



AcegasAps > Annual Review 2006

ACEGAS-APS S.p.A.

Subject to the governance and co-ordination of ACEGAS-APS HOLDING S.r.l.
Listed on the Italian Stock Exchange as from 2001
Share capital €282,983,213.28 fully paid-in, subdivided in 54,841,708 shares
Registered office and corporate headquarters in Trieste, Via Maestri del Lavoro 8
Padua administrative offices, networks and plants, Corso Stati Uniti 5/a
Tax ID and VAT no. 00930530324, Company registry no. 111554



The paintings reproduced in the Annual Review 2006 are details of the work "Saint Christopher the Martyr - Church of the Eremitani, Ovetari Chapel, Padua" that is part of the exhibit "Mantegna: Padua, Verona, Mantua" for which AcegasAps acted as the *main sponsor*.

Reproductions kindly furnished by the Municipality of Padua.



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Dear Shareholders and Stakeholders,

2006 was AcegasAps's third year of activity following the merger of the two companies active in Trieste and Padua. The integration process was successfully completed and the company can now focus on new objectives, in terms of both business and its commitment to social and environmental issues.

This is the second edition of our Annual Review and we believe it is testimony to the commitment that AcegasAps and its staff have to building a business model based on shared development and responsible growth.

The substantial consolidation of the turnover and the operating results confirm the company's leading role in the entire north-east. The recent mergers that have taken place in other areas of the country, above all in the energy sector, have produced companies large enough to be compared with nearby foreign players.

As the operating margins for the utilities sector in general are gradually shrinking, the variable components have become the focus of sector growth strategies. For AcegasAps this means that not only is a positive performance important, but it must also strengthen its commitment to those initiatives that could facilitate larger scale agreements and joint ventures even in an area as geographically and economically fragmented as the Triveneto area.

The company's growth strategy is underpinned by our expertise and deep understanding of the area and several of the important initiatives undertaken last year were made possible by our unique structure.

In order to increase the effectiveness of the gas and electricity sales policies, all of the commercial activities were conveyed to EstEnergy, a company that already today is one of the most important domestic players in energy supply.

In terms of energy from renewable sources, NestEnergia was created in order to further develop research of environmentally friendly alternative sources.

The company Naonis Energia, active in waste to energy in the Pordenone area, was also created as part of the push for more efficient management.

Significant international developments have also taken place, including the award of the tender, through affiliate Rila Gas, for the methanisation of the Zapad area in Bulgaria.

The recently created company SIGas, dedicated to the development of distribution networks and methane gas sales in several central Serbian municipalities, should also be considered part of this strategy.

We would like to close with a few words about our relationship with the communities we serve. AcegasAps's dialogue with the community is ongoing and, not only is it part of the company's commitment to the maximum transparency, but it drives the technical and environmental initiatives that are implemented in the area.

In 2006 we were involved in a number of transactions that were crucial to the development of the company and everyday a staff of 1,664 individuals worked to ensure access to all the essential services, as well as maintain the quality of life that is central to AcegasAps's mission.

In 2006 AcegasAps dedicated more than 18 thousand hours of training to these individuals and we would like express both our appreciation and gratitude for the work done.



Massimo Paniccia
Chairman AcegasAps

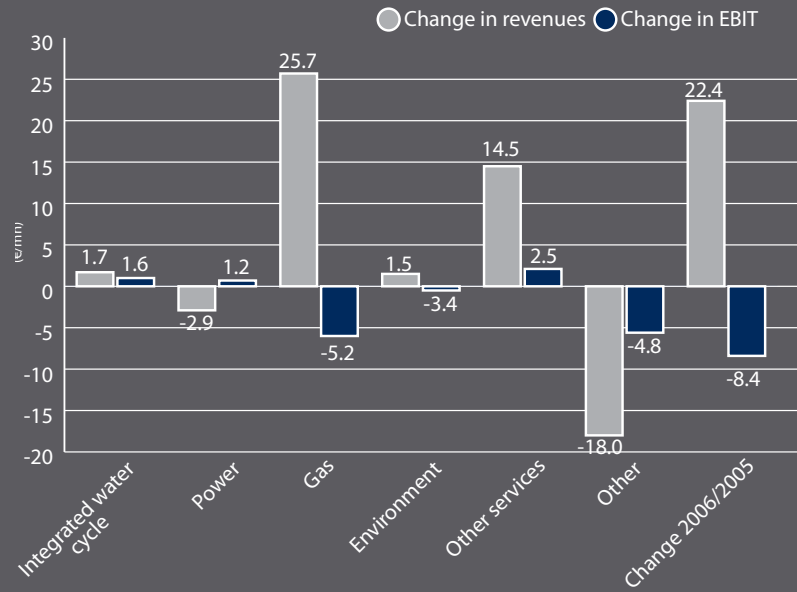


Francesco Giacomini
Managing Director AcegasAps

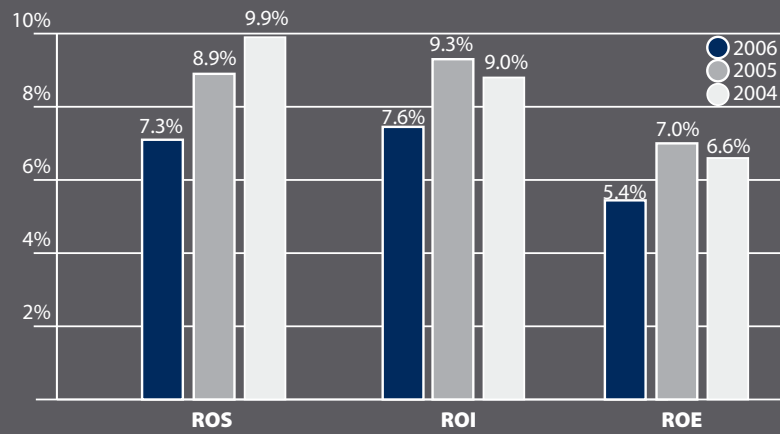
2006 Financial Position and Economic Highlights

Income statement summary	2006	2005	Change	
- Net revenues	619.1	596.7	+22.4	+3.8%
- Ebitda	88.3	96.3	-8.0	-8.3%
- Ebit	44.3	52.7	-8.4	-15.9%
- Group net profit	17.7	22.3	-4.7	-20.9%
Capex	2006	2005	Change	
Integrated water cycle	19.6	18.4	+1.2	+6.5%
Power	5.2	4.2	+1.0	+23.7%
Gas	7.3	6.2	+1.1	+17.8%
Environment	14.3	7.7	+6.6	+86.1%
Services	3.1	6.9	-3.9	-55.6%
Total	49.4	43.4	+6.0	+13.9%
Balance sheet figures	2006	2005	Change	
- Capital employed	599.3	564.5	+34.8	+6.2%
- Working capital	81.2	58.5	+22.8	+39.0%
- Net debt	337.2	336.4	+0.8	+0.2%
- Net financial position	(262.1)	(228.1)	-34.0	+14.9%
Cash flow	2006	2005	Change	
- Cash flow generated by operations	45.3	56.2	-10.9	-19.3%
- Total cash flow	(30.5)	(18.7)	-11.8	+63.4%
Technical data	2006	2005	Change	
Integrated water cycle				
- Water sold (MCM)	58	58	0	-
Electricity				
- Electricity distributed (GWh)	779	774	+5	+0.6%
- Electricity sold (GWh)	431	479	-48	-10.0%
- Power generation (GWh)	494	535	-41	-7.7%
Gas				
- Gas distributed (MCM)	478	513	-35	-6.8%
- Gas sold (MCM)	477	510	-33	-6.6%
Environment				
- Waste treated (Tons/000)	223	220	+3	+1.4%
- Power generated from waste (GWh)	117	117	0	-

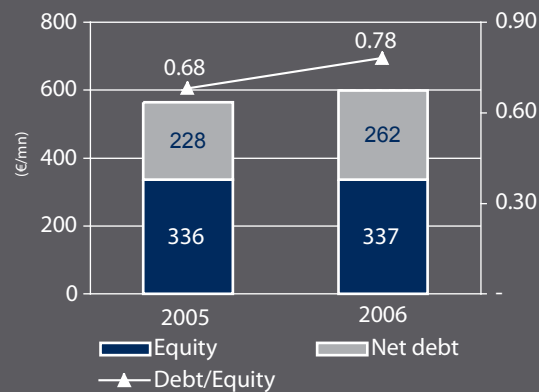
Change in revenues and EBIT



Profitability indicators



Financial indicators - Debt/Equity



2006: Sustainability Summary



THE GLOBAL
COMPACT

AcegasAps adheres to the 10 principles underpinning the UN's Global Compact related to:

- human rights
- labour rights
- environmental protection

The Economic Dimension

Net overall value added: 132 million

Allocation of value added:

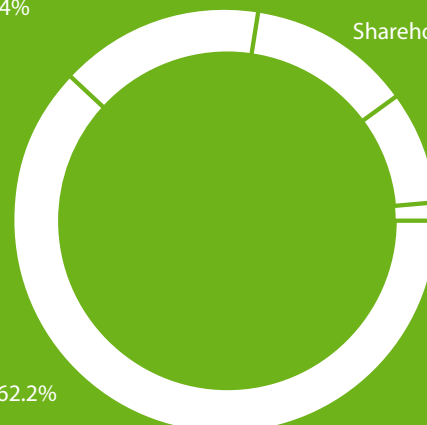
Government 15.4%

Shareholders 12.5%

Lenders 8.7%

Company 1.2%

Workforce 62.2%



The Social Dimension

Number of employees	
AcegasAps	1,402
APS Trade	46
Estenergy	6
APS Lightservice	11
APS Sinergia	171
CST	23
SIL	5
Total	1,664

Hours of training:
18,150 (+ 7.8%)

Number of accidents:
89 (- 7.3%)

Supply of drinking water: 470,184 inhabitants

Supply of electricity: 140,844 clients

Gas distribution: 258,343 delivery stations

Waste collection: 510,333 inhabitants

Direct clients: 88,493

Suppliers in Veneto e Friuli Venezia Giulia:
72% of the total acquired by the company.

