Consolidated financial statements for the Saras Group year 2005

SARAS S.p.A.
Registered office in Sarroch (Cagliari), Italy
Share capital: euro 51,183,000 entirely paid-up
Cagliari Companies' Register, tax code and VAT no. 00136440922

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Managing Director
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Board of Statutory Auditors

Chairman
Claudio M. Fidanza

Auditors
Giovanni L. Camera
Michele Di Martino

Corporate Officer

General Manager
Paolo Alfani

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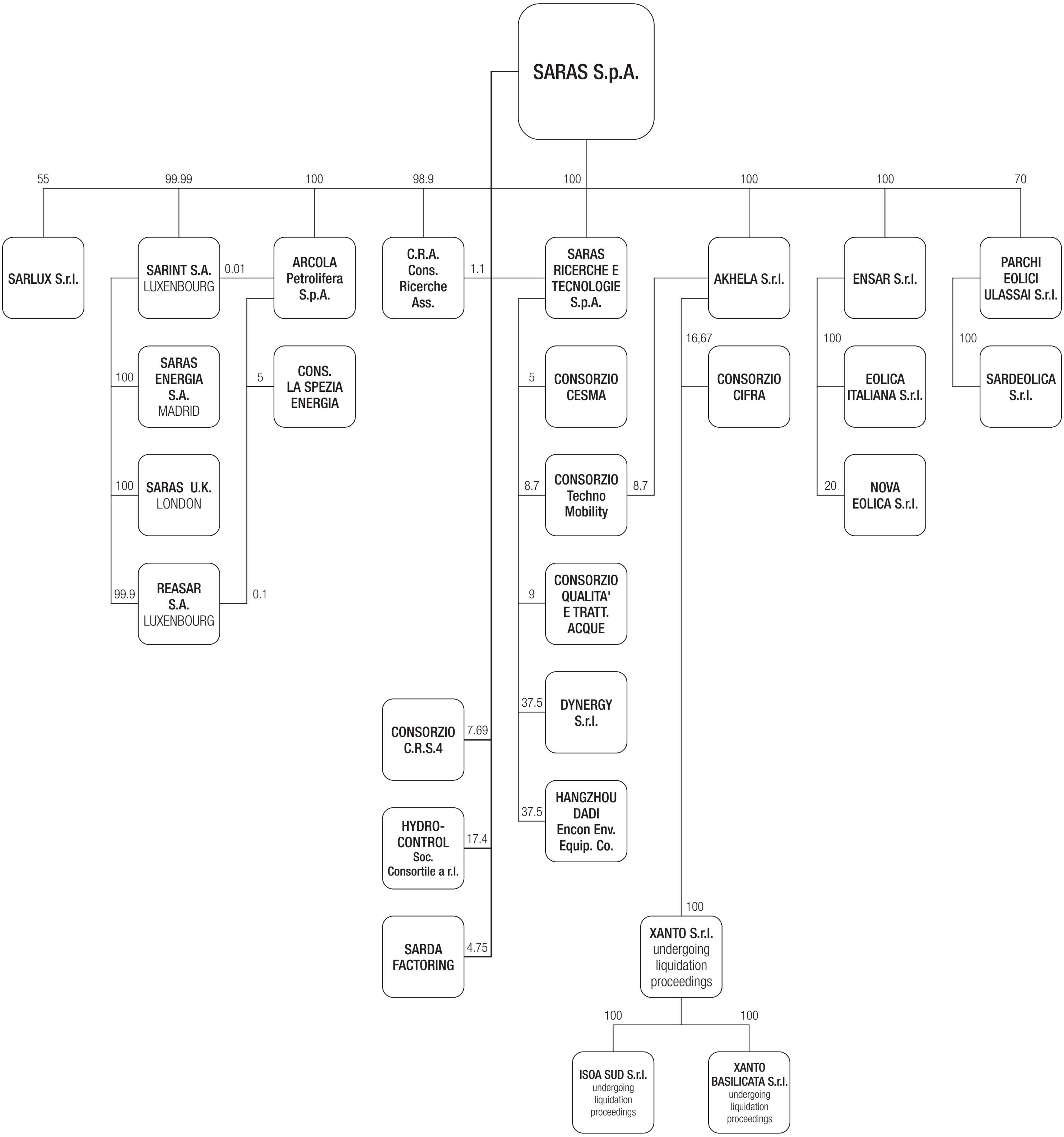
This is a translated version
of the Consolidated Financial Statements of Saras Group
especially intended for an international audience.
Those who wish to receive the original report in Italian
should address their request in writing to the Company

Saras Group
Situation as at 31 december 2005



Directors' report on operations as at 31 December 2005

To our shareholders:

The Group's accounts as at 31 December 2005 report a profit of euro 292,642 thousand after amortisation and depreciation charges of euro 77,881 thousand.
Key financial figures and ratios for the years 2004 and 2005 are provided in the table below.

Financials (€ millions)	2004	2005
Revenues from sales and services	3,519	5,196
Gross operating margin	370	570
Operating result	291	492
Net profit	199	293
Total assets	1,391	1,631
Net financial position	(180)	(177)
Shareholders' equity	408	529
Net investments in fixed assets	92	59
Cash flow from operating activities	229	207

Ratios	2004	2005
Operating result / (Shareholders' equity + Net financial position)	49%	70%
Net profit / Shareholders' equity	49%	55%
Net financial position / Gross operating margin	0.49	0.31
Net financial position / Shareholders' equity	0.44	0.33

The global oil industry

Demand

The second half of 2005 witnessed a 1.1% rise in global demand for oil products, which was down on the 1.8% rise registered during the first half of the year. This decrease was due above all to temporary factors such as the hurricanes that struck the Gulf of Mexico and an initially mild winter. The IEA (International Energy Agency) revised its earlier growth projections for 2005 downward, although demand is expected to make a firm comeback in the second half of 2006.

The table below provides details of global oil demand for the period 2004 – 2006.

	2004	2005	2006E
	Millions of barrels per day (mb/d)		
Demand	82.2	83.4	85.2
Change on previous year	3.0	1.2	1.8
Percentage change	3.8%	1.4%	2.2%

Source: IEA (International Energy Agency)

The rises in consumption registered in 2004 – above all in China and North America – although lower in 2005, remained significant all the same. In Europe, the marked shift from vehicles using gasoline to vehicles using diesel continued, with demand for diesel increasing by 2% and demand for gasoline decreasing by 4%.
The table below provides a breakdown of world oil demand by region for the period 2004 – 2006.

	Millions of barrels per day (mb/d)	% change on previous year		
	2005	2004	2005	Stima 2006
North America	25.49	3.4	0.6	1.8
Europe	16.36	1.3	0.2	0.1
OECD Pacific	8.61	-1.9	0.9	1.4
China	6.63	15.4	3.1	6.0
Other Asian countries	8.75	6.2	2.4	2.6
Former USSR	3.74	4.4	0.0	2.3
Middle East	5.92	6.5	5.3	5.3
Africa	2.90	3.2	3.2	2.9
Latin America	4.99	4.1	2.6	2.3
Total World	**83.39**	**3.8**	**1.4**	**2.2**

Source: IEA (International Energy Agency)

Demand in the United States of America fell dramatically in September and October as a result of the hurricanes and the subsequent sharp rise in prices; demand is expected to resume growing in 2006. The falloff in Chinese demand would appear to be due above all to the decreased use of fuel oil and diesel to produce electricity.

Production

In 2005, global oil production is expected to exceed 84 million barrels per day (mb/d), representing a 1.2% increase over the previous year. In 2004, it had grown by an exceptional 4.2% over the previous period (equal to 3.3 mb/d, with OPEC accounting for 70% of this). Non-OECD regions and OPEC members both increased production by approximately 1 mb/d each, while OECD countries collectively reported a reduction of similar size; Europe continued to cut production, reflecting the maturity of North Sea wells, while North America bore the brunt of September's hurricanes. Non-OECD regions – specifically Africa and the former USSR – are expected to make constant progress.
The table below provides details of global oil production for the period 2003-2005:

	2004	2005	2006	04 vs 03	05 vs 04	06 vs. 05
	Millions of barrels per day (mb/d)			% change		
OECD Production						
North America	14.6	14.1	14.3	0.0	-0.5	0.2
Europe	6.1	5.6	5.4	-0.2	-0.4	-0.2
Pacific	0.6	0.6	0.6	-0.1	0.0	0.0
Total OECD	**21.3**	**20.3**	**20.3**	**-0.4**	**-0.9**	**0.0**
Non-OECD production						
Former USSR	11.2	11.6	12.1	0.9	0.4	0.5
Europe	0.2	0.2	0.2	0.0	0.0	0.0
China	3.5	3.6	3.6	0.1	0.1	0.0
Other Asian countries	2.8	2.7	2.8	0.1	0.0	0.1
Latin America	4.1	4.3	4.5	0.0	0.2	0.2
Middle East	1.9	1.9	1.8	-0.1	-0.1	-0.1
Africa	3.4	3.7	4.3	0.3	0.3	0.6
Total non-OECD	**27.0**	**28.0**	**29.3**	**1.3**	**1.0**	**1.3**
Increase from processing	1.8	1.9	1.9	0.0	0.0	0.0
Total non-OPEC	**50.1**	**50.1**	**51.4**	**1.0**	**0.1**	**1.4**
OPEC production						
OPEC crude	28.6	29.2	a)	1.9	0.6	
OPEC LNG & non conv.	4.3	4.7	5.1	0.4	0.4	
Total OPEC	**33.0**	**34.0**		**2.3**	**1.0**	
Total World	**83.1**	**84.1**		**3.3**	**1.0**	

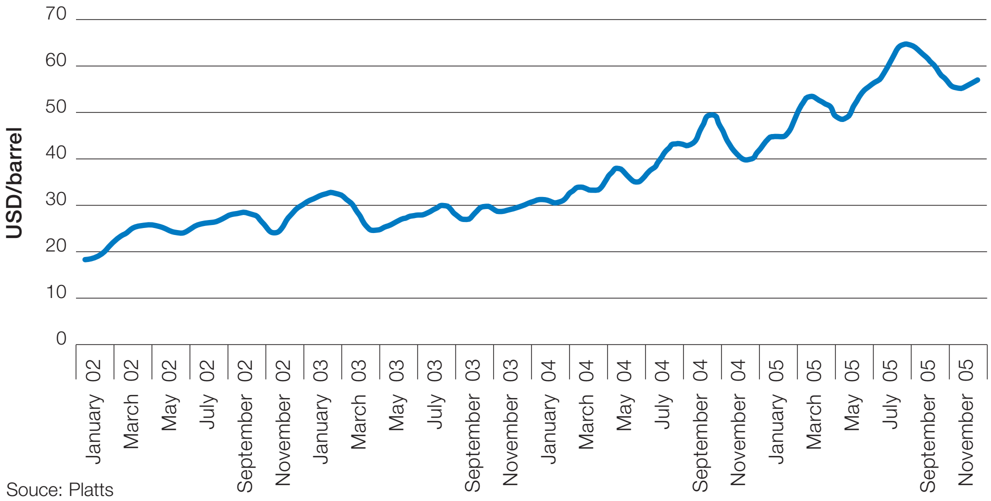
(a) figure not available

Source: IEA (International Energy Agency)

Based on the figures available, OPEC is thought to have a reserve capacity, accessible within a relatively short period of time and excluding Iraq, of approximately 1.6 million barrels per day. In 2006, the increase in demand should be met in full by the expected rise in production in the non-OPEC regions, specifically Russia, the Central Asian Republics and Africa.
Demand for crude produced by OPEC countries is expected to be in line with that seen in 2005.

Crude prices

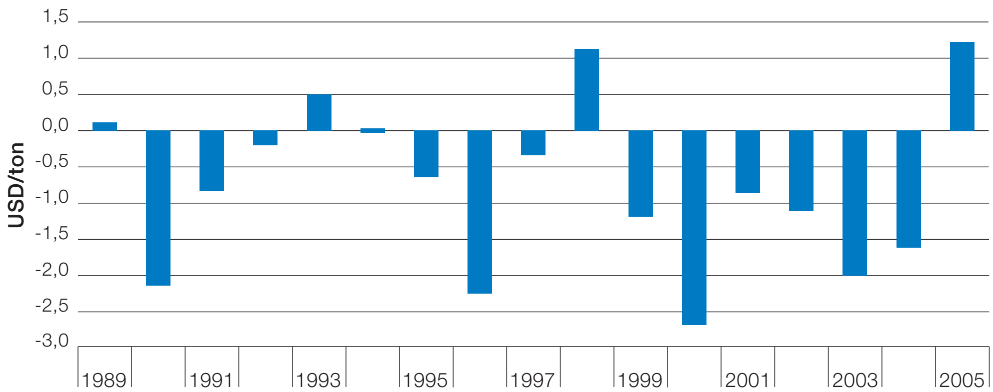
The price for crude reached new record highs: on 30 August, the first month WTI futures contract traded on New York's Nymex topped US$ 70/barrel for the very first time. The factor playing a dominant role here was the panic triggered by the hurricanes that struck the Gulf of Mexico and the fear of the consequences that this would have on production facilities. The market subsequently entered a downward correction phase, with Dated Brent – after reaching an all-time high of nearly US$ 70/barrel on 1 September, ending 18 November at US$ 52.60/barrel. Towards the end of the year, the heightening of tension in the Middle East triggered a new bullish mood.
The chart below details the trend followed by the price of Dated Brent.



Souce: Platts

The gap between demand and production has narrowed. However, while consumption has continued to grow, production has started to encounter limitations that can only be overcome with sizeable new investments in fixed assets. This economic cycle not only gave prices a firm boost but also changed the forward structure of the market, which switched over from a long period of backwardation (future prices lower than spot prices) to a contango situation.

IPE Brent - Differential 6th/1th month



Source: IPE

A contango situation encourages stock levels to remain high, reducing the risk of temporary shortages and thereby creating surplus supply, which in turn pushes down spot prices eliminating the situation itself. For these very reasons, this cycle is regarded as relatively unstable. Nevertheless, the market would seem to have changed in its fundamentals, apparently convinced that future oil resources are in jeopardy, meaning that this kind of pricing structure could continue until some significant event ends up changing it.
These fundamental elements are further affected by the difficult geo-political situation with uncertain outcome, which potentially give great cause for concern.

	2005	2004	2003
	US$/barrel: annual averages		
Dated Brent	54.5	38.2	28.8
IPE Brent – first line	55.5	38.0	28.5
WTI Nymex – first line	56.7	41.4	31.0
Dubai	49.5	33.5	26.8
OPEC basket	50.7	36.0	28.1
Urals “RCMB”	50.7	34.6	26.7
Dated Brent/Ural differential	3.8	3.6	2.1
Dated Brent/Dubai differential	5.0	4.7	2
IPE Brent/WTI Nymex differential	-1.2	-3.4	-2.5

Source: Platts, IPE, Nymex

The average discount for medium/heavy crudes – Urals of Russian origin for the Mediterranean and Dubai for the Far East – remained substantially unchanged on 2004.

Product prices

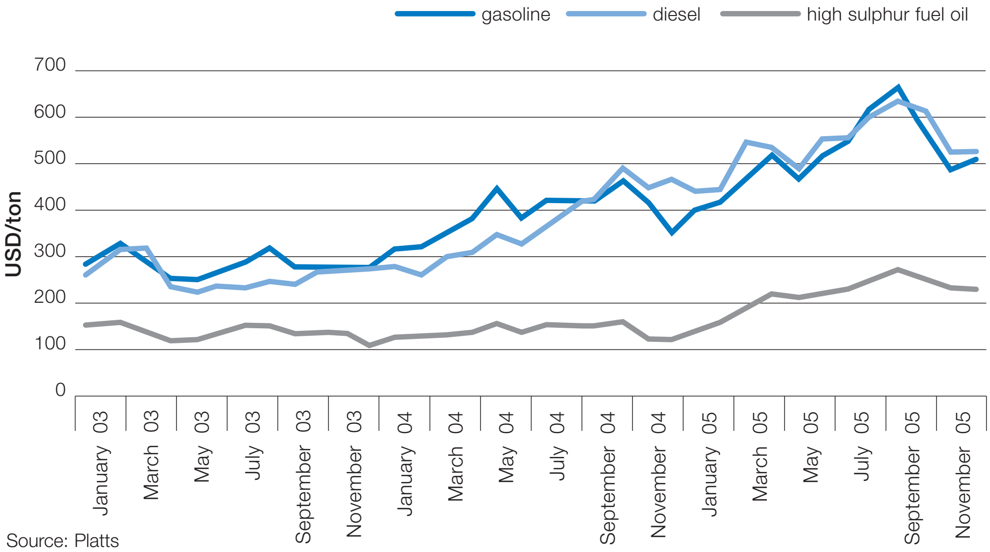
In Europe, the marked shift from vehicles using gasoline to vehicles using diesel continued, with demand for diesel increasing by 2% and demand for gasoline decreasing by 4%. This trend was also reflected in the structure of prices: for the very first time, the price of gasoline remained considerably below that of diesel, and for a long period. The Mediterranean remained long in gasoline, which finds an outlet in both North America and the Middle East; consumption of fuel oil used in the production of thermoelectric power has continued to decline, while the marine bunker segment has undergone expansion.

The table below highlights a number of significant average prices registered during the period (high FOB Mediterranean prices):

	2005	2004	2003
		US$/ton	
Gasoline	515	389	284
Diesel	539	363	262
Heating oil	498	346	248
High-sulphur fuel oil	222	141	140
Gasoline/diesel differential	-24	25	21
Diesel/high-sulphur fuel oil differential	317	222	123
Diesel/heating oil differential	41	18	15

Source: Platts

The chart below outlines the trends followed by the principal Mediterranean products (high FOB Mediterranean prices)



Source: Platts

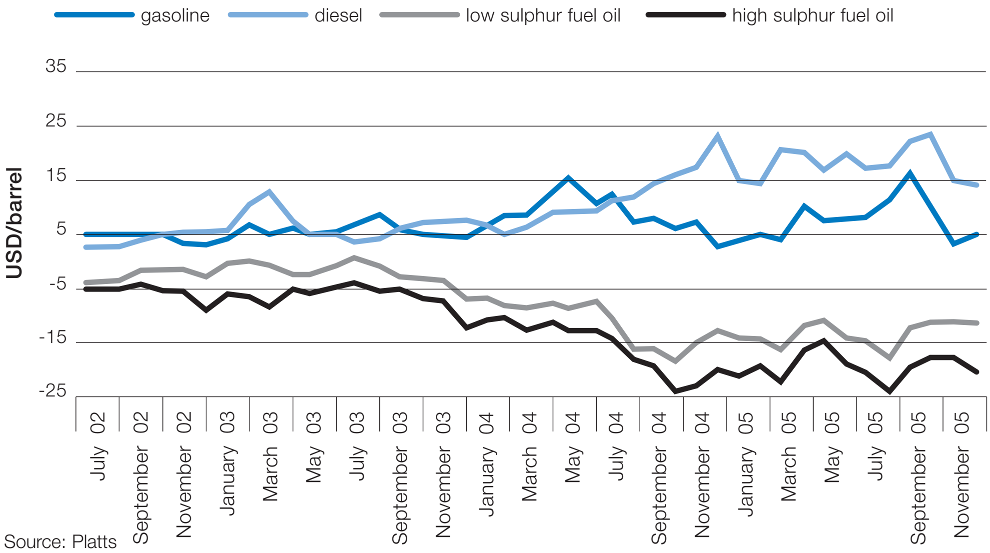
Refining margins

In 2005 margins were excellent; the idea that global refining capacity is insufficient to meet demand for oil products became stronger, which widened the gap between the prices for products and crude (even though both increased) and had a positive impact on refining margins. Other elements making a significant contribution to positive results were the gradual erosion of the price of medium/heavy crudes in relation to their respective benchmarks and the lack of products complying with the European laws in force since January 2005. These two factors favoured high-conversion refineries capable of processing crudes and producing high-quality products effectively at a discount.
The table below highlights the differentials between the price of benchmark crude (Dated Brent) and the prices for high FOB Mediterranean products.

	2005	2004	2003	2002
Differentials	US$/barrel			
Gasoline – Dated Brent	7.1	8.4	5.2	3.8
Diesel – Dated Brent	17.6	10.6	6.4	3.3
Low-sulphur fuel oil – Dated Brent	-13.5	-11.7	-2.4	-3.3
High-sulphur fuel oil – Dated Brent	-19.6	-15.9	-6.9	-5.7

Source: Platts

The next chart outlines the trends followed by price differentials between Dated Brent and high FOB Mediterranean products.



Source: Platts

The table below presents refining margins for a complex refinery, as calculated by E.M.C. (Energy Market Consultant), in respect of the Russian crude (Ural) and Brent, with the various products valued at Mediterranean FOB prices (source: Platts).

		2005	2004
Ural	US$/barrel	5.38	5.17
	Euro/barrel	4.32	4.16
Brent	US$/barrel	3.98	3.77
	Euro/barrel	3.20	3.03
Average	**US$/barrel**	**4.68**	**4.47**
	Euro/barrel	3.76	3.59
Average euro/dollar exchange rate		1.2441	1.2439

The margins realised by Saras during the same period may be summarised as follows:

	2005	2004
US$/barrel	7.16	5.63
Euro/barrel	5.76	4.53

The company considers it appropriate to make a comparison with the average of the two benchmarks. Its own margins were better than the benchmark due to the optimisation achieved in the selection of crudes to run, the configuration of the units focused on producing the maximum amount of medium distillates whose price increased compared with light distillates, as well as to the favourable overall trend seen for products and crude collectively. Between 2004 and 2005, a significant improvement was observed, thanks largely to the fact that the cracking unit was shut down for a long period in 2004 for five-yearly scheduled maintenance.

The Italian market

In 2005, 86.3 million tons of oil were consumed, representing a 3.7% decrease on the same period of 2004. This was partly due to an industrial recession and to households having less disposable income against a backdrop of rising prices, as well as to increased use of natural gas for power generation.
The way in which consumption was distributed reflects the structural trends that have been in place for some time now:

- a sharp decrease in gasoline (-7.5%); cars are increasingly diesel-powered, with such vehicles accounting for almost 60% of new car registrations;
- a 3.9% increase in diesel sold in the retail segment;
- a 2.2% decrease in diesel sold wholesale, reflecting the difficult economic situation, with road transportation being a good indicator of this;
- the continuing switch from fuel oil (down 24.7%) and heating oil (down 2.2%) to natural gas.

The Spanish market

Consumption of petroleum products in Spain in 2005 rose by around 2.0% over the previous year, amounting to about 75.0 million tons.
Gas oils continued to be the leading oil product, registering an increase of 4.1% on 2004; in 2005, they amounted to approximately 40.5 million cubic metres, accounting for around 45% of total consumption.
Around 13.6 million tons of fuel oil were consumed, accounting for around 18.0% of total consumption and representing an increase of 5.7% on 2004.
Consumption of gasoline decreased by approximately 5.8% on the previous year, confirming the decline of this product; in 2005, around 9.7 million cubic metres of gasoline were consumed in Spain, accounting for 9.7% of total consumption.
Worthy of mention here is the strong increase in jet consumption, which in 2005 grew by 7.6% on 2004 to reach around 5.2 million tons.
370,350 GWh of natural gas were consumed in 2005, representing an increase of 18% over the previous year. This is the result of two markets combined: the tariff-based market declined by 6.4% (although within the same environment the electricity segment actually grew by 44.6%), while the deregulated market grew by 24.4% (within this particular channel, the electricity segment grew by 77.2%).
Overall, Spain's net petroleum imports in 2005 amounted to about 18.3 million tons. Imports increased by around 9% on the previous year to total 27.5 million tons; gas oils accounted for 48% of imports, with the quantity of gas oils being imported increasing by around 13.0% on the previous year.

To conclude, Spanish refineries ran at 91.5% of full capacity, processing about 61.1 million tons of crude and other raw materials during the year (+2.7% over the previous year).

Comments on the economic and financial results

Operations

The main figures of the reclassified income statements (expressed in thousands of euro) may be summarised as follows:

	2005	2004
Revenues from ordinary operations	5,196,001	3,519,066
Other income	39,535	36,698
Total revenues	**5,235,536**	**3,555,764**
Purchases of raw materials, consumables and spare parts	(4,245,896)	(2,808,689)
Cost of services and sundry costs	(303,543)	(271,127)
Personnel costs	(115,786)	(105,519)
Depreciation, amortisation and write-downs	(77,881)	(79,792)
Total costs	**(4,743,106)**	**(3,265,127)**
Operating result	**492,430**	**290,637**
Net income/(charges) from equity interests	48,747	14,802
Other net financial income/(charges)	(76,693)	(8,292)
Profit before taxes	**464,484**	**297,147**
Income taxes	(171,842)	(98,209)
Net profit/(loss) for the period	**292,642**	**198,938**
of which:		
Minority interests	*0*	*5*
Net profit/(loss) for the period of the Group	*292,642*	*198,933*

As may be seen, the financial statements for the year ended 31 December 2005 show a net profit of euro 292,642 thousand, an improvement of around euro 94 million on the result achieved for the same period of the previous operating year.
The company's operating result increased significantly as compared to the previous financial year, thanks to both a rise in refining margins and greater plant availability, which boosted processing volumes by around 440,000 tons. The operating margin increased, overall, by approximately 70% on the previous year to stand at around euro 492 million.

Furthermore, the contribution of the net result of unconsolidated investee companies to the company's net profit was around euro 34 million higher than in the previous year, while financial income was approximately euro 69 million lower than in same period of the previous year, due to transactions hedging changes in margins, product differentials and the euro/dollar exchange rate.

