



**api** anonima petroli italiana



CONSOLIDATED  
FINANCIAL  
STATEMENTS

AS OF DECEMBER 31, 2010

77° Year

api - anonima petroli italiana s.p.a.  
Registered office: Via Salaria 1322 - 00138 Rome  
Share Capital: Euro 115,425,000.00 fully paid in  
Rome Chamber of Commerce and Economic Administrative Roster (R.E.A.) No. 103708  
Tax Code and Companies' Register of Rome No. 00441670585  
VAT Code 00893861005  
A company managed and coordinated by api holding S.p.A.



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# Call for Annual General Meeting

The shareholders of "api" anonima petroli italiana S.p.A. are called to the ordinary Shareholders' Meeting to be held at the company's offices at Via Salaria 1322, Rome at 11:30 am on 30 April 2011 in first call, and if necessary, on 4 May 2011 in second call, at the same venue and time, to discuss and resolve on the following

## Agenda:

1. Approval of the Financial Statements as at 31 December 2010; related and contingent resolutions;
2. Subject to quorum confirmation, appointment of the Board of Directors, term of office and related emoluments;
3. Appointment of the Board of Statutory Auditors and related emoluments

Shareholders recorded in the Shareholder's Register at least five business days before the meeting and with shares deposited at the registered office by that deadline are entitled to attend the meeting.

Rome, 4 April 2011

api anonima petroli italiana S.p.A.  
The Chairman of the Board of Directors  
dott. Ugo Brachetti Peretti

Published in the Official Gazette  
Insert Sheet no. 41,  
page 71, of 12 April 2011

api anonima petroli italiana S.p.A.  
Rome

98,84%

api energia S.p.A.  
Falconara Mar.ma (AN)

100%

api Raffineria di Ancona S.p.A.  
Falconara Marittima (AN)

99,99%

apioil ltd  
Bermuda

99,99%

api services ltd  
London

50%

apisoiService S.p.A. in liq.  
Ancona

50%

SACCNE  
Rete S.r.l.  
Messina

50%

apisem S.r.l.  
Lecce

100%

Dialco S.r.l.  
Bari

30%

Abruzzo  
Costiero S.r.l.  
Pescara

10%

Petroven S.r.l.  
Marghera

100%

apifin S.r.l.  
Rome

100%

G.R.C. S.r.l.  
Rome

100%

Festival S.p.A.  
Rome

100%

Alpenoil S.r.l.  
Rome

52%

apimak Sh. pk.  
Macedonia

50%

apibenzin d.o.o.  
Croatia

4,70%

Marina Fiera  
di Genova S.p.A.  
Genoa

3,12%

Immobiloil S.r.l.  
Rome

2,33%

Civita Servizi S.r.l.  
Rome

0,78%

SGR S.p.A.  
Rome

## BOARD OF DIRECTORS

Dott. Ugo Brachetti Peretti	(Chairman)
Dott. Ferdinando Maria Brachetti Peretti	(Vice Chairman)
Cav. del Lav. Dott. Aldo Maria Brachetti Peretti	(Director)
Dott. Umberto Scarimboli	(Managing Director)
Sig.ra Mila Peretti	(Director)
Dott. Claudio Eduardo Capizzi	(Director)
Avv. Ferdinando Carabba Tettamanti	(Director)
Dott. Pasquale De Vita	(Director)
Dott. Fabrizio Liberatori	(Director)
Dott. Carlo Salvatori	(Director)
Prof. Avv. Giuseppe Tinelli	(Director)

## BOARD OF STATUTORY AUDITORS

Prof. Claudio Bianchi	(Chairman)
Dott. Adolfo Cucinella	(Statutory Auditor)
Dott. Pier Andrea Frè Torelli Massini	(Statutory Auditor)
Dott. Mario Casini	(Alternate Auditor)
Dott. Fabrizio Scanu	(Alternate Auditor)

## EXECUTIVE COMMITTEE

Cav. del Lav. Dott. Aldo Maria Brachetti Peretti	(Chairman)
Dott. Ferdinando Maria Brachetti Peretti	
Dott. Ugo Brachetti Peretti	
Dott. Umberto Scarimboli	

## INDEPENDENT AUDITORS

Reconta Ernst & Young S.p.A.

## MANAGER IN CHARGE OF THE PREPARATION OF ACCOUNTING DOCUMENTS

Dott. Stefano Cardello



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# Report of the Board of Directors as of 31 December 2010



# api – anonima petroli italiana S.p.A.

## Introduction

The Consolidated Report at 31 December 2010 for api anonima petroli italiana S.p.A. has been prepared in compliance with the International Financial Reporting Standards (IFRS) adopted by the European Union.

In relation to the accounting standards adopted for the preparation of the consolidated financial statements it is pointed out that the company falls under the scope laid down by letter f) of Art. 2 of Legislative Decree no. 38 of 28 February 2005, which regulates the exercising of the options provided for by Art. 5 of Community Regulation no. 1606/2002 in relation to the International Financial Reporting Standards (hereinafter also "IFRS") and therefore in accordance with Article 3, Paragraph 2 of the same decree, the Company has voluntarily exercised the right to apply the IFRSs adopted by the European Union for the preparation of its consolidated financial statements, commencing from the 2005 financial year.

The report at 31 December 2010 has been approved by the Board of Directors of api spa on 30 March 2011.

## Line-by-line consolidation area and business areas

The consolidated financial statements include the financial statements for the period at 31 December 2010 of api anonima petroli italiana S.p.A. and the following subsidiary companies held directly or indirectly:

Company name	Registered office	Shareholders	% held	Share Capital (Euro/thousand unless otherwise indicated)
"api Raffineria" di Ancona S.p.A. (hereinafter referred to as "api Raffineria")	Ancona	"api"	100	13,125
api energia S.p.A.	Rome	"api" "third parties"	98.84 1.16	13,831
api services limited (United Kingdom)	London	"api" "third parties"	99.99 0.01	GBP 10,000
apioil limited (Bermuda)	Hamilton	"api" "third parties"	99.99 0.01	USD 2 million
Festival S.p.A.	Rome	"api"	100	560
Dialco S.r.l.	Bari	"api"	100	10
Alpenoil S.r.l.	Rome	"api"	100	100
G.R.C. S.r.l.	Rome	"api"	100	50
apifin S.r.l.	Rome	"api"	100	600

The equity investments in associated companies detailed below were valued under the equity method:

Company name	Registered office	Shareholders	% held	Share Capital (Euro/thousand unless otherwise indicated)
<i>Associated companies:</i>				
apiso Service S.p.A. in liquidation	Falconara (An)	"api Raffineria" "third parties"	50.00 50.00	260
apisem S.p.A.	Lecce	"api" "third parties"	50.00 50.00	423
Abruzzo Costiero S.r.l.	Pescara	"api" "third parties"	30.00 70.00	2,995
Sacche rete S.r.l.	Messina	"api" "third parties"	50.00 50.00	2,200

Other equity investments and equity investments in associated companies regarding which, in the company's opinion, the company has no significant influence, are valued under the cost method.

## THE MACROECONOMIC SCENARIO

After the profound economic and financial crisis that marked the macroeconomic scenario last year, 2010 featured a climate of general recovery, with the global economy moving from a negative variation in GDP of 0.6% in 2009 to an estimated growth in 2010 equal to 4.8%.

The greatest impulse to growth certainly came from emerging countries, and especially from China, which recorded a growth in GDP of about 10.5%, and India (+9.1%), with a lower contribution from developed economies, where greater uncertainty persists.

With regard to the United States, in 2010 GDP is estimated to grow by 2.6% (compared to a 2.6% drop in the previous year); instead Europe's recovery was decidedly more modest, equal to a growth of 1.7% (compared to a decrease of 4.1% in 2009), with the exception of Germany, where a 3.3% increase is expected.

A major weakness in the Euro area is especially attributable to the difficulties related to the sustainability of the sovereign debt of some member countries, in particular Greece, Spain, Portugal, Ireland (defined with the abbreviation PIGS); during the year this problem led to a joint action by the political and monetary authorities, which created a fund called EFSF.

This fund specifically includes both bilateral loans among States and loans granted by the European Union and the International Monetary Fund; also the ECB may intervene through the purchase of treasury bonds of the countries most at risk.

On the monetary side, the central banks of the developed countries adopted extremely expansive policies for the entire year.

The American Central Bank maintained the FED FUNDS at record low levels, ranging between 0% and 0.25% for the whole year, and implemented the second phase of "quantitative easing" through the monthly purchase of treasury bonds for 75 billion dollars a month. The FED's intention is to extend this manoeuvre until June 2011, with the aim of keeping rates low and stimulating growth.

Also the ECB left the official discount rate unchanged at 1% for all of 2010, also stating, in the last meeting of 2 December, that it continues to consider this level «suitable» but will follow all the trends in the coming period with particular attention.

The Central Bank also underlines that the supply of liquidity and the granting methods will be amended as needed, considering that the set of unconventional measures adopted in a period of extreme financial tension is fully in line with the ECB's mandate.

The currency markets were highly volatile throughout 2010. In the first half of the year, the huge refinancing difficulties of some peripheral countries in the EU generated a serious crisis of confidence in the euro area, causing a sharp depreciation of the Euro/USD (euro/dollar) exchange rate, which went from 1.4563 on 13 January to 1.1942 on 8 June, with a loss of about 18%.

The subsequent intervention of the political and monetary authorities, and in particular the adoption of the EFSF fund, contributed to restoring confidence in the markets concerning the sustainability of the debt for outlying countries and helped the Euro to recover value. This was also helped by the accommodating US monetary policy that, by continuing to purchase debt securities, ensured a high level of liquidity in the monetary system.

Both these factors favoured a recovery of the Euro/USD exchange rate, which in November reached 1.4244 (4 November).

However, since then the new concerns about sovereign debt, particularly for Ireland, have caused a new depreciation of the Euro, which dropped to 1.2998 on 30 November.

In the commodities market, the BWAVE was highly volatile throughout the year, passing from 81.51 USD/barrel on 8 January to 70.01 USD/barrel in the first days of February; starting from this date a new appreciation took place, reaching 87.24 USD/barrel on 30 April to then drop again to 69.02 USD/barrel on 25 May.

Starting from June, oil price returned to rise until reaching the price of 94.75 USD/barrel on 31 December, especially supported by the increase in demand from the USA and China.

Rising during the year was also the price of gold, which reached a record high of 1,424.75 USD/ounce on 6 December last year, with an average price of 1,227.22 USD/ounce against 974.02 USD/ounce last year.

## THE ENERGY AND OIL SCENARIO

### The International Market

Also during 2010 growth in the International price of crude oil was witnessed. From 1998 to date, prices have increased by 524%, with rises primarily concentrated in recent years: the average between 1998 - 2004 was 24.3 USD/barrel, compared to 71.7 USD/barrel in 2005 - 2010. The Brent average in the first eleven years of this century rose to 52.6 USD/barrel against 18.00 USD/barrel in the 1990s (more than 190%).

On average at the end of 2010 the Cif cost of the crude oil imported in OECD countries stood at 78.4 USD/barrel, against 60.4 in 2009 and 97.7 in 2008, up by 18.0 USD/barrel. In percentage terms, the increase was about 30%.

Thanks to the global economic recovery (+5%), the total petrol demand for 2010 recorded the second highest growth in the decade with 87.8 million barrels/day, an increase of 3.3% compared to 2009 (+2.8 million barrels/day), against an average growth of 0.9 million in the period 2000-2009. A significant contribution to this increase came from the United States that, with 0.6 million barrels/day more, marked a growth of 2.6%.

The requirements of OECD countries were 46.1 million barrels/day, an increase of 1.5% for the first time since 2005, compared to 2009, with a weight on the total of about 53% (versus 62% in 2000). The requirements of non-OECD countries amounted to 41.7 million barrels/day, increased by 5.5% with a weight on the total of 47% (versus 38% in 2000). The difference in consumption of the two areas dropped below 6 million barrels/day.

Asian countries continued to lead the demand from non-OECD countries (+2.9%) and China in particular (+12.2%), as well as the former Soviet Union (+7.0%) and Latin America (+4.5%).

The total supply in 2010 stood at 87.3 million barrels/day, +2.5% compared to 2009, therefore not growing in line with demand. Supporting the increase were both areas: Opec countries, especially Saudi Arabia (+3.0%) and the other countries (+2.2%), increasing their production by 1 million barrels/day.

The international prices of products were not immune to the tension experienced in 2010. Yearly average Platts quotations for gasoline reached around 739 dollars/tonne, 25% more than 2009. Diesel, again on average, was priced at 695 dollars/tonne (+28% compared to 2009).

The rise of both products was practically continuous, with tension peaking in spring and especially at the end of 2010.

## The Italian Market

In 2010 Italian energy consumption should reach 177.7 million tonnes of oil equivalent (TOE), with an increase of 1.6% versus 2009, in the presence of a GDP growth of 1%. The recovery in consumption especially regarded natural gas (+6.3%) and coal (+4.5%). The consumption of electricity recorded an increase of 1.8%, while net imports fell (-2.3%). The only source not recording a recovery was oil, which reached -2.4%, losing an additional 1.8 million tonnes.

Coverage of the national requirement has been guaranteed to a level of 40.3% by oil, more than two percentage points less than in 2009 (57% in 1990); 38.2% by gas; 7.7% by solid fuels. Renewables, the weight of which on the total is presently 9.3%, due to growth in wind, photovoltaic and hydroelectric production, grew by 0.6%, compensating the lower hydroelectric production (-6.6%).

Petroleum product consumption is estimated at 73.4 million tonnes, dropping by 2.4% with respect to 2009, equal to about 1.8 million tonnes less. Gasoline continued the decline that began in 2004, dropping a further 626 thousand tonnes. The sum of the two products shows a decrease of 2.1% compared to 2009 values (gasoline -5.9%; diesel -0.6%). Fuel oil for thermoelectric use heavily lost ground with -48.6% (-1.1 million tonnes). Heating diesel still amounts to slightly less than 2 million tonnes, posting a decrease by -4.5%.

In 2010, the refining system had an actual capacity of 106.6 million tonnes, following the review of some existing plant engineering structures. In the aggregate, 84% of the plant's capacity was used (as far as crude oil and semi-finished products imported are concerned). Refining amounted to a total of 90.3 million tonnes (+4.2%). In terms of raw materials processed, both crude oil and semi-finished products rose (+4.1% and +6.2%, respectively). Exports of products recorded an increase of 2.5 million tonnes (+9.4%).

The energy bill from petroleum products in 2010 was Euro 27 billion, approximately Euro 6.5 billion more than in the previous year, despite the drop in consumption estimated at 2.4%. The depreciation of the euro amplified the sharp increase in the price of imported crude oil (+30%). Indeed, had the exchange rate been the same as last year's, the bill would have been about Euro 25.4 billion, therefore lower by about Euro 1.6 billion.

The energy bill is estimated to rise by more than Euro 9.3 billion compared to 2009, close to Euro 51.7 billion (+22%). This corresponds to 3.3% of GDP (2.8% in 2009). Oil makes up 52% of the total outlay, while gas represents 36.8% compared with 27% in 2000.

The industrial price of the products during the year followed the fluctuations of the international markets. The average price of petrol was Euro 0.541/litre in the first quarter (+40.3% with respect to the same period of 2009) and went to 0.584 in the last quarter. In particular the growth from January 2010 to December 2010 was 16.9%.

The same more or less applies to diesel, which rose from Euro 0.543/litre in the first quarter to 0.619 in the fourth. The growth from January 2010 to December 2010 was 22.1%. In particular the difference was widened again in its favour against gasoline which on average in 2010 resulted to be Euro 0.022/litre with a maximum of Euro 0.055/litre in September.

For both gasoline and diesel the variations in the industrial price for the entire year 2010 were in line with those recorded in the corresponding Platts values in terms of Euro/litre and showed increases similar to those of the international prices.

Globally, the average industrial price of gasoline increased by Euro 0.109/litre with respect to 2009, more than in line with Platts quotations, while diesel fuel showed an increase of Euro 0.112/litre with a rise greater than Platts.

The average consumption price of gasoline was Euro 0.131/litre higher than 2009, while diesel was higher by 0.134.

Finally, the total inland revenue on mineral oils in 2009 was approximately Euro 34.3 billion, a drop of 1.7% with respect to 2009. A result due to the sharp drop in excise revenue caused by a significant reduction in consumption. Due to the increase in prices, the total VAT revenue is forecast to rise on the whole to Euro 900 million, of which 650 just from diesel. The excise revenue, on the other hand, decreased by Euro 1.5 billion, of which 500 million related just to the drop in gasoline.

## REGULATORY FRAMEWORK AND RELATIONS WITH INSTITUTIONAL BODIES

### REGULATIONS ON CO2 EMISSIONS

In implementing the National allocation plan of the CO2 quotas for the period 2008-2012 (PNA2), in 2010 api raffineria di ancona s.p.a. was assigned free-of-cost a quota equal to 462,932 tonnes, insufficient to cover the 494,246 tonnes of emissions. The deficit was partially offset by the recovery of 24,184 tonnes, equal to quotas resulting from sale of liquefied carbon dioxide to SOL, produced by the new CO2 recovery plant that began operations at the beginning of 2009.

The difference (equal to 7,131 tonnes) will be met through the purchase quotas to be covered on the international Emission Trading market.

For the IGCC plant, total CO2 emissions for 2010 are 1,535,547 tonnes. This calculation must be verified and certified by the DNV Certifying Body.

The quotas purchased during the year equalled 1,250,000 EUA certificates and 35,100 CER certificates. In consideration of the surplus of 2009 (about 15,000 quotas) and the quotas allocated free-of-cost by the National Plan to api energia (181,847 tonnes), there is an additional deficit of about 53,000 EUA certificates, which exceeds the estimates made at the beginning of the year, due to the greater production of electricity recorded in 2010.

The average purchase price for 2010, including the "transaction fee", was Euro 14.74/tonne for the EUA certificates and Euro 12.46/tonne for the CER certificates; the total charge incurred for this purpose was therefore equal to Euro 19,890,703.

Pursuant to regulations, the CO2 quotas concerning emissions in 2010 must be returned by April 2011 to the Minister for the Environment, with the annotations to the ISPRA registers (former APAT).

It is specified that, like every year, in accordance with resolution 77/08 of the Authority for Electricity and Gas (AEEG), that sanctions, for the CIP 6 plants, the reimbursement of the costs for the purchase of the additional emission quotas compared to those assigned, a claim for reimbursement will be presented for 2010 to the same AEEG by May 2011.

### BIOFUELS

With Ministerial Decree of 25 January 2010, the Ministry for Economic Development increased the minimum quota of biofuel consumption input for 2010 – 2012 to 3.5% in 2010, 4% in 2011, and 4.5% in 2012.

We would like to remind you that European directive 2009/29/EC of the European Parliament and the Council being absorbed in the national law, provides for the obligation to distribute energy from renewable sources in transportation equal to at least 10% of the consumption of gasoline and diesel for automotives in the European Union by 2020.

## FUEL DISTRIBUTION NETWORK

In April 2010, at the end of an initial phase of work to restructure the fuel market, the Ministry for Economic Development, together with the industry organisations, drew up a working proposal aiming to encourage the voluntary closure of plants through the Indemnity Fund, implement the weekly price increase at points of sale, promote, together with the Regional Governments and oil companies, a broad development of self service in the network, arrange all the initiatives possible to remove any constraints existing on non oil activities and working hours, allow new contractual forms in commercial relations, envisage periodic communications with operators on storage capacity, free transit and related fees, promote measures to reduce the costs of connection to the network of methane distributors.

In November 2010 the decree of the Ministry for Economic Development (Min. Decree of 15 October 2010) was published in the Official Gazette. Effective from 1 February 2011, it envisages the obligation for motorway service station managers to communicate fuel sales prices to the Ministry. With a subsequent decree, the obligation will be extended to all the points of sale.

## ENVIRONMENT

Ministerial Decree of 17 December 2009, effective from 14 January 2010, established the new computerised control system to track waste – SISTRI.

This system aims to computerise the entire chain of hazardous and non hazardous special waste and will replace, at full operation, the transport log, the loading and unloading register and the environmental declaration model (MUD) for the waste.

The terms to enrol in and adjust to the system vary according to the characteristics of the operator (initial producer of waste, transporter, etc.) and its size (number of employees). Ministerial Decree of 22 December 2010 extended the term to start SISTRI by five months (31 May 2011).

## PRODUCTION OF ELECTRICITY

In implementing art. 30, paragraph 20 of Law no. 99 of 23 July 2009, the Ministry for Economic Development issued, upon the proposal of the Authority for Electricity and Gas, the decree of 2 December 2009 that establishes the mechanisms for the early and voluntary termination of the so-called Cip 6 conventions, concerning the plants powered by process fuels, residues or energy recovered and similar plants powered by fossil fuel. With the subsequent decree of 2 August 2010, the minister defined the early termination and settlement methods, just for the plants powered by fossil fuels. For the plants powered by process fuels, the decrees will be arranged during 2011.

For the group companies belonging to the energy industry, technical checks are underway to consider the need for an early termination.

## PROVISIONS ON TAX MATTERS

Legislative Decree no. 48 of 29 March 2010 updated the general excise tax system. In particular some novelties were introduced regarding the circulation of products, with the use of the electronic document, and the identification of new subjects obliged to pay the tax and provide guarantees.

Law no. 25 of 26 February 2010, effective from 1 March 2010, imposes the subjection to a new rate of diesel for automotive (Euro 330.00 per 1000 litres) for the following uses: national armed forces, emergency assistance activities, car rentals in squares.

In December 2010 additional regional taxes were resolved for gasoline for automotive in the regions of Abruzzo, Calabria and Puglia. Commencement was set for 1 January 2011, except for Puglia, where the tax is effective from 1 March. The amount is equal to Euro 2.58 cents per litre.

## OPERATIONS MANAGEMENT

### OIL INDUSTRY

#### Supply & Trading

During 2010, 5,534,100 tonnes of raw materials, semifinished and finished products were acquired for refining, commercial and trading activities: a lower quantity compared to that purchased in 2009 (6,787,400 tonnes).

Raw materials from both forward and spot transactions were purchased for a total of 1,606,100 tonnes by our subsidiary apioil limited, operating in the trading industry (2,851,400 tonnes in 2009).

#### Industrial Activity

The processing rate recorded in 2010 was 3,401,400 tonnes of raw materials (3,282,800 of crude oil, 5,800 of semifinished products and 112,800 of light distillates), lower than in 2009 by 98,600 tonnes. The capacity available to production plants was fully used in the periods of positive margins, which typically coincided with the most intense sales season for bitumen; instead, processing was strategically reduced in the first and last two months of the year.

Of the maintenance activities completed during the shutdown (Topping out of service for 30 days in March-April), worth mentioning for the positive effects on the processing cycle in terms of increase in energy efficiency and in the yields of distillates, are the replacement of the Topping column head condensers and the revamping of the furnace of the Thermal Cracking unit.

Concerning the Refinery activities at Alma Ravenna, in the period in question the crude oil processed totalled 104,000 tonnes (in line with the 103,500 in 2009) and 88,200 of residual semifinished products (vs. 105,900 of the previous year). The reduction in semifinished products is motivated by the unfavourable prices recorded in the first two months of the year.

Data on "Sarago" crude oil extraction is confirmed: the deliveries were in line with those completed in 2009 and higher than expected.

Completing the total data on the activities in Alma were the 4,000 tonnes of Venezuelan crude oil processed to produce emulsified bitumen.

## Logistics

In 2010 an increase was recorded in the volumes of the Retail channel compared to the previous year, against market trends.

The five-year product supply agreement entered into with Eni at the time of acquiring the IP network ended in September. These volumes were relocated to api bases and at bases where sales agreements are in place. This allowed a reduction in both product supply costs and financial charges (greater delayed payment of goods and excise tax).

The drop in extra network volumes remains concentrated in the bases in the North-East in order to protect the profitability of product sales, as has been the case in the last two years.

Concerning secondary logistics, the increase in network volumes was absorbed without particular operating difficulty, obtaining, if anything, benefits in terms of drop and reduction of the Km/Kl parameter compared to 2009.

In all the other channels, a substantial reduction in the cost incidence was obtained, against the increase in tariffs recorded in the transportation sector.

## Commercial Activities

### Retail Sector

In 2010 the Italian retail sector (gasoline and diesel) recorded a 1.84% drop over 2009. This contraction is due to the negative trend in gasoline consumption (-5.96% compared to 2009), only partially offset by an increase in diesel (+1.04% compared to 2009).

Margins were under significant pressure throughout the year due to the prices of petroleum products on international markets and discounts applied by all the competitors.

On the Italian network 2010 featured an increased impact of the discounts to the public and greater competition on the contracted side. Worth mentioning is that, following the deregulation of the market, new points of sale continue to be opened, mostly by private entities and white pumps (approx. 1600). The spreading of points of sale with the Large Scale Retail Distribution brand is still limited.

The rebranding plan started in 2008 continues with the creation of the new IP brand, for which 3,170 rebranded points of sale were created in full compliance with the planned objectives. After fifty years of working on Italy's roads, the historical api brand will disappear from the network. To support the new brand some significant marketing actions have been promoted such as the television commercial "IP l'Energia dell'Italia", the presentation of the website dedicated to the Network ([ip.gruppoapi.com](http://ip.gruppoapi.com)) and the completion of the rebranding of all the communication materials, including the uniforms of the operators.

Just as significant is the public discount policy applied on our network, aimed at ensuring a correct positioning in terms of pricing of our points of sale. In this regard, worth mentioning is the Easter and August promotion involving motorway stations "Fridays and Saturdays -11 cents", supported by a national communication campaign via radio, the press and internet.

The api group's motorway went from 26 stations to 31 with the opening of stations at Servizio Ofanto Nord, Piscina Sud, Ponte Nelle Alpi, Adige Ovest, and Sciliar Ovest. In addition, worth remembering is the expected opening in 2011 of another 2 stations (Valle Aterno Est and Astroni Nord) and the participation in new motorway tenders.

In terms of overall volumes of the Fuel Cards, CartaMaxima contributed with an increase in sales of 56% compared to last year. In percentage terms, the increase in total volumes of the Fuel Cards was 26% compared to 2009.

In addition, the IP Matic project (fully automated points of sale in self service pre-pay sales mode) was developed with the opening of an additional 3 plants in 2010. To date the network has 6 points of sale. A positive performance was recorded in terms of both sales and margins.

The annual sales of gasoline and diesel by the api-IP network were 3,507 million litres, equal to +2.83% compared to 2009. Total fuel (including LPG) was 3,664 million litres, equal to +3.95% compared to 2009. In 2010 the api Group recorded an overall performance better than the market (+4.67% on gasoline and diesel) and increased its market share by 0.46% compared to 2009 (10.29% vs. 9.83%).

The trend for lubricant sales in the Italian market over the year saw another decline following the negative trend of past years and continuing the negative trend of recent years. The 2010 result was -12.9% (8,100 tonnes compared to 9,300 tonnes of 2009), confirming the slowdown caused by known and consolidated reasons (renewal of the working vehicle fleet, motor evolution, product evolution) and a related partial shift of volumes to garages and dealers, factors which were all exacerbated by the economic crisis.

In 2010 the sales of api-IP network lubricants stood at 1,165 tonnes with a decrease of 7.6% compared to 2009. Our network in any case recorded a better performance compared to the sharply declining industry (+5.3% compared to the market), with an increase in market share, moving from 13.6% to 14.4%.

Through the Business Training School, 100 courses were organised (compared to 41 of the same period last year), including 12 basic courses, 30 touring courses at all the motorway points of sale, new lubricant courses for the Extra Network and 13 specific training courses for all the ACR and ASR, training about 1,000 operators in total, 193 internal resources of the Retail and the Wholesale Networks and 35 resources/retailers belonging to our customers.

Within the Partners Network commercial structure, during 2010, 123 contract agreements were renewed for a total of 484 points of sale (approx. 360 million litres). Thirty eight contracts were not renewed, with low average supply and/or unsatisfactory profitability, for a value of about 65 million litres (108 points of sale). Finally, 23 new contract agreements were stipulated, corresponding to 135 points of sale for approximately 142 million litres.

During the year, significant technical interventions were made on the network to create 6 new points of sale and restructure 11 existing ones.

At 31.12.2010 the api group network consists of 4,223 stations, 31 of which on motorways, 1,207 owned and 2,985 under contract, 638 of which with Retitalia.

