

ISAB ENERGY S.R.L.

ANNUAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2008



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CORPORATE BODIES

BOARD OF DIRECTORS¹

CHAIRMAN

RAFFAELE TOGNACCA

DEPUTY CHAIRMAN

MARCO FERRANDO

DIRECTOR

SERGIO CORSO

LUCA GIORGERINI

TORU TAKAHASHI

BOARD OF STATUTORY AUDITORS

CHAIRMAN

MARIA SARNO

STANDING AUDITOR

ANTONIO IPPOLITI

MARIO PACCIANI

EXTERNAL AUDITORS

RECONTA ERNST & YOUNG S.P.A.

¹ Appointed by the Quotaholders' Meeting on 16 February 2009

INTRODUCTION

ISAB Energy – 51% owned by ERG Power & Gas S.p.A. and 49% by IPM Priolo BV (Holland) – owns the Integrated Gasification Combined Cycle (IGCC) plant in Priolo Gargallo (Syracuse, Sicily), built near the refinery

of ISAB S.r.l., a company in which ERG Raffinerie Mediterranee (ERGMed) owns an equity interest.

Construction of the plant was financed by means of non-recourse project financing.

MAIN ECONOMIC AND FINANCIAL DATA

The figures shown below are stated in Euro. In tables where figures are shown in mil-

lions of Euro, totals may differ from the exact sum of the amounts forming them.

(MILLION EURO)	2008	2007	2006
TOTAL REVENUES	598	491	575
EBITDA	208	183	228
EBIT	90	140	186
PROFIT (LOSS) FROM ORDINARY OPERATIONS	79	124	166
NET PROFIT (LOSS) FOR THE YEAR	41	80	109
CASH FLOW FROM OPERATIONS	98	184	174
CASH FLOW FROM INVESTMENTS	(31)	(24)	(8)
CASH FLOW FROM QUOTAHOLDERS' EQUITY	-	(70)	(70)
CHANGE IN NET FINANCIAL DEBT	67	89	96
TOTAL QUOTAHOLDERS' EQUITY	392	351	341
NET FINANCIAL DEBT	162	228	318
NET INVESTED CAPITAL	554	579	659

OPERATIONAL DATA

		2008	2007	2006
INVESTMENTS	MILLION EURO	31	25	8
EMPLOYEES AT END OF PERIOD		3	3	4
ELECTRICITY OUTPUT USING SYNGAS	MILLION KWH	3,395	3,708	3,878
ELECTRICITY OUTPUT USING GASOIL	MILLION KWH	40	101	123
ELECTRICITY SALES	MILLION KWH	3,435	3,809	4,001

MARKET INDICATORS

	2008	2007	2006
SELLING PRICE (EURO/MWH)			
SINGLE NATIONAL PRICE	86,99	70,99	74,75

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MANAGEMENT REPORT

SALES

Sales of electricity produced by ISAB Energy during 2008 totalled 3,435 GWh (3,809 GWh in 2007 and 4,001 GWh in 2006). The entire output was sold, under a 20-year contract, to GSE (the Italian national grid operator).

Of this output, 99% was supplied on the basis of CIP 6 tariffs (*potenza convenzionata* - power officially eligible for grid feed-in incentive tariffs) while the remaining 1% was sold on a surplus basis.

We point out that November marked the

end of the period during which the CIP 6 tariff benefited from the incentivised component for output up to the power officially eligible (*potenza convenzionata*).

Pursuant to the current contract, revenues have been recognised in relation to non off-take by the GSE exceeding the standard excess of 2,400 hours equivalent during the incentive period and/or owing to causes of force majeure.

COMMENT ON THE YEAR'S RESULTS

The 2008 result was mainly affected by the plant accident that occurred on 13 October leading to stoppage of the entire power station's production. The accident, which did not cause any injuries, irreversibly damaged one of the plant's two production trains (Train 1) and residually damaged Train 2.

The 2008 financial statements – expressed in Euro – show a profit of Euro 41.3 million (compared with a profit of Euro 79.8 million in 2007) after depreciation and amortisa-

tion totalling Euro 42.9 million (Euro 43.2 million in 2007) and write-offs of tangible fixed assets totalling Euro 75.4 million (of which Euro 52.9 million concerned assets damaged as a result of the accident and Euro 21.5 million concerned the balance of work in progress regarding the construction of the third gasifier).

These financial statements have been audited by Reconta Ernst & Young S.p.A.

EVENTS DURING THE YEAR

On **23 JANUARY** the Council of State published its decision accepting the arguments put forward by the Autorità per l'Energia Elettrica e il Gas (AEEG – the Italian electricity and gas authority) and rejecting the reasoning previously set out in the Lombardy TAR (Regional Administrative Tribunal) ruling of 2007. As a result of this decision, AEEG Resolution 249/06 became enforceable already as from 2007. This resolution envisages new rules for calculating the CIP 6 tariff component for the so-called "avoided fuel cost". The Group companies affected by the matter recognised the economic effects of this decision on their results already in their 2007 financial statements.

On **13 OCTOBER** an incident occurred involving a boiler at the ISAB Energy plant, causing a fire to break out on one of the two electricity production lines.

The plant's emergency plan ensured that the fire was immediately extinguished and

the plant made safe. On **18 December** one of the two power generation trains, representing 50% of the plant's production capacity, came back on stream. The 260 MW of power once again operational will enable, throughout the whole of 2009, an electricity output of around 2 TWh.

Based on a preliminary estimate, it should be possible to keep the timing required to restart the second train to within the 20 months maximum indemnity period for consequential damages. In this connection, it is considered that the insurance coverage should be sufficient to ensure cover for both direct and consequential damages, excluding related deductibles.

OTHER SIGNIFICANT EVENTS

On **15 MAY** ERG presented its 2008-2011 Business Plan, which envisages investments of over Euro 2 billion, with more than 60% dedicated to power generation using thermoelectric and renewable sources.

REGULATORY FRAMEWORK

The most important events characterising the energy sector during 2008 were as follows:

Publication of the 2008 Finance Law: this law contains numerous interesting changes, from the reform of regulations for renewable energy sources, to the full powers granted to the Electricity and Gas Authority (AEEG) in matters concerning "Avoided Fuel Cost," to class action lawsuits. The law also introduces a variable excise tax on fuels and the figure of "Mister Prices" (price watchdog), while also amending the regulations governing tenders for gas concessions.

Amendment to Consolidated Environment Act: publication of Legislative Decree no. 04/2008 in the Gazzetta Ufficiale (Italian Official Journal) of 29 January 2008, amending the Environmental Code (Legislative Decree 152/2006). This legislative de-

ree entirely rewrites the rules applicable to the Environmental Impact Assessment ("EIA") and the Strategic Environmental Assessment ("SEA") and sets specific deadlines for the EIA, from 150 days to a maximum of 330 days for more complex works. Again as regards EIA, it eliminated the no answer-tacit rejection provision of the EIA, i.e. the automatic mechanism whereby the request was considered automatically rejected if no answer was given. If the deadlines are not met, the assessment will be subject to review by the Council of Ministers.

Furthermore, as regards remediations, the new Article 252-bis was introduced. This article envisages identifying "sites of paramount public interest" for the purpose of "implementing programmes and measures for industrial conversion and productive economic development." At these sites, through the Programme Agreement mechanism, "projects for clean-up of contami-

nated land and water and targeted actions for productive economic development” will be implemented. Lastly, the decree establishes the hierarchy of waste management priorities (reduction, reuse, and recycling), and new rules for consortia.

Clean-ups – Programme Agreement for the Priolo site and CIPE (Inter-ministerial Committee for Economic Planning) Resolution 61/2008: in November, the Quality of Life Directorate at the Environment Ministry completed definition of a Programme Agreement for clean-ups at the Priolo site, in line with similar agreements already signed at other sites, in order to define opportunities and procedures for resolution of the pending administrative dispute, for approval of clean-up projects, and for obtaining the return of the areas to legitimate uses. Details as regards conditions and costs of the transactions for the owners of the areas included in the site are still being defined.

Possible access to financing, in compliance with EU rules concerning Government subsidies, is linked to the provision contained in the *CIPE* resolution of 2 April 2008, “Approval, with conditions, of the extraordinary national programme for the economic and productive restoration of contaminated industrial sites (Special Strategic Project)”, which allocates Euro 3 billion to the extraordinary programme, laying down the terms for implementation and the criteria for admission to the programme and the loans.

EU energy/environment/climate-change package: in December an agreement was reached at European level on the 20/20/20 climate-energy package. This envisages, by the end of 2020, reducing CO₂ emissions by 20% from their 1990 levels, reducing energy consumption by 20% from the forecast trend level for that year, generation of 20% of energy needs from renewable energy sources and the promotion and use of biofuels, which again by the end of 2020 must account for 10% of all automotive fuel consumption. As regards Italy this translates into a binding target, for renewable sources, of 17% of domestic electricity consumption

by the end of 2020, compared to 5.2% reported in 2005. The package also provides for the revision of the European Union Emissions Trading Scheme (EU-ETS): as from 2013 the member states will auction all quotas that have not been assigned free of charge and the Commission will determine and publish the estimated quantity of quotas to be auctioned. The Commission will also issue a regulation for the timing, management and other aspects concerning auctioning of the quotas to ensure that the auctions are open, transparent, harmonised and non-discriminatory.

National Allocation Plan for CO₂ for the period 2008-2012: approval of resolution 20/2008 executes the decision on allocation of CO₂ quotas for the period 2008-2012. Allocations are the same as those already envisaged in the previous draft assignments of December 2007 and February 2008.

Reimbursement of costs to purchase CO₂ quotas for CIP 6 plants: publication in June of AEEG Resolution ARG/elt 77/08: “Criteria for recognition, pursuant to Title II, point 7-bis of CIP Provision no. 6/92, of the costs stemming from application of Directive 2003/87/EC”, whereby the criteria are determined for full reimbursement of the costs incurred by owners of CIP 6 plants for purchase of CO₂ quotas during the first (2005-2007) and second (2008-2012) periods of the system envisaged by the Emissions Trading Directive.

Conversion into law, with amendments, of Decree Law no. 112 of 25 June 2008 laying down urgent measures for economic development, simplification, competitiveness, stabilisation of public finances and tax equalisation: this decree law was converted into Law no. 133 on 6 August and published in Gazzetta Ufficiale no. 195 of 21 August 2008 – Ordinary Supplement no. 196. The law envisages a series of important measures for the sector, particularly including, with regard to ISAB Energy:

- restoration of the 33% IRES (corporation tax) rate for all categories of energy company indicated in the measure (including those active in oil refining and in the pro-

duction and marketing of petroleum products, electricity, and gas). The surcharge of 5.5% ("Robin Hood tax") is applied only to companies with revenues exceeding Euro 25 million, with the exclusion of companies operating in the renewable energy sources sector;

- creation of an Authority – represented by the AEEG – in order to ensure compliance with the ban on transferring the higher tax to consumer prices;
- mandatory application of the "VAT sterilisation" mechanism, already envisaged as an option in the 2008 Finance Law;
- postponement of the effective date of the class action law.

The Electricity and Gas Authority has issued several implementing resolutions to monitor the ban on transferring the surcharge to the end prices of products sold, by obliging the players involved to comply with a series of reporting and other requirements.

Decree Law no. 185 of 29 November 2008 (Anti-crisis decree law): this decree law passed by the government lays down urgent measures to support households, employment and companies and aims to redesign the national strategic framework in anti-crisis mode. More specifically, in Article 3 (Freezing and reduction of tariffs) it envisages:

- redesign of electricity market rules, with a view to reducing electricity prices. The changes concern the operation of the IPEX (Italian Power Exchange) markets (Day-Ahead, Adjustment and Dispatch Services Markets) switching to a pay-as-bid mechanism for all markets;
- adoption of measures, through action by the Ministry of Economic Development, following consultation with the AEEG, to eliminate any anomalies in the formation of zone clearing prices and promote competition in energy production and supply, together with monitoring by the AEEG of electricity and gas price trends, taking appropriate measures to ensure that these prices reflect any reductions in petroleum product prices;
- the possibility for the Ministry of Economic Development to split the relevant

grid into no more than three macro-zones.

The Italian Senate approved the conversion into law of this decree on 27 January 2009. It will now be published in the Gazzetta Ufficiale.

Ruling by the Council of State on AEEG Resolution 249/06: ruling on the merits, at its 22 January 2008 hearing, the Council of State accepted the appeal by the Electricity and Gas Authority (AEEG) and reinstated Resolution 249/06, which had been voided by the Lombardy Regional Administrative Tribunal ("TAR") in May 2007, regarding revision of the "avoided fuel cost" tariff component. In April, with AEEG Resolution ARG/elt 49/08 "Calculation of the equalisation amount for financial year 2007 of the avoided fuel cost envisaged in Title II, point 2 of the Interministerial Price Committee Provision no. 6/92 of 29 April 1992", the Electricity and Gas Authority set the equalisation payment for 2007 and the amount of the prepayment for 2008, which are equal to each other, for the avoided fuel cost pursuant to CIP 6/92, confirming, in the light of the Council of State ruling, the terms and procedures for calculation envisaged in Resolution 249/06.

Avoided fuel cost calculation update: publication of AEEG resolution ARG/elt 154/08 of 21 October 2008 "Update of average conventional fuel price for calculation of avoided fuel cost pursuant to Title II, point 2, of Interministerial Price Committee provision no. 6/92 of 29 April 1992" wherein the Authority established that the average price of fuel for the purpose of calculating avoided fuel cost for CIP 6 electricity consignment prices as from 2008 is updated, confirming the method contained in resolution 249/06, by modifying some criteria for quantification of the benchmark conventional fuel. Publication on 10 December 2008 of resolution ARG/elt 175/08 "Update for 2008 of the natural gas transportation component included in the average conventional fuel price, for the purpose of calculating avoided fuel cost as per Title II, point 2, of Interministerial Price Committee provision no. 6/92 of 29 April 1992".

BUSINESS SECTOR

POWER GENERATION

ISAB Energy produces electricity utilising gas produced by gasification of heavy residues originating from crude oil (feedstock) processing at the nearby ISAB Sud refinery. This electricity is sold to the Gestore dei Servizi Elettrici (national grid operator - GSE) at CIP 6 tariffs.

In this respect, it should be recalled that the Ministry of Industry, applying the so-called Bersani decree (Legislative Decree of 16 March 1999), ordered the transfer to the GSE, effective 1 January 2001, of the rights and obligations of Enel S.p.A. as regards energy purchases from third-party domestic providers. In 2008 the plant, which has capacity of 528 MW, generated 3,435 GWh.

FACTORS AFFECTING THE RESULTS OF OPERATIONS

The selling prices of electricity generated by ISAB Energy are governed by Provision

no. 6 issued on 29 April 1992 by the Inter-ministerial Price Committee (better known as CIP 6/92).

ISAB Energy's results are subject to scenario changes due to index-linking of the selling price of electricity and the purchase price of raw material.

ISAB Energy sells electricity to the GSE as part of a multi-annual agreement. The selling price is established, *inter alia*, by means of specific methods decided by the Electricity and Gas Authority (AEEG), which updates the mechanisms for calculating one of the components of the selling price (avoided fuel cost). The avoided fuel cost is partly linked to changes in the price of natural gas.

Feedstock is purchased from ERG Raffinerie Mediterranee (and, starting from December, from ISAB S.r.l.) via a multi-annual take-or-pay contract. The price is again indexed to the avoided cost of fuel and, therefore, to the trend in the price of natural gas.

ELECTRICITY MARKET

	2008	2007	2006
ITALIAN ELECTRICITY MARKET (GWH)			
DEMAND	337,642	339,928	337,459
IMPORT	42,997	48,931	46,596
DOMESTIC PRODUCTION ⁽¹⁾	317,894	313,888	314,091
OF WHICH			
THERMOELECTRIC	260,228	265,764	262,167
CIP 6	48,372	53,764	51,699

(1) PRODUCTION INCLUDING CONSUMPTION FOR ANCILLARY SERVICES

Electricity demand in 2008 totalled 337,642 GWh (-0.7% compared to 2007).

The breakdown of supply in 2008 shows that 71.4% of demand was met by thermoelectric generation, 13.3% by hydroelectric generation, and 3.6% by geothermoelectric and wind power generation, with the remaining 11.7% of demand met by foreign imports.

Net electricity output, which totalled 305,540 GWh, was up by 1.4% over the corresponding period of the previous year, while the net foreign balance totalled 39,566 GWh (-14%). Estimated CIP 6 output of 48,372 GWh showed a decrease of 10.0% compared to the corresponding period a year earlier. In 2008 the greatest demand for electricity was concentrated in Northern Italy (152.7

TWh, accounting for 45.2% of total national demand).

IGCC PLANT

During 2008 electricity output totalled 3,435 GWh (3,809 GWh in 2007) with 74% capacity utilisation (82% in 2007). The result was mainly affected by the accident that occurred at the plant on 13 October, which caused a stoppage of the entire power station. The incident, which did not cause any injuries, irreversibly damaged one of the power station's two power generation trains (Train 1) while residually damaging Train 2.

The latter train returned to operation on 18 December.

Until October, electricity was sold at the provisional price of Euro 124.8/MWh applied to electricity produced within contractual capacity (532 MWh). Starting from November this price was reduced by around Euro 36.8/MWh, as envisaged by pricing rules for CIP 6 plants, since the first 8 years of the agreement with the GSE had elapsed. Based on the price trend of natural gas, the average definitive price for 2008 is estimated to be Euro 139.8/MWh.

INVESTMENTS

In 2008 ISAB Energy made investments totalling Euro 31.4 million (Euro 24.8 million in 2007).

