Annual
Review
2008

AcegasAps

Cover illustration taken from the book
“Portrait of a City” (“Ritratto di città”),
Fachin Publishers - Trieste
by De Vecchi, Resciniti, Vidulli.

AcegasAps’s Registered Office

Annual Review 2008

ACEGAS-APS S.p.A.

Subject to the management and coordination of ACEGAS-APS HOLDING S.r.l.
Listed on the Italian Stock Exchange as from 2001
Share capital €283,690,762.80 fully paid-in, subdivided in 54,978,830 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, VAT and Trieste Company Registry no. 00930530324,
Trieste Chamber of Commerce no. 111554

Dear Shareholders and Stakeholders,

AcegasAps Group's 2008 results confirm the validity of its strategic consolidation and internationalization. While certain critical areas linked to the general financial crisis became apparent during the last quarter and while the company was not totally unscathed by the typical sector trends, it managed to fully recover the profitability lost in 2007 due to extraordinary events, increasing its turnover and strengthening its position as one of the primary Italian multi-utilities.

The Group's turnover increased by 8.4% or €37.2 million to reach €480.5 million. EBITDA rose from €80.1 million to €90.5 million, equal to 18.8 % of sales versus 18.3% in 2007.

In 2008 size, which has become strategically important and is key to being able to compete domestically as well as deal with the growing interest of foreign players in our country, benefited from the consolidation of the initiatives begun in 2007, specifically the spin-off of the gas and electricity sales business in EstEnergy S.p.A. and the incorporation of the company Azienda Piovese Gestione Acque S.p.A. (Apga S.p.A.), manager of the integrated water service in 10 cities in the province of Padua.

Only through adequate size, in fact, will the company be able to adopt investment policies capable of ensuring competitive supply of services in Italy and abroad while also improving quality.
In terms of international activities, ACEGAS-APS S.p.A. continues to view the markets in Eastern Europe as a natural extension of its customer base. After the company SIGas d.o.o. was formed in order to develop the distribution networks and subsequent sale of methane gas to a few cities in central Serbia, work on methane pipelines in the area of Zapad, Bulgaria continued through the subsidiary Rila Gas AD.
In line with these strategic guidelines, on the back of the €80.1 million invested in 2007, an ambitious investment plan of € 81.2 million was implemented in 2008.
We will continue to implement this strategy even more aggressively in 2009 concentrating investments forecast of more than €100 million in foreign businesses and the construction of a third WTE line in Padua.

In terms of community relations, ACEGAS-APS S.p.A. continued to focus on the open and transparent dialogue that the company has with the community, while also promoting technical, financial and social initiatives with public entities and associations designed to sustain and develop the local area.

This is the fourth edition of our Annual Review which continues to be one of the few means of communicating with the multi-stakeholders of a listed company and which makes it possible to give maximum visibility and transparency to the commitment that AcegasAps and its staff have to building a business model based on shared development and responsible growth.

In terms of our organization, in 2008 AcegasAps's Code of Ethics was implemented and adhered to. This code contributes to enhancing the awareness and responsibility of directors, managers and staff, in line with the company's commitment to improving the standards of doing business and governance.

We would like to express our gratitude to the Group's staff of 1,705 for their commitment to ensuring that everyday the communities served are provided with essential services and are able to maintain the quality of life that is central to AcegasAps's mission. AcegasAps dedicated more than 13 thousand hours of training to these individuals during the year.

Massimo Paniccia
Chairman AcegasAps

Cesare Pillon
Managing Director AcegasAps

2008: financial position a

Dati Economici	2008	2007		Delta
- Ricavi Netti	481,1	443,3	37,7	8,5 %
- Margine Operativo Lordo	91,0	81,0	10,0	12,3 %
- Margine Operativo Netto	41,6	31,1	10,5	33,8 %
- Utile Netto Di Gruppo	13,9	41,6	-27,7	-66,7 %

Investimenti	2008	2007		Delta
Acqua	26,8	31,9	-5,1	-16,0 %
Energia	8,9	5,0	3,8	76,7 %
Gas	7,8	6,7	1,1	17,2 %
Ambiente	28,4	16,9	11,5	68,1 %
Servizi e Generali	9,3	19,6	-10,3	-52,6 %
Totale	81,2	80,1	1,0	1,3 %

Dati Patrimoniali	31.12.08	31.12.07		Delta
- Capitale Investito	677,4	660,1	17,3	2,6 %
- Capitale Circolante	52,8	84,8	-32,0	-37,8 %
- Patrimonio Netto	362,0	363,9	-1,9	-0,5 %
- Posizione Finanziaria Netta	-315,4	-296,2	-19,2	6,5 %

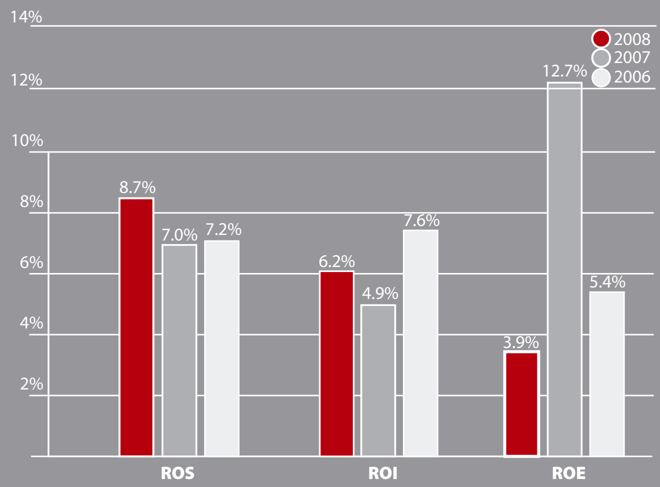
Cash Flow	31.12.08	31.12.07		Delta
- Funds from Operations	87,6	58,4	29,2	50,0 %
- Cash Flow Totale	-32,3	35,0	-67,3	192,3 %

Dati Tecnici	2008	2007		Delta
Energia Elettrica				
- Energia Distribuita (GWh)	791,7	773,7	18,0	2,3 %
- Energia Venduta (GWh)	827,3	991,3	-164,0	-16,5 %
- Energia Prodotta (GWh)	316,2	448,0	-131,8	-29,4 %
Gas				
- Gas Distribuito (milioni di m^3)	467,7	442,6	25,2	5,7 %
- Gas Venduto (milioni di m^3)	412,7	438,2	-25,5	-5,8 %
Ambiente e Acqua				
- Rifiuti Termovalorizzati (migliaia di tons)	234,4	214,9	19,6	9,1 %
- Energia Prodotta da Rifiuti (GWh)	121,5	115,5	6,0	5,2 %
- Acqua Venduta (milioni di m^3)	54,2	55,9	-1,7	-3,0 %

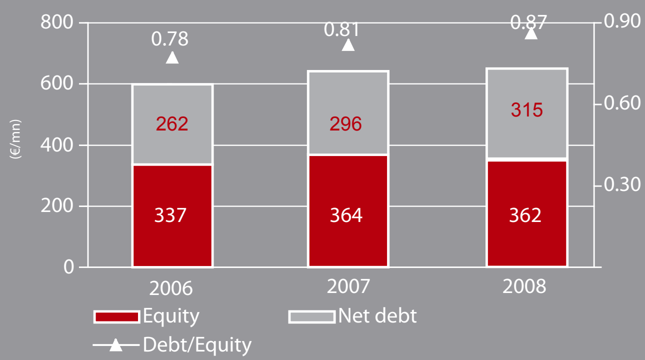
(figures in millions of euros unless otherwise indicated)

nd economic highlights

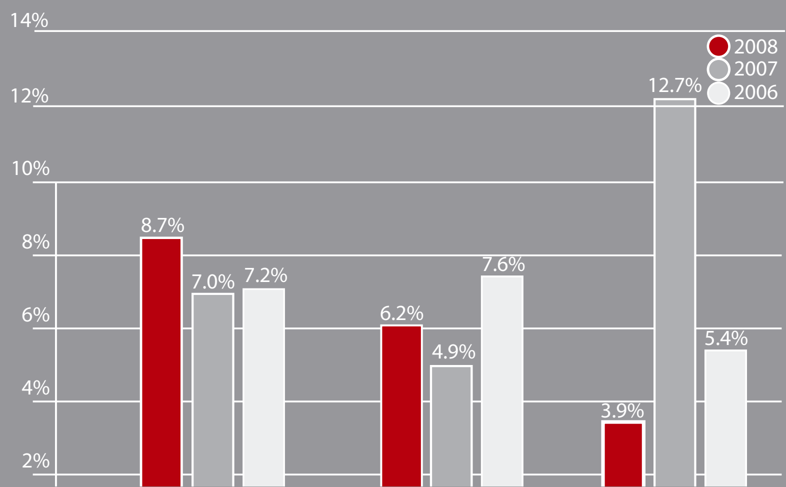
Profitability indicators



Financial indicators - Debt/Equity



Financial indicators - Debt/EBITDA



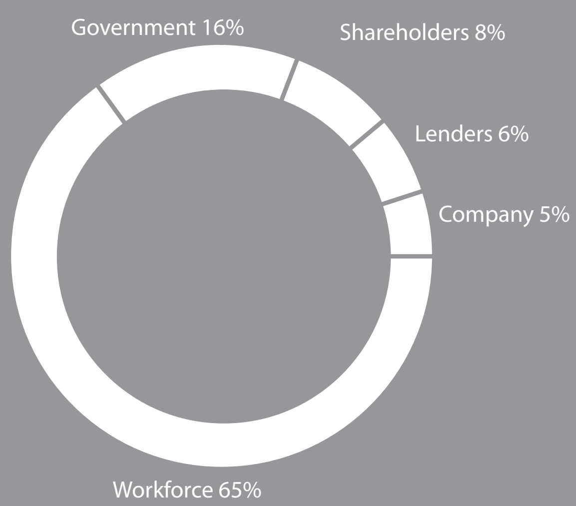
2008: Sustainability sum

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

- human rights
- labor rights
- environmental protection

The Economic Dimension

Net global value added: €130.2 million
Allocation of value added:



mary

The Social Dimension

Hours of training:
13,006

Injury frequency rate:
33.5 (Trieste) and 51.6 (Padua)
Injury severity rate:
1.19 (Trieste) and 1.36 (Padua)

Supply of drinking water: 529,414 inhabitants
Supply of electricity: 142,126 customers
Gas distribution: 262,308 delivery stations
Waste collection: 476,895 inhabitants

Direct customer contacts: more than 500,000

Suppliers in Veneto and Friuli-Venezia Giulia:
62.5% of the total acquired by the company.

The Environmental Dimension

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

Power generated by cogeneration, WTE and gas turboexpansion: 118.8 GWh

Recycling: Trieste area 20.8%, Padua area 46.2%

2008: Summary of intang

The Group's Human Resources

Executives	23
Managers	78
White-collars	752
Blue-collars	852
Total	**1,705**

Customer relations

Direct customer contacts: more than 500.000

Means of communicating with customers:

- Front Office
- Call Center
- Internet

Expiration of gas concessions

2009 Cadoneghe, Albignasego, Ponte San Nicolò

2010 Trieste, Sgonico, San Dorligo della Valle, Duino Aurisina, Monrupino, Padova, Saonara, Vigodarzere, Galzignano

Expiration of power concessions

2030 Trieste

Expiration of environmental services concessions

2007 Muggia

2008 Abano Terme

2009 Duino Aurisina, Ponte San Nicolò

2010 Saonara

2013 Noventa Padovana

2017 Trieste (smaltimento)

2028 Padova

2050 Trieste (raccolta)

Expiration of hot water and sewage treatment concessions

2015 Abano Terme

2027 Trieste, Muggia

2028 Padova

2030 Legnaro, Sant'Angelo, Polverara, Piove di Sacco, Arzergrande, Brugine, Codevigo, Pontelongo, Correzzola, Cona

Expiration of funeral services concessions

2030 Trieste

ible resources

Company Expertise

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

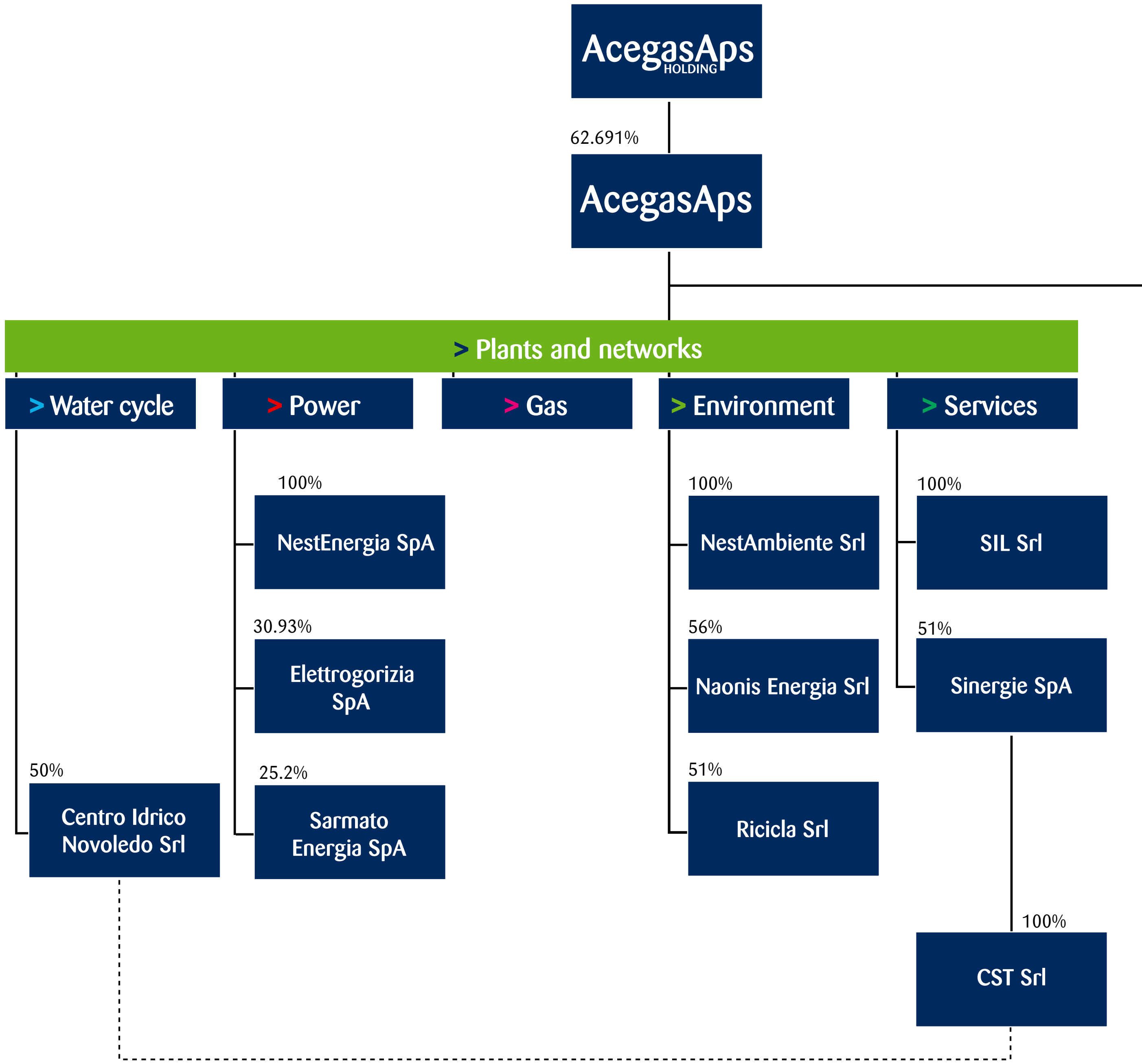
- design, and construction of networks and plants, management of sourcing, transport, adduction, treatment and distribution of drinking water;
- design and construction of networks and plants used as part of sewage and sewage treatment services;
- production of electric energy through cogeneration, WTE and gas turboexpansion:
- distribution of electricity
- design, construction and management of networks and plants used for the distribution of methane gas;
- sale of electricity and gas to both private and public entities:
- collection of special, medical and urban waste;
- waste to energy and district heating;
- urban street cleaning;
- clean-up of contaminated sites;
- plant installation, maintenance and management;
- total facility management;
- management, design and construction of district heating networks;
- 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 information systems network that includes 1,000 personal computers distributed throughout the more than 20 territorial headquarters.

