

Saras Group
Half year report
as at 30 June 2006



“This is a translated version of the half-year 2006 report of the Saras Group especially intended for an international audience. Those who wish to receive the original report in Italian should address their request in writing or refer to the company website”

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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.

As part of its refining activities, it processes both crude oil obtained directly from Saras 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 the Mediterranean's largest refinery in terms of productive capacity, and one of Western Europe's six *super-sites*, 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's size, highly complex organisation and location, the Saras Group has been able to refine different types of crude oil, while developing commercial relationships over the years with both crude-producing countries in North Africa and the Near East and major international oil corporations.

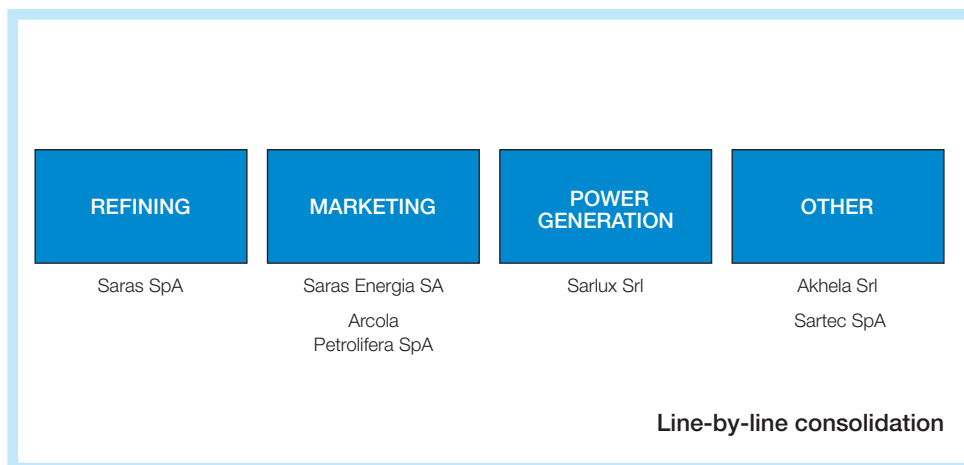
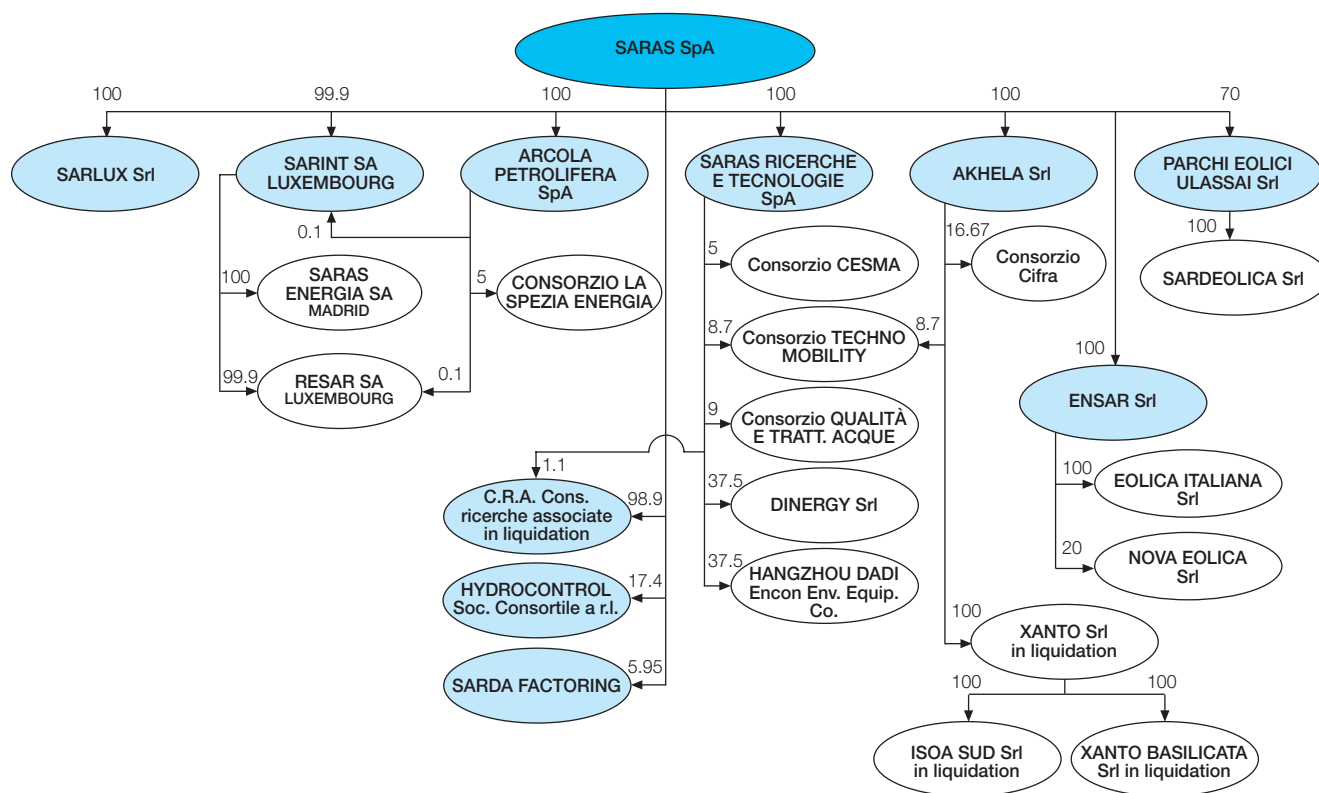
The Saras Group, both directly and via the subsidiary companies Arcola Petrolifera SpA and Saras Energia SA, sells and distributes oil products such as diesel, gasoline, heating oil, liquid petroleum gas (LPG), virgin naphtha and aviation fuel to markets in Italy, Europe, overseas (mainly the Spanish 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 Srl and the joint venture Parchi Eolici Ulassai Srl, which owns and manages the wind power farm located in the Municipality of Ulassai (OG) (power from renewable sources/wind power).

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 oils originating from refining processes (assimilated and renewable sources). The power produced by the IGCC plant is sold to the national grid operator (GRTN) 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 and operates in the information services sector.

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.



Consolidation with the net equity method at 70%



Highlights

The half year was characterized by positive performance in all the segments. Refining margins remained at high levels and industrial performance mitigated the impact of the major scheduled maintenance cycle.

After the award in favour of Saras in respect of its legal dispute with Enron Dutch Holding B.V. (Enron), transfer of shares related to the 45% Sarlux stake from Enron to Saras was completed and Enron was paid an amount of 116.8 €M for the acquisition. On 28 June 2006, the court ordered the release of the aforementioned shareholdings, making it possible for Saras to proceed with full consolidation of the Sarlux subsidiary. Please refer to note n. 4 of the supplementary notes.

This consolidation influenced net profit of the Group: total net profit was **325.9 €M**, of which **197.7 €M** was due to the fair value assessment of assets, liabilities and potential liabilities of the subsidiary Sarlux Srl as provided by the IFRS 3 - Business Combinations.

Without considering the matters under the point above, highlights include:

- Group net profits increased to **128.2 €M** in the first half against **105.8 €M** of the same period last year, while net profits in the second quarter 2006 came to **72.1 €M**, in line with the same period last year of **77.4 €M**.
- Group equity increased to **1,216 €M** at 30 June 2006 against **529 €M** at 31 December 2005. Such increase is mainly due to capital increase (342 €M), acquisition of 45% Sarlux stake (189 €M) and to the profit of the period (326 €M) net of dividend distribution (170 €M).
- Group operating profit before depreciation in the half year was **224.0 €M** against **274.8 €M** of the same period last year, while it was **148.9 €M** in the second quarter, compared to **165.0 €M** in the second quarter 2005. Comparable gross operating profit before depreciation in the half year was **152.5 €M**, against **186.5 €M** of the same period last year, while it was **72.0 €M** in the second quarter, compared to **97.4 €M** of the second quarter 2005.
- Refining margins returned to high levels in the quarter, confirming the basic soundness of the sector, whose prospects continue to remain very high. It was not possible to take full advantage of this growth trend due to the scheduled maintenance that decreased the possibility to convert crude oil into high value added products.
- Good operating performance in the refining segment: despite the important scheduled maintenance cycle, thanks to efficiency recovery, crude runs were lower by 346 thousand tons only than the same period in 2005 (approximately 5%).
- Positive trend in the power generation segment. Operating profit before depreciation in the half year was **115.4 €M** against **111.4 €M** of the same period last year.
- Substantial increase in sales in the marketing segment (+8%), which along with rising margins, led to operating profit before depreciation in the 1st half of **19.7 €M** compared to **26.4 €M** in the 1st half last year, while it was **12.4 €M** in the second quarter, compared to **16.0 €M** in the second quarter 2005. Comparable operating profit before depreciation in the half was **10.1 €M**, against **14.4 €M** of the same period last year, while it was **6.7 €M** in the second quarter, compared to **6.9 €M** in the second quarter 2005.

- Results in the wind power segment were in line with expectations: operating profit before depreciation was **12.4 €M** during the 1st half year.

Significant events by the end of the half year

- Pursuant to authorization of the Spanish Antitrust Authority and the positive results of legal, fiscal and environmental due diligence, the acquisition of 37 service stations from the Caprabo Group was executed for an amount of 32 €M. These stations will be operated by Saras Energia Red SA, a wholly-owned subsidiary of Saras Energia SA.
 - In the second half of July, the breakdown of a sensor of the catalytic reforming plant (CCR) caused a suspension in operations for 12 days. Refinery runs won't be affected. However, the lack of high octane gasoline components and hydrogen produced normally by the CCR changed the quality of production. As a result, 60 thousand tons of low octane and virgin naphtha were sold in lieu of European gasoline, and some 100 thousand tons of high-sulphur gasoil were sold in lieu of ultra low-sulphur diesel (ULSD).
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Key consolidated economic and financial figures

Below are key consolidated economic and financial figures, shown in comparison with the data related to the same period last year.

Remember that Sardeolica Srl (wind segment) was consolidated with the equity method while, as indicated previously, starting from 28 June 2006, Sarlux Srl was consolidated with the line-by-line consolidation method. However, the effect of line-by-line consolidation on the profit and loss statements was not considered because it was immaterial.

€/Mil.	Q2 2006	Q2 2005	H1 2006	H1 2005
Revenues from ordinary operations	1,369.5	1,113.5	2,799.8	2,183.7
Operating profit before depreciation	148.9	165.0	223.9	274.8
Comparable operating profit before depreciation ¹	72.0	97.4	152.5	186.5
Operating profit	131.5	146.4	189.4	236.9
Group net profit	269.8	77.4	325.9	105.8
Group net profit excluding non recurring items (Sarlux)	72.1	77.4	128.2	105.8
Group Equity	1,215.9	341.9	1,215.9	341.9
Total assets	3,329.9	1,691.6	3,329.9	1,691.6
Investments in fixed assets	44.8	18.1	68.0	28.4
Net financial position	(304.0)	(263.3)	(304.0)	(263.3)
Operating profit before depreciation ^{2/} (Group equity + net financial position)	39.2%	109.1%	29.5%	90.8%
Net financial position/ Shareholders' equity	0.25	0.77	0.25	0.77
Net financial position/ Gross operating margin	0.51	0.40	0.68	0.48
Net profit/Shareholders' equity	88.8%	90.6%	53.6%	61.9%
Return On Capital Employed ³	60.2%	24.9%	38.1%	18.3%

¹ Operating profit before depreciation with oil inventories measured at LIFO.

² The values of gross operating margin and net profit are annualized.

³ Net profit with inventories measured at LIFO/Average invested capital.

⁴ Group equity with oil inventories measured at LIFO plus net financial position.

Remarks on the second quarter

Group revenues grew significantly due to the increase in the prices of products. operating profit and operating profit before depreciation were down, influenced by the results of the refining segment, which was impacted by the major scheduled maintenance cycle. The results of the other segments were in line with the corresponding quarter last year (see the breakdown of the segments for more details).

Note how the margin of the industrial site, as seen in the graph below, attained the value of \$ 12.8 per barrel in the quarter.

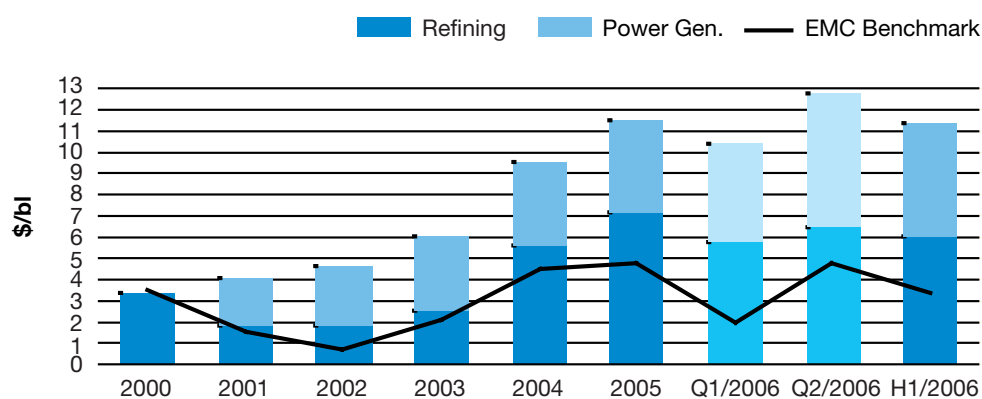
Net of the amount of 197.7 €M cited previously, Group net profit was in line with the same period last year. This item was influenced by lower financial charges (the reduction was mainly due to lower losses for hedging on refining margins) and non-recurring charges for approximately 13 €M to costs incurred for the stock market listing.

Remarks on the first half

Also the results of the half year were influenced by the performance of the refining segment, which was impacted, contrary to the first half 2005 by lower refining margins, especially in the first quarter, and scheduled maintenance in the second quarter. All this reflected on the operating profit before depreciation and the comparable operating profit before depreciation, which were down compared with the same period last year. The margin of the industrial site during the half year was \$ 11.4 per barrel, in line with average values in 2005, confirming the excellent profitability of the site, even in situations of reduced conversion capacity due to maintenance.

Net of the non recurring item of 197.7 €M, net profit in the 1st half 2006 was higher with respect to the first half of 2005. Also in this case, lower financial charges had a major impact (mainly reduced due to lower losses for hedging on refining margins) and higher profits on shareholdings valued with equity method, all net of non-recurring charges for 13 €M, related to costs incurred for the stock market listing.

Industrial site margin



Refining margins: calculated on the basis of management accounting and equal to sales revenues (including the quantity effect on the inventory) minus the variable costs divided by crude runs in the period.

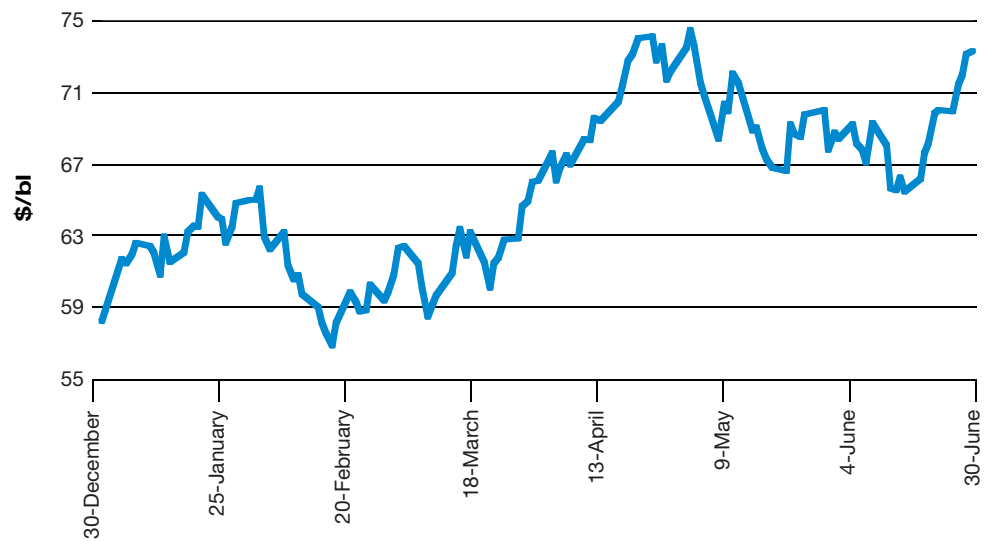
IGCC margin: calculated on the basis of management accounting and equal to the revenues of sales (which include the incentive as paid by GRTN for the electricity portion) minus variable costs divided by crude runs in the period.

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.

The oil market

The graph shows the course of the price of Dated Brent crude oil in the first half.

1st half: Dated Brent



Source: Platt's

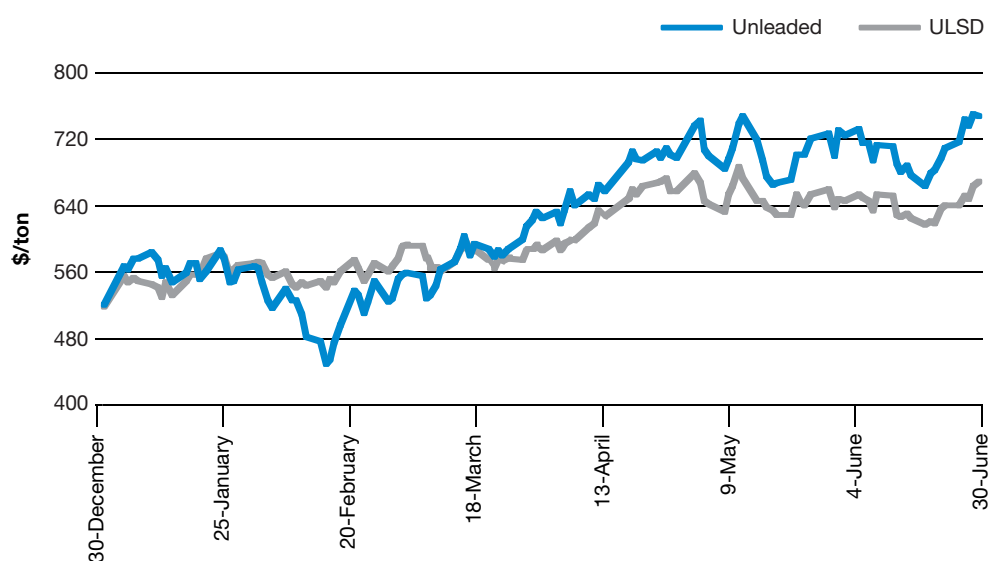
In the first quarter, prices remained between \$ 58 and \$ 66 per barrel, buoyed by demand as well as by socio-political factors such as the tension between Russia and the Ukraine for supply of natural gas, the uncertain situation of Nigerian oil installations, and the geopolitical repercussions pursuant to Iran resuming its nuclear programme.

The signs of economic recovery that sustained strong demand and the worsening of political tensions triggered a new rising phase in the second quarter. The peak was reached in April when the price exceeded \$ 74 per barrel. Since mid June, the price increased again after a correction below \$ 70 per barrel due to a downward forecast of the growth in world oil demand for 2006 and an attenuation of the tensions related to Iran's nuclear programme.

Globally, the value of Brent increased from \$ 67.6 per barrel in early April to \$ 73.3 per barrel in late June, representing an increase of 8.43%, while the percentage increase since the beginning of the year was 18.9% (from \$ 61.7 to \$ 73.3 per barrel).

