Saras Group

Saras Group Consolidated Financial Statements and Separate Financial Statements of Saras S.p.A. for the year ending 31st December 2006

SARAS

Table of contents

Saras Group Consolidated Financial Statement

BOARD OF DIRECTORS

GIAN MARCO MORATTI
Chairman

MASSIMO MORATTI
Chief Executive Officer

ANGELO MORATTI
Vice Chairman

GILBERTO CALLERA
Independent Director

MARIO GRECO
Independent Director

ANGELOMARIO MORATTI
Director

GABRIELE PREVIATI
Director

DARIO SCAFFARDI
Director

BOARD OF STATUTORY AUDITORS

CLAUDIO MASSIMO FIDANZA
Chairman

GIOVANNI LUIGI CAMERA
Permanent Auditor

MICHELE DI MARTINO
Permanent Auditor

LUIGI BORRÈ
Stand-in Auditor

MASSIMILIANO NOVA
Stand-in Auditor

INDEPENDENT AUDITING FIRM

PRICEWATERHOUSECOOPERS S.p.A.

Group Activities

The Saras Group is active in the energy sector, and is one of the leading operators in Italy and the rest of Europe when it comes to refining crude oil. It sells and distributes oil products in both the domestic and international market, and produces and sells power, as well as engaging in other activities such as industrial engineering for the oil sector and IT services.

As part of its refining activities, it processes both purchased crude oil and the crude oil of third parties. Refining is carried out at the Saras Group's plant in Sarroch, on the south-western coast of Sardinia. The Sarroch refinery is one of the largest in the Mediterranean in terms of production capacity, and one of Europe's six *super-sites*[1], as well as one of the most complex refineries. Boasting an effective refining capacity of approximately 15 million tons per year (around 300,000 barrels/day), the refinery accounts for 15% of Italy's total distillation capacity. Thanks to the refinery size, highly complex organisation and location, the Saras Group has been able to refine different grades of crude oil, while developing commercial relationships over the years with both crude-exporting countries in North Africa and the Near East and major international oil corporations.

The Saras Group, both directly and via the subsidiary companies Arcola Petrolifera S.p.A. and Saras Energia S.A., sells and distributes oil products such as diesel, gasoline, heating oil, liquid petroleum gas (LPG), virgin naphtha and aviation fuel to markets in Italy, Europe, overseas (mainly the Spanish market) and outside of Europe.

The Saras Group also operates in the power sector through the IGCC plant (Integrated Gasification Combined Cycle) of the subsidiary Sarlux S.r.l. and the joint venture Parchi Eolici Ulassai S.r.l., which owns and manages the wind power farm located in the Municipality of Ulassai in Sardinia (power from renewable sources).

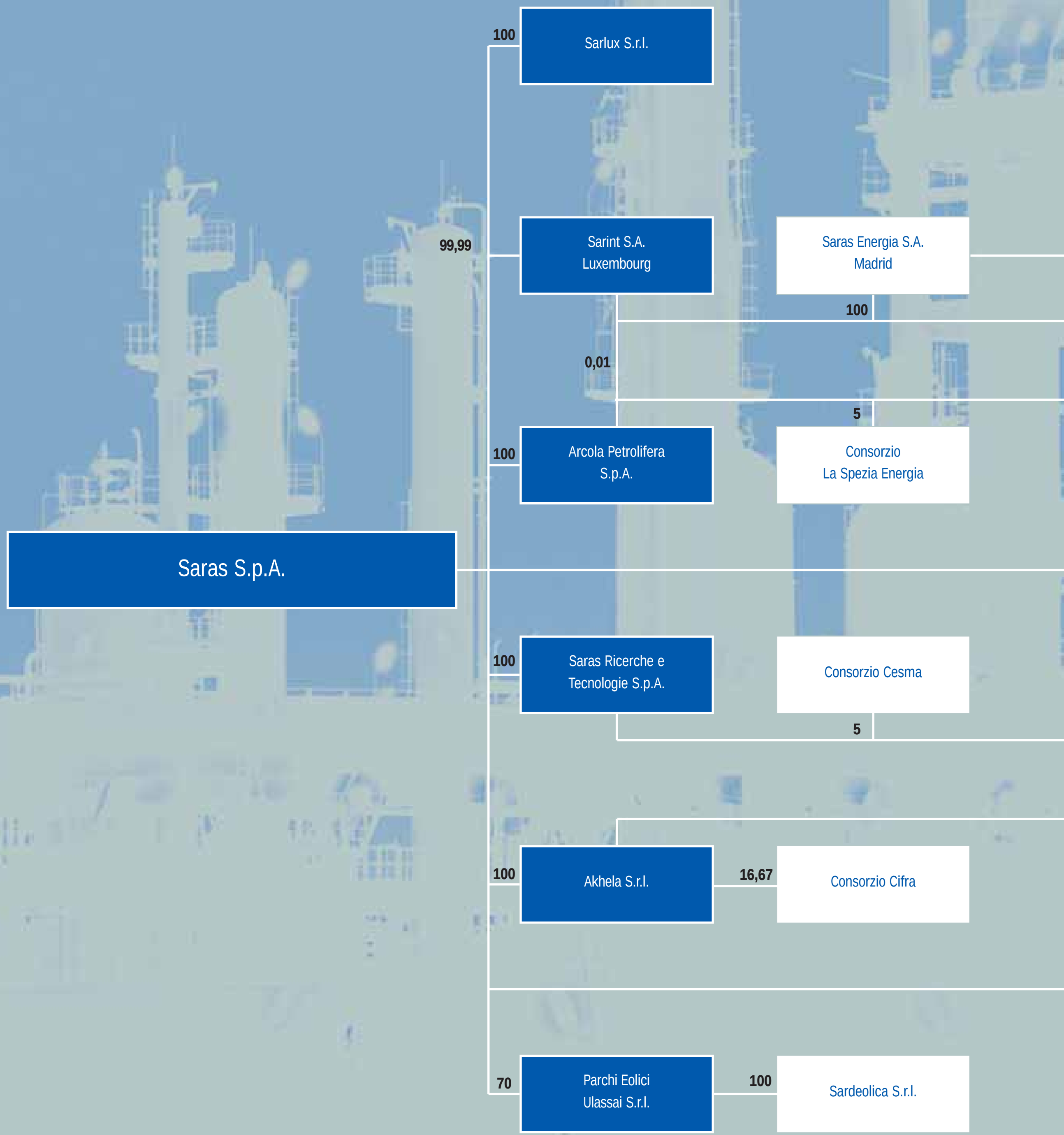
The IGCC plant, which is completely integrated with the Sarroch refinery's production processes, produces power, hydrogen and steam, as well as sulphur and metal concentrates, by using heavy crude oil residues originating from refining processes (assimilated to renewable sources). The power produced by the IGCC plant is sold to Gestore del Sistema Elettrico (GSE: the national grid operator for renewable sources) in accordance with the terms and conditions set out in CIP 6 resolution, while hydrogen and steam are used by Saras in the refinery's production processes.

The Saras Group also provides industrial engineering and scientific research services to the oil, energy and environment sectors through the subsidiary Sartec S.p.A. and operates in the information services sector through the subsidiary Akhela S.r.l.

1. Source Wood Mackenzie

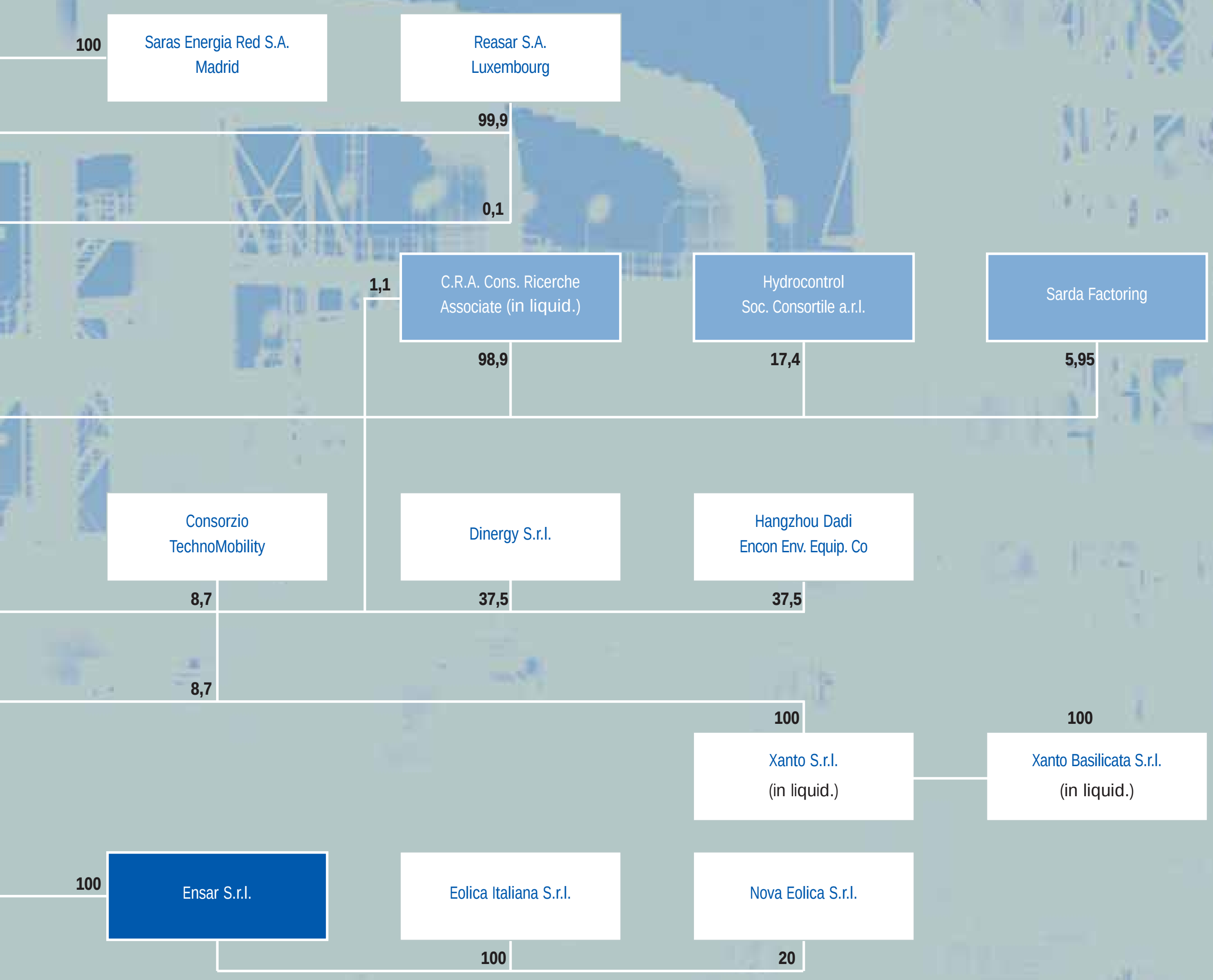
Structure of the Saras Group

Below is the complete structure of the Saras Group and the various segments of business, with the main companies for each segment.



Segments of Business

Refining	Marketing	Power Generation	Other activities	Wind
Saras S.p.A.	Saras Energia S.A.	Sarlux S.r.l.	Akhela S.r.l.	Parchi Eolici Ulassai S.r.l.
	Arcola Petrolifera S.p.A.		Sartec S.p.A.	Sardeolica S.r.l.
	Saras Energia Red S.A.			
CONSOLIDATED ON A LINE-BY-LINE BASIS				Consolidated by the equity method, Saras share is 70%



Corporate Governance

The Company complies with the self-regulatory code drawn up by the Corporate Governance Committee and published by Borsa Italiana S.p.A. in March 2006, as described in the annual report on corporate governance prepared by the Board of Directors and published within 15 days of the General Meeting called to approve the 2006 financial statements.

This report describes the main characteristics of Saras' corporate governance system, as well as the specific functions of its different components, referring specifically to its compliance with the recommendations contained in the self-regulatory code.

Saras S.p.A. company organisation conforms to the regulations contained in the Italian Civil Code and other special norms regarding joint-stock companies, specifically those contained in Leg. Dec. 24 February 1998, n. 58 and following amendments (the Italian Financial Services Act, i.e. the "TUF"). The Company is structured according to the traditional business administration and audit model, with a Board of Directors charged with overseeing business management (within which various committees have been set up, namely a remuneration committee and an internal control committee), and a Board of Statutory Auditors charged with supervising the compliance with laws and statutes, and monitoring the adequacy of the organisational structure, the internal control system and the Company's accounting-administrative system.

The Company has entrusted the task of auditing its accounts and consolidated financial statements reports for the years 2006-2011, and limited audit of the half-year reports for the same period, to PricewaterhouseCoopers S.p.A.. The Board of Statutory Auditors intends to propose to the Annual General Meeting that this mandate be extended to 2014, as newly provided for in recent legislation that changed the duration of the mandate for the audit of listed companies from six to nine financial years.

The annual report on corporate governance describes in detail the role and tasks of the Board of Directors, listing the functions that are not delegated and those that have been formally authorised, and supplies precise information regarding its composition and the meetings held in 2006 and 2007.

Specifically, the Board includes two independent non-executive directors, Mr Mario Greco and Mr Gilberto Callera, who, together with another non-executive director, Mr Gabriele Previati, make up the remuneration committee and the Company internal control committee.

The two committees act as a consulting body regarding the Self-Regulatory Code, and met regularly during 2006 and the first quarter of 2007, as illustrated in the report on corporate governance.

The report furthermore describes the Company's internal control system, whose responsibility is of the Board, which fixes directional lines and periodically checks the appropriateness and effectiveness of the system, with the help of the internal control committee, the head of internal control, as well as the internal auditing body. The Board has nominated the Chairman of the Board of Directors as the executive in charge of surveying internal control system functions.

The Company has also appointed Mr Corrado Costanzo as Chief Financial Officer, the manager in charge of the preparation of company financial reports according to art. 154-bis of the Italian Financial Services Act ("TUF"). It has also appointed an investor relations officer.

The Company's ethical code also falls within the internal control system. It expresses the principles and values that Saras recognises as its own. The Company requires that it be observed by all employees, collaborators and all those having relationships with Saras; also falling within the internal control system is the organisational, management and control model adopted according to the regulations in the "Rules regarding administrative responsibilities of bodies" in accordance with Leg. Dec. 231/2001, which a specific supervisory body oversees.

Lastly, the report illustrates the contents of the internal regulation for the management of sensitive information and the institution of a registry of personnel who have access, the behavioural code regarding internal dealing, the behavioural principles for the implementation of dealings with related parties as well as the behavioural code of Saras Group directors, adopted by the Company's Board of Directors.

Share Performance

Below are some data concerning prices and daily volumes relating to the Saras share between 18/5/2006 and 29/12/2006.

SHARE PRICE	Euro
Minimum price (26/09/2006) *	3.968
Maximum price (18/05/2006) *	5.670
Average price	4.499
Closing price at 29/12/2006	4.047

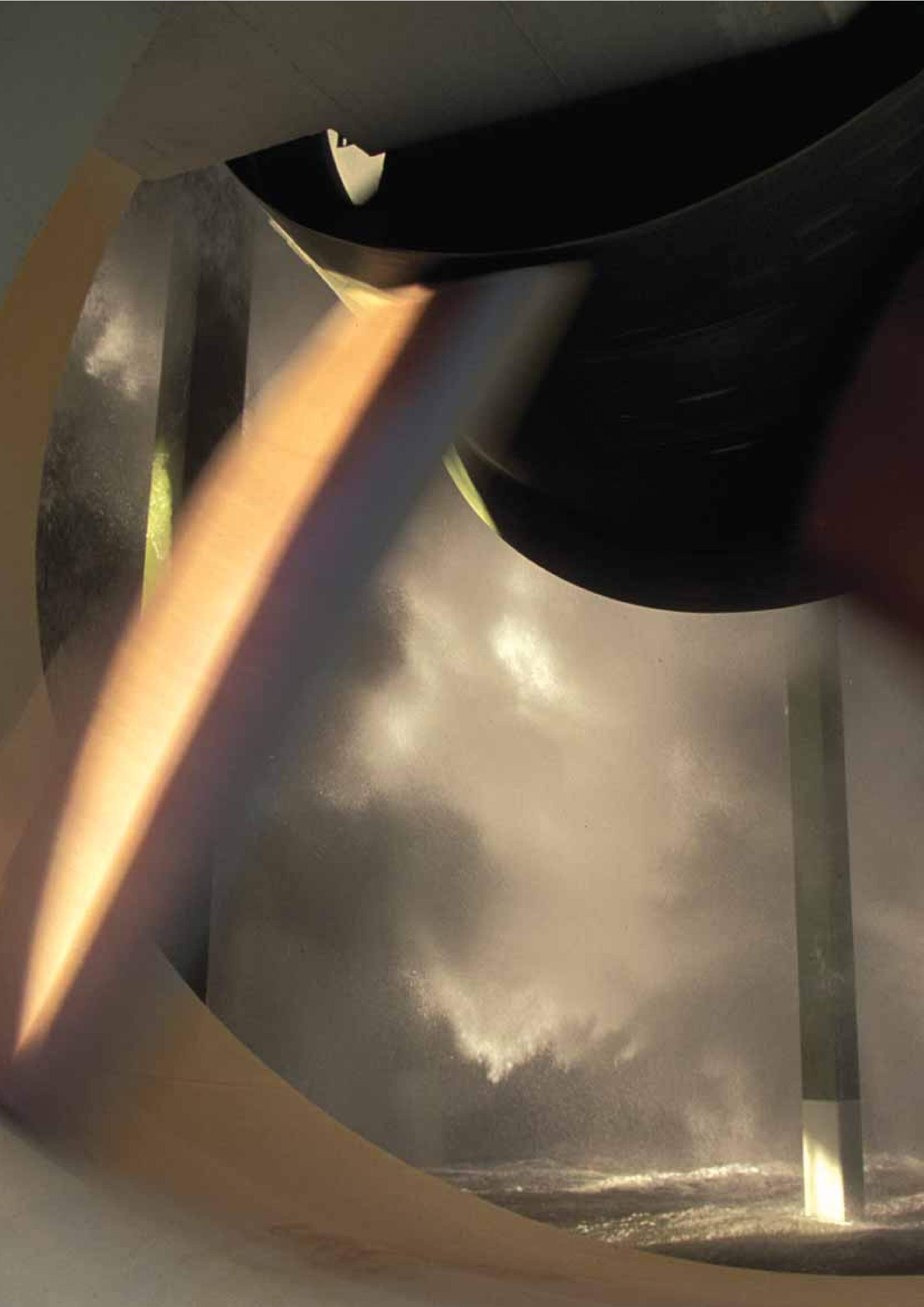
* intended as minimum and maximum price during the day's trading, therefore not coincident with the official reference prices on the same date

DAILY TRADING VOLUMES	Millions of Euro
Maximum volume (18/05/2006)	677.2
Minimum volume (12/07/2006)	4.1
Average volume	23.3

Market capitalization at 29/12 amounted to about € 3,800 million.

In the following chart is reported Saras' share performance from the IPO date in comparison to relevant indexes like MIB30 (Milan stock exchange) and Dow Jones Oil&Gas that includes a selected list of energy companies in Europe.

SARAS SHARE PERFORMANCE VS RELEVANT INDEXES (REBASED)



Report on Operations

Comments on Group Results

It is worth to be noted that during the first half of 2006 Saras S.p.A. took full control of Sarlux S.r.l. through the acquisition from Enron Dutch Holdings B.V. of its 45% stake following the arbitration between the two companies ruled in Saras' favour on the 18th of April 2006.
In the light of the above, starting from the second half of 2006, Sarlux S.r.l. has been fully consolidated into Saras Group accounts on a line-by-line basis (in the first half of the year Sarlux was consolidated by the equity method).

In order to better explain the impact of the acquisition and to facilitate year on year comparisons, consolidated "proforma" statements have also been made available for the year 2005 and the year 2006 assuming full consolidation of Sarlux S.r.l. as of 1st January 2005 (please refer to the "proforma" financial statements section of this report for more details).

Furthermore, in order to give a better representation of the operating performance, and in line with the standard practice in the oil industry, operating results (like EBITDA[2] and EBIT[3]) are reported also with inventories evaluated at LIFO (and not only at FIFO as requested by IFRS accounting principles) because this method combines the most recent costs with the most recent revenues, thus providing a clearer picture of current profitability.

2006 highlights:

- Revenues up vs 2005 (+15%)
- EBITDA down 28% vs 2005
- Net income up 35% vs 2005
- Improved operating performance vs 2005 from refining and power segments
- Net financial position negative for EUR 285 ml
- Proposed dividend of 0.15 euro/share

2. **EBITDA** Earnings before interest, taxes, depreciation and amortization
3. **EBIT** Earnings before interest and taxes

SARAS GROUP KEY INCOME STATEMENT FIGURES:

EUR million	2006	2005	%
Revenues	6,019	5,236	+15%
EBITDA	411.0	570.3	-28%
EBIT	292.2	492.4	-41%
NET INCOME	395.4	292.6	+35%

OTHER GROUP FIGURES:

EUR million	2006	2005
Net Financial Position	(285)	(177)
CAPEX	130	61

PROFORMA SARAS GROUP KEY INCOME STATEMENT FIGURES:

EUR million	2006	2005	%
REVENUES	6,169	5,547	+11%
EBITDA	526.2	783.7	-33%
comparable EBITDA[4]	**567.5**	**653.6**	-13%
EBIT	363.5	612.8	-40%
comparable EBIT[5]	**404.8**	**482.7**	-16%
NET INCOME	207.8	306.4	-32%
adjusted NET INCOME[6]	**241.9**	**230.5**	+5%

OTHER GROUP PROFORMA FIGURES

EUR million	2006	2005
Net Financial Position	(291)	(573)
Of which Sarlux Project Finance	(369)	(465)
CAPEX	133	86

MAIN FINANCIAL INDEXES*

	2006	2005
Leverage[7]	19%	39%
ROACE[8]	16%	17%
ROAE[9]	22%	26%

* Calculated on proforma figures

4. **EBITDA comparable:** calculated evaluating inventories at LIFO
5. **EBIT comparable:** comparable EBITDA, depreciation&amortization
6. **Adjusted Net income:** reported net income adjusted by (inventories at LIFO-inventories at FIFO) after taxes, non recurring items after taxes and change in the derivatives fair value after taxes
7. **Leverage:** net debt / (net debt + equity)
8. **ROACE:** return on average capital employed
9. **ROAE:** return on average equity

Saras Group achieved a positive overall performance in 2006.

Revenues, EUR 6,019 ml, increased by 15% vs 2005 due to the increase of oil prices especially in the first part of the year.

EBITDA (EUR 411 ml) decreased by 28% vs 2005 as a consequence of lower refining margins, that negatively affected the performance of the refining segment, and was only partially mitigated by the line by line consolidation of Sarlux since the third quarter. The year on year comparison is more representative in terms of **comparable proforma EBITDA** that was EUR 568 ml with a much lower contraction vs 2005 (-13%).

Net income (EUR 395 ml) was significantly higher, +35%, in comparison with 2005 mainly thanks to the non recurring item related to the acquisition of 45% stake of Sarlux s.r.l. (EUR 199 ml), described in details in the notes to the financial statements in this report. If we consider the **adjusted proforma net income**, not affected by the above extraordinary items, the year on year comparison is more representative and highlights a rise from EUR 231 ml to EUR 242 ml (+5%), thanks to the improved operational performance of all the segments and also thanks to a reduction in the financial expenses related to losses on oil derivatives, that negatively affected 2005.

Refining&Power margin[10] also in 2006 has been above **10 $/bl** (10.1 $/bl, see following chart) confirming the track record of superior margins of the Saras site.

CAPEX of EUR 130 ml, up 55% compared to 2005, are mainly focused in the refining segment.

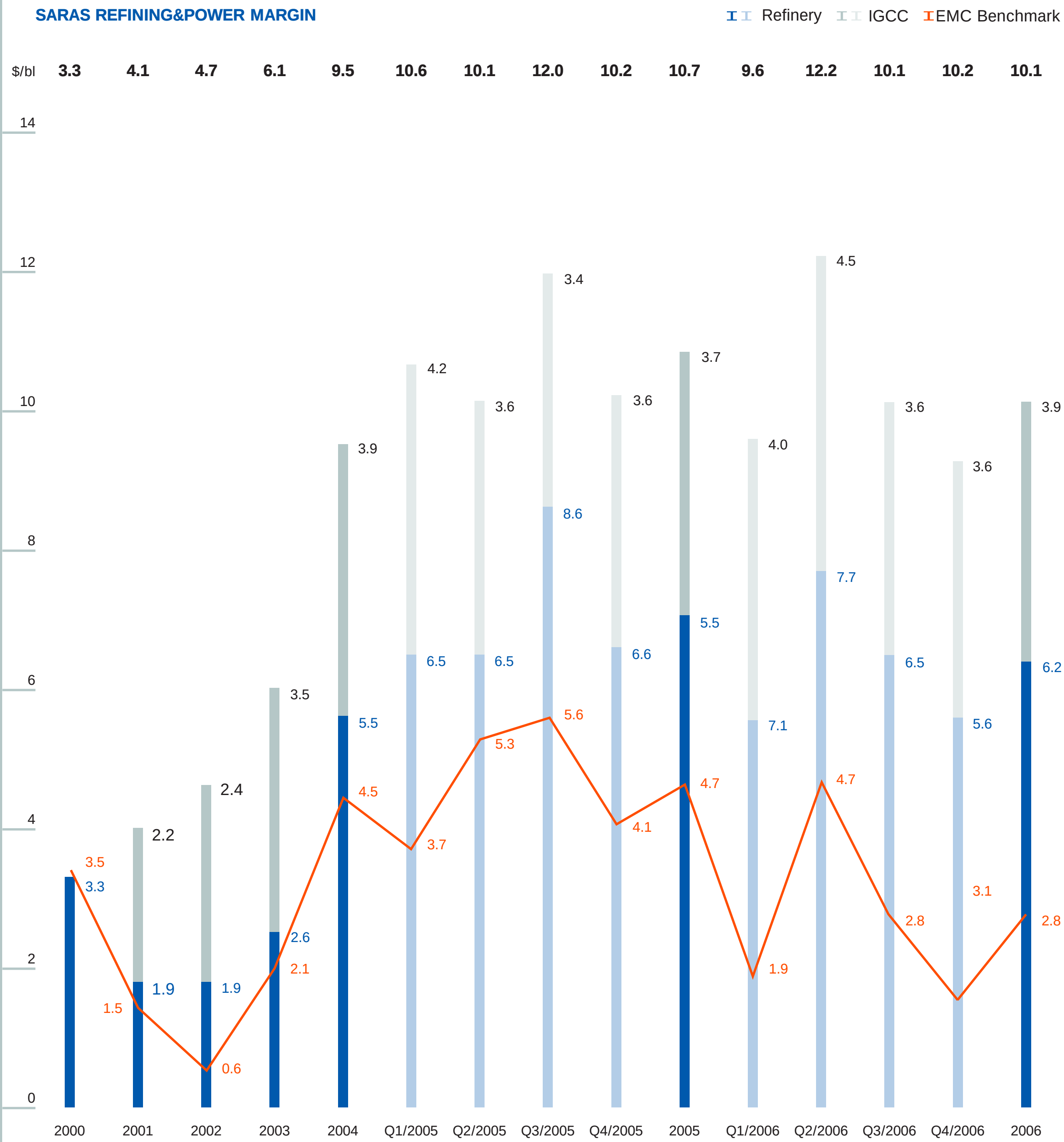
We remark also **the acquisition of** the 45% stake of Sarlux s.r.l. (total cost of EUR 127 ml) and of 36 service stations in Spain (total cost EUR 28 ml).

Net Financial Position at the end of the year was negative by EUR 285 ml compared to a negative of EUR 177 ml at the end of 2005, because at the end of 2005 Sarlux's debt was not included in the net financial position of the Group, being consolidated with the equity method. The comparison is more meaningful if looking at proforma figures where at the end of 2005 the net financial position of the Group was negative by EUR 573 ml. The improvement in this case is mainly due to the high operating cashflow and to the proceeds of the IPO (EUR 342 ml).

As a consequence **leverage** is down to 19% from 39% at the end of 2005, confirming the strong financial structure of the Group.

ROACE in 2006 has been 16% , almost unchanged from previous year.

10. **Refining&Power margin:** total margin of the integrated site resulting from the refining margin plus the margin of the IGCC plant



Refinery margins: (refining comparable EBITDA + Fixed Costs) / Refinery Crude Runs in the period.

IGCC margin: (power.gen EBITDA + Fixed Costs) / Refinery Crude Runs in the period

EMC benchmark: margin calculated by EMC (Energy Market Consultants) based on runs equal to 50% of Ural and 50% of Brent and used by Saras as a benchmark.

Main events during the year

20 January 2006

The Annual Shareholder's Meeting of Saras approves the proposal to list the Company's ordinary shares on the MTA (Mercato Telematico Azionario, Electronic Share Market) managed by Borsa Italiana (the Italian stock exchange).

18 April 2006

Borsa Italiana, with deliberation n° 4600 dated 18/04/06, authorizes the listing to the Milan stock exchange of Saras S.p.A. ordinary shares.

28 June 2006

The Court of Cagliari order the release to Saras of the 45% stake in Sarlux from Enron Holdings B.V. This follows the enforcement of the writ of execution issued by the Court of Appeal of Rome, in respect of the award issued on 18th April 2006 by the Geneva-based arbitral panel. Consequently Saras fully enjoys all the rights deriving from Sarlux's shares, and proceeds to fully consolidate the subsidiary in its accounts.

8 July 2006

Saras Energia S.A., operating in the marketing segment, acquires 36 service stations from Caprabo in Spain.

24 April 2006

The secretariat of the International Chamber of Commerce notifies Saras S.p.A. that the arbitral panel in the proceedings between Saras and Enron Dutch Holdings B.V. issued an award in Saras' favour on April 18th. The parties' dispute concerned Saras' right to exercise a call option on the 45% stake in Sarlux S.r.l. previously held by Enron Dutch. The stake at the time was still under judicial attachment. Saras already held the other 55% of Sarlux.

18 May 2006

First day of trading of Saras' shares on the Milan stock exchange

4 October 2006

The Company appoints the new General Manager in the person of Dario Scaffardi.

15 November 2006

Resolution No. 249/06, issued by the "Autorità per l'Energia Elettrica e il Gas" (the Italian authority for electricity and gas) modifies the criteria for evaluating the fuel cost component of the price of the electricity generated by CIP 6 plants, including the one owned by Saras' subsidiary Sarlux.

The Oil Market

The chart shows the course of the price of Dated Brent crude oil in the year 2006.

2006: DATED BRENT (SOURCE: PLATT'S)

Dated Brent price at end 2006 was very similar to the price at end 2005, around 60 $/bl, but the average quotation during the year was significantly higher: 65.2 $/bl

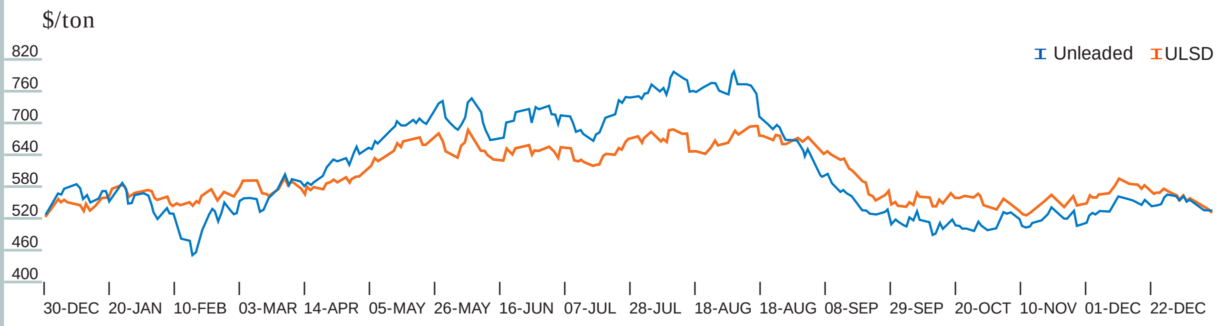
We can remark that prices were below the year average during Q1 and from early September till the end of the year, while they were higher than the average during the April-August period.

During Q1, a mild winter in the northern hemisphere dampened oil demand and kept crude price around the 60 $/bl level. Starting from the end of March, the beginning of the *driving season*[1] in the US and several geopolitical factors (such as the Iranian nuclear plans and terrorist attacks in the Niger Delta) drove prices above the 70 $/bl threshold for the first time. At the beginning of Q3 another price spike was driven by expectations of a violent hurricane season in the US gulf coast, that fortunately did not materialize: Dated Brent quotations hit the highest level ever on 8th of August (78.7 $/bl); after that, Brent price fell sharply to an end of Q3 value of less than 60 $/bl.

In the last quarter of 2006, another exceptionally mild start of winter affected strongly oil demand, and inventories of crude and products grew quickly. Brent price was quite stable in the 55-60 $/bl range until the end of November, when the OPEC decision to cut production pushed crude oil price to the 65 $/bl threshold. After that there was another declining trend during December to around 60 $/bl.

The courses of the most important product prices are shown in the following chart.

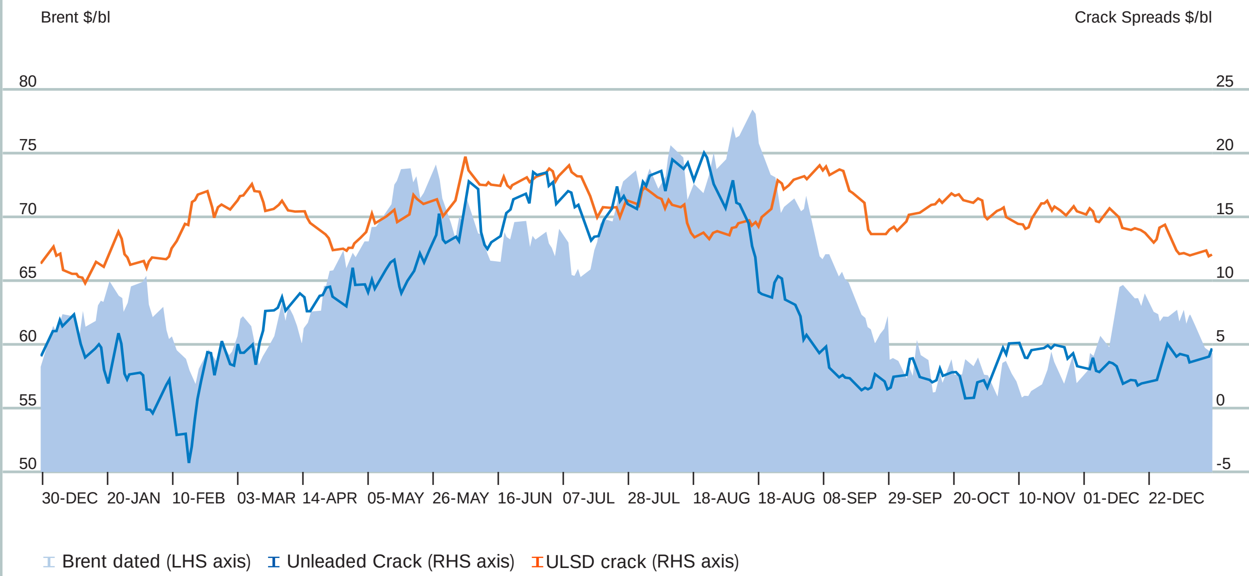
2006: UNLEADED GASOLINE/ULTRA LOW SULPHUR DIESEL (ULSD) FOB MED QUOTATIONS (SOURCE: PLATT'S)



11. **Driving season:** period of higher than average transportation fuels consumption due to holidays and favourable weather conditions

Looking at the development of gasoline and diesel crack spreads[12] vs dated Brent it's clear that during 2006 the oil market was mainly driven by gasoline: crude price was strongly correlated with the gasoline crack spread (that traded in an extremely wide range, from -5 to +20 $/bl), while the ULSD crack spread was more stable (in the range 10-20 $/bl) also because the winter seasons at the beginning and at the end of 2006 were both very mild, with a weak heating oil demand that depressed all the middle distillates.

2006: UNLEADED GASOLINE/ULTRA LOW SULPHUR DIESEL (ULSD) FOB MED CRACK SPREADS VS BRENT (SOURCE: PLATT'S)

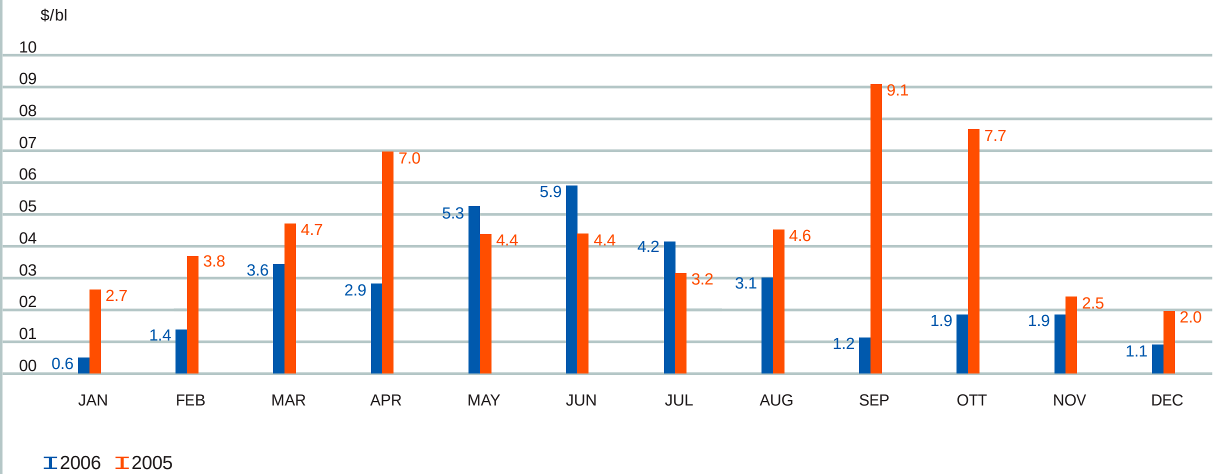


During the fourth quarter there was a clear declining trend for diesel crack spread, while gasoline crack spread oscillated in a narrow range and lost any correlation with crude price, that was mainly affected by speculations on OPEC decisions to cut production.

The following chart shows the margin calculated by EMC (Energy Market Consultants) used by Saras as a benchmark.

The average benchmark margin for the full year 2006 was 2.8 $/bl to be compared to 4.7 $/bl in 2005; there were only 3 months in 2006 with margins higher than 2005, from May to July, but the general rule was a constant weaker market for refining, especially in April and September-October (Katrina and Rita hurricanes in 2005).

EMC FOB MED BENCHMARK (50% BRENT - 50% URALS)



12. **Crack spread:** difference between price of a product and reference crude oil

Regulatory Framework

The more significant measures and facts of 2006 are as follows:

Italian Environment and Territorial Protection Ministry Decree of 23rd February 2006 *"Allocation of greenhouse gas emission quotas for the period 2005-2007 for the purposes of art. 11, subsection 1 of European Parliament and Council Directive 2003/87/EC"*

- Directive 2003/87/EC (Emission Trading) established that from 1st January 2005 no installation, including any relating to activities subject to said directive, may continue to operate without special authorisation relating to greenhouse gas emissions. In addition, the Emission Trading Directive requires that each installation be allocated a certain greenhouse gas emissions quota. If the actual emissions from an installation exceeds the allocated emissions quota, the operator may purchase emissions sufficient to cover said excess from the European market, thereby sustaining additional costs. The Member Countries decide the emissions quotas to be allocated and their allocation method via a National Allocation Plan (NAP), subject to approval of the European Commission.