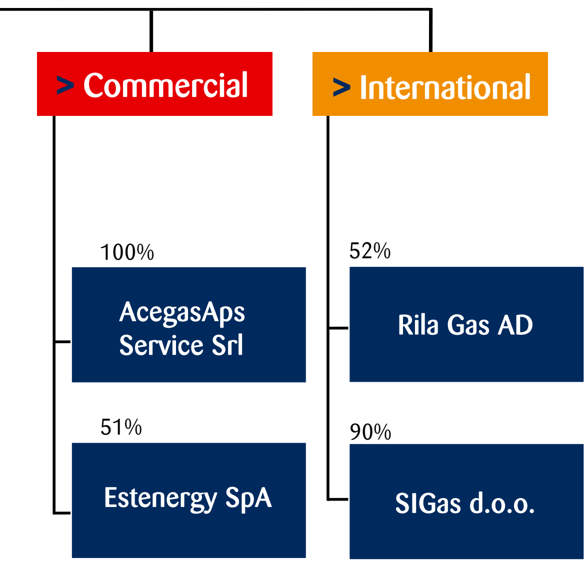
1.1

The AcegasAps Group

1.1.1 Group structure at 31.12.2008



	AcegasAps	NestAmbiente	NestEnergia	Estenergy	AcegasAps Service	Sinergie	CST	SIL	RilaGas	SIGas	Total
Executives	19			1		3					**23**
Managers	53			4	1	17	3				**78**
White-collar workers	605	1	1	60	3	57	8		11	6	**752**
Blue-collar workers	717	6			8	100	12	5		4	**852**
TOTAL	**1,394**	**7**	**1**	**65**	**12**	**177**	**23**	**5**	**11**	**10**	**1,705**



1.1.2 The Board of Directors

Chairman
Massimo Paniccia

Vice Chairman
Domenico Minasola (2)
Manlio Romanelli (1)

Managing Director
Cesare Pillon

Directors
Fulvio Beltrame (2)
Adriano Del Prete (2)
Massimiliano Fedriga *
Franco Ferrarese
Aldo Fontana (1)
Giovanni Gomiero
Aldo Minacci (1)
Giovanni Battista Ravidà **
Massimo Malaguti
Emilio Terpin ***

Board of Statutory Auditors

Chairman
Luca Savino
Permanent Auditors
Francesco Giordano
Michele Nasti
Alternates
Franco Degrassi
Ruggero Pirolo

Independent Auditors
Deloitte & Touche S.p.A.
Via Longhin, 103
35129 Padua

The role and the powers of the Board of Directors, its members and committees are described in the appendix on Corporate Governance.

1.2 Mission and values

The AcegasAps offers essential "quality of life" services and focuses on satisfying the needs of its stakeholders through:
- *the continuous search for efficiency and reliability;*
- *top quality customer service;*
- *adequate compensation and recognition of its staff's capabilities;*
- *careful attention to the social needs of the community where it operates;*
- *an improved environment thanks to the development of innovative technologies;*
- *a satisfactory return to shareholders and investors;*
- *the joint efforts and the exchange of know-how with suppliers and business partners.*

In order to do this, the AcegasAps Group works closely with local institutions, develops economies of scale, works on improving efficiency, encourages the development of internal know-how and, lastly, seeks out new markets.

Our values

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

The principles underpinning the company's relationships with its stakeholders can be summarized as follows:
- 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 part of the value created to the community.
- 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: these principles fuel the 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.

The staff members which are part of professional orders comply with the relative category codes of conduct. In terms of communications, the company adheres to the principles outlined in the Treviso Charter.

The 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.

The 10 principles are listed below:

Human rights

Principle 1
Businesses should support and respect the protection of internationally proclaimed human rights.
Principle 2
Businesses should make sure that they are not complicit in human rights abuses.

Labour standards

Principle 3
Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.
Principle 4
The elimination of all forms of forced and compulsory labour.
Principle 5
The effective abolition of child labour.
Principle 6
The elimination of discrimination with respect to employment and occupation.

Environment

Principle 7
Businesses should support a precautionary approach to environmental challenges.
Principle 8
Businesses should undertake initiatives to promote greater environmental responsibility.
Principle 9
Businesses should encourage the development and diffusion of environmentally friendly technologies.
Principle 10
Businesses should work against corruption in all its forms, including extortion and bribery.

The evaluation of all corporate risk is done in accordance with the precautionary approach, Principle 15 of the Rio Declaration: "Where there are threats of serious or irreversible damage, lack of full scientific certainty shall not be used as a reason for postponing cost-effective measures to prevent environmental degradation".

1.3 From 1864 to 2008

1864
The multi-utility that supplies the primary public services to the City of Trieste is born (Gas illuminante).

1888
The first duct for the transport of water from the Dueville (VI) springs to Padua is completed.

1891
The City of Padua manages the integrated water cycle directly.

1896
The City founds the Padua Municipal Gas Company.

1898
Electricity is produced in Trieste.

1910
Trieste's Municipal Waterworks Service is created.

1913
The first trash incinerator is started up in Trieste (then part of the Austro-Hungarian empire) which provides the electricity for the streetcar network.

1923
Trieste's activities are predominated by the supply of electricity and the company changes its name to Municipal Power and Gas Company (Azienda Comunale Elettricità e Gas" or ACEG).

1929
ACEG is absorbed by the waterworks company.

1934
The Trieste streetcar service is also incorporated and the company's name is changed to ACEGAT.

1958
The second waterworks in Padua is inaugurated.

1962
One of the first WTE plants in Italy and in Europe is completed in Padua.

1972
Methanization is completed which makes it possible to convert the Paduan network from city-gas to methane gas.

1976
The Padua Urban Waste Collection and Cleaning Services (Azienda Nettezza e Igiene Urbana di Padova or AMNIUP) is created and in 1977 recycling services are introduced. Its cleaning services are gradually expanded in inland cities.

1977
The transport sector in Trieste is spun-off. The company, under the name ACEGA, takes on what is basically its current structure (water, electricity and methane).

1984
The water and gas companies in Padua merge and AMAG is born.
AMNIUP's chemical-environmental service is activated in Padua and activities related to the disposal of hazardous toxic waste are expanded.

1994
ACEGA becomes part of the group of companies that produces electric energy.

1997
ACEGA becomes ACEGAS and a joint stock company with primarily public entities as shareholders (the city of Trieste owns 99%), with the possibility as from 2001 of selling up to 49% of its shares to private parties.

1999
The third waterworks is inaugurated in Padua.
Azienda Padova Servizi - APS is born, incorporating the water services, gas and environmental services previously carried out by AMNIUP and AMAG.

2000
ACEGAS begins a stock "exchange" with AMGA of Udine and AMG of Gorizia and is listed on the Milan Stock Exchange: the City of Trieste transfers 45% of its holdings in the company to the new shareholders. Important domestic and foreign financial groups acquire significant 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 in Trieste is completed along with the Elettrogorizia cogeneration plant.

2006
Start-up of foreign activities with RilaGas and the creation of Naonis Energia for the construction of a WTE plant in the province of Pordenone.

2007
Foreign activities are strengthened through the creation of Sigas.
Construction of the third WTE line in Padua begins.
49% of Estenergy is sold in order to reinforce the utilities sector in the Triveneto area.

2008

The third WTE line in Padua is in the process of being completed.
Construction of the gas distribution network begins in the Zapad region of Bulgaria.

1.4 Strategic positioning and macroeconomic scenario

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. The acquisition of APGA (an operator in Padua) was a first significant step in this direction and the formation of the optimal water district (Ambito Territoriale Ottimale or ATO) in the Trieste area should have similar consequences;*
- *power - increased production capacity through partnerships or new initiatives;*
- *environment - increase of WTE capacity and a continuous search for maximum operating efficiencies in waste collection and disposal;*
- *gas distribution - expansion of the scope of operations and reduced operating costs;*
- *sales - following the partnership with the Ascopiave Group, further commercial and operational efficiencies will be sought out with a particular focus on dual fuel activities;*
- *gas procurement - development of procurement capacity through the construction, in joint-venture with primary operators, of a regasification plant in the Trieste area;*
- *foreign markets - further development of these activities, particularly in East European countries;*
- *alternative energy - strengthening of these activities through the subsidiary Nestenergia S.p.A.. Other public and private entities will be involved In these activities in order to enhance the efficiency of the development activities.*

The Macroeconomic Scenario

2008 was characterized by a profound financial crisis initially tied to "sub-prime" loans in the United States which subsequently impacted the most important international financial institutions. Toward the end of 2008 there was a dramatic economic slowdown which became even worse at the beginning of 2009. While there are diverging opinions about its severity, there is no doubt that the world economy is moving toward a recession. There is, however, a general consensus that the economy will not begin to show signs of recovery before the second half of 2010. Countries in North America and Europe (the UK, Spain, Ireland) where real estate prices increased the most and where the use of credit derivatives was most widespread, were particularly hard hit by the crisis.

The financial crisis also affected areas which initially were thought to be immune to the situation thanks to the robust growth rates recorded in the recent past. The emerging markets in Asia and Eastern Europe, therefore, also reported severe slowdowns and, in some cases, suffered from true financial crises.

In 2008 the crisis caused a slowdown in the growth of world commerce (+5% versus +7.2% in 2007). The Untied States' gross domestic product grew 1.2% while in the Euro zone it grew by 1%. In Italy GDP contracted by 0.5%.

The monetary authorities implemented different measures designed to relaunch the economy. More in detail, the Fed continued to drastically reduced the cost of funds which reached 0.25% in December, with an inflation rate of approximately 4%. The European Central Bank, more concerned about inflation, set the cost of funds at 2.5% in December 2008. Inflation in the Euro zone was 3.3%. Italy's inflation was in line with this figure.

In terms of the dynamics of foreign exchange rates, the euro strengthened against the USD reaching 1.5 for the larger part of the year. It wasn't until the last quarter that the USD appreciated, closing the year at 1.35.

The price of oil peaked in July 2008 (USD 143.32/barrel). After a rapid decline in December the price of Brent crude reached USD 40. The average price in 2008 was USD 97.0/barrel (USD 72.5 in 2007)

The Italian energy markets were characterized by a decline in demand for gas and electricity.

In 2008 the demand for natural gas reached 83.1 billion m3, a drop of 0.3% over 2007. Performance in the first half was positive with a favorable climate and demand for power. The second half of the year was negatively impacted by the overall economic crisis. More in detail, domestic demand grew 6.8% while the industrial segment fell by a significant 9.8%.

The demand for electricity reached 337.6 TWh, a drop of 0.7% when compared to the prior year. Despite the drop in demand, national production increased by 4.0 TWh, thus covering 88.3% of the national demand (86.4% in 2007). Net imports were down. The increase in production is primarily attributable to the increase in renewable energy which grew by 9.5 TWh with a reduction in cogeneration. The market prices, which are linked to the price of crude oil, were very volatile. In 2008 the National Price Regulator's average price reached €87.0/MWh, an increase with respect to 2007 (€71.0/MWh).

1.5

Significant events in 2008

The Utilities Sector

In line with existing trends, aggregations continued in 2008.
The merger of AEM Milano and ASM Brescia, which resulted in the birth of A2A and the fledgling alliance between Iride and Enia, gave an added push to this process. While the number of transactions completed or in the process of being completed dropped, the 2008 transactions were decidedly more significant.
These transactions confirm the fact that sector consolidation is inevitable and necessary if we want to reach synergies that are large and varied enough to make a difference in the sector.
A few sector trends became abundantly clear:

a) firstly, the large energy players are looking outside of Italy for procurement sources in order to ensure that the country has adequate supply;
b) on a regional level, several large groups have begun to look at gradual consolidation, including through small-medium sized acquisitions. This process suggests that, ultimately, there will be a few large groups which will inevitably absorb the smaller utilities.

The larger size of the utilities stresses the need to have clear gas procurement policies which has become a strategic issue for both the country and the most important operators.

