



ERG S.p.A
**“Partnership with Total and
Group Re-organization”**
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Operator:

Good afternoon. This is the Chorus Call Conference operator. Welcome and thank you for joining the ERG Partnership with Total and Group Re-organization Conference Call. As a reminder, all participants are in listen-only mode. After the presentation, there will be an opportunity to ask questions. Should anyone need assistance during the conference call, they may signal an operator by pressing "*" and "0" on their telephone. At this time, I would like to turn the conference over to Mr. Alessandro Garrone, Group's CEO. Please go ahead, sir.

Alessandro Garrone:

Thank you and good afternoon ladies and gentlemen; I am here with Luca Bettonte, our General Manager, and Paolo Merli, Head of Corporate Finance and Investor Relations. I take this opportunity to announce with a great pleasure the agreement with Total for a joint venture in the Italian Downstream sector which, as you know, has been one of our main targets for many years. So the agenda for today is to present this partnership with Total and the Group re-organization to be implemented in 2010. In order to prevent any questions that I cannot answer, I would like to start by saying that I am unable to give any additional details to those reported in this presentation regarding the deal, particularly on synergies, which will be assessed in more details, after the Antitrust clearance has been granted.

Before the Antitrust clearance, the two companies will act as competitors and therefore I cannot exchange sensitive information needed to further investigate synergies other than the preliminary estimate both parties have performed independently.

Going to the description of the transaction, the venture will be jointly controlled by ERG and Total with 51% and 49% equity stakes respectively. The joint venture will be the result of the merging of Total Italia into ERG Petroli, and the name of the company will change in TotalERG. The JV will manage all the downstream assets of ERG Petroli and Total Italia with the exception of ERG's retail and wholesale assets located in Sicily and Total Italia's upstream and aviation assets. Those assets which will not be part of the deal will be carved out by the two companies before the merger reference date. The rationale behind the decision not to include Sicily was the limited synergies with Total Italia, which is not active on the Island as well as the strategic importance of Sicily for ERG being integrated with our 51% of ISAB refinery. The JV will operate under a co-branding agreement with both the names ERG and Total. Based on the enterprise value agreed between the parties, Total will recognize an economic value of €65 million in order to reach its 49% stake in the JV. That amount will be adjusted to take into account net working capital, inventories as well as net financial positions and other liabilities contributed by the two parties on the merger reference date, scheduled for March 31st 2010. The deal is expected to be closed on October 1st when the price settlement will be made.

In line with the strategic guidelines of the Group to grow through industrial partnership and alliances, the deal has a strong industrial rationale as it offers various benefits. First

it strengthens ERG's competitive positioning in the retail and wholesale business in Italy, while at the same time allowing us to penetrate the specialties segment (retail LPG, lubricants and bitumen), where Total has technologies and large market shares.

Second: we will gain significant synergies in terms of both costs and revenues. The JV will also exploit the know-how and expertise enjoyed by Total, one of the world's top oil industry players, and also share inland refining capacity with the objective to seek industrial options with Total, in order to optimize profitability according to expected development in the refining business scenario. We also have the possibility - as I said - to maintain a clear and meaningful industrial role in the JV. I would also like to remind you that ERG has a track record of forming international strategic agreements with top tier partners (BP at the beginning, Edison Mission Energy, international power and Mitsui, Shell and LUKOIL), which have consistently proved to be excellent development opportunities for the Group.

On slide 5, you will find the assets of the two entities contributed to TotalERG. TotalERG will become the third largest operator in the Italian marketing business, with a retail market share of roughly 12% if based on 2008 industrial data, and about 13% if based on first nine months of 2009, with over 3,400 service stations throughout Italy. Transportation fuel, petrol and diesel sales will amount to roughly 4.4 billion cubic meters per year on the Italian road and motorway network, whereas wholesales and specialties business sales will exceed 3 billion cubic meters per year, with significant market shares in diesel, lubricants, bitumen and LPG. In particular I would like to underline that the joint venture allows ERG to gain access to the B2C specialties business. Total has an important B2C activity that is one of the group's best performing fields in Italy, particularly in the specialties business, whereas ERG Petroli business is more B2B oriented. The two entities are complimentary and a very good match.

The JV will also be active in the inland refining business with the total capacity of roughly 116, 000 barrels per day, or around 8% of national demand, spread between the Treccate and Rome refineries. TotalERG will seek industrial opportunities in this segment to optimize profitability, according to medium-long term refining trends, its top priority being a best-in-class industrial, environmental and safety performance. On top of this, the JV will also control wide-ranging logistical procurement and distribution assets.