The course of product prices is shown in the following graph:

1st half: Unleaded gasoline/ultra low sulphur diesel (ULSD) Fob Med quotations



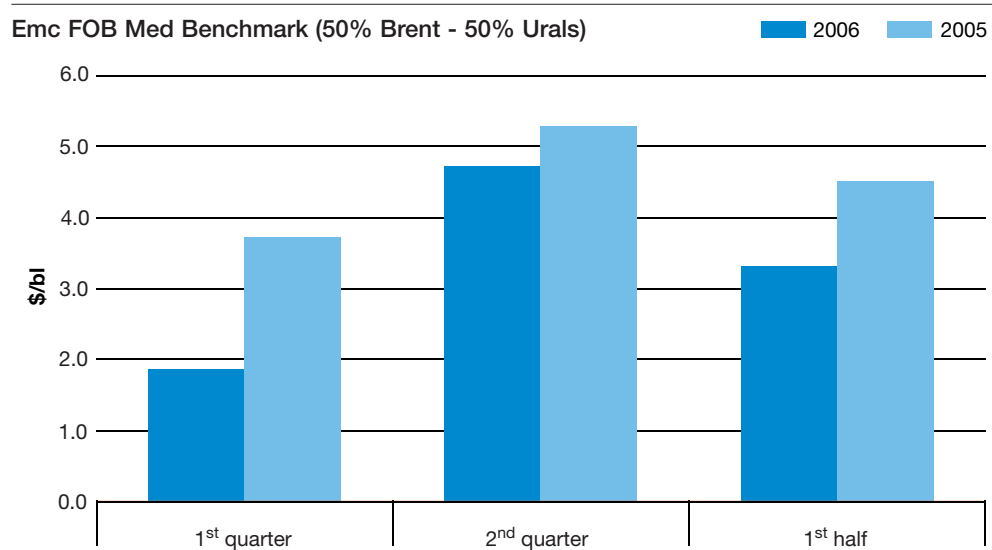
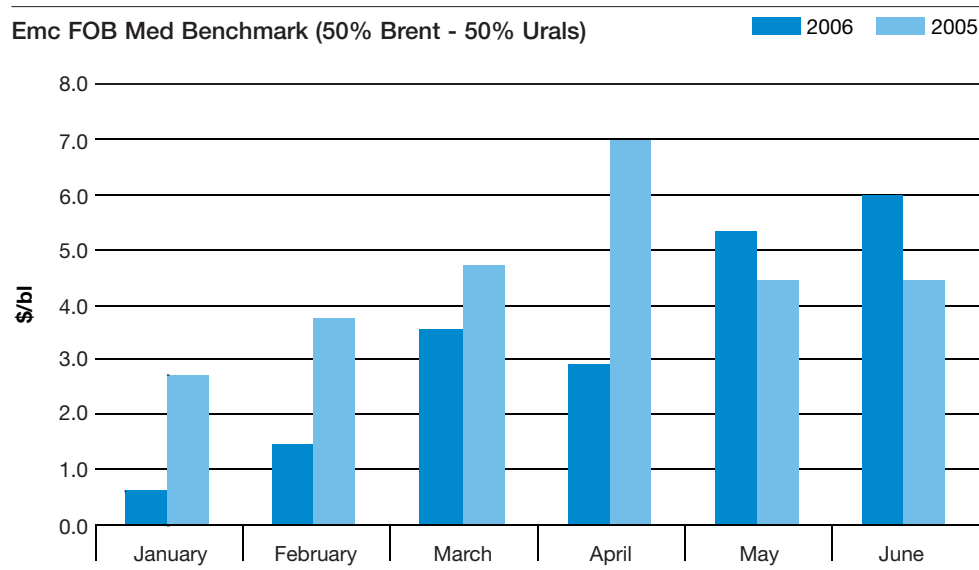
Source: Platt's

In the second quarter, the price of petroleum products increased more than crude oil, especially for gasoline.

The price of gasoline rose in the second quarter by 18.1% (from \$ 632.5 to \$ 747 per ton) while diesel increased by 11.9% (from \$ 598 to \$ 669 per ton); for the half year, the price of gasoline increased by 32% (from \$ 566 to \$ 747 per ton) compared with the same half in 2005, while the price of diesel increased by 20.8% (from \$ 555 to \$ 669 per ton).

Prices were sustained by good overall demand. In particular, in addition to seasonal effects, the price of gasoline was also sustained by the change of specifications in the USA.

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



The considerations above led to a substantial increase in the refining margin in the second quarter. On the whole, the margin of the first half 2006 was lower than the corresponding period in 2005 by \$ 1.2 per barrel, with a marked difference between the two quarters.

Segment reviews

Below is the main information relating to the various segment of business of the Saras Group; the revenues are shown gross of infragroup eliminations.

Furthermore, detailed results of the Sardeolica joint venture (wind segment) are given in order to provide complete information, although the company is consolidated using the equity method.

REFINING

The following table shows the main financial data of the Refining segment:

€/Mil.	Q2 2006	Q2 2005	H1 2006	H1 2005
Revenues from ordinary operations	1,284.0	1,047.9	2,690.2	2,060.5
Operating profit before depreciation	137.8	148.4	206.1	249.8
Comparable operating profit before depreciation *	66.8	89.9	144.3	173.5
Operating profit	120.0	134.3	173.2	217.8
Capex	44.4	17.4	67.1	27.5

* Operating profit before depreciation with oil inventories measured at LIFO.

Margins and quantities processed

		Q2 2006	Q2 2005	H1 2006	H1 2005
Benchmark refining margin *	\$/bbl	4.7	5.3	3.3	4.5
Period-end refining margin **	\$/bbl	6.4	6.9	6.0	7.1
Total refinery runs	Kt	2,918	3,510	6,628	6,974
of which: processing for own account	Kt	1,447	1,654	3,452	3,390
processing on behalf of third parties	Kt	1,471	1,857	3,176	3,584

* Calculated by EMC: 50% margin Ural + 50% margin Brent Fob Med.

** Management accounting.

Remarks on the second quarter

The period was characterized by an important cycle of scheduled maintenance which involved one of the three units of atmospheric distillation, one of the two units of vacuum distillation, the catalytic reformer (CCR) and, in sequence, two mild hydrocracking plants. Maintenance affected the aforementioned plants in April and May. The individual durations were in line with forecasts and during such period the refinery was running at approximately 65% of its capacity.

Refining margins increased significantly compared to the first quarter. The benchmark reached \$ 4.7 per barrel against \$ 1.9 per barrel in the first quarter 2006 and \$ 5.3 per barrel of the same quarter last year. Saras margin was \$ 6.4 per barrel, a value higher than the first quarter (\$ 5.7 per barrel) but less than the same quarter last year (\$ 6.9 per barrel).

Note that, confirming the trend already underway in the first quarter, there were considerable rises in the efficiency of the plants: in spite of maintenance, the reduction in runs compared to the same period last year was only 592 thousand tons. Maintenance of the conversion plant (reforming and mild hydrocracking) made it impossible to take full advantage of the upward trend of the refining margins: against an improvement in the EMC benchmark compared to the previous quarter of \$ 2.8 per barrel, the Saras margin improved by \$ 0.7 per barrel. During this period, the conversion of the refinery was lower than normal.

Furthermore, important improvements were made to the plants involved during this maintenance cycle, particularly:

- the general maintenance interval of the topping 2 units and the vacuum 2 units is now 6 and 3 years respectively;
- production capacity of the catalytic reforming unit increased by 5% and hydrogen production by 10%;
- the catalyser of the mild hydrocracking plants was replaced with a new one of better performance.

In particular, the last two points will make it possible to increase low sulphur diesel production by 7%.

Remarks on the first half

Compared to the same period last year, the first half was characterized by two essential factors:

- lower refining margins (EMC benchmark in the first half of \$ 3.3 per barrel compared to \$ 4.5 per barrel);
- major maintenance in the second quarter with the resulting reduction in crude runs and conversion capacity of the refinery.

In spite of this, on a level of comparable operating profit before depreciation, the difference compared to the last year was only 29 €M: 144.3 €M against 173.5 €M, thanks to the following recovery of production efficiency:

- crude runs were lower than the same period last year by 346 tons of crude. This figure is much lower than the usual reduction generated by maintenance of this type, which is about 800 thousand tons. The result was reached thanks to the important improvement of the mechanical reliability of the plant and a higher and more stable production of hydrogen;
 - pursuant to higher conversion capacity in the period of full capacity, overall production of diesel in the first half of 2006 was comparable to the quantities of 2005. Among the diesels produced, the amount of low-sulphur diesel (50 ppm) and ultra low-sulphur diesel (10 ppm) further increased, testifying to the increase in the conversion capacity achieved by full use of the higher quantities of hydrogen available.
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An additional positive effect, especially in the first quarter, was produced by processing contracts that in difficult market situations help stabilize returns.

Below are further data on operations:

Sales of finished products

SALES BY PRODUCT

		Q2 2006	Q2 2005	H1 2006	H1 2005
Gasoline	Kt	600	533	1,357	1,306
Diesel	Kt	901	940	2,028	1,847
Other diesel fuels	Kt	290	369	765	864
Fuel oil	Kt	193	200	386	407
Tar	Kt	290	277	589	578
Other products	Kt	374	506	665	826

Quantities processed by type of crude

TYPE OF CRUDE PROCESSED

		Q2 2006	Q2 2005	H1 2006	H1 2005
Light extra sweet	Kt	1,483	1,358	2,983	2,706
Light sweet	Kt	102	326	277	604
Medium sweet	Kt	0	0	0	0
Light sour	Kt	0	0	0	0
Medium sour	Kt	551	822	1,621	1,646
Heavy sour	Kt	783	1,004	1,747	2,018
Total processing	Kt	2,919	3,510	6,628	6,974

Comparisons between the first half in 2005 and 2006 shows how reduction in runs, due to the scheduled maintenance, was concentrated mainly in “heavy sour” crude oils. This is natural when maintenance is performed on the vacuum distillation units and hydrogen production and conversion units, all essential for efficiently processing this type of raw material.

MARKETING

Below are the main financial data of the marketing segment, concentrated especially in the wholesale business where the Saras Group operates through Arcola Petrolifera SpA in Italy and Saras Energia SA in Spain.

€/Mil.	Q2 2006	Q2 2005	H1 2006	H1 2005
Revenues from ordinary operations	438.0	306.4	868.9	587.9
Operating profit before depreciation	12.4	16.0	19.7	26.4
Comparable operating profit before depreciation *	6.7	6.9	10.1	14.4
Operating profit	12.1	14.1	19.1	23.9
Capex	0.2	0.8	0.2	0.9

* Operating profit before depreciation with oil inventories measured at LIFO.

Below is a summary of sales by type of product:

Sales in Italy

		Q2 2006	Q2 2005	H1 2006	H1 2005
Gasoline	Kt	10.9	25.8	27.1	47.6
Diesel	Kt	172.2	150.2	305.7	279.3
Other diesel products	Kt	19.6	25.8	86.6	88.3
Other products	Kt	33.2	36.1	80.0	79.7
Total sales	Kt	235.9	237.9	499.4	494.9

Sales in Spain

		Q2 2006	Q2 2005	H1 2006	H1 2005
Gasoline	Kt	104.4	90.3	206.4	176.5
Diesel	Kt	313.0	292.4	596.0	567.6
Other diesel products	Kt	116.9	92.1	269.9	236.5
Other products	Kt	1.0	2.0	3	4.2
Total sales	Kt	535.3	476.8	1,075.3	984.8

Total sales in the marketing segment

		Q2 2006	Q2 2005	H1 2006	H1 2005
Sales Italy	kt	235.9	237.9	499.4	494.9
Sales Spain	kt	535.3	476.8	1,075.3	984.8
Total sales by segment	kt	771.2	714.7	1,574.7	1,479.7

Remarks on the second quarter

Performance of the segment was positive thanks to the considerable increase in sales (+7.9% compared to the same quarter last year) and improved profits compared to the first quarter 2006.

On the whole, comparable operating profit before depreciation was nearly double compared to the previous quarter and in line with the corresponding period last year.

The increase in sales was especially marked on the Spanish market, where it reported increases of over 12%, while sales were essentially in line with the same period last year in Italy.

As regards the Spanish market, the decision was made to focus on the distribution channels with more interesting margins, namely large distribution (shopping centres) where sales increases were 14.3%, free service stations (+2.0%) and direct sales (+22.9%).

As regards the Italian market, sales of diesel fuel increased by 3.7% while the general downward trend in gasoline sales continued.

As a reminder, it should be mentioned that in the previous quarter Saras Energia had purchased 37 service stations from the Caprabo Group, located mainly in the Mediterranean area of Spain, with an average distribution of 4 million litres against an average Spanish distribution of 2.5 million litres.

In this quarter, due diligence actions were made with positive results and authorization was obtained from the competition and market Authority.

The total purchase amount of 32 €M has been paid in the month of July.

The agreement provides for the maintenance of the competitive advantages of the Caprabo credit card and also opens up new opportunities for developing promotional activities and commercial synergies between the two companies.

Remarks on the first half

Comparable operating profit before depreciation was 10.0 €M against 14 €M in the same period last year.

Lower results than those of the same period year are due mainly to lower margins, especially in the first quarter of the year, due to a higher volatility in the price of petroleum products. The considerable increase in sales, especially in the second quarter, was not enough to compensate for this decrease but lays the basis for good results in the subsequent periods, considering the higher margins in the later part of the half year.

It is important to emphasize that the significant increase in sales was achieved on the Spanish market. This increase, higher than the market growth rate, made it possible to substantially increase market shares.

The increase in Italy was less marked, where Arcola Petrolifera increased its sales by 1%.

POWER GENERATION

The following table shows the main financial data:

€/Mil.	Q2 2006	Q2 2005	H1 2006	H1 2005
Revenues from ordinary operations	138.4	118.3	284.8	240.0
Operating profit before depreciation	52.3	52.3	115.4	111.4
Operating profit	39.7	36.5	90.1	80.9
Capex	1.1	1.1	2	4.5

The following table shows the main production data:

		Q2 2006	Q2 2005	H1 2006	H1 2005
Electricity sales	MWh	1,135,939	1,086,738	2,290,830	2,277,936
Hydrogen sales to Saras	KNm3	89,641	73,165	176,454	133,360
TAR consumed	Kt	290	277	588	578

Remarks on the second quarter

In the second quarter of the year, operations were partially shut down to perform scheduled maintenance of the plant. The shut down involved one of the three gasifying units and one of the three combined cycle trains and was completed three days before forecast (25).

For the rest of the period, the plant worked with an average utilization rate of 94.1%, exceeding the estimated amount for hydrogen and steam production. Contributing to this was the fact that the exemption by GRTN was not used.

On the whole, performance was better than the same quarter 2005 and despite the scheduled maintenance, it was in line with the performance of the previous quarter. Furthermore, the continuous increase in crude prices led to the resulting increase in the value of the tariffs paid by GRTN and therefore higher cash flows.

Remarks on the first half

At the end of the first half of 2006, the average utilization rate was 95.6%, in line with the same period in 2005.

Thanks to the improvements made to the hydrogen production plant in 2005, sales to the refinery increased by more than 32% compared to the same period last year.

With reference to the regulations on Emission Trading, the group made a provision for the half year of 3.97 €M.

OTHER

The following table shows the main financial data of the segment related to operations by Sartec SpA and Akhela Srl.

€/Mil.	Q2 2006	Q2 2005	H1 2006	H1 2005
Revenues from ordinary operations	10.3	8.00	18.3	13.70
Operating profit before depreciation	(1.30)	0.60	(1.90)	(1.40)
Operating profit	(0.50)	(2.00)	(2.80)	(4.80)

The half year and the quarter ended with a considerable improvement compared to the same period last year.

WIND

With a view to providing complete information, the data related to the wind segment is provided here, although Parchi Eolici di Ulassai Srl and Sardeolica Srl were consolidated with the net equity method.

The following table shows the main financial data:

€/Mil.	Q2 2006	Q2 2005	H1 2006	H1 2005
Revenues from ordinary operations	5.6	N.D.	14.6	
Operating profit before depreciation	4.7	(0.1)	12.4	
Operating profit	2.8	(0.1)	8.6	
Capex	10.2	32.7	13.1	42.1

The following table shows the main production data:

		Q2 2006	Q2 2005	H1 2006	H1 2005
Electricity sales	MWh	31,624	–	84,525	–
Electricity prices	c€/kWh	6.7		7.1	
Valorization of Green Certificates	c€/kWh	10.89	–	10.89	–

Remarks on the second quarter

In the second quarter, production at the wind farm of Ulassai (Sardinia) was in line with the forecasts made during design of the plant based on anemometric findings, which forecast a lower wind intensity in the summer than in the winter.

The price of electricity decreased versus the previous quarter, mainly due to events related to seasonality, while prices in Sardinia are on the rise due to summer consumption.

This is why the operating profit before depreciation in the quarter, equal to 4.7 €M, was less than the previous quarter.

In June, the test phase of another six aero-generators installed in Ulassai was completed; therefore, 42 aero-generators are operating at Ulassai to date.

The fair value of the interest rate risk hedging operations done in the first quarter resulted in income in the first quarter of over 1.2 €M at 30 June.

Remarks on the first half

For Sardeolica Srl, owner of the Ulassai (Sardinia) wind farm, the first half 2006 was the first half year of full operations after construction.

The results, in terms of global production and profits earned, were in line with forecasts.

The research of new wind farm sites having high-quality profile has been carried on during the first half of the year.

Net financial position

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

	30/06/2006	31/12/2005
Medium/long term bank loans	(395.4)	(132.0)
Total long term net financial position	(395.4)	(132.0)
Short term bank loans	(114.7)	(57.9)
Bank overdrafts	(105.6)	(43.0)
Other loans	(1.3)	(1.3)
Loans from unconsolidated subsidiaries, affiliates and joint ventures	(1.2)	
Loans made to unconsolidated subsidiaries, affiliates and joint ventures	14.6	19.4
Interest rate swap fair value	0.0	0.3
Other marketable financial assets	13.1	13.0
Cash and cash equivalents	286.4	24.7
Total short term net financial position	91.4	(44.8)
Total net financial position	(304.0)	(176.8)

The change with respect to 31 December 2005 is mainly due to the full consolidation of Sarlux that implied the addition of the Sarlux net debt of 171 €M and the payment to Enron of the consideration amount of 117 €M. Furthermore to the change contributed the positive flows from operating activities, the payment of dividends to shareholders for 170 €M and the capital increase for an amount of 342 €M (net of IPO costs).

With reference to the 31st December proforma consolidated data, as reported on the 13th of July, the reduction is of 265 €M.

Personnel

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

	H1 2006	H1 2005
Refining personnel	1,161	1,157
Marketing personnel	85	77
Power Generation personnel	22	24
Wind personnel	25	1
Other personnel	349	334
Total Group personnel	1,642	1,593

The increase in personnel is substantially due to the start of activities in the wind segment and several new hires in other activities.

Investments

In addition to investments made during the maintenance of April and May, as previously covered, in the first half of 2006, investment activities concentrated on the start-up of the collaboration with Foster Wheeler Italiana (FWI), with an EPC contract signed in the first quarter 2006.

Investments planned with FWI involve:

- the second phase of the Prime G+ project, which will make it possible to align the entire production of gasoline in 2008 with the specification of 10-ppm of sulphur;
- the tail gas treatment plant, which will make it possible to increase the recovery of sulphur while reducing atmospheric emissions, in line with the best techniques available (BAT) indicated in the European IPPC directive (Integrated Pollution Prevention and Control).

Presently, the engineering phase is in progress, while the materials acquisition phase is currently being launched.

Stock performance

The Public Offer for Sale and Subscription (OPVS) of the company included a stock sale price of euro 6.00 with the start of the trading on the Electronic Stock Market of Milan organized and run by Borsa Italiana SpA that took place on 18 May 2006. It should be emphasized that the downward correction of all the international stock markets and in particular the refining sector, which took place between the price setting date (12 May) and the first day of trading, caused the start of trading to take place at a substantially lower price than the initial price of euro 6.00.

Below are some of the data relating to prices and daily volumes relating to the Saras share between 18 May 2006 and 30 June 2006.