The following table shows the investment breakdown by type:

(MILLION EURO)	2008	2007	2006
DEVELOPMENT	20	14	1
CAPACITY MAINTENANCE	8	8	4
SAFETY AND ENVIRONMENT	2	2	3
INFORMATION TECHNOLOGY	–	1	–
OTHERS	–	–	–
TOTAL	31	25	8

ISAB Energy's investments were mainly made for the Hydrogen project. Hydrogen project activities for construction of a membrane section are proceeding according to schedule, which envisages production start-up in the first half of 2010.

Other significant investments were designed to ensure maintenance of production capacity and, above all, worker safety.

RISKS AND UNCERTAINTIES

ERG identifies and assesses all types of risks associated with the Group's activities, adopting appropriate methods of Risk Management, in order to optimise the management of risks (avoidance, reduction, and transfer) and safeguard shareholder value.

ERG's objective is to minimise significant risks, which are mainly financial, credit, liquidity and operating risks.

The stages and principles governing this activity envisage – within the scope of guidelines established in the Group Policy – the presence of a Risk Management function in the parent company ERG S.p.A., which measures and monitors the level of risk exposure consistently with defined objectives.

Risks connected with the general conditions of the economy

The company's economic, equity and financial situation is affected by the various factors forming the macroeconomic framework. Such factors include increases or decreases in gross national product, the unemployment rate, trends in interest rates and foreign exchange rates – mainly between the Euro and US dollar – and the cost of raw materials particularly petroleum raw materials.

During 2008, and especially during the last quarter, financial markets featured particularly marked volatility, which had severe repercussions on several financial institutions and, more generally, on the overall economic situation.

The major and widespread deterioration of market conditions was exacerbated by severe and across-the-board difficulty in accessing credit – both for consumers and for businesses – and started to cause a shortage of liquidity that will also have an impact on borrowing, with an increase in financial expenses.

There is no certainty that the measures taken by governments and by monetary authorities in response to this situation can restore conditions to overcome it in the foreseeable future. If this situation of marked weakness and uncertainty should continue for any significant length of time, ERG's business, strategies and prospects could be adversely affected, with a consequent negative impact on its economic and financial position.

Risks connected with reference market conditions

Business results are significantly influenced by the prices of commodities (natural gas and petroleum product derivatives) and electricity, which are determined by international supply and demand and are subject to numerous other exogenous factors. Fluctuations in commodity prices led to significant oscillations in the company's results. It cannot therefore be excluded that, in future, possible fluctuations may produce negative effects on operating and financial results.

Risk of industrial accidents

Due to the typical characteristics of the industrial production plants used by the company and the logistics structure, damaging events may be caused by fire, explosions, emissions and other unexpected and hazardous factors.

Particularly significant incidental events may have negative effects on the company's equity, earnings and financial position.

ERG mitigates such risks by means of appropriate plant management policies designed to achieve standards of safety in line with best industrial practices. In addition, ERG uses the insurance market to transfer its industrial and third-party risks, assuring a high degree of protection for its facilities even in case of business interruption.

Notwithstanding the insurance covers in place, in view of the difficulties experienced by the international insurance market in raising adequate capital, ERG might in any case incur costs exceeding the maximum thresholds of its insurance cover.

Regulatory risks and risks connected with environmental policy

The company's activities are subject to numerous rules and regulations (local, national and supranational) that may negatively impact the Group's various businesses, particularly in cases where the regulatory factor can be an incentive in making investment choices.

The company is also subject to environmental regulations, which in recent years have been the object of closer attention and greater tightening on the part of the Euro-

pean Union's institutional bodies. The ERG group has adopted an environmental policy that complies with, encourages and anticipates any raising of the environmental standards required by applicable laws and regulations.

Moreover, each year ERG issues a Sustainability Report, designed to integrate and create economic and financial value for shareholders, pursuing the social and environmental value of all companies within the ERG Group.

Operating risk

Operating risks, which, it is important to mention, include those arising from the companies' responsibility for criminal offences (pursuant to Legislative Decree 231/2001), are identified, monitored and measured as part of the operating risk management process. Pursuit of the objectives thus identified makes it possible to:

- ensure the operational continuity and functioning of the production chain through the adoption of best international standards for industrial risk assessment and management, by performing Risk Assessments, Business Impact Analyses, and via the implementation of a Business Continuity Plan;
- protect tangible and intangible assets, values, and professional and intellectual know-how in order to maximise value creation for shareholders through business growth.

Credit risk

Exposure to credit risk inherent in the possibility of counterparty default and the deterioration of a counterparty's creditworthiness is managed via appropriate analysis and assessment of each individual

counterparty, by assigning to every one of them an internal credit rating (internal-rating based approach). Assignment of the rating class provides an estimate of the probability of default by the counterparty and for each level a credit threshold is indicated, which is closely monitored and must never be exceeded.

Credit risk also includes the risk of concentration, both by customer and by sector. This risk is also constantly monitored, although it has never triggered any alert situations. The choice of counterparties as regards both the industrial business and financial dealings underlies the high credit ratings.

Liquidity risk

Liquidity risk is the risk that financial resources may not be sufficient to cover all obligations falling due. To date, ERG guarantees adequate cover for its financial requirements with cash flow generation and the availability of credit lines provided by various counterparties.

Market risk

Market risk includes interest rate risk and commodity price risk. Management of these risks is governed by the guidelines indicated in the Group Risk Management Policy and by internal procedures of the operational finance function.

– Interest rate risk

Interest rate risk identifies changes in the future interest rate trend that could result in higher costs for the Company.

– Commodity risk

Commodity price risk lies in unexpected changes in the prices of raw materials, procurement of services, energy, and services sold on the market.

HEALTH, SAFETY AND ENVIRONMENT

HEALTH AND SAFETY

The incident in October, although it did not cause any serious injuries, highlighted the need to take action via specific initiatives. Guarantees as regards operational safety, workers' health and protection of the environment are in fact key elements of ERG's sustainability from an economic, social and environmental standpoint. This translates into responsible behaviour, both during management of emergencies and when analysing the causes of accidents and identifying remedial actions. The behavioural aspects and scrupulous observance of procedures are the areas where we intend to take incisive action in the short-medium term, consistently with an approach designed to achieve continuous improvement. In this respect, 2009 will feature a series of initiatives dedicated to the "human factor", which will have an all-important impact on further minimisation of risks.

These initiatives will be integrated with the programme for maintenance of HSE certifications, which – consistently with Group guidelines – aim to maintain and develop efficient and effective management systems to minimise impact and optimise prevention activities.

As required by Legislative Decree 81/08 concerning workplace health and safety, we have updated management systems, with particular regard to global and documented

assessment of all specific risks for workers. In the field of voluntary activities to promote health awareness, ERG, in line with plans for 2008, extended its "Preventive Healthcare" project to all employees. Alongside initiatives for the broad-ranging prevention of emerging pathologies, also as regards the local community, the project included clinical and instrumental diagnosis and health information and education.

ENVIRONMENT

During 2008, continuing what had already been done in previous years and in line with current regulatory requirements, the Group's industrial sites undertook and completed various activities for the analysis and assessment of environmental recovery and characterisation initiatives.

As regards activities concerning minimisation of greenhouse gas emissions, ERG is actively contributing to achievement of the national objectives set by the Kyoto Protocol based on major and precise courses of action that also feature energy efficiency improvement and greater use of low-carbon fossil fuels (natural gas, for example).

Detailed analysis of all issues relating to health, safety and the environment will be an integral part of the Group's annual Sustainability Report.

HUMAN RESOURCES

At 31 December 2008, ISAB Energy had 3 employees, showing no change with respect to the previous year.

The average age of employees was approximately 47 years. All staff members have high-school qualifications.

No organisational events of significance for the Company occurred in 2008. Moreover, during the year an agreement was signed with the company's unitary Union Representative Bodies (*RSU*) for a one year extension of the Company Productivity Bonus, which had expired on 31 December 2007.

SUMMARY OF FINANCIAL STATEMENTS

INCOME STATEMENT

(THOUSAND EURO)	2008	2007	2006
REVENUES FROM ORDINARY OPERATIONS	513,423	489,809	561,163
OTHER REVENUES AND INCOME	84,971	1,502	13,469
TOTAL REVENUES	598,394	491,311	574,632
COST OF PURCHASES	(242,256)	(222,724)	(250,147)
CHANGES IN INVENTORIES	(516)	218	(2,110)
SERVICES AND OTHER OPERATING COSTS	(147,748)	(85,375)	(93,874)
PERSONNEL EXPENSES	(146)	(136)	(200)
EBITDA	207,728	183,295	228,302
AMORTISATION, DEPRECIATION AND WRITE-DOWNS	(117,301)	(43,223)	(42,784)
EBIT	90,427	140,072	185,518
NET FINANCIAL INCOME (EXPENSES)	(11,812)	(16,157)	(19,220)
NET INCOME (LOSS) FROM EQUITY INVESTMENTS	-	-	-
PROFIT (LOSS) FROM ORDINARY OPERATIONS	78,615	123,915	166,298
NET EXTRAORDINARY INCOME (EXPENSES)	(211)	-	-
PROFIT BEFORE TAXES	78,404	123,915	166,298
INCOME TAXES	(37,082)	(44,131)	(57,498)
PROFIT (LOSS) FOR THE YEAR	41,322	79,784	108,800

REVENUES FROM ORDINARY OPERATIONS

Revenues consisted of approximately Euro 486 million for sale of electricity to the national grid (GSE) and some Euro 27 million for the sale of minor products and utilities.

OTHER REVENUES AND INCOME

Besides the usual rental income and sundry revenues for services to affiliated companies, other revenues and income mainly consisted of reimbursement of emissions trading costs under NAP 1 (2005-2007) and NAP 2 (2008) for a total of Euro 59 million and reimbursement of Euro 21.5 million for costs incurred for part of the Hydrogen project. No insurance reimbursement has been assessed as regards the accident on 13 October 2008, for either direct or consequential damage, pending formal recognition by the insurance company.

COST OF PURCHASES

Purchase costs mainly refer to supplies of feedstock, other fuel oils, oxygen and nitrogen.

SERVICES AND OTHER OPERATING COSTS

Services received consist of maintenance, insurance, commercial, technical, general and consultancy services.

AMORTISATION, DEPRECIATION AND WRITE-DOWNS

Besides normal economic/technical depreciation and amortisation of tangible and intangible fixed assets (for a total of 42 million), this item also included write-offs relating to the loss, due to destruction, of the plant items involved in the accident that occurred on 13 October 2008, as well as costs relating to abandonment of the project to

construct a third gasifier as part of the Hydrogen project. The fact of abandoning this part of the project, as it was no longer economically viable, led to recognition in the income statement of the design and construction costs previously included in the balance sheet item "Fixed assets in progress and payments on account".

We point out that this cost is matched by the reimbursement contractually recognised by company ISAB S.r.l. and posted for the same amount in the item "Other revenues and income".

NET FINANCIAL INCOME (EXPENSES)

Financial expenses accrued during 2008 con-

cerned interest expenses of Euro 15.1 million on loans, additional bank charges and intermediation margins totalling Euro 1.3 million and foreign exchange losses of Euro 1.2 million. Financial income, amounting to some Euro 5.8 million, related to interest earned on current account balances and, to positive differentials on derivatives transactions (about Euro 2 million).

INCOME TAXES

Current IRES (corporation tax) amounted to Euro 30.9 million, of which Euro 5.2 million was due to the 5.5% additional IRES introduced with the so-called Robin Hood tax. Current IRAP (regional tax) has been calculated at Euro 5.4 million.

BALANCE SHEET

Set out below are the reclassified balance sheet data compared with figures for the previous financial year.

(THOUSAND EURO)	31/12/2008	31/12/2007
FIXED ASSETS	517,035	602,912
NET WORKING CAPITAL	38,499	(985)
STAFF LEAVING INDEMNITIES	(27)	(26)
OTHER ASSETS	73,817	24,939
OTHER LIABILITIES	(75,134)	(47,455)
NET INVESTED CAPITAL	554,189	579,385
QUOTAHOLDERS' EQUITY	392,431	351,109
MEDIUM/LONG-TERM FINANCIAL DEBT	206,084	205,424
SHORT-TERM NET FINANCIAL DEBT	(44,327)	22,852
QUOTAHOLDERS' EQUITY AND FINANCIAL DEBT	554,189	579,385

As at 31 December 2008 net invested capital amounted to approximately Euro 554 million, with a decrease of some Euro 25 million.

Below we analyse the most significant changes occurring between the position at 31 December 2008 and that at 31 December 2007.

FIXED ASSETS

(THOUSAND EURO)	31/12/2008	31/12/2007
INTANGIBLE FIXED ASSETS	25,744	28,757
TANGIBLE FIXED ASSETS	491,285	574,149
EQUITY INVESTMENTS AND OTHER FINANCIAL FIXED ASSETS	5	5
TOTAL	517,035	602,912

NET OPERATING WORKING CAPITAL

(THOUSAND EURO)	31/12/2008	31/12/2007
INVENTORIES	10,068	10,584
TRADE RECEIVABLES	127,805	58,550
TRADE PAYABLES	(99,373)	(70,119)
TOTAL	38,499	(985)

Inventory value is net of the write-downs of spare-parts by around Euro 5 million posted in previous years.

The increase in trade receivables was basically due to provision for invoices to be issued to the GSE in relation to sales of electricity billed on account during the year, as well as to assessment of reimbursements for recovery of costs incurred for the third

gasifier. Lastly, invoices to be issued include an estimate of the expected partial reimbursement of the purchase costs for green certificates.

Short-term trade payables increased primarily as a result of the debit adjustment assessed on asphalt supplies.

OTHER ASSETS

(THOUSAND EURO)	31/12/2008	31/12/2007
SHORT-TERM TAX RECEIVABLES	6,039	5,831
OTHER SHORT-TERM RECEIVABLES	59,289	6,335
SHORT-TERM ACCRUED INCOME AND PREPAID EXPENSES	4,065	8,429
MEDIUM/LONG-TERM TAX RECEIVABLES	4,424	4,344
TOTAL	73,817	24,939

OTHER LIABILITIES

(THOUSAND EURO)	31/12/2008	31/12/2007
SHORT-TERM TAX PAYABLES	5,548	70
OTHER SHORT-TERM PAYABLES	25,585	4,201
SHORT-TERM ACCRUED EXPENSES AND DEFERRED INCOME	1,239	1,285
OTHER PROVISIONS FOR LIABILITIES AND CHARGES	42,762	41,898
TOTAL	75,134	47,455

Other assets related mainly to the receivable for reimbursement of emissions trading costs (for the years from 2005 to 2008), amounting to approximately Euro 59 million.

Other liabilities mainly referred to payables due to the parent company and to the state treasury for IRES and IRAP estimated for the period, net of payments already made on account and recoverable tax credits.

Other provisions include:

- Provision for cyclical maintenance (which in the year featured an allocation of Euro 4.2 million and a reduction of Euro 3.3 million and thus shows a net balance of Euro 8.0 million);
- Provision of Euro 34.2 million for deferred tax liabilities;
- Provision of Euro 0.6 million for future charges.

NET FINANCIAL DEBT

The following table shows the medi-

um/long-term financial debt of ISAB Energy S.r.l.

(THOUSAND EURO)	31/12/2008	31/12/2007
MEDIUM/LONG-TERM BANK BORROWINGS	158,169	245,439
OTHER MEDIUM/LONG-TERM FINANCIAL PAYABLES	62,197	47,492
CURRENT PORTION OF MORTGAGES AND LOANS	(14,282)	(87,507)
TOTAL	206,084	205,424

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

(THOUSAND EURO)	31/12/2008	31/12/2007
SHORT-TERM BANK BORROWINGS	14,282	87,507
OTHER SHORT-TERM FINANCIAL PAYABLES	4,783	4,783
SHORT-TERM FINANCIAL LIABILITIES	19,065	92,290
CASH AND CASH EQUIVALENTS	(63,376)	(69,438)
OTHER SHORT-TERM FINANCIAL RECEIVABLES	(16)	-
SHORT-TERM FINANCIAL ASSETS	(63,392)	(69,438)
TOTAL	(44,327)	22,852

The amount of cash and cash equivalents consists of credit balances on restricted current accounts, based on the terms and conditions set forth by the Project Financing a-

greement, and of temporary liquidity occurring at year-end. Analysis of the change in net financial debt in the periods considered shows the following situation:

(THOUSAND EURO)	2008	2007
CASH FLOW FROM OPERATIONS:		
CASH FLOW FROM CURRENT OPERATIONS	159,897	116,956
CHANGES IN OTHER OPERATING ASSETS AND LIABILITIES	(61,955)	66,609
TOTAL	97,942	183,565
CASH FLOW FROM INVESTMENTS:		
INVESTMENTS	(31,423)	(24,737)
DIVESTMENTS	-	379
TOTAL	(31,423)	(24,358)
CASH FLOW FROM QUOTAHOLDERS' EQUITY:		
CAPITAL INCREASE	-	-
CAPITAL CONTRIBUTIONS	-	-
DIVIDENDS PAID	-	(70,000)
OTHER CHANGES IN EQUITY	-	-
TOTAL	-	(70,000)
CHANGE IN NET FINANCIAL DEBT	66,518	89,206
NET FINANCIAL DEBT AT BEGINNING OF YEAR	228,276	317,481
CHANGE DURING YEAR	(66,518)	(89,206)
NET FINANCIAL DEBT AT YEAR-END	161,758	228,276

INVESTMENTS IN OTHER COMPANIES

ISAB Energy S.r.l. does not own shares of parent companies or equity interests in affiliated company ISAB Energy Services S.r.l. It owns a 5% equity interest in the company

Industria Acqua Siracusana S.p.A., which is a consortium company managing industrial waste water.