Revenues from ordinary operations

Revenues from ordinary operations totalled euro 5,196 million, which was euro 1,677 million more (+48%) than the amount recorded the previous year, due to the larger amounts sold in the refining segment (12.8 million tons in 2005, compared with 12 million tons in 2004) and the rise in prices.
Revenues from ordinary operations may, in substance, be broken down as follows:
- euro 5,000,554 thousand from the sale of products and crudes;
- euro 139,927 thousand from processing fees;
- euro 55,520 thousand in other revenues (principally fees from logistics operations and adjustments for the quality and density of the products processed)

Other income

Other income - made up mainly of charges relating to the joint-venture Sarlux S.r.l. for services sold to said company under twenty-year contracts made with it and fees received for the stocking of mandatory supplies – increased on the previous year due mainly to an increase in the latter fees, caused by both their increased availability and higher prices.

Cost of raw materials, consumables and spare parts

The euro 1,437,207 thousand increase in this item was due to higher prices and higher volumes of raw materials and products being purchased.

Cost of services and sundry costs

The euro 32 million increase on 2004 was mainly due to an increase in both the processing costs charged by Enichem and transport costs, as well as to the capitalisation of turnaround costs incurred at plants the previous year and higher maintenance charges that could not be capitalised in 2005.

Personnel costs

Personnel costs increased by euro 10,267 thousand over the previous financial year, due mainly to both pay rises resulting from the contractual arrangements in place, and bonuses for exceeding business targets and voluntary redundancy packages.

Depreciation and amortisation

Depreciation and amortisation charges during the period in question were as follows:
- euro 4,368 thousand for the amortisation of intangible assets
- euro 73,513 thousand for the ordinary depreciation of tangible assets.

Net income from equity interests

The euro 34 million increase over the previous year was due to the increased contribution from the joint-venture Sarlux S.r.l.

Financial income and charges

This item was significantly affected by negative exchange-rate differences from trading operations as well as transactions hedging changes in exchange rates, differentials and margins.

Group operations

REFINING SEGMENT

Processing operations

Refinery runs are summarised in the table below:

	2005	2004	2003
Saras – crude oil	7,247	7,024	7,366
Saras – feed stocks	84	662	819
Refining services for third parties	7,093	6,296	6,030
Total	**14,424**	**13,982**	**14,215**

In 2005, two important refining services customers were acquired, both of which are leading global corporations. One involving a long-term contract for the processing of 1,000,000 tons of medium/heavy crudes a year and the production of products that comply with both the latest laws and special environmental ones; the other will run 1,000,000 tons a year of a new crude, which is especially synergistic in the Saras system. The company made no significant changes to its crude purchasing policy.

Sales

Sales made by the company (expressed in thousands of tons) may be summarised as follows:

	2005	2004	2003
LPG	370	334	371
Virgin Naphtha	409	385	637
Gasoline	2,877	2,931	2,967
Jet and kerosene	434	226	422
Diesel	4,006	4,401	4,678
Ultra low-sulphur diesel	167	0	0
Heating oil	1,586	1,087	876
Low-sulphur fuel oil	478	550	653
High-sulphur fuel oil	415	406	257
Tar for Sarlux	1,111	1,163	1,167
Other	946	514	285
Total	**12,799**	**11,997**	**12,313**

Over 37% of products sold come from products purchased from processors.
The breakdown of sales by main channels is as follows:

	2005	2004	2003
Sardinia (excluding transfers to petrochemical plants and to Sarlux)	435	271	268
Associate company Arcola Petrolifera for Italy (excluding Sardinia)	696	626	557
Saras Energia for Spain	1,521	1,530	1,183
Sarlux	1,210	1,183	1,186
Sales to third parties	8,938	8,387	9,119

Investments in fixed assets

During 2005, investment activities focused on improving, and strengthening the company's refining facilities, specifically with regard to the units involved in the production of gasoline and gas oils with a sulphur content of 10 ppm (parts per million), for the infrastructure of electronic control systems, and for measures aimed at updating and improving the area in respect of environment, safety and reliability.
Such measures are part of a strategy devised to consolidate and strengthen the company's refining facilities and cycle, which was designed in 2000 with the Sarlux gasification and electricity production complex, mild-hydrocracking 2 and etherification plants; they are also consistent with the strategies outlined in the company's industrial plan, and with the actions currently being taken to keep up with developments in the market and guarantee the sustainability of industrial activities over time.

Against this backdrop, of considerable importance was the transfer of all control centres to the new control room, where operators monitor plant operation; this wrapped up the first and most important stage of the company's long-term plan to restructure its electronic control and check systems. The hardware system used to regulate and monitor units was rationalised and the software interfaces used by operators were updated with more recent versions.
Thanks to the rationalisation of these basic structures, other related systems are still being improved (for example, alarm management), while the possibility of extending these activities to the oil movement area is also being studied.
Initiatives directed at improving HSE, compliance and operations are incorporated into multi-year plans that spread out the required interventions on the basis of priority, methods of implementation and planned shutdowns. Figuring prominently among these activities was the work carried out on the company's fire prevention systems and the flooring to protect the subsoil. Of the various activities already underway or in the process of being developed, in addition to continued work targeting fire prevention and subsoil protection, of particular importance was the work carried out on infrastructures (wharf, plant and tanks), the rebuilding on a number of tanks, a new cooling tower and a number of buildings used for logistics activities.
Important changes were made to the gasoline and gas oils cycle for 10 ppm sulphur compliance: as for gasoline, work was carried out on the FCC and etherification plants by adding a PRIME G+ (first phase) facility, which will enable the company to improve operations at the etherification plant and help the production of gasoline with a sulphur content of 10 ppm, while for gas oils measures were implemented to increase the capacity of and improve the company's mildhydrocracking 1 plant, which is the fundamental plant used in the full production of gas oil with a sulphur content of 10 ppm.
Also being implemented at present is a set of measures geared to improve the hydrogen network, vital for to desulphuration processes, with some work already completed, some in the process of being carried out and some still being studied.
For gasoline production, the second stage of the Prime G+ project is in the detailed design stage, which as early as 2008 will enable the full production of gasoline with a sulphur content of 10 ppm, ahead of the deadline set in the European Directive for 2009.
With regard to the best available techniques (BAT) indicated in the IPPC European Directive (Integrated Pollution Prevention and Control), the detailed design phase is currently underway for sulphur units tail gas treatment plant, which will increase the sulphur recovered, thereby reducing the level of residual sulphur released into the atmosphere.
During the scheduled shutdowns of the Topping2/Vacuum2 units and the reforming CCR plant, important investments are being made to increase mechanical reliability and performance, involving the upgrading, adjustment and replacement of parts. The work being carried out is particularly important as far as the reforming CCR plant is concerned, in that it will increase the amount of hydrogen available, in line with strategic development guidelines.
The investment plan, which was launched in 2005 and will continue to be implemented during the period 2006 – 2008, will help increase both the company's refin-

ing capacity (by some 600,000 tons per annum) and the conversion of diesel (by 700,000 tons per annum).

Human resources

The company's staff increased from 1154 employees at the end of 2004 to 1157 employees as at 31 December 2005, subdivided as follows:

Executives	51
Office employees	692
Intermediate staff	20
Workers	394

Headcount figures were mainly unchanged in accordance with the headcount limitation policy being implemented. Headcount increased by three in connection with fixed-term contracts that were made to meet temporary requirements and that will be reabsorbed during 2006.
The year 2005 saw various training projects for the management of employees, and specifically feedback interviews. A monitored induction/training programme for operators was introduced for shift workers, with a view to improve their knowledge and skills; on the environmental training front, courses regarding emissions were started.
Over the course of 2005, industrial relations focused on ensuring that the Company's internal union representatives become more involved in internal improvement projects, with special attention being paid to lean organisation issues and an efficiency recovery project for maintenance work; the tool used for this was a special relations form promoted by the specific Committee, broadened from time to time to include also co-ordination roles within the company. The final summary of these activities led to an agreement with the unions being made on 9 December 2005.
The issues covered and provided for in this agreement are:

- safety and environment
- stage of completion reached by "efficiency recovery projects"
- organisational improvements for operators working in the production areas
- reorganisation of Targas production unit with the recovery of two shift positions covered by an outside shift supervisor
- improvements to the staff canteen
- use of video surveillance systems for the prevention of damage and theft.

Information technology

The year 2005 saw the introduction of Information Technology modules for Refinery Production and Performance Control, as part of the programme devised by the company to upgrade its technological resources, increase analysis capacity and reliability, and review period-end functionalities.
A new management system for truck loading for the retail network was introduced, thus improving operating flexibility and inventory controls.
SAP development activities focused mainly on the area of project management (maintenance and investments) and targeted both the management of electrical cut-offs, external workers attendance, activities in support of the company's "efficiency recovery of external workforce" programme, and work scheduling.

The company extended SAP information system to the wind-power companies, where it is used (for the time being) for administration and personnel management purposes.
At the start of the year two new websites were rolled out, namely www.saras.it (Group website) and www.raffineriasaras.it (website dedicated to the refinery). Both present a new layout with more effective and direct wording, they share the same structure and have a consistent layout, in order to convey a harmonised image of the various Group companies.

MARKETING SEGMENT

The Group's marketing activities in Italy are undertaken by the subsidiary Arcola Petrolifera S.p.A., while those in Spain are performed by the subsidiary Saras Energia S.A., both of which are 100% owned by Saras S.p.A.

Activities in Italy

While domestic oil consumption decreased by 3.7% on 2004, in 2005 the company's sales – excluding buying and selling activities – increased by 14.3% (1,033,479 tons, compared with 904,169 tons in 2004), an increase that reflects the way in which Arcola Petrolifera continues to strengthen its presence in the wholesale market.
2005 was the year during which the Civitavecchia logistic base was developed: from this base a commercial strategy was implemented, which enabled the Company to sell gasoline and diesel/heating oil in southern Tuscany (Grosseto, Arezzo, Siena), northern Lazio (Viterbo, Rome) and Umbria.
As far as sales (broken down by product) are concerned, worthy of note – and again in relation to the previous year – is the growth of around 6% in diesel, while the Italian wholesale market decreased by 2.2 %, along with the 14% increase registered by gasoline, against a market that declined by around 7.5%.
Special mention must be made of heating oil: in respect of which Arcola Petrolifera increased its sales – compared with 2004 – by 52%, while during the same period the market, in this specific segment, registered a growth of 2.3%.
As regards activities at the company's Arcola (SP) depot, about 196,000 tons of products allotted to the wholesale network were shipped, compared with 197,000 in 2004, while the total volume handled on the same base amounted to 514,000 tons, in line with the previous year (517,000 tons).
The Arcola depot discharged 28 ships for a total of 551,900 tons, while 69 lighters (with 59,300 tons) were shipped.
The year 2005 again saw the company seek solutions to optimise costs while at the same time giving maximum attention to all actions capable of meeting the ever increasing requirements of customers.
Over the course of the year, the analysis of scenarios alternative to the current situation has continued, a number of business analyses and feasibility studies were conducted in order to identify the appropriate solution to be adopted in respect of the Arcola oil depot's future set-up; at the same time, negotiations continued with ENI for the renewal of a lease agreement relating to the logistic system business unit (port of La Spezia-Battigia-Pianazze-Arcola) expiring on 31 December 2006.
Procedures to obtain the necessary permits for the power plant advanced in the

course of 2005 in accordance with the provisions of Law 55/02.
During the first half of the year, during the break due to the regional elections, the company embarked on a communication programme for this project, aimed at stimulating discussion with the municipal council of Arcola and its citizens, while during the second half efforts continued to define relations with the municipal council of Arcola and its citizens, with information material regarding the Functional and Environmental Upgrade Programme (F.E.U.P.) being distributed throughout the area.
The Province of La Spezia approved a new land-use plan for the province (Territorial Coordination Plan, or "TCP"), in which – following pressure from environmental groups with an established presence in the area it included – restrictions relating to the possible construction of a power plant in the area of Arcola Petrolifera and the possible compatibility of the current site with the surrounding area.
Arcola Petrolifera then filed a petition against this plan, because it considers the content of the TCP, relating to itself, totally arbitrary and unfounded, both factually and legally.
As regards the underground water table, during the first half of the year the fourth and final technical report regarding testing activities was completed; this report is the first step necessary to the draft of the preliminary cleaning project. This document was sent to Arcola's Environmental Department in March. On 22 April 2005, Arcola's municipal council asked for the preliminary clean-up project to be produced and presented pursuant to the provisions of Ministerial Decree 471/99. The project was subsequently submitted on 16 June, discussed and eventually approved at the Services Conference on 5 July; the project was subsequently approved, and at the end of October work got underway to install the necessary equipment. Work is expected to be completed by the end of January, with start-up of activities scheduled by the first half of February 2006. The use of the clean-up plant is expected to last no less than four years, during which time periodic test will need to be carried out to ensure that the units are all functioning properly and to determine the state of completion of the clean-up itself.

Activities in Spain

2,320,691 cubic metres of oil products were sold, up 2.44% on the previous year.
1,854,736 cubic metres of diesel were sold, up 2.4% on 2004; in the wholesale market, sales increased by approximately 10.3% on 2004.
457,162 cubic metres of gasoline were sold, up 2.3%; in the wholesale market, sales increased by approximately 2.8 % on 2004.
In Spain, diesel consumption increased by 4.1% while gasoline consumption decreased by 5.8%; while on the one hand the considerable growth of diesel vehicles was confirmed, on the other there have been signs of a reduction in consumption. The reason for this slowdown is to be found in the high rise in oil product prices and a general economic downturn.
Sales figures through various channels are (logistics sales not included):
- Direct sales: 885,885 cubic metres, an increase of 6.3% on the previous year;
- Hypermarkets: 487,694 cubic metres, representing an increase of 6.3%;
- Independent stations: 461,024 cubic metres, representing an increase of 23.9%;
- Branded retail stations: 17,964 cubic metres, representing an increase of 13%.

In 2005, operations at the Cartagena depot again saw an increase in the volumes handled and sold compared with the previous year (up 18.0%); in 2005, 394,000 cubic metres were shipped compared with 334,000 cubic metres in 2004 and 254,000 cubic metres in 2003. The rise in throughput of our Cartagena depot originated from commercial measures taken to boost the company's sales volumes across the Mediterranean, and above all in the depot's surrounding area.

As at 31 December 2005, there were nine service stations owned by the company or supplied with exclusive rights.

At the end of 2005, 65% of the unbranded petrol stations were supplied by us in the area around Cartagena (compared with 45% in 2004).

2,325,494 cubic metres of oil products were purchased in 2005, including 1,802,109 cubic metres supplied by Saras S.p.A, corresponding to approximately 77.5% of total oil products purchased.

Supply from Saras S.p.A. accounted for around 31.3% of total gasoline purchases (compared with 54.6% in 2004) and 88.6% of total diesel purchases (compared with 90.1% in 2004).

The year 2005 saw the implementation of the established plans to consolidate our sales in Spain.

Within the company's sales division – the Customer Service area was reorganised in order to provide customers with better quality service while also fostering customer loyalty.

Actions were also developed to limit and optimise both fixed and variable costs.

Within the logistics division, measures continued to be developed to optimise product purchasing and logistics.

The distribution system was optimised (primarily transport by truck), in order to provide added value to the company's relationships with its Customers.

Actions aimed at the unbranded retail network segment continued to be implemented, in order to consolidate sales by fostering customer loyalty at the outlets concerned. Loyalty was fostered through exclusive and non-exclusive supply contracts.

With regard to the direct sales segment, the company continued to evaluate which wholesale marketers are present in the Cartagena area, in order to evaluate their possible acquisition. In 2005, we launched a staff training programme that was developed further through the whole year.

On the safety and HSE front, we implemented all the measures needed to make our staff aware of all matters regarding safety and compliance with safety regulations.

POWER GENERATION SEGMENT

Power generation activities are performed by Sarlux S.r.l., a joint venture that is 55% controlled by Saras S.p.A.

The investment made to build the IGCC plant for the production of electricity led to the full use of the funds provided by the banks (euro 959.4 million in total). In June and December 2005, the eleventh and twelfth tranche of the non-recourse bank loan were repaid in full and in accordance with the dates contractually established. This meant that debt was reduced by euro 101.9 million to euro 464.5 million.

Despite the unplanned shutdown of the third gasifier between September and October, which was entirely due to external events, in 2005 the plant nevertheless met expected standards of performance, thanks to the optimisation of periods of full operation and slowdown periods with planned maintenance, this enabled the number of unplanned shutdowns to be limited as much as possible), as well as to limit the use of exemption periods by the national grid operator (Gestore del Sistema Elettrico-GRTN).

The findings of the inspections carried out at plants and the need to verify the effectiveness of new improvement work carried out on the critical sections of the gasifiers suggest that all three gasifiers undergo shutdowns in 2006 as well, with one set to take place in May and the other two starting in October in succession.

During the year under review, 4,346,140 MWh of electricity were produced, which alone equates to more than a third (34%) of Sardinia's entire energy requirements and – as with the production levels of hydrogen and steam sold to Saras – is substantially in line with forecasts.

The gross operating margin for the year 2005 was euro 157.9 million, which was higher than expected, thanks mainly to electricity being sold at a higher price, as a consequence of the rise of oil prices in the course of 2005.

In 2006 the company expects to undertake further investments of about euro 8 million, its main aim being to consolidate the already outstanding performance of the plant, increasing, among other things, its production capacity by 2.5% during the summer months and reducing variable costs by more than euro 2 million a year.

On 14 July 2005, the GRTN certified Sarlux's IGCC plant also for the year 2004 as a co-generation plant, pursuant to the provisions of Resolution 42/02 of Italy's Authority for Electricity and Gas ("AEEG"); as a result of this certification being granted, Sarlux was not required to purchase the so-called "Green Certificates".

On 25 November 2005, the Ministry of the Environment released the final version of the CO_2 allowance plan for the period 2005-2007, pursuant to the provisions of Directive 2003/87/EC (Emission Trading).

The allowances (expressed in tons of CO_2 per annum) assigned to the Sarlux IGCC plant fall slightly short (around 88,000 tons) of the plant's actual emissions in 2005, meaning that Sarlux will need to purchase the balance in the Emission Trading market, so as to be able to return the full allocation to the Ministry by 30 April 2006. As at 31 December 2005, the market price for CO_2 was euro 21.2 per ton.

OTHER BUSINESSES

In the wind power segment, in 2005 the company completed the initial construction stage of the Ulassai wind farm with a total installation of 36 wind turbine generators. In August, the first generator started operating, while the first production units were taken over between October and November, as planned. Preliminary data show that production is in line with forecasts.
This project continued with the construction of a further unit consisting of six wind turbine generators, which will be completed during the course of 2006.
The company entered into an annual agreement with Terna S.p.A., for the sale of energy produced in accordance with the procedures and criteria laid down by Resolution 34/05 of Italy's Authority for Electricity and Gas. Furthermore, the company will receive green certificates for eight years starting in 2006.
With regard to Law 488/92, at the end of the year, the company had received grants exceeding euro 13 million.
In December, a loan was agreed with a syndicate of four banks, to refinance the Ulassai wind farm; this facility makes available over euro 96 million to the company together with Parchi Eolici Ulassai S.r.l., on a non-recourse project finance basis.
A large amount of these funds was used in December to repay the inter-company loan that the company had taken out with Saras S.p.A. to finance construction.
The final maturity date of this loan, which is to be repaid in accordance with a defined repayment schedule, is 31 December 2016.
In February 2006, 60% of the interest-rate risk face value was hedged.

Significant events taking place after 31 December 2005

The shareholders' meeting of the holding company Saras S.p.A. held on 11 January 2006 passed a resolution agreeing to file an application with Borsa Italiana S.p.A. to have the company's ordinary shares listed on a regulated market organised and managed by said institution and to submit a request to CONSOB for the approval to issue a Prospectus regarding the public offer for the sale and subscription of its ordinary shares.
At the same meeting, the shareholders also resolved to split shares outstanding, and consequently increased the total number of shares representing the company's share capital from 8,910,000 to 891,000,000, although the company's overall share capital remained at euro 51,183,000.

Foreseeable business developments

2005 saw refining margins reach the highest levels on record for some years, due to both structural factors relating to fundamentals and contingent factors such as last autumn's hurricanes.
During the first month and a half of 2006, however, margins registered a decline: the main reasons behind this lie in both the crude price hikes, triggered by the gas dispute between Russia and Ukraine (which led Gazprom to cut supplies during the first few days of the new year, with repercussions on the countries of Western Europe) and the attacks launched by armed groups on oil installations around the delta of the river Niger, which led to a 10% fall in Nigerian exports, as well as the Iranian gov-

ernment's decision to restart its nuclear programme, triggering fears of an embargo on oil exports. Another factor that limited refining margins was the low prices for gas oils, which was due in part to the especially mild climate in the USA at the start of the winter.
Nevertheless, all analysts agree in their forecasts that 2006 will be characterised by high margins comparable with those seen in 2005, this being due to a demand for oil products that exceeds the refining and conversion capacity currently available; specifically, the margins for heavy crude oil with a high sulphur content will be particularly impressive, since they can only be processed by highly complex refineries like the Sarroch one.
After a first quarter with plant running at full capacity, starting in April the company will perform important scheduled maintenance of its units, which will last for around 50 days and will involve it's the Topping 2, Vacuum 2 and CCR units, and the replacement of the catalyser used in the Mild Hydrocracking 2 plant.
No other significant work is planned in 2006, but the standard cleaning and maintenance of the Visbreaking unit and ordinary maintenance carried out, by rotation, on the IGCC plant's gasifiers.
Turning to products, the initial figures released confirm the increased availability of hydrogen as a result of the optimisation projects implemented during the last quarter of 2005; production will therefore conform to the highest standards requested by the market, especially as far as gasoline and diesel are concerned. The refinery is already in a position to produce sizeable amounts of gasoline and diesel with a sulphur content of 10 ppm, thanks in part to the start-up of the first phase of the Prime G+® plant for the production of gasoline with very low sulphur content. Also to be taken into consideration here are the changes in the US specifications (the removal of oxygenated products from gasoline and the reduction of the amount of sulphur contained in gas oils), which can have a significant impact on the market.
With respect to the Ulassai wind farm and after the completion of the construction of the first 36 wind turbine generators and the start of production, a further six wind turbine generators are planned to be installed in 2006, and should start producing power from April onwards, the key aim here being to increase and optimise the wind farm's production, which is planned for 72 Megawatt.

for the Board of Directors
The Chairman: Mr. Gian Marco Moratti

Consolidated financial statements as at 31 December 2005

Consolidated balance sheets as at 31 December 2005 and 2004

	Note 1	Note 2	2005	2004
ASSETS				
Current assets			**1,084,525**	**798,518**
Cash and cash equivalents	3.1.a.	7.1.1	24,709	13,464
Other financial assets held for trading or available for sale	3.1.B	7.1.2	13,039	12,013
Trade receivables	3.1.C	7.1.3	442,788	362,693
Inventory	3.1.d.	7.1.4	541,408	353,253
Current tax assets	3.1.E	7.1.5	24,227	2.,431
Other assets	3.1.F	7.1.6	38,354	54,664
Non-current assets			**546,283**	**592,580**
Property, plant and equipment	3.1.H	7.2.1	443,055	457,691
Intangible assets	3.1.J	7.2.2	4,.335	8,200
Equity interests consolidated by the equity method	3	7.2.3	97,175	83,508
Other investments		7.2.4	1,400	1,293
Other financial assets	3.1.L	7.2.5	318	41,888
Total assets			**1,630,808**	**1,391,098**
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities			**749,375**	**636,537**
Short-term financial liabilities	3.1.Q	7.3.1	102,164	67,982
Trade and other payables	3.1.Q	7.3.2	513,182	413,499
Current tax liabilities		7.3.3	75,749	101,723
Other liabilities		7.3.4	58,280	53,333
Non-current liabilities			**352,665**	**346,917**
Long-term financial liabilities		7.4.1	132,004	176,178
Provisions for risks	3.1.O	7.4.2	17,569	15,691
Provisions for employee benefits	3.1.P	7.4.3	49,685	45,837
Deferred tax liabilities		7.4.4	96,374	34,150
Other liabilities		7.4.5	57,033	75,061
Total liabilities			**1,102,040**	**983,454**
SHAREHOLDERS’ EQUITY				
Share capital	3.1.N	7.4.6	51,183	51,183
Legal reserve	3.1.N		10,237	10,237
Other reserves	3.1.N		268,915	208,365
Reserve for own shares	3.1.N		0	41,684
Profit/(loss) carried forward	3.1.N		(94,209)	(102,763)
Profit/(loss) for the period			292,642	198,938
Total shareholders’ equity			**528,768**	**407,644**
of which: Minority interests				
Minority interests in capital and reserves			0	23
Profit/(Loss) for the period attributable to minority interests			0	5
Total minority interests			*0*	*28*
Total liabilities and shareholders’ equity			**1,630,808**	**1,391,098**

NOTE 1: please refer to Section 3, "Accounting policies applied"
NOTE 2: please refer to Section 7, "Notes to the balance sheet"

Consolidated income statement as at 31 December 2005 and 31 December 2004

	Note 1	Note 2	2005	2004
Revenues from ordinary operations	3.2.R/T	8.1.1	5,196,001	3,519,066
Other income	3.2.R/T	8.1.2	39,535	36,698
Total revenues			**5,235,536**	**3,555,764**
Purchases of raw materials, spare parts and consumables	3.2.S/T	8.2.1	(4,245,896)	(2,808,689)
Cost of services and sundry costs	3.2.S/T	8.2.2	(303,543)	(271,127)
Personnel costs	3.2.S	8.2.3	(115,786)	(105,519)
Depreciation, amortisation and write-downs	3.2.S	8.2.4	(77,881)	(79,792)
Total costs			**(4,743,106)**	**(3,265,127)**
Operating result			**492,430**	**290,637**
Net income (charges) from equity interests		8.3	48,747	14,802
Other financial income/(charges), net	3.2.S/T/W	8.4	(76,693)	(8,292)
Profit before taxes			**464,484**	**297,147**
Income tax for the period	3.2.V	8.5	(171,842)	(98,209)
Net profit/(loss) for the period			**292,642**	**198,938**
of which				
Minority interests			*0*	*5*
Net profit/(loss) for the period of the Group			*292,642*	*198,933*