Share price	€
Minimum price (22/05/2006) *	4.821
Maximum price (18/05/2006) *	5.290
Average price	5.038
Closing price at 30/06/2006	5.012

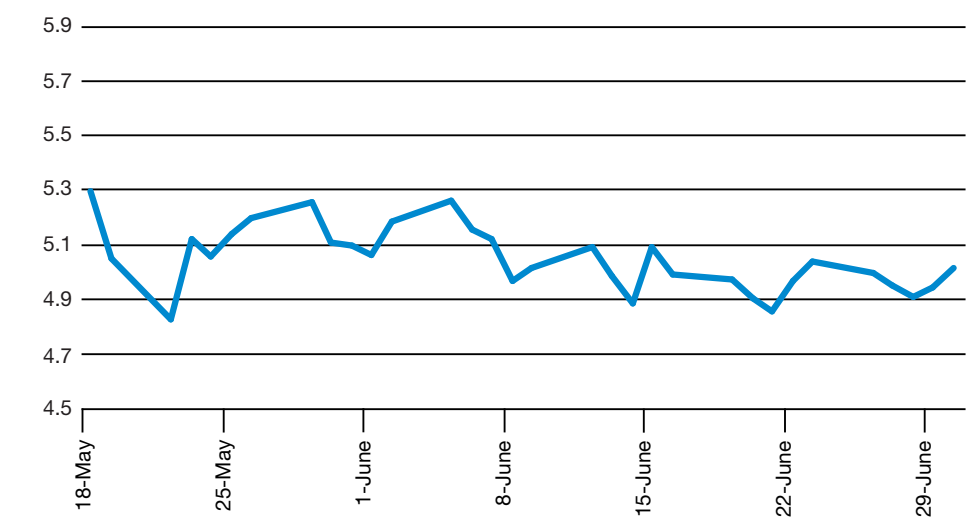
* Intended as minimum and maximum price during the day's trading, therefore not coincident with the official reference prices on the same date.

Daily trading volumes	€/Mil.
Maximum volume (18/05/2006)	677
Minimum volume (19/06/2006)	5.9
Average volume	54.3

Market capitalization at 30 June 2006 amounts to about 4,700 €M.

The graph reported below shows the daily performance of the share in the first half.

Saras Share Performance from 18/05/2006 to 30/06/2006



Outlook

The oil industry in the second half of the year, according to sector analysts, is expected to consolidate the refining margins levels reached toward the end of June.

The fundamentals of the refining sector are solid, namely the Saras profitability drivers, among which:

- sustained growth in the demand for finished products (growth of 1.4% in 2006 and 1.7% in 2007 expected by IEA);
- limited refining capacity with growth expected no higher than the demand for products;
- increasingly strict specifications on finished products;
- heavy and high-sulphur crudes that continue to have significantly lower prices compared to light and low-sulphur crude oils.

In the second half of July, the breakdown of a catalytic reforming plant (CCR) caused a 12-day shutdown in its operations. Global refinery processing was not affected; however, the lack of high octane gasoline components and hydrogen, normally produced by reforming, have changed the quality of production. As a result 60 thousand tons of low octane gasoline and virgin naphtha were sold in lieu of European gasoline, and some 100 thousand tons of high-sulphur gasoil in lieu of ultra low-sulphur diesel.

Consolidated balance sheets

€ thousands	30/06/2006	31/12/2005
ASSETS		
Current assets	1,640,915	1,084,525
Cash and cash equivalents	286,431	24,709
Other financial assets held for trading or available for sale	13,144	13,039
Trade receivables	560,674	442,788
<i>of which: with related parties</i>	437	44,025
Inventory	684,297	541,408
Current tax assets	23,678	24,227
Other assets	72,691	38,354
<i>of which: with related parties</i>	14,453	19,437
Non-current assets	1,688,948	546,283
Property, plant and equipment	1,104,803	443,055
Intangible assets	569,593	4,335
Equity interests consolidated by the equity method	6,725	97,175
Other equity interests	1,440	1,400
Other financial assets	6,387	318
Total assets	3,329,863	1,630,808
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities	974,951	749,375
Short-term financial liabilities	228,458	102,164
<i>of which: with related parties</i>	1,253	2,585
Trade and other payables	621,348	513,182
<i>of which: with related parties</i>	512	13,273
Current tax liabilities	67,782	75,749
Other liabilities	57,363	58,280
Non-current liabilities	1,139,020	352,665
Long-term financial liabilities	395,401	132,004
Provisions for risks	27,307	17,569
Provisions for employee benefits	43,841	49,685
Deferred tax liabilities	209,632	96,374
Other liabilities	462,839	57,033
<i>of which: with related parties</i>	0	51,046
Total liabilities	2,113,971	1,102,040
SHAREHOLDERS' EQUITY		
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	325,935	292,642
Total shareholders' equity	1,215,892	528,768
<i>of which: minority interests</i>		
Minority interests in capital and reserves	0	0
Profit/(loss) for the period attributable to minority interests	0	0
<i>Total minority interests</i>	0	0
Total liabilities and shareholders' equity	3,329,863	1,630,808

Statement of changes in consolidated shareholders' equity

€ thousands	Share capital	Legal reserve	Other reserves	Reserve for own shares	Profit/(Loss) for the period	Shareholders' equity
Balance as at 01/01/2005	51,183	10,237	208,365	(92,495)	198,938	376,228
Appropriation of previous period profit			90,675	(2,019)	(88,656)	0
Dividends			(29,810)		(110,256)	(140,066)
Utilisation of grants			(157)	157		0
Other					(26)	(26)
Net profit for the period					105,790	105,790
Balance as at 30/06/2005	51,183	10,237	269,073	(94,357)	105,790	341,926
Utilization of other reserves			(158)	158		0
Net profit for the period					186,852	186,852
Other				(10)		(10)
Balance as at 31/12/2005	51,183	10,237	268,915	(94,209)	292,642	528,768
Capital increase (net of IPO costs)	3,447		338,983			342,430
Appropriation of previous period profit			(109,209)	262,155	(152,946)	0
Dividends			(30,485)		(139,696)	(170,181)
Fair value of 55% Sarlux stake			188,940			188,940
Net profit for the period					325,935	325,935
Balance as at 30/06/2006	54,630	10,237	657,144	167,946	325,935	1,215,892

Group consolidated income statements

€ thousands	H1 2006	H1 2005	Q2 2006	Q2 2005
Revenues from ordinary operations	2,799,777	2,183,616	1,369,463	1,113,463
<i>of which: with related parties</i>	108,323	64,765	54,162	32,383
Other income	20,609	17,352	10,590	7,518
<i>of which: with related parties</i>	8,928	8,725	4,464	4,363
Total revenues	2,820,386	2,200,968	1,380,053	1,120,981
Purchases of raw materials, spare parts and consumables	(2,382,518)	(1,727,669)	(1,124,739)	(858,644)
<i>of which: with related parties</i>	(1,161)	(1,248)	(581)	(624)
Cost of services and sundry costs	(160,128)	(143,041)	(82,097)	(69,938)
<i>of which: with related parties</i>	(26,016)	(17,540)	(13,008)	(8,770)
Personnel costs	(53,864)	(55,447)	(24,301)	(27,424)
Depreciation, amortization and write-downs	(34,512)	(37,854)	(17,504)	(18,544)
Total costs	(2,631,022)	(1,964,011)	(1,248,641)	(974,550)
Operating results	189,364	236,957	131,412	146,431
Net income (charges) from equity interests	32,279	25,332	13,547	11,558
Other financial income/(charges), net	(19,583)	(88,801)	(22,343)	(29,426)
<i>of which: with related parties</i>	198	474	99	237
Non recurring income/(charges)	186,245		186,245	
Profit before taxes	388,305	173,488	308,861	128,563
Income tax for the period	(62,370)	(67,699)	(38,992)	(51,163)
Net profit/(loss) for the period	325,935	105,789	269,869	77,400
<i>of which:</i>				
<i>Minority interests</i>	0	0	0	0
<i>Net profit/(loss) for the period of the Group</i>	325,935	105,789	269,869	77,400
Earnings per share - base (euro cent)	36.58	11.87	30.29	8.69
Earnings per share - diluted (euro cent)	36.58	11.87	30.29	8.69

€ thousands	H1 2006	H1 2005
A - Cash and cash equivalents at beginning of period (short-term net financial indebtedness)	24,709	13,464
B - Cash generated from/(used in) operating activities		
Profit/(Loss) for the period of the Group	325,935	105,790
Non recurring income due to the Sarlux acquisition	(199,168)	
Amotization, depreciation and write-down of fixed assets	34,512	37,854
Net (income)/charges from equity interests	34,026	(18,910)
Net change in provisions for risks and charges	(117)	(985)
Net change in employee benefits	(6,176)	975
Change in tax liabilities and tax assets	15,121	29,062
Profit/(Loss) from operating activities before changes in working capital	204,133	153,786
(Increase)/Decrease in trade receivables	18,382	(57,340)
<i>of which: with related parties</i>	26,680	4,199
(Increase)/Decrease in inventory	(114,261)	(195,364)
(Increase)/Decrease in trade and other payables	64,415	94,578
<i>of which: with related parties</i>	(10,964)	1,801
Change in other current assets	(30,044)	(42,968)
<i>of which: with related parties</i>	24,273	(42,530)
Change in other current liabilities	(78,393)	107,959
Change in other non-current liabilities	6,802	(15,495)
<i>of which: with related parties</i>	(51,876)	0
Total (B)	71,034	45,156
C - Cash generated from/(used in) investing activities		
(Investments) in tangible and intangible assets, net of divestments and accumulated depreciation and amortization	(67,258)	(28,513)
Change in equity interests valued by the equity method	(40)	(8)
45% Sarlux stake acquisition	(127,047)	
Total (C)	(194,345)	(28,521)
C - Cash generated from/(used in) financing activities		
(Increase)/Decrease in medium/long term borrowings	(55,933)	(37,039)
(Increase)/Decrease in other financial assets	(6,174)	(166)
(Increase)/Decrease in short term borrowings	24,952	187,165
<i>of which: with related parties</i>	(381)	2,361
Capital increase	342,430	
Dividend distribution to shareholders'	(170,181)	(140,093)
Total (D)	135,093	9,867
E - Cash flow for the period (B + C + D)	11,782	26,502
Other changes in shareholders' equity due to the adoption of IAS 32 and IAS 39 since January, 1 st 2005		10,267
F - Cash from Sarlux consolidation	249,940	
G - Cash and cash equivalents at the end of period (short-term net financial indebtedness)	286,431	50,233

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 62.461% 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 half-yearly report, which relates to the period ended 30 June 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 stated otherwise, all amounts shown in the above statement and in the notes to the consolidated half-yearly report are expressed in thousands of euro, except as indicated otherwise.

The consolidated half-yearly report as at 30 June 2006 is reviewed by PricewaterhouseCoopers SpA. The auditors' review report will be published as soon as it becomes available.

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

EC Regulation No. 1606/2002 of 19 July 2002 made it compulsory for companies, from financial year 2005, to adopt the International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) and endorsed by the European Commission for the preparation of the consolidated financial statements of companies with equity and/or debt securities listed on one of the regulated markets of the European Community. Further to the introduction of the aforementioned European Regulation, on 20 February 2005 Legislative Decree 38 was issued which made it compulsory to adopt IFRS within the Italian legal framework, extending it to the preparation of the individual financial statements of the companies in question from financial year 2006, while also extending the ability to apply said standards to companies other than those indicated in the Regulations in question.

The consolidated half-yearly report of SARAS SpA as of 30 June 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 19 July 2002. In particular, this consolidated half-yearly report has been prepared in compliance with IAS 34 ‘Interim Financial Reporting’, specifically paragraphs 15 and 16 of that standard, which requires a level of disclosure that is significantly lower than that necessary to prepare annual financial statements if IFRS-compliant financial statements with full disclosures were previously published.

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 were approved by the board of directors of the Holding Company and set out in the relevant EU Regulations published as of said date.

IFRS are being applied for the first time in Italy and other countries at the same time; furthermore, several IFRS are new or have been reviewed, meaning that there is not currently any established practice to which reference may be made for interpretation and application purposes. Consequently, the consolidated half-yearly report as at 30 June 2006, whilst based on the directors’ best knowledge of IFRS and their interpretation, also in consideration of a necessarily developing accounting practice, could be subject to adjustments over the next few years, so that interpretations other than those adopted when preparing them might be taken into account.

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

For additional disclosure, profit and loss accounts are presented also for the second quarter of 2006 and 2005, in addition to the profit and loss accounts for the entire first half of 2006 and 2005.

SARAS SpA, the Holding Company, will prepare stand-alone financial statements as at 31 December 2006 in compliance with IFRS. As required by art. 81 of the Issuers’ regulation no. 11971/1999 and subsequent modifications, Appendix A to this report “Balance sheet, profit and loss account and cashflow statement of the Holding Company SARAS SpA” presents the balance sheet, profit and loss account, statement of changes in shareholders’ equity and cashflow statement as at 30 June 2006 and for the six months then ended (with the relevant comparatives) of the Holding Company. Moreover, as required also in the CONSOB’s recent communication No. 6064313 of 28 July 2006, the above statements are accompanied by the disclosures required by IFRS 1, paragraphs 39 and 40, for first-time adoption of International Financial Reporting Standards. The date of transition to IFRS for the stand-alone financial statements of the Holding Company SARAS, which will prepare its first IFRS-compliant financial statements as at 31 December 2006 is, consistently with the above standard, 1 January 2005.

In detail, the aforementioned Appendix A “Balance sheet, profit and loss account and cashflow statement of the Holding Company SARAS SpA” includes reconciliation schedules for:

- balance sheet items as at 1 January 2005 and 31 December 2005;
 - income statement items for the year ended 31 December 2005;
 - shareholders’ equity as at 1 January 2005 and 31 December 2005;
 - the result of operations for the year ended 31 December 2005;
 - cash flow statement items for the year ended 31 December 2005;
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as well as explanatory notes for the adjustments and reclassifications made for the purposes of the transition to IFRS and presented in the above-mentioned reconciliations.

3. Accounting policies applied

The accounting policies applied in the preparation of this consolidated half-yearly report are the same as those applied in the preparation of the consolidated financial statements as at 31 December 2005 drawn up in compliance with IFRS. For completeness they are reported below.

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 become applicable for financial years starting on or after 1 January 2006.

The main modifications are summarised as follows:

- IAS 39: introduction of the option to measure financial assets and liabilities at fair value through profit or loss;
- IAS 21: introduction of new paragraphs and revisions to existing paragraphs concerning investments in foreign operations;
- introduction of IFRIC 5 (“Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds”), IFRIC 6 (“Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment”) and IFRIC 7 (“Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies”);
- application of IFRIC 4 (“Determining whether an Arrangement contains a Lease”).

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, as required in the interpretation itself, had already applied IFRIC 4 in its consolidated financial statements as at 31 December 2005.

3.1 Consolidation method

The consolidated half-yearly report includes the balance sheets, profit and loss accounts and cash flow 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 balance sheets, profit and loss accounts and cash flow statements of the individual entities included in the consolidation have been drawn up as at 30 June 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 by the equity method described below.

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

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

It should be noted that, compared with 31 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 28 June 2006. For details, see note 4 “Acquisitions and business combinations”.

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

- (i) Assets and liabilities, and income and expense items are reported line-by-line by the allocation – 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 intercompany payables and receivables, costs and revenues, and financial income and charges.
- (iv) Gains and losses arising from the transfer of equity interests in consolidated companies are charged to the income statement for amounts corresponding to the difference between the selling price and the percentage of consolidated shareholders’ equity effectively transferred.

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

- (i) The carrying amount of an investment is brought into line with the equity of the investee company concerned, adjusted where necessary to reflect the adoption of accounting standards that are in keeping with those adopted by the Holding Company and includes, where applicable, any goodwill identified at the time of the acquisition.
 - (ii) The Group’s proportionate share of the investees’ profits or losses is recognised in the consolidated income statement from the date on which the significant influence commences until the day it ceases to exist. Should, as a result of losses,
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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 consolidated half-yearly report is presented in euros, the euro being the functional currency of the Holding Company and of the entities of the Group and the currency used to present the consolidated half-yearly report. The following rules are followed when translating the half-yearly 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 period.
- (iii) The 'translation reserve' includes both exchange-rate differences arising from the translation of amounts at an exchange rate different from the period-end rate and those arising from the translation of equity balances at the beginning of the period at an exchange rate different from the period-end rate.
- (iv) Goodwill and fair value adjustments relating to the acquisition of a foreign entity are treated as assets and liabilities of said entity and translated at the period-end exchange rate.
- (v) When preparing the consolidated cashflow statement, the average exchange rates of the period are used to translate the cash flows of foreign subsidiaries.

3.2 Summary of the accounting policies adopted

This consolidated half-yearly report has 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 indicated otherwise – in thousands of euros.

The principal valuation policies adopted are described below.

A. Cash and cash equivalents

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

B. Financial assets held for trading or available for sale

This item comprises only assets held for trading. They are reported in accordance with IAS 32 and IAS 39, at fair value through profit or loss, i.e. with any gains and losses reported in income under 'Other 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 cash-flows. Impairment losses are recognised in the income statement. If in subsequent periods the reasons for the write-downs no longer exist, the write-down is reversed up to the amount that would have resulted from the application of amortised cost had the assets not been written down.

D. Inventory

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

E. Current tax assets

Current tax assets are recognised at amortised cost.

F. Other current and non-current assets

Other current and non-current assets are recognised 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.

The accounting treatment of financial assets related to derivative instruments is illustrated in the paragraph "Derivative instruments".

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 half-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 machinery

Property, plant and machinery is measured at purchase or production cost, less accumulated depreciation and any impairment. Cost includes every charge that is incurred directly to make the assets ready for use, as well as any disposal and removal charges incurred as a result of contractual obligations. Any interest expense relating to the construction of tangible assets is capitalised until the asset is ready to be used.

Maintenance and repair charges are charged directly to the income statement as incurred. Costs relating to the expansion, modernisation or improvement of facilities owned by the company or used by third parties are only capitalised up to the limits within which they fulfill 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 a reasonable certainty exists that the conditions necessary for receiving them have been fulfilled and they will be received.

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
• Improvements to leased assets	Duration of lease

The useful life of tangible assets and their net book value are reviewed annually and adjusted accordingly at the end of every year.

Land is not depreciated.

Whenever an asset subjected to depreciation is made up of components that are distinctly identifiable and where the useful life of one component differs significantly from that of the other components making up the asset, depreciation is carried out separately for each component making up the asset in accordance with the component approach.

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 identifiable elements that are non-monetary in nature, without physical substance, 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 Machinery'.

(iii) Research and development costs

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

K. 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 and interim financial statements, tangible assets and intangible assets with a finite useful life are analysed in order to identify any indicators – originating from sources within or outside the Group – suggesting that they have undergone impairment. In circumstances where such indicators are present, the recoverable value of these assets is estimated and any write-down duly charged to the income statement. The recoverable value of an asset is the greater of its fair value less cost of disposal and its value in use, where the latter is the present value of the future cash flows that the asset is expected to generate. Value in use is determined by discounting the present value of estimated future cash flows, using a pre-tax discount rate that reflects current market assessments of the time value of money in relation to the period of the investment and the risks specific to the asset concerned. The realisable value of an asset that does not generate amply independent cash flows is deter-

mined in relation to the cash generating unit to which the asset belongs. An impairment is recognised in the income statement whenever the carrying amount of an asset – or rather, of the cash generating unit to which it is allocated – is higher than its recoverable value. When the reasons for a write-down no longer exist, the write-down is reversed with a charge to the income statement, up to the net book value that the asset in question would have had if it had not been written down and had it been depreciated.

M. Own shares

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

N. Shareholders' equity

(i) Share capital

Share capital is made up of the subscribed and paid-in capital of the Holding Company.

(ii) Other reserves

Other reserves are made up of equity reserves set aside for a specific purpose and relating to the Holding Company. Costs relating strictly to the issuing of new shares are deducted from other reserves, after any deferred tax effect.

(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 appropriated to reserves (in the case of profits) or covered (in the case of losses). It also includes other equity reserves that have been transferred to it, further to the restrictions previously imposed upon them being removed.

O. Provisions for risks and charges

Provisions for risks and charges are made to cover losses and charges that are certain or probable but in respect of which the amount or the date on which they are expected to arise cannot be determined.

