the tax consolidation procedure. The breakdown of counterparties for the other receivables due from subsidiaries is provided in Note 36 “Related party transactions”.

The balance of the item “Guarantee deposits” mainly refers to advances paid under a wind project located in Poland, due to expire in June 2011. The receivable is secured by a promissory note.

Regarding the receivable of EUR 102 thousand due from parent companies posted as at 31 December 2009, it should be remembered that in February 2009 the parent company ERG S.p.A. submitted the VAT form for fiscal year 2009, including ERG Renew and some of its subsidiaries. The ERG Renew group VAT procedure is therefore no longer effective as from 1 January 2009.

14 – TAX ASSETS – CURRENT ASSETS

The reported balance includes:

	12/31/2010	12/31/2009
TAX RECEIVABLES FROM DOMESTIC TAX CONSOLIDATION	1,109	974
WITHHOLDING TAXES	–	28
OTHER RECEIVABLES	18	18
TOTAL	1,127	1,020

The “Tax receivable from domestic tax consolidation” has been classified under current assets, since it will be used in compensation when paying the balance due in respect of 2010 taxes, following assignment of such amount to domestic tax consolidation on the part of the parent company ERG Renew.

15 – EQUITY INVESTMENTS AVAILABLE FOR SALE

The balance exclusively comprises the 3.33% participatory interest, unchanged during the current year, in the company Utilità Progetti e Sviluppo S.r.l.

16 – CASH AND CASH EQUIVALENTS

The reported balance includes:

	12/31/2010	12/31/2009
BANK AND POSTAL DEPOSITS	8,516	9,254
RESTRICTED BANK AND POSTAL DEPOSITS	4,170	4,170
TOTAL	12,686	13,424

The item principally relates to the credit balances on bank current accounts, the book value of which represents the nominal value.

The overall change that occurred in cash and cash equivalents is detailed in the Statement of Cash Flows, to which reference is made.

Restricted bank and postal deposits of EUR 4,170 thousand at 31 December 2010 refer to: (i) EUR 2,550 thousand for a deposit on a restricted account at Banca Popolare Emilia e Romagna as guarantee for a suretyship issued by the bank to the Campania region relating to the possible concession of a public subsidy, and (ii) EUR 1,620 thousand for a deposit on a restricted account at Banca Monte dei Paschi di Siena as guarantee for a suretyship issued by the bank to the Basilicata region relating to the Tursi-Colobrarò wind farm.

SHAREHOLDERS' EQUITY AND LIABILITIES

17 – SHARE CAPITAL AND RESERVES

Share capital consists of 132,666,675 ordinary shares with a par value of EUR 1.00 each, fully subscribed and paid up.

The reported balance includes:

	12/31/2010	12/31/2009
SHARE CAPITAL	132,667	132,667
LEGAL RESERVE	1,388	1,388
SHARE PREMIUM RESERVE	75,708	75,708
STOCK OPTION RESERVE	–	1,276
OTHER RESERVES	(10,184)	(11,460)
PROFIT (LOSS) CARRIED FORWARD	(83,562)	(60,915)
PROFIT (LOSS) FOR THE YEAR	(17,749)	(22,647)
GROUP SHAREHOLDERS' EQUITY	98,268	116,017

The breakdown of shareholders' equity reserves is as follows:

	BALANCE AT 12/31/2010	POSSIBLE USE	PORTION AVAILABLE	PORTION SUBJECT TO TAX DEFERRAL	SUMMARY OF USES IN THE PREVIOUS THREE YEARS	
					TO COVER LOSSES	OTHER REASONS
SHARE CAPITAL	132,667		–	451	–	–
LEGAL RESERVE	1,388	A, B	1,388	–	–	–
SHARE PREMIUM RESERVE	75,708	A, B	75,708	1,737	–	–
OTHER RESERVES	(10,184)		–	90	–	–
PROFIT (LOSS) CARRIED FORWARD	(83,562)		–	–	–	–
PROFIT (LOSS) FOR THE YEAR	(17,749)		–	–	–	–
TOTAL	98,268		77,096	2,278	–	–

Key

A: for share capital increase

B: to cover losses

We point out that the amounts subject to tax deferral arising from the said demerger comprise the following items:

- a portion of share capital amounting to EUR 451 thousand consists of a monetary revaluation reserve under Law 72/1983 stemming from the aforementioned demerger
- a portion of share premium reserve as detailed below:

	12/31/2010	12/31/2009
MONETARY REVALUATION RESERVE PURSUANT TO LAW 72/1983	225	225
MONETARY REVALUATION RESERVE PURSUANT TO LAW 413/1991	29	29
REVALUATION RESERVE PURSUANT TO LAW 342/2000	1,483	1,483
TOTAL	1,737	1,737

- the amount shown under other reserves comprises the following amounts:

	12/31/2010	12/31/2009
RESERVE FOR FURTHER VAT DEDUCTIONS	31	31
RESERVE FOR ENERGY EFFICIENCY GRANTS	17	17
CAPITAL CONTRIBUTION RESERVE	42	42
TOTAL	90	90

Cash flow hedge reserve

The Company has derivatives transactions in place (Note 21) as mentioned in the section “Summary of principal accounting standards”; the change in the fair value of “effective” instruments is recorded in this shareholders’ equity reserve, the balance of which at 31 December 2010 is zero.

Stock option reserve

The Company had a stock option plan in place for Directors of the Parent Company holding specific corporate offices and for executives whose roles made them more directly responsible for the Group’s economic and operating results. The exercise of the option rights could take place after three years from the grant date and for a period of not more than five years thereafter (expiring on 31 December 2010). Once the options had expired, the unexercised options would lapse and consequently would no longer attribute any right to assignees.

The ERG Renew S.p.A. Extraordinary Shareholders’ Meeting on 23 December 2004 resolved to grant the Board of Directors the power to carry out paid capital increases in one or more stages for a period of five years from the date of the Shareholders’ resolution for a maximum nominal amount of EUR 3.6 million through the issue of a maximum number of 3,600,000 ordinary ERG Renew S.p.A. shares, with normal entitlement, of a par value of EUR 1 each. These shares were to be offered in subscription to Directors holding corporate offices and to executives of ERG Renew S.p.A or subsidiary companies, within the meaning set forth by Article 2359 of the Italian Civil Code, whose roles made them more directly responsible for the Group’s results, in accordance with the regulation approved by the Board of Directors. The issue price could not be lower than the nominal value, and was to correspond to the arithmetical average of the official prices of ERG Renew shares recorded on the electronic share market (MTA) managed by Borsa Italiana S.p.A. during the 30 days preceding the assignment of the shares by the Board of Directors.

The ERG Renew S.p.A. Board of Directors, at its meetings on 1 February 2005, 14 June 2006 and 15 December 2006, resolved to execute respectively tranches I, II and III of the stock option plan, assigning the option rights to some beneficiaries identified in accordance with the criteria defined by the Remunerations Committee and already approved. At the same meetings, the Board of Directors also established the subscription price, calculated in accordance with the formula contained in the regulation, for the new shares coming from the exercise of option rights.

The fair value of the option was estimated utilising the Black–Scholes model and taking account of the terms and conditions for attribution of the option.

As at 31 December 2010 the aforesaid options had been entirely cancelled; cancellation was carried out, as regards 1,320,000 shares, once the possibility to exercise such rights on the part of some assignees who had resigned during the previous period no longer existed, and as regards 406,200 shares, following the waiver of such rights on the part of the remaining assignees.

18 – EMPLOYEES' SEVERANCE INDEMNITIES

The provision is set aside to cover the liability accrued in favour of employees in compliance with current legislation and national and company-level collective labour agreements. It is subject to index-linked revaluation.

The details of changes in employees' severance indemnities during the year are illustrated in the following table:

BALANCE AT 12/ 31/2009	143
MOVEMENTS DURING PERIOD:	
PROVISIONS	143
DECREASES DUE TO EXITS/ADVANCES	(6)
DECREASES DUE TO PAYMENT OF CONTRIBUTIONS	(98)
BALANCE AT 12/31/2010	182

Given the insignificance of both the outright amount of the reported item and the difference compared to the liability calculated using the Projected Unit Credit Method (PUCM), the Company has provisioned the legal liability accrued at the end of the period for Employees' Severance Indemnities in accordance with Article 2120 of the Italian Civil Code.

19 – PROVISIONS FOR LIABILITIES AND CHARGES

The breakdown of the total balance reported is as follows:

	12/31/2010	12/31/2009	CHANGES	
			INCREASES	DECREASES
LIABILITIES ASSOCIATED WITH EXTRAORDINARY TRANSACTIONS	–	5,435	–	(5,435)
LIABILITIES ASSOCIATED WITH INVESTEE COMPANIES	9,457	–	9,457	–
TOTAL	9,457	5,435	9,457	(5,435)

The total amount of provisions for liabilities and charges was appropriated to cover the risk of adverse outcomes in various litigation proceedings involving the Company, taking into account the assessments of the lawyers assisting the Company in the respective disputes. It reflects the limitations inherent in the use of estimates, as described in the section "Use of estimates – Provisions for liabilities and charges".

In particular, the provision for liabilities associated with extraordinary transactions at 31 December 2009 included the amount of EUR 5,435 thousand, recorded against contingent liabilities resulting from contractual agreements connected with extraordinary transactions for the sale of equity investments to ACEA S.p.A. carried out in previous years. Following partial execution of the arbitration award, as described in detail in the above section "Use of estimates – Provisions for liabilities and charges", involving ERG Renew S.p.A. and ACEA S.p.A., the aforesaid provision was removed from the provision for liabilities and charges and reclassified as a bad debt provision (Note 10).

The provision for liabilities associated with investee companies amounting to EUR 9.5 million refers to investee company ERG Eolienne France S.a.s. (the Holding company for the equity interests that own the French wind farms) as described in detail in the above section "Use of estimates – Recoverability of the value of non-current assets" and in Note 3.

Details of legal and tax proceedings and disputes currently involving the Company are provided as follows.

ERG Renew S.p.A. v. GEPAFIN S.p.A. – Court of Terni – Proceedings filed by GEPAFIN S.p.A. in order to have ERG Renew S.p.A. judicially sentenced to purchase the equity interest held by GEPAFIN S.p.A. in Ansaldo Fuel Cells S.p.A., for an overall amount of more than EUR 1,800 thousand. GEPAFIN S.p.A.'s claim is based on an agreement with EnerTAD S.p.A. executed in 2003, effectively containing a put option having the characteristics described above (commitment on the part of EnerTAD S.p.A. to purchase the shareholding owned by GEPAFIN in Ansaldo Fuel Cells). On the other hand, there are valid legal reasons for claiming that such agreement elapsed by law (as a result of the corporate law reform) prior to exercise of the put option on the part of GEPAFIN, consequently releasing ERG Renew S.p.A. On 17 March 2010 the court having jurisdiction confirmed the decision expressed during the hearing on 23 February 2010 and rejected all GEPAFIN S.p.A.'s preliminary motions, adjourning to the hearing on 26 April 2011 as regards the statement of conclusions.

ERG Renew S.p.A. v. ACEA S.p.A. – Arbitration – The arbitration Award issued on 27 January 2010 in connection with the above dispute envisaged the repurchase of trade receivables guaranteed by ERG Renew in the contract for sale and purchase of shares in A.R.I.A. S.p.A (formerly Tad Energia Ambiente S.p.A.) dated 17 May 2006. The repurchase of the receivables was carried out by means of deeds drawn up on 16 July 2010 and activities are underway to identify procedures for pursuing the credit recovery actions already in progress and undertaking those not yet commenced (see section "Use of estimates").

ERG Renew S.p.A. v. Sari Group S.r.l. (now Waste Italia S.p.A) and Waste Italia S.p.A. (now Unendo S.p.A.) – Arbitration – With the arbitration Award issued on 30 January 2009 in relation to the above dispute, the Board of Arbitration substantially recognised ERG Renew's rights arising from the DSI acquisition transaction, recalculating the amounts due by way of compensation based on the findings of the preliminary investigation. In executing the Award, Waste Italia and Unendo refused to make payment of the VAT corresponding to EUR 77 thousand. Consequently, on 15 April 2010, an immediately enforceable Court Order was issued, followed by an injunction to pay (in the amount of EUR 80 thousand). Waste Italia and Unendo filed their opposition to the Court Order and the case's first appearance hearing was scheduled for 18 December 2010, being later postponed until March 2011. ERG Renew has yet to appear in court.

In view of the above mentioned disputes, the provisions for liabilities and charges shown in the separate financial statements at 31 December 2010 are considered sufficient to cover the probable risks quantifiable as at the present time, albeit subject to the uncertainties associated with exposure as regards any litigation proceedings.

20 – FINANCIAL LIABILITIES

The breakdown of financial payables, net of the current portion, is as follows:

	12/31/2010	12/31/2009
LOAN FROM BANCA POPOLARE DI MILANO	8,000	11,200
LOAN FROM BANCA NATIXIS	11,500	17,500
	19,500	28,700
NON-CURRENT PORTION OF FINANCIAL PAYABLES DUE TO PARENT COMPANIES	284,431	118,802
TOTAL	303,931	147,502

The repayment schedule for the above mentioned non-current loans, which carry interest rates in line with those of the market, is as follows:

	MORTGAGES AND LOANS
BY 2012	14,700
BY 2013	3,200
BEYOND 2013	1,600
TOTAL	19,500

The agreement entered into with Banca Natixis during the month of August 2007 concerns a medium/long-term loan disbursed on 26 October 2007 to purchase the companies of the ERG Eolienne France S.a.s. group. The agreement provides for the repayment schedule detailed below:

	DATE	AMOUNT
REPAYMENT INSTALMENT	02/02/2011	3,000
REPAYMENT INSTALMENT	08/02/2011	3,000
REPAYMENT INSTALMENT	02/02/2012	4,500
REPAYMENT INSTALMENT	08/02/2012	7,000

After 2 August 2012 the Company can ask Banca Natixis to extend the duration of the loan in the amount of EUR 7,000 thousand for another twenty-four months. Early repayment is possible for a minimum sum of EUR 5,000 thousand.

The loan is unsecured and requires compliance with the following covenants:

- *Net Debt / Equity*: less than 1.8;
- *Interest Cover Ratio (Interest expense/Consolidated EBITDA)*: above 3.5 until 31 December 2009 and 4.0 thereafter.

During the first six months of 2009 the loan was restructured, increasing the guarantees offered to the bank, with the intervention of ERG S.p.A., and the economic conditions were revised, excluding the exceeding of covenant threshold values as potential cause of default.

The agreement entered into with Banca Popolare di Milano in March 2007 is a medium/long-term loan replacing a short-term credit line for the same amount, again with Banca Popolare di Milano.

The agreement provides for a repayment plan based on six-monthly instalments of EUR 1,600 thousand starting on 30 October 2009, with the last instalment on 30 April 2014.