NOTE 1: please refer to Section 3, "Accounting policies applied"
NOTE 2: please refer to Section 8, "Notes to the income statement"

Statement of changes in consolidated shareholders' equity in the years ended 31 December 2004 and 31 December 2005

	Share capital	Legal reserve	Other reserves	Reserve for own shares	Profit/(loss) carried forward	Profit/(loss) for the period	Shareholders' equity
Balance as at 31 Dec. 2003	**51,183**	**10,237**	**136,415**	**41,684**	**(103,078)**	**92,670**	**229,111**
Appropriation of 2003 profit			75,440			(75,440)	0
Dividends			(3,174)			(17,230)	(20,404)
Utilisation of grants			(316)		316		0
Net profit for the period						198,938	198,938
Balance as at 31 Dec. 2004	**51,183**	**10,237**	**208,365**	**41,684**	**(102,762)**	**198,938**	**407,645**
Adoption of IAS 32 / 39				(41,684)	10,267		(31,417)
Balance as at 1 Jan. 2005	**51,183**	**10,237**	**208,365**	**0**	**(92,495)**	**198,938**	**376,228**
Appropriation of 2004 profit			90,675		5,926	(96,601)	0
Dividends			(29,810)			(110,256)	(140,066)
Utilisation of grants			(315)		315		0
Other movements attributable to third parties						(26)	(26)
Utilisation of profit/(loss) carried forward					(7,955)	7,945	(10)
Net profit for the period						292,642	292,642
Balance as at 31 Dec. 2005	**51,183**	**10,237**	**268,915**	**0**	**(94,209)**	**292,642**	**528,768**

Consolidated cashflow statements as at 31 December 2005 and 2004

	31 December 2005	31 December 2004
A - Cash and cash equivalents at beginning of period (short-term net financial indebtedness)	13,464	24,998
B - Cash generated from/(used in) operating activities		
Profit/(Loss) for the period of the Group	292,642	198,933
Profit/(Loss) for the period of minority interests	0	5
Amortisation, depreciation and write-down of fixed assets	77,881	79,792
Net (income)/charges from equity interests	(48,747)	(14,802)
Dividends from investee companies	30,718	32,211
Net change in provisions for risks and charges	1,878	(1,034)
Net change in employee benefits	3,848	3,206
Change in deferred tax liabilities and deferred tax assets	62,224	19,558
Other non-monetary revenues and costs	0	(6,760)
Profit/(Loss) from operating activities before changes in working capital	**420,444**	**311,108**
(Increase)/Decrease in trade receivables	(80,095)	(127,630)
(Increase)/Decrease in inventory	(188,155)	(115,575)
Increase/(Decrease) in trade and other payables	99,682	94,843
Change in other current assets	(5,523)	(9,462)
Change in other non-current assets	0	22
Change in other current liabilities	(21,027)	90,122
Change in other non-current liabilities	(18,028)	(14,494)
TOTAL (B)	**207,298**	**228,933**
C - Cash generated from/(used in) investing activities		
(Investments) in tangible and intangible assets, net of divestments and accumulated depreciation and amortisation	(59,381)	(91,777)
Change in equity interests valued by the equity method	4,363	(827)
Change in other equity interests	(107)	(549)
TOTAL (C)	**(55,125)**	**(93,153)**
D - Cash generated from/(used in) financing activities		
(Increase)/Decrease in medium/long-term borrowing	(44,173)	27,962
(Increase)/Decrease in other financial assets	(1,140)	1,983
(Increase)/Decrease in short-term borrowing	34,182	(156,856)
Distribution of dividends to third parties	(140,066)	(20,404)
TOTAL (D)	**(151,197)**	**(147,315)**
E - Cashflow for the period (B+C+D)	**978**	**(11,534)**
Other changes in shareholders' equity due to the adoption of IAS 32 and IAS 39 since 1 January 2005	10,267	
F - Cash and cash equivalents at end of period (short-term net financial indebtedness)	**24,709**	**13,464**

Dividends received from investee companies, in compliance with IAS 7, have been classified as cash generated from operating activities. Please note that at the time the Transition Document was being produced, such dividends were instead classified as cash generated from investing activities

Notes to the Consolidated Financial Statements as at 31 December 2005

TABLES OF CONTENTS

1. Foreword

Saras S.p.A. (also referred to hereinafter as the "Holding Company") is a joint-stock company with its registered office at S.S. 195 'Sulcitana' km 19, Sarroch (CA), Italy, and is 66%owned by Angelo Moratti S.A.P.A.

Saras S.p.A. operates in the domestic and international oil market through its crude-refining operations and the sale of products derived from the refining process. The Saras Group is also engaged in power generation through the production of thermo-electric and wind power.

These consolidated financial statements, which relate to the year ended 31 December 2005, are presented in euros, given that the euro is the currency of the economy in which the Group operates, and are composed of a Balance Sheet, Income Statement, Cashflow Statement, Statement of Changes in Shareholders' Equity and these Notes. Unless stated otherwise, all amounts shown in the notes to the consolidated financial statements are expressed in thousands of euros.

2. General criteria for the preparation of the consolidated financial statements

EC Regulation No. 1606/2002 of 19 July 2002 made it compulsory for companies, from financial year 2005, to adopt the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and endorsed by the European Commission for the preparation of the consolidated financial statements of companies with equity and/or debt securities listed on one of the regulated markets of the European Community. Further to the introduction of the aforementioned European Regulation, on 20 February 2005 Legislative Decree 38 was issued which made it compulsory to adopt IFRS within the Italian legal framework, extending it to the preparation of the individual financial statements of the companies in question from financial year 2006, while also extending the ability to apply said standards to companies other than those indicated in the Regulations in question.
The consolidated financial statements of Saras S.p.A. as at 31 December 2005 have been prepared in accordance with the International Financial Reporting Standards (also referred to hereinafter as "IFRS" or "international accounting standards") issued by the International Accounting Standards Board (IASB) and adopted by the European Commission in accordance with the procedure outlined in Article 6 of Regulation EC No. 1606/2002 of the European Parliament and of the Council of 19 July 2002.
Saras S.p.A., as Holding Company, prepared its own individual financial statements for the year ended 31 December 2005 in compliance with the standards laid down by the *Consiglio Nazionale dei Dottori e dei Commercialisti*, the representative bodies of the Italian accounting profession, supplemented and interpreted by those issued by the *Organismo Italiano di Contabilità* (OIC), the Italian Accounting Board.
The term IFRS is used to mean all International Financial Reporting Standards, all International Accounting Standards ("IAS"), all interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"), which were previously known as the Standing Interpretations Committee ("SIC"), endorsed by the European

Commission as of date on which the draft consolidated financial statements were approved by the Board of Directors of the Holding Company and contained in the pertinent EU Regulations published as of said date.
IFRS are being applied for the first time in Italy and other countries at the same time; furthermore, several IFRS are new or have been reviewed, meaning that there is not currently any established practice to which reference may be made for interpretation and application purposes. As a result, and given that the accounting practice concerned needs to be constantly updated, the consolidated financial statements as at 31 December 2005 - whilst based on the Directors' best knowledge of IFRS and their interpretation - could be subject to adjustments over the next few years, so that interpretations other than those adopted when preparing them might be taken into account.
The accounting standards and measurement criteria previously used by the Group complied with the legal requirements prevailing in Italy for the preparation and production of financial statements, as interpreted and supplemented – where necessary – by the accounting standards laid down by the *Consiglio Nazionale dei Dottori e dei Commercialisti* and by the documents issued by the *Organismo Italiano di Contabilità* (referred to collectively as "Italian Accounting Standards").
Upon the first-time application of IFRS when drawing up the consolidated financial statements for 2005, it was necessary to restate the 2004 amounts presented for comparative purposes in order to reflect the changes originating from the adoption of IFRS. Reconciliations, together with a description of the effects of the transition from Italian Accounting Standards to IFRS, are provided in note 4 and note 5 of these notes. Specifically, the aforementioned notes contain the following:

- a reconciliation of consolidated balance sheet items as at 1 January 2004 and 31 December 2004;
- a reconciliation of consolidated income statement items for the year ended 31 December 2004;
- a reconciliation of consolidated shareholders' equity as at 1 January 2004, 31 December 2004 and 1 January 2005;
- a reconciliation of the consolidated result of operations for the year ended 31 December 2004;
- a reconciliation of consolidated cashflow statement items for the year ended 31 December 2004.

The accounting policies presented below have been applied consistently to all the periods reported, with the exception of IAS 32 and IAS 39, which govern the way in which financial instruments are classified and measured. The Saras Group has indeed availed itself of the exemption afforded by IFRS 1 in respect of the first-time adoption of IFRS, to adopt these accounting standards from 1 January 2005, without presenting comparative information from the previous year for the purpose of these standards; therefore, in accordance with IFRS 1, Italian Accounting Standards have been adopted when measuring financial instruments in the opening balance sheet at 1 January 2004 and closing balance sheet at 31 December 2004 and in the income statement for the year ended 31 December 2004. The effects associated with applying IFRS to the periods reported are detailed in note 5 of these notes.

3. Accounting policies applied

3.1 Consolidation method

The consolidated financial statements include the financial statements of the Holding Company and those companies over which it directly or indirectly exercises control, from the date on which control was acquired and until the date on which said control ceases to exist. In particular, control is exercised by virtue of the Holding Company's directly or indirectly owning the majority of shares carrying voting rights and due to a dominant influence being exercised that is expressed by the power to govern – also indirectly and by virtue of contractual or legal agreements – the financial and operating policies of the entities involved so as to obtain benefits from their activities, regardless of shareholding relationships. The existence of any potential voting rights that may be exercised on the reporting date is taken into consideration in determining whether control exists.
The financial statements subjected to consolidation are drawn up as at 31 December and are generally those specifically prepared and approved by the respective Boards of Directors of the individual companies concerned, which are adjusted as appropriate in order for them to be consistent with the accounting standards adopted by the Holding Company.
Not included in the Group's consolidation area (and therefore not consolidated on a line-by-line basis) are those subsidiaries whose consolidation would not have a significant effect from either a quantitative or qualitative point of view, for the purpose of a fair presentation of the Group's financial position, result of operations and cash flows. These entities are accounted for by the equity method described below.

Subsidiaries that are consolidated on a line-by-line basis and unconsolidated subsidiaries that are included in the Group's consolidation area are detailed in the table below.

Entities consolidated on a line-by-line basis	Percentage held
- Arcola Petrolifera S.p.A	100%
- Sartec Saras Ricerche e Tecnologie S.p.A.	100%
- Consorzio Ricerche Associate	100%
- Ensar S.r.l. and its subsidiary	100%
· Eolica Italiana S.r.l.	100%
- Akhela S.r.l.	100%
- Sarint S.A. and its subsidiaries	100%
· Saras Energia S.A	100%
· Reasar S.A.	100%
Joint Ventures carried at equity	
- Sarlux S.r.l.	55%
- Parchi Eolici Ulassai S.r.l. and its subsidiary	70%
· Sardeolica S.r.l.	100%
Subsidiary companies considered insignificant and excluded from the consolidation area, carried at equity	
- Xanto S.r.l. (in liquidation) and its subsidiaries:	100%
· Isoa Sud S.r.l. in liquidation	100%
· Xanto Basilicata S.r.l. in liquidation	100%
- Saras U.K. Ltd, controlled by Sarint S.A.	100%
Associated companies carried at equity	
- Dynergy S.r.l.	37.5%
- Hangzhou Dadi Encon Environmental Equipment Co.	37.5%
- Nova Eolica S.r.l.	20%
Other investments carried at fair value in accordance with IAS 39	
- Consortium C.R.S.4	10%
- Consortium Cesma	5%
- Consortium Cifra	16.67%
- Consortium La Spezia Energia	5%
- Consortium Qualità e Tratt. Acque	9.07%
- Consortium Techno Mobility	17.4%
- Hydrocontrol Soc. Consortile a r.l.	17%
- Sarda Factoring	4.75%

The following criteria have been adopted when consolidating subsidiaries on a line-by-line basis:

(i) Assets and liabilities, and income and expense items are reported line-by-line by allocating – where applicable – to minority shareholders the share of equity and net result for the period that is attributable to them; these items are shown separately under the relevant headings of the consolidated shareholders' equity and income statement;
(ii) Business combinations that lead to the control of an entity being acquired are accounted for by applying the purchase method. Cost of acquisition equates to the fair value on the date on which the entity's assets and liabilities, any equity instruments issued and any other directly attributable accessory charges are acquired. Where positive, the difference between the acquisition cost and the fair value of the assets and liabilities acquired is allocated to the item 'Goodwill'. Where negative, it is charged to the income statement, once it has been verified again that the fair values of the asset and liabilities acquired, along with acquisition cost, have been correctly measured;
(iii) Gains and losses arising from transactions between companies that are consolidated on a line-by-line basis, which have yet to be realised with third parties, are eliminated – where significant – as are any intercompany payables and receivables, costs and revenues, and financial income and charges;
(iv) Gains and losses arising from the transfer of equity interests in consolidated companies are charged to the income statement for amounts corresponding to the difference between the selling price and the percentage of consolidated shareholders' equity effectively transferred.

Investments in subsidiary companies that are not significant and are not consolidated on a line-by-line basis, in companies over which control is exercised jointly with other companies (Joint Ventures) and in companies over which the Group exercises significant influence (referred to hereinafter as 'associated companies'), which is presumed to exist when a stake of between 20% and 50% is held, are accounted for by the equity method, except where the application of this method does not impact the Group's financial position, result of operations and cash flows; in such instances, the investment is measured at cost. The way in which the equity method is applied is described below.

(i) The carrying amount of an investment is brought into line with the equity of the investee company concerned, adjusted where necessary to reflect the adoption of accounting standards that are in keeping with those adopted by the Holding Company and includes, where applicable, any goodwill identified at the time of the acquisition;
(ii) The Group's proportionate share of the investees' profits or losses is recognised in the consolidated income statement from the date on which the significant influence commences until the day it ceases to exist. Should, as a result of losses, the company report negative equity, the book value of the investment concerned is written off and any excess attributable to the Group allocated to the

relevant provision, only where the Group has undertaken to meet the investee's legal or constructive obligations or in any event to cover its losses. Variations in the equity of investee companies that are not referred to the result posted in the income statement are directly added to or deducted from equity reserves;

(iii) Unrealised gains and losses arising from transactions between the Holding Company and subsidiaries or investee companies are eliminated based on the value of the stake held by the Group in the investees. Unrealised losses are eliminated, except where they represent an impairment loss.

The financial statements of companies included in the consolidation area are presented in the currency of the primary economic environment in which they operate (otherwise known as the "functional currency"). The consolidated financial statements are presented in euros, the euro being the functional currency of the Holding Company and the currency used to present the consolidated financial statements. The following rules are followed when translating the financial statements of companies expressed in a currency other than the functional currency euro:

(i) Assets and liabilities are translated at the applicable exchange rates of the reporting date;
(ii) Costs and revenues are translated at the average exchange rate of the period;
(iii) The 'translation reserve' includes both exchange-rate differences arising from the translation of amounts at an exchange rate different from the period-end rate and those arising from the translation of equity balances at the beginning of the period at an exchange rate different from the period-end rate;
(iv) Goodwill and fair value adjustments relating to the acquisition of a foreign entity are treated as assets and liabilities of said entity and translated at the period-end exchange rate;
(v) When preparing the consolidated cashflow statement, the average exchange rates of the period are used to translate the cash flows of foreign subsidiaries.

3.2 Summary of the accounting standards and valuation criteria adopted

The consolidated financial statements have been prepared based on the cost principle, except in the cases specifically described in the notes below, where fair value accounting has been applied, and are presented – unless indicated otherwise – in thousands of euros.

The principal valuation policies adopted are described below.

A. Cash and cash equivalents

Cash and cash equivalents predominantly consist of cash on hand, sight deposits with banks, other short-term highly liquid investments (convertible into cash within ninety days) and an overdraft facility; the latter is reported as part of current liabilities. Items included as part of net cash and cash equivalents are measured at fair value and the relevant variations reported in the income statement.

B. Financial assets

Financial assets that are either held for trading or available for sale are reported as follows:

- until 31 December 2004, at the lower of cost or market;
- from 1 January 2005, in accordance with IAS 32 and IAS 39, at fair value through profit or loss, i.e. with any gains and losses reported in income under 'Other financial income/(charges), net'.

C. Trade receivables

Until 31 December 2004, trade receivables were carried at estimated realisable value.

Since 1 January 2005, they have been measured – upon initial recognition – at fair value and subsequently at amortised cost by applying the effective interest rate method. Whenever there is objective evidence indicating impairment, the asset concerned is written down to a carrying amount equal to the discounted value of its future cashflows. Impairment losses are recognised in the income statement. If in subsequent periods the reasons for the write-downs no longer exist, the write-down is reversed up to the amount that would have resulted from the application of amortised cost had the assets not been written down.

D. Inventory

Inventory is recognised at the lower of purchase or production cost and the net realisable value represented by the amount that the company expects to obtain from their sale during its ordinary business activities. The cost of inventory of crude oil, materials and spare parts is determined by the FIFO method. The cost of oil product inventories is determined by using the weighted average cost of the last quarter.

E. Current tax assets

Current tax assets are recognised at nominal value while taking into account their presumed realizable realizable value; furthermore, since 1 January 2005 they have been recognised at amortised cost.

F. Other assets

Other current assets are recognised at the lower of cost and net realisable value. Since 1 January 2005, they have been measured – upon initial recognition – at fair value and subsequently at amortised cost by applying the effective interest rate method. Whenever there is objective evidence indicating impairment, the asset concerned is written down to a carrying amount equal to the discounted value of its future cashflows. Impairment losses are recognised in the income statement. If in subsequent periods, the reasons for the write-downs no longer exist, the write-down is reversed up to the amount that would have resulted from the application of amortised cost had the assets not been written down.

G. Derecognition of financial assets and liabilities

Financial assets that are transferred are treated as follows:
- until 31 December 2004, they are derecognised;
- since 1 January 2005, they are derecognised when the right to receive the related cash flows is transferred together with all risks and rewards incident to ownership, as specified in paragraphs 15-23 of IAS 39.

Financial liabilities are derecognised when they are settled and when the Saras Group has transferred all the risks and charges relating to them.

H. Property, plant and machinery

Property, plant and machinery is measured at purchase or production cost, less accumulated depreciation and any impairment. Cost includes every charge that is incurred directly to make the assets ready for use, as well as any disposal and removal charges incurred as a result of contractual obligations. Any interest expense relating to the construction of tangible assets is capitalised until the asset is ready to be used.
Maintenance and repair charges are charged directly to the income statement as incurred. Costs relating to the expansion, modernisation or improvement of facilities owned by the company or used by third parties are only capitalised up to the limits within which they fulfil certain conditions to be classified separately as an asset or as part of an asset in accordance with the component approach. Similarly, the costs to replace the identifiable components of complex assets are recognised as assets and depreciated in relation to their useful life; the residual carrying amount of the component thus replaced is charged to the income statement. Government grants relating to capital expenditure are deducted from the purchase price or production cost of the relevant assets when the conditions necessary for receiving them have been met.
The carrying amount of property, plant and machinery is adjusted through systematic depreciation, which is calculated on a straight-line basis from the time the asset is available and ready to be used, in relation to its estimated useful life.

The useful life estimated by the Group for each of the various categories of asset is as follows:

• Buildings	18 years
• Generic plant	12 – 16 years
• Corrosive plant	9 – 11 years
• Power plant	22 years
• Transformer house	28 years
• Office furniture and machines	4 – 8 years
• Vehicles	4 years
• Other assets	9 years
• Improvements to leased assets	Duration of lease

The useful life of tangible assets and their net book value are reviewed annually and adjusted accordingly at the end of every year.
Land is not depreciated.
Whenever an asset subjected to depreciation is made up of components that are distinctly identifiable and where the useful life of one component differs significantly from that of the other components making up the asset, depreciation is carried out separately for each component making up the asset in accordance with the component approach.

Leased assets

Assets held under finance leases, by which all risks and rewards incident to ownership are substantially transferred to the Group, are recognised as Group assets and carried at fair value or, where lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is recognised in the balance sheet within financial liabilities. Leased assets are depreciated on the same basis and at the same depreciation rates as set out previously for tangible assets.
Arrangements where the lessor retains substantially all risks and rewards typically associated with owning an asset are treated as operating leases. The costs relating to these leases are charged to the income statement on a straight-line basis over the term of the lease.

J. Intangible assets

Intangible assets are made up of identifiable elements that are non-monetary in nature, without physical substance, controlled by the company and capable of generating future economic benefits. These elements are recognised at acquisition and/or production cost, which is inclusive of any directly attributable charges that are incurred in order to make the asset ready for use, net of accumulated amortisation and any impairment losses. Any interest expense accrued during, and in respect of, the development of intangible assets is charged to the income statement. Amortisation commences from the time the asset is available to be used and is systematically spread over time to reflect its estimated useful life.

(i) Goodwill

Goodwill is the excess cost incurred over net fair value, as recorded on the acquisition date, when acquiring assets and liabilities forming businesses or business units. Goodwill relating to investments valued at equity is included in the value of the investments. It is not systematically amortised but instead undergoes a periodic test to ascertain whether the amount carried in the balance sheet is appropriate. This test is carried out with regard to the cash generating unit to which goodwill is to be allocated. Any reduction in goodwill is recognised where the recoverable amount of goodwill is less than its carrying amount; by recoverable amount we mean the higher of the fair value of the cash generating unit, less cost of disposal, and its value in use, which is the present value of the cash-flows expected to be generated in the years during which the cash generating unit is operating and from its disposal at the end of its useful life.

In the event that the impairment arising from the test is greater than the amount of goodwill allocated to the cash generating unit, then the residual amount is in turn allocated to the assets included within the cash generating unit, in proportion to their book value. The minimum amount for this allocation is the higher of the following:

- the fair value of the asset, less cost of disposal;
- its value in use, as defined above.

Where goodwill has previously been written down for impairment, the write-down is not reversed.

(ii) Intangible assets: Patent rights, Concessions, Licences and Software (intangible assets with a finite useful life)

Intangible assets with a finite useful life are systematically amortised over their useful life, the latter being the estimated length of time over which the assets will be used by the company; the recoverability of the carrying amount of such assets is verified by the same method as that used for the item 'Property, Plant and Machinery'.

(iii) Research and development costs

The costs associated with the acquisition of new knowledge or discoveries, the development of products or alternative processes, new techniques or models, the design and construction of prototypes, or in any event incurred in respect of other scientific research or technological development activities that do not meet the requirements for recognition as assets are treated as current costs and as such are charged to the income statement as incurred.

K. Impairment of assets

On each reporting date, tangible assets and intangible assets with a finite useful life are analysed in order to identify any indicators – originating from sources within or outside the Group – suggesting that they have undergone impairment. In circumstances where such indicators are present, the recoverable value of these assets is estimated and any write-down duly charged to the income statement. The recoverable value of an asset is the greater of its fair value less cost of disposal and its value in use, where the latter is the present value of the future cash flows that the asset is expected to generate. Value in use is determined by discounting the present value of estimated future cash flows, using a pre-tax discount rate that reflects current market assessments of the time value of money in relation to the period of the investment and the risks specific to the asset concerned. The realiszable value of an asset that does not generate amply independent cash flows is determined in relation to the cash generating unit to which the asset belongs. An impairment is recognised in the income statement whenever the carrying amount of an asset – or rather, of the cash generating unit to which it is allocated – is higher than its recoverable value. When the reasons for a write-down no longer exist, the write-down is reversed with a charge to the income statement, up to the net book value that the asset in question would have had if it had not been written down and had it been depreciated.

L. Other financial assets and other assets

Until 31 December 2004, receivables and financial assets held to maturity were recognised at nominal value.
Since 1 January 2005, in accordance with IAS 32 and IAS 39, such items have been measured – upon initial recognition – at fair value and subsequently at amortised cost by applying the effective interest rate method. Whenever there is objective evidence indicating impairment, the asset is written down to a carrying amount equal to the discounted value of its future cashflows. Impairment losses are recognised in the income statement. If in subsequent periods, the reasons write-downs no longer exist, the write-down is reversed up to the amount that would have resulted from the application of amortised cost had the asset not been written down.

The treatment of financial assets related to derivatives is detailed in the section 'Derivatives'.

M. Own shares

Since 1 January 2005, the company's own shares have been recognised at cost and deducted from shareholders' equity.

N. Shareholders' equity

(i) Share capital
Share capital is made up of the subscribed and paid-in capital of the Holding Company. Costs relating strictly to the issuing of new shares are deducted from share capital, after any deferred tax effect.

(ii) Other reserves
Other reserves are made up of equity reserves set aside for a specific purpose and relating to the Holding Company.

(iii) Profit/(Loss) carried forward
This heading includes the portion of the result of operations of both the current period and previous years that has been neither distributed not appropriated to reserves (in the case of profits) or covered (in the case of losses). It also includes other equity reserves that have been transferred to it, further to the restrictions previously imposed upon them being removed.

O. Provisions for risks and charges

Provisions for risks and charges are made to cover losses and charges that are certain or probable but in respect of which the amount or the date on which they are expected to arise cannot be determined.
Provisions are only recognised where a present obligation (be it legal or constructive) exists arising from past events the settlement of which is expected to result in an outflow of resources embodying economic benefits. This amount represents the best discounted estimate of the amount needed to be paid in order to discharge the obligation. The rate used to determine the present value of the liability reflects current market values and includes the additional effects of the specific risk associated with each liability.
Those risks in respect of which a future liability is only possible are disclosed in the section concerning commitments and risks and no provision is made.