BRANCHES AND OFFICES

ISAB Energy S.r.l. has its registered office in Priolo Gargallo (Syracuse).

MANAGEMENT AND COORDINATION

Our Company is subject to management and coordination by ERG S.p.A. This activity includes, *inter alia*:

- Definition of business strategies;
- Indication of strategic guidelines for organisational aspects and personnel policies at a macro level;
- Strategic finance and group treasury management;
- Management of tax-related issues, especially as regards planning;
- Management of communication policies and institutional relations;
- Management of environmental, health, and safety policies;
- Centralised management of information systems;
- Definition of risk management policies;

- Centralised management of corporate obligations;
- Legal support for the most significant transactions (special projects);
- Definition of common policies for internal audit and corporate security;
- Definition of guidelines for the preparation of financial statements;
- Management of non-oil purchases.

We specifically highlight the following decisions taken within the scope of ERG S.p.A.'s management and coordination:

- Definition of emoluments for the Chairman and Deputy Chairman;
- Quarterly forecast regarding the trend in the annual investment budget; approval of 2009 budget.

TRANSACTIONS WITH PARENT COMPANIES, GROUP COMPANIES AND OTHER RELATED PARTIES

Based on the indications of relevant CONSOB (Italian Stock Exchange regulator) communications, there are no transactions coming within this definition that concerned major operations.

ISAB Energy S.r.l. acquires the main raw material necessary for production from the affiliated company managing the ISAB refinery (ERG Raffinerie Mediterranee until 30 November 2008 and ISAB S.r.l. as from 1 December 2008). At the same time, it sells to such company some raw materials and ancillary services. Transactions between the two companies also feature certain agreements in place for the supply of industrial and general services, such as medical assistance and the fire prevention service.

The Company also purchases from its quotaholders (or from companies within their groups as indicated by them) CO₂ emissions rights and green certificates necessary to meet regulatory obligations.

The Company also receives from the parent company ERG Power & Gas the supply of

electricity and methane gas necessary for operation of the plant.

ISAB Energy also receives other general services from ERG S.p.A. (such as IT services and the management of emissions rights acquisition) and from ERG Power & Gas S.p.A. (for performance of company staff activities, as well as for the project management service relating to the Hydrogen project).

The fees for these services are detailed in the Explanatory Notes to the financial statements.

In addition, as part of the Sponsor Support Agreements, the Company also has agreements in place for services supplied by the respective parent companies of its quotaholders ERG Power & Gas and IPM Priolo BV. The relationship linking ISAB Energy and ISAB Energy Services is instead regulated in the Operation and Maintenance agreement, which, we recall, assigns to ISAB Energy Services the role of plant operator and maintenance firm.

	INCOME			EXPENSES		
	SALES	OTHER SERVICES	FINANCIAL	PURCHASES	OTHER SERVICES	FINANCIAL
(THOUSAND EURO)						
PARENT COMPANIES						
ERG POWER & GAS S.P.A.	–	210	–	18,471	28,542	1,845
ERG S.P.A.	–	–	–	–	119	–
AFFILIATED COMPANIES						
ERG NUOVE CENTRALI S.P.A.	–	346	–	–	5	–
ERG PETROLI S.P.A.	–	–	–	265	–	–
ERG RAFFINERIE MEDITERRANEE S.P.A.	18,275	309	–	142,558	1,430	98
ERG RENEW S.P.A.	–	–	–	–	3	–
ISAB S.R.L.	768	21,510	–	7,070	128	68
ISAB ENERGY SERVICES S.R.L.	–	321	–	–	21,783	–

PRIVACY – SECURITY POLICY DOCUMENT

During 2008 the ERG Group duly updated its Security Policy Document.

TREASURY QUOTAS

The Company does not hold any treasury quotas.

SIGNIFICANT EVENTS AFTER THE END OF THE FINANCIAL YEAR

On **16 February 2009** the company's Board of Directors gave its approval for the reconstruction plan and for the necessary documents, showing compliance with the financial covenants, to be sent to the bank in

order to obtain the authorisation required under the project financing (in this connection, reference is made to the comment on Project Financing in the Explanatory Notes).

BUSINESS OUTLOOK

Following the accident that occurred on 13 October, power generation Train 2, which came back on stream on 18 December, will continue operating for the whole of 2009, as the general shutdown programmed for

the said year has been rescheduled. It is consequently estimated that ISAB Energy output sold to GSE under the CIP 6 convention in 2009 will amount to almost 2 TWh.

BOARD OF DIRECTORS' PROPOSAL

Dear Quotaholders,

We conclude this report by inviting you to:

- approve the financial statements of your Company for the year ended 31 December 2008, which close with a net profit of Euro 41,321,908.79;
- resolve on the allocation of the year's net profit, bearing in mind the restrictions imposed by the Project Financing.

Genoa, 6 March 2009

On behalf of the Board of Directors
The Chairman
Raffaele Tognacca

A handwritten signature in black ink, appearing to read "Raffaele R.", is positioned below the printed name of the Chairman.

**ISAB ENERGY S.R.L.
ANNUAL REPORT
FOR THE YEAR ENDED
31 DECEMBER 2008**

**STATUTORY FINANCIAL
STATEMENTS**

BALANCE SHEET

ASSETS

(EURO)	31/12/2008	31/12/2007
A) DUE FROM QUOTAHOLDERS, PORTION UNCALLED		
B) FIXED ASSETS		
I. INTANGIBLE FIXED ASSETS		
1) START-UP AND EXPANSION COSTS	–	–
2) RESEARCH, DEVELOPMENT AND ADVERTISING COSTS	–	–
3) INDUSTRIAL PATENTS AND INTELLECTUAL PROPERTY RIGHTS	–	–
4) CONCESSIONS, LICENCES, TRADEMARKS AND SIMILAR	2,371,540	2,946,852
5) GOODWILL	–	–
6) FIXED ASSETS IN PROGRESS AND PAYMENTS ON ACCOUNT	154,096	9,430
7) OTHER	23,218,468	25,801,018
TOTAL	25,744,104	28,757,300
II. TANGIBLE FIXED ASSETS		
1) LAND AND BUILDINGS	14,212,088	14,880,079
2) PLANT AND MACHINERY	456,148,361	540,923,763
3) INDUSTRIAL AND COMMERCIAL EQUIPMENT	69,902	101,941
4) OTHER PROPERTY	650,645	564,277
5) FIXED ASSETS UNDER CONSTRUCTION AND PAYMENTS ON ACCOUNT	20,204,391	17,679,293
TOTAL	491,285,387	574,149,353
III. FINANCIAL FIXED ASSETS		
1) EQUITY INVESTMENTS IN:		
A) SUBSIDIARIES	–	–
B) ASSOCIATE COMPANIES	–	–
C) PARENT COMPANIES	–	–
E) OTHER COMPANIES	5,165	5,165
	5,165	5,165
2) RECEIVABLES		
A) DUE FROM SUBSIDIARIES	–	–
B) DUE FROM ASSOCIATE COMPANIES	–	–
C) DUE FROM PARENT COMPANIES	–	–
D) DUE FROM OTHERS	–	–
3) OTHER SECURITIES	–	–
4) TREASURY SHARES	–	–
TOTAL	5,165	5,165
TOTAL FIXED ASSETS (B)	517,034,656	602,911,818

(EURO)	31/12/2008	31/12/2007		
C) CURRENT ASSETS				
I. INVENTORIES				
1) RAW, ANCILLARY AND CONSUMABLE MATERIALS	9,832,254	9,840,412		
2) WORK IN PROGRESS AND SEMI-FINISHED PRODUCTS	–	–		
3) WORK IN PROGRESS AGAINST ORDERS	–	–		
4) FINISHED PRODUCTS AND GOODS FOR RESALE	231,552	739,420		
5) PAYMENTS ON ACCOUNT	3,929	3,929		
TOTAL	10,067,735	10,583,760		
II. RECEIVABLES				
	OF WHICH BEYOND 12 MONTHS:	OF WHICH BEYOND 12 MONTHS:		
1) TRADE RECEIVABLES	–	–	53,882,517	
2) DUE FROM SUBSIDIARIES	–	–	–	
3) DUE FROM ASSOCIATE COMPANIES	–	–	–	
4) DUE FROM AFFILIATED COMPANIES	–	25,277,004	–	4,667,567
5) DUE FROM PARENT COMPANIES	–	3,213,900	–	417,228
5-BIS) TAX RECEIVABLES	–	2,699	–	3,092,557
5-TER) DEFERRED TAX ASSETS	4,424,327	7,247,003	4,344,357	6,665,930
6) DUE FROM OTHERS	–	59,288,791	–	6,335,066
TOTAL		197,572,187		75,060,865
III. FINANCIAL ASSETS				
1) EQUITY INVESTMENTS IN SUBSIDIARIES	–	–	–	
2) EQUITY INVESTMENTS IN ASSOCIATE COMPANIES	–	–	–	
3) EQUITY INVESTMENTS IN PARENT COMPANIES	–	–	–	
4) OTHER EQUITY INVESTMENTS	–	–	–	
5) TREASURY SHARES	–	–	–	
6) OTHER SECURITIES	–	–	–	
TOTAL		–		–
IV. CASH AND CASH EQUIVALENTS				
1) BANK AND POSTAL DEPOSITS	63,371,250	–	69,424,406	
2) CHEQUES	–	–	–	
3) CASH AND NOTES ON HAND	4,689	–	13,423	
TOTAL	63,375,939		69,437,828	
TOTAL CURRENT ASSETS (C)	271,015,860		155,082,453	
D) ACCRUED INCOME AND PREPAID EXPENSES				
– ACCRUED INCOME	–	–	–	
– PREPAID EXPENSES	4,065,274	–	8,429,007	
TOTAL ACCRUED INCOME AND PREPAID EXPENSES (D)	4,065,274		8,429,007	
TOTAL ASSETS	792,115,790		766,423,278	

LIABILITIES

(EURO)	31/12/2008	31/12/2007
A) QUOTAHOLDERS' EQUITY		
I. QUOTA CAPITAL	5,165,000	5,165,000
II. QUOTA PREMIUM RESERVE	–	–
III. REVALUATION RESERVES	–	–
IV. LEGAL RESERVE	1,033,000	1,033,000
V. RESERVE FOR TREASURY SHARES IN PORTFOLIO	–	–
VI. STATUTORY RESERVES	–	–
VII. OTHER RESERVES:	–	–
1) RESERVE PURSUANT TO LAW 266/05	28,708,574	28,708,574
VIII. RETAINED EARNINGS (LOSSES)	316,202,504	236,418,790
IX. PROFIT (LOSS) FOR THE YEAR	41,321,909	79,783,715
TOTAL QUOTAHOLDERS' EQUITY (A)	392,430,987	351,109,078
B) PROVISIONS FOR LIABILITIES AND CHARGES		
1) PROVISION FOR PENSIONS AND SIMILAR OBLIGATIONS	–	–
2) INCOME TAX PROVISIONS, INCLUDING DEFERRED TAXES	34,199,219	32,875,516
3) OTHER PROVISIONS	8,562,566	9,022,889
TOTAL PROVISIONS FOR LIABILITIES AND CHARGES (B)	42,761,785	41,898,406
C) STAFF LEAVING INDEMNITIES	27,455	26,475
D) PAYABLES		
	OF WHICH BEYOND 12 MONTHS:	OF WHICH BEYOND 12 MONTHS:
1) BONDS	–	–
2) CONVERTIBLE BONDS	–	–
3) DUE TO QUOTAHOLDERS FOR LOANS	49,758,827	53,640,756
4) DUE TO BANKS	143,887,121	158,169,473
5) DUE TO OTHER LENDERS	–	–
6) CUSTOMER ADVANCES	–	–
7) PAYABLES DUE TO SUPPLIERS	–	41,226,431
8) NOTES PAYABLE	–	–
9) DUE TO SUBSIDIARIES	–	–
10) DUE TO ASSOCIATE COMPANIES	–	–
11) DUE TO AFFILIATED COMPANIES	12,438,452	68,665,077
12) DUE TO PARENT COMPANIES	–	28,221,011
13) TAX PAYABLES	–	5,548,319
14) SOCIAL SECURITY PAYABLES	–	14,750
15) OTHER PAYABLES	–	170,448
TOTAL PAYABLES (D)	355,656,265	372,103,980

(EURO)	31/12/2008	31/12/2007
E) ACCRUED EXPENSES AND DEFERRED INCOME		
– ACCRUED EXPENSES	–	–
– DEFERRED INCOME	1,239,297	1,285,339
TOTAL ACCRUED EXPENSES AND DEFERRED INCOME (E)	1,239,297	1,285,339
TOTAL LIABILITIES	399,684,803	415,314,199
TOTAL QUOTAHOLDERS' EQUITY AND LIABILITIES	792,115,790	766,423,278
MEMORANDUM ACCOUNTS		
1) GUARANTEES GIVEN:		
A) SURETIES		
– ON BEHALF OF SUBSIDIARIES	–	–
– ON BEHALF OF OTHERS	–	–
B) ENDORSEMENTS	–	–
C) OTHER UNSECURED GUARANTEES	–	–
D) OTHER SECURED GUARANTEES	–	–
2) OTHER MEMORANDUM ACCOUNTS:		
A) THIRD-PARTY ASSETS	–	–
B) COMMITMENTS	520,000	342,000
C) RISKS	–	–
D) OTHER	4,540,986	8,225,918
TOTAL MEMORANDUM ACCOUNTS	5,060,986	8,567,918

INCOME STATEMENT

(EURO)	2008	2007	2006
A) PRODUCTION VALUE			
1) REVENUES FROM SALES AND SERVICES	513,422,775	489,808,603	561,162,738
2) CHANGES IN INVENTORY OF WORK IN PROGRESS, SEMI-FINISHED, AND FINISHED PRODUCTS	(507,868)	410,095	(958,520)
3) CHANGE IN WORK IN PROGRESS AGAINST ORDERS	–	–	–
4) INCREASE IN FIXED ASSETS UNDER CONSTRUCTION	1,473,110	533,647	343,767
5) OTHER REVENUES AND INCOME:			
– SUNDRY REVENUES	84,970,728	1,502,340	13,469,472
– OPERATING SUBSIDIES	–	–	–
	84,970,728	1,502,340	13,469,472
TOTAL PRODUCTION VALUE (A)	599,358,745	492,254,685	574,017,457
B) PRODUCTION COSTS			
6) RAW, ANCILLARY, CONSUMABLE MATERIALS AND GOODS	(243,729,563)	(223,257,510)	(250,490,815)
7) SERVICES	(62,371,573)	(64,089,218)	(62,796,188)
8) LEASES AND RENTALS	(575,723)	(1,492,718)	(1,590,020)
9) PERSONNEL EXPENSES:			
A) SALARIES AND WAGES	(103,247)	(97,763)	(145,973)
B) SOCIAL SECURITY EXPENSES	(31,730)	(27,987)	(42,468)
C) STAFF LEAVING INDEMNITIES	(8,090)	(7,511)	(11,236)
D) PENSION AND SIMILAR EXPENSES	–	–	–
E) OTHER EXPENSES	(2,597)	(2,487)	44
	(145,664)	(135,747)	(199,633)
10) AMORTISATION, DEPRECIATION AND WRITE-DOWNS			
A) AMORTISATION OF INTANGIBLE FIXED ASSETS	(3,450,937)	(3,353,246)	(3,443,161)
B) DEPRECIATION OF TANGIBLE FIXED ASSETS	(39,407,955)	(39,869,261)	(39,340,881)
C) OTHER WRITE-DOWNS OF ASSETS	(74,441,735)	–	–
D) PROVISION FOR BAD DEBTS	(991,000)	–	–
	(118,291,627)	(43,222,507)	(42,784,042)
11) CHANGES IN INVENTORY OF RAW, ANCILLARY, CONSUMABLE MATERIALS AND GOODS	(8,157)	(191,666)	(1,151,219)
12) PROVISION FOR LIABILITIES			
13) OTHER PROVISIONS	(4,171,869)	(6,263,730)	(8,520,064)
14) OTHER OPERATING EXPENSES	(79,637,585)	(13,529,230)	(20,967,412)
TOTAL PRODUCTION COSTS (B)	(508,931,761)	(352,182,327)	(388,499,393)
DIFFERENCE BETWEEN PRODUCTION VALUE AND COSTS	90,426,984	140,072,358	185,518,064

(EURO)	2008	2007	2006
C) FINANCIAL INCOME AND EXPENSES			
15) INCOME FROM EQUITY INVESTMENTS:			
– FROM SUBSIDIARIES	–	–	–
– FROM ASSOCIATE COMPANIES	–	–	–
– FROM OTHER COMPANIES	–	–	–
– TAX CREDIT ON DIVIDENDS	–	–	–
	–	–	–
16) OTHER FINANCIAL INCOME			
A) FROM RECEIVABLES INCLUDED UNDER FIXED ASSETS			
– FROM SUBSIDIARIES	–	–	–
– FROM ASSOCIATE COMPANIES	–	–	–
– FROM PARENT COMPANIES	–	–	–
– FROM OTHERS	–	–	88,580
	–	–	88,580
B) FROM SECURITIES INCLUDED UNDER FIXED ASSETS	–	–	–
C) FROM SECURITIES INCLUDED UNDER CURRENT ASSETS	–	–	–
D) INCOME OTHER THAN THE ABOVE:			
– FROM SUBSIDIARIES	–	–	–
– FROM ASSOCIATE COMPANIES	–	–	–
– FROM PARENT COMPANIES	–	–	–
– FROM AFFILIATED COMPANIES	–	0	3,604
– FROM OTHERS	5,810,849	5,133,752	3,140,060
	5,810,849	5,133,752	3,143,664
	5,810,849	5,133,752	3,232,243
17) INTEREST AND OTHER FINANCIAL EXPENSES PAID TO:			
– SUBSIDIARIES	–	–	–
– ASSOCIATE COMPANIES	–	–	–
– PARENT COMPANIES	(1,845,233)	(1,674,646)	(1,396,634)
– AFFILIATED COMPANIES	(166,018)	–	–
– OTHERS	(14,414,699)	(19,620,452)	(21,043,011)
	(16,425,950)	(21,295,098)	(22,439,645)
17-BIS) FOREIGN EXCHANGE GAINS (LOSSES)	(1,196,523)	3,852	(12,874)
TOTAL FINANCIAL INCOME AND EXPENSES (C)	(11,811,624)	(16,157,495)	(19,220,276)