In the field of **energy procurement,** which is considered strategic in the current international context, institutional contacts have been intensified in order to ensure AcegasAps's presence (both in terms of procurement and shareholders) in the Trieste regasification construction project. The project, which is still being evaluated by the national and local authorities, seems to have generated ample consensus. Clearly, the growing geo-political uncertainty creates an environment which favors the projects capable of improving the country's autonomy in terms of energy supply. As already stated, the AcegasAps Group will most definitely be involved in the project.
In the **sales division**, following an intense period of consolidation in 2007 and the sale in December 2007 of 49% of its share capital to Ascopiave, the subsidiary Estenergy began a revision of both its organizational structure and its commercial activities which resulted, thanks also to favorable market trends, in operating margins which showed improvement over 2007. The partnership with Ascopiave made it possible to stabilize gas and power sales throughout the Triveneta area, while strengthening its presence and operating synergies.
The spin-off to Estenergy of the electricity sales to captive clients, for which the subsidiary AcegasAps Service Srl is currently responsible, is being analyzed. Effective 1 December 2007 AcegasAps transferred all its captive electricity clients to a Group company not active in the distribution sector following the approval, last 18 June, of the law decree "urgent measures for the implementation of EC directives related to liberalization of energy markets". Subsequently, the Electricity and Gas Authority issued several important resolutions related to the same issue (Resolution 134/07; Resolution 135/07; Resolution 144/07; Resolution 156/07).
It would seem opportune, during this phase of consolidation and quest for operating efficiencies, to combine all free market activities, current and potential, in one single entity.
In order to further develop its waste to energy capacity through the vehicle Naonis Energia S.r.l., of which AcegasAps holds 56%, the Group continued with its plans for the construction of a new **WTE plant** in the Pordenone area. In order to speed up the authorization process as much as possible and involve other partners, public and private, AcegasAps contacted all the relevant institutional parties. There is great interest and regional support for the project. The feasibility of this project will need to be re-examined in light of the reaction of the regional government that came to power in the second half of 2008.
Work also continued on the third WTE line in Padua which should be completed by the end of 2009. As of 31 December 2008 works costing approximately €35.2 million, out of a total contractual amount of €80.5 million, had been completed. The project is subject to environmental impact evaluation procedures by the Veneto Region . In May 2008 the Veneto Region and all the other entities involved began their environmental impact study (Studio di Impatto Ambientale or SIA) which was

to be completed by November 2008. The Veneto Region failed to file any objections by said date and AcegasAps began to take all the necessary steps in order to complete the procedure.
With regard to the **Ponte San Nicolò (Padua) landfil**l, the work connected to the surface perimeter and preparation of the site for waste collection was completed. 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", in July 2007 the motivation of the sentence in which two former managers of the former Azienda Padova Servizi S.p.A.(APS), then spun-off into ACEGASAPS, were found guilty of mismanagement of the site, was announced. AcegasAps is negotiating a settlement of the case filed for the civil damages incurred during the criminal proceedings with the Venice Court of Appeals and the Ministry of the Environment. The sole objective of this proceeding is to maintain proper standing with the community, as AcegasAps's is convinced to have acted in accordance with the law.
Before proceeding with the waste collection for which the authorization has been received, AcegasAps has decided to investigate further the implications, in terms of charges and technical issues involved in the clean-up of the sites indicated as motivating the court's findings.
The **foreign activities** were stabilized. The subsidiary Bulgara RilaGas began building a network in the Zapad region. The original business plan was revised and based on the new plan more than 110,000 users will be reachable (versus the 69,000 users provided for in the 2005 plan) for a total investment of more than €100 million. At full capacity the company should generate an EBITDA of approximately €12.0 million.
The Serbian company SIGas d.o.o.(a limited liability company) with registered offices in Belgrade began building a natural gas network in the cities of Pozega and Arilje.

In terms of the **power division,** the request for an environmental impact evaluation (Valutazione Impatto Ambientale) of increasing the capacity of the Elettrogorizia plant from 50 to 57 MGW was filed.
The substitution of 140,000 electricity meters with new remote controlled meters continued. At 31 December 2008 approximately 32,000 meters had been substituted. Substitution should be complete by 2010 following a total investment of approximately €15.0 million. This operation, required by the Electricity and Gas Authority, will allow the Group to offer better service to its customers.
The affiliate Sarmato Energia Spa carried out extraordinary maintenance designed to increase the flexibility of the plant managed by the company.
With regard to the **integrated water cycle division,** the integration of the businesses which were part of Azienda Piovese Gestione Acque S.r.l. ("APGA"), a company merged in AcegasAps in 2007, continued. The purpose of the transaction was to begin consolidation of the integrated water cycle activities pursuant to the reference sector law known as the "Galli Law". The merger of the two companies, as expected, will result in technical-operational and economic synergies, as well as improved service.
In the Trieste area talks with the Environmental Authority continued in order to begin the planning and preparation of the preliminary agreements necessary to be awarded service concessions and the tariffs provided for under the Galli Law. More in detail, the preliminary zoning and mapping of the existing infrastructures was completed so that the final plan might be ready, presumably, by June 2009.
With regard to the **organization**, please note that the provisions related to unbundling, issued by the Electricity and Gas Authority (Autorità per l'Energia Elettrica e Gas or AEEG) became effective as of 1 July 2008 as per resolution 11/07 and subsequent amendments. The guidelines pertaining to the obligations contained in this resolution were part of a subsequent resolution, dated September 2008. The Group organized different activities and changed its organizational structure in order to comply with the resolution, more specifically at the beginning of 2009 it fulfilled its obligations as an independent manager in accordance with the resolution.
A new program for the invoicing of sales activities is in the process of being introduced. This program will make it possible to combine the Group's different invoicing systems in one, single platform. Implementation, begun in 2008, should reach full steam in 2009 and be completed in 2010. The new invoicing system will make it possible to separate business lines as per the Authority's resolution 11/07.

With regard to financial communication and related activities, in June the Group presented its **new 2008-2010 business plan.** The plan forecasts revenues of more than €500 million by 2010 with growing operating margins and total investments of approximately €250 million, primarily in the environmental and integrated water cycle divisions. The new market conditions led to a revision, currently underway, of this plan which will be shared with the market in a timely manner.
In December 2008 the Parent Company transferred its corporate headquarters to **"Palazzo Modello",** a prestigious property facing Unità d'Italia Square.

1.6 The AcegasAps Group

1.6.1 Financial position and economic highlights

	2008	%	2007	%	Change	%
Revenues from sales	437,036	90.8	392,990	88.6	44,046	11.2
Other revenues and income	44,035	9.2	50,359	11.4	-6,324	- 12.6
Total net revenues	**481,071**	**100.0**	**443,349**	**100.0**	**37,722**	**8.5**
Consumables and services	(304,755)	- 63.3	(279,358)	- 63.0	-25,397	9.1
Other operating costs	(4,582)	- 1.0	(4,576)	- 1.0	-6	0.1
Personnel expenses	(80,697)	- 16.8	(78,379)	- 17.7	-2,318	3.0
EBITDA	**91,037**	**18.9**	**81,036**	18.3	**10,001**	**12.3**
Provisions	(592)	- 0.1	(2,991)	- 0.7	2,399	- 80.2
Amortisation , depreciation and impairment	(48,831)	- 10.2	(46,976)	- 10.6	-1,855	3.9
EBIT	**41,614**	**8.7**	**31,069**	**7.0**	**10,545**	**33.9**
Financial income	2,867	0.6	1,852	0.4	1,015	54.8
Financial charges	(20,790)	- 4.3	(16,599)	- 3.7	-4,191	25.2
Income (charges) from equity investments	(67)	-	150	-	-217	- 144.7
Income (charges) from investments booked at net equity	67	-	2,317	0.5	-2,250	- 97.1
Other income (charges)	60	-	48	-	12	25.0
Pre-tax profit	**23,751**	**4.9**	**18,837**	**4.2**	**4,914**	**26.1**
Income tax	(8,532)	- 1.8	(12,817)	- 2.9	4,285	- 33.4
Net profit (loss) from current operations	**15,219**	**3.2**	**6,020**	**1.4**	**9,199**	**152.8**
From discontinued operations	-	-	36,832	8.3	-36,832	- 100.0
Net profit (loss) for the period	**15,219**	**3.2**	**42,852**	**9.7**	**-27,633**	**- 64.5**
Attributable to:						
Minorities	**1,343**	**0.3**	**1,230**	**0.3**	**113**	9.2
The Group	**13,876**	**2.9**	**41.622**	**9.4**	**-27.746**	**- 66.7**

figures in thousands of euros

Revenues

2008	**481.071**
2007	**443.349**

The AcegasAps Group's **sales** in 2008 **increased** by 8.5% over 2007 **to €37.7million** due to the following factors:

- revenues from the **power division** rose by 4.8% from €105.0 million in 2007 to €110.0 million in 2008. The increase can be broken down as follows: €24 million from **sales activities**, (+34.4%), €4.6 million from free market customers (Estenergy) and €19.4 million from protected customers (managed by AcegasAps Service). This increase is due entirely to tariff dynamics linked to the increase in the cost of raw materials. The amount sold, in fact, fell from 991 GWh to 827 GWh (-16.5%). The revenues from **power generation** fell by €11.4 million due to the decline in the volume of electricity that was imported and generated (-19.8 GWh). **Distribution** revenues grew by 3.5%, in line with the amount transported (+2.3%);
- revenues from the **gas division** in 2008 rose by 6.7% from €110.9 million in 2007 to €118.3 million. The volume of gas distributed in the year increased by 5.7% over 2007 rising from 468 million cubic metres to 467.7 million cubic metres in 2008 which, in absolute terms, translates to an increase of 25.1 million cubic metres. The growth took place in both areas: in Trieste volumes rose from 150.2 million cubic metres to158.9 million cubic metres (+5.8%), while in Padua volumes rose from 292.4 million cubic metres to 308.9 million cubic metres (+5.6%). The increase in the amount **distributed** and the tariffs resulted in an increase of €1.4 million in sales from distribution in 2008 with respect to 2007. Revenues from sales rose noticeably from €85.0 million to €96.7 million due to tariff dynamics linked to the increase in the cost of raw materials. The volumes **sold** by Estenergy, in fact, dropped from 438.2 million cubic metres to 412.7 million cubic metres (-5.8%) due to the measures taken by the competition, in addition to the lack of contribution from a few industrial customers which were abandoned insofar as they were no longer remunerative;
- revenues from the **integrated water cycle business** increased by 10.9% from €63.5 million to €70.4 million. A total of 54.2 million cubic metres was sold versus 55.9 million cubic metres, a decrease of 3.0%. The drop in the quantity processed and sold was, at any rate, offset by the tariff increases recognized in both the Trieste and Padua areas;
- revenues from the **environment division** rose slightly with respect to 2007 (+€2.4 million). The **waste collection and street cleaning** businesses recorded an increase in revenues of €3.7 million thanks, above all, to the Padua area. The waste collected was basically in line with the prior year but with a larger percentage of recyclable waste, more than 46% of the total collected in the Padua area and almost 21% in the Trieste area. In the Padua area 204.1 thousand tonnes were collected (versus 202.1 thousand in 2007), while in the Trieste area the amount was unchanged over 2007 (121.1 thousand tonnes). Both **WTE plants** maintained the high standards of efficiency reached in previous years in Trieste while in Padua further improvements were made and, respectively, almost 154.3 thousand tonnes (139.7 in 2007) and 80.1 thousand tonnes (75.1 in 2007) of waste were treated. **The electricity produced** in Trieste reached 88.6 GWh (85.4 Gwh nel 2007) and 32.9 GWh in Padua (30.1 GWh in 2007). The lack in Trieste of part of the CIP6 incentives resulted in a loss of approximately €2.7 million over 2007 which was offset by the increased efficiency of the two lines which were shut down in 2007;
- the revenues from other **services** increased by a total of €6.2 million, rising from €74.9 million to €81.1 million. This increase reflects the positive performance of the subsidiary Sinergie with revenues that increased by €5.2 million with respect to 2007 thanks to favourable weather conditions and new contracts.

The breakdown of revenues by division is as follows (in millions of euros):

Division	2008	2007	Change
Power	110,0	105,0	5,0
Gas	118,3	110,9	7,4
Integrated water cycle	70,4	63,5	6,9
Environment	106,0	103,6	2,4
Services	81,1	74,9	6,2
Overheads	4,7	3,8	0,9
Elisions	(9,4)	(18,4)	9,0
Total	**481,1**	**443,3**	**37,7**

Please note that during fourth quarter 2008 the Group recorded revenues of €143.8 million versus €134.9 million in fourth quarter 2007.

Raw materials and services
2008 (304.755)
2007 (279.358)

The cost of raw materials and services increased by €25.4 million or 9.1% from the €279.4 million recorded in 2007 to € 304.8 million in 2008. This change is attributable to the following factors:

- **the cost of raw materials and consumables:** this item rose by €16.0 million or 8.7% from the €184.2 million recorded in 2007 to €200.2 million in 2008 due to the increase in the cost of raw materials for energy. More in detail, the total cost of raw materials purchased by AcegasAps and AcegasAps Service (considered jointly in light of the changed perimeter of consolidation effective as from December 2007) reached €70.2 million in 2008 versus €61.8 million in 2007 (+13.5%). The subsidiary Estenergy contributed €103.1 million to the cost of raw materials (gas and electricity) versus €91.5 million in 2007. The increases were in line with the trend in revenues;
- **the cost of non-energy materials and services** rose from €95.2 to €104.6 million. The **expenses for waste collection and transport** showed the biggest increase; from €25.2 million to €26.2 million. In absolute terms this item dropped for AcegasAps, falling from €25.4 million to €20.0 million. In 2007, in fact, the shut down of the two WTE lines in Trieste resulted in higher disposal costs. The increase is attributable to the costs incurred by the subsidiary Nestambiente (€1.5 million in 2008 versus €0.1 million in 2007) as the company increased the scope of its business considerably. **Maintenance and repair costs** rose by €0.7 million from €24.8 to €25.5 million in light of more intense maintenance activity and total maintenance charges were greater than in 2007 but extraordinary in nature and, therefore, capitalized;
- the item **"wheeling"** rose by €7.6 million from €5.9 million to €13.5 million. Again in this instance the increase is attributable to greater volumes and the fact that as of 31 December 2007 protected electricity customers were transferred to the subsidiary AcegasAps Service. Consultancies and services fell from €10.5 million to €9.4 million. The concession fees were basically unchanged at €2.8 million (€2.6 million in 2007);
- the **costs for other services** fell from €9.8 million to €9.3 million;
- **insurance** costs rose from €2.8 to €3.5 million.

Overall the **cost of raw materials and services** as a percentage of revenues rose 63% in 2007 to 63.3% in 2008. The slight deterioration with respect to 2007 is due primarily to the increased cost of raw materials which was not entirely passed onto to the customers.

Other operating costs
2008 (4.582)
2007 (4.576)

The **other operating costs** were in line with the prior year at €4.6 million. The most significant component is the other charges which increased from €1.4 to €1.8 million and taxes which rose by €0.6 million (from €0.7 to €1.3 million).

Personnel expenses
2008 (80.697)
2007 (78.379)

Personnel expenses rose €2.3 million or 3.0% from €78.4 million to €80.7 million. The increase is attributable for €1.0 million to the Parent Company AcegasAps, for €0.9 million to the subsidiary Sinergie and for €0.4 million to the smaller subsidiaries. The

Parent Company benefited from extraordinary income related to personnel of €2.5 million following regulatory changes which eliminated certain social charges. Net this extraordinary item the increase in personnel expenses would have been € 3.5 million attributable for €1.3 million to the change in the perimeter of consolidation (26 ex-Apga employees) and for €2.2 million to dynamics related to the cost of labour.
The personnel expenses of the subsidiary Sinergie showed an increase due to the changed perimeter (new contract linked to the new Mestre hospital) which resulted in higher costs of approximately €1.0 million YoY.
The total number of Group employees rose from 1,677 at 31 December 2007 to 1,705 at 31 December 2008. This increase of +28 heads includes 20 heads which were hired at foreign subsidiaries.