- Based on the NAP, the quotas are then allocated and issued to the individual installations. In Italy, the quotas for 2005-2007 were allocated and issued to individual installations by the aforementioned decree of the Environment and Territorial Protection Ministry. Many operators in the sector, including Saras and Sarlux, have censured the measure before the Regional Administrative Court.

AEEG Consultation Document of 15 November 2006

- On 15 November 2006 the AEEG (Italian Electrical and Gas Energy Authority) issued a Consultation Document concerning *"AEEG guidelines on the definition of criteria for recognition, for the purposes of Section II, subsection 7bis of Italian Interdepartmental Pricing Committee CIP 6/92, of obligations deriving from the enactment of Directive 2003/87/EC"*. By this document, the Authority expressed its intention to reimburse part of the charges sustained by operators of each installation to meet obligations deriving from the Emission Trading Directive.

AEEG Resolution 188 of 4 August 2006

- On 4 August 2006, the AEEG issued Resolution 188, *"Directive relating to the Compensation Fund for the electrical industry for the management of inspections on electrical energy production installations that use processed or residue, urban waste or biomass fuels and which, on an annual basis, also use hydrocarbons in quantities strictly necessary under the terms of section II, subsection 12bis of CIP 6/92"*. Many operators in the sector have censured said resolution since there is some doubt that subjecting the installation to operations under the terms of art. 12bis of CIP 6 causes unlawful damage.

AEEG Resolution 249 of 15th November 2006

- On 15 November 2006, the AEEG issued Resolution 249, *"2007 update on the average conventional fuel price in avoided fuel cost under the terms of section II, subsection 2 of CIP 6"*. By this resolution the Authority established 6.05 eurocents/kWh as the 2007 down payment for the Avoided Fuel Cost (AFC) Component of the "adopted initiatives". In this respect, the Authority has not defined updating criteria for the adjustment of the AFC component in future years, since it is expected that the component will be updated via further measures which "also take into account the concentration level of natural gas market and the level of supply competition". Operators in the sector have contested the Resolution since it establishes an AFC component value lower than that obtainable by applying the criteria indicated in CIP 6/92, which should be used in compliance with applicable law.

Italian Budget Law 296/06

- Budget Law n.296/06, effective as of 1st January 2007, contains *inter alia* provisions regarding incentives indicated in CIP 6/92, in particular art. 1, subsections 1117 and 1118. For the purposes of art. 1, subsection 1117 of the new Budget Law and from the date of its enactment, any incentive for the promotion of renewable energy sources is granted only for energy produced from renewable sources included in the definition according to Directive 2001/77/EC. In this respect, said definition does not include sources comparable to renewable, and nor does it apply to installations in receipt of the required authorisation which began operations prior to the effective date of the aforementioned Budget Law, including installations subject to conventions adopted under the terms of CIP Regulation 6/92. This overriding regime is governed by art. 1, subsection 1118 of the Budget Law, which systematically establishes that the Italian Economic Development Ministry, in agreement with the Environment and Territorial Protection Ministry, is expected to adopt decrees redefining the extent and duration of support for non-renewable energy sources comparable to renewable energy sources used in installations already constructed and in operation on the date the Budget Law became effective. For the purposes of art. 1, subsection 1118 of the Budget Law, measures to redefine the extent and duration of the incentives must be prepared "*taking into account former rights and in observance of general legal principles, with the aim of reducing charges with an impact on electricity prices and of eliminating economic benefits not proven to be specifically motivated and coherent with European Directives on matters of electrical energy*".

Italian Legislative Decree 152/2006, Consolidated Environment Act

- Italian Legislative Decree 152/2006 has approved the "Consolidated Environment Act". This measure has partially modified the Italian environment-friendly certification regime. The same measure has also modified the legal framework relating to atmospheric emissions.

Sardinia Regional Government Resolution 36/7 of 5 September 2006

- By Executive Council Resolution 36/7 of 5 September 2006, the Sardinia Regional Government approved the Regional Landscape Plan. The plan divides the regional territory based on existing landscape values and sets certain restrictions upon land usage or procedural deterioration.

Segment Reviews

Below is the main information relating to the various segments of business of the Saras Group.

Furthermore, detailed results of the Parchi Eolici di Ulassai S.r.l. joint venture and its subsidiary Sardeolica S.r.l. (wind segment) are given in order to provide complete information, although the company is consolidated using the equity method.

Refining

KEY FIGURES

Milioni di Euro	2006	2005
EBITDA	292.2	531.5
Comparable EBITDA	**323.8**	**421.5**
EBIT	223.8	458.2
Comparable EBIT	**255.4**	**348.2**

MARGINS AND REFINERY RUNS

			2006	2005
Benchmark refining margin(*)		$/bl	2.8	4.7
Saras refining margin(**)		$/bl	6.2	7.1
Total refinery runs	(thousand tons)	Kt	14,286	14,423
	(million of bl)	Mbl	104.3	105.3
of which:	processing for own account	Kt	7,381	7,326
	processing on behalf of third parties	Kt	6,905	7,097

(*) calculated by EMC : 50% Ural + 50% Brent

(**) (comparable EBITDA + fixed costs) / total refinery runs

2006 has been characterized by a decline of refining margins with the EMC benchmark lower at 2.8 $/bl versus 4.7 $/bl in 2005 (-1.9 $/bl).

It's important to remark that there was an important cycle of maintenance activities in the refinery during the second quarter of 2006, with relevant impacts both on total crude oil runs and on conversion capacity[13].

The operational improvements and the achievement of one important step in the organic growth strategy (the one related to the increase of conversion capacity) allowed Saras to achieve a refining margin of 6.2 $/bl, only 0.9 $/bl lower than 2005. Consequently the premium above the EMC benchmark increased from 2.5 $/bl in 2005 up to 3.4 $/bl in 2006.

Coming to the details, the improved conversion capacity was achieved during the maintenance activities in Q2 that involved one of the *vacuum distillation* units, one of the *mild hydrocracking* units and the *reformer*. The improvements allowed to increase the production of diesel fuel by 200,000 tons on a yearly base; a further step will add another 150,000 tons starting from the third quarter of 2007.

An important improvement has to be highlighted in the products yields with middle distillate production (mainly diesel oil) averaging 51.4% in 2006 vs 49.2% in 2005, while the total yield of light products (middle distillates+gasoline+LPG) increased from 78.4% in 2005 up to 80.9% in 2006.

The result has been achieved with a crude slate averaging the same API gravity of 2005 (32.9 deg in 2006 vs 32.8 in 2005).

In this context the refinery runs are in line with those achieved during 2005: 104.3 million bl (14.3 million tons) in 2006 vs 105.3 million bl (14.4 million tons) in 2005.

REFINERY PRODUCTION(*)

			2006	2005
LPG		kt	312	334
	yield		**2.2%**	**2.3%**
Naphtha + Gasoline		Kt	3,893	3,873
	yield		**27.3%**	**26.9%**
Middle Distillates		Kt	7,350	7,095
	yield		**51.4%**	**49.2%**
Fuel Oil & other		Kt	725	1.154
	yield		**5.1%**	**8.0%**
TAR (residue to IGCC)		Kt	1,152	1,111
	yield		**8.1%**	**7.7%**

(*) balance to 100% are consumption and losses

CRUDE OIL SLATE[14]

		2006	2005
Light extra sweet	Kt	6,092	5,375
Light sweet	Kt	707	1.176
Medium sweet	Kt	205	225
Light sour	Kt	0	0
Medium sour	Kt	3,346	3,660
Heavy Sour	Kt	3,936	3,987
Total RUNS	**Kt**	**14,286**	**14,423**
	Mbl	**104.3**	**105.3**
Average crude gravity	**°API**	**32.9**	**32.8**

13. **Conversion capacity:** ability to transform the heavy portion of a crude oil into light and valuable products such as gasoline and diesel fuel

14. **Crude Oil Slate:** Crude oils are commercially defined using the parameters of density (degree API) and sulphur content: according to density they are defined light, medium or heavy; according to increasing sulphur content they are defined sweet or sour

Marketing

The activity of the segment is mainly concentrated in the wholesale business where the Saras Group operates through the subsidiaries Arcola Petrolifera S.p.A. in Italy and Saras Energia S.A./ Saras Energia Red S.A. in Spain.

KEY FIGURES

Milioni di Euro	2006	2005
EBITDA	15.1	43.1
Comparable EBITDA	**24.8**	**23.0**
EBIT	11.7	41.9
Comparable EBIT	**21.4**	**21.8**

In Italy and Spain the growth trend of diesel oil consumptions continues thanks to the increasing popularity of diesel fuelled cars; the opposite is true for gasoline and heating oil, the latter mainly due to warmer weather conditions in Europe. High volatility of product prices together with the increase of compulsory storage costs in Spain determined a retail margin reduction compared to 2005.

In this context Saras' marketing division has been able to increase sales, for the first time exceeding 3 million tons (+9% versus 2005), also gaining market share. Comparable EBITDA was up 8% versus 2005; comparable EBIT, however was in line with 2005 due to additional depreciation deriving from the finalization of the service stations acquisition.

Also notable is the increase of sales of 15% in Spain, +11% for diesel oil, compared to overall diesel market increase of 5.8%. Important in this strategy has been the acquisition in July of 36 service stations in the Mediterranean area of Spain.

The sales in Italy were slightly lower than 2005 (-2%) due to extremely low consumption of heating oil in the North of Italy. Arcola has however been able to increase market share in the diesel oil market with sales up 5.4% versus a 1.5% increase in national consumption.
In October 2006 a turnkey contract for the construction of a 200,000 tons per year biodiesel plant in Cartagena has been awarded to Desmet Ballestra. The estimated cost is EUR 35 ml and the start of production is expected by Q1/2008.

Sales

SALES IN ITALY

		2006	2005
Gasoline	Kt	76	105
Diesel	Kt	608	593
Other gasoil	Kt	176	185
Other products	Kt	153	154
Total sales	Kt	**1,013**	**1,037**

SALES IN SPAIN

		2006	2005
Gasoline	Kt	440	345
Diesel	Kt	1,258	1,133
Other gasoil	Kt	501	435
Other products	Kt	7	7
Totale vendite	Kt	**2,206**	**1,920**

Power Generation

Sarlux has been fully consolidated on a line-by-line basis as of 28th June 2006.

KEY FIGURES
The below figures are related to the full year 2006.

EUR million	2006	2005
EBITDA	**220.0**	**213.4**
EBIT	**131.7**	**120.4**

As already explained, EBITDA and EBIT figures related to the second half of 2006 (respectively EUR 104.6 ml and EUR 60.4 ml) have been considered for consolidation purposes.

OTHER FIGURES

	2006	2005
Electricity production (MWh/1000)	4,467	4,347
Power IGCC margin ($/bl)	**3.9**	**3.7**

MWh: Megawatt-hour ; KWh: Kilowatt-hour

The power segment reported a good result in 2006 with an increased EBITDA versus 2005. The reasons are mainly attributable to an excellent operational performance of the IGCC plant (92.5% availability during the year that led to increased electricity sales versus 2005). Sales of hydrogen to the refinery have also been increased by 26% thanks to improvements in the hydrogen production unit.

It is worth to be noted that, as better explained in the notes to the financial statements, revenues are linearized as requested by the IFRS accounting principles.

On 15th November 2006, resolution No. 249/06, from the "Autorità per l'energia elettrica e il gas" (the Italian authority for electricity and gas) modified the criteria for evaluating the fuel cost component of the price of the electricity generated by CIP 6 plants since 2007. Sarlux believes that the above mentioned resolution is unlawful for several reasons and therefore on 12th January 2007 challenged the resolution before the relevant court in Italy.

Other activities

The following table shows the main financial data of the segment related to operations of Sartec S.p.A. and Akhela S.r.l.

KEY FIGURES

EUR million	2006	2005
EBITDA	**(1.1)**	**(4.3)**
EBIT	**(3.7)**	**(7.7)**

Akhela (IT services) and Sartec (research and engineering services in the oil sector) restructuring efforts have shown concrete results in 2006 with EBIT, still negative, but improved by 52% versus 2005.

Wind

Please note that the wind segment includes Parchi Eolici di Ulassai S.r.l. (and its subsidiary Sardeolica S.r.l.), a Joint Venture (Saras share is 70%) consolidated by the equity method.

KEY FIGURES

Milioni di Euro	2006	2005
EBITDA	**25.7**	-
EBIT	**17.4**	-
Net income	**8.9**	-
Adjusted Net income	**8.1**	-

OTHER FIGURES

EUR million	2006	2005
Electricity production (MWh)	**157,290**	-
Power tariff (*) (€ cent/KWh)	**19.5**	-

(*) includes green certificates

First year of full production of the Ulassai wind farm has been fully in line with expectations despite mild weather conditions in particular during the second half of the year. Favourable power tariffs trend during the year contributed also to the good result.
The further upgrade up to 96 Mw is under review because of the change in the law regulating the permitting phase.
A pipeline of projects in Sardinia and southern Italy under development are in the permitting phase.

Net Financial Position

The net financial position of the Group is represented as follows:

	31-12-06	31-12-05
Medium/long term bank loans	(323)	(132)
Total long term net financial position	**(323)**	**(132)**
Short term bank loans	(139)	(58)
Bank overdrafts	(61)	(40)
Other short term loans	0	(1)
Loans from unconsolidated Group companies	(2)	(3)
Loans to unconsolidated Group companies	9	19
Change to Interest Rate Swap fair value	0	0
Other financial activities	14	13
Cash and cash equivalents	218	25
Total short term net financial position	**38**	**(45)**
Total net financial position	**(285)**	**(177)**

Net Financial Position at the end of the year decreased to a negative of EUR285 ml from a negative of EUR 177 ml at the end of 2005, because at the end of 2005 Sarlux's debt was not included in the financial position of the Group being consolidated with the equity method.

To be noted that the short term net financial position is positive because of the mandatory bank deposits related to the project financing of Sarlux.

Personnel

Personnel employed at the end of the period, split by business segment and compared to the same period last year, was:

	dec-06	dec-05
Refining personnel	1.172	1.157
Marketing personnel	234	60
Power Generation personnel	22	23
Wind personnel	25	1
Other personnel	357	347
Total Group personnel	**1.810**	**1.588**

Increase mainly due to the acquisition of 36 service stations from Caprabo.

Investments

Investments in Tangible and Intangible Assets

During 2006 Saras had total CAPEX of EUR 130 ml , mainly in the refining segment, as part of its organic growth strategy, with the main goal of increasing Sarroch refinery profitability.

The split of the investments by segments is reported in the following table:

EUR ml	2006
Refining	**108**
Marketing	**12**
Power Generation	**9**
Other	**1**

In the refining segment there are two projects whose implementation began during 2006:

- the second phase of Prime G+ project that will allow the full production of gasoline with less than 10 ppm[15] of sulphur in compliance with the EU directive in force from 2009

- the tail gas treatment unit that will allow to increase the recovery of sulphur from sulphur plants tail gasses, thus reducing emissions to the atmosphere in line with the best available techniques reported in the IPPC (integrated pollution prevention and control) EU directive.

In the marketing segment it's worth to be noted that in October 2006 a turnkey contract for the construction of a 200,000 tons per year biodiesel plant in Cartagena has been awarded to Desmet Ballestra. The estimated cost is EUR 35 ml and the start of production is expected by Q1/2008.

Acquisitions

As for acquisitions, 2006 was characterized by:

- 45% stake of Sarlux purchased from Enron Dutch Holding B.V.
  With a cost of EUR 127 ml, even though the actual cash out was lower (EUR 61 ml) because the Enron's dividends that were frozen at the beginning of the legal dispute (EUR 66 ml) were finally granted to Saras by the ruling of the arbitration.

- The purchase of 36 service stations in Spain
  That were part of the Caprabo network; these service stations are located near the Mediterranean coast, and therefore perfectly integrated with Saras' logistics in the area, and are managed by Saras Energia Red S.A., fully controlled by Saras Energia S.A.. The results of the first six months are positive and slightly better than expectations.

15. Ppm: part per million; 10 ppm is equal to 0.001%

Outlook for 2007

In the first months of 2007 refining margins rebounded after December 2006 lows. The EMC benchmark averaged 2.9 $/bl in Jan/Feb, in line with the average of 2006 and better than first quarter 2006 (1.9 $/bl).

This improved picture is much more in line with the fundamentals of the sector which remain strong considering that the incremental refining capacity planned will struggle to match the incremental demand for oil products.

Product demand, especially in Europe, will be focused on diesel whose balance continues to be short, thus allowing complex refineries with high diesel yields, such as Saras, to fully exploit this market trend.

Saras' refinery flexibility, in addition, will allow to take advantage of more frequently available "unconventional" crudes.

Saras will also benefit from the renewal of several third party processing contracts that will allow to retain the highest portion of the upside in refining margins while providing the company with an efficient protection in case of downturns.

Refining operations in 2007 will have 2 major maintenance cycles (in Q2 and Q4). Notwithstanding the foregoing total runs are planned to be in line with those of 2006.

After the routine maintenance in Q2 Saras will further increase its conversion capacity adding about 150,000 tons on yearly basis of diesel oil to its production with an estimated impact on refining margins from Q3/07 of +0.5-0.6$/bl at current market levels.

The results of the other business segments are expected in line with those of 2006.

Another remark is for Sarlux project finance, whose debt restructuring has been recently completed; benefits will materialize from Q2/07.

Main events after the end of 2006

During the month of January, investigations began in relation to an enquiry by the Milan prosecutor against unknown persons concerning the Initial Public Offer of the Company's ordinary shares, with inspections also at Saras' Milan Headquarter on 17th and 18th of January. The investigations have been initiated based on allegations by investors who bought shares in the Offer.

The Company fully cooperated with the authorities, and intends to reassure its shareholders and the market that it conducted the Offer properly and in compliance with applicable laws.

No further steps or communications versus Saras have been taken so far by the prosecutor.

For the Board of Directors
the Chairman
GIAN MARCO MORATTI

"Proforma" Financial Statements
(unaudited)

Main Assumptions

1. Saras Group consolidated financial statements and Sarlux Srl financial statements under IFRS accounting principles are the basis of "proforma" statements.

2. Sarlux S.r.l consolidated on a line-by-line basis as of 1st January 2005, as if acquisition took place at end 2004. Besides making all the usual consolidation entries the following items have been moved from Q2/06 back to Q1/05.

   a) **Revaluation of Sarlux S.r.l. electricity sale contract to GSE** (national grid company) at fair value: 604 € million accounted as intangible assets and 225 € million accounted as deferred taxes

   b) **Enron Dutch frozen dividends** accounted in the Shareholder's Equity as follows:
   - 41.1 million as of 1st January 2005;
   - 25.1 million in Q3/05;

   c) P/L effects:
   - additional amortization € 9.4 million per quarter in the Power generation segment (due to additional intangible assets)
     (1) effect on deferred taxes + € 3.5 million per quarter;
     (2) effect on Net Income - € 5.9 million per quarter;

   - Interest expenses of € 1.1 million per quarter on payment of € 127 million on acquisition at end 2004.

Reconciliation table for Net Income and Shareholders' equity between Group consolidated statements and proforma statements as at 31/12/2006.

euro Million	Consolidated net income	Shareholders' equity
Group consolidated financial statements	**395.4**	**1,285.4**
Dividends from previous years	(66.3)	
Fair value of Sarlux option	(4.2)	
45% fair value of Sarlux, net of price paid	(128.7)	
	(199.2)	
45% Sarlux' Net Income of 1st half 2006	23.5	
Depreciation GSE contract 1st half 2006	(18.9)	
Taxes on depreciation GSE contract	7.0	
Net financial expenses due to Sarlux acquisition	(2.2)	(6.6)
Taxes on net financial expenses	0.7	2.2
Taxes on option fair value	1.4	
	11.6	(4.4)
Consolidated Proforma statements	**207.8**	**1.281.0**

Proforma Consolidated Income Statement

euro Million	2006	2005
EBITDA	526.2	783.7
Comparable EBITDA	**567.5**	**653.6**
Depreciation and amortization	(162.7)	(170.9)
EBIT	363.5	612.8
Comparable EBIT	**404.8**	**482.7**
Net financial income/(charges)	(9.8)	(93.9)
Net income/(charges) on equity interest	6.5	(0.4)
Non recurring income/(charges)	(22.2)	0.0
Profit before taxes	337.9	518.5
Taxes	(130.0)	(212.1)
Net income	207.8	306.4
Adjusted net income	**241.9**	**230.5**

Details of Consolidated Proforma Net Income Adjustments

euro Million	2006	2005
Net income (a)	**207.8**	**306.4**
(inventories at LIFO- inventories at FIFO) net of taxes	26.3	(81.6)
Non recurring items net of taxes	14.7	0.0
Change of derivatives fair value net of taxes	(7.0)	5.7
Total (b)	**34.0**	**(75.9)**
Adjusted net income (a)+(b)	**241.9**	**230.5**

Consolidated Proforma Balance Sheet

euro Million	2006	2005
CURRENT ASSETS	**1,516**	**1,409**
of which		
cash	232	227
other current assets	1,284	1,182
NON CURRENT ASSETS	**1,707**	**1,684**
TOTAL ASSETS	**3,223**	**3,093**
non interest bearing liabilities	1,410	1,376
interest bearing liabilities	532	820
of which Sarlux project finance	*369*	*465*
EQUITY	**1,281**	**897**
TOTAL LIABILITIES and EQUITY	**3,223**	**3,093**

Consolidated Proforma Cash Flow

euro Million	2006	2005
INITIAL NET FINANCIAL POSITION	**(573)**	**(726)**
CASHFLOW FROM OPERATIONS (A)	**271**	**379**
net income+depreciation+change in provisions	494	699
working capital	(222)	(320)
CASHFLOW FROM INVESTMENTS (B)	**(161)**	**(86)**
investments in tangible and intangible assets	(133)	(86)
acquisition of service stations in Spain	(28)	0
CASHFLOW FROM FINANCIAL ACTIVITIES (C)	**172**	**(140)**
capital increase	342	0
dividends	(170)	(140)
TOTAL CASHFLOW (A)+(B)+(C)	**283**	**152**
FINAL NET FINANCIAL POSITION	**(291)**	**(573)**

Consolidated Financial Statements

CONSOLIDATED BALANCE-SHEET AT 31ST DECEMBER 2006 AND AT 31ST DECEMBER 2005 (€ Thousand)

	(1)	(2)	31-12-2006	31-12-2005
ASSETS				
Current Assets	5.1		1,513,799	1,084,525
cash and cash equivalents	5.1.1	A	217,604	24,709
Other financial assets held for trading	5.1.2	B	13,816	13,039
Trade receivables	5.1.3	C	574,483	442,788
Of which with related parties:			*1,094*	*44,025*
Inventory	5.1.4	D	599,802	541,408
Current tax assets	5.1.5	E	66,344	24,227
Other assets	5.1.6	F	41,750	38,354
Of which with related parties:			*8,551*	*19,437*
Non-current assets	5.2		1,706,568	546,283
Property, plant and equipment	5.2.1	H	1,105,088	443,055
Intangible assets	5.2.2	J	584,350	4,335
Equity interest consolidated by the equity method	5.2.3.1	K	9,970	97,175
Other equity interest	5.2.3.2	K	1,192	1,400
Other financial assets	5.2.4	M	5,968	318
Total Assets			3,220,367	1,630,808
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities	5.3		866,545	749,375
Short-term financial liabilities	5.3.1	R	202,097	102,164
Of which with related parties:			*2,395*	*2,585*
Trade and other payables	5.3.2	R	551,622	513,182
Of which with related parties:			*595*	*13,273*
Current tax liabilities	5.3.3	W	52,093	75,749
Other liabilities	5.3.4	R	60,733	58,280
Non-current liabilities	5.4		1,068,440	352,665
Long-term financial liabilities	5.4.1	R	322,671	132,004
Provisions for risks	5.4.2	P	24,485	17,569
Provisions for employee benefits	5.4.3	Q	45,431	49,685
Deferred tax liabilities	5.4.4	W	161,087	96,374
Other liabilities	5.4.5	R	514,766	57,033
Of which with related parties:			*0*	*51,046*
Total liabilities			1,934,985	1,102,040
SHAREHOLDERS' EQUITY	5.5	O, V		
Share capital			54,630	51,183
Legal reserve			10,237	10,237
Other reserves			657,144	268,915
Profit(loss) carried forward			167,946	(94,209)
Profit(loss) for the period			395,425	292,642
Total shareholder's equity			1,285,382	528,768
of which: minority interest				
Minority interest in capital and reserves			0	0
Profit(loss) for the period			0	0
Total minority interest			*0*	*0*
Total liabilities and shareholder's equity			3,220,367	1,630,808

(1) Please refer to chapter 5 "Notes to Balace sheet"

(2) Please refer to chapter 3.2 "Summary of accounting principles and policies applied"

CONSOLIDATED INCOME STATEMENT FOR THE YEARS ENDED AT 31ST DECEMBER 2006 AND 31ST DECEMBER 2005 (€ Thousand)

	(1)	(2)	01-01-2006 31-12-2006	01-01-2005 31-12-2005
Revenues frome ordinary operations	6.1.1	S	5,986,815	5,196,001
of which with related parties:			*83,729*	*138,996*
Other income	6.1.2	S	32,613	39,535
of which with related parties:			*11,909*	*18,446*
Total revenues			6,019,428	5,235,536
Purchase of raw materials, spare parts and consumables	6.2.1	T	(5,118,970)	(4,245,896)
of which with related parties:			(1,169)	(2,608)
Cost of services and sundry costs	6.2.2	T	(378,102)	(303,543)
of which with related parties:			(26,900)	(38,405)
Personnel costs	6.2.3	Q	(111,596)	(115,786)
Depreciation, amortization and write-downs	6.2.4	H,J	(118,553)	(77,881)
Total costs			(5,727,221)	(4,743,106)
Operating result			292,207	492,430
Net income (charges) from equity interest	6.3	K,V	35,302	48,747
of which with related parties:			*35,550*	*48,747*
Other financial income/ (charges), net	6.4	X	(2,003)	(76,693)
of which with related parties:			*327*	*1,469*
Sarlux S.r.l. acquisition	6.5		199,167	0
of which with related parties:			*199,167*	*0*
IPO and company restructuring charges	6.6		(22,222)	0
of which with related parties:			*0*	*0*
Profit before taxes			502,451	464,484
Income tax for the period	6.7	W	(107,026)	(171,842)
Net profit for the period		Y	395,425	292,642
of which				
Minority interest			*0*	*0*
Net profit (loss) for the Group			*395,425*	*292,642*
Earnings per share - base (Euro cent)			43.73	3,284
Earnings per share - diluted (Euro cent)			43.73	3,284

(1) Please refer to chapter 6 "Notes to Income Statements "

(2) Please refer to chapter 3.2 "Summary of accounting principles and policies applied"

STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY FOR THE PERIOD 1ST JANUARY 2005 - 31ST DECEMBER 2006 (€ Thousand)

	Share capital	Legal reserve	Other reserves	Profit/(Loss) carried forward	Profit (Loss) for the period	Shareholders' equity
Balance as at 1-01-2005	51,183	10,237	208,365	(92,495)	198,938	376,228
Allocation of previous period profit	-	-	90,675	(2,019)	(88,656)	-
Dividends	-	-	(29,810)	-	(110,256)	(140,066)
Utilisation of the reserve related to grants	-	-	(315)	315	-	-
Other movements	-	-	-	(10)	(26)	(36)
Profit (loss) for the year	-	-	-	-	292,642	292,642
Balance as at 31-12-2005	51,183	10,237	268,915	(94,209)	292,642	528,768
Capital increase (net of I.P.O. costs)	3,447	-	338,983	-	-	342,430
Allocation of previous period profit	-	-	(109,209)	262,155	(152,946)	-
Dividends	-	-	(30,485)	-	(139,696)	(170,181)
Fair value of 55% Sarlux stake	-	-	188,940	-	-	188,940
Profit (loss) for the year	-	-	-	-	395,425	395,425
Balance as at 31-12-2006	54,630	10,237	657,144	167,946	395,425	1,285,382

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEARS ENDED AT 31ST DECEMBER 2006 AND 2005 (€ Thousand)

	01-01-2006 31-12-2006	01-01-2005 31-12-2005
A - Cash and cash equivalents at beginning of the year (short-term net finanacial indebteness)	**24,709**	**13,464**
B - Cash generated from/(used in) operating activities		
Profit (Loss) for the period of the Group	395,425	292,642
Non recurring income due to the Sarlux 45% acquisition	(199,168)	
Amortization, depreciation and write-down of fixed assets	118,553	77,881
Net (income)charges from equity interest	(35,512)	(48,747)
of which with related parties:	*(35,512)*	*(48,747)*
Net change in provisions for risks and charges	(3,082)	1,878
Net change in employee benefits	(4,586)	3,848
Change in tax liabilities and tax assets	(33,527)	62,224
Income Tax	107,026	171,842
Profit (Loss) from operating activities before changes in working capital	345,129	561,568
(Increase)Decrease in trade receivables	8,110	(80,095)
of which with related parties:	*(195)*	*(17,819)*
(Increase)Decrease in inventory	(29,766)	(188,155)
Increase(Decrease) in trade and other payables	(15,739)	99,682
of which with related parties:	*351*	*5,395*
Change in other current assets	(41,769)	(5,523)
of which with related parties:	*10,886*	*(6,133)*
Change in other current liabilities	86,673	(49,059)
Income tax paid	(205,555)	(134,839)
Change in other non-current liabilities	61,513	(18,026)
of which with related parties:	*0*	*(4,971)*
Total (B)	208,596	185,553
C - Cash flow from investment activities		
(Investments) in tangible and intangible assets, net of disinvestments and accumulated depreciation and amortization	(129,807)	(59,381)
Change in equity interest using the equity method	0	4,363
Change in other equity interest	208	(107)
Dividends from unconsolidated Group companies	0	30,718
45% Sarlux acquisition	(127,047)	0
100% Caprabo acquisition (now Saras Energia Red S.A.)	(28,041)	0
Interest received (paid)	(12,563)	(8,971)
Total (C)	(297,250)	(33,378)
D - Cash generated from(used in) financing activities		
Increase(Decrease) in medium/long term borrowings	(134,350)	(44,173)
(Increase)Decrease in other financial assets	(6,427)	(1,140)
Increase(Decrease) in short term borrowings	(1,409)	34,182
of which with related parties:	*817*	*(2,996)*
Capital increase	342,430	0
Dividend distribution to shareholders	(170,181)	(140,066)
Total (D)	30,063	(151,197)
E - Cashflow for the period (B+C+D)	**(58,591)**	**978**
Other changes in shareholders' equity due to the adoption of IAS 32 and IAS 39 since January, 1st 2005	0	10,267
F - Cash from new consolidated subsidiaries	**251,486**	**0**
Sarlux S.r.l.	249,940	0
Saras Energia Red S.A.	1,546	0
G - Cash and cash equivalents at the end of period (short-term net financial indebteness)	**217,604**	**24,709**

Note: in order to better represent cash flows, new items have been introduced from previous years (income taxes, income taxes paid, interest paid, etc.).
Consequently, cash flow statement of the previous year has been modified accordingly.

For the Board of Directors - the Chairman GIAN MARCO MORATTI

Table of contents of Notes to the Consolidated Financial Statements as of 31st December 2006

Notes to the Consolidated Financial Statements to 31st December 2006

1. Foreword

Saras SpA (also referred to hereinafter as the "Holding Company" or "Saras") 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 operates in the domestic and international oil market as a refiner of crude and seller of products derived from the refining process. The Saras Group is also engaged in electricity generation through the integrated gasification combined cycle (IGCC) plant of its subsidiary Sarlux Srl and a joint venture, Parchi Eolici Ulassai Srl, which owns and operates a wind farm.

This consolidated full-yearly report, which relates to the period ended 31st December 2006, is presented in euros because the euro is the currency of the economy in which the Group operates, and is composed of a Balance Sheet, Income Statement, Cashflow Statement, Statement of Changes in Shareholders' Equity and these Notes. Unless otherwise stated, all amounts shown in the above statement and in the notes to the consolidated half-yearly report are expressed in thousands of euro.

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

EC Regulation No. 1606/2002 of 19th 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 20th 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 report and separate financial statements of Saras SpA as of 31st December 2006 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.

The term IFRS is used to mean all International Financial Reporting Standards, all International Accounting Standards ("IAS") and all interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"), previously known as the Standing Interpretations Committee ("SIC") endorsed by the European Commission as of the date on which the draft consolidated financial statements and draft financial statements of the Holding Company were approved by the board of directors of the Holding Company and set out in the relevant EU Regulations published as of said date.

According to CONSOB resolution n.15519 of 27th July 2006, the financial statements have been prepared with the below reported criteria, considered more suitable to present a complete financial and economical overview of the Group:

- Balance sheet: assets and liabilities are divided into current and non current according to liquidity;
- Income statement: income statement items are presented by nature;
- Cash flow statement: is presented according to the indirect method differentiating financial flows deriving from operating activities, investing and financial activities.

The accounting policies presented below have been applied consistently to all the periods reported.

3. Accounting policies applied

It should also be noted that the IASB and IFRIC have approved certain modifications and interpretations to the IFRS, which have already been partially published in the Official Journal of the European Community. Those modifications become applicable for financial years starting on or after 1st January 2006.

1. Accounting principles changes applicable from 1st January 2006 and relevant for the Group

[A] IAS 19: the principle allows to recognize in shareholders' equity the changes of provisions for defined benefit plans deriving from changes in actuarial hypotheses and from the new regulation for employee plans; the option has not been adopted yet by the Group.

[B] IAS 39: introduces the option allowing to evaluate financial assets and liabilities at fair value through profit or loss and defines the accounting methodology for cash flow hedging referred to intercompany transactions; this option has not been adopted by the Group.

[C] IFRIC 4: (“*Determining whether an Arrangement contains a Lease*” already applied starting from 2005.

2. Accounting principles, changes in accounting principles and interpretations applicable from 1st January 2006 not relevant for the consolidated annual results of the Group:

[A] IAS 39 and IFRS 4, that define how to report financial sureties

[B] IAS 21 that introduces and modifies some paragraphs related to investments in foreign assets

[C] IFRIC 5 (“*Rights to Interest arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*”) and IFRIC 6 (“*Liabilities arising from Participating in a Specific Market, Waste Electrical and Electronic Equipment*”);

[D] IFRS 1 (“*First time adoption of international accounting standards*”) in the adoption of IFRS 6 (“*Exploration and evaluation of mineral resources*”)

3. Accounting principles and changes in accounting principles and interpretations applicable after 1st January 2006 which are relevant for the consolidated annual accounts of the Group:

[A] IFRS 6 (“*Exploration and evaluation of mineral resources*”)

[B] IFRS 7 (“*financial instruments: further information”)* and changes to IAS 1(which include certain new disclosures about financial instruments to be added to the notes to the financial statements); the information required by the principle will be provided after 31st December 2006.

4. Accounting principles and changes in accounting principles and interpretations applicable after 1st January 2006 which are not relevant for the consolidated annual accounts of the Group.

[A] IFRIC 7 (“*Applying the Restatement Approach under IAS 29*”)

[B] IFRIC 8: *(“application of IFRS 2”)*

[C] IFRIC 9: (“*evaluation of implicit derivatives”)*

[D] IFRIC 10: (“*interim financial information and impairment*”)

The application of the aforementioned revisions to existing standards or new standards and interpretations did not have any impact on the accounts of Saras Group.

The Group had already applied IFRIC 4 in its consolidated financial statements as at 31st December 2005.

3.1 Consolidation method

The consolidated financial statements includes the 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 of the individual entities have been drawn up as at 31st December 2006 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 using 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 listed in the schedule below:

Fully consolidated	Percent owned
Arcola Petrolifera S.p.A	100%
Sarlux S.r.l.	100%
Sartec Saras Ricerche e Tecnologie S.p.A.	100%
Consorzio Ricerche Associate in liquidation	100%
Ensar S.r.l. and subsidiaries:	100%
Eolica Italiana S.r.l.	100%
Akhela S.r.l.	100%
Sarint S.A. and subsidiaries:	100%
Saras Energia S.A and subsidiaries:	100%
Saras Energia Red S.A.	100%
Reasar S.A.	100%
Joint Ventures measured using the equity method	
Parchi Eolici Ulassai S.r.l. and subsidiaries:	70%
Sardeolica S.r.l.	100%

Subsidiaries considered insignificant and thus excluded from the consolidation area and measured using the equity method:	
Xanto S.r.l. in liquidation and subsidiaries:	100%
Xanto Basilicata S.r.l. in liquidation	100%

Associated companies measured using the equity method	
Dynergy S.r.l.	37,5%
Hangzhou Dadi Encon Environmental Equipment Co.	37,5%
Nova Eolica S.r.l.	20%

Other interest: measured at cost	
Consorzio Cesma	5%
Consorzio Cifra	16,7%
Consorzio La Spezia Energia	5%
Consorzio Techno Mobility	17,4%
Hydrocontrol Soc. Consortile a r.l.	17%
Sarda Factoring	6,0%

It should be noted that, compared to 31st December 2005, the subsidiary Sarlux Srl, which was previously carried at equity being a joint venture, is now consolidated on a line-by-line basis because Saras acquired control on 28th June 2006. For details, see note 5.2.3.1.1 “Acquisitions and business combinations”.

The subsidiary Parchi Eolici Ulassai S.r.l. has been consolidated at equity, even if Saras S.p.A. stake amount to 70%, because is subject to a joint control as a consequence of the shareholders agreement.

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 and allocated, where applicable, to minority shareholders of 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 under 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 inter-company payables and receivables, costs and revenues, and financial income and charges;

[IV] Gains and losses arising from the transfer of equity interest 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 using 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 investee’s 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 the companies included in the consolidation area are prepared using the currency of the economical environment in which they operates (functional currency).

The consolidated report is presented in euros, the euro being the functional currency of the Holding Company.

The following rules are followed when translating the reports of companies expressed in a currency other than the functional currency into euro:

[I] Assets and liabilities are translated at the applicable exchange rates on the closing date;
[II] Costs and revenues are translated at the average exchange rate of the year;
[III] The 'translation reserve' includes both exchange-rate differences arising from the translation of amounts at an exchange rate different from the year-end rate and those arising from the translation of equity balances at the beginning of the year at an exchange rate different from the year-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 year 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 accounting principles and policies applied

The Consolidated Statements have been prepared based on the cost principle, except for the cases specifically described in the notes below, where fair value accounting has been applied, and is presented, unless otherwise indicated, in thousands of euros.

The main valuation policies adopted are described below.

A Cash and cash equivalents

Cash and cash equivalents predominantly consist of cash on hand, 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 changes reported in the income statement.

B Financial assets held for trading

They are reported at fair value through profit or loss, i.e. with any gains and losses reported in income under 'Other net financial income/(charges)'.

C Trade receivables

Trade receivables 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 at the end of the financial year 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 booked at their initial recognition in the amount that is expected to be paid to (or recovered from) the tax authorities, keeping account of their realisable value, and subsequently at the amortized cost based on the effective interest rate method.

F Other current and non-current assets

Other current assets are booked at fair value at their initial recognition, and subsequently at the amortized cost based on 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 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 from the consolidated full-yearly report when they are settled and when the Saras Group has transferred all the risks and charges relating to them.

H Property, plant and equipment

Property, plant and equipment is measured at purchase or production cost, less accumulated depreciation and any impairment. Cost includes every charge that is directly incurred 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 conditions necessary for receiving them have been fulfilled.

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
High corrosive plant	9, 11 years
Thermoelectric power station	22 years
Transformation stations	28 years
Office furniture and machines	4, 8 years
Vehicles	4 years
Other assets	9 years
Leasedhold improvements	The duration of the lease or the useful life of the asset, whichever is the shorter length of time.

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 subject 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.