The environmental dimension

The water distributed is classified as mineral water
(Legislative Decree n.105 dated 25/01/92 - Art.11/2/a).

Power produced by cogeneration, WTE and gas
turboexpansion: 611.9 GWh

Recycling: Trieste area 19.1%, Padua area 45.7%

2006: Summary of Intangible Resources

Human resources

Executives	22
Managers	66
White-collar workers	707
Blue-collar workers	869
Total	1,664

Years of service

up to 5 years	14.3%
between 6 and 10 years	27.8%
between 11 and 20 years	33.6%
between 21 and 25 years	9%
between 26 and 30 years	8.7%
beyond 30 years	6.3%

Customer Relations

Direct customer contacts: 88,493

Means of communicating with customers:

- Front Office
- Call center
- Internet

Expiration of gas concessions

2009 Cadoneghe, Albignasego, Galzignano

2010 Trieste, Sgonico, San Dorligo della Valle, Duino Aurisina, Monrupino, Padova, Vigonza, Ponte San Nicolò, Saonara, Vigodarzere

Expiration of power concessions

2037 Trieste

Expiration of environmental services concessions

2006 Saonara

2007 Muggia, Ponte San Nicolò

2008 Abano Terme, Vigonza

2009 Duino Aurisina

2013 Noventa Padovana

2017 Trieste (waste disposal)

2029 Padova

2050 Trieste (waste collection)

Expiration of water and sewage treatment concessions

2015 Abano Terme

2027 Trieste, Muggia, Padova

Expiration of funeral service concessions

2030 Trieste

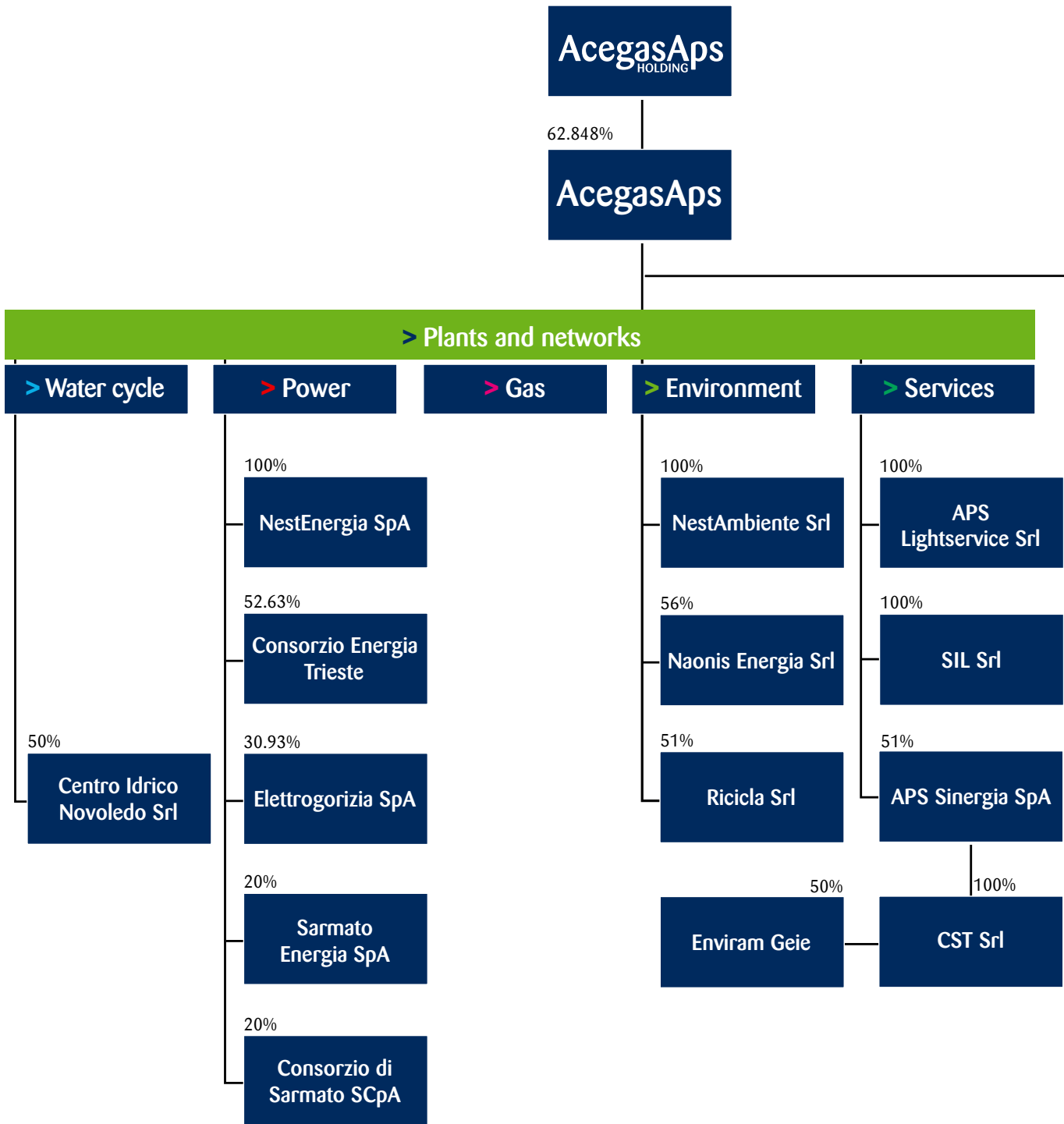
Company Expertise

The AcegasAps Group stands out for its expertise in the following areas:

- management, planning and construction of networks and plants used in the sourcing, transportation, treatment and distribution of drinking water
- management, planning and construction of networks and plants used as part of sewage and sewage treatment services
- production of electric energy through cogeneration, WTE and gas turboexpansion
- distribution of electric energy
- management, planning and construction of networks and plants used for the distribution of methane gas
- sale of electricity and gas to both public entities and private companies
- collection of special, medical and urban waste
- waste to energy and district heating
- urban street cleaning
- clean-up of polluted sites
- plant installation, maintenance and management
- total facility management
- management, planning and construction of district heating networks and plants
- management of public lighting services
- management of traffic light systems
- management of funeral and cemetery services
- relining of gas and water distribution networks
- construction of telecommunication networks

All corporate procedures are supported by an information systems network that includes 1,000 personal computers distributed throughout more than twenty territorial headquarters.

The AcegasAps Group

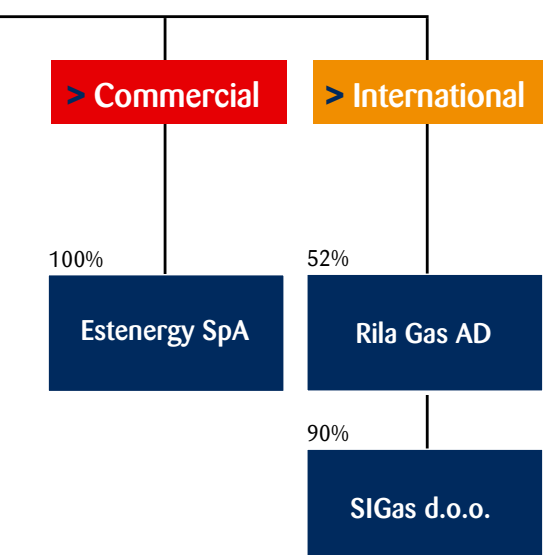


AcegasAps is divided into **five business divisions** that serve over **half a million customers**:

• Integrated water cycle • Power • Gas • Environment • Services.

Specifically, the company is active in the management and distribution of water, electricity and gas; collection and treatment of waste, as well as the principal municipal services including funeral services, public lighting, telecommunications and district heating networks.

The company's know-how is the product of more than **140 years of experience**.



The Board of Directors

Chairman

Massimo Paniccia

Vice Chairman

Domenico Minasola (as from 20.12.06)⁽²⁾
Manlio Romanelli⁽²⁾

Managing Director

Francesco Giacomini

Directors

Carlo Buratti⁽¹⁾
Guido Cace⁽¹⁾
Guido Carignani
Enrico Tommaso Cucchiani
Marco de Eccher
Nicolò Ferro (co-opted on 7.11.2006)
Raniero Mazzucato⁽²⁾
Aldo Minucci⁽¹⁾
Renzo Piccini⁽²⁾ (resigned effective 7.11.2006)
Renato Vitaliani

(1) Member of the Compensation Committee

(2) Member of the Internal Control Committee

Board of Statutory Auditors

Chairman

Alberto Mazzi

Standing

Franco Degrassi

Patrizia Santonocito

Alternates

Tullio Cianciolo

Andrea Valmarana

Independent auditors

Deloitte & Touche S.p.A.

Via Longhin, 103

35129 Padova

Values

AcegasAps's operations are rooted in solid ethical principals and conduct focused not only strictly on economic issues, but also on sustainable development and protection of the environment.

A series of fundamental principles, summarised below, designed to guide the relationships with the company's stakeholders are in the process of being formalised.

- The company's activities are carried out in full respect for the company's institutionalised values and generally accepted standards of honesty and transparency, in order to guarantee the interests of all stakeholders and to ensure that a communication channel is always open making it possible to understand and satisfy their needs.
- The company is managed in accordance with sound economic principles, as well as with the maximum responsibility, integrity, efficiency and effectiveness. Management works to provide shareholders with a satisfying return on their investments and medium long term growth, redistributing the value created to all stakeholders.
- The company seeks to continuously improve the services offered to customers in order to offer the highest quality, timely service and satisfy or exceed customer expectations.
- The company is aware that human resources are key to a successful company and the human rights of all employees are respected by management: this principle fuels those initiatives designed to support both the well being and the professional development of employees, as well as the acceptance of cultural diversity and values.
- Communication within and outside of the company should be effective and timely in order to guarantee the success of all corporate activities.
- Research and development in the different sectors facilitates innovation in all corporate divisions.
- The company continues to work on reducing the number of on the job accidents and injuries which involves a more frequent use of training focusing on prevention and worker safety.
- The company recognises the importance of and encourages respect for the environment and is committed to an open and constructive dialogue with government authorities in order to improve environmental policies and practices.