EBITDA	
2008	**91.037**
2007	**81.036**

EBITDA rose by €10 million or 12.3% from €81.0 million to €91.0 million. EBITDA as a percentage of revenues in 2008 reached 18.9% (compared to 18.3% in 2007). Please note that in the fourth quarter 2008 the Group's EBITDA fell from the €28.3 million recorded in fourth quarter 2007 to €24.8 million.
The increase of €10 million recorded in 2008 is explained by factors amply commented upon in the interim financial statements. The increase is attributable for €8 million to the Parent Company and for €2.0 million to the subsidiaries.
The main factors which led to a full recovery of margins vis-à-vis 2007 are summarized below:

- the **power division**'s EBITDA fell by €1.2 million from €13.8 to €12.6 million. The sales prices for electricity were less profitable than in 2007 which resulted in a drop of margins equal to €0.4 million. Distribution lost €2.4 million. The drop in distribution's profitability is explained by a less favourable tariff scheme which, however, benefited the sales activities which recorded an EBITDA that was up by €1.2 million.
- the **gas division** recovered €1.6 million, rising from €22.7 to €24.3 million. This trend is attributable to the following factors:
    - the positive contribution made by the distribution business, which benefited from greater volumes, of €1.0 million;
    - the positive contribution from sales of €0.9 million. We remind that Estenergy contributed 51% to the Group's result. While the sales volumes were down, they benefited from better gas purchasing conditions, recognition of the retail (corrispettivo relativo alla venditda al dettaglio or QVD) component and an improved commercial mix. The contracts with several large customers, as mentioned previously, were terminated for lack of profitability;
    - the negative contribution of the foreign subsidiaries (RilaGas and SiGas) which recorded a negative EBITDA of €0.2 million. These businesses are still in the start-up phase and, therefore, have yet to make a positive contribution to margins;

- the **environment division** rose from €28.9 million in 2007 to €32.5 million. Despite the reduction of CIP6 incentives (€2.7 million), the effects of the shut down of the two WTE lines in 2007 were entirely reabsorbed. EBITDA for waste collection and street cleaning rose by €1.4 million over 2007);

- the **integrated water cycle division** reported an increase in EBITDA of €3.7 million (rising from €28.1 million to €31.8 million). In the Padua area EBITDA rose from €17.0 million to €19.9 million and in Trieste from €14.3 to €14.6 million. The **division's structural costs** dropped making it possible to improve EBITDA by an additional €0.4 million. The significant improvement in margins recorded in both areas is primarily attributable to tariff revisions as well as to a change in the allocation of structural costs;

- the contribution of **other services** increased as EBITDA rose by €0.3 million from €14.4 million to €14.7 million). The subsidiary Sinergie reported an increase in EBITDA of €0.1 million and the public lighting sector of €0.8 million. The other sectors dropped overall;
- **overheads improved** by €2.0 million due to the direct allocation of certain costs to the single divisions and greater efficiencies in terms of human resources.

Provisions

2008	(592)
2007	(2.991)

Provisions fell from €3 million to €0.6 million. In 2007 provisions, in fact, included €3.8 million for ordinary and extraordinary layoffs for the period May 2005 through December 2007. in 2008 provisions were made solely for the year (€1.7 million). Following official exemption received from the national insurance agency (INAIL) for asbestos disability for the period 1998-2006 provisions of €0.4 million were released.
The civil liability provision related to Ponte San Nicolò (Padoua) clean-up which was increased in 2006 from €2.0 million to €5.5 million was prudently left unchanged in the financial statements at 31 December 2008. The Parent Company has, in fact, begun negotiations in order to define any disputes which should be settled in 2009.

Amortisation , depreciation and impairment

2008	(48.831)
2007	(46.976)

Amortisation , depreciation and impairment increased by €1.9 million, rising from €46.9 million to €48.8 million. Amortisation and depreciation rose by €0.2 million from €46.4 million to €46.6 million. The increase in depreciation reflects capitalization in 2008 which resulted in new fixed assets. The primary capitalized assets involved the Investments made in the integrated water cycle division's distribution network, in the power division's electricity and gas distribution networks and in the district heating sector's plants under management.
The **provision for bad debt** amounted to €2.2 million (€0.5 million in 2007) which includes the amount necessary to
cover potential user and customer insolvencies. The provision is higher than in 2007 (€1.7 million) as the existing provisions were found to be in need of an increase in light of greater risk associated with several positions.

EBIT

2008	41.614
2007	31.069

EBIT in 2008 amounted to €41.6 million compared to €31.1 million in 2007, an increase of €10.5 million. In the fourth quarter EBIT amounted to €12.2 million versus €13.8 million in the same period 2007.

Financial charges

2008	(20.790)
2007	(16.599)

The **financial charges** increased from €16.6 million to €20.8 million. The increase is primarily due to an increase in market interest rates and in the Group's average financial exposure. More in detail, **interest owed** on mortgages increased from €10.9 million to €14.2 million. Overdraft charges with banks rose from €2.7 million to €2.8 million.
AcegasAps took certain steps designed to further optimize the Group's financial structure. More in detail, a feasibility study regarding factoring and another medium-long term loan for the construction of the third WTE in Padua is in the process of being finalized. The objective of these transactions would be to further reduce liquidity risk which was already largely reduced in May 2007 when a loan of €230 million was obtained.
Income taxes were lower than in 2007, falling by €4.3 million from €12.8 million to €8.5 million, as was the consolidated tax rate which dropped from 68.0% to 37.9%. The tax rate in 2007 was heavily penalized by the contraction in pre-tax profit. In addition, in 2008 the parent company, ACEGAS-APS S.p.A., benefited from the application of a flat-rate tax to realign mismatches between the accounting and tax values of its assets at 31 December 2007 (arising from deductions made in previous years); the parent company was the only company in the group able to benefit from this "franking of deferred taxes". The recognition of €1.8 million for the flat-rate tax and the reversal of €4.1 million in deferred tax liabilities had the net effect of reducing the parent company's tax charge for the year by €2.3 million. Furthermore, the rates of IRES (corporate income tax) and IRAP (regional business tax) were

reduced in 2008 from 33% to 27.5% and from 4.5% to 3.9% respectively and the rules for IRAP were changed to eliminate the disallowance of certain costs that were added back to taxable income up until 31 December 2007. The IRES rate applying to the subsidiary Estenergy has been increased by 5.5% under Decree 112/2008 (known as the "Robin Hood Tax").

Pre-tax profit

2008	**23.751**
2007	**18.837**

As commented above, the **pre-tax profit** rose from €18.8 million to €23.8 million. The Group, despite the positive operating performance, suffered from the increase in interest rates which has taken place over the last 18 months and a high tax burden.

Net profit/(loss) from current operations

2008	**15.219**
2007	**6.020**

The **net profit/(loss) from current operations** rose by €9.2 million from €6.0 million in 2007 to €15.2 million.

Income from the disposal of assets reached €36.8 million in 2007. AcegasAps, in accordance with IFRS 5, classified the capital gain from the sale of 49% of Estenergy under discontinued operations.

The Group's net profit

2008	**13.876**
2007	**41.622**

The **Group's net profit** fell, for the reasons explained above, from €41.6 million in 2007 to €13.9 million. The **portion attributable to minorities** amounted to €1.3 million.

	31/12/2008	31/12/2007	Change	
CAPITAL EMPLOYED				**%**
Trade receivables	**206,359**	209,745	-3,386	-1.6
(Trade payables)	**(137,325)**	(127,491)	-9,834	+7.7
Warehouse inventories	**10,764**	9,009	+1,755	+19.5
Other short term assets/(liabilities)	**(27,027)**	(6,479)	-20,548	+317.1
Net working capital	**52,771**	**84,784**	**-32,013**	**-37.8**
Plant, property & equipment and intangible assets	**664,767**	621,460	+43,307	+7.0
Non-current financial assets	**15,073**	15,981	-908	-5.7
Provisions for employee severance and social charges	**(27,500)**	(27,632)	+132	-0.5
Provisions for risks and charges	**(20,551)**	(23,967)	+3,416	-14.3
Other net non-financial assets/(liabilities)	**(7,129)**	(10,498)	+3,369	-32.1
Net non-current assets	**624,660**	**575,344**	**+49,316**	**+8.6**
Total capital employed	**677,431**	**660,128**	**+17,303**	**+2.6**
SOURCES OF FUNDING				
Share capital	**283,691**	283,691	-	-
Earnings and reserves	**66,452**	69,162	-2,710	-3.9
Minority interests in equity	**11,846**	11,027	+819	+7.4
Net equity	**361,989**	**363,880**	**-1,891**	**-0.5**
Net bank borrowings	**33,427**	1,140	+32,287	+2.832.2
Other current financial assets	**(11,039)**	(2,816)	-8,223	+292.0
Current financial liabilities	**87**	-	+87	-
Non-current financial assets	**(853)**	(4,169)	+3,316	-79.5
Short term portion of m/l term financial payables	**16,497**	16,374	+123	+0.8
M/l term financial payables	**277,323**	285,719	-8,396	-2.9
Net financial position	**315,442**	**296,248**	**+19,194**	**+6.5**
Total sources of funding	**677,431**	**660,128**	**+17,303**	**+2.6**

	31/12/2008	31/12/2007
- Medium/long term borrowings w. banks/lenders	263.609	270.518
- Medium/long term debt vs. Parent Company	13.714	15.201
- Medium/long term financial receivables vs. Parent Company	-	-3.350
- Non-current financial assets	-853	-819
Medium/long term debt	**277.323**	**282.369**
-Short term borrowings w. banks/lenders	14.499	14.686
- Short term debt vs. Parent Company, subsidiaries	1.998	1.688
- Short term financial receivables vs. Parent Company	-7.570	-2.816
- Current financial assets	-3.469	-
- Current financial liabilities	87	-
Short term debt	**5.545**	**13.558**
- Net cash	33.427	1.140
Net financial position	**315.442**	**296.248**

figures in thousands of euros

Capital employed

In 2008 **capital employed** increased over the prior year by €17.3 million or 2.6% from €660.1 million to €677.4 million.

Net non-current assets

Net non-current assets rose by €49.3 million from €575.3 million to €624.7 million. Plant, property and equipment and intangible assets increased by €43.3 million from €621.5 million to €664.8 million due primarily to investments made in the year of €89.0 million. The substantial volume in investments is accompanied by amortisation and depreciation totalling €46.6 million.
Investments, as explained in detail in the sections dedicated to the different divisions, involved all areas of operation. Of note is the €35.2 million spent between 2006 and 2008 for the construction of the third WTE in Padua, the investments made in the integrated water cycle of €26.9 million, including following the purchase of APGA, and the €9.0 million invested in the electricity distribution network. The Group did face, and will continue to face in 2009, a phase involving significant investments in the environment and integrated water cycle businesses. The purpose of the investments is to ensure the Group's growth through the expansion of its current portfolio of activities and to improve the overall profitability. This involves a significant financial commitment, but is of fundamental importance to the Group's strategy going forward.

Provisions for risks and charges

Provisions for risks and charges fell by €3.4 million from €24.0 million to €20.6 million. The changes are explained in the notes to the income statement. During the year the company utilised the provisions made for events deemed probable booked in prior years. The provision for risks was subject to releases and utilisation totalling €2.7 million.
The principle releases, totalling €0.6 million, were related to disputes with social welfare agencies. For further details please refer to the section "Other Information".

Net working capital

Net working capital fell noticeably, despite the increase in revenues (+8.5%), from €84.8 million to €52.8 million (- €32.0 million). The decline is attributable, in part, to improved efficiency in managing billing cycles which in 2007 suffered from a slowdown due to the numerous extraordinary operations and, in part, to careful credit management.
More in detail, **trade receivables** fell by 1.6% from €209.7 million in 2007 to €206.4 million. **Trade payables** increased by 7.7%, in line with the increase in turnover, from €127.5 million to €137.3 million. Of note is the increased attention that was paid to the management of payments due.
There was a noticeable increase in other **short term assets/liabilities**, which rose by €20.5 million from the €6.5 million recorded in 2007 to €27 million. At the end of 2007 this item included IRES and IRAP tax credits against a reduced taxable income and the deposits made in excess of the amount actually owed. At the end of 2008 these positions were negative, which had a positive impact on net working capital.

Net financial position

Net financial position at 31 December 2008 shows net debt of €315.4 million, an increase of €19.2 million over the €296.2 million recorded at 31 December 2007.
The increase is attributable to the significant investments made (€89.0 million), as commented above, and the payment of dividends (€16.6 million).

Net equity

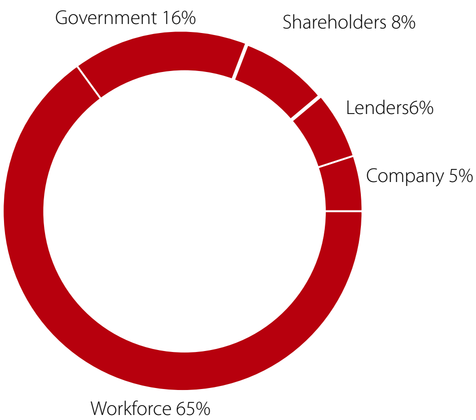
The **net equity** at 31 December 2008 totalled €362.0 million, a slight drop with respect to 31 December 2007 (€363.8 million), thanks to the income for the period (€15.2 million). We remind that the Shareholders' Meeting of the Parent Company held in May 2008 resolved to distribute dividends of €16.6 million.

1.6.2 Calculation and Distribution of Value Added

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

Calucation of value added	**2008**	**2007**	**2006**
Production value	**480.048**	**442.366**	**618.060**
Production costs	**-306.115**	**-281.732**	**-447.273**
Consumables	-200.291	-183.916	-348.942
Cost of services	-93.530	-84.272	-88.213
Leases and rentals	-7.255	-7.768	-6.005
Provisions for risks	-592	-2.991	450
Other provisions	-2.224	-523	-1.496
Other operating costs	-2.223	-2.262	-3.067
Gross value added	**173.933**	**160.634**	**170.787**
Extraordinary operations and items	**2.920**	**43.352**	**4.018**
Balance extraordinary operations	2.860	4.319	3.755
Balance extraordinary items	60	39.033	263
Total gross value added	**176.853**	**203.986**	**174.805**
Amortisation and depreciation	-46.607	-46.453	-42.932
Total net value added	**130.246**	**157.533**	**131.873**

Distribution of value added	**2008**	**2007**	**2006**
Paid to the workforce	**-84.376**	**-81.781**	**-82.035**
Non-employees	-3.140	-2.874	-2.555
Employees			
- direct	-60.039	-58.416	-58.705
- indirect	-21.197	-20.491	-20.775
Paid to the government	**-9.844**	**-16.275**	**-20.311**
Direct taxes	-8.532	-14.970	-18.844
Indirect taxes	-2.335	-2.288	-2.480
(subsidies)	1.023	983	1.013
Paid to lenders	**-20.783**	**-16.599**	**-11.439**
Short term loans	-5.663	-4.470	-3.299
Long term loans	-15.120	-12.129	-8.140
Paid to investors	**-8.247**	**-16.494**	**-16.453**
Paid to the company	**-6.971**	**-26.356**	**-1.619**
Donations	**-25**	**-28**	**-16**
Total net value added	**-130.246**	**-157.533**	**-131.873**



figures in thousands of euros

1.6.3 Investments

The investments made in 2007 by the Parent Company, ACEGAS-APS S.p.A., amounted to €81.2 million versus €80.1 million in 2007 and budgeted investments of €114.1 million.