The loan is unsecured and does not require any compliance with covenants. Early repayment is possible for a minimum amount of EUR 5,000 thousand starting from the twenty-fourth month after the date of execution of the loan agreement.

The balance of EUR 284,431 thousand refers entirely to utilisation of a credit line granted to ERG Renew S.p.A. by ERG S.p.A. on 25 May 2009. More specifically, ERG S.p.A. committed to supporting ERG Renew S.p.A., during 2009 and up to the amount of EUR 140 million, with financial backing for investments planned in 2009 in addition to any funding required to cover the ordinary and current operations of the Company and the Group during the same period. The aforesaid credit line includes a first tranche – line A (6-month EURIBOR plus a spread of 2%) for the amount of EUR 70 million – intended to finance 2009 investments and ERG Renew S.p.A.'s ordinary and current operations, and a second tranche – line B (6-month EURIBOR plus a spread of 1% until 31 December 2009, 6-month EURIBOR plus a spread of 2% until maturity on 31 December 2011) for an additional EUR 70 million – intended to permit the former subsidiaries of ERG Power & Gas S.p.A. to repay their financial debts vis-à-vis the latter. With effect from 1 January 2010, ERG S.p.A. has decided to confirm, for FY2010, the financial support for ERG Renew S.p.A. required to implement 2010 investment plans and cover operational needs, raising the financing amount, under a single line of credit, up to a maximum of EUR 231 million.

This line of credit, originally available until 31 December 2010 and subsequently extended until 31 December 2011, has been further extended until 31 December 2012, subject to possible additional extensions to be agreed in writing between the parties. The rate is based on 6-month EURIBOR plus a spread of 2%.

In order to cover investments planned during FY2011 the parent company ERG S.p.A., in February 2011, formally committed to irrevocably renewing its financial support for ERG Renew, already undertaken in 2009 and 2010, increasing the credit line from EUR 231 million to 307 million.

Following the subsequent acquisition of the company ERG Eolica Adriatica S.r.l. (see Note 3 "Equity investments in subsidiary and associate companies"), ERG S.p.A. raised the aforesaid credit line in favour of ERG Renew S.p.A. up to the overall amount of EUR 311 million, by granting ERG Renew an additional "Tranche B" up to a maximum amount of EUR 80 million to be used exclusively for the acquisition of a 100% equity interest in the company in question as well as accessory costs, if any, related to the acquisition. This "Tranche B" will mature on 31 December 2015 with repayment in a lump sum on maturity, subject to ERG's option to request early redemption thereof in the event of share capital increase transactions within ERG Renew, and spread of 300 basis points with respect to Euribor. The Loan was subsequently granted by ERG Renew to ERG Eolica Italia at the same terms and conditions with an increase of 5 basis points in the spread. At 31 December 2010 the amount of EUR 71 million had been utilised under the credit line.

The breakdown of the current portion of financial liabilities is detailed below:

	12/31/2010	12/31/2009
LOAN FROM BANCA POPOLARE DI MILANO	3,200	3,200
LOAN FROM BANCA NATIXIS	6,000	6,000
CURRENT ACCOUNT OVERDRAFTS	14,134	3,324
PAYABLES DUE TO OTHER LENDERS	175	–
TOTAL	23,509	12,524

The amounts relating to the two outstanding loans (with Banca Popolare di Milano and Banca Natixis) concern the repayment instalments due respectively on 30 April 2011 and 30 October 2011 (Banca Popolare di Milano – for a total amount of EUR 3,200 thousand) and on 2 February 2011 and 2 August 2011 (Banca Natixis – for a total amount of EUR 6,000 thousand).

Current account overdrafts, amounting to EUR 14,134 thousand, constitute the company's financial debt repayable at sight; the average interest rate for the year was 1.99% and the book value corresponds to the nominal value.

The overall variation in the current portion of financial payables is detailed in the statement of cash flows to which reference is made.

21 – DERIVATIVES RECEIVABLES AND PAYABLES

Payables and receivables from derivatives are reported in the financial statements as follows:

	12/31/2010	12/31/2009
DERIVATIVES RECEIVABLES	1	7
TOTAL	1	7

	12/31/2010	12/31/2009
PAYABLES FROM PUT OPTIONS	1,844	1,844
TOTAL	1,844	1,844

Derivative instruments and hedge accounting

As regards the Banca Popolare di Milano loan described in Note 20, ERG Renew S.p.A. has a contract in place to manage the risk of interest-rate fluctuation. More specifically, this is a CAP contract, with an initial notional amount of EUR 7.2 million and maturity on 30 October 2012, which from 30 October 2009 sets a maximum limit of 5% on the loan's benchmark rate.

All the Company's derivatives outstanding at 31 December 2010 can be classified as level two; the relative fair value is determined via evaluation techniques based on variables that are directly (or indirectly) observable on the market.

In order to determine the market value of derivatives, ERG Renew S.p.A. utilises various measurement and evaluation models, a summary of which is given in the following table:

TYPE	INSTRUMENT	PRICING MODEL	CALCULATION TOOL	MARKET DATA USED	DATA PROVIDER	IFRS 7 HIERARCHY
INTEREST RATE DERIVATIVES	INTEREST RATE SWAP	DISCOUNTED CASH FLOW	- MS EXCEL	- DEPOSIT RATES (EURIBOR)	- REUTERS	LEVEL 2
			- FINCAD XL	- SWAP RATES		
INTEREST RATE DERIVATIVES	INTEREST RATE OPTION (CAO, COLLAR)	BLACK & SCHOLES	- MS EXCEL	- DEPOSIT RATES (EURIBOR)	- REUTERS	LEVEL 2
			- FINCAD XL	- SWAP RATES	- ICAP (VIA REUTERS)	
				- IMPLIED VOLATILITY SHORT-TERM RATES		

The amount of the charge posted to the Income Statement for the year in connection with the adjustment of fair value at 31 December 2009 to fair value at 31 December 2010 is not significant.

During 2010 the Company did not enter into any new derivatives contracts to manage the risk of fluctuations in interest rates.

Minority put options on unlisted equity interests

The balance concerns the valuation of a put option on 0.69% of Ansaldo Fuel Cells S.p.A. granted by ERG Renew S.p.A. to Gepafin S.p.A. with expiry on 29 January 2009. Gepafin S.p.A. has notified exercise of its put option. ERG Renew S.p.A., considering this right on the shares of Ansaldo Fuel Cells S.p.A. to be invalid, has informed Gepafin S.p.A. that it will not purchase the shares concerned with the option. The related payable, currently still outstanding, is however recognised in the financial statements. The value of the option is EUR 1,844 thousand, which was the maximum exercise value as at 31 December 2010.

22 – TRADE PAYABLES

The reported balance includes:

	12/31/2010	12/31/2009
TRADE PAYABLES	2,909	1,053
PAYABLES DUE TO SUBSIDIARIES	-	3
PAYABLES DUE TO PARENT COMPANIES	401	196
PAYABLES DUE TO OTHER GROUP COMPANIES	-	509
TOTAL	3,310	1,761

The amounts refer above all to purchases of a commercial nature and other categories of services connected with operating activities. The carrying value of trade payables approximates their fair value.

The growth over the previous year concerns the amounts due for advisory services connected with extraordinary transactions which the Company is conducting and evaluating. The item "Payables due to other Group companies" shows a balance of zero following settlement during 2010 of the payable due to ERG Power & Gas, now ERG S.p.A.

Details of the counterparties involved in payables to subsidiaries and parent companies and the nature of these transactions is described in Note 36 "Related party transactions".

23 – OTHER PAYABLES

The reported balance includes:

	12/31/2010	12/31/2009
FINANCIAL PAYABLES DUE TO GROUP COMPANIES	654	4,142
OTHER PAYABLES DUE TO GROUP COMPANIES	1,161	855
PAYABLES DUE TO SOCIAL SECURITY INSTITUTIONS	204	299
OTHER SUNDRY PAYABLES	703	783
ACCRUED EXPENSES AND DEFERRED INCOME	15	15
TOTAL	2,737	6,094

Details of the counterparties involved in “Financial payables due to Group companies” and “Other payables due to Group companies” and the nature of these transactions are described in Note 36 “Related party transactions”. The decrease in “Financial payables due to Group companies” is primarily due to the reduction in share capital resolved by subsidiary SODAI Italia S.p.A., pursuant to Article 2445 of the Italian Civil Code, and carried out by reducing, for the same amount, the outstanding financial payable (see Note 3).

The item “Other payables due to Group companies” mainly concerns the position vis-à-vis the subsidiaries participating in the tax consolidation procedure (EUR 1,063 thousand).

Other sundry payables

	12/31/2010	12/31/2009
PAYABLES DUE TO EMPLOYEES	184	204
PAYABLES DUE TO DIRECTORS AND STATUTORY AUDITORS	257	370
PAYABLES DUE TO EMPLOYEES FOR ACCRUED VACATION DAYS	136	87
OTHER PAYABLES	126	122
TOTAL	703	783

24 – TAX LIABILITIES

Tax liabilities principally include the amount payable for taxes withheld in the capacity of withholding agent and paid in January 2011.

25 – NET FINANCIAL POSITION

A breakdown of the Company's net financial position is set out below:

(EUR THOUSAND)	12/31/2010	12/31/2009
CASH AND CASH EQUIVALENTS	8,516	9,254
CURRENT ACCOUNT OVERDRAFTS	(14,134)	(3,323)
RESTRICTED BANK AND POSTAL ACCOUNTS	4,170	4,170
SHORT-TERM NET FINANCIAL DEBT	(1,448)	10,101
FINANCIAL RECEIVABLES DUE FROM SUBSIDIARIES	–	8,212
DERIVATIVES RECEIVABLES	–	7
FINANCIAL ASSETS	–	8,219
TOTAL CURRENT FINANCIAL ASSETS	(1,448)	18,320
FINANCIAL PAYABLES DUE TO GROUP COMPANIES	(654)	(4,142)
BANK PAYABLES	(9,200)	(9,200)
DERIVATIVES PAYABLES	(1,844)	(1,844)
PAYABLES DUE TO OTHERS	(174)	–
TOTAL CURRENT FINANCIAL LIABILITIES	(11,872)	(15,186)
FINANCIAL RECEIVABLES DUE FROM SUBSIDIARIES	348,043	187,534
TOTAL NON-CURRENT FINANCIAL ASSETS	348,043	187,534
BANK PAYABLES	(19,500)	(28,700)
PAYABLES DUE TO PARENT COMPANIES	(284,431)	(118,802)
TOTAL NON-CURRENT FINANCIAL LIABILITIES	(303,931)	(147,502)
NET FINANCIAL POSITION	30,792	43,166

For the sake of expository clarity, we mention that, with a view to comparing the Separate Financial Statements as at 31 December 2010 and 31 December 2009, in the Company's Statement of financial position at 31 December 2010 the amount of EUR 7 thousand has been reclassified from the item "Derivatives receivables" under Current assets to the corresponding item under Non-current assets, in order to take account of the effective terms for settlement of such receivable. The aforesaid reclassification did not determine any effect on the year's result or on shareholders' equity at 31 December 2009 as shown in the Separate Annual Financial Statements approved by the Corporate Bodies.

The trend in the above mentioned net financial position is commented in the Management Report and in the Statement of Cash Flows.

The Company's net financial position set out in accordance with CONSOB recommendations contained in Circular 6064293 of July 2006 is shown below:

DESCRIPTION		12/31/2010	12/31/2009
A CASH	(1)	12,686	13,424
B OTHER LIQUID ASSETS	(1)	-	-
C SECURITIES HELD FOR TRADING	(1)	-	-
D CASH AND CASH EQUIVALENTS (A) + (B) + (C)		12,686	13,424
E CURRENT FINANCIAL RECEIVABLES		-	8,219
F CURRENT BANK PAYABLES	(1) (2)	14,134	3,323
G CURRENT PORTION OF NON-CURRENT DEBT		-	-
H OTHER CURRENT FINANCIAL PAYABLES		11,872	15,186
I CURRENT FINANCIAL DEBT (F)+(G)+(H)		26,006	18,509
J NET CURRENT FINANCIAL DEBT (I)-(E)-(D)		13,320	(3,134)
K NON-CURRENT FINANCIAL RECEIVABLES		348,043	187,534
L NON-CURRENT BANK PAYABLES		19,500	28,700
M BONDS ISSUED		-	-
N OTHER NON-CURRENT PAYABLES		284,431	118,802
O NON-CURRENT FINANCIAL DEBT (L)+(M)+(N)		303,931	147,502
P NET FINANCIAL DEBT (J)-(K)+(O)		(30,792)	(43,166)
RECONCILIATION WITH THE STATEMENT OF CASH FLOWS AND STATEMENT OF FINANCIAL POSITION:			
(1) CASH AND CASH EQUIVALENTS		12,686	13,424
(2) BANK PAYABLES		14,134	3,323

INCOME STATEMENT ANALYSIS

26 – PRODUCTION VALUE

The reported amount is broken down as follows:

	2010	2009
REVENUES FROM SALES AND SERVICES	4,256	3,169
OTHER OPERATING REVENUES AND INCOME	258	727
TOTAL	4,514	3,896

“Revenues from sales and services” and “Other operating revenues and income” refer almost entirely to services rendered to Group companies. Details of the counterparties and the nature of services performed are described in Note 36 “Related party transactions”. These services mainly concern administration, personnel management and IT services and are charged back in line with market rates.

The overall increase in “Production value” is essentially ascribable to the growth in business of the subsidiaries for which ERG Renew S.p.A. performs strategic consulting, administration and management services.

27 – PURCHASES OF RAW, ANCILLARY AND CONSUMABLE MATERIALS AND GOODS

The reported amount is broken down as follows:

	2010	2009
PURCHASES OF RAW, ANCILLARY AND CONSUMABLE MATERIALS	70	59
TOTAL	70	59

28 – SERVICES

The reported amount is broken down as follows:

	2010	2009
SERVICES	7,950	7,164
SUNDRY COSTS	1,371	1,465
RENT, LEASE AND SIMILAR	806	816
UTILITIES	47	84
TOTAL	10,174	9,529

The growth in “Services” primarily stems from advisory costs, totalling EUR 1,095 thousand, relating to the acquisition of ERG Eolica Adriatica S.r.l. (see section “Equity investments in subsidiary and associate companies”). The item also includes EUR 0.9 million relating to advisory services in connection with other extraordinary transactions being conducted and evaluated by the Company.

29 – PERSONNEL EXPENSES

The reported amount is broken down as follows:

	2010	2009
SALARIES AND WAGES	2,079	2,704
SOCIAL SECURITY EXPENSES	587	836
EMPLOYEES' SEVERANCE INDEMNITIES	143	173
OTHER COSTS	256	354
TOTAL	3,065	4,067

The decrease in personnel expenses during the year primarily reflects the reduction in the overall number of employees (Note 39 "Employee headcount"). Moreover, starting from FY2010 no provision was made to the stock option reserve following the conclusion of the vesting period.