I 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 elements that are non-monetary in nature, without physical substance and clearly identifiable (i.e. distinct, able to be separated, dismantled or traded, and deriving from other contractual or legal rights), controlled by the enterprise 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 cashflows 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 was previously 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 Equipment'.

[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 are treated as current costs and as such are charged to the income statement as incurred.

[IV] *Exploration and evaluation of mineral resources*
Cost incurred for the exploration and evluation of mineral resources i.e.

- [A] acquisition of exploration rights;
- [B] photographic, geologial, geochemical and geophysical studies;
- [C] explorative drillings;
- [D] diggings;
- [E] sampling;
- [F] activities related to the evaluation of technical and commercial feasibility of a mineral resource extraction;

are recognized among tangible or intangible asstes by nature as required by IFRS6.

K Other investments
This item includes investments in entities other than unconsolidated subsidiaries, joint ventures and associated companies, as defined in paragraph 3.1 above.

The investments included in this item are measured at fair value through profit or loss. Where fair value cannot be determined reliably, they are measured at cost less any impairment losses, in compliance with IAS 36.

L Impairment of assets
At each closing date of the annual financial statements, tangible assets and intangible assets with a finite useful life and equity investments 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 realisable value of an asset that does not generate largely 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 an impact 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.

M Other financial assets and Other assets
Credits and financial assets held to maturity are valued at fair value at their initial recognition, and subsequently at the amortized cost based on the effective interest rate method. If there is objective evidence of indicators denoting a reduction in value, the asset is written down to a level equal to the discounted value of attainable future cashflows. Losses in value are booked to the income statement. If in future periods these indicators themselves are reduced, the value of the asset is restored to the extent of the value that would have been derived from application of the amortised cost had the value adjustment not been made.

The treatment of financial assets linked to derivative instruments is shown under "Derivative instruments".

N Treasury shares
The company's treasury shares have been recognised at cost and deducted from shareholders' equity.

O Shareholders' equity

[I] *Share capital*
The company's treasury shares have been recognised at cost and deducted from shareholders' equity. Costs strictly relating to the issue of new shares are deducted from other reserves, 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 nor allocated to reserves (in the case of profits) or covered (in the case of losses). It also includes other reserves that have been transferred to it, further to the restrictions previously imposed upon them being removed.

P Provisions for risks and charges
Provisions for risks and charges are recognised only 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, which amount should be reliably estimated. This amount represents the best dis-

counted 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.

Q 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 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.

As of 1st January 2007, the annual government budget and related ruling decrees introduced changes regarding the employee severance indemnity (the Italian T.F.R.) such as giving employees the choice regarding the destination of their matured severance indemnity. Specifically, the new funds generated for the severance indemnity may be directed by the employee towards a pension fund or be kept within company funds. Currently, uncertainty regarding the interpretation of this recently issued regulation, possible different interpretations of the maturing indemnities according to IAS 19 and consequent changes on actuarial calculations regarding maturing indemnities, as well as the impossibility of estimating the choices made by employees on the destination of their maturing indemnities, render impossible any change in the actuarial hypotheses for calculations to 31st December 2006.

R Financial liabilities and trade payables, other liabilities and other debts

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.

S 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.

T 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.

U 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.

V Dividends

[A] *received dividends*

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

[B] *distributed dividends*

Dividend distribution to company's shareholders implies the origination of a debt in the balance sheet of the period in which the distribution has been approved by the AGM.

W Taxes

Current assets are calculated based on the period's taxable income, in application of the prevailing tax rates at the statements 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 reserves not distributed from subsidiaries, when the timing of reversal is controlled by the Group and 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 calculated using forecasted tax rates that will be applicable in the periods in which temporary differences will be realized or be extinguished.

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 when income taxes are applied by the same fiscal authority, when the Group has legal right to compensation and when a liquidation of the net balance is expected.

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

X Derivatives

All derivatives are financial 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.

All derivatives, including those referring to commodities, that don't 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 net financial income/(charges)'.

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.

Y 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.

Z Segment information

A segment is defined by a group of assets and transactions utilized for specific services and subject to risks and benefits substantially different from those related to other assets and transactions.

A geographical segment is defined by a group of assets and transactions active in a specific area and subject to risks and benefits substantially different from those existing in other areas.

3.3 Use of estimates

The preparation of the 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 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 taxable earnings. The measurement of forecast future taxable 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] Provisions for risks: 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 rise 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 from electricity sold by the subsidiary Sarlux Srl to G.S.E. (*Gestore dei Servizi Elettrici S.p.A.*): such revenues 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 Sarlux Srl, meaning that it is comparable to an operating lease. Such revenues have therefore been linearised in keeping with both the duration 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 to estimates as a result of events that cannot be predicted at present.

3.5 Risks analysis

The chief constituents of the Saras Group risk policy are based on the prevention of the main risks linked to Company objectives and involve strategic areas, both operational and financial.
The management of risk highlighted in individual policies and in business processes is based on the principle whereby operational and financial risk is managed by the person responsible for the business process (i.e. the process owner).
The main risks are reported and discussed at top management level in order to create the pre-conditions to hedge, insure and evaluate them for residual risk.
In addition to the risk management guidelines, there are specific guidelines for financial risk, such as interest rates risks and credit risks.

3.5.1 Financial risks

Amongst the Saras Group's priorities are sustainable growth, productivity, profitability and financial reporting accuracy.
Therefore financial structures are focused on guaranteeing maximum efficiency in the adoption and utilisation of lines of credit to develop commercial business, and reduce to the minimum the financial risks related to industrial operations (adverse risk).
The Saras Group operates internationally in the oil sector, with consequent exposure to currency risks, inter-

est rate risks, credit risks and fluctuations in commodity prices.

3.5.1.1 Price fluctuations and cash flow risks

Saras Group results are influenced by oil price trends and the effects that these trends have on refining margins (i.e. the difference between the prices of oil products generated through the refining process, and the price of raw materials, mainly crude oil). Furthermore, in order to carry out production, the Saras group has to keep reserves of crude oil and finished products, the value of which is subject to market price fluctuations. The commodity price changes and cash flow risk are closely connected to the nature of the business and can only partially be diminished through the use of appropriate risk management policies, including setting partially pre-fixed prices for processing for third parties. In order to hedge against risks deriving from price changes, the Company buys derivative contracts on commodities that involve the forward purchase and sale of crude and oil products.

3.5.1.2 Currency risks

The Group's oil business is exposed to changes in currency prices in that the benchmark prices for the purchase of crude and a large part of oil products are made or linked to US dollars.

In order to diminish both exchange risks regarding transactions that will be executed in the future as well as those arising from credit and debt expressed in currencies other than the functional currency of each Group body, the Saras Group uses derivative instruments that consist of US dollar purchase and sale forward contracts.

Transactions expressed in currencies other than US dollars are not significant and could only marginally influence Saras Group results of the period.

3.5.1.3 Interest rate risks

Risks related to changes in cashflow linked to changes in interest rates involve loans. Variable rate loans expose the Saras Group to the risk of change in cash flows to due to interest. Fixed rate loans expose the Saras Group to the risk of changes in the fair value of the loans received.

The main financing contracts in place are stipulated at variable market rates. The Saras Group's policy is to use derivative instruments to diminish the risk of changes in cash flows due to interest.

3.5.1.4 Credit risks

The market in which the Saras Group operates is mainly made up of multinational players operating in the oil sector. Transactions are generally settled very quickly and are often guaranteed by major banking institutions.
Moreover, receivables are monitored daily by the Group's finance management in a systematic and timely manner.

We believe that credit risks are marginal and do not constitute a significant variable in the business in which the Saras Group operates.

3.5.2 Disclosure and management of other risks

3.5.2.1 Risks related to refining production stoppages

Saras Group activity largely depends on its refining business in Sardinia, which produces almost all of the oil products it refines and sells.
This activity is subject to risks related to the unplanned plant stoppages and accidents.
Saras believes that the complexity of its refining business allows for negative effects of unplanned stoppages to be limited, and that the current security measures (that are continually implemented) allow possible risk of accidents to be reduced to the minimum; moreover, Saras has put in place a significant insurance coverage program in order to further cover these risks.

3.5.2.2 Environmental risks

Group activities are regulated by many national, regional, local and EU provisions regarding environmental concerns.

Although the Saras Group believes that its business activity is carried out in adherence to environmental regulations, the risk of environmental costs and responsibilities is intrinsic in its business, and there cannot be any certainty that in the future it will not have to sustain significant costs and responsibilities regarding the environment.

The Saras Group therefore has made, and forecasts that it will continue to make, operational expenditures as well as investments to fulfil the obligations of environmental regulations; moreover, Saras has put in place a significant insurance coverage program in order to further cover these risks.

4. Information per business segment and geographic area

4.1 Foreword

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 finished products, which is carried out at the company's sites in Sarroch, Sardinia;
- by acquiring oil products from third parties that were previously refined on behalf of these same third parties at the sites in Sarroch, Sardinia;
- and by acquiring oil products from third parties, to a minimal extent.

Finished products are sold to international major players in the sector such as the Total Group, Polimeri Europa, Eni, NOC (National Oil Corporation), and Repsol.

[B] revenues from refining activities undertaken on behalf of third parties that constitute the only income from refining activities that the Parent company carries out also on behalf of third parties; these services are rendered to major corporate customers such as Eni, Statoil, Shell, Norsk Hydro and NOC (National Oil Corporation).

2. Marketing activities concern the distribution of oil products, an activity addressed to smaller-sized customers and/or those with distribution procedures that differ from those described above regarding refining. These activities are undertaken as follows:
- In Italy, by Arcola Petrolifera S.p.A. for wholesale customers (consumers, wholesalers/consortia, local authority-owned utility companies, resellers) and oil companies (Eni, Shell, Tamoil, Total, etc.) through a logistics network comprising both its own bases (at Arcola and Sarroch) and those of third-party operators by way of a transit contract (Livorno, Civitavecchia, Fiorenzuola, Marghera, Pesaro, Ravenna);
- in Spain, by Saras Energia S.A. and by the subsidiary Saras Energia Red S.A., for free and group-owned 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 itself.

3. Power generation involves:
- the sale of electricity produced at the Sarroch power station owned by Sarlux S.r.l., a fully owned company. This electricity is sold exclusively to the company G.S.E. (*Gestore dei Servizi Elettrici S.p.A.*), with sales benefiting from the special tariff scheme laid down in CIP (Provision of Inter-ministerial Committee on Prices) 6/92.
- the production of wind power by Parchi Eolici Ulassai S.r.l. (a joint venture).

4. Other activities include re-insurance activities undertaken for the Group by Reasar S.A., information technology activities undertaken by Akhela S.r.l., and research for environmental sectors undertaken by Sartec S.p.A.

4.2 Segment information

The table below provides key financial indicators for the various business areas:

31st DECEMBER 2005 (€ thousands)

	Refining	Marketing	Power generation	Other	Total
Third party revenues	**3,858,616**	**1,318,771**		**18,614**	**5,196,001**
Other revenues from third parties	**36,830**	**2,478**		**227**	**39,535**
Operating results (a)	**458,204**	**41,890**		**(7,664)**	**492,430**
Net income on unconsolidated equity investments					
- Sarlux S.r.l. (from 1/1/2005 to 31/12/2005)			49,234		49,234
- Parchi Eolici Ulassai S.r.l.			(778)		(778)
- Other net income				291	291
Total			**48,456**	**291**	**48,747**
TOTAL DIRECTLY ATTRIBUTABLE ASSETS (b)	**1,153,712**	**336,593**	**93,943**	**46,560**	**1,630,808**
Equity investments valued at equity			**93,943**	**3,232**	**97,175**
TOTAL DIRECTLY ATTRIBUTABLE LIABILITIES (b)	**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

31ST DECEMBER 2006

	Refining	Marketing	Power generation	Other	Total
Revenues from third parties	**4,109,351**	**1,607,812**	**246,128**	**23,524**	**5,986,815**
Other revenues from third parties	**28,756**	**2,454**	**392**	**1,011**	**32,613**
Operating results (a)	**223,810**	**11,675**	**60,376**	**(3,654)**	**292,207**
Net income on unconsolidated equity investments					
- Sarlux S.r.l. (from 1/1/2006 to 28/6/2006)			28,785		28,785
- Parchi Eolici Ulassai S.r.l.			6,254		6,254
- Other net income				263	263
Total			**35,039**	**263**	**35,302**
TOTAL DIRECTLY ATTRIBUTABLE ASSETS (b)	**1,249,191**	**408,420**	**1,517,920**	**44,836**	**3,220,367**
Equity investments consolidated at equity	**8,600**			**1,369**	**9,969**
TOTAL DIRECTLY ATTRIBUTABLE LIABILITIES (b)	**769,927**	**139,063**	**990,036**	**35,959**	**1,934,985**
Investments in tangible assets	107,075	2,513	5,854	1,191	116,633
Investments in intangible assets	616	6,099	6,131	328	13,174

(a) Operating result is determined without considering intra-segment eliminations.

(b) Total assets and liabilities are calculated after intra-segment eliminations. Intra-segment revenues fully reflects market conditions.

4.3 Breakdown by geographic area

Directly attributable assets and investments by geographic location

	Italy	Rest of EU	Total
Directly attributable assets			
31st December 2005	1,454,512	176,296	1,630,808
31st December 2006	2,919,855	300,512	3,220,367
Investments in tangible, intangible and financial fixed assets			
31st December 2005	60,019	618	60,637
31st December 2006	121,421	8,386	129,807

Net revenues from ordinary operations per geographic area:

	31-12-06	31-12-05	Change	Sarlux from 01-07-06	Saras Red from 08-07-07
Sales in Italy	2,544,510	1,870,741	673,769	245,788	
Sales in Spain	1,409,012	1,550,174	(141,162)		56,491
Other EU country sales	585,543	554,229	31,314	340	
Non-EU country sales	1,390,797	1,125,357	265,440		
US sales	56,953	95,500	(38,547)		
Total	**5,986,815**	**5,196,001**	**790,814**	**246,128**	**56,491**

Amounts are shown net of intra-company eliminations.

The following table shows a breakdown of trade receivables per geographic area:

	31-12-06	31-12-05	Change	Balance at 31-12-2006 Sarlux	Balance at 31-12-2006 Saras Red
Italy	381,120	258,195	122,925	147,711	
Spain	108,621	95,540	13,081		188
Other EU countries	19,284	4,489	14,795	561	
Non-EU countries	72,776	93,581	(20,805)		
US	121	118	3		
Allowance for doubtful accounts	(7,439)	(9,135)	1,696		
Total	**574,483**	**442,788**	**131,695**	**148,272**	**188**

5. Notes to the balance sheet

The most significant changes in the balance sheet and income statement compared to the previous financial year are shown below.

5.1 Current assets

5.1.1 Cash and cash equivalents

The following table shows a breakdown of cash and bank deposits:

	31-12-06	31-12-05	Change	Balance at 31-12-2006 Sarlux	Balance at 31-12-2006 Saras Red
Bank and postal deposits	217,506	24,608	192,898	165,642	1,797
Cash	98	101	(3)	1	
Total	**217,604**	**24,709**	**192,895**	165,643	1,797

Bank deposits were mainly attributable to Sarlux S.r.l. for €165,642 thousand (including cash due by contract for future maintenance commitments and loan repayments) and Saras S.p.A. for €41,080 thousand.

5.1.2 Other tradable financial assets

	31-12-06	31-12-05	Change
Other securities	13,816	13,039	777
Total	**13,816**	**13,039**	**777**

This item mainly comprises Italian and foreign stocks and government bonds totalling €13,203 thousand. The changes in fair value recorded during the period are recognised in the income statement in the item "Other net financial income (charges)".

The following table shows the changes in the balance:

Balance at 31st Dec. 2004:	**12,013**
Increases for financial year	13,266
Decreases for financial year	(12,240)
Balance at 31st Dec. 2005:	**13,039**
Increases for financial year	80,464
Decreases for financial year	(79,687)
Balance at 31st Dec. 2006:	**13,816**

5.1.3 Trade receivables

The following table shows the balance for trade receivables:

	31-12-06	31-12-05	Change	Balance at 31-12-2006 Sarlux	Balance at 31-12-2006 Saras Red
From clients	573,389	398,763	174,626	148,272	188
From non-consolidated Group companies	1,094	44,025	(42,931)		
Total	**574,483**	**442,788**	**131,695**	148,272	188

The overall increase is mainly due to Sarlux S.r.l. receivables (from GSE, Gestore dei Servizi Elettrici S.p.A.) consolidated in the statements closed on 31st December 2006.

The balance reported for receivables from unconsolidated Group companies as at 31st December 2005 is mainly made up of Saras S.p.A. receivables from the unconsolidated subsidiary Sarlux. S.r.l. regarding the supply of raw materials.

All receivables are due within 12 months.

5.1.4 Inventories

The following table shows the balance of inventory and the changes during the 2006 financial year:

	31-12-06	31-12-05	Change	Balance at 31-12-2006	
				Sarlux	Saras Red
Inventories:					
raw materials, replacement parts and consumables	171,199	161,121	10,078	25,582	
semi-finished products and works in process	37,815	54,003	(16,188)	2,059	
finished products and goods held for resale	388,369	325,912	62,457		1,449
advances paid for stocks	2,419	372	2,047		
Total	**599,802**	**541,408**	**58,394**	**27,641**	**1,449**

The value of inventory increased due to the amount of remaining finished products in inventory, which was partially compensated by a reduction in prices.

There are no items of inventory securing liabilities; the measurement of inventory carried at net realisable value caused a write-down of approximately €12 million. Consequently the value of the inventories does not differ significantly from market value.

The item "Finished products and goods" includes approximately 470,000 tonnes of oil products (worth approximately €190 million) held in stock as mandatory supplies pursuant to provisions in Italian legislative decree n. 22 of 31st January 2001.

At the Sarroch refinery crude and oil products belonging to third parties are held for a total value, as at 31st December 2006, of €171,028 thousand (€246,702 thousand as at 31st December 2005).

5.1.5 Current tax assets

The following table shows a breakdown of current tax assets, which totalled €66,344 thousand (€24,227 thousand as at 31st December 2005):

	31-12-06	31-12-05	Change
VAT	57,043	24,074	32,969
IRES (corporate tax)	24	32	(8)
IRAP (regional income tax)	7,708	10	7,698
Other tax credits	1,569	111	1,458
Total	**66,344**	**24,227**	**42,117**

The balance reported for the VAT credit refers mainly to the Parent Company (€55,908 thousand); the change in this item is due to increased crude imports not set off by higher domestic sales.

The regional income tax (IRAP) credit increased due to prepayments made that were higher than the actual amount due for the year.

5.1.6. Other current assets

The following table shows the balance in other current assets:

	31-12-06	31-12-05	Change	Balance at 31-12-2006	
				Sarlux	Saras Red
Accrued income	1,712	1,768	(56)	211	0
Prepayments	8,679	6,092	2,587	1,726	0
Other receivables	22,808	11,057	11,751	6,571	53
Loans to unconsolidated Group companies	8,551	19,437	(10,886)	0	0
Total	**41,750**	**38,354**	**3,396**	**8,508**	**53**

Prepayments mainly refer to insurance premiums, which totalled €5,938 thousand.

The item "Other receivables" mainly includes the net fair value of derivative instruments recorded as at 31st December 2006 (in the previous financial year, this item included costs sustained by the Parent Company to purchase the remaining stake in the company Sarlux S.r.l. for €4,946 thousand, for further information please see 5.2.3.1.1 "Acquisitions and business combinations").

The following table shows a breakdown in Other receivables:

	2006 Assets	2006 Liabilities	2005 Assets	2005 Liabilities
Interest rate swaps	0		318	
Fair value of forward currency purchases	545		80	
Fair value of forward purchases and sales of commodities (crude and other oil products)	25,458	(14,648)	6,057	(4,922)
Derivative gains made but not yet collected	937		1,090	
Total	**26,940**	**(14,648)**	**7,545**	**(4,922)**

The measurement of the fair value of derivatives in place as at 31st December 2006 caused a positive net impact on the year's income statement of €10,140 thousand, as highlighted in note 6.4 below.

The following table shows the notional values and the fair values of the derivative instruments in place at 31st December 2006:

Type of transaction	Interest rates			Exchange rates			Other		
	Notional value	Fair value Pos.	Fair value Neg.	Notional value	Fair value Pos.	Fair value Neg.	Notional value	Fair value Pos.	Fair value Neg.
Financial derivatives									
Futures									
purchased							91,159		12,793
sold							141,980	25,458	1,855
Options									
purchased				18,983	545				
sold									
Total	**0**	**0**	**0**	**18,983**	**545**	**0**	**233,139**	**25,458**	**14,648**

Derivative contracts that were closed during financial year 2006 generated a net positive impact on the year's income statement of €577 thousand (whereas in the previous financial year there was a negative impact of €49,271 thousand), as highlighted in note 6.4 below.
The item "Financial receivables to unconsolidated group companies" mainly includes receivables from Sardeolica S.r.l. for €5,183 thousand (€17,717 thousand as at 31.12.2005) and from Parchi Eolici Ulassai S.r.l. for €3,328 thousand (€1,720 thousand as at 31.12.2005); these are all short-term loans that benefit from interest calculated at market rates.

The decrease in the item "Loans to unconsolidated Group companies" is due for the most part to the credit deriving from the tax consolidation of Sardeolica S.r.l. (€5,184 thousand), partially compensated by the repayment of a loan granted to this company (€17,717 thousand).

5.2 Non-current assets

5.2.1 Property, plants and equipment

The following table shows a breakdown in the item Property, plants and equipment:

COST	31-12-04	Additions	(Disposals)	Revaluations (Write-downs)	Other changes	31-12-05
Land and buildings	113,570	605	(147)		259	114,287
Plants and machinery	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
Works in progress 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	31-12-04	Depreciation charge	(Disposals)	Revaluations (Write-downs)	Other changes	31-12-05
Land and buildings	27,524	3,023	(1)			30,546
Plants and machinery	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	31-12-04	Additions	(Disposals)	(Depreciation)	Other changes	31-12-05
Land and buildings	86,046	605	(146)	(3,023)	259	83,741
Plants and machinery	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
Works in progress and advances	33,277	52,326	(179)		(49,056)	36,368
Total	**457,691**	**59,311**	**(467)**	**(73,513)**	**33**	**443,055**

COST	31-12-05	Additions	(Disposals)	Revaluations (Write-downs)	Other changes	31-12-06	Balance as at 31-12-06	
							Sarlux	Saras Red
Land and buildings	114,287	145			18,080	132,512	15,081	8,831
Plants and machinery	1,067,898	36,703	(5,819)		854,051	1,952,833	813,856	673
Industrial and commercial equipment	12,307	4	(1,306)		3,315	14,320	490	0
Other assets	376,610	3,895	(276)		38,270	418,499	13,919	9,361
Works in progress and advances	36,368	75,886	(30)		(49,974)	62,250	5,854	12
Total	**1,607,470**	**116,633**	**(7,431)**	**0**	**863,742**	**2,580,414**	**849,200**	**18,877**

ACCUMULATED DEPRECIATION	31-12-05	Additions	(Disposals)	Revaluations (Write-downs)	Other changes	31-12-06	Balance as at 31-12-06	
							Sarlux	Saras Red
Land and buildings	30,546	3,620			2,430	36,596	3,872	1,122
Plants and machinery	865,142	67,467	(5,819)		205,464	1,132,254	221,549	632
Industrial and commercial equipment	9,730	1,582	(1,306)		(559)	9,447	242	0
Other assets	258,997	19,672	(274)		18,634	297,029	13,571	4,725
Total	**1,164,415**	**92,341**	**(7,399)**	**0**	**225,969**	**1,475,326**	**239,234**	**6,479**

NET BOOK VALUE	31-12-05	Additions	(Disposals)	Revaluations (Write-downs)	Other changes	31-12-06	Balance as at 31-12-06	
							Sarlux	Saras Red
Land and buildings	83,741	145	0	(3,620)	15,650	95,916	11,209	7,709
Plants and machinery	202,756	36,703	0	(67,467)	648,587	820,579	592,307	41
Industrial and commercial equipment	2,577	4	0	(1,582)	3,874	4,873	248	0
Other assets	117,613	3,895	(2)	(19,672)	19,636	121,470	348	4,636
Works in progress and advances	36,368	75,886	(30)		(49,974)	62,250	5,854	12
Total	**443,055**	**116,633**	**(32)**	**(92,341)**	**637,773**	**1,105,088**	**609,966**	**12,398**

Costs are shown net of grants definitively received for the accomplishment of investments.
The gross value of grants deducted from fixed assets in the balance sheet was €160,963 thousand, and related to the "Contratto di programma" entered into with the Ministry of Industry, Commerce and Crafts on 19 June 1995, and the "Contratto di programma" entered into with the Ministry of Productive Activities on 10 October 1997.
As at 31st December 2006, the net book value of these grants was €40,470 thousand (€54,832 thousand as at 31st December 2005).

The item "Land and buildings" includes industrial buildings used as offices and warehouses worth a net value of €52,294 thousand, civic buildings in Cagliari and Rome used as offices worth a net value of €9,666 thousand, land relating largely to the Sarroch and Arcola sites belonging to the Parent Company and Arcola S.p.A. respectively worth a net value of €33,956 thousand .
The item "plants and equipment" mainly relates to the refining plants located in Sarroch.
The item "Industrial trade and equipment" includes equipment for the chemicals laboratory and the new control room that was built during 2004, which are connected to the Parent Company's refining activities, plus various pieces of equipment needed for the production process.
The item "Other assets" mainly includes tanks and pipelines used to carry products and crude of the Parent Company and the Group's commercial companies (Saras Energia and Arcola).
The item "Assets under construction and advances" reflects costs relating mainly to investments in tanks, and work carried out on facilities necessary to adapt and upgrade existing plants, more specifically for environmental, safety, and reliability issues.
Increases in the period total €116,633 thousand, and mainly refer to technical investments made by the Parent Company; specifically, improvements made on the separators of the plants Topping 2 and Vacuum 2, on the boilers of the C.C.R. plant, on the storage tanks, and the maintenace works on Topping 2, Vacuum 2 and C.C.R.

The item "Other changes" mainly includes the transfer of fixed assets completed during the period.

The main annual depreciation rates used are as following:

Industrial buildings (Land and buildings)	5.50%
Generic plants (Plants and equipment)	8.38% - 6.25%
Highly corrosive plants (Plants and equipment)	11.73% - 8.75%
Pipelines and storage (Plants and equipment)	8.38% - 6.25%
Thermoelectricity plant	4.50%
Equipment (Equipment)	25.00%
Office furniture and machinery (Other assets)	12.00%
Transport vehicles (Other assets)	25.00%

No fixed assets are held for sale.

A concession enabling the Group to occupy state-owned areas until 31st December 2015, where the Sarroch refinery's service facilities are located (i.e. waste water treatment, desalinisation of seawater, blow-down, torches and wharf), was obtained from the Cagliari Port Authority; currently, there are no factors that might lead us to expect that the concession will not be renewed at expiry.
Leased assets, booked as "transport vehicles" totalled €14,663 thousand, while their residual net value totalled €1,553 thousand.
During financial year 2006, financial charges of €1,492 thousand were capitalised on the value of property, plants and equipment; the applied capitalization rate was 3.36% equivalent to the parent Company's average interest rate on debt.

5.2.2 Intangible assets

The following table shows the changes in intangible assets:

CATEGORY	31-12-04	Additions	Disposals	Other changes	(Amortisation)	31-12-05
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 constr. 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**

CATEGORY	31-12-05	Additions	Disposals	Other changes	(Amortisation)	31-12-06	Balance as at 31-12-06	
							Sarlux	Saras Red
Industrial and other patent rights	1	1,315	0	1,116	(912)	1,520	265	315
Concessions, licenses, trademarks and similar rights:	572	5,134	0	26,032	(931)	30,807	682	30,920
Goodwill	2,515	0	0	0	0	2,515	0	0
Assets under constr. and advances	708	403	0	(709)	0	402	372	0
Other intangible assets	539	6,322	(959)	567,573	(24,369)	549,106	545,059	0
Total	**4,335**	**13,174**	**(959)**	**594,012**	**(26,212)**	**584,350**	**546,378**	**31,235**

The main items comprise the following:
Concessions, licenses, trademarks and similar rights. The increase mainly refers to the effects deriving from the acquisition of "Estaciones de Caprabo S.A." (now Saras Energia Red S.A.) by the subsidiary Saras Energia S.A.; the fair value measurement of assets and liabilities of the acquired company caused the booking of an intangible asset classified as a concession in order to reflect the contractual conditions that foresee the reinstatement of tangible assets after 20 years.

Goodwill: this item mainly includes goodwill paid for the acquisition of the subsidiary Carthago S.A. (incorporated in Saras Energia S.A.).

The item "Other intangible assets" mainly refers to the acquisition of assets relative to the subsidiary Sarlux S.r.l. and includes the fair value measurement as at 30th June 2006 of the contract in place between the subsidiary Sarlux S.r.l. and G.S.E. (Gestore dei Servizi Elettrici S.p.A.).
The amortisation of intangible assets totalled €26,212 thousand, calculated according to the following annual rates:

Industrial patent rights and original work use rights	20%
Concessions, licenses, trademarks and similar rights	5% - 33%
Other intangible assets	6% - 33%

No intangible assets with a finite useful life are held for sale.

5.2.3 Equity investments

The following table shows a list of the investments held as at 31st December 2006, and the main figures of the individual interest:

NAME	HQ	Currency	Share capital	Portion consolidated by Group (%) at 12-06	Portion consolidated by Group (%) at 12-05	Portion % of Share Capital	Shareholder	% voting rights	Business relationship
Arcola Petrolifera S.p.A.	Sarroch (CA)	Euro	7,755,000	100%	100%	100%	Saras S.p.A.	100%	Subsidiary
Sartec Saras Ricerche e Tecnologie S.p.A.	Assemini (CA)	Euro	3,600,000	100%	100%	100%	Saras S.p.A.	100%	Subsidiary
Consorzio Ricerche Associate	Capoterra (CA)	Euro	3,105,971	100%	100%	100%	Saras S.p.A.	100%	Subsidiary
Ensar S.r.l. and Subsidiary:	Milano	Euro	100,000	100%	100%	100%	Saras S.p.A.	100%	Subsidiary
Eolica Italiana S.r.l.	Cagliari	Euro	100,000	100%	100%	100%	Ensar S.r.l.	100%	Indirect Subsidiary
Akhela S.r.l.	Uta (CA)	Euro	3,000,000	100%	100%	100%	Saras S.p.A.	100%	Subsidiary
Sarint S.A. and Subsidiary:	Lussemburgo	Euro	50,705,314	100%	100%	100%	Saras S.p.A.	100%	Subsidiary
Saras Energia S.A.	Madrid (Spagna)	Euro	44,559,840	100%	100%	100%	Sarint S.A.	100%	Indirect Subsidiary
Reasar S.A.	Lussemburgo	Euro	1,225,001	100%	100%	100%	Sarint S.A.	100%	Indirect Subsidiary
Sarlux S.r.l.	Sarroch (CA)	Euro	27,730,467	100%	55%	100%	Saras S.p.A.	100%	Subsidiary
Parchi Eolici Ulassai S.r.l. and Subsidiary:	Cagliari	Euro	500,000	70%	70%	70%	Saras S.p.A.	70%	Joint venture
Sardeolica S.r.l.	Cagliari	Euro	56,636	100%	100%	100%	Parchi Eolici Ulassai S.r.l.	70%	Joint venture
Xanto S.r.l. in liquidation and Subsidiary:	Milano	Euro	100,000	100%	100%	100%	Akhela S.r.l.	100%	Indirect Subsidiary
Xanto Basilicata S.r.l. in liquidation	Milano	Euro	10,000	100%	100%	100%	Xanto S.r.l.	100%	Indirect Subsidiary
Dynergy S.r.l.	Genova	Euro	179,000	37,5%	37,5%	37,5%	Saras Ricerche e Tecnologie S.p.A.	37,5%	Associated co.
Hangzhou Dadi Encon Environmental Equipment Co.	Hangzhou	RMB*	14,050,200	37,5%	37,5%	37,5%	Saras Ricerche e Tecnologie S.p.A.	37,5%	Associated co.
Nova Eolica S.r.l.	Cagliari	Euro	10,000	20%	20%	20%	Ensar S.r.l.	20%	Associated co.
Consorzio Cesma	Castellamonte (TO)	Euro	51,000	5%	5%	5%	Saras Ricerche e Tecnologie S.p.A.	5%	Other interest
Consorzio Cifra in liquidazione	Cagliari	Euro	92,000	16,7%	16,7%	16,67%	Akhela S.r.l.	16,67%	Other interest
Consorzio La Spezia Energia	La Spezia	Euro	50,000	5%	5%	5%	Arcola Petrolifera S.p.A.	5%	Other interest
Consorzio Qualità e Tratt. Acque	Napoli	Euro	10,000	9,07%	9,07%	9,07%	Saras Ricerche e Tecnologie S.p.A.	9,07%	Other interest
Consorzio Techno Mobility	Cagliari	Euro	57,500	17,4%	17,4%	17,4%	Saras Ricerche e Tecnologie S.p.A.	17,4%	Other interest
Hydrocontrol Soc. Consortile a r.l.	Capoterra (CA)	Euro	1,033,000	17%	17%	17%	Saras S.p.A.	17%	Other interest
Sarda Factoring	Cagliari	Euro	8,320,000	4,75%	4,75%	4,75%	Saras S.p.A.	4,75%	Other interest

* Ren Min Bi

5.2.3.1 Equity interest measured at equity

This item includes the equity interest held jointly in the company Parchi Eolici Ulassai S.r.l.; the subsidiary Sarlux S.r.l., following the acquisition of the remaining 45% stake in this company by Saras S.p.A. on 28th June 2006, is fully consolidated in these financial statements..

	Legal offices	% owned	31-12-06	31-12-05
Sarlux S.r.l.	Sarroch (CA)	- (1)		93,943
Parchi Eolici Ulassai S.r.l.	Cagliari	70%	8,601	2,335
Xanto S.r.l. in liquidazione	Milano	100%	1,369	897
Total			**9,970**	**97,175**

(1) 55% in 2005 and 100% in 2006

The following table shows changes in their book value:

	31-12-04	Acquisitions and subscriptions	Revaluation/ (Write-downs)	Other changes	31-12-05
- Sarlux Srl	81,850		49,234	(37,141)	93,943
- Parchi Eolici Ulassai S.r.l.	1,658		(778)	1,455	2,335
- Xanto S.p.A.			291	606	897
Totale	**83,508**	**0**	**48,747**	**(35,080)**	**97,175**

	31-12-05	Acquisitions and subscriptions	Revaluation/ (Write-downs)	Other changes	31-12-06
- Sarlux Srl	93,943		28,785	(122,728)	0
- Parchi Eolici Ulassai S.r.l.	2,335		6,255	11	8,601
- Xanto S.r.l. in liquidazione	897		472		1,369
Total	**97,175**	**0**	**35,512**	**(122,717)**	**9,970**

The figures shown in the column Revaluation/Write-down reflect the Parent Company's share of net profits for the period for the holdings.
The effect of the consolidation at equity is included in the income statements in the item "Net Income (expense) of equity interest".

Detailed information regarding the item "Equity interest valued at equity" as at 31st December 2005 and 2006 is provided in the table below. (The information shown reflects the percentage attributable to the Group.)

31ST DECEMBER 2005

Company name	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenues	Operational expenses	Operating result	Result for the year	
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)	(1)
Xanto S.r.l. in liquidazione	4,220	517	2,022	1,818	0	233	(233)	290	
								48,746	

31ST DECEMBER 2006

Company name	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenues	Operational expenses	Operating result	Result for the year	
Parchi Eolici Ulassai S.r.l.	1,424	33,551	2,779	23,596	0	153	(153)	6,255	(1)
Xanto S.r.l. in liquidation	1,282	508	369	52	0	124	(124)	472	
								6,727	

(1) Parchi Eolici Ulassai S.r.l. raccoglie il risultato pro-rata (70%) della controllata Sardeolica S.r.l.

As at 31st December 2006 no associated companies were listed in regulated markets.

5.2.3.1.1 Acquisitions and business combinations

[A] *Acquisition of residual 45% stake in Sarlux S.r.l.*

General note

As already reported in the notes to the financial statements as at 31st December 2005, in the course of 2002 Saras SpA exercised its option to purchase the remaining 45% of Sarlux Srl ("Sarlux"), a joint venture in which the Group already owned 55% and that in prior years had been consolidated under the equity method. The exercise by Saras of the option right was challenged by the other joint venturer, Enron Dutch Holding B.V. ("Enron Dutch").

The parties resorted to arbitration in accordance with the regulations of the International Chamber of Commerce. Pending an outcome of the arbitration, in 2002 Saras sought and 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.

On 18th April 2006 the board of arbitrators, based in Geneva, resolved in Saras' favour. On 5th June 2006, as a result of the decree by which the Appeals Court in Rome enforced the arbitrators' award in Italy, Saras filed the award and decree with the Companies' Register of Cagliari; on 6th June 2006 it obtained recording of the transfer of the equity interest in the shareholders' register of Sarlux and paid to Enron Dutch the price
for its equity stake, decided by the board of arbitrators as about €117 million.

On 28th June 2006, the Court of Cagliari ordered the release of the 45% equity stake in Sarlux. Therefore, effective 28th June 2006, Saras has acquired control of Sarlux and increased its stake from 55% to 100%. Consequently, as from that date Sarlux has been consolidated in Saras on a line-by-line basis.

Date of acquisition and components of the cost of acquisition

We provide below details of the cost of the aforementioned acquisition, the effective date on which control was acquired (in accordance with paragraph 25 of IFRS 3 this is the date on which the acquirer obtains the effectively control of the business or entity acquired) and the percentage of voting rights acquired.

The cost of acquisition of 45% of Sarlux totalled €131 million approximately, and includes the price paid as decided by the board of arbitrators, equal to about €117 million, accessory charges of about €10 million and the fair value of the option exercised, determined at the date of exercise of the option, equal to about €4 million. No shares of other equity instruments were issued as part of the cost of the acquisition.
The date of acquisition date coincided with the freeing of the 45% equity stake in Sarlux and was therefore 28th June 2006. Only starting from that date did Saras acquire control of Sarlux as defined in paragraphs 13 and 14 of IAS 27.

The voting rights acquired correspond to 45% of the equity of Sarlux.

Values allocated to assets and liabilities upon acquisition

We summarise below the values allocated upon acquisition to the main categories of assets and liabilities acquired, together with the corresponding book values determined in compliance with IFRS immediately prior to the date of acquisition (amounts in thousands of euros):

Description	Attributed book values	Previous book value
Intangible assets, Other	18,297	18,297
Intangible assets, Supply contracts for electricity	547,456	0
Land and buildings	10,392	10,392
Plants, equipment and other tangible assets	618,116	618,116
Current assets	424,864	424,864
Long-term financial assets	75,845	75,845
Current liabilities	(238,857)	(238,857)
Long-term financial liabilities	(319,329)	(319,329)
Deferred tax liabilities net of pre-paid taxes	(98,137)	105,790
Other non-current liabilities	(461,067)	(461,067)

Disclosure concerning the decision to dispose of certain assets acquired

At present Saras Group has no intention to dispose of any of the assets/liabilities acquired through the operation illustrated above.

Differences emerging upon acquisition between the fair values of the assets and liabilities acquired and the price paid

The above acquisition did not generate any goodwill to be recognised as an asset in the Group's consolidated balance sheet.

The item 'Sarlux S.r.l. acquisition' in the consolidated income statement for the six months to 31st December 2006 includes income totalling some €199 million originating from the recognition of the effects of the arbitrator's award and the consequent acquisition of the remaining 45% equity interest in Sarlux that caused the entity to be consolidated.