UN Global Compact

On 5 April 2005 AcegasAps adhered to the UN's Global Compact.

The UN Secretary Kofi Annan summarised the spirit of the initiative: "We have decided to combine the power of the markets with certain universally recognised ideals. We have decided to use the creative force of private initiative to help meet the needs of the disadvantaged and future generations". The 10 Principals of the Global Compact related to human rights, labour rights and environmental protection are

described in the following declarations:

- Universal declaration of Human Rights
- Declaration of the international labour organisation regarding principles and fundamental labour rights
- The Rio Environmental and Development Declaration.

1.3 Strategic Positioning

AcegasAps, even though it has a diversified division portfolio (integrated water cycle, gas, power, environment and different services), continues to follow sector trends.

AcegasAps believes that size has become a key strategic factor.

> The utilities sector

Over the last few years the utilities sector has undergone profound changes and has shifted from a sector dominated by a number of protected local monopolies to a market characterized by significant industrial players, a few of which are listed on the Italian stock exchange. Leading national or regional groups have emerged, above all in the power segment, and foreign operators have entered the domestic market.

While there were fewer domestic mergers in 2006 than in the past, the size of the merged companies was greater

(Hera-Meta, Aem Torino-Amga Genova).

The recent talks between Aem Milano and Asm Brescia, that appear to be the preamble to what could be another merger, confirm the current trend. The new entities are of relevant size and are leaders either in their sectors or territories. All of the sector operators believe that the gradual shrinking of margins, the actions taken by the Electricity and Gas Authority and the trend in the cost of raw materials will drive the search for economies of scale that only adequately sized companies can ensure.

An analysis of the consolidated financial statements of the seven companies listed on the Italian Stock Exchange tend to confirm all of the above.

The aggregate numbers at 30 September 2006 show overall growth in revenues of 21.9%, while EBITDA grew at a significantly less robust pace (+17.0%). The shrinking margins impacted both the regulated and eligible activities. All the operators reacted to this situation by taking steps to consolidate and strengthen their areas of activity and expertise.

There has been a constant search for feasible geographic or segment aggregations. The current sector scenario in an area as geographically and economically fragmented as the Triveneto area tends to confirm the validity of this strategy. In the near future there will be a renewed focus on the initiatives designed to facilitate agreements and joint ventures leading to more significant mergers.

> The AcegasAps Group's Strategy

The AcegasAps Group will continue to consolidate its core activities and develop its areas of expertise.

The growth strategy can be summarised as follows:

- **integrated water cycle**
territorial expansion and increased research activities for more efficient operations;
- **power**
increased production capacity through partnerships or new initiatives;
- **alternative energy**
strengthening of these activities through the subsidiary Nestenergia S.p.A.;
- **gas distribution**
expansion of the scope of operations and reduced operating costs;
- **gas procurement**
development of procurement capacity through the construction, in joint-venture with primary operators, of a regasification plant in the Trieste area;
- **gas and electricity sales**
commercial development of dual fuel activities, development of client portfolios and partnerships;
- **environment**
increase of WTE capacity and a continuous search for maximum operating efficiencies in waste collection and disposal;
- **foreign markets**
further development of these activities, particularly in East European countries.

From 1864 to 2006



1864

The multi-utility that supplied the primary public services to the Municipality of Trieste is born (Gas illuminante).

1888

The first duct for the transport of water from the Dueville springs to Padua is completed.

1898

Electricity is produced in Trieste.

1910

Trieste's Municipal Waterworks Service is created.

1962

One of the first WTE plants in Italy and in Europe is completed in Padua.

1994

ACEGA of Trieste becomes part of the Group of companies that produce electric energy.

1997

ACEGA becomes ACEGAS and a joint stock company.

1999

The third waterworks is inaugurated in Padua. Azienda Padova Servizi - APS is born following the merger of AMNIUP, AMAG and ACAP, three separate companies active in environmental services, energy and mobility, respectively.

2000-01

ACEGAS begins a stock "exchange" with AMGA of Udine and AMG of Gorizia and is listed on the Milan Stock Exchange: the Municipality of Trieste transfers 45% of its holdings in the company to the new shareholders. Important domestic and foreign financial groups acquire relevant stakes in the company and become company shareholders.

2003

The merger between ACEGAS and APS, formalised on 19 December 2003, makes the company one of the largest multi-utilities in Italy.

2005

The third line of the Errera WTE plant is completed along with the Elettrogorizia cogeneration plant.

> 2006

Much has been done to strengthen **energy procurement**, considered strategic in the new international context.

The Group has taken all the necessary steps, both at an institutional and a regulatory level, to ensure AcegasAps's qualified presence (both in terms of procurement and shareholders) in one of the two regasification construction projects that have been presented. In light of the current government's policies regarding procurement it is likely that at least one of the projects will go forward. Trieste, in fact, seems to be one of the areas that is geographically most suited for the construction of a regasificator. Given AcegasAps's deep roots in the area, its size and technical expertise, it is well positioned to assume an important role in this project.

In order to further develop its **waste to energy capacity**, subsequent to agreements that led to the creation of the vehicle Naonis Energia S.r.l. (56% held), AcegasAps began planning a new WTE project in the Pordenone area. The plant, once the local communities agree and once the necessary authorization is obtained, should be up and running by 2010.

Work has also already begun on a third WTE line in Padua.

The **international activities**, thanks to having won the bid for the construction and the subsequent concession of the gas distribution network in the Bulgarian area of Zapad, have received a significant push. In May 2006 the Bulgarian company Rila Gas AD was created. AcegasAps holds 52% of this company that is to be the vehicle for the planning activities and construction of the methane gas distribution network. Investments totalling €57 million should be made over the next twenty years circa and the plant should be up and running by 2008. The project should ensure, at full capacity, an EBITDA of approximately €5 million. In order to ensure adequate financing for the company, in the month of December the Shareholders' meeting approved a capital increase of €3.9 million.

In Serbia, the Group participated in a tender for the development of the networks and

the subsequent sale of methane gas in two municipalities in Central Serbia (Pozega and Arilje).

This represents an important step in the strengthening of the Group's activities in Eastern Europe, where there is an ongoing search for growth and consolidation opportunities.

Of note in **the integrated water cycle division** is the fact that the Bacchiglione Environmental Authorities ("AATO Bacchiglione"), in the course of its Shareholders' Meeting, confirmed the integrated water cycle concessions in the areas of Padua and Abano Terme. The Authority, that has been active for years had, in fact, granted a preliminary concession to the company APS SpA through 31/12/2006. Following the merger with Acegas SpA and pursuant to Art.

113, paragraph 15bis of Legislative Decree 267/00, AATO Bacchiglione approved the continuation of said concessions through expiration, specifically through 2028 for the municipality of Padua and through 2015 for the municipality of Abano Terme. A specific programme that will regulate the activities for the duration of the concessions is in the process of being finalised.

In the **sales division**, the Group finished combining the gas and electricity supply divisions into a single legal entity. In addition to simplifying the organizational structure of the Group, this will make eligible market activities more efficient and help generate greater synergies.

In December 2005 AcegasApS S.p.A. exercised its right of recourse of the division in charge of supplying methane gas to the Trieste area, a legal component of the 51.52% subsidiary Estgas S.p.A.

In May 2006 the shareholders of Estgas S.p.A. approved a partial demerger of the businesses pertaining to AcegasApS and other minority shareholders.

The demerger took place in September. The beneficiary of the spin-off was the subsidiary Estenergy S.p.A. Effective from the first of January 2007, the gas supply operations in the Padua area have also been conveyed to the Estenergy. This completes the process begun in 2006.

Today, the Group sells about 500 million

m³ of gas and 490 GWh of power each year to some 240,000 customers. The company underwent extensive reorganisation and a new Managing Director was appointed.

AcegasApS subscribed a capital increase of €1.5 million for the subsidiary NestEnergia S.p.A.. Based on the Group's plan the subsidiary's focus is to be on **energy from renewable sources**. The capital increase made it possible for the company to purchase the division of a company involved in the production of electricity. Specifically, the plant purchased produces approximately 1.2 MW through the recovery of biogas from the landfill located in Roncavette (Padua). Average production of approximately 3 GWh/year is expected. The purchase price was €1.2 million.

In the month of October the Group division that was active in the **environment division**, specifically in the management of environmental services in the municipality of Vigonza (Padua), was sold to Etra S.p.A, a company involved in environmental and integrated water cycle services. The sale was completed through the transfer of the interest held by Etra S.p.A. in Seta Ecologia S.r.l. (of which Etra is the largest shareholder) and a cash payment of €184 thousand for a total of approximately €365 thousand. The transaction made it possible for AcegasApS to increase its interest in Seta Ecologia from 7.28% to 15.0% thus strengthening the Group's presence in the environmental services sector.

In terms of the **power division**, during the latter part of 2006 negotiations with the other partners of the Sarmato Consortium and Sarmato Energia S.p.A. were begun in order to establish a new shareholder structure and improve the use of the production facilities. This transaction fits with the strategy to strengthen the electric energy segment.

Work on the surface perimeter of the Ponte San Nicolò (Padua) **landfill** was completed, while the work connected to the preparation of the site for waste collection has begun and the waste compactor facility has been tested. All of the licenses for waste

collection have been obtained (the landfill will be able to hold up to 300,000 m³ of waste). However, as explained in the section "Other Information" before proceeding with waste deposit, AcegasApS will wait to understand the reason motivating the sentence that found two former managers of the former Azienda Padova Servizi S.p.A.(APS), then spun-off into ACEGASAPS, guilty of mismanagement of the site in the past.