30 – OTHER OPERATING EXPENSES

The reported amount is broken down as follows:

	2010	2009
INDIRECT TAXES	65	61
OTHER OPERATING CHARGES	819	73
TOTAL	884	134

The item other operating charges includes the amount of EUR 732 thousand relating to the chargeback of operating expenses by the DyePower consortium, as described above in Note 3 "Other equity investments".

31 – AMORTISATION AND DEPRECIATION

The reported amount is broken down as follows:

	2010	2009
AMORTISATION OF INTANGIBLE FIXED ASSETS	91	83
DEPRECIATION OF TANGIBLE FIXED ASSETS	18	19
TOTAL	109	102

32 – NET FINANCIAL INCOME AND EXPENSES VIS-À-VIS THIRD PARTIES

The reported balance includes:

	2010	2009
FINANCIAL INCOME	30	592
FINANCIAL EXPENSES	(1,135)	(2,113)
TOTAL	(1,105)	(1,521)

We mention that at 31 December 2009 this item included income relating to the favourable arbitration award concerning ERG Renew S.p.A.'s acquisition of a 100% equity interest in DSI S.r.l. Moreover, in 2009, financial expenses included a waiver fee paid to Natixis following the amendments made to the loan agreement and higher charges on financial derivatives.

The breakdown of financial income and expenses is as follows:

Financial income

	2010	2009
INTEREST AND COMMISSION FROM BANKS	7	238
INTEREST AND COMMISSION FROM OTHERS	23	354
TOTAL	30	592

Financial expenses

	2010	2009
INTEREST PAYABLE TO BANKS	(1,068)	(1,586)
INTEREST PAYABLE TO OTHERS	(67)	(527)
TOTAL	(1,135)	(2,113)

33 – FINANCIAL INCOME AND EXPENSES VIS-À-VIS SUBSIDIARIES AND PARENT COMPANIES

The reported balance includes:

	2010	2009
FINANCIAL INCOME	7,272	3,080
FINANCIAL EXPENSES	(6,509)	(1,457)
TOTAL	763	1,623

The reported amount includes interest income and expenses accrued during the year on ongoing loans with subsidiaries and parent companies. The interest rates are described in Note 36 "Related party transactions".

The increase in financial income refers above all to the development of investee company operations in the wind sector. Moreover, the significant growth in financial expenses concerns the interest paid to the parent company ERG S.p.A. under the credit line granted (Note 20 "Financial liabilities").

Details of counterparties and the nature of services carried out are described at length in Note 36 "Related party transactions".

34 – NET INCOME (LOSS) FROM EQUITY INVESTMENTS

The reported balance includes:

	2010	2009
WRITE-DOWN OF EQUITY INTEREST IN ENERGIE PULITE S.R.L.	200	100
WRITE-DOWN OF EQUITY INTEREST IN I.S.E.A. S.R.L.	150	–
LOSS ON DISPOSAL OF THE MINI-HYDRO BUSINESS	1,053	–
WRITE-DOWN OF EQUITY INTEREST IN ERG EOLIENNE FRANCE S.A.S.	526	–
PROVISION FOR LIABILITIES CONNECTED WITH INVESTEE COMPANIES	9,457	–
WRITE-DOWN OF EQUITY INTEREST IN ANSALDO FUEL CELLS S.P.A.	–	1,107
WRITE-DOWN OF EQUITY INTEREST IN SODAI ITALIA S.P.A.	–	11,691
WRITE-DOWN OF EQUITY INTEREST IN ECOPOWER S.R.L.	–	1,927
TOTAL	11,386	14,825
EARN OUT ON ACEA S.P.A. SALE	1,617	–
TOTAL	1,617	–

With regard to income and losses from equity investments, reference is made to the comments contained in the sections “Use of estimates – Recoverability of the value of non-current assets” and “Extraordinary transactions”.

35 – INCOME TAXES

Income taxes are calculated on estimated taxable income for the year, according to the rates currently prevailing, based on present regulations and on the domestic tax consolidation system. By virtue of this system, current taxes are positive, reflecting the tax benefit attributed to ERG Renew S.p.A. by the subsidiaries reporting positive taxable amounts.

The reported amount is broken down as follows:

	2010	2009
CURRENT INCOME TAXES	2,378	1,762
PRIOR YEAR TAX ADJUSTMENTS	–	153
DEFERRED INCOME TAXES	(228)	156
TOTAL	2,150	2,071

The reconciliation between the tax liability reported in the financial statements and the theoretical tax liability, based on the theoretical tax rates prevailing in Italy, is as shown below:

	TAXABLE AMOUNT	TAX
IRES (CORPORATION TAX)		
PROFIT BEFORE TAXES	(19,899)	
TOTAL	(19,899)	
THEORETICAL IRES TAXATION AT 27.5%		-
PREVIOUS YEAR TAX ADJUSTMENTS		-
FISCAL EFFECT OF PARTICIPATION IN TAX CONSOLIDATION		2,378
TEMPORARY CHANGES IN THE YEAR		(228)
VALUATION OF LOSSES CARRIED FORWARD		-
CURRENT AND DEFERRED IRES		2,150
IRAP (REGIONAL TAX)		
EBIT	(9,788)	
PERSONNEL EXPENSES	(3,065)	
TOTAL	(12,853)	
THEORETICAL IRAP TAXATION AT 3.9%		-
CHANGES IN THE YEAR		-
CURRENT IRAP		-

OTHER INFORMATION

36 – RELATED PARTY TRANSACTIONS

The Company, in its capacity as operating investment holding company exercising management and coordination activities over its subsidiaries, provides strategic, administrative and operational advisory services, thereby ensuring a unitary rather than hetero-directed management of its subsidiaries. These services are provided at normal market conditions

Moreover, where required, a treasury agreement exists between the Company and its subsidiaries, via which a bi-directional financial relationship is created in the form of an operating current account for the request and provision of funds in relation to specific needs and availability.

The agreement envisages the following interest rates:

- for credit balances: 6-month Euribor plus a spread of 2.05%;
- for debit balances: 6-month Euribor less a spread of 0.1%;
- for credit balances: 3-month Euribor plus a spread of 1.75% as regards the companies ERG Eolica Ginestra S.r.l., DSI S.r.l., SODAI Italia S.p.A.;
- for debit balances: 3-month Euribor plus a spread of 1.5% as regards the companies ERG Eolica Ginestra S.r.l., DSI S.r.l., SODAI Italia S.p.A.

The loan granted to subsidiary ERG Eolienne France S.a.s. to complete the acquisition of the French wind operating companies is interest-free.

Moreover, since it is part of the wider ERG Group, ERG Renew S.p.A. in turn receives services regulated by service contracts above all as regards administrative, financial and organisational activities, institutional and international relations, assistance with extraordinary operations, corporate affairs and planning and control as well as charges for the use of the computer system and office rental. These activities, which are covered by service contracts, can be itemised as follows:

- Administration and Fiscal provides for the operational coordination of financial reporting activities, fiscal policies as well as activities intended to implement and activate administrative processes for the correct application of accounting standards, in addition to supporting ERG Renew S.p.A. in the protection of its assets;
- Finance intended as support for treasury analysis and reporting operations as well as activities concerning the handling of relations with the banking and financial system, also for the granting of possible public subsidies for new investments;
- Risk Management supports and assists top management in defining risk management policies in observance of risk-related Group Policies, and supports the corporate functions in their identification, prevention, reduction and hedging of critical risks for the business in relation to tangible and intangible assets using, where necessary, the consultancy and intermediation of the insurance broker or specialised consultants and defines and implements guidelines for the identification, handling and periodic review of all categories of risk associated with the Company's industrial and financial activities;
- Audit monitors the controls exercised by management in order to assess the adequacy of the control systems put in place and the results obtained by way of their application. It verifies and evaluates the correct application of corporate policies, procedures and bookkeeping with a view to furnishing useful suggestions for carrying out management control activities;
- Corporate Security supports the company's Management in protecting its tangible/-intangible assets against internal/external risks or attacks of an intentional nature, analysing the areas of exposure and defining appropriate security management strategies and policies;

- Planning develops the medium and long-term scenarios (and relative sensitivity), supporting the Businesses' Forecasting, Budgeting and Planning operations; it also develops and evaluates, in collaboration with the Functions concerned, strategic studies and projects (for example, Italian and international market analyses, support for identification of new business opportunities, studies and projects with regard to technological innovation in the sector of renewable energy sources); it also collaborates with the Functions concerned for the definition and maintaining of asset evaluation methodologies and tools, and provides the required support for the evaluation of specific initiatives;
- Merger & Acquisition provides support for the evaluation and development of new business opportunities, also researching and analysing potential partnerships, and guarantees an activity of support for the competent functions in the analysis of technical, economic, financial pre-feasibility; in the subsequent phases of opportunity development, it also provides support as regards definition and optimisation of the "business model" in close coordination with the competent divisions. It provides support for the management of tenders during the "due diligence" phase (coordination of the project team and advisors, handling of relations with the counterparty), and for the finalisation of project documentation, in close coordination with top management and with the individual divisions concerned;
- Institutional and International Relations promotes and implements all reasonable initiatives designed to minimise risks and remove the causes that might jeopardise the health and safety of own employees as well as the local community in the area where operations are carried out; it develops a relationship of constructive cooperation, imbued with utmost transparency and trust, both within its own organisation and with the external community and the Institutions in the handling of issues relating to Health, Safety and the Environment;
- Communications realises and implements the entire Group's editorial line (in paper and electronic format). It performs advisory activities and direct operational management of institutional communications events;
- Personnel promotes the definition and ensures implementation of personnel policies in keeping with the Group's strategic vision that encourage the involvement and participation of employees at all levels for the achievement of corporate objectives; it supports the realisation of organisational analyses aimed at optimising activities and staff; it provides support for the management and development of payroll programmes in accordance with legal, contractual and corporate requirements;
- Information Systems provides support for the development, management and maintenance of the corporate information system (comprising the processing, automation, control and telecommunications systems) in line with the most state-of-the-art information technologies; it ensures the methodological development and technical realisation of the information system, ensuring its management with a view to achieving the most suitable working conditions according to the skills available and the required service levels.

As compensation for the activities performed, for execution of the assignment on a continuous basis the Company pays the amounts determined based on the standard average staff cost increased for accessory charges, general expenses, lump-sum reimbursement of costs incurred in carrying out the assignment and remuneration for services supplied. However, at the end of the year, in order to determine the changes to be made, if any, as an adjustment to the aforesaid fees estimated for 2010 and subsequent years in case of renewal, the ERG Group companies are required to furnish a schedule summarising the services performed. For activities performed in carrying out non-recurring specific tasks, as from time to time assigned, a sum will be paid upon completion as analytically calculated based on the time dedicated in terms of hours only as regards the head of the staff function concerned, valued at standard cost, plus reimbursement of expenses specifically incurred to perform the assignment.

During 2010 the amount of EUR 284,431 thousand was recorded on ERG Renew S.p.A.'s books, entirely in relation to the utilisation of a credit line granted by ERG S.p.A. to ERG Renew S.p.A. on 25 May 2009. More specifically, ERG S.p.A. committed to supporting ERG Renew S.p.A., during FY2009 and up to the amount of EUR 140 million, with financial backing, as necessary, for investments planned in 2009 and providing any funding requirements during such period for the ordinary and current operations of the Company and the Group.

The aforesaid line of credit includes a first tranche – line A (6-month EURIBOR plus a spread of 2%) for the amount of EUR 70 million – intended to finance 2009 investments and ERG Renew S.p.A.'s ordinary and current operations, and a second tranche – line B (6-month EURIBOR plus a spread of 1% until 31 December 2009, 6-month EURIBOR plus a spread of 2% up to maturity on 31 December 2011) for an additional EUR 70 million – intended to permit the former subsidiaries of ERG Power & Gas S.p.A. to repay their financial debts vis-à-vis the latter.

With effect from 1 January 2010 ERG S.p.A. had decided to confirm, for FY2010, the financial support for ERG Renew S.p.A. required to implement the 2010 investment plan and cover operational needs, raising the financing amount, under a single line of credit, up to a maximum of EUR 231 million.

This line of credit, originally available until 31 December 2010 and subsequently extended until 31 December 2011, has been further extended until 31 December 2012, subject to further possible extensions to be agreed in writing between the parties. The rate is based on 6-month EURIBOR plus a spread of 2%.

In order to cover investments planned during FY2011 the parent company ERG S.p.A., in February 2011, formally committed to irrevocably renewing its financial support for ERG Renew, already undertaken in 2009 and 2010, increasing the credit line from EUR 231 million to 307 million.

Following the subsequent acquisition of the company ERG Eolica Adriatica S.r.l. (see Note 3 "Equity investments in subsidiary and associate companies"), ERG S.p.A. raised the aforesaid credit line in favour of ERG Renew S.p.A. up to the overall amount of EUR 311 million, by granting ERG Renew an additional "Tranche B" up to a maximum amount of EUR 80 million to be used exclusively for the acquisition of a 100% equity interest in the company in question as well as accessory costs, if any, related to the acquisition. This "Tranche B" will mature on 31 December 2015 with repayment in a lump sum on maturity, subject to ERG's option to request early redemption thereof in the event of share capital increase transactions within ERG Renew, and a spread of 300 basis points with respect to Euribor. The Loan was subsequently granted by ERG Renew to ERG Eolica Italia at the same terms and conditions, with an increase of 5 basis points in the spread.

Lastly we report that, in February 2011, the parent company ERG S.p.A. formally committed to irrevocably renewing its financial support for ERG Renew, already undertaken in 2009 and 2010, as regards investments planned during FY2011 and any funding required to cover ERG Renew's ordinary and current operations during the same period, increasing the credit line from the original amount of EUR 231 million to 307 million, without prejudice to the supplementary credit line of EUR 80 million granted in July 2010 exclusively intended for the already commented acquisition of the equity investment in the company ERG Eolica Adriatica S.r.l.

Moreover, during the year under review, the Group (i) performed technical services for the parent company ERG S.p.A. (ii) charged back to the parent company ERG S.p.A. expenses totalling EUR 492 thousand in connection with the secondment of personnel during 2010.