Result for the period of the acquired equity interest in Sarlux

Because control was acquired on 28th June 2006, the results of the first half of the interest is recorded in the item "Net income (expense) on equity investments" for a total of €28,785 thousand.

Disclosure concerning the Group's revenues and result of operations in relation to the acquisition

If the acquisition had been effective for accounting purposes starting from 1st January 2006, Group revenues and the net result would have been higher by approximately €150 million and €24 million, respectively.

[B] *Acquisition of Estaciones de Servicio Caprabo S.A. (now called Saras Energia Red S.A.)*

On 8th July 2006 the acquisition of 100% of Estaciones de Servicio Caprabo S.A. from the Spanish retailer Caprabo S.A. was finalised. The price paid for this acquisition was €28,045 thousand; total consideration paid for the acquisition didn't include shares or any other equity instruments. As of today Saras doesn't forecast the disposal of any asset or liability acquired.

The acquisition did not imply any goodwill since the fair value of assets, liabilities and potential liabilities is equal to the price of the transaction.

The value of the 20-year plant management contracts, which should be returned to the owners of the land property upon termination of these contracts, is included among the acquired assets (for a total amount of €31,933 thousand gross of deferred taxes).

5.2.3.2 Other investments

Il dettaglio delle altre partecipazioni è il seguente:

	31-12-06	31-12-05
Nova Eolica S.r.l.	109	69
Dynergy S.r.l.	91	91
Hangzhou Dadi Encon Environmental Equipment Co.	481	481
Consorzio Cesma	3	3
Consorzio Cifra S.r.l.	0	15
Consorzio La Spezia Energia	2	2
Consorzio Qualità e Tratt. Acque	0	1
Consorzio Techno Mobility	10	11
Hydrocontrol - Soc. consort. a r. l.	1	232
Sarda Factoring	495	495
Total	**1,192**	**1,400**

The changes between 31st December 2006 and 31st December 2005 relates to a decrease in Hydrocontrol, Consortium with limited responsibility, which reflects the adjustment of the book value at its fair value, as well as the higher value for tranfers due capital increase of Nova Eolica S.r.l.'s shareholders' equity.

5.2.4 Other financial assets

The balance at 31st December 2006 of €5,968 thousand is mainly made up of prepayments made by the subsidiary Sarlux S.r.l. for future oxygen supplies.

5.3 Current liabilities

5.3.1 Short-term financial liabilities

The following table shows Short-term financial liabilities:

	31-12-06	31-12-05	Change	Balance at 31-12-2006	
				Sarlux	Saras Red
Bank loans	138,549	57,925	80,624	107,142	0
Bank accounts	61,153	40,416	20,737	0	0
Other loans	0	1,271	(1,271)	0	0
Loans from unconsolidated group companies	2,395	2,552	(157)	0	0
Total	**202,097**	**102,164**	**99,933**	**107,142**	**0**

Details of the terms and conditions of loans are shown in the comments to the item "Long-term financial liabilities" below.

The increase in the item "Bank loans" of €80,624 thousand versus 31st December 2005 is mainly attributable to the loans of the subsidiary Sarlux S.r.l.

The item "Loans from unconsolidated Group companies" included debts arising from Parchi Eolici Ulassai S.r.l.'s share of the tax consolidation (€583 thousand) and loans obtained by the Parent Company from Nova Eolica S.r.l. (€1,000 thousand) and from Xanto S.r.l. in liquidation (€800 thousand); financial debts are settled at market conditions.

For more detail regarding the changes in this item, please see the cash flow statement included within these consolidated financial statements.

5.3.2 Trade and other payables

The following table shows the composition of this item:

	31-12-06	31-12-05	Change	Balance at 31-12-2006	
				Sarlux	Saras Red
Advances from clients: portion due within the year	2,910	1,223	1,687		
Amounts payable to suppliers: portion due within the year	548,117	498,686	49,431	26,238	1,616
Trade payables to unconsolidated Group companies	31	13,040	(13,009)		
Trade payables to associate companies	564	233	331		
Totale	**551,622**	**513,182**	**38,440**	**26,238**	**1,616**

The following table shows a breakdown for Payables to suppliers per geographic area:

	31-12-06	31-12-05	Change	Balance at 31-12-06	
				Sarlux	Saras Red
Payables to Italian suppliers	164,421	144,231	20,190	25,091	
Payables to Spanish suppliers	44,832	41,198	3,634		1,616
Payables to other EU country suppliers	99,607	9,516	90,091	59	
Payables to non-EU country suppliers	238,090	303,131	(65,041)		
Payables to US suppliers	1,167	418	749	1,088	
Total	**548,117**	**498,494**	**49,623**	**26,238**	**1,616**

5.3.3 Current tax liabilities

The following table shows the composition of this item:

	31-12-06	31-12-05	Change	Balance at 31-12-06	
				Sarlux	Saras Red
other	24,650	28,003	(3,353)	105	7
to italian goverment for VAT	15,659	13,828	1,831		
IRES (corporation tax)	9,227	25,932	(16,705)		3,174
IRAP (regional tax)	2,557	7,986	(5,429)	2,275	66
Total	**52,093**	**75,749**	**(23,656)**	**2,380**	**3,247**

The item “Other” mainly includes debts to both the Italian Technical Office for Manufacturing Tax (UTIF) for excise duties for €22,238 thousand, and to the Inland Revenue for personal income taxes (IRPEF) for €2,212 thousand.

The decrease in corporate income tax liabilities (IRES) was largely due to the amount reported as payable on 31st December 2005 being paid in June. This item includes the net balance of the accrual for income tax of the period and prepayments made for the 2006 financial year.

5.3.4 Other current liabilities

The following table shows a breakdown for Other current liabilities:

	31-12-06	31-12-05	Change	Balance at 31-12-06	
				Sarlux	Saras Red
Amount payable to welfare and soc. sec.: portions due within the year	6,012	6,539	(527)	108	
Due to personnel	10,245	12,400	(2,155)	445	345
Payables to Ministry for grants	29,371	28,334	1,037		
Other payables	14,388	9,492	4,896	38	314
Other accrued liabilities	406	288	118	302	
Other deferred income	311	1,227	(916)		
Total	**60,733**	**58,280**	**2,453**	**893**	**659**

The item “Due to personnel” includes amounts not yet settled for salaries for the month of December, performance bonuses for the achievement of business targets, and the portion of additional monthly payments accrued.
The item “Payables to Ministry for grants” includes advances received from the Ministry in connection with the “Contratto di Programma” that was made on 10 June 2002 for which the Final Concession Decree has yet to be granted. The balance for €14,360 thousand refers to Akhela, €1,163 thousand to Sartec, and €13,848 to the Parent Company; the increase refers to the advances received by Sartec.

The item “Other payables” mainly refers to port duties as determined by the Customs Authority; please note that the first tranche of Saras’ long-standing dispute with Inland Revenue regarding port duties payable for the Sarroch landing dock for the 1994-95 period was settled to the full satisfaction of Saras, whose case was upheld by a ruling issued by the Italian Supreme Court of Appeal, which definitively declared that the taxes were not due.

Furthermore, a second tranche of the dispute is underway, and, after a favourable ruling issued by the Court of Cagliari, an unfavourable ruling has been pronounced by the Cagliari Court of Appeal. As a consequence Saras decided to make an accrual in respect of the due amount, the payment of which is however temporarily suspended.

5.4 Non-current liabilities

5.4.1 Long-term liabilities

The following table shows this item in detail:

Figures in in milioni di Euro	Date of borrowing	Amount originally borrowed	Base rate	Outstanding at 31-12-05	Outstanding at 31-12-06	maturity 1 year	from 1 to 5 years	beyond 5 years	Security
Saras S.p.A.									
Banca Pololare di Verona	16-Dec-04	20.0	Euribor 3M	20.0	-	-	-	-	
B.ca Intesa in Pool	21-Dec-01	87.8	Euribor 3M	52.7	-	-	-	-	
S.Paolo in Pool	29-Dec-99	77.5	Euribor 6M	20.7	-	-	-		
San Paolo Imi	20-Dec-04	30.0	Euribor 6M	30.0	30.0	10.0	20.0	-	30.0
Unicredit	20-Dec-04	50.0	Euribor 6M	50.0	50.0	16.7	33.3	-	50.0
Finanziamento Legge 46	9-Dec-92	10.9	2.47%	1.3	-	-	-	-	
Total Saras S.pA.				**174.7**	**80.0**	**26.7**	**53.3**	**-**	
Sartec S.p.A.									
San Paolo Imi	30-Jun-01	1.7	2.31%	0.9	0.8	0.2	0.6	-	
San Paolo Imi	30-Jun-97	1.2	2.95%	0.2	0.1	0.1		-	
Akhela S.r.l.									
Banco di Sardegna	24-Apr-02	3.1	Euribor 6M	2.3	1.5	0.6	0.9	-	
BNL	2-Oct-02	8.2	Euribor 6M	5.5	2.7	2.7	-	-	
Saras Energia S.A.									
Banca Esp. De Credito	11-Sep-02	10.0	Euribor 6M	7.8	6.7	1.1	4.5	1.1	
Sarlux S.r.l.									
Banca Intesa	29-Nov-96	572.0	Libor 3M		220.3	64	156		220.3
BEI	29-Nov-96	180.0	7.35%		74.5	21.6	52.9		74.5
BEI	29-Nov-96	208.0	Euribor 3M		74.6	22	53		74.6
Total debts to banks for loans				**191.4**	**461.2**	**138.5**	**321.6**	**1.1**	

The weighted average interest rate as at 31st December 2006 was equal to 5.5% (commitment and guarantee fees of Sarlux S.r.l. included) .

The loan received by Saras S.p.A. granted by San Paolo Imi S.p.A. (an initial €30 million) is subject to the following two covenants (with reference to the Parent Company's figures): [I] a Debt/equity ratio of less than 2.3; and [II] an EBITDA/net interest expense ratio of higher than 3.

Furthermore, please note that Sarlux S.r.l. must respect certain parameters before distributing dividends with regards to these loans. Specifically, in order to free up this liquidity, the following must be respected:

- The following bank accounts of the subsidiary held at Banca Intesa in London must contain funds to cover the costs expected:

[1] *Maintenance Reserve Account*: collects the amounts for commitments made to guarantee maintenance operations of the I.G.C.C. plant for the following half-year;

[2] *Debt Service Reserve Account*: includes the amounts destined to banks to make loan repayments (the capital plus interest) that are due in the following half-year;

[3] *Air Liquide Account:* includes the amounts to guarantee the supply of oxygen that Air Liquide Italia will make in the following half-year;

- And that the following parameters are respected, with reference to the financial figures deriving from the financial statements and forecasts of Sarlux S.r.l.:

[1] *Annual Debt Service Cover Ratio* (A.D.S.C.R.): the ratio of *Available Cash Flow Post Tax* (for the following 12 months) and the *Total debt to be repaid* (in the following 12 months), must be higher than 1.15;

[2] *Loan Life Cover Ratio* (L.L.C.R.): *Net Present Value Cash Flow Post Tax* (expected for the residual life of the contract) and the *Total debt to be repaid*, must be higher than 1.2.

Compliance with all the above ratios has been achieved as of 31st December 2006.

In addition, the entirety of Sarlux S.r.l. shares were pledged to banking institutions to guarantee loans granted.

5.4.2 Provisions for risks and charges

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

	31-12-04	Additions	Deductions	Movements	31-12-05
Provisions for dismantling of plants	13,526				13,526
Other risk provisions	1,555	1,912	(920)	1,142	3,689
Provisions for risks on equity investments	610	19	(275)		354
Total	**15,691**	**1,931**	**(1,195)**	**1,142**	**17,569**

	31-12-05	Additions	Deductions	Movements	31-12-06	Balance at 31-12-06	
						Sarlux	Saras Red
Provisions for dismantling of plants	13,526			3,300	16,826	3,300	
Other risk provisions	3,689	1,622	(1,582)	3,930	7,659	3,916	
Provisions for risks on equity investments	354		(354)		0		
Total	**17,569**	**1,622**	**(1,936)**	**7,230**	**24,485**	**7,216**	**0**

Provisions for risks and charges comprise a plant dismantling provision, related to future costs for the dismantling of plants and equipment, considered wherever there is a legal or constructive obligation to be met in this regard; this provision was not discounted in the balance sheet due to its negligible effect on the Group's consolidated financial statements.

The item "Other risk provisions" was established for liabilities of fiscal nature and related to emissions trading.

5.4.3 Provisions for employee benefits

The following table shows the balance of this item:

	31-12-06	31-12-05	Change
Staff leaving indemnity	26,983	29,877	(2,894)
CPAS fund	18,448	19,808	(1,360)
	45,431	**49,685**	**(4,254)**

Employee severance indemnity is regulated according to art. 2120 of the Italian Civil Code and reflects the estimated amount, based on actuarial estimates, that the company will be required to pay employees upon termination of employment; the item "CPAS fund" is a special supplementary pension fund for employees (*Fondo Previdenza Aziendale Dipendenti Saras*, i.e. the company pension fund for Saras Employees).

This obligation is also measured using actuarial techniques.

The following table shows the changes in the staff leaving indemnity:

Balance at 31.12.2004	**27,908**
Accrual for the year	6,684
Utilisations for the year	(4,715)
Balance at 31.12.2005	**29,877**
Accrual for the year	4,964
Utilisations for the year	(7,858)
Balance at 31.12.2006	**26,983**

Changes in the CPAS fund are the following:

Balance at 31.12.2004	**17,929**
Accrual for the year	3,039
Utilisations for the year	(1,160)
Balance at 31.12.2005	**19,808**
Accrual for the year	322
Utilisations for the year	(1,682)
Balance at 31.12.2006	**18,448**

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

	31-12-06	31-12-05
BUSINESS ASSUMPTIONS		
Cost of living increases:	2,00%	2,00%
Discount rate:	4,60%	4,00%
Compensation increases:	3,00%	3,00%
Annual increase rate in staff leaving indemnity:	3,00%	3,00%
Annual increase rate in CPAS fund:	11,00%	11,00%

DEMOGRAPHIC ASSUMPTIONS	
Probability of death:	Percentage determined by ISTAT in 2002, for each sex separately
Probability of disability:	Those adopted in the 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 advance payments:	A year-on-year rate of 3.00% has been assumed for all Group companies

The discount rate used refers to the value of the IBOXX Eurozone AA with a maturity correlated to the average residual length of employment of the staff. As at 31st December 2005, IBOXX Eurozone AA 10 years or more was 4% annually, while as at 31st December 2006 this rate was 4.60%; the change in discount rate caused a significant reduction in the allocation carried for the financial year.

Considering the adopted accounting method (please see section 3.2 "Summary of accounting principles and policies applied" under point P "Provisions for employee benefits" of these notes), as at 31st December 2006 there were no actuarial gains or losses not recognised in the financial statements.

5.4.4 Deferred tax liabilities

	31-12-06	31-12-05	Change	Balance at 31-12-2006	
				Sarlux	Saras Red
Deferred tax liabilities	161,087	96,374	64,713	79,616	10
	161,087	**96,374**	**64,713**	79,616	10

Deferred tax liabilities are shown net of deferred tax assets, and have the following nature:

(figures in thousands of euros)	Amounts at 31.12.0	Additions	Deductions	Other changes	Amounts at 31.12.06
Deferred tax liabilities					
Excess and accelerated depreciation	(52,324)	(14,817)	1,981	(61,246)	(126,406)
Adjustment to value of land to reflect fair value (as deemed cost)	(10,675)				(10,675)
Measurement of inventory at end of period at FIFO cost	(58,950)	(4,415)	15,726	(291)	(47,930)
Adjustments for scheduled plant and equipment maintenance	(3,921)	(7,452)	3,857	(15)	(7,531)
Eliminations of accruals to risk provisions for subsidiaries	(1,183)	(119)	113	10	(1,179)
Discounting of liabilities	(5,882)		882	3,236	(1,764)
Fair value of derivatives	(479)	(3,193)	105		(3,567)
Fair value of Sarlux contract with GSE			7,032	(203,927)	(196,895)
Intangible assets fair value of Saras Red			74	(7,885)	(7,811)
Reversal of goodwill amortisation	(140)	(55)		30	(165)
Total deferred tax liabilities	**(133,554)**	**(30,051)**	**29,770**	**(270,088)**	**(403,923)**
Deferred tax assets					
Excess and accelerated depreciation related to grants	8,296	494			8,790
Provisions for risks and write-downs	3,344	349	(88)	(4)	3,601
Write-downs of equity interest prior to 2004	4,703		(3,717)		986
Derecognition of intangible assets	1,632	339	(1,084)	5,492	6,379
Elimination of monetary revaluation of tangible assets	4,318		(2,660)	(696)	962
Reclassification of grants previously carried as equity	2,922		(680)		2,242
Costs for the dismantling and removal costs of tangible assets	4,122	260			4,382
Employee benefits and bonuses	4,705	2,339	(2,733)		4,311
Unrealised currency losses	275	42	(99)	118	336
Linearisation of Sarlux (as per IAS 17 and IFRIC 4)		19,746		167,695	187,441
IPO costs charged directly to shareholders' equity			(2,086)	10,430	8,344
Asset maintenance costs deductible in future years		6,512			6,512
Other	2,862	5,645	(976)	1,019	8,550
Total deffered tax assets	**37,179**	**35,726**	**(14,123)**	**184,054**	**242,836**
Net total	**(96,375)**	**5,675**	**15,647**	**(86,034)**	**(161,087)**

The following table shows a breakdown in deferred tax assets and liabilities into current and non-current portions for the financial years 2006 and 2005, respectively:

(figures in thousands of euros)	2006 Short term	2006 Medium-long term	2005 Short term	2005 Medium-long term
Deferred tax liabilities				
Excess and accelerated depreciation	(10,201)	(116,205)		(52,324)
Adjustment to value of land to reflect fair value (as deemed cost)		(10,675)		(10,675)
Measurement of inventory at end of period at FIFO cost	(47,930)		(58,950)	
Adjustments for scheduled plant and equipment maintenance	(2,302)	(5,229)	(2,922)	(999)
Eliminations of accruals to risk provisions for subsidiaries		(1,179)		(1,183)
Discounting of liabilities	(500)	(1,264)	(642)	(5,240)
Fair value of derivatives	(3,567)	0	(479)	
Fair value of Sarlux contract with GSE	(14,006)	(182,889)		
Reversal of goodwill amortisation		(165)		(140)
Fair value intangible assets Saras Red	(391)	(7,420)		
Total deferred tax liabilities	**(78,897)**	**(325,026)**	**(62,993)**	**(70,561)**
Deffered tax assets				
Excess and accelerated depreciation on grants	2,792	5,998		8,296
Provisions for risks and write-downs	1,773	1,828		3,344
Write-downs of equity interest prior to 2004	986		1,943	2,760
Derecognition of intangible assets	2,039	4,340	120	1,512
Elimination of monetary revaluation of tangible assets	962		600	3,718
Reclassification of grants previously carried as equity	629	1,613	630	2,292
Costs for the dismantling and removal costs of tangible assets	321	4,061		4,122
Employee benefits and bonuses	2,304	2,007	2,709	1,996
Unrealised currency losses	336		275	
Linearisation of Sarlux (as per IAS 17 and IFRIC 4)		187,441		
IPO costs charged directly to shareholders' equity	2,086	6,258		
Asset maintenance costs deductible in future years	1,303	5,209		
Other	8,550		2,862	
Total deferred tax assets	**24,081**	**218,755**	**9,139**	**28,040**

5.4.5 Other non-current liabilities

The following table shows this item in detail:

	31-12-06	31-12-05	Change	Balance at 31-12-2006 Sarlux	Balance at 31-12-2006 Saras Red
Advances from clients: portion due in future years	1,599	1,484	115		
Trade payables to unconsolidated subsidiaries		51,046	(51,046)		
Payables to welfare and soc. sec.: portions due in future years	213	148	65		
Other	4,383	4,355	28	746	
Long-term deferred income	508,571	0	508,571	503,198	
Totale	**514,766**	**57,033**	**457,733**	**503,944**	**0**

Compared to 31st December 2005, this change mainly refers to the increase in the item "long term defferd income" following the consolidation of the subsidiary Sarlux S.r.l.. This item regards the application of IFRIC 4 for the treatment of the energy contract in place with G.S.E. (*Gestore dei Servizi Elettrici S.p.A.*). Revenues from electricity sold are affected by their being linearised in connection with the fact that the electricity supply contract, pursuant to IAS 17, *Leasing* and the interpretation of 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 S.r.l., meaning that it is comparable to an operating lease. Such revenues have therefore been linearised in keeping with both the term of the contract, 20 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.

5.5 Shareholders' equity

Shareholders' equity comprises the following:

	31-12-06	31-12-05	Change
Share capital	54,630	51,183	3,447
Legal reserves	10,237	10,237	0
Other reserves	657,144	268,915	388,229
Profit (loss) from previous periods	167,946	(94,209)	262,155
Profit for the year	395,425	292,642	102,783
	1,285,382	**528,768**	**756,614**
of which: minority interest			
Share capital and reserves attributable to minority interest	0	0	0
Profit (loss) for year attributable to minority interest	0	0	0
Total minority interest	**0**	**0**	**0**

Share capital
As at 31st December 2006, share capital, totalling €54,630 thousand fully paid up, comprised a total of n. 951,000,000 ordinary shares worth €0.05744 each; compared with 31st December 2005, an increase of €3,447 thousand was recorded (60,000,000 newly issued ordinary shares) connected with the IPO.

We underline that on 11th January 2006 following the resolution of the shareholders' meeting, ordinary shares amounting to 8,910,000 were split by 100 new shares per 1 old share.

Legal reserves
Legal reserves, totalling €10,237 thousand, remained unchanged.

Other reserves and Profit (loss) from previous periods
This item totals €825,090 thousand, with a net increase of €650,384 versus the previous period. This net increase comes from:

- an increase in the Share premium reserve for €338,983 thousand, net of listing costs, following the previously mentioned share capital increase related to the subscription price of each share, fixed at €6.00;
- an increase of €188,940 regarding the acquisition of the controlling stake in Sarlux S.r.l. through the acquisition of 45% of the company's share capital; as at 31st December 2005, Sarlux S.r.l. was subject to joint control as a joint venture; the increase is due to the higher value of the assets and liabilities (the 55% stake) of Sarlux S.r.l., attributed to this company at the acquisition, compared to the book value entered in the Saras Group consolidated financial statements closed on 31st December 2005;
- an increase for the allocation of profits from the previous period (for €292,642 thousand);
- a decrease for the distribution of dividends to shareholders of €170,181 thousand, as ruled at the Annual General Meeting held on 28th February 2006.

Result for the year
The net consolidated profit totalled €395,425 thousand.

Restrictions on the distribution of equity reserves
The main restrictions on the distribution of equity reserves can be summarised as follows:

- the legal reserve, totalling €10.2 million, may only be used to cover losses;
- the item "Other reserves" includes about €18 million that may only be used to cover losses or increase share capital.

Furthermore, please note that these equity reserves include about €87.1 million that, in the event of distribution, would be taxed by 37.25% which would be charged to the Parent Company.

Dividends
On 28th February 2006 the Annual General Meeting resolved a distribution of 0.191 euro per share; the dividend (€170,181 thousand) sourced from the extraordinary reserve for € 30,485 thousand and for € 139,696 thousand from the net profit of 2005.

As for 2006 the Board of Directors has proposed to the AGM to be held on 27th April 2007, the distribution of an ordinary dividend of 0.15 euro per share; such dividend is subject to the approval of the AGM and consequently has not been included in the liabilities.

2006 dividend will be payable to all the registered shareholders as of 7th May 2007.

In the following table a reconciliation between the parent company (Saras S.p.A.) and Saras Group as of 31st December 2006 is reported for Net Profit and Shareholders' Equity:

	Net Profit	Shareholders' Equity
Saras S.p.A. annual report for the period ending on 31st December 2006	**257,553**	**866,488**
Difference between value at cost and shareholders' equity of subsidiaries valued at cost in Saras S.p.A accounts	49,098	289,540
Elimination of intercompany profits on inventories	7,409	(2,522)
2005 Sarlux dividends write-off	(74,554)	(74,554)
Net Profit of Sarlux first half 2006 (55%)	28,785	28,785
45% Sarlux fair value net of price paid	128,711	128,711
Acquisition of Caprabo S.A. now Saras Energia Red S.A.	(840)	22,031
Saras Energia tax adjustment	1,006	1,006
Write-off of internal profits on intangible assets, net of taxes	28	(629)
Other	(1,771)	2,972
Saras Group consolidated annual report for the period ending on 31st December 2006	**395,425**	**1,285,382**

6. Notes to the income statement

6.1 Revenues

6.1.1 Revenues from ordinary operations

Revenues from ordinary operations can be broken down as follows:

	31-12-06	31-12-05	Change	Sarlux as from 01-07-06	Saras Red as from 08-07-06
Sales and services revenues	5,746,104	5,196,092	550,012	3,606	56,491
Sale of electricity	242,522	0	242,522	242,522	
Change in contracted work in progress	(1,811)	(91)	(1,720)		
Total	**5,986,815**	**5,196,001**	**790,814**	**246,128**	**56,491**

Versus the previous financial year, sales and services revenues increase by €550 million. This change is largely due to a general rise in prices at almost constant quantities sold and processed for third parties versus the previous financial year.

Revenues from the sale of electricity, made by the subsidiary Sarlux S.r.l., only regard the second half of 2006.

Revenues from ordinary operations are broken down by business segment and geographic area as described in the notes 4.2 and 4.3 “Segment information” and “Geographic area information” above.

6.1.2 Other income

The following table shows “Other income” in detail:

	31-12-06	31-12-05	Change	Sarlux as from 01-07-06	Saras Red as from 08-07-06
Revenues for stocking of mandatory supplies	10,474	11,040	(566)	0	0
Tanker ship rentals	677	1,546	(869)	0	0
Sale of sundry materials	2,212	2,438	(226)	0	0
Other income	19,250	24,511	(5,261)	392	195
Total	**32,613**	**39,535**	**(6,922)**	**392**	**195**

The balance for other revenues basically comprises a charge to Sarlux S.r.l. for services under ongoing twenty-year contracts (services supply and services rendered by Saras’ employees), in the first half of the financial year.

6.2 Costs

The following table shows a breakdown of the main costs.

6.2.1 Purchases of raw materials, replacement parts and consumables

	31-12-06	31-12-05	Change	Sarlux as from 01-07-06	Saras Red as from 08-07-06
Purchases of raw materials, replacement parts and consumables	5,118,970	4,245,896	873,074	5,085	0
Total	**5,118,970**	**4,245,896**	**873,074**	**5,085**	**0**

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

6.2.2 Cost of services and various costs

	31-12-06	31-12-05	Change	Sarlux as from 01-07-06	Saras Red as from 08-07-06
Cost of services	359,171	288,356	70,815	69,455	356
Rent, leasing, and similar costs	10,106	8,013	2,093	1,503	699
Provisions for risks	0	1,931	(1,931)	0	0
Various management costs	8,825	5,243	3,582	0	371
Total	**378,102**	**303,543**	**74,559**	**70,958**	**1,426**

Cost of services is largely composed of maintenance, rentals, freight, electricity, steam, hydrogen and other utilities.
Other operating charges are mainly composed of non-income taxes (property tax, greenhouse gas emissions tax) and membership fees.

6.2.3 Personnel costs

“Personnel costs” can be broken down as follows:

	31-12-06	31-12-05	Change	Sarlux as from 01-07-06	Saras Red as from 08-07-06
wages and salaries	79,848	80,315	(467)	673	1,456
social security	22,542	22,770	(228)	245	319
staff severance indemnity	4,964	6,684	(1,720)	55	0
pensions and similar	375	3,039	(2,664)	5	0
other costs	3,867	2,978	889	647	29
Total	**111,596**	**115,786**	**(4,190)**	**1,625**	**1,804**

The decrease in cost of labour mainly derives from lower allocations to the employee severance indemnity and the pension fund, due to a change in the discount rates of these provisions, as indicated in note 5.4.3 above.

6.2.4 Depreciation, amortisation and write-downs

“Depreciation, amortisation and write-downs” can be broken down as follows:

	31-12-06	31-12-05	Change	Sarlux as from 01-07-06	Saras Red as from 08-07-06
Intangible assets amortisation	26,212	4,328	21,884	24,245	107
Tangible asset depreciation	92,341	73,513	18,828	19,930	624
Write-downs of receivables in current assets	0	40	(40)	0	0
Total	**118,553**	**77,881**	**40,672**	**44,175**	**731**

6.3 Net income (charges) from equity interest

This item is shown in detail in the following table:

Net income (charges) from equity interest	31-12-06	31-12-05	Change
Measurement of joint ventures using equity method:			
Sarlux S.r.l. (first half 2006 and full financial year 2005)	28,785	49,234	(20,449)
Parchi Eolici Ulassai S.r.l.	6,255	(778)	7,033
Xanto S.r.l. in liquidation	472	291	181
	35,512	**48,747**	**(13,235)**
Dynergy S.r.l. (for distribution of dividends)	37	0	37
	37	**0**	**37**
Write-downs:			
Consorzio Cifra	(15)	0	(15)
Hydrocontrol S.r.l.	(232)	0	(232)
	(247)	**0**	**(247)**
Totale	**35,302**	**48,747**	**(13,445)**

6.4 Net financial income (charges)

The financial result can be broken down as follows:

	31-12-06	31-12-05	Change	Sarlux as from 01-07-06	Saras Red as from 08-07-06
Other financial income:					
from fin. assets disclosed under non-current assets		24	(24)		
from fin. assets disclosed under current assets	790	552	238		
Income other than above					
from non-consolidated Group companies		1,506	(1,506)		
Interest on current accounts held with banks and post offices	4,421	689	3,732	3,317	3
fair value of derivatives recorded at period-end	14,125	170	13,955		
positive difference on derivatives	27,931	12,551	15,380	200	
other income	886	270	616		
Interest and other financial charges					
from non-consolidated Group companies	(127)	(26)	101		
fair value of derivatives recorded at period-end	(3,985)	(8,601)	4,616		
positive difference on derivatives	(26,233)	(61,822)	35,589		
other (interest on loans, interest on arrears, etc.)	(21,274)	(11,144)	(10,130)	(9,139)	
Profits and losses on exchange gains on non-commercial transactions	1,463	(10,862)	12,325	60	
Total	**(2,003)**	**(76,693)**	**74,690**	**(5,562)**	**3**

The main changes are attributable to the differentials made during the year on financial derivative transactions made by the Parent company (however "hedge accounting" has not been adopted) as well as to the contracts in place as at 31st December 2006 being measured at fair value.

6.5 Sarlux acquisition

The income for the Sarlux S.r.l. acquisition (€199,167 thousand) refers to the difference between the acquisition cost and the fair value of the assets, liabilities and potential liabilities acquired (generated at the acquisition of 45% of the subsidiary's shares), as well as the fair value of the option exercised to acquire the remaining stake, as already highlighted in note 5.2.3.1 "Acquisitions and business combinations".

6.6 IPO and company's restructuring charges

The item (€22,222 thousand) includes remuneration for managers and consultants related to the company listing and charges for the restructuring of company's organization.

6.7 Income tax for the period

Income tax can be shows as follows:

	31-12-06	31-12-05	Sarlux as from 01-07-06	Saras Red as from 08-07-06
Current taxes	128,348	113,104	38,000	509
Substitute tax on reserves	0	5,243	0	0
Net deferred taxes	(21,322)	53,495	(16,906)	27
	107,026	**171,842**	**21,094**	**536**

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 book values, and are shown in the table below.

Temporary differences in the income statement: (figures in thousands of euros)	2006 Temporary differences	2006 Deferred tax assets/(liabilities)	2005 Temporary differences	2005 Deferred tax assets/(liabilities)
Excess and accelerated depreciation	(33,133)	12,342	(41,199)	15,327
Write-downs of equity interest prior to 2004	(11,264)	3,717	(5,890)	1,943
Measurement of inventory at end of period (FIFO method)	30,365	(11,311)	(119,628)	44,116
Adjustments for scheduled plant and equipment maintenance	(9,651)	3,595	2,667	(2,335)
Reclassification of grants previously carried as equity	(1,826)	680	(1,691)	630
Employee benefits and bonuses	(1,194)	394	3,562	(1,175)
Fair value of derivative contracts	(6,685)	2,206	7,906	(2,609)
Unrealised currency losses	(173)	57	833	(275)
Fair value of Sarlux contract with GSE	18,878	(7,032)		
Linearisation of Sarlux (as per IAS 17 and IFRIC 4)	53,009	(19,746)		
IPO costs charged directly to shareholders' equity	(5,600)	2,086		
Asset maintenance costs deductible in future years	17,482	(6,512)		
Other temporary differences	4,827	(1,798)	5,710	(2,127)
Totals	**55,037**	**(21,322)**	**(147,730)**	**53,495**

The effective tax rate was 21.3% of the period's pre-tax profit, while the theoretical tax rate was 36.4%, obtained by applying a tax rate of 33% (IRES) to pre-tax profit and 4.25% (IRAP) to net value of production, as per Italian legislation.
The table below shows a breakdown in the difference between the theoretical tax rate and the effective tax rate for the two periods (figures in millions of euros):

CALCULATIONOF THEORETICAL AND EFFECTIVE TAXES AND TAX RATE

	2006	2005
PRE-TAX PROFIT [A]	502.5	464.5
DIFFERENCE BETWEEN VALUE AND COST OF PRODUCTION	292.2	492.4
TOTAL PERSONNEL COSTS	111.6	115.7
ADJUSTED DIFFERENCE BETWEEN VALUE AND COST OF PRODUCTION (B)	403.8	608.1
THEORETICAL CORPORATION TAX IRES [A*33%]	165.8	153.3
THEORETICAL REGIONAL TAX IRAP [B*4.25%]	17.2	25.8
TOTAL THEORETICAL TAXES [C]	**183.0**	**179.1**
THEORETICAL TAX RATE [C/A*100] %	36.4%	38.6%
EFFECTIVE INCOME TAXES [D]	107.0	171.8
EFFECTIVE TAX RATE [D/A*100] %	**21.3%**	**37.0%**

RECONCILIATION BETWEEN THEORETICAL AND EFFECTIVE TAX RATES

	2006 TAXES	2006 TAX RATE	2005 TAXES	2005 TAX RATE
Theoretical taxes	183.0	36.4%	179.1	38.6%
Substitute tax to make reserves tax-deductible (L. 311/04)			5.2	1.12%
Effect on unconsolidated equity investments (for 2006 mainly Sarlux 1st half 2006 and P.E.U.)	(11.6)	(2.31%)	(16.2)	-3.49%
Unconsolidated company dividends (45% previous years Sarlux S.r.l. dividends)	(21.8)	(4.34%)	0.5	0.11%
Fair value of 45% Sarlux S.r.l. options	(42.5)	(8.46%)		
Tax effect on permanent differences	(0.1)	(0.02%)	3.2	0.69%
Effective taxes	**107.0**	**21.3%**	**171.8**	**37.0%**

7. Other information

7.1 Analysis of the main litigations pending

The company Saras S.p.A., as well as the subsidiaries Arcola Petrolifera S.p.A. and Sarlux. S.r.l., were subject to tax audits and assessments by the tax authorities that led, in some cases, to disputes pending before tax courts.
Although the decisions made by the tax courts in relation to the alleged violations are not consistent, Saras assumes that liabilities, although possible, are not probable. Such liabilities, in any case, as of the approvals of the annual financial statements, are not reliably quantifiable.

7.2 Earnings per share

Earnings per share are determined by dividing net profit by the weighted average number of Saras S.p.A. shares outstanding during the year, excluding own shares.

Earnings per share totalled 43.73 eurocents per share for the 2006 financial year, and €32.84 per share for the 2005 financial year.

The number of shares outstanding averaged 904,312,603 in 2006 and 8,910,000 in 2005. As at 31st December 2006 Saras S.p.A. had no own shares in portfolio.

Calculation of diluted earnings per share is not applicable in this case because no dilution happened during the year.

7.3 Transactions with related parties

Transactions carried out by Saras with related parties basically concern the exchange of goods, the provision of services, and arrangements of a financial nature.
The following table shows the amounts involved in commercial and sundry relations and financial relations created between associates, as well as the nature of the most significant transactions.