(EURO)	2008	2007	2006
D) VALUE ADJUSTMENTS TO FINANCIAL ASSETS			
18) REVALUATIONS			
A) OF EQUITY INVESTMENTS	-	-	-
B) OF FINANCIAL FIXED ASSETS	-	-	-
C) OF SECURITIES INCLUDED UNDER CURRENT ASSETS	-	-	-
	-	-	-
19) WRITE-DOWNS			
A) OF EQUITY INVESTMENTS	-	-	-
B) OF FINANCIAL FIXED ASSETS	-	-	-
C) OF SECURITIES INCLUDED UNDER CURRENT ASSETS	-	-	-
	-	-	-
TOTAL VALUE ADJUSTMENTS TO FINANCIAL ASSETS (D)	-	-	-
E) EXTRAORDINARY INCOME AND EXPENSES			
20) EXTRAORDINARY INCOME			
- GAINS ON DISPOSALS	-	-	-
- NON-RECURRING INCOME	-	-	-
- SUNDRIES	-	-	-
	-	-	-
21) EXTRAORDINARY EXPENSES			
- LOSSES ON DISPOSALS	-	-	-
- TAXES FROM PRIOR YEARS	(211,007)	-	-
- NON-RECURRING CHARGES	-	-	-
- SUNDRIES	-	-	-
	(211,007)	-	-
TOTAL EXTRAORDINARY INCOME AND EXPENSES (E)	(211,007)	-	-
PROFIT (LOSS) BEFORE TAXES	78,404,353	123,914,864	166,297,788
22) CURRENT, DEFERRED AND ADVANCED INCOME TAXES FOR THE YEAR	(37,082,445)	(44,131,149)	(57,497,566)
23) NET PROFIT (LOSS) FOR THE YEAR	41,321,909	79,783,715	108,800,223

EXPLANATORY NOTES TO ACCOUNTS

CASH FLOW STATEMENT

(THOUSAND EURO)	2008	2007	2006
CASH FLOW FROM OPERATIONS (A)			
– NET PROFIT (LOSS) FOR THE YEAR	41,322	79,784	108,800
– AMORTISATION, DEPRECIATION AND WRITE-DOWNS	117,301	43,223	42,784
– NET CHANGES IN DEFERRED TAXES	743	2,593	1,599
– NET CHANGE IN PROVISIONS FOR LIABILITIES AND CHARGES	(460)	(7,875)	2,152
– NET CHANGE IN STAFF LEAVING INDEMNITIES	1	(13)	6
– NET CHANGE IN WRITE-DOWN PROVISIONS	991	–	–
– NET CAPITAL LOSSES (GAINS)	–	(756)	–
CASH FLOW FROM CURRENT OPERATIONS	159,897	116,956	155,341
CHANGE IN OTHER OPERATING ASSETS AND LIABILITIES:			
– INVENTORY	516	(218)	2,159
– TRADE RECEIVABLES	(70,245)	103,025	(8,451)
– TRADE PAYABLES	29,255	(37,498)	31,273
– OTHER SHORT-TERM ASSETS	(48,297)	12,091	(11,378)
– OTHER SHORT-TERM LIABILITIES	26,816	(10,791)	4,758
	(61,955)	66,609	18,361
TOTAL	97,942	183,565	173,702
CASH FLOW FROM INVESTMENTS (B)			
– INVESTMENTS IN INTANGIBLE FIXED ASSETS	(438)	(391)	(82)
– INVESTMENTS IN TANGIBLE FIXED ASSETS	(30,986)	(24,345)	(7,683)
– INVESTMENTS IN FINANCIAL FIXED ASSETS	–	–	–
– PROCEEDS FROM DISPOSAL OF INTANGIBLE FIXED ASSETS	–	–	153
– PROCEEDS FROM DISPOSAL OF TANGIBLE FIXED ASSETS	–	379	20
– PROCEEDS FROM DISPOSAL OF FINANCIAL FIXED ASSETS	–	–	–
TOTAL	(31,423)	(24,358)	(7,592)
CASH FLOW FROM FINANCING ACTIVITIES (C)			
– INCREASE (DECREASE) IN MEDIUM/LONG-TERM FINANCIAL PAYABLES	660	(84,425)	(97,082)
– INCREASE (DECREASE) IN SHORT-TERM FINANCIAL PAYABLES	(73,240)	(10,323)	5,336
– DIVIDENDS PAID	–	(70,000)	(70,000)
– INCREASE (REPAYMENT) OF EQUITY	–	–	–
TOTAL	(72,580)	(164,748)	(161,745)
NET CASH FLOW FOR THE YEAR (A+B+C)	(6,062)	(5,542)	4,365
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	69,439	74,981	70,616
NET CASH FLOW FOR THE YEAR	(6,062)	(5,542)	4,365
CASH AND CASH EQUIVALENTS AT YEAR-END	63,376	69,439	74,981

NATURE OF THE COMPANY

ISAB Energy S.r.l. owns the "IGCC – Integrated Gasification Combined Cycle" industrial gasification and cogeneration facility, located in the municipality of Priolo Gargallo, designed to generate electricity using refinery processing residues.

CRITERIA FOR PREPARATION OF THE FINANCIAL STATEMENTS

The financial statements at 31 December 2008 have been drawn up in compliance with the laws regulating their preparation, interpreted and supplemented according to the accounting standards issued by the Italian National Councils of Professional and Certified Public Accountants (Consigli Nazionali dei Dottori Commercialisti e dei Ragionieri) and by the Italian Accounting Committee (Organismo Italiano di Contabilità).

The financial statements comprise the Balance Sheet, Income Statement and Explanatory Notes, together with the Management Report.

Comparative figures at 31 December 2007 are given for all Balance Sheet items, while Income Statement data are compared with those of the last two financial years.

The most significant changes are commented in the section of the Management Report entitled "Comment on the year's results".

All amounts in the Balance Sheet and Income Statement have been rounded to the nearest Euro. The difference compared with the precise value to the eurocent has been taken to the Income Statement under extraordinary income and expenses.

For the sake of greater clarity of presentation and in keeping with past financial statements, all amounts in the Explanatory Notes have been rounded to the nearest thousand Euro. Consequently, in some tables, total amounts may differ slightly from the sum of the figures forming them.

The financial statements as at 31 December 2008 have been audited by Reconta Ernst & Young S.p.A.

ACCOUNTING POLICIES AND VALUATION CRITERIA

We specify below the accounting standards adopted and the valuation criteria applied in compliance, without any exceptions, with the requirements of Articles 2423, 2423-bis, and 2426 of the Italian Civil Code. The valuation criteria adopted for the preparation of the financial statements at 31 December 2008 are the same as those used in the previous financial year.

INTANGIBLE FIXED ASSETS

Intangible fixed assets are recorded at purchase or production cost, including the directly related financial charges incurred at completion date, and amortised on a straight-line basis, according to their useful life, taking into account their residual possibility of utilisation.

More specifically, amortisation rates are derived by applying the following criteria:

- start-up and expansion costs are amortised over five years;

- licences for industrial processes are amortised according to the contract term agreed with the licensor;
- software licences are amortised over three years;
- the contribution to ENEL for installing power lines to connect the IGCC plant is amortised over the expected period of usage;
- project financing charges and expenses are amortised over the duration of the loans obtained from banks.

TANGIBLE FIXED ASSETS

Tangible fixed assets are booked at their purchase or production cost and shown net of cumulative depreciation and write-downs.

The amounts shown have not been revalued.

The cost of assets includes the financial charges incurred during their construction.

Expansion, upgrading and conversion costs and incremental maintenance costs are capitalised and depreciated in relation to the useful life of the asset to which they refer.

Non-incremental maintenance and repair costs are charged to the Income Statement in the financial year when they are incurred.

The depreciation rates applied, which meet the requirement of prudence and follow the established depreciation schedule, in line with each asset's estimated residual useful life, are as listed below according to the type of asset concerned:

	DEPRECIATION RATE - %	PERCENTAGE OF DEPRECIATION AT 31/12/2008
INDUSTRIAL BUILDINGS	3.75	31%
LIGHTWEIGHT CONSTRUCTIONS	8.69	78%
IGCC COMPLEX PLANTS	4.72	43%
INDUSTRIAL EQUIPMENT	10.00	78%
OFFICE FURNITURE AND MACHINERY	9.90	62%
SUNDRY EQUIPMENT	9.90	83%
ELECTRONIC MACHINES	18.80	80%

EQUITY INVESTMENTS

Equity investments are recognised in the financial statements at their acquisition or subscription cost, reduced to reflect any permanent loss of value.

INVENTORIES

Raw material inventories are shown at the lower of cost, using the LIFO (Last In - First Out) method with annual reviews, and current market value. Finished products are shown at their current market value. Inventories of ancillary and consumable materials are shown at the lower of their weighted average cost and current market value.

RECEIVABLES AND PAYABLES

Receivables and payables are recognised at their nominal value. In the case of receivables, this value is written down to their presumed realisable value through allocation to a specific provision. Receivable and payable transactions in foreign currency arising during the year are converted into Euro at the exchange rate prevailing on the transaction date. The difference between this value and the amount actually paid or received is recorded in the Income Statement under financial income and expenses. Foreign exchange differences originating from the alignment of foreign currency receivables and payables at year-end exchange rates, compared with the rate prevailing on the transaction date, are recorded in the Income Statement.

CASH AND CASH EQUIVALENTS

These items are recognised in financial statements at their nominal value.

CURRENT AND DEFERRED INCOME TAXES

Current income taxes are accrued based on the estimated tax charges for the financial year, also taking into account the effects of participation in the “tax consolidation” introduced by the new Consolidated Income Tax Act. Moreover, based on the accrual accounting approach, provision is made for both deferred tax assets and deferred tax liabilities arising from the temporary differences between statutory results and related taxable amounts or from tax losses that can be carried forward. The recording in the balance sheet of deferred tax assets is subject to the reasonable certainty of their future recovery, also within the scope of tax consolidation. Deferred tax liabilities are not recorded if there is little chance that the related liability will materialise. These deferred taxes are calculated based on the average tax rates expected for the periods when the taxable temporary differences will reverse. Following the coming into force of Law no. 133 of 6 August 2008, which converted Decree no. 122 of 25 June 2008, an additional 5.5% IRES (corporation tax) levy has been introduced for companies in the energy sector (the so-called Robin Hood tax). The Company has thus recalculated the balance relating to deferred IRES taxation, the effects of which have been recognised in the Income Statement under Income Taxes.

ACCRUALS AND DEFERRALS

Accrued income and prepaid expenses and accrued expenses and deferred income are recorded on an accrual accounting basis, as specified by Article 2424-bis of the Italian Civil Code.

PROVISIONS FOR LIABILITIES AND CHARGES

Provisions for liabilities and charges are intended to cover specific liabilities that are certain or probable, but whose amount or date of occurrence is uncertain at the close of the financial year.

CYCLICAL MAINTENANCE

Provision for periodic cyclical maintenance work is made pro rata temporis for each year, based on an estimate of costs to be incurred and the long-term cyclical maintenance programmes for the IGCC plant.

STAFF LEAVING INDEMNITIES

This item represents the liability accrued towards all employees, calculated on the basis of current legislation and collective labour contracts in place at year-end.

MEMORANDUM ACCOUNTS

Memorandum accounts are calculated at the value of the commitment given or received and the potential value of the objectively estimated risk.

In accordance with Italian accounting standard no. 22 drawn up by the Italian National Councils of Professional and Certified Public Accountants (Consigli Nazionali dei Dottori Commercialisti e dei Ragionieri), the guarantees given against payables recorded in the Balance Sheet are not shown in memorandum accounts but are indicated, where necessary, in the Explanatory Notes, in the comments relating to the respective payable items.

INFRAGROUP AND OTHER RELATED-PARTY TRANSACTIONS

During the year, the Company entered into commercial, service supply, and financial transactions both with the parent company and with other Group companies, regulated by contracts and at market conditions, with the exception of an interest-free loan repayable in ten years, due to mature

in 2010. In the Balance Sheet, amounts reflect year-end status, whilst in the Income Statement they are shown according to changes in company control, if any, occurring during the year.

The most significant transactions are reported below:

- CO₂ emissions rights to be covered pursuant to emissions trading regulations, purchased in proportion to the quotaholders' respective stakes in the Company;
- green certificates required to meet legal obligations, purchased in proportion to the quotaholders' respective stakes in the Company;
- supply of electricity and natural gas necessary for operation of the production plant, performed by the parent company ERG Power & Gas S.p.A.;
- supply of feedstock, namely the raw material for the IGCC plant, under the "Feedstock Supply Agreement" dated 20 June 1996. This raw material originates from the processing residues of the ISAB Sud Refinery, owned, with effect from 1 December 2008, by affiliated company ISAB S.r.l. (and previously owned by affiliated company ERG Raffinerie Mediterranee S.p.A.);
- reciprocal supply of minor products between the company and ISAB S.r.l. (previously between the company and ERG Raffinerie Mediterranee S.p.A.) by virtue of the Minor Products Agreement dated 5 April 1996. This includes, but is not limited to, the supply of gasoil, gas, fuel oil, steam and heat;
- granting of loans in connection with the project financing operation, referred to as "sub-debts"; based on the agreements reached with the financing banks and sponsors;
- granting of a loan by ERG Raffinerie Mediterranee S.p.A., subsequently replaced by ISAB S.r.l., in connection with the financing of the Hydrogen project, this also being subordinated based on the agreements made with the financing banks;
- services rendered by affiliated company ISAB Energy Services S.r.l. under the Operation and Maintenance contract dated 5 April 1996, for the operation and maintenance of the IGCC plant;
- company staff support functions for commercial, planning and performance, secretarial, legal, administrative, and financial activities provided by ERG Power & Gas S.p.A. under the "Provision of Service Agreement" dated 26 October 2004; plus personnel administration and HR administration and management under the contract dated 31 May 2005;
- healthcare and fire prevention services provided by ISAB S.r.l. (until 30 November, by ERG Raffinerie Mediterranee S.p.A.).

The services supplied by ISAB Energy S.r.l. concern the performance of information technology activities, only as regards hosting of the Expert Advanced System for ISAB Energy Services and rental of office space to the latter and to ERG Power & Gas S.p.A.

The value of infragroup transactions is described in detail later on in these Explanatory Notes. Other related-party transactions, apart from the items mentioned above, concern the loans subordinated to the loan obtained by way of the Project Financing, as well as an assistance services contract with the financing institutions, law firms, and insurance companies performed by the parent companies of minority quotaholder IPM Priolo BV - Holland or by companies indicated by same.

FINANCIAL EXPENSES

Interest charges and other financial expenses incurred on the loan obtained from the parent companies and, subsequently, on the loan received through Project Financing up to the date on which the plant went into production (18 April 2000) were capitalised under the various asset items. Interest charges and financial expenses after that date have been charged to the Income Statement.

INCOME STATEMENT

Revenues and expenses are recognised in the Income Statement on an accrual accounting basis.

EXTRAORDINARY INCOME AND EXPENSES

The item only shows the effects of changes in accounting policies, extraordinary events that are in no way related to normal company operations and taxes relating to previous financial years arising from disputes with the tax authorities.

MANAGEMENT AND COORDINATION

The Company is subject to management and coordination by the indirect parent company ERG S.p.A., with registered offices at Via N. Piccinni 2, Milan (Italy).

A summary of the main data from the latest financial statements of ERG S.p.A. is attached hereto.

PROJECT FINANCING

In April 1996 ISAB Energy entered into a non-recourse Project Financing contract for the amount of approximately Euro 974 million with a group of international banks.

The contract, the purpose of which was to finance construction of the ISAB Energy IGCC plant, provides for:

- the setting up of a senior mortgage and creation of lien in favour of Intesa Sanpaolo as guarantee for the payment of amounts and fulfilment of all obligations resulting from the Project Financing contract. The mortgage covers the land and entire IGCC plant at Priolo Gargallo. The lien covers plant, machinery, capital assets, raw materials, goods in process, finished products, inventories, and receivables resulting from the sale of such property;
- the transfer to Intesa Sanpaolo of:
 - all monetary rights and sums received or to be received in relation to such rights pursuant or in relation to the project contracts;
 - all insurance indemnities payable or received in relation to the insurance cover envisaged by the Project Financing contract (with the exception of indemnities relating to employee accidents or to compensation for third-party liability damage);
- monitoring by the financing banks of cash-management inflows and outflows.

Following refinancing in September 2000, the duration of obligations was extended from 8 to 14 years and will expire on 15 December 2014.