Provisions are only recognised where a present obligation (be it legal or constructive) exists arising from past events the settlement of which is expected to result in an outflow of resources embodying economic benefits. This amount represents the best discounted estimate of the amount needed to be paid in order to discharge the obligation. The rate used to determine the present value of the liability reflects current market values and includes the additional effects of the specific risk associated with each liability.

Those risks in respect of which a future liability is only possible are disclosed in the section concerning commitments and risks and no provision is made.

P. Provisions for employee benefits

The Group provides various types of defined benefit pension plans, in keeping with the conditions and practices that are commonly applied locally in those countries in which it carries out its activities.

These defined benefit plans – which include staff leaving indemnities due to employees pursuant to the provisions of article 2120 of the Italian Civil Code – are based on the length of service of employees and the remuneration received by them over a predefined period of service. Specifically, the liability relating to the staff leaving indemnity is recognised at its actuarial value, in that it is regarded as an employee benefit payable under a defined benefit plan. Accounting for defined benefit plans involves the actuarial valuation of the amount of benefits vesting in employees in return for service rendered during the current and previous years, as well as discounting these benefits in order to determine the present value of the Group's obligations. The present value of the Group's obligations is determined by an external expert by what is known as the 'Projected Unit Credit Method'. This method, which one of the actuarial techniques applicable to 'vested benefits', considers each period of service as an additional unit of entitlement: the actuarial liability must therefore be quantified by taking into account only service up to the date on which it is measured; the total liability thus determined is therefore usually adjusted in proportion to the ratio between the years of service up to the reporting date and the total length of service up to the time the benefit is expected to be paid. This method also requires future salary increases – due for whatever reason up until the time employment is terminated (inflation, career progression, contract renewals, etc.) – to be taken into consideration.

The cost accruing during the year in respect of defined benefit plans and charged to the income statement as part of personnel costs is equal to the sum of the average present value of employees' vested benefits for service rendered by them during the year and the annual interest accruing on the present value of the Group's obligations as at the beginning of the year, calculated by using the discount rate for future outlays used to estimate the liability at the end of the previous year. The annual discount rate used to produce data is assumed equal to the period-end market rate for zero coupon bonds with a maturity that is the same as the residual average term of liabilities.

Actuarial gains and losses due to changes in the actuarial parameters previously used are recognised in the income statement proportionately over the average remaining length of service of the employees participating in the plan.

Q. Financial liabilities, trade payables and other current and non-current liabilities

They have been measured – upon initial recognition – at fair value and subsequently at amortised cost by applying the effective interest rate method. Whenever there is a change in the estimated future cash flows and they can be reliably estimated, the value of payables is recalculated in order to reflect this change on the basis of the present value of the new estimated future cash flows and the internal rate of return originally determined.

R. Recognition of revenues

Sales revenues are recognised when the significant risks and rewards incident to ownership have effectively been transferred or when a service has been rendered.

The recognition of revenues from services is based on the stage of completion effectively reached in providing said services.

Revenues are recognised net of returns, discounts, allowances and rebates, as well as the taxes directly related to them.

S. Recognition of costs

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

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

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

U. Dividends

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

V. Taxes

Current taxes are calculated at the average rate computed on the basis of the estimated result for the period.

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 by consolidated entities, when the timing of reversal is controlled by the Group and said it is probable that the differences will not reverse within a reasonably foreseeable timescale. Deferred tax assets, including those relating to tax losses from previous periods, are recognised for the portion not offset against deferred tax liabilities, to the extent that it is probable that future taxable income will be available against which they can be recovered. Deferred taxes are determined at the tax rates expected to be in force in those years in which the temporary differences are realised or reverse.

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 a legally enforceable right to set off exist.

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

W. Derivatives

Derivatives are assets and liabilities that are recognised at fair value. They are classified as hedging instruments whenever the relationship between the derivative and the item being hedged is formally documented and the effectiveness of the hedging arrangement – verified periodically – is high. When they hedge the risk of changes in the fair value of the underlying items (fair value hedges; e.g. hedging of the variability of the fair value of fixed-rate assets/liabilities), derivatives are recorded at fair value through profit or loss; accordingly, the hedged items are adjusted to reflect the changes in fair value associated with the risk hedged. When derivatives hedge the risk of changes in the cash flows from the underlying items (cash flow hedges; e.g. hedging of the variability of the cash flows generated by assets/liabilities due to exchange-rate fluctuations), the changes undergone by the fair value of derivatives are initially recognised in equity and subsequently transferred to the income statement, in the same period in which the hedged items affects the income statement.

Derivatives that do not meet the requirements for hedge accounting laid down by IAS 39 are recognised at fair value through profit or loss, with the change in the fair value of the hedged item carried under the heading ‘Other net financial income/(charges)’.

Determination of the fair value of financial instruments

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

X. Earnings per share

(i) Basic EPS

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

(ii) Diluted EPS

Diluted EPS is calculated by dividing the Group’s result of operations, adjusted by the portion of earnings attributable to the holders of preference shares, by the weighted average of ordinary shares outstanding during the year, excluding own shares. For the purpose of calculating diluted earnings per share, the weighted average of shares outstanding is modified by assuming the conversion of all dilu-

tive potential ordinary shares, while the Group's net result is adjusted in order to take into account the effects (net of taxes) of this conversion process. Diluted result per share is not calculated in the case of losses, since any dilution effect would lead to an improved result per share.

3.3 The use of estimates

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

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

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

- (i)* Depreciation of fixed assets: depreciation of fixed assets represents a sizeable cost for the Group. The cost of property, plant and machinery is depreciated by the straight-line method over the estimated useful life of the assets concerned. The useful life of the Group's assets is determined by the directors at the time they are purchased; it is based on past experience for similar assets, market conditions and expectations as to future events that could affect their useful life, such as changes in technology. Their actual useful life could therefore differ from their estimated useful life. The Group periodically assesses technological changes and industry developments, dismantling and disposal costs and recoverable value in order for the useful life remaining in an asset to be revised accordingly. This periodic revision process could lead to a change in the depreciation period considered and, therefore, in the depreciation charged in future years.
 - (ii)* Deferred taxes: deferred tax assets are recognised on the basis of forecast future earnings. The measurement of forecast future earnings for deferred tax recognition purposes depends on factors that may vary over time and may have a significant effect on the measurement of deferred tax assets.
 - (iii)* Risk provisions: in certain circumstances, determining whether there is a current obligation (be it legal or constructive) is not always straightforward. The directors evaluate such circumstances on an individual case basis, while also estimating the amount of financial resources needed to discharge the obligation concerned. When the directors feel that the emergence of a liability is only possible, the associated risks are disclosed in the section concerning commitments and risks and no accrual is made.
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(iv) Revenues from electricity sold by the subsidiary Sarlux Srl to the national grid operator – GRTN SpA 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 term of the contract – twenty years – and forecasts for the price of crude oil, which constitutes a determining factor when it comes to both electricity tariffs and electricity production costs; in the years ahead, crude oil prices could undergo significant changes compared with estimates as a result of events that cannot be predicted at present.

4. Acquisitions and business combinations

4.1 General

As already reported in the notes to the financial statements as at 31 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. 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 18 April 2006 the board of arbitrators, based in Geneva, found for SARAS. On 5 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 6 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 €M.

On 28 June 2006, the Court of Cagliari ordered the freeing of the 45% equity stake in Sarlux. Therefore, effective 28 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.

4.2 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 €M approximately, and includes the price paid as decided by the board of arbitrators, equal to about 117 €M, accessory charges of about 10 €M and the fair value of the option exercised, determined at the date of exercise of the option, equal to about 4 €M. 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 28 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.

4.3 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	Allocated value	Previously recognised value
Intangible assets - Other	18,297	18,297
Intangible assets - Electricity supply contracts	547,456	0
Land and buildings	10,392	10,392
Plant, machinery 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)
Net deferred tax liabilities	(98,137)	105,790
Other non-current liabilities	(461,067)	(461,067)

4.4 Provisional determination of the fair value of the assets and liabilities acquired

It should be noted that the fair value of the assets and liabilities acquired is still provisional. As a matter of fact, tests are being carried out on the accuracy of the fair values of certain assets acquired, which could lead to adjustments to the accounting impact of recognition of the above acquisition. We expect to arrive at an accurate determination of the fair values of the assets acquired by the time of preparation of the consolidated financial statements for the year ending 31 December 2006.

4.5 Disclosure concerning the decision to dispose of certain assets acquired

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

4.6 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 'Non-recurring gains and losses' in the consolidated income statement for the six months to 30 June 2006 includes income totalling some 199 €M 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.

4.7 Result for the period of the acquired equity interest in Sarlux

Because control was acquired on 28 June 2006, the consolidated income statement does not include the income statement of Sarlux Srl for the six months under consideration.

4.8 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 1 January 2006, the Group's revenues would have been higher by some 285 €M and the consolidated profit for the period would have been higher by some 24 €M.

5. Segment review

The main financial items for each segment (revenues and operating results) are reported in the following table:

€ thousands	Refining	Marketing	Power generation ^c	Other	Total
	1st Half 2005				
Net revenues from ordinary operations	2,060,453	587,969		13,670	2,662,092
less: intra-segment revenues	(471,493)	(146)		(6,837)	(478,476)
Revenues from third parties	1,588,960	587,823		6,833	2,183,616
Other income	19,946	1,747		128	21,821
less: intra-segment revenues	(4,212)	(182)		(75)	(4,469)
Other revenues from third parties	15,734	1,565		53	17,352
Operating result ^a	217,781	23,973		(4,796)	236,958
Net income from investments valued by the equity method			25,388	(54)	25,334
Total directly attributable assets	1,201,654	340,854	100,814	48,277	1,691,599
of which: equity interest valued by the equity method			100,814	1,604	102,418
Total directly attributable liabilities	1,143,462	165,071		41,140	1,349,673
Investments in tangible assets	27,387	822		193	28,402
Investments in intangible assets	170	60		42	272
	1st Half 2006				
Net revenues from ordinary operations	2,690,179	868,909		18,253	3,577,341
less: intra-segment revenues	(705,384)	(63,272)		(8,908)	(777,564)
Revenues from third parties	1,984,795	805,637		9,345	2,799,777
Other income	22,820	1,068		155	24,043
less: intra-segment revenues	(3,396)			(38)	(3,434)
Other revenues from third parties	19,424	1,068		117	20,609
Operating result ^a	173,175	19,086		(2,897)	189,364
Net income from investments valued by the equity method			32,278		32,278
Total directly attributable assets	1,271,894	399,098	1,619,881	38,990	3,329,863
of which: equity interest valued by the equity method			5,829	896	6,725
Total directly attributable liabilities	940,087	134,947	1,004,699	34,238	2,113,971
Investments in tangible assets	67,138	158		715	68,011
Investments in intangible assets	472	141		460	1,073

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

^b Total asset and liabilities are calculated after intra-segment eliminations.

^c Sarlux Srl has been consolidated with the line-by-line method as of 28 June 2006. Intra-segment transactions has been made at prevailing market conditions.

6. Trade receivables

Detailed information as follows:

	30/06/2006	31/12/2005	Change	
			Total	Of which Sarlux
Receivables:				
From trade debtors	556,513	395,687	160,826	123,779
From unconsolidated subsidiaries	745	44,881	(44,136)	0
Work in progress	3,416	2,220	1,196	0
Total	560,674	442,788	117,886	123,779

7. Inventories

Detailed information as follows:

	30/06/2006	31/12/2005	Change	
			Total	Of which Sarlux
Inventory:				
Raw material, spare parts and consumables	184,180	161,121	23,059	27,043
Work in progress and semi-finished products	64,716	54,003	10,713	1,585
Finished products and goods held for sale	435,058	325,912	109,146	0
Advances paid for stocks	343	372	(29)	0
Total	684,297	541,408	142,889	28,628

The increase in the value of inventories is mainly due to the increase of both quantities and prices.

8. Property, plant and equipment

Detailed information as follows:

Historical cost	31/12/2005	Increases	(Disposals)	Revaluations (write-downs)	Other	30/06/2006	Of which Sarlux
Land and buildings	114,287	101			7,859	122,247	14,958
Plant and equipments	1,067,898	28,560			827,897	1,924,355	814,686
Industrial and commercial equipments	12,307	1			3,140	15,448	489
Other assets	376,610	2,071	(276)		17,687	396,092	13,913
Asset under construction and advances	36,368	37,278	(30)		(7,706)	65,910	3,809
Total	1,607,470	68,011	(306)	0	848,877	2,524,052	847,855

Accumulated depreciation	31/12/2005	Depreciation rates	(Disposals)	Revaluations (write-downs)	Other	30/06/2006	Of which Sarlux
Land and buildings	30,546	1,376			2,694	34,616	3,494
Plant and equipments	865,142	22,805			204,311	1,092,258	202,768
Industrial and commercial equipments	9,730	766			(558)	9,938	217
Other assets	258,997	9,802	(274)		13,912	282,437	12,869
Total	1,164,415	34,749	(274)	0	220,359	1,419,249	219,348

Net book value	31/12/2005	Increases	(Disposals)	Depreciation	Other	30/06/2006	Of which Sarlux
Land and buildings	83,741	101	0	(1,376)	5,165	87,631	11,464
Plant and equipments	202,756	28,560	0	(22,805)	623,586	832,097	611,918
Industrial and commercial equipments	2,577	1	0	(766)	3,698	5,510	272
Other assets	117,613	2,071	(2)	(9,802)	3,775	113,655	1,044
Asset under construction and advances	36,368	37,278	(30)		(7,706)	65,910	3,809
Total	443,055	68,011	(32)	(34,749)	628,518	1,104,803	628,507

The increments from the previous period are mainly due to the investments incurred during the important maintenance cycle as already described.

The item "Other" refers to the acquisition of the 45% Sarlux stake from Enron

9. Intangibile assets

Categories	31/12/2005	Increases	Decreases	Other	(Amortisation)	30/06/2006	Of which Sarlux
Industrial and other patent rights	1	417		1,377	(311)	1,484	391
Concessions, licenses, trademarks and similar rights	572	0		(23)	(85)	464	452
Goodwill	2,515	0			0	2,515	
Assets under construction and advances	708	482		(638)	0	552	372
Other intangible assets	539	174	(928)	564,910	(117)	564,578	564,538
Total	4,335	1,073	(928)	565,626	(513)	569,593	565,753

The item "Other intangible assets" refers to the 45% Sarlux Srl acquisition and include the fair value of the sale contract between Sarlux Srl and the national grid operator Gestore del Sistema Elettrico (GRTN).

10. Short and medium-long term financial liabilities

Detailed information as follows:

	30/06/2006	31/12/2005	Change	
			Total	Of which Sarlux
Loans from banks	120,375	57,925	62,450	101,342
Bank overdrafts	99,936	40,416	59,520	
Derivatives instruments	5,658		5,658	
Other loans	1,271	1,271	0	
Loans from unconsolidated Group companies	1,218	2,552	(1,334)	
Total short term financial liabilities	228,458	102,164	126,294	101,342
Loans from banks	395,401	132,004	263,397	319,330
Total long term financial liabilities	395,401	132,004	263,397	319,330

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

€/Mil.	Date of the borrowing	Amount originally borrowed	Base rate	Outstanding as at 31/12/2005	Outstanding as at 30/06/2006	Maturity			Security
						1 year	1-5 year	More than 5 years	
Saras SpA									
Banca Popolare di Verona	16/12/2004	20.0	Euribor 3M	20.0					
Banca Intesa in Pool	21/12/2001	87.8	Euribor 3M	52.7					
S. Paolo in Pool	29/12/1999	77.5	Euribor 6M	20.7					
San Paolo Imi	20/12/2004	30.0	Euribor 6M	30.0	30.0	5.0	25.0	-	30.0
Unicredit	20/12/2004	50.0	Euribor 6M	50.0	50.0	8.3	41.7	-	50.0
Finanziamento Legge 46	9/12/1992	10.9	2.47%	1.3	1.3	1.3	-	-	
Total Saras SpA				174.6	81.3	14.6	66.7	-	
Sartec SpA									
San Paolo Imi	30/06/2001	1.7	2.35%	0.9	0.9	0.2	0.7	-	
San Paolo Imi	30/06/1997	1.2	2.95%	0.2	0.2	0.2	-	-	
Akhela Srl									
Banco di Sardegna	24/04/2002	3.1	Euribor 6M	2.3	2.1	0.7	1.4		
BNL	2/10/2002	8.3	Euribor 6M	5.5	4.1	2.9	1.2		
Saras Energia SA									
Banca Esp. De Credito	11/09/2002	10.0	Euribor 6M	7.8	7.2	1.1	4.4	1.7	
Sarlux Srl									
Banca Intesa	29/11/1996	572.0	Libor 3M	277.0	251.0	61.0	177.1	13.0	251
BEI	29/11/1996	180.0	7.35%	94.0	86.2	21.0	61.1	4.0	85
BEI	29/11/1996	208.0	Euribor 3M	94.0	84.0	20.0	60.0	4.0	84
Total bank borrowings				199.2	517.0	121.7	372.7	22.7	

Loans received from San Paolo Imi SpA (originally 30 €M) is subject to the following 2 covenants: (referred to the holding company): (i) Debt/Equity ratio of less than 2.3; and (ii) EBITDA/net interest expense ratio greater than 3.

Loans received from Sarlux Srl must be reimbursed upon request of the Facilities Agent in the following case: (i) the "Loan Life Cover Ratio" (Net Present Value of the Available Cash Flow Post Tax divided by the total debt) is less than 1.5; (ii) the "Annual Debt Service Cover Ratio" (Available Cash Flow Post Tax – for the following 12 months – divided by the total debt) is less than 1; (iii) the "Forecast Annual Debt Service Cover Ratio" is less than 1.

11. Trade and other payables

Detailed information as follows:

	30/06/2006	31/12/2005	Change	
			Total	Of which Sarlux
Advances from customers: portion due within 1 year	1,101	1,223	(122)	
Amounts payable to suppliers: portion due within 1 year	620,097	498,494	121,603	22,963
Trade payables to unconsolidated group companies	0	13,350	(13,350)	
Trade payables to associated companies	150	115	35	
Total	621,348	513,182	108,166	22,963

12. Current tax liabilities

Detailed information as follows:

	30/06/2006	31/12/2005	Change	
			Total	Of which Sarlux
IRES - corporate tax	5,984	25,932	(19,948)	
IRAP - trade income	2,701	7,986	(5,285)	2,304
VAT	16,256	13,828	2,428	
Other	42,841	28,003	14,838	55
Total	67,782	75,749	(7,967)	2,359

The reduction of IRES and IRAP is due to the payments to the tax authorities of the amounts related to 2005 and the advance for 2006 net of the amounts related to the first half 2006.

The item "Other" include debt for excise duties.

13. Provisions for risks

Detailed information as follows:

	30/06/2006	31/12/2005	Change	
			Total	Of which Sarlux
Provision for employee benefit	187		187	
Provision for the dismantling of plant	16,826	13,526	3,300	3,300
Provision for products guarantee	49		49	
Risk provision for equity interests		354	(354)	
Other risk provisions	10,245	3,689	6,556	6,555
Total	27,307	17,569	9,738	9,855

The increase is mainly due to the acquisition of the 45% stake of Sarlux Srl; in particular in the item "Other risk provisions" a provision of euro 5,845 thousand has been made in order to comply to the Emission Trading regulations.

14. Deferred taxes

The increase of euro 113.258 thousand is due to the deferred taxes calculated on the fair value of the sale contract between Sarlux Srl and the national grid operator Gestore del Sistema Elettrico (GRTN).

Deferred taxes are reported net of tax assets.

15. Other non current liabilities

	30/06/2006	31/12/2005	Change	
			Total	Of which Sarlux
Advances from customers		1,484	(1,484)	
Amounts payable to welfare and social security agencies	180	148	32	
Other payables	10,934	4,355	6,579	
Trade payables to unconsolidated subsidiaries		51,046	(51,046)	
Other accrued liabilities	1,536		1,536	691
Deferred income	450,189		450,189	450,189
Total	462,839	57,033	405,806	450,880

The change is due to the application of the accounting principle IAS 17 (and esplicative notes IFRIC 4) to the electricity sale contract between Sarlux and GRTN (the national grid operator). Pursuant the above mentioned accounting principle the sale contract must be treated as a operational lease agreement and all the revenues must be linearized over the life of the sale contract (i.e. 20 years).