ERG Renew S.p.A. performs support activities for its subsidiaries in connection with the development of wind farms up to obtainment of the single authorisation. Once the latter has been obtained, the company oversees the project management and plant operation side following start-up. Lastly, ERG Renew S.p.A. handles the staff and technological development activities pertaining to the wind farms

Details of transactions between the Company and related parties are set out below:

FINANCIAL DATA

Trade receivables and payables

	TRADE RECEIVABLES		TRADE PAYABLES	
	12/31/2010	12/31/2009	12/31/2010	12/31/2009
SUBSIDIARIES				
DSI - SERVIZI INDUSTRIALI S.R.L.	741	745	-	-
ECOPOWER S.R.L.	-	12	-	-
EOLICO AGIRA S.R.L.	1	-	-	-
EOLICO PALAGONIA S.R.L.	1	-	-	-
EOLICO RAMACCA S.R.L.	1	-	-	-
ERG SOLARE ITALIA S.R.L.	146	90	-	-
EOLIENNES DU VENT SOLAIRE S.A.S.	56	28	-	-
EOLO S.R.L.	56	41	-	-
ERG EOLICA SAN VINCENZO S.R.L.	1,046	802	-	-
ERG EOLICA NURRA S.R.L.	-	1	-	-
ERG EOLICA SAN CIREO S.R.L.	76	-	-	-
ERG EOLICA FAETO S.R.L.	509	384	-	-
ERG EOLICA TURSI COLOBRARO S.R.L.	1	7	-	-
ERG EOLICA TIRRENO S.R.L.	-	1	-	-
ERG EOLICA GINESTRA S.R.L.	1,614	172	-	-
ERG EOLICA ITALIA S.R.L.	2	55	-	3
ERG EOLICA BASILICATA S.R.L.	1	2	-	-
ERG EOLICA CALABRIA S.R.L.	1	1	-	-
ERG EOLICA FOSSA DEL LUPO S.R.L.	1,801	193	-	-
ERG EOLIENNE FRANCE S.A.S.	259	369	-	-
GREEN VICARI S.R.L.	231	510	-	-
I.S.E.A. S.R.L.	-	15	-	-
PARC EOLIEN DE LIHUS S.A.S.	55	35	-	-
PARC EOLIEN DE HETOMESNIL S.A.S.	55	35	-	-
PARC EOLIEN DE LA BRUYÈRE S.A.S.	55	35	-	-
PARC EOLIEN DU CARREAU S.A.S.	55	35	-	-
PARC EOLIEN LES MARDEAUX S.A.S.	55	35	-	-
TOTAL SUBSIDIARIES	6,818	3,603	-	3
JOINTLY CONTROLLED COMPANIES				
ISAB ENERGY SOLARE S.R.L.	47	-	-	-
TOTAL JOINTLY CONTROLLED COMPANIES	47	-	-	-
PARENT COMPANIES				
ERG S.P.A.	140	473	401	196
TOTAL PARENT COMPANIES	140	473	401	196
GROUP COMPANIES				
ERG RAFFINERIE MEDITERRANEE S.P.A.	-	23	-	-
ERG NUOVE CENTRALI S.P.A.	-	1	-	-
ERG POWER & GAS S.P.A.	-	168	-	509
ISAB ENERGY S.R.L.	-	1	-	-
TOTAL GROUP COMPANIES	-	193	-	509

Financial receivables and payables – current portion

	FINANCIAL RECEIVABLES		FINANCIAL PAYABLES	
	12/31/2010	12/31/2009	12/31/2010	12/31/2009
SUBSIDIARIES				
ERG EOLICA ITALIA S.R.L.	-	-	-	103
EOLICO AGIRA S.R.L.	-	-	20	8
EOLICO RAMACCA S.R.L.	-	-	84	23
EOLICO TROINA S.R.L.	-	-	97	19
EOLICO PALAGONIA S.R.L.	-	-	32	-
EOLO S.R.L.	-	8,212	-	-
ERG EOLICA SAN VINCENZO S.R.L.	-	-	-	2
ERG EOLICA TURSÌ COLOBRARO S.R.L.	-	-	301	298
ERG EOLICA BASILICATA S.R.L.	-	-	-	79
SODAI ITALIA S.P.A.	-	-	-	3,610
TOTAL SUBSIDIARIES	-	8,212	534	4,142
PARENT COMPANIES				
ERG S.P.A.	-	-	120	-
TOTAL PARENT COMPANIES	-	-	120	-

Financial receivables and payables – non-current portion

	FINANCIAL RECEIVABLES		FINANCIAL PAYABLES	
	12/31/2010	12/31/2009	12/31/2010	12/31/2009
SUBSIDIARIES				
DSI - SERVIZI INDUSTRIALI S.R.L.	2,878	2,259	-	-
ECOPOWER S.R.L.	-	144	-	-
ERG SOLARE ITALIA S.R.L.	496	627	-	-
EOLICO AGIRA S.R.L.	-	36	-	-
EOLICO PALAGONIA S.R.L.	-	31	-	-
EOLO S.R.L.	-	-	-	-
ERG EOLICA NURRA S.R.L.	1,404	2,558	-	-
ERG EOLICA TURSÌ COLOBRARO S.R.L.	-	-	-	-
ERG EOLICA TIRRENO S.R.L.	28	57	-	-
ERG EOLICA GINESTRA S.R.L.	46,060	49,941	-	-
ERG EOLICA ITALIA S.R.L.	143,263	67,671	-	-
ERG EOLICA CALABRIA S.R.L.	203	175	-	-
ERG EOLICA BASILICATA S.R.L.	82	-	-	-
ERG EOLICA FOSSA DEL LUPO S.R.L.	114,640	23,925	-	-
ERG EOLIENNE FRANCE S.A.S.	38,942	38,955	-	-
I.S.E.A. S.R.L.	-	1,155	-	-
TOTAL SUBSIDIARIES	347,996	187,534	-	-
JOINTLY CONTROLLED COMPANIES				
ISAB ENERGY SOLARE S.R.L.	1,781	-	-	-
TOTAL JOINTLY CONTROLLED COMPANIES	1,781	-	-	-
PARENT COMPANIES				
ERG S.P.A.	-	-	284,431	118,802
TOTAL PARENT COMPANIES	-	-	284,431	118,802

For completeness of information, we report that the non-current financial receivables shown above refer to receivables due from subsidiaries, settlement of which takes place against share

capital operations in the subsidiaries, making them similar to an equity instrument as opposed to a receivable. These financial assets are therefore assessed as part of the impairment test (Note 4).

Other receivables and payables – current portion

	OTHER RECEIVABLES		OTHER PAYABLES	
	12/31/2010	12/31/2009	12/31/2010	12/31/2009
SUBSIDIARIES				
DSI - SERVIZI INDUSTRIALI S.R.L.	8	36	–	4
ERG SOLARE ITALIA S.R.L.	1	2	6	6
EOLO S.R.L.	394	168	14	42
ERG EOLICA FOSSA DEL LUPO S.R.L.	–	–	6	–
ERG EOLICA ITALIA S.R.L.	–	–	34	375
ERG EOLICA SAN VINCENZO S.R.L.	1,014	713	54	185
ERG EOLICA NURRA S.R.L.	–	–	1	36
ERG EOLICA SAN CIREO S.R.L.	566	708	27	–
ERG EOLICA FAETO S.R.L.	101	2	18	17
ERG EOLICA TURSI COLOBRARO S.R.L.	–	–	2	13
ERG EOLICA TIRRENO S.R.L.	–	–	1	17
ERG EOLICA GINESTRA S.R.L.	–	12	845	–
GREEN VICARI S.R.L.	1,228	636	37	–
SODAI ITALIA S.P.A.	269	1	18	160
TOTAL SUBSIDIARIES	3,581	2,278	1,063	855
PARENT COMPANIES				
ERG S.P.A.	–	102	98	–
TOTAL PARENT COMPANIES	–	102	98	–

INCOME STATEMENT DATA

FY2010

	PRODUCTION VALUE	OTHER REVENUES AND INCOME	COSTS FOR SERVICES	INTEREST FINANCIAL INCOME	INTEREST OTHER FINANCIAL EXPENSES
SUBSIDIARIES					
DSI - SERVIZI INDUSTRIALI S.R.L.	-	-	-	66	-
ERG SOLARE ITALIA S.R.L.	-	55	-	20	-
EOLIENNES DU VENT SOLAIRE S.A.S.	28	-	-	-	-
EOLO S.R.L.	13	-	-	99	-
ERG EOLICA SAN VINCENZO S.R.L.	204	-	-	-	-
ERG EOLICA NURRA S.R.L.	16	-	-	66	-
ERG EOLICA SAN CIREO S.R.L.	225	-	-	-	-
ERG EOLICA FAETO S.R.L.	104	-	-	-	-
ERG EOLICA TURSÌ COLOBRARO S.R.L.	13	-	-	-	3
ERG EOLICA TIRRENO S.R.L.	12	-	-	1	-
ERG EOLICA GINESTRA S.R.L.	1,189	14	-	1,750	-
ERG EOLICA FOSSA DEL LUPO S.R.L.	1,338	-	-	1,971	-
ERG EOLICA ITALIA S.R.L.	124	4	-	3,248	-
ERG EOLIENNE FRANCE S.A.S.	106	-	-	-	-
ERG EOLICA CALABRIA S.R.L.	9	-	-	6	-
ERG EOLICA BASILICATA S.R.L.	9	-	-	-	-
GREEN VICARI S.R.L.	256	-	-	-	-
PARC EOLIEN DE LIHUS S.A.S.	20	-	-	-	-
PARC EOLIEN DE HETOMESNIL S.A.S.	20	-	-	-	-
PARC EOLIEN DE LA BRUYÈRE S.A.S.	20	-	-	-	-
PARC EOLIEN DU CARREAU S.A.S.	20	-	-	-	-
PARC EOLIEN LES MARDEAUX S.A.S.	20	-	-	-	-
SODAI ITALIA S.P.A.	-	-	-	-	90
TOTAL SUBSIDIARIES	3,746	73	-	7,227	93
JOINTLY CONTROLLED COMPANIES					
ISAB ENERGY SOLARE S.R.L.	50	-	-	45	-
TOTAL JOINTLY CONTROLLED COMPANIES	50	-	-	45	-
PARENT COMPANIES					
ERG S.P.A.	350	142	3,268	-	6,416
TOTAL PARENT COMPANIES	350	142	3,268	-	6,416
GROUP COMPANIES					
ERG OIL SICILIA S.R.L.	-	2	-	-	-
TOTAL GROUP COMPANIES	-	2	-	-	-

FY2009

	PRODUCTION VALUE	OTHER REVENUES AND INCOME	COSTS FOR SERVICES	INTEREST FINANCIAL INCOME	INTEREST OTHER FINANCIAL EXPENSES
SUBSIDIARIES					
DSI - SERVIZI INDUSTRIALI S.R.L.	2	-	-	62	-
ECOPOWER S.R.L.	39	-	-	1	-
ENERGIE PULITE 2000 S.R.L.	1	-	-	22	-
EOLIENNES DU VENT SOLAIRE S.A.S.	28	-	-	-	-
EOLICO PALAGONIA S.R.L.	1	-	-	1	-
EOLO S.R.L.	138	-	-	309	-
ERG EOLICA SAN VINCENZO S.R.L.	178	-	-	-	-
ERG EOLICA NURRA S.R.L.	4	-	-	96	-
ERG EOLICA SAN CIREO S.R.L.	192	-	-	-	-
ERG EOLICA FAETO S.R.L.	277	-	-	-	-
ERG EOLICA TURSÌ COLOBRARO S.R.L.	23	-	-	9	2
ERG EOLICA JOPPOLO S.R.L.	4	-	-	16	-
ERG EOLICA GINESTRA S.R.L.	573	-	-	769	-
ERG EOLICA FOSSA DEL LUPO S.R.L.	640	-	-	321	-
ERG EOLICA ITALIA S.R.L.	181	-	-	1,425	-
ERG EOLIENNE FRANCE S.A.S.	75	5	-	27	-
ERG EOLICA CALABRIA S.R.L.	4	-	-	4	-
ERG EOLICA BASILICATA S.R.L.	5	-	-	-	1
GREEN VICARI S.R.L.	422	2	-	-	-
I.S.E.A. S.R.L.	49	-	-	18	-
PARC EOLIEN DE LIHUS S.A.S.	20	-	-	-	-
PARC EOLIEN DE HETOMESNIL S.A.S.	20	-	-	-	-
PARC EOLIEN DE LA BRUYÈRE S.A.S.	20	-	-	-	-
PARC EOLIEN DU CARREAU S.A.S.	20	-	-	-	-
PARC EOLIEN LES MARDEAUX S.A.S.	20	-	-	-	-
SODAI ITALIA S.P.A.	-	-	-	-	89
TOTAL SUBSIDIARIES	2,936	7	-	3,080	92
PARENT COMPANIES					
ERG S.P.A.	227	395	2.193	-	1,365
TOTAL PARENT COMPANIES	227	395	2.193	-	1,365
GROUP COMPANIES					
ERG NUOVE CENTRALI S.P.A.	2	-	-	-	-
ERG PETROLI S.P.A.	-	-	50	-	-
ERG POWER & GAS S.P.A.	-	320	1.640	-	-
ISAB ENERGY S.R.L.	4	-	-	-	-
TOTAL GROUP COMPANIES	6	320	1.690	-	-

37 – FEES PAID TO DIRECTORS AND GENERAL MANAGERS

The fees paid during the year to Directors and General Managers are as shown in the following table:

	2010	2009
FEES	871	851
NON-MONETARY BENEFITS	10	–
OTHER BENEFITS	24	164
TOTAL	905	1,015

The Directors' fees are established by the Remuneration Committee.