The investments made in the **integrated water cycle** were made largely in the Padua area (€18.1 million) and, to a lesser degree, in the Trieste area (€8.7 million). The investments in the Piovese area (following the purchase of APGA) reached €4.1 million. Investments for hook-ups reached a total of €2.1 million.

The investments in **power** reached €9.0 million; €3.6 million of which were for the development of the remote control meters; €1.5 million for hook-ups; and €4.0 million for network maintenance.

Investments in the **gas division** amounted to €8.2 million, €6.4 million of which for network maintenance and €1.8 for hook-ups.

The most significant investment in the **environment division** was in the third WTE line in Padua where a total of €35.2 million has been invested between 2006 and 2008. Other significant investments were made in waste collection (€1.7 million).

The most significant investment in the **other services division** was in the remodelling of Palazzo Modello (€4.0 million) which became the Parent Company's headquarters as of December 2008.

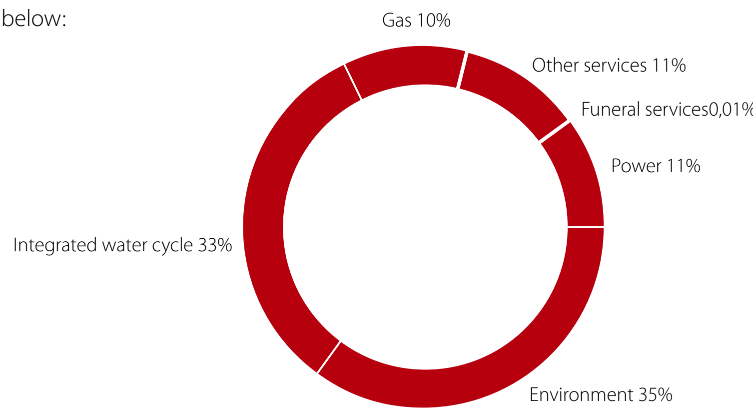
The investments made by subsidiaries were, overall, modest with the exception of Sinergie which invested approximately €6.3 million in the district heating facilities.

The Bulgarian subsidiary RilaGas also invested a total of €3.0 million in the construction of the gas distribution network in the Zapad region.

A more detailed description of the investments made is provided in the sections dedicated to the different divisions. The Group has budgeted investments of €137.2 million for 2009.

	2008	2007	Change %
Integrated water cycle	26.813	31.906	-15,96
Power	8.856	5.012	76,70
Gas	7.802	6.656	17,22
Environment	28.362	16.868	68,24
Funeral services	25	7	257,14
Other services	9.304	19.619	-52,58
Total	**81.162**	**80.058**	**1,38**

The investments made in each division are summarised below:

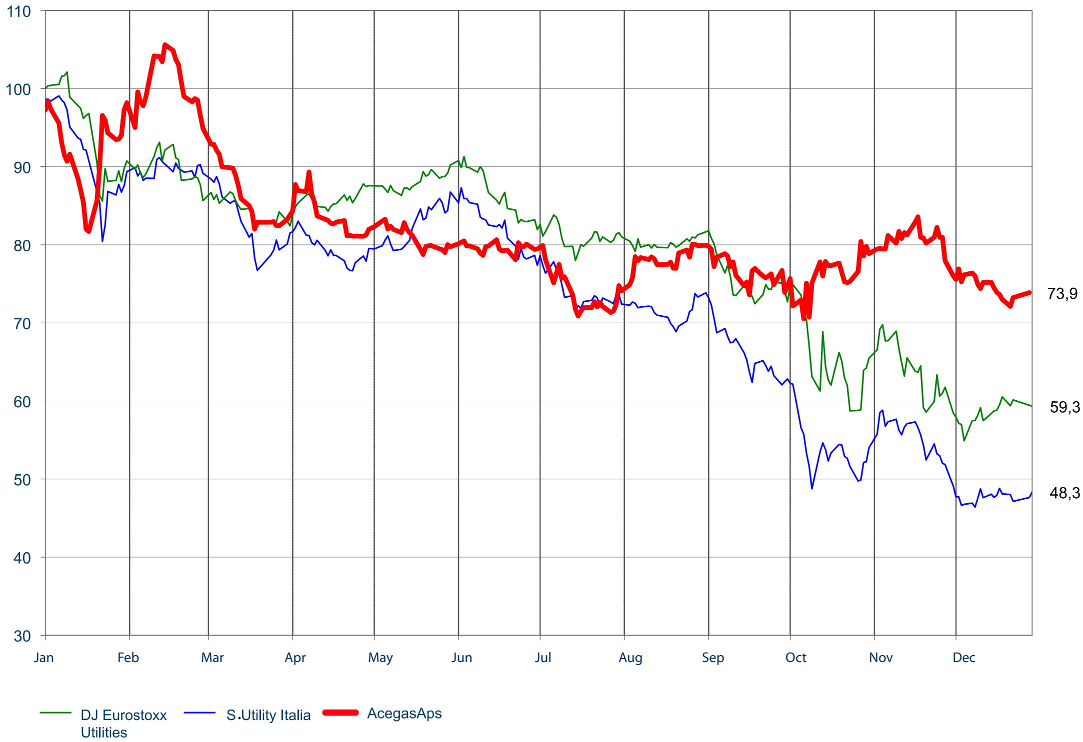


figures in thousands of euros

1.6.4 Significant Events Subsequent to 31 December 2008

The most significant events subsequent to 31 December 2008 include:

- on 5 February 2009 AcegasAps, Enel and Tei signed the memorandum of association for Adria Link Srl, with registered offices in Gorizia. The three partners have equal shares in the company. The company's purpose is to construct and manage interconnected electricity infrastructures between Italy and Slovenia in accordance with EC Regulation 1228/2003 which is designed to facilitate the exchange of energy between EU member countries. More in detail, Adria Link will be involved in two interconnection projects which call for the construction of two underground electroducts connecting power stations in Zaule and Redipuglia with two stations in Slovenia. The two interventions, which call for investments of €31 million, should make it possible to exchange a capacity of approximately 250 MW. The network managers in Italy and Slovenia have already expressed their favourable opinion of the interconnection projects and the process necessary to obtain authorization from the Friuli Venezia Giulia region is at an advanced stage;
- on 17 February 2009 AcegasAps's Board of Directors examined the binding offers related to the purchase of a minority stake in the company, in the process of being formed, which is to oversee the management of the WTE plants in Trieste and Padua. Following its examination of the proposals, the Board of Directors noted that the market conditions are currently not favourable and, therefore, it resolved to not accept any of the offers and to suspend the sale of the stake;
- on 24 March 2009 ACEGAS-APS S.p.A.'s Board of Directors resolved to purchase the 49% of the share capital held by Cofathec Servizi S.p.A. in the subsidiary Sinergie S.p.A. for, based on the fairness opinion, for €20.0 million.



1.6.5 The Relationship with Shareholders, Investors and Institutions

2008 was a very difficult year for the financial markets. The first signs of the crisis, commonly associated with the failure of the sub-prime mortgage sector, actually were already visible in the second half of 2007 with the nationalisation of Northern Rock and the liquidity problems encountered by several investment funds managed by important international banks. It wasn't until the second half of 2008, however, following the bailout of Fanny Mae and Freddy Mac, the bankruptcy of Lehman Brothers and the subsequent extraordinary manoeuvres made by governments and central banks worldwide, that the magnitude of the financial crisis became abundantly clear and was compared more often than not, rightly or wrongly so, to the 1929 crisis.

The major stock indices lost a large part of their value. In 2008 the FTSE lost 31.3%, Dow Jones 33.8%, DAX 40.4%, Nikkei 42.1%, CAC 42.7% and the Hang Seng a whopping 48.3%. Italy was no exception to this negative trend as the year closed down by half; the Mibtel was down by 48.1% while the S&P MIB dropped by 48.8%.

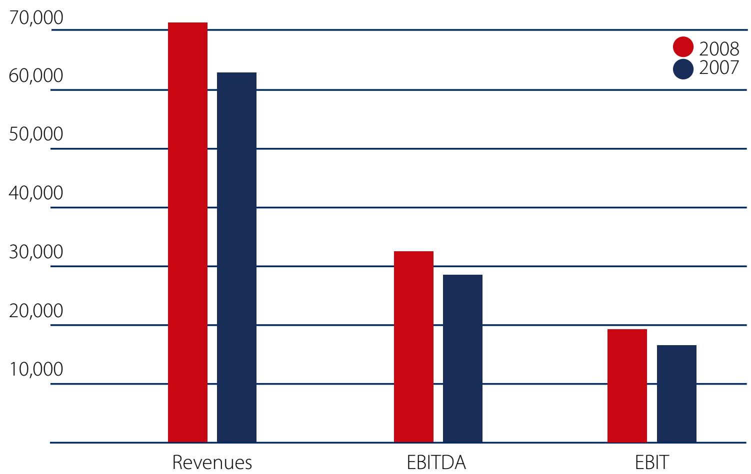
AcegasAps also closed 2008 in the red but the stock performed decidedly better than all the reference indices. While the Eurostoxx Utilities index fell by 40.7% and the index used to benchmark the local Italian utilities declined by 51.7%, AcegasAps's stock only lost 26.1%. This performance undoubtedly reflects the defensive nature, given AcegasAps's business model based on a diversified portfolio and primarily regulated sectors, of the stock.

AcegasAps's market capitalisation at the end of 2008 amounted to €271 million. In terms of dividend yield, **in 2008 AcegasAps confirmed the 2007 dividend of €0.30 per share which corresponds to a dividend yield – calculated based on the average price 30 days prior to approval - of 5.6%.**

PERFORMANCE BY DIVISION

2.1 Integrated water cycle

In 2008 the global management of services in the Trieste, Padua and Piovese areas was stabilised. Effective 1 October 2007, following the absorption of Azienda Piovese Gestione Acque ("APGA S.r.l."), ACEGAS-APS S.p.A. took over the management of the integrated water cycle in ten cities located in the Saccisica area, in the province of Padua and Venice. The 2007 comparison figures, therefore, reflect the consolidation of the newly acquired company as of the third quarter of the year while the 2008 figures reflect operations for the entire year.



figures in thousands of euros

	2008	2007	Change %
Revenues	**70.408**	63.491	10,9%
EBITDA	**31.785**	28.120	13,0%
EBIT	**19.956**	16.818	18,7%

Economic results

Sales revenues increased by 10.9% over 2007.
The **volume** of water distributed to third parties, net internal consumption, fell by 2.3% in the Trieste area and by 3.7% in the Padua area, linked to direct management in Saccisica for the entire year versus just the last quarter in 2007. A total of 54.2 million cubic metres was sold versus 55.9 million cubic metres in 2007, a decrease of 3.0%. Overall the negative trend in water consumption, due to a change in demographics and consumer habits, was confirmed.
In terms of **sewage treatment** a total of 18.2 million cubic metres was treated (18.6 million cubic metres in 2007) in the Trieste area and of 22.6 million cubic metres in the Padua area (21.8 million cubic metres in 2007).
In the Trieste area, where the Local Environmental Authority or AATO is not yet operative, the previous tariff system (CIPE) is still effective; the service benefited from a tariff increase of 3.8% effective as of 1 August 2008.
In the Padua area, as of 1 January 2008, the tariffs approved by the AATO (which are the same for the Padua, Abano Terme and Piovese areas) were applied resulting in an increase for the company of 7% over 2007.
EBITDA increased by 13.0%, rising from €28.1 million to €31.8 million. In the Padua area EBITDA rose from €17.0 million to €19.9 million, while in Trieste it rose from €14.3 million to €14.6 million. The division's **structural costs** fell which allowed for an additional recovery in EBITDA of €0.4 million. The significant improvement in margins recorded in both areas is primarily attributable to tariff revisions as well as to a change in the allocation of structural costs;
Maintenance and repair costs also increased by approximately €2.9 million largely due to the acquisition of APGA (on 1 October 2007).
EBIT rose from €16.8 million to €20.0 million (+18.7%) due to increased amortisation and depreciation of €0.6 million; €0.6 million of which attributable to the Trieste area while the Padua area reported a decline of €0.6 million.

Customers, products and services

Drinking water		Trieste area		Padua area		Total	
		2008	2007	2008	2007(*)	2008	2007(*)
Total inhabitants served	**nr**	**230,699**	**230,729**	**298,715**	**306,449**	**529,414**	**537,178**
Total customers	nr	109,744	109,786	141,089	145,421	250,.833	255,207
- families	nr	91,405	91,411	116,270	119,998	207,675	211,409
- non-domestic users	nr	18.339	18,375	24,819	25,423	43,158	43,798
Water used	**m^3**	**48,940,298**	**49,019,254**	**44,272,016**	**42,943,440**	**93,212,314**	**91,962,694**
- geothermal	%	87%	85%	87%	97%	87%	81%
- surface	%	13%	15%	13%	3%	13%	9%
Network length	**km**	**1,025**	**1,023**	**2,041**	**2,089**	**3,066**	**3,112**
- adduction	km	98	98	175	175	273	273
- distribution	km	927	925	1,866	1,915	2,793	2,840
Average reach	**l/s**	**1,552**	**1,554**	**1,400**	**1,475**	**2,948**	**3,029**

Sewage treatment		Trieste area		Padua area		Total	
		2008	2007	2008	2007(*)	2008)	2007(*)
Total customers	nr	99,890	99,912	119,433	123,522	219,323	223,434
Volumes treated	m^3	46,284,583	40,404,113	24,058,940	19,577,302	70,343,523	59,981,415
Industrial waster industriali	m^3	675,000	674,908	800,163	816,640	1,475,163	1,491,548
Industrial waste water	m^3	2,352,245	1,810,040	-	-	2,352,245	1,810,040
Network length	**km**	**457**	**456**	**1,460**	**1,457**	**1,917**	**1,913**

(*) The 2007 figures shown for the Padua area reflect the contribution of the Piovese area only for the last quarter of the year and include the figures for the city of Selvazzano sold on 31/12/07.

The Trieste area: general sector regulatory framework
AcegasAps – pursuant to Art. 23, paragraph 3 of Regional Law n. 13 dated 23 June 2005 and Art. 113, Art. 113, paragraph 15 bis of Legislative Decree 267/00 - in its capacity as a company listed on the Milan Stock Exchange
since 1 October 2003, will maintain the service management concession through its original expiration while the Local Environmental Authority, which should be formed (pursuant to Art. 7 of the Cooperative Agreement) by the local authorities in the Eastern Trieste Optimal Territory, gradually takes over the administrative functions currently carried out by city administrators. We are awaiting further analysis of the effects of the new provisions found in Law 112/08, converted in to Law 133/08, which should result in changes to the economic aspects of public services; to date it is not clear, in fact, how the sector will be reorganized as several important issues will be subject to specific government regulations.
It is important to point out the relationship between the previous regulations (art. 113 TUEL) and the current Art. 23 bis of Law 133/08, in terms of listed companies and the expiration of the concessions including as per the new norms. In particular, paragraph 8, which calls for an expiration of 31 December 2010 for the water service concessions issued pursuant to different procedures, needs to be looked at in light of paragraph 11 that abrogates only those provisions found to be incompatible with the new regulations. The new norms actually benefit the listed companies as is made evident by their express exemption from the extensive limitations found in paragraph 9 applied to parties managing public services not awarded through competitive bidding procedures and, therefore, based on an overall interpretation of the norm the protection provided for in paragraph 15 bis in favour of companies listed as of 1 October 2003, should be found compatible with the new regime and, therefore, legitimate.
Meanwhile talks with the Local Environmental Authority regarding the management agreement for the service and the tariff mechanisms to be applied pursuant to the "Galli Law" continued. Specifically, the preliminary listing and cataloguing of the existing facilities began and the AATO organized the drafting of the service plan so that the plan itself will be complete presumably by June 2009.