P. Provisions for employee benefits

The Group provides various types of defined benefit pension plans, in keeping with the conditions and practices that are commonly applied locally in those countries in which it carries out its activities.
These defined benefit plans – which include staff leaving indemnities due to employees pursuant to the provisions of article 2120 of the Italian Civil Code – are based on the length of service of employees and the remuneration received by them over a predefined period of service. Specifically, the liability relating to the staff leaving indemnity is recognised at its actuarial value, in that it is regarded as an employee benefit payable under a defined benefit plan. Accounting for defined benefit plans involves the actuarial valuation of the amount of benefits vesting in employees in return for service rendered during the current and previous years , as well as discounting these benefits in order to determine the present value of the Group's obligations. The present value of the Group's obligations is determined by an external expert by what is known as the 'Projected Unit Credit Method'. This method, which is one of the actuarial techniques applicable to 'vested benefits', considers each period of service as an additional unit of entitlement: the actuarial liability must therefore be quantified by taking into account only service up to the date on which it is measured; the total liability thus determined is therefore usually adjusted in proportion to the ratio between the years of service up to the reporting date and the total length of service up to the time the benefit is expected to be paid. This method also requires future salary increases - due for whatever reason up until the time employment is terminated (inflation, career progression, contract renewals, etc.) - to be taken into consideration.
The cost accruing during the year in respect of defined benefit plans and charged to the income statement as part of personnel costs is equal to the sum of the average present value of employees' vested benefits for service rendered by them during the year and the annual interest accruing on the present value of the Group's obligations as at the beginning of the year, calculated by using the discount rate for future outlays used to estimate the liability at the end of the previous year. The annual discount rate used to produce data is assumed equal to the period-end market rate for zero coupon bonds with a maturity that is the same as the residual average term of liabilities.
Actuarial gains and losses due to changes in the actuarial parameters previously used are recognised in the income statement proportionately over the average remaining length of service of the employees participating in the plan.

Q. Financial liabilities and trade payables

Until 31 December 2004, the above items were initially recognised at fair value and measured at nominal value plus any costs relating to the underlying transaction. Since 1 January 2005, they have been measured – upon initial recognition – at fair value and subsequently at amortised cost by applying the effective interest rate method. Whenever there is a change in the estimated future cash flows and they can be reliably estimated, the value of payables is recalculated in order to reflect this change on the basis of the present value of the new estimated future cash flows and the internal rate of return originally determined.

R. Recognition of revenues

Sales revenues are recognised when the significant risks and rewards incident to ownership have effectively been transferred or when a service has been rendered.
The recognition of revenues from services is based on the stage of completion effectively reached in providing said services.
Revenues are recognised net of returns, discounts, allowances and rebates, as well as the taxes directly related to them.

S. Recognition of costs

Costs are recognised when they relate to goods and services that are sold or received during the year or by systematic distribution, or rather when their future usefulness cannot be determined.

T. Translation of items expressed in a currency other than the euro

Transactions in foreign currency are translated into euros at the exchange rates prevailing on the trade date. Exchange gains and losses arising from the settlement of such transactions and from the translation at year-end exchange rates of monetary credit and debit entries denominated in a foreign currency are taken to the income statement.

U. Dividends

Dividends are recognised on the date on which the resolution approving them is carried by a meeting of shareholders.

V. Taxes

Current taxes are calculated on the basis of the taxable income for the period at the tax rates prevailing on the reporting date.
Deferred taxes are calculated on all temporary differences arising between the tax base of an asset or liability and its carrying amount, with the exception of goodwill and those relating to temporary differences originating from investments in subsidiary companies, when the timing of reversal is controlled by the Group and said it is probable that the differences will not reverse within a reasonably foreseeable timescale. Deferred tax assets, including those relating to tax losses from previous periods, are recognised for the portion not offset against deferred tax liabilities, to the extent that it is probable that future taxable income will be available against which they can be recovered. Deferred taxes are determined at the tax rates expected to be in force in those years in which the temporary differences are realised or reversed.
Current and deferred taxes are recognised in the income statement, with the exception of those relating to items directly deducted from, or added to, equity, in which case the tax effect is carried directly as part of equity. Current and deferred taxes are set off where they are levied by the same tax authority, where the company has a legally enforceable right to setoff and it intends to settle the liability on a net basis.

Other taxes not related to income – such as property taxes – are included as part of 'Operating costs'.

W. Derivatives

Until 31 December 2004:
Derivative transactions, regarded for accounting purposes as hedging transactions, are measured consistently with each hedged asset/liability, with all income and expenses charged to the income statement, as part of financial items, by the accrual method of accounting over the term of the underlying contract. Instruments not considered to be hedging instruments are instead measured at the lower of cost and market value; any negative differences in value are therefore reported as part of costs and liabilities, while positive differences in relation to market value are not recorded.

Since 1 January 2005:
Derivatives are assets and liabilities that are recognised at fair value.
They are classified as hedging instruments whenever the relationship between the derivative and the item being hedged is formally documented and the effectiveness of the hedging arrangement – verified periodically – is high. When they hedge the risk of changes in the fair value of the underlying items (fair value hedges; e.g. hedging of the variability of the fair value of fixed-rate assets/liabilities), derivatives are recorded at fair value through profit or loss; accordingly, the hedged items are adjusted to reflect the changes in fair value associated with the risk hedged. When derivatives hedge the risk of changes in the cash flows from the underlying items (cash flow hedges; e.g. hedging of the variability of the cash flows generated by assets/liabilities due to exchange-rate fluctuations), the changes undergone by the fair value of derivatives are initially recognised in equity and subsequently transferred to the income statement, in the same period in which the hedged items affects the income statement.
Derivatives that do not meet the requirements for hedge accounting laid down by IAS 39 are recognised at fair value through profit or loss, with the change in the fair value of the hedged item carried under the heading 'Other financial income/(charges), net'.

Determination of the fair value of financial instruments
In order to determine the fair value of financial instruments listed on active markets, the bid price of the security in question as at the end of the reporting period is used. Where there is no active market, fair value is instead determined by using measurement models based largely on objective financial variables, as well as by considering – wherever possible – the prices observed in recent transactions and the prices for comparable financial instruments.

X. Earnings per share

(i) Basic EPS
Basic EPS is calculated by dividing the Group's result of operations, adjusted by the portion of earnings attributable to the holders of preference shares, by the weighted average of ordinary shares outstanding during the year, excluding own shares.

(ii) Diluted EPS
Diluted EPS is calculated by dividing the Group's result of operations, adjusted by the portion of earnings attributable to the holders of preference shares, by the weighted average of ordinary shares outstanding during the year, excluding own shares. For the purpose of calculating diluted earnings per share, the weighted average of shares outstanding is modified by assuming the conversion of all dilutive potential ordinary shares, while the Group's net result is adjusted in order to take into account the effects (net of taxes) of this conversion process. Diluted result per share is not calculated in the case of losses, since any dilution effect would lead to an improved result per share.

3.3 The use of estimates

The preparation of financial statements requires the directors to apply accounting standards and methods that, in certain situations, are based on difficult and subjective evaluations and estimates founded on past experience and assumptions that from time to time are considered reasonable and realistic given the related circumstances. Using these estimates and assumptions influences the amounts reported in the financial statements – namely the balance sheet, income statement and cashflow statement – as well as the accompanying disclosures. The actual amounts of accounting entries for which the above estimates and assumptions have been used may differ from those shown in the financial statements, due to the uncertainty surrounding said assumptions and the conditions upon which the estimates are based.

3.4 The most significant accounting policies requiring a greater degree of subjectivity

A brief description is provided below of the most significant accounting policies requiring greater subjectivity by the directors as they produce estimates and in respect of which a change in the conditions underlying the assumptions used could have a significant effect on the restated aggregate financial information.

(i) Depreciation of fixed assets: depreciation of fixed assets represents a sizeable cost for the Group. The cost of property, plant and machinery is depreciated by the straight-line method over the estimated useful life of the assets concerned. The useful life of the Group's assets is determined by the directors at the time they are purchased; it is based on past experience for similar assets, market conditions and expectations as to future events that could affect their useful life, such as changes in technology. Their actual useful life could therefore differ from their estimated useful life. The Group periodically assesses technological changes and

industry developments, dismantling and disposal costs and recoverable value in order for the useful life remaining in an asset to be revised accordingly. This periodic revision process could lead to a change in the depreciation period considered and, therefore, in the depreciation charged in future years.

(ii) Deferred taxes: deferred tax assets are recognised on the basis of forecast future earnings. The measurement of forecast future earnings for deferred tax recognition purposes depends on factors that may vary over time and may have a significant effect on the measurement of deferred tax assets.

(iii) Risk provisions: in certain circumstances, determining whether there is a current obligation (be it legal or constructive) is not always straightforward. The directors evaluate such circumstances on an individual case basis, while also estimating the amount of financial resources needed to discharge the obligation concerned. When the directors feel that the emergence of a liability is only possible, the associated risks are disclosed in the section concerning commitments and risks and no accrual is made.

(iv) Revenues of companies valued by the equity method: revenues from electricity sold by the jointly owned venture Sarlux Srl to the national grid operator (GRTN) are affected by their being linearised in connection with the fact that the electricity supply contract, pursuant to IAS 17 - *Leasing* and the interpretation IFRIC 4 – *Determining whether an Arrangement contains a Lease*, has been recognised as a contract regulating the utilisation of the plant by the customer of the company Sarlux Srl, meaning that it is comparable to an operating lease. Such revenues have therefore been linearised in keeping with both the term of the contract – twenty years – and forecasts for the price of crude oil, which constitutes a determining factor when it comes to both electricity tariffs and electricity production costs; in the years ahead, crude oil prices could undergo significant changes compared with estimates as a result of events that cannot be predicted at present.

3.5 Risk Analysis

The principles underlying the Saras Group's risk policy focus on preventing the main risks affecting group objectives and concern its strategic, operational and financial areas.
Group risk management, highlighted in individual policies and business processes is based in the principle whereby operational or financial risk is managed by the person responsible for the business process concerned (process owner).
The main risks are presented to and discussed by the Group's executive management team in order to create the necessary pre-conditions to hedge them and insure and evaluate any residual risk.
There are, in addition to risk management guidelines, specific guidelines for the management of financial risks such as interest-rate risks and credit risks.

3.5.1 Financial risks

Among the Saras Group's priorities are sustainable growth, productivity, profitability and the quality of financial information.
The Group's finance functions therefore focus on guaranteeing the utmost efficiency when it comes to being granted and subsequently utilising credit facilities for business development purposes and keeping the financial risk associated with industrial operations (adverse risk) to a minimum.
The Saras Group operates in the oil industry on an international scale, and it is consequently exposed to exchange-rate risks, interest-rate fluctuation risks, credit risks and commodity price risks.

3.5.1.1 Exchange-rate risk

The Group's oil activities are then exposed to exchange-rate fluctuations since the benchmark prices for buying crude and for selling some products are quoted in, or pegged to, the US dollar.
In order to neutralise both exchange-rate risk in respect of transactions that it expects to effect in the future and the risk emerging from payables and receivables expressed in a currency other than the functional currency of each Group entity, the Saras Group enters into derivatives contracts that consist in forward purchases and sales of foreign currency (US dollar).
Transactions expressed in currencies other than the US dollar were negligible, and could affect the result for the year posted by the Saras Group only marginally.

3.5.1.2 Interest-rate risk

The risk of changes in cash flows as a result of changes in interest rates is due to loans. Floating-rate loans expose the Saras Group to the risk of changes in cash flows caused by interest. Fixed-rate loans expose the Saras Group to the risk of changes in the fair value of the loans received.
The main loan agreements in place have been entered into at floating market rates. The Saras Group's policy is to hedge principally the risk of changes in the fair value of such loans.

3.5.1.3 Credit risk

The market in which the Saras Group is made up of leading multinational corporations that operate in the oil industry. Transactions carried out are generally settled over very short periods of time and are often guaranteed by leading banks.
Furthermore, receivables are monitored daily by the Group's finance management in a systematic and timely manner.
This risk is considered to be marginal and not a significant variable within the Saras Group's business.

3.5.1.4 Commodity price and cash flow risk

The Saras Group's results are influenced by fluctuations in oil prices and the effects that they have on its refining margins (represented by the difference between the prices of oil products generated by the refining process and the price of raw materials - mainly crude oil).
Any reduction in the price of either crude oil or oil products tends to reduce the Group's operating margins, even though it is possible that a fall in the price of crude may not cause a similar decrease in the price of an oil product, and vice versa.
Commodity price and cash flow risk is closely linked to the nature of the business itself and may only be mitigated in part by adopting appropriate risk management policies.
In order to hedge the risks originating from price variations, the Group enters into derivative contracts for commodities, which consist in forward purchases and sales of crude and oil products.

3.5.2 Disclosure and management of other risks

3.5.2.1 Risks relating to the interruption of the refinery's production activities

The Saras Group's activities rely heavily upon its refinery in Sardinia, which produces practically all refined oil products sold by the Group.
Such activities are subjected to risks relating to interruptions caused by unplanned plant shutdowns as well as to accidents.
Saras believes that the complexity of its refinery enables the negative effects of unplanned shutdowns to be limited and that the safety measures already in place (and constantly implemented) help keep the risk of accidents to a minimum.

3.5.2.2 Environmental risks

The Group's activities are governed by several European Union, national, regional and local regulations concerning the protection of the environment.
Although the Group believes that its activities are carried out in compliance with the requirements laid down by environmental regulations, the risk of environmental costs and liability is intrinsic to its operations and there is no certainty that in the future significant costs and liability relating to the environment will not be incurred.
The Group has however incurred, and expects to continue to incur, operating costs as well as to carry out investments so as to meet the requirements laid down by environmental regulations.

4. Criteria adopted to accomplish the transition from Italian Accounting Standards to IFRS endorsed by the European Commission

4.1 Introduction

The restated consolidated financial information as at 31 December 2004 has been prepared in compliance with the IFRS endorsed by the European Commission. Similarly, an IFRS-complaint balance sheet as at 1 January 2004 has also been produced.

4.2 General principles

The restated consolidated financial information has been prepared by applying the IFRS endorsed by the European Commission retrospectively to all periods ended before 1 January 2004, save for a few optional exemptions and mandatory exceptions adopted in accordance with IFRS 1, as described in the paragraphs that follow below. The main differences with the accounting treatment adopted for the aggregate financial statements as at 31 December 2003, which were prepared in compliance with Italian Accounting Standards, may be summarised as follows:

(i) All those assets and liabilities that the IFRS endorsed by the European Commission require to be reported, including those not provided for under Italian Accounting Standards, have been duly recognised and measured;
(ii) All those assets and liabilities whose reporting is required under Italian Accounting Standards but is not permitted by the IFRS endorsed by the European Commission have been derecognised;
(iii) A number of balance sheet items have been reclassified in accordance with the requirements of the IFRS endorsed by the European Commission.

The effects caused by the above differences have been recognised, where applicable, directly in the opening shareholders' equity as at the date of transition to IFRS.

4.3 Presentation of the financial statements

A subdivision between current and non-current items has been adopted for the balance sheet, while in the case of the income statement a layout classifying the various items of cost depending on their nature has been used.

4.4 Optional exemptions from the full retrospective application of IFRS

Those companies adopting IFRS for the first time may elect to apply a number of options exempting them from the full retrospective application of accounting standards. The optional exemptions applied by the Group are highlighted below.

(i) *Business Combinations*
The Group has elected not to apply IFRS 3 – *Business Combinations* retrospectively for those transactions that occurred before the transition to IFRS on 1 January 2004;

(ii) Fair value or revaluation as deemed cost

The Group has elected to adopt the concept of deemed cost with regard to tangible and intangible assets, except for land, in respect of which the Company has opted to use fair value as deemed cost.

(iii) Employee benefits

The Group has elected to recognise all accumulated actuarial gains and losses in existence as at 1 January 2004 which would have arisen from the retrospective application of IAS 19.

(iv) Dismantling and removal costs for fixed assets

The cost of dismantling and removal of fixed assets recorded during the transition to IFRS where the company has assumed obligations in this regard, have been estimated as at the date of transition to IFRS and depreciated over the useful life remaining in the assets to which they refer.

(v) Adoption of IAS 32 and IAS 39

IAS 32 - *Financial instruments:disclosure and presentation* and IAS 39 - *Financial instruments: recognition and measurement* have been applied since 1 January 2005. For the year ended 31 December 2004, Italian Accounting Standards regarding the measurement criteria used for derivatives and financial assets and liabilities were applied

4.5 Mandatory exceptions from the full retrospective application of IFRS

IFRS 1 establishes a number of mandatory exceptions from the retrospective application of international accounting standards in the transition to IFRS endorsed by the European Commission. Specifically:

(i) Derecognition of financial assets and liabilities

Financial assets and/or liabilities other than derivatives relating to transactions effected before 1 January 2004 that had been eliminated in the financial statements prepared in accordance with Italian Accounting Standards have not been recognised in the financial statements;

(ii) Recognition of hedging transactions

A derivative does not qualify for hedge accounting if the hedging transaction did not exist as at the date of transition to IFRS;

(iii) Estimates

Estimates prepared as at the date of transition to the IFRS endorsed by the European Commission must be consistent with the estimates made as of the same date pursuant to Italian Accounting Standards (after the adjustments needed to reflect any differences in accounting policies).

4.6 Accounting treatments selected within the options allowed by IFRS

(i) Inventory
In accordance with IAS 2 – *Inventories*, Paragraph 25, the cost of interchangeable items is determined by adopting the FIFO method, or rather the weighted average cost method. The Group has elected to adopt the FIFO method for inventories represented by crude oil, materials and spare parts, while finished oil products have been measured at the weighted average cost for the last quarter.

(ii) Measurement of tangible and intangible assets
Once they have been initially recognised at cost, under IAS 16 – Property, plant and equipment, Paragraph 30 and IAS 38 – Intangible assets, Paragraph 72, tangible assets and intangible assets may be stated at cost, or rather by periodically determining their market value and adjusting accordingly the accounting balance reported on the date to which market value refers. The Group has elected to recognise these items at cost.

(iii) Borrowing costs
IAS 23 – Borrowing costs, Paragraph 11 prescribes that borrowing costs should be charged directly to the income statement, or rather – where certain conditions are fulfilled – that charges relating to the purchase, construction or production cost of a capitalisable asset may be capitalised. The Group has elected to recognise these borrowing costs, where the necessary conditions have been fulfilled, as part of the cost of the assets to which they refer.

(iv) Actuarial differences
IAS 19 – Employee benefits, Paragraph 95 allows actuarial differences emerging as a result of a change in the assumptions made when calculating defined benefit plans, such as the staff leaving indemnities, to be recognised by the so-called 'corridor approach', or charged directly to the income statement when identified. The Group has elected to recognise the effects of changes in assumptions made directly in the income statement at the time they are identified.

(v) Government grants
IAS 20 – *Accounting for Government Grants and Disclosure of Government Assistance*, Paragraph 24, allows a government grant, further to the fulfilment of conditions allowing it to be recorded, to be recognised by deducting it from the carrying amount of the asset to which it refers, or alternatively to be treated as deferred income and carried on the liabilities side of the balance sheet. In the latter case, the grant amount is recognised as a positive items of income of the period and systematically distributed over the estimated useful life of the asset to which the grant refers. The Group has elected to deduct grants from the carrying amounts of the assets to which they refer.

(vi) Interests in joint ventures

IAS 31 – *Financial Reporting of Interests in Joint Ventures*, Paragraph 30, requires the interest in a joint venture to be reported by proportionate consolidation, or rather by the equity method of accounting. The Group has elected to measure interests by the equity method of accounting.

5. Description of the significant effects of the transition to IFRS with regard to both the classification of financial statements items and their different treatment, and therefore to the consequent effects on the Group's financial position, result of operations and cashflows

The tables below highlight the effects of the transition to IFRS endorsed by the European Commission, in terms of both reclassifications and adjustments, on the consolidated balance sheet as at 1 January 2004 (transition date) and 31 December 2004 (amounts expressed in thousands of euros).

Consolidated balance sheet as at 31 December 2003

	Italian Accounting Standards 31.12.2003	Reclassifications	Adjustments	IFRS 01.01.2004
ASSETS				
Current assets	**798,753**	**0**	**(241,748)**	**557,005**
Cash and cash equivalents	165,915	0	(140,917)	24,998
Other financial assets held for trading or available for sale	11,634	0	0	11,634
Trade receivables	312,893	6,191	(84,021)	235,063
Inventory	251,080	(6,191)	(7,211)	237,678
Current tax assets	13,534	0	(14)	13,520
Other assets	43,697	0	(9,584)	34,113
Non-current assets	**1,348,510**	**(74,463)**	**(681,794)**	**592,253**
Property, plant and equipment	1,147,039	(46,697)	(663,381)	436,961
Intangible assets	136,770	(8,041)	(118,544)	10,185
Equity interests consolidated by the equity method	1,112	0	98,979	100,091
Other investments	744	0	0	744
Other financial assets	44,250	0	0	44,250
Deferred tax assets	733	(10,680)	9,947	0
Other assets	17,862	(9,045)	(8,795)	22
Total assets	**2,147,263**	**(74,463)**	**(923,542)**	**1,149,258**
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities	**770,053**	**0**	**(161,625)**	**608,428**
Short-term liabilities	309,238	0	(84,401)	224,838
Trade and other payables	337,403	0	(18,747)	318,656
Current tax liabilities	70,775	0	(39,797)	30,978
Other liabilities	52,637	0	(18,681)	33,956
Non-current liabilities	**889,057**	**(74,463)**	**(502,875)**	**311,719**
Long-term liabilities	726,457	0	(578,242)	148,215
Provision for risks and charges	6,717	(1,113)	11,121	16,725
Provisions for employee benefits	27,118	11,841	3,672	42,631
Deferred tax liabilities	41,336	(10,680)	(16,064)	14,592
Other liabilities	87,429	(74,511)	76,637	89,555
Total liabilities	**1,659,110**	**(74,463)**	**(664,500)**	**920,147**
SHAREHOLDERS' EQUITY				
Share capital	51,183	0	0	51,183
Revaluation reserve	66,706	(66,706)	0	0
Legal reserve	10,237	0	0	10,237
Other reserves	69,709	66,706	0	136,415
Reserve for own shares	41,684	0	0	41,684
Profit(/Loss) carried forward	103,387	0	(206,465)	(103,078)
Profit(/Loss) for the period	145,247	0	(52,577)	92,670
Total shareholders' equity	**488,153**	**0**	**(259,042)**	**229,111**
of which: Minority interests				
Minority interests in capital and reserves	103,387	0	(103,368)	19
Profit/(Loss) for the period attributable to minority interests	52,581	0	(52,577)	4
Total minority interests	*155,968*	*0*	*(155,945)*	*23*
Total liabilities and shareholders' equity	**2,147,263**	**(74,463)**	**(923,542)**	**1,149,258**

Consolidated balance sheet as at 31 December 2004

	Italian Accounting Standards 31.12.2004	Reclassifications	Adjustments	IFRS 31.12.2004
ASSETS				
Current assets	**977,273**	**0**	**(178,755)**	**798,518**
Cash and cash equivalents	154,224	0	(140,760)	13,464
Other financial assets held for trading or available for sale	12,013	0	0	12,013
Trade receivables	427,435	2,310	(67,052)	362,693
Inventory	337,903	(2,310)	17,660	353,253
Current tax assets	9,772	0	(7,341)	2,431
Other assets	35,926	0	18,738	54,664
Non-current assets	**1,342,132**	**(92,277)**	**(657,274)**	**592,581**
Property, plant and equipment	1,138,644	(43,065)	(637,888)	457,691
Intangible assets	125,571	(8,769)	(108,602)	8,200
Equity interests consolidated by the equity method	0	0	83,508	83,508
Other investments	1,293	0	0	1,293
Other financial assets	41,889	0	(1)	41,888
Deferred tax assets	18,901	(32,056)	13,155	0
Other assets	15,834	(8,387)	(7,447)	0
Total assets	**2,319,405**	**(92,277)**	**(836,029)**	**1,391,099**
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities	**801,811**	**0**	**(165,274)**	**636,537**
Short-term liabilities	158,108	0	(90,126)	67,982
Trade and other payables	435,058	0	(21,559)	413,499
Current tax liabilities	106,425	0	(4,702)	101,723
Other liabilities	102,220	0	(48,887)	53,333
Non-current liabilities	**835,170**	**(92,277)**	**(395,976)**	**346,917**
Long-term liabilities	648,299	0	(472,121)	176,178
Provision for risks and charges	7,399	(2,222)	10,514	15,691
Provisions for employee benefits	28,329	12,234	5,274	45,837
Deferred tax liabilities	75,707	(32,056)	(9,501)	34,150
Other liabilities	75,436	(70,233)	69,858	75,061
Total liabilities	**1,636,981**	**(92,277)**	**(561,250)**	**983,454**
SHAREHOLDERS' EQUITY				
Share capital	51,183	0	0	51,183
Revaluation reserve	66,706	0	(66,706)	0
Legal reserve	10,237	0	0	10,237
Other reserves	141,658	0	66,707	208,365
Reserve for own shares	41,684	0	0	41,684
Profit(/Loss) carried forward	130,336	0	(233,099)	(102,763)
Profit(/Loss) for the period	240,620	0	(41,682)	198,938
Total shareholders' equity	**682,424**	**0**	**(274,780)**	**407,644**
of which: Minority interests				
Minority interests in capital and reserves	130,339	0	(130,316)	23
Profit/(Loss) for the period attributable to minority interests	39,690	0	(39,685)	5
Total minority interests	*170,029*	*0*	*(170,001)*	*28*
Total liabilities and shareholders' equity	**2,319,405**	**(92,277)**	**(836,029)**	**1,391,099**

The table below reconciles consolidated shareholders' equity, determined in accordance with Italian Accounting Standards, with consolidated shareholders' equity determined in accordance with the IFRS endorsed by the European Commission (amounts expressed in thousands of euros).