## Marketing

The year 2010 was very important in terms of marketing initiatives, the main of which were the communication launch of the new IP api Group brand and the launch of the new “Nectar” loyalty campaign.

The latter was launched on 1 March in partnership with Auchan, Sma, Unieuro, Hertz and other online sales companies. The Nectar Coalition is the only programme that allows customers to accumulate points on just one card at points of sales belonging to different market sectors. The launch was supported by strong multichannel media (TV, radio, press, posters and internet) as well as dedicated communication on the plants. The results of the first nine months were beyond expectations: there are more than 6 million Nectar customers, of which almost 2.4 million used the card in the IP network, with an increase of 114% compared to the previous year.

Other marketing initiatives in 2010 included:

- the “Italiani con Passione” promotion, a prize competition that takes place in the period of the World Cup to support the Sponsorship of the National team. The initiative was backed up by a media plan, communication at point of sale and the launch of a special “World Cup” edition of electronic fuel vouchers;
- a pricing initiative dedicated to the motorways in the August period and a Double Nectar point promotion in Nov-Dec, both supported by media plans and communication at the points of sale involved;
- the Mystery Client project started in October, with more than 1,000 Points of Sale taking part.

## Non-oil sector

The year 2010 was another year of growth and consolidation for the Festival brand, despite the national restaurant service market featuring a substantial drop in consumption.

In terms of development, the network grew from 142 stores in 2009 to 151 at the end of 2010. The sales of the Festival chain increased from Euro 11.70 million in 2009 to Euro 11.90 million in 2010 (+1.71%).

Also positive was the trend of the non-oil businesses on the api network, with a notable increase in economic terms of the royalties of suppliers specialised in products for car accessories.

During 2010 the training of our Festival operators continued at the Business Training School, where 96 courses were provided to operators.

## WHOLESALE SECTOR

### DIESEL

The diesel market, overall and excluding the bunker channel, closed 2010 with a loss in quantity on the previous year equal to 389,000 tonnes (-2.9%).

Despite the negative result, from the second part of the year the trend started to improve, substantially deriving from the better performance of the automotive diesel fuel, showing signs of a slight recovery of the industrial segment.

However, the economic crisis begun in 2009 still shows its negative effects. All the sales of diesel decreased compared to 2009: automotive (-2.01%), heating (-4.85%), agricultural (-4.94%) and marine (-2.99%).

The valuations of Platts quotations in euro showed a growing trend on the whole, up to June, stable up to November and growing again up to the end of the year.

The limited consumption and high prices contributed to maintaining the very high "credit" risk, an additional negative element for 2010.

Given such a heated market situation featuring poor absorption, api followed its commercial policy, especially attentive to margins and credit, overall providing a total diesel result of -6.7%, lower than the market.

Sales dropped in automotive (-4.68%), heating (-18.34%), agricultural (-10.89%) and marine diesel (-6.90%).

Compared to 2009 the market share, net of bunkers, decreased slightly.

## BITUMENS

The market is in a complete crisis and ends the year with a contraction in demand compared to 2009 for 315,000 tonnes (-13.57%), reaching the minimum threshold of 2 million tonnes. The main reason for it concerns the "road" segment, where the public investments, above all in terms of maintenance, were minimal due to lack of funds.

The "industrial" segment, directly linked to the performance of the building industry, still shows signs of weakness that especially regard the internal market, only partially offset by greater exports by the manufacturers of sealants.

In this context, also characterised by a particularly competitive market and great competition, api has maintained its policy of paying maximum attention to margins and, though sales decreased by 7.43% overall, it outperformed the market, also thanks to the acquisition of new customers. The market share rose slightly.

## LUBRICANTS

The market confirmed the recovery signs already shown in the first half of the year. There was a 10.9% increase over 2009. The result is still affected by the greater sales in the industrial segment, which grow at a higher rate than the automotive segment.

Nevertheless, there is still a big gap compared to 2008 (pre-crisis period) equalling -11.6%, highlighting a market where the demand deficit is still rather high.

Customers continue to show signs of general financial distress, with a high credit risk.

Regarding the api Group, sales in Italy recorded an overall increase of 17.8% compared to 2009, with a greater sales volume (+6.8%) also compared to 2008. The market share grew slightly.

Also for the year underway, the objective to increase the market share is pursued through a constant search for new customers, especially in Northern Italy, also through a greater commercial presence.

Exports progressed significantly, +22.8%, mainly due to the increase in sales in the Taiwanese market and the entry into the Bulgarian market taking place at the end of 2009.

## LPG

In 2010 the Italian LPG market grew in total by 3.7%. The fuel segment has remained basically stable (+0.2%), while the automotive segment, growing by 11.3%, confirmed the strong rising trend already recorded in the last two years.

api sales in the "combustion" channel increased by 6.9% compared to the previous year, with a positive difference compared to the market of 6.7%. The excellent performance was attained by increasing sales in the industrial segment by 17%, where we contracted some high supply plants, thus allowing us to absorb the drop in consumption recorded in the domestic segment, penalised by the economic crisis and the high cost of the product. The record-breaking Platts quotations, which on average in 2010 exceeded 50% compared to 2009 and in December reached the historical peak of 950 USD/tonne, penalised our sales margins.

During the year the sales of LPG to wholesalers, with respect to the productive needs of the refinery, were lower by 25.5% compared to 2009, thus standing at 37,082 tonnes.

## ENERGY

The year 2010 was generally characterised by the good performance of the plant both in terms of operations and production. The plant's operating percentage for 2010 equalled 93.2% of the total hours; worth remembering is that this indicator shows the reliability percentage of the plant, net of the scheduled shutdowns for maintenance.

Maintenance activities, carried out according to the programme, were characterised by type "A" inspection of the gas turbine. They were carried out from 15 March and to 31 March in coordination with the shutdown of the refinery.

In 2010, the plant produced electricity totalling 2,204,439 MWh and 431,686 tonnes of steam (of which 88,581 high pressure, 226,565 medium pressure and 116,540 low pressure).

When compared to 2009, the production parameters of the IGCC plant show an increase in production (2,204,439 MWh produced vs. 2,030,487); this deviation is due to a shutdown for maintenance plus a limited number of days when the plant was out of service (24 days vs. 42 in 2009) as well as better performance in general.

## Significant events

The following main managerial events characterised 2010:

### *Avoided Fuel Costs (CEC)*

As forecast in the Financial Act 2009, the update of the CEC was notified by the Ministry for Economic Development (MSE) at a value determined according to resolution 249, which gave rise to a forecast value to be applied for all of 2009 while waiting for the final adjustment in April the following year.

The novelties introduced with the abovementioned ministerial decree of 30 September 2009 consist in the fact that the MSE directly publishes the value of the CEC update to be assumed for the reference period downstream of the calculations made by the AEEG.

This value, updated quarterly, must be adopted immediately for the following quarter.

Nevertheless, contrary to what was established, the decree expected for the first quarter of 2010 was not issued, while at a subsequent date, 12 July 2010, a Decree was published by the Ministry for Economic Development that determines for the CEC an adjustment value for 2009 and a forecast value for all of 2010 while announcing the need to review the calculation criteria for 2011.

#### *White Certificates*

Finally, as regards the White Certificates, upon the approval by the GSE of the energy saving project for the consumption of electricity through the use of the Syngas Expander, api energia obtained from the beginning of the project the recognition of 7357 Energy saving bonds, which were resold through the trader in the market sessions for a total value of Euro 685,000.

#### *Tax Audit*

During 2010, the company api energia spa was subject to a tax audit, conducted by the Italian Inland Revenue – Lazio Regional Management Office concerning IRES, IRAP and VAT for 2007.

Upon the outcome of the audit, on 16 December 2010 the Inland Revenue notified an Official Tax Audit Report that contested, concerning IRES and IRAP, the incorrect application of the depreciation rate of the item "Miscellaneous" of Tangible Fixed Assets and the omitted attribution of revenues for the CIP/6 incentive component. In particular, concerning the first finding, the auditors recalculated the depreciation of the item "Miscellaneous" subject to division of the related amount on the total of the IGCC plant, using a weighted average rate in place of the one used by the company (10%), that is typical of the "Production and filtration" category. Concerning the second finding, the auditors considered incorrect the accounting system adopted by api energia (in compliance with the IAS/IFRS accounting standards) in dividing across several years (due to the relationship between the effective annual production and the total amount of the expected production, referring to 15 years) the incentive component of CIP/6 tariff, claiming that the incentive should be entirely attributed as a revenue to the first 8 years of the contract. The company, with the assistance of the entrusted professionals and backed up by suitable appraisal drawn up by influential professionals concerning both issues, in consideration of the absolute unfounded nature of the two contested findings, deemed it appropriate not to carry out any provision for a potential liability, as this is not considered probable.

Finally, based on the afore-mentioned Tax Audit, the Inland Revenue –Marche Regional Management Office notified the company in December 2010, of an assessment notice for IRES and IRAP for 2005, in which the amortisation of the fiscally deductible item "Miscellaneous" was recalculated. Through this act the company proposed to refer, under legal terms, to the Ancona Provincial Tax Commission; no provision was allocated for potential liabilities for the same reason above.

## Research & Development

It is worth remembering that, following the successful test run carried out at the IGCC plant in the presence of CESI and GSE, which envisaged operation tests with mixed fuels (8% vegetable oil - 92% Tar), api energia received from GSE, on 5 June 2009, the "IAFR" qualification of Plant powered by renewable resource with the recognition of Green Certificates for only 50% of the energy production deriving from biofuels. This position derives from the failure to recognise the start-up of our plant as a hybrid plant prior to the publication of the decree of 18 December 2008.

Subject to a reconciliation attempt with GSE requesting a reconsideration of the position and the recognition of 100% of the Green Certificates, api energia lodged an appeal against the ruling of GSE with the Lazio Regional Administrative Court to obtain full recognition. On 17 December 2010, the hearing was chaired by the Regional Administrative Court, which must provide a final judgement by the end of March 2011.

From a technical point of view, the detailed engineering study was concluded for the definition of the equipment necessary to fit the Falconara site with a sea supply and storage system (landing stage or island) for vegetable oil, while still underway (ending in April 2011) is the process study to confirm the possibility of powering the IGCC plant with high percentages of vegetable oil.

## RESULTS OF OPERATIONS

### Selected financial data and by business sector

<b>Euro/thousand</b>	<b>31.12.10</b>	<b>31.12.09</b>
Revenues from core operations (1)	3,515,092	3,086,470
Intersectorial revenues	-206,193	-247,663
Revenues from third parties	3,308,899	2,838,807
Adjusted EBITDA	112,284	74,232
Inventory profit/loss	46,800	63,264
Rebranding	-18,000	-19,520
EBITDA	141,084	117,975
Amortisation and depreciation and write-downs	-95,664	-96,451
Operating profit (loss)	45,420	21,524
<i>Total revenues from core operations:</i>		
Refining	135,981	143,087
Marketing	3,099,836	2,686,456
Energy	277,823	255,588
Corporate	1,452	1,339
Intersectorial revenues	-206,193	-247,663
<b>Total</b>	<b>3,308,899</b>	<b>2,838,807</b>
<i>Adjusted EBITDA:</i>		
Refining	15,517	-30,604
Marketing	102,190	100,557
Energy	51,162	66,597
Corporate	-56,584	-62,317
<b>Total</b>	<b>112,284</b>	<b>74,232</b>
<i>EBITDA:</i>		
Refining	15,517	-30,604
Marketing	130,990	144,300
Energy	51,162	66,597
Corporate	-56,584	-62,317
<b>Total</b>	<b>141,084</b>	<b>117,975</b>
<i>Adjusted EBIT:</i>		
Refining	-17,084	-62,110
Marketing	75,725	72,708
Energy	15,380	31,491
Corporate	-57,401	-64,308
<b>Total</b>	<b>16,620</b>	<b>-22,219</b>
<i>EBIT:Refining:</i>		
Refining	-17,084	-62,110
Marketing	104,525	116,452
Energy	15,380	31,491
Corporate	-57,401	-64,308
<b>Total</b>	<b>45,420</b>	<b>21,524</b>
Net debt (2)	817	796

(1) net of excise tax and trading

(2) net of cash at bank and in hand

## Revenues from core operations

At 31 December the company showed revenues of Euro 3,309 million, higher than in the same period of the previous year (Euro 2,839 million at 31 December 2009) due to the effect of the increase in the international prices of petroleum products.

## EBITDA

At 31 December the company reported an EBITDA of Euro 141 million, Euro 23 million more than in the same period of the previous year (Euro 118 million at 31 December 2009).

The improvement compared to EBITDA in 2009 is mainly due to the combined effect of the following extraordinary factors:

- higher refining and sales margins due to a less unfavourable oil situation;
- lower inventory profits. The variations in international prices for petroleum products led to an increase in the price of crude oil and products in the warehouse resulting from the application of the average weighted cost. This increase, calculated as the difference between the valuation at the end of the financial year and the valuation at the beginning of the financial year of the quantities still held in stock at the end of the financial year, combined with the allocation to the inventory write-down provision, resulted in inventory profits of Euro 46.6 million (compared to profits of Euro 63.3 million at 31 December 2009);
- the costs of rebranding the points of sale for Euro 18 million (Euro 19.5 million at 31 December 2009).

In 2010 the EBITDA adjusted to take into account the inventory effect and the rebranding costs is Euro 112 million, Euro 38 million higher than the adjusted EBITDA of the same period of the previous year (Euro 74 million at 31 December 2009).

## EBIT

At 31 December the company reported an EBIT of Euro 45 million, Euro 23 million more than in the same period of the previous year (Euro 22 million at 31 December 2009).

The difference is mainly due to the reasons described above and the reduction of amortisation/depreciation (Euro 95.7 million at 31 December 2010 vs. Euro 96.5 million at 31 December 2009).

		<b>31.12.10</b>	<b>31.12.09</b>
Investments	Euro/thousand	67,864	71,534
Employees at period end	no°	906	945
Supply & Trading	tonnes	5,534,100	6,787,400
Refinery processing	tonnes	3,597,000	3,709,000
Retail sales	tonnes	2,810,000	2,713,000
Wholesale Sales	tonnes	1,663,000	1,786,000
Other Sales (1)	tonnes	220,000	256,000
Production	MWh	2,204,438	2,030,430
Stocks of raw materials and products	tonnes	672,492	743,002

(1) include sales to oil companies and export sales

## RESULT for the period net of taxation

The profit at 31 December, net of taxation, amounts to Euro 6.9 million, against a loss of Euro 6.4 million in 2009.

In the period under examination, the company showed taxation of Euro 15.3 million, consisting of costs for current taxes of Euro 19.5 million, revenue from the release of deferred tax provisions of Euro 8.5 million, as well as increases in prepaid taxation of Euro 4.3 million.

IRES was calculated by applying, in addition to the ordinary rate of 27.5%, an additional 6.5% for oil and energy sector business with revenues greater than Euro 25 million, pursuant to art. 81 of Law Decree no. 112 of 25/06/2008, amended by art. 56, paragraph 3 of Law no. 99 of 23 July 2009

## BUSINESS SECTORS

In order to adjust the representation of the group results to the company reporting, the Refining and Marketing segment was subdivided into two separate business areas. The representation of the Group's business segments is therefore reclassified as follows:

- Refining: includes the refining margins from processing at the Refinery of Falconara and the Alma Refinery in Ravenna;
- Marketing: includes the sales margins from sold products.
- Energy: includes the margins deriving from the energy and steam production of the IGCC plant

The difference in value between the production and sale of TAR and the equivalent production of fuel oil was transferred from the Refining and Marketing segment to the Energy segment. The data for 2009 was reclassified based on the new criteria to make the comparison with 2010 homogenous.

Analysis of the trend for the year in detail by sector, with respect to the same period of 2009, shows the following:

## Main results for the period

### Refining

The api Group carries out refining activity through the Falconara Refinery and, for certain special processing, through a processing account with the Alma Refinery, owned by third parties.

The overall refining capacity of the api Group totals around 4 million tonnes of crude oil per year.

Euro/thousand	31.12.10	31.12.09
Revenues from core operations	135,981	143,087
Intersectorial revenues	-133,174	-133,480
Revenues from third parties	2,808	9,607
Adjusted EBITDA	15,517	-30,604
Inventory profit/loss	0	0
Rebranding	0	0
EBITDA	15,517	-30,604
Amortisation and depreciation and write-downs	-32,601	-31,506
<b>Operating profit (loss)</b>	<b>-17,084</b>	<b>-62,110</b>

<b>Euro/thousand</b>		<b>31.12.10</b>	<b>31.12.09</b>
Processing at api Refinery in Falconara	tonnes	3,401,000	3,500,000
Processing at Alma Refinery in Ravenna	tonnes	196,000	209,000
Refinery processing	tonnes	3,597,000	3,709,000
api Refinery Processing margin	USD/barrel	-0,4	-1,7

At 31 December 2010 processing totalled 3,597 thousand tonnes, decreased compared to the processing of same period of the previous year (3,709 thousand tonnes at 31 December 2009).

Processing at the subsidiary api Raffineria di Ancona was lower than 2009 mainly due to the particularly negative oil scenario.

Processing at the Alma Refinery in Ravenna was slightly lower due to poor availability of crude oil from Sarago.

## Marketing

The api Group markets petroleum products, both in the so-called Retail channel, through points of sale that are either owned or contracted and located on ordinary road and motorway networks, and through the so-called Wholesale Channel, with sales to wholesalers and resellers, and marginally, through export sales by ship (so-called cargo market) and to other oil companies.

<b>Euro/thousand</b>		<b>31.12.10</b>	<b>31.12.09</b>
Revenues from core operations		3,099,836	2,686,456
Intersectorial revenues		-66,984	-107,848
Revenues from third parties		3,032,852	2,578,608
Adjusted EBITDA		102,190	100,557
Inventory profit/loss		46,800	63,264
Rebranding		-18,000	-19,520
EBITDA		130,990	144,300
Amortisation and depreciation and write-downs		-26,465	-27,848
<b>Operating profit (loss)</b>		<b>104,525</b>	<b>116,452</b>

The marketed volumes are reported below:

		<b>31.12.10</b>	<b>31.12.09</b>
Retail sales	tonnes	2,810,000	2,713,000
Wholesale Sales	tonnes	1,663,000	1,786,000
Other Sales (1)	tonnes	220,000	256,000
<b>Total Sales</b>	<b>tonnes</b>	<b>4,693,000</b>	<b>4,755,000</b>

(1) include sales to oil companies and export sales

At 31 December 2010, a total of 4,693 thousand tonnes were sold, less than the prior year (4,755 thousand tonnes at 31 December 2009). This reduction is due to the combined effect of greater sales in the Retail channel and lower sales in the Wholesale channel.

## Retail sector

At 31 December 2010 retail sales were 2,810 thousand tonnes in the aggregate, up compared to the same period of the previous year (2,713 thousand tonnes at 31 December 2009) despite the negative trend of the market, thanks to the targeted marketing campaign and the rebranding.

The 2010 unit margins were slightly higher than those of the same period of 2009.

## Wholesale

At 31 December 2010, wholesale sales were 1,663 thousand tonnes, down from the same period in the previous year (1,786 thousand tonnes at 31 December 2009) primarily due to tensions on sales margins.

At 31 December 2010 unit margins were lower than in the same period of 2009.

## Other sales

At 31 December 2010, other sales totalled 220 thousand tonnes, less than the prior year (256 thousand tonnes at 31 December 2009), mostly due to the lower production.

## Crude oil and product inventory

The increase in prices for crude oil and petroleum products held in the warehouse at the beginning of the year and still existing at year end resulted in inventory profits of Euro 46.6 million (profit for Euro 63.3 million at 31 December 2009).

## Energy

In 2010 the percentage of operating hours of the plant was 93.2% of total hours. Below, the production of electricity is reported:

		<b>31.12.10</b>	<b>31.12.09</b>
Production	MWh	2,204,438	2,030,430
<hr/>			
<b>Euro/thousand</b>		<b>31.12.10</b>	<b>31.12.09</b>
Revenues from core operations		277,823	255,588
Intersectorial revenues		-6,035	-6,335
Revenues from third parties		271,788	249,253
Adjusted EBITDA		51,162	66,597
Inventory profit/loss		0	0
Rebranding		0	0
EBITDA		51,162	66,597
Amortisation and depreciation and write-downs		-35,782	-35,105
<b>Operating profit (loss)</b>		<b>15,380</b>	<b>31,491</b>

## FINANCIAL MANAGEMENT

In 2010 the Italian banking system continued towards the adoption of the Basel 3 rules, along a path made difficult by the slowdown in economic activity on the one side and the reduction of the spread between interest receivable and interest expense on the other.

General rate trends swung in 2010, with the drop that had characterised all of 2009 persisting also in the first 4 months of the year; April saw the start of a slow and gradual rise that gradually strengthened, pushing the rates to their maximum levels for the year at the beginning of November. Since then, and until the end of the year, a slow realignment started, which however did not influence the underlying rising trend. By way of example, the 1 month euribor (the benchmark for short-term loans), which at the beginning of the year was 0.453%, dropped to 0.397% at the end of March, when it started to rise slowly, reaching a maximum of 0.853% at the start of November, to close at 0.782% at the end of the year. The annual actual increase was about 73%.

Despite the increase taking place during the year, market rates in any case stand at record low levels, just as the official rates, which are maintained artificially stable at minimum levels by the monetary authorities to stimulate growth.

In this situation the banking institutes, pushed by the supervisory authority to comply with the minimum requirements of capital soundness and in the presence of growing collection costs, were forced to follow a strict cost discipline, deleverage and raise the spreads applied to loans while experiencing decreasing margins.

Despite these issues, the api group faced last year in absolute tranquillity. With no significant amounts to repay, except for the project finance instalments to be paid by api energia, the api group preferred to make advanced actions, concentrating on the renewal of the loans of the parent company expiring in 2010 and the more considerable loans to be repaid in 2011. Thanks to a constructive and prospective dialogue with the banking system, in the first part of the year api spa renewed a 20 million loan until 2013 and rescheduled until 2014 a loan for 20 million out of the 21 million originally expiring at the end of the year. Furthermore, just in December the company rescheduled by 3 years another 80 million of debts expiring in 2011, extending them until March, June and December 2014 for 40, 30 and 10 million respectively. Unlike in the past, most of these loans are of the "amortising" type, i.e. they envisage the repayment of the capital during the entire life of the loan or once a certain period has elapsed (so-called pre-amortisation period) and not just at the end. Despite the unsettled market conditions, none of the lines granted to api spa provides for costs in case of non use and none of the rescheduled loans provides for compliance with certain strict financial parameters (so-called covenants) or the provision of any type of guarantee. In all instances the company has the option to redeem loans at any time before expiry without for this having to pay any penalties. Also the spreads applied by banks in this refinancing phase were always contained, though higher than in the past, compared to those prevailing in the market for borrowers with ratings and assets comparable to those of api spa. The year also recorded an excellent financial performance by the company api energia which, in addition to having repaid the two instalments of the loan expiring in June and December, distributed a total of over Euro 54 million in the form of dividends in June and November. At 31 December 2010, the residual nominal debt relating to the funding granted to api energia was Euro 199,656 thousand. The residual debt was recalculated under the amortised cost according to IAS 32, at a rate of 2.6% for a total of Euro 196,413 thousand.

Despite a slight increase in the net financial position, negative by Euro 817,497 thousand compared to Euro 795,887 thousand of the previous year, the group recorded a drop of more than 10% in gross indebtedness, passing from 1,041,170 thousand at the end of 2009 to 929,707 thousand. As regards the subdivision by expiry, a change was recorded in the proportion that used to see medium to long-term liabilities (58% of the total) prevail over the short-term ones (42% of the total), in favour of a greater balance (about 50% each) due to a series of loans, essentially on api spa's account, that expire during 2011. The increased attention towards cash management and the priority given to the repayment of debts rather than the accumulation of stocks, which in any case earn rates close to zero, resulted in a drastic decrease in availability compared to the previous year. Also the stocks bound to api energia spa dropped as a consequence of the already mentioned dividend distribution.

At the end of December 2010, the api spa group benefitted from lines of credit from the banking system, in euro and in other currencies, for more than Euro 2 billion compared to Euro 2.2 billion at the end of 2009. The reduction is attributable to a rationalisation of the existing and unused credits, as requested by the banking system, as well as to specific needs of the companies operating in the renewable energy industry in the api holding group, towards which existing credits were partially reallocated within the group in accordance with the banks involved. Nevertheless, the level of use of the facilities remained stable at 46% at the end of 2010, compared to 47% at the end of 2009.

The Group's average debt, equal to 917 million, remained practically unchanged compared to the 914 million of 2009. Although the already mentioned trend in interest rates showed a gradual progression starting from April, the group paid lower "finished" rates (i.e. inclusive of the margin requested by the bank) than in the previous year. This was reflected in additional savings on financial charges, which decreased for the second year running.

Reported below is a breakdown of the average debt, specifying the financing sources used and the related rates obtained:

- ordinary current accounts	105,714 thousand at an average rate of 1.092% (1.95% in 2009)
- operating loans	132,043 thousand at an average rate of 1.207% (1.64% in 2009)
- structural loans	678,977 thousand at an average rate of 2.525% (2.98% in 2009)

At year end the portion of the medium to long-term debt hedged against the risk connected to fluctuations in interest rates was equal to 43%, slightly lower than the previous year (50%) following the redemption of a loan of api spa covered by IRS, replaced by a variable rate loan. In consideration of the expected trend in interest rates and the average residual duration of the loans not hedged against this risk, the company api spa decided not to enter into other hedging contracts during the year.

In reference to hedging the same risk by the subsidiary api energia, it is noted that 75% of the debt originating from the project finance is hedged by three simple "plain vanilla" Interest Rate Collar derivatives. The derivatives were stipulated on 27 June 2005, together with the debt refinancing contract, with three credit institutions (Royal Bank of Scotland, BNL and Calyon). In hedging terms, a minimum borrowing rate of 1.97% (Interest Rate Floor) and a maximum lending rate of 6% (Interest rate Cap) are expected. Worth noting is that, due to the prevailing level of the rates during 2010, the company api energia always paid in the year the minimum level set by the collar contract, i.e. 1.97%.

At group level, the only company engaged in trading in exchange rates and, as such, exposed to the exchange rate fluctuation risk is the parent company, api – anonima petroli italiana spa. To meet the foreign currency needs arising from crude oil imports, in 2010 the company traded a record amount of USD 1.996 billion through Italian and foreign bank counterparties operating in the exchange rate market.

Net of exports totalling USD 63.4 million, the balance of dollars at risk was USD 1.932 billion in 2010, compared to USD 1.5 billion in 2009.

The increase in the value of the transactions in foreign currency was a direct consequence of the increase in the prices of imported raw materials as compared to the previous year, especially in the last months of the year.

The exchange rate risk is managed by stipulating forward purchase agreements with an average term of about 15 days. These purchases, the amount of which is approximately 7.4 million dollars/day, are made by benchmarking with the daily closures of the European Central Bank (ECB). During the year, this management resulted in average accumulated savings of Euro 1.8 million, calculated as the difference between the Euro/USD weighted average exchange rate from the ECB (1.3209) and the weighted average purchase exchange rate obtained by api (1.3226) from bank counterparties.

## PERSONNEL

The total number of employees of api anonima petroli italiana S.p.A. Group at 31/12/2010 was 906 (945 at 31/12/2009). The difference is mainly due to the implementation of the plan to reorganise and re-qualify the refinery personnel. No changes in the employees of the other companies included in the consolidation area are recorded.

The change in staff costs for 2010 compared to 2009 was influenced by the renewal of the Energy and Oil National Collective Labour Agreement, the increases envisaged by the PDP (productivity bonus) stipulated over the previous years, and the charges incurred for the redundancy incentive linked to the reorganisation plan agreed with trade union organisations.

The year 2011 will be concerned by the contractual increases of the Energy and Oil National Collective Labour Agreement from January and the increase of the productivity bonuses (PDP) envisaged by the supplementary contracts. The economic development of the mentioned plan will continue at the refinery.

Concerning trade union activities at refineries, in 2010 the four-year site improvement plan was applied, whose priority is to optimise the production yield, decrease energy consumption, improve efficiency in maintenance, decrease other kinds of costs and reorganise and re-qualify the personnel, culminating in the agreement of 23 December 2009 signed with trade union organisations.