In compliance with CONSOB resolution 11971 of 14 May 1999, the following is a list – by name – of the fees in question received under any title and in any form also from subsidiaries:

PERSON FULL NAME	OFFICE HELD	DESCRIPTION OF OFFICE		FEES			
		TERM OF OFFICE	EXPIRY	REMUNERATION FOR OFFICE HELD	NON-MONETARY BENEFITS	BONUSES AND OTHER INCENTIVES	OTHER FEES ⁽³⁾
PIETRO GIORDANO	CHAIRMAN	3/2/10 - 12/31/12	30 APRIL 2012	141,667			
VITTORIO GARRONE	DEPUTY CHAIRMAN	1/1/10 - 12/31/10	30 APRIL 2012	175,000	10,062	20,800 ⁽¹⁾	
FRANCESCO DEL BALZO	CHIEF EXECUTIVE OFFICER	1/1/10 - 12/31/10	30 APRIL 2012	250,000 ⁽²⁾			
ITALO GIORGIO ALFIERI	DIRECTOR	1/1/10 - 12/31/10	30 APRIL 2012	25,000			
	MEMBER OF NOMINATIONS AND REMUNERATION COMMITTEE			20,000			
LUCA BETTONTE	DIRECTOR	1/1/10 - 12/31/10	30 APRIL 2012	25,000 ⁽³⁾			
LORENZO CAPRIO	DIRECTOR	1/1/10 - 12/31/10	30 APRIL 2012	25,000			
	CHAIRMAN OF INTERNAL CONTROL COMMITTEE			30,000			
	MEMBER OF NOMINATIONS AND REMUNERATION COMMITTEE			20,000			
GIORGIO MAZZANTI	DIRECTOR	1/1/10 - 12/31/10	30 APRIL 2012	25,000			
	MEMBER OF INTERNAL CONTROL COMMITTEE			30,000			
ERNESTO MONTI	DIRECTOR	1/1/10 - 12/31/10	30 APRIL 2012	25,000			
	CHAIRMAN OF NOMINATIONS AND REMUNERATION COMMITTEE			20,000			
	MEMBER OF INTERNAL CONTROL COMMITTEE			30,000			
PIETRO MUTI	DIRECTOR	3/2/10 - 12/31/10	30 APRIL 2012	16,667 ⁽³⁾			
RAFFAELE TOGNACCA	CHAIRMAN	1/1/10 - 3/2/10		12,500			
LELIO FORNABAIO	CHAIRMAN OF BOARD OF STATUTORY AUDITORS	1/1/10 - 12/31/10	12 APRIL 2011	55,000			3,616 ⁽⁴⁾
ANDREA MANZITTI	STATUTORY AUDITOR	1/1/10 - 12/31/10	12 APRIL 2011	35,000			
FRANCESCO GATTI	STATUTORY AUDITOR	1/1/10 - 12/31/10	12 APRIL 2011	35,000			

(1) Bonus pertaining to 2010, to be paid by ERG Renew S.p.A. in May 2011;

(2) Remuneration received directly from respective company ERG S.p.A., for the amount of EUR 220,000.00;

(3) Remuneration received directly from respective company ERG S.p.A.;

(4) Fee for office of Statutory Auditor in ERG Eolica Italia S.r.l.

38 – PROFESSIONAL SERVICES OF THE AUDITING FIRM DELOITTE & TOUCHE S.P.A.

In accordance with Article 149-duodecies of the Issuers' Regulations, in the following table we show the detail and nature of services provided to the Company during the year by the auditing firm Deloitte & Touche S.p.A.:

	DELOITTE & TOUCHE S.P.A.	OTHER COMPANIES BELONGING TO THE DELOITTE NETWORK
AUDITING SERVICES	122	–
SERVICES OTHER THAN AUDITING FOR THE ISSUE OF CERTIFICATION	2	–
OTHER SERVICES	80	–
TOTAL FEES	204	–

The item "Auditing services" refers to activities regarding certification of the separate annual and interim financial reports and accounting control during the year performed by Deloitte & Touche S.p.A.

"Services other than auditing for the issue of certification" performed by Deloitte & Touche S.p.A. concern auditing activities connected with the review of the separate annual accounts for the purposes set forth in resolution no. 11 dated 18 January 2007 of the Italian Authority for Electricity and Gas (Unbundling).

The item "Other services" provided by other companies belonging to the Deloitte Network refers to two due diligence studies performed during FY2010.

39 – EMPLOYEE HEADCOUNT

	12/31/2010	12/31/2009
EXECUTIVES	4	7
WHITE-COLLAR EMPLOYEES	30	31
TOTAL	34	38

40 – COMMITMENTS AND CONTINGENT LIABILITIES

The total value of the Company's overall commitments at the end of the reporting period amounted to EUR 23,413 thousand. This amount can be broken down as follows:

- EUR 11,500 thousand referred to guarantees issued on behalf of Group companies with regard to the supply contracts connected with construction of the wind farms;
- EUR 3,431 thousand concerned the guarantees issued, based on current regulations, in favour of the Fiscal Revenues Agency (Agenzia delle Entrate) and the competent VAT offices;
- EUR 5,127 thousand concerned the guarantees issued by Group companies in favour of various public entities in connection with operating activities in the wind and water services sectors;
- EUR 3,355 thousand referred to guarantees issued in favour of HSH Nordbank AG in connection with ongoing project financings pertaining to the French wind farms.

41 – RISK DISCLOSURE

Set out below is the breakdown of financial assets and liabilities as required by IFRS 7 according to the categories envisaged by IAS 39.

FY2010

	NOTES	12/31/2010	LOANS AND RECEIVABLES	HEDGING DERIVATIVES	HT M
ASSETS					
FINANCIAL ASSETS	6	725	725	–	–
OTHER RECEIVABLES	7	1,784	1,784	–	–
TOTAL NON-CURRENT FINANCIAL ASSETS		2,509	2,509	–	–
TRADE RECEIVABLES	10	3,752	3,752	–	–
TRADE RECEIVABLES DUE FROM PARENT, SUBSIDIARY AND ASSOCIATE COMPANIES	11	7,005	7,005	–	–
DERIVATIVES RECEIVABLES	21	1	–	1	–
CASH AND CASH EQUIVALENTS	16	12,686	12,686	–	–
TOTAL CURRENT FINANCIAL ASSETS		23,444	23,444	1	–
TOTAL FINANCIAL ASSETS		25,953	25,953	1	–

HT M: held to maturity

For completeness of information, we report that the financial receivables due from subsidiaries (see Note 4) are not included in the IFRS 7 disclosure as they refer to receivables due from subsidiaries, settlement of which takes place against share capital operations in the subsidiaries, making them similar to an equity instrument as opposed to a receivable. These financial assets are therefore not subject to credit risk but are assessed as part of the impairment test.

	NOTES	12/31/2010	LIABILITIES AT AMORTISED COST	HEDGING DERIVATIVES	HT M
LIABILITIES					
FINANCIAL PAYABLES NET OF CURRENT PORTION	20	303,931	303,931	–	–
TOTAL NON-CURRENT FINANCIAL LIABILITIES		303,931	303,931	–	–
FINANCIAL PAYABLES CURRENT PORTION	20	23,509	23,509	–	–
DERIVATIVES PAYABLES	21	1,844	1,844	–	–
TRADE PAYABLES	22	3,310	3,310	–	–
TOTAL CURRENT FINANCIAL LIABILITIES		28,663	28,663	–	–
TOTAL FINANCIAL LIABILITIES		332,594	332,594	–	–

HT M: held to maturity

FY2009

	12/31/2009	LOANS AND RECEIVABLES	HEDGING DERIVATIVES	HT M
ASSETS				
FINANCIAL ASSETS	622	622	-	-
OTHER RECEIVABLES	50	50	-	-
TOTAL NON-CURRENT FINANCIAL ASSETS	672	672	-	-
TRADE RECEIVABLES	1,206	1,206	-	-
TRADE RECEIVABLES DUE FROM PARENT, SUBSIDIARY AND ASSOCIATE COMPANIES	4,269	4,269	-	-
DERIVATIVES RECEIVABLES	7	-	7	-
CASH AND CASH EQUIVALENTS	13,424	13,424	-	-
TOTAL CURRENT FINANCIAL ASSETS	18,906	18,906	7	-
TOTAL FINANCIAL ASSETS	19,578	19,578	7	-

HT M: held to maturity

	12/31/2009	LIABILITIES AT AMORTISED COST	HEDGING DERIVATIVES	HT M
LIABILITIES				
FINANCIAL PAYABLES NET OF CURRENT PORTION	147,502	147,502	-	-
TOTAL NON-CURRENT FINANCIAL LIABILITIES	147,502	147,502	-	-
FINANCIAL PAYABLES CURRENT PORTION	12,524	12,524	-	-
DERIVATIVES PAYABLES	1,844	1,844	-	-
TRADE PAYABLES	1,761	1,761	-	-
TOTAL CURRENT FINANCIAL LIABILITIES	16,129	16,129	-	-
TOTAL FINANCIAL LIABILITIES	163,631	163,631	-	-

HT M: held to maturity

The principal risks identified and actively managed by the Company are the following:

- Credit risk: the possibility of default by a counterparty or potential deterioration of the creditworthiness assigned;
- Market risk: deriving from exposure to fluctuations in interest rates;
- Liquidity risk: the risk that the financial resources available are insufficient to meet payment obligations;
- Operating risk: the risk of potential losses deriving from accidents, malfunctioning, plant breakdowns, exogenous events, with personal injuries and environmental damage, as well as inadequacy or improper functioning of procedures, human resources and internal management systems.

The Company attributes great importance to the monitoring of risks and to control systems, as a means of guaranteeing efficient management of the risks undertaken. Consistently with this objective, a management risk system has been adopted with formalised strategies, policies and procedures that assure identification, measurement and control of the degree of exposure to individual risks.

As regards exposure to the risk of offences under Legislative Decree no.231/01, the Company has adopted Organisation, Management and Control Models. These Models analytically identify the corporate activities where criminal acts relating to the above mentioned regulation may occur. Specific operating protocols have been prepared in order to schedule the development and implementation of the entity's decisions concerning the offences to be prevented.

The Company has also appointed Supervisory Committees, whose task is to periodically monitor mapping of the areas at risk of offences and carry out systematic checks to ascertain that the operating protocols contemplated in the Models are duly observed.

CREDIT RISK

Exposure to credit risk inherent in the possibility of default by a counterparty or deterioration of the creditworthiness assigned to same, is managed through appropriate analysis and evaluations of each individual counterparty.

The credit risk relating to the Company's financial assets features a maximum risk, in case of insolvency of the counterparty, equal to the carrying value of such assets.

The tables below provide information on the Company's exposure to credit risk as at 31 December 2010 and 31 December 2009:

	12/31/2010	30 DAYS	PAST DUE AGEING		MORE THAN
			60 DAYS	90 DAYS	90 DAYS
NON-CURRENT FINANCIAL ASSETS NOT PAST DUE	725	-	-	-	-
TRADE RECEIVABLES	-	-	-	-	-
TRADE RECEIVABLES DUE FROM PARENT, SUBSIDIARY AND ASSOCIATE COMPANIES	7,005	-	-	-	-
DERIVATIVES RECEIVABLES	1	-	-	-	-
CASH AND CASH EQUIVALENTS	12,686	-	-	-	-
TOTAL CURRENT FINANCIAL ASSETS NOT PAST DUE	19,692	-	-	-	-
PAST DUE TRADE RECEIVABLES	10,300	-	-	-	-
BAD DEBT PROVISION	(6,548)	-	-	-	-
TOTAL PAST DUE CURRENT FINANCIAL ASSETS	3,752	2	-	-	3,750
TOTAL FINANCIAL ASSETS	24,169	2	-	-	3,750

Trade receivables more than 90 days past due in the amount of EUR 3,750 thousand mainly comprise Group receivables acquired by the Group from the company ACEA S.p.A. following partial execution of the arbitration award described in detail in the above section "Use of estimates".

	12/31/2009	PAST DUE AGEING			
		30 DAYS	60 DAYS	90 DAYS	MORE THAN 90 DAYS
NON-CURRENT FINANCIAL ASSETS NOT PAST DUE	622	-	-	-	-
TRADE RECEIVABLES	-	-	-	-	-
TRADE RECEIVABLES DUE FROM PARENT, SUBSIDIARY AND ASSOCIATE COMPANIES	4,269	-	-	-	-
DERIVATIVES RECEIVABLES	7	-	-	-	-
CASH AND CASH EQUIVALENTS	13,424	-	-	-	-
TOTAL CURRENT FINANCIAL ASSETS NOT PAST DUE	17,700	-	-	-	-
PAST DUE TRADE RECEIVABLES	1,206	-	-	-	-
BAD DEBT PROVISION	-	-	-	-	-
TOTAL PAST DUE CURRENT FINANCIAL ASSETS	1,206	1	-	-	1,205
TOTAL FINANCIAL ASSETS	19,528	1	-	-	1,205

MARKET RISK

The Company's liabilities are primarily exposed to financial risks relating to changes in interest rates. In order to manage the risk of fluctuations in interest rates the Company uses derivatives which mostly come under the category of "CAP" contracts. In particular, the Company's policy is to convert part of its variable interest-rate payables to a fixed interest rate in order to normalise financial expenditures. These instruments are designated, if effective, as "cash flow hedges". Reference is made to Note 21 "Derivatives receivables and payables" for details of the types of instruments utilised, the notional value and the fair value at 31 December 2010.

The Company operates directly on the market. The derivative contracts are concluded with primary banks in order to reduce the risk of contractual non-performance. The Company does not use derivative instruments for trading purposes.

All the derivatives are measured at fair value, in accordance with IAS 39, corresponding to the Mark-to-Market value indicated by the reference market and the suitability of same is verified by means of valuation models and instruments.

The Company has therefore defined a strategy for managing the risk of interest-rate fluctuations designed to normalise the financial expenditures associated with the trend in interest rates. In FY2010 the Company's management of derivative instruments was consistent with the guidelines established in this strategy.

While reference is made to Note 21 for information on outstanding derivative contracts, set out below is an analysis of the impact on the pre-tax result (for the ineffective or trading portion) and on shareholders' equity (for the effective portion of the hedge) of changes in the fair value of the derivatives in the event of interest rate fluctuations of +/- 1%, with all the other variables remaining the same.

Effect on the income Statement

	2010	2009
SHOCK UP (CHANGE IN INTEREST RATE + 1%)	(70)	16
SHOCK DOWN (CHANGE IN INTEREST RATE -1%)	79	(7)

Effect on shareholders' equity

	2010	2009
SHOCK UP (CHANGE IN INTEREST RATE + 1%)	-	-
SHOCK DOWN (CHANGE IN INTEREST RATE -1%)	-	-

LIQUIDITY RISK

Liquidity risk is the risk that financial resources may not be sufficient to cover all obligations falling due. The parent company ERG S.p.A. has formally given its unconditional commitment to support ERG Renew as regards the investments planned during FY2011 up to a maximum requirement of EUR 311 million (see Note 20 and Note 36).

The following tables summarise the Company's financial liabilities as at 31 December 2010 and 31 December 2009 based on contractual payments not discounted to present value.

	12/31/2010	MATURITY				
		2 YEARS	3 YEARS	4 YEARS	5 YEARS	BEYOND 5 YEARS
NON-CURRENT FINANCIAL LIABILITIES NOT PAST DUE	303,931	299,131	3,200	1,600	-	-
FINANCIAL PAYABLES MATURING DURING THE YEAR	23,509	-	-	-	-	-
DERIVATIVES PAYABLES	1,844	-	-	-	-	-
TRADE PAYABLES	3,310	-	-	-	-	-
TOTAL CURRENT FINANCIAL LIABILITIES NOT PAST DUE	28,663	-	-	-	-	-
TOTAL PAST DUE CURRENT FINANCIAL LIABILITIES	-	-	-	-	-	-
TOTAL FINANCIAL LIABILITIES	332,594	299,131	3,200	1,600	-	-

The financial liabilities not past due shown in the above table, solely for the purpose of IFRS 7 disclosure, also comprise the portion of interest to be paid in future years and, consequently, not yet included in the financial payable recognised at 31 December 2010. The total amount of interest on the payable not yet matured, amounting to EUR 7,612 thousand, was calculated utilising the latest variable interest rate available. It is worth remembering that, due to the hedging operations previously reported, part of the variable rate debt has been changed to a fixed rate based on the contractual conditions specific to each derivative.