Reconciliation of consolidated shareholders' equity as at 1 January 2004 and 31 December 2004

Notes		1 January 2004	31 December 2004
	Consolidated shareholders' equity as per Italian accounting standards	**488,153**	**682,424**
	- of which: Group equity	*332,185*	*512,396*
1	Derecognition of intangible assets	(5,724)	(4,707)
2	Elimination of goodwill amortisation	-	188
3	Adjustment to the value of land to reflect fair value (as deemed cost)	28,657	28,657
4	Reversal of the monetary revaluation of tangible assets	(14,784)	(13,177)
5	Government grants	(23,262)	(19,610)
6	Tangible assets held under finance leases	2,460	1,847
7	Measurement of inventory at period-end	15,183	40,897
8	Depreciation of complex assets consisting of several components	4,356	16,794
9	Costs for the dismantling and removal of tangible assets	(9,599)	(10,369)
10	Employee benefits	(4,022)	(5,684)
11	Elimination of accruals to provisions for risks and charges	2,405	3,014
12	Non-recurring income/(charges) recorded under previous accounting standards	(6,760)	-
13	Effects arising from the consolidation of joint ventures by the equity method	(155,945)	(170,001)
14	Adjustments to make the financial statements of companies consolidated by the equity method compliant with IFRS	(91,620)	(125,049)
15	Tax effect of the above adjustments	(386)	(17,579)
Consolidated shareholders' equity as per IFRS		**229,112**	**407,645**
- of which: Group equity		*229,089*	*407,616*

The table below highlights the effects of the transition to IFRS endorsed by the European Commission, in terms of both reclassifications and adjustments, on the consolidated income statement for the year ended 31 December 2004 (amounts expressed in thousands of euros).

Consolidated Income Statement as at 31 December 2004

	Italian Accounting Standards 31.12.2004	Reclassifications	Adjustments	IFRS 2004
Revenues from ordinary operations	4,656,217	(791,731)	(345,420)	3,519,066
Other income	32,381	(12,508)	16,825	36,698
Total revenues	**4,688,598**	**(804,239)**	**(328,595)**	**3,555,764**
Purchases of raw materials, spare parts and consumables	(2,947,947)	104,955	34,303	(2,808,689)
Cost of services and sundry costs	(1,090,908)	703,533	116,247	(271,128)
Personnel costs	(106,337)	(494)	1,312	(105,519)
Depreciation, amortisation and write-downs	(148,255)	10,385	58,078	(79,792)
Total costs	**(4,293,447)**	**818,379**	**209,941**	**(3,265,127)**
Operating result	**395,151**	**14,140**	**(118,654)**	**290,637**
Net income/(charges) from equity interests	(1,789)	0	16,591	14,802
Other net financial income/(charges)	(16,335)	(11,013)	19,056	(8,292)
Net extraordinary income/(expense)	2,371	(6,620)	4,249	0
Profit before taxes	**379,398**	**(3,493)**	**(78,758)**	**297,147**
Income tax for the period	(138,778)	3,493	37,076	(98,209)
Net profit/(loss) for the period	**240,620**	**0**	**(41,682)**	**198,938**
of which				
Minority interests	*39,690*	*0*	*(39,685)*	*5*
Net profit/(loss) for the period of the Group	*200,930*	*0*	*(1,997)*	*198,933*
Net earnings per share - basic	**22.55**			**22.33**

The table below reconciles the consolidated net result for the year ended 31 December 2004, determined in accordance with Italian Accounting Standards, with the relevant consolidated net result when determined in accordance with the IFRS endorsed by the European Commission (amounts expressed in thousands of euros).

		Financial year 2004
Notes	**Consolidated net result - Italian accounting standards**	**240,620**
	- of which: Group result	*200,930*
1	Derecognition of intangible assets	1,017
2	Elimination of goodwill amortisation	188
3	Adjustment to the value of land to reflect fair value (as deemed cost)	0
4	Reversal of the monetary revaluation of tangible assets	1,607
5	Government grants	3,338
6	Tangible assets held under finance leases	(613)
7	Measurement of inventory at period-end	25,714
8	Depreciation of complex assets consisting of several components	12,438
9	Costs for the dismantling and removal of tangible assets	(770)
10	Employee benefits	(1,662)
11	Elimination of accruals to provisions for risks and charges	609
12	Non-recurring income/(charges) recorded under previous accounting standards	6,760
13	Effects arising from the consolidation of joint ventures by the equity method	(39,685)
14	Adjustments to make the financial statements of companies consolidated by the equity method compliant with IFRS	(33,429)
15	Tax effect of the above adjustments	(17,195)
Consolidated net results - IFRS		**198,937**
- of which: Group result		*198,932*

5.1 Breakdown of adjustments carried in the consolidated balance sheet as at 1 January 2004 and 31 December 2004, as well as in the consolidated income statement for the year ending 31 December 2004

(1) Derecognition of intangible assets

The adjustment relates to the effects associated with the different treatment of certain types of expenditure that under Italian Accounting Standards can be capitalised, in contrast to what is foreseen under the IFRS endorsed by the European Commission. Specifically, when applying Italian Accounting Standards certain costs - essentially those relating to research expenses and staff training costs and to the share capital increases of a number of entities belonging to the Group - were capitalised. Said costs do not meet the requirements laid down by IAS 38 – *Intangible Assets*, Paragraphs 9 and 10, for the recognition of an intangible asset, and would therefore have been charged to the income statement as incurred. The aforementioned adjustment led to the reversal, as at 1 January 2004, of costs totalling euro 5,724 thousand and carried as part of ‘Start-up and expansion costs’ and ‘Research, development and advertising costs', the reversal of amortisation carried in the consolidated financial statements for euro 1,659 thousand, and a euro 642 thousand increase in costs included under the heading 'Cost of services and sundry costs'; as at 31 December 2004, the value of intangible assets therefore decreased by euro 4,707 thousand.

(2) Reversal of goodwill amortisation

The adjustment concerns the reversal of the amortisation of goodwill effected in financial year 2004. Under Italian Accounting Standards, goodwill was amortised over a period of between 5 and 10 years. In accordance with the IFRS endorsed by the European Commission, and with specific regard to IFRS 3 – *Business Combinations*, Paragraph 55, goodwill is no longer amortised systematically, but rather tested for impairment on an annual basis. The goodwill carried in the consolidated financial statements has therefore been maintained at the amount recorded as at 1 January 2004, with the amortisation charged by the company during 2004 – amounting to euro 188 thousand – reversed, which had a positive effect on the income statement for 2004 and on consolidated shareholders' equity as at 31 December 2004.

(3) Adjustment of the value of land to fair value, as a replacement for cost

The adjustment relates to the effects associated with the treatment elected by the Group, as permitted by IFRS 1 - *First-time Adoption of International Financial Reporting Standards*, Paragraph 16. Specifically, the standard in question allows tangible and intangible assets to be identified for which fair value is to be carried in the opening balance sheet as at the date of transition to IFRS endorsed by the European Commission. The Group availed itself of this option for the land owned by the Holding Company Saras SpA and situated at Sarroch (Cagliari). The disclosures required under IFRS 1 - *First-time Adoption of International Financial Reporting Standards*, Paragraph 44 for said assets are provided below.

	1.1.2004	Financial year 2004	31.12.2004
Historical cost	3,439	-	3,439
Accumulated depreciation	-	-	-
Net book value	**3,439**	**-**	**3,439**
Fair value of land	32,096	-	32,096
Higher value attributable to land	28,657	-	28,657
Tax effect	10,675	-	10,675
Net effect	**17,982**	**-**	**17,982**

With regard to the result for financial year 2004 determined by adopting the IFRS endorsed by the European Commission, re-measuring the value of land as detailed above had no effect on the financial statements, since IAS 16 – *Property, plant and equipment*, Paragraph 58, does not allow the portion of the total value of property units represented by land to be depreciated. The adjustment in question led to a euro 28,657 thousand increase in the amount recorded under the item 'Property, plant and machinery' as at 1 January 2004. Since land is not depreciated, the effects as at 31 December 2004 of the Group availing itself of the aforementioned option are the same as those previously described; there are therefore no effects on the income statement for financial year 2004 to report.

(4) Reversal of the monetary revaluation of tangible assets

The adjustment relates to the effects of different criteria being adopted to measure property, plant and machinery where revaluations permitted by local laws have been effected. Under Italian Accounting Standards, in the past the Group carried out monetary revaluations in respect of property, plant and machinery in accordance with specific laws enacted in this regard. In keeping with the choice made by the Group (*'Measurement of tangible and intangible assets'*, Paragraph 20.2.3.6.b refers), property, plant and machinery, subsequent to initial recognition, are subsequently recognised at cost, meaning that – in accordance with IAS 16 – no revaluation is permitted while the property, plant and machinery are owned by the company. The adjustment in question led to decreases of euro 14,784 thousand and euro 13,177 thousand in the amounts recorded under the item 'Property, plant and equipment' as at 1 January 2004 and 31 December 2004 respectively, as well as a reduction in depreciation for the year 2004 of euro 1,607 thousand.

(5) government grants

The adjustment relates to the effects of different criteria being adopted to measure government grants received. Specifically, under Italian Accounting Standards, grants received until financial year 1998 were partly or completely credited to equity. This accounting practice was accepted under the Italian Accounting Standards in force at the time, for those benefits foreseen by fiscal legislation also in force at the time. Pursuant to the requirements of IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, Paragraph 27 and choice made by the Group (*'Grants* related to assets', Paragraph 20.2.3.6.e refers), the value of the assets against which government grants were received in previous years was re-measured. Specifically, the value originally recorded for these assets was reduced by an amount equal to the grants received. Furthermore, the annual depreciation charges have been re-measured, which has consequently had an effect on the economic result recorded for financial year 2004. The adjustment in question led to decreases of euro 23,262 thousand and euro 19,610 thousand respectively in the amounts recorded under the item 'Property, plant and equipment' as at 1 January 2004 and 31 December 2004, while depreciation for financial year 2004 consequently decreased by euro 3,338 thousand, after the portion of grants reclassified and transferred to the income statement from equity in financial year 2004 (euro 314 thousand) had been taken into account.

(6) Tangible assets held under finance leases

Under Italian Accounting Standards, finance leases are treated as operating leases, which means that the lessor records neither the asset to which the contract refers nor any related liability, but charges the lease payments to the income statement in the period to which they relate. IAS 17 – *Accounting for Leases* instead states that such transactions are to be recorded by the lessee as follows:

a) At the inception of the lease, record the asset to which the finance lease refers in the balance sheet as a non-current asset, and at the same time record a financial liability for the same amount;
b) Periodically depreciate the asset over the shorter of the lease term or the estimated useful life of the asset, whenever the transfer of ownership to the lessee at the end of the lease is not foreseen or foreseeable;
c) Periodically recognise financial charges relating to the loan received;
d) Periodically adjust the value of the debt representing the loan received in accordance with the repayments made over the period through the lease payments.

The adjustment in question relates to the recognition of the following:

a) the net carrying amount of both the assets to which leases in place as at the transition date refer and the assets redeemed in the past to which leases completed as of said date refer;
b) the residual value, as at the transition date, of the loan received at the time the lease was made.

The adjustment in question led to increases of euro 2,460 thousand and euro 1,847 thousand respectively in the amounts recorded under the item 'Property, plant and equipment' as at 1 January 2004 and 31 December 2004, while depreciation for financial year 2004 consequently increased by euro 613 thousand.

(7) Measurement of inventory at period-end

The adjustment relates to the effects of different criteria being adopted to measure interchangeable assets. Specifically, under Italian Accounting Standards, the Group would determine such assets by the LIFO method. In accordance with the IFRS endorsed by the European Commission, and in keeping with the choice made by the Group (cf. '*Inventories'*, Paragraph 20.2.3.6.a), the cost of inventories made up of crude oil, materials and spare parts is determined by the FIFO method, while finished oil products are measured at the weighted average cost from the last quarter. The adjustment in question, which takes into account the elimination of unrealised intragroup profits, led to increases of euro 15,183 thousand and euro 40,897 thousand respectively in the amounts recorded under the item 'Inventory' as at 1 January 2004 and 31 December 2004, and a euro 25,714 thousand decrease in the item 'Purchases of raw materials, spare parts and consumables' for the year ended 31 December 2004.

(8) Depreciation of complex assets consisting of several components

The adjustment relates to the effects of different criteria being adopted to measure property, plant and equipment, specifically where an asset is made up of several components of significant value in relation to its total value and where the estimated useful life of one component is different from that of the others. The effects arising from a different depreciation criterion being adopted, in accordance with IFRS 1 – *First-time Adoption of International Financial Reporting Standards*, Paragraph 7, have been determined as if the assets concerned had always been depreciated in accordance with the new criteria. Under IAS 16 – *Property, plant and equipment*, Paragraph 43, which prescribes the adoption of the so-called 'component approach', those components of each asset that are of a significant value in relation to the total value of the asset have been identified, and depreciation rates reflecting the respective estimated useful life have been applied to each component thus identified, with the date on which the cost representing the value of each component was incurred being used for reference. Similarly, scheduled extraordinary maintenance constitutes a specific component of a complex asset. The adjustment in question led to increases of euro 4,356 thousand and euro 16,794 thousand respectively in the amounts recorded under the item 'Property, plant and equipment' as at 1 January 2004 and 31 December 2004, a euro 19,214 thousand decrease in the costs included under the heading 'Cost of services and sundry costs' and a euro 6,776 thousand increase in the depreciation charges for the year.

(9) Disposal and removal costs for tangible assets

The adjustment relates to the effects of different criteria being adopted to measure the cost of disposing and removing an asset belonging to the category 'Property, plant and equipment' - or rather the cost of reclaiming the site where the asset is situated. In accordance with IAS 16 – *Property, plant and equipment* Paragraph 16.c, these costs form a part of the purchase cost of the asset to which they refer; as a result, the value of the asset also includes an amount reflecting the costs that are expected to be incurred in order to meet requirements regarding the asset's disposal and removal or the reclamation of the site where it is situated. Against recognition of these costs a special provision on the liabilities side of the balance sheet is created, the value of which is determined in accordance with IAS 37 – *Provisions, Contingent Liabilities and Contingent Assets*, Paragraph 45, and represents the current value of estimated future commitments. The adjustment in question led to increases of euro 3,927 thousand and euro 3,157 thousand respectively in the amounts recorded under the item 'Property, plant and equipment' as at 1 January 2004 and 31 December 2004, as well as a euro 13,526 thousand increase in 'Risk provisions' as at 1 January 2004 (which remained unchanged on 31 December 2004). The effects of this adjustment on the income statement for financial year 2004 caused depreciation for the year to increase by euro 770 thousand.

(10) Employee benefits

The adjustment relates to the measurement of existing liabilities relating to employee benefits that are to be paid after the employment relationship has been terminated and concerns the staff leaving indemnity payable by the Group's Italian companies as well as other supplementary funds arising from company agreements. Under Italian Accounting Standards, these benefits are made up of liabilities that are determined pursuant to law provisions, while the requirements set out in IAS 19, Paragraph 50, require them to be determined using actuarial techniques. The adjustment in question led to an increase in the item 'Provisions for employee benefits' of euro 4,022 thousand as at 1 January 2004 and of euro 5,684 thousand as at 31 December 2004, as well as a euro 1,662 thousand increase in personnel costs during financial year 2004.

(11) Elimination of provisions for risks and charges

The adjustment relates to a correction made to the amounts reported in the provisions for risks and charges. Specifically, a number of the Group's foreign subsidiary companies have recognised certain provisions pursuant to special local laws that do not contrast with Italian Accounting Standards. Under IAS 37 – *Provisions, Contingent Liabilities and Contingent Assets*, Paragraphs 14 - 26, provisions for risks and charges may only be recognised where specific requirements are met. Since these requirements were not met by the above provisions, the same have been adjusted. The adjustment in question led to a decrease in the item 'Provisions for risks and charges' of euro 2,405 thousand as at 1 January 2004 and of euro 3,014 thousand as at 31 December 2004, while causing the costs included under the heading 'Cost of services and sundry costs' to decrease by euro 609 thousand for financial year 2004.

(12) Non-recurring income and charges recognised under previous accounting standards

The adjustment relates to the recognition of the above items in the consolidated financial statements for financial year 2004, prepared in compliance with Italian Accounting Standards, principally as a way of correcting the amortisation of grants relating to investments in fixed assets. As at 1 January 2004, this adjustment led to a euro 6,704 thousand decrease in the item 'Property, plant and equipment' and a euro 56 thousand increase in the item 'Trade and other payables'. These corrections had a positive impact on the income statement for financial year 2004 due to euro 6,760 thousand being credited to the item 'Net extraordinary income/(expense)'. As a result, the correction had no effect on shareholders' equity as at 31 December 2004. The adjustment had a positive impact on the income statement for financial year 2004 due to euro 6,760 thousand being credited to the item 'Net extraordinary income/(expense)'.

(13) Effects arising from the consolidation of joint ventures by the equity method

The adjustment represents the effects of different criteria being adopted to report equity interests in joint ventures, with regard exclusively to total consolidated shareholders' equity and the portion of the net result attributable to minority shareholders. The amount recorded for the Group's equity and net result has not been influenced by a change in the recognition criteria adopted. In accordance with Italian Accounting Standards, the companies Sarlux Srl (55% owned), Parchi Eolici Ulassai Srl and Sardeolica Srl (both 70% owned) were included in the Group's consolidated financial statements by the line-by-line method of consolidation. In accordance with the IFRS endorsed by the European Commission, and in keeping with the choice made by the Group ('Equity interests in joint ventures', Paragraph 20.2.3.6.f refers) interests in the above companies are measured by the equity method.

The impact that a change in the method used to consolidate the above companies had on balance sheet items as at 1 January 2004 and 31 December 2004, as well as on income statement items for the year ended 31 December 2004 is highlighted below.

	1° January 2004	31 December 2004
ASSETS		
Current assets	**(256,931)**	**(219,652)**
Liquid assets and cash equivalents	(140,917)	(140,760)
Commercial receivables	(84,021)	(67,052)
Inventory	(22,394)	(23,237)
Current tax assets	(14)	(7,341)
Other assets	(9,584)	18,738
Other non-current assets	**(589,373)**	**(558,857)**
Property, plant and machinery	(658,031)	(655,553)
Intangible assets	(112,820)	(104,083)
Equity interests valued by the equity method	190,599	208,558
Prepaid tax assets	(326)	(332)
Other assets	(8,795)	(7,447)
Total assets	**(846,304)**	**(778,509)**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities	**(161,681)**	**(165,274)**
Short-term financial liabilities	(84,401)	(90,126)
Commercial payables and other payables	(18,803)	(21,559)
Current tax liabilities	(39,797)	(4,702)
Other liabilities	(18,681)	(48,887)
Non-current liabilities	**(528,677)**	**(443,234)**
Long-term financial liabilities	(578,242)	(472,122)
Employee benefit funds	(350)	(410)
Deferred tax liabilities	(26,723)	(40,566)
Other liabilities	76,637	69,864
Total liabilities	**(690,358)**	**(608,508)**
SHAREHOLDERS' EQUITY		
Profit/(Loss) carried forward	(103,368)	(130,316)
Result for the year	(52,577)	(39,685)
Total shareholders' equity of which attributable to minority interests	**(155,945)**	**(170,001)**
Share capital and reserves attributable to minority interests	(103,368)	(130,316)
Profit/Loss for the year attributable to minority interests	(52,577)	(39,685)
Total shareholders' equity attributable to minority interests	**(155,945)**	**(170,001)**
Total liabilities and shareholders' equity	**(846,303)**	**(778,509)**

	31 December 2004
REVENUES	
Revenues from ordinary operations	(345,420)
Other revenues and income	16,825
Total revenues	**(328,595)**
OPERATING COSTS	
Purchase of raw materials, spare parts and consumables	8,589
Cost of services received and sundry costs	97,068
Staff cost	2,974
Amortisation, depreciation and write-downs	59,445
Total costs	**168,077**
Operating result	**(160,518)**
FINANCIAL INCOME(EXPENSE)	
Other gains(losses) on equity interests	50,020
Other net financial income(expense)	19,056
EXTRAORDINARY INCOME(EXPENSE)	
Net extraordinary income(expense)	(2,511)
Profit before taxes	**(93,954)**
Income taxes	54,268
Total net result	**(39,685)**
Net result attributable to minority interests	**39,685**
Group's net result	**(0)**

(14) Adjustments to make the financial statements of companies consolidated by the equity method compliant with IFRS

A breakdown – as at 1 January 2004 and 31 December 2004 and for the year ended 31 December 2004 – is provided below in respect of the adjustments arising from the alignment of the financial statements of companies consolidated by the equity method to IFRS endorsed by the European Commission, along with comments regarding the most significant adjustments (whose overall effect is included in the balance-sheet item 'Equity interests valued by the equity method' and in the income-statement item 'Net income/(charges) from equity interests').

For ease of presentation, these adjustments are shown after the related tax effect.

Note	Breakdown of adjustments to make the financial statements of companies consolidated by the equity method compliant with IFRS (after the tax effect)	1° January 2004	31 January 2004
a)	Derecognition of intangible assets	(9,274)	(7,765)
b)	Measurement of inventory at period-end	(49)	217
c)	Effect of linearisation of revenues	(81,914)	(117,242)
d)	Other minor adjustments	(384)	(260)
Total adjustments		**(91,620)**	**(125,049)**

Note	Breakdown of adjustments to make the financial statements of companies consolidated by the equity method compliant with IFRS (after the tax effect)	Financial year 2004
a)	Derecognition of intangible assets	1,509
b)	Measurement of inventory at period-end	266
c)	Effect of linearisation of revenues	(35,328)
d)	Other minor adjustments	124
Total adjustments		**(33,429)**

The nature of the main adjustments reported in the table is described below.

(a) Derecognition of intangible assets

The adjustment relates to the change in the accounting treatment adopted for certain expenses that under Italian Accounting Standards can be capitalised, unlike under the IFRS endorsed by the European Commission (see note 1).

(b) Measurement of intangible assets

The adjustment relates to the effects of different criteria being adopted to measure interchangeable assets (see note 7).

(c) Recognition of the electricity supply contract made with the GRTN

The adjustment relates to the linearisation of revenues relating to the electricity supply contract made with GRTN, that, in accordance with IAS 17 - *Leasing* and the interpretation document IFRIC 4 – *Determining Whether an Arrangement Contains a Lease*, was recognised as a contract regulating the utilisation of plant by the customer of the company Sarlux Srl, meaning that it is comparable to an 'operating lease'.

(15) Tax effect

The adjustment relates to the effect of deferred taxes calculated on the adjustments reported under notes (1) to (14) above. In accordance with IAS 12 – *Income taxes*, Paragraph 46, the tax rates used to calculate deferred taxes have been determined by considering the rates expected to be applicable in the financial year in which the deferred tax asset will be realised or the deferred tax liability settled. Specifically, the tax rates used are as follows:

- Italian companies	37.25% (corporation tax and trade income tax) - 33% (corporation tax)
- Foreign companies	31% (Luxembourg companies) - 35% (Spanish company)

5.2 Breakdown of reclassifications carried in the consolidated balance sheet as at 1 January 2004 and 31 December 2004, as well as in the consolidated income statement for the year ended 31 December 2004

5.2.1 Balance sheet

Intangible assets
Under Italian Accounting Standards, improvements to leased assets are recognised as intangible assets. In accordance with the IFRS endorsed by the European Commission, such assets should be classified having regard to the nature of the tangible asset to which they refer, and therefore carried under the heading 'Property, plant and equipment'. In the balance sheet of the consolidated financial statements as at 1 January 2004 and 31 December 2004, improvements to leased assets have therefore been reclassified and transferred from 'Intangible assets' to 'Property, plant and equipment', to the order of euro 6,928 thousand and euro 6,547 thousand, respectively.

Trade receivables
Under Italian Accounting Standards, the amount reported represents the percentage of a job completed, with regard to the portion not yet invoiced in relation to the stage of completion reached. This amount is recognised as part of the item 'Inventory'. In accordance with IAS 11 – *Construction contracts*, Paragraph 42.a, this item has been recognised as part of current assets under the heading 'Trade receivables', amounting to euro 6,191 thousand and euro 2,310 thousand as at 1 January 2004 and 31 December 2004, respectively.

Property, plant and equipment
government grants relating to investments in tangible assets have been reclassified for the purposes of IFRS (IAS 20) and deducted from the relevant investments made. As at 1 January 2004, this reclassification caused 'Other non-current liabilities' to decrease by euro 62,670 thousand, 'Other non-current assets' to decrease by euro 9,045 thousand and 'Property, plant and equipment' to decrease by euro 53,625 thousand. The effects on these balance sheet items as at 31 December 2004 amounted to euro 57,999 thousand, euro 8,387 thousand and euro 49,612 thousand, respectively.

Provisions for employee benefits
Under Italian Accounting Standards, estimated employee benefits relating to the supplementary employee pension fund are carried under the heading 'Other non-current liabilities '. In accordance with IAS 19 – *Employee benefits*, amounts representing such benefits have instead been reclassified and transferred to 'Provisions for employee benefits'. The reclassification thus made amounted to euro 11,841 thousand as at 1 January 2004 and to euro 12,234 thousand as at 31 December 2004.