The training and development activities carried out in 2010 concerned the various role families present in the group, with special attention paid to recently hired professionals and employees. Specific courses were also held for departments or professional areas and some training projects were started with financing from Fondimpresa, which will be implemented in 2011.

Training activities at refineries were mainly aimed at training personnel on subjects such as health and safety, the environment and the review of procedures of the integrated management system.

Recruitment chiefly regarded technical personnel, new recruits for the Retail environment and an operating support at commercial departments. Internal communication in particular led to the restyling of the company magazine "energie" in line with the Group's new corporate identity.

The Organisation Department participated in the Provisioning Project which introduced SAP HCM as the repository of the company structure and the staff records for all the companies of the group.

## IT SYSTEMS

Concerning IT systems, 2010 saw a consolidation of the renewal of the central systems already underway in the previous years. In terms of “Technological Development”, a project of virtualisation of user desktops was started, which allows notable savings compared to the old infrastructure, given the same performance, with the possibility of operation also when people are geographically distant from the physical workstation, thus guaranteeing the integrity of data. In the application sphere, worth noting are: the implementation of an automatic authorisation process to create/modify/delete users from the system, and the start of the technical normalisation of the Sap profiling with clear benefits concerning safety; the creation of a portal (IPortal) targeting customers (retailers and wholesalers) and allowing documents, logistic information and sales trends to be viewed; a system was created to manage the progress of IT projects requested by the various business units to make collection more efficient, assign suitable priorities to them, and have an updated picture of the schedules related to the processing of the requests.

## ACTIVITIES OF THE SUPERVISORY BODY

During the year the Supervisory Body verified the correct application of Legislative Decree 231/01 through a series of meetings that analysed the periodical information flows coming from corporate management and checked the actions taken by the Internal Audit function of api holding, from which no criticalities emerged.

The Supervisory Body was periodically coordinated with the Board of Statutory Auditors to ensure a mutual and constant information flow.

## IMPLEMENTING THE “PRIVACY” REGULATION

Also this year your company updated the Programmatic Document on Safety according to the provisions of Legislative Decree 196/2003, adopting the minimum safety measures contained therein.

## RESEARCH AND DEVELOPMENT ACTIVITY

We confirm that no cost was deemed to be capitalised as regards research and development activities.

## OWN SHARES AND CONTROLLING COMPANY SHARES HELD

Pursuant to the special provisions of Article 2428, paragraphs 3 and 4 of the Italian Civil Code, it is confirmed that the company does not hold own shares nor stocks or shares in controlling companies either through trustee companies or third parties and that the foregoing categories of stocks or shares have been neither purchased nor sold during the year.

## RELATIONS WITH SUBSIDIARY AND ASSOCIATED COMPANIES

In reference to relationships with subsidiaries, the size of the most significant relationships over the year, divided by sector, are reported below:

<b>SALES TURNOVER 2010</b> (in Euro/thousand)	<b>to api anonima</b> <b>petroli italiana S.p.A.</b>	<b>from api anonima</b> <b>petroli italiana S.p.A.</b>
<b>Refining</b>		
api raffineria di ancona S.p.A.	146,320	33,433
<b>Energy production</b>		
api energia s.p.a.		73,356
<b>Oil Consumption</b>		
DIALCO S.R.L.	130	18,573
APISEM S.R.L.	4,098	
G.R.C. S.R.L.	811	26
ALPENOil S.R.L.	35	9,362
ABRUZZO COSTIERO S.R.L.	2,726	30
<b>Bars and restaurants</b>		
Festival s.p.a.		32
<b>Services</b>		
api holding s.p.a.	4,864	320
<b>Property</b>		
api real estate s.r.l.	3,796	75
<b>Oil Trading</b>		
API SERVICES (services)	199	
apioil Limited	390,922	

## MAIN EVENTS OCCURRING AFTER YEAR END AND BUSINESS OUTLOOK

In the first months of the year, signs of recovery continue to come from the US macroeconomic data, with unemployment slightly lower. Nevertheless, in the meeting of 16 March the FED repeated that it will not make any amendment to the second quantitative easing and that no restrictive monetary policies will be adopted.

The European Central Bank adopted a completely different approach, officially increasing interest rates (+0.25 base points) starting from the next meeting of 7 April, as resolved in the last meeting of 3 March; however, the ECB chairman, Trichet, explained that this decision is related to the deterioration of the inflation framework and the growth of the Euro Area already reviewed on the increase for 2011; should a slowdown be experienced, especially due to the weakness of the debt of peripheral countries, these restrictive monetary policies could be interrupted; in any case for now the market faces an overall increase of the official discount rate of 50 base points for the year.

Regarding the problems linked to the sovereign debt of the peripheral countries of the Euro area, in the meeting on 11 March, the leaders of the Euro Group, after lengthy negotiations, reached an agreement on the increase of the EFSF (European Financial Stability Facility) fund from Euro 250 to 440 billion and the improvement of the conditions related to Greece, whose interest rate on the debt was decreased and for which the duration of the loan was lengthened. However, a series of austerity measures were implemented for the countries that will make use of the facility, including, for those who have a Debt/GDP ratio exceeding 60%, the obligation to reduce it by 5% each year.

As regards the foreign currency market, the Euro/Dollar continued to weaken in the first days of the year, reaching 1.2903 to then rise starting from the middle of January to reach 1.4211 on 22 March; this is basically attributable to the reduced concerns about the debt of peripheral countries, the expected rate rise by the ECB and the increased price of oil following political tension in North Africa.

In the commodities markets, the serious geopolitical crisis breaking out in North African countries led to a sharp increase in the price of oil which, from 93.33 USD/barrel on 7 January, hit 116.35 USD/barrel on 2 March. The price subsequently slimmed down following the catastrophic events occurring in Japan in the middle of the month, to remain in any case close to the highest levels in the following days.

Regarding the company business sectors, the refining scenario is still currently unfavourable and more uncertain than in the past as a consequence of the tensions on the price of raw materials, also fed by the extended political turbulence in Northern African countries.

In January, in advance compared to previous years, the shutdown for maintenance of the refinery of Falconara Marittima was carried out, where, during 2011 important and significant investments are forecast concerning logistics, with particular reference to the marine structures, improving the efficiency of the plants and Safety and the Environment.

Also for the IGCC production plant in February the shutdown set for 15 days took place for the "B" inspection followed by another 4 days for the "A" inspection in October.

On the distribution front, the IP brand continued to show a positive performance in a market that overall continues to record falling consumption. In the wholesale sector, the first months of the year saw a good growth in the lubricant sector due to a drop in diesel and bitumen.

Concerning the expiring loans, it is worth mentioning that the company api spa, in the first 3 months of the year, on one side repaid a debt for Euro 27 million and on the other obtained a two-year extension for a loan expiring in April 2011 for Euro 30 million and the disbursement of a new loan in 60 months, with pre-amortisation of 24 months, for Euro 15 million. At the time of drawing up these notes the company is conducting negotiations with a certain number of bank counterparties for a process of additional consolidation of the debt by lengthening and rescheduling the loans expiring this year.

Rome, 30 March 2011

The Board of Directors  
The Chairman  
Dott. Ugo Brachetti Peretti

Manager in charge of the preparation  
of accounting documents  
Dott. Stefano Cardello

# 2

## Consolidated Financial Statements as of 31 December 2010



# Consolidated statement of comprehensive income

## 31 December 2010

api anonima petroli italiana S.p.A. Group	Notes	31/12/10	31/12/09
Revenues		3,252,150,685	2,777,475,760
Other Revenues		56,748,160	61,330,992
<b>Total</b>	<b>5</b>	<b>3,308,898,845</b>	<b>2,838,806,752</b>
Costs for Raw Materials and Consumables	<b>6</b>	-2,619,177,845	-2,197,331,851
Costs for Services	<b>7</b>	-320,372,306	-323,368,073
Costs for Use of third party assets		-30,512,426	-28,943,400
Staff cost	<b>8</b>	-65,753,042	-66,531,205
Amortisation and depreciation and write-downs	<b>9</b>	-95,664,016	-96,450,950
Provisions for Risks	<b>10</b>	-7,768,904	-9,158,234
Other operating costs	<b>10</b>	-124,229,897	-95,498,681
<b>Total</b>		<b>-3,263,478,436</b>	<b>-2,817,282,394</b>
<b>OPERATING RESULT</b>		<b>45,420,409</b>	<b>21,524,358</b>
Financial income (charges)		-21,893,925	-24,121,764
Income (and charges) from valuation using the NE method		1,416,352	870,803
<b>Total</b>	<b>11</b>	<b>-20,477,573</b>	<b>-23,250,961</b>
<b>RESULT BEFORE TAXATION</b>		<b>24,942,836</b>	<b>-1,726,603</b>
Taxation for the period	<b>12</b>	-15,271,625	-3,675,995
Change in Cash Flow Hedge Reserve (CFH)	<b>13</b>	-2,677,166	-982,729
<b>RESULT FOR THE PERIOD NET OF TAXATION</b>		<b>6,994,045</b>	<b>-6,385,327</b>
Result for the Period – Group		6,576,494	-6,750,743
Result for the Period – Minority Interests		417,551	365,416
<b>Basic earnings per share</b>	<b>14</b>	<b>0.0491</b>	<b>-0.0448</b>
<b>Diluted earnings per share</b>	<b>14</b>	<b>0.0491</b>	<b>-0.0448</b>
<b>Dividend</b>	<b>14</b>	<b>-</b>	<b>-</b>

# Consolidated statement of financial position

## 31 December 2010

api anonima petroli italiana S.p.A. Group	Notes	31/12/10	31/12/09
Property, Plant and Machinery	15	903,364,592	933,516,108
Goodwill	16	123,626,279	123,626,279
Intangible Fixed Assets	17	125,333,588	129,184,781
Equity Investments	18	11,058,991	13,569,908
Other assets	19	23,323,633	25,709,397
Derivative instruments	20	9,286	594,831
Prepaid Taxation	21	77,241,151	94,210,719
<b>Non-Current Assets</b>		<b>1,263,957,520</b>	<b>1,320,412,023</b>
Inventories	22	352,808,143	322,642,079
Trade and other debtors	23	588,908,279	507,674,463
Loans to Controlling companies	24	10,800,000	18,400,000
Other assets	25	21,790,632	21,815,164
Tax receivables	26	13,948,867	18,832,303
Liquidity tied up in Project Finance	27	59,406,092	98,538,258
Cash at Bank and in hand and Cash Equivalents	28	42,000,952	128,344,649
<b>Current Assets</b>		<b>1,089,662,965</b>	<b>1,116,246,916</b>
<b>TOTAL ASSETS</b>		<b>2,353,620,485</b>	<b>2,436,658,939</b>
Share Capital		115,425,000	115,425,000
Legal Reserve		19,295,263	19,295,263
Other reserves		263,608,306	267,876,711
Profit (loss) for the period		6,576,494	-6,750,743
<b>Total Group shareholders' equity</b>	<b>29</b>	<b>404,905,063</b>	<b>395,846,231</b>
Minority Interests		1,307,779	1,510,294
<b>Shareholders' equity</b>		<b>406,212,842</b>	<b>397,356,525</b>
Medium to long term debt	30	459,522,452	604,568,767
Employee benefits	31	13,499,552	15,131,322
Deferred taxation provision	32	127,658,043	136,910,068
Provisions for risks and charges	33	45,186,263	51,554,959
<b>Non-Current Liabilities</b>		<b>645,866,310</b>	<b>808,165,116</b>
Trade and other payables	34	489,039,068	392,845,011
Derivative instruments	35	19,521,945	22,645,924
Short term debt	36	470,184,923	436,601,490
Other liabilities	37	196,361,568	255,208,153
Payables due to taxation authorities	38	126,433,829	123,836,720
<b>Current liabilities</b>		<b>1,301,541,333</b>	<b>1,231,137,298</b>
<b>TOTAL LIABILITIES</b>		<b>2,353,620,485</b>	<b>2,436,658,939</b>

# Consolidated cash flow statement

## 31 December 2010

api anonima petroli italiana S.p.A. Group	2010	2009
<b>Net result for the financial year</b>	<b>6,994</b>	<b>-6,385</b>
<b>Adjustments for:</b>		
Depreciation of Tangible Fixed Assets	94,462	94,787
Amortisation of Intangible Fixed Assets and Impairment	1,202	1,664
Effects of Equity Evaluation of Equity Investments	-1,416	-871
Changes in Provisions (including Employee Severance Indemnity)	-8,092	1,666
Neutralisation of non-monetary effects of Hedge Accounting	-193	1,438
Other non-monetary items	-35,496	-12,862
Variation to Provision (Asset) for Deferred (Prepaid) Taxation	7,718	-9,774
<i>Cash-flow from Operating Activities (prior to change in Working Capital)</i>	<i>65,179</i>	<i>69,663</i>
Change in trade receivables	-81,234	73,480
Change in inventory	-30,167	-12,059
Change in trade payables	96,194	-23,495
Change in other operating activities – net	27,888	-86,543
Effects of change in the exchange rates on consolidated foreign subsidiaries	321	-630
<b>CASH-FLOW FROM OPERATIONS [a]</b>	<b>78,181</b>	<b>20,415</b>
Investments in intangible fixed assets	-490	-318
Investments in tangible fixed assets	-64,310	-71,685
Equity investments	3,927	821
Change in long term financial assets	2,386	-291
<b>CASH-FLOW FROM INVESTMENTS [b]</b>	<b>-58,487</b>	<b>-71,473</b>
Repayment/opening of medium/long term debt	-146,417	-82,174
Change in short term financial debts/receivables	41,018	150,276
Distribution of dividends	-639	-313
<b>CASH-FLOW FROM FINANCING ACTIVITY [c]</b>	<b>-106,038</b>	<b>67,789</b>
Effect on cash resulting from exchange rate differences Increase /(decrease) in cash and cash equivalents [a+b+c]	-86,344	16,731
<b>OPENING BALANCE OF CASH AND CASH EQUIVALENTS</b>	<b>128,345</b>	<b>111,614</b>
<b>CLOSING BALANCE OF CASH AND CASH EQUIVALENTS</b>	<b>42,001</b>	<b>128,345</b>

## Changes in shareholders' equity items 31 December 2009

Euro/thousand Shareholders'	Share		Legal Reserve	Other Reserves	C.F. Hedge Reserve	Profits carried forward	Profit (loss) for the year	Shareholders'		Capital & Profit (loss) for Shareholders'	
	Capital	Reserve						equity	equity	Reserves the financial year	equity
<b>Balance at 1 January 2009</b>	<b>115,425</b>	<b>19,295</b>	<b>158,333</b>	<b>-809</b>	<b>137,159</b>	<b>-18,787</b>	<b>1,061</b>	<b>410,616</b>	<b>387</b>	<b>1,448</b>	<b>412,064</b>
Other profits (losses) recorded under shareholders' equity											
Distribution of dividends							-313			-313	-313
Effect of application of the equity method			3,332	-8,740	5,408	0					
Reclassifications from other reserves											
Effect of hedge accounting operations					-628		-3	-628		-3	-631
Effect of application of the equity method				-252			13	-252		13	-239
Other changes in shareholders' equity											
Spin-off in favour of Api real estate								-7,138			-7,138
Change in the consolidation area											
Allocation of profit for year 2008					-18,787	18,787	387				
Profit for period						-6,751	365	-6,751		365	-6,385
<b>Balance at 31 December 2009</b>	<b>115,425</b>	<b>19,295</b>	<b>154,527</b>	<b>-9,802</b>	<b>123,152</b>	<b>-6,751</b>	<b>1,145</b>	<b>395,846</b>	<b>365</b>	<b>1,510</b>	<b>397,356</b>

## Changes in shareholders' equity items 31 December 2010

Euro/thousand Shareholders'	Share		Other Reserves	C.F. Hedge Reserve	Profits carried forward	Profit (loss) for the year	Shareholders'		Capital & Profit (loss) for Shareholders'	
	Capital	Legal Reserve					equity	equity	Reserves the financial year	equity
<b>Balance at 1 January 2010</b>	<b>115,425</b>	<b>19,295</b>	<b>154,527</b>	<b>-9,802</b>	<b>123,152</b>	<b>-6,751</b>	<b>395,846</b>	<b>1,145</b>	<b>365</b>	<b>397,356</b>
Other profits (losses) recorded under shareholders' equity							0			0
Distribution of dividends							0	-639		-639
Effect of application of the equity method							0			0
Reclassifications from other reserves							0			0
Foreign Shareholdings Translation Reserve					321		321			0
Effect of hedge accounting operations				2,162			2,162	19		19
Other changes in shareholders' equity							0			0
Change in the consolidation area							0			0
Allocation of profit for year 2009					-6,751		0	365	-365	0
Profit for period					6,576		6,576	418	418	6,994
<b>Balance at 31 December 2010</b>	<b>115,425</b>	<b>19,295</b>	<b>154,527</b>	<b>-7,640</b>	<b>116,722</b>	<b>6,576</b>	<b>404,905</b>	<b>890</b>	<b>418</b>	<b>406,213</b>

# Accounting Standards and explanatory notes

## 1. COMPANY INFORMATION

Publication of the consolidated financial statements for the financial year ended 31 December 2010 for api, with registered office in Rome, Via Salaria 1322, has been authorised by Directors' resolution of 30 March 2011.

### Consolidation Area

The consolidated financial statements include the financial statements for the period at 31 December 2010 of api anonima petroli italiana S.p.A. and the following subsidiary companies held directly or indirectly:

Company name	Registered office	Shareholders	% held	Share Capital (Euro/thousand unless otherwise indicated)
"api Raffineria" di Ancona S.p.A. (hereinafter referred to as "api Raffineria")	Ancona	"api"	100	13,125
api Energia S.p.A.	Rome	"api"	98.84	13,831
		"third parties"	1.16	
api services limited (United Kingdom)	London	"api"	99.99	GBP 10,000
		"third parties"	0.01	
apioil limited (Bermuda)	Hamilton	"api"	99.99	USD 2 million
		"third parties"	0.01	
Festival S.p.A.	Rome	"api"	100	560
Dialco S.r.l.	Bari	"api"	100	10
Alpenoil S.r.l.	Rome	"api"	100	100
G.R.C. S.r.l.	Rome	"api"	100	50
apifin S.r.l.	Rome	"api"	100	600

The equity investments in associated companies detailed below were valued under the equity method:

Company name	Registered office	Shareholders	% held	Share Capital (Euro/thousand unless otherwise indicated)
<i>Associated companies:</i>				
apisoi Service S.p.A. in liquidation	Falconara (An)	"api Raffineria"	50.00	260
		"third parties"	50.00	
apisem S.p.A..	Lecce	"api"	50.00	423
		"third parties"	50.00	
Abruzzo Costiero S.r.l.	Pescara	"api"	30.00	2,995
		"third parties"	70.00	
Sacche rete S.r.l.	Messina	"api"	50.00	2,200
		"third parties"	50.00	

The principal consolidated companies engage in the following business activities:

- “api”: crude oils supply and distribution of petroleum products;
- “api Energia”: management of a power generation plant based on integrated gasification and combined cogeneration cycle;
- “api Raffineria”: oil refining on account of the parent company;
- apioil limited e api services Ltd.: respectively procurement brokerage and sale of petroleum products and monitoring international petroleum product markets;
- Festival S.p.A.: restaurant services management;
- Apifin S.r.l.: credit card and financial services management.

The other consolidated companies, of lesser significance, engage in marketing in the oil industry and services predominantly on behalf of Group companies.

With regard to minority interest companies, worth mentioning is the partial exit from the Consorzio Grandi Reti through the return of the shares of the share capital subscribed by IP for Euro 5 thousand, which are still shares subscribed by the parent company.

## 2.1 PREPARATION CRITERIA

The consolidated financial statements have been prepared on the basis of the historical cost principle, with the exception of derivative financial instruments which have been recorded at the fair value. The book value of assets and liabilities recorded, which are subject to hedging transactions, and which would otherwise be recorded at cost, are adjusted to take into account the changes in the fair value attributable to the risks being hedged. The consolidated financial statements are presented in Euro and all values are expressed in thousand Euro unless otherwise indicated.

### Statement of compliance with IFRSs

The consolidated financial statements at 31 December 2010 for api anonima petroli have been prepared in compliance with the International Financial Reporting Standards (IFRS) adopted by the European Union.

In relation to the accounting standards adopted for the preparation of the consolidated financial statements it is pointed out that the company falls under the scope laid down by letter f) of Art. 2 of Legislative Decree no. 38 of 28 February 2005, which regulates the exercising of the options provided for by Art. 5 of Community Regulation no. 1606/2002 in relation to the International Financial Reporting Standards (hereinafter also “IFRS”) and therefore in accordance with Article 3, Paragraph 2 of the same decree, the Company has voluntarily exercised the right to apply the IFRSs adopted by the European Union for the preparation of its consolidated financial statements, commencing from the 2005 financial year.

### Changes occurring in the year

A mismatch was found in the accounting of the prepaid taxes of the subsidiary api energia spa related to the debt for derivative instruments recorded by the FTA (IAS 39); therefore, pursuant to IAS 8, the items “prepaid tax receivables” and the item “Shareholders’ equity” at 31 December 2009 were decreased by an amount equal to about Euro 6 million.

Furthermore, it is specified that within the item "Other operating costs", for a better representation of the effects of the biofuel mixing charges (Min. Decree 25 January 2010) in the income statement, a reclassification was carried out from the item "Costs for raw materials and consumables" to the item "other operating costs".

## Consolidation principles

The consolidated financial statements include the financial statements for api anonima petroli italiana and subsidiary companies prepared at 31 December 2010, adopting the same accounting standards as the parent company at each year end.

All intercompany balances and transactions, including any profits and losses not realised resulting from relations maintained between Group companies which are recognised under assets, are completely written off.

Subsidiary companies are fully consolidated from the date of acquisition, or from the date on which the Group acquired control, and cease to be consolidated on the date on which control is transferred outside of the Group.

## 2.2 DISCRETIONARY VALUATIONS AND CONSIDERATIONS IN RELATION TO THE SEASONAL OR CYCLICAL NATURE OF INTERIM TRANSACTIONS

### Uncertainty of estimates

Key assumptions made in relation to the future and other important sources of uncertainty of estimates are presented below at the date of closure of the company accounts, which could give rise to significant book value adjustments to assets and liabilities within the next financial year.

#### *Goodwill impairment*

Goodwill is tested for impairment on at least an annual basis; said test requires an estimate of the value in use of the cash-generating unit to which the goodwill is attributed, in turn based on the cash flows expected from the unit and discounting back on the basis of a suitable discount rate.

Please refer to Paragraph 17 of these Explanatory Notes for details of the book value for goodwill.

#### *Other items*

Estimates have been necessarily applied to calculate the following:

- prepaid tax assets, with regard to the probability of their future reversing;
- appropriations to the provision for doubtful debtors and provisions for risks and charges;
- main assumptions applied to the actuarial recalculation of the provision for severance indemnity (employee benefits), such as future turnover rate, inflation rate and discount rate.

## 2.3 SUMMARY OF THE MAIN ACCOUNTING STANDARDS

### Translation of entries in foreign currency

The consolidated financial statements at 31 December 2010 are presented in Euro, which is the functional and presentation currency adopted by the Company. Each Group entity defines its own functional currency, which is used to evaluate items included in the individual financial statements at 31 December. Transactions in foreign currency are initially recorded at the exchange rate (relative to the functional currency) current at the date of the transaction. Monetary assets and liabilities, denominated in foreign currency, are translated into the functional currency at the exchange rate currently in force on the closing date of the consolidated financial statements. All exchange rate differences are recorded in the income statement, with the exception of differences deriving from financing in foreign currency initiated to cover a net investment in a foreign company, which are recorded directly in shareholders' equity until such time as the investment is disposed of, when it is recognised in the income statement. Taxation and tax credits attributable to exchange rate differences on such financing are also charged directly to the balance sheet. Non-monetary items in foreign currency valued at historical cost are translated by using the exchange rate in force on the date of initial recognition of the transaction. Non-monetary items recorded at the fair value in foreign currency are converted by using the exchange rate at the date of determination of this value.

The operating currency used by apioil Limited Bermuda is the US Dollar, while for the company apiservices Ltd London U.K. it is the British Pound. At the consolidated balance sheet date, the assets and liabilities for these subsidiaries are converted into the presentation currency of api anonima petroli italiana S.p.A. (Euro) at the exchange rate in force at that date, and the income statement is converted using the average exchange rate for the period. The exchange rate differences resulting from the translation are recorded directly in the balance sheet and are expressed separately in a special reserve for the same. At the time of disposal of a foreign company, the cumulative exchange rate differences recorded in shareholders' equity in consideration of that particular foreign company are recorded in the income statement.

### Property, plant and machinery

Property, Plant and Machinery are recorded at the historical cost, net of ordinary maintenance costs, less the relative depreciation provision and accumulated impairment losses. This cost includes the costs for the replacement of part of the plant and machinery at the time that these were incurred if compliant with recognition criteria. Depreciation is calculated using the straight line method on the basis of the estimated useful life of the asset.

The book value of plant and machinery is subject to impairment tests when events or changes indicate that the book value may not be recoverable.

The useful life of assets is estimated as indicated below:

	Rate %		Useful life	
	2010	2009	2010	2009
<i>Land</i>				
Industrial buildings	4%	4%	25	25
Pipeline tanks	5.55%	5.55%	18	18
Light constructions	10.00%	10.00%	10	10
Generic plants	5.55%	5.55%	18	18
Scantly corrosive plants	6.25%	6.25%	16	16
Highly corrosive plants	8.33%	8.33%	12	12
Point of sale sheltered buildings	5.00%	5.00%	20	20
Point of sale fittings	8.33%	8.33%	12	12
Tanks canisters cylinders	7.14%	7.14%	14	14
Formation expenses	6.66%	6.66%	15	15
LPG burners at third parties	25.00%	25.00%	4	4
Other fixtures, tools and equipment	25.00%	25.00%	4	4
Furniture	12.50%	12.50%	8	8
Electronic machines	20.00%	20.00%	5	5
Motor vehicles	25.00%	25.00%	4	4
UOP catalysers	33.33%	33.33%	3	3
AZKO catalysers	50.00%	50.00%	2	2

## Financial charges

Financial charges are recorded in the income statement as incurred.

The financial charges directly attributable to the purchase of plants are capitalised as part of the cost of the asset they relate to.

## Property investments

Property investments are initially recognised at the historical cost, inclusive of ancillary negotiation fees. The book value includes the cost contributing to the replacement of part of a property investment at the time at which the cost is incurred, on the condition that recognition criteria are satisfied, and excludes ordinary maintenance costs. Property investments are written off from the financial statements when they are sold or when the investment is unusable over the long-term and there are no future economic benefits to be gained from its sale. Any profits or losses resulting from the withdrawal or disposal of property investment are recorded in the income statement in the financial year in which the withdrawal or disposal occurs.

Reclassifications to property investment occur when, and only when, there is a change of use evidenced by events such as: termination of direct use, commencement of an operating lease contract with third parties or the completion of construction or property development works. Reclassifications from property investment occur when, and only when, there is a change of use evidenced by events such as: commencement of direct use or commencement of a development project with the prospect of a future sale.

When the assets used directly by the Group become a property investment, the Group records these assets in compliance with the criteria indicated in the Property, plant and machinery item up until the date of change of use.

## Goodwill

Goodwill acquired by way of business combination is initially valued at cost, represented by the surplus of the cost of the business combination with respect to the share pertaining to the Group in the net fair value, relating to the identifiable values of the assets, liabilities and contingent liabilities. After initial recognition, the goodwill is valued at cost, decreased by any accumulated impairment losses. Goodwill is subjected to impairment tests with annual or greater frequency if events or changes occur which may give rise to any impairment losses.

For the purposes of this test, the goodwill acquired through business combination is allocated, from the date of acquisition, to each of the cash-generating units (or group of units) it is considered will benefit from the synergistic effects of the merger, apart from the allocation of other assets and liabilities to these same units (or groups of units). Each unit or group of units to which the goodwill is allocated:

- represents the lowest level within the Group at which the goodwill is monitored for the purposes of internal management;
- is not larger than a segment as defined in the Group primary or secondary reporting schedule in accordance with IFRS 8 Segment Reporting.