Guarantees given also include a 100% pledge over the Company's capital and other guarantees on ISAB Energy's restricted accounts (Euro 53.9 million as at 31 December 2008). As from 2003 these accounts include a restricted preferential account in favour of the financing institutions, to act as an "Insurance reserve account" (to guarantee the lower insurance cover). As at 31 December 2008 this restricted current account amounted to Euro 3.2 million.

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

1. *Debt Service Coverage Ratio (DSCR)* of no less than 1.1. If ISAB Energy exceeds this limit it can neither distribute dividends to quotaholders nor repay subordinated debts without prior authorisation from the banks. The DSCR is determined on 30 June and 31 December of each year and is calculated as the ratio between the project's operating cash flow net of taxes and repayment of the loan as envisaged by the loan repayment plan in the same half-year, including both interest and principal due.
2. *Loan Life Credit Ratio (LLCR)* of no less than 1.1. Exceeding this limit implies default on the loan. The LLCR is determined on 30 June and 31 December of each year and is calculated as the ratio between the net present value, discounted at the weighted average cost of the debt, of the operating cash flows generated by the Company between the calculation date and the year in which the debt falls due, and the amount of debt outstanding at the calculation date.

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

BALANCE SHEET ANALYSIS

ASSETS

FIXED ASSETS (EURO 517,035 THOUSAND)

INTANGIBLE FIXED ASSETS

	START-UP AND EXPANSION COSTS	CONCESSIONS, LICENCES TRADEMARKS	FIXED ASSETS IN PROGRESS AND PAYMENTS ON ACCOUNT	OTHER INTANGIBLE FIXED ASSETS	TOTAL
HISTORICAL COST	–	10,966	9	45,761	56,736
AMORTISATION	–	(8,020)	–	(19,961)	(27,980)
BALANCE AT 31/12/2007	–	2,947	9	25,801	28,757
MOVEMENTS DURING PERIOD:					
ACQUISITIONS	–	–	438	–	438
CAPITALISATION/RECLASSIFICATION	–	293	(293)	–	–
RECLASSIFICATION	–	–	–	–	–
DISPOSALS AND DIVESTMENTS	–	–	–	–	–
AMORTISATION	–	(868)	–	(2,583)	(3,451)
WRITE-DOWNS	–	–	–	–	–
HISTORICAL COST	–	11,260	154	45,761	57,175
AMORTISATION	–	(8,888)	–	(22,542)	(31,430)
BALANCE AT 31/12/2008	–	2,372	154	23,218	25,744

Capitalisations in 2008 concerned software purchases.

Concessions, licences, trademarks and similar rights include Euro 2,041 thousand for the cost of the user licence for the Texaco gasification process.

The item also includes Euro 331 thousand for software purchased under licence.

Fixed assets in progress of Euro 154 thousand mainly refer to implementation of the new maintenance information system.

Other intangible assets include the contribution totalling Euro 14,611 thousand paid to Enel for connection of the IGCC plant to the 380 kV and 150 kV power lines, financial expenses of Euro 3,125 thousand, as well as costs of Euro 5,483 thousand incurred for legal, financial and technical services relating to completion of the Project Financing transaction.

TANGIBLE FIXED ASSETS

	LAND AND BUILDINGS	PLANT AND MACHINERY	INDUSTRIAL AND COMMERCIAL EQUIPMENT	OTHER PROPERTY	FIXED ASSETS UNDER CONSTRUCTION AND PAYMENTS ON ACCOUNT	TOTAL
HISTORICAL COST	19,988	825,314	320	2,291	17,679	865,592
EVALUATIONS	–	–	–	–	–	–
	19,988	825,314	320	2,291	17,679	865,592
ECONOMIC/TECHNICAL DEPRECIATION WRITE-DOWNS	(5,108)	(284,390)	(218)	(1,727)	–	(291,442)
BALANCE AT 31/12/2007	14,880	540,924	102	564	17,679	574,149
MOVEMENTS DURING PERIOD:						
ACQUISITIONS	–	–	–	–	30,986	30,986
CAPITALISATION/RECLASSIFICATION	48	6,638	–	275	–6,961	–
DISPOSALS AND DIVESTMENTS	–	–	–	–	–	–
ECONOMIC/TECHNICAL DEPRECIATION WRITE-OFFS	(716)	(38,472)	(32)	(188)	–	(39,408)
	–	(52,942)	–	–	(21,500)	(74,442)
HISTORICAL COST	20,036	752,274	320	2,566	20,204	795,401
REVALUATIONS	–	–	–	–	–	–
	20,036	752,274	320	2,566	20,204	795,401
ECONOMIC/TECHNICAL DEPRECIATION WRITE-DOWNS	(5,824)	(296,126)	(250)	(1,916)	–	(304,116)
	–	–	–	–	–	–
BALANCE AT 31/12/2008	14,212	456,148	70	651	20,204	491,285

Tangible fixed assets were significantly affected by the accident on 13 October 2008, which involved part of the plant, leading to substantial destruction of a section of Train 1 and consequent write-off of an amount of some Euro 52,942 thousand (of which Euro 15,951 thousand relating to ancillary costs capitalised on the assets concerned) entirely relating to the plant and machinery category.

Other plant sections (relating to Train 2 and to communal parts) were damaged to a lesser extent and were already repaired during 2008, permitting partial restart of production activity.

The amount recognised as a reduction of fixed assets under construction includes the elimination of costs incurred for the construction of the third gasifier, which was carried out following the change in the scope of the Hydrogen project as originally planned.

The decision taken during the year led to abandonment of the construction of this facility, as it was no longer cost-effective following regulatory changes regarding the reimbursement of charges for CO₂ emissions. The eliminated costs relating to work in progress amounted to Euro 21,500 thousand.

It should also be noted that, under the agreements executed with affiliated companies ERG Raffinerie Mediterranee and ISAB S.r.l., a receivable from ISAB S.r.l. has been recognised for the value of the disposal as full reimbursement of the costs incurred. Reference is made to the description given in the section on events during the year.

Tangible fixed assets include the financial expenses incurred during construction, which are capitalised under the individual assets.

As at 31 December 2008 this item totalled Euro 53,959 thousand, of which Euro 978 thousand for land and buildings and Euro 52,982 thousand for plant and machinery.

The significant decrease occurring in the period was due to write-off following the accident, as illustrated above.

Land and buildings includes Euro 2,219 thousand for the non-depreciated value of the area on which the entire IGCC facility stands, whereas the sites of the plant and buildings were analytically attributed to the individual assets to which they refer.

The buildings, all for industrial use, amounting to Euro 11,820 thousand, include the group of buildings comprising the entrance and porter's lodge, offices, canteen, warehouse, control room, laboratory, cabins and roads, parking areas and other respective infrastructures.

This item includes Euro 173 thousand for lightweight constructions.

Depreciation of Euro 5,824 thousand for land and buildings is broken down between buildings (Euro 5,217 thousand) and lightweight constructions (Euro 607 thousand).

Capitalisations in the period, amounting to Euro 48 thousand, mainly concern work for upgrading of the control room, laboratory, and management offices.

Plant and machinery comprises above all the IGCC (Integrated Gasification Combined Cycle) industrial gasification and cogeneration plant.

The amount of Euro 456,148 thousand refers to the power plant equipment (historical cost of Euro 684,701 thousand), transformer substations (Euro 61,429 thousand), and auxiliary treatment and purification units (Euro 6,145 thousand).

Related depreciation of Euro 296,126 thousand was applied solely on the basis of assets' economic/technical life, estimating a residual weighted average of over 12 years. It reflects the "component approach" used for major components of individual technical units.

As regards investments made in 2008, reference is made to the "Investments" chapter of the Management Report.

Other property, net of relevant depreciation provisions, includes Euro 324 thousand for office furniture and machines, Euro 307 thousand for electronic machinery, and Euro 19 thousand for sundry and minor equipment.

Tangible assets under construction and payments on account include ongoing investments totalling Euro 20,113 thousand and payments on account to suppliers amounting to Euro 91 thousand.

FINANCIAL FIXED ASSETS (EURO 5 THOUSAND)

This item refers to the cost of acquisition at par value of 100 shares, representing 5% of share capital, of the company Industria Acqua Siracusana S.p.A., with registered office in Syracuse (Sicily). As at 31 December 2007 the investee company's shareholders' equity amounted to Euro 108 thousand.

CURRENT ASSETS (EURO 271,016 THOUSAND)

INVENTORY

	31/12/2008	31/12/2007
RAW MATERIALS	3,943	3,840
ANCILLARY AND CONSUMABLE MATERIALS	5,889	6,000
FINISHED PRODUCTS AND GOODS	232	739
PAYMENTS ON ACCOUNT	4	4
TOTAL	10,068	10,584

The increase in the value of raw materials inventory compared to 31 December 2007 was mainly due to higher quantities of low-sulphur diesel in stock. Overall, raw material stocks totalled 26,099 tonnes compared to 25,793 tonnes in the previous year. The value of raw materials calculated on the basis of current market prices in December 2008 amounted to Euro 7,013 thousand. Based on an analysis of the items that have not changed in the last few years, it was not found necessary to carry out any further write-down of the inventory of ancillary and consumable materials. The provision allocated in previous years amounts to Euro 4,979 thousand. The reduction in finished products and goods inventory was due both to lower quantities of sulphur in stock and to the decrease in the relative price at year-end. Payments on account are the sums receivable for advance payments to suppliers on purchase orders for spare parts and consumables, scheduled for delivery in the early months of the next financial year.

RECEIVABLES

	31/12/2008	31/12/2007
TRADE RECEIVABLES	102,543	53,883
RECEIVABLES DUE FROM AFFILIATED COMPANIES	25,277	4,668
RECEIVABLES DUE FROM PARENT COMPANIES	3,214	417
TAX RECEIVABLES	3	3,093
DEFERRED TAX ASSETS	7,247	6,666
OTHER RECEIVABLES	59,289	6,335
TOTAL	197,572	75,061

The amounts by type of receivable are commented in detail below:

TRADE RECEIVABLES

	31/12/2008	31/12/2007
RECEIVABLES FOR ELECTRICITY SALES	72,343	36,094
OTHER TRADE RECEIVABLES	30,184	17,788
FINANCIAL RECEIVABLES	16	-
TOTAL	102,543	53,883

Trade receivables are due from domestic customers, with the exception of Euro 282 thousand due from non-Italian customers within the EU.

Receivables primarily concern the equalisation of electricity sales tariffs for the entire year (estimated at Euro 56,958 thousand), electricity sales in December 2008 and quantification of non off-take by the GSE in the incentive period.

For definition of the equalisation it is necessary to wait for the official announcement of the Electricity Sector Equalisation Fund.

Other trade receivables concern assessment of the estimated partial refund of green-certificate costs totalling Euro 29,683 thousand (of which Euro 12,459 thousand relating to 2002-2004 production, acquired in 2008, and Euro 4,552 thousand relating to 2008 production) prudently estimated based on the AEEG's "document setting out criteria for recognition" (documento di ricognizione) of 29 December 2008, as well as sales of sulphur and vanadium concentrate.

RECEIVABLES DUE FROM AFFILIATED COMPANIES

	31/12/2008	31/12/2007
TRADE RECEIVABLES:		
ISAB S.R.L.	22,414	–
ERG RAFFINERIE MEDITERRANEE S.P.A.	1,254	3,425
ERG NUOVE CENTRALI S.P.A.	1,609	1,243
ISAB ENERGY SERVICES S.R.L.	–	–
TOTAL	25,277	4,668

Of the receivables due from ISAB S.r.l., Euro 21,500 thousand refers to reimbursement of costs incurred for the third-gasifier project and the remainder to sales of minor products in December 2008, including related adjustments.

Receivables due from ERG Raffinerie Mediterranee refer to sales of minor products in October/November 2008 as well as to the excess of positive adjustments on raw material purchases made during the year.

Receivables due from ERG Nuove Centrali mainly include sums payable under the 30-year building lease granted over a portion of land belonging to ISAB Energy, which will be paid pro rata temporis over a period of 30 years. They also include the sale of emissions rights purchased surplus to requirements.

RECEIVABLES DUE FROM PARENT COMPANIES

	31/12/2008	31/12/2007
TRADE RECEIVABLES:		
ERG POWER & GAS S.P.A.	–	–
ERG S.P.A.	–	–
SUNDRY RECEIVABLES:		
ERG S.P.A.	3,213	417
TOTAL	3,214	417

Sundry receivables concern settlement of December 2008 VAT credit, transferred to ERG S.p.A. for the centralised group account.

TAX RECEIVABLES

	31/12/2008	31/12/2007
RECEIVABLES DUE FROM THE TAX AUTHORITIES	3	3,093
TOTAL	3	3,093

As at 31 December 2008 receivables due from the tax authorities consisted of the credit for recovery of substitute tax concerning tax realignment performed on assets sold in 2007 (which cannot be netted with IRAP (regional tax) for the period).

DEFERRED TAX ASSETS

	31/12/2008	31/12/2007
DEFERRED TAX ASSETS - IRES (CORPORATION TAX)	4,713	3,975
DEFERRED TAX ASSETS - IRAP (REGIONAL TAX)	2,534	2,691
TOTAL	7,247	6,666

The following is a summary of temporary differences and deferred tax assets:

	31/12/2008			31/12/2007		
	TAXABLE INCOME	IRES 33.0%	IRAP 3.9%	TAXABLE INCOME	IRES 27.5%	IRAP 3.9%
PROVISION FOR CYCLICAL MAINTENANCE	7,982	2,634	311	7,150	1,966	279
EMISSIONS RIGHTS	–	–	–	1	–	–
WRITE-DOWN OF SPARE PARTS	4,979	1,643	194	4,979	1,369	194
OTHER PROVISIONS	581	192	23	1,872	515	73
CAPITALISED FINANCIAL CHARGES	50,742	–	1,979	54,571	–	2,128
OTHER TEMPORARY DIFFERENCES: IRAP	685	–	27	396	–	15
OTHER TEMPORARY DIFFERENCES: IRES	741	245	–	397	124	–
TOTAL		4,713	2,534		3,975	2,691

The IRAP deferred tax asset on capitalised financial expenses represents the amount paid when the IGCC plant started operation. It will reverse in future financial years in relation to annual depreciation costs.

The increase in the period includes adjustment of the tax rate for deferred tax assets following introduction of the 5.5% additional IRES (Euro 795 thousand).

OTHER RECEIVABLES

	31/12/2008	31/12/2007
SUNDRY RECEIVABLES	59,096	–
RECEIVABLES DUE AS COMPENSATION FOR DAMAGES	–	6,225
RECEIVABLES DUE FROM EMPLOYEES	–	–
RECEIVABLES DUE FROM SUPPLIERS AND OTHER DEBTORS	192	109
TOTAL	59,289	6,335

Sundry receivables mainly concern assessment of the refund receivable, pursuant to AEEG resolution 77/2008, of costs incurred to buy CO₂ quotas (Euro 59,086 thousand in total, of which Euro 48,838 thousand relating to NAP 2/2008 and Euro 10,248 thousand relating to NAP 1/2005-2007).

We point out that the receivable relating to NAP1, defined by the AEEG in November 2008, was subsequently collected by the Company in January 2009.

The item "Receivables due as compensation for damages" shows a zero balance following collection of reimbursement for the loss assessed in 2007 regarding a claim event that occurred in 2005 (Euro 185 thousand) and cancellation due to offsetting of the receivable claimed from the Snamprogetti Foster Wheel Energy Consortium as compensation for damages (Euro 6,030 thousand in 2007) against the royalties payable to such party.

We recall the fact that this sum was settled by non-recourse assignment of a receivable due to the above mentioned Consortium from Texaco Development and was offset in 2008 against the annual amounts payable for royalties relating to the use of the Texaco gasification process.

CASH AND CASH EQUIVALENTS

	31/12/2008	31/12/2007
BANK AND POSTAL DEPOSITS:		
ORDINARY CURRENT ACCOUNTS	134	195
PROJECT FINANCING ACCOUNT	63,238	69,229
	63,371	69,424
CASH AND NOTES ON HAND	5	13
TOTAL	63,376	69,438

This item is generated by cash and bank current account balances at the end of the year, after careful treasury management within the scope of the contractual agreements reached with the financing banks.

The bank account balance mainly comprises the balance on accounts held at Citibank Milan (the Project Financing account bank), through which all the Company's incoming and outgoing funds flow, according to the rules and constraints imposed by the Project Financing contract. In particular, a balance of Euro 3.2 million is held in a restricted preferential account in favour of the financing institutions, earmarked as an "Insurance reserve account" (to guarantee the lower insurance cover compared to that indicated in the financing contract).

ACCRUED INCOME AND PREPAID EXPENSES

PREPAID EXPENSES

	31/12/2008	31/12/2007
INSURANCE	2,999	8,064
SERVICES AND OTHER SUNDRY FEES	1,067	365
TOTAL	4,065	8,429

Insurance prepayments concern the premiums for policies covering property risks and third-party liability insurance with due dates after the end of the financial year under review.

The other prepaid expenses refer mainly to purchases of CO₂ rights surplus to the obligation for the year (Euro 788 thousand), as well as to the steam service paid in advance to affiliated company ERG Raffinerie Mediterranee (Euro 245 thousand).

The prepaid expenses will be recognised in the Income Statement for the next financial year (2009).

We set out below the classification of asset items by due date.