Deferred taxes
In compliance with IAS 12, deferred tax assets and liabilities are reported as a net balance and are therefore set off against one another where the company has a legallly enforceable right to setoff, the taxes are levied by the same tax authority, and they are expected to be settled or recovered at the same time. In accordance with IAS 12, deferred tax assets - reclassified and deducted from deferred tax liabilities - amounted to euro 407 thousand and euro 18.569 thousand, as at 1 January and 31 December 2004 respectively.

5.2.2 Income statement

Revenues from ordinary operations and purchases of raw materials, spare parts and consumables
The change in 2004 period-end inventory represented by finished products has been reclassified and transferred from 'Revenues from ordinary operations' to 'Purchases of raw materials, spare parts and consumables'. This reclassification caused said revenues and costs to decrease by euro 87,533 thousand.

Revenues from ordinary operations and the cost of services and sundry costs
Under Italian Accounting Standards, excise duties relating to the introduction of oil products to the distribution market ('network market'), in respect of which the Group is involved as a pure intermediary, have been reported separately as positive and negative items of income. In accordance with the IFRS endorsed by the European Commission, costs and revenues relating to transactions made in connection with a company engaging in intermediation activities are to be reported by jointly recognising their effects. The application of this principle caused the items 'Revenues from ordinary operations' and 'Cost of services and sundry costs' to decrease by euro 665,461 thousand.

Own work capitalised
The costs relating to own work capitalised, which in 2004 amounted to euro 38,218 thousand, has been reclassified for the purpose of the IFRS endorsed by the European Commission, being subsequently transferred from revenues and instead deducted from the costs to which it refers. This reclassification caused 'Revenues from ordinary operations' to decrease, the balancing entry being the reduction of the following items of cost (amounts expressed in thousands of euros):

- Purchases of raw materials, spare parts and consumables	2,747
- Cost of services and sundry costs	30,015
- Personnel costs	4,445
- Other net financial income/(charges)	1,011

Government grants
The reclassification of the above item, which was already referred to in the paragraph dealing with balance sheet reclassifications, also led to a euro 12,508 thousand reduction, in the income statement, in the item 'Other income', as well as a similar reduction in depreciation for the year.

Exchange gains and losses
Under Italian Accounting Standards, foreign exchange gains and losses (be they realised or unrealised) relating to commercial transactions have been recognised under the heading 'Other net financial income/(charges)'. In accordance with the IFRS endorsed by the European Commission, these gains and losses are classified in the respective items of operating costs and revenues. The reclassification consequently caused financial charges to increase by euro 12,024 thousand, the costs reported under the heading 'Purchases of raw materials, spare parts and consumables' to decrease by euro 14,675 thousand and the item 'Revenues from ordinary operations' to decrease by euro 2,651 thousand.

Net extraordinary income/(expense)
Under Italian Accounting Standards, extraordinary income and expense items are reported under a special income statement heading that is not part of the operating result. In accordance with the IFRS endorsed by the European Commission, extraordinary items of income are carried under the items of cost and revenue to which they refer. The reclassification carried out led to changes in a number of income statement items, as detailed below (amounts expressed in thousands of euros).

- Revenues from ordinary operations	1,056
- Cost of services and sundry costs	3,735
- Depreciation and amortisation	(1,664)
- Income taxes	3,493
- Net extraordinary income/(expense)	(6,620)

5.3 Reconciliation of the cashflow statement

The table below shows the effects that the transition to IAS had on the cashflow statement for the year ended 31 December 2004 (amounts expressed in thousands of euros).

	Italian accounting standards	Italian accounting standards presented in compliance with IFRS	Adjustment	Effects arising from the consolidation of joint ventures by the equity method (note h)	IFRS endorsed by the European Commission	Note
A - Cash and cash equivalents at beginning of period/ (short-term net financial indebtdness)	**177,549**	**177,549**	**(11,634)**	**(140,917)**	**24,998**	**a**
B - Cash generated from/(used in) operating activities						
Group profit/loss for the period	200,930	200,930	(1,997)	0	198,933	b
Profit/loss for the period attributable to minority interests	39,690	39,690	(0)	(39,685)	5	
Amortisation, depreciation and write-downs of non-current assets	148,243	137,870	1,367	(59,445)	79,792	c
Net (income)/charges from equity interests	1,789	1,789	33,411	(50,002)	(14,802)	g
Dividends from investee companies	0	32,211			32,211	
Net change in risk provisions	17,784	(427)	(607)	0	(1,034)	
Net change in employee benefits		1,604	1,662	(60)	3,206	d
Change in deferred tax liabilities and deferred tax assets		16,203	17,192	(13,837)	19,558	h
Other non-monetary revenues and costs	(3,996)	8,128	(14,888)	0	(6,760)	e
Profit/(Loss) from operating activities before changes in working capital	**404,440**	**437,998**	**36,140**	**(163,030)**	**311,108**	
(Increase)/Decrease in trade receivables	(102,867)	(110,661)	0	(16,969)	(127,630)	
(Increase)/Decrease in inventory		(90,704)	(25,714)	843	(115,575)	f
Increase/(Decrease) in trade payables and other payables	101,961	97,655	(56)	(2,756)	94,843	
Change in other current assets	(84,133)	11,533	0	(20,995)	(9,462)	
Change in other non-current assets		1,370	0	(1,348)	22	
Change in other current liabilities	51,318	85,233	0	4,889	90,122	
Change in other non-current liabilities		(7,715)	0	(6,779)	(14,494)	
TOTAL (B)	**370,719**	**424,709**	**10,370**	**(206,146)**	**228,933**	
C - Cash generated from/(used in) investing activities						
(Investments) in fixed assets and intangible assets, net of divestments and depreciation and amortisation	(113,862)	(154,560)	14,553	48,230	(91,777)	c
(Increase) in intangible assets, net of divestments and amortisation	(14,786)	0	0	0	0	
Change in equity interests valued by the equity method	0	(32,888)	18	32,043	(827)	
Change in other investments	0	(549)	0	0	(549)	
(Investments in)/Divestment of financial assets	(805)	0	0	0	0	
TOTAL C)	**(129,453)**	**(187,997)**	**14,571**	**80,274**	**(93,152)**	

	Italian accounting standards	Italian accounting standards presented in compliance with IFRS	Adjustment	Effects arising from the consolidation of joint ventures by the equity method (note h)	IFRS endorsed by the European Commission	Note
D - Cash generated from/(used in) financing activities						
(Increase)/Decrease in medium/long-term borrowing	(78,157)	(78,158)	0	106,120	27,962	
(Increase)/Decrease in other financial assets	458	1,982	0	1	1,983	
(Increase)/Decrease in short-term borrowing	(154,477)	(151,130)	0	(5,726)	(156,856)	
Increase in capital	0	0	0	0		
Distribution of dividends to third parties	(20,404)	(20,404)	(25,633)	25,633	(20,404)	
TOTAL (D)	**(252,580)**	**(247,710)**	**(25,633)**	**126,028**	**(147,315)**	
Change in consolidation area						
E - Cashflow for the period (B+C+D)	**(11,314)**	**(10,998)**	**(692)**	**156**	**(11,534)**	
Other changes in shareholders' equity		(314)	314			
F - Cash and cash equivalents at end of period/ (short-term net financial indebtedness)	**166,235**	**166,237**	**(12,012)**	**(140,761)**	**13,464**	**a**

Explanatory notes regarding the differences reported in the reconciliation of the cashflow statement for the year ended 31 December 2004 follow below.

(a) The adjustment relates to the effects of securities in which the Holding Company's liquidity is temporarily invested being classified differently. Under Italian Accounting Standards, such securities were recognised as cash. In accordance with IAS 7 – *Cash Flow Statements*, Paragraph 7 only financial investments with a short maturity (no more than three months) may be classified as cash. The above securities do not bear this feature, and therefore, for the purposes of the IFRS endorsed by the European Commission, have been included in cashflow from financial activities.

(b) The adjustment relates to the effects that the application of the IFRS endorsed by the European Commission has had on net profit. The difference thus registered is presented in detail in the above Reconciliation of net profit as determined in accordance with Italian Accounting Standards to net profit as determined in accordance with the IFRS endorsed by the European Commission.

(c) The adjustments are mainly in connection with those described in detail in notes 1), 4), 5), 8) and 9) above, which refer to the Reconciliation of the consolidated shareholders' equity as at 1 January and 31 December 2004 as determined in accordance with the previous accounting standards to that determined in accordance with the IFRS endorsed by the European Commission.

(d) The adjustment in question refers to the application of the accounting standard IAS 19 – *Employee benefits* to 'Provisions for employee benefits', including the staff leaving indemnity, which for the purposes of the IFRS endorsed by the European Commission, has been re-measured on the basis of actuarial calculations.

(e) The adjustment in question is in connection with the adjustment referred to in note 12 above, which refers to the Reconciliation of the consolidated shareholders' equity as at 1 January and 31 December 2004 as determined in accordance with the previous accounting standards to that determined in accordance with the IFRS endorsed by the European Commission.

(f) The adjustment in question is in connection with the adjustment referred to in note 7 above, which refers to the Reconciliation of the consolidated shareholders' equity as at 1 January and 31 December 2004 as determined in accordance with the previous accounting standards to that determined in accordance with the IFRS endorsed by the European Commission.

(g) The adjustment in question is in connection with the adjustment referred to in note 13 above, which refers to the Reconciliation of the consolidated shareholders' equity as at 1 January and 31 December 2004 as determined in accordance with the previous accounting standards, to that determined in accordance with the IFRS endorsed by the European Commission.

(h) The adjustment in question is in connection with the adjustment referred to in note 15 above, which refers to the Reconciliation of consolidated shareholders' equity as at 1 January and 31 December 2004, as determined in accordance with the previous accounting standards, with that determined in accordance with the IFRS endorsed by the European Commission.

6. Information broken down by business segment and geographical area

6.1 Introduction

The Saras Group operates primarily in the following segments:
1. refining;
2. marketing;
3. power generation;
4. other activities.

1. Refining activities concern the following:

(a) The sale of oil products obtained:
- upon completion of the entire production cycle, which ranges from commodity sourcing to refining and production of the finished product and is undertaken at the company's sites at Sarroch in Sardinia;
- by acquiring crude oil derivatives from third parties that were previously refined on behalf of same third parties at the company's site at Sarroch in Sardinia;
- and, to a minimal extent, by acquiring crude oil derivatives from third parties.

Finished products are sold to internationally important operators (such as Polimeri Europa, Noc, Repsol, Total, Statoil and ENI).

(b) Revenues arising from refining activities undertaken on behalf of third parties that constitute the only income from refining activities that the Holding Company carries out (including on behalf of third parties); such services are rendered to major corporate customers such as Shell, ENI, Tamoil and Statoil.

2. Marketing activities concern the distribution of oil products, an activity addressed to smaller-sized customers and/or those with distribution procedures that are different from those described above regarding refining. These activities are undertaken as follows:
    - In Italy, by Arcola Petrolifera S.p.A. for customers outside the network (consumers, wholesalers/consortia, local authority-owned utility companies, resellers) and oil companies (Shell, API, ENI, Cam, Tamoil, etc.) through a logistics network comprising both its own bases (Arcola and Sarroch) and those of third-party operators by way of a transit contract (Leghorn, Civitavecchia, Sistema Log. Sigemi, Fiorenzuola, Marghera, Pesaro and Ravenna);
    - In Spain, by Saras Energia S.A., for free service stations, supermarkets and resellers by way of an extensive network of depots spread across the entire Iberian peninsula, the most important of which – the Cartagena depot – is owned by the company.

3. Power generation involves the sale of electricity from the Sarroch power station owned by Sarlux S.r.l., a joint venture company. Electricity in this case is sold exclusively to the company's customer GRTN., with sales benefiting from the special tariff scheme laid down in CIP6/92, a regulation issued by the Inter-ministry Pricing Committee.

4. Figuring among 'other activities' are insurance activities undertaken for the Group by Reasar S.A., information technology activities undertaken by Akhela S.r.l., wind power generation carried out by Parchi Eolici Ulassai S.r.l. (a joint venture company) and research activities for environmental sectors undertaken by Sartec S.p.A..

6.2 Segment information

The table below provides key financials for the various business areas.

(thousands of euros)

	Refining	Marketing	Power generation	Other activities	Total
			31 December 2004		
Net revenues from ordinary activities	3,356,908	894,162		37,019	4,288,089
less: intra-segment revenues	(744,495)	(1,760)		(22,768)	(769,023)
Revenues from third parties	**2,612,413**	**892,402**		**14,251**	**3,519,066**
Other income	39,647	3,163		882	43,692
less: intra-segment revenues	(6,104)	(232)		(658)	(6,994)
Other revenues from third parties	**33,543**	**2,931**		**224**	**36,698**
Operating result (a)	**260,365**	**37,906**		**(7,634)**	**290,637**
Net income from investments valued by the equity method			15,084	(282)	14,802
Total directly attributable assets	**1,001,093**	**258,742**	**81,850**	**49,413**	**1,391,098**
Investments valued by the equity method			**81,850**	**1,658**	**83,508**
Total directly attributable liabilities	**848,816**	**86,940**		**47,698**	**983,454**
Investments in tangible assets	95,692	458		820	96,970
Investments in intangible assets	999	880		571	2,450
			31 December 2005		
Net revenues from ordinary activities	4,925,647	1,319,330		33,309	6,278,286
less: intra-segment revenues	(1,067,031)	(559)		(14,695)	(1,082,285)
Revenues from third parties	**3,858,616**	**1,318,771**		**18,614**	**5,196,001**
Other income	44,648	2,839		308	47,795
less: intra-segment revenues	(7,818)	(361)		(81)	(8,260)
Other revenues from third parties	**36,830**	**2,478**		**227**	**39,535**
Operating result (a)	**458,204**	**41,890**		**(7,664)**	**492,430**
Net income from investments valued by the equity method			49,234	(487)	48,747
Total directly attributable assets	**1,153,712**	**336,593**	**93,943**	**46,560**	**1,630,808**
Investments valued by the equity method			**93,943**	**3,232**	**97,175**
Total directly attributable liabilities	**946,055**	**117,375**		**38,610**	**1,102,040**
Investments in tangible assets	57,301	1,172		838	59,311
Investments in intangible assets	422	199		705	1,326

(a) Operating result is determined without considering intra-segment eliminations.
(b) Total assets and liabilities are calculated after intra-segment eliminations.

Please note that intra-segment revenues are realised on a arms' length basis.

6.3 Information regarding geographical areas

Directly attributable assets and investments by geographical location

(in milions of euro)

	Italy	Other EU countries	Total
Directly attributable assets			
31 December 2004	1,217,283	173,815	1,391,098
31 December 2005	1,454,512	176,296	1,630,808
Investments in tangible and intangible assets			
31 December 2004	99,082	338	99,420
31 December 2005	60,019	618	60,637

Net revenues from ordinary activities by geographical area:

	31.12.2005	31.12.2004	Change
Sales in Italy	1,870,741	1,354,120	516,621
Sales in Spain	1,550,174	944,955	605,219
Sales in other EU countries	554,229	334,751	219,478
Sales in non-EU countries	1,125,357	885,197	240,160
Sales in USA	95,500	43	95,457
Total	**5,196,001**	**3,519,066**	**1,676,935**

Amounts are shown after intra-segment eliminations.

The table below provides a breakdown of trade receivables by geographical area:

	31.12.2005	31.12.2004	Change
Italy	258,195	220,094	38,101
Spain	95,540	71,820	23,720
Other EU countries	4,489	2,320	2,169
Non-EU countries	93,581	79,569	14,012
USA	118	36	82
Allowance for doubtful accounts	(9,135)	(11,146)	2,011
Total	**442,788**	**362,693**	**80,095**

7. Notes to the balance sheet

The most significant changes, compared with last year, in balance sheet and income statement items are shown below.

7.1 Current assets

7.1.1 Cash and cash equivalents

Cash and banks may be broken down as follows:

	31.12.2005	31.12.2004	Change
Bank and postal deposits	24,608	13,266	11,342
Cash in hand	101	198	(97)
Total	**24,709**	**13,464**	**11,245**

Bank and postal deposits were mainly attributable to Saras SpA (euro 16,837 thousand) and the subsidiary company Saras Energia (euro 4,780 thousand).

7.1.2 Other financial assets held for trading or available for sale

Other financial assets held for trading or available for sale

	31.12.2005	31.12.2004	Change
Other securities	13,039	12,013	1,026
Total	**13,039**	**12,013**	**1,026**

Other financial assets held for trading or available for sale

The above item is made up principally of Italian and foreign equities and government bonds amounting to euro 12,272 thousand, which were mainly purchased over the course of the period by the Holding Company Saras.
The changes in fair value registered during the period are recognised in the income statement under the heading 'Other net financial income/(charges)'.
The following changes took place over the year:

Balance at 31 December 2003:	11.634	thousands of euros
Increases:	7.111	thousands of euros
Decreases:	(6.732)	thousands of euros
Balance at 31 December 2004:	12.013	thousands of euros
Increases:	13.266	thousands of euros
Decreases:	(12.240)	thousands of euros
Balance at 31 December 2005	13.039	thousands of euros

7.1.3 Trade receivables

The balance reported for trade receivables may be broken down as follows:

	31.12.2005	31.12.2004	Change
Receivables:			
From trade debtors	397,907	332,501	65,406
From unconsolidated subsidiaries	44,881	30,192	14,689
Total	**442,788**	**362,693**	**80,095**

The overall increase recorded was largely due to an increase in revenues, which were influenced in turn by increases in the prices of oil products.
For a more detailed breakdown of this item, please refer to the section 'Information regarding geographical areas'.
The balance reported for amounts receivable from unconsolidated subsidiaries is mainly made up of amounts receivable by Saras from Sarlux S.r.l. (euro 43,125 thousand) in respect of feedstock supply.
All amounts receivable are due within 12 months.

7.1.4 Inventory

The balance of inventory and the changes undergone during financial year 2005 are shown in the table below.

	31.12.2005	31.12.2004	Change
Inventory:			
Raw materials, spare parts and consumables	161,121	74,878	86,243
Work in progress and semi-finished products	54,003	36,818	17,185
contracted work in progress	0	0	0
Finished products and goods held for resale	325,912	240,814	85,098
Advances paid for stocks	372	743	(371)
Total	**541,408**	**353,253**	**188,155**

The value of inventory increased as a result of both price rises and the amount of remaining stock, which was applicable to both raw materials and finished products.
There are no items of inventory securing liabilities or carried at net realisable value.
The item 'Finished products and goods' included around 240,000 tons of oil products (worth around euro 84 million) held in stock as mandatory supplies pursuant to the provisions of Legislative Decree no. 22 of 31 January 2001. This item also included platinum totalling euro 13,758 thousand, with an amount of platinum equal to euro 9,276 thousand held by the company under a contractual obligation to resell it to the supplier.

7.1.5 Current tax assets

Current tax assets, which amounted to euro 24,227 thousand (euro 2,431 thousand as at 31 December 2004), may be broken down as follows:

	31.12.2005	31.12.2004	Change
VAT	24,074	1,827	22,247
IRES (corporation tax)	32	32	0
IRAP (trade income tax)	10	92	(82)
Other tax credits	111	480	(369)
Total	**24,227**	**2,431**	**21,796**

The balance reported under ‘VAT’ relates mainly to the Holding Company (euro 22,307 thousand); the change undergone by this item was due to the VAT ceiling being reached as a result of the price of crude oil being higher than the previous year.

7.1.6. Other current assets

The balance reported under this item may be broken down as follows:

	31.12.2005	31.12.2004	Change
Accrued income	1,768	571	1,197
Prepayments	6,092	7,847	(1,755)
Other receivables	11,057	7,069	3,988
Loans made to unconsolidated Group companies	19,437	27,327	(7,890)
Loans made to associated companies	0	11,850	(11,850)
Total	**38,354**	**54,664**	**(16,310)**

Prepayments related mainly to insurance premiums, which amounted to euro 3,484 thousand.
The item ‘Other receivables’ mainly consisted of the costs incurred by the Holding Company in order for a further stake to be acquired in the company Sarlux S.r.l. (euro 4,946 thousand – for further information, refer to the section ‘Litigation’), as well as amounts receivable from the Inland Revenue in respect of personal income tax (IRPEF) paid in advance on the company’s staff leaving indemnity (euro 1,509 thousand).
The item ‘Loans made to unconsolidated Group companies’ included euro 17,717 thousand due from Sardeolica S.r.l. (euro 25,570 thousand as at 31 December 2004) and euro 1,720 thousand due from Parchi Eolici Ulassai S.r.l. (zero balance as at 31 December 2004); these were short-term loans bearing interest at market rates.
The change undergone by the item ‘Loans made to associated companies’ was due to repayment of the loan originally granted by the Holding Company to the affiliate Nova Eolica S.r.l..

The item ‘Other receivables’ included the fair value of derivatives recorded as at 31 December 2005. The medium/long-term portion of these receivables has been recognised as part of non-current assets under the heading ‘Other financial assets’.
The composition of derivatives as at 31 December 2005 is analysed below. In financial year 2004, derivatives were measured and accounted for in compliance with the Italian Accounting Standards previously in use, in consideration of the exemption provided for by IFRS 1, which was adopted by the Group for the purpose of applying IAS 32 and IAS 39 from 1 January 2005 onwards.

Derivatives	**2005**		**2004**	
	Assets	**Liabilities**	**Assets**	**Liabilities**
(amounts expressed in thousands of euros)				
Interest rate swaps - Fair value with balancing entry in income statement	318		0	
Forward currency purchases and sales	0		1,504	
Options on forward currency purchases and sales	80		0	
Forward purchases and sales of commodities (crude oil and other oil products)	1,135		0	
Total	**1,533**	**0**	**1,504**	**0**
- of which: long term portion				
Interest rate swaps - Fair value with balancing entry in income statement	318		0	
Forward currency purchases and sales	0		0	
Options on forward currency purchases and sales	0		0	
Forward purchases and sales of commodities (crude oil and other oil products)	0		0	
Total long-term derivatives	**318**	**0**	**0**	**0**
Total short-term derivatives	**1,215**	**0**	**1,504**	**0**

Measuring derivatives in existence as at 31 December 2005 at fair value had a negative net impact of euro 8,431 thousand on the year’s income statement, as highlighted in note 8.4 below.
Derivative contracts that were closed out during financial year 2005 had a negative net impact of euro 49,271 thousand on the year’s income statement, as highlighted in note 8.4 below.

7.2 Non-current assets

7.2.1 Property, plant and equipment

The item 'Property, plant and equipment' and the changes undergone by it may be broken down as follows:

Historical cost	**31.12.2003**	**Increases**	**(Disposals)**	**Revaluations (write-downs)**	**Other change**	**31.12.2004**
Land and buildings	111,585	60	(5)		1,930	113,570
Plant and equipment	951,969	28,771	(43)		43,766	1,024,463
Industrial and commercial equipment	8,717	14			1,918	10,649
Other assets	350,124	1,220	(1,377)		26,814	376,781
Assets under construction and advances	42,172	66,905			(75,800)	33,277
Total	**1,464,567**	**96,970**	**(1,425)**	**0**	**(1,372)**	**1,558,740**

Accumulated depreciation	**31.12.2003**	**Depreciation rates**	**(Disposals)**	**Revaluations (write-downs)**	**Other change**	**31.12.2004**
Land and buildings	24,467	3,057				27,524
Plant and equipment	769,364	48,393	(43)			817,714
Industrial and commercial equipment	7,267	661				7,928
Other assets	226,508	22,631	(1,256)			247,883
Total	**1,027,606**	**74,742**	**(1,299)**	**0**	**0**	**1,101,049**

Net book value	**31.12.2003**	**Increases**	**(Disposals)**	**Depreciation**	**Other changes**	**31.12.2004**
Land and buildings	87,118	60	(5)	(3,057)	1,930	86,046
Plant and equipment	182,605	28,771	0	(48,393)	43,766	206,749
Industrial and commercial equipment	1,450	14	0	(661)	1,918	2,721
Other assets	123,616	1,220	(121)	(22,631)	26,814	128,898
Assets under construction and advances	42,172	66,905	0		(75,800)	33,277
Total	**436,961**	**96,970**	**(126)**	**(74,742)**	**(1,372)**	**457,691**

Historical cost	31.12.2004	Increases	(Disposals)	Revaluations (write-downs)	Other change	31.12.2005
Land and buildings	113,570	605	(147)		259	114,287
Plant and equipment	1,024,463	5,067	(913)		39,281	1,067,898
Industrial and commercial equipment	10,649	28	(92)		1,722	12,307
Other assets	376,781	1,285	(9,337)		7,881	376,610
Assets under construction and advances	33,277	52,326	(179)		(49,056)	36,368
Total	**1,558,740**	**59,311**	**(10,668)**	**0**	**87**	**1,607,470**

Accumulated depreciation	31.12.2004	Depreciation rates	(Disposals)	Revaluations (write-downs)	Other change	31.12.2005
Land and buildings	27,524	3,023	(1)			30,546
Plant and equipment	817,714	48,150	(776)		54	865,142
Industrial and commercial equipment	7,928	1,894	(92)			9,730
Other assets	247,883	20,446	(9,332)			258,997
Total	**1,101,049**	**73,513**	**(10,201)**	**0**	**54**	**1,164,415**

Net book value	31.12.2004	Increases	(Disposals)	Depreciation	Other changes	31.12.2005
Land and buildings	86,046	605	(146)	(3,023)	259	83,741
Plant and equipment	206,749	5,067	(137)	(48,150)	39,227	202,756
Industrial and commercial equipment	2,721	28	0	(1,894)	1,722	2,577
Other assets	128,898	1,285	(5)	(20,446)	7,881	117,613
Assets under construction and advances	33,277	52,326	(179)		(49,056)	36,368
Total	**457,691**	**59,311**	**(467)**	**(73,513)**	**33**	**443,055**

Historical costs are shown net of grants received definitively for the accomplishment of investments.
The gross value of grants deducted from fixed assets in the balance sheet was of euro 160,963 thousand and related to the Outline Agreement entered into with the Ministry of Industry, Commerce and Crafts on 19 June 1995 and the Outline Agreement entered into with the Ministry of Productive Activities on 10 October 1997.
As at 31 December 2005, the net book value of these grants stood at euro 54,832 thousand (compared with euro 69,220 thousand as at 31 December 2004).
The item ‘Land and buildings’ refers mainly to industrial buildings used as offices and

warehouse facilities (net value: euro 41,890 thousand), civil buildings in Cagliari and Rome used as offices (net value: euro 1,996 thousand), land relating largely to the company's Sarroch and Arcola sites, owned by the Holding Company and the subsidiary company Arcola S.p.A., respectively (net value: euro 35,130 thousand), and improvements to leased assets (net value: euro 588 thousand).
The item 'Plant and equipment' refers mainly to refining plants situated at Sarroch.
The item 'Industrial and trade equipment' includes equipment for the chemical laboratory and new control room that was realised over the course of 2004, with said equipment being used in the Holding Company's refining activities, as well as various items of equipment needed in the production process.
The item 'Other assets' mainly comprises tanks and pipelines used to carry the products and crude oil of the Holding Company and the Group's trade companies (Saras Energia and Arcola).
The item 'Assets under construction and advances' reflects costs relating mainly to investments in the company's tanks and work carried out on facilities largely to adapt and upgrade existing plant specifically for environmental, safety and reliability issues. During the period under review, said item increased by euro 59,311 thousand, which was mainly due to the investments made in fixed assets by the Holding Company.
The item 'Other changes' includes the transfer to assets of fixed assets completed during the period.
The main annual depreciation rates used are as follows:

- Industrial buildings (Land and buildings)	5.50%
- Generic plant (Land and buildings)	8.38% - 6.25%
- Highly corrosive plant (Plant and equipment)	11.73% - 8.75%
- Pipelines and storage tanks (Plant and equipment)	8.38% - 6.25%
- Items of equipment (Equipment)	25.00%
- Office furniture/machines (Other assets)	12.00%
- Transport vehicles(Other assets)	25.00%

No fixed assets are due to be sold.
A concession enabling the company, until 31 December 2015, to occupy state-owned areas where the Sarroch refinery's service facilities are located (waste water treatment, desalinisation of marine water, blow-down, torches and wharf) was obtained from the Port Authority; as things currently stand, there are no factors that might lead us to expect the concession not to be renewed when it expires.
Leased assets, carried as part of 'transport vehicles' amounted to euro 13,074 thousand, while their residual net value amounted to euro 1,175 thousand.
During financial year 2005, financial charges to the order of euro 924 thousand were capitalised in the value of property, plant and equipment.