The impairment loss is determined by defining the recoverable value of the cash-generating unit (or group of units) to which the goodwill is allocated. When the recoverable value of the cash-generating unit (or group of units) is less than the book value, an impairment loss is recorded. In cases where the goodwill is attributed to a cash-generating unit (or group of units) whose asset is partially disposed of, the goodwill associated with the asset sold is considered for the purpose of calculation of any capital gain (loss) resulting from the transaction. In such circumstances, the goodwill transferred is measured on the basis of the values relative to the asset disposed of with respect to the asset still held with reference to the same unit.

## Intangible fixed assets

The following categories of intangible fixed assets exist within the Group, the useful life of which is defined as follows:

– trademark	indefinite useful life
– owned network	indefinite useful life
– third party network	indefinite useful life
– licences	indefinite useful life
– software	finite useful life (contract duration)

Intangible fixed assets acquired separately are initially capitalised at cost, while those acquired by way of business combination are capitalised at fair value at the date of acquisition. Following initial recognition, the intangible fixed assets are recorded at cost, net of depreciation provisions and any accumulated impairment losses. Intangible fixed assets generated internally are not capitalised and are recorded in the income statement in the financial year in which they were incurred. The useful life of intangible fixed assets is evaluated as defined or indefinite. Intangible fixed assets with finite life are amortised over the period of their useful life and subjected to consistency tests each time that there are indications of a possible impairment loss.

The period and the method of amortisation applied to these are reviewed at the end of each financial year or more frequently if necessary. Changes in expected useful life or the methods with which the future economic benefits associated with the intangible fixed assets are achieved by the Group are recorded by modifying the period or the method of amortisation, as appropriate, and treated as modifications to the accounting estimates. The amortisation portions for intangible fixed assets with finite life are recorded in the income statement in the cost category consistent with the function of the intangible fixed asset.

Intangible fixed assets with an indefinite useful life are subjected to annual impairment tests at individual level or at cash generating unit level. No amortisation is recorded for such assets. The useful life of an intangible fixed asset with indefinite life is reviewed on an annual basis in order to ascertain whether the conditions at the basis of such classification still exist. If not, the change in the useful life from indefinite to finite is made on the basis of future use.

The profits or losses deriving from disposal of an intangible asset are measured as the difference between the net sales revenue and the book value of the asset and are recorded in the income statement at the time of disposal.

CO2 emission rights were assigned free-of-charge for the three year period 2008-2012, with specific indication of the quotas set for each period, by the Ministry for the Environment and Land Protection on the basis of the PNA.

For the purpose of their recognition in the financial statements, the purchase cost of the quotas used to cover the requirement of the year was recorded among the "other operating costs". The surplus of quotas accounted for at year-end are recorded in inventories.

## Equity investments in associated companies

Group equity investments in associated companies are valued using the equity method. An associate is a company on which the Group exerts significant influence which cannot be classified as a subsidiary or joint venture.

In accordance with the equity method, an equity investment in an associated company is recorded in the balance sheet at cost, increased by the changes subsequent to acquisition for the share pertaining to the group of the net assets of the associate. Goodwill pertaining to the associate is included at the book value of the equity investment and is not subject to amortisation. After applying the equity method, the Group determines whether it is necessary to record any additional impairment losses with reference to the shareholders' equity investment of the Group in the associate. The income statement reflects the share pertaining to the Group of the financial year result for the associated company. In the event that the associated company records adjustments which are directly attributed to the shareholders' equity, the Group records the share pertaining to it and presents this, where applicable, in the statement of changes in shareholders' equity.

The accounting year-end for the associates coincides with the last accounts approved; the accounting standards used comply with those used by the Group for transactions and events of the same nature in similar circumstances.

## Impairment losses

At each accounting year-end, the Group tests assets for impairment. In this case, or in cases where annual impairment test is required, the Group makes an estimate of the recoverable value. The recoverable value is the greater of the fair value of an asset or cash-generating unit net of the costs of sale and its value in use and is calculated for each individual asset, except where this asset does not generate cash flows, which are fully independent of those generated by other activities or groups of assets. If the book value of an asset is greater than its recoverable value, this asset has suffered an impairment loss and is consequently written down to bring it back to the recoverable value. In determining the value in use, the Group discounts future estimated cash flows, using a pre-tax discounting back rate which reflects the market valuations of value of money at the time and specific risks of the asset. Impairment losses suffered by assets during the financial year are recorded in the income statement in the cost categories consistent with the function of the asset which demonstrated the impairment loss.

At each year end, the Group also evaluates any existence of indications of failure to occur (or the reduction) of impairment losses previously recorded and, and if these indications exist, estimates the recoverable value. The value of an asset previously written down can be restored only if there have been changes in the estimates used to determine the recoverable value of the asset after the last recording of an impairment loss. In this case, the book value of the asset is returned to the recoverable value, without, however, the value increased in this way being able to exceed the value which would have been calculated, net of depreciation, if no impairment losses had been recorded in previous years. Each time the value is restored, it is recorded as income in the income statement, except where the asset is recorded at a revalued amount, in which case restoring of the asset is treated as a revaluation. After a value restoration has been recorded, the depreciation portion for the asset is adjusted in future periods, in order to spread the modified book value, net of any residual value, using the straight line method over the remaining life of the asset.

## Inventories

Inventories are valued at the cost or the net estimated realisable value, whichever is lower.

Costs incurred for transporting to the actual location and warehousing are recorded as follows:

- Raw materials – purchase cost based on the Weighted Average Cost method;
- Products for resale and semi-finished products
- direct cost of materials and manufacturing plus a portion of the general production expenses defined on the basis of normal production capacity but not considering financial charges.

The net estimated realisable value comprises the normal estimated sales price after deduction of the estimated completion costs and estimated costs for realising the sale.

## Trade and other debtors

Trade receivables are recorded at the nominal amount given in the invoice, net of the provision for doubtful debtors. This provision is made in the presence of objective proof that the Group will not be able to collect the receivables. Receivables which cannot be collected are written off at the time at which they are identified.

## Cash at bank and in hand and cash equivalents

Cash at bank and in hand and short term deposits in the balance sheet and include petty cash and on demand and short term deposits, in the latter case with the original forecast due date of no more than three months.

For the purpose of the consolidated cash flow statement, cash at bank and in hand and cash equivalents are represented by the cash deposits as defined above, net of bank overdrafts.

## Financing

All financing is initially recognised at the fair value for the payment received, net of any ancillary costs for obtaining the loan.

After initial recording, the financing is valued under the amortised cost criterion using the actual interest rate method.

Each profit or loss item is entered in the income statement when the liability is written off, as well as through the amortisation process.

## Medium to long term provisions

Allocations to provisions for risks and charges are made when the Group has to meet a current obligation (legal or implied) resulting from a past event, it is probable that resources will need to be allocated to meet such an obligation and it is possible to make a reliable estimate of the amount. When the Group considers that an allocation to the provision for risks and charges will be either wholly or partially repaid, such as for example in the case of risks covered by insurance policies, the indemnity is recorded in a distinct and separate manner in assets if, and only if, it is practically certain. In this case, the costs of any relative allocation are presented in the income statement net of the amount recorded for the indemnity. If the effect of discounting the monetary value is significant, the allocations are discounted using a discount rate before tax which reflects, where appropriate, the specific risks of the liability. When the discounting has been implemented, the increase in the allocation due to the passage of time is recorded as a financial charge.

## Employee benefits

Employee benefits granted subsequently to termination of the employment relationship (defined benefit post-employment benefits) and other long term benefits are subject to actuarial assessment. Liabilities recorded in the accounts are represented by the current value of the company obligation, net of any plan assets.

We would like to point out that the company has decided not to use the “corridor approach” and to record profits and losses resulting from changes to the actuarial calculations directly in the income statement.

Supplementary severance indemnities are recorded as a liability and cost when the company is committed to interrupting the employment relationship of an employee or group of employees prior to normal retirement, or it has undertaken to make severance payments following a voluntary redundancy proposal due to redundant staff.

Following the 2007 reform of the national regulation that governs – for those Companies with more than 50 employees – the severance indemnity accruing as from 1 January 2007 can be defined as a defined contribution plan, whose payments are directly booked to the income statement as costs, if any. The severance indemnity accrued until 31 December 2006 is still considered as a defined benefit plan, with no future contributions. For this reason, it is valued by independent actuaries, only based on the expected residual average working life of employees, without taking into account the remuneration received during a preset service period.

Therefore, the severance indemnity accrued before 1 January 2007 is calculated on a different basis, due to the non-occurrence of the previous actuarial assumptions linked to salary increases. More specifically, the liability linked to the “severance indemnity accrued” is currently valued at 1 January 2007, without pro-rata application (years of service rendered/total years of service), since employee benefits at 31 December 2006 may be considered as almost entirely accrued (with the sole exception of revaluation), pursuant to paragraph 67 (b) of IAS 19. As a consequence, with regard to this calculation, the current service costs related to future working service of employees shall be considered null, since they are represented by contribution payments to supplementary pension funds or to the Treasury fund at the Italian National Social Security Institution (INPS).

## Recognition of revenues

Revenues are recorded to the extent to which it is probable that the economic benefits will be achieved by the Group and the relative amount can be determined in a reliable manner. The following specific criteria for recognition of revenues must be met prior to being recorded in the income statement:

### *Sale of goods*

The revenue is recognised when the company has transferred all significant risks and benefits associated with ownership of the asset to the purchaser. Part of group sales revenues is based on a sales contract with GSE, regulated at the predetermined tariff by provision 6/1992 of the Inter-Ministerial Prices Commission (CIP 6), which applies for 20 years and has already been authorised by the European Community for the first 15 years. The provision provides for recognition of an incentive for the first eight years of the contract.

This incentive component represents an advance in terms of time of contractually anticipated revenues, which has been reformulated for the duration of the authorisation obtained from the European Community: the incentive is therefore recognised as revenue in proportion to the quantity of energy sold relating to this period.

#### *Interest*

This is recorded as financial income following ascertainment of the interest receivable for the period (carried out using the actual interest method which is the rate which exactly discounts the expected future cash flows on the basis of the expected life of the financial instrument at the net book value of the investment).

#### *Dividends*

Revenues are recorded when shareholders obtain the right to receive payment.

#### *Rent receivable*

Rents resulting from property investments are entered in the accounts on a straight-line basis over the duration of the leasing contracts in existence at the date of interim financial statements.

## Income tax

#### *Current taxes*

Current taxes are valued at the amount which it is expected will be recovered or paid to the tax authorities.

The rates and tax regulations applied to calculate the amount are those current on the closing date of accounts.

#### *Deferred taxes*

Deferred taxation is calculated by applying the liability method to the temporary differences between the tax values for assets and liabilities taken as a reference and the values given in the financial statements.

Deferred tax liabilities are recorded against all taxable temporary differences, except:

- when the deferred tax liabilities result from initial recognition of goodwill or an asset or liability in a transaction that is not a business combination merger and which, at the time of the same transaction, does not have an effect either on the financial year profit calculated for accounting purposes or for tax purposes;
- with reference to temporary taxable differences associated with shareholdings in subsidiary and associated companies, in the event that the reversal of the temporary differences can be controlled and that it is probable that they will not occur in the foreseeable future.

Deferred tax assets are recorded against all temporary deductible differences and for tax assets and liabilities carried forward, to the extent to which their recovery is probable.

The value of deferred tax assets to be reported in financial statements deferred tax assets is reviewed at the end of each financial year.

Deferred tax assets and liabilities are measured on the basis of the tax rates which it is expected will be applied to the financial year in which the asset is realised or the liability written off, considering the rates in force and those being issued or already issued at the balance sheet date.

Taxation on income relative to items recorded directly in the shareholders' equity is attributed directly to the shareholders' equity and not the income statement.

Deferred tax assets and liabilities are offset, if there is a legal right to offset current tax assets against current tax liabilities and the deferred taxes make reference to the same taxation entity and the same tax authority.

## Value Added Tax

Revenues, costs and assets are recorded net of Value Added Tax with the exception of cases where:

- the tax applied on the purchase of goods or services is non-deductible, in which case it is recorded as part of the purchase cost of the asset or part of the cost item recorded in the income statement;
- it relates to trade receivables and creditors presented including the value of the tax.

The net amount of indirect taxes on sales which can be recovered from or paid to the Inland Revenue is included in the financial statements under trade receivables and payables depending on whether it is a positive or negative balance.

## Derivative financial instruments and hedging transactions

The Group uses derivative financial instruments including foreign currency forward contracts and interest rate swap contracts to hedge the risks resulting mainly from interest and exchange rate fluctuation. These derivative financial instruments are initially recognised at fair value at the date on which they are stipulated, after which the fair value is periodically reviewed. They are recorded in the accounts as assets when the fair value is positive and as liabilities when it is negative.

Any profits or losses resulting from changes in the fair value of derivatives which are not suitable for hedge accounting are directly attributed to the income statement for the financial year.

The fair value for foreign currency forward contracts is calculated with reference to current forward exchange rates for contracts with a similar expiry date. The fair value for swap contracts on interest rates is determined with reference to the market value for similar instruments.

For the purposes of hedge accounting, hedges are classified as:

- fair value hedge if they cover the risk of a change in the fair value of the underlying asset or liability;
- cash flow hedge if they cover the risk of a change in cash flows resulting from existing assets and liabilities or from future transactions;
- net investment hedge in a foreign entity.

A hedge transaction to cover the exchange rate risk associated with an irrevocable commitment is recorded in the accounts as a cash flow hedge.

On initiating a hedge transaction, the Group designates and formally documents the hedge relationship to which it intends to apply hedge accounting, its own objectives in the management of the risk and the strategy followed. The documentation includes identification of the hedge instrument, the item or transaction that is the object of the hedge, the nature of the risk and the method by which

the entity intends to evaluate the hedge effectiveness in compensating for exposure to fair value changes in the item or cash flows which can be traced back to the hedged risk.

It is expected that this hedging will be highly effective in compensating for the exposure of the hedged element to changes in the fair value or cash flows attributable to the hedged risk; the evaluation of the fact that these hedges are demonstrated to be highly effective is carried out on an ongoing basis during the financial years to which they are designated.

Transactions which satisfy the criteria for hedge accounting are recorded in the accounts as follows:

#### *Fair value hedge*

The Group resorts to fair value hedge transactions to cover the exposure to changes in the fair value of assets or liabilities in the financial statements or an irrevocable commitment not recorded in the financial statements, as well as an identified part of such assets, liabilities or irrevocable commitment, which can be attributed to a particular risk and which could have an impact on the income statement. With regard to fair value hedges, the book value of the item which is the object of the hedge is adjusted for the profits and losses attributable to the risk which is the object of the hedge; the derivative instrument is recalculated at the fair value and the profits and losses from both of these are entered in the income statement.

With regard to fair value hedges relative to items entered in the accounts in accordance with the depreciated cost criteria, adjustment of the book value is depreciated in the income statement over the remaining period until expiry. Any book value adjustments to a hedged financial instrument to which the actual interest rate method is applied are depreciated in the income statement.

The amortisation can commence as soon as there is an adjustment, but not after the date on which the item subject to hedging ceases to be adjusted, due to changes in the fair value attributable to the risk which is the object of the hedging.

When an irrevocable unrecorded commitment is designated as an item subject to hedging, the subsequent accumulated changes in its fair value attributable to the hedged risk covered are entered in the accounts as assets and liabilities and the corresponding profits or losses are recorded in the income statement. Changes in the fair value of the hedge instruments are also entered in the Income Statement.

An instrument is no longer recorded in the accounts as a fair value hedge contract when it expires or is sold, written off or exercised, the hedge no longer meets the hedge accounting requirements, or when the Group withdraws the designation. Any adjustments to the book value of a financial instrument subject to hedging for which the effective interest rate method is used are amortised in the income statement. Amortisation may commence as soon as an adjustment occurs, but not after the date on which an item subject to hedging ceases to be adjusted for changes in its fair value that can be traced back to the risk which is the object of the hedging.

#### *Cash flow hedge*

Cash flow hedges are hedge transactions to cover the risk of variability of cash flows attributable to a particular risk, associated with a recorded asset or liability or a highly probable future transaction which could have an influence on the profit result. Profits or losses deriving from the hedge instrument are entered in the shareholders' equity for the effective part, while the remaining part (ineffective) is entered in the income statement.

The profit or loss entered in the shareholders' equity is reclassified to the income statement during the period in which the transaction subject to the hedging influences the income statement (for example when a financial charge or income is recorded or when an anticipated sale or purchase occurs).

When the item subject to hedging is the cost of a non-financial asset or liability, the amounts entered in the shareholders' equity are transferred at the initial book value of the asset or liability.

If it is considered that the anticipated transaction will no longer occur, the amounts initially recorded in the shareholders' equity are transferred to the income statement. If the hedge instrument expires or is sold, cancelled or exercised without being replaced, or if its designation as hedging is withdrawn, the amounts previously entered in the shareholders' equity remain recorded therein until such time as the anticipated transaction occurs. If it is considered that this will no longer occur, the amounts are transferred to the income statement.

### 3. ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS APPLIED FROM 1 JANUARY

The consolidated financial statements of api anonima petroli italiana were modified compared to the 2009 edition following new standards and interpretations enforced from 1 January 2010, details of which are attached hereto.

#### **New documents issued by IASB and endorsed by the EU to be compulsorily adopted starting from the financial statements of the financial years starting on 1 January 2010.**

Document title	Issue date IASB	Enforcement date	Endorsement date	EU Regulation and publication date
IFRS 3 (revised in 2008) – Business combinations	January 2008	1 July 2009	3 June 2009	(EC) 495/2009 12 June 2009
Changes to IAS 27 - Consolidated and separate financial statements	January 2008	1 July 2009	3 June 2009	(EC) 494/2009 12 June 2009
Amendment to IAS 39 – Financial Instruments: Recognition and measurement, qualifiable elements to hedge.	July 2008	1 July 2009	15 September 2009	(EC) 839/2009 16 September 2009
Improvements to IFRS (2009)	April 2009 (IASB: 1 July 2009 and 1 January 2010)	1 January 2010	23 March 2010	(EC) 243/2010 24 March 2010

#### **Below we report the IAS/IFRS and related SIC/IFRIC interpretations applicable to the financial statements of the years starting after 1 January 2010.**

Document title	Issue date IASB	Enforcement date	Endorsement date	EU Regulation and publication date	NOTES
Change to IAS 32 - Classification of rights issues	October 2009	1 February 2010	23 December 2009	(EU) 1293/2009 24 December 2009	Early application permitted
Changes to IFRIC 14 – Prepayments of a minimum funding requirement	November 2009	1 January 2011	19 July 2010	(EU) 633/2010 20 July 2010	Early application permitted
IFRIC 19 – Extinguishing financial liabilities with equity instruments	November 2009	1 July 2010	23 July 2010	(EU) 662/2010 24 July 2010	Early application permitted
Changes to IFRS 1 and IFRS 7 Limited exemption from comparative IFRS 7 disclosures for first-time adopters	January 2010	1 July 2010	30 June 2010	(EU) 574/2010 1 July 2010	Early application permitted
IAS 24 (revised in 2009) – Related party disclosures	November 2009	1 January 2011	19 July 2010	(EU) 632/2010 20 July 2010	Early application permitted

## 4. REPORTING BY BUSINESS SECTOR

The statement is presented according to IFRS8 – Operating segments and the reporting statement comprises the business sectors.

Euro/thousand	Refining	Marketing	Energy	Total	Corporate	Group
<b>31.12.2010</b>						
Net revenues from core operations	135,981	3,099,836	277,823	3,513,640	1,452	3,515,092
Intersectorial revenues	-133,174	-66,984	-6,035	-206,193		-206,193
<b>Revenues from third parties</b>	<b>2,808</b>	<b>3,032,852</b>	<b>271,788</b>	<b>3,307,447</b>	<b>1,452</b>	<b>3,308,899</b>
<b>EBITDA ex inventory and extraordinary expenses</b>	<b>15,517</b>	<b>102,190</b>	<b>51,162</b>	<b>168,869</b>	<b>-56,584</b>	<b>112,284</b>
Inventory profit/loss	0	46,800	0			46,800
Rebranding	0	-18,000	0			-18,000
<b>EBITDA</b>	<b>15,517</b>	<b>130,990</b>	<b>51,162</b>	<b>168,869</b>	<b>-56,584</b>	<b>141,084</b>
Amortisation/depreciation	-32,601	-26,465	-35,782	-94,847	-817	-95,664
EBIT ex inventory and extraordinary expenses	-17,084	75,725	15,380	74,022	-57,401	16,620
EBIT	-17,084	104,525	15,380	102,821	-57,401	45,420
<b>Investments in fixed assets</b>	<b>38,277</b>	<b>27,134</b>	<b>2,453</b>	<b>67,864</b>		<b>67,864</b>

Euro/thousand	Refining	Marketing	Energy	Total	Corporate	Group
<b>31.12.2009</b>						
Net revenues from core operations	143,087	2,686,456	255,588	3,085,131	1,339	3,086,470
Intersectorial revenues	-133,480	-107,848	-6,335	-247,663		-247,663
<b>Revenues from third parties</b>	<b>9,607</b>	<b>2,578,608</b>	<b>249,253</b>	<b>2,837,468</b>	<b>1,339</b>	<b>2,838,807</b>
<b>EBITDA ex inventory and extraordinary expenses</b>	<b>-30,604</b>	<b>100,557</b>	<b>66,597</b>	<b>136,549</b>	<b>-62,317</b>	<b>74,232</b>
Inventory profit/loss	0	63,264	0			63,264
Rebranding	0	-19,520	0			-19,520
<b>EBITDA</b>	<b>-30,604</b>	<b>144,300</b>	<b>66,597</b>	<b>136,549</b>	<b>-62,317</b>	<b>117,975</b>
Amortisation/depreciation	-31,506	-27,848	-35,105	-94,460	-1,991	-96,451
EBIT ex inventory and extraordinary expenses	-62,110	72,708	31,491	42,089	-64,308	-22,219
EBIT	-62,110	116,452	31,491	85,833	-64,308	21,524
<b>Investments in fixed assets</b>	<b>35,846</b>	<b>7,687</b>	<b>71,534</b>	<b>115,066</b>		<b>115,066</b>

Euro/thousand	Refining	Marketing	Energy	Total	Financial and Corporate	Group
<b>31.12.2010</b>						
Fixed assets	330,425	506,805	425,361	1,262,591	1,367	1,263,958
Current Assets	11,044	530,768	75,176	616,988	119,867	736,855
Inventory	0	0	0	0	352,808	352,808
<b>Total assets</b>	<b>341,469</b>	<b>1,037,572</b>	<b>500,537</b>	<b>1,879,579</b>	<b>474,042</b>	<b>2,353,620</b>
<b>Total Liabilities</b>	<b>68,757</b>	<b>702,680</b>	<b>226,741</b>	<b>998,178</b>	<b>1,355,442</b>	<b>2,353,620</b>

Euro/thousand	Refining	Marketing	Energy	Total	Financial and Corporate	Group
<b>31.12.2009</b>						
Fixed assets	319,585	507,416	477,712	1,304,713	1,395	1,306,108
Current Assets	6,263	484,367	68,469	559,099	254,828	813,927
Inventory	0	0	0	0	322,642	322,642
<b>Total assets</b>	<b>325,848</b>	<b>991,783</b>	<b>546,181</b>	<b>1,863,812</b>	<b>578,865</b>	<b>2,442,677</b>
<b>Total Liabilities</b>	<b>74,253</b>	<b>628,362</b>	<b>273,121</b>	<b>975,735</b>	<b>1,466,942</b>	<b>2,442,677</b>

## Explanatory notes to the income statement items

### 5. REVENUES AND OTHER REVENUES

<b>Euro/thousand</b>	<b>31/12/10</b>	<b>31/12/09</b>
Revenues	3,252,151	2,777,476
Other revenues	56,748	61,331
<b>Total</b>	<b>3,308,899</b>	<b>2,838,807</b>

Revenues from sales and services show an increase, as compared to the same period in 2009, of Euro 470,092 thousand. This increase was mainly due to a price rise due to the increased international quotations of petroleum products.

The item "Other revenues" equal to Euro 56,748 thousand shows a decrease compared to 2009 equal to Euro 4,583 thousand, mainly due to the drop in the item Various revenues/Repayments as indicated below. The breakdown is summarised below:

<b>Euro/thousand</b>	<b>31/12/10</b>	<b>31/12/09</b>
Royalties	1,060	735
Capital gains from the sale of property, plant and machinery	731	824
Income from plant and industrial fixtures and fittings	3,490	3,464
Other revenues /Repayments	51,467	56,308
<b>Total</b>	<b>56,748</b>	<b>61,331</b>

The amount of the item "Royalties" equal to Euro 1,060 thousand refers to fees for non-oil activities, and shows an increase compared to the previous year equalling Euro 325 thousand.

The item "Capital gains from property sales", referred to the capital gain realised by the parent company due to the transfer of service stations is equal to Euro 731 thousand.

"Income from plant and industrial fixtures and fittings", totalling Euro 3,490 thousand, relates to fees derived from company rental payments, hires, automatic car-washes and various equipment, up by Euro 26 thousand compared to the previous year.

"Other revenue/Repayments", totalling Euro 51,467 thousand, shows a decrease of Euro 4,841 thousand and mainly includes:

- Euro 19,489 thousand as reimbursement of the CO2 quotas purchased to cover the emissions of the IGCC plant;
- Euro 528 thousand referring to the repayment of green certificates 2002-2003 and 2009;
- Euro 202 thousand related to revenues for the sale of 1,695 type I TEE (Energy Efficiency Certificates) recognised following the approval of the saving project due to the use of the Syngas Expander;
- Euro 3,158 thousand relative to revenues of api raffineria for mooring of tankers using the offshore platform for the offloading of crude oil;
- Euro 7,204 thousand relating to charge-back of the parent company to operators of part of the costs incurred for the 2010 promotional campaign, and to cash contribution of customers for the purchase of presents;

- Euro 7,672 thousand for charge-back to our customers of logistics and product transport services (Euro 2,418 thousand), maintenance services (Euro 828 thousand) and royalties on volumes sold (Euro 4,426 thousand);
- Euro 1,886 thousand for charge-back to the customers of the parent company to join the fuel cards circuit;
- Euro 1,000 thousand to repay accidents by the insurance companies referring to the parent company for Euro 456 thousand, and the subsidiary api raffineria for Euro 544 thousand.

## 6. COSTS FOR RAW MATERIALS AND CONSUMABLES

Euro/thousand	31/12/10	31/12/09
Costs for raw materials and consumables	2,619,178	2,197,332
of which changes in stocks	(28,371)	(10,218)

The item "Costs for raw materials and consumables" as of 31 December 2010 amounts to Euro 2,619,178 thousand, with an increase of Euro 421,846 thousand compared to 31 December 2009, equalling Euro 2,197,332 thousand. This increase is affected by a price rise due to the increase in the international quotations of petroleum products.

The total of the item "Costs for raw materials and consumables" includes the change in the stocks of raw materials, semi-finished products and goods for resale valued both at 31 December 2010 and at 31 December 2009 under the "Weighted Average Cost Method". This change was equal to Euro -28,371 thousand at 31 December 2010 and Euro -10,218 thousand at 31 December 2009.

The change of Euro 18,071 thousand (Euro 68,344 thousand at 31 December 2009) benefits from a positive income component equal to Euro 46,584 thousand, calculated as a change of the valuation of the quantities still held in stock at the end of the financial year, connected with the decreasing price trend in 2010 compared to the previous year.

## 7. COSTS FOR SERVICES

The item costs for services, equal to Euro 320,372 thousand is summarised below:

Euro/thousand	31/12/2010	31/12/2009
Transport	49,207	48,026
Maintenance	68,351	69,432
Service station fees	97,500	89,430
Advertising and communication costs	4,889	6,545
Commissions	4,875	4,237
Technical and administrative services	39,511	42,301
Other services	56,039	63,397
<b>Total</b>	<b>320,372</b>	<b>323,368</b>

Costs for services show a decrease of Euro 2,996 thousand versus the previous year.

Item "Transport", which covers costs incurred for road and sea transport, totals Euro 49,207 thousand and is essentially in line with last year.

The item "Maintenance" of Euro 68,351 thousand, covers the costs incurred for non-incremental ordinary and extraordinary maintenance services, carried out at the Retail points of sale, on refinery plant and the IGCC plant. At the end of the year there was a decrease equal to Euro 1,081 thousand.