The Trieste area: regulatory framework and tariffs
In the Trieste area, while awaiting implementation of Regional Law 13/05, the tariff adjustments will continue to be applied temporarily in accordance with the tariff system established under the last CIPE resolution in July 2002.
As already mentioned, as per City Counsel resolution n. 274 dated 26 July 2007, the city of Trieste approved an increase in the integrated water cycle tariffs of approximately 3.8% effective 1 August 2008.

The Padua area: general sector regulatory framework Per In the Padua area, AATO Bacchiglione, as resolved by its own shareholders, confirmed the concessions for the management of the integrated water cycle services in the areas of Padua and Abano Terme through the original expiration date or 2028 and 2015, respectively.
The shareholders of AcegasAps S.p.A approved the absorption of APGA srl effective 1 October 2007 thus acquiring the management of the integrated water cycle in the following cities: Piove di Sacco, Legnaro, Sant'Angelo di Piove, Brugine, Codevigo, Correzzola, Arzergrande, Pontelongo, Cona and Polverara.
The absorption of APGA by AcegasAps made it possible to reach the level necessary, pursuant to the Region of Veneto Decree n. 5 of 27 March 1998 (implementing the Galli Law) for the efficient and cost effective management of the integrated water cycle in the 10 cities mentioned above through the integration of the management services of the two companies administered by AATO Bacchiglione.
Thanks to the fact that both companies belong to the same AATO and are found in neighbouring areas, AcegasAps
and the Piovese will be able to easily share know-how and their technical-professional expertise in order to optimise the management of the integrated water cycle and reach levels of excellence in all the areas served.
With regard to strategy, the transaction was carried out like a true industrial integration within a sector currently
undergoing consolidation which should make it easier to expand operations, possibly in neighbouring areas, allowing for larger economies of scale and more effective management.
In 2008 thanks to the close proximity of the two areas, it was possible to implement important policies designed to increase the penetration of other services already managed by ACEGAS-APS.

The Padua area: regulatory framework and tariffs
As of 2003 AATO Bacchiglione is responsible for the determination of tariff schemes in accordance with the "Normalised Method" approved in Public Works Ministerial Decree dated 01.08.1996.
The Authority rationalised the tariff scheme by passing from a municipal tariff scheme to a plan which calls for a single tariff for all customers served by the same network manager.
Currently the tariff for the integrated water cycle covers the manager's investments and yearly overheads in their entirety (Art. 154 of Legislative Decree 152/06). AATO Bacchiglione establishes the tariff scheme based on the type and time period of usage in order to ensure that the manager realises the revenues forecast in the relative plan.
As mentioned earlier, the tariff scheme effective as of 01/01/08 was approved by the AATO during the Shareholders' Meeting held on 28/09/07 and provided for an average increase for the entire customer basin of approximately +7% with respect to the average 2007 proforma tariff calculated by the Authority for the Padua and Piovese areas.
During first half 2008 AATO Bacchiglione also approved a new tariff for the exchange of integrated water cycle services between managers belonging to the same area which resulted in tariffs which were higher than the previous ones.

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 not only through sustainable utilisation of the hydro resources but also through the acquisition of new large clients (such as, for example, in the Trieste area, the waterworks of Sesana and Capodistria), through the optimisation of the existing production facilities, water depuration and transport services, as well as through adequate information campaigns involving 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 drinking instead of bottled water.

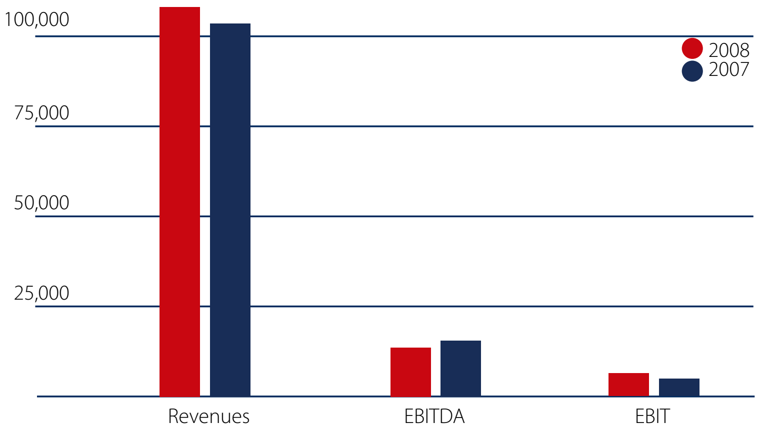
In terms of operations, the focus is on further reduction of the primary electricity costs through the exploitation of opportunities on the liberalised market; reduction of the loss of hydro resources; reduction in operating costs through the continuous optimisation of the organisational structure and, lastly, through investment in the renewal of plants that require 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

PERFORMANCE BY DIVISION

Power



figures in thousands of euros

	2008	2007	Change%
Revenues	**110.006**	105.032	4,7%
EBITDA	**12.643**	13.830	-8,6%
EBIT	**5.214**	4.945	5,4%

Economic results

Revenues for the power division rose by 4.7% from €105.0 million in 2007 to €110.0 million in 2008. The increase is attributable for €24.0 million (+23.5%) to the **sales** sector, for €4.6 million to free market customers (Estenergy), and for €19.4 million to protected customers (managed by AcegasAps Service). The rise in revenues is explained solely by the tariff trends linked to the price of raw materials. The amount sold, in fact, fell from 991 GWh to 827 GWh (-16.5%).
Revenues from **generation** fell by €11.4 million, due largely to decreased generation of electricity (-19.8 GWh). Generation suffered from less remunerative prices and, therefore, from increased down time.
Distribution reported an increase in revenues of €0.7 million, attributable to the greater amount of electricity transported (836.0 GWh versus 818.7 GWh in 2007, +2.1%. Of note is the increase in the amount transported for third parties which rose from 177.7 GWh in 2007 to 244.8 Gwh in 2008 (+37.8%).
EBITDA, which dropped by €1.2 million, was attributable for €0.4 million to production and for €2.4 million to distribution. The decline in the distribution margins is due to the less favourable tariff scheme, from which a large part of the sales activities benefited and which reported a €1.2 million increase in EBITDA.
Amortisation, depreciation and provisions were less than in 2007 by €1.7 million due to the impairment losses on discontinued operations booked in 2007.
EBIT rose by €0.3 million from €4.9 million to €5.2 million.

Customers, products and services

AcegasAps is active in the distribution sector through a concession granted by the Ministry of Economic Development which expires in 2030. AcegasAps separates the sales activities from the rest of the power sector activities.
More in detail, the sales to eligible clients are managed by the wholesale company "Estenergy" of which AcegasAps holds 51%.
The sales to enhanced protection and protected customers[1] are handled through AcegasAps's wholly-owned subsidiary Acegas-Aps Service Srl.
The results of these companies are consolidated with those of the power division. In the power division's income statement the revenue lines are clearly broken down by activity; electricity production, distribution and sales.

Electricity		
Total customers	nr.	142,126
Energy released to the network (high tension kWh)	GWh	835.4
Dispersion	%	5.30%
Length of the high tension network	km	3.7
Length of the medium tension network	km	700
Length of the low tension network	km	720

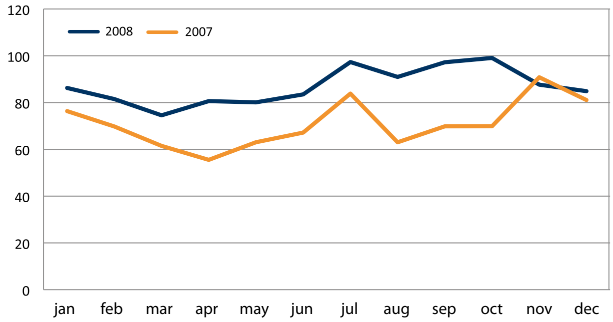
1 Acegas-Aps Service serviced enhanced protection through 31 March 2008.

Scenario& *Strategy*

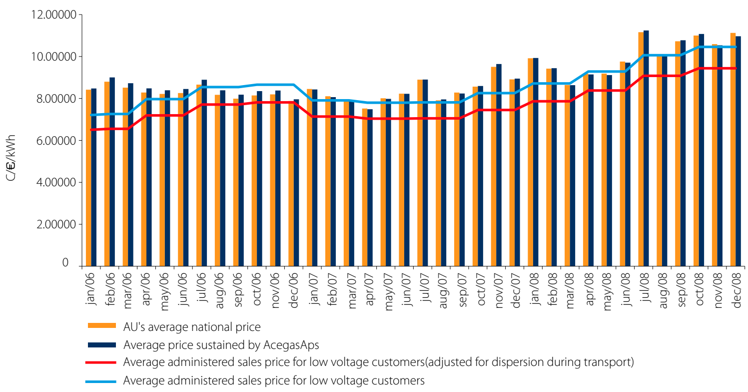
The electricity market is completely liberalised and all customers, including domestic customers, can stipulate contracts with wholesalers.
The customers, who opt not to acquire electricity on the free market, are now classified as either customers with enhanced protection and as protected customers.
Low voltage domestic customers and small businesses are part of the enhanced protection market while medium sized business using medium voltage are part of the protected market.
The prices for enhanced protection customers are defined by the Authority and the electricity is supplied by the Sole Purchaser or Acquirente Unico. This market is, therefore, configured like the previous market for captive clients.
The prices for the protected market customers are not determined by the Authority who solely monitors the operators' activities in the market and is, therefore, configured liked a segment of the free market. More in detail, at the end of April the sales for protected customers were transferred to companies who had been awarded public tenders. Previously this service had been temporarily assigned to the enhanced protection providers.
The constant regulatory changes influence the electricity related activities. In this regard, of note are the new statutes relating to "transport and hook-up tariffs" (Decree 348/07) and "service quality" (Decree 333/07), issued by the Electricity and Gas Authority in December 2007 for the regulatory period 2008-2011.
With regard to the Italian electricity exchange, the sales prices in 2008 were higher when compared to the the prior year with a drop in the last two months given a decline in demand (see the graph on the PUN trend).
Consequently, the prices for electricity procured by the Acquirente Unico for protected customers were also higher.
The increase in the price of electricity for protected customers did not always coincide with increased sales to final customers and this gap between costs and revenues (as shown in the graph showing price trends) will be offset by adjustments to the costs sustained for procurement of energy for protected customers.
This situation is caused by the different price calculation methods used; the Acquirente Unico's purchase price is determined on a monthly basis and is subsequently adjusted on the basis of the real costs incurred (purchases made on the electricity exchange, bilateral contracts, etc.), while the sales prices for protected final customers is decided by the Authority and is not subject to subsequent adjustments.
The free market continued to grow in 2008, as well (as shown in the graph showing trend in volumes).

In 2008 the primary strategic activities were focused on the development of imports and energy production, as well as the improvement of power distribution services.
With regard to the import activities, the permits were issued by the relative ministry for the two cross border projects in Slovenia while in Italy the authorization process for the construction and operation of the electroducts in Friuli Venezia Giulia region is underway.
Of note are the number of initiatives regarding plant and workplace safety which, including pursuant to Legislative Decree 81/2008, needed to be adjusted in order to comply with the new norms and regulations even though the previous standards were already very high in terms of efficiency and plant safety.
With regard to power distribution, restructuring of the domestic network was completed and implementation of the remote control meters was begun accompanied by the development of a control interface. The substitution of the meters should proceed at full speed and is expected to be completed in approximately three years.

Average monthly PUN

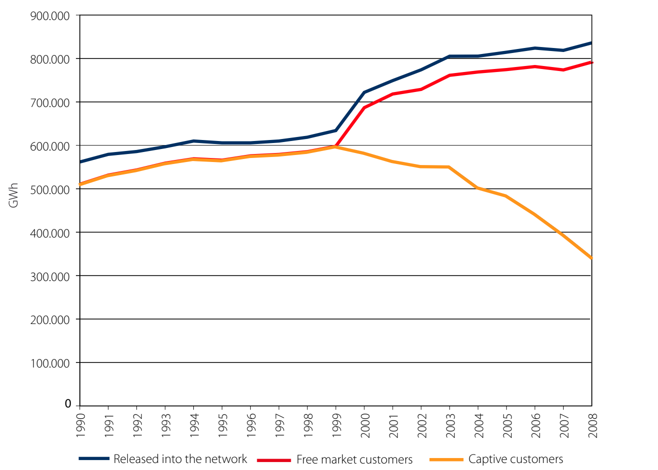


Captive client electricity prices



Note: the prices indicated in the chart refer to kWh netti net dispersion during transport and distribution.