TRANSACTIONS WITH RELATED PARTIES COMPANIES AND NOTES

Descrizione	Absolute value (€./000) 31-12-06	% of item in statements 31-12-06	Absolute value (€./000) 31-12-05	% of item in statements 31-12-05	Item	Business reason
SARLUX S.R.L. (Joint venture, first half)						
Supply of goods	83,729	1.40%	138,996	2.68%	Revenues from ordinary operations	Supply of raw materials as per project financing agreement
Services rendered by staff	3,833	11.75%	8,169	20.66%	Other income	Outsourcing of services as per project financing agreement
Services received	7,431	22.79%	10,099	25.54%	Other income	Outsourcing of services as per project financing agreement
Rent received	35	0.11%	137	0.35%	Other income	Outsourcing of services as per project financing agreement
Measurement of investment at equity	28,785	81.54%	49,234	101.00%	Net income (charges) from equity interest	Measurement of unconsolidated investment
45% of dividends on pre-2005 profits	66,304	37.47%			Sarlux acquisition	Distribution of dividends due
Fair value measurement of 45% purchase option	128,711	72.74%			Sarlux acquisition	Excess fair value vs. cost of 45% of the JV
Measurement of 45% purchase option	4,153	2.35%			Sarlux acquisition	Fair value measurement
Purchases of goods	(1,160)	0.02%	(2,608)	0.06%	Purchases of raw materials, replacement parts and consumables	Supply of raw materials as per project financing agreement
Utilities	(24,059)	6.36%	(35,446)	11.68%	Cost of services and various costs	Supply of steam and hydrogen as per project financing agreement
Services received	(651)	0.17%	(693)	0.23%	Cost of services and various costs	Supply of various services
Receivables for goods & services supply	0	0.00%	43,126	9.74%	Current trade receivables	Goods supply
Payables for goods & services supply	0	0.00%	(13,029)	2.54%	Trade payables & other current payables	Trade payables
Payables for goods & services supply	0	0,00%	(51,046)	89.50%	Other non current liabilities	Trade payables
Financial liabilities	0	0.00%	(39)	0.04%	Short term financial liabilities	Financial liabilities
Ires/VAT payables from tax consolidation	0	0.00%	(968)	0.95%	Short term financial liabilities	Ires/VAT payables from tax consolidation
XANTO S.r.l. (in liquidation)						
Measurement of investment at equity	472	1.34%	291	0.60%	Net income (charges) from equity interest	Measurement of unconsolidated investment
Financial income	0	0.00%	18	0.02%	Other net financial income (charges)	Inter-company loans
Financial charges	(9)	0.45%	0	0.00%	Other net financial income (charges)	Interest on inter-company lines of credit
Receivables for supply of goods and services	467	0.08%	5	0.00%	Current trade receivables	Trade receivables
Payables for supply of goods and services	(9)	0.00%	0	0.00%	Current trade payables and other payables	Trade payables
Short-term liabilities	(800)	0.40%	0	0.00%	Loan	Inter-company lines of credit
Corporation tax liabilities due to group tax consolidation	(1)	0,00%	(429)	0.42%	Short-term liabilities	Corporation tax liabilities due to group tax consolidation
XANTO BASILICATA S.r.l. (in liquidation)						
Corporation tax liabilities due to group tax consolidation	0	0.00%	(3)	0.00%	Short-term liabilities	Corporation tax liabilitie due to group tax consolidation
ISOA SUD S.r.l. (in liquidation)						
Corporation tax liabilities due to group tax consolidation	(11)	0.01%	(13)	0.01%	Short-term liabilities	Corporation tax liabilities due to group tax consolidation
NOVA EOLICA S.r.l.						
Financial charges	(32)	1.60%	(9)	0.01%	Other net financial income (charges)	Interest on inter-company loans
Payables for supply of goods and services	(9)	0.00%	0	0.00%	Current trade payables and other payables	Trade payables
Loan	(1,000)	0.49%	(1,000)	0.98%	Short-term liabilities	Inter-company loans

TRANSACTIONS WITH RELATED PARTIES COMPANIES AND NOTES

Descrizione	Absolute value (€./000) 31-12-06	% of item in statements 31-12-06	Absolute value (€./000) 31-12-05	% of item in statements 31-12-05	Item	Business reason
PARCHI EOLICI ULASSAI S.R.L. (Joint ventures)						
Services received	6	0.02%	6	0.02%	Other income	Services outsourcing
Measurement of investment at equity	6,255	17.72%	(778)	1.60%	Net income (charges) from equity interest	Measurement of unconsolidated investment
Financial income	148	6.29%	329	0.41%	Other net financial income (charges)	Interest on inter-company lines of credit
Financial charges	(22)	6.29%	(11)	0.41%	Other net financial income (charges)	Interest on inter-company lines of credit
Receivables for supply of goods and services	49	0.01%	186	0.04%	Current trade receivables	Trade receivables
Loan	3,368	8.07%	1.720	4.48%	Other current assets	Inter-company lines of credit
Payables for supply of goods and services	(22)	0.00%	(11)	0.00%	Current trade payables and other payables	Trade payables
Loan	0	0.00%	0	0.00%	Short-term liabilities	Inter-company loans
Corporation tax liabilities due to group tax consolidation	(583)	0.29%	(133)	0.13%	Short-term liabilities	Corporation tax liabilities due to group tax consolidation
SARDEOLICA S.R.L.						
Services received	83	0.25%	35	0.09%	Other income	Services outsourcing
Services rendered by staff	481	1.47%			Other income	Personnel on secondment
Financial income	242	12.08%	1,142	1.49%	Other net financial income (charges)	Interest on inter-company loans
Receivables for supply of goods and services	538	0,09%	707	0.16%	Current trade receivables	Trade receivables
Corporation tax receivables due to group tax consolidation	5,183	12.41%			Other current assets	Corporation tax receivables due to group tax consolidation
Loan	0	0.00%	17,717	46.19%	Other current assets	Inter-company loans
IMMOBILIARE ELLECI S.p.A.						
Rent	(442)	0.12%	(426)	0.14%	Cost of services and various costs	Rental of building + parking spaces in Milan
SECURFIN HOLDINGS S.p.A.						
Services rendered by staff	15	0.05%	0	0.00%	Other income	Personnel on secondment
Rent	(489)	0.13%	(583)	0.19%	Cost of services and various costs	Rental of building + parking spaces in Milan
Receivables for supply of goods and services	15	0.00%			Current trade receivables	Trade receivables
F.C. INTERNAZIONALE S.p.A.						
Services received	(35)	0.01%	0	0.00%	Cost of services and various costs	Purchase of entrance tickets for sports matches
ANGELO MORATTI S.A.p.A.						
Services rendered by staff	24	0.07%	0	0.00%	Other income	Personnel on secondment
Receivables for supply of goods and services	24	0.00%			Current trade receivables	Trade receivables
DYNERGY S.R.L.						
Services rendered by staff	1	0.00%	0	0.00%	Other income	Management fees
Services received	(1,224)	0.32%	(1,257)	0.41%	Cost of services and various costs	Support for refining process activities
Dividends	38	0.11%			Net income (charges) from equity interest	Distribution of dividends due
Receivables for supply of goods and services	1	0.00%	0	0.00%	Current trade receivables	Trade receivables
Payables for supply of goods and services	(500)	0.09%	(180)	0.04%	Current trade payables and other payables	Trade payables
"HANGZHOU DADI ENCON ENVIRONMENTAL EQUIPMENT CO. LTD - Cina"						
Purchases of goods	(9)	0.00%	0	0.00%	Purchase of raw materials, replacement parts and consumables	Supply of materials for sales staff
Trade receivables	0	0.00%	1	0,00%	Current trade receivables	Trade receivables
Payables for supply of goods and services	(2)	0.00%	0	0.00%	Current trade payables and other payables	Trade payables
Prepayments for supply of goods	(53)	0.01%	(53)	0.01%	Current trade payables and other payables	Advance payment for prototype supply

The transactions with the related parties mentioned above have been made at market conditions. No provisions for doubtful loans were made regarding the existent balances in that there are no reasons for such provisions; no losses were made relative to doubtful or bad loans from related parties.

The effects of operations and transactions with related parties on balance sheet items are indicated in the following table:

	31-12-06			31-12-05		
	Total	related parties	%	Total	related parties	%
Current trade receivables	574,483	1,094	0.2%	442,788	44,025	9.9%
Other current assets	41,750	8,551	20.5%	38,354	19,437	50.7%
Short term financial liabilities	202,097	2,395	1.2%	102,164	2,585	2.5%
Trade payables and other current liabilities	551,622	595	0.1%	513,182	13,273	2.6%
Other non current liabilities	514,766	0	0.0%	57,033	51,046	89.5%

The effects of operations and transactions with related parties on income statement items are indicated in the following table:

	31-12-06			31-12-05		
	Total	related parties	%	Total	related parties	%
Revenues	5,986,815	83,729	1.4%	5,196,001	138,996	2.7%
Other income	32,613	11,909	36.5%	39,535	18,446	46.7%
Purches of raw materials replacement parts and consumables	5,118,970	1,169	0.0%	4,245,896	2,608	0.1%
Services supply and other costs	378,102	26,900	7.1%	303,543	38,405	12.7%
Net income (charges) on equity investments	35,302	35,550	100.7%	48,747	48,747	100.0%
Other net financial income (charges)	(2,003)	327	n.a.	(76,693)	1,469	n.a.
Acquisition of Sarlux	176,945	199,168	112.6%	0	0	0.0%

The main financial flows with related parties are reported in the table below:

Flows with related parties	2006	2005
Net (income) charges on equity investments valued at equity	(35,512)	(48,747)
(increase) decrease of trade receivables	(195)	(17,819)
(increase) decrease of trade payables and other payables	351	5,395
Change in other current assets	10,886	(6,133)
Change in other non current liabilities	0	(4,971)
Cash flow from (to) operating activities	**(24,470)**	**(72,275)**
Interest cashed in (out)	327	1,469
Cash flow from (to) investment activities	**327**	**1,469**
Increase / (decrease) of short term financial liabilities	817	(2,996)
Cash flow from (to) financing	**817**	**(2,996)**
Total cash flow to related parties	**(23,326)**	**(73,802)**

The effects of financial flows with related parties are indicated in the following:

	31-12-06			31-12-05		
	Total	related parties	%	Total	related parties	%
Cash flow from (to) operating activities	208,596	(24,470)	n.a.	185,553	(72,275)	n.a.
Cash flow from (to) investment activities	(297,250)	327	n.a.	(33,378)	1,469	n.a.
Cash flow from (to) financing	30,063	817	2.7%	(151,197)	(2,996)	2.0%

7.4 Information regarding the fair value of financial assets and liabilities

The fair value of trade receivables and other financial assets, and 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 agreements that are due to be settled in the short-term, do not differ from the book values reported in the financial statements as at 31st December 2006.

Long-term financial liabilities bearing interest at fixed rates that are not in line with current market rates, as mentioned in note 5.4.1 above, are not significant, and the differences between their respective fair values and their book values as at 31st December 2006 are not considered to be substantial.

7.5 Average number of employees

The average number of employees included in the consolidation area broken down per category is as follows:

	31-12-06	31-12-05
Managers	70	65
Clerical employees	1,185	1,052
intermediates	20	21
Workers	443	439
Total	**1,718**	**1,577**

The Group's headcount went from 1,588 at the end of 2005 to 1,810 as at 31st December 2006; this increase is mainly due to Saras Energia Red S.A. personnel, a company acquired during the year.

7.6 Compensations to managers with strategic responsibilities

In 2006, executives vested with strategic responsibilities earned emoluments totalling €25,663 thousand. For further details please refer to paragraph 8.6.1 of notes to the financial statements of Saras S.p.A.

7.7 Commitments

In order to minimise the effects of fluctuations in the euro/US dollar exchange rate and changes in the spread between raw materials and finished products prices, the Group is party to a number of derivatives contracts, in order to hedge against these risks. As at 31st December 2006 and 2005, these derivative contracts had notional values of approximately €252 million and €620 million, respectively; please refer to paragraph 5.1.6 for details.

As at 31st December 2006 and 2005, there were no irrevocable commitments to purchase materials or provide services of a long-term nature.

During the normal course of its activity Saras relised guarantees totalling as at 31st December 2006 €109,778 thousand, of which €55,433 thousand in favour of the tax authorities and €14,236 thousand in favour of the italian goverment as part of the agreements relatd to the already mentioned "Contratto di Programma" dated 10th June 2002.

8. Release of annual report

On 23rd March 2007 Saras S.p.A.'s board of directors approved the release of 2006 draft annual report and authorized both the Chairman and the CEO to include in the notes to financial statements and in the report on operations all the necessary further details in order to improve the quality of the information provided.

For the Board of Directors

the Chairman

GIAN MARCO MORATTI

Report of the Statutory Auditors to the Consolidated Financial Statemets

SARAS S.P.A.

- *Sardinian Refineries* -

BOARD OF STATUTORY AUDITORS REPORT

ON THE CONSOLIDATED FINANCIAL STATEMENT

AT 31 DECEMBER 2006

* * *

To the Shareholders of SARAS S.p.A.

As you know, the consolidated financial statement must be checked by bodies or parties which pursuant to law check the parent company's annual financial statement (Art. 41, paragraph 3, of Legislative Decree no. 127 of 9 April 1991). In the case of listed companies, this task is not delegated to the Board of Statutory Auditors (Art. 154 of Legislative Decree no. 58 of 24 February 1998), but to the auditing firm (Articles155 and 156). Nevertheless, the Board of Statutory Auditors deems it opportune to present a brief report with regard to its general responsibility of overseeing respect of the law and of the by-laws (Art. 149) as well as in compliance with the principle (always respected by this Company) according to which the topics or documents that the Directors submit to Shareholder Meetings are – as a rule – examined by the Board of Statutory Auditors, which then reports to the Meeting.

In compliance with Legislative Decree no. 127 of 9 April 1991, the Board of Directors prepared the consolidated financial statement as at 31 December 2006, which coincides with the close of the parent company's and subsidiaries' fiscal year. With regard to the consolidation area, please refer to the information and motives presented in the supplemental note, concerning which we have no remarks.

The consolidated financial statement as at 31 December 2006 was prepared in conformity to International Accounting Standards (IAS/IFRS) in effect at the time of preparation, issued by the IASB and ratified by the European Commission, and based on the interpretations issued by the IFRIC.

The supplemental note gives full details of the methods applied for preparation of the statement.

The consolidated financial statement presents a total net profit of Euro 395,425,000.00.

Revenues were Euro 6,019,428,000.00.

The auditing firm, with which the Board of Statutory Auditors was in contact, confirmed the regularity and the correspondence of the statement of assets and liabilities and of the income statement deriving from consolidation with the accounting results of the parent company and with the data transmitted by the consolidated subsidiaries. The information and explanations contained in the supplemental note and in the report on operations are consistent with the contents of the consolidated financial statement.

The Board of Statutory Auditors is aware that the auditing firm has issued its report for purposes of Art. 156 of Legislative Decree 58/98, and that such report contains no remarks.

The Shareholder Meeting need consider the consolidated financial statement and its enclosures only for purposes of information, in that such statement is not subject to approval.

Milan, 11 April 2007

THE BOARD OF STATUTORY AUDITORS

Claudio Massimo Fidanza

Giovanni Luigi Camera

Michele Di Martino

Report of the Independent Auditors to the Consolidated Financial Statemets

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers SpA

AUDITORS' REPORT IN ACCORDANCE WITH ARTICLE 156 OF LAW DECREE NO. 58 DATED 24 FEBRUARY 1998

To the shareholders of
Saras SpA

1 We have audited the consolidated financial statements of Saras SpA and its subsidiaries ("Saras Group") as of 31 December 2006, 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.

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.

For the opinion on the consolidated financial statements of the prior period, which are presented for comparative purposes as required by law, reference is made to our report dated 28 February 2006.

Sede legale e amministrativa: Milano 20149 Via Monte Rosa 91 Tel. 0277851 Fax 027785240 Cap. Soc. 3.754.400,00 Euro i.v., C.F. e P. IVA e Reg. Imp. Milano 12979880155 Iscritta al n. 43 dell'Albo Consob – Altri Uffici: **Bari** 70125 Viale della Repubblica 110 Tel. 0805429863 – **Bologna** 40122 Via delle Lame 111 Tel. 051526611 – **Brescia** 25124 Via Cefalonia 70 Tel. 0302219811 – **Firenze** 50129 Viale Milton 65 Tel. 0554627100 – **Genova** 16121 Piazza Dante 7 Tel. 01029041 – **Napoli** 80121 Piazza dei Martiri 30 Tel. 08136181 – **Padova** 35137 Largo Europa 16 Tel. 0498762677 – **Palermo** 90141 Via Marchese Ugo 60 Tel. 091349737 – **Parma** 43100 Viale Tanara 20/A Tel. 0521242848 – **Roma** 00154 Largo Fochetti 29 Tel. 06570251 – **Torino** 10129 Corso Montevecchio 37 Tel. 011556771 – **Trento** 38100 Via Grazioli 73 Tel. 0461237004 – **Treviso** 31100 Viale Felissent 90 Tel. 0422696911 – **Trieste** 34125 Via Cesare Battisti 18 Tel. 0403480781 – **Udine** 33100 Via Poscolle 43 Tel. 043225789 – **Verona** 37122 Corso Porta Nuova 125 Tel. 0458002561

PRICEWATERHOUSECOOPERS

3 In our opinion, the consolidated financial statements of Saras Group as of 31 December 2006 comply with the International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/2005; 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, 11 April 2007

PricewaterhouseCoopers SpA

Pierangelo Schiavi
(Partner)

This report has been translated from the original which was issued in accordance with Italian legislation. References to the consolidated financial statements in this report refer to the original Italian consolidated financial statements and not to their translation.

Saras S.p.A Annual Report

Report on operations of Saras S.p.A.

Saras S.p.A. is the Parent Company and also operates in the refining industry. The Company achieved good results this year despite the reduction of refining margins that affected the entire industry and the shut-down of plants for scheduled maintenance in the second quarter.

KEY INCOME STATEMENT FIGURES

(EUR millions)	31-12-06	31-12-05	Change %
Revenues	**5,643**	**4,970**	**+14%**
Operating result	**212.0**	**454.2**	**(53%)**
Profit before taxes	**338.7**	**405.1**	**(16%)**
Net profit	**257.6**	**246.6**	**+4%**

Revenues were **EUR 5.6 billion**, up **14%** compared to approximately EUR 5.0 billion in 2005. The increase is attributable mainly to the increase in the price of petroleum products seen mainly in the first half of the year.

The reduction of the **Operating Result** (**EUR 212.0 million** in 2006) compared to the result achieved in 2005 was generated by a significant reduction in refining margins and by impact of prices on inventories, which affected results.

The 2006 result benefited from dividends distributed during the year by subsidiary Sarlux S.r.l. (EUR 74.5 million) and from effects deriving from acquisition of the remaining 45% of such subsidiary (EUR 70.4 million), net of expenses incurred for the I.P.O. and for company reorganization (EUR 21.4 million).

The year closed with a net profit of EUR 257.6 million, up +4% compared to EUR 246.6 million in the previous year.

Investments during the year were EUR 108 million both for maintain capacity and for environment protection, as well as for increasing the profitability of the Sarroch refinery.

In particular:

- The second phase of the Prime G+ project, which will make it possible to produce gasoline in compliance to the new European regulation, calling for a maximum sulphur content of 10 ppm (effective 2009).
- the tail gas treatment unit that will allow to increase the recovery of sulphur from sulphur plants tail gasses, thus reducing emissions to the atmosphere in line with the best available techniques reported in the IPPC (integrated pollution prevention and control) EU directive.
- Investments made on the plants Topping 2 and Vacuum 2, C.C.R and on the storage tanks.

The Company's net financial position at 31st December 2006 was as follows:

	31-12-06	31-12-05
Medium/long term bank loans	(53,333)	(120,280)
Total long term net financial position	**(53,333)**	**(120,280)**
Short term bank loans	(26,667)	(53,053)
Bank overdrafts	(37,806)	(23,880)
Other short term loans	0	(1,271)
Loans from Group companies	(27,670)	(40,128)
Loans to Group companies	78,839	38,247
Change to Interest Rate Swap fair value	0	300
Other financial activities	13,816	12,998
Cash and cash equivalents	41,152	16,892
Total short term net financial position	**41,664**	**(49,895)**
Total net financial position	**(11,669)**	**(170,175)**

At year-end, **Net Financial Position** was negative by approximately **EUR 11.7 million**, significantly improved compared to a negative of EUR 170.2 million in 2005. The improvement derives from operative cash flows generated during the year and from the capital increase at the time of listing.

For a detailed analysis of the market and of the regulatory framework, of significant events during the year, of significant events after the close of the year, of the Outlook for 2007 as well as the operations of Saras S.p.A., please refer to the Report on Operations of Saras Group (pages 15 et seq.).

We hereby provide the following information for purposes of Art. 2428 of the Italian Civil Code:

- no research and development activities were conducted;
- relations with subsidiaries, affiliates, parent companies and companies controlled by the latter are described in the Notes to paragraph 8.3 "Relations with related parties;"
- at 31st December 2006, the company did not own, either directly or through financial or other intermediaries, any treasury shares or any shares in the parent company, and no purchases or sales of such shares were made during the year;
- with regard to the disclosure concerning the Company's use of financial instruments, see the Notes to paragraph 3.4 "Risk analysis;"
- the list of the Company's sub-offices is presented in the Notes to paragraph 9 "Miscellaneous."

In addition, the information required by Attachment 3C to Consob Resolution 11971 of 14 May 1999 as modified and amended are presented in the Notes to paragraph 8.6 "Information on compensations and shareholdings of members of administrative and control bodies, General Managers, and managers with strategic responsibilities."

Lastly, with regard to the protection of personal data, the Security Policy Document referred to in Legislative Decree 196/2003 was updated during the year.

For the Board of Directors
the Chairman
GIAN MARCO MORATTI

Proposal of the Board of Directors

Dear Shareholders,
The Annual Report as of 31st December 2006 of your company closed with a net income of EUR 257,553,418.

If you agree with the criteria applied in the preparation of the financial statements, including the accounting principles and methods utilized, we propose the following resolution to be approved:

"The Shareholders meeting

- Examined the Annual Report of Saras S.p.A. as of 31st December 2006;
- Reviewed the report of Statutory Auditors to the shareholders meeting pursuant to art. 153 decree n. 58/1998 (Testo Unico sulla Finanza)
- Reviewed the Report of the Independent Auditors on the Annual Report of Saras S.p.A. as of 31st December 2006

R e s o l v e

[A] To approve the Annual Report of Saras S.p.A. as of 31st December 2006 in its completeness and on the single parts;
[B] To allocate EUR 689,334 of the net profit of the year to the legal reserve, to the attainment of the one-fifth of the share capital as provided by Art. 2430 of the Italian Civil Code;
[C] To allocate as follows the net profit of EUR 256,864,084 resulting after the partial utilization for the legal reserve as for point b):
   - to dividend of EUR 0.15 for each of the 951,000,000 ordinary shares, for a total of EUR 142,650,000
   - to "Other Reserves" for the residual amount EUR 114,214,084
[D] The dividend will be paid the 10 May 2007 (coupon detachment 7 May 2007)."

Saras S.p.A. Financial Statements

SARAS S.p.A. BALANCE-SHEET AT 31ST DECEMBER 2006 AND AT 31ST DECEMBER 2005 (€ Thousand)

	(1)	(2)	31-12-2006	31-12-2005
ASSETS				
Current Assets	6.1		1.040.894	891.210
cash and cash equivalents	6.1.1	A	41,152	16,892
Other financial assets held for trading or available for sale	6.1.2	B	13,816	12,998
Trade receivables	6.1.3	C	368,969	351,490
Of which with related parties:;			*162,467*	*156,269*
Inventory	6.1.4	D	452,202	424,216
Current tax assets	6.1.5	E	63,843	22,412
Other assets	6.1.6	F	100,912	63,202
Of which with related parties:			*78,839*	*38,284*
Non-current assets	6.2		713,780	547,828
Property, plant and equipment	6.2.1	H	443,897	403,764
Intangible assets	6.2.2	J	1,237	1,355
Equity interest consolidated by the equity method	6.2.3.1	K	268,007	141,663
Other equity interest	6.2.3.2	K	496	728
Other financial assets	6.2.4	M	143	318
Total Assets			1,754,674	1,439,038
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities	6.3		640,368	666,711
Short-term financial liabilities	6.3.1	R	92,143	119,394
Of which with related parties:			*27,670*	*41,124*
Trade and other payables	6.3.2	R	492,568	467,123
Of which with related parties:			*19,987*	*20,384*
Current tax liabilities	6.3.3	W	12,584	39,853
Other liabilities	6.3.4	R	43,073	40,341
Non-current liabilities	6.4		247,818	335,643
Long-term financial liabilities	6.4.1	R	53,333	120,281
Provisions for risks	6.4.2	P	13,526	13,526
Provisions for employee benefits	6.4.3	Q	42,226	46,329
Deferred tax liabilities	6.4.4	W	75,584	86,667
Other liabilities	6.4.5	R	63,149	68,840
Of which with related parties:			*59,918*	*64,889*
Total liabilities			888,186	1.002,354
SHAREHOLDERS' EQUITY	6.5	O, V		
Share capital			54,630	51,183
Legal reserve			10,237	10,237
Other reserves			685,930	268,915
Profit(loss) carried forward			(141,862)	(140,230)
Profit(loss) for the period			257,553	246,579
Total shareholder's equity			866,488	436,684
Total liabilities and shareholder's equity			1,754,674	1,439,038

(1) Please refer to chapter 5 "Notes to Balance sheet"

(2) Please refer to chapter 3.1 "Summary of accounting principles and policies applied"

SARAS S.p.A. INCOME STATEMENT FOR THE YEARS ENDED AT 31ST DECEMBER 2006 AND 31ST DECEMBER 2005 (€ Thousand)

	(1)	(2)	31-12-2006	31-12-2005
Revenues from ordinary operations	7.1.1	S	5,597,958	4,925,647
of which with related parties:			*1,571,873*	*1,205,782*
Other income	7.1.2	S	45,615	44,681
of which with related parties:			*26,028*	*25,853*
Total revenues			5,643,573	4,970,328
Purchase of raw materials, spare parts and consumables	7.2.1	T	(4,978,474)	(4,073,529)
of which with related parties::			*(96,665)*	*(2,728)*
Cost of services and sundry costs	7.2.2	T	(298,524)	(273,930)
of which with related parties:			*(64,705)*	*(46,533)*
Personnel costs	7.2.3	Q	(86,169)	(95,924)
Depreciation, amortization and write-downs	7.2.4	H, J	(68,405)	(72,775)
Total costs			(5,431,572)	(4,516,158)
Operating results			212,001	454,170
Net income (charges) from equity interest	7.3	K, V	69,463	24,098
of which with related parties:			*69,694*	*24,098*
Other financial income/ (charges), net	7.4	X	8,824	(73,139)
of which with related parties:			*616*	*1,146*
Sarlux S.r.l. acquisition	7.5		70,457	0
of which with related parties:			*70,457*	*0*
IPO and company restructuring charges	7.6		(22,093)	0
Profit before taxes			338,652	405,129
Income tax fro the period	7.6	W	(81,099)	(158,550)
Net profit/(loss) for the period		Y	257,553	246,579
Earnings per share - base (Euro cent)			28.48	2,767
Earnings per share - diluted (Euro cent)			28.48	2,767

(1) Please refer to chapter 6 "Notes to Income Statements "

(2) Please refer to chapter 3.1 "Summary of accounting principles and policies applied"

SARAS S.p.A. STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE PERIOD 1ST JANUARY 2005 - 31ST DECEMBER 2006 (€ Thousand)

	Share capital	Legal reserve	Other reserves	Profit/(Loss) carried forward	Profit (Loss) for the period	Shareholders' equity
Balance as at 1-01-2005	51,183	10,237	208,364	(140,541)	200,930	330,173
Allocation of previous period profit	-	-	200,930	-	(200,930)	-
Dividends	-	-	(140,065)	-		(140,065)
Others	-	-	(314)	311	-	(3)
Profit for the year	-	-	-	-	246, 580	246,580
Balace as at 31-12-2005	51,183	10,237	268,915	(140,230)	246,580	436,685
Capital increase (net of I.P.O. costs)	3,447	-	338,984	-	-	342,431
Allocation of previous period profit	-	-	108,516	(1,632)	(106,884)	-
Dividends	-	-	(30,485)	-	(139,696)	(170,181)
Profit for the year	-	-		-	257,553	257,553
Balance as at 30-12-2006	54,630	10,237	685,930	(141,862)	257,553	866,488

SARAS S.p.A. CASH FLOW STATEMENT FOR THE YEARS ENDED AT 31ST DECEMBER 2006 AND 2005 (€ Thousand)

	31-12-2006	31-12-2005
A - cash and cash equivalents at beginning of the year (short-term net finanacial indebteness)	**16,892**	**3,759**
B - Cash generated from/(used in) operating activities		
Profit (Loss) for the period of the Group	257,553	246,579
Amortization, depreciation and write-down of fixed assets	68,405	79,395
Net (income)charges from equity interest	69,463	24,098
of which with related parties:	*74,553*	*30,718*
Net change in provisions for risks and charges	0	0
Net change in employee benefits	(4,103)	3,207
Change in tax liabilities and tax assets	(11,083)	37,916
Income Tax	81,099	158,550
Other non cash income and costs	0	(9,289)
Profit (Loss) from operating activities before changes in working capital	461,334	540,456
(Increase)Decrease in trade receivables	(17,479)	(63,566)
of which with related parties:	*(6,198)*	*(17,819)*
(Increase)Decrease in inventory	(27.986)	(140.435)
Increase(Decrease) in trade and other payables	25.445	96.783
of which with related parties:	*(397)*	*5.151*
Change in other current assets	(79.141)	(7.402)
of which with related parties:	*40.555*	*(6.133)*
Change in other current liabilities	97.243	(53.077)
Income tax paid	(195.958)	(132.057)
Change in other non-current liabilities	(5.691)	9.718
of which with related parties:	*(4.971)*	*(4.971)*
Total (B)	257.767	250.420
C - Cash flow from investment activities		
(Investments) in tangible and intangible assets, net of disinvestments and accumulated depreciation and amortization	(108.420)	(64.129)
Change in other equity interest	(195.575)	(19.005)
Interest received (paid)	(6.919)	(5.716)
Total (C)	(310.914)	(88.850)
D - Cash generated from(used in) financing activities		
Increase(Decrease) in medium/long term borrowings	(66.948)	(39.322)
(Increase)Decrease in other financial assets	(643)	(2.527)
Increase(Decrease) in short term borrowings	(27.251)	33.477
of which with related parties:	*(13.454)*	*(3.129)*
Capital increase	342.430	0
Dividend distribution to shareholders	(170.181)	(140.065)
Total (D)	77.407	(148.437)
E - Cashflow for the period (B+C+D)	**24.260**	**13.133**
F - Cash and cash equivalents at the end of period (short-term net financial indebteness)	**41.152**	**16.892**

Note: in order to better represent financial and cash flows, new items have been introduced from previous years (income taxes, income taxes paid, interest paid, etc.). Consequently, cash flow statement of the previous year has been modified accordingly.

For the Board of Directors
the Chairman
GIAN MARCO MORATTI

Table of contents for the Notes to the Statements of Saras S.p.A. to 31st December 2006

Notes to the Saras S.p.A. Financial Statements as at 31st December 2006

1. Foreword

Saras SpA 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 operates in the domestic and international oil market as a refiner of crude and seller of products derived from the refining process.

This separate report, which relates to the year ended 31st December 2006, is presented in euros because the euro is the currency of the economy in which Saras operates, and is composed of a Balance Sheet, Income Statement, Cashflow Statement, Statement of Changes in Shareholders' Equity and these Notes. Unless otherwise stated, all amounts shown in the above statement and in the notes to the full-yearly report are expressed in thousands of euro.

2. General criteria for the preparation of the financial statements

EC Regulation No. 1606/2002 of 19th 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 20th 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 possibility to apply said standards to companies other than those indicated in the Regulations in question.

The separate full-yearly report of Saras SpA as of 31st December 2006 has 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 19th July 2002.

The term IFRS is used to mean all International Financial Reporting Standards, all International Accounting Standards ("IAS") and all interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"), previously known as the Standing Interpretations Committee ("SIC") endorsed by the European Commission as of the date on draft financial statements of the Holding Company were approved by the board of directors of the Holding Company and set out in the relevant EU Regulations published as of said date.

According to CONSOB resolution n.15519 of 27th July 2006, the financial statements have been prepared with the below reported criteria, considered more suitable to present a complete financial and economical overview of the company:

- Balance sheet: assets and liabilities are divided into current and non current according to liquidity
- Income statement: income statement items are presented by nature
- Cash flow statement: is presented according to the indirect method differentiating financial flows deriving from operating activities, investing and financial activities.

The accounting policies presented below have been applied consistently to all the periods reported.

3. Accounting policies applied

3.1 Summary of accounting principles and policies applied

The 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 is presented, unless otherwise indicated, in thousands of euros.

The main valuation policies adopted are described below:

A Cash and cash equivalents

Cash and cash equivalents predominantly consist of cash on hand, 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 changes reported in the income statement.

B Financial assets held for trading

They are reported at fair value through profit or loss, i.e. with any gains and losses reported in income under 'Other net Financial income/(charges)'.

C Trade receivables

Trade receivables 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 book value 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 at the end of the financial year represented by the amount that Saras 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 booked at nominal value at their initial recognintion in the amount that is expected to be paid to (or recovered from) the tax authorities, keeping account of their realisable value, and subsequently at the amortized cost based on the effective interest rate method.

F Other current and non-current assets

Other current assets are booked at fair value at their initial recognition, and subsequently at the amortized cost based on the effective interest rate method.

Whenever there is objective evidence indicating impairment, the asset concerned is written down to a book value 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 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 Saras has transferred all the risks and charges relating to them.

H Property, plant and equipment

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 Saras 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 book value 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 conditions necessary for receiving them have been fulfilled.

The book value 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 Saras for each of the various categories of asset is as follows:

Buildings	18 years
Generic plant	12 years
High corrosive plant	9 years
Office furniture and machines	4-8 years
Vehicles	4 years
Other assets	12 years
Leasehold Improvements	The duration of the lease or the useful life of the asset,whichever is the shorter length of time.

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 subject 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.

I Leased assets

Assets held under finance leases, by which all risks and rewards incident to ownership are substantially transferred, are recognised as 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 elements that are non-monetary in nature, without physical substance and clearly identifiable (i.e. distinct, able to be separated, dismantled or traded, and deriving from other contractual or legal rights), controlled by the enterprise 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. Intangible assets are recognized when required with the approval of the Board of Statutory Auditors.

[I] *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 Saras; the recoverability of the book value of such assets is verified by the same method as that used for the item 'Property, plants and machinery'

[II] *Research and development costs*

The costs associated with the acquisition of new knowledge or discoveries, the development of alternative products or 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 are treated as current costs and as such are charged to the income statement as incurred.

[III] *Exploration and evaluation of mineral resources*

Cost incurred for the exploration and evluation of mineral resources i.e.

- [A] acquisition of exploration rights;
- [B] photographic, geologial, geochemical and geophysical studies;
- [C] explorative drillings;
- [D] diggings;
- [E] sampling;
- [F] activities related to the evaluation of technical and commercial feasibility of a mineral resource extraction;

are recognized among tangible or intangible asstes by nature as required by IFRS6.

K Investments

Investments in subsidiaries, associates or joint-ventures and companies entered at cost, possibly reduced for losses according to priciples stated in IAS 36.

L Impairment of assets

At each closing date of the annual financial statements, tangible assets and intangible assets with a finite useful life and investments are analysed in order to identify any indicators, originating from sources within or outside, suggesting that they have undergone impairment. In circumstances where such indicators exist, 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 recoverable value of an asset that does not generate largely 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 book value 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 an impact 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.

M Other financial assets and Other assets

Credits and financial assets held to maturity are valued at fair value at their initial recognition, and subsequently at the amortized cost based on the effective interest rate method. If there is objective evidence of indicators denoting a reduction in value, the asset is written down to a level equal to the discounted value of attainable future cashflows. Losses in value are booked to the income statement. If in future periods these indicators themselves are reduced, the value of the asset is restored to the extent of the value that would have been derived from application of the amortised cost had the value adjustment not been made. The treatment of financial assets linked to derivative instruments is shown under "Derivative instruments".

N Treasury shares

Saras' treasury shares have been recognised at cost and deducted from shareholders' equity.

O Shareholders' equity

[I] *Share capital*

Saras' own shares have been recognised at cost and deducted from shareholders' equity. Costs strictly relating to the issue of new shares are deducted from other reserves, after any deferred tax effect.

[II] *Other reserves*

Other reserves are made up of equity reserves set aside for a specific purpose.

[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 nor allocated 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

P Provisions for risks and charges

Provisions for risks and charges are recognised only 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, the value of which must be reasonably assessed. 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

Q Provisions for employee benefits

Saras 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 obligations.

The present value obligations is determined by an external expert by what is known as the 'Projected Unit Credit Method'. This method, which 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 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.

As of 1st January 2007, the annual government budget and related ruling decrees introduced changes regarding the employee severance indemnity (the Italian TFR) such as giving employees the choice regarding the destination of their matured severance indemnity. Specifically, the new funds generated for the severance indemnity may be directed by the employee towards a pension fund or be kept within company funds. Currently, uncertainty regarding the interpretation of this recently issued regulation, possible different interpretations of the maturing indemnities according to IAS 19 and consequent changes on actuarial calculations regarding maturing indemnities, as well as the impossibility of estimating the choices made by employees on the destination of their maturing indemnities, render impossible any change in actuarial hypotheses for calculations at 31st December 2006.

R Financial liabilities and trade payables

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.

S 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.

T 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.

U 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.

V Dividends

[A] *received dividends*

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

[B] *distributed dividends*

Dividend distribution to company's shareholders implies the registration of a debt in the balance sheet of the period in which the distribution has been approved by the AGM.

W Taxes

Current assets are calculated based on the period's taxable income, in application of the prevailing tax rates at the statements date.

Deferred taxes are calculated on all temporary differences arising between the tax base of an asset or liability and its book value.

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 calculated using forecasted tax rates that will be applicable in the periods in which temporary differences will realised or be extinguished.

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 when income taxes are applied by the same fiscal authority, when Saras has legal right to compensation and when a liquidation of the net balance is expected.

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

X Derivatives

All derivatives are financial 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.

All derivatives, including those referring to commodities, that don't 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 net financial income/(charges)'.

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.

Y Earnings per share

[I] *Basic EPS*
Basic EPS is calculated by dividing the 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 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 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

Z Segment information
A segment is defined by a group of assets and transactions utilized for specific services and subject to risks and benefits substantially different from those related to other assets and transactions.

A geographical segment is defined by a group of assets and transactions active in a specific area and subject to risks and benefits substantially different from those existing in other areas.

3.2 The use of estimates

The preparation of the 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.

3.3 Most significant accounting policies requiring a higher level of subjectivity

Below we have provided a brief description of the most significant accounting policies that require a higher level of subjectivity on the part of the executives in producing estimates, and that could have a significant effect on restated aggregate financial information, should a change in the underlying conditions effect the assumptions used.

[I] Depreciation of fixed assets: depreciation of fixed assets represents a sizeable cost. 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 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. Saras 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 taxable earnings. The measurement of forecast future taxable 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] Provisions for risks: 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 believe that the rise of a liability is only possible, the associated risks are disclosed in the section concerning commitments and risks and no accrual is made.

3.4 Risks analysis

The underlying principles of Saras' risk policy are based on the prevention of the main risks linked to Company objectives and involve strategic areas, both operational and financial.

The management of risk highlighted in individual policies and in business processes is based on the principle whereby operational and financial risk is managed by the person responsible for the business process (i.e. the process owner).

The main risks are reported and discussed at top management level in order to create the pre-conditions to hedge, insure and evaluate them for residual risk.

In addition to the risk management guidelines, there are specific guidelines for financial risks, such as interest rates risks and credit risks.

3.4.1 Financial risks

Amongst Saras' priorities are sustainable growth, productivity, profitability and financial reporting accuracy. Therefore financial structures are focused on guaranteeing maximum efficiency in the adoption and utilisation of lines of credit to develop commercial business, and reduce to the minimum the financial risks related to industrial operations (adverse risk).
Saras operates internationally in the oil sector, with consequent exposure to currency risks, interest rate risks, credit risks and fluctuations in commodity prices.

3.4.1.1 Price fluctuations and cash flow risks

Saras' results are influenced by oil price trends and the effects that these trends have on refining margins (i.e. the difference between the prices of oil products generated through the refining process, and the price of raw materials, mainly crude oil). Furthermore, in order to carry out production, Saras has to keep reserves of crude oil and finished products, the value of the reserve is subject to market price fluctuations.

The commodity price changes and cash flow risk are closely connected to the nature of the business and can only partially be reduced through the use of appropriate risk management policies, including setting partially pre-fixed prices for processing for third parties.

In order to hedge against risks deriving from price changes, the Company buys derivative contracts on commodities that involve the forward purchase and sale of crude and oil products.

3.4.1.2 Currency risks

Saras' oil business is exposed to changes in currency prices in that the benchmark prices for the purchase of crude and a large part of oil products are made or linked to US dollars.

In order to diminish both exchange risks regarding transactions that will be executed in the future as well as those arising from credit and debt expressed in currencies other than the functional currency, Saras uses derivative instruments that consist of US dollar forward contracts.

Transactions expressed in currencies other than US dollars are not significant and could only marginally influence the results of the period.

3.4.1.3 Interest rate risks

Risks related to changes in cash flows linked to changes in interest rates involve loans. Variable rate loans expose Saras to the risk of change in cash flows due to interest. Fixed-rate loans expose to the risk of changes in the fair value of the loans received.

The main financing contracts in place have been stipulated at variable market rates. Saras' policy is to use derivative instruments to diminish the risk of changes in cash flows due to interest.

3.4.1.4 Credit risks

The market in which Saras operates is mainly made up of multinational players operating in the oil sector. Transactions are generally settled very quickly and are often guaranteed by major banking institutions.
Moreover, receivables are monitored daily by Saras' finance management in a systematic and timely manner. We believe that credit risks are marginal and do not constitute a significant variable in the business in which Saras operates.

3.4.2 Disclosure and management of other risks

3.4.2.1 Risks related to refining production stoppages

Saras' activity largely relies on its refining business in Sardinia, which produces almost all of the oil products it refines and sells.

This activity is subject to risks related to the unplanned plant stoppages and accidents.

Saras believes that the complexity of its refining business allows for negative effects of unplanned stoppages to be limited, and that the current security measures (that are continually implemented) allow the risk of accidents to be reduced to the minimum; moreover, Saras has put in place a significant insurance coverage program in order to further cover these risks.

3.4.2.2 Environmental risks

Saras activities are regulated by many national, regional, local and EU provisions regarding environmental concerns.

Although Saras believes that its activities are carried out in adherence to environmental regulations, the risk of environmental costs and responsibilities is intrinsic to its business, and there cannot be any certainty that in the future it will not have to sustain significant costs and responsibilities regarding the environment.