The "Contract service station fees" equal to Euro 97,500 thousand, refer to the fees paid to contract operators. The rise compared to last year, equalling Euro 8,070 thousand, may be attributed to the increase in the sales volumes of contract operators.

The item "Advertising and promotion costs", equal to Euro 4,889 thousand, represents the costs incurred by parent company for radio and television advertisements.

Commissions of Euro 4,875 thousand are relating to fees paid to third parties for sales of petroleum products in the name and on behalf of api; the balance at 31 December 2009 includes discounting back, in compliance with the provisions of IAS 37. The effects of discounting back were appraised by applying the "projected unit credit method" as defined in IAS 19.

The item "Technical and administrative services" for Euro 39,511 thousand is down by Euro 2,790 thousand compared to the previous year, mainly attributed to the company policy of containing costs related to external collaborations; this decrease essentially refers to lower costs for:

- design engineers for Euro 1,723 thousand (Euro 2,304 at 31.12.2009);
- legal and notary fees for Euro 1,905 thousand, (Euro 2,931 as at 31.12.2009).

Under the "Other services" item, totalling Euro 56,039 thousand, which was down Euro 7,358 thousand compared to the previous year, the following should be noted:

- "Mandatory oil stocks and on consignment" totalling Euro 24,602 thousand (Euro 31,945 thousand as at 31.12.2009), relating to both the charge for the parent company (Euro 12,191 thousand) recognised to other oil companies for stocks of product as "mandatory stocks", as required under the current rules and regulations, and to charges for storage at third parties of own product (Euro 12,411 thousand);
- Euro 4,091 thousand for miscellaneous utility bills (Euro 3,083 thousand at 31.12.2009);
- Euro 5,296 thousand relating to costs incurred for insurance policies (Euro 4,827 thousand in 2009);
- Euro 849 thousand for surveillance and guardianship (Euro 857 thousand at 31.12.2009);
- Euro 616 thousand for commercial paper expenses (Euro 456 thousand at 31.12.2009);
- Euro 2,905 thousand for software updating and implementation;
- Euro 11,471 thousand concerning expenses for painting the points of sales related to the "rebranding", substantially in line compared to the same period (Euro 11,577 thousand as at 31.12.2009).

## 8. STAFF COSTS

Euro/thousand	31/12/10	31/12/09
Wages and salaries	44,145	44,265
Social security costs	13,573	13,796
Staff pension costs and similar charges	8,035	8,470
<b>Total</b>	<b>65,753</b>	<b>66,531</b>

The item "Wages and Salaries", equalling Euro 44,145 thousand, is basically in line with 2009.

The "Social security costs" are Euro 13,573 thousand; Euro 13,796 thousand as at 31 December 2009;

"Staff pension costs and similar charges", equal to Euro 8,035 thousand, mainly include:

- the costs for rehearsal courses for Euro 190 thousand;
- company canteen costs for Euro 718 thousand;
- mileage allowances for employees for Euro 2,659 thousand;
- charges for interim work and for the collaborators from group companies for a total of Euro 781 thousand;
- charges equal to Euro 1,776 thousand, mainly referring to the subsidiary api raffineria (Euro 1,315 thousand) regarding the redundancy incentive to begin the reorganisation plan agreed with trade union organisations.

It should be noted that "staff costs" cover, for an amount totalling Euro 299 thousand, the positive effect of discounting the Employee Severance Indemnity at 31 December 2010. For details of this, please refer to the liability item – non-current liabilities – Employee Severance Indemnity Provision.

## 9. AMORTISATION AND DEPRECIATION AND WRITE-DOWNS

Euro/thousand	31/12/10	31/12/09
Amortisation/write-down of intangible fixed assets	1,202	1,664
Depreciation of Tangible Fixed Assets	94,462	94,787
<b>Total</b>	<b>95,664</b>	<b>96,451</b>

Amortisation and depreciation decreased overall by Euro 787 thousand.

During the year no effects were transferred to the income statement due to depreciation resulting from the application of the Impairment Test on the tangible and intangible fixed assets of the group according to IAS 36.

## 10. RISK PROVISIONS, OTHER OPERATING COSTS

The "Risk Provisions" item totals Euro 7,769 thousand (Euro 9,158 thousand at 31 December 2009) and can be attributed mainly to:

- Euro 4,795 thousand for appropriation by the parent company in relation to reclamation, environmental restoration and securing of polluted sites. For more details see the item relative to "Medium and long term provisions" in these Explanatory Notes;
- Euro 2,348 thousand for appropriation due to risk of depreciation of the trade receivables of the parent company;
- Euro 350 thousand referring to the effect of the discounting of the Operator relationship termination bonus, in compliance with the provisions of IAS 37. This effect has been valued by applying the "projected unit credit method" as defined in IAS 19;
- Euro 100 thousand for api raffineria appropriation to the provision for disposal of obsolete stock materials.

### *Other operating costs*

<b>Euro/thousand</b>	<b>31/12/10</b>	<b>31/12/09</b>
Consumables	1,560	2,176
Operator Relationship termination bonus	8,033	8,054
Various indemnities	11,091	14,258
Duties and taxes	10,321	9,651
Other general costs	93,225	61,360
<b>Total</b>	<b>124,230</b>	<b>95,499</b>

The item "Consumables" equal to Euro 1,560 thousand has decreased compared to the same period of the previous year, equal to Euro 616 thousand, and mainly includes charges incurred for printing and stationary (Euro 483 thousand), for various materials (Euro 794 thousand), for clothing (Euro 134 thousand).

The item "Operator relationship termination bonus" equal to Euro 8,033 thousand is in line with the value of the previous year.

"Various indemnities", totalling Euro 11,091 thousand, has decreased by Euro 3,167 thousand compared to the same period of the previous year, mainly due to the lower costs incurred to purchase the green certificates by the subsidiary api energia. This mainly includes:

- indemnities for goods spreading and loss of the subsidiary, equal to Euro 8,624 thousand;
- indemnities and expenses to public entities for Euro 1,395 thousand.

The item "Duties and taxes" totalled Euro 10,321 thousand, recording an increase of Euro 670 thousand. It mainly refers to:

- charges incurred by the parent company for the municipal tax on advertising -ICP- for Euro 5,789 thousand, TOSAP and COSAP ground occupation tax for Euro 1,669 thousand, and charges for rents and accesses for Euro 517 thousand;
- the charge related to the municipal tax on property equal to Euro 1,313 thousand.

The "Other general costs", equal to Euro 93,225 thousand, recorded an increase equal to Euro 31,865 thousand. This increase is mainly due to the increase occurring in the following items:

- Euro 48,033 thousand related to “Mixing charges”, which represent the cost incurred to fulfil the input obligation for biofuel consumption in the gasoline and diesel market to the tune of 3.5%, 3% in 2009 (Euro 21,619 thousand as at 31.12.2009);
- Euro 19,891 thousand as the cost incurred for the purchase of the CO2 quotas by api energia for plant emissions, with an increase compared to last year equalling Euro 2,965 thousand (Euro 16,926 thousand as at 31.12.2009)
- Euro 8,988 thousand for special “lump-sum” payments for management of service stations to contract operators, with an increase over last year equalling Euro 914 thousand (Euro 8,074 thousand as at 31.12.2009);
- Euro 5,113 thousand for the cost incurred by the company for the circuit of the oil maps, with an increase compared to last year equal to Euro 1,292 thousand (Euro 3,821 thousand as at 31.12.2009);
- Euro 4,301 thousand for capital losses from disposal of assets. The amount consists as so: Euro 2,821 thousand mainly relating to the failure to renew, by the parent company, agreements for 24 service stations, and transfer of 20 owned stations with an increase, compared to the same period, equal to Euro 665 thousand (Euro 2,156 thousand as at 31.12.2009); and for Euro 1,480 thousand for capital losses from the disposal of assets referring to the scrapping of parts of the IGCC plant by api energia for the upgrading activities performed (Euro 819 thousand), the elimination of equipment by the parent company (Euro 494 thousand), and the subsidiary api raffineria (Euro 167 thousand);
- Euro 1,199 thousand for entertainment expenses;
- Euro 825 thousand for subscription fees;
- Euro 699 thousand for guarantor charge contribution on loans.

## 11. FINANCIAL INCOME AND CHARGES

The negative balance in financial management, of Euro 20,478 thousand, mainly comprises income of Euro 14,740 thousand, offset against charges of Euro 36,634 thousand.

The table below provides a breakdown of financial income and charges and value adjustments:

Euro/thousand	31/12/10	31/12/09
<i>Financial Income</i>		
Interest on credit bank/postal c/a	384	3,532
Income from equity investments	3,623	306
Other income	10,733	10,825
<b>Total financial income</b>	<b>14,740</b>	<b>14,663</b>
<i>Financial Charges</i>		
Financing and bank account overdrafts	(24,306)	(27,033)
Other charges	(12,328)	(11,752)
<b>Total financial charges</b>	<b>(36,634)</b>	<b>(38,785)</b>
<b>Financial Income and Charges balance</b>	<b>(21,894)</b>	<b>(24,122)</b>
Income (and charges) from valuation using the NE method	1,416	871
<b>Total Financial management</b>	<b>(20,478)</b>	<b>(23,251)</b>

The bank interest receivable, equal to Euro 384 thousand, recorded a decrease of Euro 3,148 thousand; compared to 2009, this difference refers to the incorrect crediting of interest receivable for Euro 2,943 thousand of the subsidiary api energia spa, whose negative effects are recorded in the item "Financial charges". The Income from equity investments, equalling Euro 3,623 thousand, also includes the value of the capital gain for Euro 3,423 thousand realised by the parent company for the sale of the company Royal oil srl to the associated company Saccne Rete srl, as well as the dividend of Euro 200 thousand distributed by Petroven S.p.A..

"Other income", of Euro 10,733 thousand, mainly includes:

- Euro 2,552 thousand for positive exchange differences (Euro 2,504 at 31.12.2009);
- Euro 7,381 thousand of income from fair value appraisal of derivatives owned by api energia (equal to Euro 4,798 thousand) and the parent company (equal to Euro 2,583 thousand);
- Euro 703 thousand for interest on credits following the settlement of the dispute regarding the use of the platform at the Falconara refinery, with the Customs Agency of Ancona.

Financial charges, equal to Euro 36,634 thousand, show a decrease of Euro 2,151 thousand.

The higher amount, related to the item "Financing and bank account overdrafts", equal to Euro 24,306 thousand, mainly includes the financial charges related to the company api spa for Euro 10,078 thousand, api energia for Euro 12,235 thousand and api raffineria for Euro 66 thousand, respectively. The balance includes the financial charges deriving from the Transfer of receivables from customers for Euro 1,567 thousand, incurred following the factoring transaction concluded with the controlling company. For more details on the average debt and the interest rates applied for the various maturities, reference should be made to the information contained in the Financial Management Report. The item "other charges", totalling Euro 15,005 thousand, mainly includes the costs for the fair value appraisal of the derivative instruments held by api energia equal for Euro 1,511 thousand, and Euro 3,203 thousand that refer to the recalculation of the debt based on the amortised cost criterion, and the parent company equal to Euro 2,260 thousand, the negative exchange rate differences for Euro 2,872 thousand, commission and bank charges for Euro 2,184 thousand and other items such as interest on swaps equal to Euro 2,888 thousand, discounts on forward currency purchases and various interest expense for lower amounts.

Finally, the item is affected by the reclassification due to the application of IAS 1, which requires the separate indication of the Cash Flow Hedge (CFH) positive components released from the "Other income" that the negative CFH components from "other charges", whose net is equal to Euro -845 thousand for the parent company and Euro -1,832 thousand for api energia.

## 12. TAXATION

The main components of income taxation at 31 December 2010 are given in the following table:

Euro/thousand	31/12/10	31/12/09
Current taxes	(19,469)	8,654
Deferred taxes	8,513	(4,537)
Prepaid taxes	(4,316)	(441)
<b>Total taxes</b>	<b>15,272</b>	<b>3,676</b>

## 13. CASH FLOW HEDGE COMPONENTS

The item in question as at 31.12.2010 equals Euro -2,677 thousand, Euro -983 thousand as at 31.12.2009 and refers to the parent company for Euro -845 thousand and to the subsidiary api energia for Euro -1,832 thousand.

## 14. PROFITS PER SHARE AND DIVIDENDS

The basic earnings per share are calculated by dividing the net profit for the period attributable to the parent company's ordinary shareholders by the weighted average number of ordinary shares outstanding in the period. The diluted earnings per share distributed do not show any difference with respect to the base earnings per share as there are no convertible debentures or other financial instruments with dilution effects. The income and information is given below on shares used for the purposes of calculation of the earning profit per share:

in Euro	31/12/2010	31/12/2009
Net profit attributable to Parent company's ordinary shareholders	0,0491	-0,0448

No dividends were distributed during 2010.

## 15. PROPERTY, PLANT AND MACHINERY

At 31 December 2010, this item totalled Euro 903,365 thousand. The breakdown for the item in question is provided in the following table:

Euro/thousand	Land and Buildings	Plant and machinery	Industrial and commercial fixtures and fittings Other assets	Assets under construction and advances	Total
At 1 January 2010 net of depreciation and impairment losses	131,718	558,331	187,252	56,215	933,516
Capitalisations for the period /works in progress	7,763	17,470	35,642	68,390	129,265
Decreases	-596	-5,538	-7416	-61,165	-74,715
Change in the consolidation area	0				0
Accounting reclassifications	0				0
Other changes	0				0
Depreciation portions for the period	-10,855	-54,457	-29,150		-94,462
Impairment losses				0	
Movements in the dep, prov, due to disposals or changes in the consolidation area	151	4,550	5,060		9,761
At 31 December 2010 net of depreciation and impairment losses	128,181	520,356	191,388	63,440	903,365
<i>At 1 January 2010</i>					
Cost	190,856	955,580	435,041	56,215	1,637,692
Accumulated depreciation and impairment losses	-59,138	-397,249	-247,789	0	-704,176
<b>Net book value</b>	<b>131,718</b>	<b>558,331</b>	<b>187,252</b>	<b>56,215</b>	<b>933,516</b>
Cost at 31 December 2010	197,891	967,512	461,074	63,440	1,689,917
Accumulated depreciation and impairment losses at 31 December 2010	-69,710	-447,156	-269,686	0	-786,552
<b>Net book value at 31 December 2010</b>	<b>128,181</b>	<b>520,356</b>	<b>191,388</b>	<b>63,440</b>	<b>903,365</b>

The net book value relates to the net effect resulting from the continuation of the investment plan commenced by the Group in previous financial years, aimed both at the creation of new points of sale and the restructuring and improvement of existing sales points, as well as consolidating and increasing the reliability of production plants and product output, in order to guarantee the quality and quantity of products demanded by the market. In addition, activities were accelerated aimed at reducing the impact of the Refinery complex on the external environment and increasing its safety level in line with the various new environmental and prevention directives, through refurbishment of sea terminals, environmental plants and underground pipework.

The item "Property, plant and machinery" covers:

"Land and Buildings" recorded for a value equal to Euro 197,891 thousand, Depreciation Provision of Euro 69,710 thousand, for a residual value of Euro 128,181 thousand. The item in question mainly relates to:

- Land, Equipment Buildings and Buildings of Euro 166,693 thousand, Depreciation provision of Euro 57,984 thousand;
- Land and buildings covered by service stations of Euro 31,198 thousand, Building Depreciation Provision of Euro 11,726 thousand.

Increases in the period, equal to Euro 7,763 thousand, mainly refer to both the capitalisation by api of works in progress for Euro 1,273 thousand relating to land and buildings covered by service stations, and to the investments made by the subsidiary refinery, including the incremental maintenance carried out in the logistics and production areas for Euro 5,510 thousand.

"Plant and Machinery" equal to Euro 967,512 thousand, Depreciation Provision of Euro 447,156 thousand, leaving a residual value of Euro 520,356 thousand. The heading in question essentially includes refinery plant and machinery, the api energia IGCC plant, plant and machinery relative to networks belonging to the parent company, as well as general plants installed in national storage deposits in Rome and Barletta. In this regard we consider it appropriate to point out that the item in question includes financial charges capitalised by the subsidiary api energia during the course of previous financial years relative to interest due and instalments on the debt owing to the financing banks, sponsors and hedging banks, up to the date of provisional acceptance of the plant (26 April 2001).

Financial charges in question capitalised during the course of previous financial years, up until provisional acceptance of the plant, total Euro 117,883 thousand. Purchases and capitalisations for the financial year, equal to Euro 17,470 thousand, relate mainly to:

- Euro 2,514 thousand, related to the retubing of the F-1851 furnace at the Thermal Cracking plant of api raffineria for the reduction of energy costs and increased performance;
- Euro 994 thousand, for the replacement of the engine on the "C2601" compressor of the Platforming plant of api raffineria;
- Euro 812 thousand, for veneering treatments to improve the performance of the F2603 (Platforming), F1401 (Vacuum III) and F1851 (TC) furnaces of the refinery;
- Euro 1,013 thousand, for the modernising of the Platforming plant protection and control system tools, in order to improve the reliability performance of the refinery;
- Euro 461 thousand, replacement with adjustment of the materials for the exchangers of the HDS1 desulphurisation plant (E3103) of the refinery;
- Euro 1,240 thousand, for the construction of the nodal rack between the "TK40" and "TK43" tanks of the refinery;

- Euro 3,381 thousand, for the replacement of the catalysers of the Desulphurisation, Sulphur and Isomerisation plants of the refinery;
- Euro 394 thousand, for the creation of the new power air line of the Splitter plant from the "TK 47" tank of the refinery;
- Euro 1,070 thousand for the enhancement of the following plants of the subsidiary api energia: "grey water treatment system" equal to Euro 208 thousand; "H2S absorption system" for Euro 237 thousand; system for "gas turbine CCPP" for Euro 440 thousand; system for "air separation" for Euro 185 thousand.

The decrease in the asset values net of the provision for Euro 988 thousand (Euro 5,538 thousand of historic cost net of Euro 4,550 thousand for the depreciation provision) is due mainly to the scrapping by api raffineria and api energia of those parts that, following damage or obsolescence, can no longer be used in the production process.

"Industrial Fixtures and Fittings and Other Assets" equal to Euro 461,074 thousand, Depreciation Provision of Euro 269,686 thousand, leaving a residual value of Euro 191,388 thousand. The item refers to:

- Service station equipment for a value of Euro 383,611 thousand, Service Station equipment depreciation provision of Euro 234,167 thousand;
- LPG tanks and canisters totalling Euro 18,996 thousand, LPG tank and canister depreciation provision of Euro 9,553 thousand;
- Other fixtures, tools and equipment, electronic machines and furniture of Euro 58,467 thousand, with respective depreciation provision of Euro 25,966 thousand, mainly relating to refinery equipment and the IGCC plant of api energia, as well as to electronic equipment and group company furniture and furnishings.

The increase for the financial year, totalling Euro 35,642 thousand, can essentially be attributed:

- for Euro 31,374 thousand to capitalisation of works in progress relating to tanks, pumps, shelters, booths and self-service equipment installed at the network's points of sale;
- for Euro 936 thousand to the acquisition of the spare parts called capital spare and Euro 11 thousand to electronic machines and office machinery. It is specified that the item capital spare mainly refers to material for the refractory of the gasifiers, the exchangers of the BLAC and BNLC compressor, and the tube band of the E 8105 exchanger. Balance sheet items underwent a reduction of Euro 7,416 thousand Depreciation provision 5,060 thousand due to the removal and the loss of points of sale from the group network.

"Fixed assets under construction and advances" at the end of the financial year totalled Euro 63,440 thousand and essentially relate to new constructions, restructuring, revamps, and extensions of points of sale and non-oil plants, and purchase of important spare parts for the IGCC plant and the refinery.

## 16. GOODWILL

A breakdown of the goodwill item is provided below:

Euro/thousand	Opening balance	Increases	Write-downs for Impairment	Closing balance
Api Energia S.p.A.	16,488	0	0	16,488
Calgas S.r.L.	14,717	0	0	14,717
Bielpe S.p.A.	13,812	0	0	13,812
Petronoil S.r.L.	2,059	0	0	2,059
F Gas S.r.L.	680	0	0	680
Italiana Petroli S.p.a.	50,510	0	0	50,510
Di Car S.p.a.	14,298	0	0	14,298
Step S.p.A.	7,665	0	0	7,665
Gamma Petroli S.r.l.	1,079	0	0	1,079
Petrolgas S.r.L.	1,412	0	0	1,412
Elbagas S.r.L.	854	0	0	854
Third parties	53	0	0	53
<b>Total</b>	<b>123,626</b>	<b>0</b>	<b>0</b>	<b>123,626</b>

We feel that it is appropriate to remind you that the Group has made accounting entries for impairment write-downs in those cases in which the recoverable value of the assets subject to analysis is lower than their book value, and the relative impairment loss is considered to be lasting by the directors.

Calculation of the recoverable value, in accordance with IAS 36, has been carried out using the higher of the assets' value in use and their fair value, net of any charges resulting from the sale transaction. To calculate the value in use of the assets, the directors have considered, on the basis of the accepted current practice, to adopt the UDCF (Unlevered Discounted Cash Flow) method, which involves the discounting of operating cash flows, i.e. the flows available prior to the repayment of the financial debts and remuneration of shareholders. On the basis of this criteria, the operating flows are discounted at a rate equal to the weighted average of the cost of the debt and own capital (WACC or Weighted Average Cost of Capital), for the purpose of obtaining the operating capital value which may be able to be generated by the assets subject to analysis. The operating cash flows subject to discounting are those produced by CGU Refining & Marketing and used for the preparation of the 2011-2014 Group Business Plan. The year 2010 is based on budget data. With regard to the following years, internal forecasts for the first refining margins and for the sales margin were used. Other costs/revenues were obtained by applying 75% of the planned inflation rate (1.5%) to 2011 figures. In line with the benchmark for the sector, the discount rate used was 8.1% over a 5-year period. With regard to the calculation of the recoverable amount, a terminal value was also included, revalued at a 1.5% rate.

For calculation of the fair value net of the charges resulting from the sales transactions, on the other hand, reference is made to the most current criteria used by the market, which is that of estimating the sales price using a multiple based on EBITDA as a reference.

## 17. INTANGIBLE FIXED ASSETS

A breakdown of the Intangible fixed assets item is provided below:

Euro/thousand	Owned networks	Third party networks	Patent rights and rights to use patent of others	Licences conc. and brands and sim. Rights	Assets under construction and advances	Other intangible fixed assets	Total
At 1 January 2010 net of amortisation provisions and impairment losses	21,589	46,307	4,378	54,416	3	2,492	129,185
Increases				240	-3	253	490
Decreases	-455	-2,684					-3,139
Changes to consolidation area							0
Accounting reclassifications							0
Other changes							0
Extraordinary transactions							0
Amortisation			-713	-176		-313	-1,202
<b>At 31 December, net of amortisation and impairment losses</b>	<b>21,134</b>	<b>43,623</b>	<b>3,665</b>	<b>54,480</b>	<b>0</b>	<b>2,432</b>	<b>125,334</b>

The heading Intangible fixed assets totals Euro 125,334 thousand, showing a decrease of Euro 3,851 thousand and includes:

“Owned networks” and “Third party networks”, respectively equal to Euro 21,134 thousand and 43,623 thousand, representing the fair value of the intangible assets recorded at the time of allocation of the price paid for the acquisition of IP. The decrease of Euro 455 thousand and of Euro 2,684 thousand, in owned and third parties’ networks respectively, is resulting from failure to renew the agreements in place with 24 service stations, and transfer of 20 owned plants;

“Patent rights and rights to use the patents of others”, for a value of Euro 3,665 thousand, essentially represented by the software usage rights of the parent company and api raffineria, as well as the General Electric Energy patent right (formerly Texaco Development Corporation) relative to the gasification process for the production of electricity by the subsidiary api energia.

“Concessions, licences, trademarks and similar rights”, of Euro 54,480 thousand, essentially comprise the following:

- Euro 157 thousand, as the value for the trademark of the subsidiary Festival spa;
- Euro 51,883 thousand, as the fair value of the IP brand recorded in 2005 at the time of allocation of the price paid for acquisition of the company in point;
- Euro 2,440 thousand, referring to concessions and licences concerning points of sale and bars of the parent company.

“Other intangible fixed assets”, of Euro 2,432 thousand, consisting of the api energia contribution for connecting to the ENEL national network for Euro 2,215 thousand, amortised at an annual rate of 5% relating to the duration of the agreement stipulated with ENEL (now GSE); for Euro 217 thousand for works on third party assets carried out by the parent company.

## 18. EQUITY INVESTMENTS

The item equity investments of Euro 11,059 thousand, a breakdown of which is provided in the table below, comprises an amount of Euro 10,419 thousand, of equity investments in associated companies, and Euro 640 thousand of equity investments in other companies.

Euro/thousand	Book Value 31/12/09	Increases	Decreases	Book Value 31/12/2010	% held 31/12/2010	% held 31/12/2009
<i>Associated companies</i>						
Apisem spa	4,295	309		4,604	50.00%	50.00%
Abruzzo costiero srl	1,490	168		1,658	30.00%	30.00%
Apisoi spa	976		-48	928	50.00%	50.00%
Saccne rete S.r.l.	6,165	487	-3,423	3,229	50.00%	50.00%
Apibenzin	13			13		
Associates write-down provision	-13			-13		
<b>Total</b>	<b>12,925</b>	<b>964</b>	<b>-3,471</b>	<b>10,419</b>		
<i>Other companies</i>						
Petroven srl	16			16	10.00%	10.00%
Immobiloil	50			50		
Consorzio grandi reti	9		-5	4		
Other equity investments	570			570		
<b>Total</b>	<b>645</b>	<b>0</b>	<b>-5</b>	<b>640</b>		
<b>Total</b>	<b>13,570</b>	<b>964</b>	<b>-3,476</b>	<b>11,059</b>		

Other increases and decreases in value of equity investments in associated companies can be attributed to the results in the companies valued using the net equity method.

The company Royal Oil S.r.l. was set up on 19 January 2010 as a single-member private limited company (interest held by "api" anonima petroli italiana S.p.A.) through the conferment by the parent company of a company branch comprising 10 service stations located in Sicily (with pertaining uncovered areas and service buildings such as car wash machine, tool deposit and premises used as service area and bar) for a value equal to Euro 1,650 thousand; on 27 September 2010 the parent company transferred to the company Saccne Rete srl (50% held by api), the share capital of Royal oil srl fully controlled, for a value equal to Euro 8,495 thousand. This transaction generated a capital gain for api spa of Euro 6,845 thousand; this value was rectified for 50% (Euro 3,423 thousand) at a consolidated level with equity contributions, as shown in the table in the decreasing item, since it is an infragroup capital gain generated as capital gain of the assets.

As far as equity investments in other companies are concerned, worth mentioning is the partial exit from the Consorzio Grandi Reti through the return of the shares of the share capital subscribed by IP for Euro 5 thousand. There are still shares subscribed by the parent company.

## 19. OTHER NON-CURRENT ASSETS

The other non-current assets comprise:

Euro/thousand	31/12/10	31/12/09
M/L loans to associated companies	195	322
Tax receivables	2.155	3.021
Receivables from other parties	20.970	22.362
Investments	4	4
<b>Total</b>	<b>23.324</b>	<b>25.709</b>

At 31 December 2010 this item totalled Euro 23,324 thousand and decreased with respect to the previous year, by Euro 2,385 thousand. The balance for the item includes:

- "Receivables from associated companies" of Euro 195 thousand covering loans and the relative interest due, owed to the parent company by the associated company Abruzzo Costiero s.r.l.; - "Receivables from taxation authorities", of Euro 2,155 thousand, relative mainly to tax withholdings, advances, and interest on tax credits dating back to previous financial years, for which the request has been made to pay this off by means of granting treasury bonds in accordance with Law Decree no. 307 of 23 May 1994 converted into Law 457/94, as well as the advance tax of Employee Severance Indemnity paid in accordance with Law no. 140 of 1997 and a credit for VAT refund;
- "other debtors", equal to Euro 20,970 thousand, involving both prepayments of Euro 18,754 thousand with a duration of more than one year deriving from the payment by api of a contract renewal lump sum for exclusive supplies (operator agreements), and for Euro 775 thousand, prepayments mainly relating to leasing instalment costs paid in advance with respect to the period which they cover, and fees paid to service providers.