Annual network volumes distributed

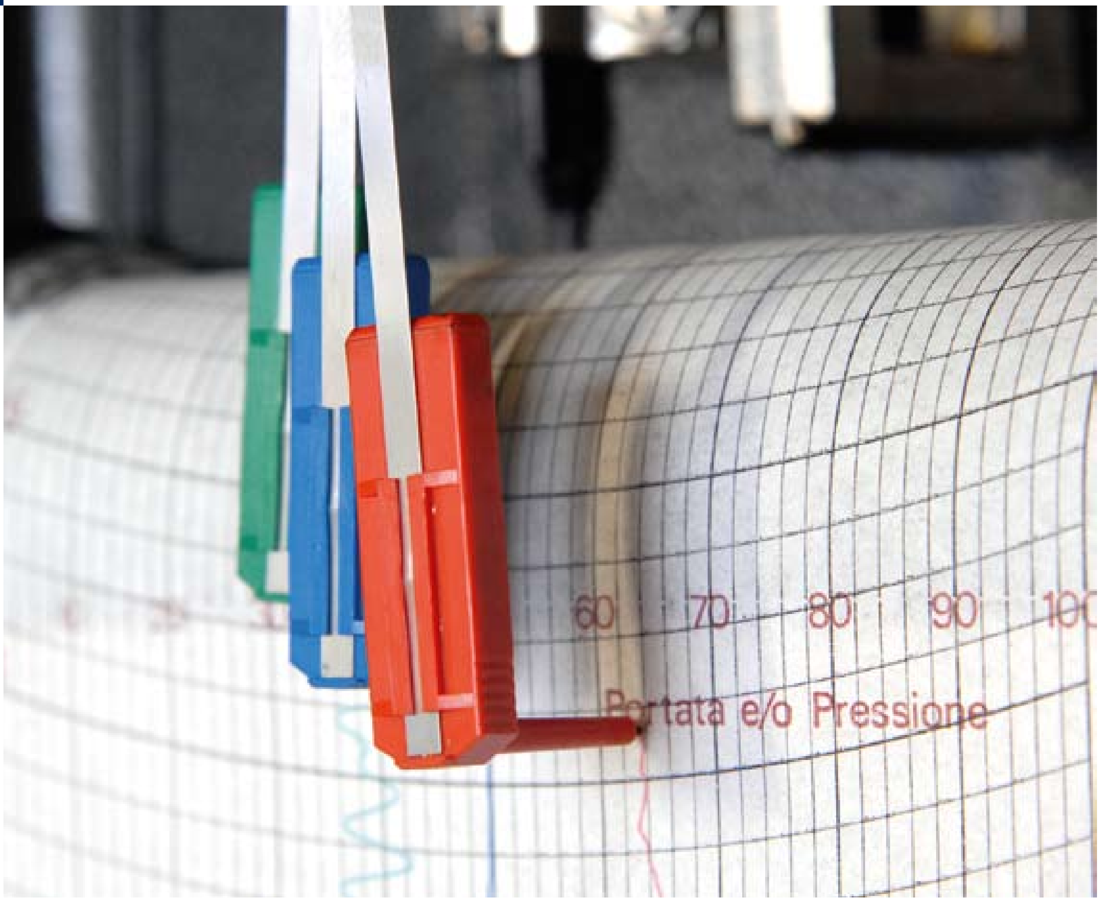


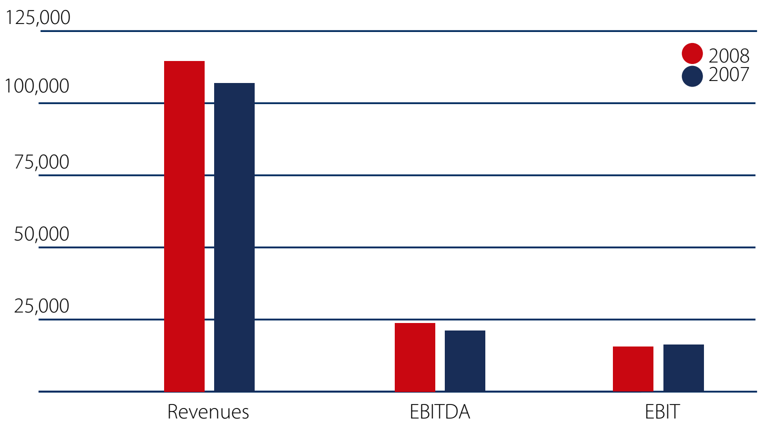
Note: the noticeable increase shown in the graph in 2000 is due to the acquisition of a portion of the Enel distribution network located in the city of Trieste.

2.3

PERFORMANCE BY DIVISION

Gas





figures in thousands of euros

	2008	2007	Change%
Revenues	**118.292**	110.877	6,7%
EBITDA	**24.302**	22.711	7,0%
EBIT	**13.901**	13.929	-0,2%

Economic results

The volumes distributed increased 5.7% or 25.1 million cubic metres from 442.6 million cubic metres in 2007 to 467,7 million cubic metres. The trend was similar in both the Trieste and the Padua areas: in the former volumes rose from 150.2 million cubic metres to 158.9 million cubic metres (+5.8%), while in the Padua area volumes distributed went from 292.4 million cubic metres to 308.9 million cubic metres (+5.6%).

The increase in the volumes **distributed** and the tariffs resulted in higher distribution turnover with respect to 2007 (€1.4 million). The average distribution tariff in the Padua area reached €0.0378/cubic metre (+2.5%) and €0.0575/cubic metre (+0.5%) in the Trieste area.

Revenues from **sales activities** rose noticeably from €85.0 million to €96.7 million due to tariff dynamics linked to the price of raw materials. The volumes sold by Estenergy, in fact, dropped from 438.2 million cubic metres to 412.7 million cubic metres (-5.8%) due to the measures taken by the competition in addition to the lack of contribution from a few industrial customers which were abandoned insofar as they were no longer remunerative.

EBITDA increased by €1.6 million. The performance is attributable to the following:

- the positive contribution of €1.0 million from the distribution business which benefited, as mentioned before, from increased volumes.
- the positive contribution of €0.9 million from the sales activities. We remind that Estenergy contributed 51% to the Group's result. While the sales volumes were down, they benefited from better gas purchasing conditions, recognition of the retail (corrispettivo relativo alla venditda al dettaglio or QVD) component and an improved commercial mix. The contracts with several large customers, as mentioned previously, were terminated for lack of profitability;
- the negative contribution of the foreign subsidiaries (RilaGas and SiGas) which recorded a negative EBITDA of €0.2 million. These businesses are in still in the start-up phase and, therefore, have yet to make a positive contribution to margins.

EBIT was in line with the prior year at €13.9 million. EBIT for the distribution business was also in line with 2007 (€23.8 million in 2008 versus €23.7 million). Please note that in 2007 EBIT benefited from the release of provisions for tariff adjustments which were no longer owed of €0.6 million.

The sales activities, due to an increase in provisions for bad debt, reported an increase in EBIT of €0.2 million, rising from €1.4 million to €1.6 million.

The foreign subsidiaries, for the reason mentioned above, contributed a negative €0.2 million, in line with the trend in EBITDA.

Customers, products and services

AcegasAps, holds concessions for the distribution of gas in the cities of Trieste, Sgonico, San Dorligo della Valle, Duino Aurisina and Monrupino in the province of Trieste and in the cities of Padua, Vigonza, Cadoneghe, Albignasego, Ponte San Nicolò, Saonara, Vigodarzere and Galzignano in the province of Padua.

Gas distribution		Trieste area		Padua area		Total	
		2008	2007	2008	2007	2008	2007
Total delivery stations	nr	**117,273**	116,696	**145,035**	144,203	**262,308**	260,899
Volume of gas network releases	m^3	**166,043,613**	156,753,244	**316,172,628**	299,524,770	**482,216,241**	456,278,014
Volume of gas distributed	m^3	**158,892,700**	150,223,069	**308,857,262**	292,373,190	**467,749,962**	442,596,259
Internal consumption	m^3	**1,796,640**	2,957,771	**249,879**	316,010	**2,046,519**	3,273,781
Turbo expansion	m^3	**627,282**	400,224	**280**	-	**627,562**	400,224
Power generated by turboexpansion	kWh	**3,991,869**	3,405,649	**-**	-	**3,991,869**	3,405,649
Length of the network	km	**818**	815	**1,402**	1,388	**2,219**	2,203
Decompression stations	nr	**122**	121	**482**	479	**604**	600

The implications of the current regulations and the environmental scenario for the gas sector are summarised below.

General regulatory framework for the sector:
Pursuant to the final version on Art. 46 bis of Law Decree 159/07, as amended by the 2008 Budget Law and as proposed by the Electricity and Gas Authority and as per the unified hearings, the Ministries of Economic Development and Regional and Local Affairs and the local authorities determined the minimum geographical areas for tenders for awarding gas distribution concessions: the new tariffs, as per AEEG resolution 159/08, took effect last 01/01/2009 (as per Art. 36 of AEEG resolution 159/08). The tenders must be launched by 1 December 2010.
The existing concessions, as per paragraph 4 of Art. 46 bis, will remain effective through such a time as they are assigned to new concessionaires and the cities involved in the new tenders may increase the distribution concession fees, if lower and through the new assignment, by up to 10 percent of the captive distribution revenues. The additional
inflows, however, must be used to activate gas pricing mechanisms which favour the weaker user segment.
With regard to the existing concessions, ACEGAS-APS S.p.A. will continue to service and distribute gas to all the cities currently served, at least until the new tenders are launched as per the terms and conditions provided for in Art. 46 bis of Legislative Decree 159/07 (as amended by the 2008 Budget Law), as they all have a duration in excess of the term provided for under the law.
We are waiting to complete our evaluation of the repercussions of Law 133/08, the conversion of proposed Law 112/08; to date it is not clear, in fact, how the sector will be reorganized as several important issues are subject to specific government regulations.
In the AEEG Resolution n. 11/07 the Electricity and Gas Authority introduced a new discipline for the separation of the free market (including sales) and the regulated (distribution, metering, etc.) activities. The Authority also issued Resolution n. 253/07, amending the previous resolution, based on which the deadline for compliance with the functional unbundling requirement was postponed to 1/7/2008.
In order to comply with the mandatory separation of functions, at the beginning of 2008, AcegasAps created a Working Group which was broken down into four sub-subdivisions: Corporate Governance, Organisation, IT Systems and Accounting Systems and Reporting. The separation of the functions, in fact, could impact certain structures and issues such as, for example:

- the corporate structure of the group;
- corporate governance;
- the organisation of human resources;
- service and labour contracts;
- intra-group contracts;
- information systems;
- accounting procedures.

AcegasAps is completing an overview of the compliance issues, as well as an analysis of the requirements provided for under the sector statutes, in particular the requirements referred to in the Electricity and Gas Authority's Resolution ARG/COM/132/ which contains the guidelines for a two phase adjustment process which expire in March and September 2009, respectively.
Law Decree n. 26 dated 2 February 2007, pursuant to EC directive 2003/96 which resulted in significant changes to the EC framework and the taxation of energy products and electricity, introduced significant changes in local taxes and VAT rates for natural gas sales and called for the substitution, as of 1/1/2008, of the current regime based on the category of gas usage with a new regime based on levels of consumption in order to reduce the final cost of gas used for the heating of homes which, under the new regime, will benefit from a reduced VAT rate of 10% on the first 480 cubic metres per year.

Regulatory framework and tariffs:
In resolution 128/08, the AEEG extended the tariffs approved for 2007/2008 through fourth quarter 2008 so that the new tariffs would take effect as of the beginning of the new calendar year on 01/01/2009.

In Resolution 225 dated 18 September 2007 the Authority opened the procedures for the third tariff period (2009-2012); at the end of September it issued a third consultative document (n. 30/08) in order to gather the final observations of managers and other interested parties; the provision, which will substantially change said tariff calculations, will cover the four year period 2009-2012.
As mentioned earlier, AEEG Resolution 159/08 established six new national tariff zones for distribution activities where a single distribution tariff will be applied as of 01/01/2009. AcegasAps is considered part of the northeast zone which includes Lombardy, Trentino Alto Adige, Veneto, Friuli Venezia Giulia and Emilia Romagna.

Regulatory framework for safety, service quality and continuity:
In Resolution n. 247/07 the Electricity and Gas Authority changed the standard network code for gas distribution services (CRDG) approved under Resolution n. 108/06; the standard network code became, therefore, the contractual instrument to be used in the regulation of relationships between the companies who manage the distribution plants, the sales companies and the wholesalers who use the plants; toward this end individual companies were granted the faculty to adhere to the standard network code as prepared by the Authority or to propose amendments and changes therein. AcegasAps opted for the latter option and the proposed amendments are in the process of being approved by AEEG.

In Resolution n. 234/07, the Electricity and Gas Authority opened the proceedings for the drawing up of the provisions related to the quality, safety and continuity of distribution, sales and metering services for the third regulatory period (2009-2011) which was repealed as per ARG Resolution 120/08 which substituted Resolution 168/04. New and important requirements for the distribution enterprises related to the reduction of dispersion, the substitution of unprotected cast iron e steel ducts, emergency services and odour control were introduced along with bonus and penalty schemes.

Following a press campaign, the Electricity and Gas Authority on 13 March 2008 sent notice to both the government and parliament related to the controls of gas metres advising them of the need of initiatives designed to protect the final consumers and gathered data regarding the metres installed with distributors in order to introduce mandatory updates of the metres used along with remote control devices. The Authority, furthermore, effective 01/07/2009, gave the distribution companies exclusive control of the activities related to technical aspects of metre implementation as well as the reading and management of consumption data gathered at the delivery stations. The data gathered triggered Resolution ARG/gas 51/08 based on which the charges for metre controls requested by final consumers were reduced and severe limits were imposed vis-à-vis the substitution of metres at the delivery stations.

Energy efficiency:

Pursuant to Ministerial Decree of 21 December and Authority Resolution 344/07, as of 2008 all distributors who provide electricity and natural gas to at least 50,000 final customers connected to a proprietary distribution network must establish objectives for energy savings.

In order to fulfil the requirements the distributors, either through their own subsidiaries or through companies active in energy services, must implement projects designed to improve the efficiency of the technology installed or the methods used or purchase energy efficiency or white certificates (TEE) which indicate the level of energy savings; in Resolution 345/07 the Authority confirmed that a subsidy of €100/toe would be paid in 2008 for efficiency enhancing measures but the electricity and primary energy conversion factor was subsequently changed (EEN Resolution 03/08) which rendered the same goals much more difficult to achieve.

The continuous uncertainty regarding the reliability of the natural gas procurement sources confirms the need to diversify procurement sources through the construction of regasification facilities at the sites where the gas imported by sea is unloaded and channelled into the national gas transport network

AcegasAps intends to take advantage of the opportunities offered by the new procurement strategies by working as a partner with the important operators active in the construction of a regasification facility in the Trieste area in order to obtain a more advantageous supply of raw materials to the benefit of the Group's sales companies.

We would like to stress, lastly, how the gradual liberalisation of the distribution market and the expected tariff scheme for the third regulatory period have pushed operators to consider merger strategies and to increase market share in order to reach the critical mass necessary to compete for the tenders that should take place at the end of the transitory period.

The uncertain regulatory environment and the drop in demand caused by the trend in climatic conditions, along with the imminent tenders which will take place once the concessions expires, are part of what will be a challenging scenario for the sector companies going forward. 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 investments 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 climatic conditions.

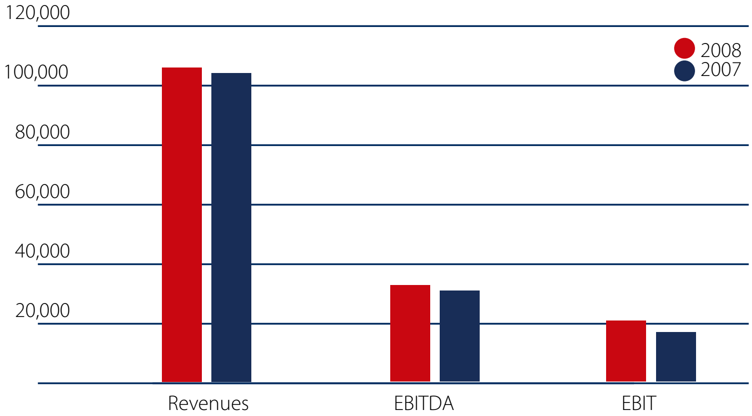
The separation of the sales segment has partially changed the division's strategic activities which were focused on the development of distribution concessions as well as the search for new cross border agreements and the development of foreign markets.