	12/31/2009	MATURITY				
		2 YEARS	3 YEARS	4 YEARS	5 YEARS	BEYOND 5 YEARS
NON-CURRENT FINANCIAL LIABILITIES NOT PAST DUE	151,770	131,798	15,100	3,248	1,624	-
FINANCIAL PAYABLES MATURING DURING THE YEAR	12,805	-	-	-	-	-
DERIVATIVES PAYABLES	1,844	-	-	-	-	-
TRADE PAYABLES	1,761	-	-	-	-	-
TOTAL CURRENT FINANCIAL LIABILITIES NOT PAST DUE	16,410	-	-	-	-	-
TOTAL PAST DUE CURRENT FINANCIAL LIABILITIES	-	-	-	-	-	-
TOTAL FINANCIAL LIABILITIES	168,180	131,798	15,100	3,248	1,624	-

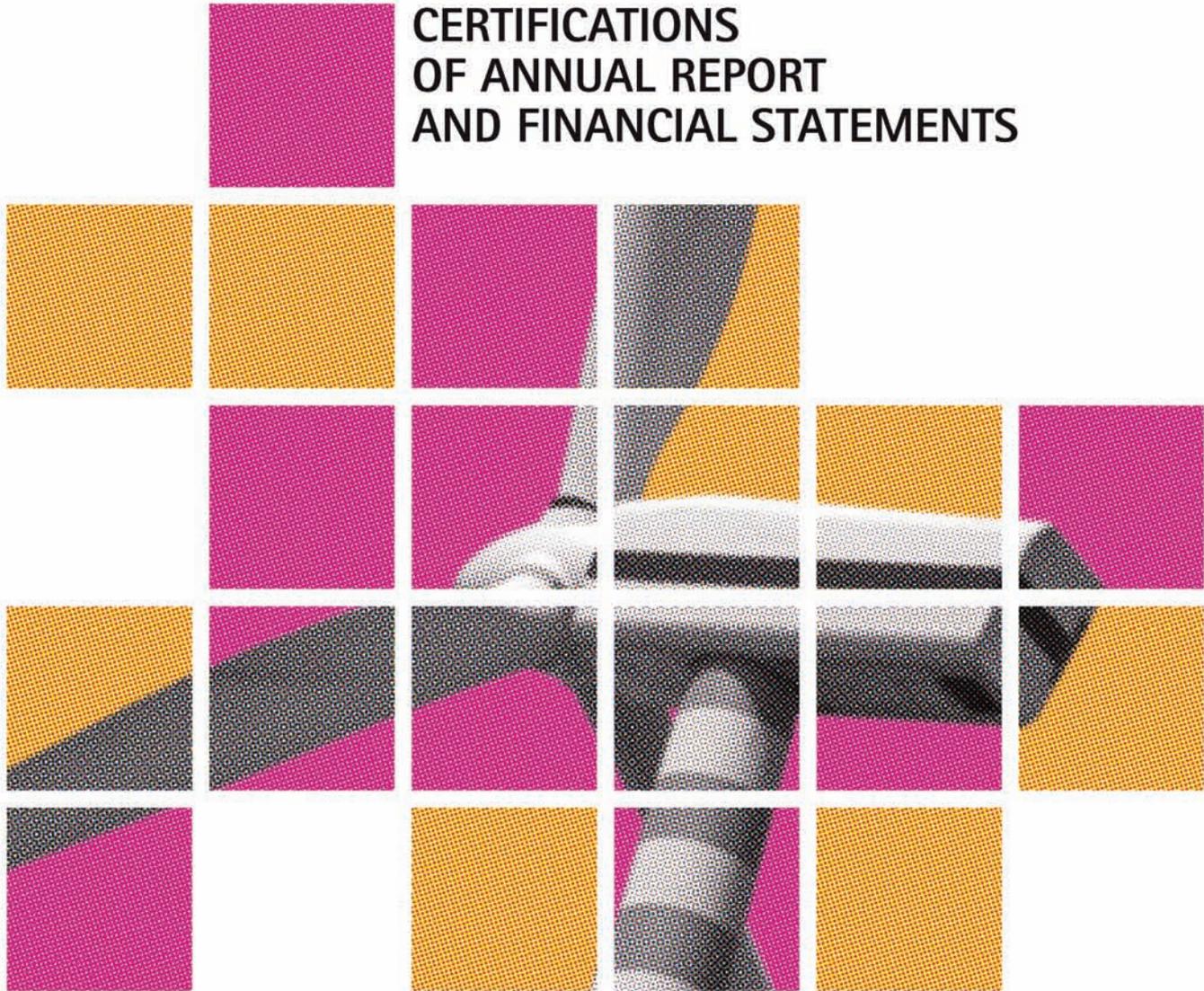
Again in this case, the financial liabilities not past due shown in the above table, solely for the purpose of IFRS 7 disclosure, comprise the portion of interest to be paid in future years and, consequently, not yet included in the financial payable recognised at 31 December 2009. The total amount of interest on the payable not yet matured, amounting to EUR 4,549 thousand, was calculated utilising the variable interest rate prevailing at the end of FY2009.

42 – PUBLICATION DATE OF THE FINANCIAL STATEMENTS

On 2 March 2011 the Board of Directors of ERG Renew S.p.A. authorised the publication of the Financial Statements, reserving the right to make formal additions and changes by the date of filing, to be carried out pursuant to Article 2429 of the Italian Civil Code.

These financial statements represent in a true and fair manner the Company's Statement of financial position, as well as the economic result for the year.

**CERTIFICATIONS
OF ANNUAL REPORT
AND FINANCIAL STATEMENTS**



CERTIFICATION OF THE CONSOLIDATED FINANCIAL STATEMENTS PURSUANT TO ARTICLE 81-TER OF CONSOB REGULATION NO. 11971 OF 14 MAY 1999, AS SUBSEQUENTLY AMENDED AND SUPPLEMENTED

1. The undersigned Francesco Del Balzo, Chief Executive Officer of ERG Renew S.p.A., and Luca Giorgerini, Manager responsible for preparing the financial reports of ERG Renew S.p.A., also taking account of the provisions set forth by Article 154-bis, paragraphs 3 and 4, of Legislative Decree no. 58 dated 24 February 1998, certify:
 - the adequacy in relation to the characteristics of the business;
 - the effective application of administrative and accounting procedures for the preparation of the Consolidated Financial Statements during the period 1 January – 31 December 2010.
2. Evaluation of the adequacy of administrative and accounting procedures for the preparation of the Consolidated Financial Statements as at 31 December 2010 is based on a process established by ERG Renew S.p.A. in accordance with the Internal Control-Integrated Framework model issued by the Committee of Sponsoring Organisations of the Treadway Commission, which is a benchmark framework generally accepted at international level.
3. It is furthermore certified that:
 - 3.1 the Consolidated Financial Statements:
 - a) have been prepared in compliance with the applicable international accounting standards recognised in the European Community pursuant to Regulation (EC) no. 1606/2002 of the European Parliament and of the Council, dated 19 July 2002;
 - b) correspond to the results shown in the accounting books and records;
 - c) are able to provide a true and fair view of the financial position and economic results of the issuer and the group of companies included in consolidation.
 - 3.2 the Management Report includes a reliable analysis of the operational performance and result, as well as the situation of the issuer and of the group of companies included in consolidation, together with a description of the principal risks and uncertainties, to which they are exposed.

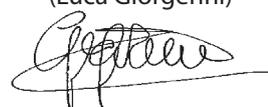
Genoa, 2 March 2011

The Chief Executive Officer

(Francesco Del Balzo)



The Manager responsible
for preparing the Company's
financial reports
(Luca Giorgerini)



CERTIFICATION OF THE ANNUAL FINANCIAL STATEMENTS PURSUANT TO ARTICLE 81-TER OF CONSOB REGULATION NO. 11971 OF 14 MAY 1999, AS SUBSEQUENTLY AMENDED AND SUPPLEMENTED

1. The undersigned Francesco Del Balzo, Chief Executive Officer of ERG Renew S.p.A., and Luca Giorgerini, Manager responsible for preparing the financial reports of ERG Renew S.p.A., also taking account of the provisions set forth by Article 154-bis, paragraphs 3 and 4, of Legislative Decree no. 58 dated 24 February 1998, certify:
 - the adequacy in relation to the characteristics of the business and
 - the effective application of administrative and accounting procedures for the preparation of the Annual Financial Statements during the 2010 financial period.
2. Evaluation of the adequacy of administrative and accounting procedures for the preparation of the Annual Financial Statements for the year ended 31 December 2010 is based on a process established by ERG Renew S.p.A. in accordance with the Internal Control-Integrated Framework model issued by the Committee of Sponsoring Organisations of the Treadway Commission, which is a benchmark framework generally accepted at international level.
3. It is furthermore certified that:
 - 3.1 the Annual Financial Statements:
 - a) have been prepared in compliance with the applicable international accounting standards recognised in the European Community pursuant to Regulation (EC) no. 1606/2002 of the European Parliament and of the Council, dated 19 July 2002;
 - b) correspond to the results shown in the accounting books and records;
 - c) are able to provide a true and fair view of the financial position and economic results of the issuer.
 - 3.2 the Management Report includes a reliable analysis of the operational performance and result, as well as the situation of the issuer, together with a description of the principal risks and uncertainties, to which it is exposed.

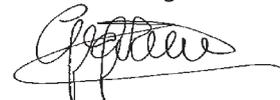
Genoa, 2 March 2011

The Chief Executive Officer

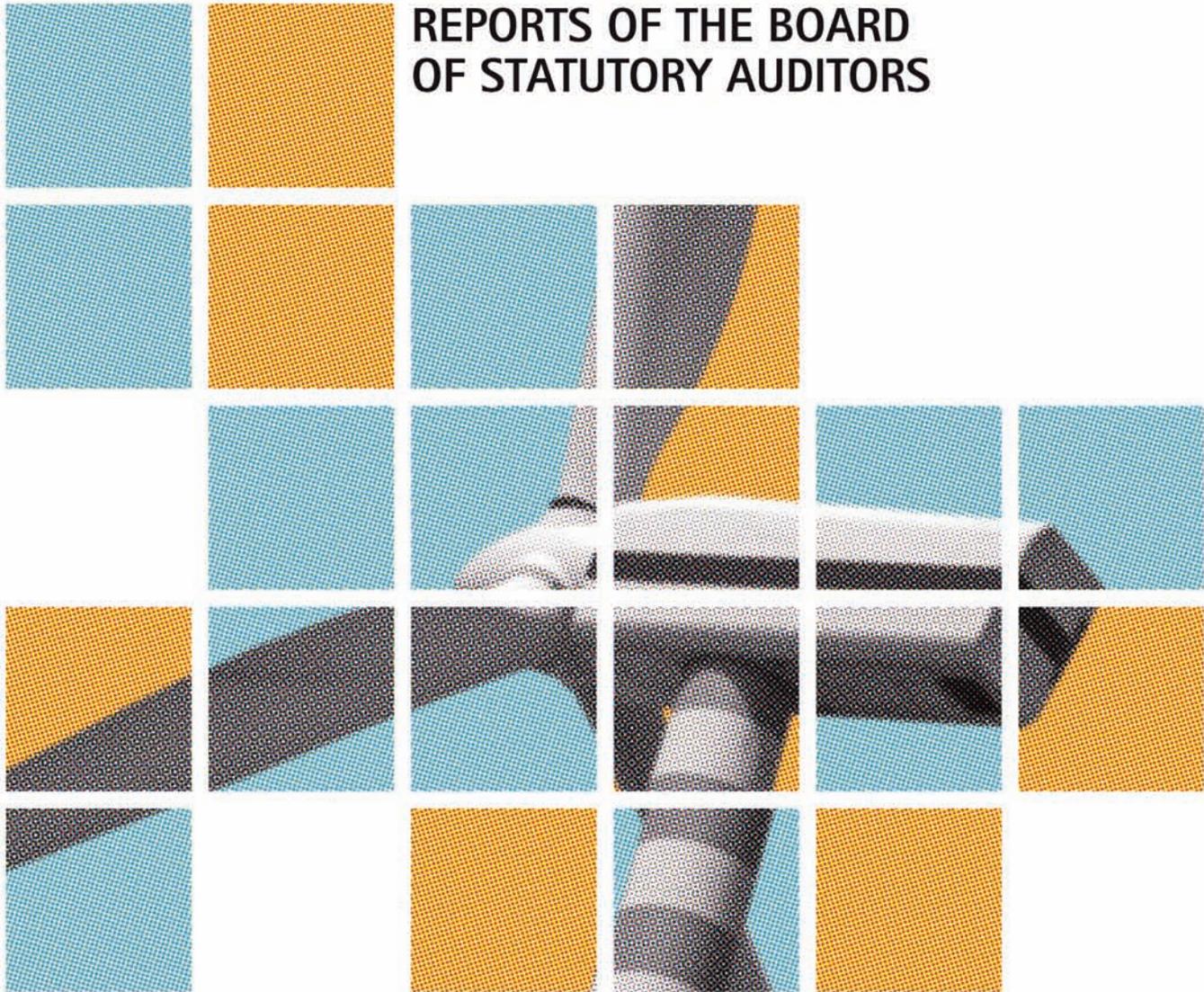
(Francesco Del Balzo)



The Manager responsible
for preparing the Company's
financial reports
(Luca Giorgerini)



**REPORTS OF THE BOARD
OF STATUTORY AUDITORS**



REPORT OF THE BOARD OF STATUTORY AUDITORS ON THE CONSOLIDATED FINANCIAL STATEMENTS OF ERG RENEW S.P.A. AS AT 31 DECEMBER 2010

Dear Shareholders,

The FY2010 Consolidated Financial Statements have been prepared in accordance with the International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) and approved by the European Commission, also including all the International Accounting Standards (IASs) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and the previous Standing Interpretations Committee (SIC).

In accordance with Legislative Decree No.58/98 and Article 41 of Legislative Decree No. 127/91, the task of ascertaining that the consolidated financial statements comply with legal provisions and correspond to the accounting records of the parent company and the consolidation entries is assigned to the Auditing Firm. Our supervisory activity has been carried out in observance of the principles of conduct for Statutory Auditors set by the Consigli Nazionali dei Dottori Commercialisti e dei Ragionieri (Italian National Councils of Professional and Certified Public Accountants) and particularly concerned:

- supervising the adequacy within the scope of the ERG Renew S.p.A. organisational structure of a person responsible for relations with subsidiary and associate companies;
- reviewing the composition of the Group and the current shareholding quotas, for the purpose of assessing the scope of consolidation;
- supervising the observance of principles of correct administration particularly as regards the most important transactions from an economic, financial and equity standpoint carried out within the framework of group relations, with special reference to transactions in potential conflict of interest.