Saras therefore has made, and forecasts that it will continue to make, operational expenditures as well as investments to fulfil the obligations of environmental regulations; moreover, Saras has put in place a significant insurance coverage program in order to further cover these risks.

3.5 Recent accounting principles

It should also be noted that the IASB and IFRIC have approved certain modifications to the IFRS, which have already been published in the Official Journal of the European Community. Those modifications became applicable for financial years starting on or after 1st January 2006.

1. Accounting principles changes applicable from 1st January 2006 and relevant for the Company:

[A] IAS 19: the principle allows to recognize in shareholders' equity the changes of provisions for defined benefit plans deriving from changes in actuarial hypotheses and from the new regulation for employee plans; the option has not been adopted yet by the Company.

[B] IAS 39: introduces the option allowing to evaluate financial assets and liabilities at fair value through profit or loss and defines the accounting methodology for cash flow hedging referred to intercompany transactions; this option has not been adopted by the Company.

[C] IFRIC 4: (*"Determining whether an Arrangement contains a Lease"* already applied starting from 2005

2. Accounting principles, changes in accounting principles and interpretations applicable from 1st January 2006 not relevant for the consolidated annual results of the Company:

[A] IAS 39 and IFRS 4, that define how to report financial sureties

[B] IAS 21 that introduces and modifies some paragraphs related to investments in foreign assets

[C] IFRIC 5 ("*Rights to Interest arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*") and IFRIC 6 ("*Liabilities arising from Participating in a Specific Market, Waste Electrical and Electronic Equipment*");

[D] IFRS 1 ("*First time adoption of international accounting standards*") in the adoption of IFRS 6 ("*Exploration and evaluation of mineral resources*")

3. Accounting principles and changes in accounting principles and interpretations applicable after 1st January 2006 which are relevant for the consolidated annual accounts of the Company:

[D] IFRS 6 ("*Exploration and evaluation of mineral resources*")

[B] IFRS 7 ("*financial instruments: further information")* and changes to IAS 1(which include certain new disclosures about financial instruments to be added to the notes to the financial statements); the information required by the principle will be provided after 31st December 2006

4. Accounting principles and changes in accounting principles and interpretations applicable after 1st January 2006 which are not relevant for the consolidated annual accounts of the Company:

[A] IFRIC 7 ("*Applying the Restatement Approach under IAS 29*")

[B] IFRIC 8: *("application of IFRS 2")*

[C] IFRIC 9: ("*evaluation of implicit derivatives")*

[D] IFRIC 10: ("*interim financial information and impairment*")

4. Description of significant effects of the transition to IAS/IFRS regarding both the classification of financial statements items and their change in treatment, and their consequent effects on Saras' income and asset situations.

4.1 Introduction

The restated financial information as at 31st December 2005 has been prepared in compliance with the IFRS endorsed by the European Commission. Similarly, an IFRS-compliant balance sheet as at 1st January 2005 has also been produced.

4.2 General principles

The restated financial information has been prepared by applying the IFRS endorsed by the European Commission retrospectively to all periods ended before 1st January 2005, 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 financial statements as at 31st December 2004, which were prepared in compliance with Italian accounting standards, may be summarised as follows:

[I] all 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 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 classification 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 Saras are highlighted below.

[I] *Business combinations*
Saras has elected not to apply IFRS 3, *Business combinations* retrospectively for those transactions that occurred before the transition to IFRS on 1st January 2005;

[II] *Fair value or revaluation as deemed cost*
Saras 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*
Saras has elected to recognise all accumulated actuarial gains and losses in existence as at 1st January 2005 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.

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 1st January 2005 that had been eliminated in the financial statement 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. Saras 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, plants 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. Saras has elected to recognise these items at cost.

[III] *Accounting for investments in subsidiaries, jointly controlled entities and associates*
In accordance with IAS 27 (Consolidated and separate financial statements) accounting for investments in subsidiaries, jointly controlled entities and associates non classified as available for sale, can be done at cost or using IAS 39. Saras has adopted the cost method.

[IV] *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 have been met, that charges relating to the purchase, construction or production cost of a capitalisable asset may be capitalised. Saras has elected to recognise these borrowing costs, where the necessary conditions have been met, as part of the cost of the assets to which they refer.

[V] *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. Saras has elected to recognise the effects of changes in assumptions made directly in the income statement at the time they are identified.

[VI] *Government grants*
IAS 20, Accounting for government grants and disclosure of government grants, 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 book values of the assets 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 item of income of the period and systematically distributed over the estimated useful life of the assets to which the grant refers. Saras has elected to deduct grants from the book values of the assets to which they refer.

4.7 Effects of the transition to IFRS

The following tables show the effects of the transition to IFRS endorsed by the European Commission, both in terms of reclassifications and adjustments, on the balance sheet to 1st January 2005 (the transition date) and to 31st December 2005 (figures in thousands of euros):

RECONCILIATION OF BALANCE SHEET ITEMS AS AT 1ST JANUARY 2005

	Italian Accounting Standards 31-12-04	Reclassifications	Adjustments	IFRS 01-01-2005
CURRENT ASSETS				
Current assets	614.794	-	50.776	665.570
Cash and cash equivalents	3,759	0	0	3,759
Other held for trading financial assets	11,894	0	0	11,894
Trade receivables	287,924	0	0	287,924
Inventories	242,363	0	41,418	283,781
Current tax assets	13	0	0	13
Other current assets	68,841	0	9,358	78,199
Non-current assets	836,987	(82,364)	(186,725)	567,898
Property, plants and equipment	441,748	(43,834)	17,665	415,579
Intangible assets	10,786	(5,778)	(202)	4,806
Equity Interest consolidated at equity	319,684	(5,373)	(167,487)	146,824
Other investments	689	0	0	689
Other financial assets	41,684	0	(41,684)	0
Deferred tax assets	14,009	(18,992)	4,983	0
Other assets	8,387	(8,387)	0	0
Total assets	1,451,781	(82,364)	(135,949)	1,233,468
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities	570,672	-	-	570,672
Short-term liabilities	91,633	0	0	91,633
Trade and other payables	372,261	0	0	372,261
Current tax liabilities	72,805	0	0	72,805
Other liabilities	33,973	0	0	33,973
Non-current liabilities	368,711	(82,364)	46,276	332,623
Long-term liabilities	159,603	0	0	159,603
Provisions for risks and charges	5,373	(5,373)	13,526	13,526
Provisions for employee benefits	24,871	12,234	6,016	43,121
Deferred tax liabilities	34,823	(18,992)	26,734	42,565
Other liabilities	144,041	(70,233)	0	73,808
Total liabilities	939,383	(82,364)	46,276	903,295
SHAREHOLDERS' EQUITY				
Share capital	51,183	0	0	51,183
Revaluation reserve	66,706	(66,706)	0	0
Legal reserves	10,237	0	0	10,237
Other reserves	141,658	66,706	0	208,364
Reserves for own shares in portfolio	41,684	0	(41,684)	0
Profit (loss) carried forward	0	0	(140,541)	(140,541)
Profit (loss) for the period	200,930	0	0	200,930
Total shareholders' equity	512,398	-	(182,225)	330,173
Total liabilities and shareholders' equity	1,451,781	(82,364)	(135,949)	1,233,468

RECONCILIATION OF BALANCE SHEET ITEMS AS AT 31ST DECEMBER 2005

	Italian Accounting Standards 31-12-05	Reclassifications	Adjustments	IFRS 01-01-2005
CURRENT ASSETS				
Current assets	751,570	0	139,640	891,210
Cash and cash equivalents	16,892			16,892
Other held for trading financial assets	12,998			12,998
Trade receivables	351,490			351,490
Inventories	285,710		138,506	424,216
Current tax assets	22,412			22,412
Other assets	62,068		1,134	63,202
Non-current assets	817,885	(76,036)	(194,022)	547,827
Property, plants and equipment	422,063	(33,460)	15,160	403,763
Intangible assets	7,242	(5,414)	(473)	1,355
Equity Interest consolidated at equity	363,480	(5,373)	(216,444)	141,663
Other investments	728			728
Other financial assets	0		318	318
Deferred tax assets	17,800	(25,217)	7,417	0
Other assets	6,572	(6,572)		0
Total assets	1,569,455	(76,036)	(54,382)	1,439,037
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities	666,710	0	0	666,710
Short-term liabilities	119,394			119,394
Trade and other payables	467,123			467,123
Current tax liabilities	39,853			39,853
Other liabilities	40.340			40.340
Non-current liabilities	329.441	(76.036)	82.238	335.643
Long-term liabilities	120.281			120.281
Provisions for risks and charges	5.373	(5.373)	13.526	13.526
Provisions for employee benefits	24.751	12.969	8.609	46.329
Deferred tax liabilities	51.781	(25.217)	60.103	86.667
Other liabilities	127.255	(58.415)		68.840
Total liabilities	996.151	(76.036)	82.238	1.002.353
SHAREHOLDERS' EQUITY				
Share capital	51.183			51.183
Revaluation reserve	64.038	(64.038)		0
Legal reserves	10.237			10.237
Other reserves	199.634	64.038	5.243	268.915
Profit (loss) carried forward	0		(140.230)	(140.230)
Profit (loss) for the period	248.212		(1.633)	246.579
Total shareholders' equity	573.304	0	(136.620)	436.684
Total liabilities and shareholders' equity	1.569.455	(76.036)	(54.382)	1.439.037

The following tables show Saras net shareholders' equity calculated according to Italian accounting standards reconciled with Saras net shareholders' equity calculated according to IFRS endorsed by the European Commission (figures in thousands of euros):

RECONCILIATION OF SARAS S.P.A. SHAREHOLDERS' EQUITY AT 1ST JANUARY 2005 AND AT 31ST DECEMBER 2005

Note		1st January 2005	31st December 2005
	Shareholders' equity, Italian accounting standards	**512.398**	**573.304**
1	Derecognition of intangible assets	(202)	(473)
2	Adjustments for own shares	(41,684)	0
3	Adjustment to value of land to reflect fair value (as deemed cost)	28,657	28,657
4	Reversal of monetary revaluation of tangible assets	(13,177)	(11,594)
5	Government grants	(19,610)	(15,957)
6	Tangible assets held under finance leases	1,847	1,071
7	Measurement of inventory at end of period	41,418	138,506
8	Depreciation of complex assets consisting of several components	16,794	10,527
9	Disposal and removal costs of tangible assets	(10,372)	(11,069)
10	Employee benefits	(6,016)	(8,609)
11	Effects deriving from the consolidation of equity investments at cost	(167,487)	(216,444)
12	Fair value of derivative contracts	9,358	1,452
13	Tax effects of the above-mentioned adjustments	(21,751)	(52,686)
	Shareholders' equity - IFRS	330,173	436,685

The following table shows the effects of the transition to IFRS endorsed by the European Commission, both in terms of reclassifications and adjustments, on Saras income statement for the year closed on 31st December 2005 (figures in thousands of euros):

RECONCILIATION OF INCOME STATEMENT ITEMS FOR PERIOD CLOSED ON 31 DECEMBER 2005

	Italian Accounting Standards 31-12-05	Reclassifications	Adjustments	IFRS FY 2005
Revenues from ordinary operations	4,991,600	(65,953)		4,925,647
Other income	57,291	(12,610)		44,681
Total revenues	5,048,891	(78,563)	0	4,970,328
Purchases of raw materials, replacement parts and consumables	(4,127,036)	(43,580)	97,087	(4,073,529)
Cost of services and various costs	(366,103)	92,709	(536)	(273,930)
Personnel costs	(90,522)	(2,809)	(2,593)	(95,924)
Depreciation, amortisation and write-downs	(78,351)	8,130	(2,554)	(72,775)
Total costs	(4,662,012)	54,450	91,404	(4,516,158)
Operating result	386,879	(24,113)	91,404	454,170
Net income (charges) from equity interest	73,052	0	(48,954)	24,098
Other net financial income (charges)	(89,205)	23,972	(7,906)	(73,139)
Net extraordinary income (expense)	(141)	141		0
Profit before taxes	370,585	0	34,544	405,129
Income tax for the period	(122,373)		(36,177)	(158,550)
Net profits (loss) for the period	248,212	0	(1,633)	246,579
Consolidated Group net profits per share - basic (Euro)	27,86			27,67
Consolidated Group net profits per share - diluted (Euro)	27,86			27,67

The following table shows Saras' net result for the year closed on 31st December 2005 calculated according to Italian accounting standards reconciled with net result for the year calculated according to IFRS endorsed by the European Commission (figures in thousands of euros):

RECONCILIATION OF SARAS S.P.A. NET RESULT TO 31ST DECEMBER 2005

Note	Net result - Italian accounting standards	FY 2005 248,212
1	Derecognition of intangible assets	(271)
2	Adjustments for own shares	0
3	Adjustment to value of land to reflect fair value (as deemed cost)	0
4	Reversal of monetary revaluation of tangible assets	1,583
5	Government grants	3,338
6	Tangible assets held under finance leases	(776)
7	Measurement of inventory at end of period	97,088
8	Depreciation of complex assets consisting of several components	(6,267)
9	Disposal and removal costs of tangible assets	(697)
10	Employee benefits	(2,593)
11	Effects deriving from the consolidation of equity investments at cost	(48,954)
12	Fair value of derivative contracts	(7,906)
13	Substitute tax to make net equity reserves tax-deductible	(5,243)
14	Tax effects of the above-mentioned adjustments	(30,934)
	Net result - IFRS	246,580

Adjustments carried in the balance sheet as at 1st January 2005 and 31st December 2005, as well as the income statement for the year closed on 31st December 2005.

The following paragraphs describe in detail the nature and size of the adjustments carried in the balance sheet at 1st January 2005 and 31st December 2005, as well as the income statement for the year closed on 31st December 2005:

(1) Derecognition of intangible assets

These adjustments relate to the effects connected to the different accounting treatment of certain expenses that according to Italian accounting standards can be capitalised, in contrast to IFRS endorsed by the European Commission. Specifically, under Italian accounting standards certain costs, basically those related to research expenses and personnel training costs, were capitalised.

These did not meet the requirements of IAS 38, Intangible assets, paragraphs 9 and 10, for the recognition of intangible assets, and therefore would have been booked to the income statement where incurred. This adjustment caused a reversal on 1 January 2005 of €202 thousand in costs booked under the items "Start-up and expansion costs" and "Research, development and advertising costs", a reversal in amortisations made for a total of €265 thousand, and an increase in costs included in the item “Service costs and sundry costs” for €536 thousand. Therefore, as at 31st December 2005, intangible assets decreased by €473 thousand.

(2) Adjustments for treasury shares

In conformance with IAS 32 paragraph 33, the costs to treasury shares are directly deducted from net equity. The application of this principle caused a reduction in the item “Other financial assets” and “Reserves for own shares in portfolio” (at 1st January 2005) for €41,684 thousand, respectively.

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

This adjustment relates to the effects associated with treatment elected by Saras, as permitted by IFRS 1, *First adoption of IFRS*, paragraph 16. Specifically, this standard allows tangible and intangible assets to be identified for which fair value is to be carried in the opening balance of the balance sheet at the transition date to IFRS as endorsed by the European Commission.

Saras availed itself of this option for land owned in Sarroch (Cagliari). The disclosures required by IFRS 1, *First adoption of IFRS*, paragraph 44, for these assets are shown below:

	01-01-2005	FY 2005		31-12- 05
Cost	3,439			3,439
Accumulated depreciation	0			0
Net book value	3,439	0	0	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	0		17,982

In reference to the profit for financial year 2005 determined in accordance with IFRS endorsed by the European Commission, the re-measurement of the above-mentioned land value had no effect on the statements since IAS 16, *Property, plants and equipment*, paragraph 58, does not allow the portion of the total value of property units represented by land to be depreciated.

This adjustment led to an increase in the item "Property, plants and equipments" as at 1st January 2005 of €28,657 thousand. Since land is not depreciated, the effects as at 31st December 2005 deriving from the application of this option are the same as those previously described; therefore there are no effects on the 2005 income statements to report.

(4) Reversal of monetary revaluation on tangible assets

This adjustment relates to the effects of different valuation criteria of Property, plants and equipments where revaluations allowed by local laws have been made. Under Italian accounting standards, in the past Saras carried out monetary revaluations of property, plants and equipments according to specific prevailing laws. In coherence with the choices made by Saras, following initial recognition property, plants and equipments were valued at cost, and therefore, according to IAS 16, no revaluations of property, plants and equipments are permitted while they are owned by Saras. This adjustment led to a decrease in the item "property, plants and equipment" of €13,177 thousand as at 1st January 2005, and €11,594 thousand as at 31st December 2005, as well as a reduction in depreciation for financial year 2005 of €1,583 thousand.

(5) Government grants

This adjustment involves the effects of different criteria being adopted for the measurement of government grants. Specifically, under Italian accounting standards, grants received up to financial year 1998 were partly or fully credited to net shareholders' equity. This practice was acceptable under Italian standards according to the benefits provided for by the fiscal legislation prevailing at that time. Pursuant to requirements stated in IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, paragraph 27 and the choices made by Saras, the value of assets benefiting from government grants received in previous years was re-measured. Specifically, the value originally recorded for these assets was decreased by the amount equal to the grants received. Moreover, the annual depreciation charges have been re-measured, with a consequent effect on the results of the 2005 financial year. This adjustment led to a decrease in the item "Property, plants and equipment" of €19,610 thousand as at 1st January 2005, and €15,957 thousand as at 31st December 2005, as well as a reduction in depreciation for financial year 2005 of €3,338 thousand (keeping account of the part of the grant reclassified and transferred to the income statement from net equity in the 2005 financial year, which totalled €315 thousand).

(6) Tangible assets held under finance leases

According to Italian accounting standards, finance leases are treated with the equity method, implying that the lessee records neither the asset to which the contract refers, nor any related liability, charging lease rate payments to the income statement of the related period. IAS 17, *Leases* however states that these transactions must be recorded according to the "finance method", which implies that the lessee:

- [A] At the inception of the lease, records the asset to which the finance lease refers in the balance sheet as a non-current assets, and, simultaneously, records a financial liability for the same amount;
- [B] Periodically depreciates the assets 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 expected;
- [C] Periodically recognises financial charges relating to the loan received;
- [D] Periodically adjusts the value of the debt representing the loan received in accordance with the repayments made over the period through the lease rate payments.

This adjustment relates to the recognition of the following:

- [A] The net book value of both the assets referring to the leases current at the transition date, and the assets redeemed in the past that refer to the leases settled at that date;
- [B] The residual value at the transition date of the loan received at the moment the lease contract was stipulated.

This adjustment led to an increase in the item "Property, plants and equipment" of €1,847 thousand as at 1st January 2005, and €1,071 thousand as at 31st December 2005, as well as an increase in depreciation for financial year 2005 of €776 thousand.

(7) Measurement of inventory at end of period

This adjustment involves the effects of different criteria being adopted to measure interchangeable assets. Specifically, according to Italian accounting standards Saras determines the cost of these assets with the LIFO method. According to IFRS endorsed by the European Commission, in keeping with the choices made by Saras, the cost of crude oil, materials and spare parts inventories is determined with the FIFO method, while finished oil products are measured at the weighted average cost of the last quarter. This adjustment led to an increase in the item "Inventories" of €41,418 thousand as at 1st January 2005, and €138,506 thousand as at 31st December 2005, as well as a decrease in the item "Purchases of raw materials, replacement parts and consumables" of €97,088 thousand for the year closed on 31st December 2005.

(8) Depreciation of complex assets consisting of several components

This adjustment relates to the effect of different criteria being used to measure depreciation of Property, plants and equipment, particularly where an asset comprises several components of significant value in relation to its total value, each having a different estimated useful life. The effects arising from the adoption of different depreciation criteria, in accordance with IFRS 1, *First adoption of IFRS*, paragraph 7, have been determined as if these assets had always been depreciated in accordance with the new criteria. In accordance with IAS 16, *Property, plants and equipment*, paragraph 43, which prescribes the adoption of the so-called "component approach", the components that are of 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, 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.

This adjustment led to a decrease in the item "Property, plants and equipment" of €16,794 thousand as at 1st January 2005, and €10,527 thousand as at 31st December 2005, as well as a reduction in depreciation for financial year 2005 of €6,267 thousand.

(9) Disposal and removal costs of tangible assets

This adjustment relates to the effects of different criteria being adopted to measure the costs of disposing and removing assets in the category "Property, plants and equipment", i.e. the cost of reclaiming the site where the asset is located. In accordance with IAS 16, *Property, plants 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 located. A special provision on the liabilities side of the balance sheet is created against recognition of these costs, the value of which is determined in accordance with IAS 37, *Provisions, contingent liabilities and assets*, paragraph 45, which represents the current value of estimated future commitments. This adjustment led to an increase in the item "Property, plants and equipment" of €3,154 thousand as at 1st January 2005, and €2,457 thousand as at 31st December 2005, as well as an increase in the item "Provisions for risks" of €13,526 thousand as at 1st January 2005, unchanged as at 31st December 2005. The effects of this adjustment on the income statement for the 2005 financial year caused an increase in amortisations of €697 thousand for the year.

(10) Employee benefits

This adjustment relates to the measurement of existing liabilities relating to employee benefits that will be paid after the employment relationship has been ended, and concerns the leaving indemnity payable by Saras' Italian subsidiaries, as well as other supplementary funds arising from company agreements. According to Italian accounting standards, these benefits are made up of liabilities determined pursuant to legal provisions, while the requirements set in IAS 19, paragraph 50, require that they are determined using actuarial techniques. This adjustment led to an increase in the item "Provisions for employee benefits" of €6,016 thousand as at 1st January 2005, and €8,609 thousand as at 31st December 2005, as well as an increase in labour costs for the financial year 2005 of €2,593 thousand.

(11) Effects deriving from the measurement of equity interest at cost

This adjustment involves the effects of different criteria being adopted for the measurement of equity interest that were valued based on the equity method, in application of Italian accounting standards. In the separate SARAS S.p.A. financial statements, the accounting of equity interest in subsidiaries, joint-ventures and associated companies is made using the cost method, as stipulated in IAS 27, *Consolidated and separate financial statements*, paragraph 37.

The table below shows the impact of the new method on balance sheet items as at 1st January 2005 and 31st December 2005:

	Italian Accounting Standards 31-12-04	Dividends received in previous financial years	Adjustments made in previous financial years	I.F.R.S. 01-01-2005 before adjustments	Adjustment to Risk Provisions on equity interest	I.F.R.S. 01-01-2005
AKHELA S.r.l.	12,645			12,645	(5,375)	7,270
ARCOLA PETROLIFERA S.p.A.	20,426		(8,929)	11,497		11,497
CONSORZIO RICERCHE ASSOCIATE	2,621		(20)	2,601		2,601
ENSAR S.r.l.	275		(175)	100		100
PARCHI EOLICI ULASSAI S.r.l.	1,640		(1,490)	150		150
SARINT S.A.	68,278		(30,528)	37,750		37,750
SARLUX S.r.l.	206,918	50,320	(176,631)	80,607		80,607
SARAS RICERCHE E TECNOLOGIE S.p.A.	6,881		(35)	6,846		6,846
	319,684	50,320	(217,808)	152,196	(5,375)	146,821

	Italian Accounting Standards 31-12-2005	Dividends received	Adjustments made in previous financial years	Adjustments made during this FY	I.F.R.S. 31-12-2005 before adjustments	Adjustment to Risk Provisions on equity interest	I.F.R.S. 31-12-2005
AKHELA S.r.l.	8,837				8,837	(5,375)	3,462
ARCOLA PETROLIFERA S.p.A.	25,954		(8,929)	(5,528)	11,497		11,497
CONSORZIO RICERCHE ASSOCIATE	2,617		(20)		2,597		2,597
ENSAR S.r.l.	289		(175)	(14)	100		100
PARCHI EOLICI ULASSAI S.r.l.	2,306		(1,490)		816		816
SARINT S.A.	75,424		(30,528)	(7,146)	37,750		37,750
SARLUX Sr.l.	243,184	81,038	(176,631)	(66,984)	80,607		80,607
SARAS RICERCHE E TECNOLOGIE S.p.A.	4,870		(35)		4,835		4,835
	363,481	81,038	(217,808)	(79,672)	147,039	(5,375)	141,664

The following table shows the impact of the new method on the income statement at 31st December 2005 to the item “Net income (charges) on equity interest”:

	Italian Accounting Standards 31-12-2005	Adjustments made during this FY	Dividends received in the financial year	I.F.R.S. 31-12-2005
AKHELA S.r.l.	(3,808)			(3,808)
ARCOLA PETROLIFERA S.p.A.	5,528	(5,528)		0
CONSORZIO RICERCHE ASSOCIATE	(4)			(4)
ENSAR S.r.l.	14	(14)		0
PARCHI EOLICI ULASSAI S.r.l.	(797)			(797)
SARINT S.A.	7,146	(7,146)		0
SARLUX S.r.l.	66,984	(66,984)	30,718	30,718
SARAS RICERCHE E TECNOLOGIE S.p.A.	(2,011)			(2,011)
	73,052	(79,672)	30,718	24,098

(12) Fair value of derivative contracts

The application of IAS 39 required that derivative contracts be booked at fair value; this adjustment led to an increase in the item “Other assets” under current assets in the balance sheet of €9,358 thousand as at

1st January 2005 and €1,452 thousand as at 31st December 2005, as well as an increase in financial charges for the year 2005 of €7,906 thousand.

(13) Substitute tax to make net equity reserves tax-deductible

This adjustment relates to effects linked to the different accounting treatment of a substitute tax deposited to deduct future taxation of net equity reserves; in accordance with Italian accounting standards, in the 2005 financial statements, this substitute tax was directly charges to the respective net equity reserves. In accordance with IAS 12, *Income tax*, substitute taxes must be recorded in the income statement. This adjustment caused an increase in "Other reserves" for €5,243 thousand as at 31st December 2005, and an increase in "Income tax" for the 2005 financial year of the same figure.

(14) Tax effect

This adjustment relates to the effect of deferred taxes calculated on the adjustments reported in notes (1) to (13), except adjustment n. 11, which has no tax effect. 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 will be settled. Specifically, the rates applied were: 33% for the IRES (corporate income tax) and 4.25% for the IRAP (regional income tax), the former applied on the pre-tax profit and the latter on value of production, taking into consideration the suitable increases or decreases forecasted by fiscal legislation.

Reclassifications carried in the balance sheet as at 1st January 2005 and 31st December 2005, as well as the income statement for the year closed on 31st December 2005.

The following paragraphs describe in detail the nature and size of the reclassifications carried in the balance sheet as at 1st January 2005 and 31st December 2005, as well as the income statement for the year closed on 31st December 2005:

Balance sheet

Intangible assets
In application of Italian accounting standards, improvements on leased assets are recognised as intangible assets. In accordance with IFRS endorsed by the European Commission, these assets should be classified according to the nature of the tangible asset to which they refer, and therefore booked under "Property, plants and equipment". Therefore, in the separate balance sheet as at 1st January 2005 and 31st December 2005, improvements on leased assets have been reclassified and transferred from "Intangible assets" to "Property, plants and equipment" for €5,778 thousand and €5,414 thousand, respectively.

Property, plants and equipment
Government grants relating to investments in tangible assets have been reclassified for IFRS purposes (IAS 20) and deducted from the relevant investments. As at 1st January 2005, this reclassification caused a decrease in the items "Other non-current liabilities" of €57,999 thousand and in "Other non-current assets" for €8,387 thousand, and a decrease in the item "Property, plants and equipment" for €49,612 thousand. The effects on these items in the balance sheet as at 31st December 2005 total €45,446 thousand, €6,572 thousand and €38,874 thousand, respectively.

Equity interest
"Provisions against investment write-downs" booked in "Provisions for risks and charges" according to Italian accounting standards was reclassified deducting directly from the item "Investments in subsidiaries, associates and joint-ventures"; this reclassification totalled €5,373 thousand.

Provisions for employee benefits
In accordance with Italian accounting standards, estimated employee benefits related to the supplementary employee pension fund are booked in the item "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". This reclassification totalled €12,234 thousand as at 1st January 2005 and €12,969 thousand as at 31 December 2005.

Deferred taxes
In compliance with IAS 12, deferred taxes and prepaid tax assets are reported as a net balance and therefore set off when a company has a legally enforceable right do to so, when the taxes are levied by the same authority, and when they are expected to be settled or recovered simultaneously. In accordance with IAS 12, pre-paid tax assets reclassified and deducted from deferred tax liabilities total €18,992 thousand and €25,217 thousand as at 1st January and 31st December 2005, respectively.

Income statement

Revenues from ordinary operations and purchases of raw materials, spare parts and consumables
Changes in 2005 period-end finished products inventories were reclassified and transferred from the item "Revenues from ordinary operations" to the item "Purchase of raw materials, spare parts and consumables". This reclassification caused an increase in said revenues and costs by €18,579 thousand.

Revenues from ordinary operations and Cost of services and other costs
In accordance with Italian accounting standards,

excise duties relating to the distribution of oil products (on the "retail market"), for which Saras acts purely as an intermediary, have been reported separately as positive or negative income items. In accordance with IFRS endorsed by the European Commission, costs and revenues relating to transactions made in connection with a company engaging in intermediation activities must be reported by jointly recognising their effects. The application of this criterion caused a reduction in the items "Revenues from ordinary operations" and "Cost of services and other costs" of €77,088 thousand.

Own work capitalised

Costs relating to own work capitalised, which in 2005 totalled €11,377 thousand, were reclassified according to IFRS endorsed by the European Commission, from revenues to the reference costs as a deduction. This reclassification caused a reduction in the item "Revenues from ordinary operations", with a balancing entry consisting of a reduction in the following cost items (figures in thousands of euros):

Purchases of raw materials, replacement parts and consumables	1,980
Cost of services and other costs	5,766
Labour costs	2,707
Other net financial income (charges)	924

Government grants

This reclassification, already shown in the paragraph describing balance sheet reclassification, caused a reduction of €12,610 thousand in the item "Other income and revenues", of €1,810 thousand in the item "Cost of services and other costs", and of €10,795 thousand in the depreciation of the year.

Cost of labour

In accordance with Italian accounting standards, remuneration to the Board of Directors is recorded in the item "Cost of services and other costs". In accordance with IFRS endorsed by the European Commission, these costs are classified under "Labour costs". This reclassification caused an increase in the item "Labour costs" and a decrease in the item "Cost of services and other costs" of €5,516 thousand.

Profits and losses on currencies

In accordance with Italian accounting principles, profits and losses on currencies (be they realised or not yet realised) relating to commercial transactions have been recognised in the item "Other net financial income (charges)". In accordance with IFRS endorsed by the European Commission, these profits and losses have been classified under their respective operational costs or revenues items. This reclassification led to a decrease in financial charges of €23,048 thousand, an increase in costs shown in the item "Purchases of raw materials, replacement parts and consumables" for €26,981, and an increase in the item "Revenues from ordinary operations for €3,933 thousand.

Net extraordinary income (charges)

In accordance with Italian accounting standards, extraordinary income and expense items are reported in a special income statement item that is not part of the operating result. In accordance with IFRS endorsed by the European Commission, extraordinary income items are classified in the items of cost and revenue to which they refer. The resulting reclassification led to changes in some income statement items, as shown below (figures in thousands of euros):

Cost of services and other costs	2,524
Amortisation and depreciation	(2,665)
Net extraordinary income/(charges)	(141)

Reconciliation of cashflow statement

The following table shows the effects relating to the IAS transition on the cashflow statement for the year ended 31 December 2005 (figures in thousands of euros):

CASH FLOW STATEMENT AS AT 31ST DECEMBER 2005

Thousands of euros	Italian Accounting Standards 2005	Italian accounting standards reported in compliance with IFRS	Adjustments	IFRS endorsed by the European Commission	NOTES
A - Cash and cash equivalents at beginning of period (short-term net financial debt)	15,653	15,653	(11,894)	3,759	a
B - Cash generated from (used for) operating activities					
Profit (loss) for the period	248,212	248,212	(1,633)	246,579	b
Depreciation, amortisation and write-downs	78,351	76,841	2,554	79,395	c
Net income (charges) from equity interest	(73,052)	(79,672)	103,770	24,098	d
Dividends from investee companies	30,718	30,718	(30,718)	0	
Net change in employee benefits	1,587	614	2,593	3,207	e
Change in deferred tax liabilities and pre-paid tax assets	11,144	13,167	24,749	37,916	f
Income tax for the period	0	0	158,550	158,550	
Other non-monetary revenues and costs	(8,071)	(312)	(8,977)	(9,289)	
Profit (loss) from operating activities before changes in working capital	**288,889**	**289,568**	**250,888**	**540,456**	
(Increase) Decrease in trade receivables	(89,524)	(63,566)	0	(63,566)	
Decrease (increase) in inventory	0	(43,347)	(97,088)	(140,435)	g
Increase (Decrease) in trade and other payables	84,605	94,862	1,921	96,783	
Change in other current assets	(46,001)	(15,626)	8,224	(7,402)	
Change in other current liabilities	(25,845)	(26,584)	(26,493)	(53,077)	
Income tax paid	0	0	(132,057)	(132,057)	
Change in other non-current liabilities	0	(4,968)	14,686	9,718	
Total (B)	212,124	230,339	(20,081)	250,420	
C - Cash generated from (used for) investments					
(Investments) in fixed assets and intangible assets net of divestments, and depreciation and amortisation	(57,788)	(64,350)	221	(64,129)	
Change in other investments	(1,136)	5,118	(24,123)	(19,005)	d
Interest received (paid)	0	0	(5,716)	(5,716)	
Total (C)	(58,924)	(59,232)	(29,618)	(88,850)	
D - Cash generated by (used for) financing					
(Increase) / decrease in medium- long-term borrowing	(39,322)	(39,322)	0	(39,322)	
(Increase) / decrease in other financing	12,620	0	(2,527)	(2,527)	
(Increase) / decrease in short-term borrowing	33,048	27,761	5,716	33,477	
Increase in equity from IPO	(5,244)	(5,244)	5,244	0	
Distribution of dividends to third parties	(140,065)	(140,065)	0	(140,065)	
Total (D)	(138,963)	(156,870)	8,433	(148,437)	
E - Cashflow for the period (B+C+D)	14,237	14,237	(1,104)	13,133	
F - Cash and cash equivalents at end of period (short-term net financial debt)	29,890	29,890	(12,998)	16,892	

The following paragraphs contain the explanatory notes regarding the main differences shown in the cash-flow reconciliation statement for the year ended 31st December 2005:

[A] This adjustment relates to the effects of the change in the classification of securities in which Saras' liquidity is temporarily invested. In accordance with Italian accounting standards, these 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) can be classified as cash. The above-mentioned securities do not have this feature, and therefore for the purposes of IFRS endorsed by the European Commission, they have been included in cash flows from financial activities.

[B] This adjustment relates to the effects on net profits due to the application of IFRS endorsed by the European Commission. The difference thus recorded is showed in detail in the Reconciliation of net profit above as determined in accordance with Italian accounting standards to net profit as determined in accordance with IFRS endorsed by the European Commission.

[C] These adjustments are mainly in connection with those described in detail in notes 1), 4), 5), 8) and 9), which refer to the Reconciliation of the consolidated shareholders' equity as at 1st January and 31st December 2005 as determined in accordance with the previous accounting standards to that determined in accordance with IFRS endorsed by the European Commission.

[D] This adjustment relates to the one described in note 11 regarding the Reconciliation of the consolidated shareholders' equity as at 1st January and 31st December 2005 as determined in accordance with the previous accounting standards to that determined in accordance with IFRS endorsed by the European Commission.

[E] This adjustment refers to the application of IAS 19, *Employee benefits* to "Provisions for employee benefits", including the employee leaving indemnity, which, for the purposes of IFRS endorsed by the European Commission, has been re-measured on the basis of actuarial calculations.

[F] This adjustment relates to the one described in note 14 regarding the Reconciliation of the consolidated shareholders' equity as at 1st January and 31st December 2005 as determined in accordance with the previous accounting standards to that determined in accordance with IFRS endorsed by the European Commission.

[G] This adjustment relates to the one described in note 7 regarding the Reconciliation of the consolidated shareholders' equity as at 1st January and 31st December 2005 as determined in accordance with the previous accounting standards to that determined in accordance with IFRS endorsed by the European Commission.

5. Information by geographic area

5.1 Foreword

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 finished products, which is carried out at Saras' site in Sarroch, Sardinia;
- by acquiring oil products from third parties that were previously refined on behalf of these same third parties at Saras' site in Sarroch, Sardinia;
- and by acquiring oil products from third parties, to a minimal extent.

Finished products are sold to internationally renowned players in the sector (such as Polimeri Europa, Noc, Repsol, Total, Statoil, and ENI).

[B] Revenues from refining activities undertaken on behalf of third parties that constitute the only income from refining activities that Saras carries out also on behalf of third parties; these services are rendered to major corporate customers such as Shell, ENI, NOC and Statoil.

5.2 Breakdown by geographic area

Net revenues from ordinary operations by geographic area:

	31-12-06	31-12-05	Change
Sales in Italy	2,316,123	2,176,857	139,266
Sales in Spain	1,253,865	975,039	278,826
Other EU country sales	581,327	553,162	28,165
Non-EU country sales	1,390,532	1,220,589	169,943
US sales	56,111	0	56,111
Total	**5,597,958**	**4,925,647**	**672,311**

The following table shows a breakdown of trade receivables by geographic area:

	31-12-06	31-12-05	Change
Sales in Italy	211,693	208,178	3,515
Sales in Spain	69,440	48,910	20,530
Other EU country sales	17,062	2,843	14,219
Non-EU country sales	72,711	93,576	(20,865)
US sales	120	0	120
provision for bad debts	(2,057)	(2,057)	0
Total	**368,969**	**351,490**	**17,479**

The most significant changes in the balance sheet and income statement compared to the previous financial year are shown below.

6. Notes to the balance sheet

6.1 Current assets

6.1.1 Cash and cash equivalents

The following table shows a breakdown of cash and bank deposits:

	31-12-06	31-12-05	Change
Bank and postal deposits	41,080	16,837	24,243
Cash	72	55	17
Total	**41,152**	**16,892**	**24,260**

6.1.2 Other held for trading financial assets

	31-12-06	31-12-05	Change
Other held for trading financial assets	13,816	12,998	818
Total	**13,816**	**12,998**	**818**

This item mainly comprises Italian and foreign stocks and government bonds totalling €13,203 thousand.

The changes in fair value recorded during the period are recognised in the income statement in the item "Other net financial income (charges)".

The following table shows the changes in the balance:

Balance at 31st Dec. 2004:	**11,894**
Increases for financial year:	13,225
Decreases for financial year:	(12,121)
Balance at 31st Dec. 2005:	**12,998**
Increases for financial year:	80,505
Decreases for financial year:	(79,687)
Balance at 31st Dec. 2006:	**13,816**

6.1.3 Trade receivables

The following table shows the balance for trade receivables:

	31-12-06	31-12-05	Change
From trade debtors	206,542	195,221	11,321
From group companies	162,427	156,269	6,158
Total	**368,969**	**351,490**	**17,479**

The balance in receivables from the other companies of the Group refers mainly to receivables from Saras Energia S.A. subsidiaries (€60,819 thousand) and Arcola Petrolifera S.p.A. (€55,659 thousand) for the supply of oil products, and from the Sarlux S.r.l. subsidiary (€43,861 thousand) for the supply of raw materials.
All receivables are due within 12 months.