7.2.2 Intangible assets

The changes undergone by intangible assets are presented in the table below.

Categories	31.12.2003	Increases	Decreases	Other changes	(Amortisation)	31.12.2004
Industrial and other patent rights	18	12				30
Concessions, licenses, trademarks and similar rights	5,904	859	(3)	1,140	(3,906)	3,994
Goodwill	2,515					2,515
Assets under construction and advances	104	1,208	(34)	(1,174)		104
Other intangible assets	1,644	371	(264)	118	(312)	1,557
Total	**10,185**	**2,450**	**(301)**	**84**	**(4,218)**	**8,2000**

Categories	31.12.2004	Increases	Decreases	Other changes	(Amortisation)	31.12.2005
Industrial and other patent rights	30			(29)		1
Concessions, licenses, trademarks and similar rights	3,994	587			(4,009)	572
Goodwill	2,515					2,515
Assets under construction and advances	104	739		(135)		708
Other intangible assets	1,557		(58)	(641)	(319)	539
Total	**8,200**	**1,326**	**(58)**	**(805)**	**(4,328)**	**4,335**

The principal items making up intangible assets may be summarised as follows:
Concessions, licenses, trademarks and similar rights: these relate predominantly to information systems and applications used for operating activities.
Goodwill: this item includes mainly goodwill paid for the acquisition of the subsidiary Carthago S.A. (incorporated in Saras Energia S.A.).
The increases undergone by intangible assets were mainly due to new SAP and Lotus Notes licences being acquired.
The amortisation of intangible assets amounted to euro 4,368 thousand, having been determined by using the following annual rates:

Industrial and other patent rights	20%
Concessions, licenses, trademarks and similar rights	33%
Other intangible assets	20%-33%

No intangible assets with a finite useful life are intended to be sold.

7.2.3 Equity interests consolidated by the equity method

The above item included interests in the joint venture companies Sarlux S.r.l. and Parchi Eolici Ulassai S.r.l.

	Registered office	% stake	31.12.2005	31.12.2004
- Sarlux S.r.l.	Sarroch (CA)	55%	93,943	81,850
- Parchi Eolici Ulassai S.r.l.	Cagliari	70%	2,335	1,658
- Xanto S.r.l. in liquidation	Milan	100%	897	0
Total			**97,175**	**83,508**

Movements in carrying amounts are highlighted in the table below.

	31.12.2003	Acquisitions and subscriptions	Revaluation (Write-down)	Other changes	31.12.2004
- Sarlux S.r.l.	98,979		15,083	(32,212)	81,850
- Parchi Eolici Ulassai S.r.l.	0	150	18	1,490	1,658
- Xanto S.p.A.	672		(299)	(373)	0
- Thinkware S.r.l.	420			(420)	0
Total	**100,071**	**150**	**14,802**	**(31,515)**	**83,508**

	31.12.2004	Acquisitions and subscriptions	Revaluation (Write-down)	Other changes	31.12.2005
- Sarlux S.r.l.	81,850		49,234	(37,141)	93,943
- Parchi Eolici Ulassai S.r.l.	1,658		(778)	1,455	2,335
- Xanto S.r.l. in liquidazione			291	606	897
Total	**83,508**	**0**	**48,747**	**(35,080)**	**97,175**

The figures appearing under the column 'Revaluation/(Write-down)' reflect the Holding Company's share of the net profit realised by investee companies during the period under review.

'Other changes' originated, in the case of Sarlux S.r.l., from both the adoption of IAS 32 and 39, which have been applied since 1 January 2005 (euro 6,423 thousand) and the dividends paid to the Holding Company (euro 30,718 thousand); in the case of Parchi Eolici Ulassai S.r.l., from a share premium payment of the Holding Company's share (euro 1,463 thousand); and in the case of Xanto S.r.l. (in liquidation) from excess risk provisions posted in previous years being released (euro 598 thousand).

The effect of the equity method is reflected in the income statement under the item 'Net income/(charges) from equity interests'.

Detailed information regarding the item 'Equity interests valued by the equity method' as at 31 December 2005 is provided in the table below. (The information shown reflects the percentage attributable to the Group.)

31 December 2004

Legal name	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenues	Operating costs	Operating result	Profit/(Loss) for the period
Sarlux S.r.l.	147,248	445,990	369,029	141,530	213,454	178,962	34,492	15,715
Parchi Eolici Ulassai S.r.l.	2,348	0	5	0	0	20	(20)	(30)
Xanto S.r.l. in liquidation	5,001	553	2,490	3,275	145	1,068	(923)	(883)
								14,802

31 December 2005

Legal name	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenues	Operating costs	Operating result	Profit/(Loss) for the period
Sarlux S.r.l.	207,048	408,639	289,880	231,864	277,595	190,724	86,871	49,234
Parchi Eolici Ulassai S.r.l.	24,734	0	5,360	17,039	0	41	(41)	(778)
Xanto S.r.l. in liquidation	4,220	517	2,022	1,818	0	233	(233)	290
								48,746

As at 31 December 2005, no associated company had securities listed in any regulated market.

Please note that while the loans granted to it are in place, Sarlux S.r.l. is required to meet specific parameters in order to distribute dividends. Specifically, so as to be able to set aside liquidity for this purpose, the following conditions must be fulfilled:

- The following bank current accounts, held by the investee company Sarlux S.r.l. with Banca Intesa in London, are to remain in credit, in order to cover the expenses foreseen as per the purposes for which they were set up:
  1) *Maintenance Reserve Account*: this holds amounts relating to financial commitments guaranteeing maintenance work to be carried on the IGCC plant in the next six months;
  2) *Debt Service Reserve Account*: this holds amounts to be paid to banks to repay loan instalments (principal plus interest) due in the following six months;
  3) *Air Liquide Account:* this holds collateral securing the oxygen supplies that Air Liquide Italia will make in the following six months;
- And the following ratios, referred to amounts derived from the financial statements and budget of Sarlux S.r.l., are to be complied with:
  1) *Annual Debt Service Cover Ratio* (ADSCR): *Available Cash Flow Post Tax* (for the next twelve months) to *Total Debt Repayable* (in the next twelve months) should be greater than 1.5;
  2) *Loan Life Cover Ratio* (LLCR): *Net Present Value Cash Flow Post Tax (foreseen for the remaining life of the agreement)* to *Total Debt Outstanding* should be greater than 1.2.

In addition to the above requirements, as security for the loans taken out by Sarlux Srl, all quotas held in the company have been stood as a pledge in favour of the lending banks involved.

7.2.4 Other investments

Other investments may be broken down as follows:

	31.12.2005	31.12.2004
- Nova Eolica S.r.l.	69	2
- Dynergy S.r.l.	91	91
- Hangzhou Dadi Encon Environmental Equipment Co.	481	481
- Consorzio C.R.S.4	0	258
- Consorzio Cesma	3	3
- Consorzio Cifra S.r.l.	15	15
- Consorzio La Spezia Energia	2	2
- Consorzio Qualità e Tratt. Acque	1	1
- Consorzio Techno Mobility	11	10
- Hydrocontrol - Soc. Consort. A r. l.	232	232
- Sarda Factoring	495	198
Total	**1,400**	**1,293**

The change between 31 December 2005 and 31 December 2004 relates to the payment made by Ensar Srl to cover the losses of the investee company Nova Eolica S.r.l. (around euro 67 thousand) for both the transfer of its stake in Consorzio CRS4 and the subscription of the share capital increase undertaken by the investee company Sarda Factoring.

7.2.5 Other financial assets

The euro 318 thousand balance reported for the above as at 31 December 2005 came from the measurement at fair value of interest rate swaps (IRS) entered into to hedge the interest rates of loans; the decrease was principally due to the company's own shares being annulled during the year (euro 41,288 thousand). Please note that in financial year 2004, the company's own shares were carried on the assets side of the balance sheet since they were recognised in compliance with the previous accounting standards, the Group having applied IAS 32 and 39 since 1 January 2005, as permitted by IFRS 1 and stated in note 4 above.

7.3 Current liabilities

7.3.1 Short-term financial liabilities

Short-term financial liabilities may be broken down as follows:

	31.12.2005	31.12.2004	Change
Loans from banks	57,925	52,746	5,179
Bank overdrafts	40,416	8,686	31,730
Other loans	1,271	1,239	32
Loans from unconsolidated Group companies	2,552	5,311	(2,759)
Total	**102,164**	**67,982**	**34,182**

Details of the terms and conditions of loans are provided in the comments accompanying the item 'Long-term financial liabilities' below.
The euro 31,730 thousand increase undergone by the item 'Bank overdrafts' on 31 December 2004 was mainly attributable to the Holding Company.
The item 'Other loans' (euro 1,271 thousand) is attributable to the Holding Company and relates to a loan provided by the Ministry of Productive Activities, in compliance with Italian Law no. 46 of 1982. Said loan will be repaid by the year 2006.
The item 'Loans from unconsolidated Group companies' was mainly made up of the liability arising from the participation of Sarlux S.r.l. in the group tax consolidation; the change on 31 December 2004 was largely due to the loan granted to the Holding Company by Parchi Eolici Ulassai S.r.l. being repaid.
In order for the changes undergone by this item to be better understood, reference should be made to the cashflow statement that forms part of these consolidated financial statements.

7.3.2 Trade and other payables

The above item may be broken down as follows:

	31.12.2005	31.12.2004	Change
Advances from customers: portion due within one year	1,223	1,291	(68)
Amounts payable to suppliers: portion due within one year	498,494	402,356	96,138
Trade payables to unconsolidated group companies	13,350	9,827	3,523
Trade payables to associated companies	115	25	90
Total	**513,182**	**413,499**	**99,683**

Trade payables may be broken down by geographical area as follows:

	31.12.2005	31.12.2004	Change
Italy	144,231	66,849	77,382
Spain	41,198	31,274	9,924
Other EU countries	9,516	1,449	8,067
Non-EU countries	303,131	302,703	428
USA	418	81	337
Total	**498,494**	**402,356**	**96,138**

Amounts payable to unconsolidated subsidiary companies, which amounted to euro 13,350 thousand, included euro 13,029 thousand payable by the Holding Company to Sarlux Srl largely in connection with the supply of hydrogen, feedstock, steam and services.

7.3.3 Current tax liabilities

The above item may be broken down as follows:

	31.12.2005	31.12.2004	Change
Other	28,003	27,050	953
VAT payable	13,828	16,617	(2,789)
IRES - corporation tax payable	25,932	51,427	(25,495)
IRAP - trade income tax payable	7,986	6,629	1,357
	75,749	**101,723**	**(25,974)**

The item ‘Others’ is mainly made up of amounts due to the Italian Technical Office for Manufacturing Tax (UTIF) in respect of excise duties (euro 16,074 thousand) and the Inland Revenue in respect of personal income taxes (euro 2,144 thousand).
The decrease undergone by corporate income tax liabilities was largely due to the amount reported as payable on 31 December 2004 being paid in June. This item includes the net balance of the accrual for income tax of the period and the advances paid in respect of 2005.

7.3.4 Other current liabilities

Other current liabilities may be broken down as follows:

	31.12.2005	31.12.2004	Change
Amounts payable to welfare and social security agencies: portion due within one year	6,539	4,456	2,083
Due to personnel	12,400	13,069	(669)
Paybales to Ministry for social security contributions	28,334	28,334	0
Other payables	9,492	7,085	2,407
Accrued interest expense	144	99	45
Other accrued liabilities	144	123	21
Other deferred income	1,227	167	1,060
Total	**58,280**	**53,333**	**4,947**

The item 'Due to personnel' includes amounts yet to be settled in respect of December pay, performance bonuses for achieving business targets and the portion of additional monthly payments accrued.
The item 'Payables to Ministry for social security Contributions' includes advances received from the Ministry in connection with the Outline Agreement that was made with it on 10 June 2002 and in respect of which the necessary Final Concession Decree has yet to be granted. The balance related to Akhela (euro 14,481 thousand) and the Holding Company (euro 13,848 thousand).
This item 'Other payables' mainly refers to port duties as determined by the Customs Authorities; please note in this regard that the first tranche of the company's long-standing dispute between the Holding Company and the Inland Revenue regarding port duties payable for the Sarroch landing place and relating to the period 1994-1995, was settled to the full satisfaction of the company, whose case was upheld by a ruling issued by the *Corte di Cassazione*, the Italian supreme court of appeal, which definitively declared that the taxes were not due. However, a second tranche of the dispute, after a favourable ruling issued by the Court of Cagliari, is still pending before the Cagliari Court of Appeal. Based on the fact that the Inland Revenue, despite the first definitive 'defeat', has suspended the payment of taxes but has not waived its claim, and after considering a more recent stance taken by the *Corte di Cassazione*, the company deemed it appropriate to make an accrual in respect of the suspended taxes.

7.4 Non-current liabilities

7.4.1 Long-term financial liabilities

These financial liabilities may be broken down as follows:

	31.12.2005	31.12.2004	Change
Loans from banks	132,004	174,906	(42,902)
Other loans	0	1,271	(1,271)
Total	**132,004**	**176,177**	**(44,173)**

Mortgages and loans:
Details of the terms and conditions of loans are provided in the table below.

Amounts expressed in million or euros	Date of the borrowing	Amount originally borrowed	Base rate	Outstand ing as at 31.12.04	Outstand ing as at 31.12.05	1 year	Maturity 1-5 year	Other 5 year	Security
Saras S.p.A.									
Banca Pololare di Verona	16-Dec-04	20.0	Euribor 3M	20.0	20.0	20.0	-	-	
B.ca Intesa (syndicated loan)	21-Dec-01	87.8	Euribor 3M	70.2	52.7	17.6	35.1	-	153.0
IMI Contributo di Programma su S.Paolo	25-Jul-95	82.9	7.75%	7.1	-	-	-	-	
S.Paolo (syndicated loan)	29-Dec-99	77.5	Euribor 6M	36.3	20.7	15.5	5.2		116.0
Interbanca / Efibanca	17-Dec-98	46.5	Euribor 3M	9.3	-	-	-	-	
San Paolo IMI	20-Dec-04	30.0	Euribor 6M	30.0	30.0	-	30.0	-	60.0
Unicredit	20-Dec-04	20.0	Euribor 6M	20.0	50.0	-	50.0	-	100.0
Credito Artigiano	20-Dec-04	15.0	Euribor 3M	15.0	-	-	-	-	
Loan pursuant to law 46	9-Dec-92	10.9	2.47%	2.5	1.3	1.3	-	-	
Total Saras S.p.A.				**210.4**	**174.7**	**54.4**	**120.3**	**-**	
Sartec S.p.A.									
San Paolo IMI	30-Jun-01	1.7	2.31%	1.1	0.9	0.2	0.7	-	
San Paolo IMI	30-Jun-97	1.2	2.95%	0.4	0.2	0.2	0.1	-	
Akhela S.r.l.									
Banco di Sardegna	24-Apr-02	3.1	Euribor 6M	2.8	2.3	0.5	1.8	-	
BNL	2-Oct-02	8.2	Euribor 6M	8.3	5.5	2.8	2.8	-	
Saras Energia S.A.									
Banca Esp. De Credito	11-Sep-02	10.0	Euribor 6M	8.9	7.8	1.1	4.4	2.2	
Total bank borrowing				**231.9**	**191.4**	**59.2**	**130.1**	**2.2**	

The weighted average interest rate as at 31 December 2005 was equal to six-month EURIBOR plus a spread of 0.60%.
Loans received by Saras S.p.A. from Banca Popolare di Verona S.c.a r.l. and San Paolo IMI S.p.A. (originally for euro 20 million and euro 30 million respectively) are subjected to the following two covenants (with reference to the Holding Company's fig-

ure): (i) Debt/equity ratio of less than 2.3; and (ii) an EBITDA/net interest expense ratio of more than 3.

7.4.2 Provisions for risks and charges

Provisions for risks and charges may be broken down as follows:

	31.12.2003	Accruals	Utilisations	Other changes	31.12.2004
Provision for the dismantling of plant	0	13,526			13,526
Other risk provisions	946	1,590	(981)		1,555
Risk provision for equity interests	1,675	334	(1,399)		610
Total	**2,621**	**15,450**	**(2,380)**	**0**	**15,691**

	31.12.2004	Accruals	Utilisations	Other changes	31.12.2005
Provision for the dismantling of plant	13,526				13,526
Other risk provisions	1,555	1,912	(920)	1,142	3,689
Risk provision for equity interests	610	19	(275)		354
Total	**15,691**	**1,931**	**(1,195)**	**1,142**	**17,569**

The provision for the dismantling of plant has not been discounted in the balance sheet, in view of the negligible importance of the effect that this might have on the items of the Group’s consolidated financial statements.
The balance comprises mainly provisions to which accruals are made for the future costs involved in dismantling of plant and equipment, considered wherever there is a legal or constructive obligation to be met in this regard.
The risk provision for equity interests comprises accruals made for Saras UK to cover losses in the value of said interests.
The item ‘Other risk provisions’ was set up for liabilities of a predominantly fiscal nature.

7.4.3 Provisions for employee benefits

The balance reported under this item may be broken down as follows:

	31.12.2005	31.12.2004	Change
Staff leaving indemnity	29,877	27,908	1,969
CPAS fund	19,808	17,929	1,879
	49,685	**45,837**	**3,848**

The staff leaving indemnity is governed by article 2120 of the Italian Civil Code and reflects the estimated amount – based on actuarial valuations – that the company will be required to pay to employees upon termination of employment; the CPAS provision is a special supplementary pension fund for employees (Fondo Previdenza Aziendale Dipendenti Saras, i.e. the company pension fund for Saras Employees – CPAS Pension Fund). This obligation is also measured using actuarial techniques.
The staff leaving indemnity underwent the following changes:

	31.12.2005
Opening balance as at 31.12.2003	25,810
Accrual for the period	5,703
Utilisations in the period	(3,605)
Opening balance as at 31.12.2004	27,908
Accrual for the period	6,684
Utilisations in the period	(4,715)
Closing balance as at 31.12.2005	**29,877**

The CPAS fund underwent the following changes:

	31.12.2005
Opening balance as at 31.12.2003	16,821
Accrual for the period	2,641
Utilisations in the period	(1,533)
Opening balance as at 31.12.2004	17,929
Accrual for the period	3,039
Utilisations in the period	(1,160)
Closing balance as at 31.12.2005	**19,808**

In accordance with IAS 19, when measuring the staff leaving indemnity and CPAS fund, the so-called ‘projected unit credit method’ has been adopted, making the following assumptions:

	31 December	
	2004	2005
Business assumptions		
Increase in the cost of living:	2.00%	2.00%
Discount rate	4.50%	4.00%
Pay increases	3.00%	3.00%
Annual rate of increase in staff leaving indemnity:	3.00%	3.00%
Demographic assumptions		
Probability of death:	percentage determined by ISTAT in 2002, for each sex separately	
Probability of disability:	those adopted in National Insurance model for projections to 2010	
Probability of resignations:	annual frequency rates of 0.5% have been considered for all Group companies	
Probability of retirement:	it has been assumed that the first requirement to become eligible for retirement under Compulsory General Insurance has been met	
Probability of early retirement	a year-on-year rate of 3.00% has been assumed for all Group companies	

In consideration of the accounting method adopted (please refer to section 3.2 ‘Summary of the accounting policies applied’ under point P ‘Provisions for employee benefits’ of these notes), as at 31 December 2005 there were no actuarial gains or losses not recognised in the financial statements.

7.4.4 Deferred tax liabilities

	31.12.2005	31.12.2004	Change
Provision for deferred taxes	96,374	34,150	62,224
	96,374	**34.150**	**62,224**

Deferred tax liabilities are shown net of deferred tax assets.
The nature of the most significant temporary differences giving rise to net deferred tax liabilities may be summarised as follows:

	Amount as at 31.12.2004	Accruals	Utilisation	Other changes	Amount as at 31.12.2005
(amounts expressed in thousands of euro)					
Deferred tax liabilities					
Excess and accelerated amortisation	(35,140)	(17,203)	19		(52,324)
Adjustment of the value of land to reflect fair value (as deemed cost)	(10,675)				(10,675)
Measurement of period-end inventory at average cost	(14,834)	(44,116)			(58,950)
Adjustments for scheduled plant and equipment maintenance	(6,256)		2,335		(3,921)
Elimination of accruals to risk provisions relating to subsidiaries	(1,008)	(175)			(1,183)
Discounting of liabilities to present value (adoption of IAS 39 since 01/01/05)			304	(6,186)	(5,882)
Fair value of derivatives (adoption of IAS 39 since 01/01/05)			2,609	(3,088)	(479)
Reversal of goodwill amortisation	(70)	(70)			(140)
Total deferred tax liabilities	**(67,982)**	**(61,564)**	**5,267**	**(9,274)**	**(133,553)**
Deferred tax assets					
Surplus and advance grants	6,439	1,857			8,296
Provision for risks and write-downs	3,542	430	(628)		3,344
Write-downs of equity interests prior to 2003	6,646		(1,943)		4,703
Derecognition of intangible assets	1,753		(121)		1,632
Elimination of monetary revaluations of tangible assets	4,908		(590)		4,318
Reclassification of grants previously carried as part of equity	3,552		(630)		2,922
Costs for the dismantling and removal of tangible assets	3,861	261			4,122
Employee benefits and bonuses	3,530	1,175			4,705
Unrealised exchange losses		275			275
Other	(399)	2,007	1,254		2,862
Total deferred tax assets	**33,832**	**6,005**	**(2,658)**	**0**	**37,179**
Net deferred tax liabilities	**(34,150)**	**(55,559)**	**2,609**	**(9,274)**	**(96,374)**

The other changes of euro 9,274 thousand are the result of IAS 32 and IAS 39 being adopted since 1 January 2005 and have been recognised with a balancing entry carried under equity.

The table below breaks down deferred tax assets and liabilities into current and non-current portions for financial years 2005 and 2004, respectively.

	2004		2005	
	Short term	Medium-long term	Short term	Medium-long term
(amounts expressed in thousands of euro)				
Deferred tax liabilities				
Excess and accelerated amortisation		(35,140)		(52,324)
Adjustment of the value of land to reflect fair value (as deemed cost)		(10,675)		(10,675)
Measurement of period-end inventory at average cost		(14,834)		(58,950)
Adjustments for scheduled plant and equipment maintenance	(2,335)	(3,921)	(2,922)	(999)
Elimination of accruals to risk provisions relating to subsidiaries		(1,008)		(1,183)
Discounting of liabilities to present value (adoption of IAS 39 since 01/01/05)			(642)	(5,240)
Fair value of derivatives (adoption of IAS 39 since 01/01/05)			(479)	
Reversal of goodwill amortisation		(70)		(140)
Total deferred tax liabilities	**(2,335)**	**(65,648)**	**(4,043)**	**(129,511)**
Deferred tax assets				
Surplus and advance grants		6,439		8,296
Provision for risks and write-downs	628	2,914		3,344
Write-downs of equity interests prior to 2003	1,943	4,703	1,943	2,760
Derecognition of intangible assets	121	1,632	120	1,512
Elimination of monetary revaluations of tangible assets	590	4,318	600	3,718
Reclassification of grants previously carried as part of equity	630	2,922	630	2,292
Costs for the dismantling and removal of tangible assets		3,861		4,122
Employee benefits and bonuses		3,530		4,705
Unrealised exchange losses			275	
Other	(399)		2,862	
Total deferred tax assets	**3,513**	**30,319**	**6,430**	**30,749**

7.4.5 Other non-current liabilities

Other non-current liabilities may be broken down as follows:

	31.12.2005	31.12.2004	Change
Advances from cusotmers, falling due after more than one year	1,484	793	691
Trade payables to unconsolidated subsidiaries	51,046	69,859	(18,813)
Payables to welfare and social security agencies: portion due beyond the year	148	93	55
Other	4,355	4,259	96
Long-term deferred income	0	57	(57)
Total	**57,033**	**75,061**	**(18,028)**

Trade payables to unconsolidated subsidiaries refer to the long-term portion of amounts due to Sarlux S.r.l. under the Feedstock Supply Agreement and Key Facilities Agreement entered into with said company. The change undergone with respect to 31 December 2004 was caused by the portion due in respect of the following period being transferred from long-term to short-term payables, as well as by the discounting effect arising from IAS 32 and 39 being applied since 1 January 2005.
As at 31 December 2005, long-term trade payables to unconsolidated subsidiaries were discounted to their present value of euro 13,843 thousand.