Forward curve of crude oil is utilized in order to estimate forward revenues.

16. Shareholders' equity

The Group shareholders' equity as at 30 June 2006 is equal to 1,215,892 euro thousand (to be compared to 528,768 euro thousand as at 31 December 2005).

Please refer to the table previously reported for more detailed information.

Main changes during the period as follows:

- Share capitale increased by 3,447 euro thousand in connection to the Capital increase (sale of 60,000 new ordinary shares at the price of euro 6 per share);
- Other reserves increased by 338,983 euro thousand (net of IPO costs) thousand in connection to the Capital increase;
- Other reserves increased by 188,940 euro thousand in connection to the acquisition of Sarlux Srl. as described in note 4. In particular such increase is the 55% of the fair value of the Sarlux Srl asset and liabilities;
- Decrease of 170,181 euro thousand for dividend distribution;
- Increase by 325,935 euro thousand due to the profit of the period.

17. Earnings per share

In the calculation of the "base earning per share" the net profit of the Group has been used.

The base earning per share of the period is equal to euro 36.58 cent.

The diluted earning per share is equal to the base one.

18. Revenues

	30/06/2006	30/06/2005	Change
Revenues from ordinary operations	2,798,582	2,181,554	617,028
Other	1,195	2,062	(867)
Total	2,799,777	2,183,616	616,161

The increase of the revenues from ordinary operations is mainly due to the increase of the product prices in the period.

19. Other income

	30/06/2006	30/06/2005	Change
Sales of compulsory storage	5,282	5,228	54
Tanker Ship chartering	0	411	(411)
Sale of sundry materials	1,229	690	539
Insurance reimbursements	549	479	70
Other	13,549	10,545	3,004
Total	20,609	17,353	3,256

The item “other” refers to sale of services to Sarlux Srl on the basis of term contracts.

20. Purchases of raw materials, spare parts and consumables

	30/06/2006	30/06/2005	Change
Purchases of raw materials, spare parts and consumables	2,382,518	1,727,669	654,849
Total	2,382,518	1,727,669	654,849

The change is mainly due to the increase of the crude oil prices.

21. Cost of services and sundry costs

	30/06/2005	30/06/2005	Change
Cost of services	150,384	133,101	17,283
Cost of utilisation of third parties assets	3,489	3,783	(294)
Provisions for risks		56	(56)
Other provisions		214	(214)
Other operating charges	6,255	5,887	368
Total	160,128	143,041	17,087

Cost of services includes chartering of tankships, other transportation costs, electricity, steam, Hydrogen and other utilities; the change is mainly to incremental costs for electricity, steam and catalyst. Other operating charges includes local taxes not related to income (ICI) membership fees.

22. Personnel costs

	30/06/2006	30/06/2005	Change
Salaries and wages	36,967	36,280	687
Social contributions	11,539	11,291	248
Staff leaving indemnity	1,595	2,562	(967)
Pensions and similar obligations	-420	1,353	(1,773)
Other	1,301	1,203	98
Salaries to company administrators	2,882	2,758	124
Total	53,864	55,447	(1,583)

The change in the items “staff leaving indemnity” and “pensions and similar obligations” is due to an increase of the actualization rate used (4.75% vs 4%), pursuant to IAS 19 (notes 78 and 79).

23. Depreciation, amortisation and write-downs

	30/06/2006	30/06/2005	Change
Amortisation of intangible assets	513	1,430	(917)
Depreciation of tangible assets	34,752	36,387	(1,635)
Other write-down of assets	0	0	0
Write-downs of receivables included in current assets	(753)	37	(790)
Total	34,512	37,854	(3,342)

24. Net income/(charges) from equity interests

	30/06/2006	30/06/2005	Change
Unconsolidated subsidiaries valued by the equity method			
Parchi Eolici Ulassai Srl	3,493	(56)	3,549
Sarlux Srl	28,785	25,388	3,397
Total	32,278	25,332	6,946

Sarlux Srl is still valued by the equity method in the first semester since acquisition took place as at 28 June 2006.

25. Financial income/(charges)

	30/06/2006	30/06/2005	Change
Other financial income:			
– from non current financial assets	457	406	51
Other financial income			
– from unconsolidated subsidiaries	487	33	454
– interest on bank and postal accounts	307	507	(200)
– differentials realised on derivatives	12,286	1,070	11,216
– other income	768	68	700
Interests and other financial charges			
– to unconsolidated subsidiaries		(9)	9
– to associated companies	(15)	(6)	(9)
– fair value of derivatives recorded at period-end	(6,792)	(56,367)	49,575
– differentials realised on derivatives	(17,256)	(24,593)	7,337
– other (interests on loans, etc.)	(10,752)	(4,128)	(6,624)
Exchange gain and losses on non-commercial transitions	927	(5,782)	6,709
Total	(19,583)	(88,801)	69,218

The main difference is attributable to the use of derivative instruments for the hedging of refining margins.

26. Non-recurring income/(charges)

	30/06/2006	30/06/2005	Change
I.P.O. costs	(12,922)		(12,922)
Sarlux Srl acquisition	199,167		199,167
Total	186,245	0	186,245

The I.P.O. costs refers to consultants fees paid and bonus to Saras SpA management. For the non-recurring income related to the Sarlux Srl acquisition please refer to note 4.

Related parties

The table below shows the related parties and the transactions with the Saras Group.

Description	Value of the transaction, in absolute terms (€/000) and in relative terms (%)				Financial item	Description of the transaction
	2005		30/06/2006			
SARLUX Srl						
Sale of products	138,996	2.68%	108,323	3.87%	Revenues from ordinary operations	Sale of product
Saras personnel assigned to Sarlux	8,169	20.66%	3,834	18.60%	Other income	Services Outsourcing
Other services	10,099	25.54%	4,590	22.27%	Other income	Services Outsourcing
Rentals	137	0.35%	35	0.17%	Other income	Services Outsourcing
Purchase of raw material	(2,608)	0.06%	(1,161)	0.05%	Purchases of raw mat., spare parts and cons.	Purchase of raw material
Sale of utilities	(35,446)	11.68%	(24,458)	15.27%	Cost of services and sundry costs	Sale of steam and hydrogen
Other services	(693)	0.23%	(253)	0.16%	Cost of services and sundry costs	Other services
Trade receivables	43,126	9.74%	26,218	4.68%	Trade receivables	Trade receivables
VAT/IRES receivables			19,289	26.54%	Other current activities	VAT/IRES receivable
Trade payables	(13,029)	2.54%	(11,232)	1.81%	Trade payables	Trade payables
Other trade payables	(51,046)	89.50%	(51,876)	11.21%	Other current liabilities	Othertrade payables
Financial debt	(39)	0.04%	(56)	0.02%	Short-term financial liabilities	Financial debt
VAT/IRES payable	(968)	0.95%	0	0.00%	Short-term financial liabilities	VAT/IRES payable
XANTO Srl (in liquidation)						
Financial income	18	0.02%	0	0.00%	Net financial income/(charges)	Intercompany loan
Trade receivables	5	0.00%	0	0.00%	Trade receivables	Trade receivables
VAT/IRES debt	(429)	0.42%	0	0.00%	Short-term financial liabilities	VAT/IRES payable
XANTO BASILICATA Srl (in liquidation)						
VAT/IRES payable	(3)	0.00%	0	0.00%	Short-term financial liabilities	VAT/IRES payable
ISOA SUD Srl (in liquidation)						
VAT/IRES payable	(13)	0.01%	(11)	0.00%	Short-term financial liabilities	VAT/IRES payable
NOVA EOLICA Srl						
Fiancial charges	(9)	0.01%	(15)	0.08%	Net financial income/(charges)	Intercompany loan
Trade payables	0	0.00%	(15)	0.00%	Trade payables	Trade payables
Intercompany loan	(1,000)	0.98%	(1,000)	0.44%	Short-term financial liabilities	Intercompany loan

Description	Value of the transaction, in absolute terms (€/000) and in relative terms (%)				Financial item	Description of the transaction
	2005		30/06/2006			
SARDEOLICA Srl						
Services outsourcing	35	0.09%	159	0.77%	Other income	Services outsourcing
Saras personnel assigned to Sardeolica			295	1.43%	Other income	Services outsourcing
Financial income	1,142	-1.49%	165	0.84%	Net financial income/(charges)	Intercompany loan
Trade receivables	707	0.16%	398	0.07%	Trade receivables	Trade receivables
VAT/IRES receivable			2,978	4.10%	Other current liabilities	VAT/IRES receivable
Intercompany loan	17,717	46.19%	9,845	13.54%	Other current liabilities	Intercompany loan
PARCHI EOLICI ULASSAI Srl						
Services outsourcing	6	0.02%	3	0.01%	Other income	Services outsourcing
Financial income	329	-0.41%	48	0.25%	Net financial income/(charges)	Intercompany loan
Financial charges	(11)		0		Net financial income/(charges)	Intercompany loan
Trade receivables	186	0.04%	27	0.00%	Trade receivables	Trade receivables
Trade payables	(11)	0.00%	0	0.00%	Trade payables	Trade payables
Intercompany loan	1,720	4.48%	1,720	2.37%	Other current liabilities	Intercompany loan
VAT/IRES payable	(133)	0.13%	(242)	0.11%	Short-term financial liabilities	VAT/IRES payable
IMMOBILIARE ELLECI SpA						
Rentals	(426)	0.14%	(222)	0.14%	Cost of services and sundry costs	Rent of building and parking slots
SECURFIN HOLDINGS SpA						
Saras personnel assigned to Securfin	0	0.00%	4	0.02%	Other income	Saras personnel assigned to Securfin
Rentals	(583)	0.19%	(281)	0.18%	Cost of services and sundry costs	Rent of building and parking slots
Trade receivables	0	0.00%	4	0.00%	Trade receivables	Trade receivables
Trade payables	0	0.00%	(207)	0.03%	Trade payables	Trade payables
ANGELO MORATTI S.A.p.A.						
Saras personnel assigned to AM S.A.p.A.	0	0.00%	6	0.03%	Other income	Saras personnel assigned to AM S.A.p.A.
Trade receivables	0	0.00%	6	0.00%	Trade receivables	Trade receivables
DYNERGY Srl						
Saras personnel assigned to DYNERGY	0	0.00%	2	0.01%	Other income	Saras personnel assigned to DYNERGY
Services outsourcing	(1,257)	0.41%	(802)	0.50%	Cost of services and sundry costs	Services outsourcing
Trade receivables	0	0.00%	2	0.00%	Trade receivables	Trade receivables
Trade payables	(180)	0.04%	(237)	0.04%	Trade payables	Trade payables

Description	Value of the transaction, in absolute terms (€/000) and in relative terms (%)				Financial item	Description of the transaction
	2005		30/06/2006			
HANGZHOU DADI ENCON ENVIRONMENTAL EQUIPMENT CO. LTD - Cina						
Trade receivables	1	0.00%	0	0.00%	Trade receivables	Trade receivables
Advances on goods	(53)	0.01%	(53)	0.01%	Trade payables	Advances on goods

All the transactions took place at market conditions there are no provision for risks on trade receivables Management with strategic responsibilities accrued salaries for a total of 6,555 euro thousand in the first semester 2006, 7,373 euro thousand in 2005 and 5,941 euro thousand in 2004.

Detail of the Group companies

Company name	Legal address	Currency	Share capital	Consolidation ratio (%)		% on share capital	Shareholder	% of voting rights	Type of control
				As at 30 June 2006	As at 31 December 2005				
Arcola Petrolifera SpA	Sarroch (CA)	Euro	7,755,000	100%	100%	100%	Saras SpA	100%	Full control
Sartec Saras Ricerche e Tecnologie SpA	Assemini (CA)	Euro	3,600,000	100%	100%	100%	Saras SpA	100%	Full control
Consorzio Ricerche Associate	Capoterra (CA)	Euro	3,105,971	100%	100%	100%	Saras SpA	100%	Full control
Ensar Srl Subsidiaries:	Milan	Euro	100,000	100%	100%	100%	Saras SpA	100%	Full control
– Eolica Italiana Srl	Cagliari	Euro	100,000	100%	100%	100%	Ensar Srl	100%	Full control
Akhela Srl	Uta (CA)	Euro	3,000,000	100%	100%	100%	Saras SpA	100%	Full control
Sarint SA Subsidiaries:	Luxembourg	Euro	50,705,314	100%	100%	100%	Saras SpA	100%	Full control
– Saras Energia SA	Madrid (Spain)	Euro	44,559,840	100%	100%	100%	Sarint SA	100%	Full control
– Reasar SA	Luxembourg	Euro	1,225,001	100%	100%	100%	Sarint SA	100%	Full control
Sarlux Srl	Sarroch (CA)	Euro	27,730,467	100%	55%	100%	Saras SpA	100%	Full control
Parchi Eolici Ulassai Srl Subsidiaries:	Cagliari	Euro	500,000	70%	70%	70%	Saras SpA	70%	Joint venture
– Sardeolica Srl	Cagliari	Euro	56,636	100%	100%	100%	Parchi Eolici Ulassai Srl	70%	Joint venture
Xanto Srl in liquidazione Subsidiaries:	Milan	Euro	100,000	100%	100%	100%	Akhela Srl	100%	Full control
– Isoa Sud Srl in liquidazione	Milan	Euro	10,400	100%	100%	100%	Xanto Srl	100%	Full control
– Xanto Basilicata Srl in liquidazione	Milan	Euro	10,000	100%	100%	100%	Xanto Srl	100%	Full control
Dynergy Srl	Genoa	Euro	179,000	37.5%	37.5%	37.5%	Saras Ricerche e Tecnologie SpA	37.5%	Associated
Hangzhou Dadi Encon Environmental Equipment Co.	Hangzhou	RMB	14,050,200	37.5%	37.5%	37.5%	Saras Ricerche e Tecnologie SpA	37.5%	Associated carried at equity
Nova Eolica Srl	Cagliari	Euro	10,000	20%	20%	20%	Ensar Srl	20%	Associated carried at equity
Consorzio Cesma	Castellamonte (TO)	Euro	51,000	5%	5%	5%	Saras Ricerche e Tecnologie SpA	5%	Other carried at fair value
Consorzio Cifra	Cagliari	Euro	92,000	16.67%	16.67%	16.67%	Akhela Srl	16.67%	Other carried at fair value
Consorzio La Spezia Energia	La Spezia	Euro	50,000	5%	5%	5%	Arcola Petrolifera SpA	5%	Other carried at fair value
Consorzio Qualità e Tratt. Acque	Neples	Euro	10,000	9.07%	9.07%	9.07%	Saras Ricerche e Tecnologie SpA	9.07%	Other carried at fair value
Consorzio Techno Mobility	Cagliari	Euro	57,500	17.4%	17.4%	17.4%	Saras Ricerche e Tecnologie SpA	17.4%	Other carried at fair value
Hydrocontrol Soc. Consortile a r.l.	Capoterra (CA)	Euro	1,033,000	17%	17%	17%	Saras SpA	17%	Other carried at fair value
Sarda Factoring	Cagliari	Euro	8,320,000	4.75%	4.75%	4.75%	Saras SpA	4.75%	Other carried at fair value

Significant events by the end of the half year

Please refer to the Highlights section for a detailed description.

With reference to the 37 service stations acquisition from the Caprabo Group, we would like to highlight that the acquisition cost is equal to about 32 €M and that the valuation of financial assets and liabilities is in due course.

Balance sheet, profit and loss account and cash flow statement of the Holding Company

€ thousands	30/06/2006	31/12/2005
ASSETS		
Current assets	1,095,521	891,210
Cash and cash equivalents	27,073	16,892
Other financial assets held for trading or available for sale	13,106	12,998
Trade receivables	360,294	351,490
<i>of which: with related parties</i>	<i>148,633</i>	<i>156,269</i>
Inventory	540,527	424,216
Current tax assets	15,977	22,412
Other assets	138,544	63,202
<i>of which: with related parties</i>	<i>71,545</i>	<i>38,284</i>
Non-current assets	736,348	547,828
Property, plant and equipment	438,365	403,764
Intangible assets	1,404	1,355
Equity interests consolidated by the equity method	275,706	141,663
Other equity interests	728	728
Other financial assets	20,145	318
Total assets	1,831,869	1,439,038
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities	773,623	666,711
Short-term financial liabilities	151,411	119,394
<i>of which: with related parties</i>	<i>32,267</i>	<i>41,124</i>
Trade and other payables	562,114	467,123
<i>of which: with related parties</i>	<i>18,316</i>	<i>20,384</i>
Current tax liabilities	13,755	39,853
Other liabilities	46,343	40,341
Non-current liabilities	300,575	335,643
Long-term financial liabilities	66,667	120,281
Provisions for risks	19,081	13,526
Provisions for employee benefits	40,640	46,329
Deferred tax liabilities	105,920	86,667
Other liabilities	68,267	68,840
<i>of which: with related parties</i>	<i>62,403</i>	<i>64,889</i>
Total liabilities	1,074,198	1,002,354
SHAREHOLDERS' EQUITY		
Share capital	54,630	51,183
Legal reserve	10,237	10,237
Other reserves	685,929	268,915
Profit/(loss) carried forward	(142,050)	(140,230)
Profit/(loss) for the period	148,925	246,579
Total shareholders' equity	757,671	436,684
Total liabilities and shareholders' equity	1,831,869	1,439,038

€ thousands	Share capital	Legal reserve	Other reserves	Reserve for own shares	Profit/ (loss) for the period	Shareholders' equity
Balance as at 01/01/2005	51,183	10,237	208,364	(140,541)	200,930	330,173
Appropriation of previous period profit			200,930		(200,930)	0
Net profit for the period					61,050	61,050
Dividends			(140,065)			(140,065)
Balance as at 30/06/2005	51,183	10,237	269,229	(140,541)	61,050	251,158
Utilization of other reserves			(314)	311		(3)
Net profit for the period					185,529	185,529
Balance as at 31/12/2005	51,183	10,237	268,915	(140,230)	246,579	436,684
Capital increase (net of IPO costs)	3,447		338,983			342,430
Appropriation of previous period profit			108,516		(108,516)	0
Dividends			(30,485)		(139,696)	(170,181)
Other				(1,820)	1,633	(187)
Net profit for the period					148,925	148,925
Balance as at 30/06/2006	54,630	10,237	685,929	(142,050)	148,925	757,671

Income statements

€ thousands	H1 2006	H1 2005
Revenues from ordinary operations	2,690,179	2,060,453
<i>of which: with related parties</i>	813,706	602,891
Other income	22,820	19,946
<i>of which: with related parties</i>	12,195	12,927
Total revenues	2,712,999	2,080,399
Purchases of raw materials, spare parts and consumables	(2,327,720)	(1,662,880)
<i>of which: with related parties</i>	(64,132)	1,364
Cost of services and sundry costs	(146,062)	(126,886)
<i>of which: with related parties</i>	(31,032)	(23,267)
Personnel costs	(42,914)	(45,598)
Depreciation, amortization and write-downs	(32,919)	(38,905)
Total costs	(2,549,615)	(1,874,269)
Operating results	163,384	206,130
Net income (charges) from equity interests	(2,530)	0
Other financial income/(charges), net	(15,860)	(87,245)
<i>of which: with related parties</i>	119	573
Non recurring income/(charges)	57,664	
Profit before taxes	202,658	118,885
Income tax for the period	(53,733)	(57,835)
Net profit/(loss) for the period	148,925	61,050
Earnings per share - base (Euro cent)	16.71	6.85
Earnings per share - diluted (Euro cent)	16.71	6.85