At the same time, efforts must be made to further reduce operating costs, through both enhanced efficiency and optimisation of the organizational structure and the implementation of investment policies focused on the renewal of plants with higher maintenance costs.

2.4

PERFORMANCE BY DIVISION

Environment



figures in thousands of euros

	2008	2007	Change%
Revenues	**106.026**	103.609	2,3%
EBITDA	**32.493**	28.921	12,3%
EBIT	**20.794**	17.829	16,7%

Economic results

The environment division's **revenues** rose slightly over 2007 (+€ 2.4 million). The **waste collection and street cleaning** businesses recorded an increase in revenues of €3.7 million thanks, above all, to the Padua area. The increase is linked to the renewal of the Economic and Financial plan stipulated with the city of Padua. There was also a positive trend in the efforts made to combat evasion in the Padua area. The waste collected was basically in line with the prior year but with a larger percentage of recyclable waste, 46% of the **total collected** in the Padua area and almost 21% in the Trieste area even though the city does not require separate collection of wet waste. In the Padua area 204.1 thousand tonnes were collected (versus 202.1 thousand in 2007), while in the Trieste area the amount was unchanged over 2007 (121.1 thousand tonnes).
Both **WTE plants** maintained the high standards of efficiency reached in previous years in Trieste while in Padua further improvements were made and almost 154.3 thousand tonnes (139.7 in 2007) and 80.1 thousand tonnes (75.1 in 2007) of waste were treated, respectively. The **electricity produced** in Trieste reached 88.6 GWh (85.4 Gwh nel 2007) and 32.9 GWh in Padua (30.1 GWh in 2007). The lack in Trieste of part of the CIP6 incentives resulted in a loss of approximately €2.7 million over 2007 which was offset by the increased efficiency of the two lines which were shut down in 2007;
EBITDA rose by €3.5 million from €28.9 million in 2007 to €32.5 million due to the lack of the extraordinary costs in Trieste linked to the temporary shutdown of the plant. EBITDA for waste collection and street cleaning rose by €1.4 million over 2007);
Following an increase in amortisation and depreciation (+€0.5 million), **EBIT** amounted to €12.0 million in Trieste (24% of revenues) and €8.2 million in Padua (13% of revenues).
The subsidiaries (Ricicla and Nestambiente) contributed an additional €0.5 million to EBITDA.

Customers, products and services

AcegasAps manages two WTE plants as well as the post mortem activities of two landfills and in order to provide Trieste and Padua, as well as an additional 5 cities in the two provinces, with an integrated solid urban waste disposal service.
The drop in the number of inhabitants served is due to the failed renewal of the waste collection contracts with the cities of Cadoneghe, Vigonza and Muggia.

		2005	2006	2007	2008
Inhabitants served by recyclable and non-recyclable waste collection services	n	525,884	510,333	489,086	**476,895**
Amount of waste collected (including recyclables)	tonn	292,376	301,146	292,709	**284,623**
Amount of waste treated at AcegasAps plants	tonn	374,401	373,567	352,996	**361,978**
Amount of waste treated at WTE plants	tonn	220,167	222,754	214,923	**234,538**
Electric energy produced	GWh	117.2	117.8	115.5	**121.5**
Personnel	n	611	609	588	**566**

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.
In the areas currently served by AcegasAps there are no competing WTE plants used for the disposal of solid urban waste.

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;*
- *maximisation of the sale of the electricity and thermal generated power distributed;*
- *expansion of landfill activities through Green Soil and NestAmbiente.*

The development of the commercial activities previously managed within the Division has been assigned to NestAmbiente effective as of 1 October 2007.
AgegasAps, strengthened by the increased dimension 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.

Expiration of concessions held by AcegasAps:

City of Trieste - 2050
Waste collection, collection of recyclables, street cleaning and other services
City of Padua - 2029
Waste collection, collection of recyclables and street cleaning
City of Trieste - 2017
Waste disposal
City of Noventa Padovana - 2013
Waste collection, collection of recyclables and street cleaning
City of Duino Aurisina - 2009
Waste collection and collection of recyclables
City of Abano Terme - 2018
Waste collection, collection of recyclables and street cleaning
City of Saonara - 2010
Waste collection, collection of recyclables and street cleaning
City of Ponte San Nicolò - 2009
Waste collection, collection of recyclables and street cleaning

Subsidiaries or associates active in the sector

NestAmbiente
A wholly-owned AcegasAps subsidiary which, effective 1 October 2007, includes the division involved in the storage of hazardous and non hazardous special waste, waste management in general, cleaning, disinfestations, mosquito and rat control, clean-up of polluted sites, removal of asbestos, detection of radon and electromagnetic fields and global environmental services.

Naonis Energia
A company held 56% by AcegasAps with shareholders ATAP and SNUA and owner of the land singled out in the Regional Plan for Urban Waste as the development site for a WTE plant in the Pordenone area.

Ricicla S.r.l.
A company held by AcegasAps (51%) and Cosecon (49%), involved in the search on the market for companies active in waste recovery or disposal which are the most competitive in terms of quality and the price, giving the priority to, on an equal cost/service basis, to companies controlled by shareholders.

Market Trend

The results reported by the Padua WTE were particularly positive thanks to the investments made and extraordinary maintenance which ensured a stellar performance albeit difficult to repeat: the plant was shutdown for a total of only 72 days and produced 32.9 GWh of electricity and treated 80,195 tonnes of waste.
The performance of the Trieste plant was in line with its standard potential.

		2005	2006	2007	2008
Trieste area					
Urban waste	tonn	137,918	122,086	121,045	**121,140**
Medical waste	tonn	1,216	1,546	158	**-**
Non hazardous special waste	tonn	24,304	29,424	25,996	**33,295**
Total waste deposited	tonn	163,438	153,055	147,199	**154,435**
-of which used for WTE	tonn	158,127	151,127	139,750	**154,343**
-of which recycled	tonn	1,055	962	283	**530**
-of which involved in disposal operations.	tonn	-	2	6,529	**12**
WTE operations		90%	87%	80%	**86%**
Electricity produced	GWh	92.4	88.6	85.4	**88.6**
Specific electricity produced	kWh/tonn	584	586	611	**574**

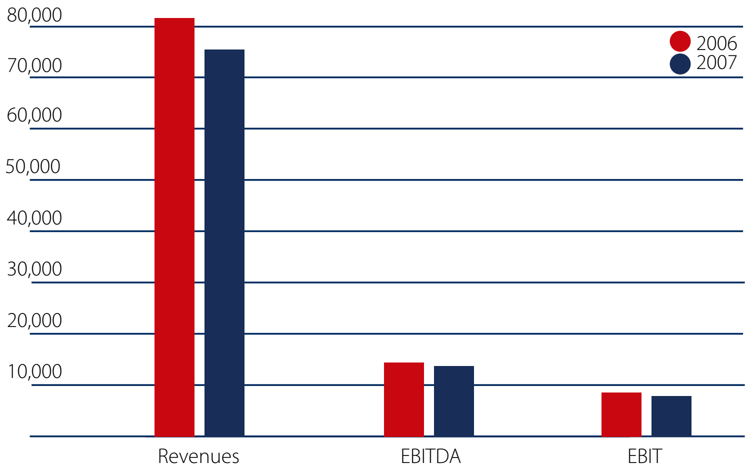
		2005	2006	2007	2008
Padua area					
Urban waste	tonn	205,593	216,617	202,216	**204,056**
Medical waste	tonn	2,051	2,041	1,873	**1,492**
Non hazardous special waste	tonn	3,319	1,854	1,708	**1,995**
Total waste deposited	tonn	210,963	220,512	205,797	**207,543**
-of which used for WTE	tonn	62,040	71,627	75,173	**80,195**
-of which recycled	tonn	81,880	84,090	79,497	**85,241**
-of which involved in disposal operations.	tonn	67,043	64,795	51,127	**42,107**
WTE operations		84%	91%	92%	**90%**
Electricity produced	GWh	24.8	29.2	30.1	**32.9**
Specific electricity produced	kWh/tonn	400	408	401	**410**

With regard to the contracts with the City Administrations of note is the fact note that another extraordinary initiative designed to fight evasion was launched in the Padua area.

Pro capita waste produced during the year was basically stable, the two figures differ due to the different socio-economic composition of the two areas (artisans and manufacturers versus inhabitants/residents).

2.5

PERFORMANCE BY DIVISION
Services



figures in thousands of euros

	2008	2007	Change%
Revenues	81.054	74.937	8,2%
EBITDA	14.732	14.418	2,2%
EBIT	8.809	8.589	2,6%

Economic Results

Revenues for the services division rose by €6.1 million with respect to 2007. The increase is attributable for €5.2 million to **Sinergie**, which benefited from favourable weather conditions as well as an important contract connected to the new hospital in Mestre (Venice).
The **public lighting** segment also confirmed the positive trend with revenues up by €1.0 million over 2007, €0.8 million of which are attributable to the Padua are, where the subsidiary AcegasAps Service was involved in a number of extraordinary city works.
The other services were substantially unchanged over the prior year with the exception of the subsidiary Sil which reported an increase in revenues of €0.6 million thanks to maintenance works commissioned by clients which were not part of the AcegasAps Group.
The division's **EBITDA** was basically in line with the prior year, +0.3 million . **Sinergie**, which benefited from better contract margins and an increase in the cost raw materials in 2008, contributed €0.1 million. The **public lighting** segment recorded an increase in EBITDA of €0.8 million, rising from €1.6 to €2.4 million. The **funeral services** segment and the **chemical laboratory** business lost a total of €0.8 million with regard to the prior year.
The division's **EBIT** rose by €0.2 million due to an increase in the subsidiary Sinergie's amortisation and depreciation while the operating income for the other segments of the services division was basically in line with the prior year.

Customers, products and services

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

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

Services

Subsidiaries or associates active in the sector

AcegasAps Service S.r.l.
Limited liability company which is active, through the public lighting division, in the construction, maintenance and management of public lighting systems for the city of Padua. As of December 2007 the company is also active in the sale of electricity to captive customers in the Trieste area.

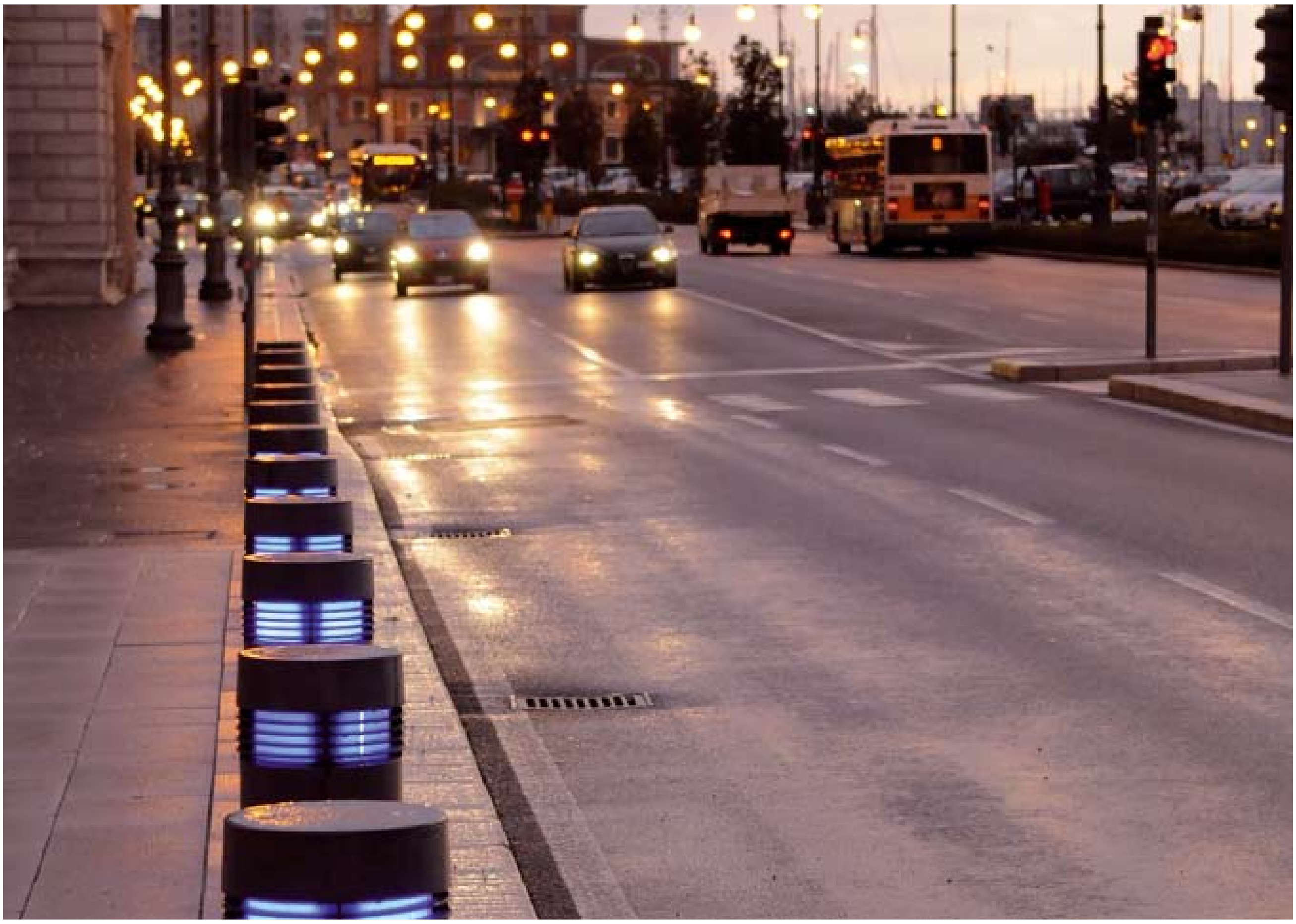
Sinergie S.p.A.
Formed with Cofathec Servizi S.p.A., this company has been active in integrated energy services such as building management (maintenance of heating, cooling and electrical systems, etc) and total facility management since March 2001.

SIL - Società Italiana Lining S.r.l.
The company La Società Italiana Lining S.r.l., otherwise referred to as "SIL S.r.l.", was a 50/50 joint venture formed by APS" S.p.A. of Padua and "AMGA" Azienda Mediterranea Gas e Acqua of Genoa on 9 March 2001 which became a wholly-owned subsidiary of "AcegasAps" S.p.A as of July 2006 and is active in the construction and maintenance of waterworks, sewage and gas networks through the use of innovative, non-invasive, technologies which limit the need for excavation.

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 which has developed as a reaction to the shrinking 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 segment, 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

Registered Office and General Headquarters
Via del Teatro 5
34121 Trieste
T +39 040.7793111
F +39 040.7793427
I www.acegas-aps.it
E info.ts@acegas-aps.it

Paduan Administrative Offices,
Networks and Plants
Corso Stati Uniti, 5/A
35127 Padova
T +39 049.8280511
F +39 049.8701541
E info.pd@acegas-aps.it

AcegasAps