6.1.4 Inventory

The following table shows the balance of inventory and the changes during the 2006 financial year:

	31-12-06	31-12-05	Change
Inventories:			
raw materials, replacement parts and consumables	145,597	160,346	(14,749)
semi-finished products	35,757	54,003	(18,246)
finished products and goods held for resale	268,429	209,496	58,933
advances paid for stocks	2,419	371	2,048
Total	**452,202**	**424,216**	**27,986**

The value of inventory increased due to the amount of remaining finished products in stock, which was partially compensated by a reduction in prices.
The measurement of inventory carried at net realisable value caused a writedown of approximately €3 million.
Consequently the value of the inventories does not differ significantly from market value.
There are no items of inventory securing liabilities; the item "Finished products and goods" includes approximately 470,000 tonnes of oil products (worth approximately €190 million) held in stock as mandatory supplies pursuant to provisions in Italian legislative decree n. 22 of the 31st January 2001, for both Saras S.p.A. and the subsidiary Arcola Petrolifera S.p.A.
At the Sarroch refinery crude and oil products belonging to third parties are held for a total value, as at 31st December 2006, of €171,028 thousand (€246,702 thousand as at 31st December 2005).

6.1.5 Current tax assets

The following table shows a breakdown of current tax assets, which totalled €63,843 thousand (€22,412 thousand as at 31st December 2005):

	31-12-06	31-12-05	Change
VAT credits	55,908	22,307	33,601
IRAP (regional income tax) credits	7,698	0	7,698
Other tax credits	237	105	132
Total	**63,843**	**22,412**	**41,431**

The change in the item "VAT credits" is due to increased crude imports not set off by higher domestic sales.

The regional income tax (IRAP) credit increased due to prepayments (calculated using the historic method) made that were higher than the actual amount to be paid for the financial year.

6.1.6. Other current assets

The following table shows the balance in other current assets:

	31-12-06	31-12-05	Change
Accrued income	1,119	1,091	28
Prepayments	5,777	5,305	472
Other receivables	15,177	18,522	(3,345)
Financial receivables from Group companies	78,839	38,284	40,555
Total	**100,912**	**63,202**	**37,710**

Prepayments mainly refer to insurance premiums, which totalled €4,194 thousand.

The item “Other receivables” mainly includes the net fair value of derivative instruments recorded as at 31st December 2006. In the previous financial year, this item included costs sustained to purchase the remaining stake in the company Sarlux S.r.l. for €4,946 thousand, as well as receivables from suppliers for the purchase of materials with an obligatory resell clause for €9,276 thousand. The following table shows a breakdown in other receivables:

Thousands of euros	2006 Assets	2006 Liabilities	2005 Assets	2005 Liabilities
Interest rate swaps	0		318	
Fair value of forward currency sales	545		80	
Fair value of forward purchases and sales of commodities (crude and other oil products)	25,458	(14,648)	6,057	(4,922)
Derivative gains made but not yet collected	937		1,090	
Total	26,940	(14,648)	7,545	(4,922)

The measurement of the fair value of derivatives in place as at 31st December 2006 caused a positive net impact on the year’s income statement of €10,140 thousand, as highlighted in note 7.4 below.
The following table shows the notional values and the fair values of the derivative instruments positioned as at 31st December 2006:

Type of transaction	Interest rates			Exchange rates			Other		
Thousands of euros	Notional value	Fair value Pos.	Fair value Neg.	Notional value	Fair value Pos.	Fair value Neg.	Notional value	Fair value Pos.	Fair value Neg.
Financial derivatives									
Futures									
purchased							91,159		12,793
sold							141,980	25,458	1,855
Options									
purchased				18,983	545				
sold									
Total	0	0	0	18,983	545	0	233,139	25,458	14,648

Derivative contracts that were closed during financial year 2006 generated a net positive impact on the year’s income statement of €1,498 thousand (whereas in the previous financial year there was a negative impact of €48,777 thousand), as highlighted in note 7.4 below.

“Financial receivables from Group companies” mainly include receivables of €30,000 thousand from Saras Energia S.A., €14,849 thousand from Saras Ricerche e Tecnologie S.p.A., €5,256 thousand from Arcola Petrolifera S.p.A., €818 thousand from Ensar S.r.l., €19,364 thousand from Sarlux S.r.l., €5,183 thousand from Sardeolica S.r.l., and €3,328 thousand from Parchi Eolici Ulassai S.r.l.; these are all short-term loans that benefit from interest calculated at market rates.
The increase in the item is due for the most part to the loan granted to Saras Energia S.A. for the acquisition of Saras Energia Red S.A. (€30,000 thousand) as well as to credits deriving from the tax consolidation mainly of Sarlux S.r.l. (€19,364 thousand) and Sardeolica S.r.l. (€5,184 thousand), partially compensated by the repayment of a loan granted to Sardeolica (€17,717 thousand).

6.2 Non-current assets

6.2.1 Property, plants and equipment

The following table shows a breakdown in the item property, plants and equipment:

COST	31-12-2004	Additions	(Disposals)	Revaluations (Write-downs)	Other changes	31-12-2005
Land and buildings	81,410		(110)		238	81,538
Plants and equipments	1,014,501	4,632			39,217	1,058,350
Industrial and commercial equipment	8,977				1,718	10,695
Other assets	343,758	739	(9,218)		7,355	342,634
Works in progress and advances	32,096	51,929			(48,634)	35,391
Total	1,480,742	57,300	(9,328)	0	(106)	1,528,608

ACCUMULATED DEPRECIATION	31-12-2004	Depreciation rates	(Disposals)	Revaluations (Write-downs)	Other changes	31-12-2005
Land and buildings	22,024	2,426			(73)	24,377
Plants and equipments	806,319	46,966			(363)	852,922
Industrial and commercial equipment	6,493	1,017				7,510
Other assets	230,327	18,926	(9,218)			240,035
Totale	1,065,163	69,335	(9,218)	0	(436)	1,124,844

NET BOOK VALUE	31-12-2004	Additions	(Disposals)	(Depreciation)	Other changes	31-12-2005
Land and buildings	59,386	0	(110)	(2,426)	311	57,161
Plants and equipments	208,182	4,632	0	(46,966)	39,580	205,428
Industrial and commercial equipment	2,484	0	0	(1,017)	1,718	3,185
Other assets	113,431	739	0	(18,926)	7,355	102,599
Works in progress and advances	32,096	51,929	0		(48,634)	35,391
Total	415,579	57,300	(110)	(69,335)	330	403,764

COST	31-12-2005	Additions	(Disposals)	Revaluations (Write-downs)	Other changes	31-12-2006
Land and Buildings	81,538				1,433	82,971
Plants and machinery	1,058,350	36,224	(5,819)		31,074	1,119,829
Industrial and commercial equipment	10,695		(1,306)		2,826	12,215
Other assets	342,634	2,995	(126)		14,590	360,093
Works in progress and advances	35,391	67,856			(49,121)	54,126
Total	1,528,608	107,075	(7,251)	0	802	1,629,234

ACCUMULATED DEPRECIATION	31-12-2005	Depreciation rates	(Disposals)	Revaluations (Write-downs)	Other changes	31-12-2006
Land and buildings	24,377	2,190				26,567
Plants and machinery	852,922	47,655	(5,819)			894,758
Industrial and commercial equipment	7,510	1,499	(1,306)			7,703
Other assets	240,035	16,399	(125)			256,309
Total	1,124,844	67,743	(7,250)	0	0	1,185,337

NET BOOK VALUE	31-12-2005	Additions	(Disposals)	(Depreciation)	Other changes	31-12-2006
Land and buildings	57,161	0	0	(2,190)	1,433	56,404
Plants and machinery	205,428	36,224	0	(47,655)	31,074	225,071
Industrial and commercial equipment	3,185	0	0	(1,499)	2,826	4,512
Other assets	102,599	2,995	(1)	(16,399)	14,590	103,784
Works in progress and advances	35,391	67,856	0		(49,121)	54,126
Total	403,764	107,075	(1)	(67,743)	802	443,897

Costs are shown net of grants definitively received for the accomplishment of investments.
The gross value of grants deducted from fixed assets in the balance sheet was €160,963 thousand, and related to the "Contratto di Programma" entered into with the Ministry of Industry, Commerce and Crafts on 19 June 1995, and the "Contratto di Programma" entered into with the Ministry of Productive Activities on 10 October 1997.
As at 31st December 2006, the net book value of these grants was €40,470 thousand (€54,832 thousand as at 31st December 2005).

The item "Land and buildings" includes industrial buildings used as offices and warehouses worth a net value of €23,850, civic buildings in Cagliari and Rome used as offices worth a net value of €1,741 thousand, and land relating largely to the Sarroch site worth a net value of €30,813 thousand.

The item "Plants and equipment" mainly relates to the refining plants located in Sarroch.

The item "Industrial and commercial equipment" includes equipment for the chemicals laboratory and the new control room that was built during 2004, and various pieces of equipment needed for the production process.
The item "Other assets" mainly includes tanks and pipelines used to carry products and crude oil.
The item "Assets under construction and advances" reflects costs relating mainly to investments in Saras' tanks, and work carried out on facilities necessary to adapt and upgrade existing plants, more specifically for environmental, safety, and reliability issues.
Increases in the period total €107,075 thousand; specifically, improvements made on the plants Topping 2 and Vacuum 2, on the boilers of the C.C.R. plant, on the storage tanks, and the maintenance works on Topping 2, Vacuum 2 and C.C.R.

The item "Other changes" mainly includes the transfer 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 (Plants and equipment)	8.38%
Highly corrosive plants (Plants and equipment)	11.73%
Pipelines and storage (Other assets)	8.38%
Equipment (Commercial and industrial equipment)	25.00%
Office furniture and machinery (Other assets)	12.00%
Transport vehicles (Other assets)	25.00%

No fixed assets are held for sale.

A concession enabling Saras to occupy state-owned areas until 31 December 2015 where the Sarroch refinery's service facilities are located (i.e. waste water treatment, desalinisation of seawater, blow-down, torches and wharf) was obtained from the Cagliari Port Authority; currently, there are no factors that might lead us to expect that the concession will not be renewed at expiry.

Leased assets, booked as "transport vehicles" totalled €14,663 thousand, while their residual net value totalled €1,553 thousand.
During financial year 2006, financial charges of €1,492 thousand were capitalised on the value of property, plants and equipment; the applied capitalization rate was 3.36% equivalent to the Company average interest rate on debt.

6.2.2 Intangible assets

The following table shows the changes in intangible assets:

CATEGORY	31-12-04	Additions	Disposals	Other changes	(Amortisation)	31-12-05
Industrial and other patent rights	0					0
Concessions, licenses, trademarks and similar rights:	3,381	422			(3,308)	495
Goodwill	0					0
Assets under constr. and advances	0					0
Other intangible assets	1,425			(433)	(132)	860
Total	4,806	422	0	(433)	(3,440)	1,355

CATEGORY	31-12-05	Additions	Disposals	Other changes	(Amortisation)	31-12-06
Industrial and other patent rights	0					0
Concessions, licenses, trademarks and similar rights	495	585			(549)	531
Goodwill	0					0
Assets under constr. and advances	0					0
Other intangible assets	860	31		(72)	(113)	706
Total	1,355	616	0	(72)	(662)	1,237

Concessions, licenses, trademarks and similar rights: the increase here refers to the purchase of new software licenses.

The amortisation of intangible assets totalled €662 thousand, calculated according to the following annual rates:

Industrial patents and intellectual property rights	20%
Concessions, licenses, trademarks and similar rights	5%-33%
Other intangible assets	6% - 33%

No intangible assets with a finite useful life are held for sale.

6.2.3 Equity interest

The following table shows list of the directly or indirectly owned equity interest (figures reported in euros and using Italian accounting principles):

EQUITY INTEREST

Name	HQ	Currency	Share capital	Portion owned	Business relationship	Total assets	Total liabilities	Shareholders' equity	Profit / (loss) past FY	Book Value Saras S.p.A.
Arcola Petrolifera S.p.A.	Sarroch (CA)	€	7,755,000	100,0%	subsidiary	115,012,490	83,585,962	31,426,528	5,472,526	11,497,213
Sarlux S.r.l.	Sarroch (CA)	€	27,730,467	100,0%	subsidiary	1,066,453,258	537,513,330	528,939,928	77,557,254	211,806,086
Sarint S.A.	Luxembourgo	€	50,705,314	99.9% (*)	subsidiary	81,958,375	129,047	81,829,328	6,292,340	37,750,614
Sartec-Saras Ricerche e Tecnologie S.p.A.	Assemini (CA)	€	3,600,000	100,0%	subsidiary	30,112,575	25,662,241	4,450,334	(420,007)	2,657,291
Ensar S.r.l.	Cagliari	€	100,000	100,0%	subsidiary	1,006,067	846,432	159,635	(129,004)	0
Parchi Eolici Ulassai S.r.l.	Cagliari	€	500,000	70,0%	joint venture	49,088,252	37,626,025	11,462,227	8,168,338	815,696
Akhela S.r.l. (formerly Saraslab S.r.l.)	Cagliari	€	3,000,000	100,0%	subsidiary	24,579,175	18,318,459	6,260,716	(2,576,629)	883,474
Consorzio Ricerche Associate	Capoterra (CA)	€	3,105,971	98.9% (*)	subsidiary	2,663,992	11,917	2,652,075	0	2,597,092

(*) The remaining 0.1% stake in Sarint S.A. is owned by the subsidiary Arcola Petrolifera S.p.A.

(**) The remaining stake of 1.1% in Consorzio Ricerche Associate is owned by the subsidiary Saras Ricerche e Tecnologie S.p.A

6.2.3.1 Investments stated at cost

The following table shows a breakdown of investments:

	Legal HQ	% owned	31-12-06	31-12-05
Akhela S.r.l.	Cagliari	100.0%	883	3.462
Arcola Petrolifera S.p.A.	Sarroch (CA)	100.0%	11,497	11,497
Consorzio Ricerche Associate	Capoterra (CA)	99.9%	2,597	2,597
Ensar S.r.l.	Cagliari	100.0%	0	100
Parchi Eolici Ulassai S.r.l.	Cagliari	70.0%	816	816
Sarint S.A.	Luxembourg	98.9%	37,750	37,750
Sarlux S.r.l. (1)	Sarroch (CA)	100.0%	211,808	80,607
Sartec-Saras Ricerche e Tecnologie S.p.A.	Assemini (CA)	100.0%	2,656	4,834
Total			**268,007**	**141,663**

(1) 55% in 2005 and 100% in 2006

The following table shows changes in their book value:

	31-12-04	Acquisitions and subscriptions	Revaluations (write-downs)	Other changes	31-12-05
Akhela S.r.l.	7,270		(3,808)		3,462
Arcola Petrolifera S.p.A.	11,497				11,497
Consorzio Ricerche Associate	2,601		(4)		2,597
Ensar S.r.l.	100				100
Parchi Eolici Ulassai S.r.l.	150		(797)	1,463	816
Sarint S.A.	37,750				37,750
Sarlux S.r.l.	80,607				80,607
Sartec-Saras Ricerche e Tecnologie S.p.A.	6,846		(2,012)		4,834
Total	**146,821**	**0**	**(6,621)**	**1,463**	**141,663**

	31-12-05	Acquisitions and subscriptions	Revaluations (write-downs)	Other changes	31-12-06
Akhela S.r.l.	3,462		(2,579)		883
Arcola Petrolifera S.p.A.	11,497				11,497
Consorzio Ricerche Associate	2,597				2,597
Ensar S.r.l.	100		(100)		0
Parchi Eolici Ulassai S.r.l.	816				816
Sarint S.A.	37,750				37,750
Sarlux S.r.l.	80,607	131,201			211,808
Sartec-Saras Ricerche e Tecnologie S.p.A.	4,834		(2,178)		2,656
Total	**141,663**	**131,201**	**(4,857)**	**0**	**268,007**

The increase of the stake in the subsidiary Sarlux S.r.l. refers to a purchase option exercised during 2002 of 45% of this subsidiary's corporate capital, already owned in 55% and held jointly. The exercising of this right was challenged by Sarlux S.r.l.'s other joint venturer, Enron Dutch Holding B.V. ("Enron Dutch").

The parties resorted to arbitration in accordance with the regulations of the International Chamber of Commerce. Pending an outcome of the arbitration, in 2002 Saras 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.

On 18th April 2006 a Board of Arbitrators based in Geneva resolved in favour of Saras. On 5th June 2006, as a result of the decree by which the Appeals Court in Rome enforced the Board of Arbitrators' award in Italy, Saras filed the award and decree with the Companies' Register of Cagliari; on 6th June 2006 it obtained recording of the transfer of the equity interest in the shareholders' register of Sarlux and paid to Enron Dutch the price for its equity stake, decided by the board of arbitrators as approximately €117 million.

On 28th June 2006, the Court of Cagliari ordered the freeing of the 45% equity stake in Sarlux. Therefore, effective 28th June 2006, Saras has acquired control of Sarlux and increased its stake from 55% to 100%.

We provide below details of the cost of the aforementioned acquisition, the actual date when control was acquired (in accordance with paragraph 25 of IFRS 3 this is the date when the acquirer obtains the actual control of the business or entity acquired) and the percentage of voting rights acquired.

The cost of acquisition of 45% of Sarlux totalled €131 million approximately, and included the price paid as decided by the board of arbitrators, equal to about €117 million, accessory charges of about €10 million and the fair value of the exercised option, determined at the exercise date of the option, equal to about €4 million. No shares or other equity instruments were issued as part of the cost of the acquisition.

The date of acquisition coincided with the freeing of the 45% equity stake in Sarlux and was therefore set as 28th June 2006, because only from that date did Saras acquire control of Sarlux as per paragraphs 13 and 14 of IAS 27.

The voting rights acquired correspond to 45% of the equity of Sarlux.

We specify that regarding existing bank loans, Sarlux S.r.l. must respect certain parameters before distributing dividends. Specifically, in order to use liquidity for to this aim, it is necessary that:

- the following current bank 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 forecasts 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 1.15;

[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.

As at 31st December 2006 no associated companies were listed in regulated markets.

6.2.3.2 Other investments

Il dettaglio delle altre partecipazioni è il seguente:

	31-12-06	31-12-05	changes
Hydrocontrol - Soc. consort. a r. l.	1	233	(232)
Sarda Factoring	495	495	0
Totale	**496**	**728**	**(232)**

The changes between 31 December 2006 and 31 December 2005 relate to a decrease in Hydrocontrol, Consortium with limited responsibility, due to the value adjustment at fair value.

6.2.4 Other financial assets

The balance of this item as at 31 December 2006 totalled €143 thousand and refers to caution monies deposited for various reasons.

6.3 Current liabilities

6.3.1 Short-term financial liabilities

The following table shows Short-term financial liabilities:

	31-12-06	31-12-05	changes
Loans from bank	26,667	53,052	(26,385)
Bank overdrafts	37,806	23,938	13,868
Other loans	0	1,280	(1,280)
Loans from Group companies	27,670	41,124	(13,454)
Total	**92,143**	**119,394**	**(27,251)**

Details of the terms and conditions of loans are shown in the comments to the item "Long-term financial liabilities".

The item "Loans from Group companies" basically includes loans from the subsidiary Sarint S.A. for €14,700 thousand, Akhela S.r.l. for €4,109 thousand, Reasar S.A. for €3,500 thousand, Consorzio Ricerche Associate a.r.l. for €1,858 thousand, Eolica Italiana S.r.l. for €1,031 thousand, Parchi Eolici Ulassai S.r.l. for €583 thousand, Nova Eolica S.r.l. for €1,000 thousand and Xanto S.r.l. in liquidation for €800 thousand; financial debts are settled at market conditions.

6.3.2 Trade and other payables

The following table shows the composition of this item:

	31-12-06	31-12-05	changes
Advances from clients: portion due within the year	2,652	0	2,652
Amounts payable to suppliers: portion due within the year	469,929	446,739	23,190
Trade payables to Group companies	19,987	20,384	(397)
Total	**492,568**	**467,123**	**25,445**

The following table shows a breakdown for payables to suppliers by geographic area:

	31-12-06	31-12-05	changes
Italy	133,002	134,806	(1,804)
Spain	3	27	(24)
Other EU countries	98,906	9,009	89,897
Non-EU countries	237,991	303,453	(65,462)
US	27	0	27
Totale	**469,929**	**447,295**	**22,634**

6.3.3 Current tax liabilities

The following table shows the composition of this item:

	31-12-06	31-12-05	changes
IRES (corporation tax payable)	5,952	25,932	(19,980)
IRAP (regional tax payable)	0	7,633	(7,633)
other liabilitiles	6,632	6,288	344
Total	**12,584**	**39,853**	**(27,269)**

The item "Other liabilities" mainly includes debts to both the Italian Technical Office for Manufacturing Tax (UTIF) for excise duties for €4,431 thousand, and to Inland Revenue for personal income taxes (IRPEF) for €2,091 thousand.

The decrease in corporate income tax liabilities (IRES) was largely due to the amount reported as payable on 31st December 2005 being paid in June. This item includes the net balance of the accrual for income tax of the period and prepayments made for the 2006 financial year.

6.3.4 Other current liabilities

The following table shows a breakdown for Other current liabilities:

	31-12-06	31-12-05	changes
Amount payable to welfare and soc. sec.: portions due within the year	4,965	5,684	(719)
Due to personnel	8,364	11,178	(2,814)
Payables to Ministry for grants	13,848	13,848	0
Other payables	15,673	8,430	7,243
Other accrued liabilities	16	160	(144)
Other deferred income	207	1,041	(834)
Total	**43,073**	**40,341**	**2,732**

The item "Due to personnel" includes amounts not yet settled for salaries for the month of December, performance bonuses for the achievement of business targets, and the portion of additional monthly payments accrued.
The item "Payables to Ministry for grants" includes advances received from the Ministry in connection with the "Contratto di Programma" that was made on 10th June 2002 for which the Final Concession Decree has yet to be granted.
The item "Other payables" mainly refers to port duties as determined by the Customs Authority; please note that the first tranche of Saras' long-standing dispute with Inland Revenue regarding port duties payable for the Sarroch landing dock for the 1994-95 period was settled to the full satisfaction of Saras, whose case was upheld by a ruling issued by the Italian Supreme Court of Appeal, which definitively declared that the taxes were not due.

Furthermore, a second tranche of the dispute is underway, and, after a favourable ruling issued by the Court of Cagliari, an unfavourable ruling has been pronounced by the Cagliari Court of Appeal. As a consequence Saras decided to make an accrual in respect of the due amount, the payment of which is however temporarily suspended.

6.4 Non-current liabilities

6.4.1 Long-term financial liabilities

The following table shows this item in detail:

Millions of euros	Date of borrowing	Amount originally borrowed	Base rate	Outstanding at 31-12-05	Outstanding at 31-12-06	Maturity 1 year	Maturity from 1 to 5 years	Maturity beyond 5 years	Security
Banca Pololare di Verona	16-12-04	20.0	Euribor 3M	20.0	-	-	-	-	
B.ca Intesa in Pool	21-12-01	87.8	Euribor 3M	52.7	-	-	-	-	
S.Paolo in Pool	29-12-99	77.5	Euribor 6M	20.7	-	-	-		
San Paolo Imi	20-12-04	30.0	Euribor 6M	30.0	30.0	10.0	20.0	-	30.0
Unicredit	20-12-04	50.0	Euribor 6M	50.0	50.0	16.7	33.3	-	50.0
Loans pursuant to Law 46	9-12-92	10.9	2.47%	1.3	-	-	-	-	
Total				174.7	80.0	26.7	53.3	-	

The weighted average interest rate as at 31st December 2006 was equal to 4.6%.
Loans received by San Paolo Imi S.p.A. (an initial €30 million) are subject to the following two covenants: [I] a Debt/equity ratio of less than 2.3; and [II] an EBITDA/net interest expense ratio of higher than 3. Such covenants are largely respected as of 31st December 2006.

Net financial position of Saras S.p.A. is reported below:

	31-12-06	31-12-05
Medium/long term bank loans	(53,333)	(120,280)
Total long term net financial position	**(53,333)**	**(120,280)**
Short term bank loans	(26,667)	(53,053)
Bank overdrafts	(37,806)	(23,880)
Other short term loans	0	(1,271)
Loans from Group companies	(27,670)	(40,128)
Loans to Group companies	78,839	38,247
Change to Interest Rate Swap fair value	0	300
Other financial activities	13,816	12,998
Cash deposits	41,152	16,892
Total short term net financial position	**41,664**	**(49,895)**
Total net financial position	**(11,669)**	**(170,175)**

6.4.2 Provisions for risks and charges

Provisions for risks and charges comprise a plant dismantling provision for €13,526 thousand, related to future costs for the dismantling of plants and equipment, considered wherever there is a legal or constructive obligation to be met in this regard; this provision was not discounted in the balance sheet due to its negligible effect on the financial statements. The balance did not change during the past two financial years.

6.4.3 Provisions for employee benefits

The following table shows the balance of this item:

	31-12-06	31-12-05	changes
Staff leaving indemnity	23,577	26,524	(2,947)
Other indemnities	18,649	19,805	(1,156)
Total	**42,226**	**46,329**	**(4,103)**

Employee severance indemnity is regulated according to art. 2120 of the Italian Civil Code and reflects the estimated amount, based on actuarial estimates, that Saras will be required to pay employees upon termination of employment; the item "Other indemnities" mainly refers to "CPAS Fund" which is a special supplementary pension fund for employees (Cassa Previdenza Aziendale Dipendenti Saras, i.e. Saras pension fund for Saras Employees). This obligation is also measured using actuarial techniques.

The following table shows the changes in the staff leaving indemnity:

Balance at 31.12.2004	**25,203**
Accrual for the year	5,672
Utilisations for the year	(4,351)
Balance at 31.12.2005	**26,524**
Accrual for the year	3,986
Utilisations for the year	(6,933)
Balance at 31.12.2006	**23,577**

The following table shows changes in the item "Other indemnities":

Balance at 31.12.2004	**17,918**
Accrual for the year	3,036
Utilisations for the year	(1,149)
Balance at 31.12.2005	**19,805**
Accrual for the year	526
Utilisations for the year	(1,682)
Balance at 31.12.2006	**18,649**

The discount rate used refers to the value of the IBOXX Eurozone AA with a maturity correlated to the average residual length of employment of the staff. As at 31st December 2005, IBOXX Eurozone AA 10 years or more was 4% annually, while as at 31st December 2006 this rate was 4.60%; the change in discount rate caused a significant reduction in the allocation carried for the financial year.
In accordance with IAS 19, when measuring the staff leaving indemnity and CPAS fund, the so-called "projected unit credit cost" has been adopted, making the following assumptions:

	31-12-06	31-12-05
BUSINESS ASSUMPTIONS		
Cost of living increases:	2.00%	2.00%
Discount rate:	4.60%	4.00%
Compensation increases:	3.00%	3.00%
Annual increase rate in staff leaving indemnity:	3.00%	3.00%
Annual increase rate in CPAS	11.00%	11,00%

DEMOGRAPHIC ASSUMPTIONS	
Probability:	
of death:	Percentage determined by ISTAT in 2002, for each sex separately
of disability:	Those adopted in the National Insurance model for projections to 2010
of resignations:	Annual frequency rates of 0.5% have been considered for all Group companies
of retirement:	It has been assumed that the first requirement to become eligible for retirement under Compulsory General Insurance has been met
of advance payments:	a year-on-year rate of 3.00% has been assumed for all Group companies

Considering the adopted accounting method (please see section 3.1 "Summary of accounting principles and policies applied" under point Q "Provisions for employee benefits" of these notes), as at 31st December 2006 there were no actuarial gains or losses not recognised in the financial statements.

6.4.4 Deferred tax liabilities

	31-12-06	31-12-05	changes
Defferred tax liabilities	75,584	86,667	(11,083)
	75,584	**86,667**	**(11,083)**

Deferred tax liabilities are shown net of deferred tax assets, and have the following nature:

Thousands of euros	Balance at 31-12-05	Addittions	Deductions	Other changes	Balance at 31-12-06
Deferred tax liabilities					
Excess and accelerated depreciation	(51,781)	(7,592)	1,932		(57,441)
Adjustment to value of land to reflect fair value (as deemed cost)	(10,675)				(10,675)
Measurement of inventory at end of period at FIFO cost	(51,593)		12,329		(39,264)
Adjustments for scheduled plant and equipment maintenance	(3,936)	(7,452)	3,857		(7,531)
Fair value of derivatives	(374)	(3,193)			(3,567)
Other	(390)	(261)	461		(190)
Total deferred tax liabilities	(118,749)	(18,498)	18,579	0	(118,668)
Deferred tax assets					
Excess and accelerated depreciation on grants	8,296	493			8,789
Provisions for risks and write-downs	1,773				1,773
Write-downs of equity interest prior to 2004	3,178		(2,679)		499
Derecognition of intangible assets	176	31	(96)		111
Elimination of monetary revaluation of tangible assets	3,623		(2,661)		962
Reclassification of grants previously carried as equity	2,922		(680)		2,242
Costs for the dismantling and removal costs of tangible assets	4,122	260			4,382
Employee benefits and bonuses	4,755	2,304	(2,709)		4,350
Unrealised currency losses	273	126	(222)		177
Asset maintenance costs deductible in future years		6,512			6,512
IPO costs charged directly to shareholders' equity			(2,086)	10,430	8,344
Other	2,965	2,608	(30)	(599)	4,944
Total deferred tax assets	32,083	12,334	(11,163)	9,831	43,085
Net total	(86,666)	(6,164)	7,416	9,831	(75,583)

"Other changes" of €10,430 thousand refer to deferred taxes calculated on IPO costs, directly deducted from net equity.

The following table shows a breakdown of deferred tax assets and liabilities into current and non-current portions for the financial years 2006 and 2005, respectively:

Thousands of euros	2006 Short term	2006 Medium-long term	2005 Short term	2005 Medium-long term
Deferred tax liabilities				
Excess and accelerated depreciation	(9,497)	(47,944)	(1,932)	(49,849)
Adjustment to value of land to reflect fair value (as deemed cost)		(10,675)		(10,675)
Measurement of inventory at end of period at FIFO cost	(39,264)		(51,593)	
Adjustments for scheduled plant and equipment maintenance	(2,302)	(5,229)	(2,922)	(1,014)
Fair value of derivatives	(3,567)		(374)	0
Reversal of goodwill amortisation		(190)		(390)
Total deferred tax liabilities	(54,630)	(64,038)	(56,821)	(61,928)
Deferred tax assets				
Excess and accelerated depreciation on grants	2,792	5,997		8,296
Provisions for risks and write-downs	1,773	0		1,773
Write-downs of equity interest prior to 2004	499		2,679	499
Derecognition of intangible assets		111	85	91
Elimination of monetary revaluation of tangible assets	962		2,661	962
Reclassification of grants previously carried as equity	629	1,613	680	2,242
Costs for the dismantling and removal costs of tangible assets		4,382		4,122
Employee benefits and bonuses	2,304	2,046	2,709	2,046
Unrealised currency losses	177		273	0
Asset maintenance costs deductible in future years	1,303	5,209		
IPO costs charged directly to shareholders' equity	2,086	6,258		
Other	4,944		2,965	0
Total deferred tax assets	17,469	25,616	12,052	20,031

6.4.5 Other non-current liabilities

The following table shows this item in detail:

	31-12-06	31-12-05	changes
Advances from Group companies	59,918	64,889	(4,971)
Liabilities to insurance companies and social security; portions for following financial years	213	148	65
Other	3,018	3,803	(785)
Total	**63,149**	**68,840**	**(5,691)**

Advances from Group companies refer to the long-term portion of amounts due to Sarlux S.r.l. under the Feedstock Supply Agreement and Key Facilities Agreement. The changes versus 31st December 2005 were derived from the portion due for the following period being transferred from long-term to short-term payables.

6.5 Shareholders' equity

Shareholders' equity comprises the following:

	31-12-06	31-12-05	changes
Share capital	54,630	51,183	3,447
Legal reserves	10,237	10,237	0
Other reserves	685,930	268,915	417,015
Profit (loss) from previous periods	(141,862)	(140,230)	(1,632)
Profit for the year	257,553	246,579	10,974
Total	**866,488**	**436,684**	**429,804**

Share capital
As at 31st December 2006, share capital, totalling €54,630 thousand fully paid up, comprised a total of n. 951,000,000 ordinary shares worth €0.057 each; compared with 31st December 2005, an increase of €3,447 thousand was recorded (60,000,000 newly issued ordinary shares) connected with the IPO.

Please note that on 11th January 2006, as voted in general assembly, the original 8,910,000 shares have been fractioned in the proportion of 100 new shares per each old share.

Legal reserves
Legal reserves, totalling €10,237 thousand, remained unchanged.

Other reserves and Profit (loss) from previous periods
This item totals €544,068 thousand, with a net increase of €415,383 versus the previous period. This net increase comes from:

- an increase in the Share premium reserve for €338,983 thousand, net of listing costs, following the previously mentioned share capital increase related to the subscription price of each share, fixed at €6.00;
- an increase for the allocation of profits from the previous period for €246,579 thousand;
- a decrease for the distribution of dividends to shareholders of €170,181 thousand, as ruled at the Annual General Meeting held on 28th February 2006.

Profit for the year
The net profit totalled €257,553 thousand..

Restrictions on the distribution of equity reserves
The following table shows a summary of the available and non-available portion for distribution, and the portion of shareholders' equity available for distribution as at 31st December 2006:

Items in shareholders' equity	Amount	Utilisation potential	Portion available	Summary of utilizations made in the past three financial years: for loss coverage	Summary of utilizations made in the past three financial years: for other reasons
Share capital	**54,629,667**				
Reserves of capital:					
Share premium reserve	338,983,572	A - B - C	338,294,239		
Reserves of profits:					
Revaluation reserve	64,037,748	A - B - C	64,037,748		(2,668,240)
Legal reserves	10,236,600	B			
Reserves of own shares in portfolio	0				(41,683,576)
Other reserves					
Extraordinary reserves	91,373,213	A - B - C	91,373,213 (*)		(32,984,476)
Government grants to equity	17,871,278	A - B - C	17,871,278		(1,985,697)
Government grants reserves	0	A - B - C	0		(940,517)
DPR n. 597 reserves	5,305,050	A - B - C	5,305,050		(589,450)
Locked-in reserves as per art. 7 c. 6 of Leg. Dec. 38/05	17,982,146	A - B	17,982,146		
Other reserves	81,169,112	A - B - C	81,169,112 (**)		(469,513)
IFRS transition effects on combined profits	(72,653,587)		(72,653,587)		
TOTALE	608,934,799		543,379,199		
Non-distributable portion			17,982,146		
Residual distribution portion			525,397,053		

Legend: **A** - for capital increase **B** - for loss coverage **C** - for distribution to shareholders **(*)**: of which under tax suspension 5,961,936 **(**)**: of which under tax suspension 81,169,112

The main restrictions on the distribution of equity reserves therefore can be summarised as follows:

- The legal reserve, totalling €10.2 million, may only be used to cover losses;
- The item "Other reserves" includes about €18 million that may only be used to cover losses or increase share capital.

Furthermore, please note that these equity reserves include about €87.1 million that, in the event of distribution, would be taxed by 37.25% which would be charged to Saras.

Dividends

On 28th February 2006 the Annual General Meeting resolved a distribution of 0.191 euro per share; the dividend (€170,181 thousand) sourced from the extraordinary reserve for € 30,485 thousand and for € 139,696 thousand from the net profit of 2005.

As for 2006 the Board of Directors has proposed to the AGM to be held on 27th April 2007, the distribution of an ordinary dividend of 0.15 euro per share; such dividend is subject to the approval of the AGM and consequently has not been included in the liabilities.

2006 dividend will be payable to all the registered shareholders as of 7th May 2007.

7. Notes to the income statement

7.1 Revenues

7.1.1 Revenues from ordinary operations

"Revenues from ordinary operations" came to €5,597,958 thousand (€4,925,647 thousand in the previous financial year), an increase of € 672,311 thousand.

This change is largely due to a general rise in prices at almost constant quantities sold and processed for third parties versus the previous financial year.

Revenues from ordinary operations are broken down per geographic area in the note 5.2, Breakdown by geographic area.

7.1.2 Other income

The following table shows "Other income" in detail:

	31-12-06	31-12-05	changes
Revenues for stocking of mandatory supplies	10,801	11,040	(239)
Tanker ship rentals	677	1,546	(869)
Sale of sundry materials	2,452	2,438	14
Other revenues	31,685	29,657	2,028
Total	**45,615**	**44,681**	**934**

The balance for other revenues basically comprises a charge to Sarlux S.r.l. for services under ongoing twenty-year contracts (services rendered by Saras staff for €8,213 thousand and services rendered for €10,639 thousand) both for product shipping costs to Arcola Petrolifera S.p.A. (€3,872 thousand) as well as for Saras personnel on secondment to Group companies (€1,908 thousand).

7.2 Costs

The following table shows a breakdown of the main costs.

7.2.1 Purchases of raw materials, replacement parts and consumables

	31-12-06	31-12-05	changes
Purchases of raw materials, replacement parts and consumables	4,978,474	4,073,529	904,945
Total	**4,978,474**	**4,073,529**	**904,945**

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

7.2.2 Cost of services and other costs

	31-12-06	31-12-05	changes
Service costs	284,892	261,891	23,001
Rent, leasing, and similar costs	6,378	6,116	262
Various management costs	7,254	5,923	1,331
Total	**298,524**	**273,930**	**24,594**

Cost of services is largely composed of maintenance, rentals, freight, electricity, steam, hydrogen and other utilities.

Other operating charges are mainly composed of non-income taxes (property tax, greenhouse gas emissions tax) and membership fees.

7.2.3 Personnel costs

"Personnel costs" can be broken down as follows:

	31-12-06	31-12-05	changes
Wages and salaries	62,120	65,904	(3,784)
Social security	17,605	18,790	(1,185)
Employee severance indemnity	3,986	5,672	(1,686)
Pensions and similar obbligations	526	3,036	(2,510)
Other costs	1,932	2,522	(590)
Total	**86,169**	**95,924**	**(9,755)**

Changes in the items "Employee severance indemnity" and "Pensions and similar obligations" are due to the change in the discount rate that took place between 31st December 2005 and 31st December 2006 (4.00% and 4.60% respectively), in keeping with provisions in IAS 19 points 78 and 79.

7.2.4 Depreciation, amortisation and write-downs

"Depreciation, amortisation and write-downs" can be broken down as follows:

	31-12-06	31-12-05	changes
Intangible assets amortisation	662	3,440	(2,778)
Tangible assets depreciation	67,743	69,335	(1,592)
Total	**68,405**	**72,775**	**(4,370)**

7.3 Net income (charges) from equity interest

This item is shown in detail in the following table:

Net income (charges) from equity interest	31-12-06	31-12-05	Change
Dividends:			
Sarlux S.r.l.	74,552	30,718	43,834
	74,552	30,718	43,834
Permanent write-downs:			
Akhela S.r.l.	(2,579)	(3,808)	1,229
Consorzio Ricerche Associate A.r.l.		(4)	4
Ensar S.r.l.	(100)		(100)
Hydrocontrol S.r.l.	(232)		(232)
Parchi Eolici Ulassai S.r.l.		(797)	797
Sartec S.p.A.	(2,178)	(2,012)	(166)
	(5,089)	(6,621)	1,532
Total	69,463	24,097	45,366

7.4 Net financial income (charges)

The financial result can be broken down as follows:

	31-12-06	31-12-05	Change
Other financial income:			
From non -current financial assets	1	24	(23)
From current financial assets	790	552	238
Other financial income:			
from subsidiaries	1,581	3,296	(1,715)
interest on current accounts held with banks and post offices	1,015	658	357
fair value of derivatives recorded at period-end	14,124	4,809	9,315
positive difference on derivatives	27,731	12,551	15,180
other income	823	64	759
Interest and other financial charges			
to subsidiaries	(935)	(734)	(201)
to associated companies	(33)		(33)
fair value of derivatives recorded at period-end	(3,985)	(12,715)	8,730
positive difference on derivatives	(26,233)	(61,328)	35,095
other (interest on loans, interest on arrears, etc.)	(7,445)	(9,456)	2,011
Profits and losses on exchange gains on non-commercial transactions	1,390	(10,860)	12,250
Total	8,824	(73,139)	81,963

The main changes are attributable to the differentials made during the year on derivatives which translate into hedging transactions to which the *hedge accounting* has not been adopted, as well as to the contracts in place as at 31st December 2006 being measured at fair value.