In regard to **organization** the integration of the Padua and Trieste operations continued. This process was terminated in 2006 resulting in the obvious benefits to operations. In June 2006, the new corporate division, the "Administration, Finance and Control Division" was created. This new division absorbed the pre-existing Administration and Planning and Control Division. The scope of this project is twofold; increase the efficiency of staff organization and update the organizational chart with the most sophisticated organizational standards.

2.1.1 Group Income Statement

RECLASSIFIED INCOME STATEMENT	2006	%	2005	%	Change	%
Revenues from sales	578,064	93.4	559,464	93.8	18,600	3.32
Other revenues and income	41,009	6.6	37,211	6.2	3,798	10.2
Total net revenues	619,073	100	596,675	100	22,398	3.8
Raw materials, consumables and services	(446,339)	-72.1	(417,697)	-70	-28,642	6.9
Other operating costs	(5,563)	-0.9	(6,408)	-1.1	845	-13.2
Payroll costs	(78,856)	-12.7	(76,298)	-12.8	-2,558	3.4
EBITDA	88,315	14.3	96,272	16.1	-7,957	-8.3
Provisions	450	0.1	113	0	337	298.2
Amortisation, depreciation and writedowns	(44,428)	-7.2	(43,637)	-7.3	-791	1.8
EBIT	44,337	7.2	52,748	8.8	-8,411	-15.9
Financial income	2,142	0.3	1,889	0.3	253	13.4
Financial charges	(11,439)	-1.8	(9,632)	-1.6	-1,807	18.8
Income (charges) from equity investments	94	0	(674)	-0.1	768	-113.9
Income (charges) from investments booked at net equity	1,519	0.2	1,524	0.3	-5	-0.3
Other income (charges)	263	0	(1,413)	-0.2	1,676	-118.6
Profit (loss) before taxes	36,916	6	44,442	7.4	-7,526	-16.9
Income taxes	(18,844)	-3	(20,716)	-3.5	1,872	-9
Net profit (loss) for the period	18,072	2.9	23,726	4	-5,654	-23.8
From AFS assets	---	---	---	---	---	---
Net profit (loss) for the period	18,072	2.9	23,726	4	-5,654	-23.8
Attributable to:						
Minorities	416	0.1	1,400	0.2	-984	-70.3
The Group	17,656	2.9	22,326	3.7	-4,670	-20.9
EARNINGS PER SHARE (in euro)	0.322		0.407		-0.085	-20.9

Net revenues

The AcegasAps Group's net revenues increased 3.8%, rising by €22.4 million from €596.7 to €619.1 million.

The increase is primarily attributable to the increase in sales prices that corresponds with the trend in the cost of raw materials on international markets. The price of crude oil (Brent) increased by an average of 18.7% in 2006. This trend had repercussions on procurement costs and, therefore, on the price of sale for both electricity and gas. As already mentioned in the interim reports, the AcegasAps Group has expanded its area of operations. More in detail, in the services sector through its subsidiary APS Sinergia (facility management) and following a spin-off transaction, the Group's revenues increased by approximately €10.0 million.

In fourth quarter 2006 revenues dropped when compared to 2005 by a total of €23.5 million primarily due to the spin-off of the subsidiary Estgas S.p.A. (effective as of 1 October 2006).

Raw materials, consumables and services

The cost of raw materials and services increased by +6.9% or €28.6 million from €417.7 million to €446.3 million in 2006. As in the case of revenues, the increase is largely attributable to the increased cost of raw materials that rose by €22.4 million from €307.6 million to €330.0 million (+7.2%). The more than proportional increase, when compared to the increase in revenues, is testimony to the sector wide shrinking of sales margins. Waste collection and street cleaning also reported a substantial increase, rising from €21.9 million in 2005 to €24.5 million in 2006 (+11.9%). Margins also shrunk in this area as it wasn't possible to pass on certain increases to the end clients. Ordinary repairs and maintenance also rose, increasing from €23.1 million to €26.2 million (+13.4%).

Cost of services

The cost of services rose by €6.3 million between 2005 and 2006, from €110.1 million to €116.4 million. The increase is primarily attributable to the parent company, AcegasAps and it was decided to carefully monitor these costs going forward.

Payroll costs

Payroll costs grew by €2.5 million (+3,4%) from €76.3 million to €78.9 million. This increase is the result of contradictory trends insofar as the Group reduced the workforce by 54 heads from 1,718 to 1,664 employees but during the year several national contracts were renewed (electricity and funeral services) that involved increased costs while others (environmental services) were fully enforced.

EBITDA

EBITDA fell from the €96.3 million reported in 2005 to €88.3 million meaning a reduction, in absolute terms, of €7.9 million. The decrease is primarily attributable, as described fully in the specific division section, to the following phenomena:

- the gas sector decreased by €5.1 million when compared to 2005 due to the unfavourable weather conditions and the revised tariffs imposed by the Authority. The eligible business shows a drop of €4.0 million;
- the unfavourable trend in the environmental services division that reported a drop in Ebitda of €3.4 million;
- structural costs that grew by €1.5 million when compared to 2005.

The Group was impacted by several developments (climate, maintenance of the Trieste WTE plant, non-recurring expenses related to the plant structures) that contributed to a drop in the fourth quarter's EBIT.

In terms of margins, of note is the negative impact of the line-by-line consolidation of Estgas S.p.A., a company 51.52% controlled through 30 September 2006 and spun-off effective 1 October 2006. The line-by-line consolidation of Estgas through 30 September had a negative impact on the Group's Ebitda of €0.8 million.

Provisions

Net provisions rose from €0.1 million in 2005 to €0.5 million in 2006. In 2006, new provisions came to €10.8 million, while €11.3 million was released and €1.8 million utilized. The most significant amount released was €9.5 million from the provision for the environmental restoration of the Ponte San Nicolò landfill, near Padua. Meanwhile, the civil liability provision was increased from €2 to €5.5 million.

Amortisation, depreciation and writedowns

The amortisation, depreciation and writedowns increased by €0.8 million rising from €43.6 to €44.4 million.

EBIT

As a result of the factors mentioned above, 2006 EBIT dropped by €7.5 million to €36.9 million versus €44.4 million in 2005.

Financial charges

The financial charges increased from €9.6 million to €11.4 million. The increase is primarily due to an increase in market interest rates in 2006 and to a rise in the Group's average financial exposure.

Income tax

Income tax decreased from €20.7 to €18.8 million (–€1.9 million for the year). The most substantial decrease affecting the tax rate was caused by the switch to International Accounting Standards, which required moving dividends received from subsidiaries from the 2004 financial statements, where they were entered as permitted by Italian GAAP, to the 2005 accounts. The transfer changed the pre-tax profit and the resulting tax rate as a percentage of the actual income tax charge, which remained unchanged. Negative influences, aside from non-deductible permanent increases, included the enactment of laws penalizing the full deductibility of costs (Law 248 of 4 August 2006 and Decree Law 262 of 3 October 2006, effective retroactively from 1 January 2006). The most significant permanent changes with respect to 2005 concern the writedown of the subsidiaries Estgas S.p.A. and Nestenergia S.p.A. for €0.5 million, and a penalty of €0.9 million for late payment of sickness benefits. Unlike in 2005, these decreases did not benefit from the positive entry of €3.6 million for dividends received from subsidiaries.

Law 248 of 4 August 2006 limited the deductibility of depreciation on business premises, while the Decree Law of 3 October 2006 raised the non-deductible portion of all motor vehicle costs from 50% to 100% and limited the deductibility of all costs relating to cars granted as fringe benefits to the actual portion charged to the employee. These laws led to an increase of €0.4 million which, in combination with the decreases mentioned above, caused the tax rate to worsen by an additional 2 percentage points.

Net profit attributable to the Group

The net profit attributable to the Group amounts to €17.7 million versus €22.3 million in 2005.

BALANCE SHEET	31/12/2006	31/12/2005	Change	
CAPITAL EMPLOYED				%
Trade receivables	239,985	234,360	+5,625	+2.4
(Trade payables)	(151,343)	(177,574)	+26,231	-14.8
Inventories	8,008	8,449	-441	-5.2
Other short term assets/(liabilities)	(15,413)	(6,773)	-8,640	+127.6
Net working capital	81,237	58,462	+22,775	+39.0
Plant, property and equipment and intangible assets	583,419	570,857	+12,562	+2.2
Non-current financial assets	15,350	14,871	+479	+3.2
Provisions for employee severance and social charges	(27,882)	(28,008)	+126	-0.4
Provisions for risks and charges	(31,665)	(32,018)	+353	-1.1
Other net non-financial assets/(liabilities)	(21,120)	(19,621)	-1,499	+7.6
Net non-current assets	518,102	506,081	+12,021	+2.4
Total capital employed	599,339	564,543	+34,796	+6.2
SOURCES OF FUNDING				
Share capital	282,983	282,983	---	---
Earnings and reserves	44,411	44,066	+345	+0.8
Minority interests in equity	9,796	9,386	+410	+4.4
Total net equity	337,190	336,435	+755	+0.2
Net bank borrowings	36,136	5,656	+30,480	+538.9
Securities held as current assets	---	(5,964)	+5,964	-100.0
Short term portion of m/l term financial payables	12,950	15,219	-2,269	-14.9
M/l term financial payables	213,063	213,197	-134	-0.1
Net financial position	262,149	228,108	+34,041	+14.9
Total sources of funding	599,339	564,543	34,796	+6.2

Net financial position

The net financial position shows net debt at 31 December 2006 of €262.1 million versus €228.1 million at 31 December 2005 (+€34,0 million) attributable primarily to:

- an **increase in the investments** made in 2006 versus 2005 (€49.4 million versus €43.4 million in 2005);
- the **change in net working capital**, that rose by €22.7 million.

Trade payables and receivables

Among the main changes in working capital, the most significant is related to trade payables that decreased from €177.6 million at 31 December 2005 to €151.3 million at 31 December 2006 (-14.8%); trade receivables at 31 December 2006 increased by €5.6 million or 2.4% to €234.3 million versus €239.9 million at the end of 2005.