	WITHIN 12 MONTHS	WITHIN 5 YEARS	BEYOND 5 YEARS	TOTAL
RECEIVABLES INCLUDED UNDER CURRENT ASSETS				
TRADE RECEIVABLES	102,543	–	–	102,543
RECEIVABLES DUE FROM AFFILIATED COMPANIES	25,277	–	–	25,277
RECEIVABLES DUE FROM PARENT COMPANIES	3,214	–	–	3,214
TAX RECEIVABLES	3	–	–	3
DEFERRED TAX ASSETS	2,823	3,120	1,304	7,247
RECEIVABLES DUE FROM OTHERS	59,289	–	–	59,289
ACCRUED INCOME AND PREPAID EXPENSES				
PREPAID EXPENSES	4,065	–	–	4,065
TOTAL	197,213	3,120	1,304	201,637

LIABILITIES

QUOTAHOLDERS' EQUITY

SHARE CAPITAL

Share capital, fully paid up, is subscribed as follows:

	CAPITAL QUOTAS	%
ERG POWER & GAS S.P.A. - ROME	2,634,150	51
IPM PRIOLO BV - HOLLAND	2,530,850	49
TOTAL	5,165,000	100

LEGAL RESERVE (EURO 1,033 THOUSAND)

The legal reserve, created in 2002 following allocation of 2001 profits, corresponds to one fifth of share capital.

OTHER RESERVES (EURO 28,709 THOUSAND)

The Tax Realignment Reserve was created following the realignment operation carried out pursuant to Law 266/05 and corresponds to the amount of the realignment, net of relative substitute tax paid.

RETAINED EARNINGS (LOSSES) (EURO 316,203 THOUSAND)

The item increased during the year by the 2007 net profit brought forward amounting to Euro 79,784 thousand, and decreased by Euro 70,000 thousand in December 2007 following distribution to quotaholders of prior years' profits.

CHANGES IN QUOTAHOLDERS' EQUITY

	SHARE CAPITAL	REVALUATION RESERVES	LEGAL RESERVE	RESERVE FOR TAX REALIGNMENT PURSUANT TO LAW 266/2005	RETAINED EARNINGS	NET PROFIT FOR THE YEAR	TOTAL QUOTAHOLDERS' EQUITY
BALANCE AT 31/12/2005	5,165	-	1,033	-	202,565	93,763	302,526
ALLOCATION OF 2005 PROFIT	-	-	-	28,709	65,054	(93,763)	-
DIVIDENDS PAID	-	-	-	-	(70,000)	-	(70,000)
2006 PROFIT (LOSS)	-	-	-	-	-	108,800	108,800
BALANCE AT 31/12/2006	5,165	-	1,033	28,709	197,619	108,800	341,325
ALLOCATION OF 2006 PROFIT	-	-	-	-	108,800	(108,800)	-
DIVIDENDS PAID	-	-	-	-	(70,000)	-	(70,000)
2007 PROFIT (LOSS)	-	-	-	-	-	79,784	79,784
BALANCE AT 31/12/2007	5,165	-	1,033	28,709	236,419	79,784	351,109
ALLOCATION OF 2007 PROFIT	-	-	-	-	79,784	(79,784)	-
DIVIDENDS PAID	-	-	-	-	-	-	-
2008 PROFIT (LOSS)	-	-	-	-	-	41,322	41,322
BALANCE AT 31/12/2008	5,165	-	1,033	28,709	316,203	41,322	392,431

The following table lists the items forming quotaholders' equity, with indication of each component's potential utilisation as well as any tax-related restrictions.

	AMOUNT	POTENTIAL UTILISATION	AVAILABLE PORTION	PORTION SUBJECT TO TAX SUSPENSION
SHARE CAPITAL	5,165		–	–
LEGAL RESERVE	1,033	B	–	–
TAX REALIGNMENT	28,709	A B C	–	28,709
RETAINED EARNINGS (LOSSES)	316,203	A B C	316,203	–
PROFIT (LOSS) FOR YEAR	41,322	A B C	41,322	–
TOTAL	392,431		357,525	28,709

KEY:

A – FOR CAPITAL INCREASES

B – TO COVER LOSSES

C – FOR DISTRIBUTION TO QUOTAHOLDERS

Under the agreements with the financing banks, the available portions of quotaholders' equity may only be distributed to quotaholders subject to the banks' approval after they have verified the conditions laid down in the Project Financing contract, which require certain levels of financial coverage to be achieved, and the absence of default situations.

In accordance with the provisions of Law 266 of 23 December 2005 (2006 Finance Law), the company adjusted the fiscal value of assets as at 31 December 2004 to the corresponding higher value shown in the financial statements. This realignment related exclusively to the "Plant and machinery" fiscal category and led to the posting of a reserve of Euro 28,709 thousand subject to tax suspension.

It is pointed out that this reserve can be distributed to quotaholders, in which case it will form part of the Company's taxable income, or may be used to cover losses, in which case the Company cannot distribute dividends would having first reconstituted the amount.

Lastly, we point out that – following elimination of purely tax-driven entries (disinquinamento fiscale) and the off-balance sheet deductions made pursuant to Article 109, paragraph 4 b) of the Consolidated Income Tax Act – in case of distribution of the year's profit and/or reserves, the amount of equity reserves and retained earnings must not fall below the total remaining amount of the negative items deducted off-balance sheet which, net of deferred tax provision, is estimated to be Euro 59 million. If this occurs, the amount of reserves and/or profit for the year distributed beyond this minimum level will form part of the Company's taxable income.

PROVISIONS FOR LIABILITIES AND CHARGES

	31/12/2008	31/12/2007	CHANGES	
			INCREASES	DECREASES
DEFERRED TAX PROVISION	34,199	32,876	5,789	(4,465)
PROVISION FOR CYCLICAL MAINTENANCE	7,982	7,150	4,172	(3,340)
EMISSIONS TRADING PROVISION	–	1	–	(1)
OTHER PROVISIONS	581	1,872	–	(1,291)
TOTAL	42,762	41,898	9,961	(9,097)

The deferred-tax provision comprises Euro 30,799 thousand for IRES (corporation tax) and Euro 3,400 thousand for IRAP (regional tax).

The increase in this provision was mainly due to adjustment of deferred taxation rates following introduction of the 5.5% IRES surcharge (the so-called Robin Hood tax). This adjustment amounted to Euro 5,758 thousand. Following changes in tax regulations it was not necessary to provision deferred taxes relating to tax-deductible depreciation not charged to the Income Statement.

The decrease in deferred taxation was due to use of IRES deferred tax liabilities of Euro 3,760 thousand against destruction of the assets involved in the accident on 13 October and to use of IRAP deferred tax liabilities of Euro 680 thousand due to reversal of higher tax-driven depreciation performed in previous years.

It is pointed out that, based on the new IRAP (regional tax) regulations, the recouping for taxation of higher tax-driven depreciation must be completed within the next 5 financial years, whilst in the case of IRES (corporation tax), this recouping will take place when the asset's useful fiscal life ends.

Provision for cyclical maintenance has been adjusted following the new scenario emerging after the claim events that, on 13 October 2008, significantly involved part of the production plants subject to scheduled cyclical maintenance.

The decrease relates to release of the part of the fund provisioned in prior years relating to assets destroyed during the claim event (which will therefore undergo reconstruction and not maintenance).

The increase in the provision concerns the portions pertaining to the financial year of costs for plant maintenance shutdowns that, following the claim event, were reprogrammed to June 2010 (for some technical units they were previously scheduled in 2009 and for others in 2011). This is because, during the plant shutdown period at the end of 2008, repair and maintenance work was carried out on a part of these facilities (these charges have been accounted for as part of the year's maintenance costs and not as utilisation of previously accrued cyclical maintenance provision).

The previous maintenance plan approved by affiliated company ISAB Energy Services (which envisaged shutdowns every four years for each plant train and every two years for their communal parts) has been updated following the claim event and is currently being approved.

Following the European Union's authorisation dated 20 October 2008 to proceed with allocation of CO₂ quotas for the period 2008-2012, Resolution 20/2008 of Italy's National Committee for implementation of the Emissions Trading Directive (comprising members of the Ministry for the Environment and the Ministry of Economic Development) allocated to the Company emissions rights for 2008 and for the three subsequent years amounting to 371,272 tonnes/year. The Company calculated that 2008 pollutant emissions amounted to 2,590,617 tonnes and, during the year, purchased all the rights necessary to meet the relevant obligation (net of the rights allocated). It was therefore not necessary to make any provision for costs, but rather to include in accounts, as a prepayment, costs incurred for rights purchased surplus to the obligation accruing.

The item "Other provisions" includes the provision for costs relating to services and materials required to recondition some items replaced during the last maintenance shutdown.

STAFF LEAVING INDEMNITIES

	31/12/2008	31/12/2007	CHANGES	
			INCREASES	DECREASES
STAFF LEAVING INDEMNITIES	27	26	8	(7)

The item, net of supplementary pension coverage transferred to Fondenergia (the occupational pension fund for workers in the energy and oil industries), represents the leaving indemnities accrued in favour of employees as at 31 December 2008 in accordance with the contractual and legal provisions in force at year-end.

Decreases reflect the disbursement of advances.

PAYABLES

	31/12/2008	31/12/2007
DUE TO QUOTAHOLDERS FOR LOANS	53,641	50,023
DUE TO BANKS	158,169	245,439
DUE TO SUPPLIERS	41,226	58,046
DUE TO AFFILIATED COMPANIES	68,665	13,857
DUE TO PARENT COMPANIES	28,221	4,486
TAX PAYABLES	5,548	70
DUE TO SOCIAL SECURITY INSTITUTIONS	15	12
OTHER PAYABLES	170	170
TOTAL	355,656	372,104

The detailed breakdown of payables is as shown below:

DUE TO QUOTAHOLDERS FOR LOANS

	31/12/2008	31/12/2007
MAJORITY QUOTAHOLDER:		
ERG POWER & GAS S.P.A.	26,801	24,955
MINORITY QUOTAHOLDER:		
IPM PRIOLO B.V. (HOLLAND)	4,814	4,482
PONAMA HOLDINGS LIMITED (MALTA)	22,027	20,585
	26,840	25,067
TOTAL	53,641	50,023

The Project Financing subordinated loans (sub-debts) represent the Company's financial liabilities towards its quotaholders, with each amount corresponding to the value of the respective holding in the company's share capital.

The conditions for disbursement and the repayment schedules provide for accrual of interest at a rate equal to the project financing interest cost, plus three percentage points, based on 34 six-monthly instalments of equal amounts, starting from the time when the conditions for repayment agreed with the financing banks occur.

The underwriter of a portion of the loan on behalf of minority quotaholder IPM Priolo BV (formerly MEC Priolo BV) is the latter's parent company (Ponama Holdings Limited). This loan totals Euro 18,186 thousand and is shown in the balance sheet inclusive of interest accrued during the last three financial years amounting to Euro 3,841 thousand (of which Euro 1,441 thousand relating to 2008).

The portion of loan relating to quotaholder IPM Priolo BV (formerly MEC Priolo BV) concerns the loan principal of Euro 4,182 thousand and interest accruing in the last two years of Euro 632 thousand (of which Euro 331 thousand relating to 2008).

The financial payable due to ERG Power & Gas again refers to a project financing sub-debt for the principal amount of Euro 23,281 thousand and Euro 3,520 thousand for interest (of which Euro 1,845 thousand accruing in 2008 and the remainder in 2007).

As described in the comment on profits available for distribution, repayment of the sub-debts is again subject to fulfilment of the terms set out in the Project Financing agreement.

DUE TO BANKS

	31/12/2008	31/12/2007
MORTGAGES AND LOANS:		
SAN PAOLO IMI S.P.A. PROJECT FINANCING ACCOUNT	158,169	245,439
TOTAL	158,169	245,439

Amounts due to banks relate to the loan obtained by the Company through the Project Financing operation, which is guaranteed by special liens and a mortgage on land, as already mentioned in the introduction to this document.

The non-recourse loan is repayable in 29 instalments starting from 15 December 2000, at variable rates linked to the 6-month Euribor for tranche "B", and to the 3-month EIB rate for tranche "C".

Until 15 December 2008, against this debt and in relation to the individual tranches, hedging was in place in the form of interest-rate caps, which limit the interest expense to a maximum rate of 3.78% per annum.

As at 31 December 2008 the Company had no outstanding derivatives. We therefore omit the fair value disclosure, pursuant to the requirements of Article 2427-bis of the Italian Civil Code.

In 2008 the overall debt, including accrued interest, decreased by Euro 87,269 thousand, as a result of repayment instalments made. This reduced the exposure on tranche "B" by Euro 48,565 thousand and on tranche "C" by Euro 38,705 thousand.

The remaining principal for the two tranches and accrued interest expenses, unpaid as at 31 December 2008, are as follows:

	31/12/2008	31/12/2007
TRANCHE "B"	87,900	136,302
TRANCHE "C"	69,984	108,523
INTEREST PAYABLE ON LOANS	285	614
TOTAL	158,169	245,439

According to commitments outstanding at year-end, the amounts due for repayment each year are estimated as follows:

	31/12/2008
2009	14,282
2010	38,027
2011	28,239
2012	40,735
2013	14,461
AFTER 2013	22,426
TOTAL	158,169

DUE TO SUPPLIERS

Payables to suppliers arise in connection with commercial transactions and are due within 12 months.

They also include the amount of Euro 14,871 thousand payable for green certificates in relation to 2008 production, calculated based on the withdrawal price notified by the GSE based on Article 15, paragraph 1, of Ministerial Decree dated 18 December 2008 (namely the weighted average price of green certificate trades recorded on the GME (Electricity Market Operator) market in the 3-year period 2006-2008).

Contractors for investment projects have issued sureties to the Company for around Euro 3,863 thousand.

	31/12/2008	31/12/2007
ITALIAN SUPPLIERS	41,192	57,992
OTHER EU SUPPLIERS	(240)	42
NON-EU SUPPLIERS	275	12
TOTAL	41,226	58,046

AMOUNTS DUE TO AFFILIATED COMPANIES

	31/12/2008	31/12/2007
TRADE PAYABLES:		
ERG RAFFINERIE MEDITERRANEE S.P.A.	27,951	-
ISAB ENERGY SERVICES S.R.L.	20,094	11,553
ISAB S.R.L.	7,250	-
ERG PETROLI S.P.A.	30	53
ERG RENEW S.P.A.	1	-
	55,326	11,605
FINANCIAL PAYABLES:		
ISAB S.R.L.	13,339	-
ERG RAFFINERIE MEDITERRANEE S.P.A.	-	2,252
	13,339	2,252
TOTAL	68,665	13,857

The amount includes the amounts payable to ISAB S.r.l., a company set up at year-end by ERG Raffinerie Mediterranee (and by foreign partner Lukoil).

Consequently, at year-end trade payables due to ISAB S.r.l. existed mainly in connection with the trading of raw materials and services in December 2008, as well as price adjustments relating to these supplies.

Financial payables were also outstanding, as contributed on 30 November 2008 by ERG Raffinerie Mediterranee to the newly established ISAB S.r.l., concerning:

- a residual debt of Euro 1,351 thousand underlying the Loan Agreement of 5 April 1996, which is repaid on an interest-free basis in straight-line 6-monthly instalments and matures on 1 April 2010;
- a subordinated loan (sub-debt), which at year-end totalled Euro 11,988 thousand (including principal of Euro 11,822 thousand and Euro 166 thousand for interest accruing in the period). This relates entirely to the disbursement of tranche B, which will be reimbursed following payout of the facilitated loan (accorded pursuant to Law 488 by Banca Intesa and Cassa Depositi e Prestiti) and in any case subject to approval by the financing banks involved in the Project Financing.

As a result of the foregoing, the amounts due to ERG Raffinerie Mediterranee mainly concern commercial trading in November of raw materials and services and to price adjustments on the such supplies for the first 11 months of the year. Financial payables are reduced to zero following their contribution by ERG Raffinerie Mediterranee to the newly established company ISAB S.r.l. on 30 November 2008.

As regards ISAB Energy Services, the amount due arises primarily from the services received under the "Operation and Maintenance" Agreement mentioned earlier. The payable includes the 2007 fee of Euro 13,789 thousand, which, due to subordination restrictions, is temporarily unable to be paid following the claim event on 13 October 2008.

The amount payable to ERG Petroli concerns the supply of lubricant oil.

The amount due to ERG Renew concerns the charging of emoluments payable to the company's directors who have waived them in favour of the company to which they belong.

AMOUNTS DUE TO PARENT COMPANIES

	31/12/2008	31/12/2007
TRADE PAYABLES:		
ERG S.P.A.	24	6
ERG POWER & GAS S.P.A.	2,797	461
	2,821	467
OTHER PAYABLES:		
ERG S.P.A.	25,400	4,019
	25,400	4,019
TOTAL	28,221	4,486

Trade payables due to ERG Power & Gas refer to the purchase of electricity and other raw materials, charges for management of the Hydrogen project, settlement of emission rights purchases, and support services provided for commercial, planning and performance, secretarial, legal, administrative and financial activities, as well as, to a lesser extent, remuneration of directors and top management.

Other payables concern the estimated IRES (corporation tax) charge for the year, which the company will transfer as a result of its participation in tax consolidation, already net of advance payments and recoverable tax credits.

TAX PAYABLES

	31/12/2008	31/12/2007
INCOME TAXES FOR THE YEAR	-	-
TAX WITHHOLDINGS	(9)	73
OTHER TAX PAYABLES	5,558	(3)
TOTAL	5,548	70

The item mainly concerns the amount payable for the 5.5% IRES (corporation tax) surcharge introduced for energy companies as from 2008 via the so-called "Robin Hood tax" and, to a lesser extent, IRAP (regional tax) arising from the difference between down payments made during the year and IRAP assessed at year-end.

DUE TO SOCIAL SECURITY INSTITUTIONS (EURO 15 THOUSAND)

Of this item (Euro 12 thousand as at 31 December 2007), Euro 8 thousand refers to the amount payable to various institutions for social security and national insurance contributions relating to December 2008 and Euro 6 thousand refers to social security charges pertaining to the year appropriated in respect of amounts accrued in favour of employees for unused holiday and leave entitlements, productivity bonuses and overtime work not yet paid.