7.5 Sarlux acquisition

	31-12-06	31-12-05	changes
Sarlux S.r.l. dividends from previous financial years	66,304	0	66,304
Sarlux S.r.l. fair value option	4,153	0	4,153
Total	**70,457**	**0**	**70,457**

The Sarlux S.r.l. dividends from previous financial years refer to the 45% dividend stake for the period 2002-2005, which are not distributable due to the arbitral decision reached in the financial year underway.

7.6 IPO and company's restructuring charges

The item (€22,093 thousand) includes remuneration for managers and consultants related to the company listing and charges for the restructuring of company's organization.

7.7 Income tax

Income taxes are reported as follows:

	31-12-06	31-12-05	changes
Current taxes	84,675	113,174	(28,499)
Effect of Group tax consolidation	(2,324)	(3,967)	1,643
Substitute tax to make reserves tax-deductible	0	5,243	(5,243)
Net deferred taxes	(1,252)	44,100	(45,352)
Total	**81,099**	**158,550**	**(77,451)**

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 book values, and are shown in the table below:

TEMPORARY DIFFERENCES IN THE INCOME STATEMENT:

Thousands of euros	2006 Temporary differences	2006 Deferred tax assets tax assets (liabilities)	2005 Temporary differences	2005 Deferred tax assets tax assets (liabilities)
Excess and accelerated depreciation	(15,195)	5,660	(45,525)	16,958
Excess and accelerated depreciation on grants	1,323	(493)	4,985	(1,857)
Write-downs of equity interest prior to 2004	(8,118)	2,679	(2,745)	906
Measurement of inventory at end of period at FIFO cost	33,098	(12,329)	(97,088)	36,163
Adjustments for scheduled plant and equipment maintenance	(9,651)	3,595	6,266	(2,334)
Fair value of derivatives	(9,676)	3,193	7,906	(2,609)
Derecognition of intangible assets	(174)	65	271	(101)
Elimination of monetary revaluation of tangible assets	(7,144)	2,661	(1,584)	590
Reclassification of grants previously carried as equity	(1,826)	680	(1,691)	630
Costs for the dismantling and removal costs of tangible assets	698	(260)	698	(260)
Asset maintenance costs deductible in future years	17,482	(6,512)	0	0
IPO costs charged directly to shareholders' equity	(5,600)	2,086	0	0
Employee benefits and bonuses	(1,227)	405	3,382	(1,116)
Unrealised currency losses	(291)	96	827	(273)
Other temporary differences	7,458	(2,778)	6,421	(2,595)
Totals	1,158	(1,252)	(117,878)	44,102

The effective tax rate was 23.9% of the period's pre-tax profit, while the theoretical tax rate was 36.7%, obtained by applying a tax rate of 33% (Ires) to pre-tax profit and 4.25% (Irap) to net value of production, as per Italian legislation.
The table below shows a breakdown of the difference between the theoretical tax rate and the effective tax rate for the two periods:

CALCULATIONOF THEORETICAL AND EFFECTIVE TAXES AND TAX RATE

Milions of euros	31-12-06	31-12-05
PRE-TAX PROFIT [A]	**338.7**	**405.1**
DIFFERENCE BETWEEN VALUE AND COST OF PRODUCTION	**212.0**	**454.2**
TOTAL PERSONNEL COSTS	**86.2**	**95.9**
ADJUSTED DIFFERENCE BETWEEN VALUE AND COST OF PRODUCTION (B)	**298.2**	**550.1**
THEORETICAL CORPORATION TAX IRES [A*33%]	111.8	133.7
THEORETICAL REGIONAL INCOME TAX IRAP [B*4,25%]	12.7	23.4
TOTAL THEORETICAL TAXES [C]	**124.4**	**157.1**
THEORETICAL TAX RATE [C/A*100] %	**36.7**	**38.8**
EFFECTIVE INCOME TAXES [D]	**81.1**	**158.6**
EFFECTIVE TAX RATE [D/A*100] %	**23.9**	**39.1**

Differences between theoretical and effective tax rate for the two periods are reported below:

RECONCILIATION BETWEEN THEORETICAL AND EFFECTIVE TAX RATES

Milions of euros	31-12-06 TAX	31-12-06 TAX RATE	31-12-05 TAX	31-12-05 TAX RATE
Theoretical taxes	**124.4**	**36.7%**	**157.1**	**38.0%**
Dividends	(44.2)	(13.04%)	0.5	0.13%
Substitute tax to make reserves tax-deductible (L. 311/2004)	0.0		5.2	1.29%
IRES effect on intra-group dividends due to tax consolidation	(2.3)	(0.69%)	0.0	0.00%
Equity interest valuations	1.7	0.50%	(8.1)	-2.00%
Other permanent corporation tax differences	2.3	0.67%	2.5	0.62%
Other permanent regional tax differences	(0.8)	(0.24%)	1.3	0.33%
Effective taxes	**81.1**	**23.9%**	**158.6**	**39.1%**

8. Other information

8.1 Analysis of the main litigations pending

Saras S.p.A. was subject to tax audits and assessments by the tax authorities that led, in some cases, to disputes pending before tax courts.

Although the decisions made by the tax courts in relation to the alleged violations are not consistent, Saras assumes that liabilities, although possible, are not probable. Such liabilities, in any case, as of the approvals of the annual financial statements, are not reliably quantifiable

8.2 Earnings per share

Earnings per share are determined by dividing net profit by the weighted average number of Saras S.p.A. shares outstanding during the year, excluding own shares.
Earnings per share totalled 28.48 eurocents per share for the 2006 financial year, and €27.67 per share for the 2005 financial year.

The number of shares outstanding averaged 904,312,603 in 2006 and 8,910,000 in 2005.
As at 31st December 2006, Saras S.p.A. held no own shares in portfolio.

Calculation of diluted earnings per share is not applicable in this case since no dilution happened during the year.

8.3 Transactions with related parties

Transactions carried out by Saras with related parties basically concern the exchange of goods, the provision of services and arrangements of a financial nature.

The following table shows the amounts involved in commercial and sundry relations and financial relations created between associates, as well as the nature of the most significant transactions.

Description	Absolut Value (€/000) 31-12-06	% on items 31-12-06	Absolut Value (€/000) 31-12-05	% on items 31-12-05	Items	business reasons
SARLUX S.R.L.						
Supply of goods	164,172	2.93%	138,996	2.82%	Revenues from ordinary operations	Supply of raw materials as per project financing agreement
Services rendered by staff	8,213	18.01%	8,169	18.28%	Other income project financing agreement	Outsourcing of services as per
Services received	10,639	23.32%	10,099	22.60%	Other income	Outsourcing of services as per project financing agreement
Rent received	51	0.11%	137	0.31%	Other income	Outsourcing of services as per project financing agreement
Measurement of 45% purchase option	4,153	8.59%			Sarlux acquisition	Fair value measurement
Measurement of investment at equity 45% of dividends on pre-2005 profits	66,304	137.09%			Sarlux acquisition	Distribution of dividends due
2004 Dividend			30,718	127.47%	Non-recurring income (charges)	Excess fair value vs. cost of 45% of the JV
2005 Dividend	74,553	107.33%				
Purchases of goods	(1,956)	0.04%	(2,608)	0.06%	Purchases of raw materials, replacement parts and consumables	Supply of raw materials as per project financing agreement
Utilities	(47,928)	16.05%	(35,446)	12.94%	Cost of services and various costs	Supply of steam and hydrogen as per project financing agreement
Services received	(991)	0.33%	(693)	0.25%	Cost of services and various costs	Supply of various services
Receivables for goods & services supply	43,861	11.89%	43,126	12.27%	Current trade receivables	Goods supply
Ires/VAT receivables from tax consolidation	19,364	19.19%			Other current assets	Ires/VAT receivables from tax consolidation
Payables for goods & services supply	(12,896)	2.62%	(14,976)	3.21%	Trade payables and other current payables	Trade payables
Payables for goods & services supply	(59,918)	94.88%	(64,889)	94.26%	Other non current liabilities	Trade payables
Financial liabilities	(56)	0.06%	(39)	0.03%	Short term financial liabilities	Financial liabilities
Ires/VAT payables from tax consolidation	0	0.00%	(968)	0.81%	Short term financial liabilities	Ires/VAT payables from tax consolidation
ARCOLA PETROLIFERA S.p.A.						
Supply of goods	453,860	8.11%	415,243	8.43%	Revenues from ordinary operations	Supply of raw materials
Services rendered by staff	141	0.31%	284	0.64%	Other income	Staff on secondment
Services received	3,872	8.49%	4,431	9.92%	Other income and service outsuorcing	Charges on oil goods movements
Fiancial Income	220	0.51%	113	0.03%	Other net financial income (charges)	Interest on intercompany line credit
Purchases of goods	0	0.00%	(55)	0.00%	Purchases of raw materials, replacement parts and consumables	Goods consumables supply
Services received	(953)	0.32%	(553)	0.20%	Cost of services and various costs	Charges on sales
Financial Charge	(175)	0,51%	(138)	0.03%	Other net financial income (charges)	Interest on intercompany line credit
Receivables for goods & services supply	55,659	15.09%	64,489	18.35%	Current trade receivables	Trade receivables
Ires/VAT receivables from tax consolidation	4,163	4.13%	6,282	9.94%	Other current assets	Ires/VAT receivables from tax consolidation
Financing	1,093	1.08%			Other current assets	Intercompany financing
Payables for goods & services supply	(115)	0.02%	(109)	0.02%	Trade payables and other current payables	Trade payables
Financial liabilities	0	0.00%	(8,497)	7.12%	Short term financial liabilities	Intercompany financing

Description	Absolut Value (€/000) 31-12-06	% on items 31-12-06	Absolut Value (€/000) 31-12-05	% on items 31-12-05	Items	business reasons
SARAS RICERCHE E TECNOLOGIE S.p.A.						
Goods supply	34	0.07%	60	0.13%	Other income	Supply of goods
Services rendered by staff	468	1.03%	765	1.71%	Other income	Staff on secondment
Services received	76	0.17%	27	0.06%	Other income	Outsourcing of services
Measurement of investment	(2,178)	3.14%	(2,012)	8.35%	Income (charges) on equity investments	Write-downs on Equity investments
Financial income	420	4.76%	257	0.35%	Other net financial income (charges)	Interest on intercompany financing
Purchases of goods	(42)	0.00%	(65)	0.00%	Purchases of raw materials, replacement parts and consumables	Goods consumables supply
Services received	(7,953)	2.66%	(4,254)	1.55%	Cost of services and various costs	Outsourcing of engineering services
Receivables for goods and services supply	722	0.21%	706	0.19%	Current Trade Receivables	Trade Receivables
Ires/IVA receivables from tax consolidations			305	0.30%	Other Current Assets	Ires/IVA receivables from tax consolidations
Financing	11,700	18.51%	14,544	14.41%	Other Current Assets	Intercompany Financing
Payables for goods and services supply	(4,149)	0.89%	(4,556)	0.92%	Trade Payables and other current liabilities	Trade Payables
Ires/IVA payables from tax consolidations	(342)	0.29%	0	0.00%	Finacial short-tem liabilities	Ires/IVA payables from tax consolidations
AKHELA S.r.l.						
Goods Supply	6	0.01%	6	0.01%	Other Income (charges)	Supply of other goods
Services rendered by Staff	428	0.96%	277	0.61%	Other Income (charges)	Staff on secondment
Services Supply	358	0.80%	500	1.10%	Other Income (charges)	Sevices Outsourcing
Purchase of goods	0	0.00%	(2)	0.00%	Purchase of Raw Materials replacement parts and consumables	Supply of Consumables
Services supply	(2,953)	1.08%	(4,394)	1.47%	Services supply and other Costs	IT Support Outsourcing
Mesureament of equity Investments	(3,807)	15.80%	(2,581)	3.72%	Net Income (charges) on equity investments	Wright-down of equity Investments
Financial Charges	(227)	0.31%	(147)	1.67%	Other Net Financial Income (charges)	Interest on Intercompany credit lines
Receivables for goods and services supply	781	0.22%	737	0.20%	Current Trade Receivables	Trade Receivables
Payables for goods and services supply	(556)	0.12%	(1,743)	0.35%	Trade Payables and other current liabilities	Trade Payables
Financing	(7,011)	5.87%	(2,319)	2.52%	Finacial short-tem liabilities	Intercompany Financing
Ires/IVA payables from tax consolidation	(2,903)	2.43%	(1,790)	1.94%	Finacial short-tem liabilities from tax consolidations	Ires/IVA payables
XANTO S.r.l. (in liquidation)						
Financial Income	18	0.02%	0	0.00%	Other Net Financial Income (charges)	Intercompany Financing
Financial Charges	0	0.00%	(9)	0.10%	Other Net Financial Income (charges)	Interest on intercompany financing
Receivables for goods and services supply	5	0.00%	0	0.00%	Current Trade Receivables	Trade Receivables
Payables for goods and services supply	0	0.00%	(9)	0.00%	Trade Payables and other current liabilities	Trade Payables
Financing	0	0.00%	(800)	0.87%	Finacial short-tem liabilities	Intercompany Financing
Ires/IVA payables from tax consolidation	(429)	0.36%	(1)	0.00%	Finacial short-tem liabilities from tax consolidations	Ires/IVA payables

Description	Absolut Value (€/000) 31-12-06	% on items 31-12-06	Absolut Value (€/000) 31-12-05	% on items 31-12-05	Items	business reasons
XANTO BASILICATA S.r.l. (in liquidation)						
Ires/IVA payables from tax consolidation	(3)	0.00%	0	0.00%	Finacial short-tem liabilities	Ires/IVA payables from tax consolidation
ISOA SUD S.r.l. (in liquidation)						
Ires/IVA payables from tax consolidation	(13)	0.01%	(11)	0.01%	Finacial short-tem liabilities	Ires/IVA payables from tax consolidation
EOLICA ITALIANA S.r.l.						
Services rendered by staff	50	0.11%	62	0.14%	Other income	Staff detachment
Services given	27	0.06%	32	0.07%	Other income	Outsourcing of services
Financial income	6	0.02%	0	0.26%	Other net financial income (charges)	Interest on Intercompany financing
Financial charges	(19)	0.02%	(23)	0.26%	Other net financial income (charges)	Interest on Intercompany financing
Receivables for goods &service supply	1	0.00%	67	0.02%	Current trade receivables	Trade receivable
Ires/VAT receivables from tax consolidation	87	0.14%	0	0.00%	Other current assets	Ires/VAT receivables from tax consolidation
Payables for goods & services supply	(108)	0.02%	(9)	0.00%	Trade payables and other current payables	Trade payables
Financing	(1,220)	1.02%	(899)	0.98%	Short term financial liabilities	Intercompany financing
Ires/VAT payables from tax consolidation	0	0.00%	(132)	0.14%	Short term financial liabilities	Ires/VAT payables from tax consolidation
ENSAR S.r.l.						
Services given	13	0.03%	13	0.03%	Other income	Outsourcing of services
Measurement of equity investment	0	0.00%	(100)	0.14%	Net Income (charges) on equity investments	write-downs on equity investments
Fiancial income	15	0.02%	26	0.29%	Other net financial income (charges)	Interest on intercompany financing
Receivables for goods &service supply	36	0.01%	8	0.00%	Current trade receivables	Trade receivable
Financing	778	1.23%	859	0.85%	Other current assets	Intercompany financing
Ires/VAT payables from tax consolidation	(8)	0.01%	(21)	0.02%	Short term financial liabilities	Ires/VAT payables from tax consolidation
NOVA EOLICA S.r.l.						
Fiancial charges	(9)	0.01%	(32)	0.36%	Other net financial income (charges)	Interest on intercompany financing
Payables for goods &service supply		0.00%	(9)	0.00%	Trade payables and other current payables	Trade payables
Financing	(1,000)	0.84%	(1,000)	1.09%	Short term financial liabilities	Intercompany financing
SARDEOLICA S.R.L.						
Services given	35	0.08%	66	0.14%	Other income	Outsourcing of services
Services rendered by staff			428	0.94%	Other income	Staff detachment
Financial income	1,142	-1.56%	242	2.74%	Other net financial income (charges)	Interest on intercompany financing
Receivables for goods &service supply	707	0.20%	511	0.14%	Current trade receivables	Trade payables
Ires/VAT receivables from tax consolidation			5,183	5.14%	Other current assets	Ires/VAT receivables from tax consolidation
Financing	17,717	28.03%	0	0.00%	Other current assets	Intercompany financing

Description	Absolut Value (€/000) 31-12-06	% on items 31-12-06	Absolut Value (€/000) 31-12-05	% on items 31-12-05	Items	business reasons
PARCHI EOLICI ULASSAI S.r.L.						
Services given	6	0.01%	6	0.01%	Other income	Outsourcing of services
Measurement of equity investment	(797)	3.31%	0	0.00%	Net Income (charges) on equity investments	write-downs on equity investments
Financial income	329	0.43%	148	1.43%	Other net financial income (charges)	Interest on intercompany financing
Financial charges	(11)	0.43%	(22)	1.43%	Other net financial income (charges)	Interest on intercompany financing
Receivables for supply of goods and services	186	0.05%	49	0.01%	Current trade receivables	Trade receivables
Loan	1,720	2.72%	3,328	3.30%	Other current assets	Inter-company lines of credit
Payables for supply of goods and services	(11)	0.00%	(22)	0.00%	Current trade payables and other payables	Trade payables
Loan	0	0.00%	0	0.00%	Short-term liabilities	Inter-company loans
Corporation tax liabilities due to group tax consolidation	(133)	0.11%	(583)	0.63%	Short-term liabilities	Corporation tax liabilities due to group tax consolidation
"CONSORZIO RICERCHE ASSOCIATE (in liquidation)"						
Services received	(78)	0.00%	(17)	0.01%	Cost of services and various costs	Consortium costs coverage
Payables for supply of goods and services	(78)	0.11%	(17)	0.00%	Current trade payables and other payables	Trade payables
Loan	(1,858)	1.56%	(1,858)	2.02%	Short-term liabilities	Inter-company loans
IMMOBILIARE ELLECI S.p.A.						
Rent	(426)	0.16%	(442)	0.15%	Cost of services and various costs	Rent of buildings
SECURFIN HOLDINGS S.p.A.						
Services rendered by our staff	0	0.00%	15	0.03%	Other income	Personnel on secondment
Rent	(583)	0.21%	(489)	0.16%	Cost of services and various costs	Rental of building and parking spaces in Milan
Receivables for supply of goods and services			15	0.00%	Current trade receivables	Trade receivables
F.C. INTERNAZIONALE S.p.A.						
Services received	0	0.00%	(35)	0.01%	Cost of services and various costs	Purchase of entrance tickets for sports matches
ANGELO MORATTI S.A.p.A.						
Services rendered by our staff	0	0.00%	24	0.05%	Other income	Personnel on secondment
Receivables for supply of goods and services			24	0.01%	Current trade receivables	Trade receivables
DYNERGY S.R.L.						
Services rendered by our staff	0	0.00%	1	0.00%	Other income	Management fees
Services received	(1,235)	0.45%	(1,209)	0.40%	Cost of services and various costs	Support for refining process activities
Receivables for supply of goods and services			1	0.00%	Current trade receivables	Trade receivables
Payables for supply of goods and services	(180)	0.04%	(320)	0.06%	Current trade payables and other payables	Trade payables

Description	Absolut Value (€/000) 31-12-06	% on items 31-12-06	Absolut Value (€/000) 31-12-05	% on items 31-12-05	Items	business reasons
SARAS ENERGIA S.A. (Spain)						
Supply of goods	651,543	13.23%	953,841	17.04%	Revenues from ordinary operations	Supply of oil products
Services rendered by our staff	404	0.90%	493	1.08%	Other income	Personnel detachments
Services received	554	1.24%	611	1.34%	Other income	Payment for stocking of mandatory supplies and demurrage
Financial income	0	0.00%	526	5.96%	Other net financial income (charges)	Interest on inter-company loans
Purchases of goods	0	0.00%	(94,665)	1.90%	Purchases of raw materials, replacement parts and consumables	Repayment of operational loans on Sarroch
Services received	(312)	0.11%	(294)	0.10%	Cost of services and various costs	Charges on sales
Receivables for supply of goods and services	46,216	13.15%	60,829	16.49%	Current trade receivables	Supply of oil products
Loan	0	0.00%	30,000	29.73%	Other current assets	Inter-company loans
Payables for supply of goods and services	(108)	0.02%	(129)	0.03%	Current trade payables and other payables	Trade payables
SARINT S.A. (Luxembourg)						
Financial charges	(263)	0.36%	(464)	5.26%	Other net financial income (charges)	Interest on inter-company loans
Payables for supply of goods and services	(93)	0.02%	(134)	0.03%	Current trade payables and other payables	Trade payables
Loan	(14,250)	11.94%	(14,700)	15.95%	Short-term liabilities	Inter-company loans
REASAR S.A. (Luxembourg)						
Financial charges	(67)	0.09%	(94)	1.07%	Other net financial income (charges)	Interest on inter-company loans
Payables for supply of goods and services	(16)	0.00%	(28)	0.01%	Current trade payables and other payables	Trade payables
Loan	(2,450)	2.05%	(3,500)	3.80%	Short-term liabilities	Inter-company loans

The transactions with the related parties mentioned above have been made at market conditions.

No provisions for doubtful loans were made regarding the existing balances in that there are no reasons for such provisions; no losses were made relative to doubtful or bad loans from associates.

The effects of operations and transactions with related parties on balance sheet items are indicated in the following table:

	31-12-06			31-12-05		
	Total	related parties	%	Total	related parties	%
Current trade receivables	368,969	162,467	44.0%	351,490	156,269	44.5%
Other current assets	100,912	78,839	78.1%	63,202	38,284	60.6%
Short term financial liabilities	92,143	27,670	30.0%	119,394	41,124	34.4%
Trade payables and other current liabilities	492,568	19,987	4.1%	467,123	20,384	4.4%
Other non current liabilities	63.149	59.918	94.9%	68,840	64,889	94.3%

The effects of operations and transactions with related parties on income statement items are indicated in the following table:

	31-12-06			31-12-05		
	Total	related parties	%	Total	related parties	%
Revenues	5,597,958	1,571,873	28.1%	4,925,647	1,205,782	24.5%
Other income	45,615	26,028	57.1%	44,681	25,853	57.9%
Purchases of raw materials replacement parts and consumables	4,978,474	96,665	1.9%	4.073.529	2.728	0.1%
Services supply and other costs	298,524	64,705	21.7%	273,930	46,533	17.0%
Net income (charges) on equity investments	69,463	69,694	100.3%	24,098	24,098	100.0%
Other net financial income (charges)	8,824	616	7.0%	(73,139)	1,146	n.a.
Sarlux S.r.l. acquisition	48,364	70,457	145.7%	0	0	0.0%

The main financial flows with related parties are reported in the table below:

Flows with related parties	2006	2005
Net (income) charges on equity investments	74,553	30,718
(increase) decrease of trade receivables	(6,198)	(17,819)
Increase (decrease) of trade payables and other payables	(397)	5,151
Change in other current assets	(40,555)	(6,133)
Change in other non current liabilities	(4,971)	(4,971)
Cash flow from (to) operating activities	**22,432**	**6,946**
Interest received (paid)	616	1,146
Cash flow from (to) investment activities	**616**	**1,146**
Increase / (decrease) of short term financial liabilities	(13,454)	(3,129)
Cash flow from (to) financing	**(13,454)**	**(3,129)**
Total cash flow to related parties	**9,594**	**4,963**

The effects of financial flows with related parties are indicated in the following table:

	31-12-06			31-12-05		
	Total	related parties	%	Total	related parties	%
Cash flow from (to) operating activities	257,767	22,432	8.7%	250,420	6,946	2.8%
Cash flow from (to) investment activities	(310,914)	616	n.a.	(88,850)	1,146	n.a.
Cash flow from (to) financing	77,407	(13,454)	n.a.	(148.437)	(3.129)	2.1%

8.4 Information regarding the fair value of financial assets and liabilities

The fair value of trade receivables and other financial assets, and 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 agreements that are due to be settled in the short-term, do not differ from the book values reported in the financial statements as at 31st December 2006.

Long-term financial liabilities bearing interest at fixed rates that are not in line with current market rates, as mentioned in note 6.4.1 above, are not significant, and the differences between their respective fair values and their book values as at 31st December 2006 are not considered to be substantial.

8.5 Average number of employees

The average number of employees by category is the following:

	31-12-06	31-12-05
Managers	51	51
Clerical employees	697	690
Intermediates	19	21
Workers	394	393
	1,161	**1,155**

Saras' headcount went from 1,157 at the end of 2005 to 1,172 as at 31st December 2006.

8.6 Information on remuneration and shareholdings of the controlling bodies members, of key executives and of managers with strategic responsibilities

The following tables shows the payments and shareholdings of the members of the BoD and of the other controlling bodies, of the General Manager and of the managers with strategic responsibilities, the latter being identified in the CFO and the functional directors.

8.6.1 Compensations paid to the controlling bodies member, to key executives and to managers with strategic responsibilities

(A) Name and surname	(B) Role	(C) Period in this role		(D) End of term	(1) Emoluments for role in the group	(2) Non-monetary benefits	(3) Bonuses and other incentives (*)	(4) Other remuneration (*)
Board of directors								
GIAN MARCO MORATTI	Chairman	11-01-06	31-12-06	approv. statement FY 2008	2,536,000			
MASSIMO MORATTI	Managing Director	11-01-06	31-12-06	approv. statement FY 2008	2,536,000			
ANGELO MORATTI	Vice-Chairman	11-01-06	31-12-06	approv. statement FY 2008	336,000		300,000	468,292
PAOLO ALFANI	Director-General Manager	11-01-06	2-10-06	2-10-06	127,123		11,859,554	354,311
DARIO SCAFFARDI	Director-General Manager	9-10-06	31-12-06	approv. statement FY 2008	7,299		1,080,000	211,870
GABRIELE PREVIATI	Non-Executive Director	11-01-06	31-12-06	approv. statement FY 2008	36,000		300,000	106,833
ANGELO MARIA MORATTI	Non-Executive Director	11-01-06	31-12-06	approv. statement FY 2008	36,000		120,000	200,833
CALLERA GILBERTO	Independent Director	28-02-06	31-12-06	approv. statement FY 2008	31,167			
GRECO MARIO ***	Independent Director	28-02-06	31-12-06	approv. statement FY 2008	31,167			

(*) remuneration for subordinate work

Board of auditors								(**)
CLAUDIO MASSIMO FINDANZA	Chairman	11-01-06	31-12-06	approv. statement FY 2008	61,707			104,642
MICHELE DI MARTINO	Standing Auditor	11-01-06	31-12-06	approv. statement FY 2008	43,640			10,482
GIOVANNI LUIGI CAMERA	Standing Auditor	11-01-06	31-12-06	approv. statement FY 2008	41,312			65,482
LUIGI BORRE'	Substitute Auditor	11-01-06	31-12-06	approv. statement FY 2008				
MASSIMILANO NOVA	Substitute Auditor	11-01-06	31-12-06	approv. statement FY 2008				

(**) for auditing services for other group companies

Watch committee								
GABRIELE PREVIATI	Chairman	11-01-06	31-12-06	approv. statement FY 2008	30,000			
CLAUDIO MASSIMO FIDANZA	Member	11-01-06	31-12-06	approv. statement FY 2008	20,800			30,160
CONCETTO SIRACUSA	Member	11-01-06	31-12-06	approv. statement FY 2008	20,800			163,248
Internal control committee								
CALLERA GILBERTO	Chairman	28-02-06	31-12-06	approv. statement FY 2008	21,000			
GRECO MARIO ***	Member	28-02-06	31-12-06	approv. statement FY 2008	14,000			
GABRIELE PREVIATI	Member	28-02-06	31-12-06	approv. statement FY 2008	14,000			
Remuneration committee								
CALLERA GILBERTO	Chairman	28-02-06	31-12-06	approv. statement FY 2008	21,000			
GRECO MARIO ***	Member	28-02-06	31-12-06	approv. statement FY 2008	14,000			
ANGELO MORATTI	Member	28-02-06	3-05-06	3-05-06	2,800			
GABRIELE PREVIATI	Member	3-05-06	31-12-06	approv. statement FY 2008	11,200			
Managers with strategic responsibilities							3,851,000	1,996,989

(***) Compensations paid to Eurizon Finance S.p.A.

As at the reporting date, €1,005 thousand (relating to the staff leavening indemnity not included in the above table) earned during the year had not yet been paid.

8.6.2 Shareholding held by the members of controlling bodies, key executives and managers with strategic responsibilities

Surname and name	Participated company	Number of shares held at end of 2005	Number of shares purchased	Number of shares sold	Number of shares held at end of 2006
Moratti Gian Marco	SARAS S.p.A.	148,500,000 (*)	-	142,500,000	6,000,000
Moratti Massimo	SARAS S.p.A.	148,500,000 (*)	-	142,500,000	6,000,000
Moratti Angelo	SARAS S.p.A.	-	-	-	-
Moratti Angelomario	SARAS S.p.A.	-	-	-	-
Callera Gilberto	SARAS S.p.A.	-	-	-	-
Greco Mario	SARAS S.p.A.	-	-	-	-
Previati Gabriele	SARAS S.p.A.	-	7,800	-	7,800
Scaffardi Dario	SARAS S.p.A.	-	1,200	-	1,200
Fidanza Claudio	SARAS S.p.A.	-	2,200	-	2,200
Camera Giovanni	SARAS S.p.A.	-	-	-	-
Di Martino Michele	SARAS S.p.A.	-	-	-	-
Nova Massimiliano	SARAS S.p.A.	-	-	-	-
Luigi Borrè	SARAS S.p.A.	-	-	-	-
Alfani Paolo	SARAS S.p.A.	-	6,200	-	6,200
Managers with strategic responsibilities	SARAS S.p.A.	-	41,960	-	41,960

(*) The number of shares held as of 31/12/2005 is disclosed taking into account the share split resolved by the extraordinary shareholders meeting of 11th January 2006, effective from 17 January 2006, Prior to the split the number of held shares was 1,485,000,

8.7 Commitments

In order to minimise the effects of fluctuations in the euro/US dollar exchange rate and changes in the spread between raw materials and finished products prices, Saras is party to a number of derivatives contracts, in order to hedge against these risks. As at 31st December 2006 and 2005, these derivative contracts had notional values of approximately €252 million and €620 million, respectively (for further details please refer to paragraph 6,1,6)
During normal course of business, Saras granted suretyships that as at 31st December 2006 totalled €109,778 thousand, of which €55,433 thousand for the national tax agency for VAT payments regarding the liquidation procedures of Saras and €14,236 thousand to the Ministry for Productive Activities to guarantee payment of advances of taxes according to the “Contratto di Programma” signed on 10th June 2002,

As at 31st December 2006 and 2005, there were no irrevocable commitments to purchase materials or provide services of a long-term nature.

9. Miscellaneous

In accordance with the article 2428 of Italian Civil Code it’s worth noting that secondary offices of the company are:

- Head office, Milan
- Public relations and administrative affairs, Rome

10. Release of annual report

On 23rd March 2007 Saras S.p.A.’s board of directors approved the publication of 2006 draft annual report and authorized both the Chairman and the CEO to include in the notes to financial statements and in the report on operations all the necessary further details in order to improve the quality of the information provided,

For the Board of Directors
the Chairman
GIAN MARCO MORATTI

Investor Relations
ir@saras.it

Direct Line for retail investors
800 511155

Report of the Statutory Auditors to the Financial Statemets

SARAS S.P.A.

- Sardinian Refineries -

BOARD OF STATUTORY AUDITORS REPORT TO THE SHAREHOLDERS FOR PURPOSES OF ART. 153 OF LEG. DECREE 58/98 AND ART. 2429, PARAGRAPH 3, OF THE ITALIAN CIVIL CODE

* * *

To the Shareholders of SARAS S.p.A.

During the year ended 31 December 2006 we conducted the oversight activities required by law in conformity to the principles for Boards of Statutory Auditors established by the National Council of Chartered Accountants

Specifically, and in compliance with the instructions provided by the CONSOB:

- We oversaw respect of the law and of the by-laws.
- Pursuant to the methods specified in the by-laws, we obtained from the Directors information regarding the Company's operations and the significant economic, financial and asset transactions conducted by the Company (and by its subsidiaries), and can reasonably state that the actions resolved and carried out conform to the law and to the by-laws, and do not appear manifestly imprudent, audacious, in potential conflict of interest, in conflict with Shareholder resolutions, or capable of compromising the shareholders' equity.
- During the Board of Directors meetings that we attended, we received from the Directors (pursuant to Art. 2381, paragraph 5, of the Italian Civil Code) timely and appropriate information on the Company's operations, general performance trends, and forecasts of future performance, as well as on significant transactions (with regard to size

and type) conducted by the Company and by its subsidiaries, with specific reference to the following:

- acquisition of 45% of ***Sarlux S.r.l.***, as reported by the Board of Directors.

- To the extent of our responsibilities, we acquired information on and oversaw the adequacy of the Company's organisational structure, of respect of the principles of correct administration, and of the Company's instructions to its subsidiaries for purposes of Art. 114, paragraph 2 of Leg. Decree 58/98 by collecting information from organisation supervisors and by meetings with the accounting firm that checks the books of account in order to exchange significant data and information. We have no remarks with regard thereto.

The Company has set up:

- an Internal Control Committee;
- a Supervisory Body for purposes of Leg. Decree 231/01;
- a Remuneration Committee.

- We evaluated and oversaw the adequacy of the internal control system and of the administrative-accounting system, as well as the reliability of the latter for purposes of correctly representing operating events, by obtaining information from department heads, examining corporate documents, analysing reports issued by the auditing firm that checks the books of account, and by overseeing the activities of internal control officers. We have no remarks with regard thereto.

- We exchanged information with officers of the auditing firm for purposes of Art. 150 of Leg. Decree 58/98, and there emerged no significant data or information requiring inclusion in this report.

We noted no atypical transactions conducted with third parties, with related parties, or with other group companies.

The report issued by the auditing firm contains no remarks or requests for information.

- No third-party complaints pursuant to Art. 2408 of the Italian Civil Code have been received or presented;
- The Company conforms to the Corporate Governance Code proposed by the Corporate Governance Committee for listed companies.
- By express declaration of the Directors, as confirmed by the auditing firm, we note that such firm has not been conferred any additional assignments other than extension of the auditing assignment for the three-year period 2012 – 2014, as per the proposal you received from the Board of Auditors.
- By express declaration of the Directors, as confirmed by the auditing firm, we note no assignments conferred to persons connected to the latter by continuative collaboration.
- The Board of Auditors has expressed the following opinions and approvals:
    - opinion regarding remuneration to Directors assigned special tasks (Board of Directors meeting of 28 February 2006), as per Art. 2389 of the Italian Civil Code;

- approval of the co-option of Director Dario Scafardi, (Board of Directors meeting of 19 October 2006), as per Art. 2386 of the Italian Civil Code.

The above-described oversight activity was conducted at four Board meetings (including individual presentations), with participation in eight Board of Directors meetings as per Art. 149, paragraph 2, of Leg. Decree 58/98, and participation in two Shareholder meetings.

With specific reference to the Financial Statement as at 31 December 2006, we report as follows:

- we were not requested to conduct an analytic check of the contents of the financial statement; therefore, our checks were limited to the general set-up of same, to its general conformity to the law with regard to its drawing-up and structure. We have no remarks with regard thereto;
- we checked compliance to legal provisions concerning preparation of the annual report and its consistency with resolutions adopted by the Board of Directors and with the data presented in the financial statement. We have no remarks with regard thereto;
- to the extent of our knowledge, the Directors did not deviate from the law for purposes of paragraph 4 of Art. 2423 of the Italian Civil Code when preparing the financial statement;

  The distribution of dividends resolved in 2006 was conducted in conformity to law;
- we checked the correspondence of the financial statement to the data and information of which we gained knowledge during the

performance of our duties, and have no remarks with regard thereto.

Dear Shareholders,

After examination of the results of the work performed by the Auditing Firm, contained in the report accompanying the financial statement, we propose that the Meeting approve the financial statement for the year ended 31 December 2006 as prepared by the Directors, and agree with the Directors' proposal regarding allocation of the year's profit.

Milan, 11 April 2007

THE BOARD OF STATUTORY AUDITORS

Claudio Massimo Fidanza

Giovanni Luigi Camera

Michele Di Martino

Report of the Independent Auditors to the Financial Statemets

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers SpA

AUDITORS' REPORT IN ACCORDANCE WITH ARTICLE 156 OF LAW DECREE NO. 58 DATED 24 FEBRUARY 1998

To the shareholders of
Saras SpA

1 We have audited the financial statements of Saras SpA as at 31 December 2006, comprising the balance sheet, income statement, statement of changes in shareholders' equity, statement of cashflows and related notes. These financial statements are the responsibility of the directors of Saras SpA. Our responsibility is to express an opinion on these financial statements based on our audit. The aforementioned financial statements are the first to be prepared in compliance with the International Financial Reporting Standards as adopted by the European Union and the regulations issued to implement article 9 of Legislative Decree No. 38/2005.

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 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 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 financial statements show as comparatives the corresponding amounts of the prior year determined in accordance with the same accounting principles. Moreover, note 4 illustrates the effects of the transition to the International Financial Reporting Standards as adopted by the European Union and includes information relating to the reconciliation schedules required by IFRS 1, previously approved by the directors of Saras SpA and published as an appendix to the interim financial reporting for the period ended 30 June 2006, which we examined and on which we issued our auditors' report on 18 September 2006.

Sede legale e amministrativa: Milano 20149 Via Monte Rosa 91 Tel. 0277851 Fax 027785240 Cap. Soc. 3.754.400,00 Euro i.v., C.F. e P. IVA e Reg. Imp. Milano 12979880155 Iscritta al n. 43 dell'Albo Consob – Altri Uffici: **Bari** 70125 Viale della Repubblica 110 Tel. 0805429863 – **Bologna** 40122 Via delle Lame 111 Tel. 051526611 – **Brescia** 25124 Via Cefalonia 70 Tel. 0302219811 – **Firenze** 50129 Viale Milton 65 Tel. 0554627100 – **Genova** 16121 Piazza Dante 7 Tel. 01029041 – **Napoli** 80121 Piazza dei Martiri 30 Tel. 08136181 – **Padova** 35137 Largo Europa 16 Tel. 0498762677 – **Palermo** 90141 Via Marchese Ugo 60 Tel. 091349737 – **Parma** 43100 Viale Tanara 20/A Tel. 0521242848 – **Roma** 00154 Largo Fochetti 29 Tel. 06570251 – **Torino** 10129 Corso Montevecchio 37 Tel. 011556771 – **Trento** 38100 Via Grazioli 73 Tel. 0461237004 – **Treviso** 31100 Viale Felissent 90 Tel. 0422696911 – **Trieste** 34125 Via Cesare Battisti 18 Tel. 0403480781 – **Udine** 33100 Via Poscolle 43 Tel. 043225789 – **Verona** 37122 Corso Porta Nuova 125 Tel. 0458002561

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3 In our opinion, the financial statements of Saras SpA as of 31 December 2006 comply with the International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/2005; 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 SpA for the year then ended.

Milan, 11 April 2007

PricewaterhouseCoopers SpA

Pierangelo Schiavi
(Partner)

This report has been translated from the original which was issued in accordance with Italian legislation. References to the financial statements in this report refer to the original Italian financial statements and not to their translation.

SARAS

Saras S.p.A. - Sede legale: Sarroch (CA) SS. 195 Sulcitana, Km 19
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