As a result of our supervisory activity with regard to the Consolidated Financial Statements we certify that:

- the provisions of law concerning the formation and layout of the Financial Statements and Management Report have been observed;
- the Financial Statements, together with the Management Report, have been transmitted within the terms required by law;
- the Financial Statements correspond to the facts and information that have come to the knowledge of the Board of Statutory Auditors during the exercise of its supervisory duties;
- the Chief Executive Officer and the Manager Responsible for preparing the company's financial reports have issued the required certification, in accordance with the Law and regulations;
- the Management Report is consistent with the data and entries shown in the Consolidated Financial Statements and provides full information on the Group's economic-financial performance.

The Consolidated Financial Statements at 31 December 2010 report a net loss of EUR 15.9 million, compared to a net loss of EUR 28 million in FY2009, after having posted write-downs of concessions and equity investments concerning the wind business, for the total amount of EUR 19.3 million.

Lastly, the report issued by the auditing firm Deloitte & Touche S.p.A. on 14 March 2011 does not contain any observations or requests for information.

18 March 2011

The Board of Statutory Auditors
Lelio Fornabaio
Francesco Gatti
Andrea Manzitti

REPORT OF THE ERG RENEW S.P.A. BOARD OF STATUTORY AUDITORS PURSUANT TO ARTICLE 153 OF LEGISLATIVE DECREE 58/98 AND ARTICLE 2429 OF THE ITALIAN CIVIL CODE

Dear Shareholders,

During the financial period ended 31 December 2010 we carried out the supervisory activity assigned to the Board of Statutory Auditors, pursuant to Article 149 of Legislative Decree No. 58/98. This report is drawn up in accordance with Article 153, first paragraph of Legislative Decree No. 58/98, taking account of CONSOB Communication No. DEM/1025564 of 6 April 2001, and subsequent supplements thereto.

Firstly, we report that the Board of Statutory Auditors, together with the Independent Directors, supervised the voluntary tender offer transaction launched by the parent company ERG S.p.A. on 14 December 2010 on all ordinary shares of ERG Renew S.p.A. not already owned, at a price of EUR 0.97 per share.

The aim of the offer was to achieve the delisting from the Mercato Telematico Azionario (Electronic Share Market) organised and managed by Borsa Italiana S.p.A. of ordinary shares issued by ERG Renew, so as to enable the latter to benefit by a more adequate financial, organisational and management flexibility, useful for the purpose of implementing its strategic plan and more rapidly attaining and surpassing, through organic growth and/or acquisitions, current investment and market placement objectives.

On 13 January 2011 ERG Renew's Board of Directors approved the Statement required pursuant to CONSOB Regulations and judged the price of EUR 0.97 offered by ERG S.p.A. to be fair, based on a fairness opinion issued by the independent financial advisor Merrill Lynch. It should be noted that, bearing in mind that the Offer was launched by the Company's controlling shareholder, with a view to guaranteeing utmost transparency and objectivity for the protection of all shareholders and the market, the said Advisor was chosen and engaged following a proposal by the Company's Independent Directors.

As a result of the said offer, for which the acceptance period closed on 18 February 2011, ERG S.p.A. attained a controlling interest of 94.641%. Having acquired a stake in ERG Renew's share capital of more than 90% but less than the anticipated 95%, ERG S.p.A. nevertheless considered the offer efficacious. ERG S.p.A. will therefore have the obligation to purchase from any shareholders so requesting the shares not surrendered under the Tender Offer, at a price to be determined by CONSOB. Following the outcome of this additional stage of the public offering the Company will be delisted. The Board certifies that it has obtained all information concerning the transaction and has supervised the compliance with legal and regulatory provisions in connection therewith.

The Board of Statutory Auditors has received adequate information, particularly insofar as concerns the most significant transactions:

- in June 2010 the Company reached an agreement with IVPC S.a.s., leading Italian operator in the sector of power generation from wind energy sources, for the purchase of a 100% equity interest in IVPC Power 5 S.r.l., whose name, following the closing completed on 23 July 2010 through subholding company ERG Eolica Italia S.r.l., was changed to ERG Eolica Adriatica S.r.l. The company owns two wind farms, including one in Molise (40 MW) which became commercially operational in January 2010, and one in Puglia (62 MW) which started commercial operation in June 2010, adding an overall installed capacity of 102 MW to the 208 MW already in production. The acquisition price of the equity investment was EUR 69.5 million. The acquisition was financially possible due to the support provided by the parent company ERG S.p.A., the latter having increased the credit line available to ERG Renew from the original amount of EUR 231 million to EUR 311 million, applying to such extension a different pricing

and expiry date, as well as subordinating same in case of insolvency to the prior satisfaction of third-party lenders. The Company prepared an Information Document, in accordance with Articles 71 and 71-bis of the Issuers' Regulations, which was filed on 28 July 2010 and to which reference is made;

- the amendments and additions to the loan agreement executed between ERG S.p.A. and ERG Renew S.p.A. on 25 May 2009 were formalised on 8 March 2011. The transaction comes under those of greater importance carried out with related parties. The agreement provides for (i) an overall increase in the credit line from EUR 311 million (comprising Tranche A amounting to EUR 231 million and Tranche B amounting to EUR 80 million) to EUR 387 million, to cover the financial requirement arising from investments planned during 2011 and from ordinary and current operations (ii) an extension of the availability period for Tranche A of the credit line up to 31 December 2011 and (iii) an extension of Tranche A credit line's maturity date from 31 December 2011 to 31 December 2012, all other terms and conditions of the Loan Agreement remaining the same. The economic conditions of the Loan Agreement are as follows: Tranche A of the credit line, for the total amount of EUR 307 million, carries an interest rate corresponding to 6-month Euribor plus a spread of 200 basis points; Tranche B of the said credit line, for the total amount of EUR 80 million, carries the same interest rate plus a spread of 300 basis points. In this connection, bearing in mind the fact that the loan is not supported by guarantees and the terms and conditions normally applied in the banking market for this type of transaction, it can be considered that the economic terms of the Loan Agreement are in keeping with the best market terms and conditions. The internal control committee has expressed its favourable opinion on the transaction in accordance with the related parties procedure. On 8 March 2011 the Company published the Information Document drawn up in compliance with Annex 4 of the Regulation approved under CONSOB resolution 17221 of 12 March 2010, as subsequently amended and supplemented;
- lastly, as previously announced by the Company, we report that the hydroelectric power plant business, represented by the interests held in Ecopower S.r.l. (100%) and I.S.E.A. S.r.l. (90%), has been discontinued. The results generated by this business and its disposal have been reclassified in the income statement for FY2009 and FY2010 under discontinued operations, in accordance with IFRS 5.

Regarding the activities performed during FY2010, we report that:

- we convened the Board of Statutory Auditors on eight occasions and attended meetings of the Shareholders (1), the Board of Directors (9), the Internal Control Committee (7) and the Nominations and Remuneration Committee (4); the frequency and number of meetings of the Board of Directors were sufficient and we are able to confirm that no significant resolutions were passed without the Directors and Statutory Auditors having been appropriately informed beforehand;
- we supervised compliance with the statutory, legislative and regulatory provisions that govern the functioning of the Company's corporate bodies, as well as the observance of principles of correct administration. From our attendance of the Board of Directors' meetings and from the meetings held with the Chairman, the Deputy Chairman, the Chief Executive Officer and the Chief Financial Officer, we obtained information – on at least a quarterly basis – regarding the Company's general business activity, in the various sectors in which it operates, including through subsidiaries, and the most important transactions from an economic, financial and equity perspective, ascertaining that the actions decided and set up were compliant with the law and the Articles of Association and were not manifestly imprudent or risky, in potential conflict of interest or in contrast with the resolutions adopted by the corporate bodies or such as to compromise the integrity of the Company's assets. Information and evaluations were periodically exchanged with the auditing firm and with the Boards of Statutory Auditors of the main investee companies, during the course of which no significant aspects emerged that needed to be reported;

- for the part concerning us, we took cognisance of and monitored the adequacy of the company's organisational structure by obtaining information and reviewing the documentation delivered to us by the heads of corporate functions, and by analysing the results of the work performed by the auditing firm's representatives, also during the meetings arranged with a view to reciprocally exchanging data and information;
- we supervised the adequacy of the internal control system, both during the meetings with the various function heads and with the Person in Charge of Internal Control, and by taking part at the meetings held by the Internal Control Committee together with the Board of Statutory Auditors. In particular, this procedure for managing the supervisory activity enabled the Board, also through the activities of the said Committee, to perform its Internal Control Committee functions and accounting review, as assumed under Article 19 of Legislative Decree 39/2010 and particularly to oversee the financial disclosure process and the efficacy of the internal control, internal audit and risk management systems. More specifically, the Board of Statutory Auditors:
 - reviewed the periodic reports on the activity performed by the Head of Internal Control and the reports of the Internal Audit function;
 - reviewed the report of the Person in Charge of Internal Control and the Internal Audit Division concerning the activity performed during FY2010 and the action plan for 2011;
 - expressed its favourable opinion regarding the appointment of the new Person in Charge of Internal Control and the new Head of the Internal Audit function as proposed by the Executive Director entrusted with the task of supervising the functionality of the Internal Control system and approved by the Board of Directors during its meeting on 13 December 2010;
 - also took note of the said Committee's positive evaluation regarding the adequacy of the complex internal control system;
 - took note of the Auditing Firm's positive evaluation regarding the internal control system;
 - was periodically updated on the process of operational implementation, under the responsibility of the Risk Office function, as regards the integrated risk management model based on internationally recognised principles of Enterprise Risk Management (ERM), with special reference to the COSO framework (promoted by "The Committee of Sponsoring Organisations of the Treadway Commission") and reviewed the documents prepared by the Risk Office function, including, in particular, the year's work plan, the periodic reports on the activity performed and the 2011 action plan;
 - insofar as concerns risk management, the Board of Statutory Auditors noted that the transactions are carried out with a view to minimising operational risks and financial (interest rate) risks, solely for hedging purposes, without assuming any speculative approach; use was made of derivative financial instruments, within the meaning set forth by Article 2427-bis of the Italian Civil Code (options, swaps, futures and forwards). The Explanatory Notes to the financial statements, in accordance with Article 2427-bis of the Italian Civil Code, set out the fair values, based on the mark-to-market values measured by the reference market, with verification of hedging effectiveness via valuation models and instruments;
 - noted that on 13 April 2010 the Board of Directors assigned to the Deputy Chairman Vittorio Garrone responsibility for supervising the functionality of the Internal Control system.
- we took cognisance and supervised the adequacy of the administrative-accounting system, and the reliability of same in order to correctly represent management events, by obtaining information from the heads of corporate functions, reviewing documents and analysing the results of the work performed by the Auditing Firm;
- we supervised the adequacy of instructions given to subsidiaries both regarding the information flows required to draw up the financial statements and interim reports, and pursuant to Article 114, second paragraph of Legislative Decree No. 58/98;
- we monitored the process of continuously updating the Organisation and Management Model pursuant to Legislative Decree No. 231/01 and its dissemination within the Company. The latest

revision of the Organisation model, approved by the Board of Directors' meeting on 10 December 2009, takes account of the major legislative and jurisprudential changes introduced. As regards the composition of the Supervisory Committee, the Company's Board of Directors, as envisaged in the Model, during its meeting on 13 December 2010 appointed Devan De Paolis as Head of ERG S.p.A.'s Internal Audit function to replace the resigning Luigi Bricocoli as from 1 December 2010. From the Supervisory Committee's reports on the year's activities and from the meetings with such body, no significant criticalities emerged with regard to the Model's implementation and efficacy or reports concerning violations of the Model;

- we reviewed the new corporate legislative and regulatory provisions, verifying the compliance activities put in place by the Company in this respect, and confirm, in particular, that:
 - we were kept constantly informed on the training process regarding the procedure for transactions with related parties as per CONSOB resolution No. 17221 of 12 March 2010 and certified at the Board of Directors Meeting on 9 November 2010 that the procedure is in line with the provisions set forth by CONSOB's Regulation;
 - we verified the compliance of the procedures adopted with the principles indicated in the regulation, as well as the observance of same;
 - we reviewed the main changes introduced by Legislative Decree no. 27 of 27 January 2010, concerning the exercise of some company shareholder rights, in transposition of Directive 2007/36/EC, and approved the procedures adopted by the Company to implement for statutory purposes the mandatory changes arising from such decree;
 - we reviewed the changes made to the new text of Article 7 of the 2006 Corporate Governance Code for listed companies, with regard to the remuneration of directors and managers with strategic responsibilities, intended to transpose the indications contained in European Recommendation 2009/385;
 - we supervised the fulfilment of formalities connected with "Market abuse" and "Protection of savings" legislation in matters of corporate disclosure and "Internal Dealing", with special reference to the handling of privileged information and the procedure for the dissemination of announcements and information to the public and invited the directors to pay special attention to procedures relating to the tender offer phase.
- we discussed with the Company's Internal Control Committee the sphere of application of the management and control activity exercised by ERG Renew S.p.A. over its subsidiaries and that performed by ERG S.p.A. over ERG Renew S.p.A. and the main corporate activities which, by way of the service agreement, are outsourced to the Parent Company, so as to make them consistent with the provisions set forth in the Rules of the Markets;
- as required by Legislative Decree N° 81/08 on the matter of health and safety in the workplace, the Company has updated its management systems, with special reference to the global and documented assessment of "specific risks";
- the Security Policy Document has been updated in accordance with legal requirements.

Furthermore, in reference to the audit activities performed, we confirm that:

- the information concerning the organisational structure and changes made to same during the year are adequately described in the Annual Corporate Governance Report, drawn up according to the principles set forth in the Corporate Governance Code issued in March 2006. We point out that no rules for governing the shareholders' meeting have hitherto been adopted in view of the particular composition of the company's body of shareholders;
- the Company has not carried out any atypical or unusual transactions with group companies, related parties or third parties;
- except as previously indicated, the related-party transactions come within the scope of normal operations and are of both a commercial (mostly concerning holding company activities, administrative and financial coordination, strategic consulting) and financial (centralised management of financial resources) nature; these transactions correspond to the Company's interest and are carried out at market conditions. The relative information provided by the

Directors in their report is sufficient. Moreover, since the company is part of the wider ERG Group, it in turn receives from the Parent Company services regulated by specific service contracts above all for administrative, financial and organisational activities, institutional and international relations, assistance with extraordinary transactions, corporate affairs and planning and control, as well as charges for the use of the computer system and office rentals. The Management Report, together with the Explanatory Notes to the Financial Statements, to which reference is made, provide in a clear manner full details and a description of the economic effects of these transactions;

- no reports were received pursuant to Article 2408 of the Italian Civil Code and no complaints were received from third parties;
- in the course of our activity, we encountered no omissions, irregularities or reprehensible or, in any case, significant facts that needed to be reported to the control bodies or mentioned in this Report;
- during the year we issued the opinions required of the Board of Statutory Auditors according to law;
- we reviewed the document submitted by the Manager Responsible for preparing the Company's financial reports, setting out the test activities performed in 2010, designed to ensure correct fulfilment of the monitoring and certification obligations to which ERG Renew S.p.A. is subject pursuant to Law 262/05;
- we have taken note of the certification issued by the Manager Responsible for preparing the Company's financial reports and the Chief Executive Officer of ERG S.p.A. regarding the adequacy of the administrative and accounting procedures used to prepare the ERG Renew S.p.A. Separate Financial Statements and the Consolidated Financial Statements at 31 December 2010.