Other current assets and liabilities

Other current assets and liabilities add up to a total liability of €15.4 million. The change is due mainly to the existence in 2005 only of tax credits due for the overpayment on account of the methane gas consumption tax (€4.9 million). In addition, at 31 December 2005, the company Aps Trade reported a VAT credit which produces a further variation of €2.0 million with respect to the net payable due at the close of 2006.

Financial structure

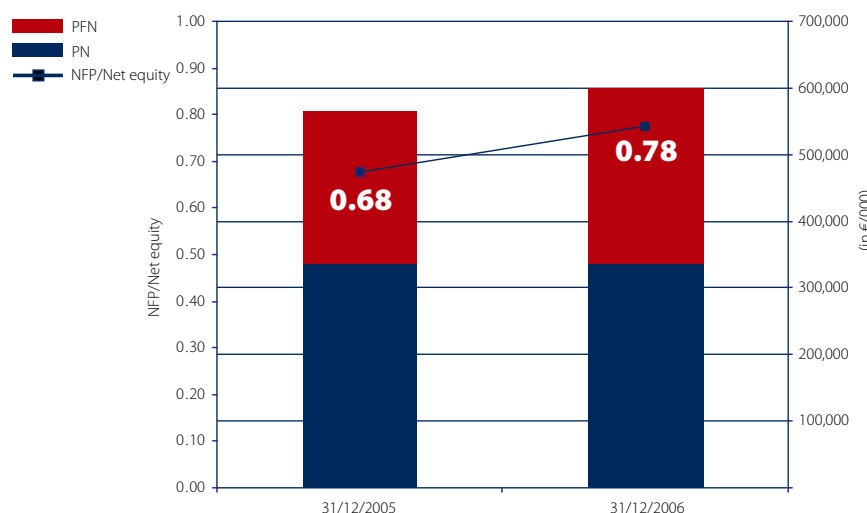
Capital employed amounts to €599.3 million, compared with €564.5 million at 31 December 2005.

Net equity

The net equity at 31 December 2006 totalled €337.1 million, an increase of €336.4 million over 2005 due to the distribution of dividends approved by the Shareholders' Meeting of the Parent Company ACEGAS-APS S.p.A. in May 2006.

NET FINANCIAL POSITION	31/12/2006	31/12/2005
- Medium/long term borrowings with banks/Lenders	196,318	194,862
- Medium/long term debt vs. Parent Company	16,745	18,335
Medium/long term debt	213,063	213,197
- Short term borrowings with banks/Lenders	10,929	13,594
- Short term debt vs. Parent Company	2,021	1,625
Short term debt	12,950	15,219
- Securities held as current assets		(5,964)
- Net cash	36,136	5,656
Net financial position	262,149	228,108

The trend in the debt/equity ratio is summarised below:

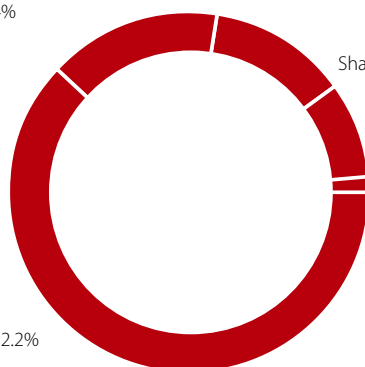


Value added has been determined by reclassifying income statement items **according to the GBS** (Gruppo Bilancio Sociale) method, which shows the Group's ability to generate value for its stakeholders.

2.1.2 Calculation and allocation of value added

Calculation of value added	2006	2005
Production value	618,060	595,233
Production costs	(447,273)	(421,681)
Raw, ancillary and consumable materials	(348,942)	(323,506)
Cost of services	(88,213)	(85,087)
Leases and rentals	(6,005)	(5,854)
Provisions for risks	450	113
Other provisions	(1,496)	(3,583)
Other operating costs	(3,067)	(3,764)
Gross value added	170,787 27.6%	173,552 29.2%
Extraordinary operations and items	4,018	1,326
Balance extraordinary operations	3,755	2,739
Balance extraordinary items	263	(1,413)
Total gross value added	174,805	174,878
Amortisation and depreciation	(42,932)	(40,054)
Total net value added	131,873 21.3%	134,824 22.7%

Government 15.4%



Shareholders 12.5%

Lenders 8.7%

Company 1.2%

Workforce 62.2%

Allocation of value added	2006	2005
Paid to the workforce	82,035 62.2%	79,548 59.0%
Non-employees	2,555	1,625
Employees		
- Direct	58,705	58,577
- Indirect	20,775	19,346
Paid to the government	20,311 15.4%	21,788 16.2%
Direct taxes	18,844	20,716
Indirect taxes	2,480	2,514
(Subsidies)	(1,013)	(1,442)
Paid to lenders	11,439 8.7%	9,632 7.1%
Short-term loans	3,299	6,073
Long-term loans	8,140	3,559
Paid to investors	16,453 12.5%	17,549 13.0%
Paid to the company	1,619 1.2%	6,177 4.6%
Donations	16 0.01%	130 0.01%
Total net value added	131,873	134,824

Calculation and allocation of value added

2.1.3 Investments

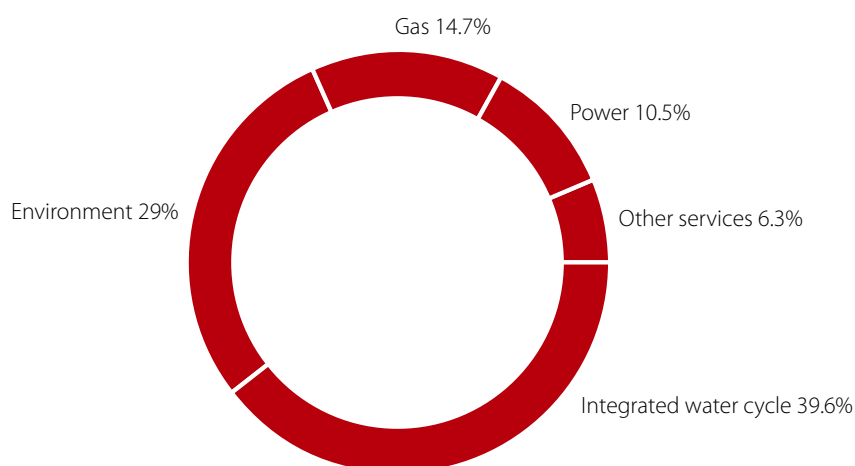
The investments made in 2006 amounted to, for the Parent Company alone, more than €49.4 million (versus €43.4 million in 2005) meaning that 78.7% of the investments budgeted were made.

Ordinary maintenance capital expenditures for the networks totalled €36.1 million, with hook-ups at €5.5 million, while **development capital expenditures** amounted to €7.7 million. Among these, of note, is the investment of €3.6 million necessary for the completion of the Ponte San Nicolò (Padua) landfill. The Group has budgeted investments of more than €84.2 million for 2007, €22.9 million of which for the third WTE line in Padua.

The investments made in each division are summarised below:

INVESTMENTS	31/12/2006	31/12/2005	Change %
Integrated water cycle	19,571	18,376	6.5
Power	5,193	4,197	23.7
Gas	7,252	6,155	17.9
Environment	14,302	7,684	86.1
Other services	3,084	6,944	126.6
Total	49,402	43,356	14.0

The percentage of total investments made in each division is shown below:



2.1.6 Foreseeable Business Development

The AcegasAps Group's 2006 results came in lower than in 2005 and below expectations due to the phenomena described in the section on the operating performance.

2007 will be negatively impacted by at least three elements:

- climactic conditions in first quarter 2007. In the months of January and February network distribution was less than 2006 by 21.6% and 18.2% respectively. This will have a significant impact on the Group's margins;
- the seizure of the three WTE lines in Trieste, that resulted in a loss of approximately €3.0 million in terms of EBITDA (please refer to the section "Significant events subsequent to 31 December 2006);
- delay in the kick-off of the activities at the Ponte San Nicolò landfill.

In regard to the other regulated activities (integrated water cycle, electricity and regulated services) the Group foresees a positive trend in 2007 that should result in operating results in line with 2006.

The sales activities, particularly the gas sales, will continue to be strongly influenced by the application of the authority's resolutions and the operators' compliance with the new regulatory framework in light of the State Counsel's recent holding.

The services division, specifically the subsidiary APS Sinergia S.p.A, should report increases in both volumes and operating margins.

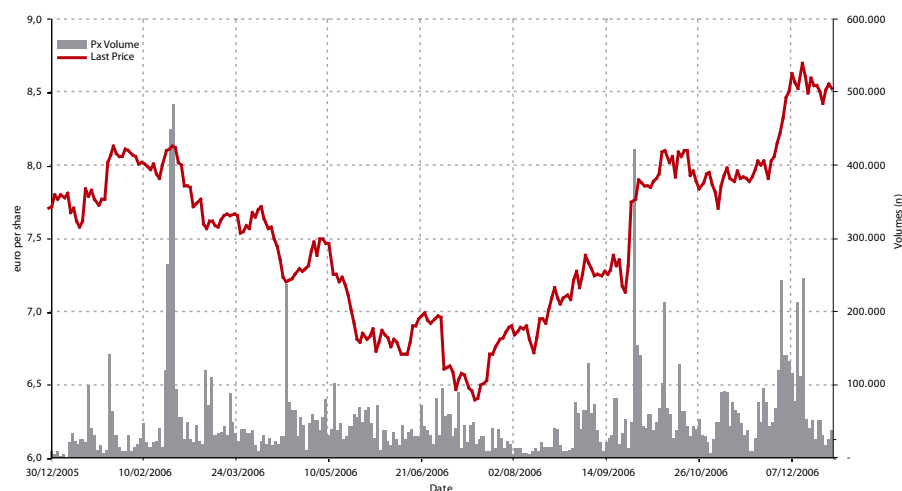
The Group will, however, continue to make the investments provided for in the plan in order to improve the profitability of all its activities, focusing on the sectors with greater growth potential.