I am on slide 6, which shows TotalERG's positioning in the retail. As a result of the JV, TotalERG will become the third player in Italy behind ENI and Esso Italia with - as I said - an approximately 12% market share based on 2008 industrial data, and almost 13% if based on first nine months of 2009. This will allow it to improve on the positioning of the two individual entities in the Italian market. The maps in this chart show us how well the two retail networks fit together, providing the company with enough critical mass to be competitive in the long run. I remind you again that Sicily is not part of the deal. There ERG has 262 service stations, which are mainly company owned with a regional market share of roughly 13%, or 1% on a national basis. These assets, as I have mentioned,

will remain fully controlled by ERG, given that they are naturally integrated with ISAB refinery being strategic for the Group.

Let me now try to better explain some key figures of the deal. The two parties have agreed to value ERG Petroli, excluding Sicily, at €777 million according to which Total will recognize an economic value of €65 million to ERG, in order to reach its target equity participation of 49%. It's important to underline that this amount only reflects the difference in enterprise values agreed between the two entities, whereas the merger ratio as well as the final price settlement to be paid upon closing will also depend on net working capital and net financial positions actually contributed by the two entities on the merger reference date, scheduled for March 31st. All in all, the enterprise value agreed between the parties offers similar multiples, close to five times enterprise value on EBITDA. It's also worth to say that ERG Petroli presents better profitability in the retail business, as it has more company-owned services stations, while Total Italia has higher EBITDA in the wholesale and specialties segment, thanks to its exposure to B2C channels. All in all, Total Italia EBITDA is higher than that of ERG in the marketing. *Vice versa* inland refining EBITDA of ERG Petroli is higher than that of Total Italia due to higher ERG quality assets, mainly Trecate refinery.

As regards the transaction, as I said the value attributed to ERG's downstream assets is €777 million, which does not include value associated to Sicilian operations. Based on broker consensus for those assets, which is about €630 on average including Sicily, we are pretty confident that ERG Petroli has been fairly valued for the transaction.

Moreover, we also expect to unlock further value by generating important synergies *via* TotalERG as well as extracting as much value as possible from our operations in Sicily.

Let's come to the synergies: the priority of the JV will be the success of the merger of the two entities on an effective cost basis. We expect the integration to provide significant cost and revenue synergies driven by economies of scale both in retail and wholesale, but also through efficiency programs in logistics, maintenance, and procurement as well as *via* an optimization of the company's structure and organization.

We expect the integration to make the combined entity more competitive and innovative in serving its customer base, thus allowing the joint venture to run a premium strategy.

Based on a preliminary analysis, we envisage more than €40 million synergies in terms of EBITDA at full capacity in 3-4 years time. A more detailed action plan, including one-off-costs as well as additional CapEx for re-branding, will be only possible after Antitrust clearance. As of then, in fact the companies will be able to exchange the detailed information needed to perform a more in-depth analysis.

Now, on the governance of the JV: despite the 51%-49% equity participations, TotalERG will be managed by means of a co-governance agreement between the two shareholders, with the aim of guaranteeing its independence and operating efficiency.

The partnership envisages a non-competition agreement in Italy, therefore all potential future development in this business in Italy will take place through TotalERG. The shareholder pact will last for 30 years, and I think this is an important indication of the long-term commitment of the two parties.

As for the timetable: before March 31st, ERG Petroli and Total Italia will carve out assets not included in the deal, Sicily for ERG and upstream and aviation for Total Italia. By July, ERG and Total's Board, as well as those of the subsidiaries, will approve the merger, which will become effective on October 1st and will be backdated from January 1st for tax and accounting purposes. Of course, as I said at the beginning, we will give more details after the Antitrust clearance and also during the presentation of our ERG business plan.

So at the end what I can comment is that in 2010 and 2011 the main focus will be on managing the integration of the two companies, not only in terms of assets but also in terms of managers of course, because we really need to work hard in order to reach the very good synergy that we see in this deal.

And now, as you see, I'd like to talk a little bit about the Group restructuring and re-organization plan. In fact, in order to better adapt the structure of the company to our changing asset portfolio in the Oil sector and the completion of an important cycle of the investment in the Power area, ERG is to implement a Group restructuring plan. As a result, the control chain will be shortened during the course of 2010 by merging the two sub holdings - ERG Raffinerie Mediterranee and ERG Power & Gas - into ERG SPA. ERG SPA will be thus re-organized into two specific business units for the Oil and Power & Gas sectors and a General Management Corporate Unit. The new Group structure is aimed at improving the efficiency of decision-making processes, providing the Group with a new layout that is consistent with its assets portfolio and better suited to capture any opportunity that may arise from a long-awaited global economy recovery. It also allows us of course to keep core competencies in the listed company.