## 20. DERIVATIVE INSTRUMENT ASSETS

The heading "Derivative instrument assets" of Euro 9 thousand, (Euro 595 thousand at 31.12.2009) corresponds to the fair value appraisal of api derivative contracts in place at the balance sheet date, relating to hedging transactions for the hedging of the risk linked to interest rate fluctuation of the parent company.

The fair value has been determined using generally accepted valuation models and techniques, based on the discounting of expected cash flows. Certain derivatives have been valued using the pricing models for options. For this purpose, in addition to the contractual parameters for each derivative market, parameters for the underlying risk factors have been used (Euribor and volatility yield curves) which can be obtained from external info-providers (e.g. Bloomberg).

The Company verified on a quarterly basis the effectiveness of the hedging relationships in place. At 31 December 2010, the application of hedge accounting produced the following effects on the financial statements:

- 1) an improvement of the fair value of interest rate derivatives, compared to the previous year, mainly linked to the rise in the yield curve taking place during the year;

2) the amount of the cash flow hedge reserve went from Euro -9,802 to Euro -7,640.

The change is mainly due to the reduction of the negative value of the fair values on interest rates, due to the trend of the "Forward" curve compared to the previous year for the parent company api spa, and the dissolution of the cash flow hedge reserve for the company api energia.

Consequently, the income statement includes financial income for approximately Euro 323 thousand, due to interest rate transactions of the parent company; concerning api energia, the impact on the income statement is substantially neutral.

## 21. PREPAID TAXATION

Prepaid taxation as of 31 December 2010 totals Euro 77,241 thousand, compared with an amount at 31 December 2009 of Euro 94,211 thousand.

The balance in question mainly includes credits generated from temporary differences on allocations to taxed provisions and other costs whose deductibility is postponed to the future, net of the profits substantially referable to the release of the taxed provisions. Likewise, the item includes prepaid taxes related to the temporarily non-deductibility of the interest expense pursuant to art. 96 TUIR as well as the valuation of the fiscal loss of the past year of the parent company to the effects of ordinary IRES and additional IRES; finally, it is worth remembering that for the subsidiary api energia spa an increase was recorded due to the recalculation of the taxes considering the 0.09% increase in the IRAP rate applicable in the Lazio Region; the IRAP rate of this Region in particular was increased to 4.97%. The value mainly refers to: the parent company for Euro 18,160 thousand, the subsidiary api energia spa for Euro 38,848 thousand and the subsidiary api raffineria spa for Euro 19,968 thousand.

## 22. INVENTORIES

This item amounts to Euro 352,808 thousand at 31 December 2010 and shows an increase of Euro 30,166 thousand with respect to the corresponding balance at 31 December 2009.

The breakdown of the item is as follows:

<b>Euro/thousand</b>	<b>31/12/10</b>	<b>31/12/09</b>
Raw materials	115,393	106,669
Products being processed	29,309	23,527
Finished products	171,089	157,216
Stocks and spare parts	37,017	35,230
<b>Total</b>	<b>352,808</b>	<b>322,642</b>

The increase of Euro 30,166 thousand is due to the dual effect of:

- an increase of the weighted cost compared to the market value in January 2010;
- lower inventories compared to the previous year.

It is important to point out that the amounts given in the table are net of the relative write-down provisions. "Stocks and spare parts" of Euro 37,017 thousand are mainly relating to spare parts and maintenance materials of the refinery and the IGCC plant, and to consumables and maintenance materials for the petroleum product distribution network of the parent company.

## 23. TRADE AND OTHER DEBTORS

Trade receivables and other debtors are made up as follows:

<b>Euro/thousand</b>	<b>31/12/10</b>	<b>31/12/09</b>
Trade receivables	469,470	401,608
Provision for doubtful debtors	(7,015)	(7,193)
Receivables from other oil companies	81,886	64,270
Bills of exchange receivable	2,284	7,060
Receivables from associated companies due after twelve months	8,281	3,023
Receivables Controlling Companies twelve months	33,614	38,785
Assets to other group companies	388	122
<b>Total</b>	<b>588,908</b>	<b>507,674</b>

Trade receivables relative to wholesale activity are non-interest bearing and generally have an average due date of 45 days.

Trade receivables relative to retail activities are on average collected at 3 days.

The provisions for doubtful debtors, equal to Euro 7,015 thousand, is basically in line with last year. The item "Receivables from other oil companies" of Euro 81,886 thousand, shows an increase of Euro 17,616 thousand. These receivables represent, in relation to the counter-entry item in the liabilities section, the amount of receivables confirmed at the end of the period with respect to the other oil companies in relation to sale and purchase contracts for goods entered into with the same.

"Bills of exchange receivable", of Euro 2,284 thousand, has decreased by Euro 4,776 thousand. The variation is relating to the value of bills on hand and also of bills already presented subject to collection, at the closing date of accounts. "Receivables from associated companies", equal to Euro 8,281 thousand, relate entirely to the credit granted by the parent company towards the associated company Saccne rete S.r.l.; in particular, Euro 4,000 thousand represent the residue to be collected due to the transfer by the parent company of the share capital of Royal oil srl fully controlled; while Euro 4,281 thousand represent the value of the trade receivables from the parent company.

"Receivables from controlling companies", equal to Euro 33,614 thousand, mainly comprise the parent company credit toward api holding spa referred to the IRES credit of previous years, transferred to the controlling company under art. 118, Paragraph 3 of T.U.I.R. (Consolidated Tax Act) as well as the credit transferred to the parent company by api holding for the VAT of December.

The "Assets from other group companies", equal to Euro 388 thousand, mainly include the credit granted by the group to the companies:

- Biotrade spa Euro 24 thousand;
- Biomasse Italia spa Euro 95 thousand;
- CER srl 34 Euro thousand;
- Ser 1 spa Euro 15 thousand;
- Ser spa Euro 71 thousand;
- Solergys Euro 40 thousand.

## 24. FINANCIAL CURRENT ASSETS

This item, equal to Euro 10,800 thousand, refers to the new financial credit granted by api anonima to the controlling company api holding s.p.a. at the 3 month Euribor rate + 130 basis points; the financial credit of Euro 18,400 thousand of last year was repaid.

## 25. OTHER CURRENT ASSETS

“Other current assets” amount to Euro 21,791 thousand, decreasing by Euro 24 thousand with respect to the previous year.

Among the most significant debtor relationships we would point out:

- Regione Friuli-Venezia-Giulia, of Euro 2,483 thousand – in accordance with Art. 3 Paragraphs 16 and 17 of Law no. 549 of 28 December 1995 – for the recovery of discounts applied by api spa by way of reduction of the pump price of gasoline to regional territory residents only;
- other relations with various parties for a total value of Euro 4,818 thousand, relating essentially to amounts owed for advances on leasing instalments and other minor advances paid by the parent company;
- Mediofactoring, equal to Euro 9,662 thousand, relating to the credit – at 31 December 2009 – to “Carta Maxima” fuel card customers, covered by the factoring company Mediofactoring SpA, to which our credits were transferred with a guarantee without recourse.

## 26. TAX RECEIVABLES

The item “tax receivables” totals Euro 13,949 thousand, showing a decrease of Euro 4,883 thousand, and includes the IRES and IRAP credit and VAT credits for group companies.

## 27. LIQUIDITY TIED UP IN PROJECT FINANCE

The value at 31 December 2010 totalled Euro 59,407 thousand recording a decrease of Euro 39,131 thousand. The heading is entirely made up of api energia’s restricted cash at bank and in hand, associated with current accounts opened with the Banca Nazionale del Lavoro in the name of the Facility Agent, The Royal Bank of Scotland, respectively called “Revenues” for Euro 58,419 thousand, (Euro 86,556 thousand at 31 December 2009), “Debt Service Reserve Account” of Euro 567 thousand (Euro 11,562 thousand at 31 December 2009), “Compensation” of Euro 305 thousand (unchanged compared to 31 December 2009) and “Extra-maintenance” of Euro 116 thousand (Euro 115 thousand at 31 December 2009).

## 28. CASH AT BANK AND IN HAND AND CASH EQUIVALENTS

Cash at bank and in hand and cash equivalents comprise:

Euro/thousand	31/12/10	31/12/09
Bank and post office deposit accounts	40,701	128,079
Ready cash and cheques	1,300	266
<b>Total</b>	<b>42,001</b>	<b>128,345</b>

Short term bank deposits earn variable rate interest based on daily rates.

For the purposes of the consolidated cash flow statement, the item cash at bank and in hand and cash equivalents at 31 December 2010 is made up as indicated above.

## 29. GROUP SHAREHOLDERS' EQUITY

### Share Capital

The share capital totalled Euro 115,425 thousand.

### Legal Reserve

The "Legal reserve" amounts to Euro 19,295 thousand and is in line with the previous year.

### Other Reserves

The heading "Other Reserves", net of the Cash flow hedge reserve of Euro (7,640) thousand, totals Euro 271,249 thousand, with a decrease with respect to the previous year of Euro 6,430 thousand.

### Cash flow hedge reserve

This heading totals Euro -7,640 thousand and relates to the effective portion of the fair value of contracts in derivative instruments in existence at 31 December 2010 to hedge the risk of exchange rate and interest rate fluctuation.

	Share Capital	Legal Reserve	Other Reserves	Legal C.F. Hedge Reserve	Profits carried forward	Profit (loss) for financial Year	Shareholders' equity GROUP	Capital Reserves Minority Interests	Profit (loss) for financial Year Minority I.	Shareholders' equity Minority Interests	Shareholders' equity TOTAL
<b>Balance at 1 January 2010</b>	<b>115,425</b>	<b>19,295</b>	<b>154,527</b>	<b>-9,802</b>	<b>123,152</b>	<b>-6,751</b>	<b>395,846</b>	<b>1,145</b>	<b>365</b>	<b>1,510</b>	<b>397,356</b>
Other profits (losses) recorded under shareholders' equity							0			0	0
Distribution of dividends							0	-639		-639	-639
Effect of application of the equity method							0			0	0
Reclassifications from other reserves							0			0	0
Foreign Shareholdings Translation Reserve					321		321			0	321
Effect of hedge accounting operations				2,162			2,162	19		19	2,181
Other changes in shareholders' equity							0			0	0
Change in the consolidation area							0			0	0
Allocation of profit for year 2009					-6,751	6,751	0	365	-365	0	0
Profit for the period						6,576	6,576		418	418	6,994
<b>Balance at 31 December 2010</b>	<b>115,425</b>	<b>19,295</b>	<b>154,527</b>	<b>-7,640</b>	<b>116,722</b>	<b>6,576</b>	<b>404,905</b>	<b>890</b>	<b>418</b>	<b>1,308</b>	<b>406,213</b>

## 30. MEDIUM TO LONG TERM DEBT

Medium and long term debt comprises:

<b>Euro/thousand</b>	<b>31/12/10</b>	<b>31/12/09</b>
Bank borrowings beyond twelve months	459,522	604,569
<b>Total</b>	<b>459,522</b>	<b>604,569</b>

The heading "Bank borrowings" shows a decrease of Euro 145,047 thousand compared to the previous year. This reduction consists of:

- Euro 129,143 thousand, with reference to the parent company, representing the portion of medium/long term debt that will be repaid during the next year; this difference, originally equalling Euro 241,600 thousand, already includes the positive effect of a series of rescheduling taking place in common agreement with the banking counterparties during the year and details of which are provided in the Report to the Financial Statements in the section "Financial Management";
- Euro 15,904 thousand, with reference to the subsidiary api energia spa, relating to the positive effect of the repayment of the principal amount occurred during the year, for a total of Euro 17,014 thousand; and the negative effect of higher estimated interest expense in the long term, for Euro 1,110 thousand.

The reduction in the portion of medium – long term debt is also affected, as already mentioned, by the risk reduction process undertaken by the banking system, which has made the granting of new medium and long loans very difficult and expensive in terms of the applied spreads. This behaviour led the group, and specifically api spa, to refinance the loans payable in the year by rescheduling the expiry dates and the spreads applied rather obtain new ones. It is worth mentioning that on the date of preparing the financial statements, the parent company is actively committed to refinancing the expiring loans for 2011 and 2012 and finding new medium-long term loans. For more details please refer to chapter "Main events occurring after year end".

The table below gives the composition of short and medium term financial debts in relation to the rates applied:

<b>Euro/thousand</b>	<b>31/12/2010</b>	<b>31/12/2009</b>
<i>Euro Financing- fixed rate</i>	20,000	20,000
<b>Subtotal Euro fixed rate financing</b>	<b>20,000</b>	<b>20,000</b>
<i>Euro Financing- actual rate</i>		
Funding at the actual rate* < 1%		22,000
Funding at 1% < actual rate* < 2%	433,830	653,400
Funding at 2% < actual rate* < 3%	185,535	42,341
Funding at 3% < actual rate* < 4%	48,572	32,428
Funding at 4% < actual rate* < 5%	239,627	266,715
Funding at 5% < actual rate* < 6%	2,143	4,286
<b>Subtotal Euro variable rate financing</b>	<b>909,707</b>	<b>1,021,170</b>
<b>Total Debt</b>	<b>929,707</b>	<b>1,041,170</b>
Of which current portion to the banking system	470,185	436,601
Of which current portion to controlling companies/other companies of the Group		
Of which long term portion	459,522	604,569

\* the actual rate includes the costs related to the spreads applied and to any hedge transactions (IRS, collar etc.)

For more details on short term debt from banks see note 36 Short term debt.

## 31. EMPLOYEE BENEFITS (EMPLOYEE SEVERANCE INDEMNITY)

Valuation of Employee Severance indemnity at 31 December 2010 has been carried out in accordance with the calculation methodology indicated in IAS 19. The tables below summarise the components of the net costs recorded in the consolidated income statement:

Post-employment benefits	2010	2009
Opening liability	15,131	15,291
Service costs	36	41
Interest costs	570	945
Actual Gain/Loss	-488	-102
Transfers		
Services provided	-1,749	-1,044
<b>Net cost of the benefit</b>	<b>13,500</b>	<b>15,131</b>

It should be underlined that, following application of the reform on the election on appropriation of employee severance indemnity introduced by Law 296/2006 (Finance Act 2007), as from 1 January 2007 employees can elect to appropriate their accruing severance indemnity to industry complementary pension schemes (Fondoenergia) or to INPS (National Social Security Institute). For this reason, recalculation of the present value of provision for severance indemnity resulted in a positive effect for the company on actuarial profits. The following table includes the employee reconciliation as of 31 December 2010, with respect to those of 31 December 2009, not considering resignations as of 31 December:

Employees at 31/12/2009	945
New employees	23
Employees acquired	2
Resignations	62
<b>Employees at 31/12/2010</b>	<b>906</b>

The assumptions adopted for the purposes of valuation of the severance indemnity can be subdivided into two categories:

- financial assumptions;
- demographic assumptions.

More specifically the assumptions adopted are the following:

*Financial assumptions*

	<b>Executives</b>	<b>Other employees</b>
<input type="checkbox"/> Increase in the cost of living	2.0% per year	2.0% per year
<input type="checkbox"/> Discount rate	4.0% per year	4.0% per year
<input type="checkbox"/> Salary increase:		
• less than or equal to 40 years of age	2.75% per year	2.5% per year
• over 40 years of age but less than or equal to 55 years of age	2.5% per year	2.25% per year
• over 55 years of age	2.25% per year	2.0% per year

*Demographic assumptions*

	<b>Executives</b>	<b>Other employees</b>
<input type="checkbox"/> Probability of:		
• Death	Mortality table RG 48 published by State General Accountancy	Mortality table RG 48 published by State General Accountancy
• Invalidation	INPS table according to age and sex	INPS table according to age and sex
• resignations:		
– up to 50 years of age	4.0% in each year	2.0% in each year
subsequently	Nil	Nil
• retirements:		
– on reaching 60 years of age	35% (100% for women)	60% (100% for women)
– subsequently but up to less than 65 years of age	20% in each year	10% in each year
– on turning 65 years of age	100%	100%
• receive an advance from the appropriated severance indemnity reserve set aside at 70%	3.0% in each year	3.0% in each year

## 32. DEFERRED TAXATION PROVISION

Deferred taxation provision at 31 December 2010 stands at Euro 127,658 thousand, compared with a value at 31 December 2009 of Euro 136,910 thousand.

The provision reflects the greater costs deducted in comparison to the amounts recorded in the income statement in the current year and in the previous ones by virtue of specific taxation standards. Thus the value is referred to the parent company for Euro 64,681 thousand, the subsidiary api raffineria spa for Euro 20,571 thousand, and the subsidiary api energia spa for Euro 42,406 thousand.

### 33. PROVISIONS FOR RISKS AND CHARGES

The breakdown and movement in medium and long term provisions from 1 January 2010 to 31 December 2010 is as follows:

Euro/thousand	Retirement payments and similar obligations	Taxation provision	Land Reclamation Provision	Provision for risks charges and other expenses	Total
Opening balance	22,852	584	17,891	10,228	51,555
Increases	9,285		4,795	566	14,646
Uses	-8,546		-5,980	-6,879	-21,405
Discounting	390				390
Reclassifications					
Other changes					
<b>Closing balance</b>	<b>23,981</b>	<b>584</b>	<b>16,706</b>	<b>3,915</b>	<b>45,186</b>

#### *Retirement payments*

This item totals Euro 23,981 thousand, and relates to:

- Euro 23,489 thousand for relations with service station operators by way of an operating termination bonus, following the framework agreement of 18 November 1992; appropriation for the period equals Euro 9,245 thousand and utilisation equals Euro 8,276 thousand;
- Euro 492 thousand for goodwill compensation with respect to agents for the termination of relations; appropriation for the period equals Euro 40 thousand and utilisation equals Euro 270 thousand;
- finally, the value of Euro 390 thousand relates to the impact of discounting of the Operating termination Bonus during the year, which has shown a positive effect of Euro 350 thousand, and a positive effect due to goodwill compensation with respect to agents of Euro 40 thousand, in compliance with the provisions of IAS 37. These effects were appraised by applying the “projected unit credit method” as defined under IAS 19.

#### *Provision for taxation*

This item amounts to Euro 584 thousand and represents the potential risk relating to any minor amounts which might be confirmed within the context of pending lawsuits which, to date, have not yet been favourably concluded. We would also mention that in 1998, api anonima was subjected to an inspection by the Italian Tax Police, referring to the period between 1992 to 1997, the outcome of which resulted in an assessment report, which gave rise to the following assessment and amendment notices:

- in December 1998 an assessment notice was served for the 1992 financial year (Corporate Income Tax – IRPEG, Local Income Tax - ILOR), almost totally reversed in 2002 by the Rome Regional Tax Commission; the Finance administration presented an appeal for Annulment of this judgement. The hearing was held in January 2008. The Supreme Court – by means of judgment no. 9497/08 filed on 11 April 2008 - accepted both the main appeal of the Italian Inland Revenue and the interlocutory appeal of the Company and referred the case back to another section of the Lazio Regional Tax Commission. On 21 December 2009, the Lazio Regional Tax Commission filed the judgement no. 713/01/09, with which it accepted the appeal of the Company and rejected the appeal of the Office. Also against this ruling, the Finance Administration presented an appeal for annulment;

- during 1999, assessment notices were served for the 1993 year (Corporate Income Tax – IRPEG, Local Income Tax - ILOR and VAT), which were appealed against in accordance with the Law. The VAT appeal was judged in favour of the company, with a final judgement passed, while the IRPEG-ILOR appeal was fully upheld by the Rome Provincial Tax Commission. The Lazio Regional Tax Commission, having passed a judgement during 2004, almost entirely accepted the Company's reasoning, making use of an Official Technical Consultant who verified the unfounded nature of the claims; the Finance Administration presented an appeal for Annulment of this judgement. The hearing was held in January 2008. The Supreme Court – by means of judgment no. 8773/08 filed on 4 April 2008 - accepted both the primary appeal of the Italian Inland Revenue and the interlocutory appeal of the Company and referred the case back to another section of the Lazio Regional Tax Commission. On 14 January 2010, the Lazio Regional Tax Commission filed the judgement no. 7/01/10, with which it accepted the appeal of the Company and rejected the appeal of the Office. Also against this ruling, the Finance Administration presented an appeal for annulment;
- during 2001 assessment notices were served for 1994 (Corporate Income Tax – IRPEG, Local Income Tax - ILOR, VAT), 1995 (Corporate Income Tax – IRPEG, Local Income Tax - ILOR, VAT), and 1996 (VAT) which, also in this case, were appealed against in accordance with the Law. The judgements passed to date, issued by the Lazio Tax Commission accept the Company's reasoning without exceptions, while the judgments related to 1994 and 1995 VAT notices have already had a final judgement passed. The Finance Administration presented an appeal for annulment of the judgements related to the disputes for 1994 (Corporate Income Tax – IRPEG, Local Income Tax – ILOR), 1996 (VAT) and 1995 (Corporate Income Tax – IRPEG, Local Income Tax – ILOR); the conciliation hearing has not year been set;
- during 2002, assessment notices were served for 1996 (Corporate Income Tax – IRPEG, Local Income Tax – ILOR) and 1997 (VAT); also in this case appeals were presented in accordance with the Law. CTP in Rome accepted the appeal and annulled the notification concerning the Corporate Income Tax - IRPEG and Local Income Tax - ILOR for 1996. The Office has not lodged an appeal and the judgement has already had a final judgement passed. With regard to the VAT notice for 1997, the Company appeal was fully upheld by the judgement issued by the Rome Provincial Tax Commission. The Italian Inland Revenue presented an appeal for the annulment of this judgement; on 19 January 2010 the negotiating hearing took place and, on 6 October 2010, the Rome Regional Tax Commission filed judgement no. 154/35/10 with which it accepted the appeal of the Finance Administration. The company will present an appeal against this judgement in accordance with the law;
- during 2003, an assessment notice was served for the 1997 year (Corporate Income Tax – IRPEG, Local Income Tax - ILOR); the appeal submitted by the company was fully upheld by the Rome Provincial Tax Commission. The Italian Inland Revenue appealed against this decision, against which the Company appeared in accordance with the Law. The Lazio Regional Tax Commission rejected the appeal submitted by the Italian Inland Revenue, thus confirming the provisions contained in the judgement issued by the Rome Provincial Tax Commission. The Italian Inland Revenue appealed against this decision, against which the Company appeared in accordance with the Law; the date for the conciliation hearing has not yet been set.
- On 9 September 2009, a general tax inspection was started towards the Company. The inspections, carried out by operators from the Control, Disputes and Collection Department – Inland Revenue Large Taxpayers Office– Lazio Regional Management Office, examined the results of the year ended 31 December 2007 for IRES, IRAP and VAT purposes. At the end of the above mentioned operations, on 22 December 2009 the Tax Authority notified an Official Tax Audit Report containing findings relating to IRES and IRAP, in relation to which the Company promptly submitted the observations and requests pursuant to art. 12, last paragraph, of law no. 212 of 27 July 2000. In light of the surveys made, the Company has decided not to make any provisions for potential liabilities.

*Decontamination provision for land and service station disposal*

The amount of this provision at 31 December 2010 was equal to Euro 16,706 thousand. During the year, an amount equal to Euro 4,795 thousand was set aside, while Euro 5,980 thousand were used. This provision refers to the appropriation of costs made by the parent company for the environmental damage concerning the refinery plant and the provincial network and deposits on the network plants.

*Provision for risks, charges and other costs*

This item has a value of Euro 3,915 thousand as of 31 December.

The provision has increased during the period by Euro 566 thousand, as follows:

- Euro 166 thousand for increases following the revaluation of the provision of the CO2 quota deficit valued at the market price of 31 December 2010 of the subsidiary api raffineria;
- Euro 331 thousand referring to a financial increase to cover the losses of two motorway concessions acquired during the period;
- Euro 69 thousand to cover the losses of the previous promotional campaign.

A total of Euro 6,879 thousand of the provision has been utilised during the period, regarding:

- for Euro 6,846 thousand, the charges necessary to cover the compulsory residual quota of release to the market of gasoline and diesel produced for 2009 by using a minimum percentage of biofuel equal to 3%;
- Euro 33 thousand used to cover the losses of platinum by the catalyser I-8 of the Isomerisation plant replaced by the subsidiary api raffineria.

## 34. TRADE AND OTHER PAYABLES

Trade and other payables comprise:

<b>Euro/thousand</b>	<b>31/12/10</b>	<b>31/12/09</b>
Trade payables	327,494	255,990
Payables to other oil companies	138,365	125,916
Payables to associated companies	970	503
Payables to controlling companies	22,211	10,435
<b>Total</b>	<b>489,040</b>	<b>392,845</b>

Trade payables, equalling Euro 327,494 thousand, increased in comparison with the previous year by Euro 71,504 thousand, and are the results of the ordinary management of working capital. "Payables due to other oil companies", totalling Euro 138,365 thousand include, in relation to the respective counter-item under assets, the amount of the actual amounts payable at year end to other oil companies under goods purchase and sale agreements entered into with same. Payables due to associated companies totalled Euro 970 thousand and mainly comprise payables of the parent company due to the associated companies Apisem for Euro 629 thousand and Saccne Rete for Euro 341 thousand.

Payables to controlling companies, equal to Euro 22,211 thousand, refer to the transfer of the VAT payables of api raffineria and the amounts to be paid by api anonima, api raffineria and api energia to the controlling company Api Holding S.p.A., for services provided to it, as well as the transfer of the taxable income for IRES purposes of api energia to api holding, in application of the regulation on tax consolidation regime.

## 35. DERIVATIVE INSTRUMENT LIABILITIES

The heading "Derivative instrument liabilities" of Euro 19,522 thousand (Euro 22,646 thousand at 31.12.2009) corresponds to the fair value appraisal of derivative contracts in place at the balance sheet date, relating to hedging transactions of the parent company and api energia for the hedging of the risk linked to interest rate and exchange rate fluctuations.

In the parent company the negative balance of these hedges, equal to Euro 3,544 thousand, corresponds to the fair value appraisal of the derivative contracts in place at the balance sheet date, relating to hedging transactions for the hedging of the risk linked to interest and exchange rate fluctuations. The negative balance of these hedges is attributable for Euro 1,361 thousand to exchange rate derivatives and for Euro 2,183 thousand to rate derivatives, and is the direct consequence of a progressive depreciation of the Dollar against the Euro occurred between the stipulation of the forward agreements and the year end and, to a greater degree, to the increase in the level of forward interest rate that, though at a record low, was greater than the corresponding level of the previous year, leading to a reduction of the negative value of the fair values.

As regards the subsidiary api energia, there are 3 positions relating to derivative hedging instruments, corresponding to interest rate collars for which the Company collects from the counterparty any difference between the 6-month Euribor and 6% on a half-yearly basis, and pays to the counterparty any difference included between 1.97% and the 6-month Euribor, again on a half-yearly basis.

These derivative contracts were entered into to contain the risk linked to the fluctuations of the variable interest rate at which the Project finance was disbursed. To this end, through a "zero cost" structure, the company is protected against a possible increase in market rates above 6% (cap), though accepting to pay a minimum level in any case equal to 1.97% (floor) in the hypothesis of market rates lower than this level. This event occurred throughout the entire year 2010 when, given the exceptionally low level of market rates, with the 6-month Euribor equal to an average of 1.084%, the company paid the fixed rate of 1.97% in any case.

Hedging was defined for a value equal to about 75% of the global risk exposure and for a duration equal to the residual life of the loan. Only the intrinsic value component of the interest rate collar instruments was designated as hedging (and the time value component is therefore excluded).

## 36. SHORT TERM DEBT

Short term debt comprises:

<b>Euro/thousand</b>	<b>31/12/10</b>	<b>31/12/09</b>
Bank borrowings	470,185	436,601
<i>Payables due to Other Financiers</i>		
Payables due to Other Group Companies		0
Payables due to Controlling Companies		0
<b>Total</b>	<b>470,185</b>	<b>436,601</b>

The increase in debt, equal to Euro 33,584 thousand, is the combined result of 2 factors: an increase in the portion of financing that was originally of medium/long term and that will expire in 2011 (already commented on under item 30. Medium long term financing), balanced by a lower effective use of short term bank loans following an improved management of the working capital, which allowed the total debt to be contained and resulted in a lower instalment of the project finance for api energia.

This reduction occurred despite an increase in the intragroup funding activity, in particular towards the companies api raffineria and api Holding, carried out by api spa. The latter, due to its ability to cover financial resources at competitive costs, acts as treasury for the rest of the group companies. At year end the parent company boasted a credit of Euro 10,800 thousand towards the controlling company api Holding spa (please see the note on "Other non-current assets").