	30/06/2006	30/06/2005
A - Cash and cash equivalents at beginning of period (short-term net financial indebtedness)	16,892	3,759
B - Cash generated from/(used in) operating activities		
Profit/(Loss) for the period of the Group	148,925	61,050
Amotization, depreciation and write-down of fixed assets	32,919	38,905
Net (income)/charges from equity interests	2,530	0
Net change in provisions for risks and charges	5,555	2,537
Net change in employee benefits	(5,689)	437
Change in tax liabilities and tax assets	19,253	25,475
Income taxes	53,733	57,835
Other non cash items	(10,143)	(3,416)
Profit/(Loss) from operating activities before changes in working capital	247,083	182,823
(Increase)/Decrease in trade receivables	(8,803)	(109,553)
<i>of which: with related parties</i>	7,636	4,199
(Increase)/Decrease in inventory	(116,312)	(159,671)
(Increase)/Decrease in trade and other payables	94,991	143,604
<i>of which: with related parties</i>	(2,068)	1,801
Change in other current assets	(68,908)	39,165
<i>of which: with related parties</i>	(33,261)	(42,530)
Change in other current liabilities	27,877	33,116
Income taxes paid	(97,929)	(87,586)
Change in other non-current liabilities	(574)	(52,907)
<i>of which: with related parties</i>	(2,486)	0
Total (B)	77,425	(11,009)
C - Cash generated from/(used in) investing activities		
(Investments) in tangible and intangible assets, net of divestments and accumulated depreciation and amortization	(67,138)	(27,557)
Change in equity interests valued by the equity method	0	29
45% Sarlux stake acquisition	(127,047)	0
Interests paid	(3,777)	(3,225)
Total (C)	(197,962)	(30,753)
D - Cash generated from/(used in) financing activities		
(Increase)/Decrease in medium/long term borrowings	(53,614)	(34,661)
(Increase)/Decrease in other financial assets	(19,934)	(378)
(Increase)/Decrease in short term borrowings	32,017	95,542
<i>of which: with related parties</i>	(8,857)	2,361
Capital increase	342,430	0
Dividend distribution to shareholders'	(170,181)	0
Total (D)	130,718	60,503
E - Cash flow for the period (B + C + D)	10,181	18,741
F - Cash and cash equivalents at the end of period (short-term net financial indebtedness)	27,073	22,500

Transactions with related parties

Description	Value of the transaction, in absolute terms (€/000) and in relative terms (%)				Financial item	Description of the transaction
	2005		30/06/2006			
SARLUX Srl						
Sale of products	138,996	2.82%	108,323	4.03%	Revenues from ordinary	Sale of products operations
Saras personnel	8,169	18.28%	3,834	16.80%	Other income	Saras personnel as per contract
Sale of services	10,099	22.60%	4,590	20.11%	Other income	Sale of services as per contract
Rentals	137	0.31%	35	0.15%	Other income	As per contract
Purchase of raw materials	(2,608)	0.06%	(1,161)	0.05%	Purchases of raw materials...	Purchase of raw material as per contract
Utilities	(35,446)	12.94%	(24,458)	16.73%	Cost of services and sundry costs	Purchase of steam and hydrogen
Purchase of services	(693)	0.25%	(253)	0.17%	Cost of services and sundry costs	As per contract
Trade receivables	43,126	12.27%	26,218	7.28%	Trade receivables	Sale of products
IRES and VAT receivables			19,289	12.17%	Other current activities	IRES and VAT receivables
Trade payables	(14,976)	3.21%	(11,232)	2.00%	Trade payables	Trade payables
Trade payables	(64,889)	94.26%	(62,403)	91.41%	Other non-current liabilities	Trade payables
Financial liabilities	(39)	0.03%	(56)	0.04%	Short term financial liabilities	Financial liabilities
IRES and VAT payables	(968)	0.81%	0	0.00%	Short term financial liabilities	IRES and VAT payables
ARCOLA PETROLIFERA SpA						
Sale of products	415,243	8.43%	230,238	8.56%	Revenues from ordinary	Sale of petroleum products operations
Saras personnel	284	0.64%	104	0.46%	Other income	Saras personnel
Sale of services	4,431	9.92%	1,855	8.13%	Other income	Transportation costs
Financial income	113	0.03%	59	0.23%	Other financial income/(charges)	Intercompany loan
Purchase of raw materials	(55)	0.00%	0	0.01%	Purchases of raw materials	Purchase of consumables
Purchase of services	(553)	0.20%	(333)	0.23%	Cost of services and sundry costs	Sundry costs on sales
Financial charges	(138)	0.03%	(96)	0.23%	Other financial income/(charges)	Interests on intercompany loan
Trade receivables	64,489	18.35%	53,725	14.91%	Trade receivables	Trade receivables
IRES and VAT receivables	6,282	9.94%	4,598	2.90%	Other current activities	IRES and VAT receivables
Trade payables	(109)	0.02%	(145)	0.03%	Trade payables	Trade payables
Financial liabilities	(8,497)	7.12%	(4,281)	2.83%	Short term financial liabilities	Intercompany loan

Description	Value of the transaction, in absolute terms (€/000) and in relative terms (%)				Financial item	Description of the transaction
	2005		30/06/2006			
SARAS RICERCHE E TECNOLOGIE SpA						
Sale of products	60	0.13%	20	0.09%	Other income	Sale of products
Saras personnel	765	1.71%	293	1.28%	Other income	Saras personnel
Sale of services	27	0.06%	23	0.10%	Other income	Sale of services
Financial income	257	0.35%	173	1.09%	Other financial income/(charges)	Interests on intercompany loan
Purchase of raw materials	(65)	0.00%	(23)	0.00%	Purchases of raw materials	Purchase of consumables
Purchase of services	(4,254)	1.55%	(4,210)	2.88%	Cost of services and sundry costs	Engineering services
Trade receivables	722	0.21%	497	0.14%	Trade receivables	Trade receivables
Intercompany loan	11,700	18.51%	12,323	7.77%	Other current activities	Intercompany loan
Trade payables	(4,149)	0.89%	(4,290)	0.76%	Trade payables	Trade payables
IRES and VAT receivables	(342)	0.29%	(250)	0.17%	Short term financial liabilities	IRES and VAT receivables
AKHELA Srl						
Sale of products	6	0.01%	4	0.02%	Other income	Sale of products
Saras personnel	428	0.96%	149	0.65%	Other income	Saras personnel
Sale of services	358	0.80%	213	0.93%	Other income	Sale of services
Purchase of services	(2,953)	1.08%	(225)	0.15%	Cost of services and sundry costs	IT management
Financial charges	(227)	0.31%	(72)	0.45%	Other financial income/(charges)	Interests on intercompany loan
Trade receivables	781	0.22%	328	0.09%	Trade receivables	Trade receivables
Trade payables	(556)	0.12%	(1,864)	0.33%	Trade payables	Trade payables
Intercompany loan	(7,011)	5.87%	(5,652)	3.73%	Short term financial liabilities	Intercompany loan
IRES and VAT receivables	(2,903)	2.43%	(980)	0.65%	Short term financial liabilities	IRES and VAT payables
XANTO Srl (in liquidation)						
Financial income	18	0.02%	0	0.00%	Other financial income/(charges)	Interests on intercompany loan
Trade receivables	5	0.00%	0	0.00%	Trade receivables	Trade receivables
IRES and VAT payables	(429)	0.36%	0	0.00%	Short term financial liabilities	IRES and VAT payables
XANTO BASILICATA Srl (in liquidation)						
IRES and VAT payables	(3)	0.00%	0	0.00%	Short term financial liabilities	IRES and VAT payables

Description	Value of the transaction, in absolute terms (€/000) and in relative terms (%)				Financial item	Description of the transaction
	2005		30/06/2006			
ISOA SUD Srl (in liquidation)						
IRES and VAT payables	(13)	0.01%	(11)	0.01%	Short term financial liabilities	IRES and VAT payables
EOLICA ITALIANA Srl						
Saras personnel	50	0.11%	37	0.16%	Other income	Saras personnel
Sale of services	27	0.06%	16	0.07%	Other income	Saras personnel
Financial income	6	0.02%	0	0.09%	Other financial income/(charges)	Interests on intercompany loan
Financial charges	(19)	0.02%	(15)	0.09%	Other financial income/(charges)	Interests on intercompany loan
Trade receivables	1	0.00%	53	0.01%	Trade receivables	Trade receivables
IRES and VAT receivables	87	0.14%	0	0.00%	Other current activities	IRES and VAT receivables
Trade payables	(108)	0.02%	(96)	0.02%	Trade payables	Trade payables
Intercompany loan	(1,220)	1.02%	(617)	0.41%	Short term financial liabilities	Intercompany loan
IRES and VAT payables	0	0.00%	(111)	0.07%	Short term financial liabilities	IRES and VAT payables
ENSAR Srl						
Sale of services	13	0.03%	6	0.03%	Other income	Sale of services
Financial income	15	0.02%	12	0.08%	Other financial income/(charges)	Interests on intercompany loan
Trade receivables	36	0.01%	6	0.00%	Trade receivables	Trade receivables
Intercompany loan	739	1.17%	792	0.50%	Other current activities	Intercompany loan
IRES and VAT payables	(8)	0.01%	(9)	0.01%	Short term financial liabilities	IRES and VAT payables
NOVA EOLICA Srl						
Financial charges	(9)	0.01%	(15)	0.09%	Other financial income/(charges)	Interests on intercompany loan
Trade payables	0	0.00%	(15)	0.00%	Trade payables	Trade payables
Intercompany loan	(1,000)	0.84%	(1,000)	0.66%	Short term financial liabilities	Intercompany loan
SARDEOLICA Srl						
Sale of services	35	0.08%	29	0.13%	Other income	Sale of services
Saras personnel			295	1.29%	Other income	Saras personnel
Financial income	1,142	-1.56%	165	1.04%	Other financial income/(charges)	Interests on intercompany loan
Trade payables	707	0.20%	398	0.11%	Trade receivables	Trade receivables
IRES and VAT receivables			2,978	1.88%	Other current activities	IRES and VAT receivables
Intercompany loan	17,717	28.03%	9,845	6.21%	Other current activities	Intercompany loan

Description	Value of the transaction, in absolute terms (€/000) and in relative terms (%)				Financial item	Description of the transaction
	2005		30/06/2006			
PARCHI EOLICI ULASSAI Srl						
Sale of services	6	0.01%	3	0.01%	Other income	Sale of services
Fiancial income	329	0.43%	48	0.30%	Other financial income/(charges)	Interests on intercompany loan
Financial charges	(11)	0.43%	0	0.00%	Other financial income/(charges)	Interests on intercompany loan
Trade payables	186	0.05%	27	0.01%	Trade receivables	Trade receivables
Intercompany loan	1,720	2.72%	1,720	1.08%	Other current activities	Intercompany loan
Trade payables	(11)	0.00%	0	0.00%	Trade payables	Trade payables
IRES and VAT payables	(133)	0.11%	(242)	0.16%	Short term financial liabilities	IRES and VAT payables
Consorzio Ricerche Associate (in liquidation)						
Purchase of services	(78)	0.00%	(4)	0.00%	Cost of services and sundry costs	Consortium costs
Trade payables	(78)	0.11%	(4)	0.00%	Trade payables	Trade payables
Intercompany loan	(1,858)	1.56%	(1,858)	1.23%	Short term financial liabilities	Intercompany loan
IMMOBILIARE ELLECI SpA						
Rentals	(426)	0.16%	(222)	0.15%	Cost of services and sundry costs	Building and park slots rental
SECURFIN HOLDINGS SpA						
Saras personnel	0	0.00%	4	0.02%	Other income	Saras personnel
Affitti	(583)	0.21%	(281)	0.19%	Cost of services and sundry costs	Building and park slots rental
Trade payables			4	0.00%	Trade receivables	Trade receivables
Trade payables			(207)	0.04%	Trade payables	Trade payables
ANGELO MORATTI S.A.p.A.						
Saras personnel	0	0.00%	6	0.03%	Other income	Saras personnel
Trade receivables			6		Trade receivables	Trade receivables
DYNERGY Srl						
Saras personnel	0	0.00%	2	0.01%	Other income	Management fee
Purchase of services	(1,235)	0.45%	(787)	0.54%	Cost of services and sundry costs	Advice
Trade payables			2	0.00%	Trade receivables	Trade receivables
Trade payables	(180)	0.04%	(237)	0.04%	Trade payables	Trade payables

Description	Value of the transaction, in absolute terms (€/000) and in relative terms (%)				Financial item	Description of the transaction
	2005		30/06/2006			
SARAS ENERGIA SA (Spain)						
Fornitura merce	651,543	13.23%	475,145	17.66%	Revenues from ordinary operations	Sale of petroleum products
Saras personnel	404	0.90%	328	1.44%	Other income	Saras personnel
Sale of services	554	1.24%	349	1.53%	Other income	Sale of compulsory storage
Fiancial income	0	0.00%	109	0.69%	Other financial income/(charges)	Interests on intercompany loan
Purchase of raw material	0	0.00%	(62,948)	2.70%	Purchases of raw materials...	Purchases of raw material
Purchase of services	(312)	0.11%	(259)	0.18%	Cost of services and sundry costs	Charges on sales
Trade payables	46,216	13.15%	67,369	18.70%	Trade receivables	Sale of petroleum products
Intercompany loan	0	0.00%	20,000	12.61%	Other current activities	Intercompany loan
Trade payables	(108)	0.02%	(96)	0.02%	Trade payables	Trade payables
SARINT SA (Luxembourg)						
Financial charges	(263)	0.36%	(208)	1.31%	Other financial income/(charges)	Interests on intercompany loan
Trade payables	(93)	0.02%	(108)	0.02%	Trade payables	Trade payables
Intercompany loan	(14,250)	11.94%	(14,250)	9.41%	Short term financial liabilities	Intercompany loan
REASAR SA (Luxembourg)						
Financial charges	(67)	0.09%	(41)	0.26%	Other financial income/(charges)	Interests on intercompany loan
Trade payables	(16)	0.00%	(22)	0.00%	Trade payables	Trade payables
Intercompany loan	(2,450)	2.05%	(2,950)	1.95%	Short term financial liabilities	Intercompany loan
SARAS U.K. Ltd (UK)						
Financial receivables	39	0.06%	0	0.00%	Other current activities	Cahs advances

All the transactions took place at market conditions there are no provision for risks on trade receivables.

Management with strategic responsibilities accrued salaries for a total of 6,555 euro thousand in the first semester 2006, 7,373 euro thousand in 2005 and 5,941 euro thousand in 2004.

Balance sheet, profit and loss account and cash flow statement of the Holding Company SARAS SpA

Foreword

Saras SpA (also hereinafter “SARAS” or “the Company”) will prepare its first stand-alone financial statements in compliance with IFRS as of 31 December 2006.

In compliance with the provisions of regulation 809/2004/EC, Recommendation 05-054b of the CESR (the Committee of European Securities Regulators) and Communication No. 6064293 dated 28 July 2006 of the CONSOB (the Italian stock exchange commission), we set out below the financial information at the date of transition to IFRS (1 January 2005) and for the year ended 31 December 2005 restated in a layout consistent with the presentation criteria and accounting policies laid down in the IFRS endorsed by the European Commission (hereinafter also “the restated financial information”).

In particular, we report information relating to the effects brought about by the transition the IFRS endorsed by the European Commission on the financial position, result of operations and cash flows of SARAS SpA.

In this connection we emphasise that the financial information restated in compliance with the IFRS endorsed by the European Commission does not include the comparatives and explanatory notes that would be necessary to give a true and fair view of the financial position and result of operations of SARAS SpA in compliance with IFRS.

In detail, the adjustments made to the balance sheet, profit and loss account and cash flow statement of SARAS SpA as of 1 January 2005 drawn up in application of Italian generally accepted accounting principles (“Italian GAAP”) were determined in compliance with the IFRS endorsed by the European Commission.

Finally, we note that the effects of the adoption of the IFRS endorsed by the European Commission originate from changes in accounting policies and, accordingly, are reflected in the opening shareholders’ equity as of 1 January 2005. The transition to the IFRS endorsed by the European Commission did not, in contrast, involve any changes in the accounting estimates previously made in accordance with Italian GAAP, except in those circumstances where the adoption of the IFRS endorsed by the European Commission required estimates to be made under a different method.

Below we report the following information:

1. A description of the accounting policies adopted in the preparation of the restated financial information;
 2. A description of the criteria used to achieve the transition from Italian GAAP to the IFRS endorsed by the European Commission;
 3. A description of the significant effects of the transition with regard to both the classification of financial statements items and their different measurement and, accordingly, the effects of the financial position and result of operations. In particular, paragraph 3 includes reconciliation schedules for:
 - balance sheet items as at 1 January 2005 and 31 December 2005;
 - income statement items for the year ended 31 December 2005;
 - shareholders’ equity as at 1 January 2005, 31 December 2005;
 - result of operations for the year ended 31 December 2005;
 - cash flow statement items for the year ended 31 December 2005.
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This Appendix is audited by PricewaterhouseCoopers SpA. The auditors' report will be published as soon as it becomes available.

1. Accounting policies adopted

General criteria for the preparation of the restated financial information

As mentioned above, the stand-alone financial statements of Saras SpA as at 31 December 2006 will be the first to be prepared in compliance with the IFRS endorsed by the European Commission. In particular, IFRS1 ("First-time Adoption of International Financial Reporting Standards") lays down the rules and procedures for an existing entity that presented financial statements prepared under different accounting principles ("previous GAAP") when it first prepares stand-alone financial statements in compliance with IFRS. Paragraph 3 includes a description of the effects connected with the process of transition from the previously applied accounting standards to the IFRS endorsed by the European Commission.

Summary of the accounting policies applied

The restated financial information has 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 indicated otherwise – in thousands of euros.

The principal valuation policies adopted are described below.

A. Cash and cash equivalents

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

B. Financial assets held for trading or available for sale

This item comprises only assets held for trading. They are reported, in accordance with IAS 32 and IAS 39, at fair value through profit or loss, i.e. with any gains and losses reported in income under 'Other 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 cash-flows. Impairment losses are recognised in the income statement. If in subsequent periods the reasons for a write-down no longer exist, the write-down is reversed up to the amount that would have resulted from the application of amortised cost had the asset not been written down.

D. Inventory

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

E. Current tax assets

Current tax assets are recognised at amortised cost.

F. Other current and non-current assets

Other current assets and non-current assets are recognised 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 a write-down no longer exist, the write-down is reversed up to the amount that would have resulted from the application of amortised cost had the asset not been written down.

The accounting treatment of financial assets related to derivative instruments is illustrated in the paragraph “Derivative instruments”.

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 liabilities when they are settled and when the Company 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 incurred directly to make the assets ready for use, as well as any dismantling 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 incurred to replace the identifiable components of complex assets are recognised as assets and depreciated in relation to their useful life; the net 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 a reasonable certainty exists that the conditions necessary for receiving them have been fulfilled and they will be received.

The carrying amount of property, plant and equipment 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 Company 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
• Office furniture and machines	4 – 8 years
• Vehicles	4 years
• Other assets	9 years
• Improvements to leased assets	Duration of lease

The useful lives of tangible assets and their net book values are reviewed annually and adjusted accordingly at the end of every year.

Land is not depreciated.

Whenever an asset subjected to depreciation is made up of components that are distinctly identifiable and where the useful life of one component differs significantly from that of the other components making up the asset, depreciation is charged 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 Company 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 identifiable elements that are non-monetary in nature, without physical substance, controlled by the enterprise and capable of genera-

ting 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. 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'.

Amortisation commences from the time the asset is available to be used and is systematically spread over time to reflect its estimated useful life.

K. Investments

Investments in subsidiaries, joint ventures and associated companies that are not classified as available for sale are measured at cost.

At each closing date, the cost of an investment is reviewed to determine if evidence of impairment exists; whenever there is objective evidence indicating impairment, the carrying amount is tested for impairment in accordance with IAS 36.

An impairment loss is recognised if the recoverable amount is lower than the carrying amount of the investment. Recoverable amount is the higher of the fair value of the investment less costs to sell and value in use, which is the present value of the future cash flows that the asset is expected to generate in the years during which the company is operating and from its disposal at the end of its useful life.