The Separate and Consolidated Financial Statements have been audited by Deloitte & Touche S.p.A.. During the year regular relations were maintained with the Auditing Firm, both by way of formal meetings also attended by the Company's administrative heads, and through informal contacts.

The auditing firm Deloitte & Touche S.p.A., in addition to its review of the Separate Financial Statements, the Consolidated Financial Statements and the Half-yearly Financial Report (for a total amount of EUR 122,000), also received engagements for activities performed as part of an audit carried out on certain accounting and tax aspects involving a number of target companies in Romania (for a total amount of EUR 35,000), for the agreed procedures in relation to the interim closings on 31 March and 30 September (for a total amount of EUR 15,000) as well as another engagement to review the pro forma data concerned with the IVPC 5 transaction (EUR 30,000) and an IVPC 5 survey (EUR 15,000). The auditing firm also carried out an assignment to review the separate annual accounts for the purposes of Italian Gas and Electricity Authority resolution No. 11 dated 18/1/2007 (Unbundling) and for the execution of tax returns (for a total amount of EUR 21,000).

For completeness of information, we report that Deloitte & Touche S.p.A. received overall audit engagements from ERG Renew S.p.A. and its subsidiaries for a total amount of EUR 267,000.

In accordance with the provisions set forth in Articles 10 and 17 of Legislative Decree No. 39 of 27 January 2010, the Auditing Firm has confirmed its independence in writing and has reported the non-audit services provided for the Company, even through entities belonging to its network.

Bearing in mind the "Transparency report" prepared by Deloitte & Touche S.p.A., the declaration of independence issued by the said auditing firm and the engagements conferred by ERG S.p.A. and by the consolidated companies and having noted that no engagements were assigned that are prohibited by Article 160 of Legislative Decree 58/98 and by the CONSOB rules for implementation, the Board of Statutory Auditors does not consider that there are any critical aspects with regard to independence.

Insofar as concerns the Separate Financial Statements, we report as follows:

- since we are not required to perform an analytical control of the financial statement contents, we supervised the general layout of the separate and consolidated financial statements, the overall legal compliance as regards their formation and structure and in such respect we have no particular observations to report;
- we checked the observance of legal provisions relating to the preparation of the Management Report. The latter is consistent with the data and entries shown in the Financial Statements and provides full information on the operations of the Company and its subsidiaries and on intra-group and related-party transactions, as well as on the consistency of the company's organisation with the principles of Corporate Governance, in keeping with the new Corporate Governance Code for listed companies, which has been adopted by ERG Renew;
- insofar as we are aware, the Directors have not departed from legal provisions pursuant to Article 2423, fourth paragraph of the Italian Civil Code and Article 5 of Legislative Decree No. 38/2005;
- the Company adopts international accounting standards as regards both the separate and the consolidated accounts;
- in accordance with CONSOB resolution No. 15519/2006 the accounting schedules specifically indicate the effects of related-party transactions on the Statement of Financial Position and the Income Statement. These effects are described in the Explanatory Notes to the Financial Statements;
- we have verified that the financial statements correspond to the facts and information that have come to our knowledge due to the performance of our tasks;
- the Chief Executive Officer and the Manager Responsible for preparing the company's financial reports have issued, without observations, the certification required in accordance with the Law and regulations;
- the Report and the Notes to the Annual Financial Statements show the information set forth by international accounting standards regarding the impairment of assets. The correspondence of the impairment test procedure to the requirements of IAS 36 was formally approved by the Board of Directors during its meeting on 16 February 2011, independently and in advance with respect to the financial report approval date, as recommended by the combined Bank of Italy/CONSOB/Isvap document No. 4 dated 3 March 2010. The Board of Statutory Auditors confirms having examined and discussed in a joint meeting with the Internal Control Committee the document drawn up and explained by an independent expert, setting out the analyses conducted and results obtained as regards the impairment testing of concessions relating to all the wind farms in operation in France and the Italian Faeto wind farm, and the values of concessions pertaining to the Ginestra and Fossa del Lupo wind farms currently under construction. The impairment tests carried out by independent assessors indicated impairments totalling EUR 19.3 million, ascribable to the values of the French authorisations (EUR 11.7 million) and to the value of the authorisation for the Ginestra wind farm now under construction (EUR 7.6 million), which were reflected in the consolidated financial statements. Insofar as concerns the separate financial statements, the write-downs connected with the French concessions led to the posting of an impairment of EUR 9.7 million as regards the equity investment held in ERG Eolienne France S.A. The evaluations were conducted based on a going-concern supposition and assuming the realisation of assumptions indicated in the Plan drawn up by the Company's management. The Board of Statutory Auditors, considering the main valuation hypotheses to be reasonable, approved the findings thereof;
- the Management Report also furnishes an adequate account of the events that have characterised the financial year, also in relation to potential future implications. More specifically, detailed information is provided on the following circumstances:
 - insofar as concerns the tax benefit connected with the so-called "Tremonti-ter" tax relief, which accounts for EUR 7.2 million of the item "Income taxes" (positive by EUR 10.3 million)

and refers to the investments carried out involving the subsidiary ERG Eolica Ginestra, the Directors point out that, notwithstanding the regulatory uncertainties that emerged during the months of September and October regarding the cumulability of the “Tremonti-ter” tax relief and the green certificates incentive system, they consider that the position adopted by the Government Lawyers (Avvocatura di Stato) on 18 January 2011 in favour of such cumulability, as well as the confirmation expected to be given by way of legislative decree concerning the renewable energy sector, already approved by the Council of Ministers on 3 March 2011 and pending publication, have strengthened the assumptions for maintaining the said tax relief provision;

- in March 2010 a new 2010-2013 business plan was approved, which envisaged, by the end of 2013, total investments of around EUR 254 million (of which EUR 121 million in 2010) for an overall installed capacity of 429 MW. This business plan was again considered by the Board of Directors in the version revised on 11 January 2011; the revision takes account of the impact of a number of events occurred during the year, which were disclosed to the market in the infra-annual information document and have caused a slowdown in the implementation of the original plan approved in March 2010;
 - the “Business outlook” section makes reference to the fact that investments in 2011 will be supported by the parent company ERG S.p.A., the latter having formally undertaken in March 2011 to support ERG Renew’s investments planned for the coming financial year as well as the possible financial needs in connection with the Company’s ordinary and current operations;
 - the investments carried out by the Company during 2010 amounted to around EUR 89 million, indicating a slowdown with respect to budget forecasts. The Management Report explains the reasons for this slowdown;
 - the section “Ongoing risks and disputes” and the section “Provisions for liabilities and charges” in the Explanatory Notes provide an adequate description of pending litigations.
- The financial statements correspond to the facts and information that have come to the knowledge of the Board of Statutory Auditors in the exercise of its supervisory duties and its powers of control and supervision.
 - The Independent Auditors’ Report dated 14 March 2011 contained no observations or requests for further information.
 - At the time of the Shareholders’ Meeting to approve the FY2010 financial statements the mandate of the Board of Statutory Auditors will expire. While expressing our appreciation to the Directors, Managers and all members of staff for their cooperation during the years of our mandate, we invite you to pass resolution as necessary.

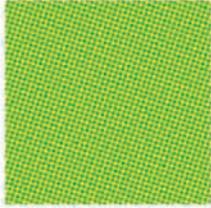
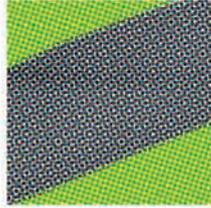
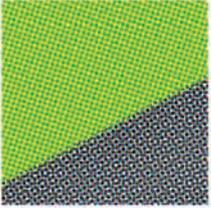
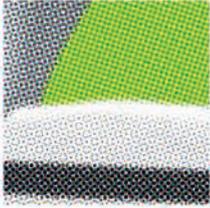
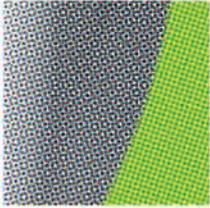
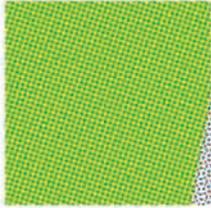
Bearing in mind the contents of this report, also taking account of the information received from the Auditing Firm, the Board of Statutory Auditors has no observations to make regarding the approval of the Separate Financial Statements for the period ended 31 December 2010, as drawn up by the Directors.

18 March 2011

The Board of Statutory Auditors

Lelio Fornabaio
Francesco Gatti
Andrea Manzitti

INDEPENDENT AUDITORS' REPORTS



INDEPENDENT AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS



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AUDITOR'S REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS PURSUANT TO ART. 14 AND 16 OF LEGISLATIVE DECREE N. 39 OF JANUARY 27, 2010

To the Shareholders of ERG RENEW S.p.A.

1. We have audited the consolidated financial statements of ERG Renew S.p.A. and its subsidiaries (the "ERG Renew Group") as of and for the year ended December 31, 2010, which comprise the consolidated statement of financial position, the consolidated income statement, the consolidated statement of other components of comprehensive income, the statement of changes in consolidated shareholders' equity, the consolidated statement of cash flows and the explanatory notes to consolidated financial statements. These consolidated financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree n. 38/2005 are the responsibility of the Company's Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.
2. We conducted our audit in accordance with the Auditing Standards recommended by CONSOB, the Italian Commission for listed Companies and the Stock Exchange. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The consolidated financial statements present comparative data from the prior year. As explained in the explanatory notes to the consolidated financial statements - with regard to the sale of the mini hydro business and based on applicable accounting principles IFRS 5- the Directors have reclassified certain comparative data related to the prior year's consolidated financial statement, with respect to the data previously reported and audited by us, on which we issued our auditors' report dated March 11, 2010. These reclassifications of comparative data and related disclosures included in the explanatory notes to the consolidated financial statements have been audited by us for the purpose of expressing our opinion on the consolidated financial statements as of December 31, 2010.

Ancona Bari Bergamo Bologna Brescia Cagliari Firenze Genova Milano Napoli Padova Parma Perugia
Roma Torino Treviso Verona

Member of
Deloitte Touche Tohmatsu

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3. In our opinion, the consolidated financial statements of the ERG Renew Group as of December 31, 2010 comply with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree n. 38/2005; accordingly, they give a true and fair view of the financial position of the ERG Renew Group, and of the results of its operations and its cash flows for the year then ended.
4. The Directors of ERG Renew S.p.A. are responsible for the preparation of the management report in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency of the management report and of the specific section on corporate governance with reference to the information reported in compliance with art. 123-bis of Italian Legislative Decree n. 58/1998, paragraph 1, letters c), d), f), l), m) and paragraph 2, letter b), with the consolidated financial statements, as required by law. For this purpose, we have performed the procedures required under Auditing Standard n. 001 issued by the Italian Accounting Profession (CNDCEC) and recommended by CONSOB. In our opinion, the management report and the information reported in compliance with art. 123-bis of Italian Legislative Decree n. 58/1998 paragraph 1, letters c), d), f), l), m) and paragraph 2, letter b) included in the specific section on corporate governance are consistent with the consolidated financial statements of ERG Renew Group as of December 31, 2010.

DELOITTE & TOUCHE S.p.A.

Signed by
Ernesto Lanzillo
Partner

Milan, Italy
March 14, 2011

This report has been translated into the English language solely for the convenience of international readers.

INDEPENDENT AUDITORS' REPORT ON THE SEPARATE FINANCIAL STATEMENTS



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AUDITOR'S REPORT ON THE SEPARATE FINANCIAL STATEMENTS PURSUANT TO ART. 14 AND 16 OF LEGISLATIVE DECREE N. 39 OF JANUARY 27, 2010

To the Shareholders of ERG RENEW S.p.A.

1. We have audited the separate financial statements of ERG Renew S.p.A. as of and for the year ended December 31, 2010, which comprise the statement of financial position, the income statement, the statement of other components of comprehensive income, the statement of changes in shareholders' equity, the statement of cash flows and the explanatory notes to separate financial statements. These separate financial statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree n. 38/2005 are the responsibility of the Company's Directors. Our responsibility is to express an opinion on these separate financial statements based on our audit.
2. We conducted our audit in accordance with the Auditing Standards recommended by CONSOB, the Italian Commission for listed Companies and the Stock Exchange. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the separate financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the separate financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

For the opinion on the prior year's separate financial statements, the balances of which are presented for comparative purposes as required by law, reference should be made to our auditors' report issued on March 11, 2010.

3. In our opinion, the separate financial statements of ERG Renew S.p.A. as of December 31, 2010 comply with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree n. 38/2005; accordingly, they give a true and fair view of the financial position of ERG Renew S.p.A., and of the results of its operations and its cash flows for the year then ended.

Ancona Bari Bergamo Bologna Brescia Cagliari Firenze Genova Milano Napoli Padova Parma Perugia
Roma Torino Treviso Verona

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Deloitte Touche Tohmatsu

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4. The Directors of ERG Renew S.p.A. are responsible for the preparation of the management report in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency of the management report and of the specific section on corporate governance with reference to the information reported in compliance with art. 123-bis of Italian Legislative Decree n. 58/1998, paragraph 1, letters c), d), f), l), m) and paragraph 2, letter b), with the separate financial statements, as required by law. For this purpose, we have performed the procedures required under Auditing Standard n. 001 issued by the Italian Accounting Profession (CNDCEC) and recommended by CONSOB. In our opinion, the management report and the information reported in compliance with art. 123-bis of Italian Legislative Decree n. 58/1998 paragraph 1, letters c), d), f), l), m) and paragraph 2, letter b) included in the specific section on corporate governance are consistent with the separate financial statements of ERG Renew S.p.A. as of December 31, 2010.

DELOITTE & TOUCHE S.p.A.

Signed by
Ernesto Lanzillo
Partner

Milan, Italy
March 14, 2011

This report has been translated into the English language solely for the convenience of international readers.

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and Fiscal Code 00276450632

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ERG Renew S.p.A. - April 2011

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