OTHER PAYABLES

	31/12/2008	31/12/2007
PAYABLES DUE TO EMPLOYEES	18	17
OTHER SUNDRY PAYABLES	152	153
TOTAL	170	170

Payables due to employees include sums accrued for unused holiday entitlement, time off in lieu, overtime work and productivity bonuses.

Other sundry payables mainly refer to the Italian Electricity and Gas Authority 2001 expense contribution not yet paid.

ACCRUED EXPENSES AND DEFERRED INCOME (EURO 1,239 THOUSAND)

The item refers entirely to deferred income relating to the 30-year building lease agreement drawn up on 1 December 2005 between ISAB Energy and ERG Nuove Centrali (Euro 1,285 thousand in 2007).

The following table sets out the classification of payables by due date:

	WITHIN 12 MONTHS	WITHIN 5 YEARS	BEYOND 5 YEARS	TOTAL
PAYABLES:				
DUE TO QUOTAHOLDERS FOR LOANS	3,882	18,065	31,693	53,641
DUE TO BANKS	14,282	121,461	22,426	158,169
DUE TO SUPPLIERS	41,226	–	–	41,226
DUE TO AFFILIATED COMPANIES	56,227	6,180	6,259	68,665
DUE TO PARENT COMPANIES	28,221	–	–	28,221
TAX PAYABLES	5,548	–	–	5,548
DUE TO SOCIAL SECURITY INSTITUTIONS	15	–	–	15
OTHER PAYABLES	170	–	–	170
ACCRUED EXPENSES AND DEFERRED INCOME:				
ACCRUED EXPENSES	–	–	–	–
DEFERRED INCOME	1,239	–	–	1,239
TOTAL	150,811	145,707	60,378	356,896

MEMORANDUM ACCOUNTS (EURO 5,061 THOUSAND)

Memorandum accounts refer to raw materials stored at the South plants of the refinery owned by ISAB S.r.l. amounting to Euro 4,537 thousand (Euro 8,222 thousand as at 31 December 2007), rights in rem from affiliated companies for Euro 4 thousand (unchanged) and contractual commitments undertaken for Euro 520 thousand (Euro 342 thousand in 2007).

Reference is made to the description provided earlier regarding the Project Financing restrictions on cash flows generated by the Company.

INCOME STATEMENT ANALYSIS

PRODUCTION VALUE (EURO 599,359 THOUSAND)

REVENUES FROM SALES AND SERVICES

	2008	2007	2006
SALES AND SERVICES TO CUSTOMERS:			
ELECTRICITY	486,397	469,358	540,469
OTHER SERVICES AND SALES	7,675	3,192	4,251
	494,072	472,550	544,720
SALES AND SERVICES TO AFFILIATED COMPANIES:			
HEAT	14,645	12,715	12,257
STEAM	1,762	1,953	2,478
FLUXING PRODUCT (OIL)	412	179	43
OTHER SUPPLIES	2,531	2,411	1,664
	19,351	17,259	16,443
TOTAL	513,423	489,809	561,163

Revenues consist primarily of sales of electricity inclusive of equalisation of the selling price for 2008, estimated to be positive by Euro 56,958 thousand.

We point out that, following the end of the incentive period, starting from December 2008 sales are no longer performed at the CIP 6 incentivised price.

Net production sold totalled 3,435 thousand MWh (3,809 thousand MWh in 2007), net of non off-takes charged to the GSE following conclusion of the incentive period.

Sales and services include other revenues for sales of sulphur and vanadium concentrate.

Revenues from affiliated companies concern ERG Raffinerie Mediterranee and the newly established ISAB S.r.l. for supplies of steam, air, water and sundry supplies of minor products respectively in the period January-November 2008 and in December 2008.

CHANGES IN INVENTORIES OF WORK IN PROGRESS, SEMI-FINISHED AND FINISHED PRODUCTS (EURO -508 THOUSAND)

The change (Euro +410 thousand as at 31 December 2007) was due both to lower quantities of sulphur and vanadium concentrate in stock and to the lower value of sulphur inventory.

INCREASE IN FIXED ASSETS UNDER CONSTRUCTION

	2008	2007	2006
MATERIALS TAKEN FROM INVENTORY	1,473	534	344
TOTAL	1,473	534	344

The item relates to the value of spare parts taken from inventory and capitalised as an increase of investments.

OTHER REVENUES AND INCOME

	2008	2007	2006
REFUND OF NAP2 2008 CO ₂ COSTS	48,838	–	–
REFUND OF NAP1 2005-2007 CO ₂ COSTS	10,248	–	–
REFUND OF HYDROGEN PROJECT COSTS	21,500	–	–
RELEASE OF CYCLICAL MAINTENANCE PROVISION	3,340	–	–
INSURANCE INDEMNITIES	–	193	11,700
SUNDRY REVENUES AND INCOME	1,045	1,309	1,769
TOTAL	84,971	1,502	13,469

The item includes an assessment of the refund of costs incurred to buy CO₂ quotas envisaged by emissions trading regulations, regarding both NAP1 for the period 2005-2007 (quantified by the AEEG in 2008 for the amount of Euro 10,248 thousand) and NAP2 for 2008 (estimated at Euro 48,838 thousand based on AEEG resolution no. 77/2008).

Other revenues and income also include assessment of a refund from affiliated company ISAB S.r.l. (amounting to Euro 21,500 thousand) relating to costs incurred for construction of a third gasifier in the affiliated company's interest; this became economically unviable, following the regulatory change that occurred in 2008 concerning the reimbursement of emissions trading costs, and was therefore abandoned. Pursuant to the contracts initially executed with ERG Raffinerie Mediterranee and subsequently with the newly established company ISAB S.r.l., these costs will be fully refunded by the affiliated company in accordance with the agreements in place.

Release of the cyclical maintenance fund, in the amount of Euro 3,340 thousand, refers to elimination of the part of long-term scheduled cyclical maintenance provision accrued in previous years in relation to the section of the plant destroyed as a result of the claim event that occurred at the Company's facilities on 13 October 2008.

Sundry revenues and income mainly relate to:

- emissions rights (CERs) acquired surplus to requirements and then resold at the same price to affiliated company ERG Nuove Centrali (Euro 344 thousand), as well as the usual building lease granted to ERG Nuove Centrali (Euro 46 thousand);
- IT hosting services, letting of part of the office building and related telephone services to affiliated company ISAB Energy Services (Euro 323 thousand);
- services relating to the letting of space in the office building and warehouse to parent company ERG Power & Gas (Euro 210 thousand);
- sale to third parties of scrap and other spare parts for a total of Euro 97 thousand;
- miscellaneous services provided to affiliated company ERG Raffinerie Mediterranee (Euro 11 thousand).

PRODUCTION COSTS (EURO 508,932 THOUSAND)

COSTS FOR RAW, ANCILLARY, CONSUMABLE MATERIALS AND GOODS

	2008	2007	2006
RAW MATERIALS AND GOODS	235,100	212,704	243,074
MATERIALS AND SPARE PARTS	8,583	10,491	7,228
SUNDRY MATERIALS AND PURCHASES	47	62	189
TOTAL	243,730	223,258	250,491

Raw materials and goods purchases related to the provision and supply of:

- oxygen and nitrogen (Euro 60,737 thousand), entirely performed by third parties;
- electricity (Euro 17,296 thousand, of which Euro 17,212 thousand from parent company ERG Power & Gas);
- methane gas (Euro 7,447 thousand, of which Euro 1,260 thousand from parent company ERG Power & Gas);
- other raw materials supplied by affiliated companies (Euro 149,620 thousand, of which, Euro 142,550 thousand from ERG Raffinerie Mediterranee and Euro 7,070 thousand from ISAB S.r.l.).

In particular, the two affiliated companies provided supplies of feedstock (Euro 116,502 thousand), fuel oil (Euro 12,474 thousand), LCO (Euro 9,067 thousand), virgin naphtha (Euro 4,901 thousand), gasoil (Euro 3,512 thousand) and steam (Euro 3,164 thousand).

Other purchases mainly concerned spare parts for maintenance work (Euro 3,277 thousand) and ancillary and consumable materials (Euro 5,306 thousand). Ancillary materials included purchases of lubricant oil (Euro 265 thousand) supplied by affiliated company ERG Petroli and sulphuric acid (Euro 8 thousand) supplied by affiliated company ERG Raffinerie Mediterranee.

SERVICES

	2008	2007	2006
COMMERCIAL AND TRANSPORT SERVICES	3,553	3,332	4,889
MAINTENANCE AND OPERATING SUPPORT	13,424	13,262	15,226
TECHNICAL AND LEGAL CONSULTANCY AND OTHER SERVICES	2,802	3,841	2,360
INSURANCE	12,321	11,907	11,488
PERSONNEL SERVICES	87	199	167
SERVICES SUPPLIED BY PARENT COMPANIES	3,526	2,172	2,261
SERVICES SUPPLIED BY AFFILIATED COMPANIES	23,117	26,496	23,330
OTHER SERVICES	3,540	2,880	3,075
TOTAL	62,372	64,089	62,796

Costs for services decreased overall by Euro 1,718 thousand, mainly following a decrease in the cost of Operation and Maintenance services (Euro -3,366 thousand) and consulting expenses (Euro -1,040 thousand), partly offset by an increase in the cost of services due to fees and risk premiums accorded on CO₂ purchases during the period (Euro 2,596 thousand, of which Euro 1,324 thousand accorded to parent company ERG Power & Gas).

Maintenance and operating assistance services include the costs incurred for the repair and re-commissioning of the IGCC plant's Train 2 (Euro 3,368 thousand), which was damaged as a result of the accident on 13 October 2008.

Services provided by parent companies refer to transactions with ERG Power & Gas for performance of corporate services (plant management, administration and finance, commercial, planning and control, and IT services) (Euro 2,004 thousand); fees and risk premiums on CO₂ purchases during the period (Euro 1,324 thousand); and emoluments and bonuses for management directly employed by same (Euro 79 thousand). Services provided by ERG S.p.A. concern the performance of trading activities for the purchase of CO₂ quotas (Euro 49 thousand) and the remuneration of directors and management directly employed by the parent company (Euro 71 thousand).

Services provided by affiliated companies include the operation and maintenance of the IGCC plant (Euro 21,783 thousand), performed by ISAB Energy Services S.r.l.; the services performed by ERG Raffinerie Mediterranee (Euro 1,331 thousand) relating to fire-prevention and healthcare; and the emoluments of directors employed by ERG Renew (Euro 3 thousand) and ISAB Energy Services (Euro 1 thousand).

In accordance with Article 149-*duodecies* of the Issuers' Regulation, we report that "Costs for services" also include Euro 114 thousand for fees paid to the audit firm Reconta Ernst & Young S.p.A. and to the companies belonging to its network, entirely connected with auditing services.

As required by Article 2427, no. 16, of the Italian Civil Code, we set out below the total fees payable to directors and statutory auditors.

DIRECTORS	190
STATUTORY AUDITORS	37

LEASE, RENTAL AND ROYALTY EXPENSES

	2008	2007	2006
RENTAL EXPENSES	284	302	238
HIRE AND LEASING EXPENSES	247	231	283
ROYALTIES	44	959	1,069
TOTAL	576	1,493	1,590

Lease and rental expenses comprise the hire of computers and equipment (Euro 101 thousand) as well as various rental expenses and fees (Euro 183 thousand).

Hire and leasing expenses include the costs for raw materials storage paid to affiliated companies (Euro 227 thousand, of which Euro 207 thousand to ERG Raffinerie Mediterranee and Euro 19 thousand to ISAB S.r.l.) and for service car hire (Euro 21 thousand).

Royalties refer to the use of MPR Service Inc.-USA's solvent reclaimer (Euro 40 thousand) and the industrial gasification processes owned by Texaco Development-USA (Euro 4 thousand), with a sharp decrease in the latter after having reached the maximum level of contractually envisaged royalties.

PERSONNEL EXPENSES

	2008	2007	2006
SALARIES AND WAGES	103	98	146
SOCIAL SECURITY EXPENSES	32	28	42
STAFF LEAVING INDEMNITIES	8	8	11
OTHER EXPENSES	3	2	-
TOTAL	146	136	200

To operate the IGCC industrial complex, the Company uses the services provided by ISAB Energy Services. Personnel expenses therefore only refer to office staff, not to operations personnel.

The following table shows the breakdown of the Company's average headcount during the period, divided by category:

	2008	2007	2006
MANAGERS	-	-	-
MIDDLE MANAGERS/SUPERVISORS	-	-	1
CLERICAL STAFF	3	3	3
TOTAL	3	3	4

AMORTISATION, DEPRECIATION AND WRITE-DOWNS

	2008	2007	2006
AMORTISATION OF INTANGIBLE FIXED ASSETS	3,451	3,353	3,443
DEPRECIATION OF TANGIBLE FIXED ASSETS	39,408	39,869	39,341
WRITE-OFF OF TANGIBLE ASSETS DUE TO CLAIM EVENT	52,942	-	-
WRITE-OFF OF WIP MATERIALS FOR THIRD GASIFIER	21,500	-	-
WRITE-DOWN OF CURRENT RECEIVABLES	991	-	-
TOTAL	118,292	43,223	42,784

The write-off of tangible fixed assets (Euro 52,942 thousand) is totally attributable to the loss due to destruction of assets involved in the damaging event that occurred on 13 October. Write-off of work in progress relating to abandonment of the project for construction of the third gasifier (amounting to Euro 21,500 thousand) refers to the amount charged to the income statement for design and construction costs previously included in the item "Tangible fixed assets under construction and payments on account". This cost will be entirely refunded by ISAB S.r.l., in whose interest the project was being executed.

CHANGES IN INVENTORIES OF RAW, ANCILLARY AND CONSUMABLE MATERIALS AND GOODS

	2008	2007	2006
CHANGE IN RAW MATERIALS	103	(203)	(373)
CHANGE IN MATERIALS AND SPARE PARTS	(111)	11	(664)
WRITE-DOWN OF SPARE PARTS	-	-	2,189
TOTAL	(8)	(192)	1,151

Based on an analysis of the items that have not moved in the last few years, it was not found necessary to increase the write-downs of ancillary and consumable materials inventory applied in previous years.

OTHER PROVISIONS

	2008	2007	2006
PROVISION FOR CYCLICAL MAINTENANCE	4,172	4,390	7,340
PROVISION FOR EMISSIONS RIGHTS	-	1	59
OTHER PROVISIONS	-	1,872	1,121
TOTAL	4,172	6,264	8,520

OTHER OPERATING EXPENSES

	2008	2007	2006
TAXES AND DUES FOR THE YEAR	79,329	12,760	20,937
ENTERTAINMENT AND PUBLIC RELATIONS	308	15	22
CAPITAL LOSSES	-	754	8
TOTAL	79,638	13,529	20,967

The item "Taxes and dues" includes costs amounting to Euro 49,700 thousand incurred by the company during the year for the purchase of CO₂ quotas for 2008.

The item also includes the cost of green certificate purchases relating to 2008 production, net of costs recovered (pursuant to resolution no. 113/06 of the Italian Electricity and Gas Authority), as well as the same cost relating to prior years 2002-2004 (purchased as a result of the Lombardy Regional Administrative Tribunal's ruling of 5 February 2008 against the Company, albeit without indicating acceptance and awaiting the outcome of appeals pending before the Council of State).

Lastly, as in previous financial years, taxes and dues include ICI (municipal property tax) paid to the Municipality of Priolo Gargallo (Euro 3,258 thousand), waste disposal tax, emissions tax, additional electricity tax and, for the remainder, sundry charges.

In the period concerned, no capital losses were reported concerning ordinary disposals of plant assets.

FINANCIAL INCOME AND EXPENSES (EURO -11,812 THOUSAND)

OTHER FINANCIAL INCOME

	2008	2007	2006
INTEREST INCOME ON BANK ACCOUNTS	3,806	4,357	3,104
INTEREST INCOME FROM AFFILIATED COMPANIES	–	–	92
SUNDRY FINANCIAL INCOME	2,005	777	36
TOTAL	5,811	5,134	3,232

Bank interest income was generated primarily by the balances of current accounts held at Citibank Milan. Sundry financial income was due to positive differentials on derivatives transactions.

INTEREST AND OTHER FINANCIAL EXPENSES

	2008	2007	2006
INTEREST CHARGES ON BANK LOANS	11,296	14,889	14,913
FINANCIAL CHARGES ON BANK LOANS	1,333	3,119	2,972
NEGATIVE DIFFERENTIALS ON SWAPS	–	–	1,800
INTEREST CHARGES ON OTHER LOANS	3,784	3,284	2,738
SUNDRY INTEREST AND FINANCIAL EXPENSES	12	3	17
TOTAL	16,426	21,295	22,440

The total cost of the loan obtained under Project Financing decreased following reduction of the debt during the year and the positive effect of renegotiation of the financing in 2007. Of the interest charges on other loans, Euro 1,845 thousand refers to financial payables vis-à-vis the majority quotaholder ERG Power & Gas and Euro 166 thousand to financial payables vis-à-vis affiliated company ISAB S.r.l.

FOREIGN EXCHANGE GAINS AND LOSSES

	2008	2007	2006
FOREIGN EXCHANGE GAINS	170	35	22
FOREIGN EXCHANGE LOSSES	(1,367)	(31)	(35)
TOTAL	(1,197)	4	(13)

The item includes Euro 1,260 thousand reflecting the effect of offsetting foreign currency receivables and payables vis-à-vis the plant construction consortium.