2.1.7 Significant events subsequent to 31 December 2006

Some of the more significant events occurring since 31 December 2006 are as follows:

- **The shareholders of Estenergy S.p.A.**, a wholly-owned subsidiary of AcegasAps, approved a **capital increase** effective from 1 January 2007 to service AcegasAps's conveyance of its supply business in greater Padua. The operation took place at the net book value of the assets and liabilities conveyed. The capital increase amounted to €528K. The reasons for this operation and its strategic ramifications are discussed in the "significant events" section of the report on operations.
- On 14 February 2007 the Court Authorities proceeded with the **seizure of two of the three WTE lines in Trieste**. The company is being investigated for emissions that exceeded legal limits. The investigation involves only 4 readings, compared to 177 samples that were found to not be in violation of the law. Two out of the three lines were seized even though there are no structural or operational differences between the three. The three lines are, in fact, fuelled by the same waste, operated by the same personnel according to the same procedures. AcegasAps is evaluating the data with the relative authorities. The Court Authorities also appointed a board of experts to monitor the trend in emissions and to reopen the seized lines. The suspension of the two lines will reduce operating income by approximately €3.0 million.
- In February 2007 AcegasAps and the municipality of Trieste signed a preliminary contract for the **purchase of "Palazzo Modello"**, a landmark building overlooking Piazza Unità d'Italia. The building is destined to house the company's new corporate headquarters and the total cost should be €15 million.
- On 16 March 2007 the **Serbian company SIGas d.o.o.** (the equivalent of a limited liability company) **was incorporated** with share capital of €100,000. The company will be responsible for developing the pipeline network and later for supplying natural gas to the towns of Pozega and Arilje, in central Serbia. AcegasAps will hold a 90% stake, with the remaining 10% held by the two towns themselves. The company's registered office is in Belgrade.
- In March 2007 the Group hired a leading **advisor** to conduct an economic and financial evaluation of the subsidiary **Estenergy S.p.A.** and to thoroughly explore the market in search of a partner that can strengthen the company's commercial status and offer sufficient procurement capacity, thereby helping to integrate the gas and electricity supply chain. The Group's strategy with this initiative is to resume the consolidation process in the utilities sector.
- On 21 May 2007 the parent company AcegasAps S.p.A. **signed a € 230 million term loan**. The loan has a term of five years and a term out option for an additional five years. The transaction was organized by Intesa Sanpaolo S.p.A. and Banca OPI S.p.A. (Gruppo Intesa Sanpaolo) and was syndicated on a club deal basis with a small number of relationship banks of Gruppo AcegasAps. The new loan, used partially to pay off a previous € 150 million loan syndicated by Banca OPI, fits into the framework of the Gruppo AcegasAps strategy to improve its financial structure by medium- to long-term repositioning of a large portion of its short-term debt. As regards the terms and conditions, the loan accrues interest at a floating rate based on the Euribor 6-month rate, plus a spread of 29 basis points per annum. This spread may change if specific financial parameters are met, calculated annually on the consolidated accounts of the Gruppo AcegasAps and, if applicable, by effect of the term out option.

2.1.8 The Relationship with Shareholders



The performance of AcegasAps's stock in 2006 should be looked at in the context of its performance over the last three years.

During the first 7 months of 2006 the bearish trend that became apparent in the first half of 2005 continued. In 2005 the stock had also reached its highest levels since the multi-utility's euphoric phase. This period made it possible for AcegasAps to close 2004 with a 78% performance, versus a sector average that was just slightly above 40%.

As of 10 February 2005, a day in which the stock reached a price of €10.015 per share, the levels began to fall and continued to do so through 17 July 2006, a day in which the stock reached its first historic minimum of €6.381. In light of the strong acceleration in the period 2004-2005, a correction was inevitable. In 2005-2006 the bullish phase exceeded any reasonable expectations triggering a reversal of the trend that was further fuelled by the financial market's renewed interest in the utilities sector and the so-called secondary level mergers.

In the end, in 2006 the bullish prevailed over the bearish trend. In terms of AcegasAps, the stock, in fact, was up by 10.6% rising from €7.699 per share to €8.513. The capitalisation rose from €422 million at the end of 2005 to €467 million at the end of 2006, with an increase in absolute terms of €45 million. Even the volumes traded showed a slight increase of +6.7% rising from 48,532 shares per day in 2005 to 51,775 in 2006. In this context those who purchased the stock in 2006 were rewarded and if we consider that a dividend of €0.32 per share was paid, theoretically a shareholder who purchased AcegasAps at the beginning of the year who reinvested the dividend received could have obtained a **return equal to almost 15%**.

2.2.1 Integrated Water Cycle

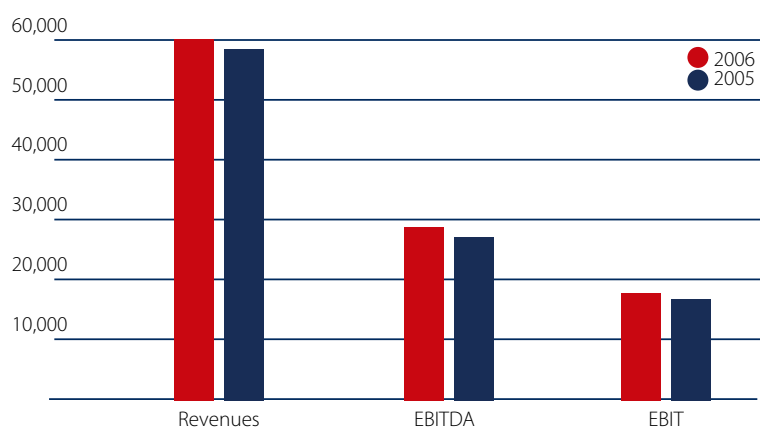


> Economic results

The revenues from sales showed an increase of 1.0% versus 2005. The volume of water distributed to clients increased by 1.1% in the Trieste area and fell by 0.5% in the Padua area. A total of 57.6 million cubic metres (versus 57.8 million cubic metres in 2005) was sold. AcegasAps benefited, as mentioned in the interim reports, from the revised tariffs approved by the Padua authorities. The average weighted increase over the previous year equalled 9%. The Trieste area, subject to the old tariff system (CIPE) did not benefit from any sort of tariff increase.

EBITDA improved by 5.9% (€1.6 million in absolute terms) due primarily to the operating efficiencies that resulted in less need for third party services and a drop in personnel expenses (-€0.6 million).

EBIT increased more than proportionately compared to EBITDA, thanks to a decrease in amortisation, depreciation and provisions.



(figures in thousands of euros)

	2006	2005	Change %
Revenues	60,246	58,594	1.0%
EBITDA	28,959	27,347	5.9%
EBIT	18,016	17,064	5.6%

Scenario & Strategy

The Friuli - Venezia Giulia Region adopted the provisions of Law n.36 dated 5 January 1994 (the so-called "Galli" Law) through Regional Law n. 13 dated 23 June 2005 in order to subdivide, for the purposes of integrated water cycle services, the region and the neighbouring Veneto region into Optimal Territories. Five areas were singled out which coincide largely with the provinces within the region.

AcegasAps is active in the area in the eastern part of the Trieste province as per the Art. 23, paragraph 3 of the above mentioned regional law and Art. 113, paragraph 15bis of Legislative Decree 267/00 insofar as AcegasAps has been listed on the Milan Stock Exchange as of 1 October 2003. In the Padua area the boundaries of two Optimal Territories, Bacchiglione and Brenta, are in the process of being defined. Specifically, to the extent AcegasAps is affected, the transfer of the management of services of a few neighbouring municipalities must be completed as per the local environmental authorities.

The Environmental Authorities of Bacchiglione, in shareholder resolution n. 3 dated 21 March 2006, confirmed the concession for the management of the integrated water cycle services in the areas of Padua and Abano Terme through the original expiration date. The Authority that has been active for years had granted a preliminary concession to the company APS SpA through 31/12/2006. Following the merger with Acegas SpA and pursuant to Art. 113, paragraph 15bis of Legislative Decree 267/00, AATO Bacchiglione approved the continuation of said concessions through expiration, specifically through 2028 for the municipality of Padua and through 2015 for the municipality of Abano Terme.

In the Trieste area, where the implementation of Regional Law 13/05 has yet to be completed, the tariff adjustments proceed as part of a transitional phase, precisely as part of the old CIPE pricing regime that has yet to be updated following the July 2003 resolutions.

This sector is capex intensive, in the sense that substantial investments are continuously made in plants and networks. The operating costs are, therefore, largely attributable to maintenance and the depreciation of same, above and beyond the volumes distributed. This means that the operating leverage, which is impacted by uncontrollable external factors such as climate and rainfall, is very high.

Consequently the company's strategy is to focus on optimal use of existing structures through the increase of volumes sold as well as a sustainable utilisation of the hydro resources which calls for:

- *adequate information through initiatives such as, for example, the inclusion in every bill of a chemical and bacterial analysis of the water stressing the fact that the water supplied can be used for cooking instead of bottled water;*
- *the acquisition of new large clients such as, for example, the waterworks of Sesana and Capodistria (Slovenia) and other municipalities in the Padua area.*

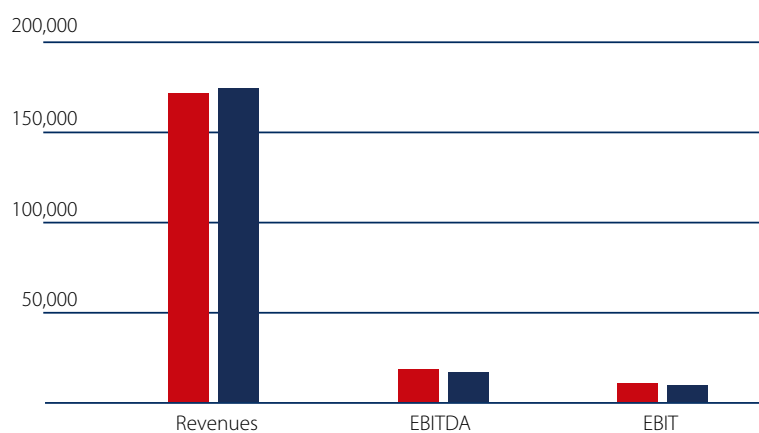
In terms of operations, the focus is on:

- *further reduction of the primary electricity costs through the exploitation of opportunities on the liberalised market;*
- *reduction of the loss of hydro resources;*
- *reduction in operating costs through the continuous optimisation of the organisational structure and investment in the renewal of plants that calls for increased maintenance capex.*

There is a particular focus on the rationalisation of plants in order to improve the efficiency and reliability, including through various operations involving water depuration and treatment.