If in subsequent periods evidence becomes available that the impairment loss no longer exist or has reduced, the write-down is reversed up to an amount reflecting the lower impairment.

L. Other investments

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

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.

M. Impairment of assets

On each reporting date of the annual and interim financial statements, tangible assets and intangible assets with a finite useful life are analysed in order to identify any indicators – originating from sources within or outside the Company – suggesting that they have undergone impairment. In circumstances where such indicators are present, the recoverable amount of these assets is estimated and any write-down duly charged to the income statement. The recoverable amount of an asset is the greater of its fair value less costs to sell 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 amount of an asset that does not generate amply independent cash flows is determined in relation to the cash generating unit to which the asset belongs. An impairment is recognised in the income statement whenever the carrying amount of an asset – or rather, of the cash generating unit to which it is allocated – is higher than its recoverable amount. When the reasons for a write-down no longer exist, the write-down is reversed with a charge to the income statement, up to the net book value that the asset in question would have had if it had not been written down and had been depreciated.

N. Own shares

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

O. Shareholders' equity

(iv) Share capital

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

(v) Other reserves

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

(vi) 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 appropriated to reserves (in the case of profits) or covered (in the case of losses). It also includes other equity reserves that have been transferred to it, further to the restrictions previously imposed upon them being removed.

P. Provisions for risks and charges

Provisions for risks and charges are made to cover losses and charges that are certain or probable but in respect of which the amount or the date on which they are expected to arise cannot be determined.

Provisions are only recognised where a present obligation (be it legal or constructive) exists arising from past events the settlement of which is expected to result in an outflow of resources embodying economic benefits. This amount represents the best discounted estimate of the amount needed to be paid in order to discharge the obligation. The rate used to determine the present value of the liability reflects current market values and includes the additional effects of the specific risk associated with each liability.

Those risks in respect of which a future liability is only possible are disclosed in the section concerning commitments and risks and no provision is made.

Q. Provisions for employee benefits

The Company 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 Company's obligations. The present value of the Company's obligations is determined by an external expert by what is known as the 'Projected Unit Credit Method'. This method, which is one of the actuarial techniques applicable to 'vested benefits', considers each period of service as an additional unit of entitlement: the actuarial liability must therefore be quantified by taking into account only service up to the date on which it is measured; the total liability thus determined is therefore usually adjusted in proportion to the ratio between the years of service up to the reporting date and the total length of service up to the time the benefit is expected to be paid. This method also requires future salary increases – due for whatever reason up until the time employment is terminated (inflation, career progression, contract renewals, etc.) – to be taken into consideration.

The cost accruing during the year in respect of defined benefit plans and charged to the income statement as part of personnel costs is equal to the sum of the average present value of employees' vested benefits for service rendered by them during the year and the annual interest accruing on the present value of the Company'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 remaining average term of liabilities.

Actuarial gains and losses due to changes in the actuarial parameters previously used are recognised in the income statement proportionately over the average remaining length of service of the employees participating in the plan.

R. Financial liabilities, trade payables and other current and non-current liabilities

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

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

W. Taxes

Current taxes are calculated at the average rate computed on the basis of the estimated result for the period.

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 by consolidated entities, when the timing of reversal is controlled by the Company and said it is probable that the differences will not reverse within a reasonably foreseeable timescale. Deferred tax assets, including those relating to tax losses from previous periods, are recognised for the portion not offset against deferred tax liabilities, to the extent that it is probable that future taxable income will be available against which they can be recovered. Deferred taxes are determined at the tax rates expected to be in force in those years in which the temporary differences are realised or reverse.

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 a legally enforceable right to set off exist.

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

X. Derivatives

Derivatives are assets and liabilities that are recognised at fair value. They are classified as hedging instruments whenever the relationship between the derivative and the item being hedged is formally documented and the effectiveness of the hedging arrangement – verified periodically – is high. When they hedge the risk of changes in the fair value of the underlying items (fair value hedges; e.g. hedging of the variability of the fair value of fixed-rate assets/liabilities), derivatives are recorded at fair value through profit or loss; accordingly, the hedged items are adjusted to reflect the changes in fair value associated with the risk hedged. When derivatives hedge the risk of changes in the cash flows from the underlying items (cash flow hedges; e.g. hedging of the variability of the cash flows generated by assets/liabilities due to exchange-rate fluctuations), the changes undergone by the fair value of derivatives are initially recognised in equity and subsequently transferred to the income statement, in the same period in which the hedged items affects the income statement.

Derivatives that do not meet the requirements for hedge accounting laid down by IAS 39 are recognised at fair value through profit or loss, with the change in the fair value of the hedged item carried under the heading ‘Other net financial income/(charges)’.

Y. Earnings per share

(iii) Basic EPS

Basic EPS is calculated by dividing the Company’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.

(iv) Diluted EPS

Diluted EPS is calculated by dividing the Company’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.

The use of estimates

The preparation of financial statements requires the directors to apply accounting standards and methods that, in certain situations, are based on difficult and subjective evaluations and estimates founded on past experience and assumptions that from time to time are considered reasonable and realistic given the related circumstances. Using these estimates and assumptions influences the amounts reported in the financial statements – namely the balance sheet, income statement and cashflow statement

– as well as the accompanying disclosures. The actual amounts of accounting entries for which the above estimates and assumptions have been used may differ from those shown in the financial statements, due to the uncertainty surrounding said assumptions and the circumstances upon which the estimates are based.

The most significant accounting policies requiring a greater degree of subjectivity

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

- (v) Depreciation of fixed assets: depreciation of fixed assets represents a sizeable cost to the Company. The cost of property, plant and equipment is depreciated by the straight-line method over the estimated useful life of the assets concerned. The useful life of the Company'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 Company periodically assesses technological changes and industry developments, dismantling and disposal costs and recoverable amount 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.
- (vi) Deferred taxes: deferred tax assets are recognised on the basis of forecast future earnings. The measurement of forecast future earnings for deferred tax recognition purposes depends on factors that may vary over time and may have a significant effect on the measurement of deferred tax assets.
- (vii) Provisions for risks and charges: in certain circumstances, determining whether there is a current obligation (be it legal or constructive) is not always straightforward. The directors evaluate such circumstances on an individual case basis, while also estimating the amount of financial resources needed to discharge the obligation concerned. When the directors feel that the emergence of a liability is only possible, the associated risks are disclosed in the section concerning commitments and risks and no accrual is made.

2. Criteria adopted to accomplish the transition from Italian GAAP to the IFRS endorsed by the European Commission

Introduction

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

General principles

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

- (i) All those assets and liabilities that the IFRS endorsed by the European Commission require to be reported, including those not provided for under Italian GAAP, have been duly recognised and measured.
- (ii) All those assets and liabilities whose reporting is required under Italian GAAP 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.

Presentation of the financial statements

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

Optional exemptions from the full retrospective application of IFRS

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

(i) Fair value or revaluation as deemed cost

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

(ii) Employee benefits

The Company has elected to recognise all accumulated actuarial gains and losses in existence as at 1 January 2005 which would have arisen from the retrospective application of IAS 19.

(iii) 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.

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 the IFRS endorsed by the European Commission. Specifically:

- (i) *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.
- (ii) *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 GAAP (after the adjustments needed to reflect any differences in accounting policies).

Accounting treatments selected within the options allowed by IFRS

- (i) *Inventory*
In accordance with IAS 2 “Inventories”, paragraph 25, the cost of interchangeable items is determined by adopting the FIFO method, or rather the weighted average cost method. The Group has elected to adopt the FIFO method for inventories represented by crude oil, materials and spare parts, while finished oil products have been measured at the weighted average cost for the last quarter.
 - (ii) *Measurement of tangible and intangible assets*
Once they have been initially recognised at cost, under IAS 16 “Property, plant and equipment”, paragraph 30, and IAS 38 “Intangible assets”, paragraph 72, tangible assets and intangible assets may be stated at cost, or rather by periodically determining their market value and adjusting accordingly the accounting balance reported on the date to which market value refers. The Group has elected to recognise these items at cost.
 - (iii) *Borrowing costs*
IAS 23 “Borrowing costs”, paragraph 11, prescribes that borrowing costs should be charged directly to the income statement, or rather – where certain conditions are fulfilled – that charges relating to the purchase, construction or production cost of a capitalisable asset may be capitalised. The Group has elected to recognise these borrowing costs, where the necessary conditions have been fulfilled, as part of the cost of the assets to which they refer.
 - (iv) *Actuarial differences*
IAS 19 “Employee benefits”, paragraph 95, allows actuarial differences emerging as a result of a change in the assumptions made when calculating defined benefit plans, such as the staff leaving indemnities, to be recognised by the so-called ‘corridor approach’, or charged directly to the income statement when identified. The Group has elected to recognise the effects of changes in assumptions made directly in the income statement at the time they are identified.
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(v) *Government grants*

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

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

The schedules below highlight the effects of the transition to the IFRS endorsed by the European Commission, in terms of both reclassifications and adjustments, on the balance sheets as at 1 January 2005 (transition date) and 31 December 2005 (amounts expressed in thousands of euros).

Reconciliation of balance sheet items as at 1 January 2006

	Italian GAAP FY 2005	Reclassifi- cations	Adjustments	IFRS FY 2005
ASSETS				
Current assets	614,794	0	50,776	665,570
Cash and cash equivalents	3,759	0	0	3,759
Other financial assets held for trading or available for sale	11,894	0	0	11,894
Trade receivables	287,924	0	0	287,924
Inventory	242,363	0	41,418	283,781
Current tax assets	13	0	0	13
Other assets	68,841	0	9,358	78,199
Non-current assets	836,987	(82,364)	(186,725)	567,898
Property, plant and equipment	441,748	(43,834)	17,665	415,579
Intangible assets	10,786	(5,778)	(202)	4,806
Investments in subsidiaries, associated companies and joint ventures	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	0	0	570,672
Short-term financial 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 financial liabilities	159,603	0	0	159,603
Provisions for risks	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 reserve	10,237	0	0	10,237
Other reserves	141,658	66,706	0	208,364
Reserve for own shares	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	0	(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 31 December 2005

	Italian GAAP FY 2005	Reclassifi- cations	Adjustments	IFRS FY 2005
ASSETS				
Current assets	751,570	0	139,640	891,210
Cash and cash equivalents	16,892			16,892
Other financial assets held for trading or available for sale	12,998			12,998
Trade receivables	351,490			351,490
Inventory	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, plant and equipment	422,063	(33,460)	15,160	403,763
Intangible assets	7,242	(5,414)	(473)	1,355
Investments in subsidiaries, associated companies and joint ventures	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 financial 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 financial liabilities	120,281			120,281
Provisions for risks	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 reserve	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 schedule below reconciles the Company's shareholders' equity determined in accordance with Italian GAAP to the amount determined in accordance with the IFRS endorsed by the European Commission (amounts expressed in thousands of euros).

Reconciliation of shareholders' equity as at 1 January 2005 and 31 December 2005

	1 January 2005	31 December 2005
Note Shareholders' equity as per Italian GAAP	512,398	573,304
1. Derecognition of intangible assets	(202)	(473)
2. Adjustment for own shares	(41,684)	0
3. Adjustment of the carrying amount of land to fair value (as deemed cost)	28,657	28,657
4. Reversal of monetary revaluations of property, plant and equipment	(13,177)	(11,594)
5. Government grants	(19,610)	(15,957)
6. Assets held under finance leases	1,847	1,071
7. Measurement of inventory at period end	41,418	138,506
8. Depreciation of complex assets comprising several components	16,794	10,527
9. Cost of dismantling and removing property, plant and equipment	(10,372)	(11,069)
10. Employee benefits	(6,016)	(8,609)
11. Impact of measuring investments at cost rather than under the equity method	(167,487)	(216,444)
12. Fair value measurement of derivative contracts	9,358	1,452
13. Tax impact of the above adjustments	(21,751)	(52,686)
Shareholders' equity as per IFRS	330,173	436,685

The schedule below highlights the effects of the transition to the IFRS endorsed by the European Commission, in terms of both reclassifications and adjustments, on the Company's income statement for the year ended 31 December 2005 (amounts expressed in thousands of euros).

Reconciliation of income statement items for the year ended 31 December 2005

	Italian GAAP FY 2005	Reclassifi- cations	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, spare parts and consumables	(4,127,036)	(43,580)	97,087	(4,073,529)
Cost of services and sundry 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 financial income/(charges) from investments	73,052	0	(48,954)	24,098
Other net financial income/(charges)	(89,205)	23,972	(7,906)	(73,139)
Net extraordinary income/(expenses)	(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 profit/(loss) for the period	248,212	0	(1,633)	246,579
Group's net earnings per share - basic	27.86			27.67
Group's net earnings per share - diluted	27.86			27.67

The schedule below reconciles the Company's net result of operations for the year ended 31 December 2005 determined in accordance with Italian GAAP to the amount determined in accordance with the IFRS endorsed by the European Commission (amounts expressed in thousands of euros).

Reconciliation of Saras SpA's net profit for the year ended 31 December 2005

		FY 2005
Note	Net profit for the period as per Italian GAAP	248,212
1.	Derecognition of intangible assets	(271)
2.	Adjustment for own shares	0
3.	Adjustment of the carrying amount of land to fair value (as deemed cost)	0
4.	Reversal of monetary revaluations of property, plant and equipment	1,583
5.	Government grants	3,338
6.	Assets held under finance leases	(776)
7.	Measurement of inventory at period end	97,088
8.	Depreciation of complex assets comprising several components	(6,267)
9.	Cost of dismantling and removing property, plant and equipment	(697)
10.	Employee benefits	(2,593)
11.	Impact of measuring investments at cost rather than under the equity method	(48,954)
12.	Fair value measurement of derivative contracts	(7,906)
13.	Substitute tax paid to make equity reserves tax exempt	(5,243)
14.	Tax impact of the above adjustments	(30,934)
Net profit for the period as per IFRS		246,580

Adjustments appearing in the balance sheets as at 1 January 2005 and 31 December 2005, as well as in the income statement for the year ended 31 December 2005

Below we illustrate in detail the nature and amount of the adjustments to the balance sheets as at 1 January 2005 and 31 December 2005, and those to the income statement for the year ended 31 December 2005.

(1) Derecognition of intangible assets

This adjustment relates to the effects associated with the different treatment of certain types of expenditure that under Italian GAAP can be capitalised, in contrast to what is foreseen under the IFRS endorsed by the European Commission. Specifically, when applying Italian GAAP certain costs – essentially those relating to research expenses and staff training costs – were capitalised. Said costs do not meet the requirements laid down by IAS 38 “Intangible Assets”, paragraphs 9 and 10, for the recognition of an intangible asset, and would therefore have been charged to the income statement as incurred. The aforementioned adjustment led to the reversal, as at 1 January 2005, of costs totalling 202 euro thousand and carried as part of ‘Start-up and expansion costs’ and ‘Research, development and advertising costs’, the reversal of amortisation carried in the financial statements for 265 euro thousand, and a 536 euro thousand increase in costs included under the heading ‘Cost of services and sundry costs’; as at 31 December 2005, the value of intangible assets therefore decreased by 473 euro thousand.

(2) Adjustment for own shares

In compliance with IAS 32, paragraph 33, own shares have been deducted directly from shareholders' equity. The application of this standard caused the items 'Other financial assets' and 'Reserve for own shares' (as at 1 January 2005) to decrease by 41,684 euro thousand.

(3) Adjustment of the carrying amount of land to fair value (as deemed cost)

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

	01/01/2005	FY 2005	31/12/2005
Historical cost	3,439		3,439
Accumulated depreciation	0		0
Net book value	3,439	0	3,439
Fair value of land	32,096		32,096
Excess value attributed to land	28,657		28,657
Tax impact	(10,675)		(10,675)
Net impact	17,982	0	17,982

With regard to the result for financial year 2005 determined by adopting the IFRS endorsed by the European Commission, re-measuring the value of land as detailed above had no effect on the financial statements, since IAS 16 "Property, plant and equipment", paragraph 58, does not allow the portion of the total value of property units represented by land to be depreciated. The adjustment in question led to a 28,657 euro thousand increase in the amount recorded under the item 'Property, plant and equipment' as at 1 January 2005. Since land is not depreciated, the effects as at 31 December 2005 of the Company availing itself of the aforementioned option are the same as those previously described; there are therefore no effects on the income statement for financial year 2005 to report.

(4) Reversal of monetary revaluation of property, plant and equipment

This adjustment relates to the effects of different criteria being adopted to measure property, plant and equipment where revaluations permitted by local laws have been effected. Under Italian GAAP, in the past the Company carried out monetary revaluations of property, plant and equipment in accordance with specific laws enacted in this regard. In keeping with the choice of accounting treatment made by Company, property, plant and equipment, subsequent to initial recognition, are subsequently

recognised at cost, meaning that – in accordance with IAS 16 – no revaluation is permitted while the property, plant and equipment are owned by the company. The adjustment in question led to decreases of 13,177 euro thousand and 11,594 euro thousand in the amounts recorded under the item 'Property, plant and equipment' as at 1 January 2005 and 31 December 2005 respectively, as well as a reduction in depreciation for the year 2005 of 1,583 euro thousand.

(5) Government grants

This adjustment relates to the effects of different criteria being adopted to measure government grants received. Specifically, under Italian GAAP, grants received until financial year 1998 were partly or completely credited to equity. This accounting practice was accepted under the Italian GAAP, for those benefits foreseen by fiscal legislation also in force at the time. Pursuant to the requirements of IAS 20, "Accounting for Government Grants and Disclosure of Government Assistance", paragraph 27, and choice of accounting treatment made by the Company, the value of the assets against which government grants were received in previous years was re-measured. Specifically, the value originally recorded for these assets was reduced by an amount equal to the grants received. Furthermore, the annual depreciation charges have been re-measured, which has consequently had an effect on the economic result recorded for financial year 2005. The adjustment in question led to decreases of 19,610 euro thousand and 15,957 euro thousand respectively in the amounts recorded under the item 'Property, plant and equipment' as at 1 January 2005 and 31 December 2005, while depreciation for financial year 2005 consequently decreased by 3,338 euro thousand, after the portion of grants reclassified and transferred to the income statement from equity in financial year 2005 (315 euro thousand) had been taken into account.

(6) Assets held under finance leases

Under Italian GAAP, finance leases are treated as operating leases, which means that the lessee recognises neither the asset to which the contract refers nor any related liability, but charges the lease payments to the income statement in the period to which they relate. In contrast, IAS 17 "Leases" states that such transactions are to be recorded by the lessee as follows:

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

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

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

The adjustment caused the item 'Property, plant and equipment' as at 1 January 2005 and 31 December 2005 to increase by 1,847 euro thousand and 1,071 euro thousand, respectively, and depreciation for financial year 2005 consequently increased by 776 euro thousand.

(7) Measurement of inventory at period end

This adjustment relates to the effects of different criteria being adopted to measure interchangeable assets. Specifically, under Italian GAAP, The Company would determine such assets by the LIFO method. In accordance with the IFRS endorsed by the European Commission, and in keeping with the choice of accounting treatment made by the Company, the cost of inventories made up of crude oil, materials and spare parts is determined by the FIFO method, while finished oil products are measured at the weighted average cost from the last quarter. The adjustment in question led to increases of 41,418 euro thousand and 138,506 euro thousand respectively in the amounts recorded under the item 'Inventory' as at 1 January 2005 and 31 December 2005, and a 97,088 euro thousand decrease in the item 'Purchases of raw materials, spare parts and consumables' for the year ended 31 December 2005.