The re-organization is expected to generate cost synergies amounting to roughly €5 million at full capacity, on top of course of those expected from TotalERG. ERG Renew will continue to be listed and to act as our vehicle for expansion in the renewable business.

The chart on slide 12 shows the future structure of the Group that I have explained in the slide before. All the industrial assets will be directly controlled by the listed company, following the merger of ERG Raffinerie Mediterranee and ERG Power & Gas into ERG SPA. ERG SPA will consequently be organized into two business units - Oil and Power & Gas - and the General Management Corporate unit. The listed company will continue to control ERG Renew which, as I said, will remain listed and act as our renewable vehicle.

Let me now conclude by expressing once again my personal satisfaction with this important partnership with Total, which is such a great achievement for ERG.

As far as the Oil business unit is concerned, the JV with Total in Integrated Downstream together with that with LUKOIL in Coastal Refining, will provide the Group with a stronger and more competitive position in the Oil sector. Let me also add that, thanks to cash expected following the merger of Total Italia and ERG Petroli, as well as to financial optimization and synergies we expect from TotalERG, I am confident that the ERG Group balance sheet will be strengthened further.

As far as Power is concerned, the completion of the repowering of the 480MW turbogas plant, where commercial operation will be fully on stream by the end of February, and the completion of reconstruction works for ISAB energy will mark the end of an important cycle of the investments. It is also worth reminding you that we recently cashed in the total reimbursement to cover reconstruction investments for ISAB Energy, and we also closed a project financing of €330 million for ERG Power, which owns the new CCGT.

ERG Renew is on track to meet its business plan target of an installed capacity of about 370MW by the end of 2011.

On top of all this, we are re-organizing the Group to make it more efficient and flexible in order to better respond to market opportunities. All in all, we expect more than €25 million synergies within a few years as ERG quota of synergies plus the re-organization synergies. In light of these considerations and notwithstanding the ongoing challenging scenarios in the Oil and Energy sector, I am confident that 2010 will be an important year for us, creating the right conditions for our multi-energy strategy to move forward.

So thank you for your attention, and now we are ready to take your questions.

Questions & Answers

Operator:

This is the Chorus Call Conference operator. We will now begin the question and answer session. Anyone who wishes to ask a question may press “*” and “1” on their touch tone telephone. If you change your mind and wish to remove yourself from the question queue then you may press “*” and “2”; anyone who has a question may press “*” and “1” at this time. “*” and “1.” As a reminder, if you wish to register for a question please press “*” and “1” on your telephone. The first question is from Domenico Ghilotti of Equita: please go ahead.

Domenico Ghilotti:

Good afternoon. I have a few questions. The first is related to the contribution of Sicily to your EBITDA, just to have some rough indication. And the second question is on the reason why you didn't envisage a put and call option to protect from the risk of

governance. So I'm wondering why for LUKOIL you had this kind of protection and you are not considering this now. And if you could be interested, or if you have expressed your interest for acquiring the assets of Total?

Alessandro Garrone:

Good afternoon, in the deal we have no kind of put and call option because I think both the parties wanted to agree on a long-lasting joint venture, so we thought there was no need and it was better not to consider any put and call option in this deal. I don't want to speak about the put that was part of the transaction in the deal with Lukoil. With Total we decided not to have any clause like that because we really want to have a long lasting joint venture but of course there are the normal clauses in case somebody wants to sell, there are pre-emption rights as it is normal in any company deal.. In terms of acquiring the assets of Total, as I also said before, we tried for a long time to find opportunities of acquisitions in Italy. Somebody wanted to sell but I think having a joint venture with a partner like Total can create probably more synergies than can an acquisition, due to their international experience in some business. So I think for both parties a joint venture will be better than an acquisition. About the Sicily evaluation, as you know, I cannot give you the detailed information: I can just say that the Sicilian asset on the retail represents roughly 1% of the national ERG market share. So I think you can easily calculate what the value of these assets can be.

Domenico Ghilotti:

Sorry, could you provide also some additional information in terms of the timing to start the synergies?