2.2.2 Power



(figures in thousands of euros)

	2006	2005	Change %
Revenues	170,730	173,634	-1.6%
EBITDA	17,683	16,435	7.6%
EBIT	9,752	9,092	7.3%

> Economic results

Revenues for the power division were down slightly versus 2005 (-1.6%). Production and distribution show an increase in revenues of €10.9 million due to:

- to an increase in 2006 market prices that remained high throughout the year;
- to a lesser extent, to an increase in distribution (779.3 GWh in 2006 versus 774.4 GWh in 2005 or an increase of 0.6%).

Total **production** fell by 6.3% from 653.33 GWh to 611.9 GWh. The reduction is attributable to the lack of CIP6 incentives for the Sarmato plant as of 13 December 2006. After that time the electricity produced by the plant was distributed on the open market. The total production for the Sarmato plant, therefore, fell by 13.4% from 432.6 GWh in 2005 to 374.6 GWh in 2006 (-13.4%).

EBITDA for the production and distribution activities increased by €1.2 million due largely, as mentioned previously, to the positive trend in the production of electricity.

Services, as a percentage of revenues, was in line with the previous year while the cost of labour fell in both absolute terms (-€0.2 million) and as a percentage of revenues.

EBIT increased significantly, rising from €8.0 to €10.3 million. The increase, as mentioned, is attributable to the improved profitability of the production business.

Revenues for the **eligible activities**, managed by the subsidiary Estenergy, fell by 16.8% versus 2005 to €10.6 million. Volumes sold were, in fact, lower than in 2005 (-31.0%).

This is the result of a choice that the company made to favour sales with adequate profit margins, even at the price of reduced volumes. The reduction in the volumes sold corresponds with an increase in the sales price subsequent to higher procurement costs and the general rise in oil prices.

EBITDA for the **sales activities** amounted to €0.1 million. This result is the product of certain extraordinary items, without which the EBITDA from eligible activities would have been close to those of the main sector players. EBIT for eligible activities was negative for some €0.5 million due to an increase in the provisions for risks and writedowns of receivables.

Scenario & Strategy

2006 was also characterised by the high cost of electricity resulting from the increase in oil prices. The Sole Purchaser (Acquirente Unico) transferred the costs sustained for the purchase of electricity for the captive clients to the distributors. The change in the purchase and sale prices created a temporary shift between the costs sustained and the revenues generated by the distributors (see the graph showing the trend in prices).

In regard to electricity distribution, there were no significant statutory or regulatory changes in the year. More specifically, the prices were adjusted, as usual, in accordance with the price cap method and resolution 292/06 that calls for the gradual installation of programmable electronic meters at low tension transfer stations.

The eligible market activities continue to grow (see graph showing the trend in volumes). The Electricity and Gas Authority has adopted regulations disciplining the calculation of the ideal cost/revenue balance for the distributing companies. Basically, the distribution of electricity must be remunerated fairly, but only for the management of the distributor's own network.

This "equalisation of energy costs" tends, therefore, to eliminate the contribution generated by sales to captive clients. In 2006 AcegasAps purchased energy for distribution on the captive market from the Acquirente Unico at an average price that exceeded the sale price of the electricity itself. This is due to the different criteria used to calculate prices. The Acquirente Unico's sale price is set on a monthly basis and adjusted subsequently based on the real costs of procurement (purchases on electricity exchanges, bilateral contracts, etc). The price of sale to the captive clients (the PC and CCA components that appear in the distributor's bill) is predetermined based on a quarterly estimate prepared by the Acquirente Unico and approved by the Authority. The "energy equalisation" eliminates the economic effects generated by this difference. The comparison between the prices is also includes a calculations of the losses that typically occur during transport, distribution and due to other technical factors.

In 2006 the primary strategic activities were focused on the development and consolidation of the three key areas; Production, Distribution and Sales, through projects for further plant expansion and extraordinary maintenance.

More in detail, in terms of energy production and imports, a great effort was made to begin the process necessary to obtain authorisation for merchant lines (cross border connections) following the publication of Ministerial Decree D.M. 3/11/05. This process should be completed by third quarter 2007.

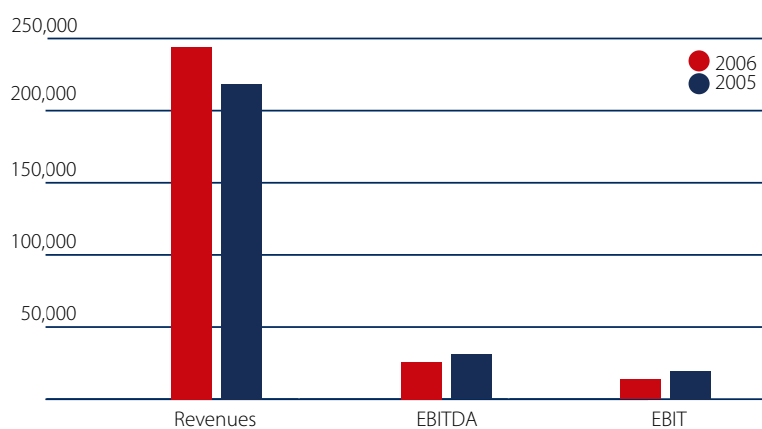
Agreements for the continued production at the Sarmato plant, having reached the end of the first incentivised period of production, were also defined. These actions are part of the AcegasAps Group's plan to develop the eligible market activities and to diversify procurement sources. The different initiatives in the sector of renewable energy, including through specific agreements with local governmental and private entities, represent a further evolution of the same strategy.

In regard to distribution and the management of public lighting and traffic light systems, there has been significant extraordinary maintenance of the plants, also as a part of the Company's involvement in the urban renewal projects sponsored by the municipality of Trieste, which has made it possible to reach high standards of network security with a noticeable improvement in the quality of the service offered to clients connected to the concession network.

Overall the Division's activities, including in light of the excellent results achieved, made it possible to take advantage of the opportunities offered by the market and prepare the foundation for further, profitable development in the next three year period.



2.2.3 Gas



(figures in thousands of euros)

	2006	2005	Change %
Revenues	244,216	218,551	11.7%
EBITDA	25,728	30,887	-16.7%
EBIT	13,694	19,645	-30.2%

> Economic results

As amply commented upon in previous reports (half-yearly and at 30 September 2006) the increase in revenues in the Gas Division is explained by the increase over 2005 of the raw material procurement costs.

The revenues from **distribution activities** fell by a total of €3.9 million. This significant reduction is attributable, on the one hand, to the unusually warm weather and, on the other, to the Electricity and Gas Authority's revision of client tariffs.

The volumes distributed by the network, that had been stable for two years, as of 30 September dropped decidedly due to the unusually warm winter from 514.8 million cubic metres to 479.4 million cubic metres (-6.9%). The trend was the same in both the area of Trieste and of Padua. In the former the volumes of gas distributed fell from 171.0 million cubic metres to 161.9 cubic metres (-5.3%) while in the latter volumes dropped from 343.8 cubic metres to 317.8 cubic metres (-8.2%).

EBITDA for the distribution activities fell by €1.1 million when compared to the previous year due to the unseasonably warm weather, a decrease in revenues and the revised tariffs.

Revenues from the **eligible market activities** in the gas sector totalled €236.1 million versus €212.7 million in 2005, an increase of 11.0% that is attributable to the higher sales prices due to increased procurement costs. The total volumes sold fell from 509.9 million cubic metres to 476.5 million cubic metres (-8.5%). The decrease is due in large part to the unfavourable weather conditions in the last two months of the year.

EBITDA from sales activities fell by €4.0 million due, in addition to the weather conditions, to two factors:

- competition based on initiatives that some market operators could not replicate;
- the effects of resolution 134/06 that, as explained in detail in the section "Other Information", weighed quite heavily on the eligible market activities.

EBIT reflects the provisions of €0.8 million made for the estimated tariff adjustments based on the AEEG's tariff related resolutions 62 and 122 for the years 2005 and 2006 and the provisions for trade receivables (€0.7 million).

Scenario & Strategy

Several regulatory and statutory changes will undoubtedly impact AcegasAps SpA, the operations and the results of the distribution and gas sales division. The Company will also be affected by other changes related to the Electricity and Gas Authority's provisions, the outcome of the proposed changes to the "Network Code" and by the compliance with the new regulation calling for the separation of sales activities (resolution 11/07).

The gradual liberalisation of the distribution market and the tariff structure push operators to consider mergers and strategies that will lead to increased market share – through additional domestic and foreign concessions – in order to obtain the adequate productivity and to reach the "critical mass" necessary to compete in the tenders that are foreseeable in the future. The separation of the sales activities has, in part, modified the divisional strategy now focused on the development of distribution concessions, as well as on the search for new cross-border alliances, following the agreement stipulated with the city of Sesana (Slovenia).

In light of the uncertain regulatory environment it is more difficult for businesses to adequately prepare themselves for the tenders that will take place when the concessions expire. The structure of the sector companies is also characterised by a very high level of fixed costs connected to the maintenance and depreciation of the networks and the plants subsequent to the significant investment plans necessary to guarantee the sustainability of the tariffs recognized by the Authority. Consequently, the operating leverage is high which increases the sensitivity of the companies' margins to any changes in distribution revenues. These revenues are also subject to external factors that are out of the companies' control such as, primarily, winter climactic conditions.