7.4.6 Shareholders' equity

Shareholders' equity may be broken down as follows:

	31.12.2005	31.12.2004	Change
Share capital	51,183	51,183	0
Legal reserve	10,237	10,237	0
Other reserves	268,915	208,365	60,550
Reserve for own shares	0	41,684	(41,684)
Profit/(Loss) carried forward	(94,209)	(102,763)	8,554
Profit/(Loss) for the period	292,642	198,938	93,704
	528,768	**407,644**	**121,124**
of which: minority interests			
Minority interests in capital and reserves	0	23	(23)
Profit/(Loss) for the period attributable to minority interests	0	5	(5)
Total minority interests	**0**	**28**	**(28)**

Share capital

As at 31 December 2004, share capital – amounting to euro 51,183 thousand – was made up of 9,900,000 ordinary shares of nominal euro 5.17 each; following the resolution carried at an extraordinary general meeting on 30 May 2005, 990,000 ordinary shares held by the company were annulled, meaning that as at 31 December 2005 the share capital of Saras S.p.A., fully subscribed and paid-in, was composed of 8,910,000 ordinary shares of nominal euro 5.74444 each.

Legal reserve

The legal reserve, amounting to euro 10,237 thousand, remained unchanged, standing at 20% of share capital.

Reserve for own shares

This reserve, existing as at 31 December 2004, is related to the legal obligation to set up an equity reserve for all own shares carried on the assets side of the balance sheet. Given that the company's own shares were annulled in financial year 2005, this reserve was also annulled at the same time.
Restrictions on the distribution of equity reserves
The main restrictions existing on the distribution of these reserves may be summarised as follows:
- The legal reserve, which amounts to euro 10.2 million, may only be utilised to cover losses;
- the item 'Other reserves' includes around euro 76.8 million that may only be utilised to cover losses or increase share capital.

It should also be noted that these equity reserves include around euro 48.6 million that in the event of distribution would see a tax of 37.25% charged to the Holding Company; in order to provide for this amount, deferred taxes associated with said item have been recognised in the consolidated financial statements for the year ended 31 December 2005.

8. Notes to the income statement

8.1 Revenues

8.1.1 Revenues from ordinary operations

The item 'Revenues from ordinary operations' may be broken down as follows:

	31.12.2005	31.12.2004	Change
Revenues from sales and services	5,196,092	3,522,951	1,673,141
Changes in contracted work in progress	(91)	(3,885)	3,794
Total	**5,196,001**	**3,519,066**	**1,676,935**

Revenues from sales and services increased by approximately euro 1,673,141 thousand on the previous year. This increase was due to the following:

a) An increase in revenues from the sale of products and crude oil, thanks to both the general rise in prices and increase in quantities sold by the Holding Company Saras S.p.A. (12.8 million tons, compared with 12 million tons in 2004), by Arcola Petrolifera S.p.A. (1.04 million tons, compared with 0.90 million tons in 2004) and by Saras Energia S.A. (2.3 million cubic metres, compared with 2.2 million cubic metres in 2004);
b) An increase in revenues from refining services provided by the Holding Company Saras S.p.A., with said revenues increasing by euro 61,670 thousand on the previous year due to both the greater quantities processed (7.1 million tons, compared with 6.3 million tons) and the higher prices charged (due in turn to the contractual effect of higher margins);
c) Maintenance work carried out on the cracking unit (and plant associated to it) during the first half of 2004, which for around 70 days caused a reduction in conversion capacity and consequently led to a shortage of high-value products such as petrol and gas oil.

Revenues from ordinary operations are analysed by business segment and by geographical area in notes 6.2 and 6.3 in the section 'Information broken down by business segment and geographical area'.

8.1.2. Other income

The balances shown under 'Other income' may be summarised as follows:

	31.12.2005	31.12.2004	Change
Other income	39,535	36,698	2,837
Total	**39,535**	**36,698**	**2,837**

Other income may be broken down as follows:

	31.12.2005	31.12.2004	Change
Revenues for the stocking of mandatory supplies	11,040	6,012	5,028
Tanker ship rentals	1,546	3,830	(2,284)
Sale of sundry materials	2,438	1,660	778
Other income	24,511	25,196	(685)
Total	**39,535**	**36,698**	**2,837**

The balance reported for other revenues is fundamentally composed of the amount charged to Sarlux Srl for the services sold to it under a number of ongoing twenty-year contracts.

8.2 Costs

The principal costs are broken down below.

8.2.1 Purchases of raw materials, spare parts and consumables;

	31.12.2005	31.12.2004	Change
Purchases of raw materials, spare parts and consumables	4,245,896	2,808,689	1,437,207
Totale	**4,245,896**	**2,808,689**	**1,437,207**

The change undergone in this item was – as already highlighted for revenues – mainly due to an increase in crude oil prices.

8.2.2 Cost of services and sundry costs

	31.12.2005	31.12.2004	Change
Cost of services	288,356	254,135	34,221
Cost of utilisation of third party assets	8,013	6,683	1,330
Accruals to provisions for risks and charges	1,931	2,671	(740)
Other operating charges	5,243	7,638	(2,395)
Total	**303,543**	**271,127**	**32,416**

Cost of services is largely made up of maintenance, rentals, freight, electricity, steam, hydrogen and other utilities.
Other operating charges are principally made up of tax not related to income (ICI – property tax; greenhouse gas emissions tax) and membership dues.

8.2.3 Personnel costs

The item ‘Personnel costs’ may be broken down as follows:

	31.12.2005	31.12.2004	Change
Salaries and wages	80,315	72,045	8,270
Social contributions	22,770	22,037	733
Staff leaving indemnity	6,684	5,703	981
Pensions and similar obligations	3,039	2,641	398
Other costs	2,978	3,093	(115)
	115,786	**105,519**	**10,267**

8.2.4 Depreciation, amortisation and write-downs

Depreciation, amortisation and write-downs in respect of fixed assets may be broken down as follows::

	31.12.2005	31.12.2004	Change
Amortisation of intangible assets	4,328	4,218	110
Depreciation of tangible assets	73,513	74,742	(1,229)
Other write-downs of assets	0	12	(12)
Write-downs of receivables included in current assets	40	820	(780)
	77,881	**79,792**	**(1,911)**

8.3 Net income/(charges) from equity interests

Net income/(changes) from equity interests	31.12.2005	31.12.2004	Change
Measurement of unconsolidated subsidiaries by the equity method	48,747	14,802	33,945
Total	**48,747**	**14,802**	**33,945**

Comments regarding income and charges from equity interests valued by the equity method are provided under the section ‘Equity interests valued by the equity method’.

8.4 Financial income/(charges)

The financial result may be broken down as follows:

	31.12.2005	31.12.2004	Change
Other financial income:			
From non-current financial assets	24	1	23
From current financial assets	552	275	277
Other financial income			
- from unconsolidated subsidiaries	1,506	700	806
- from associated companies			0
- interest on current accounts held with banks and post offices	689	183	506
- fair value of derivatives recorded at period-end	170		
- positive differentials on derivatives	12,551	11,049	1,502
- other income	270	60	210
Interest and other financial charges			
- to unconsolidated subsidiaries	(26)	(75)	49
- to associated companies			0
- to parent companies			0
- fair value of derivatives recorded at period-end	(8,601)		(8,601)
- differentials realised on derivatives	(61,822)	(16,693)	(45,129)
- other (interest payable on loans, arrears interest, etc.)	(11,144)	(10,351)	(793)
Exchange gains and losses on non-commercial transactions	**(10,862)**	**6,559**	**(17,421)**
Total	**(76,693)**	**(8,292)**	**(68,571)**

The main changes recorded may be attributed to the differentials realised during the year on the hedging transactions entered into by the Holding Company as well as to the contracts in place as at 31 December 2005 being measured at fair value.

8.5. Income tax for the period

Income taxes are reported as follows:

	2005	2004
Current taxes	117,071	84,783
Effect of Group tax consolidation	(3,967)	(5,876)
Substitute tax to make reserves tax-deductible	5,243	
Deferred taxes	53,495	19,302
	171,842	**98,209**

Deferred tax assets and liabilities arise from the changes during the year in temporary differences between the tax bases of assets or liabilities and their carrying amounts, and are presented in the table below.

Temporary differences in the income statement	**2005**		**2004**	
	Temporary differences	**Deferred tax assets/(liabilities)**	**Temporary differences**	**Deferred tax assets/(liabilities)**
(amounts expressed in thousands of euro)				
Excess and accelerated depreciation relating to grants received by Saras	(4,985)	1,857	(17,285)	6,438
Write-downs of equity interests prior to 2003	5,890	(1,943)	(20,142)	6,646
Excess and accelerated depreciation (Saras and Arcola)	46,184	(17,184)	55,057	(20,508)
Measurement of period-end inventory (FIFO method)	119,628	(44,116)	25,714	(9,264)
Adjustments for scheduled plant and equipment maintenance	(2,667)	2,335	12,438	(4,633)
Reclassification of grants previously carried as part of equity	1,691	(630)	3,338	(630)
Employee benefits and bonuses	(3,562)	1,175	(1,662)	549
Fair value of derivatives	(7,906)	2,609	0	0
Unrealised exchange losses	(833)	275	0	0
Other temporary differences	(5,710)	2,127	(5,637)	2,100
Total	**147,730**	**(53,495)**	**51,821**	**(19,302)**

The effective tax rate was 37% of the period's pre-tax profit, while the theoretical tax rate was 38.6%, obtained by applying a tax rate of 33% (IRES) to pre-tax profit and 4.25% (IRAP) to the net value of production, as foreseen by Italian legislation.
The table below analyses and compares the difference between the theoretical tax rate and the effective tax rate for the two periods (amounts shown in millions of euros.)

	2005	**2004**
Pre-tax profit [A]	464.5	297.1
Difference between value and cost of production	492.4	290.6
Total personnel costs	115.7	105.6
Adjusted difference between value and cost of production (B)	608.1	396.2
Theoretical corporation tax, IRES [A*33%]	153.3	98.0
Theoretical trade income tax, IRAP [B*4,25%]	25.8	16.8
Total theoretical taxes [C]	**179.1**	**114.9**
Theoretical tax rate [C/A*100] %	38.6%	38.7%
Income taxes [D]	171.8	98.2
Effective tax rate [D/A*100] %	**37.0%**	**33.1%**

	2005		**2004**	
	Tax	**Tax rate**	**Tax**	**Tax rate**
Theoretical taxes	179.1	38.6%	114.9	38.7%
Effect of taxation of foreign companies (difference in corporation tax rate and trade income tax rate)			0.6	0.20%
Substitute tax to make reserves tax-deductible (pursuant to Law 311/04)	5.2	1.12%		
Effect on valuation of unconsolidated investee companies (Sarlux)	(16.2)	-3.49%	(5.0)	-1.68%
Dividends from unconsolidated companies (Sarlux Srl)	0.5	0.11%	0.5	0.17%
Deferred tax assets/liabilities			(9.1)	-3.06%
Tax effect on permanent differences	3.2	0.69%	(3.6)	-1.21%
Effective taxes	**171.8**	**37.0%**	**98.3**	**33.1%**

9. Additional disclosures

9.1 Analysis of the main litigation pending

9.1.1 Tax disputes

The company Saras S.p.A., the subsidiary company Arcola Petrolifera S.p.A. and the investee company Sarlux S.r.l. were all the subject of tax audits and assessments by the tax authorities that led, in certain cases, to disputes pending before tax courts.
Although the decisions made by the tax courts in relation to the alleged violations are not consistent, and considering that possible penalties (should the courts' rulings be unfavourable to the Group) would not be significant, the Group feels that the outcome of these disputes will not result in any significant liabilities that can be quantified at present.

9.1.2 Legal disputes

Saras S.p.A. exercised the option to acquire the interest held in Sarlux S.r.l. by the other joint venturer, Enron Dutch Holding B.V., with the latter subsequently challenging Saras S.p.A.'s right to do so. Arbitration proceedings thus got underway between the two parties, in accordance with the regulations of the International Chamber of Commerce. While awaiting the outcome of these arbitration proceedings, in 2002 Saras S.p.A. obtained from the Court of Cagliari an order for the judicial attachment of the interest held by the other joint venturer, with the rights associated with it being consequently exercised by a trustee appointed by same Court.

9.2 Earnings per share

Earnings per share is determined by dividing net profit by the weighted average number of Saras S.p.A. shares (excluding own shares) outstanding during the year.
Earnings per share amounts to euro 32.9 per share for financial year 2005 and to euro 22.3 for financial year 2004.
The number of shares outstanding averaged 8,910,000 in both 2004 and 2005. As at 31 December 2005, Saras S.p.A. held no own shares.
Calculation of diluted earnings per share does not apply in this case.

9.3 Transactions with related parties

Transactions effected by Saras with related parties concern essentially the exchange of goods, the provision of services and arrangements of a financial nature.
Information regarding the amounts arising from transactions of a commercial, sundry and financial nature entered into with related parties is provided below, together with an indication of the nature of the more significant transactions involved.

Transactions with joint ventures:

Description	Absolute value 2004	Absolute value 2005	Nature of item	Business reason
Sarlux S.r.l.				
Supply of goods	110,283	138,996	Sale of goods	Supply of raw materials as per project finance agreement
Services provided by our staff	7,980	8,169	Other income	Outsourcing of services as per project finance agreement
Services received	10,939	10,099	Other income	Outsourcing of services as per project finance agreement
Rent received	134	137	Other income	Outsourcing of services as per project finance agreement
Purchases of goods	(1,731)	(2,608)	Purchases of goods	Supply of raw materials as per project finance agreement
Utilities	(30,897)	(35,446)	Cost of services	Supply of steam and hydrogen as per project finance agreement
Services received	(654)	(693)	Cost of services	Provision of various services
Supply of goods	25,851	43,126	Trade receivables	Supply of goods
Trade payables	(79,685)	(79,865)	Trade payables	Trade payables
Financial payables	(38)	(39)	Financial payables	Financial payables
Corporation tax liabilities due to group tax consolidation	(2,316)	(968)	Tax liabilities	Corporation tax liabilities due to group tax consolidation
Sardeolica S.r.l.				
Services received		35	Other income	Outsourcing of services
Loan	583	1,142	Financial income	Loan
Trade receivables	348	707	Trade receivables	Trade receivables
Loan	25,570	17,717	Financial Receivables	Loan
Parchi Eolici Ulassai S.r.l.				
Services received		6	Other income	Outsourcing of services
Loan	1	329	Financial income	Loan
Loan	(2)	(11)	Financial expenses	Loan
Trade receivables	1	186	Trade receivables	Trade receivables
Trade payables		(11)	Commercial payables	Trade payables
Loan		1,720	Financial receivables	Loan
Loan	(1,820)		Financial payables	Loan
Corporation tax liabilities due to group tax consolidation		(133)	Tax payables:	Corporation tax liabilities due to group tax consolidation

Transactions with other unconsolidated companies in which the company holds no equity interests

Immobiliare Elleci S.p.A.				
Rent	(337)	(438)	Cost of services	Rental of building and parking spaces in Milan
Securfin Holdings S.p.A.				
Rent	(520)	(583)	Cost of services	Rental of building and parking spaces in Milan

9.4 Information regarding the fair values of financial assets and liabilities

The fair values of trade receivables and other financial assets, of trade payables and other financial liabilities, recognised as part of 'current' items in the balance sheet and measured by the amortised cost method – given that such items are mainly assets underlying trade arrangements that are expected to be settled in the short term – do not differ from the carrying amounts reported in the financial statements as at 31 December 2005.
Other non-current financial liabilities, as indicated in note 7.4.5 above, included amounts discounted to present value. Their respective fair values are therefore believed to be substantially in line with their carrying amounts as at 31 December 2005.
Long-term financial liabilities bearing interest at fixed rates that are not in line with current market rates, as may be deduced from note 7.4.1 above, are not significant. The differences between their respective fair values and their carrying amounts as at 31 December 2005 are not regarded to be substantial.

9.5 Average number of employees

The average number of employees on the payroll of companies included in the Group's consolidation area may be broken down by category as follows:

	31.12.2004	**31.12.2005**
Management	67	65
Clerical employees	1,025	1,052
Intermediate	57	21
Workers	418	439
	1,567	**1,577**

The Group's headcount increased from 1,567 at the end of 2004 to 1,577 as at 31 December 2005, thus remaining substantially unchanged.

9.6 Emoluments paid to the company's key executives

In 2005, executives vested with strategic responsibilities earned emoluments totalling euro 7,801 thousand.
As at the reporting date, euro 289 thousand (relating to the staff leaving indemnity) earned during the year was yet to be paid.

9.7 Commitments

The Group's functional currency is the euro. In order to minimise the effects of fluctuations in the exchange rate between the euro and US dollar and changes in the spread between prices for raw materials and finished products, the Group is party to a number of derivative contracts, the purpose of which is to reduce these risks. As at 31 December 2004 and 31 December 2005, these derivative contracts had notional values of around euro 320 million and euro 620 million respectively.
As at 31 December 2004 and 31 December 2005, there were no irrevocable commitments to purchase materials or provide services of a long-term nature.

10. Subsequent events

The shareholders' meeting of the Holding Company Saras S.p.A. held on 11 January 2006 passed a resolution agreeing to file an application with Borsa Italiana S.p.A. to have the company's ordinary shares listed on a regulated market organised and managed by said institution and to submit a request to CONSOB for the approval to issue a Prospectus regarding the public offer for the sale and subscription of its ordinary shares.
At the same meeting, the shareholders also resolved to split shares outstanding, which consequently increased the total number of shares representing the company's share capital from 8,910,000 to 891,000,000, although the company's overall share capital remained at euro 51,183,000.

Report of the board of Statutory Auditors regarding the consolidated financial statements for the year ending 31 December 2005

To our shareholders:

we, the Statutory Auditors, while waiving the terms foreseen under Clause 2429 of the Italian Civil Code, hereby communicate that – pursuant to the provisions of Clause 41 paragraph 3 of Legislative Decree 127 of 9 April 1991 – the Board of Statutory Auditors has examined the consolidated financial statements for the year ending 31 December 2005, which were provided to us on 27 February 2006, having been prepared pursuant to the provisions of Clauses .25 and 27 of the aforementioned Legislative Decree.
The consolidated financial statements of Saras S.p.A. Raffinerie Sarde, which are hereby made available to you, report a profit of euro 292,642,000.
During the year under review, the Board of Statutory Auditors engaged in the supervisory activities provided for by law, and has been promptly and accurately informed by the parent company's Board of Directors as to the transactions (including those of an extraordinary nature) considered most significant from an economic, financial and/or balance-sheet point of view that were effected as part of group relationships.
We verified that the transactions resolved upon and effected duly conformed to the law and to the company's bylaws, did not conflict with shareholders' resolutions and could not give rise to a potential conflict of interest and duly observed principles for correct business administration.
This Board of Statutory Auditors paid special attention to inter-group transactions effected during the year and verified their correctness, with said transactions being of a financial, industrial and commercial nature; the parent company sustained its subsidiaries financially wherever necessary.
Through the audits undertaken by PriceWaterhouse & Coopers S.p.A., charged with the auditing of the accounts, it was ascertained that the values stated in the consolidated financial statements agreed with the parent company's accounting records, with the individual financial statements of subsidiaries and with the information formally communicated by the latter.
The financial statements, sent by the respective subsidiaries to the parent company in order for the latter to draw up the consolidated financial statements, were prepared by their respective corporate bodies and examined by the boards and entities in charge of auditing the individual companies concerned and by PriceWaterhouse & Coopers S.p.A., as part of the procedures followed when auditing consolidated financial statements.
Such financial statements were not therefore audited by the Board of Statutory Auditors.
The Board of Statutory Auditors wishes to report that the accounts of the following subsidiaries are autonomously certified by PricewaterhouseCoopers S.p.A., which also certifies the accounts of the parent company:
- Arcola Petrolifera S.p.A.;
- Sarlux S.r.l.;
- Sartec S.p.A.;
- Akhela S.r.l.

We also wish to inform you that we have obtained from the aforementioned auditing firm all relevant information regarding the Report issued by it pursuant to the provisions of Clause 2409 (iii) of the Italian Civil Code and in which it affirms that the consolidated financial statements duly comply with the rules governing the criteria by which they are to be produced, that they have been prepared with clarity and give a true and fair view of the Group's balance-sheet situation, financial position and performance.
Pursuant to the provisions of Clause 29 of Legislative Decree 127/91, the financial

statements comprise a balance sheet, income statement and supplementary notes.
As was also the case the previous year, your Board of Directors has produced a single Report on Operations in which all the required information regarding both the parent company and individual subsidiary companies has been provided all together. We refer to this report, which adequately presents performance, balance-sheet situation and financial position, development of operations during 2005 and foreseeable business development in 2006 for all consolidated companies.
Our audit confirmed consistency with the group's consolidated financial statements.
The supplementary notes set out the general criteria followed when drawing up the consolidated financial statements, as well as the criteria adopted when valuing individual items, as provided for in Clause 38 of Legislative Decree 127/91.
The determination of the consolidation area, the selection of the standards followed to consolidate equity interests and the procedures adopted reflect the requirements of Legislative Decree 127 of 9 April 1991. The consolidated financial statements are therefore to be regarded as correctly formed from a technical viewpoint and, on the whole, to conform to legal requirements.

As part of the responsibilities of this Board of Statutory Auditors, we wish to inform you that:

- the consolidated financial statements of the group Saras S.p.A. include the individual financial statements of subsidiary companies and investee companies, which have been valued by methods that are elaborated upon more extensively and analytically in the supplementary notes, which also highlight the consolidation principles adopted for said companies;
- the auditing techniques followed when drawing up the financial statements, which are hereby presented for your approval, are appropriate for the purposes of ensuring that the information provided by the various investee companies is used properly;
- assets and liabilities have been valued by way of consistent criteria that are the same as those used to draw up the individual financial statements of the parent company (pursuant to the provisions of Clauses 34 and 35 of Legislative Decree 127/91);
- tangible assets include assets that have been revalued pursuant to the provisions of Laws 576/1975, 72/1983 and 342/2000;
- the adjustments made to the financial statements in order to reverse entries of a tax nature, as well as other consolidation adjustments, take their deferred tax effect into account;
- commitments and memorandum accounts are reported at the bottom of the balance sheet;

The Board of Statutory Auditors also wishes to affirm the following:

the financial statements report consolidated shareholders'equity of euro 528,768,000, while the parent company's equity amounts to euro 573,303,718.

Shareholders,

based on the audits carried out, the Board of Statutory Auditors hereby agrees to the content and form of the group's consolidated financial statements for the year ending 31 December 2005.

The board of statutory auditors
Mr. Claudio Massimo Fidanza
Mr. Giovanni Camera
Mr. Michele Di Martino

PricewaterhouseCoopers SpA

AUDITOR'S REPORT IN ACCORDANCE WITH ARTICLE 2409-TER OF THE ITALIAN CIVIL CODE

To the Shareholders of
SARAS SPA

1 We have audited the consolidated financial statements of Saras SpA as of 31 December 2005, comprising the consolidated balance sheet, income statement, statement of changes in shareholders' equity, statement of cashflows and related notes. These consolidated financial statements are the responsibility of the directors of Saras SpA. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The aforementioned consolidated financial statements are the first to be prepared in compliance with the International Financial Reporting Standards as adopted by the European Union.

2 We conducted our audit in accordance with the auditing standards and criteria recommended by CONSOB. Those standards and criteria require that we plan and perform the audit to obtain the necessary assurance about whether the consolidated financial statements are free of material misstatement and, taken as a whole, are presented fairly. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors. We believe that our audit provides a reasonable basis for our opinion.

The consolidated financial statements show as comparatives the corresponding amounts of the prior year determined in accordance with the same accounting principles, except for the effect of the application of IAS 32 and IAS 39 which, as allowed by IFRS 1, have been applied starting from 1 January 2005.

Moreover, notes 4 and 5 illustrate the effects of the transition to the IFRS as adopted by the European Union and include information relating to the reconciliation schedules required by international accounting standard IFRS 1, previously prepared by the directors of Saras SpA, which we examined and on which we issued our auditors' report on 19 January 2006.

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3 In our opinion, the consolidated financial statements of Saras SpA as of 31 December 2005 comply with the International Financial Reporting Standards as adopted by the European Union; accordingly, they have been drawn up clearly and give a true and fair view of the financial position, results of operations, changes in shareholders' equity and cashflows of Saras Group for the year then ended.

Milan, 28 February 2006

PricewaterhouseCoopers SpA

Angelo Carpentieri
(Director)

This report has been translated from the original which was issued in accordance with Italian practice

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