(8) Depreciation of complex assets comprising several components

This adjustment relates to the effects of different criteria being adopted to measure property, plant and equipment, specifically where an asset is made up of several components of significant value in relation to its total value and where the estimated useful life of one component is different from that of the others. The effects arising from a different depreciation criterion being adopted, in accordance with IFRS 1 - *First-time Adoption of International Financial Reporting Standards*, paragraph 7, have been determined as if the assets concerned had always been depreciated in accordance with the new criteria. Under IAS 16 "Property, plant and equipment", paragraph 43, which prescribes the adoption of the so-called 'component approach', those components of each asset that are of a significant value in relation to the total value of the asset have been identified, and depreciation rates reflecting the respective estimated useful life have been applied to each component thus identified, with the date on which the cost representing the value of each component was incurred being used for reference. Similarly, scheduled extraordinary maintenance constitutes a specific component of a complex asset. The adjustment in question caused the item 'Property, plant and equipment' as at 1 January 2005 and 31 December 2005 to increase by 16,794 euro thousand and 10,527 euro thousand, respectively, and the depreciation charges for the year to increase by 6,267 euro thousand.

(9) Cost of dismantling and removing property, plant and equipment

This adjustment relates to the effects of different criteria being adopted to measure the cost of dismantling and removing an asset belonging to the category 'Property, plant and equipment' – or rather the cost of reclaiming the site where the asset is situated. In accordance with IAS 16 "Property, plant and equipment", paragraph 16.c, these costs form a part of the purchase cost of the asset to which they refer; as a result, the value of the asset also includes an amount reflecting the costs that are expected to be incurred in order to meet requirements regarding the asset's dismantling and removal or the reclamation of the site where it is situated. Against recognition of these costs a special provision on the liabilities side of the balance sheet is created, the value of which is determined in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets", paragraph 45, and represents the present value of the estimated future commitments. The adjustment in question led to increases of 3,154 euro thousand and 2,457 euro thousand respectively in the amounts recorded under the item 'Property, plant and equipment' as at 1 January 2005 and 31 December 2005, as well as a 13,526 euro thousand increase in 'Provisions for risks' as at 1 January 2005 (which remained unchanged on 31 December 2005). The effects of this adjustment on the income statement for financial year 2004 caused depreciation for the year to increase by 697 euro thousand.

(10) Employee benefits

This adjustment relates to the measurement of existing liabilities relating to employee benefits that are to be paid after the employment relationship has been terminated and concerns the staff leaving indemnity payable by the Group's Italian companies and well as other supplementary funds arising from company agreements. Under Italian GAAP, these benefits are made up of liabilities that are determined pursuant to law provisions, while the requirements set out in IAS 19, paragraph 50, require them to be determined using actuarial techniques. The adjustment in question led to an increase in the item 'Provisions for employee benefits' of 6,016 euro thousand as at 1 January 2005 and of 8,609 euro thousand as at 31 December 2005, as well as a 2,593 euro thousand increase in personnel costs during financial year 2005.

(11) Effects of measuring investments at cost

This adjustment relates to a different accounting treatment of investments, which under Italian GAAP were neared under the equity method. In the stand-alone financial statements of SARAS SpA investments in subsidiaries, joint ventures and associated companies are measured at cost, as required by IAS 27 "Consolidated Financial Statements and Accounting for Investments in Subsidiaries", paragraph 37.

Below we detail the effect of the adoption of a different accounting treatment on balance sheet items as at 1 January 2005 and 31 December 2005:

	Italian GAAP as at 31/12/2004	Dividends received in prior years	Revaluations posted in prior years	Reclassifi- cation of provision for risks on investments	IFRS as at 01/01/2005	Write-downs 2005	Increases 2005	IFRS as at 31/12/2005
Akhela Srl	12,645			(5,375)	7,270	(3,808)		3,462
Arcola Petrolifera SpA	20,426		(8,929)		11,497			11,497
Consorzio Ricerche Associate	2,621		(20)		2,601	(4)		2,597
Ensar Srl	275		(175)		100			100
Parchi Eolici Ulassai Srl	1,640		(1,490)		150	(797)	1,462	815
Sarint SA	68,278		(30,528)		37,750			37,750
Sarlux Srl	206,918	50,320	(176,631)		80,607			80,607
Saras Ricerche e Tecnologie SpA	6,881		(35)		6,846	(2,011)		4,835
	319,684	50,320	(217,808)	(5,375)	146,821	(6,620)	1,462	141,663

The following schedule details the impact of the different accounting treatment on the item 'Net income/(charges) from investments' of the income statement for the year ended 31 December 2005:

	Italian GAAP as at 31/12/2005	Reversal of revaluations posted during the year	Dividends received during the year	IFRS as at 31/12/2005
Akhela Srl	(3,808)			(3,808)
Arcola Petrolifera SpA	5,528	(5,528)		0
Consorzio Ricerche Associate	(4)			(4)
Ensar Srl	14	(14)		0
Parchi Eolici Ulassai Srl	(797)			(797)
Sarint SA	7,146	(7,146)		0
Sarlux Srl	66,984	(66,984)	30,718	30,718
Saras Ricerche e Tecnologie SpA	(2,011)			(2,011)
	73,052	(79,672)	30,718	24,098

(12) Fair value measurement of derivative contracts

The application of IAS 39 required derivative contracts to be measured at fair value; the adjustment caused the item 'Other assets' within current assets on the balance sheet to increase by 9,358 euro thousand as at 1 January 2005 and 1,452 euro thousand as at 31 December 2005, and caused fancail chargers for the period to increase by 7,906 euro thousand.

(13) Substitute tax paid to make equity reserves tax exempt

This adjustment reflects the impact of the different accounting treatment applied to the substitute tax paid to make certain equity reserves exempt from future taxes; in accordance with Italian GAAP, in 2005 the substitute tax was charged directly against the relevant equity reserves. Under IAS 12 “Income taxes”, substitute tax must be charged to the income statement. The adjustment caused the item ‘Other reserves’ to increase by 5,243 euro thousand as at 31 December 2005 and ‘Income tax for the period’ to increase by the same amount.

(14) Tax effect

This adjustment relates to the effect of deferred taxes calculated on the adjustments reported under notes (1) to (13) above, except for the adjustment under (11) that has not tax impact. In accordance with IAS 12 “Income taxes”, paragraph 46, the tax rates used to calculate deferred taxes have been determined by considering the rates expected to be applicable in the financial year in which the deferred tax asset will be realised or the deferred tax liability settled. Specifically, the tax rates used were 33% for IRES, corporation tax, and 4.25% for IRAP, local trade income tax; the former was applied to pre-tax profit and the latter to value of production, with the appropriate allowances or disallowances required by the applicable tax laws.

Reclassifications posted in the balance sheets as at 1 January 2005 and 31 December 2005, and in the income statement for the year ended 31 December 2005

Below we illustrate in detail the nature and amount of the reclassifications posted in the balance sheets as at 1 January 2005 and 31 December 2005, and in the income statement for the year ended 31 December 2005.

*Balance sheet**Intangible assets*

Under Italian GAAP, improvements to leased assets are recognised as intangible assets. In accordance with the IFRS endorsed by the European Commission, such assets should be classified having regard to the nature of the tangible asset to which they refer, and therefore carried under the heading ‘Property, plant and equipment’. In the balance sheet of the stand-alone financial statements as at 1 January 2005 and 31 December 2005, improvements to leased assets have therefore been reclassified and transferred from ‘Intangible assets’ to ‘Property, plant and equipment’, to the order of 5,778 euro thousand and 5,414 euro thousand, respectively.

Property, plant and equipment

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

Investments

The item 'Provision for risks from investments' within 'Provision for risks and charges' in the financial statements prepared under Italian GAAP has been deducted directly from the value of the item 'Investments in subsidiaries, associated companies and joint ventures'; the reclassification amounts to 5,373 euro thousand.

Provisions for employee benefits

Under Italian GAAP, estimated employee benefits relating to the supplementary employee pension fund are carried under the heading 'Other non-current liabilities'. In accordance with IAS 19 "Employee benefits", amounts representing such benefits have instead been reclassified and transferred to 'Provisions for employee benefits'. The reclassification thus made amounted to 12,234 euro thousand as at 1 January 2005 and to 12,969 euro thousand as at 31 December 2005.

Deferred taxes

In compliance with IAS 12, deferred tax assets and liabilities are reported as a net balance and are therefore set off against one another where the company has a legally enforceable right to setoff, the taxes are levied by the same tax authority, and they are expected to be settled or recovered at the same time. In accordance with IAS 12, deferred tax assets – reclassified and deducted from deferred tax liabilities – amounted to 18,992 euro thousand and 25,217 euro thousand, as at 1 January and 31 December 2005 respectively.

*Income statement**Revenues from ordinary operations and purchases of raw materials, spare parts and consumables*

The change in 2005 period-end inventory represented by finished products has been reclassified and transferred from 'Revenues from ordinary operations' to 'Purchases of raw materials, spare parts and consumables'. This reclassification caused said revenues and costs to increase by 18,579 euro thousand.

Revenues from ordinary operations and the cost of services and sundry costs

Under Italian GAAP, excise duties relating to the introduction of oil products to the distribution market ('network market'), in respect of which Saras is involved as a pure intermediary, have been reported separately as positive and negative items of income. In accordance with the IFRS endorsed by the European Commission, costs and revenues relating to transactions made in connection with a company engaging in intermediation activities are to be reported by jointly recognising their effects. The application of this principle caused the items 'Revenues from ordinary operations' and 'Cost of services and sundry costs' to decrease by 77,088 euro thousand.

Own work capitalised

The costs relating to own work capitalised, which in 2005 amounted to 11,377 euro thousand, has been reclassified for the purpose of the IFRS endorsed by the European Commission, being subsequently transferred from revenues and instead deducted

from the costs to which it refers. This reclassification caused 'Revenues from ordinary operations' to decrease, the balancing entry being the reduction of the following items of cost (amounts expressed in thousands of euros):

– Purchases of raw materials, spare parts and consumables	1,980
– Cost of services and sundry costs	5,766
– Personnel costs	2,707
– Other net financial income/(charges)	924

Government grants

The reclassification of the above item, which was already referred to in the paragraph dealing with balance sheet reclassifications, also led to a 12,610 euro thousand reduction, in the income statement, in the item 'Other income', whereas the item 'Cost of services and sundry costs' decreased by 1,810 euro thousand and depreciation for the period decreased by 10,795 euro thousand.

Personnel costs

Under Italian GAAP the fees paid to the Board of directors are recorded in 'Cost of services and sundry costs'. Under the IFRS endorsed by the European Commission these costs are classified in 'Personnel costs'. The reclassification caused, respectively, 'Personnel costs' to increase and 'Cost of services and sundry costs' to decrease by 5,516 euro thousand.

Exchange gains and losses

Under Italian GAAP, foreign exchange gains and losses (be they realised or unrealised) relating to commercial transactions have been recognised under the heading 'Other net financial income/(charges)'. In accordance with the IFRS endorsed by the European Commission, these gains and losses are classified in the respective items of operating costs and revenues. The reclassification consequently caused financial charges to decrease by 23,048 euro thousand, the costs reported under the heading 'Purchases of raw materials, spare parts and consumables' to increase by 26,981 euro thousand and the item 'Revenues from ordinary operations' to increase by 3,933 euro thousand.

Net extraordinary income/(expense)

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

– Cost of services and sundry costs	2,524
– Depreciation and amortisation	(2,665)
– Net extraordinary income/(expense)	(141)

Reconciliation of the cash flow statement

The schedule below shows the effects that the transition to IAS had on the cash flow statement for the year ended 31 December 2005 (amounts expressed in thousands of euros).

	As per Italian GAAP 2005	As per Italian GAAP restated in accordance with IFRS	Adjustments	As per the IFRS endorsed by the European Commission	Note
A - Cash and cash equivalents at beginning of period (short-term net financial indebtedness)	15,653	15,653	(11,894)	3,759	a
B - Cash generated from/(used in) operating activities					
Profit/(Loss) for the period	248,212	248,212	(1,633)	246,579	b
Amortisation, depreciation and write-down of fixed assets	78,351	76,841	2,554	79,395	c
Net (income)/charges from equity interests	(73,052)	(79,672)	79,672	0	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 deferred tax assets	11,144	13,167	24,749	37,916	f
Income taxes	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	226,790	516,358	
(Increase)/Decrease in trade receivables	(89,524)	(63,566)	0	(63,566)	
(Increase)/Decrease 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 taxes 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	(4,017)	226,322	
C - Cash generated from/(used in) investing activities					
(Investments) in tangible and intangible assets, net of divestments and accumulated depreciation and amortisation	(57,788)	(64,350)	221	(64,129)	
Change in other equity interests	(1,136)	5,118	(25)	5,093	d
Interest received/(paid)	0	0	(5,716)	(5,716)	
Total (C)	(58,924)	(59,232)	(5,520)	(64,752)	

	As per Italian GAAP 2005	As per Italian GAAP restated in accordance with IFRS	Adjustments	As per the IFRS endorsed by the European Commission	Note
D - Cash generated from/(used in) financing activities					
(Increase)/Decrease in medium/long-term borrowing	(39,322)	(39,322)	0	(39,322)	
(Increase)/Decrease in other financial assets	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 - Cash flow 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 indebtedness)	29,890	29,890	(12,998)	16,892	

Explanatory notes regarding the differences reported in the reconciliation of the cash-flow statement for the year ended 31 December 2005 follow below.

- (a) This adjustment relates to the effect of a different classification of securities in which the Holding Company's liquidity is temporarily invested. Under Italian GAAP, such securities were recognised as cash. In accordance with IAS 7 "Cash Flow Statements", paragraph 7, only financial investments with a short maturity (no more than three months) may be classified as cash. The above securities do not bear this feature, and therefore, for the purposes of the IFRS endorsed by the European Commission, have been included in cashflow from financial activities.
- (b) This adjustment relates to the effects that the application of the IFRS endorsed by the European Commission has had on net profit. That difference is presented in detail in the reconciliation, set out above, of the net result of operations for the year ended 31 December 2005 determined in accordance with Italian GAAP to the amount determined in accordance with the IFRS endorsed by the European Commission.
- (c) This adjustments are mainly in connection with those described in detail in notes 1), 4), 5), 8) and 9) above, which refer to the reconciliation of the Company's shareholders' equity as at 1 January and 31 December 2005 determined in accordance with the previous GAAP to the amount determined in accordance with the IFRS endorsed by the European Commission.
- (d) This adjustment is related to that described in note 11 above to the reconciliation schedule between shareholders' equity as at 1 January 2005 and 31 December 2005 determined under the previous GAAP and the amount resulting from the application of the IFRS endorsed by the European Commission.

- (e) This adjustment refers to the application of the accounting standard IAS 19 “Employee benefits” to ‘Provisions for employee benefits’, including the staff leaving indemnity, which for the purposes of the IFRS endorsed by the European Commission has been re-measured on the basis of actuarial calculations.
 - (f) This adjustment is in connection with the adjustment referred to in note 14 above, which refers to the reconciliation of the shareholders’ equity as at 1 January and 31 December 2005 determined in accordance with the previous GAAP to the amount determined in accordance with the IFRS endorsed by the European Commission.
 - (g) This adjustment is in connection with the adjustment referred to in note 7 above, which refers to the reconciliation of the shareholders’ equity as at 1 January and 31 December 2004 determined in accordance with the previous GAAP to the amount determined in accordance with the IFRS endorsed by the European Commission.
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PricewaterhouseCoopers SpA

AUDITORS' REPORT ON THE LIMITED REVIEW OF INTERIM FINANCIAL REPORTING FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2006 PREPARED IN ACCORDANCE WITH ARTICLE 81 OF CONSOB REGULATION APPROVED BY RESOLUTION NO. 11971 OF 14 MAY 1999 AND SUBSEQUENT AMENDMENTS AND INTEGRATIONS

To the Shareholders of
Saras SpA

- 1 We have performed a limited review of the consolidated interim financial statements consisting of balance sheet, income statement, statement of changes in shareholders' equity and cash flows (hereinafter "accounting statements") and related explanatory and supplementary notes included in the interim financial reporting of Saras SpA for the period ended 30 June 2006. The interim financial reporting is the responsibility of Saras SpA's Directors. Our responsibility is to issue this report based on our limited review. We have also checked the part of the notes related to the information on operations for the sole purpose of verifying the consistency with the remaining part of the interim financial reporting.
- 2 Our work was conducted in accordance with the criteria for a limited review recommended by the National Commission for Companies and the Stock Exchange (CONSOB) with resolution no. 10867 of 31 July 1997. The limited review consisted principally of inquiries of company personnel about the information reported in the interim financial statements and about the consistency of the accounting principles utilised therein as well as the application of analytical review procedures on the data contained in the interim financial statements. The limited review excluded certain auditing procedures such as compliance testing and verification and validation tests of the assets and liabilities and was therefore substantially less in scope than an audit performed in accordance with generally accepted auditing standards. Accordingly, unlike the audit on the annual consolidated financial statements, we do not express a professional audit opinion on the interim financial reporting.



- 3 Regarding the comparative data of the prior year consolidated financial statements and of the prior year interim financial reporting presented in the "accounting statements", reference should be made to our reports dated 28 February 2006 and 19 January 2006.
- 4 Based on our review, no significant changes or adjustments came to our attention that should be made to the consolidated "accounting statements" and related explanatory and supplementary notes, identified in paragraph 1 of this report, in order to make them consistent with the international accounting standard IAS 34 and with the criteria for the preparation of interim financial reporting established by Article 81 of the CONSOB Regulation approved by Resolution no. 11971 of 14 May 1999 and subsequent amendments and integrations.

Milan, 18 September 2006

PricewaterhouseCoopers SpA

Signed by

Pierangelo Schiavi
(Partner)

The consolidated financial statements have been translated from those issued in Italy, from the Italian into the English language solely for the convenience of international readers



PricewaterhouseCoopers SpA

**AUDITORS' REPORT ON THE IFRS 1 RECONCILIATION STATEMENTS
(SEPARATE FINANCIAL STATEMENTS) WITH EXPLANATION OF THE
EFFECTS OF THE TRANSITION TO INTERNATIONAL FINANCIAL
REPORTING STANDARDS**

To the Board of Directors of
SARAS SPA

- 1 We have audited the herewith attached reconciliation statements comprising:
- the balance sheets as of 1 January 2005 and 31 December 2005 and the income statement for the financial year ended 31 December 2005;
 - the equity at 1 January 2005 and 31 December 2005 and the profit of the period ended at 31 December 2005.

(hereinafter, the "IFRS reconciliation statements") of Saras SpA and related explanatory notes presented in accordance with the criteria recommended by the National Commission for Companies and the Stock Exchange (CONSOB) with resolution n. 6064313 of 28 July 2006 in Appendix A "Balance sheet, financial and operating results of the parent company Saras SpA" of the interim financial reporting as of 30 June 2006. These IFRS reconciliation statements have been derived from the financial statements of Saras SpA for the financial year ended 31 December 2005 prepared in accordance with the Law governing the preparation of financial statements, on which we have reported on 28 February 2006. The IFRS reconciliation statements have been prepared within the process of transition to International Financial Reporting Standards (IFRS) endorsed by the European Commission applicable by the parent company Saras SpA as per article 4 of Legislative Decree 38/2005, in preparing the financial statements as of 31 December 2006. The responsibility of the IFRS reconciliation statements is that of Saras SpA directors. Our responsibility is to express an opinion on these statements based on our audit.

- 2 We conducted our audit in accordance with the generally accepted auditing standards. In accordance with those standards, the audit has been planned and performed to obtain the necessary assurance about whether the IFRS reconciliation statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the IFRS reconciliation statements, as well as assessing the



the directors. We believe that our audit provides a reasonable basis for our opinion.

- 3 In our opinion, the IFRS reconciliation statements identified in paragraph 1 of this report, taken as a whole, have been prepared in accordance with principles and criteria defined by the National Commission for companies and the Stock Exchange (CONSOB) with resolution n. 6064313 of 28 July 2006.
- 4 As specified in the explanatory notes, the IFRS reconciliation statements, since they are prepared just for IFRS transition purposes of the first separate financial statements in compliance with IFRS endorsed by the European Commission, do not include the comparative data and the explanatory notes which would be required to give a true and fair view of the financial position and of the results of operations of the Parent Company in compliance with the IFRS endorsed by the European Commission.

Milan, 18 September 2006

PricewaterhouseCoopers SpA

Signed by

Pierangelo Schiavi
(Partner)