## 37. OTHER LIABILITIES

Other Liabilities of Euro 196,362 thousand, recorded a decrease of Euro 58,846 thousand and are made up as follows:

Euro/thousand	31/12/10	31/12/09
Payables due to Welfare Institutions	3,790	3,872
Other creditors	192,572	251,336
<b>Total</b>	<b>196,362</b>	<b>255,208</b>

The heading "Payables due to welfare institutions" of Euro 3,790 thousand, shows a decrease of Euro 82 thousand and relates mainly to contributions due to the INPS, Inpdai and other Bodies and are proportionate to salary payments for the month of December. "Other debts", of Euro 192,572 thousand, mainly includes:

- Euro 129,722 thousand as deferred income of the incentive component of the CIP6 tariff related to the sales contract of Api Energia with the Electricity Service Operator (GSE), which applies for 20 years and provides for recognition of an incentive for the first eight years;
- Euro 2,549 thousand, for amounts due to employees at 31.12.2010 for deferred indemnities and bonuses;
- Euro 8,175 thousand for amounts due as of 31.12.2010 in favour of third parties relative to service station land lease rentals, public ground occupation tax and motorway license payment instalments;
- Euro 451 thousand relating to the debt to operators for application of the concessional rate on LPG.

## 38. TAX PAYABLES

Euro/thousand	31/12/10	31/12/09
Payables due to taxation authorities	126,434	123,837
<b>Total</b>	<b>126,434</b>	<b>123,837</b>

The balance of Euro 126,434 thousand at 31 December 2010 mainly comprises:

- Euro 2,401 thousand for the "Robin Tax" appropriation;
- Euro 110,653 thousand to customs relative to the excise applied to the origin of products carried out in the month of December net of the advance paid in December 2010 for current payments becoming due in the first few months of 2011.
- Euro 1,056 thousand regarding current debt for payments made to the agent in January 2011 for withholding taxes.

## 39. GUARANTEES AND COMMITMENTS

The total balance of the heading at 31 December 2010 totalled Euro 101,108 thousand (Euro 100,741 thousand at 31 December 2009) and comprises the following guarantees and commitments:

- guarantees provided by the company in favour of Public Entities in relation to the obligations connected with the issue of licenses and/or concessions essentially totalling Euro 100,788 thousand.
- api energia insurance bonds, which have replaced bank bonds for an equal amount expired on 31 December 2001, subject to specific authorisation by the Facility Agent, issued as a guarantee for the permit to use the stretch of water of 66,663 m<sup>2</sup> at the Port of Ancona for a total amount of Euro 320 thousand.

## 40. LEGAL PROCEEDINGS AND ARBITRATION

During the period there were legal, administrative and arbitration proceedings pending of various types involving the Issuer or api Group companies.

Among the most significant disputes the following are highlighted:

- (I) during the Services Conference of 11 January 2005, the Minister for the Environment prescribed a series of environmental mitigation measures relative to the site on which the Falconara Refinery is located. Among these works, we would particularly highlight the request to create a physical containment barrier for the area in order to isolate it and impede any diffusion of pollutants. With appeal of 13 April 2005, api Raffineria contested the decisions of the Services Conference before the Marche Administrative Law Court in that they were excessively onerous and difficult to realise in practice, and the relative dispute is pending. To this is added the appeal against the Conference decisions of the following March (2006). The appeals were set for discussion before the Marche Region Administrative Law Court at the hearing of 4 April 2007; the hearing – that was initially put back to 5 March 2008 – was put back again to 2 December 2009 and then again in view of a settlement of the administrative procedure with the Minister for the Environment that overcomes the issues raised with the appeal; the next hearing is set for 7 April 2011;
- (II) api Raffineria is subject to the Noise Classification Plan approved definitively by the Municipality of Falconara Marittima on 31 March 2005 in accordance with Regional Law 28/2001, with particular reference to the requirement to significantly reduce the environmental noise emission threshold in the suburbs neighbouring the Falconara Refinery. The noise classification plan has been contested by api Raffineria with an appeal on 15 June 2005 for the part in which it is requested to significantly reduce the environmental noise emission levels in the area of the Falconara Refinery, and the relative dispute is currently pending with the Marche Region Administrative Law Courts, with the discussion hearing date not yet having been set. This dispute could be abandoned, since a re-examination of the noise classification plan by the Municipality of Falconara is underway regarding the request for change put forward by api Raffineria.
- (III) On 25 August 1999 an incident occurred at the Falconara Refinery resulting in the death of two api Raffineria employees. Following this incident, criminal proceedings were opened, which were settled with the acquittal of all the plaintiffs except a field operator. The criminal proceedings are now in the pending appeal phase initiated by the State Attorney General, by the convicted defendant and by api Raffineria as the party with third party liability. The discussion hearing date has not been set yet. Among the plaintiffs claiming damages, the Municipality of Falconara did not lodge an appeal and the claim for damages.

- (IV) Following an accusation presented by a former employee of one of the two subcontractor companies for monitoring activities and securing the environment for the reclamation procedure commenced by api Raffineria, the works director and environmental manager for the Falconara Refinery were subjected to legal proceedings for the crime of forgery of a public document and failure to carry out reclamation activity, together with three employees and consultants, at the time of the facts, of contractor and subcontractor companies. Both the Marche Region and the Province of Ancona had been admitted as plaintiffs claiming damages, presenting unquantified claims. The relative proceeding ended in 2007 with full acquittal of all the accused, and rejection of damage claimed by plaintiffs put forward by the civil parties, among which the Municipality has in any case withdrawn the appeal and claim for damages. The Public Prosecutor's Office has already lodged an appeal, the hearing date of which has still not been set. Considering the time elapsed, one may believe that the discharge of the lawsuit due to statute of limitations will be in any case declared;
- (v) During 2006 and 2007, four VAT audit notices were served to the company for 2000, 2001, 2002 and 2003, all resulting from an assessment report issued by the Italian Tax Police – Marche Regional Division, following a tax audit conducted on the associated company apiso service SpA. These deeds contested the delayed invoicing by api raffineria SpA to the associate apiso of materials withdrawn by the same apiso from the api raffineria inventory – based on a supply relationship pursuant to art. 1559 of the Italian Civil Code – to carry out maintenance work at the refinery. The auditing office has confirmed the material transfers within the context of the VAT regulation of asset transfer, refusing to recognise the existence of a supply relationship. At the balance sheet date, with final judgement issued by the Rome Regional Tax Commission, the dispute relating to 2000 was settled in favour of the company; in addition, judgements issued by the Ancona Provincial Tax Commission with regard to the disputes for the years 2001, 2002 and 2003 were filed, which fully accepted the Company's reasoning. In consideration of the manifest unfounded nature of the claim by the Taxation office and of the favourable judgements, the company has decided not to make any provision for such potential liabilities as they are not considered probable.

## 41. FINANCIAL RISK MANAGEMENT: OBJECTIVES AND CRITERIA

The Group's operating activities are financed predominantly by applying to the banking system, through the use of current account overdrafts and financing, both short term - in Euro and to a limited extent in foreign currency – and medium and long term. Within the context of ordinary management of activities, api also uses other financial instruments such as trade debts and credits and operating hire contracts.

As part of its ordinary operating activity, the parent company in particular is simultaneously exposed to interest rate risk, exchange rate risk, commodity risk, liquidity risk and credit risk. To-date, the api policy provides solely for hedging the risks connected to fluctuations in interest and exchange rates, substantially implemented by entering into IRSs (Interest Rate Swaps), collars and forwards; no trading of derivative instruments for speculative purposes is provided.

## Interest rate risk

In relation to the market risk due to interest rate variations, it is Group policy to hedge the relative exposure relating to medium and long term indebtedness. In managing this risk, zero-cost hedging structures are used such as IRSs, "cap" and "collar". Slightly more structured transactions were carried out in the past consisting of the combination of two simple derivatives.

It is the group policy that the depreciation plan for the hedging specularly follows, as far as due date and notional amount are concerned, the depreciation plan for the underlying debt.

The current portion of exposure to the interest rate risk is approximately 28% of the total exposure (in terms of face value of medium/long term financial liabilities hedged). The main sources of exposure of the Company to interest rate risks relate to existing short, medium and long term loans and the fair value of derivative instruments. In particular, the potential impact on the income statement for 2011 (2010 for comparison purposes) connected to the interest rate risk is as follows:

- potential variation in financial charges and interest pertaining to 2011;
- potential variation in the fair value of existing derivative instruments (other derivatives and inefficient component of hedging derivatives). Potential variations in the fair value of the effective component of existing hedging derivative instruments produce an impact on the Shareholders' equity.

### INTEREST SENSITIVITY

	31 December 2010				31 December 2009			
	Residual debt (€/000)	Estimated present value of Financial Income/charges year 2011 (€/000)	Impact on Income Statement 2011 +100 bps (€/000)	Impact on Income Statement 2011 -50 bps (€/000)	Residual debt (€/000)	Estimated present value of Financial Income/charges year 2010 (€/000)	Impact on Income Statement 2010 +100 bps (€/000)	Impact on Income Statement 2010 -100 bps (€/000)
	a	b	c	d	a	b	c	d
Loans receivable	10,800	301	98	(49)	18,400	426	167	(167)
Loans payables	(932,936)	(19,466)	(5,916)	2,958	(1,045,785)	(18,360)	(7,698)	7,698
<b>Total Loans</b>	<b>(922,136)</b>	<b>(19,165)</b>	<b>(5,818)</b>	<b>2,909</b>	<b>(1,027,385)</b>	<b>(17,934)</b>	<b>(7,531)</b>	<b>7,531</b>
	Notional (€/000)	Differentials estimated present value 2011 (€/000)	Impact on Income Statement 2011 +100 bps (€/000)	Impact on Income Statement 2011 -50 bps (€/000)	Notional (€/000)	Differentials estimated present value 2010 (€/000)	Impact on Income Statement 2010 +100 bps (€/000)	Impact on Income Statement 2010 -100 bps (€/000)
	i	j	k	l	m	n	o	p
Derivative instruments								
hedging cash flows	262,952	(2,265)	(233)	(1,486)	296,194	(3,277)	(181)	(2,692)
Other derivatives instruments	221,734	(3,584)	993	(508)	241,883	(4,126)	1,138	(1,167)
<b>Total derivatives</b>	<b>484,686</b>	<b>(5,849)</b>	<b>760</b>	<b>(1,994)</b>	<b>538,077</b>	<b>(7,403)</b>	<b>957</b>	<b>(3,860)</b>
<b>Total</b>		<b>(25,014)</b>	<b>(5,058)</b>	<b>916</b>		<b>(25,337)</b>	<b>(6,574)</b>	<b>3,671</b>

## Derivative instruments (shift in rates)

## SENSITIVITY OF DERIVATIVE FAIR VALUE

31 December 2010										
	Notional Amount (€/000)	Net Fair Value (€/000)	Net Fair Value +100 bps (€/000)	Variation in Net Fair Value +100 bps (€/000)	Impact on Income Statement +100 bps 2010 (€/000)	Impact on Net Equity +100 bps 2010 (€/000)	Net Fair Value -50 bps (€/000)	Variation in Net Fair Value -50 bps (€/000)	Impact on Income Statement -50 bps 2010 (€/000)	Impact on Net Equity -50 bps 2010 (€/000)
	a	b	c	d=c-b	e=d-f	f	g	h=g-b	i=h-j	j
Derivative instruments										
hedging cash flows	262,952	(3,765)	(869)	2,896	1,422	1,474	(5,584)	(1,819)	(307)	(1,511)
Other derivatives instruments	221,734	(14,387)	(13,912)	475	475		(14,637)	(250)	(250)	
<b>Total</b>	<b>484,686</b>	<b>(18,153)</b>	<b>(14,781)</b>	<b>3,371</b>	<b>1,897</b>	<b>1,474</b>	<b>(20,221)</b>	<b>(2,068)</b>	<b>(557)</b>	<b>(1,511)</b>
31 December 2009										
	Notional Amount (€/000)	Net Fair Value (€/000)	Net Fair Value +100 bps (€/000)	Variation in Net Fair Value +100 bps (€/000)	Impact on Income Statement +100 bps 2009 (€/000)	Impact on Net Equity +100 bps 2009 (€/000)	Net Fair Value -100 bps (€/000)	Variation in Net Fair Value -100 bps (€/000)	Impact on Income Statement -100 bps 2009 (€/000)	Impact on Net Equity -100 bps 2009 (€/000)
	a	b	c	d=c-b	e=d-f	f	g	h=g-b	i=h-j	j
Derivative instruments										
hedging cash flows	296,194	(4,445)	792	5,237	3,520	1,717	(8,590)	(4,145)	(1,010)	(3,135)
Other derivatives instruments	241,883	(17,871)	(17,159)	712	712		(18,622)	(751)	(751)	
<b>Total</b>	<b>538,077</b>	<b>(22,316)</b>	<b>(16,367)</b>	<b>5,950</b>	<b>4,232</b>	<b>1,717</b>	<b>(27,213)</b>	<b>(4,896)</b>	<b>(1,761)</b>	<b>(3,135)</b>

## Derivative instruments (shift in volatility)

## SENSITIVITY OF DERIVATIVE FAIR VALUE

31 December 2010									
	Notional Amount (€/000)	Net Fair Value (€/000)	Net Fair Value +5% volatility (€/000)	Variation in Net Fair Value +5% volatility (€/000)	Impact on Income Statement +5% volatility 2010 (€/000)	Net Fair Value -5% volatility (€/000)	Variation in Net Fair Value -5% volatility (€/000)	Impact on Income Statement -5% volatility 2010 (€/000)	
	a	b	c	d=c-b	e	f	g=f-b	h	
Derivative instruments									
hedging cash flows	262,952	(3,765)	(3,766)	(1)	(1)	(3,754)	11	11	
Other derivatives instruments	221,734	(14,387)	(14,388)	0	(0)	(14,405)	(17)	(17)	
<b>Total</b>	<b>484,686</b>	<b>(18,153)</b>	<b>(18,154)</b>	<b>(2)</b>	<b>(2)</b>	<b>(18,159)</b>	<b>(6)</b>	<b>(6)</b>	
31 December 2009									
	Notional Amount (€/000)	Net Fair Value (€/000)	Net Fair Value +5% volatility (€/000)	Variation in Net Fair Value +5% volatility (€/000)	Impact on Income Statement +5% volatility 2009 (€/000)	Net Fair Value -5% volatility (€/000)	Variation in Net Fair Value -5% volatility (€/000)	Impact on Income Statement -5% volatility 2009 (€/000)	
	a	b	c	d=c-b	e	f	g=f-b	h	
Derivative instruments									
hedging cash flows	296,194	(4,445)	(3,296)	1,149	1,149	(3,857)	589	589	
Other derivatives instruments	241,883	(17,871)	(17,868)	3	3	(17,858)	13	13	
<b>Total</b>	<b>538,077</b>	<b>(22,316)</b>	<b>(21,164)</b>	<b>1,152</b>	<b>1,152</b>	<b>(21,715)</b>	<b>602</b>	<b>602</b>	

The interest rate risk sensitivity was appraised using internal appraisal models, based on generally accepted principles:

- regarding financing, by estimating a parallel variation of +100/-50 basis points (+1% -0.50 %) basis point of the term structure of rates, applied solely to cash flows to be settled in 2011 (2010 for comparison purposes);
- regarding derivative instruments, by estimating a parallel variation of +100/-50 basis points (+1%/-0.5%) of the interest rate forward contract and an average variation in volatility of Euro rates of +/-5%.

The assumptions relating to the range of variations in market parameters used for shock simulation purposes have been formulated on the basis of the analysis of the historical evolution in such parameters with reference to a temporal horizon of 12 months.

## Exchange rate risk

Both the main activity for supply of raw materials and marginal export activity, both expressed in foreign currency, expose the Group to the risk of exchange rate changes in the Euro/dollar rate. The policy applied provides for total hedging of the net risk – given by the value of the import and subtracting the export component – through the systematic use of forwards. These forward contracts, usually characterised by very short expiry dates (10 – 30 days), show a settlement currency which tends to coincide with the currency used to pay the foreign supplier. Group policy provides for stipulation of the forward contract solely in the presence of an irrevocable commitment. The translation exchange rate risk is not currently managed because individual purchase agreements of currency are preceding the date of payment of invoices stated in US\$. The potential impact on the Income Statement for 2010 (2009 for comparison purposes) connected to the exchange rate risk is as follows:

- revaluation/devaluation of assets and liabilities items stated in foreign currencies;
- variation in fair value of existing derivative instruments hedging assets and liabilities items stated in foreign currencies;
- variations in the fair value of the ineffective component of existing derivative instruments hedging highly probable transactions in foreign currencies.

Potential variations in the fair value of the effective component of existing hedging derivative instruments produce an impact on the Shareholders' equity.

## Foreign currency exposure

2010

Exposure relating to items in the statement of financial position	FOREIGN CURRENCY EXPOSURE (USD)			SENSITIVITY	
	Assets (USD/000)	Liabilities (USD/000)	Net (USD/000)	Δ Income Statement EUR/USD Exchange rate +5% (€/000)	Δ Income Statement EUR/USD Exchange rate -5% (€/000)
Cash	6,095	-	6,095	(228)	228
Trade receivables	-	-	-	-	-
Trade payable	-	(184,704)	(184,704)	6,912	(6,912)
Financial debt	-	-	-	-	-
<b>Total gross exposure</b>	<b>6,095</b>	<b>(184,704)</b>	<b>(178,609)</b>	<b>6,683</b>	<b>(6,683)</b>
<b>Forward purchase (notional amount)</b>	<b>-</b>	<b>216,333</b>	<b>216,333</b>	<b>(8,095)</b>	<b>8,095</b>
<b>Forward sales (notional amount)</b>	<b>-</b>	<b>(101,933)</b>	<b>(101,933)</b>	<b>3,814</b>	<b>(3,814)</b>
<b>Total net exposure</b>	<b>6,095</b>	<b>(70,304)</b>	<b>(64,209)</b>	<b>2,403</b>	<b>(2,403)</b>

Exposure from highly probable future transactions	Future collection forecast (USD/000)	Future payments forecast (USD/000)	Net (USD/000)	Δ Income Statement EUR/USD Exchange rate +5% (€/000)	Δ Income Statement EUR/USD Exchange rate -5% (€/000)	Δ Shareholders' Equity EUR/USD Exchange rate +5% (€/000)	Δ Shareholders' Equity EUR/USD Exchange rate -5% (€/000)
Amount of future cash flows (Not booked in the statement of financial position)	-	(41,500)	(41,500)	-	-	-	-
Forward purchase (notional amount)	-	41,500	41,500	-	-	(1,553)	1,553
Forward sales (notional amount)	-	-	-	-	-	-	-
Total future transaction net exposure	-	-	-	-	-	(1,553)	1,553
<b>Total net exposure</b>	<b>6,095</b>	<b>(70,304)</b>	<b>(64,209)</b>	<b>2,403</b>	<b>(2,403)</b>	<b>(1,553)</b>	<b>1,553</b>

2009

Exposure relating to items in the statement of financial position	FOREIGN CURRENCY EXPOSURE (USD)			SENSITIVITY	
	Assets (USD/000)	Liabilities (USD/000)	Net (USD/000)	Δ Income Statement EUR/USD Exchange rate +5% (€/000)	Δ Income Statement EUR/USD Exchange rate -5% (€/000)
Cash	14,822	-	14,822	(514)	514
Trade receivables	-	-	-	-	-
Trade payable	-	(85,560)	(85,560)	2,970	(2,970)
Financial debt	-	-	-	-	-
<b>Total gross exposure</b>	<b>14,822</b>	<b>(85,560)</b>	<b>(70,738)</b>	<b>2,455</b>	<b>(2,455)</b>
<b>Forward purchase (notional amount)</b>	<b>-</b>	<b>67,300</b>	<b>67,300</b>	<b>(2,336)</b>	<b>2,336</b>
<b>Forward sales (notional amount)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total net exposure</b>	<b>14,822</b>	<b>(18,260)</b>	<b>(3,438)</b>	<b>119</b>	<b>(119)</b>

Exposure from highly probable future transactions	Future collection forecast (USD/000)	Future payment forecast (USD/000)	Net (USD/000)	Δ Income Statement EUR/USD Exchange rate +5% (€/000)	Δ Income Statement EUR/USD Exchange rate -5% (€/000)	Δ Shareholders' Equity EUR/USD Exchange rate +5% (€/000)	Δ Shareholders' Equity EUR/USD Exchange rate -5% (€/000)
Amount of future cash flows (Not booked in the statement of financial position)	-	(37,400)	(37,400)				
Forward purchase (notional amount)	-	37,400	37,400	-	-	(1,298)	1,298
Forward sales (notional amount)	-	-	-	-	-	-	-
Total future transaction net exposure	-	-	-	-	-	(1,298)	1,298
<b>Total net exposure</b>	<b>14,822</b>	<b>(18,260)</b>	<b>(3,438)</b>	<b>119</b>	<b>(119)</b>	<b>(1,298)</b>	<b>1,298</b>

The assumptions on the magnitude of variations in market parameters used for simulating the shocks were formulated on the basis of the historical evolution of these parameters with respect to a time horizon of 30-45 days, consistent with the expected duration of exposures.

## Warehouse commodity risk

The risk associated with the variation in the prices of raw materials is managed by the company solely when accompanied by events of an extraordinary nature, predominantly associated with refinery requirements. During the financial year no hedging transaction has been carried associated with this type of risk.

## Credit risk

The Group only deals with reliable clients. The balance of credits is monitored during the year as far as outstanding and overdue amounts are concerned. It is Group policy to subject clients who require delayed payment conditions to verification procedures on the relevant credit/solvency category.

The aggregate exposure of API Anonima to the credit risk, is mainly associated with trade receivables and amounts receivable from other Oil companies, mainly resulting from the core business of the Company. Since 2008 api anonima has carried out a factoring transaction with IFITALIA (company of the BNL Group). With this transaction, api anonima transferred to IFITALIA a portion (for a maximum amount of Euro 170 million) of its own trade receivables with wholesale customers. This led to an overall reduction of the exposure to the credit risk. No significant concentrations of credit risk exposure should be underlined towards single debtors. All positions relating to financial receivables and trade receivables – both at the end of 2010 and 2009 – have an expiry date of less than 12 months.

Type	TRADE RECEIVABLES								Written down
	Not overdue	less than 30 days	30 to 60	Euro/thousand				Total overdues	
				60 to 90	90 to 120	120 to 150	Over 150		
Receivables from third parties	525,727	13,890	3,497	997	2,350	2,460	900	24,094	3,195
Receivables from group companies	42,282	-	-	-	-	-	-	-	-
<b>Total</b>	<b>568,009</b>	<b>13,890</b>	<b>3,497</b>	<b>997</b>	<b>2,350</b>	<b>2,460</b>	<b>900</b>	<b>24,094</b>	<b>3,195</b>

## Liquidity risk

The financial flexibility of the group is essentially guaranteed by the effect of continual and dynamic recourse to very short term forms of financing (current account overdrafts, "hot money" etc.).

At 31 December 2010, the average exposure of the various short term forms of financing with respect to the total debt was around 50%.

## Debt due date 2010

31 December 2010					
FINANCIAL DEBT					
Due date	Principal amount (€/000)	Interest amount (€/000)	Trade payables (€/000)	Derivatives Instruments	Total (€/000)
	a	b	c	d	e=a+b+c+d
Within 1 month		(664)	(159,208)	-1504	(23,012)
1 to 3 months	(34,116)	(3,931)	(329,832)	-450	(48,438)
3 to 6 months	(36,964)	(5,720)		-2456	(45,141)
6 to 12 months	(399,928)	(11,561)		-2415	(413,904)
1 to 2 years	(189,500)	(10,715)		-3906	(204,120)
2 to 3 years	(78,548)	(9,029)		-2692	(90,268)
3 to 5 years	(97,052)	(12,979)		-3923	(113,954)
5 to 10 years	(96,829)	(7,597)		-1909	(106,334)
After 10 years				-	
<b>Total</b>	<b>(932,936)</b>	<b>(62,196)</b>	<b>(489,040)</b>	<b>(19,255)</b>	<b>(1,045,171)</b>

## Debt due date 2009

31 December 2009					
FINANCIAL DEBT					
Due date	Principal amount (€/000)	Interest amount (€/000)	Trade payables (€/000)	Derivatives Instruments	Total (€/000)
	a	b	c	d	e=a+b+c+d
Within 1 month		460	123,023	-266	123,217
1 to 3 months	357	3,097	258,734	522	262,710
3 to 6 months	37,632	5,546	8304	3084	54,566
6 to 12 months	399,711	10,463	2327	3035	415,536
1 to 2 years	278,657	16,194	457	4283	299,591
2 to 3 years	149,500	10,782		3336	163,618
3 to 5 years	55,066	15,194		4893	75,153
5 to 10 years	124,862	14,180		3611	142,653
After 10 years				0	
<b>Total</b>	<b>1,045,785</b>	<b>75,916</b>	<b>392,845</b>	<b>22,498</b>	<b>1,537,044</b>

Estimated future charges implicit in financing and expected future differentials implicit in derivative instruments were determined on the basis of the forward structure of the Euro interest rate and of the Euro/Dollar exchange rate current on the reference dates (31 December 2010 and 31 December 2009).

## 42. DERIVATIVE INSTRUMENTS

The fair value of existing interest and exchange rate derivative instruments is determined on the basis of internal valuation models. These models are based on generally accepted principles. In particular, regarding the calculation of the present value of future cash flows implicit in such derivative instruments. These are estimated on the basis of market parameters on the forward structure of the Euro and Dollar rates, their volatility and the Euro/Dollar exchange rate. Valuations made with internal models are validated also by examining evidence from the counterparties to such derivative instruments.

In particular, at 31 December 2010, there were 11 positions relating to derivative instruments hedging the interest rate risk, 6 of which are interest rate swaps and 8 interest rate cap and collar instruments (of which 3 relate to "api energia interest rate collar" transactions). Regarding interest rate swap hedging positions, the aim pursued by the Company is about neutralising the potential variations in future financial charges associated to existing medium/long term debt regarding variations in the euribor rate. Regarding interest rate cap and collar instruments positions, the aim pursued by the Company is about limiting the potential variation in future financial charges associated to existing medium/long term debt with respect to euribor rate variations within a preset corridor. For such transactions, solely the intrinsic value component of interest rate collar instruments was designated for hedging purposes (and the time value component is therefore excluded).

Also, there are 4 positions relating to interest rate derivative instruments (collars) traded for hedging medium/long term financial liabilities prior to the adoption of the international financial accounting standards. These hedging contracts, although not speculative in nature, do not meet the criteria indicated by the IFRS standards for cash flow hedge accounting.

At 31 December 2010, there were 100 positions relating to the forward purchase agreements for dollars and 2 positions relating to repurchase agreements. These positions were traded to hedge against the exchange rate risk connected with 6 goods purchase transactions, with settlement expected for January 2010. For these transactions, solely the component connected to variations in the spot exchange rate was designated for hedging purposes; therefore, the interest component is excluded (connected to the variation in spot-forward differential).