The other foreign exchange differences arose on ordinary payment transactions, mainly to suppliers.

Most of the Company's operations are originally set up in Euro, except for some non-EU transactions accounted for at the end of the 2008 financial year.

It was not therefore necessary to align the exchange rate to the end-of-year spot rates.

EXTRAORDINARY INCOME AND EXPENSES (EURO 211 THOUSAND)

During 2008, the only extraordinary items emerging related to prior years' income taxes (in 2007 and 2006 they were zero).

INCOME TAXES FOR THE YEAR

	2008	2007	2006
CURRENT IRES	30,919	28,015	46,448
CURRENT IRAP	5,414	5,163	8,255
DEFERRED TAX ASSETS	(605)	4,179	(1,485)
DEFERRED TAX LIABILITIES	1,348	6,776	317
SUBSTITUTE TAX	–	(3)	3,915
TAXES FROM PREVIOUS YEAR	7	(0)	47
TOTAL	37,082	44,131	57,498

The provision for income taxes was calculated taking into account the expected taxable income determined in the light of current tax regulations and in relation to participation in tax consolidation.

Following introduction of the so-called Robin Hood tax, the ordinary IRES (corporation tax) rate of 27.5% was increased by a surcharge of 5.5% (amounting to Euro 5,153 thousand).

Deferred taxes, arising from temporary differences between statutory results and the relevant taxable income, in 2008 reflect the impact of introduction of the aforesaid surcharge, which implied recalculation of the tax rates (with a net negative effect of Euro 4,963 thousand).

RECONCILIATION BETWEEN REPORTED AND THEORETICAL TAX CHARGES

IRES (CORPORATION TAX)

PROFIT BEFORE TAXES	78,404	
THEORETICAL TAXATION (TAX RATE 33%)		25,873
TEMPORARY DIFFERENCES TAXABLE IN FUTURE YEARS	(92)	
TEMPORARY DIFFERENCES DEDUCTIBLE IN FUTURE YEARS	4,592	
RECOVERY OF TEMPORARY DIFFERENCES FROM PREVIOUS YEARS	6,719	
PERMANENT TAX CHANGES	4,070	
TAXABLE INCOME (IRES)	93,694	
CURRENT IRES		30,919

IRAP (REGIONAL TAX ON PRODUCTION)

DIFFERENCE BETWEEN PRODUCTION VALUE AND COSTS	90,427	
COSTS AND REVENUES NOT RELEVANT FOR IRAP PURPOSES	1,137	
COSTS AND REVENUES RECLASSIFIED FOR IRAP PURPOSES	-	
THEORETICAL TAXABLE INCOME FOR IRAP PURPOSES	91,564	
THEORETICAL TAX CHARGE (TAX RATE 4.82%)		4,413
TEMPORARY DIFFERENCES TAXABLE IN FUTURE YEARS	-	
TEMPORARY DIFFERENCES DEDUCTIBLE IN FUTURE YEARS	4,536	
RECOVERY OF TEMPORARY DIFFERENCES FROM PREVIOUS YEARS	12,803	
PERMANENT TAX CHANGES	3,418	
TAXABLE INCOME (IRAP)	112,321	
CURRENT IRAP		5,414

FINANCIAL RESULT

The financial statements for the period ended 31 December 2008 show a profit of Euro 41,322 thousand.

Genoa, 6 March 2009

On behalf of the Board of Directors
The Chairman
Raffaele Tognacca

A handwritten signature in black ink, appearing to read 'Raffaele R.', positioned below the printed name.

MAIN FIGURES FROM THE LATEST FINANCIAL STATEMENTS OF ERG S.P.A., THE COMPANY EXERCISING MANAGEMENT AND COORDINATION OVER ISAB ENERGY S.R.L.

MAIN FIGURES OF THE PARENT COMPANY ERG S.P.A.

BALANCE SHEET ERG S.P.A. (THOUSAND EURO)	31/12/2007	31/12/2006
INTANGIBLE ASSETS	4,196	4,265
GOODWILL	–	–
PROPERTY, PLANT, AND MACHINERY	7,861	7,245
EQUITY INVESTMENTS AND OTHER FINANCIAL ASSETS	653,953	617,820
OTHER NON-CURRENT ASSETS	611	4,043
NON-CURRENT ASSETS	666,620	633,373
TRADE RECEIVABLES	2,836	3,005
OTHER CURRENT RECEIVABLES AND ASSETS	67,732	49,707
CURRENT FINANCIAL ASSETS	291,946	158,091
CASH AND CASH EQUIVALENTS	1,100	168
CURRENT ASSETS	363,615	210,970
TOTAL ASSETS	1,030,235	844,343
SHAREHOLDERS' EQUITY	109,714	98,703
STAFF-LEAVING INDEMNITIES	3,247	3,948
NON-CURRENT FINANCIAL LIABILITIES	587,221	451,230
OTHER NON-CURRENT LIABILITIES	1,483	821
NON-CURRENT LIABILITIES	591,952	455,999
TRADE PAYABLES	9,688	9,136
CURRENT FINANCIAL LIABILITIES	254,574	245,551
OTHER CURRENT LIABILITIES	64,308	34,955
CURRENT LIABILITIES	328,569	289,642
TOTAL LIABILITIES	1,030,235	844,343
INCOME STATEMENT ERG S.P.A. (THOUSAND EURO)	31/12/2007	31/12/2006
NET INCOME FROM EQUITY INVESTMENTS	111,559	86,973
OTHER OPERATING INCOME	32,501	26,837
OTHER OPERATING EXPENSES	(76,539)	(56,247)
FINANCIAL INCOME	22,531	11,922
FINANCIAL EXPENSES	(51,688)	(22,384)
PROFIT (LOSS) BEFORE TAXES	38,364	47,100
INCOME TAXES	28,269	15,028
NET PROFIT (LOSS) FOR THE YEAR	66,632	62,129

REPORT OF THE BOARD OF AUDITORS ON THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2008

To the ISAB Energy S.r.l. Quotaholders' Meeting

During the period ended 31 December 2008 we carried out the supervisory activity assigned to the Board of Statutory Auditors, pursuant to Article 2403 of the Italian Civil Code and Article 165 of Legislative Decree 58/98, in accordance with the Principles of Conduct for the Boards of Statutory Auditors in subsidiaries of companies with shares listed on regulated markets, as set by the *Consigli Nazionali dei Dottori Commercialisti e dei Ragionieri* (Italian National Councils of Professional and Certified Public Accountants), also taking account of the specific provisions applicable.

Our supervisory activity was carried out by way of:

- interventions to verify compliance with the law and the articles of association;
- participation in the meetings of Corporate Bodies;
- acquisition of information pertaining to the controls and supervision exercised by the Auditing Firm;
- gathering of information during meetings, informal or otherwise, with the Heads of the various corporate functions.

Regarding the activities performed during the 2008 financial period:

- we convened the Board of Statutory Auditors on 4 occasions and attended the meetings of the Quotaholders (2) and the Board of Directors (9), monitoring compliance with the statutory, legislative and regulatory provisions that govern the functioning of the Corporate Bodies;
- we obtained from the Directors, on at least a quarterly basis, information on the Company's general business activity, in the various sectors in which it operated and on the most significant transactions from an economic, financial and equity-related perspective, ascertaining that the actions decided and set up were compliant with the Law and the Articles of Association, and that they were not manifestly imprudent or risky, in potential conflict of interest or in contrast with the resolutions adopted by the Quotaholders' Meeting or such as to compromise the integrity of the company's assets.

In particular, we were immediately informed:

- regarding the accident that occurred at the IGCC facility on 13 October and the temporary suspension of the plant's operations. On 18 December one of the two trains (train 2) came back on stream with reduced production capacity. We are kept constantly informed of the measures and actions taken to remedy the serious irreversible damage to train 1;
- regarding the judgments of the Lombardy Regional Administrative Tribunal (TAR) and the Council of State in connection with the Italian Electricity and Gas Authority (*Autorità per l'Energia Elettrica e il Gas - AEEG*) resolution concerning the new rules for calculating the CIP 6 tariff component, relating to the so-called "Avoided Fuel Cost";
- regarding the purchase of Green Certificates (2002-2004) and the related application for reimbursement following the dispute with the AEEG, pending the Council of State's decision on the non-obligation to purchase, regarding the purchase of green certificates (2005-2006) and the related application for reimbursement following the ongoing dispute with the AEEG and insofar as concerns the green certificates for 2007, an application for reimbursement will be submitted;
- regarding the status of the reimbursement for CO₂ charges;
- we were made aware that the period during which the CIP 6 tariff benefited from the incentive component elapsed on 31.12.2008;

- regarding the new purchasing function organisational configuration adopted by ERG S.p.A., and regarding the new configuration adopted by ISAB Energy Services S.r.l. for the Maintenance, Technology and Plant Management functions.

We checked the legitimacy of the managerial decisions taken by the Board of Directors and the economic adequacy of same, excluding assessment of the merits as regards the appropriateness and advantages thereof.

We monitored the adequacy of the internal control system, organised at Group level and constantly revised within both the parent company and the subsidiaries.

The Board of Statutory Auditors has duly noted and agreed with the positive assessment of the ERG S.p.A. Internal Control Committee regarding the adequacy of the overall system.

The company's organisational structure is deemed to be sufficient; it was consequently possible to acquire cognisance and monitor the observance of principles of proper administration; more specifically, we verified compliance with the Guidelines and Procedures existing at Group level and adopted by the company.

We monitored the process of adopting and revising the Organisation and Management Model, agreeing with the proposals made by ERG S.p.A.'s Internal Control Committee, acknowledged in the decision taken by the Board of Directors.

The Supervisory Committee has been assigned appropriate powers and financial resources to correctly perform and redefine its institutional tasks, particularly as regards the monitoring of crime risk areas entrusted to the "Legal Affairs" function. We have not received any report of violations of the Model from the Supervisory Committee, the latter being required to promptly inform the Board of Statutory Auditors.

We were updated on the Committee's activity.

We have noted that the administrative-accounting system, as also emerged from discussions with the Auditing Firm, is capable of correctly representing management events.

We verified the timely supply to the parent company of both the data necessary for the preparation of the Financial Statements and the information required to fulfil disclosure obligations as per Articles 114 and 115 of Legislative Decree 58/98.

We periodically received information on the Group's activity with regard to health, safety, environment and quality, noting the attention dedicated to the relative issues.

The work of the Board of Statutory Auditors was carried out in accordance with the provisions laid down in the "Guidelines for the meetings and resolutions of the Board of Statutory Auditors".

During the course of the supervisory activity described above:

- we did not note any transactions which, due to their nature or size, appeared atypical or might be defined as unusual, either with third parties or with group companies or related parties;
- we noted, as in previous years, that routine transactions were carried out with group companies and with related parties, verifying the existence and observance of suitable practices designed to ensure that the transactions in question are duly documented, are settled at normal market conditions and correspond to the company's interest. These transactions are adequately described by the directors in the Financial Statements and in the Management Report, to which reference is made; as regards in particular the infragroup service contracts, we agreed with the cost chargeback criteria adopted;
- no complaints were received from quotaholders pursuant to Article 2408 of the Italian Civil Code;
- we encountered no omissions or reprehensible facts or irregularities that needed to be reported to the competent bodies or mentioned in this Report;
- we issued, according to law, the opinions referred to in Articles 2386 and 2389 of the Italian Civil Code.

We also report that:

- the company is subject to management and coordination on the part of the parent

company ERG S.p.A.: such activity, in addition to the definition of business strategies, also concerns the indication of strategic guidelines relating to organisational aspects and staff policies, the management of strategic finance and group treasury, the management of fiscal issues above all from a planning perspective, the management of communications policies and policies relating to environment, health and safety and IT systems. The disclosure obligations set forth by the Italian Civil Code have been fulfilled; more particularly, the management report points out the decisions taken within the scope of the management and coordination activity exercised by ERG S.p.A.;

- the ERG Group has updated the “security policy document”;
- the company participates in Tax Consolidation with the company ERG S.p.A. as consolidator, pursuant to Articles 117 et seq. of the Consolidated Law on Income Tax;
- the Security Policy Document has been updated in view of the technical and organisational changes made to the Group’s information system.

The Financial Statements have been audited by Reconta Ernst & Young, already engaged by the parent company ERG S.p.A. to audit its own statutory Financial Statements and the Consolidated Financial Statements.

In the course of the financial period 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 between individual members of the Board and the External Auditor’s representatives, for a reciprocal exchange of relevant data and information.

We have always encountered maximum cooperation, also with regard to the preparation of the statutory financial statements, and no significant facts or aspects have emerged that are worthy of mention.

No other engagements were conferred upon the auditing firm and/or parties associated with such firm.

Regarding in particular the surveillance of the statutory financial statements, supervision of which has been assigned to the auditing firm Reconta Ernst & Young, we certify that:

- the legal provisions concerning the formation and layout of the financial statements and the management report were adhered to; the financial statement formats used and the accounting principles, as described in the Explanatory notes, are legally compliant and adequate in relation to the company’s business;
- as for the previous financial periods, the company has drawn up the financial statements with a view to filing same with the Register of Companies pursuant to Italian accounting principles, also preparing the periodic reports required to convey the economic-financial situation for the drafting of ERG S.p.A.’s interim accounts and consolidated financial statements according to international accounting standards (IAS/IFRS);
- the financial statements correspond to the facts and information that have come to the knowledge of the Board of Statutory Auditors during the exercise of its supervisory duties and powers of audit and inspection;
- the management report meets the requirements set forth by Article 2428 of the Italian Civil Code and is consistent with the balance sheet data and results; it provides full information regarding the market and the reference regulatory framework, and the company’s business;
- the Explanatory Notes adequately describe the changes in the components of Quotaholders’ Equity, indicating each item’s potential utilisation.

The Auditing Firm, in its Report issued on 19 March 2009, pursuant to Articles 156 and 165 of Legislative Decree no. 58 of 24/2/1998, expresses the opinion that **“the Financial Statements conform to the rules governing the preparation of same, and are therefore drawn up clearly and give a true and fair view of the company’s equity-related and financial situation and economic results.”**

The auditing firm also draws attention, as already mentioned in our report, to the dispute with the Italian Electricity and Gas Authority (AEEG) in connection with the CIP 6/92 system.

The Board of Statutory Auditors,

- pointing out that the audit engagement assigned to Reconta Ernst & Young S.p.A. will expire with the approval of the financial statements at 31.12.2008,
 - bearing in mind that the Board of Statutory Auditors of the parent company ERG S.p.A. has formulated a proposal to assign the audit engagement as regards the ERG S.p.A. statutory financial statements and consolidated financial statements for the years 2009-2017 to Deloitte & Touche S.p.A.,
 - having reviewed the proposal submitted by Deloitte & Touche S.p.A. with regard to the audit of the ISAB ENERGY S.p.A. statutory financial statements for the years 2009-2017 and considering:
 - the adequacy of Deloitte & Touche S.p.A.'s organisation, experience and suitability for the engagement,
 - that the firm corresponds to the independence requirements set forth by law,
 - that as things stand there are no circumstances of incompatibility,
 - that the professional resources and number of hours to be assigned are sufficient and the fee calculated reflects the criteria laid down by CONSOB,
- has submitted its justified proposal for the engagement of Deloitte & Touche S.p.A. to audit the statutory financial statements for the years 2009-2017.

The Board of Statutory Auditors, for the part concerning them, having duly noted the results of the statutory financial statements for the period ended 31 December 2008 and the Report of the auditing firm on such financial statements, has no objection to make regarding the approval of the financial statements and the proposals formulated by the Directors in their Management Report.

20 March 2009

The Board of Statutory Auditors
Maria Sarno
Antonio Ippoliti
Mario Pacciani

INDEPENDENT AUDITORS' REPORT



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**Independent auditors' report
pursuant to Article 156 of Legislative Decree No. 58 of February 24, 1998
(Translation from the original Italian text)**

To the Quotaholders of Isab Energy S.r.l.

1. We have audited the financial statements of Isab Energy S.r.l. as of and for the year ended December 31, 2008, comprising the balance sheet, the statement of income, changes in shareholders' equity and cash flows and the related explanatory notes. These financial statements are the responsibility of the Isab Energy S.r.l.'s management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. Our audit was made in accordance with auditing standards and procedures recommended by CONSOB (the Italian Stock Exchange Regulatory Agency). In accordance with such standards and procedures, we planned and performed our audit to obtain the information necessary to determine whether the financial statements are materially misstated and if such financial statements, taken as a whole, may be relied upon. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, as well as assessing the appropriateness and correct application of the accounting principles and the reasonableness of the estimates made by management. We believe that our audit provides a reasonable basis for our opinion.

For the opinion on the financial statements of the prior year, which are presented for comparative purposes as required by the law, and on the profit and loss account as of December 31, 2006, also presented for comparative purposes, reference should be made to our reports dated March 26, 2008 and April 10, 2007.

3. In our opinion, the financial statements of Isab Energy S.r.l. comply with the Italian regulations governing financial statements; accordingly, they clearly present and give a true and fair view of the financial position of Isab Energy S.r.l. as of December 31, 2008, and the results of its operations for the year then ended.
4. The management of Isab Energy S.r.l. is responsible for the preparation of the Report on Operations in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency of the Report on Operations with the financial statements as required by art. 156, paragraph 4-bis, letter d) of the Legislative Decree 58/98. 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 Report on Operations is consistent with the financial statements of Isab Energy S.r.l. as of December 31, 2008.

Milan, March 19, 2008

Reconta Ernst & Young S.p.A.
Signed by: Alberto Romeo, partner

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