Alessandro Garrone:

The timing to start the synergies: as I said, we have to work hard from the beginning but I think 3 to 4 years will be enough to have a full synergy because, as you can imagine, in the first year there will be some additional costs for the integration and to gain efficiency, but after that we will see immediately the synergies in terms of revenues and costs. In term of CapEx, we see at the beginning, in the first 2-3 years a soft CapEx for the re-branding of the retail network (as I said, the network will be co-branded). So, we will try to evaluate the CapEx that both parties have done in the past, trying to make some small changes at the beginning in our respective networks. And then we envisage restyling of the network in the medium long term when it is time to change the style of the network, as it always happens.

Domenico Ghilotti:

Okay, thank you.

Alessandro Garrone:

Thank you.

Operator:

The next question is from Sergio Molisani of Unicredit. Please go ahead.

Sergio Molisani:

Good afternoon to everybody. My first question was meant to investigate the put and call agreement between ERG and Total and has been already answered. The second question is if you can give us more flavor on the breakdown of the valuation for refining and marketing assets. And secondly, if you can give some details on the one-off costs implied by the organization of the ERG Group and the third question is on synergies: if they refer simply to costs or if there are some further savings also regarding CapEx? Thank you.

Alessandro Garrone:

I have already answered on the put call issue, if I understand well.

Sergio Molisani:

Yes it's correct.

Alessandro Garrone:

In terms of the breakdown, I cannot give you more details, but if you take the two retail networks, as I said in the presentation, we can see that the network of ERG presents a better quality because of the restyling on one side and also because of the fact that we have more company-owned gas stations, so the profitability is higher, if compared to Total Italia. On the other hand Total Italia is more competitive and profitable, as I said, in the wholesale market and mainly in the specialties, specialties being bitumen, lubricants and LPG. So at the end, with regard to the value of the marketing business (both retail and wholesale): the Total one is a little bit higher than the ERG one. But if you look at the refining business, the situation is opposite. ERG Petroli refining business value is higher than the Total Italia refinery business, considering that we have the 25% of Treccate refinery which, in terms of quality of the refinery, is better than Rome refinery.

Sergio Molisani:

Thank you.

Alessandro Garrone:

I do not understand if the one-off cost you were asking for is the one-off cost for the ERG Group re-organization or that for the TotalERG synergies *et cetera*. Were you referring to the ERG Group restructuring?

Sergio Molisani:

Yes, because you mentioned the one-off costs related to the restructuring of the ERG Group, so I was wondering whether you could give us some details on this.

Alessandro Garrone:

Compared to the saving that we see of, as I said, roughly €5 million per year when we are on stream, the one-off cost won't be significant.

Sergio Molisani:

Yes, okay. Thank you.

Alessandro Garrone:

I didn't get your last question.

Sergio Molisani:

Yes, are the synergies you referred to related to costs or also to CapEx?

Alessandro Garrone:

No, as I said, the synergy of €40 million per year is related to the EBITDA, so that means costs and revenues, of course.

Sergio Molisani:

Okay, thank you, Alessandro.

Alessandro Garrone:

Thank you.

Operator:

Next question is from Anish Kapadia of UBS. Please go ahead.

Anish Kapadia:

Good afternoon. I've got a couple of questions. Firstly on the Rome refinery: it's very small, low complexity refinery, so it's a prime closure candidate. What are your plans for this refinery now? Are you going to think about closing it down or are you going to invest further on it? And the second question is just if you could give some guidance in terms of ERG Petroli earnings, of your EBITDA forecast for 2010, excluding the Total assets?

Alessandro Garrone:

Yes hello. On the Rome refinery, the common objective of the two shareholders of TotalERG is first of all to estimate the best industrial balance with respect to optimizing the value creation in the medium long-term, coherently with the expected evolution of the refining scenario. So we really have to work on that and to understand where we can optimize these assets and how. So this is the future commitment we have. Of course, also in line with the medium-term refining scenarios, the target is not to increase our presence in the Inland Refining, but to optimize the assets we have. On the estimate for EBITDA of ERG Petroli for 2010, I am sorry but we can't provide any estimate, so I'm sorry: I cannot answer your question.

Anish Kapadia:

Okay, can I just follow up on the refinery? Firstly, has your view on the refining market got more bearish over the last six months? And secondly can I just clarify you are not ruling out closing the refinery down?