## Interest rate derivatives

	2010				2009				VARIATION
	NOTIONAL VALUE (€/000)	ASSET FAIR VALUE (€/000) d	LIABILITIES FAIR VALUE (€/000) e	NET FAIR VALUE (€/000) f = d + e	NOTIONAL VALUE (€/000)	ASSET FAIR VALUE (€/000) a	LIABILITIES FAIR VALUE (€/000) b	NET FAIR VALUE (€/000) c = a + b	VARIATION IN NET FAIR VALUE (€/000) g = f - c
Derivative instruments hedging cash flows	262,953	9	(3,775)	(3,766)	296,194	205	(4,651)	(4,445)	680
Other derivative instruments	221,734	-	(14,388)	(14,388)	241,883		(17,871)	(17,871)	3,483
<b>TOTAL</b>	<b>484,687</b>	<b>9</b>	<b>(18,162)</b>	<b>(18,153)</b>	<b>538,077</b>	<b>205</b>	<b>(22,522)</b>	<b>(22,317)</b>	<b>4,163</b>

## Exchange rate derivatives

	2010				2009				VARIATION
	NOTIONAL VALUE (€/000)	ASSET FAIR VALUE (€/000) d	LIABILITIES FAIR VALUE (€/000) e	NET FAIR VALUE (€/000) f = d + e	NOTIONAL VALUE (€/000)	ASSET FAIR VALUE (€/000) a	LIABILITIES FAIR VALUE (€/000) b	NET FAIR VALUE (€/000) c = a + b	VARIATION IN NET FAIR VALUE (€/000) g = f - c
Derivative instruments hedging assets and liabilities in foreign currencies	114,400	496	(1,792)	(1,296)	67,300	426	(151)	275	(1,571)
Derivative instruments hedging highly probable transactions in foreign currencies	41,500	3	(218)	(215)	37,400	10	(21)	(11)	(205)
<b>TOTAL EXCHANGE RATE DERIVATIVES</b>	<b>155,900</b>	<b>499</b>	<b>(2,010)</b>	<b>(1,511)</b>	<b>104,700</b>	<b>436</b>	<b>(172)</b>	<b>264</b>	<b>(1,776)</b>

## 43. RELATED PARTIES TRANSACTIONS

Transactions entered into by the api Group with related parties essentially involve the exchange of goods and the provision of services. All the transactions form part of ordinary management and are generally regulated on market conditions, that is on the conditions that would have been applied between two independent parties. All transactions put in place are concluded in the interest of the company. Details are given below of transactions of a commercial, miscellaneous and financial nature put in place with related parties in compliance with the provisions of IAS 24 in relation to financial statement information on transactions with related parties. We also present, broken down by type of activity, the economic entity of contractual relations entered into with the controlling company and other group companies for 2010:

2010 (Euro/thousand)	Revenues	Costs
<b>Oil consumption</b>		
Apisem S.P.A.		4,098
Abruzzo Costiero S.R.L.	30	2,726
<b>Property</b>		
Api real estate S.R.L.	75	3,796
<b>Services</b>		
Api Holding S.P.A.	320	4,864

Within the context of centralised cash management, we also provide details of financing flows with respect to other Group companies, also indicating the relative financial charges.

FINANCING FROM API ANONIMA PETROLI ITALIANA SPA TO: 2010 (Euro/thousand)	Capital	Interest
ABRUZZO COSTIERO S.R.L.	190	4
API HOLDING S.P.A.	10,800	74

Rome, 30 March 2011

api - anonima petroli italiana S.p.A.  
The Chairman  
Dott. Ugo Brachetti Peretti

The Chief Financial Officer  
Dott. Stefano Cardello



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## Report of the Board of Statutory Auditors



"api" anonima petroli italiana S.p.A.  
Registered office: Via Salaria 1322 - Rome  
Share Capital Euro 115,425,000.00 - fully paid in

\* \* \*

## REPORT OF THE BOARD OF STATUTORY AUDITORS TO THE SHAREHOLDERS' MEETING

Dear Shareholders,

During 2010 we carried out administrative supervision duties, given that the task of auditing the corporate accounts is entrusted to Reconta Ernst & Young spa.

Our work involved participation in all the Board of Directors' meetings and regular contact and reports on the course of operations with the Managing Director and the CFO.

Our Chairman participated in the work of the Internal Audit Committee, reporting to colleagues on the Committee's plans and progress status.

The Board of Statutory Auditors has always invited the persons in charge of Internal Audit, Control and Organisation functions, as well as the Independent Auditors to take part in its meetings with a view to constantly improving synergies through exchange of information with all control bodies, both during these meetings and in intervening periods. Minutes were prepared accordingly at the end of each meeting.

Note that, during our activities, no unusual transactions with related parties were found and therefore the information provided by the Board of Directors in the Management Report is correct.

No reports pursuant to art. 2408 of the Italian Civil Code or complaints of any nature have been received.

As mentioned, we remained in constant contact with the Independent Auditors responsible for corporate audit and information obtained on audit tasks completed was always positive. In particular, we discussed the separate and consolidated financial statement balances with the Independent Auditors, and were assured that their opinion on both statements would be without reservations.

Consequently, to the extent of our responsibility we can confirm that the statements in question comply with the provisions set out by the International accounting standards (IFRS) and do not conflict with Italian law.

The separate financial statements closed with a profit of Euro 49.2 million, the allocation of which is proposed for your decision by the Board of Directors.

In our opinion and to the extent of our responsibility we consider that the aforementioned financial statements can be approved.

For the reasons given and again solely to the extent of our responsibility, we also agree with the consolidated financial statements, submitted to you together with the separate financial statements referred to previously.

We wish to confirm that the Internal Audit Committee has continued to monitor risks pursuant to Italian Law 231/2001, amending the Organisation, Management and Control Model accordingly.

Note that there is no new information regarding the tax dispute referred to in our previous report.

Lastly, along with that of the Board of Directors, our own term of office has now ended, and you are therefore asked to appoint a new Board of Directors and Board of Statutory Auditors.

Rome, 12 April 2011

The Board of Statutory Auditors  
(Prof. Claudio Bianchi)  
(Dott. Adolfo Cucinella)  
(Dott. Pier Andrea Frè Torelli Massini)

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## Independent Auditors' Report





Reconta Ernst & Young S.p.A.  
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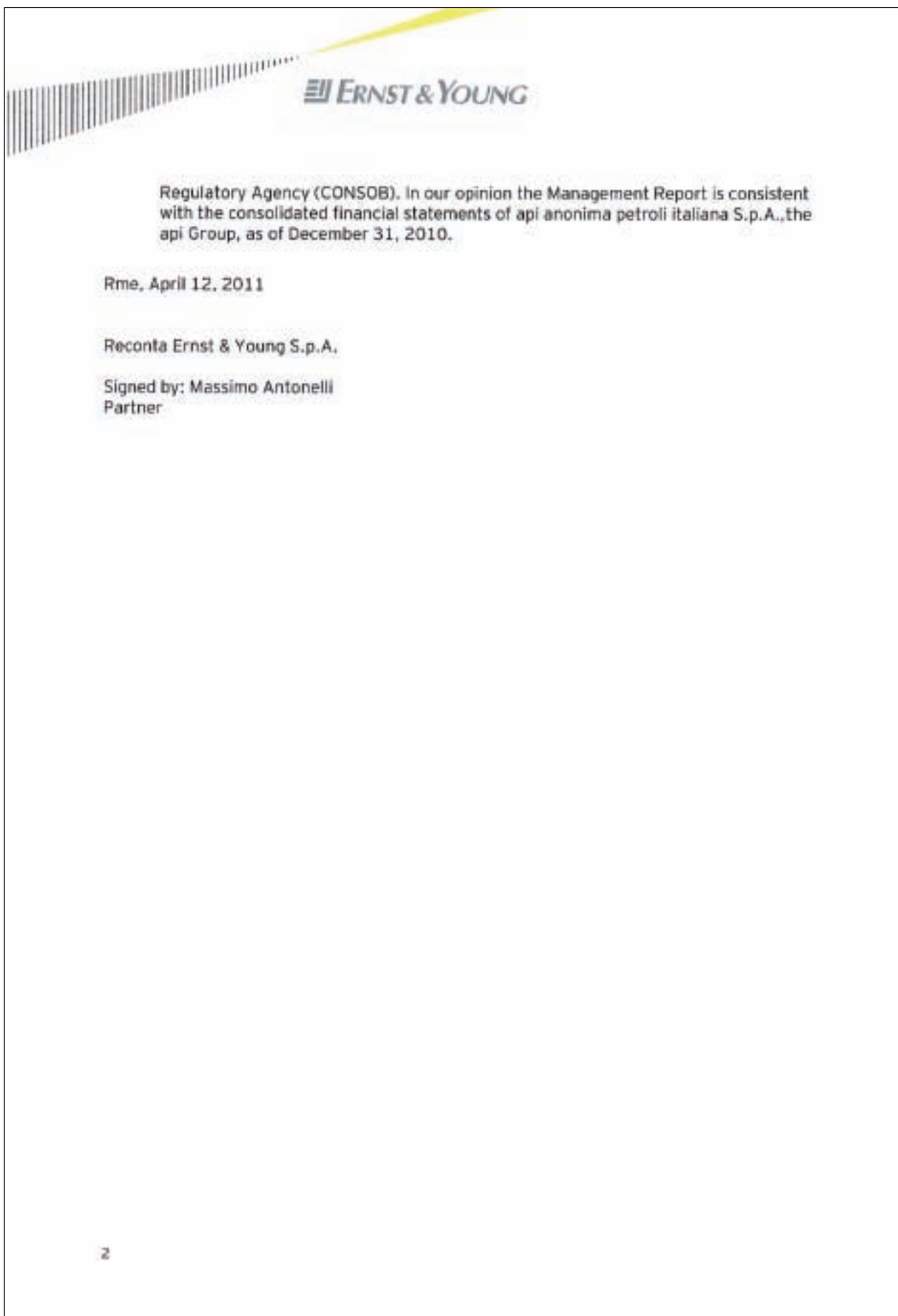
**Independent auditors' report  
pursuant to art. 14 of Legislative Decree n. 39 dated 27 January 2010  
(Translation from the original Italian text)**

To the Shareholders of api anonima petroli italiana S.p.A.

1. We have audited the consolidated financial statements of api anonima petroli italiana S.p.A. and its subsidiaries, the "api Group, as of and for the year ended December 31, 2010, comprising the statement of financial position, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows and the related explanatory notes. The preparation of these financial statements in compliance with International Financial Reporting Standards as adopted by the European Union is the responsibility of api anonima petroli italiana S.p.A.'s management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. Our audit was performed in accordance with auditing standards issued by the Italian Accounting Profession (CNDCEC) and recommended by the Italian Stock Exchange Regulatory Agency (CONSOB). In accordance with such standards, we planned and performed our audit to obtain the information necessary to determine whether the consolidated financial statements are materially misstated and if such financial statements, taken as a whole, may be relied upon. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, as well as assessing the appropriateness and correct application of the accounting principles and the reasonableness of the estimates made by management. We believe that our audit provides a reasonable basis for our opinion.  
  
For our opinion on the consolidated financial statements of the prior year, which are presented for comparative purposes, reference should be made to our report dated April 12, 2010.
3. In our opinion, the consolidated financial statements of api anonima petroli italiana S.p.A., the api Group, at December 31, 2010 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union; accordingly, they present clearly and give a true and fair view of the financial position, the results of operations and the cash flows of api anonima petroli italiana S.p.A., the api Group, for the year then ended.
4. The management of api anonima petroli italiana S.p.A. is responsible for the preparation of the Management Report in accordance with the applicable laws. Our responsibility is to express an opinion on the consistency of the Management Report with the financial statements as required by law. For this purpose, we have performed the procedures required under Auditing Standard 001 issued by the Italian Accounting Profession (CNDCEC) and recommended by the Italian Stock Exchange

Reconta Ernst & Young S.p.A.  
Recla Langhin - 00198 Roma - Via Po, 32  
Capitale Sociale € 1.800.000.000 i.v.  
Inscritto alla S.U.C. del Registro delle Imprese presso la CC.LL.AA. di Roma  
Codice Fiscale e numero di iscrizione D0846000994  
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Carabinieri progressivo n. 2 - delibera n. 008/11 del 14/11/1997

A member firm of Ernst & Young Global Limited



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## Statement of Consolidated Accounts



## **Declaration on the consolidated financial statements pursuant to art. 81-ter, Consob Regulation no. 11971 of 14 May 1999, as amended**

1. The undersigned, Ugo Brachetti Peretti as Chairman and Stefano Cardello as Manager in charge of the preparation of accounting documents of "api" anonima petroli italiana S.p.A., also pursuant to art. 154-bis, paragraphs 3 and 4, Italian Legislative Decree no. 58 of 24 February 1998, hereby confirm:
  - the adequacy in relation to the corporate characteristics, and
  - the effective application of administrative and accounting procedures for preparation of the consolidated financial statements in the period 1 January 2010 to 31 December 2010.
2. The administrative and accounting procedures for preparation of the financial statements as at 31 December 2010 were defined and their adequacy assessed in accordance with the regulations and methods adopted by "api" anonima petroli italiana S.p.A. in compliance with the Internal Control - Integrated Framework Model issued by the Committee of Sponsoring Organizations of the Treadway Commission, which represents the reference framework for the internal control system generally accepted at international level.
3. It is also confirmed that:
  - 3.1 the consolidated financial statements:
    - a) were prepared in compliance with applicable international accounting standards endorsed by the European Union pursuant to (EC) Regulation no. 1606/2002 of the European Parliament and Council of 19 July 2002;
    - b) correspond with corporate accounting records;
    - c) provide a truthful and fair view of the equity, economic and financial position of the issuer and companies included in the consolidation area.
  - 3.2 The Management Report includes a reliable analysis of the business performance and results, and of the position of the issuer and companies included in the consolidation area, together with a description of the main risks and uncertainties to which they are exposed.

Rome, 11 April 2011

signed by :

*Ugo Brachetti Peretti*  
Chairman

signed by:

*Stefano Cardello*  
Manager in charge of the preparation  
of accounting documents

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Summary of key financial data  
as of 31 December 2010

## IAS/IFRS BALANCE SHEET

as at 31.12.2010

	api anonima petroli italiana S.p.A. Rome (euro)	api raffineria di ancona S.p.A. Ancona (euro)	api Energia S.p.A. Rome (euro)
PROPERTY, PLANT AND MACHINERY	213,063,204	309,423,894	381,176,312
GOODWILL	109,203,647	0	0
INTANGIBLE FIXED ASSETS	118,016,130	138,729	3,332,080
EQUITY INVESTMENTS	107,749,730	130,000	0
OTHER ASSETS	23,993,606	63,393	2,226,615
DERIVATIVE INSTRUMENTS	9,286	0	0
PREPAID TAXATION	19,588,884	22,895,664	38,749,420
NON-CURRENT ASSETS	591,624,486	332,651,680	425,484,427
INVENTORIES	319,658,785	20,707,208	12,050,024
TRADE AND OTHER DEBTORS	528,773,429	19,733,507	71,858,768
CURRENT FINANCIAL ASSETS	245,800,000	0	0
OTHER ASSETS	19,818,902	387,294	60,465,702
TAX RECEIVABLES	4,815,192	4,994,268	2,240,911
CASH & CASH EQUIVALENTS	29,834,395	22,530	3,975,664
DISCONTINUED ASSETS	0	0	0
CURRENT ASSETS	1,148,700,703	45,844,807	150,591,069
<b>TOTAL ASSETS</b>	<b>1,740,325,190</b>	<b>378,496,487</b>	<b>576,075,496</b>
SHAREHOLDERS' EQUITY	306,465,531	56,090,257	112,848,318
MEDIUM/LONG-TERM DEBT	279,285,715	0	180,236,737
EMPLOYEE BENEFITS	6,763,001	6,447,546	145,221
DEFERRED TAXATION PROVISION	64,681,444	20,596,313	42,405,874
MEDIUM/LONG-TERM PROVISIONS	42,382,811	10,402,878	0
OTHER LIABILITIES	0	0	129,721,966
TOTAL NON-CURRENT LIABILITIES	393,112,971	37,446,737	352,509,798
TRADE AND OTHER PAYABLES	446,363,246	35,101,753	29,693,468
DERIVATIVE INSTRUMENTS	3,543,605	0	15,978,340
SHORT-TERM DEBT	446,127,021	242,480,798	16,176,008
SHORT-TERM PORTION OF M/L-TERM DEBT	0	0	0
OTHER LIABILITIES	23,329,918	4,310,814	48,869,565
TAX PAYABLES	121,382,897	3,066,128	0
SHORT-TERM PORTION OF M/L-TERM PROVISIONS	0	0	0
LIABILITIES RELATING TO DISCONTINUED ASSETS	0	0	0
TOTAL CURRENT LIABILITIES	1,040,746,687	284,959,493	110,717,381
<b>TOTAL LIABILITIES</b>	<b>1,740,325,190</b>	<b>378,496,487</b>	<b>576,075,496</b>

# IAS/IFRS INCOME STATEMENT

as at 31.12.2010

	api anonima petroli italiana S.p.A. Rome (euro)	api raffineria di ancona S.p.A. Ancona (euro)	api Energia S.p.A. Rome (euro)
<b>ASSETS - CONTINUING OPERATIONS</b>			
Revenues	2,924,560,339	96,153,753	257,649,022
Revenues from barter	0	0	0
Other revenues	33,349,853	43,726,775	20,714,198
Increase in assets for internal work	0	0	0
Change in inventories	0	0	0
Extraordinary income	0	0	0
<b>TOTAL</b>	<b>2,957,910,192</b>	<b>139,880,528</b>	<b>278,363,220</b>
Costs for raw materials and consumables	(1,639,987,352)	(50,285,416)	(105,708,570)
Costs for barter	(725,490,112)	0	0
Costs for Services	(393,462,366)	(51,989,681)	(37,503,577)
Costs for Use of third party assets	(28,993,532)	(1,092,328)	(918,805)
Staff costs	(34,729,406)	(29,091,420)	(1,203,955)
Amortisation, depreciation and write-downs	(27,113,176)	(32,611,340)	(35,799,311)
Provisions for Risks	(7,492,830)	(266,125)	0
Other operating costs	(100,460,625)	(2,033,032)	(22,918,099)
Extraordinary expenses	0	0	0
<b>TOTAL</b>	<b>(2,957,729,399)</b>	<b>(167,369,342)</b>	<b>(204,052,317)</b>
<b>PROFIT</b>	<b>180,793</b>	<b>(27,488,814)</b>	<b>74,310,903</b>
<b>FINANCIAL MANAGEMENT</b>			
Financial income (charges)	51,507,856	(4,409,895)	(10,266,600)
Adjustments to financial assets	0	0	0
Income (and charges) from valuation using the NE method	0	0	0
<b>TOTAL</b>	<b>51,507,856</b>	<b>(4,409,895)</b>	<b>(10,266,600)</b>
<b>RESULT BEFORE TAXATION</b>	<b>51,688,649</b>	<b>(31,898,710)</b>	<b>64,044,303</b>
<b>TAXATION</b>			
Current taxes	(3,395,319)	(66,895)	(15,806,385)
Deferred Taxes - Income Statement	5,293,885	3,237,260	0
Prepaid Taxes - Income Statement	(3,519,089)	8,152,766	(10,431,088)
<b>TOTAL</b>	<b>(1,620,522)</b>	<b>11,323,131</b>	<b>(26,237,474)</b>
Change in Cash Flow Hedge Reserve (CFH)	(845,459)	0	(1,831,707)
<b>RESULT FOR THE PERIOD NET OF TAXATION</b>	<b>49,222,669</b>	<b>(20,575,579)</b>	<b>35,975,123</b>

## IAS/IFRS BALANCE SHEET

as at 31.12.2010

	apioil limited Bermuda (USD)	api services limited London (Lst)	Alpenoil S.r.l. Rome (Euro)
PROPERTY, PLANT AND MACHINERY	0	1,090	3,875
GOODWILL	0	0	0
INTANGIBLE FIXED ASSETS	0	0	0
EQUITY INVESTMENTS	0	0	0
OTHER ASSETS	0	0	0
DERIVATIVE INSTRUMENTS	0	0	0
PREPAID TAXATION	0	0	0
NON-CURRENT ASSETS	0	1,090	3,875
INVENTORIES	0	0	321,569
TRADE AND OTHER DEBTORS	59,162,841	68,780	140,443
CURRENT FINANCIAL ASSETS	0	0	0
OTHER ASSETS	223	0	0
TAX RECEIVABLES	0	0	49,076
CASH & CASH EQUIVALENTS	7,653,579	300,547	780,166
DISCONTINUED ASSETS	0	0	0
CURRENT ASSETS	66,816,643	369,327	1,291,254
<b>TOTAL ASSETS</b>	<b>66,816,643</b>	<b>370,417</b>	<b>1,295,129</b>
SHAREHOLDERS' EQUITY	7,382,720	339,511	153,636
MEDIUM/LONG-TERM DEBT	0	0	0
EMPLOYEE BENEFITS	0	0	0
DEFERRED TAXATION PROVISION	0	0	0
MEDIUM/LONG-TERM PROVISIONS	0	0	0
TOTAL NON-CURRENT LIABILITIES	0	0	0
TRADE AND OTHER PAYABLES	59,433,923	13,156	1,135,815
DERIVATIVE INSTRUMENTS	0	0	0
SHORT-TERM DEBT	0	0	0
SHORT-TERM PORTION OF M/L-TERM DEBT	0	0	0
OTHER LIABILITIES	0	11,690	0
TAX PAYABLES	0	6,060	5,678
SHORT-TERM PORTION OF M/L-TERM PROVISIONS	0	0	0
LIABILITIES RELATING TO DISCONTINUED ASSETS	0	0	0
TOTAL CURRENT LIABILITIES	59,433,923	30,906	1,141,493
<b>TOTAL LIABILITIES</b>	<b>66,816,643</b>	<b>370,417</b>	<b>1,295,129</b>

# IAS/IFRS INCOME STATEMENT

as at 31.12.2010

	apioil limited  Bermuda (USD)	api services limited  London (Lst)	Alpenoil S.r.l.  Rome (Euro)
<b>ASSETS - CONTINUING OPERATIONS</b>			
Revenues	705,577,847	330,477	9,502,987
Revenues from barter	0	0	0
Other revenues	0	0	321,570
Increase in assets for internal work	0	0	0
Change in inventories	0	0	0
Extraordinary income	0	0	2,459
<b>TOTAL</b>	<b>705,577,847</b>	<b>330,477</b>	<b>9,827,016</b>
Costs for raw materials and consumables	(703,291,935)	0	(9,498,108)
Costs for barter	0	0	0
Costs for Services	(516,729)	(68,242)	(216,549)
Costs for Use of third party assets	0	(66,951)	0
Staff costs	0	(162,743)	0
Amortisation, depreciation and write-downs	0	(1,013)	(750)
Provisions for Risks	0	0	0
Other operating costs	0	(1,485)	(12,118)
Extraordinary expenses	0	0	0
<b>TOTAL</b>	<b>(703,808,664)</b>	<b>(300,434)</b>	<b>(9,727,525)</b>
<b>PROFIT</b>	<b>1,769,183</b>	<b>30,043</b>	<b>99,491</b>
<b>FINANCIAL MANAGEMENT</b>			
Financial income (charges)	(254,418)	815	(29,519)
Adjustments to financial assets	0	0	0
Income (and charges) from valuation using the NE method	0	0	0
<b>TOTAL</b>	<b>(254,418)</b>	<b>815</b>	<b>(29,519)</b>
<b>RESULT BEFORE TAXATION</b>	<b>1,514,765</b>	<b>30,858</b>	<b>69,972</b>
<b>TAXATION</b>			
Current taxes	0	(10,719)	(18,615)
Deferred Taxes - Income Statement	0	0	0
Prepaid Taxes - Income Statement	0	0	0
<b>TOTAL</b>	<b>0</b>	<b>(10,719)</b>	<b>(18,615)</b>
Change in Cash Flow Hedge Reserve (CFH)	0	0	0
<b>RESULT FOR THE PERIOD NET OF TAXATION</b>	<b>1,514,765</b>	<b>20,139</b>	<b>51,357</b>

## IAS/IFRS BALANCE SHEET

as at 31.12.2010

	Apifin	Dialco S.r.l.	Festival S.p.A.	GRC S.r.l
	Rome (Euro)	Bari (Euro)	Rome (Euro)	Rome (Euro)
PROPERTY, PLANT AND MACHINERY	0	349	10,327	5,236
GOODWILL	0	0	0	0
INTANGIBLE FIXED ASSETS	0	0	260,275	0
EQUITY INVESTMENTS	0	0	0	0
OTHER ASSETS	0	0	0	0
DERIVATIVE INSTRUMENTS	0	0	0	0
PREPAID TAXATION	0	0	263,223	835
NON-CURRENT ASSETS	0	349	533,825	6,071
INVENTORIES	0	104,504	0	0
TRADE AND OTHER DEBTORS	0	4,812,115	559,328	245,999
CURRENT FINANCIAL ASSETS	0	0	0	0
OTHER ASSETS	0	36	17,744	1,192
TAX RECEIVABLES	1,790	111,284	27,264	0
CASH & CASH EQUIVALENTS	601,395	9,530	164	684,974
DISCONTINUED ASSETS	0	0	0	0
CURRENT ASSETS	603,185	5,037,469	604,500	932,165
<b>TOTAL ASSETS</b>	<b>603,185</b>	<b>5,037,818</b>	<b>1,138,325</b>	<b>938,236</b>
SHAREHOLDERS' EQUITY	580,885	839,936	604,451	694,480
MEDIUM/LONG-TERM DEBT	0	0	0	0
EMPLOYEE BENEFITS	0	44,230	27,328	98,483
DEFERRED TAXATION PROVISION	0	0	0	0
MEDIUM/LONG-TERM PROVISIONS	0	1,490	0	0
TOTAL NON-CURRENT LIABILITIES	0	45,720	27,328	98,483
TRADE AND OTHER PAYABLES	22,300	4,137,325	161,647	58,324
DERIVATIVE INSTRUMENTS	0	0	0	0
SHORT-TERM DEBT	0	0	279,401	0
SHORT-TERM PORTION OF M/L-TERM DEBT	0	0	0	0
OTHER LIABILITIES	0	11,122	65,498	61,089
TAX PAYABLES	0	3,715	0	25,860
SHORT-TERM PORTION OF M/L-TERM PROVISIONS	0	0	0	0
LIABILITIES RELATING TO DISCONTINUED ASSETS	0	0	0	0
TOTAL CURRENT LIABILITIES	22,300	4,152,162	506,546	145,273
<b>TOTAL LIABILITIES</b>	<b>603,185</b>	<b>5,037,818</b>	<b>1,138,325</b>	<b>938,236</b>

# IAS/IFRS INCOME STATEMENT

as at 31.12.2010

	Apifin	Dialco S.r.l.	Festival S.p.A.	GRC S.r.l.
	Rome (Euro)	Bari (Euro)	Rome (Euro)	Rome (Euro)
<b>ASSETS - CONTINUING OPERATIONS</b>				
Revenues	0	19,327,523	827,060	811,121
Revenues from barter	0	0	0	0
Other revenues	0	3,725	30,001	6,982
Increase in assets for internal work	0	0	0	0
Change in inventories	0	0	0	0
Extraordinary income	0	0	0	0
<b>TOTAL</b>	<b>0</b>	<b>19,331,248</b>	<b>857,061</b>	<b>818,103</b>
Costs for raw materials and consumables	0	(18,560,057)	(8,738)	0
Costs for barter	0	0	0	0
Costs for Services	(7,200)	(628,291)	(179,828)	(194,901)
Costs for Use of third party assets	0	0	0	(32,891)
Staff costs	0	(69,550)	(147,309)	(395,617)
Amortisation, depreciation and write-downs	0	(145)	(266,753)	(2,705)
Provisions for Risks	0	0	(17,975)	0
Other operating costs	(921)	(51,826)	(121,527)	(5,823)
Extraordinary expenses	0	0	0	0
<b>TOTAL</b>	<b>(8,121)</b>	<b>(19,309,869)</b>	<b>(742,130)</b>	<b>(631,937)</b>
<b>PROFIT</b>	<b>(8,121)</b>	<b>21,379</b>	<b>114,931</b>	<b>186,166</b>
<b>FINANCIAL MANAGEMENT</b>				
Financial income (charges)	(142)	11	(8,279)	165
Adjustments to financial assets	0	0	0	0
Income (and charges) from valuation using the NE method	0	0	0	0
<b>TOTAL</b>	<b>(142)</b>	<b>11</b>	<b>(8,279)</b>	<b>165</b>
<b>RESULT BEFORE TAXATION</b>	<b>(8,263)</b>	<b>21,390</b>	<b>106,652</b>	<b>186,331</b>
<b>TAXATION</b>				
Current taxes	0	(13,586)	(88,287)	(67,486)
Deferred Taxes - Income Statement	0	0	0	19,098
Prepaid Taxes - Income Statement	0	0	39,096	(8,842)
<b>TOTAL</b>	<b>0</b>	<b>(13,586)</b>	<b>(49,191)</b>	<b>(57,230)</b>
Change in Cash Flow Hedge Reserve (CFH)	0	0	0	0
<b>RESULT FOR THE PERIOD NET OF TAXATION</b>	<b>(8,263)</b>	<b>7,804</b>	<b>57,461</b>	<b>129,101</b>





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