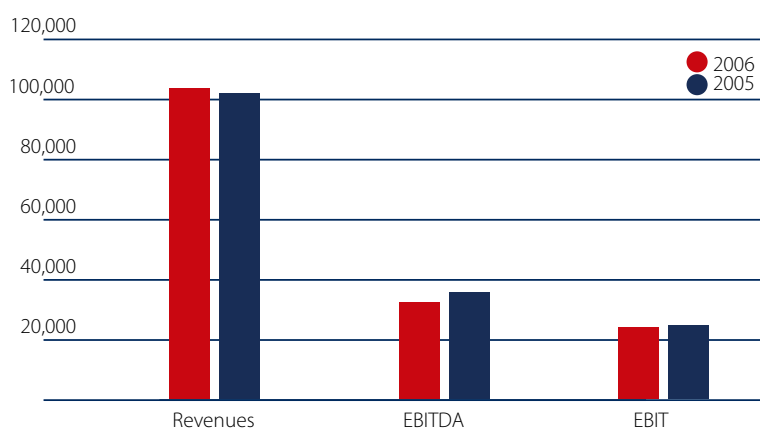
In this scenario, the AcegasAps's strategy must be to optimise the existing structures through an increase in vectored volumes by way of:

- *the acquisition of new clients in areas of the nearby Slovenia with high potential for population growth and development;*
- *incentivising the conversion of district heating plants to other, less environmentally harmful fuels;*
- *further reduction of operating costs through projects designed to improve efficiency and optimise the organisational structure;*
- *an investment policy focused on the renewal of plants with higher maintenance costs.*

AcegasAps also intends to take advantage of the opportunities that have become available as part of the new procurement strategies, candidating itself as a partner to important operators involved in the construction of the regasification terminal in the Trieste area in order to obtain better conditions for the supply of raw materials to the Group's sales company.



2.2.4 Environment



(figures in thousands of euros)

	2006	2005	Change %
Revenues	103,199	101,703	1.5%
EBITDA	31,983	35,388	-9.6%
EBIT	23,858	24,401	-2.2%

> Economic results

The Environment Division's 2006 revenues increased by €1.5 million when compared to 2005. The **trend in revenues in the two areas** (Trieste and Padua) was quite different given the difference in the operating efficiency of the two WTE plants.

Total electricity produced reached 117.4 GWh (117.2 in 2005). The Trieste plant treated 151,127 tonnes of waste (158,127 in 2005), a drop of 4.4% which resulted in a proportional decrease in the electricity produced that fell from 92.3 GWh to 88.2 GWh. This decrease in productivity was caused by a greater number of unexpected shutdowns.

Conversely, the Padua WTE plant treated 15.5% more waste (71,627 tonnes versus 62,040 in 2005) resulting in electricity production that rose from 24.8 GWh to 29.2 GWh (+17.6%). The improved productivity is attributable to a reduced number of shutdowns (65 days in the entire year).

The revenues from waste collection and street cleaning in the two areas are flat. This segment, however, features shrinking margins in light of growing costs (above all, labour and fuel) that we have been unable to pass onto the final clients, consequently the profit margins are down. **EBITDA** is down by €3.4 million which is largely to the reduction, as previously mentioned, in the quantity of waste treated at the Trieste WTE plant. Furthermore, 2005 also benefited from non-recurring income. The contribution of services shows improvement of €1 million.

It should be noted, that due to the legal proceedings, commented on in the "Other Information" section, the Ponte San Nicolò landfill (Padua) was not operating which resulted in higher disposal costs in the latter part of the year.

EBIT fell by €0.5 million when compared to 2005 and less than proportionately when compared to EBITDA thanks to the release of provisions deemed no longer necessary.

Scenario & Strategy

Increased environmental awareness along with higher expectations in terms of the quality and competitiveness of public services has resulted in more stringent statutes and regulations that are designed to monitor the environmental impact and competitiveness of the services offered. All of this requires continuous and increased investments in technology that result in shrinking margins. The regulations, though recently renewed (152/06), will be subject to another, more extensive revision that should be more focused on decreasing the production of waste, recycling and a more selective incentive scheme for the production of electricity from waste, as well as a broader basin for service management.

The 2006 Finance Act profoundly changed the approach to incentives for energy from renewable sources. More in detail, the contributions for energy produced from sources combined with energy from renewable sources have been eliminated. Waste was included among these with the exception of the fraction coming from biomass. While this new scenario will have no impact on the plants that are already operating, it could have a large impact on all of the initiatives that have yet to become operative.

Pursuant to Legislative Decree n. 59 dated 18 February 2005 which deals with the prevention and reduction of pollution (I.P.P.C.- Integrated Pollution Prevention and Control) and in order to ensure greater environmental protection, the Integrated Environmental Authorisation was introduced which substitutes and voids the affects of any sort of waiver, grant or opinion issued regarding environmental matters. The Decree establishes what measures will be adopted in order to avoid or reduce emissions in the air, water and soil, including measures related to waste, in order to ensure a higher level of environmental protection overall. The focus is on energy related activities and on waste management.

On 31.01.2007, as per the above mentioned decree and in accordance with deadlines established by the region of Friuli Venezia Giulia, the request for an Integrated Environmental Authorisation for the Trieste WTE was filed.

The same authorisation will be requested for the Padua plant once all of the necessary documentation has been prepared and once the Veneto Region announces the filing deadlines and procedures.

At the end of the year a few of the deadlines established by law for the deposit of waste in landfills were extended along with other waste management procedures, ultimately penalising operators with plants that are more technologically advanced and more environmentally friendly.

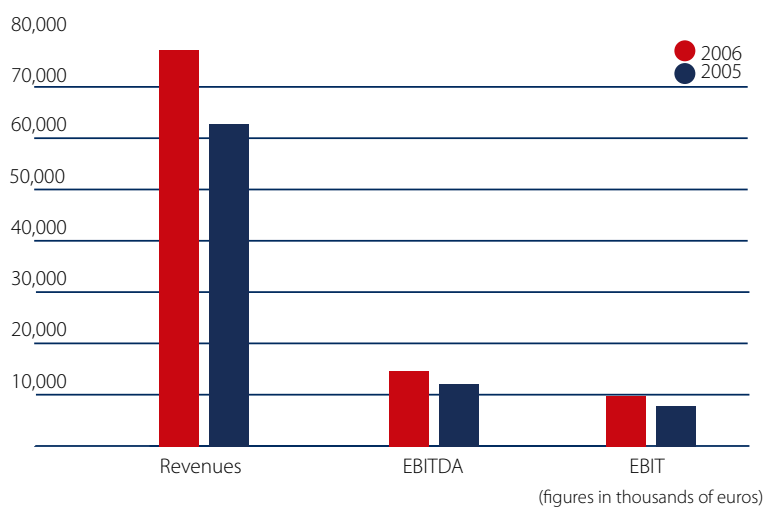
Currently there are no competing WTE plants in the area served by AcegasAps. The Environment Division's strategic objectives include:

- *expansion of the area of operations in the province of Pordenone through Naonis Energia and the province of Belluno through La Dolomiti Ambiente;*
- *enlargement of the area feeding AcegasAps's plants in Padua and Trieste;*
- *maximum valorisation of the electricity and thermal heat distributed;*
- *significant expansion of the storage activities even through cross border operations;*
- *expansion of landfill activities through Green Soil and Enviram;*
- *the launch of new initiatives designed to further expand the waste recovery capabilities of the SewProject, for which start-up procedures have already begun, and of Green Soil.*

AcegasAps, strengthened by the increased dimensions of its plants, continues to increase the penetration of the special waste market and has become a point of reference for an ever vaster area.



2.2.5. Services



	2006	2005	Change %
Revenues	77,384	62,931	22.9%
EBITDA	14,653	12,153	20.6%
EBIT	9,929	7,837	26.7%

> Economic results

Revenues for the Services Division increased by €14.5 million, attributable to the subsidiary **APS Sinergia's** expanded area of operations. The latter, in fact, increased revenues from €37.8 million in 2005 to €52.1 million in 2006 thanks, above all, to the spin-off of two divisions by shareholders in August 2005.

The **Funeral Services** segment also reported greater revenues (€0.3 million).

The **Public Lighting** activities (incorporated by AcegasAps for the Trieste area and carried out through the subsidiary APS Lightservice in the Padua area) also improved by some €1.0 million. The trend in operating results is similar to the trend in revenues. APS Sinergia's EBITDA increased by €2.2 million. The funeral services reported an EBITDA that rose from €0.3 million to €0.6 million. Profitability for public lighting was basically flat. EBIT increased by €2.1 million after increased amortisation, depreciation and writedowns of €0.2 million.

> Clients, products and services

The AcegasAps Group offers a series of complementary public services that include:

- **plant installation, maintenance and management**
- **total facility management**
- **district heating**
- **public lighting**
- **traffic light systems**
- **funeral and cemetery services**
- **relining**
- **telecommunications**

Scenario & Strategy

The Services Division is comprised of a number of activities and one of the Group's objectives is to enhance these activities. A few of these segments are part of free markets, contrary to the traditional regulated activities, that feature particularly profitable niches. Obviously, total facility management (through the subsidiary Aps Sinergia) is the most developed of these segments. The sector is characterised by a gradual consolidation process that has developed as a reaction to the shrinking profitability margins.

The Group intends to enhance this area of activity through the strengthening of the subsidiary's capital structure and possible mergers, particularly with local entities.

As the Group has two significant companies in the Public Lighting sector, it is considering creating a single company into which all the public lighting activities will be conferred in order to enhance the Group's specific expertise and to better address the gradual liberalisation process that is currently underway.

The Group is also at an advanced stage in the study of the possible aggregation of the activities of the subsidiary SIL (relining) and CST (a subsidiary of Aps Sinergia). The two companies are active in sectors that are complimentary to and synergic with the hydro sector.



AcegasAps