Alessandro Garrone:

I cannot exclude the closure but again, we need to work on that, to see the best option we have together with the partner, and of course also to see if the scenario will improve. I think that Refining scenario will be better, but of course the Rome refinery is not a coastal refinery: it is an inland refinery in a particularly high consumption area. And so we really need to understand a bit better the final solution and of course that's a JV decision, so we will work together with Total on that item as soon as we can, and of course again we need to have the Antitrust clearance before going into details, not only in the refining but in general on the view and on the scenario of the Italian market itself.

Anish Kapadia:

Okay. So one just final question: how does the valuation that you have put on the Rome refinery compare to the value that you have from the put option to LUKOIL on the Priolo refinery?

Alessandro Garrone:

I'm sorry, but I think it is not comparable.

Anish Kapadia:

Okay.

Operator:

Next question is from Ryan Kauppila of Nomura. Please go ahead.

Ryan Kauppila:

Good afternoon. I realize it's still very early days, but I was wondering if you can give any consideration as to how you will use the €65 million payment to the parent company, should shareholders expect to receive that in a distribution?

Alessandro Garrone:

First I'd like to say that the cash settlement at the end could be different from the €65 million that we knew, as it will also depend on net financial positions and working capital contributed by the two entities at the end of March. So we will see. But if your question was related to the dividend policy of the JV, the idea is that the JV will distribute as dividends all the excess cash accrued in the company, so we will have a development plan and all the cash in excess will be distributed to the shareholders. Of course the JV must be financially autonomous, but of course with the synergies that we see it will generate a good amount of cash for the shareholders.

Ryan Kauppila:

Okay, that's great. Thank you.

Operator:

For any further question, please press “*” and “1” on your telephone. Next question is from Paolo Citi of Intermonte. Please go ahead.

Paolo Citi:

Hello, good afternoon everyone. I have just two questions. First of all regarding the downstream sector in Italy: there has been a discussion in the last few weeks at government level regarding a proposal of reform on the sector, in terms of weekly prices, unbundling of tourist transport, and sale, rationalization of the network. I would like to have your view regarding this potential organization, also in terms of potential contraction of the spread of Italian prices versus the rest of Europe. The second question is related to your net financial position: in mid-December you announced the anticipation of the reimbursement for ISAB Energy for a cash-in of roughly €150 million. Is it possible to have a very rough idea of your net financial position at the end of 2009? Thanks.

Alessandro Garrone:

Yes Paolo. On the Italian downstream situation: of course all the sector is changing, and the position of ERG, TotalERG and other oil companies is that the sector needs a rationalization which means the right reduction of the number of gas stations. That was in line with our joint venture plan, because of course we will seek solutions in order to reach the best quality of our network. And I think the Italian sector needs to become more European, so to close the gap with Europe, not only in terms of price but in terms of offer to the customer, which means different products, opening time *et cetera*. We think that is the only way for the industry to reach efficiency and to become European level network. We don't see any other solution apart the one mentioned. So we will push on that, and of course the deal with Total is on that direction. In terms of net financial position at the end of 2009, we see it below €700 million, also thanks - as you said - to the insurance reimbursement and notwithstanding also the anticipation of the excise duty that every end of the year we have in order to help the government.

Paolo Citi:

Thank you.

Operator:

Next question is from Domenico Ghilotti of Equita. Please go ahead.

Domenico Ghilotti:

I have a follow-up. Could you elaborate a little bit more on the reasons for the shortening of the chain apart from the savings you can achieve at the corporate level: any other reason for this move?

Alessandro Garrone:

Again, I said there are two main reasons: one considers that when we acquired the Sicilian refining from ENI, we decided to have three sub-holding companies in the three

businesses we had, in order to grow also through joint ventures. Now we had the joint venture with LUKOIL and the joint venture with Total, so it means that we succeeded in our strategy at least in the Oil sector. So I think that now it's time to reduce the chain, because we have done the joint ventures, so we can shorten the Group structure which means saving of cost and we can put all the management and the skills directly into ERG company. So ERG is really becoming an industrial company. We will achieve a reduction of costs, but the main other important reason is to speed up the decision process, so all the strategic decisions will be taken into one company, into ERG through a small group of - I hope - good managers.

Domenico Ghilotti:

Okay. Thank you.

Alessandro Garrone:

Thank you.

Operator:

As a reminder, if you wish to register for a question please press "*" and "1" on your telephone. Once again, if you wish to ask a question please press "*" and "1" on your telephone. Mr. Garrone, there are no more questions.

Alessandro Garrone:

Okay. So thank you all for the attention and of course, as I said, we will give you further details in the future, also when we will go deeply inside the figures and we will present you the business plan of the Group. Thank you very much for the attention. Bye.